

Strong growth in Q4. Looking up for market share gain in Q1

In Q4FY24, Voltas posted revenue of INR 42.0bn up 42% YoY, 4 years CAGR of +19%. Its UCP revenue was INR 29.5bn up 44% yoy due to strong RAC volume growth on back of strong summer (4 years CAGR c.+25%). Overall UCP volumes was up c.27% in FY24 with RAC volume growth of c.+35% in FY24. EMP, domestic business grew c.38% yoy due to healthy order book while International business continues to face challenges. We transfer the coverage to Deepak Agarwal with a BUY rating at a target price of 1,515.

- Strong UCP growth led by RAC:** Voltas has sold c.2mn RAC for FY24, whereas the industry has sold c.10mn units resulting in a primary market share of c.20%; however secondary market share as of FY24 was c.18.7% vs 19% YTD Dec-23. Management expects strong growth in RAC with channel expansion and supportive demand. Expects UCP margins at high single digit. In Q4FY24, Overall RAC margins have improved to 10% from 9% yoy, however commercial Ref. + AC capped overall UCP margins.
- In EMP, strong domestic order book while provision continues in Qatar:** Domestic business continue to do well, however headwinds in the international business especially Qatar continue to impact profitability due to delay in receivables. Domestic order book was c.INR 50.24bn down 13% YoY and international was c.INR 30bn up 27% YoY Q4FY24. In international business, strong order book from Saudi for water theme park, hospitals, etc. Management expects EBIT margin of 4%-5% in this segment.
- Voltbek continues to deliver strong growth:** In FY24, Voltbek revenue was INR 15.85bn up 46% YoY mainly on the back of strong manufacturing capabilities and channel expansion. As of Mar,24 Voltbek market share in Refrigerator was c.5.3%, Total Washing Machine was c.8.5% and Semi-Automatic was c.15% (vs 12.2% in Dec-23). Expect Voltbek to EBITDA breakeven in FY25 and profitable post FY26.
- Capacity expansion on the cards:** Voltas with its Chennai plant first phase will add c.1mn units starting May'24 which will be further scale up to 2mn units after FY25 end leading to overall RAC capacity of 3.3-3.5mn units by FY26. Voltas has done c.INR 5bn capex for Chennai RAC plant out of which c.2.5bn is already done in FY24 rest to be done in FY25.
- We resume coverage with BUY rating and TP of INR 1,515:** We expect VOLT revenue/earning CAGR of c.18%/107%(lower base in FY24) over FY24-26 mainly led by **In UCP** (1) Benefit from long-term demand drivers for AC, PLI on components, market-leadership position and Beko (home appliances), (2) Increasing its penetration through channel expansion and (3) Improving its sourcing through backward integration and localisation. However high levels of competition may cap margins in this segment. **In EMP:** strong domestic order book and revival in international market will add to growth/margin. At CMP VOLT trades at PE of 55x/43x on FY25/FY26, **we transfer coverage to Deepak Agarwal and value VOLT at SOTP – UCP 50x to INR 1,202, EMP 15x to INR 76, EPS 20x to INR 132 and Voltbek at INR 105 on FY26 and arrive at TP of 1,515 up 15% from CMP and hence maintain BUY.**

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,515
Upside/(Downside)	14.9%
Previous Price Target	1,100
Change	37.7%

Key Data – VOLT IN

Current Market Price	INR1,319
Market cap (bn)	INR436.4/US\$5.2
Free Float	62%
Shares in issue (mn)	330.8
Diluted share (mn)	330.8
3-mon avg daily val (mn)	INR2,356.3/US\$28.2
52-week range	1,502/745
Sensex/Nifty	73,466/22,303
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	0.9	60.8	64.2
Relative*	2.6	41.9	38.0

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	79,344	94,988	1,24,812	1,51,063	1,74,690
Sales Growth (%)	5.0	19.7	31.4	21.0	15.6
EBITDA	6,815	5,724	4,746	8,111	10,573
EBITDA Margin (%)	8.6	6.0	3.8	5.4	6.1
Adjusted Net Profit	5,060	3,800	2,355	7,894	10,586
Diluted EPS (INR)	15.3	11.5	7.1	23.9	32.0
Diluted EPS Growth (%)	-4.3	-24.9	-38.0	235.3	34.1
ROIC (%)	24.2	13.7	9.7	19.8	22.8
ROE (%)	9.6	6.9	4.2	12.8	15.3
P/E (x)	86.2	114.8	185.3	55.3	41.2
P/B (x)	7.9	8.0	7.5	6.7	6.0
EV/EBITDA (x)	63.8	76.2	91.8	53.5	40.7
Dividend Yield (%)	0.3	0.1	0.2	0.5	0.7

