

09 May 2024

India | Equity Research | Q4FY24 results review

Voltas

White Goods

Focus on maintaining UCP market share over profitability; EMP losses continue

Key observations: (1) Unitary cooling products (UCP) segment has reported a strong 44.2% revenue growth (higher than Blue Star and Havells – Lloyd). Higher trade spends (better volume growth in air conditioners than overall UCP) infer higher focus on market share and volume growth, in our view. We believe, the market share (18.7% YTD at Mar'24) decline is largely over (mere 30bps decline QoQ). With aggressive investments, we model market shares to recover in FY25. (2) Margins have contracted over higher brand-building and distribution spends, in our view. We reckon the margins may remain moderate in FY25-FY26 as the company may focus on revenue growth. Steep competitive pressures and inflation in input prices are also headwinds to margins. (3) While domestic electro-mechanical projects (EMP) business continues to report strong growth, the international business incurs losses due to higher provisioning.

While the strong growth in the air conditioner segment is encouraging, profitability of international projects remains a key concern. We raise our FY25E/FY26E earnings by 2.5%/4.3% to factor in strong growth in UCP segment and normalisation in EMP business. Maintain **HOLD** with a DCF-based revised target price of INR 1,260 (implied P/E: 51x FY26E).

Q4FY24 results

Voltas' revenue grew 42.1% while EBITDA/PAT declined 12.6%/19.3% YoY. EBITDA margin declined to 4.5% (-284bps YoY) due to higher commodity costs and other expenses. Higher brand-building and distribution spends have likely led to an increase in other expenditure as a percentage of net sales, in our view. Higher effective tax rate and interest cost impacted earnings.

Segment-wise results

Revenue growth – UCP: 44.2%; EMP: 47.2%; and engineering products and services: 9.8% YoY. Volume growth was 35% in room air conditioners YoY. Voltas had a YTD market share of 18.7% at End-Mar'24. In EMP business, the domestic projects business reported strong 38% growth YoY. Engineering products and services segment reported moderate revenue growth of 9.8% led by strong order backlog.

UCP segment gaining momentum

UCP segment has reported strong 44.2% YoY revenue growth in Q4FY24 led by a favourable base and improved product mix. Segmental volumes grew 27% YoY. Voltas has reported highest growth in UCP segment in comparison to peers (Blue Star/Havells-Lloyd at 34.8%/6.6% YoY).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	94,988	1,24,812	1,48,334	1,75,470
EBITDA	5,724	4,746	8,752	11,318
EBITDA Margin (%)	602.6	380.3	590.0	645.0
Net Profit	3,756	2,540	6,401	8,168
EPS (INR)	11.4	7.7	19.4	24.7
EPS % Chg YoY	(25.2)	(32.4)	152.0	27.6
P/E (x)	116.1	171.7	68.2	53.4
EV/EBITDA (x)	70.1	83.7	45.4	34.7
RoCE (%)	6.5	4.1	8.7	10.4
RoE (%)	6.8	4.5	10.5	12.4

Aniruddha Joshi

aniruddha.joshi@icicisecurities.com
+91 22 6807 7249

Manoj Menon

manoj.menon@icicisecurities.com

Karan Bhuwania

karan.bhuwania@icicisecurities.com

Nilesh Patil

nilesh.patil@icicisecurities.com

Market Data

Market Cap (INR)	436bn
Market Cap (USD)	5,226mn
Bloomberg Code	VOLT IN
Reuters Code	VOLT.BO
52-week Range (INR)	1,502 /745
Free Float (%)	69.0
ADTV-3M (mn) (USD)	28.2

Price Performance (%)	3m	6m	12m
Absolute	23.9	60.8	64.2
Relative to Sensex	21.3	47.5	45.2

Earnings Revisions (%)	FY24E	FY25E
Revenue	9.5	14.4
EBITDA	0.9	7.0
EPS	2.5	4.3

Previous Reports

31-01-2024: [Q3FY24 results review](#)

21-10-2023: [Q2FY24 results review](#)

Focus on maintaining market share than margins, in our view

We note a decline in market share (18.7% YTD, at Mar'24) is contracting (a mere 30bps in Q4FY24 QoQ). Higher volume growth in air-conditioners segment (35% YoY) than overall UCP segment's (27% YoY) volume growth indicate relatively higher trade discounts offered to generate incremental volumes and resultantly maintaining market share.

