Voltas

White Goods

Focusing on volume and market share; higher investments in brand building may impact margin in near term

We attended Voltas' investor update webinar and note: (1) It is focusing on volume growth, and air conditioners are likely to report volume growth of 20-25% YoY in 4QFY25 (our view). (2) There may be additional investments in brand building, additional salesmen and merchandisers which may impact margin in near term but these investments are DCF accretive. (3) Other sub-segments such as air cooler / commercial air conditioning are growing at ~80% / ~15% YoY. (4) India's air conditioner industry is ~14mn whereas domestic capacity to manufacture compressors is ~8mn. Hence, there is high probability of relaxations in norms to import compressors. Voltas has largely done investments in sourcing of compressors and may not be affected more than industry in case of shortage of compressors in CY25.

(5) It has made investments to expand distribution of Voltbek from 7,000 outlets in FY24 to 12,000 now (Voltas distribution: 30,000 outlets). We trim FY26-27E earnings by 3.8-3.9% to factor in higher focus on volumes and likely impact on margins. We remain positive on Voltas and maintain **ADD**.

Demand likely to remain strong

In our view, Voltas is on track to report 20-25% volume growth in air conditioners YoY. In spite of strong base, intense summer has resulted in higher demand for air conditioners in CY25. While there are supply-chain issues in compressors, the company has indicated that it has covered the supply in near term. As inverter RAC is 80%+ in revenue terms, shortage of fixed compressors (if any) may not materially impact Voltas.

Focus on volume; margin likely to be impacted YoY

The company has decided to focus on volume growth and regaining lost market share. It has stepped up its investments in ATL spends, sales team and merchandisers. While there are longer-term benefits, the expenditure may slightly weigh on margins in near term. The company has also not hiked prices after May'24 as it wants to remain relevant for value conscious consumers and strengthen market share. We model EBITDA margin in Q4FY25 to be slightly lower (~100bps) YoY. The company wants to focus on absolute profitability rather than just the margins.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,24,812	1,57,019	1,83,768	2,12,805
EBITDA	4,746	10,363	12,312	15,758
EBITDA Margin (%)	3.8	6.6	6.7	7.4
Net Profit	2,540	7,532	8,727	11,800
EPS (INR)	7.7	22.8	26.4	35.7
EPS % Chg YoY	(32.4)	196.5	15.9	35.2
P/E (x)	194.7	65.7	56.7	41.9
EV/EBITDA (x)	94.5	43.2	35.9	27.5
RoCE (%)	4.1	10.4	11.2	13.1
RoE (%)	4.5	12.3	13.0	15.6

Aniruddha Joshi
aniruddha.joshi@icicisecurities.com
+91 22 6807 7249
Manoj Menon
manoj.menon@icicisecurities.com
Karan Bhuwania
karan.bhuwania@icicisecurities.com

Market Data

Market Cap (INR)	495bn
Market Cap (USD)	5,728mn
Bloomberg Code	VOLT IN
Reuters Code	VOLT.BO
52-week Range (INR)	1,946 /1,032
Free Float (%)	69.0
ADTV-3M (mn) (USD)	31.9

Price Performance (%)	3m	6m	12m
Absolute	(14.0)	(22.5)	42.9
Relative to Sensex	(9.2)	(13.2)	38.1

ESG Score	2023	2024	Change
ESG score	**76.2**	**69.8**	**(6.4)**
Environment	58.8	55.1	(3.7)
Social	77.1	71.2	(5.9)
Governance	83.2	77.5	(5.7)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
Revenue	0.0	0.0
EBITDA	(3.6)	(3.8)
EPS	(3.8)	(3.9)

Previous Reports

30-01-2025: Q3FY25 results review
10-12-2024: Company update

Other sub-segments of UCP are doing well

Other sub-segments are progressing well with air coolers reporting 80-85% revenue growth YoY. Voltas is strong no.2 player in air coolers now. There were issues in liquidation of inventory in commercial refrigeration but it has also likely maintained stable revenue growth. Commercial air conditioning is also on track to report revenue growth in mid-high teens in Q4FY25 YoY. Considering the weightage of all sub-segments (Air conditioner: Air cooler: Commercial refrigeration: Commercial air conditioning of 60%: 5%: 15%:20%), we believe UCP segment may report revenue growth of 20%+ YoY.

