

VOLTAS Ltd

Analyst Recommendation: BUY

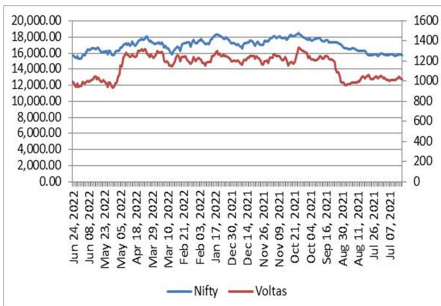
BSE Code: 500575

NSE: VOLTAS

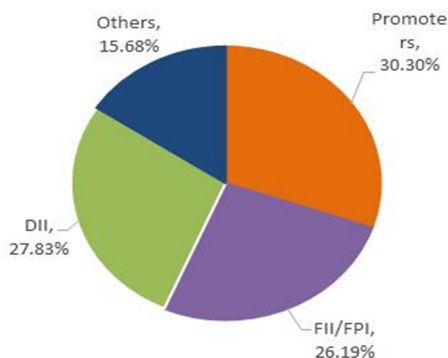
CMP: Rs 992
2 Year Target: Rs 1250

Face Value	1.0
Market Cap (Rs cr)	32,885
52 week high/low	1,357/923
Beta	0.74
Shares O/S (Cr)	33.1
Book Value per Share (Rs)	166
Sensex	58,339
Nifty	17,475.65

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Mar 2022.



Investor's Rationale

➤ Recent market share loss not a worry:

VOLT has maintained its leadership position in the room AC (RAC) category with 23.4% market share in FY22. While its share is down from 25.2% in FY21, the marginal loss was due to an extended summer in the north (non-core market) and aggressive pricing by competitors in its core southern market. Nonetheless, the company has stated that it has a strategy in place to revive market share to 25% by Jun-Jul'22 through differentiated product offerings and consumer financing.

➤ Voltbek profitability remains the key:

Voltbek has demonstrated revenue scalability over the last four years with a CAGR of 112% over FY19-FY22, but losses have continued. Management remains optimistic of achieving 10% market share (from 3%+ currently) in the home appliances segment by 2025.

➤ Capex plan to expand offering:

VOLT has planned Rs 5bn in capex over the next three years, primarily for (i) backward integration of inverter AC compressors in the JV with Hong Kong-based Highly International, and (ii) capacity expansion for RAC and commercial refrigerators as part of the PLI scheme. We thus anticipate that ROCE will be relatively muted at 13% in FY23..

➤ Valuation

We are confident of VOLT's growth trajectory and continue to value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, for an TP of Rs 1,250.

	FY21	FY22	FY23E	FY24E
Revenue (Rs.Cr)	7,456.6	7,841.1	9,179.2	11,020.0
EBITDA (Rs. cr)	-33.9	-35.2	-38.7	-43.5
Adj. profit (Rs.Cr)	425.9	410.7	613.0	821.0
Adj. EPS (Rs.)	12.9	12.4	18.5	24.8
P/E (x)	78.3	81.2	54.4	40.6
EV/EBITDA (x)	59.8	56.0	39.5	29.8
ROE (%)	9.2%	7.8%	10.6%	12.6%
ROCE	10.2%	9.8%	13.2%	15.6%

Room air conditioning (RAC)

- Despite unfavourable macroeconomic conditions, VOLT's RAC business grew thanks to its focus on the inverter sub-category, which had competitive pricing and a smaller number of SKUs. To compensate for the higher input costs, the company raised prices in stages throughout the year.
- Over the next five years, management expects the Indian government's white goods PLI scheme to spur industrywide production worth ~Rs 2.7tn in components for ACs and LEDs. Furthermore, it estimates that localisation will reduce import sourcing by 30% on the component side.

Air Coolers

- VOLT maintained its second place in the air cooler category with a market share of 12% in FY22.
- The lockdown had an impact on the business because it disrupted the limited seasonal window for secondary sales. Importantly, trade reported a significant amount of inventory, affecting primary sales. Nonetheless, a focus on building out the dealer network, expanding products in each sub-category, and launching new SKUs helped to shore up sales.
- Commercial air coolers are emerging as a new subsegment with high growth potential, as there are currently only limited offerings from a few brands.

