January 10, 2025

# Voltas Limited: Ratings reaffirmed; rated amount enhanced

## 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 | 2,666.15 | [ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount |
| **Long-term/ Short-term, Unallocated** | 86.67 | 333.85 | [ICRA]AA+ (Stable)/ [ICRA]A1+; reaffirmed and assigned for enhanced amount |
| **Long-term – Fund-based –Term loans** | 500.00 | 500.00 | [ICRA]AA+ (Stable); reaffirmed |
| **Total** | **2,700.00** | **3,500.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The ratings reaffirmation for Voltas Limited (Voltas) considers its strong credit profile and expectation that the same will remain stable, going forward, on the back of its established market position and strong business risk profile across consumer and projects divisions. 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 products business group (UPBG), strong execution track record in the projects business, robust financial profile marked by its large scale of operations, strong return and debt protection metrics, and a superior liquidity position. Voltas' revenue from operations grew by 31% in FY2024 on a YoY basis, led by a healthy demand in the room air-conditioning (RAC) segment amid an intense summer and also supported by healthy order execution in project business which increased by 53% in FY2024 on a YoY basis. Further, the healthy revenue growth momentum continued in H1 FY2025, with a rise of 33% on a YoY basis primarily driven by healthy sales in the UPBG segment.

The ratings also factor in the seasonal nature of its UPBG segment which is susceptible to climatic conditions, primarily the intensity of summers, along with stiff competition from several other established players in the field. ICRA notes the company's high reliance on UPBG business, as its business strategy, owing to increasing demand for these products. The company has witnessed year-on-year growth in the business over the last four-five years supported by the strength of the Tata brand, and its market leadership position in the domestic RAC segment. Voltas witnessed an improvement in its domestic RAC market share to 19.8% in H1 FY2025 from 18.7% in FY2024, owing to healthy tie-ups with general trade, modern trade and organised channels, growing network of exclusive brand outlets, including experience zones at strategic locations along with a focused customer centric approach during the season. ICRA also notes that the company is also present in other product segments such as commercial refrigeration, water coolers, water heaters, commercial air conditioners, air coolers, water heaters, etc, however, the revenue share from the same remains low at present.

The ratings, however, remain constrained by the company's exposure to challenges in the project business, primarily in the international market, where it has witnessed delays in certifications and slow collections, leading to higher debtors provisioning in FY2023 and FY2024, and thus losses for the segment. However, ICRA notes that there has been no provisioning in H1 FY2025, resulting in healthy profits for the segment. The company had faced challenges in its international project business in middle east, hence, it had revised its strategies related to risk management, especially for the international projects. Voltas is being more diligent, adding more conditions to its contracts and guarantees and thereby adopted a more cautious approach while taking up new projects. This has slowed down order booking in the international market.

Voltas' operating profit margin[1] (OPM) declined to 3.8% in FY2024 from 6.0% in FY2023, affected by various macro-economic factors including increase in commodity prices, increasing investments in below the line advertisements with an aim to grow volumes, intense competition in the UPBG segment and provisions owing to delayed collection of receivables in the international projects business. However, the OPM improved to 7.8% in H1 FY2025 (against 4.5% in H1 FY2024), with growth in the volumes and in the absence of any provisions. The OPM in the near term shall remain exposed to competition in the company's UPBG as well as to challenges faced in select projects, and remains a key monitorable. The management has indicated their focus on growing volumes, revenue and absolute profits.

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.

## Key rating drivers and their description

### Credit strengths

**Financial flexibility for being a part of the Tata Group -** Voltas is a part of the Tata Group, which holds a 30.30% stake in the company. As it is a part of the Tata Group, it enjoys considerable financial flexibility in accessing financial markets and the banking system, in case of any funding requirements.

**Strong business risk profile with significant contribution from Electromechanical Projects and Services (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 RAC business in the domestic market. These two businesses i.e. UPBG and EMPS accounted for 95.3% of Voltas' consolidated revenues in FY2024. However, its revenues are fairly diversified in each of these segments in terms of geographies served and products/services offered. Through its Engineering Products Business Group (EPBG) vertical, Voltas operates as an authorised distributor in the textile machinery (domestic) market as well as in the operations and maintenance contracts in mining and construction equipment (India and Mozambique) markets. The EPBG segment accounted for 4.7% of its revenues in FY2024, contributing strongly to the company's profits.