Margins decline on higher costs

While Blue Star (13-quarter high margins) and Havells-Lloyd (returned to profitability at EBIT-level) have reported strong operational performance in Q4FY24, Voltas has reported gross/EBITDA margin contraction of 185/284bps YoY. We believe higher brand-building and distribution spends (to protect market share) have largely weighed on margins. Margins have contracted for all segments YoY at the EBIT-level.

RoCE likely to remain under stress

We believe RoCE may remain under pressure in the near term due to: (1) the additional provisioning considered by the company in its international projects business; and (2) likely reduction in profitability in the air conditioner business due to increased production capacity at an industry level.

International business continues to be in losses

Contrary to strong growth in the domestic projects business, international projects business continues to report losses in Q4FY24. Higher provisioning accounted for delays and cost overruns in a few projects in the Middle East (Qatar) is leading to losses. However, losses have reduced to INR 1.1bn in Q4FY24 vs. INR 1.4bn in Q3FY24. Overall, EMP order-book stood at INR 80.5bn, as at Mar'24, against INR 74.1bn, as at Mar'23 (+8.6% YoY).

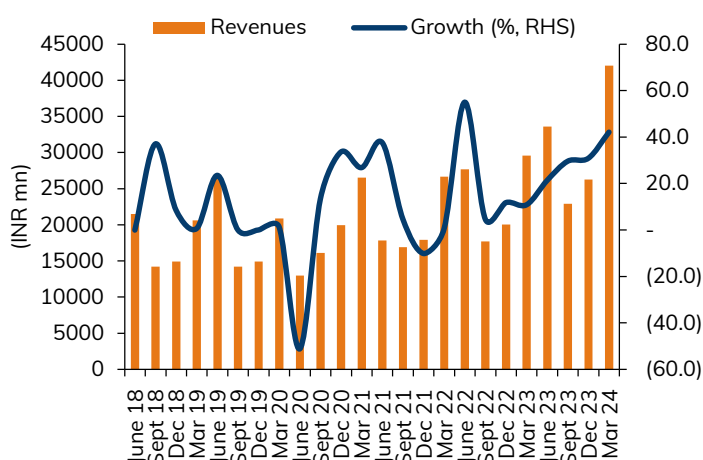
Valuation and risks

We model Voltas to report revenue and PAT CAGR of 18.6% and 79.3%, respectively, over FY24–26E. Maintain **HOLD** with a DCF-based revised TP of INR 1,260 (earlier INR 976). Key upside/downside risks: (1) steep decrease/increase in raw materials; (2) delays in new plant/product launches; and (3) faster-than-expected growth in the economy.

