

Market share gain in RAC & Beko, positive outlook ahead

In Q1FY25, Voltas reported rev at INR 49bn up 46% YoY. UCP revenue was at INR 38bn up 51% YoY on back of strong summer (5years CAGR c. +17%, Blue Star UP +14%, Lloyd +24%). EMP revenue was at INR 9.5bn up 40% YoY and EPS at INR 1.6bn up 13% YoY. EBITDA was at INR 4.2bn up 129% YoY. OPM was at 8.6% vs 5.5% YoY (JMFe OPM 8.1%). PAT was at INR 3.4bn up 159%.

- Strong growth in UCP, margins impacted by Comm Ref + Comm AC:** In RAC, Voltas registered volume growth of c.67% YoY to 1mn units (FY24- 2mn) on the back of strong summer. Split AC grew c.65% YoY along with increasing mix towards 5-star rated products. Voltas spend INR c.2bn A&P in UCP (c.3% of sales vs 2% YoY) which resulted in exit market share of 21.2% in June 2024 (YTD market share of 19.5%). Air cooler registered c170% volume growth QoQ along with market share of 10.5%, leading it to become #2 brand in June 2024. **In Commercial Ref;** witnessed high demand for cold beverages and ice creams along with strong traction in water coolers and water dispensers. However; liquidation of inventory at discounts due to change in QCO norms resulted in impacting the overall margins of the segment. Guided overall UCP margins of c.8.5-9% in FY25 (vs 8.6% in Q1FY25).
- EMP back to profit:** The domestic projects business grew c.50% in Q1; however elections subdued the order booking for the domestic business as a result order book was at INR 47.69bn. Expect domestic order inflow to pick up from H2. For international business, projects in UAE and Saudi continued to deliver good performance and drive the revenue growth for the business which resulted in an EBIT margin of 7.1% vs -7.6% YoY and -9.8% QoQ. Also; it has received arbitration awards in its favour for the Bank Guaranty matter pertaining to FY23 and the collection of the proceeds may take some time. The order book for international business was INR 27.34bn taking the total order book of EMP to INR 75.03bn. Guided for an EBIT Margin of c.4-5% in EMP.
- Voltas beko continue to gain market share:** Beko has now become the #3 brand in the semi-automatic WM with YTD June'24 market share at 14% and overall WM at 7.8%. The refrigerator also grew c.50% with a YTD June'24 market share (MS) of 5.2%.
- Outlook and Valuation:** We expect VOLT revenue/earning CAGR of c.20%/117%(lower base in FY24) over FY24-26 mainly led by- **In UCP** (1) Benefit from long-term demand drivers for AC, PLI on components, market-leadership position and Beko (home appliances), (2) Increasing its penetration through channel expansion and (3) Improving its sourcing through backward integration and localisation. However high level of competition may cap margins in this segment. **In EMP:** strong domestic order book and revival in international market will add to growth/margin. At CMP VOLT trades at PE of 56x/43x on FY25/FY26, we value VOLT at SOTP – UCP 55x (earlier 50x) to INR 1,412, EMP 20x (earlier 15x) to INR 115, EPS 25x (earlier 20x) to INR 156 and Voltbek at INR 105 on FY26 and arrive at TP of 1,790 up 17% from CMP and hence maintain BUY.

Recommendation and Price Target

| | |
|----------------------------|-------|
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Current Price Target (12M) | 1,790 |
| Upside/(Downside) | 16.6% |
| Previous Price Target | 1,770 |
| Change | 1.1% |

Key Data – VOLT IN

| | |
|--------------------------|---------------------|
| Current Market Price | INR1,535 |
| Market cap (bn) | INR508.0/US\$6.1 |
| Free Float | 66% |
| Shares in issue (mn) | 330.8 |
| Diluted share (mn) | 330.8 |
| 3-mon avg daily val (mn) | INR2,367.4/US\$28.2 |
| 52-week range | 1,599/800 |
| Sensex/Nifty | 80,437/24,541 |
| INR/US\$ | 84.0 |

