Reinitiating Coverage | Sector: Consumer Durable

Voltas

Beating the heat with a flair for air!

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Voltas

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Expect RAC segment's market share at 21-22% in FY24/25

1. Sustained competition in the RAC segment for a longer period
2. Weather-related disappointments as the dependence is largely on a single category
3. Reduced discretionary spends of consumers.

Voltas

BSE SENSEX	S&P CNX
65,780	19,575

VOLTAS

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	287.7 / 3.5
52-Week Range (INR)	1000 / 738
1, 6, 12 Rel. Per (%)	11/-15/-22
12M Avg Val (INR M)	1152
Free float (%)	69.7

Financials & Valuations (INR b)

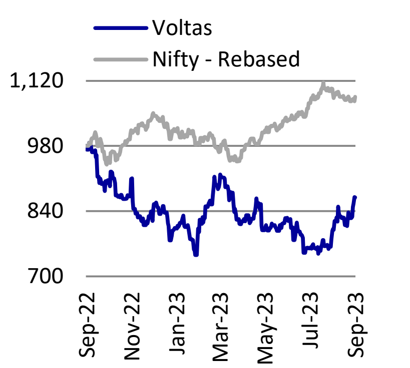
Y/E MARCH	FY23	FY24E	FY25E
Sales	95.0	109.8	123.1
EBITDA	5.7	7.6	9.6
Adj. PAT	3.8	5.3	7.3
EBITA Margin (%)	6.0	6.9	7.8
Cons. Adj. EPS (INR)	11.5	15.9	21.9
EPS Gr. (%)	(24.8)	38.7	38.1
BV/Sh. (INR)	164.8	176.4	193.6
Ratios			
Net D:E	(0.0)	(0.0)	(0.1)
RoE (%)	6.9	9.0	11.4
RoCE (%)	6.9	10.4	11.9
Payout (%)	37.1	30.0	25.0
Valuations			
P/E (x)	75.8	54.6	39.6
P/BV (x)	5.3	4.9	4.5
EV/EBITDA (x)	50.0	37.6	29.4
Div Yield (%)	0.5	0.5	0.6
FCF Yield (%)	(0.1)	1.2	1.2

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	30.3	30.3	30.3
DII	33.9	33.4	29.7
FII	19.1	20.6	24.7
Others	16.8	15.8	15.4

FII Includes depository receipts

Stock performance (one-year)



CMP: INR867 | TP: INR1,000 (+15%) | Buy

Beating the heat with a flair for air!

Expect RAC segment's market share at 21-22% in FY24/25

- **Leadership to sustain in RAC: Voltas (VOLT) is a market leader in the room air conditioners (RAC) segment. Its share had gradually risen to 25.2% in FY21 (from 20.8% in FY15) before declining to 23.4%/21.6% in FY22/FY23. We estimate VOLT to lead the RAC segment with a market share of 21-22% in FY24/25.**
- **Voltbek's losses continue but strong revenue traction visible: Voltbek (Voltas Beko) posted volume growth of 45%/15-18% YoY in FY22/FY23. The segment achieved a cumulative sales volume of over 3.3m units until FY23. Voltbek's revenue rose 17% YoY in FY23 with an operating loss of INR1.6b. We estimate Voltbek to be profitable at operating level in FY26 and it should start contributing to profits in FY27.**
- **EMPS segment to recover aided by strong order book: Electrical, mechanical and plumbing solutions (EMPS) segment caters to industrial customers in GCC as well as in domestic markets. The segment was hit in FY23/1QFY24 led by write-offs in the international business. However, we believe the strong order book of INR81.9b (INR52.4b of domestic and INR29.5b of international orders) will drive revenue growth and margin should improve in 2HFY24.**
- **Lower ad/sales promotion expenses drive margin expansion: VOLT's ad and sales promotion expenses are much lower than peers, which help it maintain industry-leading margins in the UCP segment. Its ad spends as a % of revenue stood at 0.7% in FY23 vs. 0.9%/2.6% for Blue Star/Havells. Similarly, sales promotion expenses (including commission on sales) for VOLT was at 0.1% vs. 0.9%/0.7% for Blue Star/Havells in FY23.**
- **Long-term positives to outweigh near-term challenges; reinitiate with a BUY: We reinitiate our coverage on VOLT with a BUY rating and a TP of INR1,000 premised on 40x FY25E EPS (similar to last 10 years' one-year forward average P/E multiple, before losses of Voltbek) and INR38/share for Voltbek. We expect VOLT to retain a market share of 21%+ over the next few years as it would continue to enjoy the leadership position in RAC segment.**
- **Key downside risks: 1) sustained competition in the RAC segment for a longer period, 2) weather-related disappointments as the dependence is largely on a single category, and 3) reduced discretionary spends of consumers.**

Leadership in RAC segment to continue

- VOLT's Unitary Cooling Products (UCP) segment caters to a diverse range of customers in both B2B and B2C. This segment contributed 68% to FY23 revenue and 79% to EBIT. UCP offers various products including RAC, air coolers, water coolers, visi coolers, cold rooms, chillers, etc. We believe that over 60% of revenue of this segment is being contributed by RAC.
- The market share of the company had gradually increased to 25.2% in FY21 from 20.8% in FY15. However, its market share declined to 23.4%/ 21.6% in FY22/FY23 due to higher competition and gain in market share by a few peers such as Llyods, Blue Star, Daikin, etc. VOLT's market share in window AC stood at 36.4% in FY23.
- VOLT's exit-market share in Jun'23 stood at 20.6% (18.2% in Feb'23). The company believed that the price levels at which a few competitors were offering their products were not sustainable and management expected the market to stabilize.

Voltbek: Losses continue but strong traction in revenue visible

- Voltbek is a JV between VOLT and Turkey's largest industrial & services group, Ardutch B.V. (a subsidiary of Arçelik A.S.). Beko is the global brand of Arçelik. This JV had launched its products in Sep'18 and set up its manufacturing facility (manufactures direct cool refrigerators) in Sanand, Gujarat. The JV targets to reach to a production capacity of 2.5m units per year (currently at 1.0m units) by 2025.
- We believe that refrigerators contributed 49-50% to the revenue of Voltbek, while washing machines contributed ~36% in FY23. Revenue of Voltbek jumped 17% YoY to INR11b in FY23; though operating losses at INR1.6b were similar to FY22. We estimate Voltbek to be profitable at operating level in FY26 and it should start contributing to profits in FY27.
- The group had a target to reach USD1b in revenue in 10 years and aims to achieve a market share of 10% by FY25. Voltbek is aggressively expanding in India by targeting 15,000 outlets (7,000+ at present). In FY23, it launched 100+ SKUs and fully automatic top-load machine with heater.

Estimate 30% EBITDA CAGR and 38% EPS CAGR over FY23-25

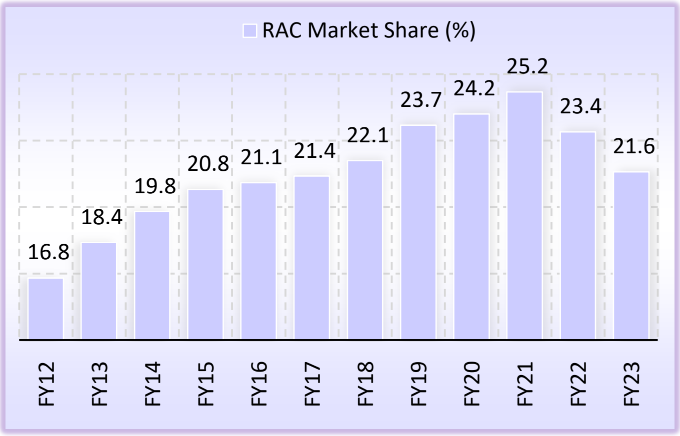
- We estimate VOLT to report ~14% revenue CAGR over FY23-25. Revenue CAGR across segments is estimated as follows: EMPS (15%), UCP (14%), PES (9%) and others (4%).
- We estimate VOLT to record 30% EBITDA CAGR over FY23-25, aided by a low base and recovery in UCP/EMPS segment's margins. We have estimated EBITDA margin to be at 6.9%/7.8% in FY24/ FY25E vs. 6.0% in FY23 (average 9% over FY18-22). EBITDA margin is estimated to be lower than historical average due to rising competition, which will keep pricing under check.
- We expect VOLT to clock 38% EPS CAGR over FY23-25, driven by EBITDA CAGR of 30% and reduction in losses of associate and subsidiary companies. We estimate PAT margin to be at 4.8%/5.9% in FY24/25E vs. 4% in FY23 (average 7.4% in FY18-22).

Earnings and return ratios to improve; reinitiate with a BUY

- We expect VOLT's EBITDA/adjusted profit to report a CAGR of 30%/38% over FY23-25 supported by a recovery in margins of both EMPS and RAC segments and reduced losses for Voltbek. RoE should be at 11.4% in FY25E vs. 6.9% in FY23 (average of 12.3% over FY13-23), while RoCE is likely to be at 11.9% in FY25E vs. 6.9% in FY23 (average of 12.8% over FY13-23).
- We reinitiate our coverage on VOLT with a BUY rating and a TP of INR1,000 premised on 40x FY25E EPS (similar to last 10 years' one-year forward average P/E multiple, before losses of Voltbek) and INR38/share for Voltbek. We expect VOLT to retain a market share of 21%+ over the next few years as it would continue to enjoy the leadership position in RAC segment.

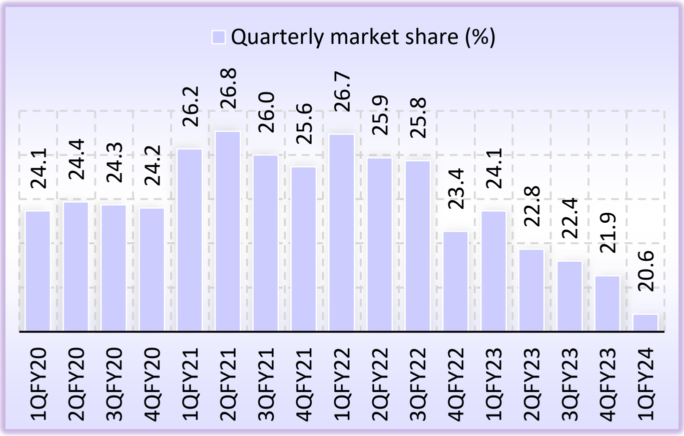
STORY IN CHARTS

Market share declined in FY22/23



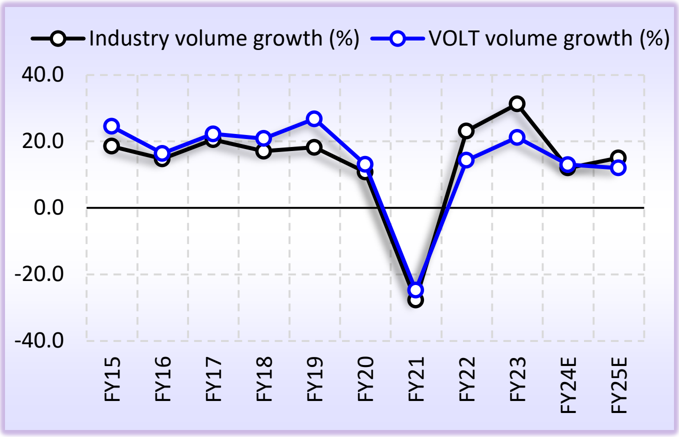
Source: MOFSL, Company

Quarterly market share trend of RAC



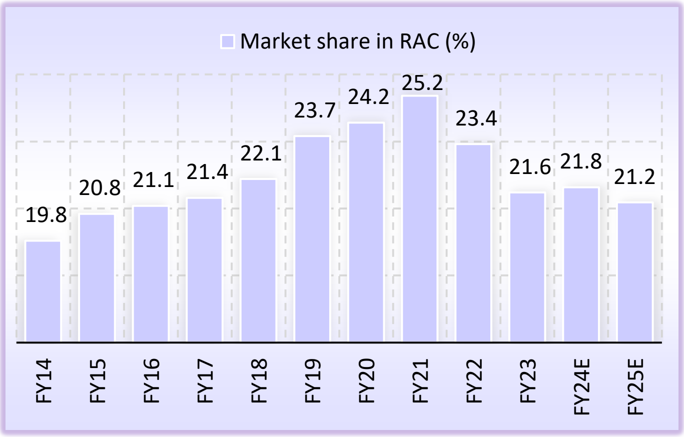
Source: MOFSL, Company; quarterly numbers are as shared in earnings' presentations and differ from year-end numbers

