

Voltas

A mixed bag; status quo for concerning areas

Voltas's Q2FY24 print was a mixed bag as revenue growth of 30% was ahead of our expectation of 19%, led by a beat in EMPS. However, continued slippages in collections (leading to provisions of INR 860mn) for its EMPS business led to a miss in overall earnings. UCP revenue grew in line at 15%, led by 20% volume growth (air cooler +50%; RAC +15%). With strong Onam sales, the RAC industry remains optimistic about upcoming festive season sales. RAC market is consolidating with the top 7-8 brands eyeing market share gain. Voltas' market share in RAC remains a concern, Jun'23 exit market share at 19.5% vs 22.8% YoY, 20.6% QoQ. Voltas is trying to address RAC share by investing in the backend (capex of INR 5bn is undergoing) as well as on the marketing front. UCP market share and EBIT margin have contracted (both down +500bps) over the last two years, still, there is no clarity of bottoming out. We are positive for the RAC category but we would wait for more clarity to see if Voltas is regaining lost ground. We maintain our UCP estimates while cutting EPS by 20% for FY24 and flat for FY25/26 to reflect provisions for EMPS business. Our SoTP (UCP/EMPS/EPS P/E at 32/15/15x and Volt-Beko P/S of 4x) on Sep-25 derives a TP of INR 800. Maintain REDUCE.

- In-line UCP revenues; EMPS surprises positively:** Consolidated revenue grew by 30% YoY to INR 22.7bn (HSIE: INR 20.6bn). UCP revenues were in line, growing by 15% YoY despite erratic monsoon, weak consumer sentiment, and Q2 being in general a lean quarter. Overall volume grew by 20% YoY with RAC volume growing by 15% and an Aug'23 exit market share at 19.5% (22.8% LY). Given early trends, management remains positive on upcoming festive season sales. EMPS revenue surprised positively, growing by 67% YoY (HSIE: +30%) with order book standing strong at INR 86bn. We model a 14% revenue CAGR for UCP business for FY23-26.
- UCP margin at 7.7%; EMPS provisions drag profitability:** GM expanded by 20bps YoY to 24.5% (24.3% in Q2FY23, 21.1% in Q1FY24). Employee expenses grew 9% while other expenses grew 92% (INR 860mn EMPS provisioning on delayed collections). The UCP EBIT margin expanded by 40bps YoY to 7.7% (HSIE: 8%). EMPS reported an EBIT loss with a margin of -5.3% (+2.6% in Q2FY23, -7.6% in Q1FY24; HSIE -2%). EMPS margin was impacted by provisions made on account of delay in collections (INR 860mn). EPS margin expanded 515bps YoY to 40.1%. Volt-Beko losses were at INR 332mn vs INR 289mn YoY. We model a 9/3.3% EBIT margin for UCP/EMPS for FY25.
- Con call takeaways:** (1) The RAC market is getting more consolidated with the top 7-8 players fighting for market share. (2) Air Cooler reported 50% volume growth led by east and south markets. Jul'23 exit market share stood at 7.5%. (3) The trend of increasing strength of alternate channels (MT, EBO, e-commerce) sustains. (4) Channel inventory remains at normalized levels. (6) Voltbek volumes grew 40% YoY vs muted growth seen in the industry. Fastest to clock 4mn cumulative volumes since launch. (7) W/M market share is at 5.4% and refrigerator market share is at 3.3%. (8) The domestic/international order book stood at INR 53/34bn.

Quarterly/annual financial summary

(INR mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	22,928	17,684	29.7	33,599	(31.8)	79,345	94,988	1,16,781	1,30,165	1,43,537
EBITDA	703	1,008	(30.3)	1,854	(62.1)	6,816	5,724	5,748	9,171	10,193
APAT	357	685	(47.9)	1,294	(72.5)	5,060	3,639	4,633	7,436	8,472
EPS (INR)	1.1	2.1	(47.9)	3.9	(72.5)	15.3	11.0	14.0	22.5	25.6
P/E (x)						53.5	74.4	58.5	36.4	32.0
EV / EBITDA (x)						39.4	47.2	47.2	29.5	26.6
Core RoCE (%)						22.3	10.6	13.9	20.4	20.0

Source: Company, HSIE Research

REDUCE

CMP (as on 20 Oct 2023)	INR 819
Target Price	INR 800
NIFTY	19,543

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 800	INR 800
EPS %	FY24E	FY25E
	-20%	0%

KEY STOCK DATA

Bloomberg code	VOLT IN
No. of Shares (mn)	331
MCap (INR bn) / (\$ mn)	271/3,312
6m avg traded value (INR mn)	1,116
52 Week high / low	INR 934/737

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.3	(5.6)	(5.8)
Relative (%)	8.5	(15.3)	(16.3)

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	30.30	30.30
FIs & Local MFs	33.85	36.03
FPIs	19.08	17.83
Public & Others	16.77	15.84
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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