

Estimate change	↓
TP change	↔
Rating change	↔

CMP: INR1,094 TP: INR1,230 (+13%) BUY

UCP's performance in line; EMPS drags profits

RAC's market share at 19% YTD; volumes rise ~27% YoY

Bloomberg	VOLT IN
Equity Shares (m)	331
M.Cap.(INRb)/(USDb)	361.6 / 4.4
52-Week Range (INR)	1101 / 745
1, 6, 12 Rel. Per (%)	12/30/13
12M Avg Val (INR M)	1263
Free float (%)	69.7

- Voltas (VOLT)'s 3QFY24 performance was below our estimate, mainly due to higher losses in the EMPS segment (loss of INR1.2b vs. estimated loss of INR269m). EBITDA missed our estimates by 75%, despite revenue coming in 8% above our estimate. The company reported a net loss of INR304m vs. adj. PAT of INR270m in 3QFY23. The UCP segment's revenue and EBIT were 6-7% above estimates; though the margin came in line at 8.3%.
- RAC volumes grew 27% YoY, surpassing the industry growth of 20-22%, and its FY24YTD market share stands at 19%. The management expects demand for RAC, commercial refrigerators, air coolers, and home refrigerators to improve in the upcoming summer season. This, along with positive consumer sentiments, should support growth. Management believes that there is scope to improve the UCP segment's margin by 50-60bp.
- We cut our EPS estimates by 42%/14 for FY24/FY25, considering higher losses in the EMPS segment. We note that losses in the EMPS segment are recoverable as the company has undertaken legal routes. **Reiterate BUY** with a TP of INR1,230 (valuing UCP business at 45x and EMPS/PES business at 25x FY26E EPS, and assigning INR38/share for Voltbek).

Financials & Valuations (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	118.3	130.7	144.8
EBITDA	4.8	7.8	11.5
Adj. PAT	2.8	6.0	9.3
EBITA Margin (%)	4.1	6.0	7.9
Cons. Adj. EPS (INR)	8.6	18.0	28.2
EPS Gr. (%)	(25.2)	110.1	56.6
BV/Sh. (INR)	169.1	184.6	208.3

Ratios

Net D:E	0.0	(0.0)	(0.1)
RoE (%)	5.1	9.8	13.5
RoCE (%)	7.1	10.9	14.0
Payout (%)	30.0	25.0	25.0

Valuations

P/E (x)	119.0	56.6	36.2
P/BV (x)	6.0	5.5	4.9
EV/EBITDA (x)	70.5	43.1	29.0
Div Yield (%)	0.3	0.4	0.7
FCF Yield (%)	(0.1)	0.7	2.2

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	30.3	30.3	30.3
DII	37.2	36.0	31.7
FII	17.2	17.8	21.6
Others	15.3	16.8	16.5

FII Includes depository receipts

UCP margin improves 1pp YoY to 8.3% aided by a better product mix

- VOLT's consol. revenue was up 31% YoY to INR26.3b, and was 8% above our estimates. However, EBITDA declined 63% YoY to INR284m, ~75% below our estimate. EBITDA margin came in at 1.1% (est. 4.6%). Depreciation/interest cost was up 16%/111% YoY, whereas 'other income' grew 89% YoY. The company reported a net loss of INR304m vs. adj. PAT of INR270m in 3QFY23.
- Segmental highlights: a) **UCP**: revenue was up 21% YoY to INR14.8b and EBIT was up 37% YoY to INR1.2b. EBIT margin surged 1pp YoY to 8.3%. b) **EMPS**: revenue was up 51% YoY to INR9.8b. The company reported EBIT loss of INR1.2b (vs. loss of INR461m in 3QFY23) on account of delayed collections and cost overruns especially in Qatar. c) **PES**: revenue increased 31% YoY to INR1.5b, while EBIT was up 8% YoY to INR499m. EBIT margin contracted 6.8pp YoY to ~32%.
- In 9MFY24, revenue was up 27% YoY to INR82.8b; however, EBITDA declined 20% YoY to INR2.8b. OPM contracted 2pp YoY to 3.4%. The UCP segments' revenue was up 17% YoY to INR52b; whereas, EBIT margin improved 65bp YoY to 8.1% during the period.