Expect 13%/12% volume growth in FY24/25



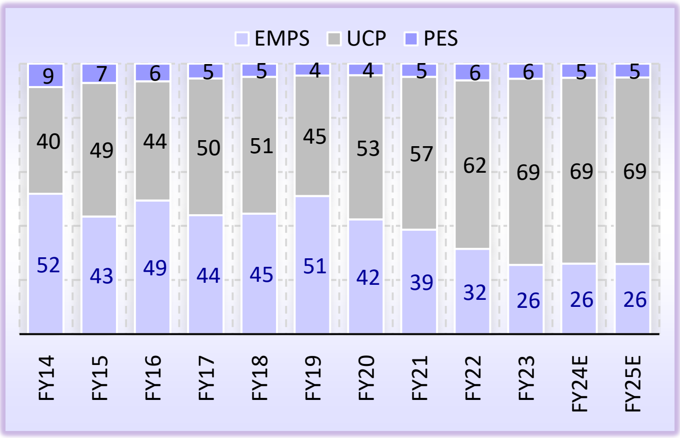
Source: MOFSL, Industry, Company

Market share to be at 21-22% in FY24/25E



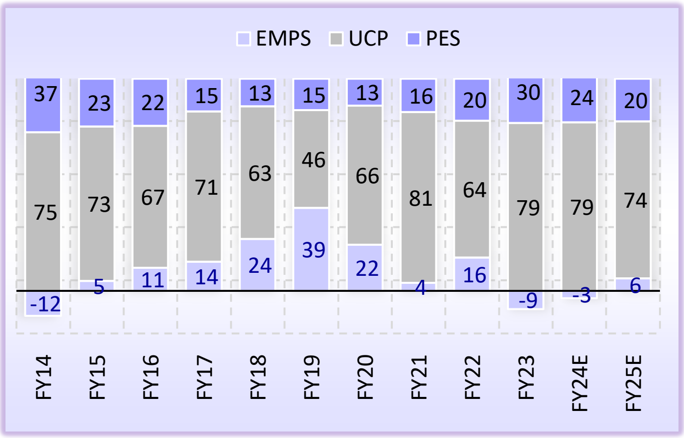
Source: MOFSL, Industry, Company

UCP to contribute 69% to revenues…



Source: MOFSL, Company

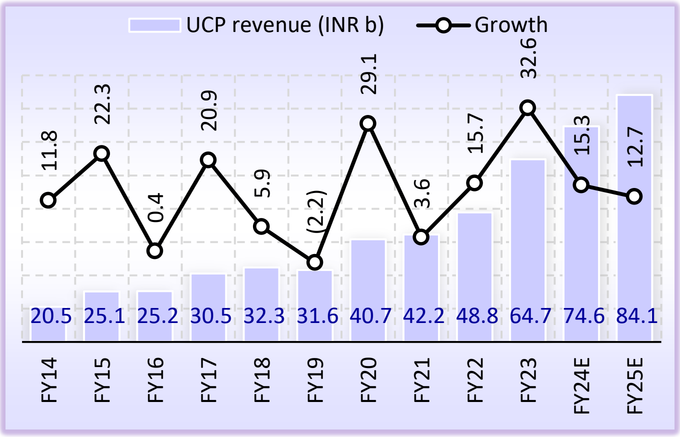
… and 79%/74% to EBIT in FY24/25E



Source: MOFSL, Company

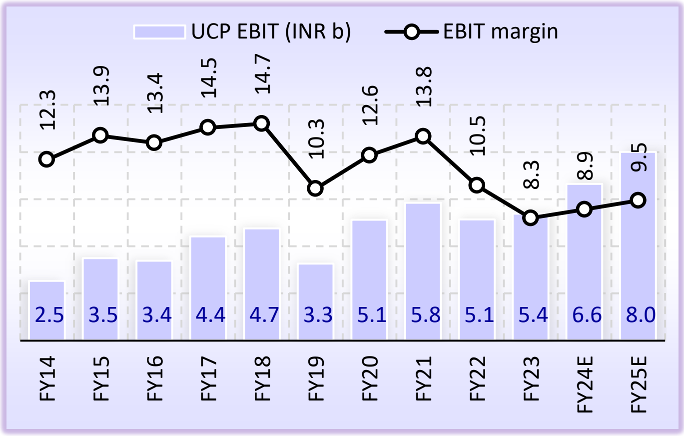
STORY IN CHARTS

Strong revenue growth for UCP in FY23; expect 15.3%/ 12.7% growth in FY24/25



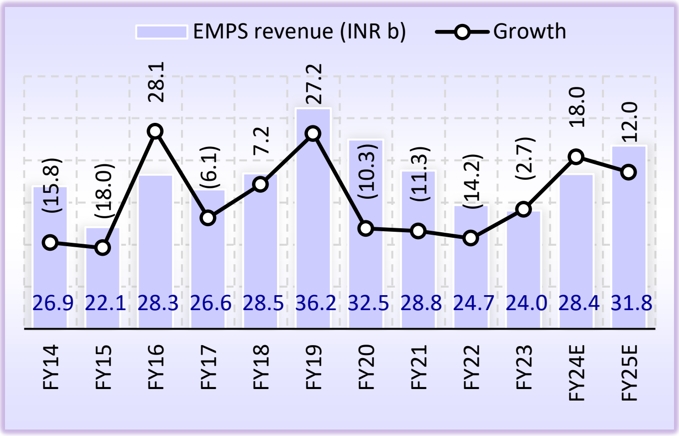
Source: MOFSL, Company

Margin under pressure due to intensified competition and higher RM prices



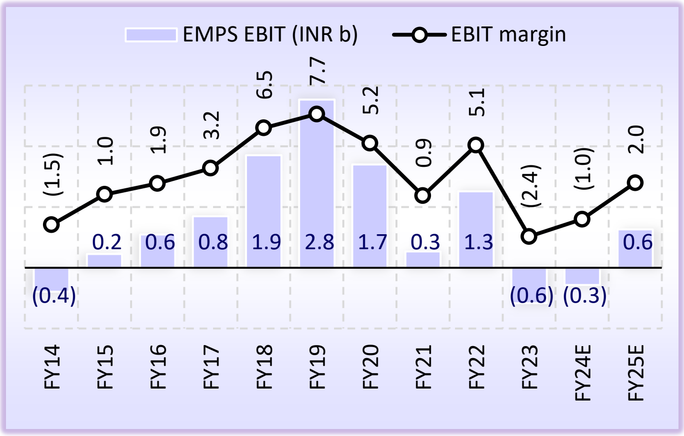
Source: MOFSL, Company

EMPS revenue declined in FY22/23…



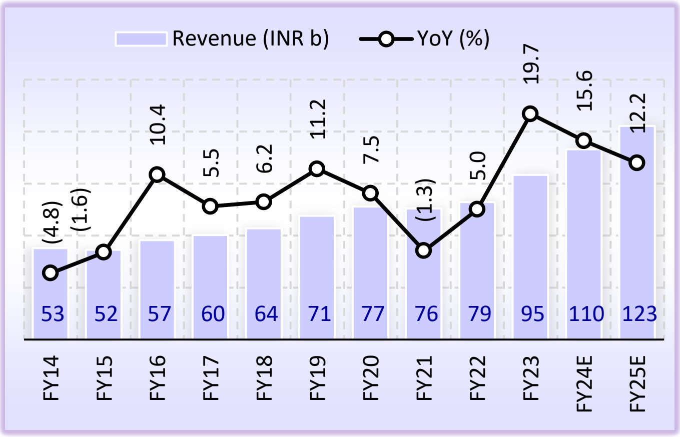
Source: MOFSL, Company

…losses in FY23 on provisions; recovery expected



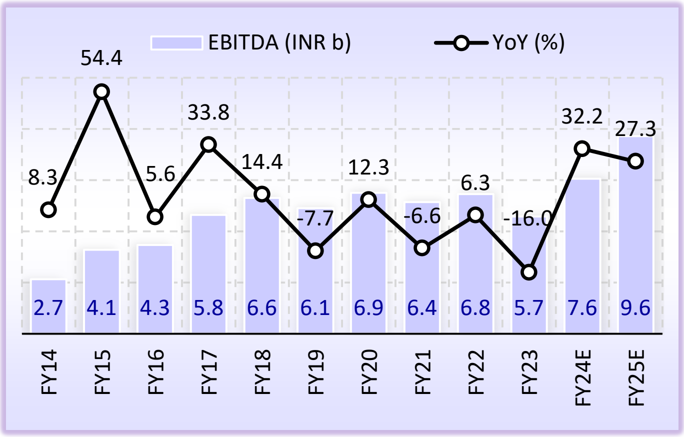
Source: MOFSL, Company

Revenue CAGR to be at 14% over FY23-25



Source: MOFSL, Company

EBITDA to grow 32%/27% YoY in FY24/25E



Source: MOFSL, Company

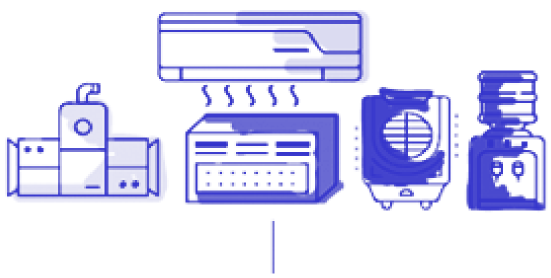
Leadership in RAC segment; recent loss in market share...

…to be recouped by various incentive programs and other initiatives

- **VOLT’s UCP segment caters to a diverse range of customers in both B2B and B2C. This segment contributed 68% to FY23 revenue and 79% to EBIT. UCP offers various products including RAC, air coolers, water coolers, visi coolers, cold rooms, chillers, etc. We believe that RAC is contributing over 60% of revenue of this segment.**
- **The market share of the company had gradually increased to 25.2% in FY21 from 20.8% in FY15. However, its market share declined to 23.4%/ 21.6% in FY22/FY23 due to higher competition and gain in market share by a few peers such as Llyods, Blue Star, Daikin, etc. VOLT’s market share in window AC stood at 36.4% in FY23.**
- **The management remains hopeful of maintaining its leadership position and gain market share driven by various incentive programs across the channels, tie-up with modern trade and organized channel, and customer-centric exciting schemes during the season. We expect its market share to be 21-22% in FY24/25.**

The UCP segment caters to a diverse range of customers in both B2B and B2C. This segment contributed 68% to revenue and 79% to EBIT in FY23. UCP offers various products including RAC, air coolers, water coolers, visi coolers, cold rooms, chillers, etc. We believe that RAC is contributing over 60% of revenue of this segment.