Limited impact on inverter air conditioners

As of now, there are issues in procurement of fixed inverters from some Chinese suppliers. However, as Voltas (as well as industry) sells 80%+ inverter air conditioners, we note there is no material impact on Voltas. While there is reduction in restrictions on imports of compressors above 2 TON, we note ~90% of industry volume is for products less than 2 TON.

Distribution expansion for Voltbek

The company has been investing aggressively in distribution expansion for Voltbek. Its distribution has expanded from 7,000 outlets in FY24 to 12,000 outlets now. Considering Voltas' distribution of 30,000 outlets, we believe there is material potential to expand distribution from current levels.

Possibility for relaxation in imports of compressors

The air conditioner industry in India accounts for ~14mn units per annum whereas domestic souring of compressors stands at ~8mn. Hence, there is possibility of shortage of compressors unless there are relaxations given in imports of compressors. Considering expansion of compressor manufacturing capacity in India is tougher in short term, we believe the relaxation will be important to determine industry growth post Q1FY26.

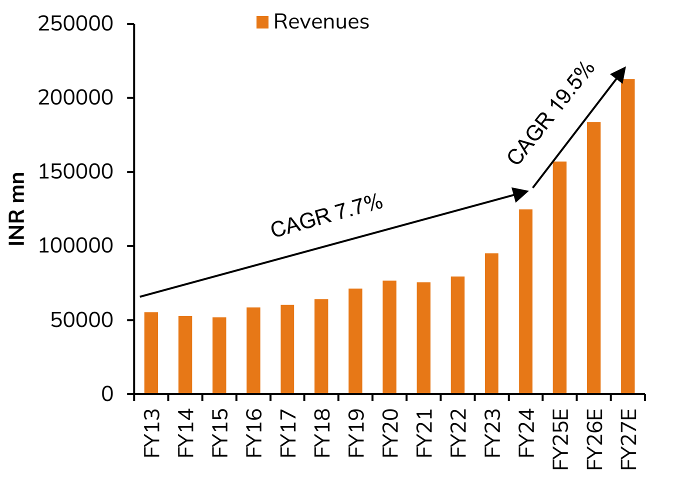
Valuation and risks

We model Voltas to report revenue and PAT CAGRs of 16.4% and 25.2%, respectively, over FY25–27E. We maintain **ADD** rating with DCF-based revised TP of INR 1,575 (implied target P/E of 44x 27E EPS; earlier TP: INR 1,630).

Key risks: (1) Steep increase in raw material prices; (2) delays in new plant/product launches; and (3) steep increase in competitive pressures.