Source: Company data, JM Financial. Note: Valuations as of 08/May/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Segmental Quarterly Performance

(INR mn)	4QFY24	4QFY23	YoY	3QFY24	QoQ
Segment Revenue					
Unitary Cooling Products (UCP)	29,551	20,486	44%	14,826	99%
Electro - mechanical Projects & Services (MEP)	10,979	7,458	47%	9,819	12%
Engineering Products & Services (EPS)	1,564	1,424	10%	1,548	1%
Segment Revenue	42,094	29,368	43%	26,193	61%
Less: Intersegment	(171)	-	na	(70)	145%
Other operating income	106	200	-47%	134	-21%
Excise duty	-	-	na	-	na
Net Operating Revenue	42,029	29,568	42%	26,257	60%
Segment EBIT					
Unitary Cooling Products (UCP)	2,704	2,057	31%	1,229	120%
Electro - mechanical Projects & Services (MEP)	(1,077)	(140)	669%	(1,200)	-10%
Engineering Products & Services (EPS)	478	559	-14%	499	-4%
Segment EBIT	2,105	2,475	-15%	528	299%
Unallocated expenses, net	(157)	(213)	-26%	(154)	2%
EBIT as per P&L	1,949	2,263	-14%	374	421%
Segment Margin (%)					
Unitary Cooling Products (UCP)	9.2%	10.0%	-89 bps	8.3%	86 bps
Electro - mechanical Projects & Services (MEP)	-9.8%	-1.9%	-793 bps	-12.2%	241 bps
Engineering Products & Services (EPS)	30.6%	39.3%	-869 bps	32.2%	-165 bps
Segment EBIT margin (%)	5.0%	8.4%	-343 bps	2.0%	299 bps

Source: JM Financial, Company

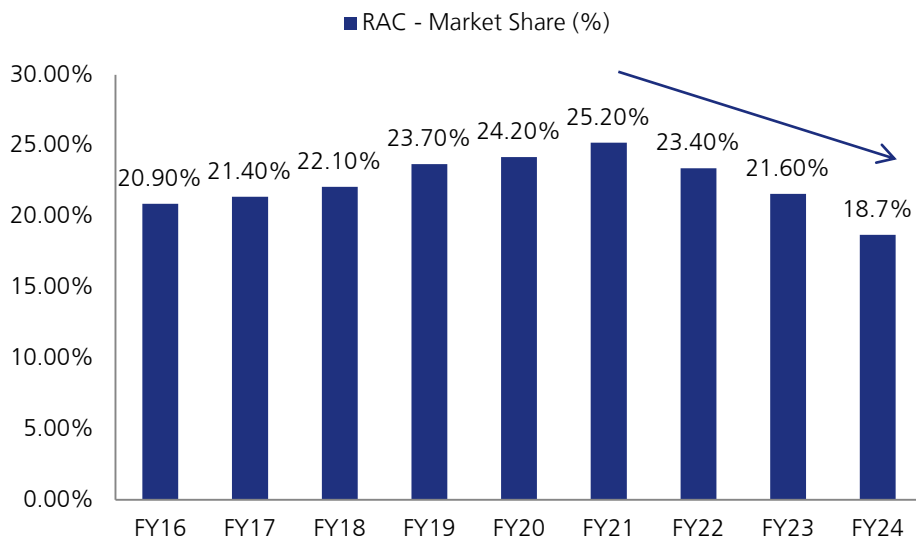
Concall Key takeaways continued

- **Demand:** Overall demand is strong with rising temperature which resulted in stock outs at the company warehouses.
- The Split AC category is growing significantly and has contributed c.90% to overall sales. Also the sale of 4 and 5 star AC have increased. Voltas expanded the inverter category portfolio to Window AC as well. Split AC has grown by 50% YoY.
- In Commercial Refrigeration growth was tepid due to slowdown in investments by the chocolate industry and Commercial AC delay in passing on the cost - impacted UCP margin.
- **Overall RAC margins have gone up from 9% to 10% however commercial ref capped overall UCP margins. Expect UCP margins in high single digit.**
- For FY24, of the overall UCP sales, commercial ref was INR 10bn, Commercial AC was INR c.13bn.
- Voltas continue to enjoy strong market share in Machinery and Equipment related business with more than 60%. EBIT margins in EMP ex of Provisions were c.4-5%.