Exhibit 1: Product offerings of UCP segment



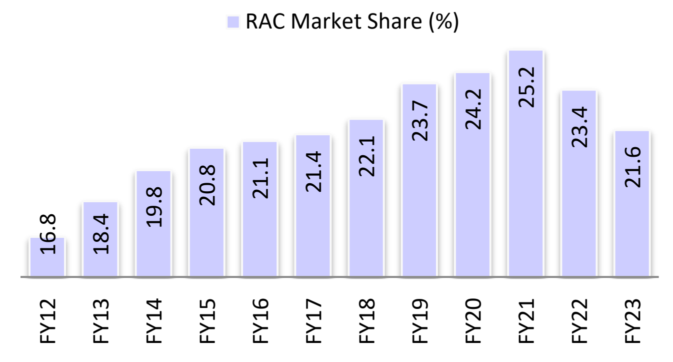
- ROOM AIR CONDITIONERS (RAC)
- AIR COOLERS
- AIR PURIFIERS
- VISI COOLERS
- WATER DISPENSERS
- WATER COOLERS
- COLD ROOMS
- CHEST FREEZERS
- MEDICAL REFRIGERATION
- DUCTED AC
- VARIABLE REFRIGERANT FLOW (VRF)
- CASSETTE AC
- TOWER AC
- CHILLERS

Source: MOFSL, Company

VOLT has been a market leader in the RAC segment with its market share ranging between 21% and 25% during FY15-23. The market share of the company had gradually increased to 25.2% in FY21 from 20.8% in FY15. However, its market share declined to 23.4%/ 21.6% in FY22/FY23 due to higher competition and gain in market share by a few peers such as Llyods, Blue Star, Daikin, etc. VOLT’s market share in window AC stood at 36.4% in FY23.

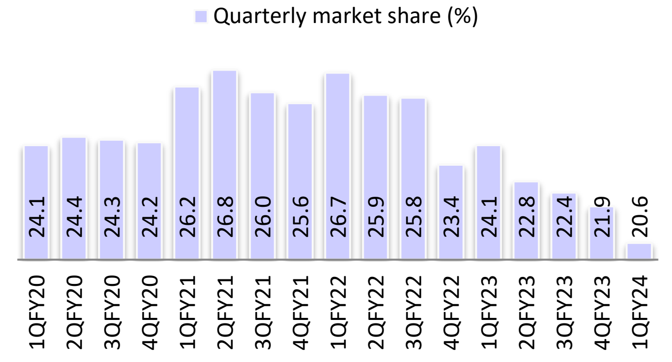
VOLT’s exit-market share in Feb’23 had fallen to 18.2% as management chose not to follow competition. However, its market share improved to 20.6% in Jun’23. The company believed that the price levels at which a few competitors were offering their products were not sustainable and management expected the market to stabilize.

Exhibit 2: Market share declined in FY22/23



Source: MOFSL, Company

Exhibit 3: Quarterly market share trend of RAC



Source: MOFSL, Company; quarterly numbers are as shared in earnings' presentations and differ from year-end numbers

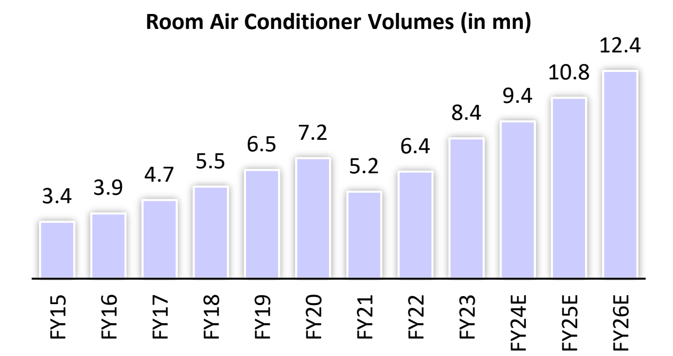
RAC industry – strong growth expected over the next few years

We expect sales volumes of RAC to register a CAGR of ~14% over FY23-26 to reach 12.4m units

The Indian RAC market registered ~16% CAGR over FY15-20; however, FY21 volumes declined ~21% YoY due to the pandemic. Sales volumes of RAC were estimated at 8.4m units in FY23, up 31% YoY. In India, the RAC segment is estimated to penetrate only about 16-18% of households (as of FY22), which is much lower than the global average of ~30%. Further, among the domestic penetration of other household appliance segments, RAC ranks below televisions, refrigerators, and washing machines in order of priority. Hotter summers, rising disposable incomes, aspiration for a better lifestyle, easy financing schemes etc. are anticipated to drive growth of RAC in the near to medium term. ACs should also become more affordable with the government's production-linked incentive schemes (PLIs).

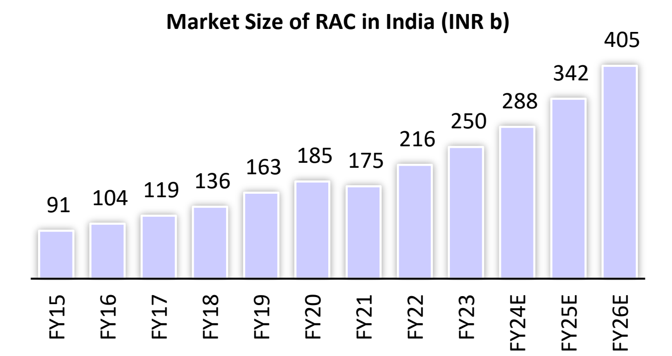
There is a PLI Scheme specifically for AC manufacturers in India. Under this scheme, the government proposes a financial incentive to boost domestic manufacturing and attract large investments in white goods manufacturing value chain. This is likely to remove sectoral disabilities, thereby creating economies of scale, enhancing exports, creating a robust component ecosystem and generating employment. We expect sales volumes of RAC to register a CAGR of ~14% over FY23-26 to reach 12.4m units.

Exhibit 4: Volume CAGR of 14% over FY23-26E…



Source: MOFSL, Industry

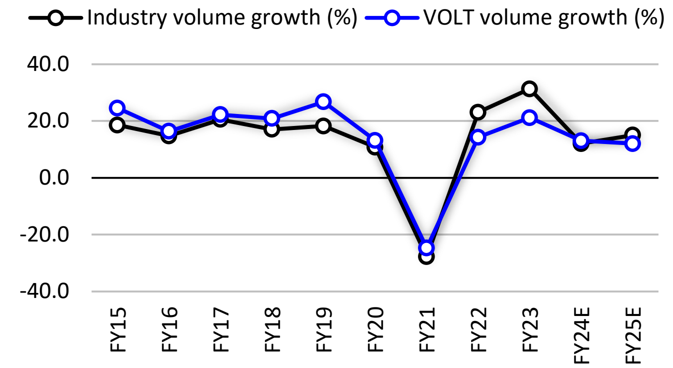
Exhibit 5: …to result in 17% CAGR in value terms



Source: MOFSL, Industry

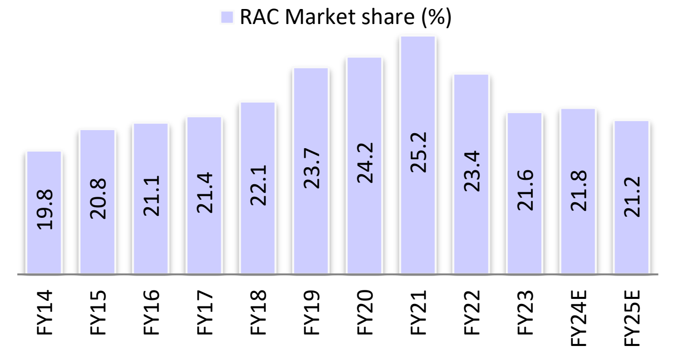
We expect VOLT to continue to benefit from strong growth prospects of the RAC industry and project a volume growth of 13%/12% in FY24/25. The management remains hopeful of maintaining its leadership position and gain market share driven by various incentive programs across the channels, tie-up with modern trade and organized channel, and customer-centric exciting schemes during the season. We expect VOLT to retain its leadership position and maintain a market share of ~21-22% in FY24/25.

Exhibit 6: Expect 13%/12% volume growth in FY24/25



Source: MOFSL, Industry, Company

Exhibit 7: Market share to be at 21-22% in FY24/25



Source: MOFSL, Industry, Company

Air Coolers: They are popular among the growing middle class families and provide a cheap alternative to ACs. VOLT's market share in this segment stood at 7.2% and revenue grew 27% YoY in FY23. India's air coolers market is estimated to deliver a ~7% CAGR over FY22-27.

VOLT's market share in Air Coolers segment stood at 7.2% in FY23

Commercial Refrigeration: Growing demand for frozen products and consumption of impulse goods such as ice-creams, chocolates and beverages drove strong growth in the commercial refrigeration segment. Volumes for VOLT jumped 26% YoY in FY23. The addressable market size of commercial refrigeration for VOLT is estimated to report ~9% CAGR until FY25. The company has already introduced the hydrocarbon refrigerant (R290) in the largest volume category (Freezers/Glass Top/ Convertibles/ Chest Coolers) and is working towards the application of Next-Generation Refrigerants for all its products.

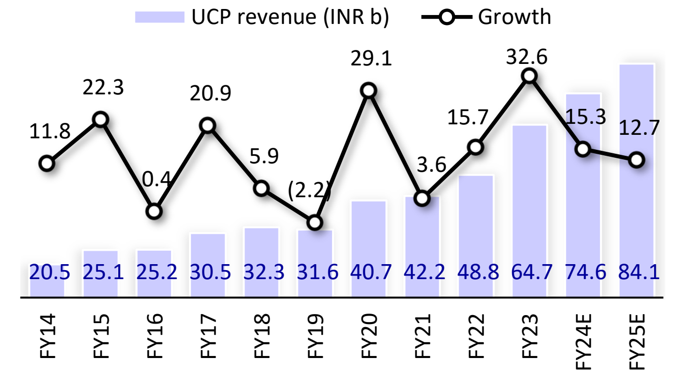
Commercial Air Conditioning (CAC): This business includes sales of various cooling systems such as VRF systems, Chillers, Ducted units, etc. CAC units are used in offices, shops, cafes, restaurants, schools, leisure centers, gyms and other commercial properties to maintain a comfortable temperature. The company is planning to leverage digitalization in approaching customers and making them aware of its products and services. It has rolled out a new and improved channel partner policy and implemented digital tools to improve its network. The need for comfort and demand for cooling across industries will drive growth of this segment.

UCP: Strong revenue growth though margin contracts in FY23

The UCP segment recorded a strong revenue growth of 32.6% YoY in FY23 led by strong growth in all product categories. Going forward, we project revenue growth of 15.3%/12.7% in FY24/25 led by 13%/12% volume growth in RAC and 10% each revenue growth in CAC (including customer care business).

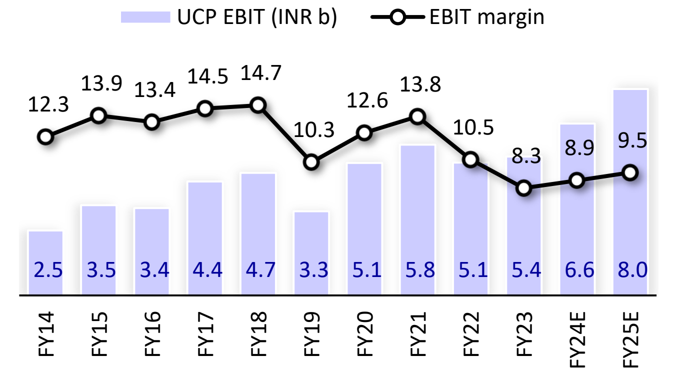
EBIT margin has been under pressure for the last two years, which we believe is due to heightened competition and higher RM prices. EBIT margin was at 8.3% in FY23 vs. 10.5% in FY22 and the management expects this to remain in high-single digit in the near term. We have estimated an EBIT margin of 8.9%/9.5% in FY24/25.

