

Voltas

Firing on all cylinders; upgrading to a Buy

Robust RAC volume growth in Q1 set the pace for Voltas' strong FY25. It continues its market-leading position in RACs, gaining market share in Q1 (21.2%; 18.7% at end-Q4). After many headwinds, in Q1 it reported positive EBIT in EMP. Voltas Beko continues gaining market share in refrigerators and washing machines. Factoring in all the positives we upgrade the stock to a Buy with a higher 12-mth TP of Rs1,844.

Q1 beats expectations; PAT up 159%y/y. Q1 revenue shot up 46% y/y to Rs49.2bn, as EMP revenue grew 40% y/y, UCP revenue grew a huge 51% y/y and engineering product revenue rose 13% y/y. The EBITDA margin was 8.6%, 310bps higher y/y. Staff costs grew 12% y/y, while other expenses rose 17% y/y. Adj. PAT was Rs3.34bn, up 159% y/y, led by a 128% rise in EBITDA. The tax rate fell 718bps to 24.2%. The loss from JVs, mainly Beko, was Rs294m. The project business reported Rs675m EBIT after losses since Q3 FY23.

Room AC market share expands to 21.2%. Voltas continues to be a market leader in split and window air-conditioners. It reported an expansion in room AC market share to 21.2% at end-Jun (18.7% in Mar'24). In Q1, it achieved an extraordinary milestone of 1m RAC sales. The focus has been on capturing market share and volume growth. Therefore, it continued to strengthen its brand proposition and product placements across all channel formats.

Outlook, Valuations. At the CMP, the stock quotes at 74x/50x FY25e/FY26e EPS of Rs21/Rs31. Robust seasonal demand helped Voltas gain market share in UCP with EMP EBIT margins turning positive in Q1. We upgrade the stock to a Buy, based on FY26e earnings, with a higher 12-mth TP of Rs1,844 (earlier Rs1,340). We value the core business and the Beko JV separately.

Key financials (YE: Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	79,345	94,988	1,24,812	1,47,498	1,80,965
PAT (Rs m)	6,163	2,569	3,867	8,183	11,236
Adj. net income (Rs m)	5,041	2,814	2,520	6,885	10,126
Adj. EPS (Rs)	15.2	8.5	7.62	20.81	30.6
PE (x)	52.7	115.0	201.4	73.7	50.1
EV / EBITDA (x)	38.0	55.8	105.6	44.8	32.0
P/BV (x)	4.8	5.9	8.7	8.1	7.3
RoE (%)	9.6	2.5	4.5	11.4	15.4
RoCE (%) (post-tax)	8.3	5.2	4.0	9.8	12.2
RoIC (%) (post-tax)	29.3	17.2	12.8	30.4	34.9

Source: Company, Anand Rathi Research

Rating: **Buy**

Target Price(12-mth): Rs.1,844

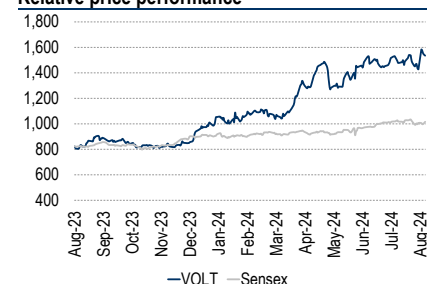
Share Price: Rs.1,534

Key data	VOLT IN / VOLT.BO
52-week high / low	Rs.1599 / 800
Sensex / Nifty	80,437 / 24,541
3-m average volume	\$28.2m
Market cap	Rs.508bn / \$6,050.7m
Shares outstanding	331m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	30.3	30.3	30.3
- of which, Pledged	-	-	-
Free float	69.7	69.7	69.7
- Foreign institutions	15.1	14.7	17.2
- Domestic institutions	40.4	40.6	37.2
- Public	14.2	14.4	15.3