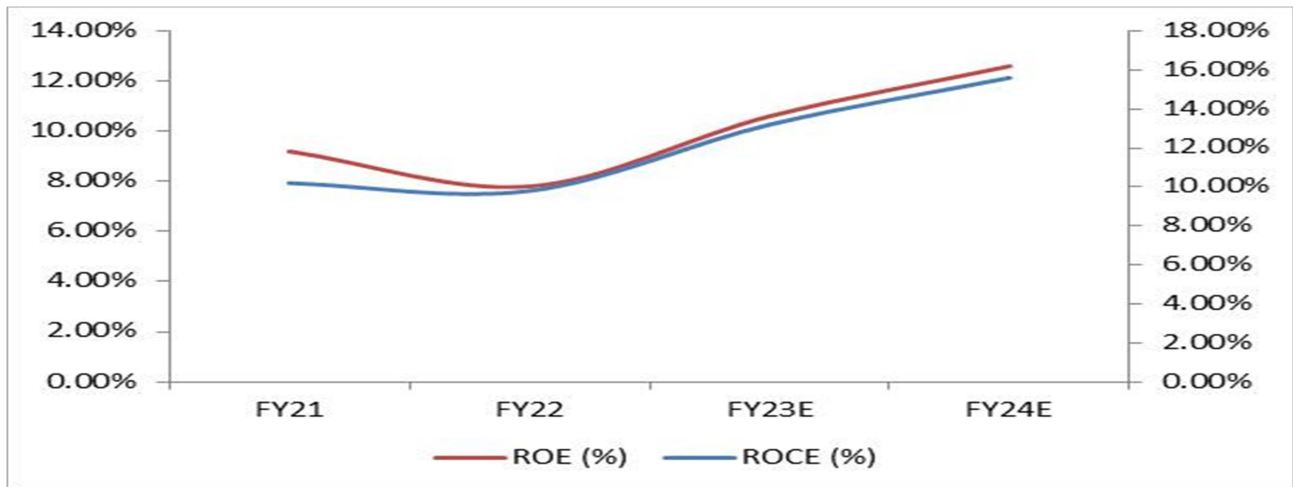
Commercial Refrigeration

- The commercial refrigeration segment performed well owing to continued traction in trade & distribution, export contribution and a healthier B2B channel partner mix.
- Changes in consumer behaviour and the expansion of mini-cold chain facilities across Mom & Pop (kirana)-type stores in tier-2 and tier-3 cities contributed to sustainable growth in this business. Moreover, by focusing on strengthening OEM contracts and expanding new product lines, the vertical was able to achieve record growth of 22% over the previous year
- Management expects commercial refrigeration to reach Rs 80bn by 2026-27, growing at a 10% CAGR, due to improved demand for frozen foods and growth in the organised retail sector with the increase in number of hyper/supermarkets.

