

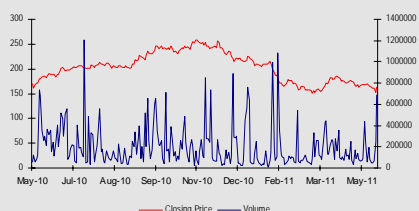
## Diversified

CMP **Rs 162**Target Price **Rs 205**

## Key Data

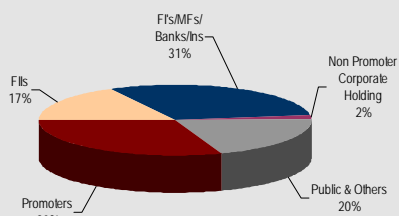
Face Value (Rs)	1
Market Cap (Rs Mn)	53,589.6
Total O/s Shares (Mn)	330.9
Free Float (%)	69.4
52 week H/L (Rs)	262/147
Avg Monthly Volume (BSE)	128483
Avg Monthly Volume (NSE)	655491
BSE Code	500575
NSE Code	VOLTAS
Bloomberg code	VOLT IN
Beta	0.94
Date of Incorporation	Sept 1954
Last Dividend Declared (FY09)	200%
Six month returns	-38%
Indices	BSE 200
FCCB's Outstanding	NA
Warrants outstanding	NA

## One Year Price / Volume Chart



Source: Capitaline

## Share Holding Pattern (31.03.2011)



Source: Company, KJMC Research

## Shefali Doshi

Research Analyst

Phone-022 4094 5500 Ext. 202

Email - shefali.doshi@kjmc.com

## Voltas Ltd

## BUY

Voltas Ltd declared its Q4FY11 results which remained slightly above our estimates on net sales. Consolidated net sales during Q4FY11 reported growth of 12.5% at Rs 16,709.2 mn on y-o-y basis. However higher raw material cost and increased debt cost weighed high on the consolidated EBITDA & PAT which declined by 6.9% & 27.8% respectively. During Q4FY11 consolidated EBITDA & PAT remained at Rs 1,409.5 mn and Rs 1,010.4 mn respectively. EBITDA & PAT margins witnessed a correction of 150 bps and 320 bps at 8.4% and 6% respectively during the quarter.

## Key Highlights

- ▶ **Project business remains underperformer during Q4FY11 & FY11:** During Q4FY11 Consolidated net revenues in the projects business which constituted around 57% of the revenues against 64% during Q4FY11, reported a muted growth of 2%. This was as a result of 56% decline in the revenues of Rohini Electricals Ltd. Also delay in execution of two major projects in Qatar, delays in finalization of claims in the international markets and the company's shift towards industry and infrastructure projects where the execution as well as the billing cycle are longer have added to the overall subdued performance for FY11 where in the revenues from the project business have reported a decline of 2.3% at Rs 30,411.4 mn. Higher raw material cost, higher cost on complicated projects in Qatar and pressure on profitability of JV's and subsidiaries in the international markets have negatively impacted the segment EBIT which declined by 24% & 25% at Rs 787.9 mn & Rs 2,393.0 mn for Q4FY11 & FY11 respectively. Rohini Industrial Electricals has incurred a loss of Rs 118 mn during the quarter as against a profit of Rs 46.5 mn in the corresponding quarter during last year. Also the revenues from the international projects declined by Rs 340 mn.
- ▶ **Unitary cooling products & Engineering product business posts healthy growth:** Engineering products & Unitary cooling product business posted a healthy growth during Q4FY11 & FY11 on revenues front. The growth in the Engineering division was primarily led by sale of spare parts, traded goods & services in mining & construction business. However the commission income from this segment was on the lower side.