Estimates revision (%)	FY25e	FY26e
Sales	-	2
EBITDA	16	8
PAT	23	15

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenues	79,345	94,988	1,24,812	1,47,498	1,80,965
Growth (%)	5.0	19.7	31.4	18.2	22.7
Direct costs	58,967	73,782	98,140	1,15,048	1,39,343
SG&A	13,562	15,482	21,926	21,198	25,946
EBITDA	6,816	5,724	4,746	11,252	15,676
EBITDA margins (%)	8.6	6.0	3.8	7.6	8.7
- Depreciation	373	396	476	600	810
Other income	1,892	1,685	2,533	2,212	2,714
Interest expenses	259	296	559	651	811
One-offs		-2,438			
PBT	8,076	4,278	6,244	12,213	16,770
Effective tax rates (%)	23.7	40.0	38.1	33.0	33.0
Share in JV & MI	(1,122)	(1,219)	(1,347)	(1,297)	(1,110)
Net income	5,041	1,350	2,520	6,885	10,126
Adj. net income	5,041	2,814	2,520	6,885	10,126
WANS	331	331	331	331	331
Adj. EPS (Rs)	15.2	8.5	7.6	20.8	30.6
FDEPS growth (%)	(4.0)	(44.2)	(10.5)	173.2	47.1
Gross margins (%)	25.7	22.3	21.4	22.0	23.0

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	6,973	3,071	4,858	12,213	16,770
+ Non-cash items	1,476	4,014	4,071	(962)	(1,094)
Oper. prof. before WC	8,449	7,086	8,929	11,252	15,676
- Incr. / (decr.) in WC	(438)	(3,835)	801	(2,560)	(3,260)
Others incl. taxes	(2,169)	(1,656)	(2,115)	(4,030)	(5,534)
Operating cash-flow	5,842	1,594	7,615	4,661	6,883
- Capex (tang. + intang.)	(469)	(1,774)	(2,883)	(4,006)	(1,698)
Free cash-flow	5,373	(180)	4,732	655	5,184
Acquisitions					
- Div. (incl. buyback & taxes)	(1,676)	(1,829)	(1,432)	(2,316)	(2,646)
+ Equity raised					
+ Debt raised	918	2,728	974	2,000	2,000
- Fin investments	(3,910)	2,120	(1,495)	(1,000)	(1,000)
- Misc. (CFI + CFF)	421	(1,511)	(1,550)	(79)	394
Net cash-flow	1,126	1,329	1,228	(740)	3,931

Source: Company

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

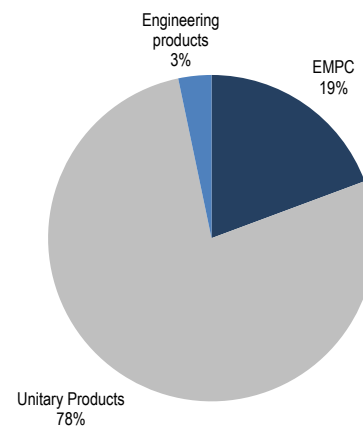
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	331	331	331	331	331
Net worth	54,996	54,521	58,205	62,381	69,411
Debt	3,432	6,160	7,133	9,133	11,133
Minority interest	381	417	337	387	437
DTL / (Assets)	399	421	882	783	783
Capital employed	59,207	61,518	66,557	72,684	81,764
Net tangible assets	3,042	4,462	4,699	9,266	11,155
Net intangible assets	72	62	56	70	70
Goodwill	723	723	723	723	723
CWIP (tang. & intang.)	593	983	3,675	2,500	1,500
Investments (strategic)	2,661	2,705	2,389	3,389	4,389
Investments (financial)	34,328	31,101	35,068	35,068	35,068
Current assets (excl. cash)	50,328	55,671	65,224	77,548	94,836
Cash	5,717	7,084	8,523	7,783	11,715
Current liabilities	38,256	41,272	53,801	63,663	77,691
Working capital	12,072	14,399	11,424	13,885	17,144
Capital deployed	59,207	61,518	66,557	72,684	81,764
Contingent liabilities	6,040	6,551	6,835	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	52.7	115.0	201.4	73.7	50.1
EV / EBITDA (x)	38.0	55.8	105.6	44.8	32.0
EV / Sales (x)	3.3	3.4	4.0	3.4	2.8
P/B (x)	4.8	5.9	8.7	8.1	7.3
RoE (%)	9.6	2.5	4.5	11.4	15.4
RoCE (%) (post-tax)	8.3	5.2	4.0	9.8	12.2
RoIC (%) (post-tax)	29.3	17.2	12.8	30.4	34.9
DPS (Rs)	5.5	4.3	5.5	7.0	8.0
Dividend yield (%)	0.7	0.4	0.4	0.5	0.5
Dividend payout (%) - incl. DDT	36.1	50.0	72.2	33.6	26.1
Net debt / equity (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Receivables (days)	97.0	84.2	74.1	75.0	75.0
Inventory (days)	76.4	61.2	62.4	62.0	62.0
Payables (days)	135.3	115.8	112.8	113.0	113.0
CFO : PAT %	115.9	56.7	302.2	67.7	68.0

