



## Economy News

- ▶ In order to control prices of several commodities, the central government may impose curbs on the export of key fertiliser raw materials like sulphuric acid and phosphoric acid, cotton and rubber. The price of these commodities is linked to prices of petroleum products. (BS)
- ▶ The Government is considering a proposal to withdraw import duty on cotton. The withdrawal of 14% import duty on cotton in order to benefit cotton farmers. (BL)
- ▶ Several car makers have said that the persistent increase in input costs has prompted them to reduce their promotional offers, with a view to protect their margins. Thus, car buyers may have to shell out more money for buying certain models. (BL)

## Corporate News

- ▶ **State Bank of India**, may end up taking a bigger hit compared to its peers in the first quarter of FY09 on its treasury portfolio due to mark-to-market (MTM) losses on bonds. SBI had received bonds aggregating Rs 10,000 crore from the government this March. (ET)
- ▶ **NTPC-BHEL Power Projects (NBPL)**, a 50:50 JV between NTPC and BHEL, will invest Rs 6,000 crore to set up a power equipment manufacturing facility that will churn out boilers and turbines equipped to charge up 5,000 MW of greenfield thermal capacity by calendar 2013. (ET)
- ▶ Tanti group of companies, the promoters of **Suzlon Energy Ltd**, jointly with Bahrain-based Arcapita Bank, has acquired Honiton Energy Holdings, a Chinese wind energy firm. The joint venture partners will invest \$2 billion by 2012 to develop a 1,650-MW portfolio of wind farms in the Inner Mongolia region of China. (BL)
- ▶ Differences have cropped up between UB group chairman Vijay Mallya and promoters of low-cost carrier **SpiceJet** over the airline's valuation. While discussions between the two sides are still on, SpiceJet has shifted focus to billionaire US investor Wilbur Ross as it feels the price offered by Kingfisher was too low. (ET)
- ▶ Pan Atlantic LLC, Dubai, will invest \$10 million in a special purpose vehicle created by **Sobha Developers** and Pan Atlantic to develop a residential township with a total built up area of 1.7 million sq. ft. in Hosahalli in Bangalore South. (BL)
- ▶ **Cairn India Ltd (CIL)** has signed the petroleum resources agreement with Sri Lanka for exploration licence to explore oil and natural gas in the Mannar Basin. (BL)

### Equity

			% Chg		
	7 July 08	1 Day	1 Mth	3 Mths	
<b>Indian Indices</b>					
BSE Sensex	13,526	0.5	(13.1)	(13.2)	
Nifty	4,030	0.3	(12.9)	(14.4)	
BSE Banking	5,893	1.2	(18.9)	(25.9)	
BSE IT	4,176	2.6	(9.2)	13.3	
BSE Capital Goods	10,708	0.2	(11.0)	(14.5)	
BSE Oil & Gas	8,882	(2.0)	(11.2)	(15.1)	
NSE Midcap	5,192	0.8	(16.2)	(17.0)	
BSE Small-cap	6,593	2.2	(14.3)	(15.6)	
<b>World Indices</b>					
Dow Jones	11,232	(0.5)	(8.0)	(10.7)	
Nasdaq	2,243	(0.1)	(9.3)	(4.5)	
FTSE	5,513	1.8	(6.7)	(8.0)	
Nikkei	13,360	0.9	(9.4)	(1.0)	
Hangseng	21,913	2.3	(12.3)	(11.9)	

### Value traded (Rs cr)

	7 July 08	% Chg - Day
Cash BSE	6,704.5	19.9
Cash NSE	10,438.4	(16.6)
Derivatives	44,634	0.9

### Net inflows (Rs cr)

	4 July 08	% Chg	MTD	YTD
FII	533	(176)	(346)	(26,837)
Mutual Fund	(66)	(127)	282	9,430

### FII open interest (Rs cr)

	4 July 08	% Chg
FII Index Futures	17,703	(1.5)
FII Index Options	18,301	0.5
FII Stock Futures	15,861	0.5
FII Stock Options	682	7.3