## Financial Snapshot

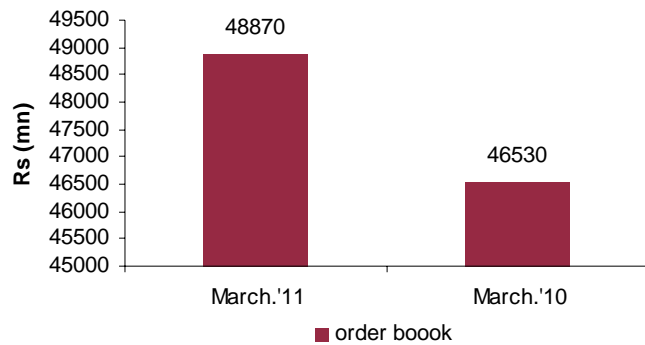
in Rs Mn

Particulars	FY08	FY09	FY10	FY11P	FY12E
Net Sales	32,029.3	43,259.0	48,058.8	51,913.7	59,262.9
Growth %	26.8%	35.1%	11.1%	8.0%	14.2%
EBITDA	2530.8	2831.3	4592.3	4553.8	5215.1
EBITDA %	7.9%	6.5%	9.6%	8.8%	8.8%
PAT	2076.8	2514.1	3809.9	3573.3	3772.5
PAT%	6.5%	5.8%	7.9%	6.9%	6.4%
EPS	6.3	7.6	11.5	10.8	11.4
P/E(x)	25.8	21.3	14.1	15.0	14.2
EV/EBITDA	20.2	17.9	10.7	10.7	9.0
ROE%	41.5%	36.8%	40.6%	29.9%	26.4%

Source: Company, KJMC Research

**Order book stands at Rs 48,870 mn:** The order book as on 31<sup>st</sup> March '2011 stood at Rs 48,870 mn which indicates an improvement of 5% on y-o-y basis. Domestic order book witnessed an improvement of 36% at Rs 19,630mn. This includes the projects won for Chennai Metro, Kolkatta & Chennai airports, TCS projects in Gandhi nagar & Chennai etc. However the international order book witnessed a decline of 9% at Rs 29,240 mn.

#### Order book



Source: Company, KJMC Research

### Segment Revenue

in Rs Mn

Particulars	Q4FY11	Q4FY10	% growth	FY11	FY10	% growth
<b>SEGMENT REVENUE</b>						
Electro - Mechanical Projects and services	9494.0	9309.6	2.0%	30411.4	31134.0	-2.3%
Engineering products & Services	1739.8	1198.1	45.2%	5638.3	4680.3	20.5%
Unitary cooling products for comfort & commercial use	5490	3962.8	38.5%	15607.5	11386.8	37.1%
Others	-9.1	90.4	-110.1%	126.2	391.1	-67.7%
<b>TOTAL SEGMENT REVENUE</b>	<b>16714.7</b>	<b>14560.9</b>	<b>14.8%</b>	<b>51783.4</b>	<b>47592.2</b>	<b>8.8%</b>
<b>SEGMENT RESULT</b>						
Electro - Mechanical Projects and services	787.9	1035.3	-23.9%	2393.0	3181.9	-24.8%
Engineering products & Services	241.9	237.8	1.7%	1031.4	769.2	34.1%
Unitary cooling products for comfort & commercial use	580.9	474.6	22.4%	1604.2	1225.6	30.9%
Others	1	36.6	-97.3%	15.9	71.8	-77.9%
<b>TOTAL SEGMENT RESULT</b>	<b>1611.7</b>	<b>1784.3</b>	<b>-9.7%</b>	<b>5044.5</b>	<b>5248.5</b>	<b>-3.9%</b>
<b>EBIT margins %</b>						
Electro - Mechanical Projects and services	8.3%	11.1%	- 280 bps	7.9%	10.2%	- 200 bps
Engineering products & Services	13.9%	19.8%	- 590 bps	18.3%	16.4%	190 bps
Unitary cooling products for comfort & commercial use	10.6%	12.0%	-70 bps	10.3%	10.8%	- 40 bps
Others	-11.0%	40.5%	220 bps	12.6%	18.4%	- 580 bps