**Leadership position in the domestic RAC and commercial Refrigeration and AC businesses –** The company has a dominant market position in the domestic RAC segment, with presence in both window and split ACs. Post witnessing a decline in its market share to 18.7% in the domestic RAC segment in FY2024 from 21.6% in FY2023, owing to stiff competition and aggressive pricing by competitors. However, the market share improved to 19.8% in H1 FY2025, supported by healthy tie-ups with general trade and modern trade and organised channels, and a growing network of exclusive brand outlets including experience zones at strategic locations along with a focused customer centric approach during the season, with over 30,000 touch points. Although, the company witnessed a drop in its RAC market share in FY2024, it continued to grow its absolute revenues and profits through FY2024 and H1FY2025. Further, as per management, Voltas has maintained its leadership position in freezers, water coolers and water dispenser categories.

**Extensive presence and strong market position in West Asian markets –** Voltas has a well-established market position in the projects 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 FY2024, they are expected to moderate in the near term due to a cautious approach in order picking which may impact the revenues from the international market, going forward.

[1] Operating profit before depreciation, interest, taxes and amortisation / Operating income

## Credit challenges

**Projects business exposed to time and cost overrun along with competition from established players; losses reported in FY2023 and FY2024 –** The company's EMPS business remains exposed to time and cost overruns with a longer gestation period for most of its orders. The tenure for international and domestic projects generally ranges from one to three years. The company continues to face competition from established players in the business. It reported losses of Rs. 58.2 crore in FY2023 and Rs. 328.5 crore in EMPS business in FY2024 in the business owing to delays in certifications and slow collections resulting in debtors provisioning, following prudent and conservative policy. However, ICRA notes that there has been no provisioning in H1 FY2025, resulting in healthy profits for the segment. The segment also faced challenges related to bank guarantee (BG) invocations in FY2023 and the matters were under arbitration. In Q1 FY2025, the company received arbitration awards in its favour. Albeit, collection of the proceeds would take some time. 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 new appliances business under its VoltBek - remain critical for product and earnings diversification –** Voltas (including Tata Investment Corporation Limited) has a 50-50 joint venture (JV) with Arçelik Anonim Sirketi (Arçelik) (Turkish consumer brand) called Voltbek Home Appliances Private Limited, for home appliances like refrigerators, washing machines, dishwashers and microwave ovens. The company manufactures refrigerators and washing machines from its Sanand factory (Gujarat). The JV reported net losses of Rs. 267.1 crore in FY2024, which rose from Rs. 250.7 crore in FY2023. However, it reported a healthy YoY revenue growth of ~45% in FY2024 owing to a significant increase in its market share in the refrigerator and washing machine categories. In H1 FY2025, the JV reported a significant YoY volume growth of 54%, and it is expected to achieve EBITDA break-even by the end of FY2025. The ability of the company to turn around the business and profitably scale up the segment, remains critical for its product and earnings diversification. Voltas provided financial support of ~Rs. 110 crore to the JV in FY2024, however, no further support is expected going forward due to VoltBek's self-sustainability.

**Susceptibility of UPBG segment to climatic vagaries, changing technologies and intense competition -** While Voltas continues its leadership position in the RACs (window and split) segment, the same remains susceptible to climatic vagaries. The UPBG segment witnessed a healthy growth in volumes and revenues in FY2024 and H1 FY2025, led by strong demand in the RAC segment against the backdrop of an intense summer. With stiff competition among RAC players, the segment remains susceptible to pricing pressures. The ability of the company to maintain adequate profitability levels and its leadership position, remains critical for this division.

## Environmental and Social Risks

**Environmental considerations:** The company is exposed to risk such as harmful emissions that have a negative impact on the environment and the risk of ozone depletion. However, the company has optimised the design of the ACs resulting in reduced copper consumption and refrigerant gas usage. Further, the company is taking proactive measures to phase out hydrochlorofluorocarbon (HCFC) to protect the environment and the ozone layer. One of the key steps taken in this regard is the use of eco-friendly refrigerant R-32, which has zero ozone depletion potential. It is 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 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, it has built a framework, which includes three thrust areas: (a) sustainable livelihood, (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.

