

BSE SENSEX 75,449
S&P CNX 22,908

CMP: INR1,495 **TP: INR1,710 (+14%)** **Buy**

VOLTAS

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	494.7 / 5.7
52-Week Range (INR)	1946 / 1032
1, 6, 12 Rel. Per (%)	17/-13/38
12M Avg Val (INR M)	2965
Free float (%)	69.7

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	148.3	164.2	184.4
EBITDA	10.9	13.0	15.6
Adj. PAT	8.3	10.0	12.6
EBITA Margin (%)	7.3	7.9	8.5
Cons. Adj. EPS (INR)	25.1	30.4	38.0
EPS Gr. (%)	247.1	20.9	25.1
BV/Sh. (INR)	198.9	223.0	253.4

Ratios

Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	12.6	13.6	15.0
RoCE (%)	13.6	14.3	15.0
Payout (%)	25.0	25.0	25.0

Valuations

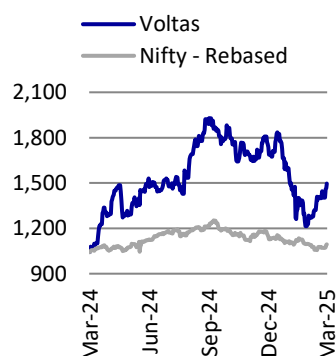
P/E (x)	59.5	49.2	39.4
P/BV (x)	7.5	6.7	5.9
EV/EBITDA (x)	45.0	37.3	30.7
Div Yield (%)	0.4	0.5	0.6
FCF Yield (%)	0.8	1.8	2.1

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	30.3	30.3	30.3
DII	34.6	37.5	37.2
FII	21.3	18.1	17.2
Others	13.8	14.2	15.3

FII includes depository receipts

Stock's performance (one year)



Focus on market share improvement

Volume to be prioritized over margins; growth to be higher than peers

We interacted with the management of Voltas (VOLT) to gain insights into current demand trends, as well as its views on compressors, margins, market share, and more. Management believes that current demand trends for RAC remain strong, and its focus will be on growing faster than its peers. While market share will be prioritized over margins, it aims to increase value engineering to save costs and protect margins, rather than opting for price hikes, which could impact margins. The government has relaxed import norms for compressors above 2 tons (~10% of the industry's volumes) and the industry is awaiting approvals for compressors below 2 tons. We expect VOLT to benefit from a strong start to the summer season and anticipate the UCP segment's margin to be ~7.5% in 4QFY24. We reiterate Buy on the stock with a TP of 1,710 based on SOTP.

Managing compressors for ongoing season; tie-up needed to set up capacity

- Amid concerns over a decline in compressor imports from China during 3QFY25, management has indicated that it has successfully managed the situation for the ongoing summer season through alternate sources. It believes that the government will allow imports to continue until domestic capacities are sufficient to meet the demand.
- VOLT had previously planned to set up compressor manufacturing capacity through a technological collaboration with a Chinese player; however, this plan did not materialize. Under PLI 3.0, the company has announced investments of ~INR2.6b to establish compressor capacity and is currently evaluating potential partners for technological collaboration. If the demand for RAC continues to grow strongly, as seen in FY25, the company will need to fast-track its plans.
- Recently, the government relaxed import norms for compressors of 2 tons or more from China, but this accounts for only ~10% of the industry size. A notification is still awaited for compressors below 2 tons.

Strong RAC demand; focus on protecting market share

- Demand for RAC has started strong in the ongoing summer season of CY25, and the current inventory, along with the tie-up for compressors, will support the company's growth in 4QFY25. The competition is projecting ~30% YoY growth in 4Q, and the company aims to outperform its peers. During Apr'24-Jan'25, the industry grew 30% YoY, while VOLT's RAC volumes grew 35% YoY.
- There have not been material price increases since May-Jun'24. As a mass category player, the focus will be on balancing revenues and profitability (with an emphasis on higher volumes and absolute EBITDA). While some peers have recently implemented price hikes due to cost inflation and rupee depreciation, VOLT will evaluate whether a price hike is necessary. The company will prioritize value engineering and internal cost-saving measures over price hikes.