Source: Company

Fig 6 – Q1FY25 revenue break-up



Source: Company

Fig 7 – Financial performance

(Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% Y/Y	% Q/Q
Income	27,680	17,684	20,056	29,568	33,599	22,928	26,257	42,029	49,210	46.5	17.1
RM costs	21,993	13,375	15,232	23,182	26,504	17,305	20,605	33,727	38,922	46.9	15.4
Employee expenses	1,505	1,748	1,742	1,678	1,805	1,945	2,046	1,992	2,023	12.1	1.6
Other expenses	2,413	1,552	2,319	2,526	3,436	2,975	3,322	4,404	4,027	17.2	(8.6)
EBITDA	1,770	1,008	764	2,182	1,854	703	284	1,906	4,238	128.6	122.4
Depreciation	85	97	111	104	113	117	128	118	134	19.3	13.7
Interest	40	67	64	124	101	115	135	208	98	(3.6)	(53.1)
Other income	268	644	307	467	700	710	579	544	803	14.7	47.5
PBT	1,913	424	(478)	2,420	2,340	1,181	599	2,124	4,809		
Tax	508	195	300	706	735	493	515	634	1,165	58.6	83.7
PAT	1,405	229	(779)	1,714	1,605	688	85	1,490	3,644	127.1	144.6
Share in JV & MI	(310)	(289)	(326)	(282)	(310)	(332)	(361)	(383)	(294)	(5.4)	(23.4)
Net income	1,089	(74)	(1,104)	1,439	1,293	367	(304)	1,164	3,342	158.5	187.0
Adj. income	1,089	990	270	1,439	1,293	367	(304)	1,164	3,342	158.5	187.0
EPS (Rs)	3.3	3.0	0.8	4.4	3.9	1.1	-0.9	3.5	10.1		
As % of income										bps y/y	bps q/q
Gross margins	20.5	24.4	24.1	21.6	21.1	24.5	21.5	19.8	20.9	(21.1)	115.3
Employee costs	5.4	9.9	8.7	5.7	5.4	8.5	7.8	4.7	4.1	(126.2)	(62.9)
Other expenses	8.7	8.8	11.6	8.5	10.2	13.0	12.7	10.5	8.2	(204.4)	(229.6)
EBITDA margins	6.4	5.7	3.8	7.4	5.5	3.1	1.1	4.5	8.6	309.5	407.8
PBT margins	6.9	8.4	4.5	8.2	7.0	5.2	2.3	5.1	9.8	280.9	471.8
Effective tax rates	26.6	46.0	(62.8)	29.2	31.4	41.7	85.8	29.9	24.2	(718.2)	(563.7)
PAT margins	3.9	5.6	1.3	4.9	3.8	1.6	(1.2)	2.8	6.8	294.4	402.1
Segment revenues (Rs m)											
EMPC	4,547	5,540	6,484	7,458	6,791	9,242	9,819	10,979	9,491	39.8	(13.6)
Unitary cooling products	21,622	10,477	12,160	20,486	25,140	12,088	14,826	29,551	38,022	51.2	28.7
Engineering products	1,243	1,374	1,179	1,424	1,423	1,344	1,548	1,564	1,608	13.0	2.8
Less: Inter-segment revenues	-	-	-	-	-	-	70	171	82		
Y/Y (%)											
EMPC	(34)	3	17	8	49	67	51	47	40		
Unitary cooling products	125	4	11	13	16	15	22	44	51		
Engineering products	8	10	(5)	15	14	(2)	31	10	13		
Segment EBIT (Rs m)											
EMPC	(125)	143	(461)	(140)	(519)	(490)	(1,200)	(1,077)	675		
Unitary cooling products	1,662	765	895	2,057	2,073	928	1,229	2,704	3,270		
Engineering products	509	480	460	559	541	539	499	478	448		
EBIT (%)											
EMPC	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)	(9.8)	7.1		
Unitary cooling products	7.7	7.3	7.4	10.0	8.2	7.7	8.3	9.2	8.6		
Engineering products	40.9	35.0	39.0	39.3	38.0	40.1	32.2	30.6	27.9		
Capital employed (Rs m)											
EMPC	10,972	9,637	9,833	8,995	9,014	7,226	5,709	1,913	4,228		
Unitary cooling products	3,623	12,447	13,957	9,407	5,265	1,068	679	628	638		
Engineering products	631	753	848	805	999	1,068	679	628	638		
Unallocated	39,420	33,495	30,446	35,730	40,979	37,722	33,299	41,940	53,763		
Total	54,647	56,332	55,083	54,937	56,257	47,084	40,366	45,109	59,267		
Pending order book	58,110	59,760	75,430	74,140	81,930	86,770	82,750	80,540	75,030		