Price Performance

| % | 1M | 6M | 12M |
|-----------|-----|------|------|
| Absolute | 2.8 | 42.8 | 89.5 |
| Relative* | 3.0 | 29.1 | 53.0 |

* To the BSE Sensex

Financial Summary

| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E |
|------------------------|--------|--------|----------|----------|----------|
| Net Sales | 79,344 | 94,988 | 1,24,812 | 1,55,754 | 1,79,107 |
| Sales Growth (%) | 5.0 | 19.7 | 31.4 | 24.8 | 15.0 |
| EBITDA | 6,815 | 5,724 | 4,746 | 10,564 | 12,809 |
| EBITDA Margin (%) | 8.6 | 6.0 | 3.8 | 6.8 | 7.2 |
| Adjusted Net Profit | 5,060 | 3,800 | 2,355 | 9,101 | 11,730 |
| Diluted EPS (INR) | 15.3 | 11.5 | 7.1 | 27.5 | 35.5 |
| Diluted EPS Growth (%) | -4.3 | -24.9 | -38.0 | 286.5 | 28.9 |
| ROIC (%) | 24.2 | 13.7 | 9.7 | 25.3 | 27.0 |
| ROE (%) | 9.6 | 6.9 | 4.2 | 14.6 | 16.5 |
| P/E (x) | 100.4 | 133.6 | 215.6 | 55.8 | 43.3 |
| P/B (x) | 9.2 | 9.3 | 8.7 | 7.6 | 6.7 |
| EV/EBITDA (x) | 74.3 | 88.7 | 106.8 | 47.8 | 39.0 |
| Dividend Yield (%) | 0.3 | 0.1 | 0.1 | 0.5 | 0.6 |

Source: Company data, JM Financial. Note: Valuations as of 16/Aug/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Concall key takeaways continued

Unitary Cooling Products

- Consumer-centric finance schemes contributed significantly to the increase in sales this season. Increase in commodity prices impacted the profitability however various value engineering initiatives and cost drives kept margins stable.
- Started commercial operations in RAC factory in Chennai with a capacity of 1 million units and water dispenser line with a capacity of around 3.5 lakhs in Mongolia. Both plant are at strategic advantage of location and will help in cater to the market in South and West India.

Engineering Products and Services Segment

- Mining and construction vertical achieved a positive momentum on top line ensuring continuation of business activities in terms of U&M jobs and sale of power screen machines.
- 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 its agency business.

Exhibit 1. Change in Estimates

| INR mn | Revised Estimates | | Previous Estimates | | % Revision | |
|---------|-------------------|----------|--------------------|----------|------------|-------|
| | FY25E | FY26E | FY25E | FY26E | FY25E | FY26E |
| Revenue | 1,55,754 | 1,79,107 | 1,53,511 | 1,76,510 | 1.5% | 1.5% |
| EBITDA | 10,564 | 12,809 | 8,547 | 11,601 | 23.6% | 10.4% |
| Margin | 6.8% | 7.2% | 5.6% | 6.6% | | |
| PAT | 9,101 | 11,730 | 8,271 | 11,401 | 10.0% | 2.9% |
| EPS | 27.5 | 35.5 | 25 | 34.5 | 10.0% | 2.8% |