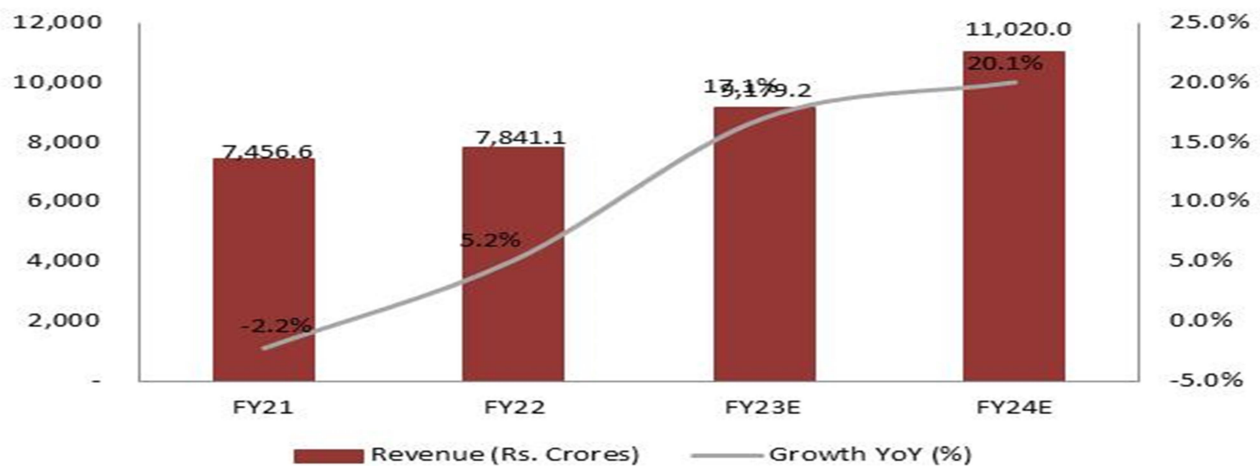
Commercial Air conditioning

- VOLT is the market leader in HVAC products. The synergy between RAC and commercial air conditioning helps the organisation to be equitably present in all market sectors via a healthy distribution network.
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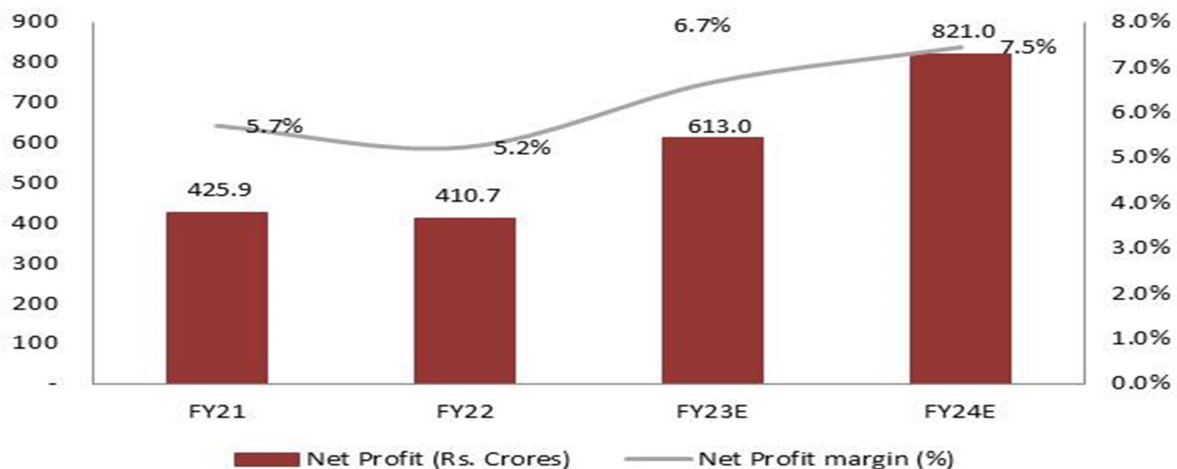
Return ratios to show strong growth in future



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

We are confident of VOLT's growth trajectory and continue to value the stock at 50x FY24E EPS, a 40% premium to its 5Y average, for an TP of Rs 1,250

Voltas Ltd- Company Overview

Voltas Limited is an Indian multinational home appliances and consumer electronics company headquartered in Mumbai, Maharashtra, India. It designs, develops, manufactures and sells products including Air Conditioners, Air Coolers, Refrigerators, Washing machines, Dishwashers, Microwaves, Air purifiers, Water dispensers. The company was incorporated on 6 September 1954 in Mumbai, as a collaboration between Tata Sons and Volkart Brothers.



Balance sheet (Consolidated)

(Rs crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Paid up capital	33	33	33	33
Reserves and Surplus	4960	5467	6080	6901
Net worth	4993	5500	6113	6934
Total Loans	261	361	-	-
Current Liabilities	3,803	3,886	4,390	5,083
Minority Interest				
Total Liabilities	9,057	9,746	10,503	12,017
Assets				
Net Tangible Assets	251	251	262	282
Intangible Assets	-	-	-	-
Investments	2,514	2,915	2,915	2,915
Current Assets	5,198	5,886	6,740	8,336
Deferred tax assets, net	56	44	44	44
Other Assets	1038	650	542	440
Total Assets	9057	9746	10503	12017

Equity Research

Profit & Loss Account (Consolidated)

(Rs crore)	FY21	FY22	FY23E	FY24E
Total operating Income	7,457	7,841	9,179	11,020
EBITDA	542	586	831	1,090
Depreciation	-34	-35	-39	-44
EBIT	508	551	792	1,047
Net interest inc./ (exp.)	13.6	14.2	25.6	40.1
Other Income & Extraordinary Items	187	132	41	48
Profit before tax	709	697	859	1,134
Tax	-180	-191	-243	-311
Profit after tax	525	504	613	821
Minority Interests	-64.60	-112.20	-110.50	-103.80
P/L from Associates				
Other	-35	19	111	104
Adjusted PAT	426	411	613	821



Equity Research

Cash Flow (Consolidated)

Y.E March (Rs crore)	FY21	FY22	FY23E	FY24E
Cash flow from operating activities	625	801	302	713
Capital expenditures	-21	-48	-50	-63
Change in investments	0	0	0	0
Other investing cash flows	-267	-332	0	0
Cash flow from investing activities	-288	-380	-50	-63
Others	-122	-107	231	-144
Equities issued/Others	0	0	0	0
Debt raised/repaid	0	0	-361	0
Interest expenses	0	0	130	144
Dividends paid	0	0	0	0
Cash flow from financing activities	-122	-107	0	0
Net chg in cash	248	329	66	839
Opening Cash	460	708	1038	1104
Closing Cash	708	1038	1104	1943

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY21	FY22	FY23E	FY24E
Per share data (Rs.)				
EPS	12.90	12.40	18.50	24.80
DPS	5.00	3.80	4.60	6.20
Margin (%)				
EBITDA	-0.5%	-0.4%	-0.4%	-0.4%
NPM	5.7%	5.2%	6.7%	7.5%
Return Ratios (%)				
RoE	9.2%	7.8%	10.6%	12.6%
ROCE	10.2%	9.8%	13.2%	15.6%
Valuation(x)				
P/E	78.3	81.2	54.4	40.6
EV/EBITDA	59.8	56.0	39.5	29.8
Per share data (Rs.)				
EPS	12.9	12.4	18.5	24.8



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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