Exhibit 8: Strong revenue growth in FY23; expect 15.3%/ 12.7% growth in FY24/25



Source: MOFSL, Company

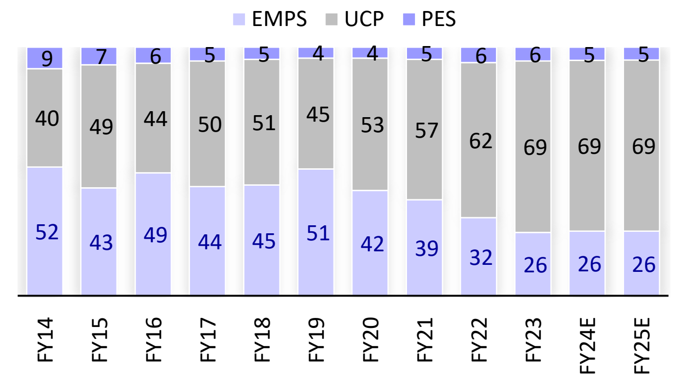
Exhibit 9: Margin under pressure due to intensified competition and higher RM prices



Source: MOFSL, Company

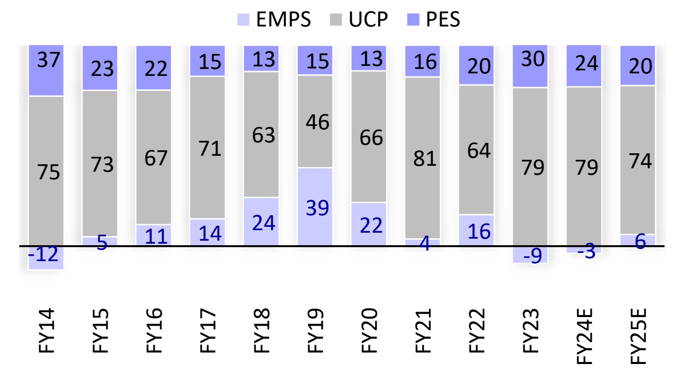
This segment is the largest contributor to the profitability of the company and its contribution in revenue/EBIT stood at 68%/79% in FY23. Increase in EBIT contribution of this segment to 79% (vs. 64% in FY22) was led by losses in the Electro mechanical projects and services segment. We expect this segment to contribute 69% each to revenue and 79%/74% to EBIT in FY24/25.

Exhibit 10: UCP to contribute 69% to revenue…



Source: MOFSL, Company

Exhibit 11: … and 79%/74% to EBIT in FY24/25



Source: MOFSL, Company

Voltbek: Losses continue but strong traction in revenue

Targets 10% market share in the home appliances segment by FY25

- **Voltbek is a JV between VOLT and Turkey's largest industrial & services group, Ardutch B.V. (a subsidiary of Arçelik A.S.). Beko is the global brand of Arçelik. This JV had launched its products in Sep'18 and set up its manufacturing facility (manufactures direct cool refrigerators) in Sanand, Gujarat. The JV targets to reach to a production capacity of 2.5m units per year (currently at 1.0m units) by 2025.**
- **Voltbek posted a 45% YoY/15-18% YoY volume growth in FY22/FY23. Management indicated that the company has achieved a cumulative sales volume of 3.3m units+ until FY23. Market share of Voltbek in home appliances had increased to 5.3% in Mar'23 vs. 4.4% earlier with 8.9% market share in semi-automatic washing machine. The aim is to achieve a 10% market share in the home appliances segment by FY25.**
- **We believe that refrigerators contributed 49-50% to the revenue of Voltbek, while washing machines contributed ~36% in FY23. Revenue of Voltbek jumped 17% YoY to INR11b in FY23; though operating losses at INR1.6b were similar to FY22. We estimate Voltbek to be profitable at operating level in FY26 and it should start contributing to profits in FY27.**

Market share of Voltbek in home appliances had increased to 5.3% in Mar'23 vs. 4.4% earlier

VOLT entered into an agreement with, Arductch B.V. (a subsidiary of Arçelik A.S., the largest industrial and services group of Turkey) in May'17 to set up a company in home appliances, which was named as "Voltbek Home Appliances Pvt Ltd". This was a 50:50 JV between these two companies, wherein Ardutch B.V. and Voltas held 49% equity shares each whereas, Arçelik and Tata Investment Corporation held 1% each. The JV launched its first product range in Sep'18.

The group set up a refrigerator plant for direct cool products as per their initial target. The manufacturing facility at Sanand, Gujarat has a production capacity of 1m units as of now, which will be increased to 2.5m by 2025. Rest of the products like washing machines, microwaves etc. are mainly outsourced from Arçelik plants.

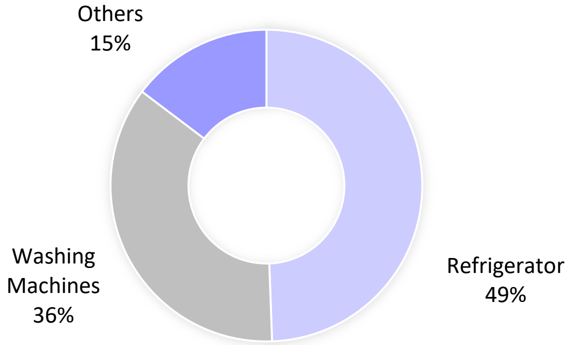
Exhibit 12: Product offerings of Voltas Beko

Source: MOFSL, Company

The group had a target to reach USD1b in revenue in 10 years and aims to achieve a market share of 10% by FY25. The Voltas Beko brand has sold over 3.3m units of home appliances since its launch. Voltbek posted a 45% YoY/15-18% YoY volume growth in FY22/FY23. Voltbek is aggressively expanding in India by targeting 15,000 outlets (7,000+ at present). In FY23, it launched 100+ SKUs and fully automatic top-load machine with heater.

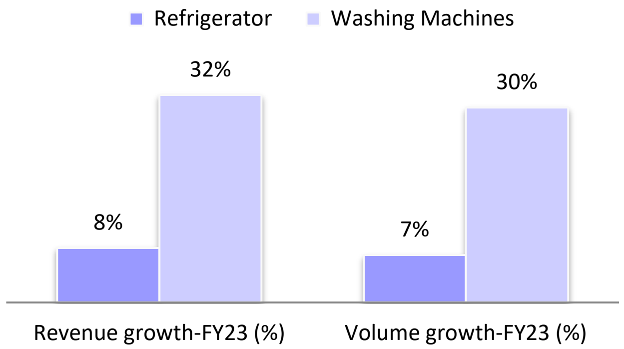
We believe that refrigerators contributed 49% to the revenue of Voltbek; while washing machines contributed 36% in FY23. Volume growth in FY23 would have largely been driven by washing machines (~30% YoY growth); whereas; refrigerators volumes grew ~7% YoY, in our view.

Exhibit 13: Refrigerator contributes the highest to revenue



Source: MOFSL, Company

Exhibit 14: Washing machines grew higher in FY23



Source: MOFSL, Company

Revenue of Voltbek jumped 17% YoY to INR11b in FY23; though operating losses at INR1.6b were similar to FY22. We estimate Voltbek to be profitable at operating level in FY26 and it should start contributing to profits in FY27. We have assigned a price per share of INR38 for Voltbek as per DCF valuation.

Exhibit 15: Financial summary of Voltbek – estimate OPM to turn positive in FY26

(INR m)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Revenue (%)									
Refrigerator	51.3	52.9	49.0	53.2	49.4	49.8	51.6	52.0	53.1
Washing Machine	31.5	30.1	35.0	31.8	35.9	38.9	37.8	37.5	36.4
Others	17.2	17.0	16.0	15.0	14.7	11.4	10.6	10.6	10.6
Revenue	**994**	**2,902**	**6,369**	**9,445**	**11,018**	**17,123**	**24,361**	**30,734**	**37,362**
YoY (%)		192	120	48	17	55	42	26	22
EBITDA	**(1,025)**	**(1,445)**	**(1,036)**	**(1,549)**	**(1,576)**	**(1,124)**	**(35)**	**645**	**1,620**
OPM (%)	(103.1)	(49.8)	(16.3)	(16.4)	(14.3)	(6.6)	(0.1)	2.1	4.3
Depreciation	14	38	278	464	509	533	657	679	698
Interest	1	14	50	226	429	596	719	668	540
Other income	51	33	53	16	7	7	7	0	163
PBT	(989)	(1,465)	(1,311)	(2,223)	(2,507)	(2,247)	(1,405)	(701)	545
PAT	(989)	(1,465)	(1,311)	(2,223)	(2,507)	(2,247)	(1,405)	(701)	408
Voltas' share in profit/(loss)	**(485)**	**(718)**	**(642)**	**(1,089)**	**(1,229)**	**(1,101)**	**(688)**	**(344)**	**200**

Source: MOFSL, Company

EMPS: One-offs drag performance; recovery expected

Order book stands strong at INR81.9b (64% domestic; 36% international)

- **The MEP segment caters to industrial customers in GCC as well as in domestic markets. This segment provides water management services, and electromechanical projects, et al.**
- **The company underwent internal restructuring to consolidate its projects business in both domestic and international markets. Management indicated that restructuring exercises were aimed to focus on B2B and B2C business segments separately.**
- **VOLT has an order book of INR81.9b (INR29.5b of international orders and INR52.4b of domestic orders) in this segment as on Jun'23. The performance of this segment was adversely impacted in FY23/1QFY24 due to write-offs in the international business.**

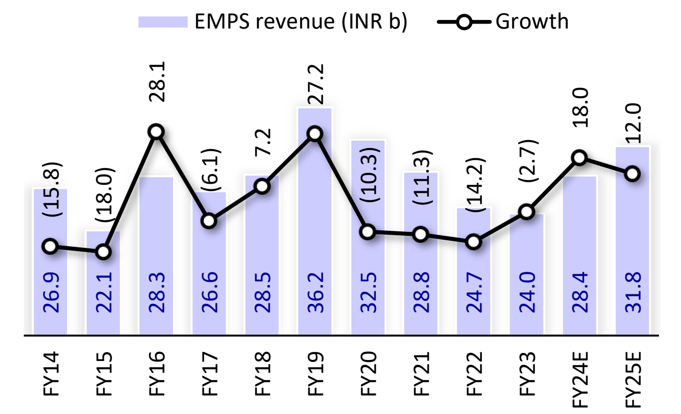
The MEP segment caters to industrial customers in GCC as well as in domestic markets. This segment provides water management services, and electromechanical projects, et al.

EMPS segment performance was adversely impacted due to write-offs in the international business

The company went through an internal restructuring recently and consolidated its domestic projects business (MEP, infrastructure, textile machinery and construction equipment) into a 100% wholly owned subsidiary, Universal MEP Projects & Engineering Services Ltd. The consideration for this transfer was INR11.9b and it was completed in Aug'22. The company also consolidated its holdings in different international subsidiaries and transferred ownership to Universal MEP projects Pte Ltd, Singapore (a wholly owned subsidiary of Voltas Netherlands B.V). Management indicated that restructuring exercises were aimed to focus on B2B and B2C business segments separately.

