

Retail Equity Research

Voltas Limited

Capital Goods

BSE CODE: 500575

NSE CODE: VOLTAS

Bloomberg CODE: VOLT:IN

SENSEX: 65,087

BUY

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 856 TARGET Rs. 991 RETURN 16% ↑
(Closing: 30-08-23)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Mixed results; outlook positive

Voltas is India's leading air conditioning and engineering services company. In Q1FY24, it derived ~75% of its revenue from the unitary cooling products (UCP) segment and 33% from electro-mechanical projects and services (EMPS).

- Revenue surged 21.7% YoY to Rs. 3,335cr in Q1FY24, driven by growth in the UCP and EMPS segments.
- EBITDA increased, while margin shrank 90bps YoY to 5.6% due to higher operating expenses. Adjusted PAT grew 18.7% YoY to Rs. 129cr due to an increase in revenue and other income.
- Efficient working capital management, incentive schemes across sales channels, a growing network of exclusive brand outlets, and tie-ups with modern and retail channels are expected to drive growth in the long term. Softening of commodity prices and cost efficiency measures are expected to support margin in the future. Demand is expected to improve from Q3FY24 onwards on account of festive season. Hence, we upgraded our rating to BUY on the stock with a revised target price of Rs. 991 based on 42x FY25E adj. EPS.

UCP drove topline growth

Consolidated revenue surged 21.7% YoY to Rs. 3,335cr in Q1FY24, led by a 16.3% YoY rise in UCP's revenue to Rs. 2,514cr owing to 15% YoY growth in volume, higher than the industry growth on a YoY basis. Further, EMPS revenue grew 49.3% YoY to Rs. 679cr., driven by a rise in domestic projects segment orders. EMPS carry forward order book stood at Rs. 8,193cr (up 53% YoY). UCP revenue is expected to remain subdued in Q2FY24 owing to the rainy season. However, it will start picking up from Q3FY24 onwards as demand rises during the festive season.

Key concall highlights

- Voltas Beko secured a market share of 5% in the washing machine category and 3.5% in refrigerators.
- The air cooler segment increased 49% in volume with improved gross margin due to reasonable pricing tie-ups with modern and retail channels, active channels participation and aggressive pricing with effective dealer incentive schemes.

Higher costs constrained margin

EBITDA increased 4.7% YoY to Rs. 185cr in Q1FY24. However, margin declined 90bps YoY to 5.6% due to higher cost of sales. Cost of sales grew 20.5% YoY to Rs. 2,650cr on account of a 33.3% YoY surge in 'consumption of materials, cost of jobs and services' to Rs. 1,539cr. Further, employee benefits expense and other expenses increased 19.9% and 42.4% YoY, respectively. We expect margin to improve gradually on account of softening of commodity prices, tactical sourcing, manufacturing efficiencies, and various value engineering initiatives by the company across all products. Adjusted PAT grew 18.7% YoY to Rs. 129cr.

Valuation

Better working capital management, incentive schemes across sales channels, a growing network of exclusive brand outlets, and tie-ups with modern and retail channels are expected to drive overall performance in the long term. Additionally, cost efficiency measure and softening of commodity prices are expected to support margin in the future. Voltas market shared improved sequentially during the quarter and upcoming festival season expected to drive overall demand from Q3FY24 onwards. Therefore, we upgraded our rating to BUY on Voltas with a target price of Rs. 991 based on 42x FY25E adj. EPS.

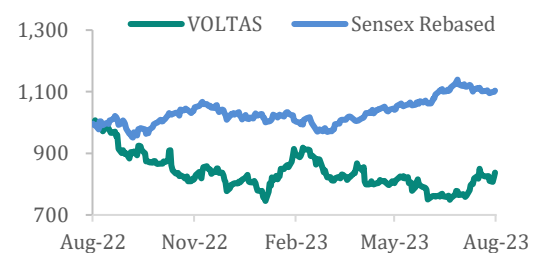
Company Data

Market Cap (cr)	Rs.27,537
Enterprise Value (cr)	Rs.27,575
Outstanding Shares (cr)	33.1
Free Float	69.0%
Dividend Yield	0.5%
52 week high	Rs.1,006
52 week low	Rs.738
6m average volume	70,362
Beta	0.7
Face value	Rs.1

