

April 27, 2023

RESULT REPORT Q4 FY23 | Sector: Consumer Durables

Voltas Ltd

Intense competition persist; reiterate Neutral

Result Synopsis

Voltas has delivered lower than expected revenue growth with UCP growing by 12.7% and EMPS segment growing 7.8%. Voltas continues to lose market with YTD February market share at 21.9%, while market share for month of February stood at 18.1%. Voltas has not taken any price increase in Q4, and future price increase will depend on market conditions and competition. Volt-Bek has 26% volume growth in Q4 and FY23 growth for Volt-bek is in range of 15-18%. The projects business continues to be marred by provisioning related to international arising out of delay in certification and collections. The company has initiated legal actions to recover dues. On the positive side order inflow in the EMPS has remained strong with inflow amounting to Rs19bn in Q4. We however continue to remain cautious on the stock with Neutral rating as 1) market share gains will be difficult to come by, 2) Margins in UCP are structurally trending lower, 3) Project business continues to face execution and collection challenges particularly in international geographies, and 4) Volt-beck continues to incur losses and is expected to take more time than estimated to achieve break-even status.

Voltas being a market leader with solid distribution presence and increasing product offerings on the commercial refrigeration and RAC segments should see growth improving as it has taken corrective actions to re-gain its market share. This along with better focus on project business along with better risk mitigation policies will result in improved performance. Volt-Bek JV has started gaining prominence in the market and localized production is expected to increase efficiency and bring down losses. We have modeled lower margins of UCP segment for FY24 and FY25. We now factor in FY22-25E Revenue/EBITDA/PAT CAGR of 20%/36%/142% and maintain our neutral rating with SoTP based TP of Rs840. We have lowered our multiple in the products business (UCP) to 45x and value projects business at 25x (in line with peers). We see strong momentum for RAC continuing upcoming summer and steady improvement in project business.

Result Highlights

- Quarter summary** – Voltas delivered revenue growth of 10.9%. UCP registered revenue growth of 12.7%, EMPS (Electromechanical Projects and services) and EPS (Engineering products and Services) segment registered growth of 7.8% and 15.3% yoy respectively.
- UCP** –: Revenue grew 12.7% yoy. UCP business has relatively performed better amid lower consumer sentiments towards discretionary spends and unseasonal rains. EBIT margin stood at 10.0% vs 10.6% in Q4FY22 contraction of 52bps yoy. Voltas continues to be the market leader in ACs with YTD February market share of 21.9%.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	29,568	32,975	29,820	-10.3	-0.8	Voltas's revenue and PAT was lower than estimated on account of slower execution and provisioning in project business.
EBITDA	2,180	3,240	2,600	-32.8	-16.2	
EBITDA Margin (%)	7.4	9.8	8.7	-240 bps	-130 bps	
Adjusted PAT	1,432	2,180	1,880	-34.5	-23.8	

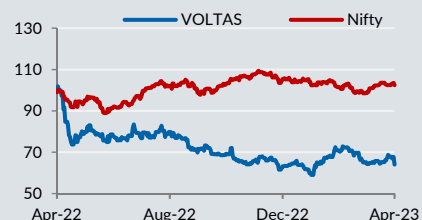
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 809
Target Price	: Rs 840
Potential Return	: +3.9%

Stock data (as on April 27, 2023)

Nifty	17,915
52 Week h/l (Rs)	1299 / 737
Market cap (Rs/USD mn)	282774/3439
Outstanding Shares (mn)	331
6m Avg t/o (Rs mn):	1,098
Div yield (%):	0.7
Bloomberg code:	VOLT IN
NSE code:	VOLTAS

Stock performance



	1M	3M	1Y
Absolute return	-1.8%	8.5%	-36.2%

Shareholding pattern (As of Dec'22 end)

Promoter	30.3%
FII+DII	53.3%
Others	16.5%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	840	885