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- Although there was some market share loss in Jan'25, it remains better on a YTD basis. VOLT traditionally has a lower market share in 4Q. The company is working to recoup some of the lost market share and expects to see gains as the Chennai plant ramps up production.
- The Chennai plant is currently operating at 40-45% capacity and is expected to reach optimum levels in FY26. Its Pant Nagar, Uttarakhand plant is operating at 100% capacity (installed capacity is 1.5m units).
- Demand for air coolers grew 80-85% in 9MFY25. The company is aiming for 70-80% YoY growth in the future and has made several strategic tie-ups. Demand for commercial ACs remained strong throughout the year, with a 12-15% YoY growth in 9MFY25. This segment is expected to record a 15-18% CAGR going forward.

Competitive intensity and view on margins

- There is ample growth opportunity for all players, as current demand remains strong in the South, North, and West markets. Inventory depletion is occurring at a faster pace. VOLT is well-positioned to outperform peers in distribution channels, insourcing, and servicing, which will help improve its market share.
- Copper prices have increased 10-11%, and some compressors are also being sourced at higher prices this summer. The company is working to mitigate the cost impact through value engineering rather than relying on price hikes. The UCP segment's margin is expected to remain in the high single digits.
- Demand for commercial refrigerators remains better in 4Q; however, it is still on the lower side. Margins are also expected to be lower than historical levels and remain in single digits (lower than 8%-9%).

BG encashment for Qatar entity

- Volt informed the stock exchanges in Feb'25 of an expected financial loss of INR4.0b due to an order passed by Qatar Court regarding the encashment of bank guarantees for damages claimed by a party named Joint Venture of OHL International, Spain, and Contrack (Cyprus).
- This order was passed by the lower court, and the company plans to appeal to higher courts against this order. It will decide later whether any provision has to be made for this amount but believes it has strong grounds and that the bank guarantee should not be encashed.

View on VoltBeko

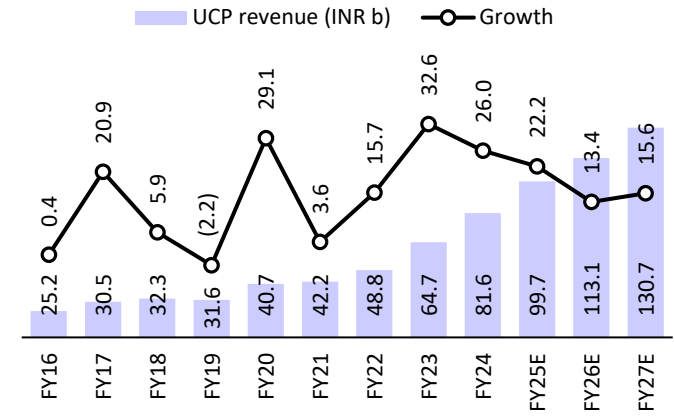
- VoltBeko had envisaged a target market share of 10% and EBITDA break-even by FY26; however, this will be slightly delayed. The company has already achieved a market share of ~15% in semi-automatic washing machines and has a presence in automatic washing machines. Its products are available across various geographies.

Valuation and view

- We expect a CAGR of 12%/20%/23% in Volt's revenue/EBITDA/adj. PAT over FY25-27. While we estimate the UCP segment's margin to be in the high single digits, higher volume growth could surprise positively. The company focuses on absolute profitability, sales growth, and optimization of production facilities.
- We reiterate our BUY rating on the stock with an SoTP-based TP of INR1,710, with 50x FY27E EPS for the UCP segment, 25x FY27E EPS for the PES and EMPS segments, and INR22/sh for Voltbek.