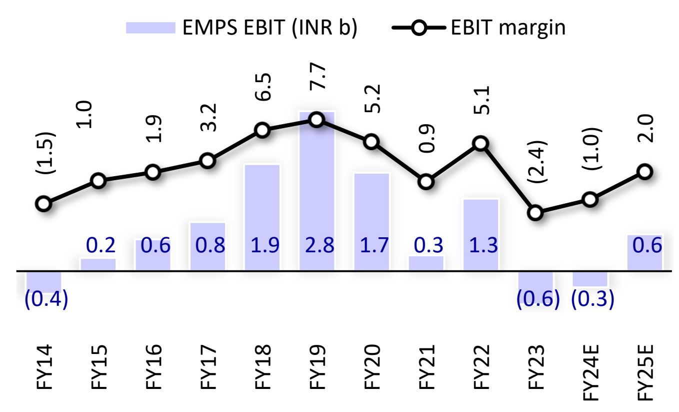
VOLT has an order book of INR81.9b (INR29.5b of international orders and INR52.4b of domestic orders) in this segment. The performance of this segment was adversely impacted in FY23/1QFY24 due to write-offs in the international business. There was a delay in certification and collection of the outstanding amount for which provisions were created. Management indicated that efforts are being taken to engage with customers and expedite the certification work.

Exhibit 16: Revenue declined in FY22/23



Source: MOFSL, Company

Exhibit 17: Losses in FY23 on provisions; recovery expected



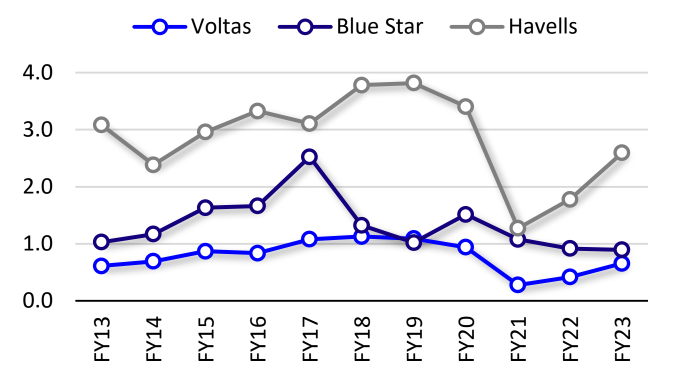
Source: MOFSL, Company

Ad and sales promotion expenses lower than peers

VOLT ad spends as a % of revenue stood at 0.7% in FY23 vs. 0.9%/2.6% for Blue Star/Havells

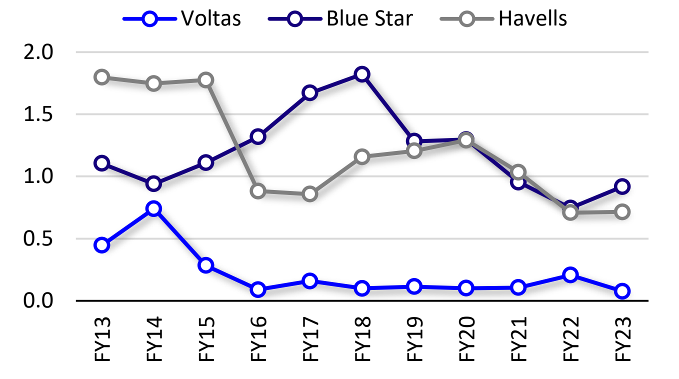
VOLT's ad and sales promotion expenses are much lower than peers, which help it maintain industry-leading margins in the UCP segment. Its ad spends as a % of revenue stood at 0.7% in FY23 vs. 0.9%/2.6% for Blue Star/Havells. VOLT's ad spends as a % of UCP revenue were at 1% vs. 2.7% for Blue Star. It is to be noted here that Lloyds spends 5% of its revenue in ad. Similarly, sales promotion expenses (including commission on sales) for VOLT was at 0.1% vs. 0.9%/0.7% for Blue Star/Havells in FY23. We believe that lower ad spends have helped the company post better margins than peers consistently (Lloyds had a loss at EBIT level in FY23; whereas, Blue Star's EBIT margin in UCP segment was at 7.8% vs. 8.3% for VOLT). It is to be noted that Blue Star's margin in UCL segment improved 1.8pp YoY; whereas, VOLT reported a margin contraction of 2.2pp YoY in this segment in FY23.

Exhibit 18: Ad spends lower than Havells and Blue Star…



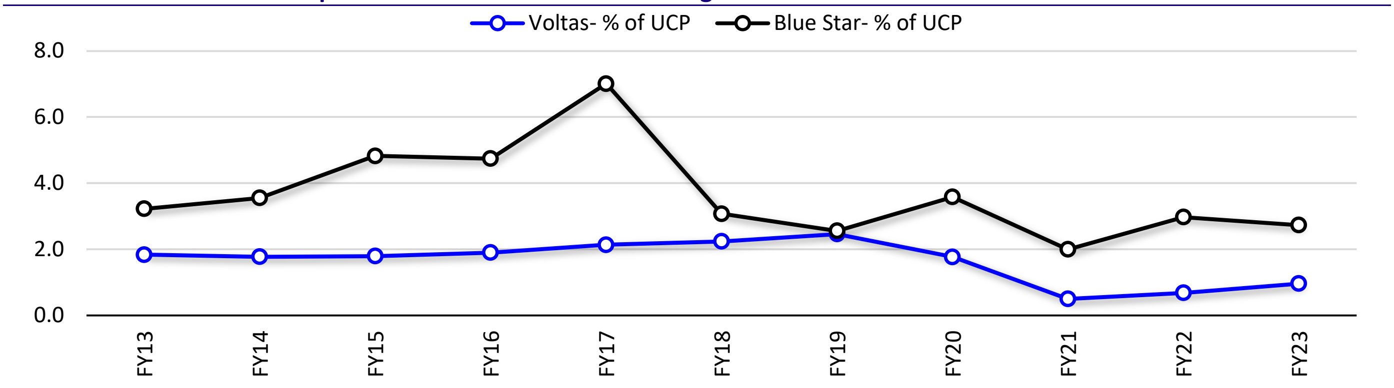
Source: MOFSL, Company

Exhibit 19: …and so is the sales promotion expense



Source: MOFSL, Company

Exhibit 20: …Blue Star's AD spends as % of UCP sales is much higher than Voltas



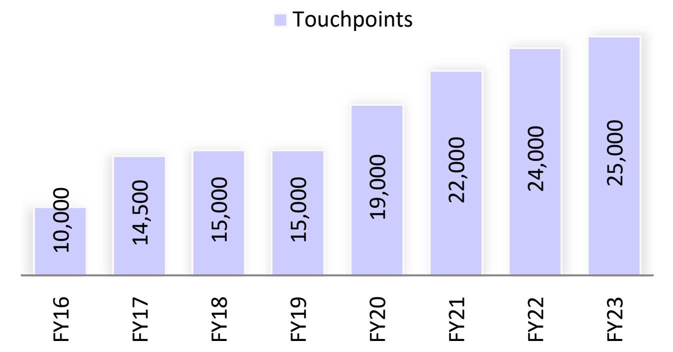
Source: MOFSL, Company

VOLT has increased its touchpoints in both the UCP and other consumer appliances verticals. Its retail touchpoints in the UCP segment has clocked a CAGR of 14% over FY16-23. In VoltBeko also, the company has reached a touchpoint of 7,000+ retailers and plans to cover ~15,000 touchpoints going forward. It also launched an exclusive online webstore – www.voltaslounge.com – as a one-stop market place for its products. It increased its exclusive brand outlets (EBOs) count to 260 in FY23 from 100 in FY19. It has also set up five experience zones, which help customers get a real time experience and finding out how the world's best technology in white goods can be utilized to add comfort and convenience to daily lives.

The company also provides exciting offers to customers such as cash back offers through credit and debit cards, easy finance schemes through NBFCs, extended warranty schemes, etc.

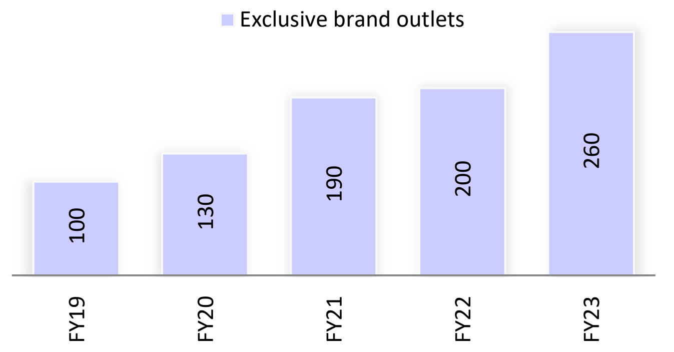
The company keeps on introducing new SKUs every year aided by its R&D team. It launched 64 new SKUs in RAC, 51 in air coolers, 23 in commercial refrigeration and 100+ for Voltbek in FY23.

Exhibit 21: Increase in touchpoints over the years



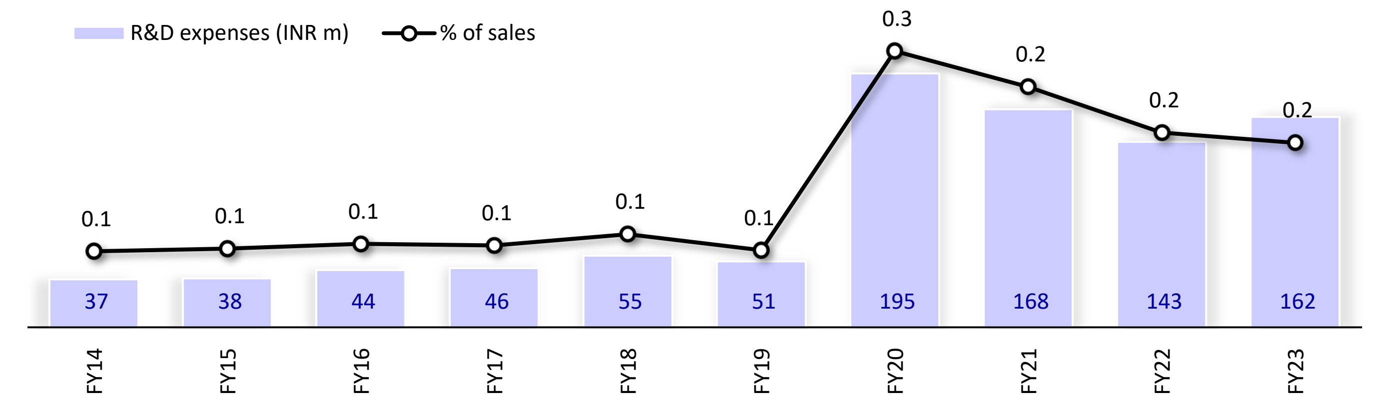
Source: MOFSL, Company

Exhibit 22: EBOs up 2.6x during FY19-23



Source: MOFSL, Company

Exhibit 23: Trend in R&D expense of VOLT - higher R&D spend in last few years



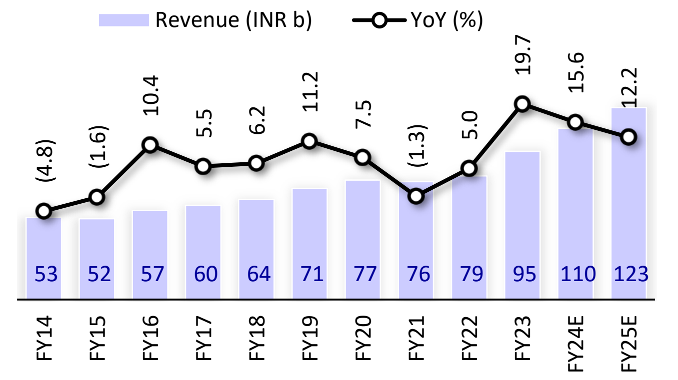
Source: MOFSL, Company

Financial outlook

Revenue CAGR of ~14% expected over FY23-25

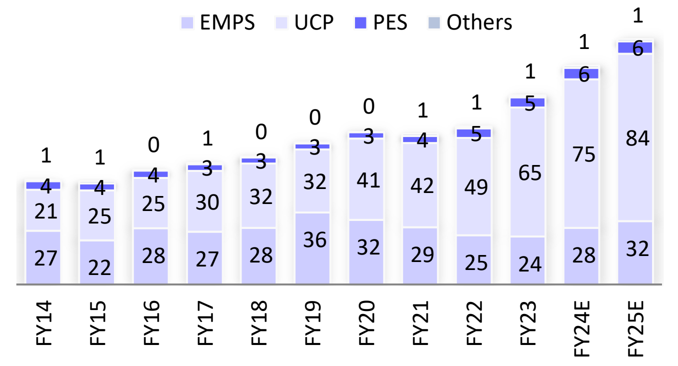
The company's consolidated revenue clocked 7% CAGR over FY14-23 led by strong growth in its UCP segment (14% CAGR). We estimate VOLT to report ~14% revenue CAGR over FY23-25. Revenue CAGR across segments is estimated as follows: EMPS (15%), UCP (14%), PES (9%) and others (4%).