Source: JM Financial, Company

Exhibit 2. Quarterly performance

| (INR mn) | 1QFY25 | 1QFY24 | YoY | 4QFY24 | QoQ | vs JM est |
|---------------------------------|--------|--------|----------|--------|----------|-----------|
| Net Sales | 49,210 | 33,599 | 46% | 42,029 | 17% | 4% |
| Cost of goods sold | 38,922 | 26,504 | 47% | 33,727 | 15% | |
| Gross Profit | 10,288 | 7,095 | 45% | 8,302 | 24% | |
| - Gross margin (%) | 20.9% | 21.1% | -21 bps | 19.8% | 115 bps | |
| EBITDA | 4,238 | 1,854 | 129% | 1,906 | 122% | 10% |
| EBITDA margin (%) | 8.6% | 5.5% | 310 bps | 4.5% | 408 bps | 51 bps |
| Depreciation | 134 | 113 | 19% | 118 | 14% | |
| EBIT | 4,104 | 1,741 | 136% | 1,788 | 130% | |
| EBIT margin (%) | 8.3% | 5.2% | 316 bps | 4.3% | 409 bps | |
| Interest | 98 | 101 | -4% | 208 | -53% | |
| Other Income | 803 | 700 | 15% | 544 | 47% | |
| PBT | 4,809 | 2,340 | 106% | 2,124 | 126% | |
| Tax | 1,165 | 735 | 59% | 634 | 84% | |
| Tax rate (%) | 24.2% | 31.4% | -718 bps | 29.9% | -564 bps | |
| Recurring PAT pre-Minority | 3,643 | 1,605 | 127% | 1,490 | 145% | |
| Share in associates profit & MI | (294) | (310) | -5% | (383) | -23% | |
| Recurring PAT post-Minority | 3,350 | 1,294 | 159% | 1,106 | 203% | |
| Reported PAT | 3,350 | 1,294 | 159% | 1,106 | 203% | 13% |
| EPS (Rs) | 10.1 | (0.8) | -1314% | 3.3 | 203% | 13% |

Source: JM Financial, Company

Exhibit 3. Segmental Performance

| (INR mn) | 1QFY25 | 1QFY24 | YoY | 4QFY24 | QoQ |
|--|---------------|---------------|----------------|---------------|----------------|
| Segment Revenue | | | | | |
| Unitary Cooling Products (UCP) | 38,022 | 25,140 | 51% | 29,551 | 29% |
| Electro - mechanical Projects & Services (MEP) | 9,491 | 6,791 | 40% | 10,979 | -14% |
| Engineering Products & Services (EPS) | 1,608 | 1,423 | 13% | 1,564 | 3% |
| Segment Revenue | 49,121 | 33,353 | 47% | 42,094 | 17% |
| Less: Intersegment | (82) | - | na | (171) | -52% |
| Other operating income | 150 | 245 | -39% | 106 | 42% |
| Excise duty | - | - | na | - | na |
| Net Operating Revenue | 49,189 | 33,599 | 46% | 42,029 | 17% |
| Segment EBIT | | | | | |
| Unitary Cooling Products (UCP) | 3,270 | 2,073 | 58% | 2,704 | 21% |
| Electro - mechanical Projects & Services (MEP) | 675 | (519) | -230% | (1,077) | -163% |
| Engineering Products & Services (EPS) | 448 | 541 | -17% | 478 | -6% |
| Segment EBIT | 4,394 | 2,096 | 110% | 2,105 | 109% |
| Unallocated expenses, net | 219 | 34 | 539% | (157) | -240% |
| EBIT as per P&L | 4,613 | 2,130 | 117% | 1,949 | 137% |
| Segment Margin (%) | | | | | |
| Unitary Cooling Products (UCP) | 8.6% | 8.2% | 35 bps | 9.2% | -55 bps |
| Electro - mechanical Projects & Services (MEP) | 7.1% | -7.6% | 1475 bps | -9.8% | 1692 bps |
| Engineering Products & Services (EPS) | 27.9% | 38.0% | -1014 bps | 30.6% | -268 bps |
| Segment EBIT margin (%) | 8.9% | 6.3% | 266 bps | 5.0% | 394 bps |
| EBIT Margin (%) | 9.4% | 6.3% | 304 bps | 4.6% | 474 bps |

Source: JM Financial, Company

Exhibit 4. Valuation

| Segment | FY26- EPS (INR) | Target Multiple | Target Price (INR) |
|---------------------------------------|-----------------|-----------------|--------------------|
| Unitary Cooling Products (UCP) | 25.7 | 55 | 1,412 |
| Electro Mechanical Products (EMP) | 5.7 | 20 | 115 |
| Engineering Products & Services (EPS) | 6.2 | 25 | 156 |
| Voltas | | | 1,682 |
| Voltas Beko | | | 105 |
| SOTP Value | | | 1,787 |