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	19.6	24.1
EPS (Old)	19.5	24.3
% change	0.0%	-0.8%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	94,988	122,369	136,310
YoY Growth	19.7%	28.8%	11.4%
EBITDA	5,724	9,178	10,632
YoY Growth	-16.0	60.3	15.8
PAT	3,800	6,500	7,961
YoY Growth	-24.9%	71.0%	22.5%
ROE	6.9	11.4	12.7
EPS	4.1	19.6	24.1
P/E	196.5	41.2	33.6
BV	164.8	180.9	199.3
EV/EBITDA	46.7	29.1	24.7

AAKASH FADIA
Analyst

aakash.fadia@ysil.in

+91 22 6885 0521



ARSHIA KHOSLA, Associate

- **EMPS-** Revenue grew 7.8% yoy on favorable base. The company has registered EBIT loss of Rs140mn. The growth was lower despite favorable base indicating challenges in execution, while EBIT loss is on account of provision made due to delay in collection. Its Carry forward order book stood at Rs81.5bn as compared to Rs53.6bn growth of 52% on yoy basis. Voltas has booked domestic projects worth of Rs.19.1bn during the quarter as compared to Rs.8.4bn.
- **Volt-Bek** – Voltas beko has seen volume growth of 26% in Q4 and growth of 15-18% in FY23. Company has sold 3.3mn units till date in 4 years since its launch. Its market share has rose to 5.3% vs 4.4%, while in semi-automatic washing machine its market share stood at 8.9%. Expansion in distribution reach and launch of new star rated products have resulted in strong growth. Currently the trials are undergoing for manufacturing of fully automatic front load washing machines domestically and company has launched frost free refrigerators as well. Voltas-beko topline for FY23 is more than Rs10bn.

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	y/y %	q/q %	FY23	FY22	y/y %
Sales	26,666	27,680	17,684	20,055	29,568	10.9	47	94,987	79,345	19.7
EBITDA	2610	1770	1008	764	2182	-16.4	186	5724	6816	-16.0
EBITDA Margin %	9.8	6.4	5.7	3.8	7.4			6.0	8.6	
Depreciation	94.5	84.9	97.0	110.5	103.8	9.8	-6.1	396	373	6.3
EBIT	2516	1685	911	653	2078	-17.4	218	5327	6443	-17.3
EBIT Margin %	9.4	6.1	5.2	3.3	7.0			5.6	8.1	
Interest charges	125	40	67	64	124	-0.6	93	296	259	14.4
Other Income	372	268	644	307	467	25.4	52	1,685	1,892	-11.0
PBT	2474	1603	134	-805	2138	-13.6	-366	3071	6973	-56.0
Tax	647	508	195	300	706	9.2	135	1,709	1,913	-10.7
Effective Tax Rate (%)	26.1	31.7	144.9	-37.3	33.0			55.7	27.4	
PAT	1827	1095	-60	-1105	1432	-21.6	-230	1362	5060	-73.1
PAT Margin %	6.9	4.0	-0.3	-5.5	4.8			1.4	6.4	
EPS (Rs)	5.5	3.3	-0.2	-3.3	4.3	-21.6	-229.6	4.1	15.3	-73.1