Re-working to gain the lost market share in the RAC

Since FY20, Voltas has been losing its market share in RAC mainly because 1. It used to source some of its requirements of RAC through import, however in FY20 government banned compressor gas equipped RAC, 2. Increased duty on components used in RAC and 3. Increased competition in domestic market - which has impact Voltas profitability and market share. Voltas has planned an capacity expansion of adding c.2mn units of capacity in Chennai which will improve its margins and market share with scale coming in. Also, since FY20, Indian ODM/OEM players have increased their RAC manufacturing capacities which have now started benefiting Voltas as it started sourcing locally along with focusing its own manufacturing. All the above will now resulted in strong growth for Voltas along with some market share improvement. Voltas has seen a RAC volume growth of c.74% YoY Q4FY24 mainly because of the aggressive pricing which resulted in capping the overall margins. We expect Voltas to see 20%+ market share in FY25.

Exhibit 2. Lost market share due to lack of sourcing power

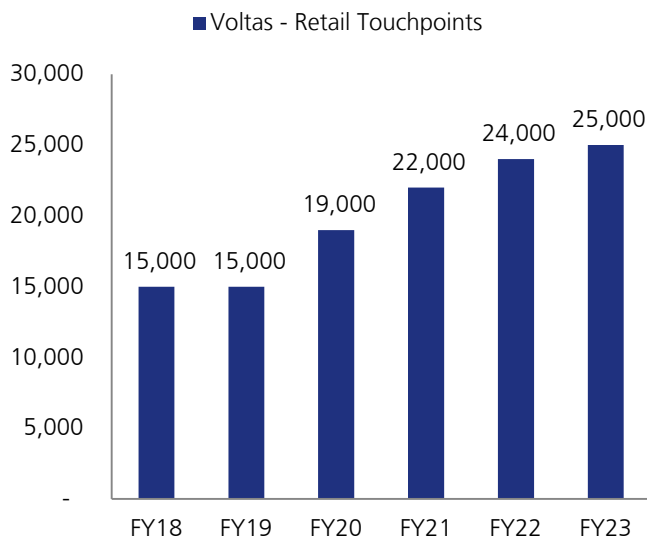


Although Voltas has lost market share it continues to enjoy #1 position in the RAC industry.

Source: JM Financial, Company

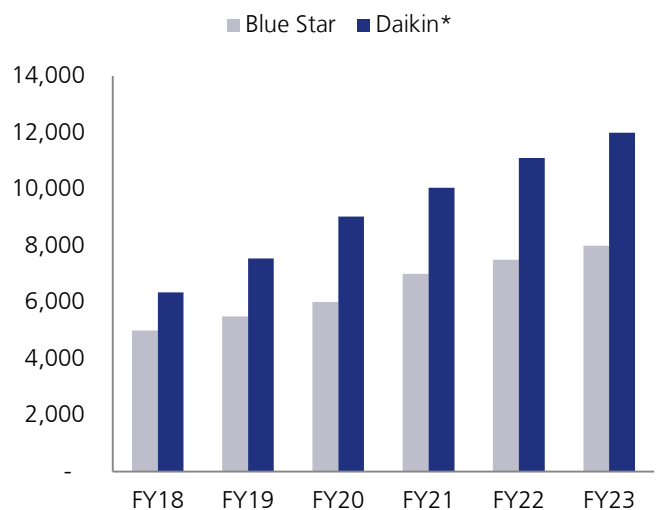
Voltas continue to enjoy its market leadership position mainly because of its strong retail presence in the industry amongst its peers.

Exhibit 3. Strong Retail presence makes Voltas market leader



Source: JM Financial, Company

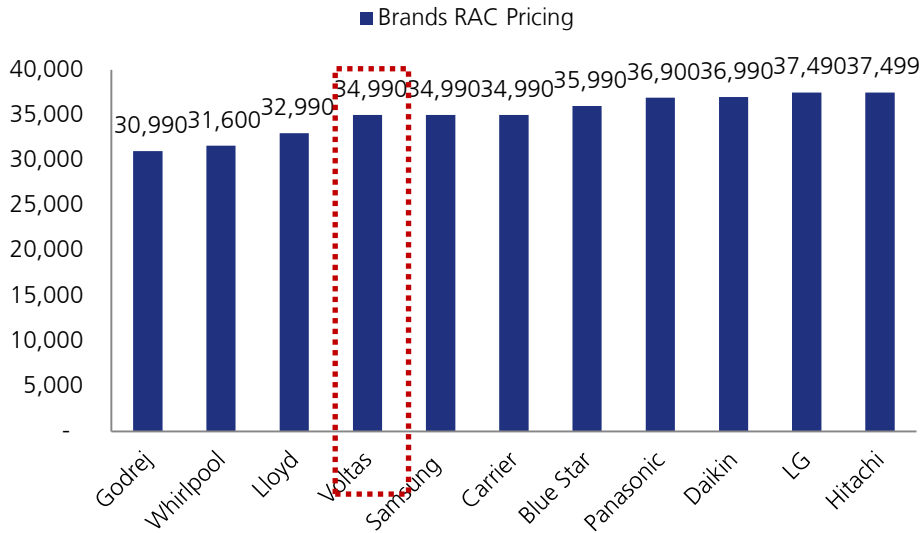
Exhibit 4. Peers are having almost half of Voltas retail touch point presence