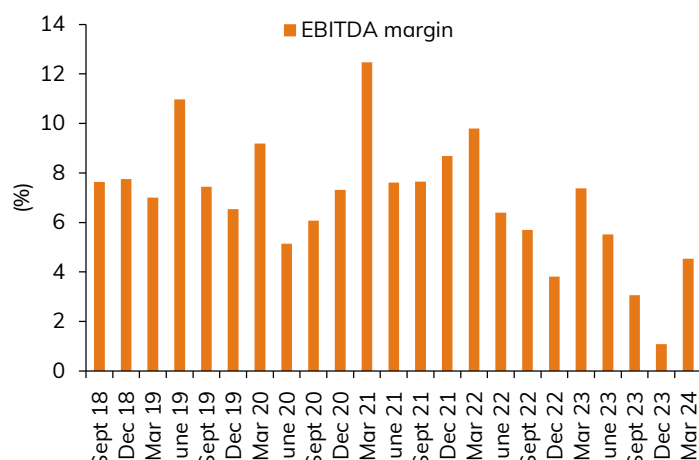
Exhibit 1: Q4FY24 financial performance

Y/e March INR mn	Q4FY24	Q4FY23	YoY % chg.	Q3FY24	QoQ % chg.	FY24	FY23	YoY % chg.
Revenue	42,029	29,568	42.1	26,257	60.1	1,24,812	94,988	31.4
Expenditure								
Raw materials	33,727	23,182	45.5	20,605	63.7	98,140	73,782	33.0
% of revenue	80.2	78.4		78.5		78.6	77.7	
Employee cost	1,992	1,678	18.7	2,046	(2.7)	7,788	6,672	16.7
% of revenue	4.7	5.7		7.8		6.2	7.0	
Other expenditure	4,404	2,526	74.3	3,322	32.6	14,138	8,810	60.5
% of revenue	10.5	8.5		12.7		11.3	9.3	
Total expenditure	40,123	27,386	46.5	25,973	54.5	1,20,066	89,264	34.5
EBITDA	1,906	2,182	(12.6)	284	570.6	4,746	5,724	(17.1)
EBITDA margin	4.5	7.4		1.1		3.8	6.0	
Other income	544	467	16.6	579	(6.0)	2,533	1,685	50.3
PBDIT	2,450	2,648	(7.5)	863	183.9	7,279	7,408	(1.7)
Depreciation	118	104	13.8	128	(8.0)	476	396	20.1
PBIT	2,332	2,545	(8.4)	735	217.4	6,803	7,012	(3.0)
Interest	208	124	67.1	135	53.7	559	296	88.8
PBT	2,124	2,420	(12.2)	599	254.4	6,244	6,716	(7.0)
Prov. for tax	634	706	(10.2)	515	23.3	2,377	1,709	39.1
% of PBT	29.9	29.2		85.8		38.1	25.4	
PAT before MI/share of associates	1,490	1,714	(13.1)	85	1,654.5	3,867	5,007	(22.8)
Minority Interest/share of associates	326	272	20.0	364	(10.3)	(1,327)	(1,251)	-
Adjusted PAT	1,163	1,442	(19.3)	(279)	-	2,540	3,756	(32.4)
Extra ordinary items	562	(1,955)	-	(429)	-	2,550	(2,822)	-
Reported PAT	1,725	(513)	-	(708)	-	5,091	934	445.1

Source: Company data, I-Sec research

Key performance highlights**Exhibit 2: Revenue and revenue growth**

Source: Company data, I-Sec research

Exhibit 3: EBITDA margins

Source: Company data, I-Sec research

Exhibit 4: Segment-wise performance

Particulars	Q4FY24	Q4FY23	YoY % chg.	Q3FY24	QoQ % chg.	FY24	FY23	YoY % chg.
Revenues (INR mn)								
Unitary cooling	29,551	20,486	44.2%	14,826	99.3%	81,605	64,745	26.0%
Electro mechanical projects	10,979	7,458	47.2%	9,819	11.8%	36,830	24,029	53.3%
EPS	1,564	1,424	9.8%	1,548	1.0%	5,879	5,220	12.6%
Other	106	200	-47.2%	134	-21.2%	739	994	-25.7%
Inter-segment revenue	(171)	-		(70)		(241)	-	
Total	42,029	29,568	42.1%	26,257	60.1%	1,24,812	94,988	31.4%
EBIT (INR mn)								
Unitary cooling	2,704	2,057	31.5%	1,229	120.0%	6,935	5,378	28.9%
Electro mechanical projects	(1,077)	(140)	-	(1,200)	-	(3,285)	(582)	-
EPS	478	559	-14.5%	499	-4.2%	2,057	2,007	2.5%
Total	2,105	2,475	-14.9%	528	298.7%	5,707	6,803	-16.1%
EBIT margin (%)								
Unitary cooling	9.2	10.0		8.3		8.5	8.3	
Electro mechanical projects	(9.8)	(1.9)		(12.2)		(8.9)	(2.4)	
EPS	30.6	39.3		32.2		35.0	38.5	
Total	5.0	8.4		2.0		4.6	7.2	