Source: Company, YES Sec

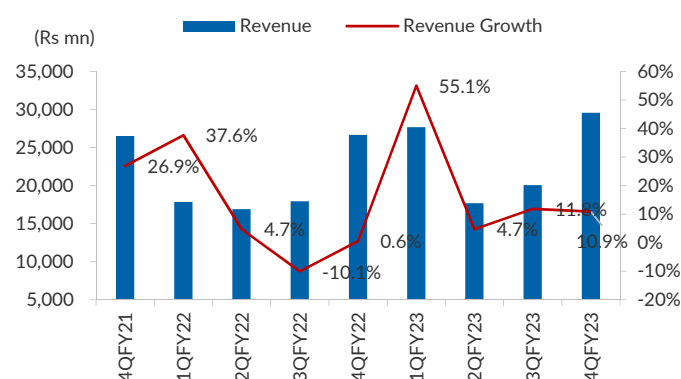
Exhibit 3: Segmental Performance

Rs mn	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
EMPS	6,918	4,547	5,540	6,484	7,458	7.8	15.0	24,029	24,705	-2.7
EPS	1,235	1,243	1,374	1,179	1,424	15.3	20.7	5,220	4,887	6.8
UCP	18,184	21,622	10,477	12,160	20,486	12.7	68.5	64,745	48,819	32.6
Less: Intersegment	0	0	0	0	0			0	0	
Income from operations	26,337	27,412	17,391	19,823	29,368	11.5	48.2	93,994	78,411	19.9
PBIT										
EMPS	476	(125)	143	(461)	(140)	-129.5	-69.6	-582	1,258	-146.3
EPS	408	509	480	460	559	37.0	21.6	2,007	1,579	27.1
UCP	1,919	1,662	765	895	2,057	7.2	129.9	5,378	5,134	4.8
Total PBIT	2,803	2,046	1,388	893	2,475	-11.7	177.1	6,803	7,971	-14.6
Less: Unallocable expense	204	403	122	260	213	4.3	-18.1	998	739	35.0
Operating Income	2,599	1,643	1,266	634	2,263	-12.9	257.1	5,806	7,232	-19.7
Less: Interest Expense	125	40	67	64	124	-0.6	93.5	296	259	
Exceptional	-	-	-	-	-			0	0	
PBT	2,474	1,603	1,199	569	2,138	-13.6	275.6	5,510	6,973	-21.0
PBIT Margins (%)						(bps)	(bps)			(bps)
EMPS	6.9	(2.7)	2.6	(7.1)	(1.9)	(875)	523	(2.4)	5.1	(751)
EPS	33.0	40.9	35.0	39.0	39.3	623	27	38.5	32.3	614
UCP	10.6	7.7	7.3	7.4	10.0	(52)	268	8.3	10.5	(221)
Total PBIT	10.6	7.5	8.0	4.5	8.4	(221)	392	7.2	10.2	(293)

Source: Company, YES Sec

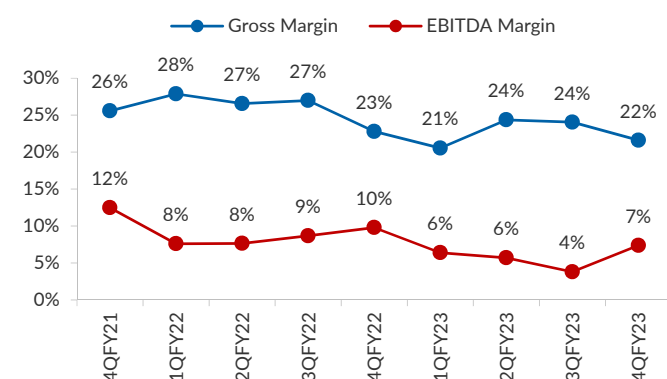
CHARTS

Exhibit 4: Revenue growth was below estimates on slower execution in project business



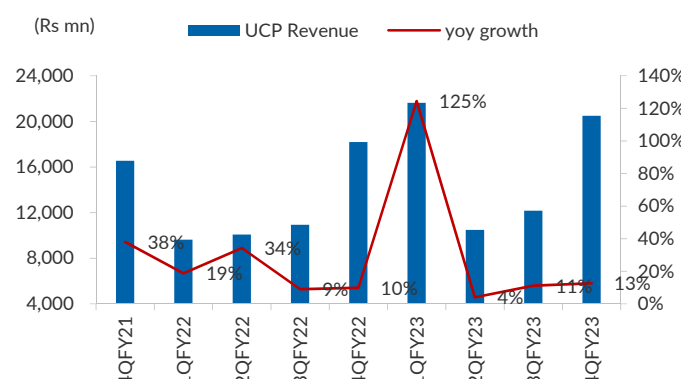
Source: Company, YES Sec

Exhibit 5: Higher other expenses have resulted in EBITDA margin contraction on yoy basis