Key highlights from the management commentary

- RAC demand was supported by key festivals and the wedding season in a historically lean quarter. Strategic partnerships with channel partners, price calibration, and expanded product portfolio led to higher-than-industry growth in 3Q.

- The margin direction for UCP remains better and the company will continue to remain a leader in margins. There are chances of 50-60bp of further margin improvement.
- VoltBeko has crossed cumulative sales volumes of 4.5m units since the launch of commercial sales and became the fastest brand to achieve this milestone. Volumes grew 65% YoY, led by the robust festive demand and improved consumer sentiments. In 9MFY24, this segment posted 45% YoY volume growth.

Valuation and view

- We expect VOLT's EBITDA/adjusted profit to report a CAGR of 34%/49% over FY24-26, supported by a recovery in margins for the UCP segment, along with reduced losses for Voltbek and EMPS. RoE should be at 9.8%/13.5% in FY25E/FY26E vs. 5.1% in FY24E (average of 12.3% over FY13-23). RoCE should be at 24.1% in FY26E vs. 10.4% in FY24E.
- We expect the UCP margin to improve to 9%/9.5% for FY25/26E v/s 8.3% in FY23. Our earnings cut of 42%/14% for FY24/25E is led by losses in the EMPS segment, which could be reversed in future as VOLT has undertaken legal options. **Reiterate BUY** with a TP of INR1,230 (valuing UCP business at 45x and EMPS/PES business at 25x FY26E EPS, and assigning INR38/share for Voltbek).

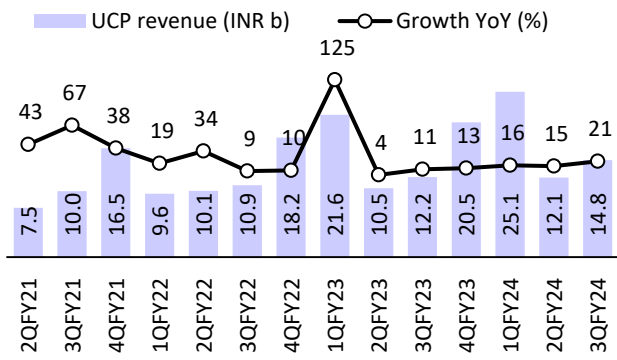
Quarterly performance

Y/E March	FY23				FY24				FY23	FY24E	MOFSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		3QE		
Sales	27,680	17,684	20,056	29,568	33,599	22,928	26,257	35,544	94,988	1,18,327	24,321	8
Change (%)	55.1	4.7	11.8	10.9	21.4	29.7	30.9	20.2	19.7	24.6	21.3	
Adj EBITDA	1,770	1,008	764	2,182	1,854	703	284	1,963	5,724	4,803	1,129	(75)
Change (%)	30.4	(21.9)	(50.9)	(16.4)	4.7	(30.3)	(62.8)	(10.0)	-16.0	-16.1	47.9	
Adj EBITDA margin (%)	6.4	5.7	3.8	7.4	5.5	3.1	1.1	5.5	6.0	4.1	4.6	(356)
Depreciation	85	97	111	104	113	117	128	138	396	496	120	7
Interest	40	67	64	124	101	115	135	139	296	490	100	35
Other Income	268	644	307	467	700	710	579	613	1,685	2,601	613	(6)
Extra-ordinary items	-	(1,064)	(1,374)	-	0	-	-	-	-2,438	0	0	
PBT	1,913	423	(478)	2,420	2,339	1,181	599	2,299	4,278	6,419	1,523	(61)
Tax	508	195	300	706	735	493	515	592	1,709	2,335	384	34
Effective Tax Rate (%)	26.6	13.1	33.5	29.2	31.4	41.7	85.9	25.8	25.4	36.4	25.2	
Share of profit of associates/JV's	(316)	(303)	(325)	(275)	(312)	(321)	(389)	(227)	(1,219)	(1,249)	(325)	
Reported PAT	1,089	(74)	(1,104)	1,439	1,293	367	(304)	1,479	1,350	2,835	814	(137)
Change (%)	(10.6)	(107.2)	(215.0)	(21.2)	18.7	NM	NM	2.8	-73.2	110.0	-173.7	
Adj PAT	1,089	990	270	1,439	1,293	367	(304)	1,479	3,788	2,835	814	(137)
Change (%)	(10.6)	(4.5)	(71.8)	(21.2)	18.7	(62.9)	NM	2.8	-24.8	-25.2	201.0	