### Advances / Declines (BSE)

7 July 08	A	B	S	Total	% total
Advances	141	1,280	314	1,735	70
Declines	64	493	133	690	28
Unchanged	-	53	3	56	2

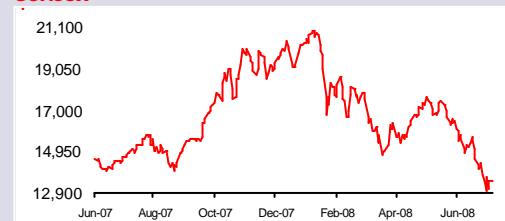
### Commodity

			% Chg		
	7 July 08	1 Day	1 Mth	3 Mths	
Crude (NYMEX) (US\$/BBL)	142.0	0.4	2.5	30.9	
Gold (US\$/OZ)	925.9	(0.8)	2.7	1.3	
Silver (US\$/OZ)	17.8	(1.7)	1.7	0.8	

### Debt / forex market

	7 July 08	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	9.20	9.16	8.24	7.99
Re/US\$	43.30	43.15	42.97	39.94

### Sensex



**MANAGEMENT MEET UPDATE****Sanjeev Zarbade**

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**VOLTAS LTD****PRICE: Rs.122****TARGET PRICE: Rs.177****RECOMMENDATION: BUY****FY09E P/E: 16.2x**

**We recently met the management of the company and came out positive on the company.**

- Robust order backlog provides visibility in the face of threat of slowdown in the domestic market. Order book growth has remained fairly robust. Order backlog is up 122% yoy to Rs.48.7 bn providing 36 months of projects revenue visibility**
- Margins fairly protected against sharp material price appreciation**
- Stock price correction provides good entry point.**
- Maintain earnings estimates. However, reducing target price to factor in increased cost of capital.**
- Upgrade to BUY with a target price of Rs.177 (earlier Rs.187)**

**Background**

Voltas Limited is a TATA group company and offers engineering solutions for a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, machine tools, mining and construction equipment, materials handling, water management, building management systems, indoor air quality and chemicals. The company has a sizeable presence in the International markets of Middle East.

**Summary table**

Rs mn	FY08	FY09E	FY10E
Sales	30,445	39,563	51,778
Growth (%)	26.8	29.9	30.9
EBITDA	2,509	3,522	4,727
EBITDA margin (%)	8.2	8.9	9.1
Net profit (adj)	1,700	2,491	3,299
Net cash (debt)	1,755	2,563	5,176
EPS (Rs)	5.1	7.5	10.0
Growth (%)	55.4	46.5	32.4
CEPS	5.6	8.1	10.6
DPS (Rs)	1.2	1.6	1.6
ROE (%)	37.0	40.0	38.0
ROCE (%)	62.0	63.0	60.0
EV/Sales (x)	1.3	1.0	0.7
EV/EBITDA (x)	15.4	10.7	7.4
P/E (x)	23.7	16.2	12.2
P/Cash Earnings	22.0	15.1	11.5
P/BV (x)	7.6	5.6	4.0