Source: JM Financial, Company

Now Voltas is increasing its reach/ market share in Modern Retail (MR)/Regional Retail (RR) and E-Com. Earlier Voltas was having higher share in General Trade.

Exhibit 5. Voltas has aggressive pricing in the industry

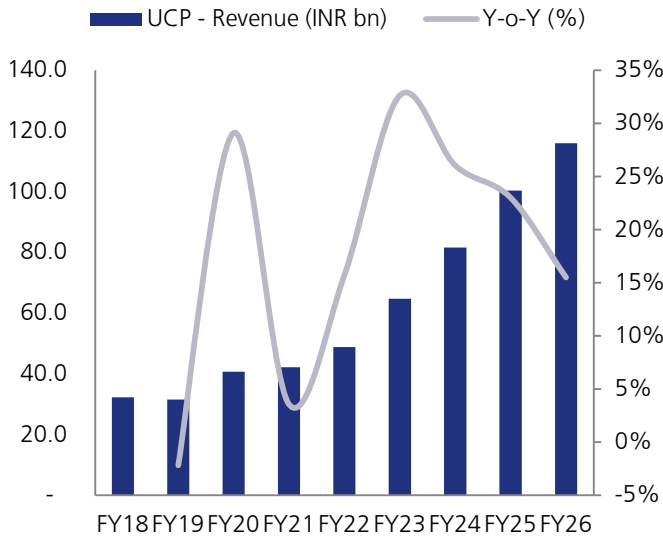


Source: JM Financial, Company, Amazon, 1.5ton-3star inverter AC

Commercial Refrigeration business will ride on strong industry demand from industry like QSR, Ice creams, Pharma, industrials etc. Also, Commercial AC business will ride on strong private capex and commercial buildings under implementation.

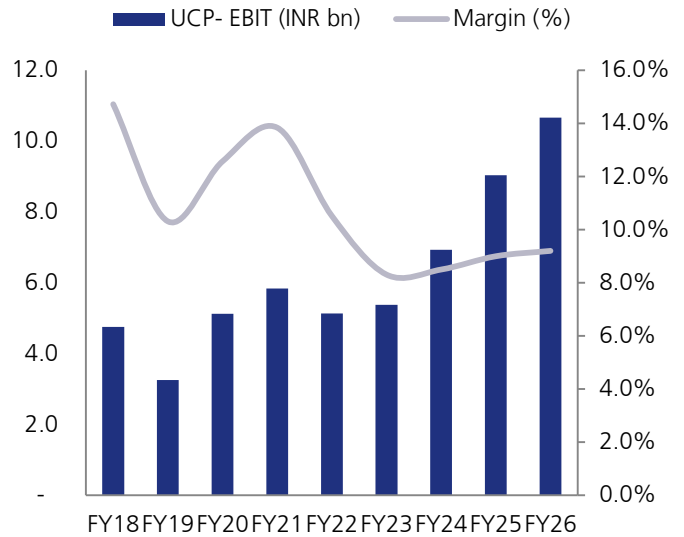
Overall we expect UCP revenue CAGR 19% over FY24-26 mainly backed by (1) Voltas improving its sourcing, (2) Improving its product mix and pricing points, (3) higher focus on modern trade channel along with general trade and (4) lower RAC penetration. Also, with new manufacturing facility Voltas will further backward integrate which will also result in improvement in margins. We expect margin improvement of 70-100 bps over FY24-26.

