

BSE SENSEX
80,437

S&P CNX
24,541

CMP: INR1,535

TP: INR1,800 (+17%)

BUY

VOLTAS

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	508 / 6.1
52-Week Range (INR)	1599 / 800
1, 6, 12 Rel. Per (%)	1/31/60
12M Avg Val (INR M)	1933
Free float (%)	69.7

Financials & Valuations (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	146.7	162.5	181.5
EBITDA	10.7	13.6	16.4
Adj. PAT	8.3	10.9	13.8
EBITA Margin (%)	7.3	8.3	9.0
Cons. Adj. EPS (INR)	25.1	33.0	41.8
EPS Gr. (%)	246.7	31.4	26.7
BV/Sh. (INR)	198.9	225.6	259.1

Ratios

Net D:E	(0.1)	(0.1)	(0.2)
RoE (%)	12.6	14.6	16.1
RoCE (%)	13.1	14.6	15.4
Payout (%)	25.0	25.0	25.0

Valuations

P/E (x)	61.1	46.5	36.7
P/BV (x)	7.7	6.8	5.9
EV/EBITDA (x)	47.2	36.6	29.8
Div Yield (%)	0.4	0.5	0.7
FCF Yield (%)	0.8	1.9	2.3

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	30.3	30.3	30.3
DII	40.4	40.6	33.9
FII	15.1	14.7	19.1
Others	14.2	14.4	16.8

FII Includes depository receipts

Aims to retain market share and high single-digit margins

RAC market share improves to 19.5% in 1QFY25

- Voltas (VOLT)'s management in the 1QFY25 earnings call indicated that it maintains its leadership position in the RAC segment, with a market share of 19.5% in 1QFY25. It maintains margin guidance to be in the high single-digit, with continuing leadership position in the RAC segment. In EMPS, domestic business grew 50% YoY, whereas in international business, the UAE and Saudi Arabia continued to deliver healthy growth. It also highlighted that in respect of claims pertaining to FY23, the arbitration was awarded in the company's favor. However, the collection of the proceeds will take some time. Though the second quarter remains a lean period for cooling products, the start of the festival season would lead to a spurt in demand.
- In our [1QFY25 result update](#), we raised our EPS estimates by 19%/4% for FY25/FY26, led by strong revenue growth and 1Q performance. **We reiterate our BUY rating on the stock** with a TP of INR1,800 based on 50x Sep'26E EPS for the UCP segment, 35x Sep'26E EPS for the PES and EMPS segments, and INR38/share for Voltbek.

Conference call highlights

Unitary Cooling Products (UCP)

- The rising demand and intense summer helped it report stronger growth in the UCP segment in 1QFY25. The cooling product continued to outperform the market and maintained its growth momentum with an overall volume growth of 67% YoY.
- With joint efforts of sales, planning, marketing, and manufacturing teams, it sold 1m ACs within the first 88 days of the quarter (the fastest) given the unprecedented demand for cooling products. The extraordinary demand due to extreme weather conditions in most parts of the country has pressurized and disrupted supply chains across the industry. However, round-the-clock operations at factories and strong support from OEMs have largely helped it meet market demand.
- All the products in the RAC category saw high demand, led by consumers' desire to have products with advanced features and the long-term advantages of energy cost savings. It recorded around 65% growth in split AC categories, with demand coming from across the country. Strong demand for premium product categories that are 5-star rated continued, and the overall sales mix for these products also improved.
- In the past few quarters, it has continued to strengthen its brand proposition and product placements across all channel formats. During the season, for RAC, the performance and leadership position continued to remain strong.
- The company also registered a surge in volumes for other cooling products, including air coolers and commercial refrigeration (CR). The CR industry garnered traction, leading to a high demand for cold beverages and ice creams, thus helping it clock positive results for the business.