Source: Company, Kotak Securities - Private Client Research

**Meeting Highlights**

- The company continues to see good order inflows in the domestic market. Voltas has formed project teams situated at various locations in India. Every project that is won is passed on to a particular team based on its proximity to project site. This way there are fewer relocation and traveling costs and at the same time ensures timely project delivery.
- The international business team is based in Dubai which is seeing a flurry of activity in construction and real estate. Hence the equipment procurement for international project work is centralized there which aids in efficient decision making.
- While Dubai has traditionally been the hub of project activity in the Middle East, management indicated that neighbouring regions of Abu Dhabi, Oman and Saudi Arabia are also coming up as promising locations.
- **Largely unaffected by forex fluctuation:** Voltas indicated that net Rs/\$ forex fluctuation exposure on the international project front is low as the company imports most of the equipment required in USD and also incurs operating cost (mostly salaries of workers) in Middle East currencies that are also in turn linked to USD. The role of Voltas in international MEPP project is mainly of a project management company with most of the materials and equipment procured internationally from players like Carrier. The company had carried a loss of Rs.50 mn in the projects segment in the fourth quarter and given that rupee has depreciated in the quarter, this loss should get partially reversed.
- However, the company is a net importer in the unitary cooling products business. The company imports dispensers and other items required in window and split ACs. Hence there could be some margin impact due to cost of imports going up.
- Management indicated that supply situation is comfortable as far as components and bought-out equipments are concerned at the vendor levels. It does not see possibility of delay of supply at vendor level.

- On material price inflation, management indicated that the company places orders for equipment as soon as it bags an order. These are firm priced orders and entire material price risk is borne by the equipment vendor. Since it has long-term relationship with its key vendors, it does not see possibility of vendors demanding price hikes.
- The company sees slowdown in textile agency business. While Voltas was mainly in the distribution of Spinning machinery for LMW, it has now diversified into other textile machinery segments as well.
- Management indicated that the manufacturing portion of the engineering services division could face margin pressure on account of the steel price increase.

#### Segment Revenues

(Rs mn)	FY08	FY07	% change
Electromechanical projects	16,410	13,514	21
Engg products and services	5,535	4,162	33
unitary cooling	8,210	5981	37

Source: Company

#### Segment Margins

(%)	FY08	FY07
Electromechanical projects	7.4	5.3
Engg products and services	20.5	24.1
unitary cooling	6.6	1.6

Source: Company

#### Margins expand on greater profit booking in projects and turnaround in unitary cooling business:

Compared to FY07, a sizeable number of large projects reached the billing stage during FY08. This had improved the company's profitability in the projects business. Margins on projects business is linked to the average execution stage of the projects business. During the previous fiscal, the company executed close to Rs 3500 mn of orders and initiated Rs 15 bn of fresh orders. The new orders could not reach the 10% profit booking stage hence there was moderation in margins in Q4 FY08.

The unitary cooling business has benefited from higher employee productivity and excise-tax benefits.

The engineering services reported margin decline mainly arising out of product mix shift in favour of manufactured items. The management indicated that efforts are to maintain the margins of this division at 20-22% levels.

#### Strong orders accretion on a sequential basis

Order backlog at Rs 48.7 bn is up 122% yoy and 34% on a sequential basis. Some of the large orders in the international market included Ferrari Theme park and District Cooling park orders in UAE. During the year, the company completed the new Rajiv Gandhi International Airport in Hyderabad. Order pipeline continues to be strong. Estimated order inflows rose to Rs 15.9 bn as compared to Rs 2.33 bn in Q4 FY07.

However, orders backlog in the engineering services and products business is lower. The previous year had bunching up TUFs related textile machinery orders.

## Outlook

- **Committed towards the Voltas growth plan:** Voltas has formulated plan to reach turnover of Rs.100 bn by 2011. Out of which, Rs 70 bn would be contributed organically. This implies a revenue CAGR of 40% over the next four years. The company has plans to acquire businesses in niche areas that would catalyse the growth rate. At the bottomline level, the target is to achieve a net profit margin of 10% as compared to 3.5% in FY07.
- **Focus on profitable growth:** With significant buoyancy in the Middle East as well as Indian markets, the company's emphasis has been on project selection. Towards this, the company has expanded its scope of work and is also looking at new geographies. Company sees further scope for margin improvement and is making efforts to improve margins in projects and unitary cooling business.