Exhibit 6. Revenue CAGR 19% over FY24-26



Source: JM Financial, Company

Exhibit 7. EBIT Margin trend over FY24-26

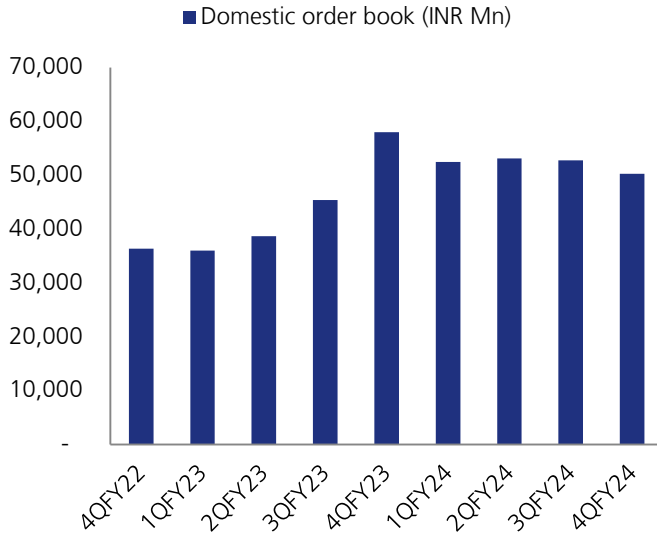


Source: JM Financial, Company

EMP, strong domestic outlook while headwinds in abroad.

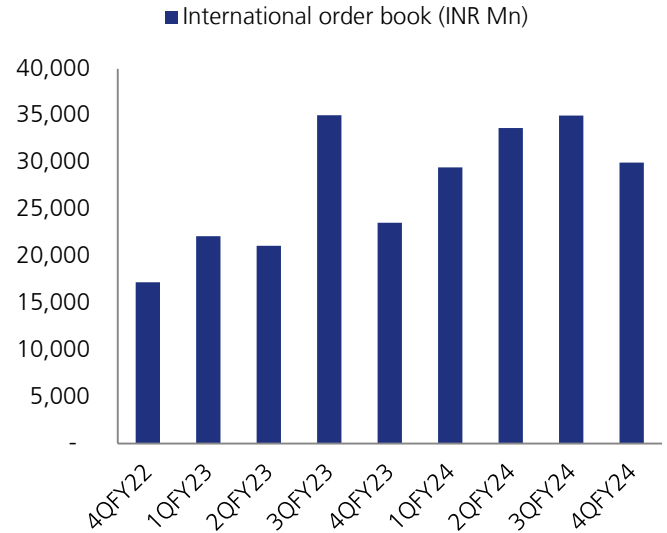
Voltas domestic projects business continued to grow on the back of strong order book and private capex been picking up. Also, in domestic business Voltas continue to focus on certification, tight control on the working capital and other project management-related initiatives which not only resulted in strong growth but also continue improve ROCE. International business continues to face challenges due to delay in realization of certain receivables which has resulted in in cost overrun and impacted the overall performance and profitability of the segment.

Exhibit 8. Domestic order book trend



Source: JM Financial, Company

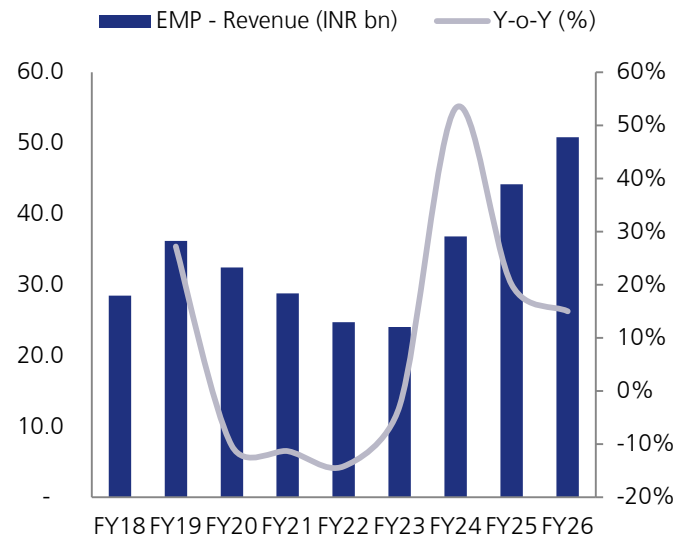
Exhibit 9. International order book trend



Source: JM Financial, Company

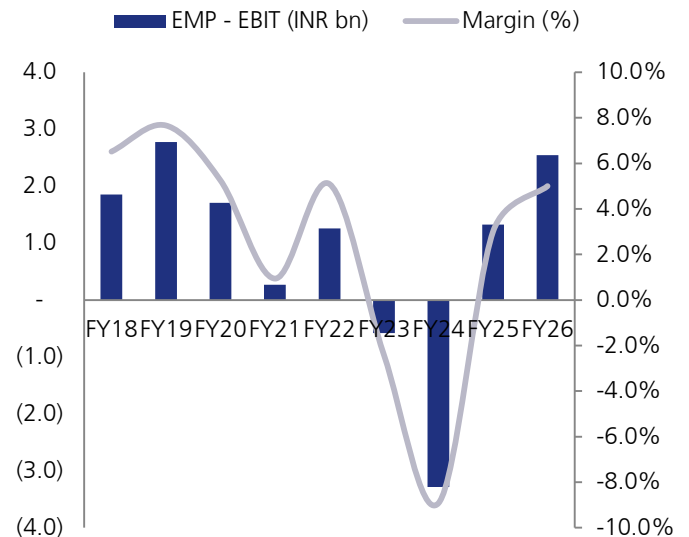
We expect revenue CAGR of 17% over FY24-26 mainly backed by strong demand outlook in the domestic market along with some revival in international market.