- Within the CR category, demand was buoyant for water coolers and water dispensers. The business recorded all-time high sales in 1QFY25, driven by sales across all CR products, which led to a growth higher than the industry. This helped it retain market leadership in freezers, water coolers, and water dispenser categories. Its new products in cold rooms and medical refrigeration have also registered good growth and healthy order booking, ensuring good volumes in the category. However, stock liquidation of non AC inventory has led to a slight drop in margin during the quarter.
- Air cooler vertical also added growth with a staggering 170% volume growth YoY. High sales in the 1QFY25 have set the path for an exciting year ahead with advanced booking of coolers for the next season. New cooler models were well accepted and further fueled the growth story for the category. As per the latest report, market share has also grown to 10.5%, helping it become the #2 brand in Jun'24 in this category, widening the gap with brands at third and fourth positions.
- Water heater sales had a good start for the vertical and are likely to grow bigger in the coming months despite there being a lean period for this.
- The commercial air conditioning (CAC) vertical performance also remained steady during this quarter. Sales of VRF, and ducted ACs drove the revenue and profits for the quarter. Unlike product sales in the current quarter, margins from retrofit jobs were lower, which moderated the overall event performance for the vertical for the quarter. This, however, will improve over the next few months.
- Consumer-centric finance schemes contributed significantly to the increase in sales this season. Additionally, on the cost front, commodity prices have started to accelerate upwards with USD INR depreciating over the quarter, and both have been detrimental to the profitability of the business.
- Considering the feasibility of the business, IPL, a move towards TV advertisements, and higher sales and promotional expenses kept its margins in line YoY. On the other hand, various value engineering initiatives and cost austerity drives have kept the margins stable.
- On capacity expansion, it has started commercial operations at the Chennai plant with a capacity of 1m ACs and a water dispenser line with a capacity of around 0.35m in the Mongolia plant. Both these plants provide it with strategic locational advantages and help it cater to the market in South and West India. This will enable it to meet the growing demand for the under-penetrated AC and CR product markets. This would in turn help it to deliver a powerful performance to give our consumers comfort and convenience. It remains optimistic on capacity utilization of its factories to the optimum levels and cost efficiencies for the business going forward.

Electro-Mechanical Projects and Services (EMPS)

- The domestic projects business recorded a growth of 50% YoY. Elections in India have kept order booking muted for the domestic project business, and the order book stood at INR47.69b. Order booking is expected to pick up in 2HFY25. Total carry-forward order book was INR75.0b as of Jun'24.
- For the international projects business, projects in the UAE and Saudi Arabia continued to deliver healthy performance and drive revenue growth for the business. It informed that for claims pertaining to FY23 in the matters of BG and cash, the arbitration was awarded in the company's favor. While the collection of the proceeds may take some time, its efforts of demonstrating part fulfillment of the job and defying an unwarranted encashment have worked

positively. The carry-forward order book for the international business stood at INR27.34b, largely in the UAE and Saudi Arabia region.

PES segment

- The Mining and Construction vertical achieved positive revenue momentum, ensuring continuation of business activities in terms of U&M jobs and the sale of power screen machines. However, margin reductions and ancillary overhead costs relating to the business led to lower EBIT. Going forward, robust growth abilities in both Mozambique and India will help it to maintain the business momentum for the year.
- The textile industry experienced headwinds owing to fluctuations in cotton and yarn exports. As a result, capex within the industry decreased across the sector, which led to reduced utilization levels of spinners and thereby a corresponding reduction in demand and margins for agency business. Despite these headwinds, the business performance of its after-sales and post-spinning businesses has been positive.

Voltas Beko

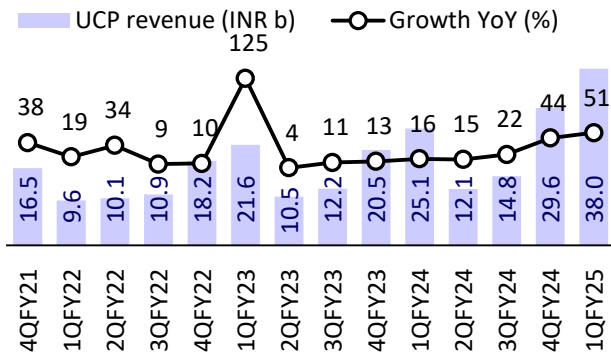
- The home appliances brand continues to grow with the support of VOLT's strong brand presence and distribution network. The home appliances industry in India witnessed healthy growth, fueled by a surge in demand for both large and small appliances, and Voltas Beko offered an impressive array of products to meet the demands of the consumer.
- Voltbek has delivered a volume growth of +50% YoY in 1QFY25. With increased volume and a gradual reduction in losses, VOLT has continued to reduce loss per unit and move towards its goal of achieving an EBITDA breakeven in the near future. Voltbek has strengthened its position among the top three brands in the semi-automatic washing machine category with 14% market share, and having 7.8% market share in the overall washing machine category to date.
- The refrigerator segment also achieved +50% growth in business, reporting a market share of 5.2% YTD Jun'24. Other segments, such as dishwashers and microwaves, also achieved better business performance.
- Voltas is committed to meeting its two objectives of enhancing its market presence across various product categories by deploying customized approaches for market penetration and to attain profitability. These initiatives involve expanding distribution reach, adopting channel-specific tactics to enhance market reach in key regions through retail and distribution channels, and maintaining a strong focus on boosting e-commerce and omnichannel development.