## Valuation

(FY09)	PE (x)	EV/EBITDA (x)
Thermax	14.2	10.1
BHEL	20.8	16.3
Blue Star	17.5	11.5
Voltas	16.2	10.7

Source: Kotak Securities - Private Client Research

**We upgrade our recommendation to BUY on Voltas with a revised price target of Rs.177**

We have revised our target price from Rs 187 to Rs 177 based on DCF. In our revised workings, we have incorporated higher cost of capital thereby depressing the target price. In view of the attractive upside at current levels, we upgrade the stock to a **BUY**.

## Bulk Deals

## Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
7-Jul	Apollo Hos E	Fidelity Funds Mauritius Limited	S	1,081,220	500.00
7-Jul	Axon Infotec	BDS Share Brobers Pvt Ltd	B	4,231	24.69
7-Jul	Axon Infotec	Sanjay Kumar Jain	S	4,500	23.34
7-Jul	Bafna Pharma	PR Vyapaar Private Limited	B	247,784	30.01
7-Jul	Bhuruka Gas	Prabhu Securities Ltd	B	697,500	25.26
7-Jul	Bhuruka Gas	Satayanarayan Agarwal	S	697,500	25.16
7-Jul	Brushman Ind	PR Vyapaar Private Limited	B	60,000	139.40
7-Jul	Lok Housi Co	Priyal International	S	599,700	47.50
7-Jul	Lotus Choc C	V Varija Kamath	B	100,000	15.37
7-Jul	Natraj Fin	Hiravanti C Shah	B	23,000	37.25
7-Jul	Niraj Cement	Goldstar Finvest Pvt Ltd	B	104,330	86.23
7-Jul	Nitco Tiles	Indea Capital Pte Limited	B	500,000	99.80
7-Jul	Nitco Tiles	Indea Capital Pte Ltd Ac Indea Long Term Opp Master Fund	B	600,000	99.80
7-Jul	Nitco Tiles	Credit Suisse Singapore Limited	S	500,000	99.80
7-Jul	Nitco Tiles	Merrill Lynch Capital Markets España S.A. S.V.	S	600,000	99.80
7-Jul	Odyssey Corp	Tammansa D Katwa	B	26,500	29.90
7-Jul	Odyssey Corp	Katwa Kanchanmala T	B	26,500	29.90
7-Jul	Odyssey Corp	Suyojit Enterprises Pvt Ltd	S	53,100	29.83
7-Jul	Saregama Ind	Jayshree Nirman Ltd.	B	279,787	103.50
7-Jul	Saregama Ind	Fidelity Investment Servies Ltd			
		Ac Fid Funds Mauritius	S	280,000	103.50
7-Jul	Zenith Infot	Ruane Cunniff and Goldfarb Inc	B	115,321	360.00

Source: BSE

## Gainers & Losers

### Nifty Gainers & Losers

	Price (Rs)	% change	Index points	Volume (mn)
<b>Gainers</b>				
SBI	1,172	4.2	4.9	1.1
Infosys Tech	1,800	2.5	4.2	1.0
ITC	178	3.9	4.1	3.3
<b>Losers</b>				
Reliance Ind	2,028	(3.3)	(16.8)	3.7
Reliance Com	420	(3.9)	(5.8)	7.2
Cairn India	238	(5.4)	(4.3)	5.6

Source: Bloomberg

## Forthcoming events

### Company/Market

Date	Event
8-Jul	First Winner Industries listing on BSE & NSE
10-Jul	Bajaj Auto holds shareholders meeting; DLF to consider buy-back of its shares
11-Jul	Infosys Technologies, Edelweiss Capital earnings expected
12-Jul	IFCI earnings expected
16-Jul	HDFC, Power Finance Corporation, Petronet, Concor earnings expected
17-Jul	Polaris Software earnings expected
18-Jul	IDFC, Chennai Petroleum Corpn, Satyam Computer Services earnings expected
21-Jul	SAIL, DRL, Maruti Suzuki, BHEL earnings expected
22-Jul	Century Textiles, Thermax earnings expected

Source: Bloomberg

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