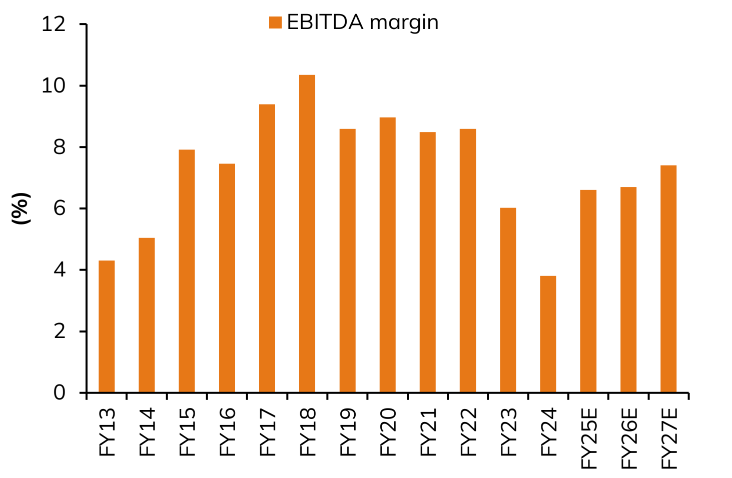
Key indicators – Annual

Exhibit 1: Revenue growth



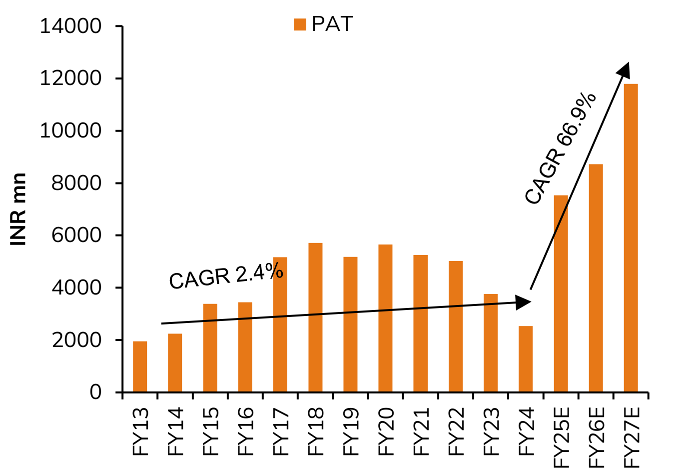
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



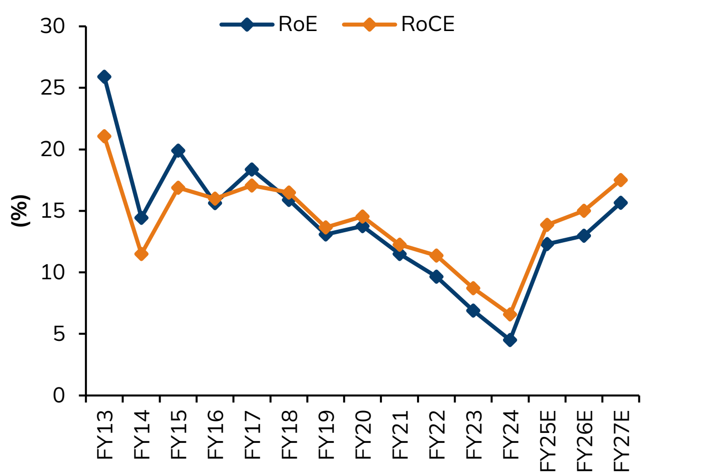
Source: Company data, I-Sec research

Exhibit 3: PAT growth



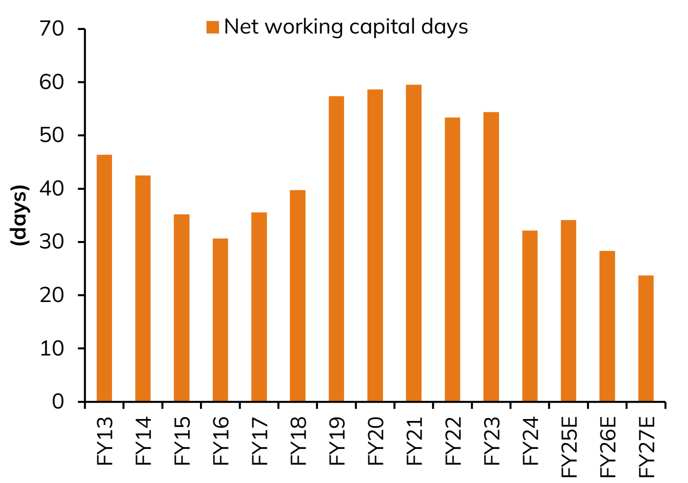
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