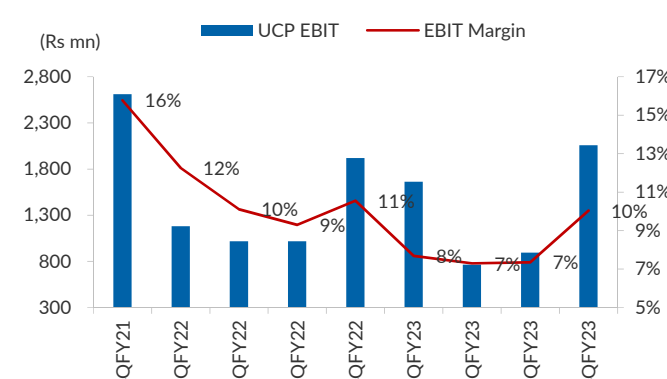
Source: Company, YES Sec

Exhibit 6: UCP revenue growth was marginally below estimates



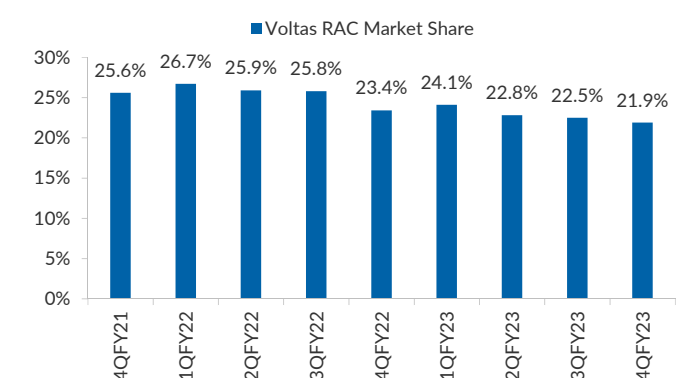
Source: Company, YES Sec

Exhibit 7: Heightened competition along with aggressive pricing has resulted in lower margins