Source: Company data, I-Sec research

Q4FY24 result and conference call highlights

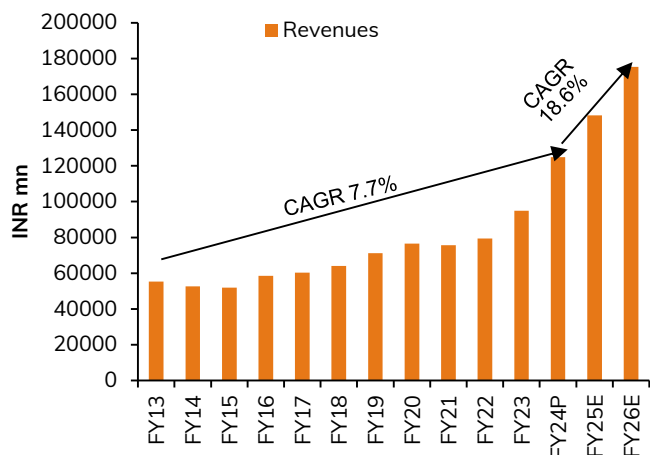
- **Room air-conditioners (RAC) market share:** Volta commands 18.7% market share in RACs, as of Mar'24 YTD. RAC volume for Volta and industry stands at 2mn and 10mn, respectively, for FY24. It indicates Volta commanding ~20% market share. Volta aims to improve its market share via increasing its presence across all channels like distributors, modern outlets, e-commerce.
- **Split AC contribution:** It contributes 85–88% to total RAC sales, as of FY24. Volta has registered YoY revenue growth of 50%+ growth in FY24. Additionally, it has reported strong 2x revenue growth YoY in Q4FY24.
- **UCP sub-segment performance:** Volta has generated revenues of INR 10bn and INR 13bn in commercial refrigeration and commercial air conditioning in FY24.
- **RAC segment distribution:** The company has 325 exclusive outlets and ~26,000 channel partners for RAC business.
- **Demand scenario:** Growth of cooling products over last two-three months is ~70%+ YoY.
- **UCP margin:** The core focus for Volta is on growing volume and revenues in UCP segment. It aims to generate high-single-digit margin in the segment. While the margin has remained in higher single-digit (lower than earlier 11–12%), the absolute EBIT has increased on higher volumes.
- **Dividend:** Volta has announced dividend of INR 5.5/share in FY24 (INR 4.25/share in FY23).
- **EMP order-book:** Overall EMP order book stood at INR 80.5bn, as at Mar'24, against INR 74.1bn, as at Mar'23 (+8.6% YoY). The domestic/international businesses' contributions stand at ~INR 50bn/INR 30bn.
- Domestic projects business of EMP segment grew 38% YoY led by healthy carried forward order book position. Growth momentum is expected to continue led by ongoing infrastructure upcycle.
- International projects business continued to incur losses (INR 1.1bn in Q4FY24) due to cost overruns and project delays in some projects in Qatar (Middle East). The

segmental carry forward order book stood at INR 30.3bn, as at Mar'24. The order-book comprises orders largely from UAE and Saudi Arabia.

- Voltas has registered 73%/61% revenue/EBIT growth YoY in the domestic projects business for FY24. All the three sub-segments (infrastructure, textile and mining) have reported strong performance in FY24.
- The company has generated revenues of INR 1.1bn, INR 0.9 and INR 1bn in textile, infrastructure and mining business, respectively.
- Voltas is the market leader in the projects business in sectors such as textile (market share: 62%) and mining (market share: 65%).
- International project business is facing headwinds due to concerns in only one geography – Qatar.
- The scope for further provisioning is low in coming quarters (except contingent liability associated with hospital project in Qatar).
- **Capacity addition:** Voltas has bought land parcel of 150 acres in Chennai, which is likely to be India's largest manufacturing facility. The company is likely to start commercial production in phased manner. Part of production will commence from Jun'24-end. The company is likely to add production capacity of ~1mn by Jun'25 and additional 1mn by Jun'26. Thus, cumulative production capacity is likely to expand to 3–3.5mn/annum by Jun'26.
- **Voltbek:** It has 12,500+ channel partners for selling refrigerators and washing machines as of FY24-end.
- Company aims to attain market share of ~10% in the consumer durable segment. At present, it commands 5.3%, 8.5% and 15% market share in refrigerators, washing machines and semi-automatic washing machines, respectively.
- Voltbek has registered revenues of INR 15.9bn against INR 15bn estimated for FY24. It has generated revenues of INR 10.9bn in FY23.
- **Capex:** Chennai plant is likely to incur total expenditure of INR 5bn, of which INR 2.3bn is currently accounted in WIP as of FY24 and rest INR 2–2.5bn will be incurred in FY25. Additionally, Waghodia plant for commercial refrigeration will have allocation of INR 2–2.5bn as capex.