Source: Company, KJMC Research

## Q4FY11 Result Update

in Rs Mn

Particulars	Q4FY11	Q4FY10	Y-o-y growth%	FY11P	FY10	Y-o-y growth%
Net Sales/Income from Operations	16709.2	14806.0	12.9%	51768.3	47574.7	8.8%
Other Operating Income	47.9	11.7	309.4%	145.4	173.1	-16.0%
<b>Total Income from Operations</b>	<b>16757.1</b>	<b>14817.7</b>	<b>13.1%</b>	<b>51913.7</b>	<b>47747.8</b>	<b>8.7%</b>
Raw materials	9319.8	5296.5	76.0%	27973.6	26326.9	-41.2%
Purchase of traded goods	3049.8	5171.9	-41.0%	8834.1	6549.3	5003.5%
Employees cost	1496.5	1305.4	14.6%	5562.6	5450.2	2.1%
Other expenditure	1481.5	1530.3	-3.2%	4989.6	4652.7	7.2%
Total	15347.6	13304.1	902.9%	47359.9	42979.1	10.2%
<b>EBITDA</b>	<b>1409.5</b>	<b>1513.6</b>	<b>-6.9%</b>	<b>4553.8</b>	<b>4768.7</b>	<b>-4.5%</b>
<b>EBITDA margins%</b>	<b>8.4%</b>	<b>10.2%</b>	<b>- 150 bps</b>	<b>8.8%</b>	<b>10.0%</b>	<b>- 90 bps</b>
Depreciation	52.8	54.2	-2.6%	210.2	214.1	-1.8%
EBIT	1356.7	1459.4	-7.0%	4343.6	4554.6	-4.6%
Interest	56.0	26.0	115.4%	165.4	98.4	68.1%
Other Income	154.1	294	-47.6%	664.4	611.5	8.7%
PBT	1454.8	1727.4	-15.8%	4842.6	5067.7	-4.4%
Exceptional items	77.2	0.0	0.0%	401.9	250.2	60.6%
PBT after exceptional items	1532.0	1727.4	-11.3%	5244.5	5317.9	-1.4%
Tax expense	543.9	358.8	51.6%	1728.7	1472.3	17.4%
<b>Net Profit after tax</b>	<b>988.1</b>	<b>1368.6</b>	<b>-27.8%</b>	<b>3515.8</b>	<b>3845.6</b>	<b>-8.6%</b>
Minority interest	22.3	8.3	168.7%	56.6	-35.7	-258.5%
PAT after minority interest	1010.4	1360.3	-25.7%	3572.4	3809.9	-6.2%
PAT margins	6.0%	9.2%	- 320 bps	6.9%	8.0%	- 10 bps
Equity	330.7	330.7		330.7	330.7	
Face value	1.0	1.0		1.0	1.0	
Basic and diluted EPS before Extraordinary items	3.0	4.1	-27.8%	10.6	11.6	-8.6%

Source: Company, KJMC Research

## Change in Estimates

in Rs Mn

Particulars	FY12E	
	New	Previous
Net sales	59262.9	69778.3
EBITDA	5215.1	5791.6
EBITDA margins%	8.8%	8.3%
PAT	3772.5	4157.3
PAT margins%	6.4%	6.0%
EPS	11.4	12.6

Source: Company, KJMC Research

## Outlook & Valuation

Inspite of subdued performance of the project segment during Q4FY11 the outlook remains positive for the domestic markets as far as the order bookings and order book is concerned Also the outlook for the water business remains healthy. For Rohini the low margins jobs are almost completed and the performance of Rohini is likely to remain strong in future with an order book of Rs 2,100 mn. However the outlook for the international market remains foggy on all the fronts ie order inflows, execution of the projects & delays in finalization of claims.

Also the margins are likely to remain slightly under pressure on account of the longer execution cycles, sub –contracting nature of business and increasing raw material cost. Inspite of a decent order book of Rs 48,870 mn the execution need to be improved substantially both in the domestic and international markets.

At the CMP of Rs 162 the stock is trading at 15.0x and 14.2x its FY11E and FY12E earnings of Rs 10.8 & 11.4 respectively. We maintain our “**buy**” recommendation **with a revised target price of Rs 205**. The target price of Rs 205 translates into a potential return of 27%.

