

PINC Quick Bite
Sector: Engineering
BSE Sensex: 16,451

VOLTAS

Maintain SELL
CMP Rs82
TP Rs85

We interacted with the management of Voltas to understand the reason behind sudden fall in the stock price. The key takeaways are:

18 January 2012

1. There has been no announcement made by the company in the recent past and there are no pending announcements to be made which could impact the stock price.
2. The results would be declared on 14th Feb 2012 and therefore, the management didn't reveal any company specific details.
3. However, the management reiterated that no improvement has been witnessed at ground level and situation remains bleak as before.
4. In the domestic MEP segment, despite the fact that there are expectations of interest rate cut, the industry (our focus area is commercial real estate) awaits for actual reduction in interest rates before considering any future projects or expansions thereby impacting the order inflows. Orders to Voltas are placed with a lag and visibility might improve following an improvement in the commercial real estate segment.
5. In the Unitary cooling system (which is directly related to weather conditions), no respite was witnessed. Record low temperatures recorded across India (even South India) continue to put pressure on sale of air conditioners and cooling products.

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VALUATIONS AND RECOMMENDATION

We believe, Voltas would continue to face headwinds going ahead on account of execution of projects in Qatar (loss making), slowdown in domestic order inflows due to higher interest rates, delay in execution of current projects and unfavourable weather conditions impacting sales of its cooling products. Few large overseas projects, acceptance of cost overrun by the customer in the existing projects being executed in Qatar, decline in interest rates and profitability in Rohini Electricals remain key triggers for the company going forward. At CMP, the stock is trading at PER of 12.6x FY12E and 9.7x FY13E. We maintain our negative view on the company and retain 'SELL' rating on the stock with a target price of Rs85 (10x FY13E). However, we believe that given the current bleak outlook, there can be further downside from the current levels.

STOCK DATA

Market Cap	Rs27.1bn.
Book Value per share	Rs41.2
Eq Shares O/S (F.V. Re1)	331mn.
Free Float	69.4%
Avg Traded Value (6 mnths)	Rs136mn
52 week High/Low	Rs219/72
Bloomberg Code	VOLT@IN
Reuters Code	VOLT.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	4.3	(17.3)	(60.9)
Relative	(2.5)	(15.8)	(54.6)

KEY FINANCIALS (CONSOLIDATED)

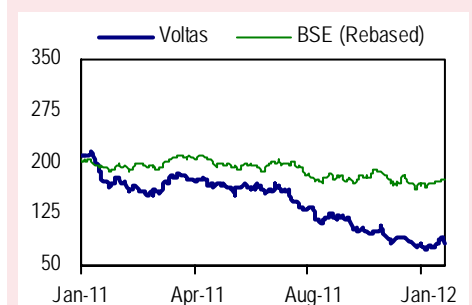
(Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	43,617	47,748	51,914	49,612	51,645
YoY Gr. (%)	35.6	9.5	8.7	(4.4)	4.1
Op. Profits	3,189	4,769	4,554	2,811	3,650
OPM (%)	7.3	10.0	8.8	5.7	7.1
Adj. Net Profits	2,335	3,628	3,303	2,145	2,807
YoY Gr. (%)	25.4	55.4	(9.0)	(35.1)	30.9

KEY RATIOS

Adj. Dil. EPS (Rs)	7.1	11.0	10.0	6.5	8.5
ROCE (%)	44.6	49.5	38.0	20.0	22.7
ROE (%)	34.2	38.7	27.0	14.6	16.8
PER (x)	11.6	7.5	8.2	12.6	9.7
EV/ Net Sales (x)	0.6	0.5	0.5	0.5	0.5
EV/EBDITA (x)	6.4	4.2	4.5	7.0	5.4

RELATIVE PERFORMANCE



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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