Source: JM Financial, Company

Financial Tables (Consolidated)

| Income Statement | | (INR mn) | | | | |
|-----------------------------|---------------|---------------|-----------------|-----------------|-----------------|--|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Net Sales | 79,344 | 94,988 | 1,24,812 | 1,55,754 | 1,79,107 | |
| Sales Growth | 5.0% | 19.7% | 31.4% | 24.8% | 15.0% | |
| Other Operating Income | 0 | 0 | 0 | 0 | 0 | |
| Total Revenue | 79,344 | 94,988 | 1,24,812 | 1,55,754 | 1,79,107 | |
| Cost of Goods Sold/Op. Exp | 58,967 | 73,782 | 98,140 | 1,22,059 | 1,39,463 | |
| Personnel Cost | 6,176 | 6,672 | 7,788 | 8,411 | 9,126 | |
| Other Expenses | 7,386 | 8,810 | 14,138 | 14,721 | 17,708 | |
| EBITDA | 6,815 | 5,724 | 4,746 | 10,564 | 12,809 | |
| EBITDA Margin | 8.6% | 6.0% | 3.8% | 6.8% | 7.2% | |
| EBITDA Growth | 6.3% | -16.0% | -17.1% | 122.6% | 21.3% | |
| Depn. & Amort. | 373 | 396 | 476 | 588 | 618 | |
| EBIT | 6,443 | 5,327 | 4,270 | 9,976 | 12,191 | |
| Other Income | 1,892 | 1,685 | 2,534 | 3,639 | 3,997 | |
| Finance Cost | 259 | 296 | 559 | 380 | 300 | |
| PBT before Excep. & Forex | 8,076 | 6,716 | 6,245 | 13,235 | 15,888 | |
| Excep. & Forex Inc./Loss(-) | 0 | -2,438 | 0 | 0 | 0 | |
| PBT | 8,076 | 4,278 | 6,245 | 13,235 | 15,888 | |
| Taxes | 1,913 | 1,709 | 2,503 | 3,309 | 3,972 | |
| Extraordinary Inc./Loss(-) | 0 | 0 | 0 | 0 | 0 | |
| Assoc. Profit/Min. Int.(-) | -1,103 | -1,207 | -1,387 | -825 | -186 | |
| Reported Net Profit | 5,060 | 1,362 | 2,355 | 9,101 | 11,730 | |
| Adjusted Net Profit | 5,060 | 3,800 | 2,355 | 9,101 | 11,730 | |
| Net Margin | 6.4% | 4.0% | 1.9% | 5.8% | 6.5% | |
| Diluted Share Cap. (mn) | 330.8 | 330.8 | 330.8 | 330.8 | 330.8 | |
| Diluted EPS (INR) | 15.3 | 11.5 | 7.1 | 27.5 | 35.5 | |
| Diluted EPS Growth | -4.3% | -24.9% | -38.0% | 286.5% | 28.9% | |
| Total Dividend + Tax | 1,366 | 368 | 670 | 2,457 | 3,167 | |
| Dividend Per Share (INR) | 4.1 | 1.1 | 2.0 | 7.4 | 9.6 | |

