

Voltas

Market share loss sustains; downgrade to REDUCE

Voltas positively surprised on both UCP revenue and margins despite twin challenges of weak consumer sentiment and delayed summer. UCP business grew by 13% YoY (HSIE +10%) with volumes growing across categories. The UCP EBIT margin came in at 10% (HSIE 9.4%). Voltas continues to retain its #1 position in RAC, but YTD market share in Feb'23 further dipped to 21.9% (vs 22.5% YTD Dec'22). Market share in Jan/Feb was even low at 18%. After last year's market share loss, we had modelled a lower EBIT margin but stability in market share. The consistent fall in market share is reflecting inadequate efforts to fix the competitive pressure. Furthermore, the summer season is still not set fully, leading to a miss in industry tailwinds. We cut our FY24/FY25 EPS estimates by 3/4% to factor in weak RAC dynamics and cut our target UCP multiple to 32x (earlier 38x). Our SoTP (UCP/EMPS/EPS P/E at 32/15/15x and Volt-Beko P/S of 4x) on Mar-25 derives a TP of INR 750. Downgrade to REDUCE.

- Beat on UCP revenue:** Consolidated revenue grew by 11% YoY and was largely in line with our estimates. UCP segment registered 13/33% YoY growth in Q4/FY23 (HSIE: 10%). Despite weak consumer sentiment and delayed summer in March, volumes grew across UCP categories (RAC, CR, AR). Although the quarter started on a positive note, incessant rains in March impacted demand, leading to higher channel inventory. However, April has seen an improvement in demand; thus, inventory is now at normal levels. Summer is yet not set completely and as per IMD, there are chances of unseasonal rains too. It will lead to industry tailwinds which could cover some losses in market share YoY. EMPS revenue grew by 8% YoY (HSIE +12%), while EPS revenue grew by 15% YoY. We model a 10% revenue CAGR for UCP business for FY23-25.
- UCP margin surprises positively; EMPS losses impact overall:** GM contracted by 120bps YoY to 21.6% (22.8% in Q4FY22, 24.1% in Q3FY23). Employee expenses grew 4.9% while other expenses grew 35%. UCP EBIT margin was at 10% (10.6% in Q4FY22, 7.4% in Q3FY23; HSIE 9.4%). EMPS EBIT margin was at -1.9% (+6.9% in Q4FY22, -7.1% in Q3FY23; HSIE 3%). EMPS margin was impacted by provisions made on account of delay in collections. Volt-Beko losses were at INR 282mn vs INR 289mn YoY. We model a 9/4% EBIT margin for UCP/EMPS for FY24.
- Con-call takeaways:** (1) Although channel inventory was high as on Mar'23 due to unseasonal rain, it has been cleared up in April. Remain positive on summer season sales in May/June. (2) Voltas has not taken any price hikes in April. (3) Some other brands have initiated price cuts. Voltas believes it is not sustainable and will continue to focus on both market share gains and margins. (4) Volt-Beko revenue grew by 26/15% in Q4/FY23. The washing machine market share was 5.3%. (6) Higher demand was witnessed in water coolers and dispensers. (7) Setting up RAC plant with 1mn capacity. (8) Capex will be INR 3.5-5bn over the next 18 months. (9) The domestic/ international order book stood at INR 58/24bn.

Quarterly/annual financial summary

| YE Mar (Rs mn) | Q4FY23 | Q4FY22 | YoY (%) | Q3FY22 | QoQ (%) | FY22 | FY23 | FY24E | FY25E |
|------------------|--------|--------|---------|--------|---------|--------|--------|----------|----------|
| Net Sales | 29,568 | 26,666 | 10.9 | 20,056 | 47.4 | 79,345 | 94,988 | 1,09,476 | 1,21,668 |
| EBITDA | 2,182 | 2,610 | (16.4) | 764 | 185.7 | 6,816 | 5,724 | 8,028 | 8,874 |
| APAT | 1,432 | 1,827 | (21.6) | 427 | 235.5 | 5,060 | 3,639 | 6,489 | 7,648 |
| Diluted EPS (Rs) | 4.3 | 5.5 | (21.6) | 1.3 | 235.5 | 15.3 | 11.0 | 19.6 | 23.1 |
| P/E (x) | | | | | | 52.7 | 73.3 | 41.1 | 34.9 |
| EV / EBITDA (x) | | | | | | 38.8 | 46.4 | 33.0 | 29.8 |
| RoCE (%) | | | | | | 22.2 | 10.0 | 20.1 | 19.6 |

Source: Company, HSIE Research

REDUCE

| | |
|-------------------------|---------|
| CMP (as on 27 Apr 2023) | INR 808 |
| Target Price | INR 750 |
| NIFTY | 17,915 |

| KEY CHANGES | OLD | NEW |
|--------------|---------|---------|
| Rating | ADD | REDUCE |
| Price Target | INR 925 | INR 750 |
| EPS % | FY24E | FY25E |
| | -3% | -4% |

KEY STOCK DATA

| | |
|------------------------------|---------------|
| Bloomberg code | VOLT IN |
| No. of Shares (mn) | 331 |
| MCap (INR bn) / (\$ mn) | 267/3,268 |
| 6m avg traded value (INR mn) | 1,127 |
| 52 Week high / low | INR 1,302/737 |

STOCK PERFORMANCE (%)

| | 3M | 6M | 12M |
|--------------|-----|-------|--------|
| Absolute (%) | 8.5 | (7.5) | (36.2) |
| Relative (%) | 6.3 | (9.0) | (42.9) |

SHAREHOLDING PATTERN (%)

| | Dec-22 | Mar-23 |
|-----------------|--------|--------|
| Promoters | 30.30 | 30.30 |
| FIs & Local MFs | 31.67 | 33.37 |
| FPIs | 21.58 | 20.57 |
| Public & Others | 16.45 | 15.76 |
| Pledged Shares | 0.00 | 0.00 |

Source: BSE

Pledged shares as % of total shares

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Disclosure:

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