Valuation and view

- We expect VOLT's EBITDA/adjusted profit to report a CAGR of 51%/79% over FY24-27, partly due to a low base (in FY24, it provided higher provisioning in the EMPS segment for losses in the Qatar projects). RoE should be at ~15%/16% in FY26E/FY27E vs. 4.1% in FY24 (average of 12.3% over FY13-23).
- We expect UCP's margin to improve to 8.8%/9.3%/9.5% for FY25E/26E/27E vs. 8.5% in FY24. We **reiterate our BUY rating** on the stock with a revised TP of INR1,800 (vs. INR1,670) based on 50x Sep'26E EPS for the UCP segment, 35x Sep'26E EPS for the PES and EMPS segments, and INR38/share for Voltbek.

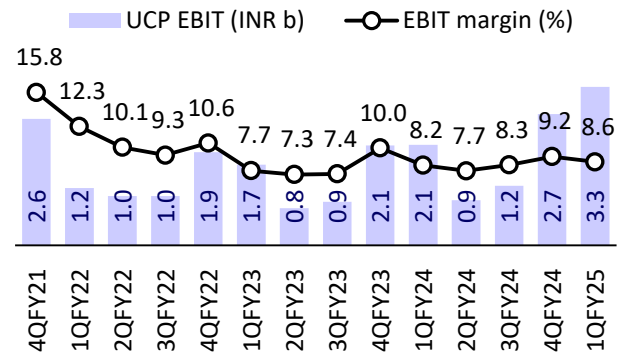
Story in charts

Exhibit 1: UCP's revenue up 51% YoY



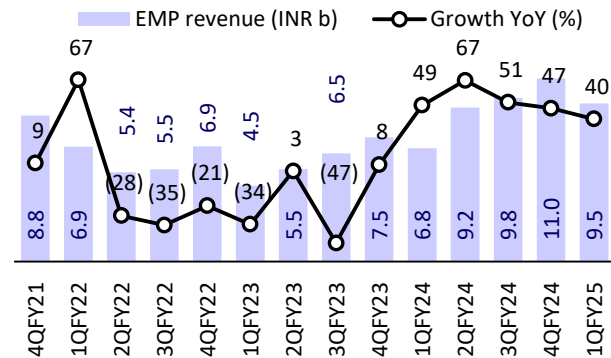
Source: MOFSL, Company

Exhibit 2: UCP's EBIT margin up 35bp YoY to 8.6%



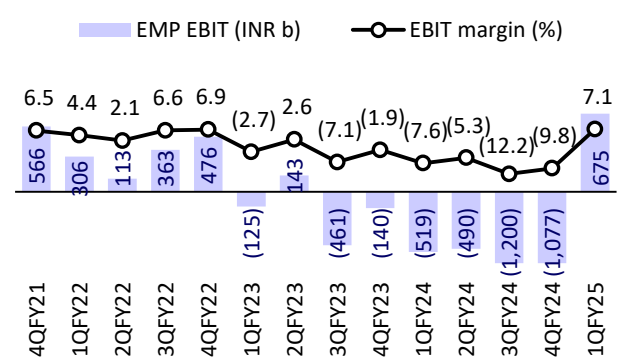
Source: MOFSL, Company

Exhibit 3: EMPS' revenue up 40% YoY



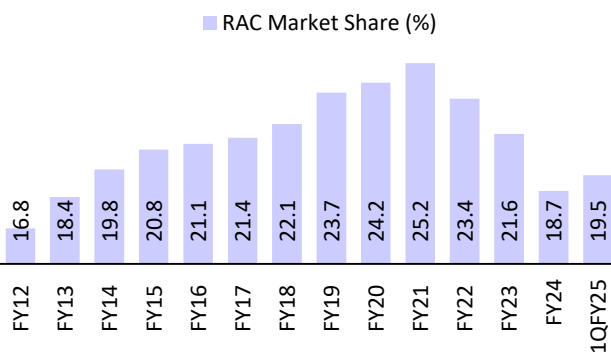
Source: MOFSL, Company

Exhibit 4: EMPS segment reported profit



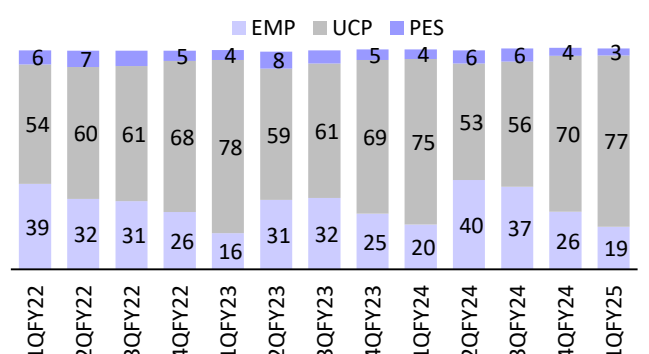
Source: MOFSL, Company

Exhibit 5: VOLT's market share in the RAC segment



Source: MOFSL, Company; Note: 1QFY25YTD

Exhibit 6: UCP contributed 77% to revenue vs. 75% in 1QFY24



Source: MOFSL, Company

Exhibit 7: Gross margin down 20bp YoY to 20.9% in 1QFY25

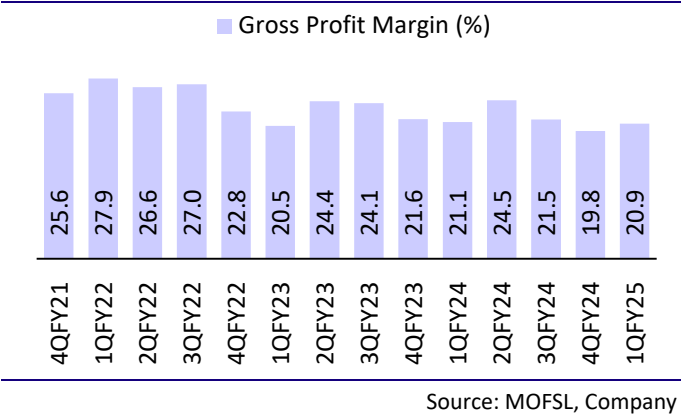