## Financial Summary - Consolidated

Profit & Loss Statement						Balance Sheet					
Rs Mn						Rs Mn					
Particulars	FY08	FY9	FY10	FY11P	FY12E	Particulars	FY08	FY9	FY10	FY11P	FY12E
Net Revenue	32029.3	43259.0	48058.8	51913.7	59262.9	<b>Sources of Funds</b>					
Growth %	26.8%	35.1%	11.1%	8.0%	14.2%	Share Capital	330.7	330.7	330.7	330.7	330.7
Raw material cost	23384.2	31685.3	32992.1	36807.6	42669.3	Reserve & Surplus	5441.5	7566.8	10521.0	12690.4	15269.9
Employee cost	2990.8	4655.6	5356.9	5562.6	6341.1	Total Debt	737.4	1814.4	351.6	1351.6	1851.6
Manufacturing Cost	169.0	189.4	382.2	222.1	237.1	Deferred Tax Liability	15.0	0.0	1.5	0.0	0.0
Other expenditure	2954.5	3897.4	4735.3	4767.6	4800.3	Minority interest	5.5	159.0	138.6	82.0	22.2
<b>Total Expenditures</b>	<b>29498.5</b>	<b>40427.7</b>	<b>43466.5</b>	<b>47359.9</b>	<b>54047.8</b>	<b>Total</b>	<b>6530.1</b>	<b>9870.9</b>	<b>11343.4</b>	<b>14454.7</b>	<b>17474.4</b>
EBITDA	2530.8	2831.3	4592.3	4553.8	5215.1	<b>Application of Funds</b>					
EBITDA Margin (%)	7.9%	6.5%	9.6%	8.8%	8.8%	Net Block	1701.2	2823.1	2832.3	2922.1	3012.0
Other income	482.9	944.5	788.4	664.0	664.0	Capital work in progress	197.2	132.4	193.4	193.4	193.4
EBITDA including OI	3013.7	3775.8	5380.7	5217.8	5879.1	Investments	2585.2	1562.5	2339.4	2339.4	2339.4
EBITDA Margin (%)	9.4%	8.7%	11.2%	10.1%	9.9%	Inventories	6398.5	11193.8	11440.7	13188.2	15281.7
Depreciation	166.9	209.6	214.1	210.2	210.1	Sundry Debtors	5702.5	9520.9	10059.7	12089.5	13800.9
EBIT	2846.8	3566.2	5166.6	5007.6	5669.0	Cash & cash Equivalents	3001.8	4570.6	4689.0	6252.7	8107.3
EBIT Margin (%)	8.9%	8.2%	10.8%	9.6%	9.6%	Loans & Advances	1527.6	2203.3	2077.6	2238.7	2555.6
Exceptional items	315.9	261.3	250.3	401.9	0.0	Current Liabilities & provisions	14788.2	22359.5	22493.0	24971.6	28016.9
Interest Expenses	89.8	109.9	98.4	165.4	288.3	Net Current Assets	1842.2	5129.1	5774.0	8797.4	11728.6
Tax	996.6	1171.9	1472.3	1728.7	1668.0	Deferred tax assets	204.3	223.9	203.9	203.9	203.9
<b>PAT</b>	<b>2076.3</b>	<b>2545.7</b>	<b>3846.2</b>	<b>3515.4</b>	<b>3712.7</b>	<b>TOTAL</b>	<b>6530.1</b>	<b>9870.9</b>	<b>11343.4</b>	<b>14454.7</b>	<b>17474.4</b>
Minority interest & exceptional items	316.0	(292.8)	286.0	(345.3)	(59.8)						
<b>Adjusted PAT</b>	<b>1760.3</b>	<b>2252.9</b>	<b>3560.2</b>	<b>3171.1</b>	<b>3772.5</b>						

Cash Flow Statement						Ratios					
Rs Mn						Rs Mn					
Cash Flows	FY08	FY9	FY10	FY11P	FY12E	Particulars	FY08	FY9	FY10	FY11P	FY12E
NET Profit before tax & exceptional items	3072.6	3717.2	5318.0	4843.5	5380.7	<b>Profitability &amp; Return Ratios</b>					
Interest paid	166.9	209.6	214.1	210.2	210.1	EBITDA Margin (%)	7.9%	6.5%	9.6%	8.8%	8.8%
Depreciation	49.9	24.4	(10.6)	165.4	288.3	NP Margin (%)	6.5%	5.9%	8.0%	6.8%	6.3%
Others	(261.4)	(169.4)	(498.2)	0.0	0.0	EPS	5.3	6.8	10.8	9.6	11.4
Changes in Working capital	1136.0	(1761.6)	(347.7)	(1459.7)	(1076.6)	CEPS	5.8	7.4	11.4	10.2	12.0
Cash generated from operations	4164.1	2020.2	4675.6	3759.4	4802.5	BVPS	17.5	23.9	32.8	39.4	47.2
Taxes paid	596.7	(1047.5)	(1610.6)	(1728.7)	(1668.0)	ROE	35.2%	33.0%	38.0%	26.6%	26.4%
<b>Net Cash Flow from Operating Activities</b>	<b>3567.4</b>	<b>972.7</b>	<b>3065.0</b>	<b>2030.7</b>	<b>3134.5</b>	ROACE	53.2%	46.7%	51.1%	41.9%	35.5%
Interest received	228.1	480.1	206.7	0.0	0.0	<b>Operating efficiency and other ratios</b>					
Capex	(287.2)	(366.6)	39.5	(300.0)	(300.0)	Debtors T/o	6.0	5.7	5.6	4.3	4.3
Investments	(1311.0)	535.5	(1010.7)	0.0	0.0	Inventory T/o	4.1	3.6	2.9	2.7	2.4
Loans	(378.5)	577.4	(1462.7)	1000.0	500.0	Interest Coverage (x)	24.1	24.2	21.8	21.8	21.8
Dividends paid	(388.0)	(519.5)	(614.9)	(1001.8)	(1191.6)	Asset/Turnover (x)	10.7	11.1	10.3	10.8	11.6
Interest paid & others	(90.9)	(110.8)	(98.9)	(165.4)	(288.3)	D/E (x)	0.13	0.23	0.03	0.10	0.12
Net change in cash	1339.9	1568.8	124.0	1563.5	1854.6	<b>Valuation Ratios</b>					
Opening cash	1052.0	3001.9	4570.7	4689.2	6252.7	P/E (x)	30.4	23.8	15.1	16.9	14.2
Closing cash	3001.9	4570.7	4689.2	6252.7	8107.3	P/CEPS (x)	27.8	21.8	14.2	15.8	13.5
						P/BV (x)	9.3	6.8	4.9	4.1	3.4
						Mcap/Sales (x)	1.7	1.2	1.1	1.0	0.9
						EV/Sales (x)	1.6	1.2	1.0	0.9	0.8
						EV/EBITDA (x)	20.2	17.9	10.7	10.7	9.0