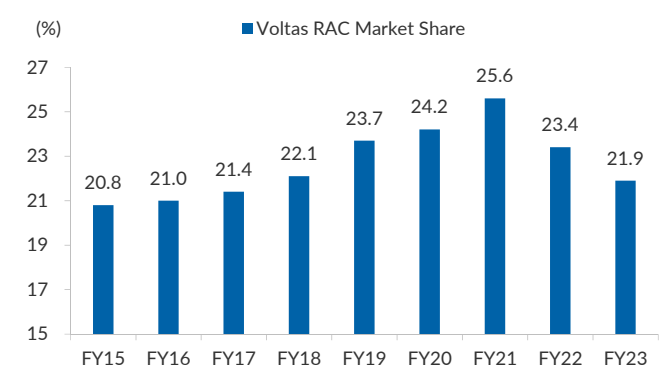
Source: Company, YES Sec

Exhibit 8: RAC market share has been declining in last few quarters



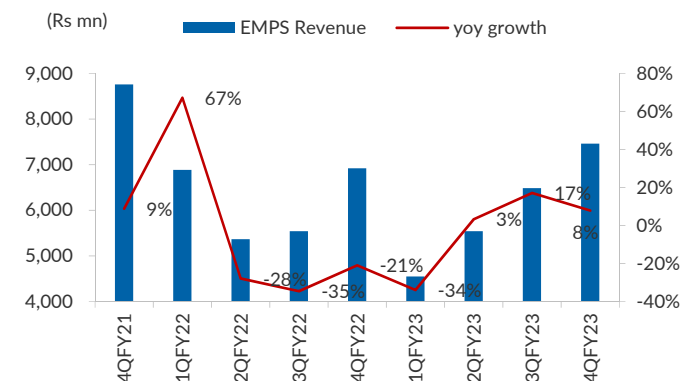
Source: Company, YES Sec

Exhibit 9: Company has lost market share for second consecutive year



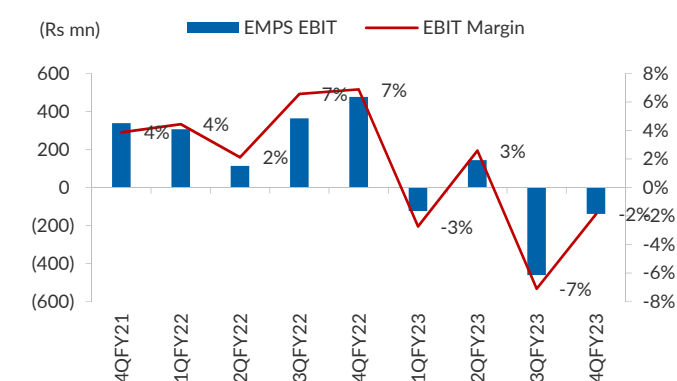
Source: Company, YES Sec

Exhibit 10: EMPS revenue has seen positive traction albeit on low base



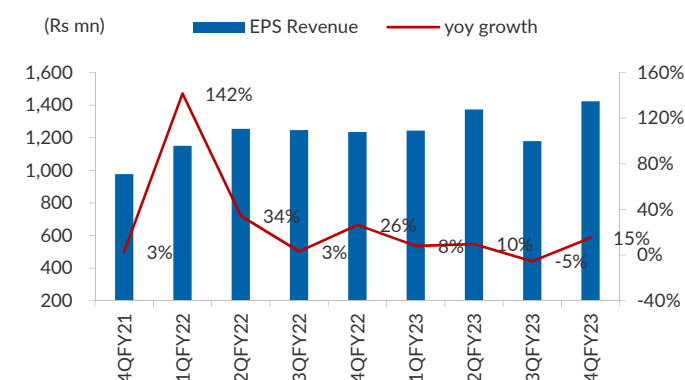
Source: Company, YES Sec

Exhibit 11: VOLT continues to pose EBIT loss on back of provisioning



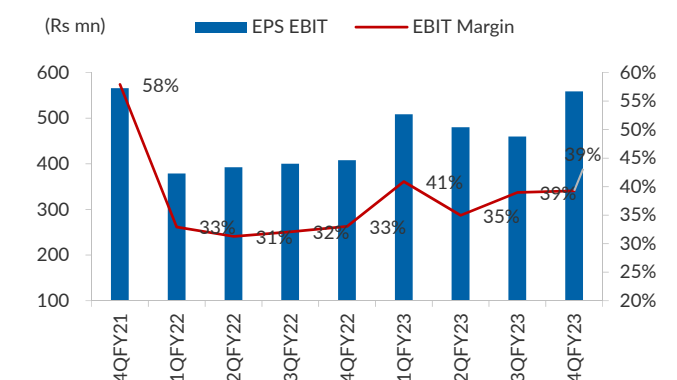
Source: Company, YES Sec

Exhibit 12: EPS continues to see steady revenue



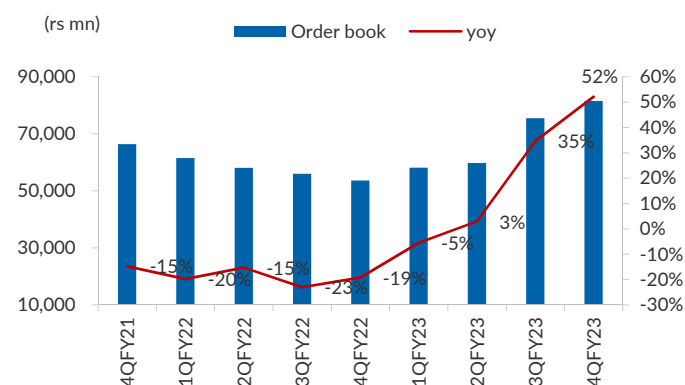
Source: Company, YES Sec

Exhibit 13: EPS margins continues to remain healthy



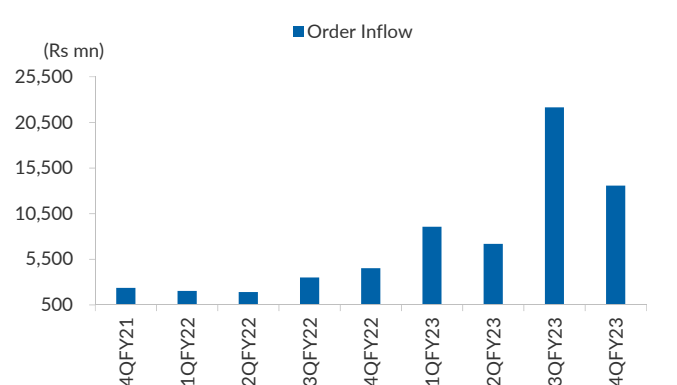
Source: Company, YES Sec

Exhibit 14: Order-book continues to grow at rapid pace



Source: Company, YES Sec

Exhibit 15: Order-inflow has seen marked increase



Source: Company, YES Sec

Exhibit 16: Revenue and Margin Assumption

Revenue (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
EMPS	28,786	24,705	24,029	42,999	49,163
Yoy	-11%	-14%	-3%	79%	14%
Order Inflow	24,134	11,955	51,969	57,166	62,883
Yoy	-60%	-50%	335%	10%	10%
Order Book	66,350	53,600	81,540	95,707	109,427
Yoy	-15%	-19%	52%	17%	14%
EPS	3,595	4,887	5,220	5,575	5,955
Yoy	8%	36%	7%	7%	7%
UCP	42,185	48,819	64,745	72,514	79,766
Yoy	4%	16%	33%	12%	10%
Total Revenue	74,566	78,411	93,994	121,089	134,884
Yoy	-3%	5%	20%	29%	11%
PBIT (Rs mn)					
EMPS	270	1,258	-582	2,150	2,950
% Margin	1%	5%	-2%	5%	6%
EPS	1,143	1,579	2,007	2,144	2,290
% Margin	32%	32%	38%	38%	38%
UCP	5,837	5,134	5,378	6,236	7,338
% Margin	13.8%	10.5%	8.3%	8.6%	9.2%
Total PBIT	7,250	7,971	6,803	10,530	12,578
% Margin	10%	10%	7%	9%	9%

Exhibit 17: SoTP Valuation on rolling forward our estimates to Sep'24

Segment	PAT	Multiple	Rs mn
EMPS	1,606	25	40,155
EPS	1,394	30	41,807
UCP	4,270	45	192,146
Total MCAP			274,108
Number of Shares			331
Target Price			830
Value of VoltBek			11
Total Value			840

Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

UCP

- Voltas's product business has performed relatively better despite negative consumer sentiment and unseasonal rains during latter part of March.
- Higher temperatures in part of march resulted in strong demand during the start of summer season in month of march, however unseasonal rains in latter part of march have resulted in some muted demand.
- Prediction of hot summer has resulted in increased footfall for the cooling products.
- The company's inverter share has increased to 75% vs 63% for FY23 and 80% for Q4.
