

June 11, 2010

Rating	Accumulate
Price	Rs189
Target Price	Rs214
Implied Upside	13.1%
Sensex	16,922

(Prices as on June 10, 2010)

Trading Data

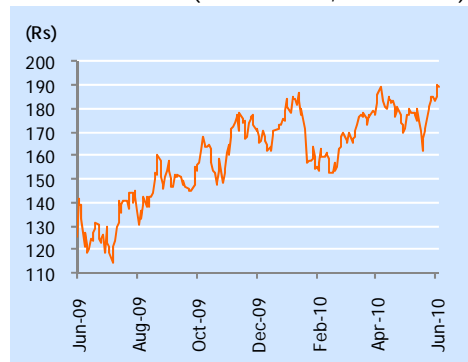
Market Cap. (Rs bn)	62.5
Shares o/s (m)	330.7
Free Float	72.32%
3M Avg. Daily Vol ('000)	1,222.5
3M Avg. Daily Value (Rs m)	218.0

Major Shareholders

Promoters	27.68%
Foreign	9.03%
Domestic Inst.	38.99%
Public & Others	24.30%

Stock Performance

(%)	1M	6M	12M
Absolute	6.2	13.3	35.2
Relative	6.5	13.5	24.3

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


Source: Bloomberg

We recently met the management of Voltas. Key take-aways from the meeting are as follows:

- Traction in order flows seen:** Voltas has a current order book of Rs47bn (MEP segment). The international order book stands at Rs30bn. Lack of international order was a drag on the stock as the company was unable to bag any international orders since the last few quarters. However, the company has bagged three orders worth Rs8.5bn in Q4FY10, ending the dry spell in international orders. It has bagged Rs8bn order from Abu Dhabi and two other small orders. According to the company, two small orders amounting to Rs500m are strategic in nature which can lead to bigger orders in the near future.
- Expanding landscape:** Voltas is currently present in the Dubai and Abu Dhabi markets. However, in order to increase its spread in terms of geography, it is looking at entering the Oman and Saudi markets. It prefers the JV route to enter this market as a strong local player since the JV partner helps handle local issues effectively. It has already entered in to a JV in Oman and is close to finalizing JV partner in Saudi. It is also looking at re-entering the Hong Kong and Singapore markets. In terms of scope of business, the company is moving from serving commercial real estate to infrastructure and industrial players as well.
- Upbeat domestic markets:** Voltas is very upbeat about the domestic market and believes that the markets are slow due to lag effect and expect the markets to pick up significantly (25% plus) in the next 2-3 years. The fast pace of domestic growth will lead to a shift in revenue mix to 50:50 (domestic: international) from the current 70:30.
- UCP volumes could continue to surprise:** Voltas believes that a strong growth in the UCP segment was due to increased availability of power, pent-up demand and changing life style. It expects a continual robust growth in the markets at 30% in the current year. A strong growth in the UCP segment is attributable not only to an increased point of sale for Voltas (up 25%YoY) but also to an increased presence in the multi-brand store.
- Other updates:** Voltas has not decided on monetization of its real estate assets but could be a trigger as and when it happens. It is also looking at water as a potential target for acquisition.
- Valuation:** We expect the stock to do a top-line growth of 16.5% and 16% for FY11E&FY12E and earnings growth on 7.5% and 14.5% for FY11E and FY12E, respectively. However, all new initiatives taken by the company could set the stage for higher-than-expected growth in FY12. The stock is currently trading at 16.2x & 14.1x its FY11E and FY12E earnings, respectively. We have an 'Accumulate' rating on the stock, at a target price of Rs214.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	43,259	48,058	56,004	65,001
Growth (%)	35.1	11.1	16.5	16.1
EBITDA (Rs m)	2,831	4,589	5,096	5,754
PAT (Rs m)	2,284	3,593	3,902	4,467
EPS (Rs)	6.8	10.9	11.7	13.4
Growth (%)	27.9	59.5	7.5	14.5
Net DPS (Rs)	1.6	2.7	2.9	3.4

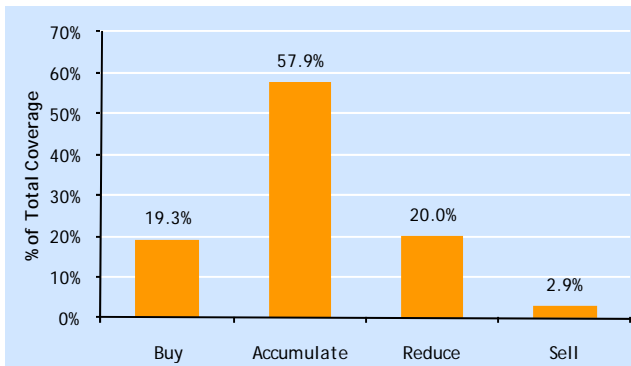
Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	6.5	9.5	9.1	8.9
RoE (%)	33.4	39.2	33.0	30.2
RoCE (%)	28.8	33.8	30.0	28.4
EV / sales (x)	1.4	1.2	1.0	0.9
EV / EBITDA (x)	21.1	12.8	11.1	9.7
PE (x)	27.7	17.4	16.2	14.1
P / BV (x)	7.9	6.0	4.7	3.8
Net dividend yield (%)	0.8	1.4	1.6	1.8

Source: Company Data; PL Research

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Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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