Exhibit 24: Revenue CAGR to be at 14% over FY23-25E



Source: MOFSL, Company

Exhibit 25: Segment-wise revenue break-up

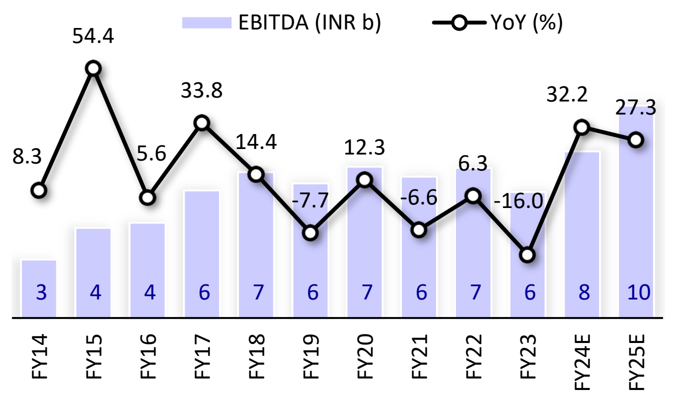


Source: MOFSL, Company

Estimate EBITDA CAGR at 30% over FY23-25

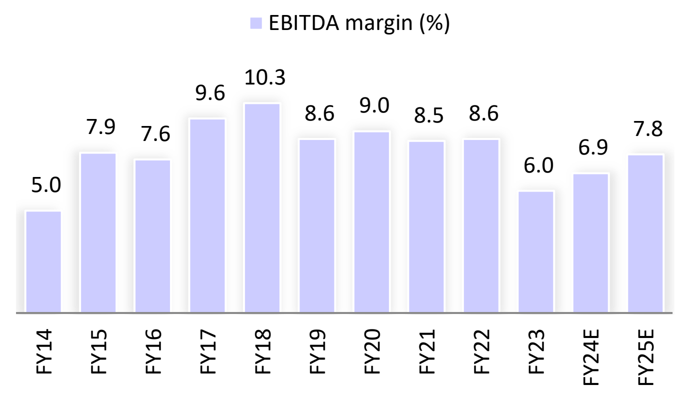
VOLT's EBITDA declined 16% YoY in FY23, despite a 20% revenue growth. EBITDA margin contracted 2.6pp YoY to 6% in FY23 as: 1) the RAC business witnessed severe competition due to aggressive pricing adopted by peers; and 2) there was higher provisioning in projects business due to a delay in certification and release of payments. We estimate VOLT to record 30% EBITDA CAGR over FY23-25, aided by a low base. We have estimated EBITDA margin to be at 6.9%/7.8% in FY24/FY25E vs. 6.0% in FY23 (average 9% over FY18-22). EBITDA margin is estimated to be lower than historical average due to rising competition, which will keep pricing under check.

Exhibit 26: EBITDA to grow 32%/27% YoY in FY24/25E



Source: MOFSL, Company

Exhibit 27: EBITDA margin to improve in FY24-FY25E

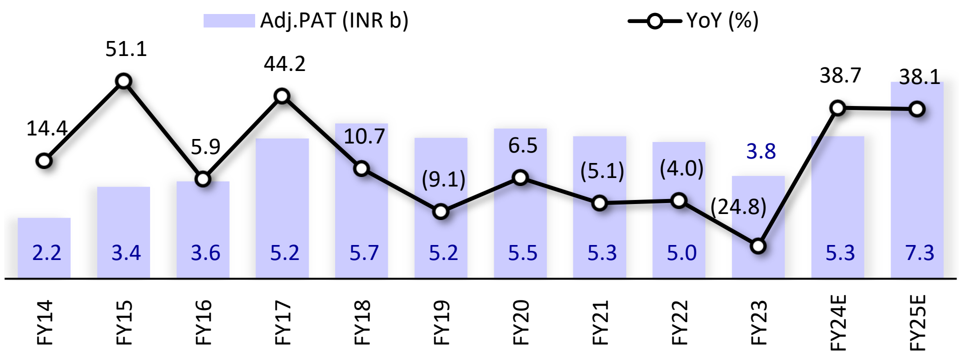


Source: MOFSL, Company

EPS CAGR of 38% over FY23-25E

We expect VOLT to clock 38% EPS CAGR over FY23-25, driven by EBITDA CAGR of 30% and reduction in losses of associate and subsidiary companies. We estimate PAT margin to be at 4.8%/5.9% in FY24/25E vs. 4.0% in FY23 (average 7.4% in FY18-22).

Exhibit 28: Profits to grow 39%/38% YoY in FY24/25E

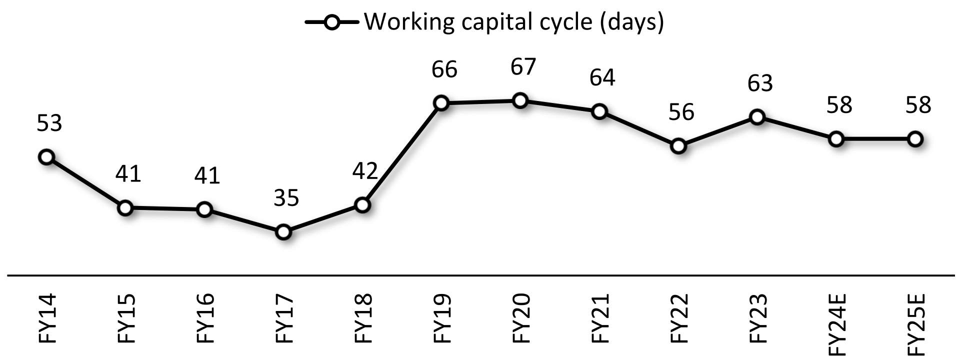


Source: MOFSL, Company

Working capital cycle likely to improve

In FY23, working capital rose due to a delay in certifications and payment release in the projects business. However, we expect working capital cycle to improve to 58 days over FY24-25 from 63 days in FY23 (average of 59 days over FY18-22).

Exhibit 29: Expect working capital days to improve in FY24-25

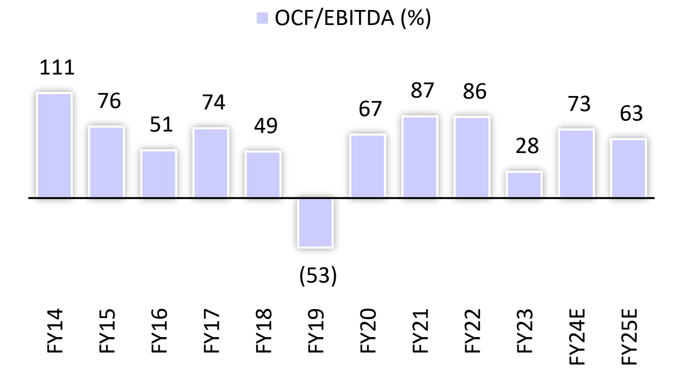


Source: MOFSL, Company

Operating cash flows to improve too

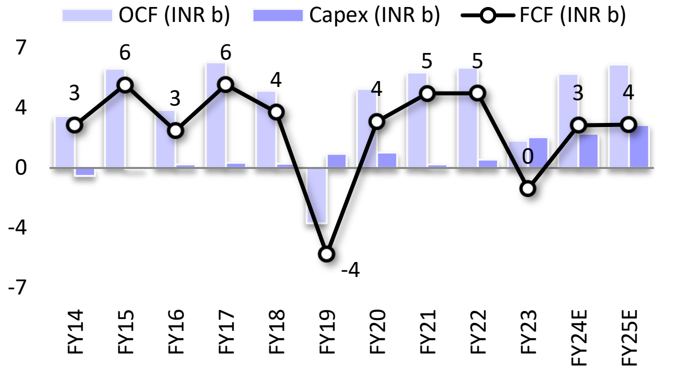
The company's cash flow was hit significantly in FY23 due to lower EBITDA and higher working capital requirement. Lower OCF and higher capex have resulted in FCF outflow. We estimate free cash flow generation to accelerate in the coming years, aided by increasing profitability.

Exhibit 30: OCF/EBITDA conversion at 73-63% over FY24-25E



Source: MOFSL, Company

Exhibit 31: Free cash flows to increase with strong OCF

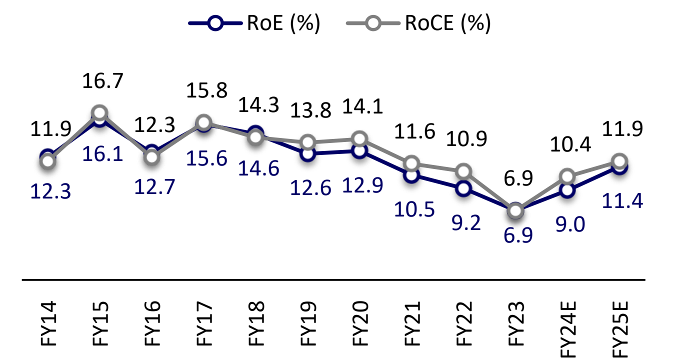


Source: MOFSL, Company

Return ratios to improve

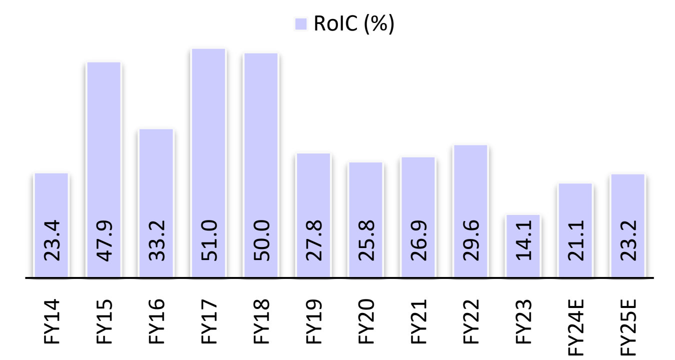
We estimate VOLT's RoE to be at 9%/11% and ROCE to be at 10%/12% in FY24/25 after declining to 7% (each) in FY23. Similarly, RoIC will be at 21%/23% in FY24/25E after declining to 14% in FY23.