- Aggressive pricing to garner market share and high competition has resulted some margin compression. The company's exit marketshare as on Feb'23 stood at 21.9% while in month of Feb it was 18.2%.
- Commercial refrigeration continued its growth trajectory and the demand for commercial refrigeration has been higher even on the higher base of the previous year. There has been high demand for water coolers, water dispensers and visi coolers.
- There is also demand from OEM's, ice cream makers and chocolate manufacturers. The company has made inroads in medical refrigeration and benefits will accrue in quarters going ahead.
- Voltas is geared to launch new consumer products in air-cooler and it has positioned as value for money products. Voltas market share in air-cooler stood at 9%.
- High channel inventory was there in latter part of march, however heat waves in April has resulted in channel inventory being cleared.
- The company has not taken any price increase, the company striving to maintain high single digit margin considering the strong competition.
- Company has sold ~1.4m units of RAC in FY23.
- Daikin has been growing much faster than the competition and has gained ~200bps of market share while BLSTR market share gain has been ~50bps. BLSTR marking inroads in north has been well known.
- Private labels have constraints of service going forward as they operate in the market at sub-optimal price levels.

EMPS - International projects has resulted in muted topline growth, while domestic business continues to look up. Certification delay in the international business has delayed collection resulting in provision. The company has initiated legal action to recover the proceeds. Order book has seen improvement. Company's current order book stands at Rs81.5bn of which Rs56.3bn is domestic spread across water, HVAC, rural electrification and urban infra. International orderbook stands at Rs 23.5bn largely in UAE and Saudi region. Domestic order book has been robust at Rs58bn.

Voltas-Beko - Voltas beko has seen volume growth in Q4 and growth of 15-18% in FY23. Company has sold 3.3mn units till date in 4 years since its launch. Its market share has rose to 5.3% vs 4.4%, while in semi-automatic washing machine its market share stood at 8.9%. Expansion in distribution reach and launch of new star rated products have resulted in strong growth. Currently the trials are undergoing for manufacturing of fully automatic front load washing machines domestically and company has launched frost free refrigerators as well. Voltas-beko topline for FY23 is more than Rs10bn.