Source: Company

Q1 FY25 result analysis

Comparing Voltas to its peer. Voltas' Q1 revenue growth was stronger than its peer, supported by strong MEP and UCP growth (respectively 51% and 40% y/y). Blue Star, however, reported a higher UCP EBIT margin in Q1.

Fig 7 – Comparing Voltas with its peer

(Rs m)	Voltas	Blue Star
Revenue	49,210	28,654
Y/Y (%)	46.5	0.3
EBITDA	4,238	2,378
EBITDA (%)	8.6	8.3
PAT (%)	7.4	5.9
Segment revenue		
Projects / MEP	9,491	10,390
UCP	38,022	17,295
Engineering / Professional	1,608	969
Y/Y (%)		
Projects / MEP	40	9
UCP	51	44
Engineering / Professional	13	23
Segment margin (%)		
Projects / MEP	7.1	9.9
UCP	8.6	9.1
Engineering / Professional	27.9	9.9

Source: Company, Anand Rathi Research

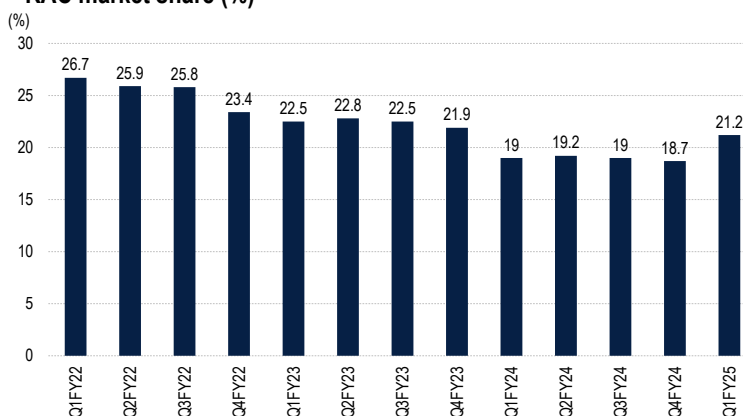
Concall highlights

Room AC market share: 21.2%

- UCP revenue grew a robust 51% y/y in Q1, AC volumes, 67% y/y. In Q1, the company hit an extraordinary milestone of 1m RAC sales, boosted by robust demand for all RAC categories. Consumers preferred ACs with advanced features and energy savings. Split ACs grew 65% with more 5-star products in the mix.
- The RAC market share at end-Jun expanded to 21.2%, from 18.7% in Mar'24.
- Quality products, expanding the distribution network, and better climatic conditions helped the company establish a strong foothold this season. Consumer-centric finance schemes contributed significantly to the rise in Q1 sales. The focus has been on capturing market share and volume growth. Therefore, it continued to strengthen its brand proposition and product placements across all channel formats.
- The UCP EBIT margin was 8.6%, 35bps higher y/y, while peer Bluestar's UCP EBIT margin was 9.1%. Ad-spends on IPL/seasonality quarter/TV ads/higher sales and promotional expenses kept margins in check.
- The company said volume growth in other cooling products (air-coolers, commercial refrigeration products) was robust. In commercial refrigeration, demand for water coolers and water dispensers was high and the company retained its market leading position in freezers, water coolers and water dispensers.

- Air coolers reported a strong Q1 recording 170%y/y volume growth with new models well accepted. Voltas is now the No.2 brand, its market share rising to 10.5%.
- It discounted and liquidated non QCO (quality-control orders) stock that had curbed margins in Q1
- The focus is on volumes and revenue. The company expects the EBIT margin in coming years to come in high single digits, after 8.5% in FY24.
- Its Chennai RAC factory (1m capacity) has started commercial operations as also the water dispenser line in Waghodia (~0.35m capacity). These plants will provide it strategic locational advantage and help cater to markets in South and West India.