Source: Company, KJMC Research

<b>Mr. Girish Jain</b>	Executive Director	jaingirish@kjmc.com	2288 5201 (B)
<b>Mr. Suresh Parmar</b>	A.V.P. - Institutional Equities	suresh.parmar@kjmc.com	4094 5551 (D)
<b>Mr. Vipul Sharma</b>	A.V.P. - Institutional Sales	vipul.sharma@kjmc.com	4094 5556 (D)

#### Recommendation Parameters

Expected returns in absolute terms over a one-year period	
<b>Buy</b>	- appreciate more than 20% over a 12- month period
<b>Accumulate</b>	- appreciate 10% to 20% over a 12- month period
<b>Hold / Neutral</b>	- appreciate up to 10% over a 12- month period
<b>Reduce</b>	- depreciate up to 10% over a 12- month period
<b>Sell</b>	- depreciate more than 10% over a 12- month period

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Products	Contains	Frequency
<b>(A) Fundamental Reports</b>		
Company Reports	Initiating Coverage on Company based on Fundamental Research	Time to Time
Company Updates	Quarterly / Event Update on companies covered	Time to Time
Visit Note / Analyst Meet Note / Concall Update	Reports containing management meet, analyst meet & concall update on companies	Time to Time
IPO Note	Reports based on IPO Analyst Meet and Company Fundamentals	Time to Time
Event Report	Reports based on special events such Budget, Monetary policy etc.	Time to Time
Morning Market Compass	Morning Market Compass containing information on Indian & Global Markets, Indices and key company events.	Mon-Fri
<b>(B) Alternative Research</b>		
Dividend Yield Stocks	Reports based on analysis of Dividend Yield.	Time to Time
Alternative Research Note	Investments based on Open Offer, Buy-Back, FPO Arbitrage, IPO/FPO leverage investments.	Time to Time
What's in & What's out	List of companies, Purchase / Sold in particular month by different AMC's.	Monthly
<b>(C) Mutual Funds &amp; IPO's Research</b>		
Daily Performance Report for Liquid & Liquid Plus Funds	Report containing daily, weekly, monthly, half yearly & yearly performance of only Liquid & Liquid Plus plans along with ranking of each fund for Corporates & Institutions.	Mon-Fri
Daily Performance Report for all Debt & Equity Funds	Report containing daily, weekly, monthly, half yearly & yearly performance along with ranking of each fund.	Mon-Fri
Product Notes	Brief Details about different products like Mutual fund, Fixed Deposits, Bonds, IPOs, Insurance & Home Loans.	Time to time

Data Sources: Capitalline, Companies, Bloomberg, Various Websites & publication available on Public domain.

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Atlanta Bldg., 16th Flr., Nariman Point, Mumbai - 400 021. Tel. : 22885201-04/4094 5500 Fax : 22852892 E-mail : eq@kjmc.com