January 12, 2024

Voltas Limited: Ratings reaffirmed for bank loan rating; rated amount enhanced; rating reaffirmed and withdrawn for non-convertible debentures

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term, fund-based and non-fund based limits	2,113.33	2,113.33	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Long-term/ Short-term, Unallocated	86.67	86.67	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Long-term – Proposed non-convertible debentures	500.00	0.00	[ICRA]AA+(Stable); reaffirmed & withdrawn
Long-term – Fund-based – Term loans	0.00	500.00	[ICRA]AA+(Stable); assigned
Total	**2,700.00**	**2,700.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action on Voltas Limited (Voltas) considers its strong credit profile and expectation that the profile will remain stable, going forward, on the back of its diversified business risk profile across consumer and project businesses (both domestic and international). Being a part of the Tata Group, Voltas continues to enjoy strong financial flexibility and is complemented by a professional management and strong financial policies. The ratings remain underpinned by Voltas' leadership position in the unitary cooling products business, strong execution track record in the projects business, robust financial profile marked by large-scale operations, strong return and debt protection metrics, and a superior liquidity position.

The ratings, however, remained constrained by the company's exposure to challenges in the project business, primarily in the international market, wherein it has witnessed challenges in terms of delay in certifications, slow collections, leading to higher provisioning in FY2023 and H1 FY2024, thereby reporting losses for the segment. The company also faced challenges related to encashment of bank guarantees (BGs) for two of its overseas projects in FY2023, of which one was on account of the contract termination and, invocation of Bank guarantee of the customer by the main contractor (owing to certain performance issues of main contractor). This led to the main contractor terminating Voltas' contract and invoking the BG; and in the second encashment case, despite the project being executed and under the defect liability period (DLP), the main contractor unilaterally invoked Voltas' BG. These encashments impacted the net profitability at the entity level. Given its strong liquidity levels, the entity was able to manage these pay-outs and is expected to absorb any such externalities in the near term. The company, hence, is relooking at its strategies related to risk management, especially at the international project level, and is expected to be more diligent, adding more conditions to its contracts and guarantees and thereby a more cautious approach while taking up new projects.

The ratings also factor in the seasonality and reliance of the unitary products business group (UPBG) to climatic conditions, primarily the intensity of summers along with stiff competition from several other established players in the field. Voltas' market share declined to 19.2% towards the end of September 2023 over 21.6% towards the end of March 2023, owing to competition and aggressive pricing by competitors. However, the company continues to maintain its market leadership position in room air conditioners (RACs).

In FY2023, Voltas reported 19.7% revenue growth, backed by the unitary segment. The unitary segment witnessed 33% YoY revenue growth in FY2023, while the Electromechanical Projects and Services (EMPS) segment declined by 2.7% amid a low carry-forward order book, completion stage of major projects, and the company's cautionary approach towards fresh orders.

In H1 FY2024, the company reported healthy YoY revenue growth of 30%, driven by healthy sales from its unitary segment, EMPS and the Engineering Products Business Group (EPBG).

The operating margins declined to 6.0% in FY2023 over 8.6% in FY2022, affected by intense competition and aggressive pricing by competitors in the unitary segment and provisions owing to delayed collection of receivables in the international project business. The operating margins contracted to 4.5% in H1 FY2024 (against 6.1% in H1 FY2023) due to delayed certifications and collections, primarily in overseas projects. The margin in the near term shall remain exposed to competition in the company's unitary cooling business as well as to challenges faced in select projects, which may impact the overall results.

The Stable outlook reflects the company's leadership position in the RAC segment along with consistent cash accruals and superior liquidity levels, and strong order book position, which will continue to support its robust credit profile in the medium to long term.

ICRA has reaffirmed and withdrawn the rating for the proposed NCD, at the request of the company and as per ICRA`s withdrawal policy, as it was never placed. Consequently, the company has gone ahead and raised a term loan from banks for the same.

Key rating drivers and their description

Credit strengths

Financial flexibility as part of the Tata Group – Voltas is a part of the Tata Group, which holds a 30.30% stake in the company. Being part of the Tata Group provides it with considerable financial flexibility in accessing financial markets and the banking system, in case of any funding requirements.

Diversified revenue streams with significant contribution from EMPS and UPBG verticals – Voltas is present in the mechanical, electrical and plumbing (MEP), as well as in the heating, ventilation and air conditioning (HVAC) segments in the domestic and overseas (mainly West Asian) markets, in addition to the AC business in the domestic market. These two businesses account for ~94% of Voltas' revenues. However, its revenues are fairly diversified in each of these segments in terms of geographies served and products/services offered. Through its EPBG vertical, Voltas operates as an authorised distributor in the textile machinery (domestic) market as well as in the mining and construction equipment (domestic and Mozambique) markets. The EPBG segment accounted for ~6% of its revenues in FY2023, contributing strongly to the company's profits.