Exhibit 32: RoE/RoCE to improve in FY24-25E



Source: MOFSL, Company

Exhibit 33: Estimate RoIC to remain below historical average



Source: MOFSL, Company

Exhibit 34: Du-Pont analysis

Particulars	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PAT/PBT	0.72	0.68	0.70	0.71	0.70	0.64	0.68	0.62	0.56	0.62	0.68
PBT/EBIT	1.22	1.30	1.33	1.25	1.26	1.32	1.27	1.25	1.26	1.20	1.18
EBIT/Sales	0.07	0.07	0.09	0.10	0.08	0.09	0.08	0.08	0.06	0.06	0.07
Asset turnover	2.35	1.86	1.73	1.57	1.63	1.72	1.44	1.36	1.56	1.71	1.78
Assets/Equity	1.05	1.09	1.05	1.04	1.06	1.04	1.05	1.06	1.12	1.10	1.08
ROE (%)	16.1	12.7	15.6	14.6	12.6	12.9	10.5	9.2	6.9	9.0	11.4

Source: MOFSL, Company

Segmental result and assumptions

Revenue breakup (Products)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
EMPS	36,191	32,461	28,786	24,705	24,029	28,361	31,757
Growth	27.2	(10.3)	(11.3)	(14.2)	(2.7)	18.0	12.0
PES	3,117	3,317	3,595	4,887	5,220	5,742	6,201
Growth	0.6	6.4	8.4	35.9	6.8	10.0	8.0
UCP	31,555	40,737	42,185	48,819	64,745	74,639	84,086
Growth	(2.2)	29.1	3.6	15.7	32.6	15.3	12.7
Others (incl. eliminations)	378	66	992	934	994	1,034	1,075
Growth	(18.9)	(82.6)	1,408.1	(5.9)	6.4	4.0	4.0
Total	**71,241**	**76,581**	**75,558**	**79,345**	**94,988**	**1,09,776**	**1,23,119**
% breakup	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
EMPS	50.8	42.4	38.1	31.1	25.3	25.8	25.8
PES	4.4	4.3	4.8	6.2	5.5	5.2	5.0
UCP	44.3	53.2	55.8	61.5	68.2	68.0	68.3
Others (incl. eliminations)	0.5	0.1	1.3	1.2	1.0	0.9	0.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
EBIT & EBIT margins	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
EMPS	2,773	1,704	270	1,258	(582)	(284)	635
EBIT margin	7.7	5.2	0.9	5.1	(2.4)	(1.0)	2.0
PES	1,051	993	1,143	1,579	2,007	2,010	2,170
EBIT margin	33.7	29.9	31.8	32.3	38.5	35.0	35.0
UCP	3,254	5,121	5,837	5,134	5,378	6,643	7,988
EBIT margin	10.3	12.6	13.8	10.5	8.3	8.9	9.5
Total	**7,077**	**7,817**	**7,250**	**7,971**	**6,803**	**8,369**	**10,794**
EBIT margin	9.9	10.2	9.6	10.0	7.2	7.6	8.8
Less: Finance cost	330	211	262	259	296	380	350
Less: Other unallocated expenses	(663)	(1,036)	(713)	(364)	(209)	(521)	(192)
as % of sales	(0.9)	(1.4)	(0.9)	(0.5)	(0.2)	(0.5)	(0.2)
PBT	**7,410**	**8,642**	**7,702**	**8,076**	**6,716**	**8,510**	**10,636**

Quarterly results and estimates

Quarterly Performance (Consolidated)										(INR m)
	FY23				FY24E				YoY	QoQ
Y/E March	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	(%)	(%)
Sales	**27,680**	**17,684**	**20,056**	**29,568**	**33,599**	**19,937**	**22,457**	**33,783**	**21**	**14**
Change (%)	55.1	4.7	11.8	10.9	21.4	12.7	12.0	14.3		
EBITDA	**1,770**	**1,008**	**764**	**2,182**	**1,854**	**1,012**	**1,457**	**3,244**	**5**	**(15)**
Change (%)	30.4	(21.9)	(50.9)	(16.4)	4.7	0.3	90.8	48.7		
As of % Sales	6.4	5.7	3.8	7.4	5.5	5.1	6.5	9.6	(88)	(186)
Depreciation	85	97	111	104	113	115	120	148	33	8
Interest	40	67	64	124	101	90	90	99	154	(19)
Other Income	268	644	307	467	700	708	337	74	162	50
Extra-ordinary Items	-	(1,064)	(1,374)	-	-	-	-	-		
PBT	**1,913**	**423**	**(478)**	**2,420**	**2,339**	**1,515**	**1,585**	**3,071**	**22**	**(3)**
Tax	508	195	300	706	735	382	399	626	45	4
Effective Tax Rate (%)	26.6	13.1	33.5	29.2	31.4	25.2	25.2	20.4		
Share of profit of associates/JV's	(316)	(303)	(325)	(275)	(312)	(303)	(325)	(275)		
Reported PAT	**1,089**	**(74)**	**(1,104)**	**1,439**	**1,293**	**830**	**860**	**2,170**	**19**	**(10)**
Change (%)	(10.6)	(107.2)	(215.0)	(21.2)	18.7	n/m	n/m	50.8		
Adj PAT	**1,089**	**813**	**347**	**1,439**	**1,293**	**833**	**863**	**2,170**	**19**	**(10)**
Change (%)	(10.6)	(21.5)	(63.9)	(21.2)	18.7	2.5	149.2	50.8		
Segment Revenues (INR m)	**1Q**	**2Q**	**3Q**	**4Q**	**1Q**	**2QE**	**3QE**	**4QE**	**YoY (%)**	**QoQ (%)**
EMP & Services	4,547	5,540	6,484	7,458	6,791	6,112	7,028	8,431	49	(9)
Engineering products and services	1,243	1,374	1,179	1,424	1,423	1,452	1,306	1,560	14	(0)
Unitary cooling business	21,622	10,477	12,160	20,486	25,140	12,067	13,877	23,555	16	23
Others	268	292	233	200	245	307	245	236	(8)	22
Total	**27,680**	**17,684**	**20,056**	**29,568**	**33,599**	**19,937**	**22,457**	**33,783**	**21**	**14**
Segment EBIT										
EMP & Services	(125)	143	(461)	(140)	(519)	61	70	104	n/m	n/m
Engineering products and services	509	480	460	559	541	552	418	499	6	(3)
Unitary cooling business	1,662	765	895	2,057	2,073	929	1,110	2,530	25	1
Total PBIT	**2,046**	**1,388**	**893**	**2,475**	**2,096**	**1,542**	**1,599**	**3,133**	**2**	**(15)**
Segment EBIT (%)									**bp**	**bp**
EMP & Services (%)	(2.7)	2.6	(7.1)	(1.9)	(7.6)	1.0	1.0	1.2	(490)	(576)
Engineering products and services (%)	40.9	35.0	39.0	39.3	38.0	38.0	32.0	32.0	(287)	(123)
Unitary cooling business (%)	7.7	7.3	7.4	10.0	8.2	7.7	8.0	10.7	56	(179)
Total EBIT (%)	**7.4**	**7.9**	**4.5**	**8.4**	**6.2**	**7.7**	**7.1**	**9.3**	**(115)**	**(213)**

Long-term positives to outweigh near-term challenges; reinitiate with a BUY rating

VOLT, over the last one year, has corrected 20% and has underperformed BSE Sensex by 28% in this period. This underperformance has been due to the concerns of loss in market share, margin pressure led by higher RM cost and increased competition, and weak consumer sentiments leading to lower discretionary spends.

Though, competition is here to stay given the intention of market share gain, we believe that lower profitability of a few companies would deter them to engage in price war/discounting schemes in the long run. We expect VOLT to maintain a market share of 21%+ over the next few years and it would continue to enjoy the leadership position in RAC segment.

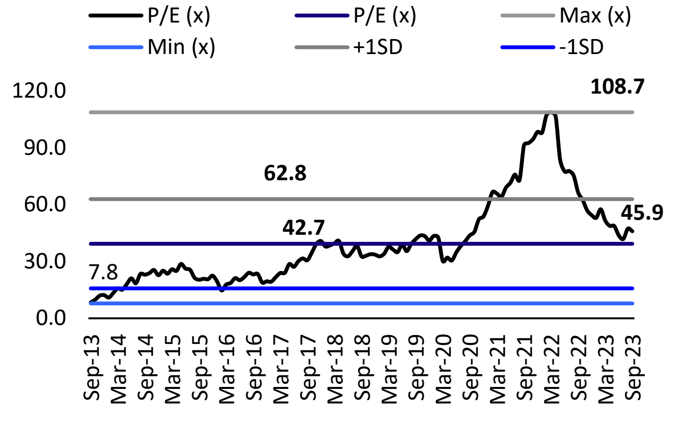
Voltbek is growing above the industry (on a much lower base) and it achieved a turnover of INR11b within four years of product launches. Though, operating losses still continue (as expected), we project the company to turn profitable at the operating level in FY26 and it should start contributing to profits from FY27.

We expect VOLT's EBITDA/adjusted profit to report a CAGR of 30%/38% over FY23-25 supported by a recovery in margins of both EMPS and RAC segments and reduced losses for Voltbek. RoE should be at 11.4% in FY25E vs. 6.9% in FY23 (average of 12.3% over FY13-23), while RoCE is likely to be at 23.2% in FY25E vs. 14.1% in FY23 (average of 31.2% over FY13-23).

We reinitiate our coverage on VOLT with a BUY rating and a TP of INR1,000 premised on 40x FY25E EPS (similar to last 10 years' one-year forward average P/E multiple, before losses of Voltbek) and INR38/share for Voltbek.

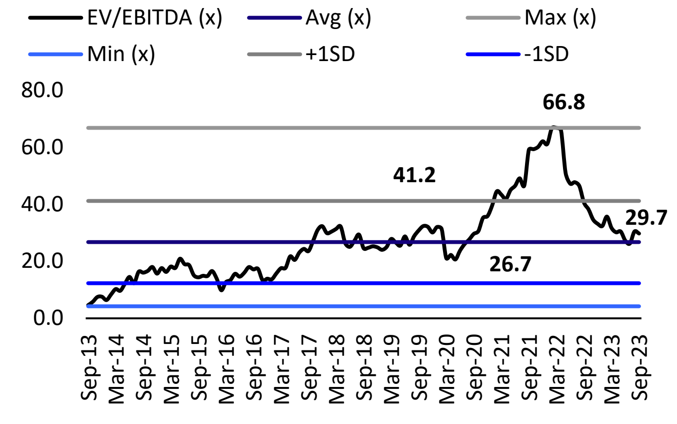
Key downside risks: 1) sustained competition in the RAC segment for a longer period, 2) weather-related disappointments as the dependence is largely on a single category, and 3) reduced discretionary spends of consumers.

Exhibit 35: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 36: 1-year forward EV/EBITDA chart



Source: MOFSL, Company

Risks and concerns

- **Slower-than-expected pick-up in housing and infrastructure activities**: Demand for new housing has improved in the last two years after remaining subdued over the last several years. A slowdown in construction of new houses and sluggish discretionary spends of consumers can impact demand for RAC and home appliances. Slowdown in infrastructure activities may impact performance of MEP segment of the company adversely.
- **Increase in competition**: There appears to be heightened competition to gain market share, especially in the white goods segment. This may create pressure on the pricing power of the industry, and in turn, can hurt the profitability.
- **Weather-related issues can hit near-term performance**: VOLT's profitability is mainly dependent on RAC segment. The demand for RAC is primarily in the summer season and hence, there are seasonal volatilities in the performance of the company. A mild summer season can lead to a delay in RAC purchase by consumers and thus can hit the company's performance in that period.
- **Non-availability of regular and quality power**: The demand for electrical products relies heavily on the availability of reliable and high-quality electricity. Any significant shortfall in the supply of electricity can potentially hinder the growth prospects of the industry.
- **Continued pressure in EMPS segment's margin**: EMPS' margin had been under pressure (EBIT-level loss) in FY23/1QFY24 primarily due to payment-related issues in the international business. We expect EBIT margin of this segment to recover in 2HFY24; a longer-than-expected delay in margin recovery may put pressure on earnings.