Segment Revenues (INR m)

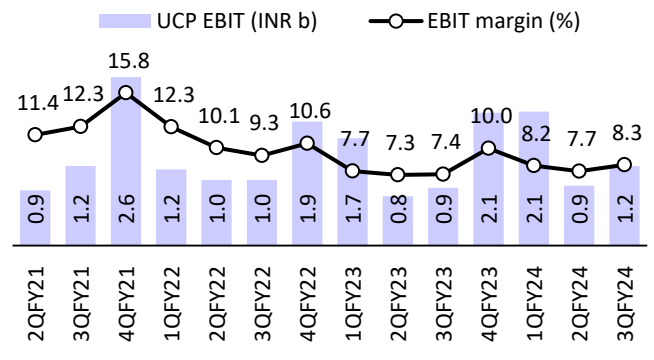
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE	9M	9M	YoY
									FY23	FY24	(%)
EMP & Services	4,547	5,540	6,484	7,458	6,791	9,242	9,819	10,613	16,571	25,851	56
Engineering products and services	1,243	1,374	1,179	1,424	1,423	1,344	1,548	1,426	3,796	4,316	14
Unitary cooling business	21,622	10,477	12,160	20,486	25,140	12,088	14,756	23,104	44,259	51,984	17
Others	268	292	233	200	245	253	134	401	794	633	(20)
Total	27,680	17,684	20,056	29,568	33,599	22,928	26,257	35,544	65,420	82,783	27
Segment PBIT											
EMP & Services	(125)	143	(461)	(140)	(519)	(490)	(1,200)	(527)	(442)	(2,208)	n/a
Engineering products and services	509	480	460	559	541	539	499	488	1,448	1,579	9
Unitary cooling business	1,662	765	895	2,057	2,073	928	1,229	2,227	3,322	4,230	27
Total PBIT	2,046	1,388	893	2,475	2,096	977	528	2,188	4,328	3,601	(17)
Segment PBIT (%)											
EMP & Services (%)	(2.7)	2.6	(7.1)	(1.9)	(7.6)	(5.3)	(12.2)	(5.0)	-2.7	-8.5	-587
Engineering products and services (%)	40.9	35.0	39.0	39.3	38.0	40.1	32.2	34.2	38.2	36.6	-156
Unitary cooling business (%)	7.7	7.3	7.4	10.0	8.2	7.7	8.3	9.6	7.5	8.1	63
Total PBIT (%)	7.4	7.9	4.5	8.4	6.2	4.3	2.0	6.2	6.6	4.4	-227

