

Company

28 July 2010 | 8 pages

Voltas (VOLT.BO)

 Equity

Q1 PAT Ahead of Expectations

- Q1 PAT up 23% YoY; 9% ahead of estimates:** Voltas Q1 consolidated revenues grew by 13%YoY, 8% ahead of expectations. EBITDA margins were 8.7% (up 40bpsYoY) but below our expectations of 9%. Higher-than-expected other income and lower-than-expected taxes boosted PAT.
- Electromechanical division: tepid performance:** Electromechanical revenues declined by 1%YoY due to slower project implementation by some of its clients. Margins in the segment declined by 28bpsYoY. The division's orderbook was Rs50bn up 8% QoQ. Voltas secured four new orders in the international market during the quarter, including a tunnel ventilation project for Metro Rail in Singapore. **We believe a strong order inflow in this segment is key for stock performance.**
- Engineering agency division – sharp jump in profitability:** While engineering agency revenues grew by only 6% YoY; margins increased by 910bps YoY to 23%.
- Unitary cooling products division: Strong top-line growth – up 41% YoY:** Unitary cooling products showed a sharp growth of 41% YoY in revenues. Margins also expanded slightly by ~24bps.
- We will revert with more details post conference call tomorrow.**

Sell/Medium Risk	3M
Price (28 Jul 10)	Rs207.25
Target price	Rs142.00
Expected share price return	-31.5%
Expected dividend yield	0.7%
Expected total return	-30.8%
Market Cap	Rs68,576M US\$1,470M

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



Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2007A	1,064	3.21	10.0	64.5	18.0	34.2	0.5
2008A	1,785	5.39	67.8	38.4	12.7	38.8	0.7
2009E	2,206	6.67	23.6	31.1	9.4	34.8	0.8
2010E	2,698	8.15	22.3	25.4	7.4	32.5	0.8
2011E	3,190	9.64	18.3	21.5	5.8	30.2	0.9

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	64.5	38.4	31.1	25.4	21.5
EV/EBITDA adjusted (x)	62.7	26.6	25.2	17.3	14.5
P/BV (x)	18.0	12.7	9.4	7.4	5.8
Dividend yield (%)	0.5	0.7	0.8	0.8	0.9
Per Share Data (Rs)					
EPS adjusted	3.21	5.39	6.67	8.15	9.64
EPS reported	5.62	6.30	7.63	8.15	9.64
BVPS	11.51	16.27	22.03	28.19	35.73
DPS	1.00	1.35	1.60	1.70	1.80
Profit & Loss (RsM)					
Net sales	24,006	30,445	40,333	49,539	56,321
Operating expenses	-23,040	-28,072	-37,855	-45,826	-51,927
EBIT	966	2,373	2,478	3,713	4,393
Net interest expense	158	87	79	-24	2
Non-operating/exceptionals	1,104	615	1,117	398	438
Pre-tax profit	2,228	3,075	3,673	4,087	4,833
Tax	-368	-992	-1,147	-1,390	-1,643
Extraord./Min.Int./Pref.div.	0	0	0	0	0
Reported net income	1,861	2,084	2,526	2,698	3,190
Adjusted earnings	1,064	1,785	2,206	2,698	3,190
Adjusted EBITDA	1,089	2,509	2,643	3,914	4,618
Growth Rates (%)					
Sales	29.5	26.8	32.5	22.8	13.7
EBIT adjusted	7.8	145.7	4.4	49.9	18.3
EBITDA adjusted	8.1	130.3	5.4	48.1	18.0
EPS adjusted	10.0	67.8	23.6	22.3	18.3
Cash Flow (RsM)					
Operating cash flow	1,520	3,939	-869	2,071	2,131
Depreciation/amortization	123	136	166	200	225
Net working capital	-434	1,628	-3,561	-827	-1,284
Investing cash flow	-838	-1,737	1,276	-400	-400
Capital expenditure	-74	-432	-400	-400	-400
Acquisitions/disposals	-764	-1,305	1,676	0	0
Financing cash flow	-366	-853	-196	-958	-797
Borrowings	101	-345	423	-300	-100
Dividends paid	-387	-523	-619	-658	-697
Change in cash	316	1,350	210	713	934
Balance Sheet (RsM)					
Total assets	15,305	20,076	24,931	29,664	33,858
Cash & cash equivalent	1,403	2,752	2,963	3,675	4,609
Accounts receivable	4,398	5,317	8,921	10,957	12,457
Net fixed assets	1,299	1,595	1,829	2,029	2,204
Total liabilities	11,498	14,693	17,641	20,335	22,036
Accounts payable	5,161	6,141	8,136	9,991	11,327
Total Debt	821	477	900	600	500
Shareholders' funds	3,808	5,383	7,289	9,329	11,822
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	4.5	8.2	6.6	7.9	8.2
ROE adjusted	34.2	38.8	34.8	32.5	30.2
ROIC adjusted	21.4	49.7	30.9	31.8	30.1
Net debt to equity	-15.3	-42.3	-28.3	-33.0	-34.8
Total debt to capital	17.7	8.1	11.0	6.0	4.1