Voltas Ltd

Other highlights - JV with highly international has been terminated as certain approvals were not forthcoming.

Compressor - China has 90% of the world's capacity for the compressor. The current capacity that is being thought out domestically is in the range of 1-1.5mn units which is much lower than the industry requirement. Hence imports would continue in medium term.

Capex - Company is expected to incur the capex of Rs3.5-4.5bn in next 18 months. Capex will be largely used to increase the capacity. AC capacity will be doubled to 2mn units and commercial refrigeration capacity will be increased to 0.5mn from current 0.25mn.

FINANCIALS

Exhibit 18: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	331	331	331	331	331
Reserves	49,603	54,665	54,190	59,527	65,583
Net worth	49,934	54,996	54,521	59,858	65,914
Debt	2,606	3,608	6,506	5,508	6,136
Deferred tax liab (net)	14	14	53	53	53
Other non current liabilities	1,260	1,411	1,336	1,530	1,657
Total liabilities	53,814	60,029	62,416	66,949	73,759
Fixed Asset	2,689	3,173	5,012	7,272	7,476
Investments	31,020	36,687	31,581	31,581	31,581
Other Non-current Assets	3,418	2,910	4,659	5,691	6,216
Net Working Capital	12,085	11,528	14,080	16,100	17,458
Inventories	12,796	16,614	15,920	21,792	24,274
Sundry debtors	18,009	21,097	21,919	30,173	33,611
Loans and Advances	3,371	3,539	6,691	8,619	9,601
Sundry creditors	24,645	29,421	30,126	41,572	46,308
Other current liabilities	6,914	6,316	8,588	9,409	9,827
Cash & equivalents	4,602	5,731	7,084	6,305	11,028
Total Assets	53,814	60,029	62,416	66,949	73,759

Source: Company, YES Sec

Exhibit 19: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	75,558	79,345	94,988	122,369	136,310
Operating profit	6,414	6,816	5,724	9,178	10,632
Depreciation	339	373	396	530	586
Interest expense	262	259	296	251	279
Other income	1,889	1,892	1,685	1,509	1,472
Profit before tax	7,702	8,076	6,716	9,907	11,240
Taxes	1,804	1,913	1,709	2,493	2,829
Minorities and other	610	1,103	1,207	913	450
Adj. profit	5,288	5,060	3,800	6,500	7,961
Exceptional items	-	-	2,438	-	-
Net profit	5,288	5,060	1,362	6,500	7,961

Source: Company, YES Sec

Exhibit 20: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	7,963	8,335	7,012	10,157	11,519
Depreciation	339	373	396	530	586
Tax paid	(1,804)	(1,913)	(1,709)	(2,493)	(2,829)
Working capital Δ	3,513	(1,293)	(1,281)	(2,020)	(1,357)
Other operating items					
Operating cashflow	10,011	5,502	4,418	6,173	7,918
Capital expenditure	(138)	(857)	(2,235)	(2,790)	(790)
Free cash flow	9,873	4,645	2,183	3,383	7,128
Equity raised	3,498	1,822	(431)	913	450
Investments	(9,844)	(3,818)	3,836	-	-
Debt financing/disposal	428	1,002	2,898	(998)	628
Interest paid	(262)	(259)	(296)	(251)	(279)
Dividends paid	(1,654)	(1,819)	(1,406)	(2,076)	(2,355)
Net Δ in cash	1,518	1,129	1,353	(779)	4,723