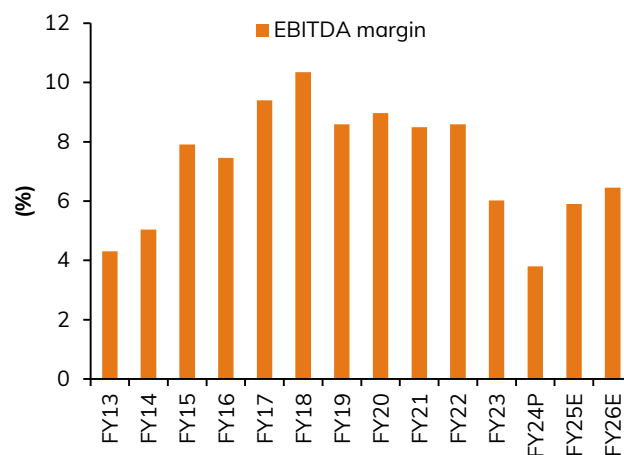
Key indicators – Annual

Exhibit 5: Revenue growth



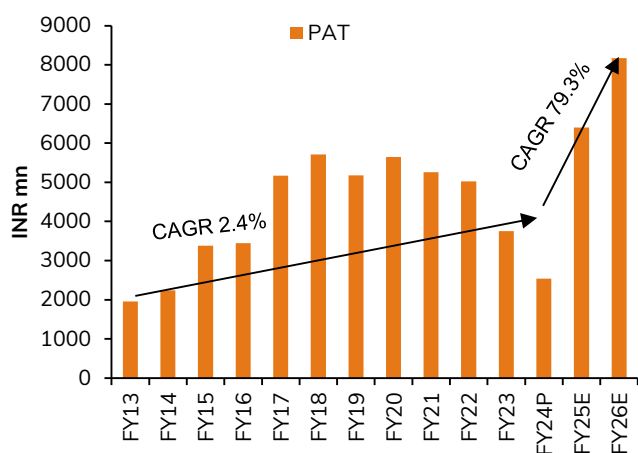
Source: Company data, I-Sec research

Exhibit 6: EBITDA margin



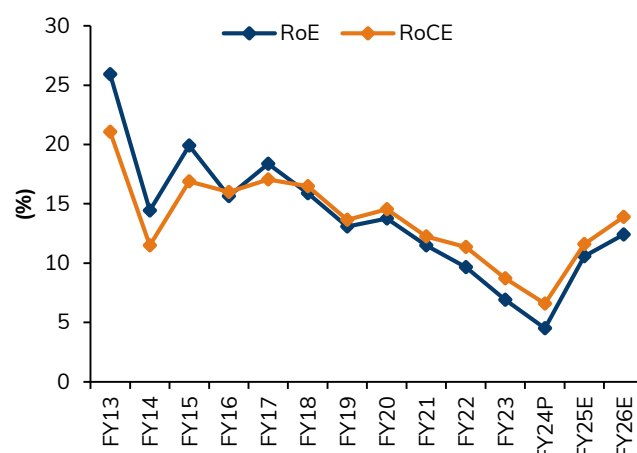
Source: Company data, I-Sec research

Exhibit 7: PAT growth



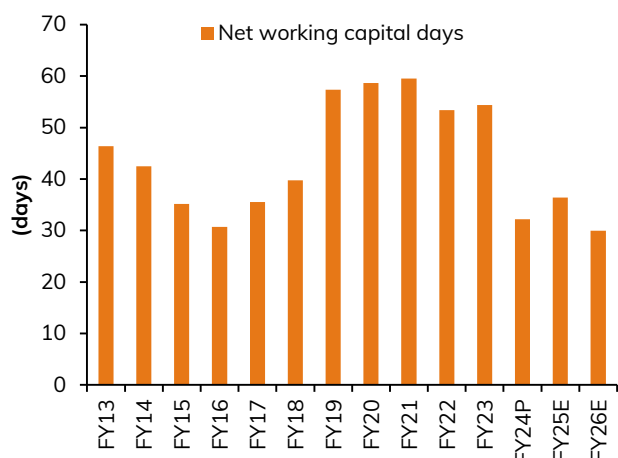
Source: Company data, I-Sec research

Exhibit 8: RoE and RoCE



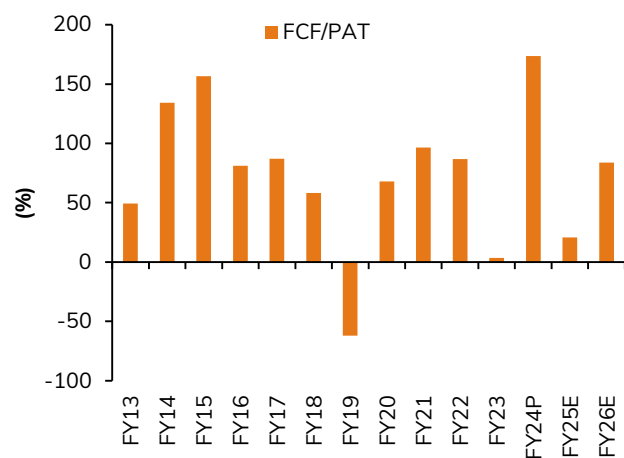
Source: Company data, I-Sec research

Exhibit 9: Net working capital days



Source: Company data, I-Sec research

Exhibit 10: OCF/EBITDA



Source: Company data, I-Sec research

Valuation and risks

We model Volta to report revenue and PAT CAGRs of 18.6% and 79.3% over FY24-FY25E and improvement in RoCE. At our DCF-based revised target price of INR 1,260, the implied P/E works out to 51x FY26E EPS. Maintain **HOLD**.

Exhibit 11: DCF-based valuation

Particulars	
Cost of Equity (%)	11.6%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	1,14,252
Discounted terminal value (INR mn)	3,02,615
Total equity value (INR mn)	4,16,867
Value per share (INR)	1,260

Source: Company data, I-Sec research

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures will likely result in downside to our estimates.