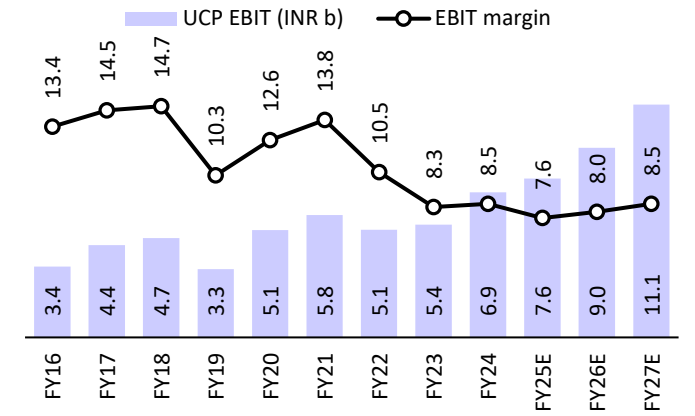
Story in charts

Exhibit 1: UCP revenue CAGR of 14.5% over FY25-FY27E



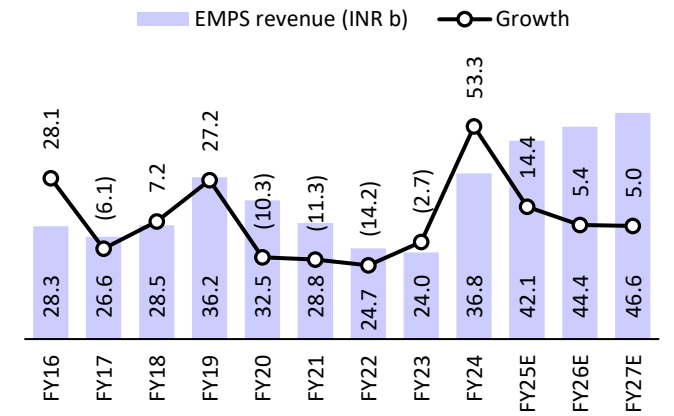
Source: MOFSL, Company

Exhibit 2: Estimate UCP margin at ~8%-8.5% in FY26/FY27E



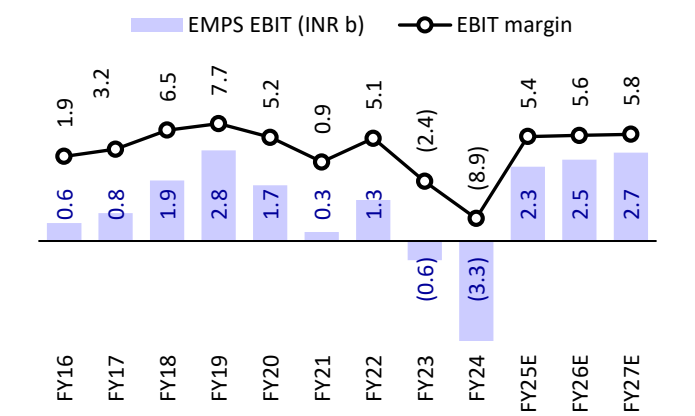
Source: MOFSL, Company

Exhibit 3: EMPS revenue CAGR of 5.2% over FY25-FY27E



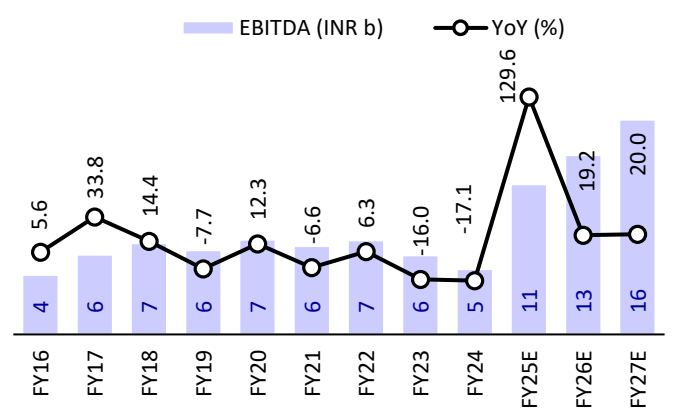
Source: MOFSL, Company

Exhibit 4: Margin to improve



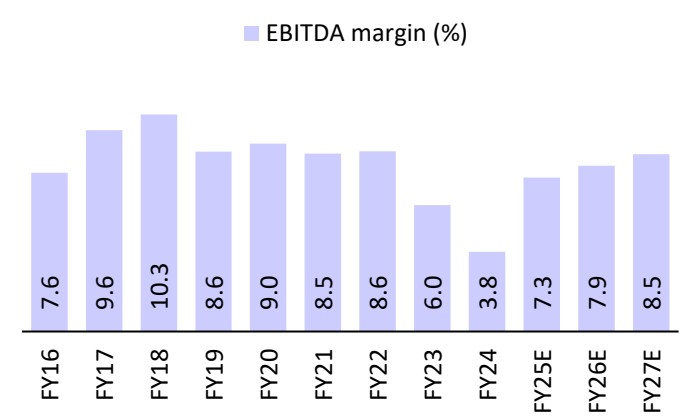
Source: MOFSL, Company

Exhibit 5: EBITDA to grow 19%/20% in FY26/FY27E



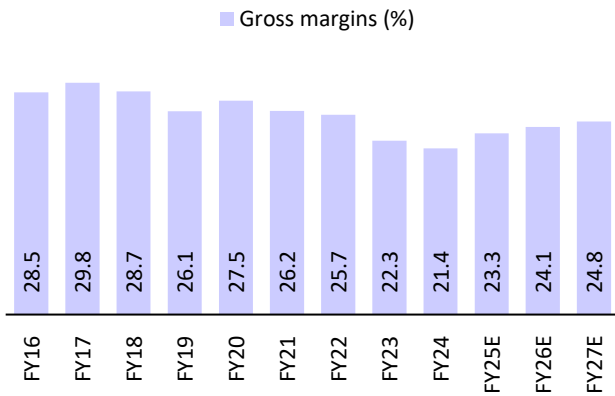
Source: MOFSL, Company; Note: 1QFY25YTD

Exhibit 6: EBITDA margin to improve in FY26/FY27E



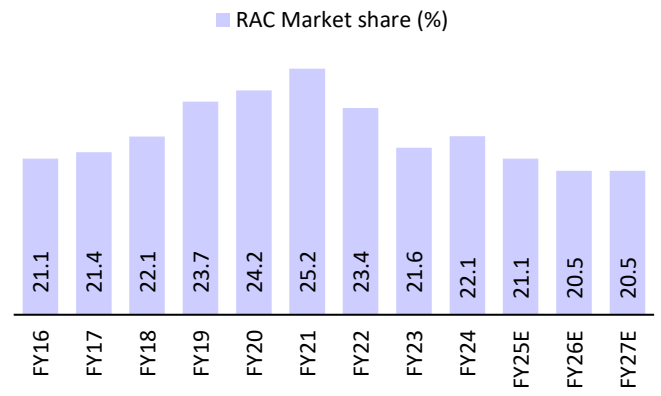
Source: MOFSL, Company

Exhibit 7: Gross margin to improve



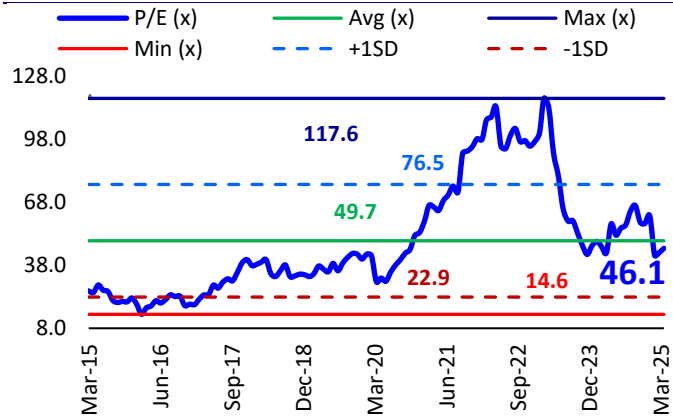
Source: MOFSL, Company

Exhibit 8: RAC market share to be at ~20%-21%



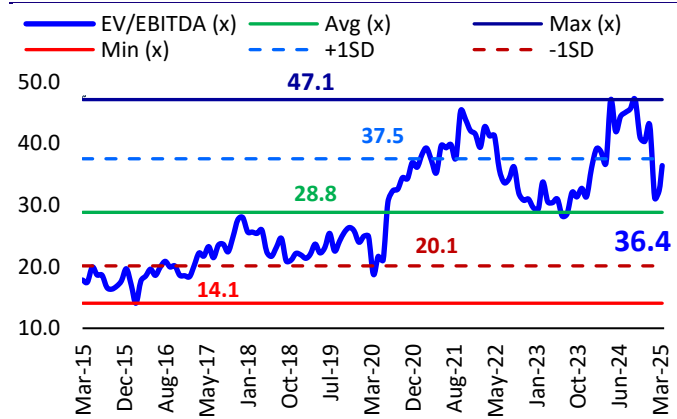
Source: MOFSL, Company

Exhibit 9: One-year forward P/E chart



Source: MOFSL, Company

Exhibit 10: One-year forward EV/EBITDA chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement							(INR m)