Exhibit 8: EBITDA margin up 3.1pp YoY to 8.6%

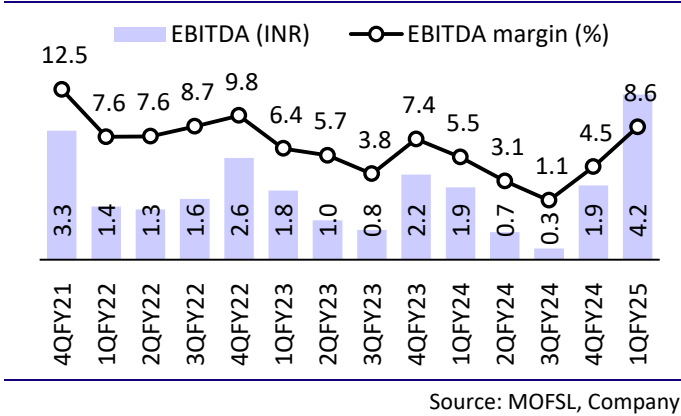


Exhibit 9: 1-year forward P/E chart

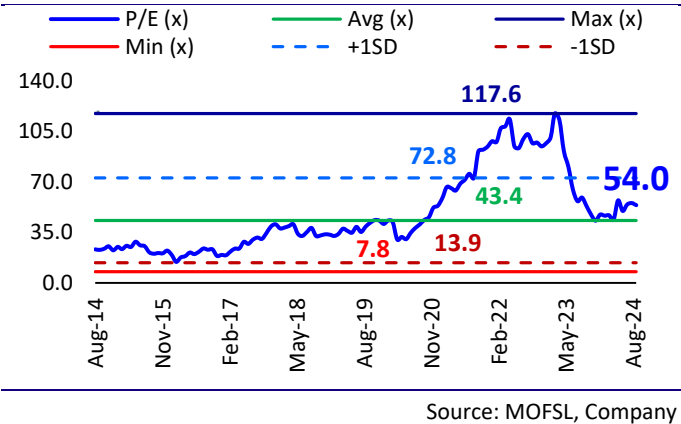
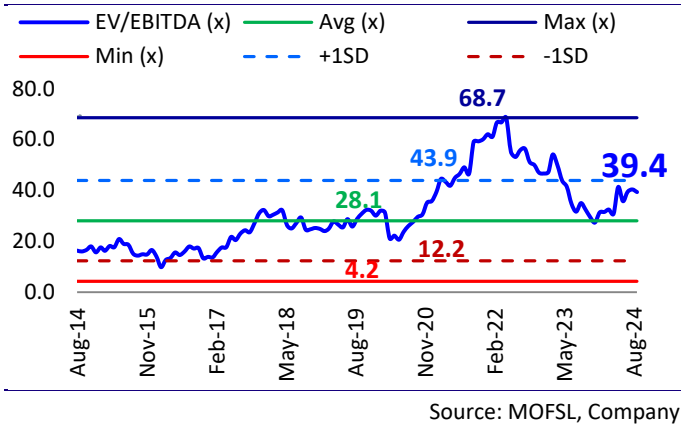


Exhibit 10: 1-year forward EV/EBITDA chart



Financials and valuations (Consolidated)

Income Statement						(INR m)	
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Revenues	75,558	79,345	94,988	1,24,812	1,46,705	1,62,494	1,81,537
Change (%)	-1.3	5.0	19.7	31.4	17.5	10.8	11.7
EBITDA	6,414	6,816	5,724	4,746	10,652	13,561	16,394
% of Total Revenues	8.5	8.6	6.0	3.8	7.3	8.3	9.0
Other Income	1,889	1,892	1,685	2,533	2,850	3,148	3,463
Depreciation	339	373	396	476	605	768	866
Interest	262	259	296	559	530	480	450
Exceptional Items	0	0	-2,438	0	0	0	0
PBT	7,702	8,076	4,278	6,244	12,367	15,461	18,540
Tax	1,804	1,913	1,709	2,377	3,178	3,973	4,765
Rate (%)	23.4	23.7	40.0	38.1	25.7	25.7	25.7
PAT	5,898	6,163	2,569	3,867	9,189	11,487	13,776
Change (%)	0.0	4.5	-58.3	50.6	137.6	25.0	19.9
Profit/(Loss) share of associates/JVs	-610	-1,103	-1,207	-1,386	-930	-621	1
Minority interest (MI)	37	19	12	-39	-39	-39	-39
PAT after MI	5,251	5,041	1,350	2,520	8,298	10,905	13,815
Change (%)	1.5	-4.0	-73.2	86.7	229.3	31.4	26.7
Adj. PAT after MI	5,251	5,041	3,788	2,394	8,298	10,905	13,815
Change (%)	-5.1	-4.0	-24.8	-36.8	246.7	31.4	26.7

Balance Sheet							
Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	331	331	331	331	331	331	331
Reserves	49,603	54,665	54,190	57,874	65,454	74,284	85,373
Net Worth	49,934	54,996	54,521	58,205	65,784	74,615	85,704
Minority Interest	361	381	417	337	298	259	220
Loans	2,606	3,432	6,160	7,133	6,633	6,133	5,633
Deferred Tax Liability	-558	-317	-303	176	176	176	176
Capital Employed	52,343	58,492	60,794	65,851	72,892	81,183	91,733
Gross Fixed Assets	6,690	7,020	8,826	9,533	13,708	16,208	17,708
Less: Depreciation	3,534	3,906	4,302	4,778	5,383	6,151	7,018
Net Fixed Assets	3,157	3,114	4,524	4,754	8,325	10,056	10,690
Capital WIP	88	593	983	3,675	2,500	1,500	1,500
Investments	30,464	36,154	31,086	35,083	35,153	35,531	36,532
Goodwill	723	723	723	723	723	723	723
Curr. Assets	51,565	56,440	65,119	75,709	89,773	1,03,797	1,20,966
Inventory	12,796	16,614	15,920	21,354	24,920	27,602	30,836
Debtors	18,009	21,097	21,919	25,328	29,770	32,974	36,838
Cash & Bank Balance	4,588	5,717	7,084	8,523	10,982	16,526	23,468
Loans & Advances	23	32	6	13	16	17	19
Other current assets	16,149	12,981	20,191	20,491	24,085	26,678	29,804
Current Liab. & Prov.	33,654	38,532	41,640	54,093	63,581	70,425	78,677
Creditors	24,645	29,421	30,126	38,557	45,320	50,198	56,081
Other Liabilities	9,009	9,111	11,514	15,536	18,261	20,227	22,597
Net Current Assets	17,911	17,908	23,479	21,616	26,191	33,373	42,288
Application of Funds	52,343	58,492	60,794	65,851	72,892	81,183	91,733

