

Voltas (A Tata Enterprise)

CMP 159

BUY

Target 191

Key Data			
Price (Rs.)	159		
Market Cap (Rs.Crs.)	5279		
52 High /Low (Rs.)	262.5/147.35		
Mcap/Sales	1.22		
Book Value (Rs.)	41.15		
PE	15.98		
EPS	9.98		
P/BV	3.9		
FV	1		
BSE	500575		
NSE	VOLTAS		
Ket Financials Consolidated			
(Rs Crores)	FY10	FY11	% chg
Net Sales	4781.83	5211.42	8.98
PBIDT	563.04	562.01	-0.18
Interest	9.84	16.54	68.09
Depreciation	21.41	21.02	-1.82
Net Profit	380.99	357.24	-6.23
EPS (Rs)	11.52	10.80	-
Equity Capital	33.07	33.07	-
FV	1	1	-
PE (x)	13.80	14.72	-
Latest Quarterly results Consolidated			
(Rs Crores)	Mar-10	Mar-11	% chg
Net Sales	1480.6	1681.16	13.55
PBIDT	180.76	164.08	-9.23
Net Profit	136.03	101.04	25.72
Equity	33.07	33.07	-
EPS	4.11	3.06	-
Shareholding Pattern			
(%)	Dec-10	Mar-11	chg
Foreign	15.43	17.93	2.50
Institutions	32.69	30.74	-1.95
Corp. Holding	1.96	1.79	-0.17
Promoters	30.58	30.61	0.01
Public&Others	19.32	18.93	-0.39

Investment Arguments

- ~ Pick up in Investment spend in Gulf Region benefit Voltas
- ~ Consistent Order book
- ~ Three Business Segments – different opportunities
 - Electromechanical Projects & Services Segment
 - Engineering Products & Services (EP&S) Segment
 - Unitary Cooling (UC) Segment
- ~ Valuation

Company Description

Voltas, a Tata Group company, is a global air-conditioning and engineering services company incorporated in 1954. The company offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning (HVAC), refrigeration, electromechanical projects, textile machinery, machine tools, mining and construction equipment, materials handling, water management, building management systems, indoor air quality and chemicals. The operations have been organised into three independent business-specific clusters, electromechanical projects & services, engineering products & services and unitary cooling products. The Company's subsidiaries include Simto Investment Company Ltd., Auto Aircon (India) Ltd., Metrovol FZE, VIL Overseas Enterprises B.V., Voice Antilles N.V., Weathermaker Ltd., Saudi Ensas Company for Engineering Services W.L.L., Rohini Industrial Electricals Ltd., Universal Comfort Products Ltd., Agro Foods Punjab Ltd. and Westerwork Engineers Ltd.

Pick up in Investment spend in Gulf Region benefit Voltas

Gulf Region (which contribute +60% of Voltas revenues) are seeing initial signs of pick-up in investment spends. Key markets witnessing pick-up include (1) UAE – Projects tendered worth USD 53.7 bn (2) Qatar - USD 11.4 bn (3) Saudi Arabia - USD 76.1 bn. This is likely to benefit Voltas, a key player in the Gulf region, particularly Qatar & UAE. Voltas has also taken initiatives to increase presence in Saudi Arabia, Oman, Singapore and Hong Kong– to benefit from strong construction activity therein.

Consistent Order book

The company has been able to maintain its order book level around INR50bn, the rate of execution has reasonably slowed down to 14% from highs of 22-25% seen in the same period last year. Primary reasons cited by the company for the same are delays in execution due to design changes of larger orders and delays in certifications for closure of projects. Both these aspects are not only impacting revenue growth, but also leading to higher costs and increased working capital stress in the business thereby impacting overall return on these projects. The order flows from the international business slowing down, the company has now started focusing on the domestic market. Voltas has bagged some marquee orders like the Chennai Metro Project and Formula One racing circuit at Noida, UP. Domestic projects are shorter terms projects (12-18 months) as compared to international projects (24-36 months). Also, for international projects, major components and equipments are bought outs from USA and Europe due to the intensity and size involved, whereas in the domestic markets, the company manufactures and installs equipments of its own. Domestic projects offer better margins by 100bps as compared by international projects (5-6%).

Three Business Segments – different opportunities

Voltas comfortably placed in the domestic market - Both MEP and UCP Given its long track record in the Gulf Region, we believe that Voltas is best placed amongst its peers to cash-in on the domestic HVAC industry progression towards integrated MEP and effectively address the ensuing Rs529 bn MEP opportunity. Further, the management expects strong demand from hospitals, education, infrastructure & small retail; and revival in commercial real estate, large retail and ITES, over the next few quarters.

The operations have been organized into three independent business-specific clusters, electromechanical projects & services, engineering products & services and unitary cooling products.

Electromechanical Projects & Services Segment

This segment contributes 60% to the topline and bottomline and is primarily the projects segment of the company. Historically major revenue for the segment has been contributed by the Middle East

region comprising of Dubai, Abu Dhabi, Qatar, Bahrain, Singapore and Hong Kong. Post the meltdown in Dubai, company has moved its focus to Abu Dhabi, Qatar and Oman. Due to the regional issues coupled with global meltdown, the MENA region has witnessed significant pressure on real estate activity. Various projects in the past have gone for rebidding to sharp drop in commodity prices. The region has witnessed significant competition with various local and global companies vying for real estate, infrastructure and construction projects. One has also witnessed significant delays in starting and completing projects due to various reasons such as delays in certifications and changes in design.

Engineering Products & Services (EP&S) Segment

This business comprises of 3-4 key areas as under:

- Selling agents of textile machinery including sole selling agents of LMW.
- Trading and/or commission based sales of construction and mining equipments.
- Manufacture and sale of forklift trucks – this business would now be demerged to a new JV to KION where Voltas will have only a 26% stake. Voltas would however manufacture the forklift trucks for this JV out of their facility in Thane, Maharashtra. Voltas has received sum of INR1.1bn for the transfer of this business to KION.

Unitary Cooling (UC) Segment

The unitary cooling segment (in its new form) comprises of 5 major products namely commercial ACs, water coolers, water dispensers, split AC and window ACs. The company has its Uttarakhand.

Company has been able to maintain its No3 position in the AC market and no price wars have been witnessed owing to the summers and significant expansion in market demand across window as well as Split ACs. April 2011 has witnessed low volume growth due to lesser intensity of summers in the month.

However, significant pickup has been witnessed in the segment in May 2011 due to the growing intensity of the summers.

Financial Projections		
(in crs)	FY12E	FY13E
Net Sales	5650.0	6215.0
PBDIT	621.5	714.7
PBDIT %	11.0	11.5
PAT	395.5	428.8
PAT Margin %	7.0	6.9
EPS	11.96	12.97
Equity	33.1	33.1
FV	1	1
PE @ CMP	13.3	12.3

Valuation

At CMP, Voltas is trading at 13X FY12E and 12X FY13E consolidated earnings of Rs11.96 and Rs12.90 per share respectively which is on lower side of its 5 years median PE. We believe current valuations fully factor all concerns like delay in execution. We initiate with buy reco for a target price of Rs. 191 in 12 months.

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