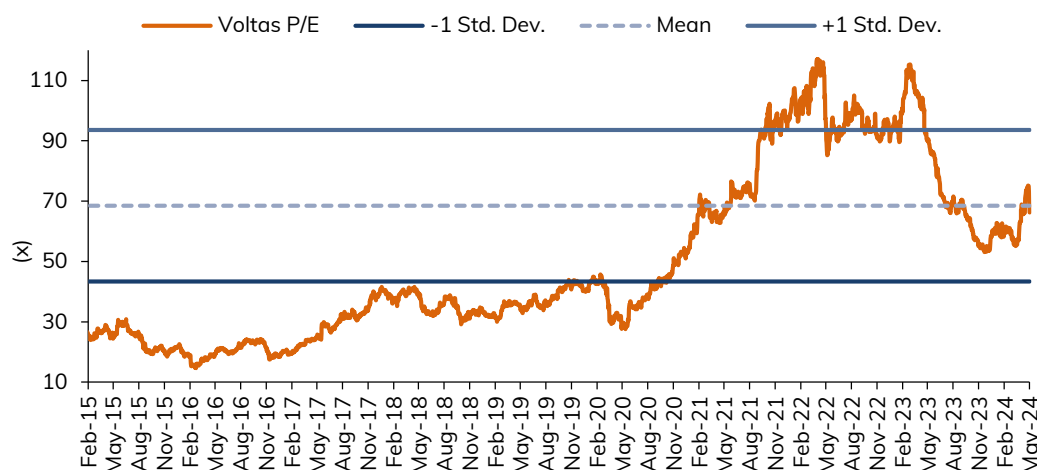
Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Faster than expected economic growth

Faster-than-expected economic growth is an upside risk to our estimates.

Exhibit 12: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Exhibit 13: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	30.3	30.3	30.3
Institutional investors	53.9	54.4	55.3
MFs and others	15.3	18.8	24.2
FIs/Banks	0.2	0.1	0.1
Insurance	18.4	17.0	15.5
FIIIs	20.0	18.5	15.5
Others	15.8	15.3	14.4

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	94,988	1,24,812	1,48,334	1,75,470
Operating Expenses	89,264	1,20,066	1,39,582	1,64,152
EBITDA	5,724	4,746	8,752	11,318
EBITDA Margin (%)	6.0	3.8	5.9	6.4
Depreciation & Amortization	396	476	697	936
EBIT	5,328	4,270	8,055	10,382
Interest expenditure	296	559	511	511
Other Non-operating Income	1,685	2,533	2,189	2,166
Recurring PBT	6,716	6,244	9,733	12,037
Profit / (Loss) from Associates	(1,207)	(1,386)	(800)	(750)
Less: Taxes	1,709	2,377	2,482	3,069
PAT	5,007	3,867	7,251	8,968
Less: Minority Interest	44	(59)	50	50
Extraordinaries (Net)	(2,822)	2,550	-	-
Net Income (Reported)	934	5,091	6,401	8,168
Net Income (Adjusted)	3,756	2,540	6,401	8,168

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	61,393	72,232	84,393	1,00,608
of which cash & cash eqv.	7,084	8,523	8,032	13,393
Total Current Liabilities & Provisions	40,155	52,711	61,559	72,820
Net Current Assets	21,238	19,521	22,834	27,788
Investments	35,663	39,065	39,065	39,065
Net Fixed Assets	3,673	4,249	9,028	10,092
ROU Assets	-	-	-	-
Capital Work-in-Progress	983	3,675	-	-
Total Intangible Assets	723	723	723	723
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	62,280	67,234	71,650	77,668
Liabilities				
Borrowings	7,645	8,516	8,516	8,516
Deferred Tax Liability	(303)	176	176	176
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	331	331	331	331
Reserves & Surplus	54,190	57,874	62,291	68,308
Total Net Worth	54,521	58,205	62,622	68,639
Minority Interest	417	337	337	337
Total Liabilities	62,280	67,234	71,650	77,668

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sept-23	Dec-23	Mar-24
Net Sales	33,599	22,928	26,257	42,029
% growth (YoY)	21.4	29.7	30.9	42.1
EBITDA	1,854	703	284	1,906
Margin %	5.5	3.1	1.1	4.5
Other Income	700	710	579	544
Extraordinaries	1,427	991	(429)	562
Adjusted Net Profit	2,724	1,350	(279)	1,725

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,949	9,596	3,294	9,511
Working Capital Changes	(3,836)	801	(3,804)	407
Capital Commitments	(1,799)	(2,931)	(1,800)	(2,000)
Free Cashflow	3,748	12,526	5,094	11,511
Other investing cashflow	280	(4,978)	-	-
Cashflow from Investing Activities	(1,520)	(7,909)	(1,800)	(2,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	2,728	974	-	-
Dividend paid	(1,829)	(1,432)	(1,985)	(2,150)
Others	-	-	-	-
Cash flow from Financing Activities	899	(459)	(1,985)	(2,150)
Chg. in Cash & Bank balance	1,328	1,228	(491)	5,361
Closing cash & balance	6,934	8,162	8,032	13,393

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	11.4	7.7	19.4	24.7
Adjusted EPS (Diluted)	11.4	7.7	19.4	24.7
Cash EPS	12.6	9.1	21.5	27.5
Dividend per share (DPS)	5.5	4.3	6.0	6.5
Book Value per share (BV)	164.8	176.0	189.3	207.5
Dividend Payout (%)	205.4	177.3	322.5	379.9
Growth (%)				
Net Sales	19.7	31.4	18.8	18.3
EBITDA	(16.0)	(17.1)	84.4	29.3
EPS (INR)	(25.2)	(32.4)	152.0	27.6
Valuation Ratios (x)				
P/E	116.1	171.7	68.2	53.4
P/CEPS	105.1	144.6	61.5	47.9
P/BV	8.0	7.5	7.0	6.4
EV / EBITDA	70.1	83.7	45.4	34.7
EV / Sales	-	-	-	-
Dividend Yield (%)	0.4	0.3	0.5	0.5
Operating Ratios				
Gross Profit Margins (%)	22.3	21.4	23.0	23.5
EBITDA Margins (%)	6.0	3.8	5.9	6.4
Effective Tax Rate (%)	25.4	38.1	25.5	25.5
Net Profit Margins (%)	4.0	2.0	4.3	4.7
NWC / Total Assets (%)	22.7	16.4	20.7	18.5
Net Debt / Equity (x)	1.1	1.1	1.1	1.1
Net Debt / EBITDA (x)	10.9	14.1	8.2	6.8
Profitability Ratios				
RoCE (%)	6.5	4.1	8.7	10.4
RoE (%)	6.8	4.5	10.5	12.4
RoIC (%)	22.3	13.5	27.4	31.3
Fixed Asset Turnover (x)	14.6	16.4	13.7	12.0
Inventory Turnover Days	66.7	70.9	67.4	67.2
Receivables Days	91.8	84.1	91.2	91.0
Payables Days	161.2	168.1	158.6	158.2

Source Company data, I-Sec research

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BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Prabodh Ayadhoot](mailto:Mr.Prabodh.Ayadhoot) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