Strong market presence in RAC and commercial AC businesses – The company has a dominant market position across the country in RACs, with presence in both window and split ACs. This has aided the UPBG division and increased its market share over the years. However, the company had witnessed a decline in its market share to 19.2% towards the end of September 2023 over 21.6% towards the end of March 2023, owing to stiff competition and aggressive pricing by competitors. However, Voltas continues to maintain its market leadership position in RACs, driven by its healthy tie-ups with dealers/ distributors, modern trade and organised channels, growing network of exclusive brand outlets, over 25,000 touch points with a customer-centric approach, and consumer trust in its brand.

Extensive presence and strong market position in West Asian markets – Voltas has a well-established market position in the project business and is well poised to benefit from any growth in fresh order flow in its target markets in the long-term. The domestic order booking is stronger, driven by healthy orders from water management projects, rural electrification, and urban infrastructure sectors. While the order bookings in the overseas markets remained healthy in FY2023 and H1 FY2024, they are expected to remain moderate in the near term due to a cautious approach in order picking.

Strong financial risk profile as reflected by low gearing levels, superior liquidity profile and strong debt protection metrics – Voltas had a strong capital structure reflected in its gearing of 0.1 times and Total Debt/OPBDITA of 1.1 times as on March 31, 2023. It also had a superior liquidity position, as evident from its cash and bank balances as well as liquid investments (including non-current MF investments) worth Rs. 3,715 crore, as on March 31, 2023. ICRA notes that on a consolidated basis, Voltas has a planned capex of ~Rs. 640 crore for the production linked incentive (PLI) scheme, and capacity expansion in its AC and commercial refrigeration segments in FY2024 and Q1 FY2025. The debt protection metrics also continue to be at strong levels, with interest coverage at 19.4 times and DSCR at 8.2 times as of FY2023.

Credit challenges

Project business exposed to time and cost overruns along with competition from established players; margin pressure in project business as reflected by losses in FY2023 and H1 FY2024 – The company's EMPS business remains exposed to time and cost overruns with a longer gestation period for most of its orders in the project business. The tenure for international and domestic projects generally ranges from two to three years. The company continues to face competition from established players in the project business. The company remains cautious in picking up the right projects by following requisite credit check and other risk procedures to avoid any concerns on delay and liquidity issues in the project business. The margin in the segment remains under pressure as reflected in the company's EBIT losses of -12.6% (including provisions) in FY2023 and -6.3% in H1 FY2024, owing to delay in certifications and slow collections resulting in provisions, following prudent and conservative policy. The segment has also faced challenges related to BG invocations, in FY2023. The company is relooking at its risk management strategies while bidding for projects, especially in the international market, and is expected to be much more judicious in client selection, going forward.

Ability to turn around and profitably scale-up newer appliances business under VoltBek JV remains critical for product and earnings diversification – Voltas has a JV with Arçelik (European consumer brand) called Voltbek Home Appliances Private Limited, for manufacturing appliances like refrigerators, washing machines and dishwashers, from its Sanand factory (Gujarat), which has a production capacity of one million units per annum for refrigerators. At present, the JV is loss making, and the losses increased to Rs. 250.7 crore in FY2023 over Rs. 222.3 crore in FY2022. The JV, however, reported a revenue growth of 16% indicating that per unit loss had reduced from FY2022 to FY2023. In Q1 FY2024, the JV reported significant YoY volume growth of 50%, further indicating lower per unit loss and, thereby the company targets to achieve EBITDA break-even by FY2025. Also, the ability of the company to turn around the business, along with profitably scaling up the segment, remains critical for product and earnings diversification. Voltas provided financial support of Rs. 122.5 crore to the JV in FY2023 and is expected to provide further support to fund its working capital and capex requirement.

UPBG segment susceptible to climatic vagaries, changing technologies and intense competition – While Voltas continues its leadership position in the ACs (window and split) segment, the same remains susceptible to climatic vagaries. The unitary segment has witnessed a healthy growth in FY2023 and H1 FY2024, on the back of accelerated demand for cooling products. With stiff competition among RAC players, the segment remains susceptible to pricing pressures in the near term as reflected in EBIT margin getting moderated to 8.3% in FY2023 and to 8.1% in H1 FY2024, against 10.5% in FY2022. The ability of the company to maintain acceptable margin levels and its leadership position, remain key priorities for this division.

Liquidity position: Superior

The company's liquidity position remains superior, given the positive free cash flow generation since FY2013, supported by the performance of the UPBG division and judicious capital expenditure (capex) spend. Lower borrowings resulted in low interest expenses, which in turn supported its cash flows. The company had sizeable cash balances and liquid investments (including non-current MF investment) of Rs. 3,715 crore, as on March 31, 2023, over a consolidated total debt of Rs. 650.6 crore (including lease liabilities of Rs. 45.0 crore), indicating a superior liquidity. In addition, the company has sizeable fund-based facilities, which are sparingly utilised. The company's capex plan is of ~Rs. 640 crore in FY2024 and Q1 FY2025.