Exhibit 10. EMP revenue and YoY trend



Source: JM Financial, Company

Exhibit 11. EBIT trend



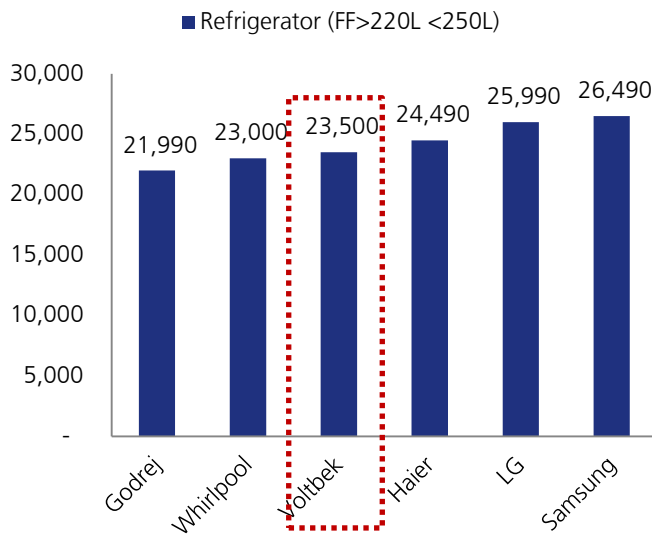
Source: JM Financial, Company

Continue to strengthen Voltas- Beko

Voltbek continues to combine the technical expertise of Arçelik and the brand and distribution strength of Voltas and to increase its reach in the industry. Also in order to gain market share in the low penetrated market, Voltbek is manufacturing ‘Made in India’ products in Sanand and focusing on expanding distribution in the organized trade network, especially in the South and West India’s market. Voltbek has recently launched a fully automatic top load Washing Machine with heater which has had a good response. Also, it started manufacturing DC (Direct Cool) Refrigerators along with the fastest-growing category of Frost-Free (230L - 270L) refrigerator.

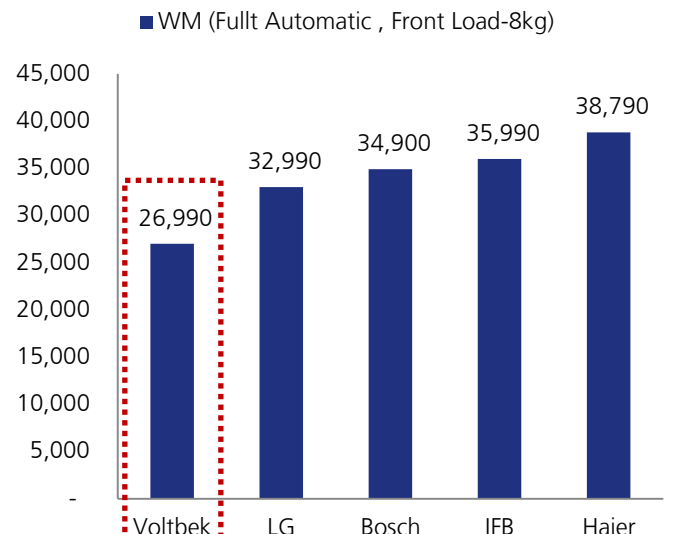
Voltbek market share was in Refrigerator was c.5.3%, Washing Machine was c.8.5% and Semi-Automatic was c.15% (12.2% for Dec-23). Also Voltbek revenue grew by c.46% to INR 15.85bn in FY24

Exhibit 12. Voltbek has aggressive pricing in Refrigerator



Source: JM Financial, Company

Exhibit 13. Voltbek is very aggressive in Washing Machines.



Source: JM Financial, Company

Outlook & Valuation

We resume coverage with BUY rating and TP of INR 1,520: We expect VOLT revenue/earning CAGR of c.18%/107%(lower base in FY24) over FY24-26 mainly led by- **In UCP** (1) Benefit from long-term demand drivers for AC, PLI on components, market-leadership position and Beko (home appliances), (2) Increasing its penetration through channel expansion and (3) Improving its sourcing through backward integration and localisation. However high levels of competition may cap margins in this segment. **In EMP:** strong domestic order book and revival in international market will add to growth/margin. At CMP VOLT trades at PE of 55x/43x on FY25/FY26, **we transfer coverage to Deepak Agarwal and value VOLT at SOTP – UCP 50x to INR 1,202, EMP 15x to INR 76, EPS 20x to INR 132 and Voltbek at INR 105 on FY26 and arrive at TP of 1,515 up 15% from CMP and hence maintain BUY.**

Exhibit 14. SOTP Valuation

Segment	FY26- EPS (INR)	Target Multiple	Target Price (INR)
Unitary Cooling Products (UCP)	24.0	50	1,202
Electro Mechanical Products (EMP)	5.1	15	76
Engineering Products & Services (EPS)	6.6	20	132
Voltas			1,410
Voltbek			105
SOTP Value			1,515

Source: JM Financial, Company

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Sales	79,344	94,988	1,24,812	1,51,063	1,74,690	
Sales Growth	5.0%	19.7%	31.4%	21.0%	15.6%	
Other Operating Income	0	0	0	0	0	
Total Revenue	79,344	94,988	1,24,812	1,51,063	1,74,690	
Cost of Goods Sold/Op. Exp	58,967	73,782	98,140	1,17,331	1,34,810	
Personnel Cost	6,176	6,672	7,788	8,488	9,210	
Other Expenses	7,386	8,810	14,138	17,132	20,098	
EBITDA	6,815	5,724	4,746	8,111	10,573	
EBITDA Margin	8.6%	6.0%	3.8%	5.4%	6.1%	
EBITDA Growth	6.3%	-16.0%	-17.1%	70.9%	30.4%	
Depn. & Amort.	373	396	476	402	450	
EBIT	6,443	5,327	4,270	7,709	10,123	
Other Income	1,892	1,685	2,534	4,323	4,573	
Finance Cost	259	296	559	380	300	
PBT before Excep. & Forex	8,076	6,716	6,245	11,652	14,395	
Excep. & Forex Inc./Loss(-)	0	-2,438	0	0	0	
PBT	8,076	4,278	6,245	11,652	14,395	
Taxes	1,913	1,709	2,503	2,933	3,623	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	-1,103	-1,207	-1,387	-825	-186	
Reported Net Profit	5,060	1,362	2,355	7,894	10,586	
Adjusted Net Profit	5,060	3,800	2,355	7,894	10,586	
Net Margin	6.4%	4.0%	1.9%	5.2%	6.1%	
Diluted Share Cap. (mn)	330.8	330.8	330.8	330.8	330.8	
Diluted EPS (INR)	15.3	11.5	7.1	23.9	32.0	
Diluted EPS Growth	-4.3%	-24.9%	-38.0%	235.3%	34.1%	
Total Dividend + Tax	1,366	368	670	2,131	2,858	
Dividend Per Share (INR)	4.1	1.1	2.0	6.4	8.6	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Profit before Tax	8,076	3,071	4,858	11,652	14,395	
Depn. & Amort.	373	396	476	402	450	
Net Interest Exp. / Inc. (-)	219	-219	-67	4,703	4,873	
Inc (-) / Dec in WCap.	-438	-3,836	801	-6,245	-2,542	
Others	-218	3,838	3,662	0	0	
Taxes Paid	-2,169	-1,656	-2,115	-2,983	-3,673	
Operating Cash Flow	5,842	1,594	7,615	7,530	13,503	
Capex	-482	-1,799	-2,931	-1,000	-1,000	
Free Cash Flow	5,360	-206	4,685	6,530	12,503	
Inc (-) / Dec in Investments	-10,602	-20,696	-3,176	1,751	-1,100	
Others	7,437	21,679	883	-5,149	-4,758	
Investing Cash Flow	-3,646	-816	-5,224	-4,397	-6,858	
Inc / Dec (-) in Capital	0	0	0	0	0	
Dividend + Tax thereon	-1,676	-1,829	-1,432	-808	-2,570	
Inc / Dec (-) in Loans	918	2,728	974	0	0	
Others	-312	-349	-704	-380	-300	
Financing Cash Flow	-1,070	550	-1,163	-1,188	-2,870	
Inc / Dec (-) in Cash	1,125	1,328	1,228	1,945	3,774	
Opening Cash Balance	4,480	5,605	6,936	8,523	10,468	
Closing Cash Balance	5,605	6,934	8,164	10,468	14,243	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Shareholders' Fund	54,996	54,521	58,205	65,292	73,308	
Share Capital	331	331	331	331	331	
Reserves & Surplus	54,665	54,190	57,874	64,961	72,977	
Preference Share Capital	0	0	0	0	0	
Minority Interest	381	417	337	337	337	
Total Loans	3,608	6,506	7,133	7,133	7,133	
Def. Tax Liab. / Assets (-)	-317	-303	176	126	76	
Total - Equity & Liab.	58,668	61,140	65,851	72,888	80,854	
Net Fixed Assets	3,897	5,735	8,703	9,301	9,852	
Gross Fixed Assets	6,750	8,596	9,347	10,747	11,747	
Intangible Assets	723	723	723	723	723	
Less: Depn. & Amort.	4,170	4,566	5,042	5,444	5,894	
Capital WIP	593	983	3,675	3,275	3,275	
Investments	32,344	28,509	30,517	30,709	31,809	
Current Assets	60,782	68,191	80,724	1,01,500	1,18,268	
Inventories	16,614	15,920	21,354	28,931	33,241	
Sundry Debtors	21,097	21,919	25,328	38,904	44,989	
Cash & Bank Balances	5,717	7,084	8,523	10,468	14,243	
Loans & Advances	0	0	0	0	0	
Other Current Assets	17,355	23,269	25,519	23,197	25,796	
Current Liab. & Prov.	38,355	41,294	54,093	68,622	79,074	
Current Liabilities	29,421	30,126	38,557	57,862	66,481	
Provisions & Others	8,935	11,168	15,536	10,760	12,593	
Net Current Assets	22,427	26,896	26,631	32,877	39,194	
Total - Assets	58,668	61,140	65,851	72,888	80,854	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Net Margin	6.4%	4.0%	1.9%	5.2%	6.1%	
Asset Turnover (x)	1.4	1.6	2.0	2.2	2.3	
Leverage Factor (x)	1.1	1.1	1.1	1.1	1.1	
RoE	9.6%	6.9%	4.2%	12.8%	15.3%	

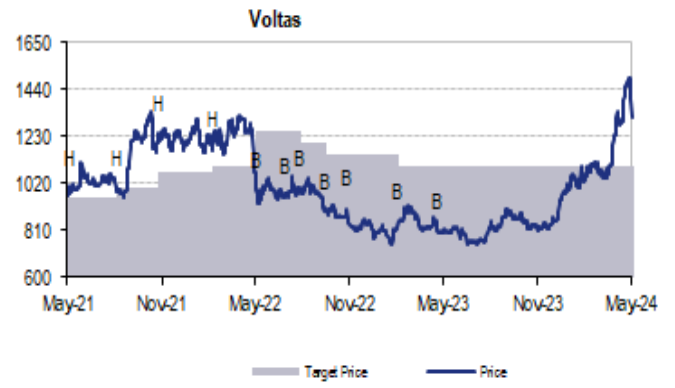
Key Ratios						
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
BV/Share (INR)	166.3	164.8	176.0	197.4	221.6	
ROIC	24.2%	13.7%	9.7%	19.8%	22.8%	
ROE	9.6%	6.9%	4.2%	12.8%	15.3%	
Net Debt/Equity (x)	0.0	0.0	0.0	-0.1	-0.1	
P/E (x)	86.2	114.8	185.3	55.3	41.2	
P/B (x)	7.9	8.0	7.5	6.7	6.0	
EV/EBITDA (x)	63.8	76.2	91.8	53.5	40.7	
EV/Sales (x)	5.5	4.6	3.5	2.9	2.5	
Debtor days	97	84	74	94	94	
Inventory days	76	61	62	70	69	
Creditor days	148	123	117	148	148	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
10-Feb-20	Buy	750	
9-Apr-20	Buy	535	-28.7
2-Jun-20	Hold	525	-1.9
3-Aug-20	Hold	525	0.0
17-Aug-20	Hold	570	8.6
9-Nov-20	Hold	720	26.3
15-Feb-21	Hold	960	33.3
14-May-21	Hold	960	0.0
11-Aug-21	Hold	1,000	4.2
1-Nov-21	Hold	1,070	7.0
14-Feb-22	Hold	1,100	2.8
10-May-22	Buy	1,250	13.6
4-Jul-22	Buy	1,250	0.0
4-Aug-22	Buy	1,200	-4.0
22-Sep-22	Buy	1,150	-4.2
2-Nov-22	Buy	1,150	0.0
10-Feb-23	Buy	1,100	-4.3
27-Apr-23	Buy	1,100	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
 Member of BSE Ltd. and National Stock Exchange of India Ltd.
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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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