Financials and valuations

Income Statement							(INR M)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Total Revenues	**71,241**	**76,581**	**75,558**	**79,345**	**94,988**	**1,09,776**	**1,23,119**
Change (%)	11.2	7.5	-1.3	5.0	19.7	15.6	12.2
EBITDA	**6,117**	**6,867**	**6,414**	**6,816**	**5,724**	**7,567**	**9,632**
% of Total Revenues	8.6	9.0	8.5	8.6	6.0	6.9	7.8
Other Income	1,863	2,306	1,889	1,892	1,685	1,819	1,981
Depreciation	240	320	339	373	396	496	627
Interest	330	211	262	259	296	380	350
Exceptional Items	-118	-364	0	0	-2,438	0	0
PBT	**7,292**	**8,278**	**7,702**	**8,076**	**4,278**	**8,510**	**10,636**
Tax	1,635	2,380	1,804	1,913	1,709	2,142	2,677
Rate (%)	22.4	28.8	23.4	23.7	40.0	25.2	25.2
PAT	**5,657**	**5,898**	**5,898**	**6,163**	**2,569**	**6,368**	**7,959**
Change (%)	-1.5	4.3	0.0	4.5	-58.3	147.9	25.0
Profit/(Loss) share of associates/JVs	-518	-687	-610	-1,103	-1,207	-1,101	-688
Minority interest (MI)	60	39	37	19	12	12	12
PAT after MI	**5,079**	**5,172**	**5,251**	**5,041**	**1,350**	**5,255**	**7,259**
Change (%)	-11.3	1.8	1.5	-4.0	-73.2	289.2	38.1
Adj. PAT after MI	**5,197**	**5,536**	**5,251**	**5,041**	**3,788**	**5,255**	**7,259**
Change (%)	-9.1	6.5	-5.1	-4.0	-24.8	38.7	38.1

Balance Sheet							
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Share Capital	331	331	331	331	331	331	331
Reserves	40,769	42,471	49,603	54,665	54,190	58,039	63,721
Net Worth	**41,100**	**42,802**	**49,934**	**54,996**	**54,521**	**58,370**	**64,052**
Minority Interest	348	365	361	381	417	429	441
Loans	3,147	2,179	2,606	3,432	6,160	5,660	5,160
Deferred Tax Liability	-993	-715	-558	-317	-303	-303	-303
Capital Employed	**43,601**	**44,631**	**52,343**	**58,492**	**60,794**	**64,155**	**69,349**
Gross Fixed Assets	5,591	6,201	6,690	7,020	8,826	10,826	13,326
Less: Depreciation	2,959	3,195	3,534	3,906	4,302	4,798	5,425
Net Fixed Assets	**2,633**	**3,006**	**3,157**	**3,114**	**4,524**	**6,028**	**7,901**
Capital WIP	157	263	88	593	983	983	983
Investments	23,859	23,433	30,464	36,154	31,086	30,985	31,297
Goodwill	798	798	723	723	723	723	723
Curr. Assets	**46,715**	**53,332**	**51,565**	**56,440**	**65,119**	**71,225**	**79,800**
Inventory	10,907	14,689	12,796	16,614	15,920	17,444	19,564
Debtors	18,330	18,336	18,009	21,097	21,919	24,060	26,985
Cash & Bank Balance	3,211	3,084	4,588	5,717	7,084	8,059	8,957
Loans & Advances	116	23	23	32	6	7	7
Other current assets	14,151	17,200	16,149	12,981	20,191	21,654	24,286
Current Liab. & Prov.	**30,560**	**36,201**	**33,654**	**38,532**	**41,640**	**45,788**	**51,354**
Creditors	23,745	26,889	24,645	29,421	30,126	32,482	36,430
Other Liabilities	6,815	9,312	9,009	9,111	11,514	13,307	14,924
Net Current Assets	**16,155**	**17,131**	**17,911**	**17,908**	**23,479**	**25,436**	**28,446**
Application of Funds	**43,601**	**44,631**	**52,343**	**58,492**	**60,794**	**64,155**	**69,349**

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)							
Adj EPS	**15.7**	**16.7**	**15.9**	**15.2**	**11.5**	**15.9**	**21.9**
Cash EPS	16.4	17.7	16.9	16.4	12.6	17.4	23.8
Book Value	124.2	129.4	150.9	166.3	164.8	176.4	193.6
DPS	4.0	4.0	5.0	5.5	4.3	4.8	5.5
Payout (incl. Div. Tax.)	25.3	23.9	31.5	36.1	37.1	30.0	25.0
Valuation (x)							
P/E	55.3	51.9	54.7	57.0	75.8	54.6	39.6
Cash P/E	52.8	49.0	51.4	53.0	68.6	49.9	36.4
EV/EBITDA	46.9	41.7	44.5	41.8	50.0	37.6	29.4
EV/Sales	4.0	3.7	3.8	3.6	3.0	2.6	2.3
Price/Book Value	7.0	6.7	5.8	5.2	5.3	4.9	4.5
Dividend Yield (%)	0.5	0.5	0.6	0.6	0.5	0.5	0.6
Profitability Ratios (%)							
RoE	12.6	12.9	10.5	9.2	6.9	9.0	11.4
RoCE	13.8	14.1	11.6	10.9	6.9	10.4	11.9
RoIC	27.8	25.8	26.9	29.6	14.1	21.1	23.2
Turnover Ratios							
Debtors (Days)	94	87	87	97	84	80	80
Inventory (Days)	56	70	62	76	61	58	58
Creditors. (Days)	122	128	119	135	116	108	108
Asset Turnover (x)	1.6	1.7	1.4	1.4	1.6	1.7	1.8
Leverage Ratio							
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)

Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PBT before EO Items	**6,774**	**7,591**	**7,735**	**5,610**	**7,787**	**8,510**	**10,636**
Add : Depreciation	240	320	339	3,726	396	496	627
Interest	330	211	262	259	296	380	350
Less : Direct Taxes Paid	-2,708	-2,061	-693	-2,169	-1,656	-2,142	-2,677
(Inc)/Dec in WC	-6,456	-911	-1,580	-438	-3,836	-982	-2,112
CF from Operations	**-1,820**	**5,150**	**6,063**	**6,988**	**2,987**	**6,262**	**6,824**
Others	-1,394	-525	-502	-1,145	-1,393	-772	-792
CF from Oper. Incl. EO Items	**-3,214**	**4,625**	**5,561**	**5,842**	**1,594**	**5,490**	**6,032**
(Inc)/Dec in FA	-818	-905	-208	-482	-1,799	-2,000	-2,500
Free Cash Flow	**-4,032**	**3,720**	**5,353**	**5,361**	**-206**	**3,490**	**3,532**
Investment in liquid assets	4,569	-352	-2,645	-3,165	983	-228	-208
CF from Investments	**3,751**	**-1,257**	**-2,853**	**-3,646**	**-816**	**-2,228**	**-2,708**
(Inc)/Dec in Debt	1,724	-1,057	425	918	2,728	-500	-500
Less : Interest Paid	-310	-811	-271	-312	-349	-380	-350
Dividend Paid	-1,577	-1,627	-1,358	-1,676	-1,829	-1,406	-1,576
CF from Fin. Activity	**-163**	**-3,494**	**-1,204**	**-1,070**	**550**	**-2,286**	**-2,426**
Inc/Dec of Cash	**374**	**-127**	**1,504**	**1,126**	**1,328**	**976**	**897**
Add: Beginning Balance	2,837	3,211	3,084	4,591	5,756	7,084	8,059
Closing Balance	**3,211**	**3,084**	**4,588**	**5,717**	**7,084**	**8,059**	**8,957**

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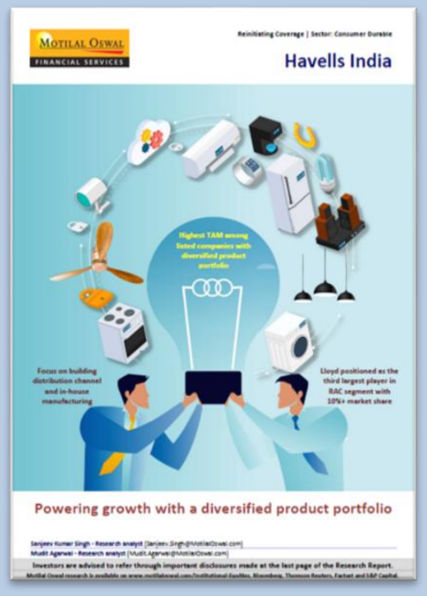

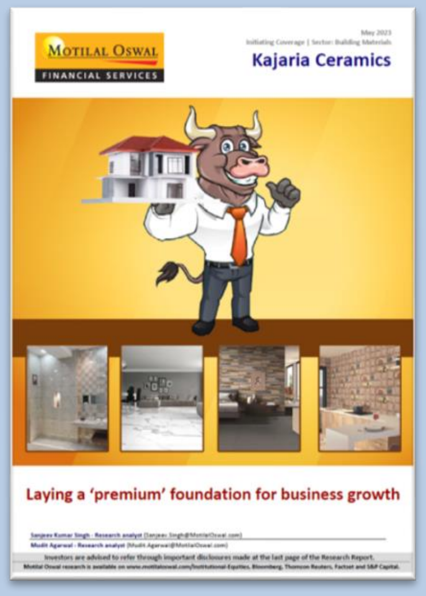

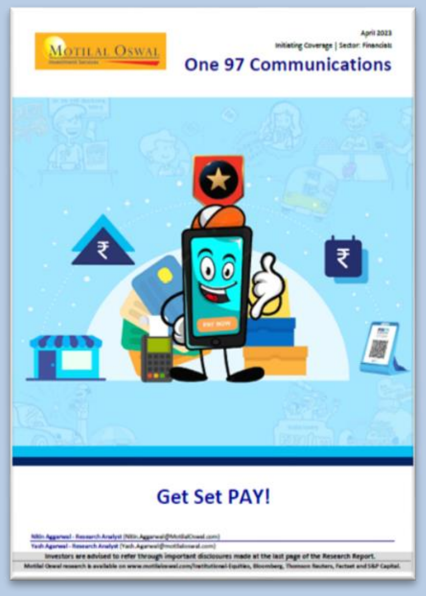

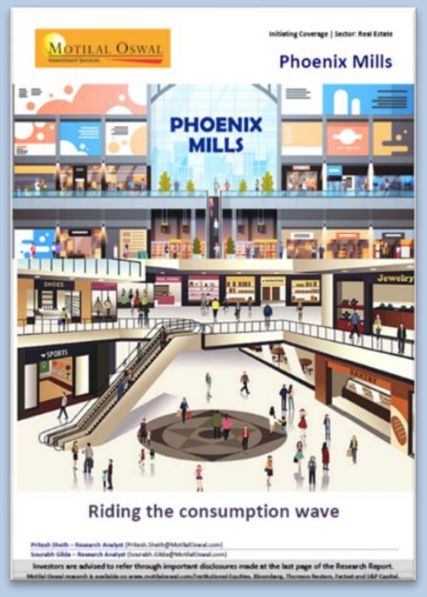

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BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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