Fig 8 – RAC market share (%)



Source: Company, Anand Rathi Research

EMP reports positive EBIT

- EMP revenue rose 40% y/y in Q1, led by a healthy domestic order-book. The domestic project business clocked 50% y/y growth.

The company continues to focus on project review, governance, better working-capital management and high productivity, resulting in greater profitability and cash-flow. However, elections in Q1 subdued order booking at Rs47.7bn.

For the international business in Qatar, Voltas has received arbitration awards proving that bank guarantees encashed were unethical. It expects 4-8 quarters to collect the amount.

- With no further provisioning in Q1, it reported a 7.1% EBIT margin, with full-year margins guided to be 4-5%. The EBIT margin over FY16-22 averaged 4.4%.
- An EMP order at end-Q1 of Rs75bn is pending. Segment profitability was higher considering the project achieving milestones resulting in accrual of profitability for the jobs. The company will continue to be cautious and adopt risk-mitigated approaches while selecting orders.

Voltas Beko

- Volumes grew >50%, led by robust demand in small and large domestic appliances. With greater volumes and gradually reduced losses, VoltBek is reducing its loss per unit and aiming at EBITDA break-even.
- Also, its market share in refrigerators and washing machines has grown. It is now among the top 3 in semi-automatic machines (a 14% market

share at end-Jun'24, and 7.8% in washing machines overall). Refrigerators grew >50%, registering a 5.2% market share at end-Jun'24. The performances of dishwashers and microwaves were better.

- The company's focus is on increasing market reach in key regions through retail and distribution channels and maintaining a strong focus on improving e-commerce and omni-channel development.

Outlook and Valuation

Given seasonally strong demand, UCP regained lost market-share in Q1. After a few quarters of losses in the projects business, which weighed on overall margins and impacted profitability, this has now ended as Q1 turned EBIT positive. Gradual recovery in EBITDA margins is expected with EBIT margins in EMP turning positive. This results in FY25e EBITDA/net income coming 16%/8% higher, and FY26e 23%/15%.

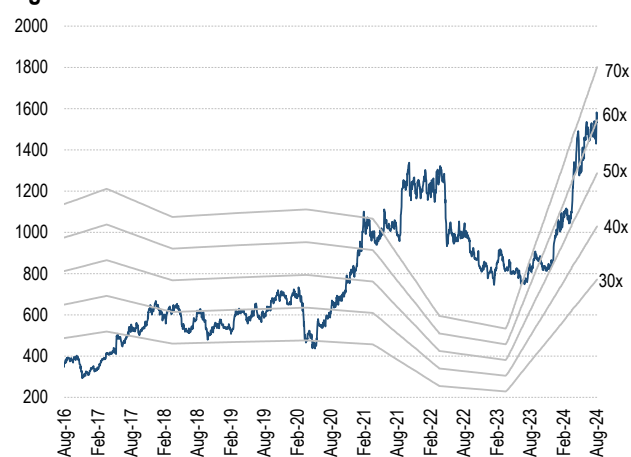
We, thus, expect 20%/70% revenue/net income CAGRs over FY24-26, leading to the post-tax RoIC more than doubling from a low 12.8% to 34.9%. The steep rise expected in net income over FY24-26 is attributable to the lower base.