Financials and valuations (Consolidated)

Ratios

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
Adj EPS	15.9	15.2	11.5	7.2	25.1	33.0	41.8
Cash EPS	16.9	16.4	12.6	8.7	26.9	35.3	44.4
Book Value	150.9	166.3	164.8	176.0	198.9	225.6	259.1
DPS	5.0	5.5	4.3	2.2	6.3	8.2	10.4
Payout (incl. Div. Tax.)	31.5	36.1	37.1	30.0	25.0	25.0	25.0
Valuation (x)							
P/E	96.5	100.5	133.8	211.7	61.1	46.5	36.7
Cash P/E	90.6	93.6	121.1	176.6	56.9	43.4	34.5
EV/EBITDA	78.7	74.0	88.4	106.5	47.2	36.6	29.8
EV/Sales	6.7	6.4	5.3	4.0	3.4	3.1	2.7
Price/Book Value	10.1	9.2	9.3	8.7	7.7	6.8	5.9
Dividend Yield (%)	0.3	0.4	0.3	0.1	0.4	0.5	0.7
Profitability Ratios (%)							
RoE	10.5	9.2	6.9	4.1	12.6	14.6	16.1
RoCE	11.6	10.9	6.9	6.4	13.1	14.6	15.4
RoIC	26.9	29.6	14.1	11.9	27.9	32.7	36.4
Turnover Ratios							
Debtors (Days)	87	97	84	74	74	74	74
Inventory (Days)	62	76	61	62	62	62	62
Creditors. (Days)	119	135	116	113	113	113	113
Asset Turnover (x)	1.4	1.4	1.6	1.9	2.0	2.0	2.0
Leverage Ratio							
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.1)	(0.2)

Cash Flow Statement

Y/E March	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PBT before EO Items	7,735	5,610	7,787	10,207	12,367	15,461	18,540
Add : Depreciation	339	3,726	396	476	605	768	866
Interest	262	259	296	559	530	480	450
Less : Direct Taxes Paid	(693)	(2,169)	(1,656)	(2,115)	(3,178)	(3,973)	(4,765)
(Inc)/Dec in WC	(1,580)	(438)	(3,836)	801	(2,117)	(1,637)	(1,974)
CF from Operations	6,063	6,988	2,987	9,928	8,207	11,099	13,118
Others	(502)	(1,145)	(1,393)	(2,312)	(1,096)	-	-
CF from Oper. Incl. EO Items	5,561	5,842	1,594	7,615	7,110	11,099	13,118
(Inc)/Dec in FA	(208)	(482)	(1,799)	(2,931)	(3,000)	(1,500)	(1,500)
Free Cash Flow	5,353	5,361	(206)	4,685	4,110	9,599	11,618
Investment in liquid assets	(2,645)	(3,165)	983	(2,293)	96	(1,000)	(1,000)
CF from Investments	(2,853)	(3,646)	(816)	(5,224)	(2,904)	(2,500)	(2,500)
(Inc)/Dec in Debt	425	918	2,728	974	(500)	(500)	(500)
Less : Interest Paid	(271)	(312)	(349)	(493)	(530)	(480)	(450)
Dividend Paid	(1,358)	(1,676)	(1,829)	(1,432)	(718)	(2,074)	(2,726)
CF from Fin. Activity	(1,204)	(1,070)	550	(952)	(1,748)	(3,054)	(3,676)
Inc/Dec of Cash	1,504	1,126	1,328	1,439	2,458	5,544	6,941
Add: Beginning Balance	3,084	4,591	5,756	7,084	8,523	10,982	16,526
Closing Balance	4,588	5,717	7,084	8,523	10,982	16,526	23,468

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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