Exhibit 1: UCP's revenue up 21% YoY



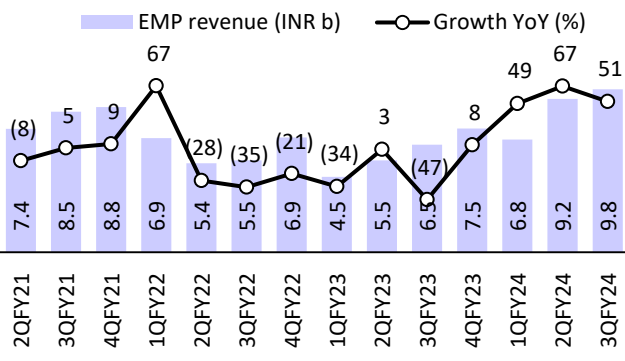
Source: MOFSL, Company

Exhibit 2: UCP's EBIT margin up 1pp YoY to 8.3%



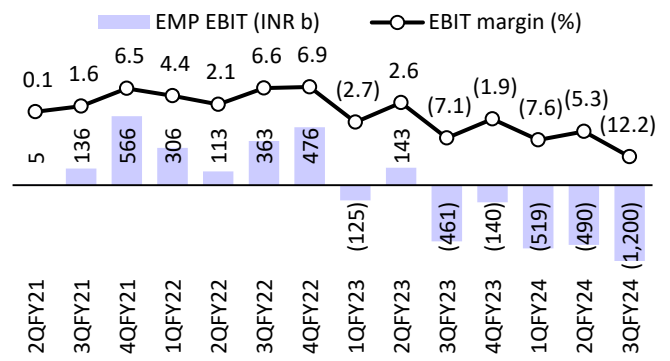
Source: MOFSL, Company

Exhibit 3: EMPS' revenue up 51% YoY



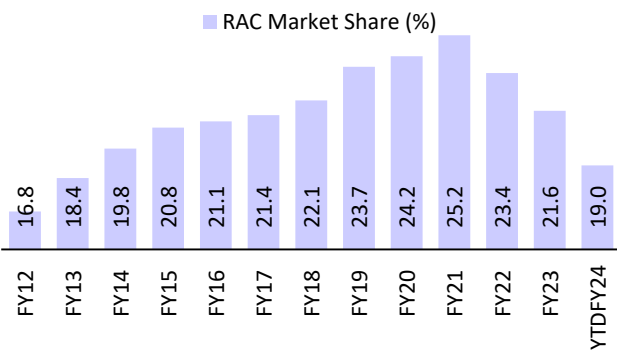
Source: MOFSL, Company

Exhibit 4: Higher losses in EMPS segment hurt profitability



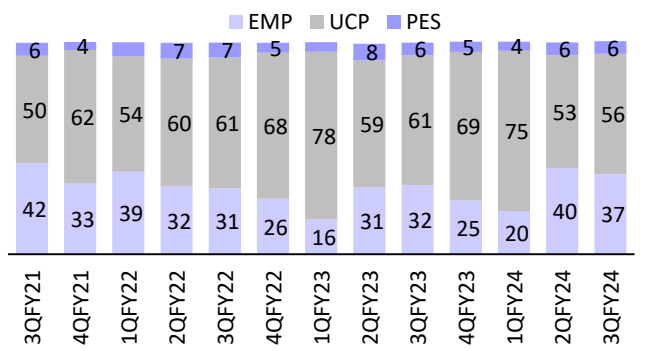
Source: MOFSL, Company

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



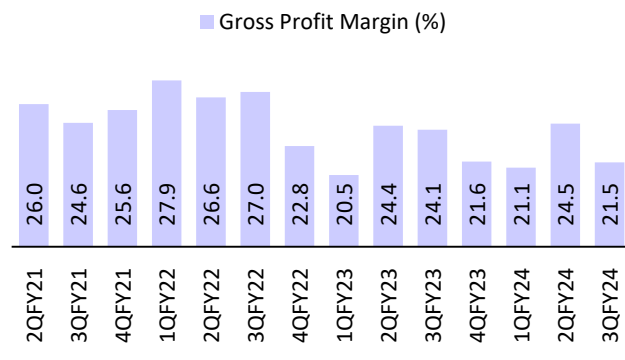
Source: MOFSL, Company

Exhibit 6: UPC contributed 56% to revenue vs. 61% in 3QFY23



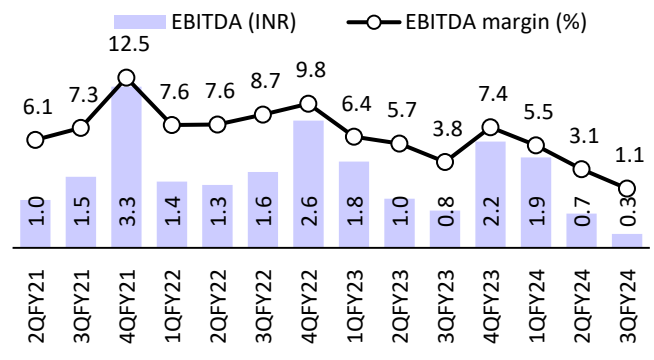
Source: MOFSL, Company

Exhibit 7: Gross margin down 2.5pp YoY to 21.5% in 3QFY24



Source: MOFSL, Company

Exhibit 8: EBITDA margin down 2.7pp YoY to 1.1%



Source: MOFSL, Company



Conference call highlights

Operational data and demand trends

- The domestic business has seen a recovery; however, provisions on account of delayed collections and cost overruns especially in Qatar hit the overall performance. VOLT availed a term loan to finance the capacity addition for RAC and commercial refrigeration along with investments directed towards the PLI scheme.
- RAC demand was supported by key festivals and the wedding season in a historically lean quarter. Strategic partnerships with channel partners, price calibration, and expanded product portfolio led to higher-than-industry growth in 3Q. RAC volumes grew 27% YoY surpassing the industry growth of 20-22% YoY. The company continues leadership in window and split AC category with YTD market share of 19% in Dec'23.
- Growth of commercial refrigerator category was tepid led by higher base of last year and reduced investments by OEMs particularly in the chocolate category. However, the growth outlook remains strong on account of expansion of retail chains and increased penetration of cold beverages, chocolates and ice creams.