## 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) undertaken. The company had sizeable free cash and bank balances and liquid and non-current mutual fund investments of Rs. 4,529 crore as on March 31, 2024 and Rs. 4,147.8 crore as on September 30, 2024, against the consolidated total debt (including lease liabilities) of Rs. 743.6 crore and Rs. 871.0 crore as on March 31, 2024 and September 30, 2024, respectively, indicating a superior liquidity. In addition, the company has sizeable fund-based facilities of Rs. 1,545 crore, which are sparingly utilised. The company's capex plan of ~Rs. 450 crore over FY2025 and FY2026 is expected to be partly funded by undrawn term loans of Rs. 260 crore as on March 31, 2024 and the remaining through internal accruals. Further, the company's debt repayment at the consolidated level (including short-term loans of subsidiaries) remains moderate at Rs. 430 crore in FY2025 and Rs. 93.4 crore in FY2026.

## Rating sensitivities

**Positive factors –** ICRA could upgrade Voltas' long term rating, if the company demonstrates a 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, may lead to 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, materially impacting the debt indicators may also trigger for ratings downgrade.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | For arriving at the ratings, ICRA has considered the consolidated financials of Voltas. As on March 31, 2024, 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 RACs, 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 | FY2023 | FY2024 | H1 FY2025* |
|---|---|---|---|
| **Operating income** | 9,498.8 | 12,481.2 | 7,540.1 |
| **PAT** | 256.9 | 386.7 | 529.4 |
| **OPBDIT/OI** | 6.0% | 3.8% | 7.8% |
| **PAT/OI** | 2.7% | 3.1% | 7.0% |
| **Total outside liabilities/Tangible net worth (times)** | 0.9 | 1.0 | 0.9 |
| **Total debt/OPBDIT (times)** | 1.1 | 1.6 | 0.7 |
| **Interest coverage (times)** | 19.4 | 8.5 | 25.1 |

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

*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

| | Current (FY2025) | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY2025 | | | FY2024 | | FY2023 | | FY2022 | |
| **Instrument** | **Type** | **Amount Rated (Rs Crore)** | **Jan 10, 2025** | **Date** | **Rating** | **Date** | **Rating** | **Date** | **Rating** |
| **Fund/non-fund based Limits** | Long Term/Short term | 2,666.15 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 12-Jan-24<br>04-Oct-23 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 24-Aug-22 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 26-Aug-21 | [ICRA]AA+ (Stable)/ [ICRA]A1+ |
| **Unallocated** | Long Term/Short term | 333.85 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 12-Jan-24<br>04-Oct-23 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 24-Aug-22 | [ICRA]AA+ (Stable)/ [ICRA]A1+ | 26-Aug-21 | [ICRA]AA+ (Stable)/ [ICRA]A1+ |
| **Proposed Non-convertible debentures** | Long Term | - | - | 12-Jan-24 | [ICRA]AA+ (Stable); withdrawn | 24-Aug-22 | - | 26-Aug-21 | - |
| | | | | 04-Oct-23 | [ICRA]AA+ (Stable) | | | | |
| **Term loans** | Long Term | 500.00 | [ICRA]AA+ (Stable) | 12-Jan-24 | [ICRA]AA+ (Stable) | 24-Aug-22 | - | 26-Aug-21 | - |
| | | | | 04-Oct-23 | - | | | | |

## Complexity level of the rated instrument

| 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 |

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 analyzing 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, is 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 | 2,666.15 | [ICRA]AA+ (Stable)/ [ICRA]A1+ |
| NA | Unallocated | NA | NA | NA | 333.85 | [ICRA]AA+ (Stable)/ [ICRA]A1+ |
| 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 | 100.00% | Full Consolidation |
| Universal MEP Projects Pte Limited | 100.00% | Full Consolidation |
| Voltas Social Development Foundation | 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 FY2024, *Full consolidation due to control on composition of Board of Directors*

## ANALYST CONTACTS


**Shamsher Dewan**
+91 124 4545328
shamsherd@icraindia.com

**Kinjal Shah**
+91 22-6114 3442
kinjal.shah@icraindia.com

**Sakshi Suneja**
+91 22-6169 3349
sakshi.suneja@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