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Revenues	75,558	79,345	94,988	1,24,812	1,48,254	1,64,227	1,84,377
Change (%)	-1.3	5.0	19.7	31.4	18.8	10.8	12.3
EBITDA	6,414	6,816	5,724	4,746	10,895	12,991	15,585
% of Total Revenues	8.5	8.6	6.0	3.8	7.3	7.9	8.5
Other Income	1,889	1,892	1,685	2,533	3,132	3,295	3,472
Depreciation	339	373	396	476	660	797	922
Interest	262	259	296	559	550	510	470
Exceptional Items	0	0	-2,438	0	0	0	0
PBT	7,702	8,076	4,278	6,244	12,817	14,980	17,665
Tax	1,804	1,913	1,709	2,377	3,294	3,850	4,540
Rate (%)	23.4	23.7	40.0	38.1	25.7	25.7	25.7
PAT	5,898	6,163	2,569	3,867	9,523	11,130	13,125
Change (%)	0.0	4.5	-58.3	50.6	146.2	16.9	17.9
Profit/(Loss) share of associates/JVs	-610	-1,103	-1,207	-1,386	-1,254	-1,121	-597
Minority interest (MI)	37	19	12	-39	-39	-39	-39
PAT after MI	5,251	5,041	1,350	2,520	8,308	10,048	12,568
Change (%)	1.5	-4.0	-73.2	86.7	229.7	20.9	25.1
Adj. PAT after MI	5,251	5,041	3,788	2,394	8,308	10,048	12,568
Change (%)	-5.1	-4.0	-24.8	-36.8	247.1	20.9	25.1

Balance Sheet

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	331	331	331	331	331	331	331
Reserves	49,603	54,665	54,190	57,874	65,464	73,435	83,490
Net Worth	49,934	54,996	54,521	58,205	65,795	73,765	83,821
Minority Interest	361	381	417	337	298	259	220
Loans	2,606	3,432	6,160	7,133	6,633	6,133	5,633
Deferred Tax Liability	-558	-317	-303	176	176	176	176
Capital Employed	52,343	58,492	60,794	65,851	72,902	80,334	89,851
Gross Fixed Assets	6,690	7,020	8,826	9,533	13,708	16,708	18,708
Less: Depreciation	3,534	3,906	4,302	4,778	5,439	6,235	7,157
Net Fixed Assets	3,157	3,114	4,524	4,754	8,269	10,473	11,551
Capital WIP	88	593	983	3,675	2,500	1,500	1,500
Investments	30,464	36,154	31,086	35,083	34,828	34,707	35,110
Goodwill	723	723	723	723	723	723	723
Curr. Assets	51,565	56,440	65,119	75,709	90,834	1,04,106	1,20,874
Inventory	12,796	16,614	15,920	21,354	25,183	27,896	31,319
Debtors	18,009	21,097	21,919	25,328	30,085	33,326	37,415
Cash & Bank Balance	4,588	5,717	7,084	8,523	11,211	15,905	21,851
Loans & Advances	23	32	6	13	16	18	20
Other current assets	16,149	12,981	20,191	20,491	24,340	26,962	30,270
Current Liab. & Prov.	33,654	38,532	41,640	54,093	64,253	71,175	79,908
Creditors	24,645	29,421	30,126	38,557	45,799	50,733	56,958
Other Liabilities	9,009	9,111	11,514	15,536	18,454	20,442	22,950
Net Current Assets	17,911	17,908	23,479	21,616	26,581	32,931	40,966
Application of Funds	52,343	58,492	60,794	65,851	72,902	80,334	89,851

Financials and valuations (Consolidated)

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
Adj EPS	15.9	15.2	11.5	7.2	25.1	30.4	38.0
Cash EPS	16.9	16.4	12.6	8.7	27.1	32.8	40.8
Book Value	150.9	166.3	164.8	176.0	198.9	223.0	253.4
DPS	5.0	5.5	4.3	2.2	6.3	7.6	9.5
Payout (incl. Div. Tax.)	31.5	36.1	37.1	30.0	25.0	25.0	25.0
Valuation (x)							
P/E	94.2	98.1	130.6	206.6	59.5	49.2	39.4
Cash P/E	88.5	91.4	118.2	172.4	55.2	45.6	36.7
EV/EBITDA	76.8	72.2	86.3	103.9	45.0	37.3	30.7
EV/Sales	6.5	6.2	5.2	4.0	3.3	3.0	2.6
Price/Book Value	9.9	9.0	9.1	8.5	7.5	6.7	5.9
Dividend Yield (%)	0.3	0.4	0.3	0.1	0.4	0.5	0.6
Profitability Ratios (%)							
RoE	10.5	9.2	6.9	4.1	12.6	13.6	15.0
RoCE	11.6	10.9	6.9	6.4	13.6	14.3	15.0
RoIC	26.9	29.6	14.1	11.9	28.3	30.5	33.1
Turnover Ratios							
Debtors (Days)	87	97	84	74	74	74	74
Inventory (Days)	62	76	61	62	62	62	62
Creditors. (Days)	119	135	116	113	113	113	113
Asset Turnover (x)	1.4	1.4	1.6	1.9	2.0	2.0	2.1
Leverage Ratio							
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)

Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT before EO Items	7,735	5,610	7,787	10,207	12,817	14,980	17,665
Add : Depreciation	339	3,726	396	476	660	797	922
Interest	262	259	296	559	550	510	470
Less : Direct Taxes Paid	(693)	(2,169)	(1,656)	(2,115)	(3,294)	(3,850)	(4,540)
(Inc)/Dec in WC	(1,580)	(438)	(3,836)	801	(2,278)	(1,656)	(2,089)
CF from Operations	6,063	6,988	2,987	9,928	8,456	10,781	12,428
Others	(502)	(1,145)	(1,393)	(2,312)	(1,510)	-	-
CF from Oper. Incl. EO Items	5,561	5,842	1,594	7,615	6,946	10,781	12,428
(Inc)/Dec in FA	(208)	(482)	(1,799)	(2,931)	(3,000)	(2,000)	(2,000)
Free Cash Flow	5,353	5,361	(206)	4,685	3,946	8,781	10,428
Investment in liquid assets	(2,645)	(3,165)	983	(2,293)	510	(1,000)	(1,000)
CF from Investments	(2,853)	(3,646)	(816)	(5,224)	(2,490)	(3,000)	(3,000)
(Inc)/Dec in Debt	425	918	2,728	974	(500)	(500)	(500)
Less : Interest Paid	(271)	(312)	(349)	(493)	(550)	(510)	(470)
Dividend Paid	(1,358)	(1,676)	(1,829)	(1,432)	(718)	(2,077)	(2,512)
CF from Fin. Activity	(1,204)	(1,070)	550	(952)	(1,768)	(3,087)	(3,482)
Inc/Dec of Cash	1,504	1,126	1,328	1,439	2,688	4,694	5,946
Add: Beginning Balance	3,084	4,591	5,756	7,084	8,523	11,211	15,905
Closing Balance	4,588	5,717	7,084	8,523	11,211	15,905	21,851

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SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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