- VOLT air coolers remain at the second position in the industry and had a market share of 8.9% in Nov'23, up 1.7pp from Mar'23 level. New launch water heaters witnessed good acceptance. Commercial AC had a robust growth for chillers, VRFs, ducted and packaged ACs, both from the retail and healthcare sectors. A mandatory quality control order compliance may impact sales amid price escalations for few categories. Though, increased commercial activities across the country should help overall growth for this category.

Unitary Cooling Products (UCP)

- Demand for RAC, commercial refrigerators, air coolers and home refrigerators is expected to improve in the upcoming summer season which along with positive consumer sentiments should support growth. This may also help in strengthening the market share.
- Commodity prices spiked in last two years, which the industry was not able to pass on to the consumers. Margin direction for UCP remains better and the company would continue to remain a leader in margins. There are chances of 50-60bps of further margin improvement. The company may take a minimal price hike when there are cost increases led by higher R&D expense.
- 60 brands are in markets for RAC and they are fighting for market share. Its market share for window AC is between 35-40% for last few quarters; whereas; market share in split AC should be ~19%. 90% of the company's business comes from split ACs. These market share are generally for multi-brand outlets; however; this share will not move much (+/-0.1%) including all sales channels (MBOs, EBOs, offline and online channels).
- The company has changed its distribution strategy which earlier was largely focused on conventional channel and distribution. With rising acceptance of e-commerce and modern trade, it has roped in all partners including modern trade, organized trade, regional trade, e-commerce channel partners, EBOs etc.