Source: Company, YES Sec

Exhibit 21: Du-pont analysis

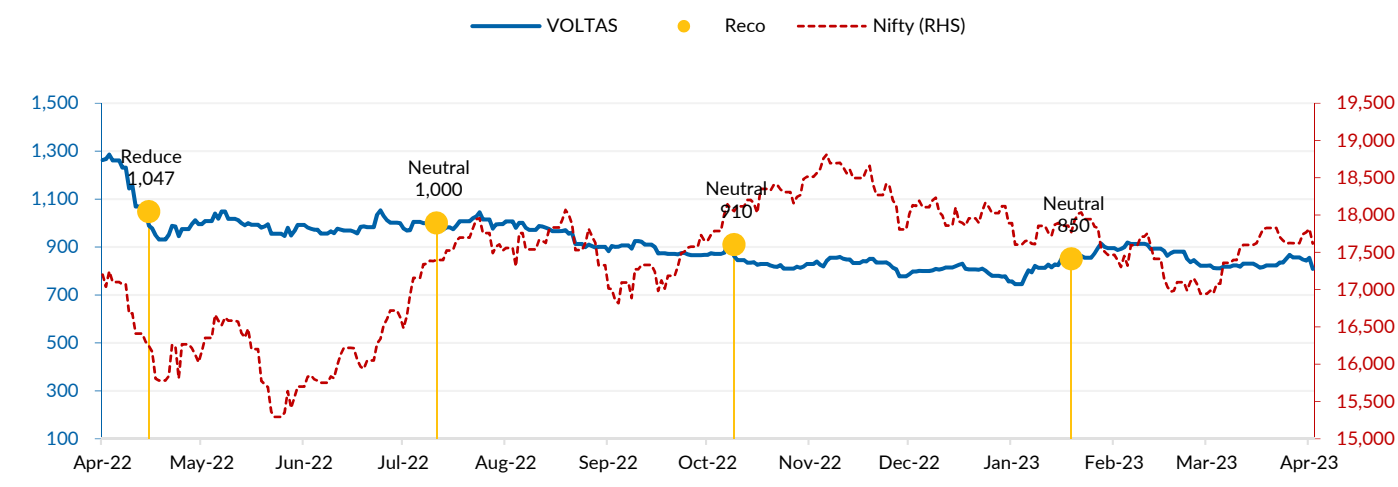
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	0.69	0.63	0.57	0.66	0.71
Interest burden (x)	0.97	0.97	0.96	0.98	0.98
EBIT margin (x)	0.11	0.11	0.07	0.08	0.08
Asset turnover (x)	0.90	0.86	0.95	1.09	1.07
Financial leverage (x)	1.81	1.75	1.83	1.96	2.03
RoE (%)	11.4	9.6	6.9	11.4	12.7

Exhibit 22: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(1.3)	5.0	19.7	28.8	11.4
Op profit growth	(6.6)	6.3	(16.0)	60.3	15.8
EBIT growth	(10.0)	4.7	(15.9)	44.9	13.4
Net profit growth	(7.6)	(4.3)	(24.9)	71.0	22.5
Profitability ratios (%)					
OPM	8.5	8.6	6.0	7.5	7.8
EBIT margin	10.5	10.5	7.4	8.3	8.5
Net profit margin	7.0	6.4	4.0	5.3	5.8
RoCE	16.3	15.0	11.7	16.1	16.8
RoNW	11.4	9.6	6.9	11.4	12.7

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
RoA	6.3	5.5	3.8	5.8	6.2
Per share ratios					
EPS	16.0	15.3	11.5	19.6	24.1
Dividend per share	5.0	5.5	4.3	6.3	7.1
Cash EPS	17.0	16.4	12.7	21.3	25.8
Book value per share	150.9	166.3	164.8	180.9	199.3
Valuation ratios					
P/E	50.6	52.9	196.5	41.2	33.6
P/CEPS	42.9	40.9	90.3	33.7	29.7
P/B	5.4	4.9	4.9	4.5	4.1
EV/EBIDTA	41.4	39.0	46.7	29.1	24.7
Payout (%)					
Dividend payout	31.3	36.0	37.0	31.9	29.6
Tax payout	23.4	23.7	25.4	25.2	25.2
Liquidity ratios					
Debtor days	87.0	97.0	84.2	90.0	90.0
Inventory days	61.8	76.4	61.2	65.0	65.0
Creditor days	119.1	135.3	115.8	124.0	124.0

Recommendation Tracker



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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single
Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL:
IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH
ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 |
Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT
III AIF) SEBI Registration No.: IN/AIF3/20-21/0818 |
AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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Name of the Research Analyst : Aakash Fadia, Arshia Khosla

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