Source: Company, JM Financial

| Cash Flow Statement | | (INR mn) | | | | |
|------------------------------|---------------|--------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Profit before Tax | 8,076 | 3,071 | 4,858 | 13,235 | 15,888 | |
| Depn. & Amort. | 373 | 396 | 476 | 588 | 618 | |
| Net Interest Exp. / Inc. (-) | 219 | -219 | -67 | 4,019 | 4,297 | |
| Inc (-) / Dec in WCap. | -438 | -3,836 | 801 | -6,773 | -2,398 | |
| Others | -218 | 3,838 | 3,662 | 0 | 0 | |
| Taxes Paid | -2,169 | -1,656 | -2,115 | -3,359 | -4,022 | |
| Operating Cash Flow | 5,842 | 1,594 | 7,615 | 7,710 | 14,383 | |
| Capex | -482 | -1,799 | -2,931 | -1,500 | -1,000 | |
| Free Cash Flow | 5,360 | -206 | 4,685 | 6,210 | 13,383 | |
| Inc (-) / Dec in Investments | -10,602 | -20,696 | -3,176 | 1,751 | -1,100 | |
| Others | 7,437 | 21,679 | 883 | -4,464 | -4,183 | |
| Investing Cash Flow | -3,646 | -816 | -5,224 | -4,213 | -6,283 | |
| Inc / Dec (-) in Capital | 0 | 0 | 0 | 0 | 0 | |
| Dividend + Tax thereon | -1,676 | -1,829 | -1,432 | -808 | -2,963 | |
| Inc / Dec (-) in Loans | 918 | 2,728 | 974 | 0 | 0 | |
| Others | -312 | -349 | -704 | -380 | -300 | |
| Financing Cash Flow | -1,070 | 550 | -1,163 | -1,188 | -3,263 | |
| Inc / Dec (-) in Cash | 1,125 | 1,328 | 1,228 | 2,310 | 4,838 | |
| Opening Cash Balance | 4,480 | 5,605 | 6,936 | 8,523 | 10,833 | |
| Closing Cash Balance | 5,605 | 6,934 | 8,164 | 10,833 | 15,671 | |

Source: Company, JM Financial

| Balance Sheet | | (INR mn) | | | | |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | FY22A | FY23A | FY24A | FY25E | FY26E | |
| Shareholders' Fund | 54,996 | 54,521 | 58,205 | 66,498 | 75,266 | |
| Share Capital | 331 | 331 | 331 | 331 | 331 | |
| Reserves & Surplus | 54,665 | 54,190 | 57,874 | 66,167 | 74,935 | |
| Preference Share Capital | 0 | 0 | 0 | 0 | 0 | |
| Minority Interest | 381 | 417 | 337 | 337 | 337 | |
| Total Loans | 3,608 | 6,506 | 7,133 | 7,133 | 7,133 | |
| Def. Tax Liab. / Assets (-) | -317 | -303 | 176 | 126 | 76 | |
| Total - Equity & Liab. | 58,668 | 61,140 | 65,851 | 74,094 | 82,812 | |
| Net Fixed Assets | 3,897 | 5,735 | 8,703 | 9,615 | 9,997 | |
| Gross Fixed Assets | 6,750 | 7,677 | 8,301 | 9,801 | 10,801 | |
| Intangible Assets | 723 | 723 | 723 | 723 | 723 | |
| Less: Depn. & Amort. | 4,170 | 3,648 | 3,996 | 4,584 | 5,202 | |
| Capital WIP | 593 | 983 | 3,675 | 3,675 | 3,675 | |
| Investments | 32,344 | 28,509 | 30,517 | 30,709 | 31,809 | |
| Current Assets | 60,782 | 68,191 | 80,724 | 1,04,754 | 1,22,467 | |
| Inventories | 16,614 | 15,920 | 21,354 | 30,097 | 34,388 | |
| Sundry Debtors | 21,097 | 21,919 | 25,328 | 40,112 | 46,126 | |
| Cash & Bank Balances | 5,717 | 7,084 | 8,523 | 10,833 | 15,671 | |
| Loans & Advances | 0 | 0 | 0 | 0 | 0 | |
| Other Current Assets | 17,355 | 23,269 | 25,519 | 23,713 | 26,281 | |
| Current Liab. & Prov. | 38,355 | 41,294 | 54,093 | 70,984 | 81,460 | |
| Current Liabilities | 29,421 | 30,126 | 38,557 | 60,193 | 68,776 | |
| Provisions & Others | 8,935 | 11,168 | 15,536 | 10,791 | 12,684 | |
| Net Current Assets | 22,427 | 26,896 | 26,631 | 33,770 | 41,006 | |
| Total - Assets | 58,668 | 61,140 | 65,851 | 74,094 | 82,812 | |

Source: Company, JM Financial

| Dupont Analysis | | FY22A | FY23A | FY24A | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| Net Margin | | 6.4% | 4.0% | 1.9% | 5.8% | 6.5% |
| Asset Turnover (x) | | 1.4 | 1.6 | 2.0 | 2.2 | 2.3 |
| Leverage Factor (x) | | 1.1 | 1.1 | 1.1 | 1.1 | 1.1 |
| RoE | | 9.6% | 6.9% | 4.2% | 14.6% | 16.5% |