Fig 8 – Change in estimates

(Rs m)	Revised		Previous		Variance (%)	
	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Revenue	147,498	180,965	147,498	178,159	-	2
Y/Y (%)	18	23	18	21		
EBITDA	11,252	15,676	9,675	14,463	16	8
EBITDA - (%)	7.6	8.7	6.6	8.1		
Net income	6,885	10,126	5,619	8,780	23	15
Net income (%)	4.7	5.6	3.8	4.9		
Adj. net income	6,885	10,126	5,619	8,780		
EPS (Rs)	20.8	30.6	17.0	26.5	23	15

Source: Anand Rathi Research

Fig 9 – The stock trades at ~60x



Source: Company, Anand Rathi Research

Fig 10 – Mean PE is 58x



Source: Company, Anand Rathi Research

Valuation, Rating. At the CMP, the stock quotes at 74x/50x FY25e/FY26e EPS of Rs21/Rs31. Robust seasonal demand helped Voltas gain market share in UCP with EMP EBIT margins turning positive in Q1. On FY26e earnings, we upgrade the stock to a Buy, with a higher 12-mth TP of Rs1,844 (earlier Rs1,340), valuing the core business and the Beko JV separately.

Fig 11 – Sum-of-parts valuation

Business segment (Rs m)	FY26e PAT	Multiple assigned (x)	M Cap (derived)
Core business	10,126	60	607,535
M.Cap			607,535
Investment in Voltas Beko JV at end-FY24	2,297	1	2,297
Value			609,832
No of shares (m)			331
Derived value per share (Rs)			1,844
CMP (Rs)			1,534
Upside (%)			20

Source: Company, Anand Rathi Research

Key risks

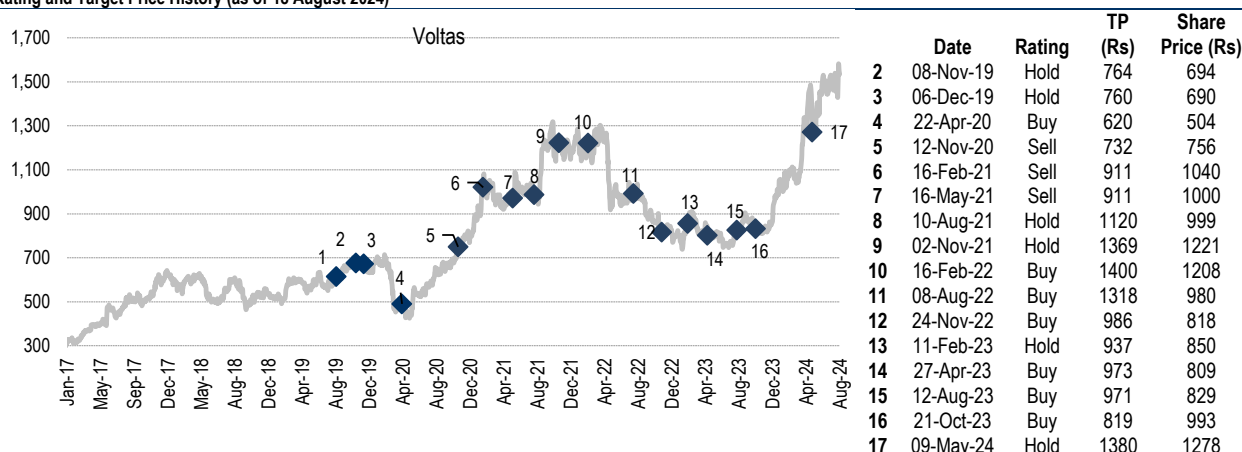
- Drop in RAC market share could curb UCP margins.
- Major increase in raw material prices and competition could cut margins.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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