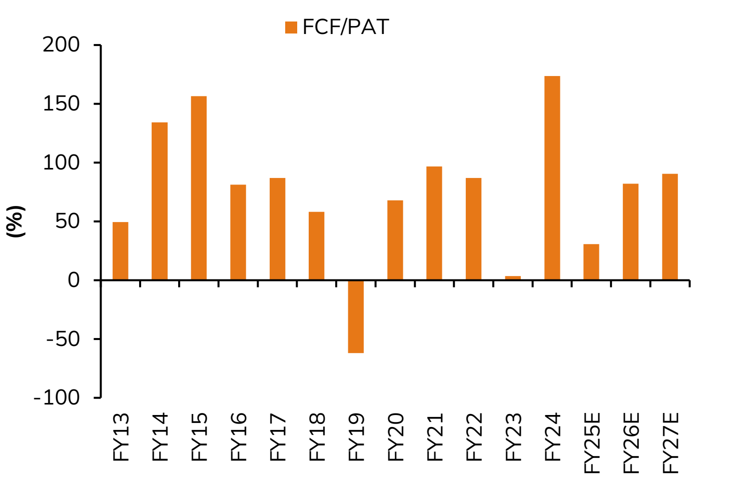
Source: Company data, I-Sec research

Exhibit 5: Net working capital days



Source: Company data, I-Sec research

Exhibit 6: FCF/PAT



Source: Company data, I-Sec research

Valuation and risks

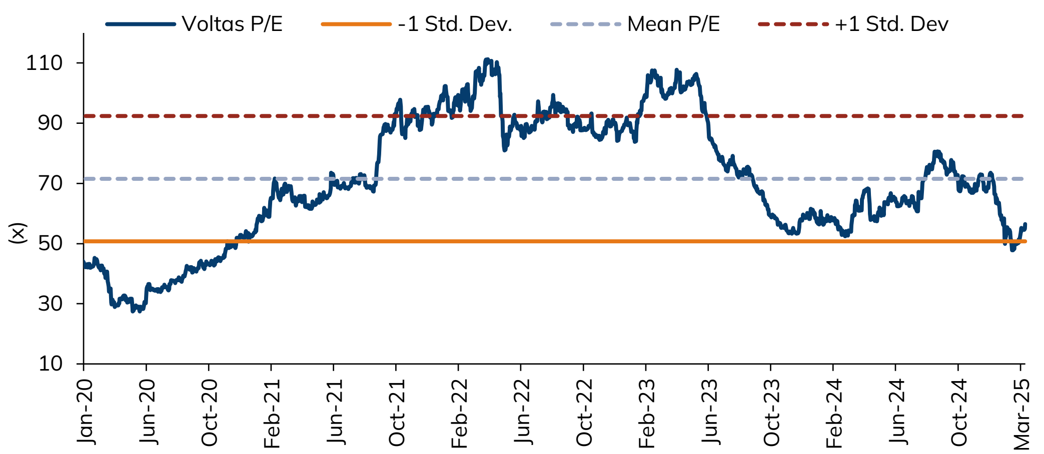
We model Voltas to report revenue/PAT CAGR of 16.4%/25.2% over FY25-27E with improvement in RoCE. At our DCF-based revised target price of INR 1,575 (earlier INR 1,630), implied target P/E works out to 44x FY27E EPS. Maintain **ADD.**

Exhibit 7: DCF-based valuation

Particulars	
Cost of Equity (%)	11.1%
Terminal growth rate (%)	5.0%
Discounted interim cash flows (INR mn)	1,32,015
Discounted terminal value (INR mn)	3,88,995
Total equity value (INR mn)	5,21,010
Value per share (INR)	**1,575**

Source: Company data, I-Sec research

Exhibit 8: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new plants/products

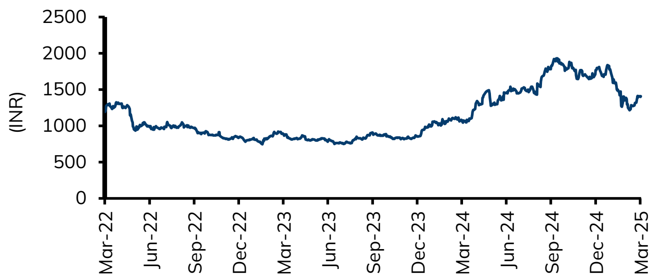
Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 9: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	30.3	30.3	30.3
Institutional investors	55.5	55.5	56.0
MFs and others	25.3	24.4	21.4
FIs/Banks	0.5	2.0	3.2
Insurance	14.2	10.5	9.6
FIIs	15.5	18.6	21.8
Others	14.2	14.2	13.7

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,24,812	1,57,019	1,83,768	2,12,805
Operating Expenses	**1,20,066**	**1,46,655**	**1,71,456**	**1,97,047**
EBITDA	4,746	10,363	12,312	15,758
EBITDA Margin (%)	**3.8**	**6.6**	**6.7**	**7.4**
Depreciation & Amortization	476	662	901	1,029
EBIT	4,270	9,702	11,411	14,729
Interest expenditure	559	511	511	511
Other Non-operating Income	2,533	2,665	2,223	2,493
Recurring PBT	6,244	11,856	13,123	16,711
Profit / (Loss) from Associates	**(1,386)**	**(1,250)**	**(1,000)**	**(600)**
Less: Taxes	**2,377**	**3,023**	**3,346**	**4,261**
PAT	3,867	8,832	9,777	12,450
Less: Minority Interest	(59)	50	50	50
Extraordinaries (Net)	2,550	-	-	-
Net Income (Reported)	5,091	7,532	8,727	11,800
Net Income (Adjusted)	**2,540**	**7,532**	**8,727**	**11,800**