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Figure 1. Voltas Q1 Consolidated Results

	1QFY10	1QFY11A	% growth	1QFY11E Comments
Revenue	12,419	14,031	13%	13,033 8% Ahead of expectations
Inc/dec stock in trade	(591)	403		
Raw material cost	(6,852)	(7,581)		
Purchase of traded goods	(1,133)	(2,928)		
% of sales	69%	72%		
Staff cost	(1,308)	(1,347)		
% of sales	11%	10%		
Other expenses	(1,510)	(1,354)		
% of sales	12%	10%		
Total Expense	(11,393)	(12,807)		
EBITDA	1,025	1,223	19%	1,173 Slightly lower than expectations
EBITDA Margin %	8.3%	8.7%		9.0%
Depreciation	(49)	(50)		(54)
Interest	(36)	(53)		(29)
Other Income	135	200		168
Other operating Income	80	53		49
PBT	1,155	1,374		1,307
Tax	(387)	(429)		(444)
% tax	33%	31%		34%
PAT	768	945	23%	862
Minority	(7)	(5)		0
Post minority PAT	761	940	23%	862 Ahead of expectations

Source: Citi Investment Research and Analysis

Voltas

Company description

Voltas, a Tata group company, is a leading player in India's Heating, Ventilation and Air Conditioning (HVAC) market, having a ~28% market share in electro-mechanical projects. The company offers engineering solutions for a wide spectrum of industries in areas such as HVAC, refrigeration, electro-mechanical projects, textile machinery, machine tools, mining and construction equipment, materials-handling vehicles, water management, building management systems, indoor air quality and chemicals.

Investment strategy

We rate Voltas shares Sell / Medium Risk (3M) with a target price of Rs142. A market leader in the HVAC space in India, Voltas' businesses seems to have bottomed and we expect recovery to be driven by expectations of renewed domestic infrastructure spending and capex recovery in the Middle East. However, we believe the recent stock performance has captured the recovery too soon and do not see upside from current levels. While expecting demand recovery in the Middle East, we also expect competition to increase and rationalized investments by clients. Additionally, as a late-cycle play on real estate demand, recovery for Voltas could lag overall recovery.

Valuation

Our target price for Voltas of Rs142 is set at 16x Sept-FY10E FD EPS and is supported by our forecast of 20% earnings CAGR for FY09E-11E and 27-29% RoE. Our target multiple is higher than its long-term average of 14x, and at a 27% discount to the L&T target multiple of 22x. Voltas has traded at an average discount of 18% to L&T over the last five years, but we expect it to trade at a higher than average discount given it is a late-cycle play on the overall recovery.

Risks

We rate Voltas shares Medium Risk. We believe that our risk rating reflects the vulnerability of Voltas' business to the global slowdown, especially the slowdown in the Middle East, but also factors in an improvement in the operating environment. Key upside risks that could sustain the shares above our target price include: stronger-than-expected performance driven by the international business; and turnaround of the domestic operating environment. Key downside risks include: International projects risks; termination of principal-agent relationships; increasing competition in domestic and international markets; manpower shortages; and material prices.

Appendix A-1

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Voltas (VOLT.BO)

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Fundamental Research

Analyst: Deepal Delivala

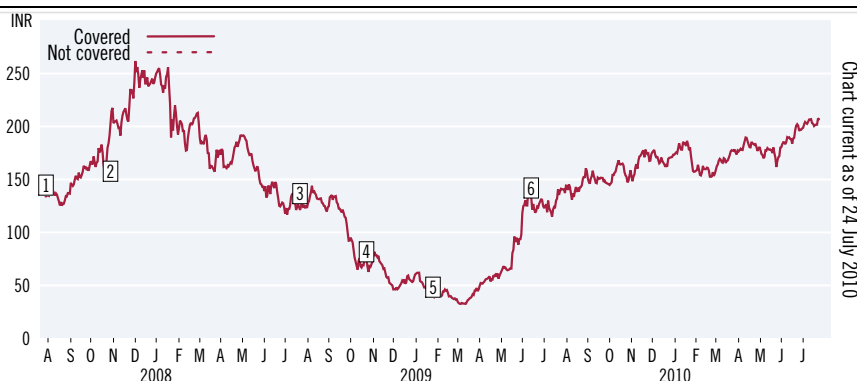


Chart current as of 24 July 2010

Date	Rating	Target Price	Closing Price
1 24-Jul-07	3M	*151.00	141.00
2 29-Oct-07	*1M	*242.00	202.70

Date	Rating	Target Price	Closing Price
3 22-Jul-08	*3M	*121.00	121.20
4 23-Oct-08	3M	*80.00	74.30

Date	Rating	Target Price	Closing Price
5 25-Jan-09	*3H	*38.00	41.15
6 12-Jun-09	*3M	*142.00	132.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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