Shareholding %	Q3FY23	Q4FY23	Q1FY24
Promoters	30.3	30.3	30.3
FII's	21.6	20.6	19.1
MFs/Insti	31.7	33.4	33.8
Public	15.4	14.6	15.8
Others	1.0	1.2	1.0
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	3.6%	-7.0%	-16.4%
Absolute Sensex	5.6%	9.7%	10.4%
Relative Return*	-2.0%	-16.8%	-26.8%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	9,399	10,843	12,666
Growth (%)	19.9	15.4	16.8
EBITDA	572	793	1,035
EBITDA Margin (%)	6.1	7.3	8.2
Adj. PAT	379	581	782
Growth (%)	(24.8)	53.4	34.5
Adj. EPS	11.5	17.6	23.6
Growth (%)	(24.8)	53.4	34.5
P/E	71.1	47.4	35.2
P/B	4.9	4.7	4.3
EV/EBITDA	47.1	34.8	26.6
ROE (%)	2.5	10.0	12.2
D/E	0.1	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY24	Q1FY23	YoY Growth %	Q4FY23	QoQ Growth %
Revenue	3,335	2,741	21.7	2,937	13.6
EBITDA	185	177	4.7	218	(15.0)
EBITDA margins	5.6	6.5	(90bps)	7.4	(180bps)
Depreciation	11	8	32.6	10	8.5
EBIT	174	169	3.3	208	(16.2)
Interest	10	4	154.0	12	(18.7)
Other Income	70	27	161.6	47	50.0
Exceptional Items	-	-	-	-	-
Share of profit from Associate	(31)	(31)	(0.3)	(28)	(10.2)
PBT	203	160	26.6	214	(5.1)
Tax	73	51	44.7	71	4.1
Reported PAT	129	110	18.0	143	(10.0)
Minority Interest	0	1	n.m.	(1)	n.m.
PAT att. to shareholders	129	109	18.7	144	(10.2)
Adjustments	-	-	-	-	-
Adj. PAT	129	109	18.7	144	(10.2)
No. of shares	33.1	33.1	-	33.1	-
Adj. EPS (Rs.)	3.9	3.3	18.7	4.4	(10.2)

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	10,330	11,942	10,843	12,666	5.0	6.1
EBITDA	919	1087	793	1035	(13.8)	(4.8)
Margins (%)	8.9	9.1	7.3	8.2	(159bps)	(93bps)
Adj. PAT	663	817	581	782	(12.3)	(4.3)
Adj. EPS	20.0	24.7	17.6	23.6	(12.2)	(4.3)

PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	7,457	7,841	9,399	10,843	12,666
% change	(2.2)	5.2	19.9	15.4	16.8
EBITDA	641	682	572	793	1,035
% change	(6.6)	6.3	(16.0)	38.5	30.6
Depreciation	34	37	40	50	58
EBIT	607	644	533	742	977
Interest	26	26	30	40	50
Other Income	128	79	(196)	95	145
PBT	709	697	307	798	1,073
% change	(4.7)	(1.7)	(56.0)	159.7	34.5
Tax	180	191	171	215	290
Tax Rate (%)	25.4	27.4	55.6	27.0	27.0
Reported PAT	529	506	136	582	783
PAT att. to common shareholders	525	504	135	581	782
Adj*	-	-	244	-	-
Adj PAT	525	504	379	581	782
% change	(7.6)	(4.0)	(24.8)	53.4	34.5
No. of shares (cr)	33.1	33.1	33.1	33.1	33.1
Adj EPS (Rs.)	15.9	15.2	11.5	17.6	23.6
% change	(7.6)	(4.0)	(24.8)	53.4	34.5
DPS (Rs.)	5.0	5.5	4.3	4.3	4.3

CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	563	543	176	633	841
Non-cash adj.	73	324	121	(73)	(29)
Changes in W.C	(80)	(283)	(137)	376	239
C.F. Operation	556	584	159	935	1,052
Capital exp.	(19)	(47)	(177)	(193)	(226)
Change in inv.	(296)	(347)	210	(531)	(534)
Other invest.CF	59	30	(114)	-	0
C.F - Investment	(256)	(365)	(82)	(724)	(760)
Issue of equity	-	-	-	-	-
Issue/repay debt	42	92	273	100	100
Dividends paid	(136)	(168)	(183)	(197)	(211)
Other finance.CF	(28)	(31)	(35)	(40)	(50)
C.F - Finance	(122)	(107)	55	(137)	(160)
Chg. in cash	179	113	133	74	131
Closing cash	448	559	693	767	898

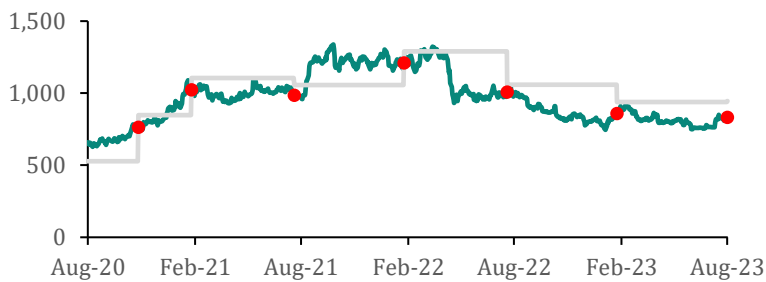
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	448	559	693	767	898
Accounts Receivable	1,801	2,110	2,192	2,223	2,407
Inventories	1,280	1,661	1,592	1,661	1,819
Other Cur. Assets	1,661	1,549	1,970	2,143	2,311
Investments	2,853	3,234	2,851	3,362	3,880
Gross Fixed Assets	476	523	700	894	1,120
Net Fixed Assets	238	171	263	396	553
CWIP	9	59	98	108	119
Intangible Assets	94	100	114	118	123
Def. Tax (Net)	56	44	36	43	58
Other Assets	216	258	471	486	511
Total Assets	8,655	9,746	10,279	11,307	12,678
Current Liabilities	3,249	3,708	4,016	4,549	5,244
Provisions	90	103	92	92	92
Debt Funds	280	376	662	762	862
Other Liabilities	7	22	16	24	29
Equity Capital	33	33	33	33	33
Reserves & Surplus	4,960	5,466	5,419	5,803	6,374
Shareholder's Fund	4,993	5,500	5,452	5,836	6,407
Minority Interest	36	38	42	43	44
Total Liabilities	8,655	9,746	10,279	11,307	12,678
BVPS (Rs.)	151	166	165	176	194

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	8.6	8.7	6.1	7.3	8.2
EBIT margin (%)	8.1	8.2	5.7	6.8	7.7
Net profit mgn.(%)	7.0	6.4	1.4	5.4	6.2
ROE (%)	10.6	9.2	2.5	10.0	12.2
ROCE (%)	11.4	10.9	8.7	11.2	13.4
W.C & Liquidity					
Receivables (days)	88.2	98.2	85.1	74.8	69.4
Inventory (days)	83.7	102.8	78.8	73.0	69.4
Payables (days)	161.3	182.1	149.0	153.3	155.1
Current ratio (x)	1.5	1.4	1.4	1.3	1.2
Quick ratio (x)	0.7	0.8	0.7	0.6	0.6
Turnover & Leverage					
Gross asset T.O (x)	15.6	15.7	15.4	13.6	12.6
Total asset T.O (x)	0.9	0.9	0.9	1.0	1.1
Int. coverage ratio (x)	23.2	24.9	18.0	18.7	19.7
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	4.4	5.2	2.9	2.5	2.2
EV/EBITDA (x)	51.0	60.2	47.1	34.8	26.6
P/E (x)	62.5	81.7	71.1	47.4	35.2
P/BV (x)	6.6	7.5	4.9	4.7	4.3

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
9-Jun-20	REDUCE	528
18-Nov-20	HOLD	848
17-Feb-21	HOLD	1,106
12-Aug-21	HOLD	1,057
16-Feb-22	HOLD	1,290
12-Aug-22	HOLD	1,058
16-Feb-23	HOLD	938
30-Aug-23	BUY	991

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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