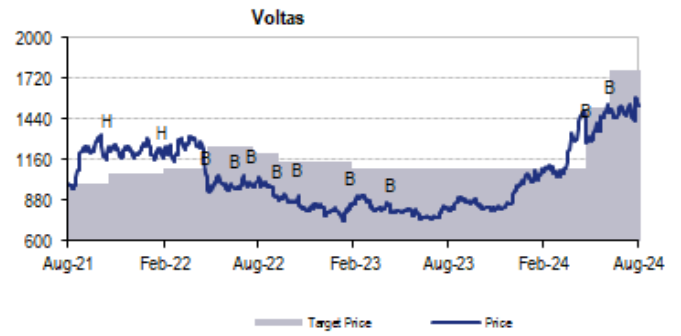
| Key Ratios | | FY22A | FY23A | FY24A | FY25E | FY26E |
|---------------------|--|-------|-------|-------|-------|-------|
| Y/E March | | | | | | |
| BV/Share (INR) | | 166.3 | 164.8 | 176.0 | 201.0 | 227.5 |
| ROIC | | 24.2% | 13.7% | 9.7% | 25.3% | 27.0% |
| ROE | | 9.6% | 6.9% | 4.2% | 14.6% | 16.5% |
| Net Debt/Equity (x) | | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 |
| P/E (x) | | 100.4 | 133.6 | 215.6 | 55.8 | 43.3 |
| P/B (x) | | 9.2 | 9.3 | 8.7 | 7.6 | 6.7 |
| EV/EBITDA (x) | | 74.3 | 88.7 | 106.8 | 47.8 | 39.0 |
| EV/Sales (x) | | 6.4 | 5.3 | 4.1 | 3.2 | 2.8 |
| Debtor days | | 97 | 84 | 74 | 94 | 94 |
| Inventory days | | 76 | 61 | 62 | 71 | 70 |
| Creditor days | | 148 | 123 | 117 | 151 | 151 |

Source: Company, JM Financial

History of Recommendation and Target Price

| Date | Recommendation | Target Price | % Chg. |
|-----------|----------------|--------------|--------|
| 10-Feb-20 | Buy | 750 | |
| 9-Apr-20 | Buy | 535 | -28.7 |
| 2-Jun-20 | Hold | 525 | -1.9 |
| 3-Aug-20 | Hold | 525 | 0.0 |
| 17-Aug-20 | Hold | 570 | 8.6 |
| 9-Nov-20 | Hold | 720 | 26.3 |
| 15-Feb-21 | Hold | 960 | 33.3 |
| 14-May-21 | Hold | 960 | 0.0 |
| 11-Aug-21 | Hold | 1,000 | 4.2 |
| 1-Nov-21 | Hold | 1,070 | 7.0 |
| 14-Feb-22 | Hold | 1,100 | 2.8 |
| 10-May-22 | Buy | 1,250 | 13.6 |
| 4-Jul-22 | Buy | 1,250 | 0.0 |
| 4-Aug-22 | Buy | 1,200 | -4.0 |
| 22-Sep-22 | Buy | 1,150 | -4.2 |
| 2-Nov-22 | Buy | 1,150 | 0.0 |
| 10-Feb-23 | Buy | 1,100 | -4.3 |
| 27-Apr-23 | Buy | 1,100 | 0.0 |
| 8-May-24 | Buy | 1,515 | 37.7 |
| 23-Jun-24 | Buy | 1,770 | 16.8 |

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081
 Member of BSE Ltd. and National Stock Exchange of India Ltd.
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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

| Definition of ratings | |
|-----------------------|---|
| Rating | Meaning |
| Buy | Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields. |
| Hold | Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months. |
| Sell | Price expected to move downwards by more than 10% from the current market price over the next twelve months. |

* REITs refers to Real Estate Investment Trusts.

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