Electro-Mechanical Projects and Services (EMPS)

- Domestic project business registered as strong growth of 83% YoY led by healthy order book and timely execution of the projects. Order inflow and order book in domestic business stands at INR4.82b and INR52.75b, respectively. Delay in collections and cost overruns for projects, especially in Qatar led to a loss of INR1.43b in international projects. International order book stands between INR25-30b.
- There are few projects in Qatar where the issues happened. The company executed most of the contracts and handed over to the main contractor. In few cases, they have not made the payments and in few cases, bank guarantees are being encashed. Total provisions for Qatar projects are between INR3-4b. The company has taken legal routes to recover the collections and expects that the verdict will come in that favor. This will also help to reverse these provisions. Generally, decision in legal cases take 24-30months.
- The business is running as usual in other regions and profits are at normal levels. EBIT margin should be between 4-4.5%. Other business verticals are performing better than expectations. Headwinds in the international business may continue due to adverse global conditions; though efforts are underway to reduce the adverse impacts. Headwinds in the international business may continue due to adverse global conditions; though efforts are underway to reduce the adverse impacts.

PES segment

- Demand for crushing and streaming equipment and revival of iron ore sector led to improvement in PES segment. Investment in textile sector led by PLI schemes and revival of export demand offers robust outlook for this segment.

Voltas Beko

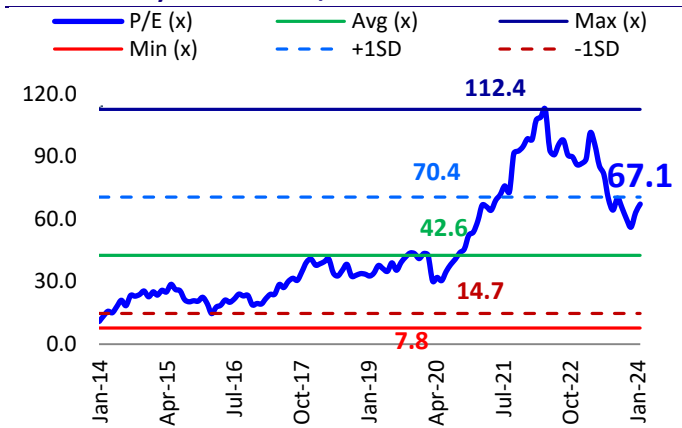
- VoltBeko has crossed cumulative sales volumes of 4.5m units since the launch of commercial sales and became the fastest brand to achieve this milestone. Volumes grew 65% YoY, led by the robust festive demand and improved consumer sentiments. In 9MFY24, this segment posted 45% YoY volume growth. Its market share stood at 3.3% for refrigerators (up 1pp YoY) and 5.5% for washing machines (up 2.1pp YoY). Its market share in semi-automatic washing machines stood at 12.2% as of Dec'23.
- Favorable product-mix and cost rationalization measures led to improvement in gross margins for VoltBeko and loss/unit narrowed despite significant investment in AD spends. The company received significant export orders from its overseas subsidiary in the quarter. These orders were mainly for frost-free refrigerators and dishwashers.
- VoltBeko would have a turnaround, if two years would not have been wasted due to Covid-19.

Exhibit 9: Revisions to our estimates

(INR b)	Revised			Old			Change		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	118.3	130.7	144.8	116.9	128.5	142	1%	2%	2%
EBITDA	48	78.3	114.7	64	87	110.5	-25%	-10%	4%
PAT	28.4	59.6	93.3	48.9	69.1	91.6	-42%	-14%	2%
EPS (INR)	8.6	18	28.2	14.8	20.9	27.7	-42%	-14%	2%

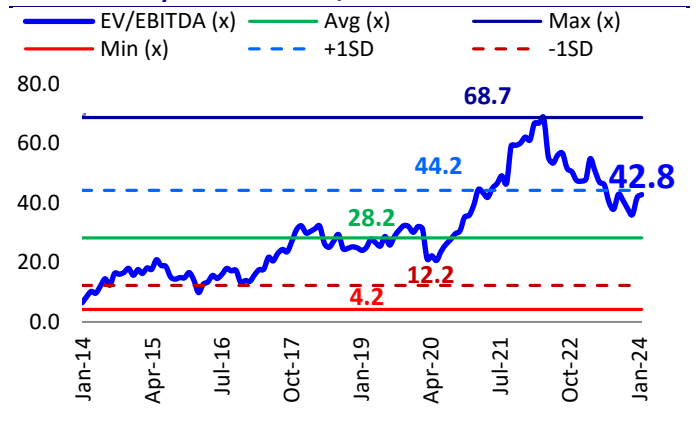
Source: Company, MOFSL estimate

Exhibit 10: 1-year forward P/E chart



Source: MOFSL, Company

Exhibit 11: 1-year forward EV/EBITDA chart



Source: MOFSL, Company

Financials and valuations (Consolidated)

Income Statement							(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Total Revenues	76,581	75,558	79,345	94,988	1,18,327	1,30,725	1,44,835
Change (%)	7.5	-1.3	5.0	19.7	24.6	10.5	10.8
EBITDA	6,867	6,414	6,816	5,724	4,803	7,827	11,466
% of Total Revenues	9.0	8.5	8.6	6.0	4.1	6.0	7.9
Other Income	2,306	1,889	1,892	1,685	2,601	2,815	3,077
Depreciation	320	339	373	396	496	627	725
Interest	211	262	259	296	490	450	400
Exceptional Items	-364	0	0	-2,438	0	0	0
PBT	8,278	7,702	8,076	4,278	6,419	9,565	13,417
Tax	2,380	1,804	1,913	1,709	2,335	2,639	3,377
Rate (%)	28.8	23.4	23.7	40.0	36.4	27.6	25.2
PAT	5,898	5,898	6,163	2,569	4,084	6,926	10,040
Change (%)	4.3	0.0	4.5	-58.3	59.0	69.6	45.0
Profit/(Loss) share of associates/JVs	-687	-610	-1,103	-1,207	-1,237	-956	-698
Minority interest (MI)	39	37	19	12	12	12	12
PAT after MI	5,172	5,251	5,041	1,350	2,835	5,957	9,330
Change (%)	1.8	1.5	-4.0	-73.2	110.0	110.1	56.6
Adj. PAT after MI	5,536	5,251	5,041	3,788	2,835	5,957	9,330
Change (%)	6.5	-5.1	-4.0	-24.8	-25.2	110.1	56.6

Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	331	331	331	331	331	331	331
Reserves	42,471	49,603	54,665	54,190	55,619	60,726	68,567
Net Worth	42,802	49,934	54,996	54,521	55,950	61,057	68,897
Minority Interest	365	361	381	417	429	441	453
Loans	2,179	2,606	3,432	6,160	5,660	5,160	4,660
Deferred Tax Liability	-715	-558	-317	-303	-303	-303	-303
Capital Employed	44,631	52,343	58,492	60,794	61,735	66,354	73,707
Gross Fixed Assets	6,201	6,690	7,020	8,826	10,826	13,326	14,826
Less: Depreciation	3,195	3,534	3,906	4,302	4,798	5,425	6,151
Net Fixed Assets	3,006	3,157	3,114	4,524	6,028	7,901	8,675
Capital WIP	263	88	593	983	983	983	983
Investments	23,433	30,464	36,154	31,086	30,849	30,893	31,195
Goodwill	798	723	723	723	723	723	723
Curr. Assets	53,332	51,565	56,440	65,119	72,508	80,381	92,543
Inventory	14,689	12,796	16,614	15,920	18,803	20,773	23,015
Debtors	18,336	18,009	21,097	21,919	25,935	28,652	31,745
Cash & Bank Balance	3,084	4,588	5,717	7,084	4,422	5,162	9,204
Loans & Advances	23	23	32	6	7	8	9
Other current assets	17,200	16,149	12,981	20,191	23,341	25,787	28,570
Current Liab. & Prov.	36,201	33,654	38,532	41,640	49,355	54,526	60,412
Creditors	26,889	24,645	29,421	30,126	35,012	38,680	42,855
Other Liabilities	9,312	9,009	9,111	11,514	14,343	15,846	17,556
Net Current Assets	17,131	17,911	17,908	23,479	23,152	25,855	32,131
Application of Funds	44,631	52,343	58,492	60,794	61,735	66,354	73,707

Financials and valuations (Consolidated)

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
Adj EPS	16.7	15.9	15.2	11.5	8.6	18.0	28.2
Cash EPS	17.7	16.9	16.4	12.6	10.1	19.9	30.4
Book Value	129.4	150.9	166.3	164.8	169.1	184.6	208.3
DPS	4.0	5.0	5.5	4.3	2.6	4.5	7.1
Payout (incl. Div. Tax.)	23.9	31.5	36.1	37.1	30.0	25.0	25.0
Valuation (x)							
P/E	60.9	64.3	66.9	89.1	119.0	56.6	36.2
Cash P/E	57.6	60.4	62.3	80.6	101.3	51.2	33.6
EV/EBITDA	49.0	52.3	49.2	58.8	70.5	43.1	29.0
EV/Sales	4.4	4.4	4.2	3.5	2.9	2.6	2.3
Price/Book Value	7.9	6.8	6.1	6.2	6.0	5.5	4.9
Dividend Yield (%)	0.4	0.5	0.5	0.4	0.3	0.4	0.7
Profitability Ratios (%)							
RoE	12.9	10.5	9.2	6.9	5.1	9.8	13.5
RoCE	14.1	11.6	10.9	6.9	7.1	10.9	14.0
RoIC	25.8	26.9	29.6	14.1	10.4	17.2	24.1
Turnover Ratios							
Debtors (Days)	87	87	97	84	80	80	80
Inventory (Days)	70	62	76	61	58	58	58
Creditors. (Days)	128	119	135	116	108	108	108
Asset Turnover (x)	1.7	1.4	1.4	1.6	1.9	2.0	2.0
Leverage Ratio							
Net Debt/Equity (x)	(0.0)	(0.0)	(0.0)	(0.0)	0.0	(0.0)	(0.1)

Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
PBT before EO Items	7,591	7,735	5,610	7,787	6,419	9,565	13,417
Add : Depreciation	320	339	3,726	396	496	627	725
Interest	211	262	259	296	490	450	400
Less : Direct Taxes Paid	(2,061)	(693)	(2,169)	(1,656)	(2,335)	(2,639)	(3,377)
(Inc)/Dec in WC	(911)	(1,580)	(438)	(3,836)	(2,336)	(1,963)	(2,234)
CF from Operations	5,150	6,063	6,988	2,987	2,734	6,040	8,932
Others	(525)	(502)	(1,145)	(1,393)	(1,034)	(1,055)	-
CF from Oper. Incl. EO Items	4,625	5,561	5,842	1,594	1,700	4,986	8,932
(Inc)/Dec in FA	(905)	(208)	(482)	(1,799)	(2,000)	(2,500)	(1,500)
Free Cash Flow	3,720	5,353	5,361	(206)	(300)	2,486	7,432
Investment in liquid assets	(352)	(2,645)	(3,165)	983	34	55	(1,000)
CF from Investments	(1,257)	(2,853)	(3,646)	(816)	(1,966)	(2,445)	(2,500)
(Inc)/Dec in Debt	(1,057)	425	918	2,728	(500)	(500)	(500)
Less : Interest Paid	(811)	(271)	(312)	(349)	(490)	(450)	(400)
Dividend Paid	(1,627)	(1,358)	(1,676)	(1,829)	(1,406)	(850)	(1,489)
CF from Fin. Activity	(3,494)	(1,204)	(1,070)	550	(2,396)	(1,800)	(2,389)
Inc/Dec of Cash	(127)	1,504	1,126	1,328	(2,662)	740	4,043
Add: Beginning Balance	3,211	3,084	4,591	5,756	7,084	4,422	5,162
Closing Balance	3,084	4,588	5,717	7,084	4,422	5,162	9,204

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SELL	< - 10%
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