Prabhudas Lilladher

Voltas

MEP slowdown evident; reversal imminent

June 4, 2008

- **Slowdown in MEP just a quarterly blip:** Voltas' MEP sales growth was up 5.7% YoY in Q4FY08. The slow growth in MEP segment was due to the non recording of margins on 5 as per the percentage of sales method. The cost and revenue recorded for these orders was Rs500m, and the overall quantum of these orders is Rs15bn. Once 10% of these orders are completed the company will start accounting the margins on them. Owing to the large order book and the status of these five orders, we believe the segment should grow at more than 45% CAGR over the next two years.
- **Bulging order book:** Voltas has a current order book of Rs46bn (Q4FY08), which is a 112% YoY increase and 31% QoQ. This order book includes Rs8bn from domestic and Rs38bn from international orders. The company's domestic and international orders are executable over a period of 9-10 months and 24 months respectively.
- **Valuation:** At current market price of Rs133, the stock trades at 16.5x FY09E and 12.2x FY10E earnings of Rs8.1 and Rs10.9. We maintain BUY rating on the stock with a target price of Rs198, an upside of 48.6%.

Rating	**BUY**
Price	Rs133
Target Price	Rs198
Implied Upside	48.6%
Sensex	15,515

(Prices as on June 4, 2008)

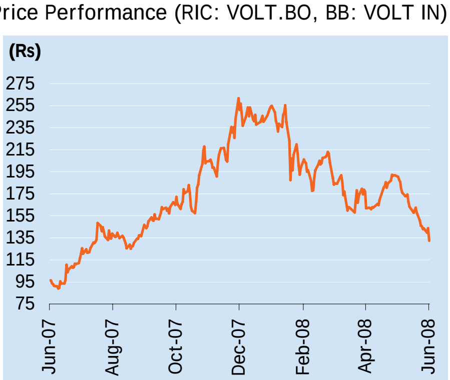
Trading Data	
Market Cap. (Rs bn)	43.9
Shares o/s (m)	330.7
Free Float	72.4%
3M Avg. Daily Vol ('000)	1,772.6
3M Avg. Daily Value (Rs m)	299.5

Major Shareholders	
Promoters	27.6%
Foreign	22.2%
Domestic Inst.	23.0%
Public & Others	27.2%

Stock Performance

(%)	1M	6M	12M
Absolute	(31.0)	(47.3)	37.2
Relative	(19.1)	(26.7)	30.2

Price Performance (RIC: VOLT.BO, BB: VOLT IN)



Source: Bloomberg

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	25,267	32,029	44,735	60,830
Growth (%)	*29.3*	*26.8*	*39.7*	*36.0*
EBITDA (Rs m)	1,280	2,531	3,772	5,196
PAT (Rs m)	1,321	1,760	2,662	3,609
EPS (Rs)	4.0	5.3	8.1	10.9
Growth (%)	*32.2*	*33.3*	*51.2*	*35.6*
Net DPS (Rs)	1.0	1.4	1.5	1.5

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08E	FY09E	FY10E
EBITDA margin (%)	*5.1*	*7.9*	*6.0*	*1.8*
RoE (%)	*31.2*	*34.4*	*41.8*	*42.2*
RoCE (%)	*32.6*	*42.5*	*47.7*	*51.4*
EV / sales (x)	1.7	1.4	1.0	0.8
EV / EBITDA (x)	33.9	17.2	16.6	43.6
PE (x)	33.3	25.0	16.5	12.2
P / BV (x)	10.4	8.6	6.9	5.1
Net dividend yield (%)	*0.8*	*1.0*	*1.1*	*1.1*

Source: Company Data; PL Research

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Management representatives:
Mr. Miyajiwala, CFO
Mr. B.N. Garudachar, General Manager

Q: Are you on track to achieve your 10 by 10 plan?

A: We are on track to achieve our plan. Our target is to achieve sales of Rs100bn, EBIT margin of 10% by 2010-11. Out of this we expect sales of Rs75bn to come from organic growth and the remaining Rs25bn should come via the inorganic route.

Q: How will you achieve this growth organically?

A: We have an order book of Rs46bn. Out of which Rs38bn is international and Rs8bn is domestic. Our international book has a turnaround time of 24 months and for domestic it is 6-9months. This will give you very good idea about how fast our MEP segment should grow. We expect our 2nd division to grow by 18% to 20% and unitary division to grow at over 30%.

Q: Have you identified any prospective company to buy, what line of business would this be in and what would the quantum of this deal be?

A: We are still scouting for a company. We are predominantly looking at a company operating in the MEP space. Water management would be an option. About the quantum, all we can say is that it won't be a very large buyout. On the funding side we have Rs2.2bn in investments in mutual funds and another Rs800m in cash.

Q: Talking about the MEP division, why did we loose the Delhi airport contract?

A: We lost the Delhi airport contract to ETA Dubai. They have a separate division in India, but this contract was won by the international division. The reason we lost this contract was that ETA had put in a very low bid, and we do not want to put in bids below a certain level of margin.

Q: What about the Mumbai airport?

A: We are currently working on the renovation work of the Mumbai Airport, but the tender for the expansion have not been released as yet.

Q: Is competition in Dubai heating up and who are your competitors in India?

A: It is getting more and more competitive in Dubai, which is why we are trying to diversify and target more geographies. In our current order book we have managed to bag some very large orders from Qatar. Bahrain is also an important geography for us. Going ahead, we want to establish our presence in Saudi Arabia and North Africa.

There are no large competitors domestically. But we have Sterling Wilson, which is a Shapoorji Pallonji company; Blue star is planning to enter this space as well.

Q: What is your outlook on the engineering division?

A: Our second division consists of 70% manufacturing and stock and sale and 30% consist of agency business. Our agency business predominantly consists of textile equipments, which is expected to slowdown due to the slowdown in the sector. There has been a slowdown in the material handling business due to the slowdown in the automobile industry. Our construction and mining segment should grow at a healthy pace. We expect this division to grow by 18% to 20%. Our EBIT margin could be in the range of 18-20%.

Q: Your unitary cooling division has seen a turnaround, what is your guidance for this division and your current market share?

A: We are very happy with the performance of our unitary cooling division this year. We were expecting margins of 5-6%, but we achieved 6.6% with a growth of 37%. We expect this division to grow at its current pace and expect margins to be in the range of 5% to 6%. Our current market share is 16%; we would want to achieve 18-19% over the next few years.

Q: How do you manage your currency risk?

A: On a company level, our currency risk evens out due to the first and third division. As our revenue and costs in the first division are in dollar terms, so only the margin we make faces currency risk. For the third division, we only import water dispensers and parts of the split air conditioner. We also have a separate team which evaluates our currency risk on a project-by-project basis.

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PL's Recommendation Nomenclature

BUY	:	> 15% Outperformance to BSE Sensex	**Outperformer** (OP)	:	5 to 15% Outperformance to Sensex
Market Performer (MP)	:	-5 to 5% of Sensex Movement	**Underperformer** (UP)	:	-5 to -15% of Underperformace to Sensex
Sell	:	<-15% Relative to Sensex			
Not Rated (NR)	:	No specific call on the stock	**Under Review** (UR)	:	Rating likely to change shortly