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	72,232	89,093	1,05,672	1,26,401
of which cash & cash eqv.	8,523	9,258	15,137	24,252
Total Current Liabilities & Provisions	52,711	65,163	76,264	88,314
Net Current Assets	**19,521**	**23,930**	**29,408**	**38,087**
Investments	39,065	39,065	39,065	39,065
Net Fixed Assets	4,249	9,063	10,162	11,132
ROU Assets	-	-	-	-
Capital Work-in-Progress	3,675	-	-	-
Total Intangible Assets	723	723	723	723
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	**67,234**	**72,781**	**79,358**	**89,008**
Liabilities				
Borrowings	**8,516**	**8,516**	**8,516**	**8,516**
Deferred Tax Liability	**176**	**176**	**176**	**176**
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	331	331	331	331
Reserves & Surplus	57,874	63,422	69,999	79,648
Total Net Worth	**58,205**	**63,753**	**70,329**	**79,979**
Minority Interest	337	337	337	337
Total Liabilities	**67,234**	**72,781**	**79,358**	**89,008**

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	42,029	49,210	26,191	31,051
% growth (YOY)	42.1	46.5	14.2	18.3
EBITDA	1,906	4,238	1,622	1,974
Margin %	4.5	8.6	6.2	6.4
Other Income	544	803	1,055	591
Extraordinaries	562	854	867	(606)
Adjusted Net Profit	1,163	3,342	1,338	1,315

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	**9,596**	**4,520**	**10,029**	**13,265**
Working Capital Changes	801	(3,674)	401	436
Capital Commitments	(2,931)	(1,800)	(2,000)	(2,000)
Free Cashflow	**12,526**	**6,320**	**12,029**	**15,265**
Other investing cashflow	**(4,978)**	**-**	**-**	**-**
Cashflow from Investing Activities	(7,909)	(1,800)	(2,000)	(2,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	974	-	-	-
Dividend paid	(1,432)	(1,985)	(2,150)	(2,150)
Others	-	-	-	-
Cash flow from Financing Activities	(459)	(1,985)	(2,150)	(2,150)
Chg. in Cash & Bank balance	**1,228**	**735**	**5,879**	**9,115**
Closing cash & balance	8,162	9,258	15,137	24,252

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	7.7	22.8	26.4	35.7
Adjusted EPS (Diluted)	7.7	22.8	26.4	35.7
Cash EPS	9.1	24.8	29.1	38.8
Dividend per share (DPS)	4.3	6.0	6.5	6.5
Book Value per share (BV)	176.0	192.7	212.6	241.8
Dividend Payout (%)	177.3	379.5	405.9	548.8
Growth (%)				
Net Sales	31.4	25.8	17.0	15.8
EBITDA	(17.1)	118.3	18.8	28.0
EPS (INR)	(32.4)	196.5	15.9	35.2
Valuation Ratios (x)				
P/E	194.7	65.7	56.7	41.9
P/CEPS	164.0	60.4	51.4	38.6
P/BV	8.5	7.8	7.0	6.2
EV / EBITDA	94.5	43.2	35.9	27.5
EV / Sales	-	-	-	-
Dividend Yield (%)	0.3	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	21.4	23.5	23.8	24.5
EBITDA Margins (%)	3.8	6.6	6.7	7.4
Effective Tax Rate (%)	38.1	25.5	25.5	25.5
Net Profit Margins (%)	2.0	4.8	4.7	5.5
NWC / Total Assets (%)	16.4	20.2	18.0	15.5
Net Debt / Equity (x)	1.1	1.1	1.1	1.1
Net Debt / EBITDA (x)	14.1	7.0	6.4	5.6
Profitability Ratios				
RoCE (%)	4.1	10.4	11.2	13.1
RoE (%)	4.5	12.3	13.0	15.6
RoIC (%)	13.5	33.0	34.5	43.5
Fixed Asset Turnover (x)	17.0	15.2	13.1	13.3
Inventory Turnover Days	70.9	69.1	66.9	66.6
Receivables Days	84.1	93.5	90.5	90.1
Payables Days	168.1	162.7	157.5	156.7

Source Company data, I-Sec research

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