

Demand Recovery Aided By Strong Summer Season

Company Background

Voltas – a Tata Group company incorporated in 1954 is a leading RAC player in India. Furthermore, it also provides mechanical, electrical and plumbing (MEP) services to international as well as domestic clients in areas of infrastructure. The company is also a leading provider of end-to-end solutions in textile machinery and mining & construction equipment.

Rationale

- Strong summer season to boost RAC sales:** Several agencies, including the Ministry of Earth Science – Skymet, expect summer temperatures to be very high this year. Early Data suggests a strong probability of El Nino, leading to a potentially warmer summer this year. This, in turn, will result in higher demand for cooling products in current (Q4) and forthcoming quarter (Q1). Voltas being a leader is well-placed to capture this near-term opportunity.
- Market share gains:** Voltas has a strong lead over its competitors with its wide range of SKU's across tonnage, energy efficiency rating, and price points. The company has maintained its market leadership position in RAC's with a YTD market share (volumes) of 22.5%. Expansion of exclusive brand outlets and healthy participation of various channels is expected to aid growth and market share gains going forward.
- Good traction in other segments**
 - Electro-mechanical projects (EMPS)** carry-forward order book at the end of Q3FY23 stood at Rs 7543 Cr (almost at pre-Covid levels). Strong order book provides revenue visibility over the medium to long term.
 - Engineering Products and Services (EPS)** The lifting of levy on iron ore, coupled with improving realisation is expected to aid higher purchase of mining equipment going forward. Moreover, the announcement of PLI in textile will lead to increased demand for textile machinery in the medium term.

Latest Quarterly Performance (Q3FY23)

The company's overall revenue increased to Rs 2,006 Cr (up 12% YoY) with Unitary Cooling Products reporting revenues of Rs 1,216 Cr (up 11% YoY) on revival in demand aided by new product launches. The EMPS segment's revenue at Rs 648 Cr grew 17% YoY on fast order execution during the quarter. The EPS division revenues were subdued (down 5% YoY) on slowdown in mining activities in India. The company reported a net Loss of Rs 111 Cr owing to one-time exceptional loss of Rs 137 Cr (provision for overseas project).

Outlook

The RAC market remains underpenetrated at 7-8% vs. the global average of ~42%, thereby providing huge headroom for growth in the medium to long term. We further believe that (a) The increasing disposable income of the aspirational class of consumers; (b) Rising demand for energy efficient products, and (c) Availability of finance is expected to drive RAC demand in the medium to long term.

We believe the worst is behind and Voltas will benefit from the recovery in RAC demand and revival in other segments. **The stock is currently trading at ~34X FY25 Consensus EPS of Rs 26, as compared to its historical average of ~50 X.**

Key Financials

(Rs. Cr)	FY20	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	7,658	7,556	7,935	9,430	10,912	12,475
EBITDA	687	641	682	593	881	1093
EBITDA Margin (%)	9.0	8.5	8.6	6.3	8.1	8.8
Net Profit (Rs Cr)	521	529	506	396	669	854
EPS (Rs.)	15.8	16.0	15.3	12.7	20.4	26.0
P/E (X)	54.0	53.0	55.6	70.3	43.9	34.4
ROE (%)	13.0	10.6	9.2	6.8	11.2	13.3
DPS (Rs)	4.0	5.0	5.5	6.0	6.5	6.5
Debt/Equity	0.1	0.1	0.1	0.1	0.1	0.1

Source: Bloomberg consensus estimates

(CMP as of 21 st Feb 2023)	
CMP (Rs)	895
Upside	UNRATED
High/Low (Rs)	1,348/ 738
Market cap (Cr)	29,604
Avg. daily vol. (6m) Shrs.	12,45,694
No. of shares (Cr)	33

Shareholding (%)

	Jun-22	Sep-22	Dec-22
Promoter	30.3	30.3	30.3
FIIs	24.7	24.4	21.6
MFs / UTI	17.3	15.1	14.1
Banks / Fls	0.4	0.4	0.5
Others	27.4	29.9	33.6

Financial

Y/E Mar (Rs Cr)	FY23E	FY24E	FY25E
Net Sales	9,430	10,912	12,475
EBITDA	593	881	1093
Net Profit	396	669	854
EPS (Rs.)	12.7	20.4	26.0
PER (x)	70.3	43.9	34.4
ROE (%)	6.8	11.2	13.3
DPS (Rs)	6.0	6.5	6.5
Debt /Equity (X)	0.1	0.1	0.1

Consensus growth estimates (%)

Y/E Mar	FY23E	FY24E	FY25E
Sales	18.9	15.7	14.3
EBITDA	-12.9	48.5	24.0
PAT	-21.7	68.8	27.8

ESG disclosure Score**

Environmental Disclosure	33.2
Social Disclosure Score	31.4
Governance Disclosure Score	78.6
Total ESG Disclosure Score	47.8

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2020 disclosures

Relative performance



Source: Bloomberg, AxisSecurities

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Disclosures:

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