Environmental and Social Risks

Environmental considerations: The company is exposed to risks such as harmful emissions that have a negative impact on the environment and risk of ozone depletion. However, the company has optimised the design of its ACs, resulting in reduced copper consumption and refrigerant gas usage. The company uses refrigerants like R32 in its ACs, which have zero ozone depleting potential, and introduced hydrocarbon (R290) refrigerants for its commercial freezers. It is also taking various initiatives for cutting down its carbon footprint. The company is working towards renewable energy, energy efficiency and clean technology.

Social considerations: Voltas is exposed to social risks such as compliance with health and safety standards along with evolving consumer lifestyle changes. However, there is a comprehensive Safety-Health-Environment (S-H-E) policy in place at Voltas. Based on the community needs assessment exercise, the company has built a framework, which includes three thrust areas—(a) sustainable livelihoods, (b) community development, and (c) issues of national importance. These three thrust areas include projects aimed at skilling and employability building of marginalised youth and women; water resource development and sustainable agriculture; and sanitation, hygiene and solid waste management interventions for the marginalised and vulnerable communities.

Rating sensitivities

Positive factors – ICRA could upgrade Voltas' ratings, if the company demonstrates sustained improvement in its revenues and profitability, coupled with its ability to achieve business diversity, while maintaining its leading position in the UPBG segment and improving its new appliances business. The ability to improve its margins in the EMPS segment on a sustained basis, while maintaining a favourable working capital cycle along with superior liquidity, will qualify for a rating upgrade.

Negative factors – Pressure on Voltas' ratings can arise with sharp contraction in earnings and liquidity on a sustained basis. Any large debt-funded capex or inorganic acquisitions leading to material impact on the debt indicators can also be a trigger for a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Policy On Withdrawal of Credit Rating
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Voltas. As on March 31, 2023, the company had nine subsidiaries, four joint ventures and one associate company.

About the company

Voltas Limited is a part of the Tata Group, which holds a 30.30% stake in the company. Voltas operates in three main business segments—UPBG, EMPS and EPBG. The UPBG business markets ACs, air coolers, water coolers and other commercial refrigeration products and is also present in the market of centralised air-conditioning and refrigeration. The EMPS business provides engineering solutions for MEP projects, HVAC applications, water management services, electrification and solar jobs in domestic and overseas markets. The EPBG business markets and trades in mining and construction equipment as well as textile machinery, besides providing after-sales services.

Key financial indicators (audited)

VL Consolidated	FY2022	FY2023
Operating income	7,934.5	9,498.8
PAT	616.3	256.9
OPBDIT/OI	8.6%	6.0%
PAT/OI	7.8%	2.7%
Total outside liabilities/Tangible net worth (times)	0.8	0.9
Total debt/OPBDIT (times)	0.5	1.1
Interest coverage (times)	26.4	19.4

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 12, 2024	Oct 4, 2023	Aug 24, 2022	Aug 26, 2021	May 11, 2020
1	Fund/non-fund based Limits	Long term and short term	2113.33	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
2	Unallocated	Long term and short term	86.67	--	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Proposed non-convertible debentures	Long term	500.0	-	[ICRA]AA+ (Stable); withdrawn	[ICRA]AA+ (Stable)	-	-	-
4	Term loans	Long term	500.0	0.0	[ICRA]AA+ (Stable)	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term / Short term, fund based and non fund based limits	Simple
Long term / Short term, Unallocated	Not applicable
Long term- Fund based-Term loans	Simple
Proposed non-convertible debentures	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund/Non Fund based Limits	NA	NA	NA	2,113.33	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	Unallocated	NA	NA	NA	86.67	[ICRA]AA+(Stable)/ [ICRA]A1+
NA	Proposed non-convertible debentures	NA	NA	NA	500.00	[ICRA]AA+(Stable); withdrawn
NA	Term loans	FY2024	NA	FY2029	500.00	[ICRA]AA+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	VL Ownership	Consolidation Approach
Hi-Volt Enterprises Private Limited	100.00%	Full Consolidation
Universal MEP Projects & Engineering Services Limited (formerly known as Rohini Industrial Electricals Limited)	100.00%	Full Consolidation
Universal MEP Projects Pte Limited	100.00%	Full Consolidation
Weathermaker FZE (WMF)	100.00%	Full Consolidation
Saudi Ensas Company for Engineering Services & Trading W.L.L. (Saudi Ensas)	100.00%	Full Consolidation
Voltas Oman SPC	100.00%	Full Consolidation
Lalbuksh Voltas Engineering Services & Trading L.L.C.	60.00%	Full Consolidation
Voltas Qatar W.L.L.	49.00%	Full Consolidation*
Voltas Netherlands B.V.	100.00%	Full Consolidation
Voltbek Home Appliances Private Limited	49.00%	Equity Method
Universal Voltas LLC	49.00%	Equity Method
Olayan Voltas Contracting Company LLC	50.00%	Equity Method
Naba Diganta Water Management Limited	26.00%	Equity Method
Brihat Trading Private Limited	33.23%	Equity Method

*Source: Annual report FY2023, * due to control on composition of Board of Directors*

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Karan Gupta
+91 22 6114 3416
karan.gupta@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches