

VOLTAS LTD.

BUY
CMP Rs172
TP Rs212

28 May 2010

Result Review

BACK ON TRACK

Voltas Ltd's Q4FY10 results beat our expectation as net sales grew by 8.1% YoY to Rs14.8bn as against our estimate of Rs11.9bn. OPM expanded by 257bps to 9.4% due to decline in raw material prices. Consequently, adj. net profit rose by 87% to Rs1.1bn (our estimate was Rs777mn). For FY10, adj net profit increased by ~56% to Rs3.6bn against our estimate of Rs3.3bn.

Intense summer took revenues northward: Revenues from cooling products segment (contributes ~25% to topline) increased by ~72% (YoY) and more than compensated the decrease in revenues from other segment. Overall, net sales for the Q4FY10 surged by 8.1% YoY. Margins improved across the segment and resulted in OPM expansion of 257bps in Q4FY10.

Improving order inflows: In our earlier reports, we highlighted the expectations of improving order inflows by the end of FY10 due to lag effect from construction/ infrastructure industry. Voltas received a prestigious MEP order of Rs8bn for the modernisation of Abu Dhabi's Central Market. Total order inflows for Q4FY10 is ~Rs16bn which is an increase of ~5x QoQ. The total order book at the end of Q4FY10 stands at Rs47.2bn (+19% QoQ).

Outlook: Healthy order inflows augur well for bright future for Voltas. We believe that the company should be back on high growth trajectory from FY12 onwards. Performance for the Engineering product division should also improve in FY11 with improvement in industrial activities.

VALUATIONS AND RECOMMENDATION

We have increased our earning estimates for FY11 by ~7% on the back of better visibility from MEP segment and have introduced FY12 estimates. At the CMP of Rs172, the stock trades at a P/E of 13.0x and an EV/EBITDA of 7.2x its FY12E EPS of Rs13.3. We upgrade our recommendation to 'BUY' with a target price of Rs212 (16x FY12E EPS).

KEY FINANCIALS		Rs mn				
	FY08	FY09	FY10P	FY11E	FY12E	
Net Sales	32,156	43,617	48,236	53,639	64,851	
YoY Gr.(%)	27.3	35.6	10.6	11.2	20.9	
Op. Profits	2,657	3,189	4,769	5,026	5,999	
Op. Marg.(%)	8.3	7.3	9.9	9.4	9.2	
Adjusted Net Profit	1,863	2,338	3,638	3,693	4,387	
YoY Gr.(%)	29.7	25.5	55.6	1.5	18.8	
KEY RATIOS						
Dil. EPS (Rs)	5.6	7.1	11.0	11.2	13.3	
ROCE (%)	48.6	44.6	48.1	39.4	36.6	
RoE (%)	37.2	34.2	38.6	29.8	28.0	
PER (x)	30.5	24.3	15.6	15.4	13.0	
EV/Net sales (x)	1.7	1.2	1.1	0.9	0.7	
EV/EBITDA (x)	18.4	14.3	9.9	8.7	7.2	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar-10
Net Sales	10,996	9,928	14,802
YoY Gr. (%)	11.7	3.6	8.1
Op. Profits	1,259	898	1,395
OPM (%)	11.4	9.0	9.4
Adj Net Profits	904	694	1,175
YoY Gr. (%)	53.3	68.7	86.9

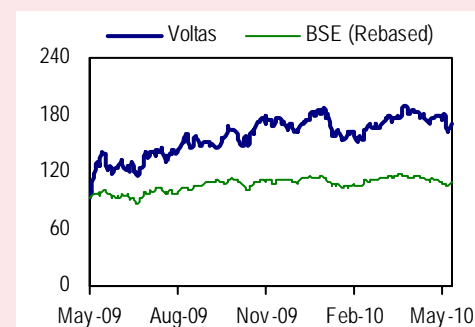
STOCK DATA

Market Cap	Rs56.9bn.
Book Value per share	Rs33.1
Eq Shares O/S (F.V. Rs1)	330.7mn.
Free Float	72.3%
Avg Traded Value (6 mnths)	Rs189mn
52 week High/Low	Rs191/92
Bloomberg Code	VOLT IN
Reuters Code	VOLT.BO

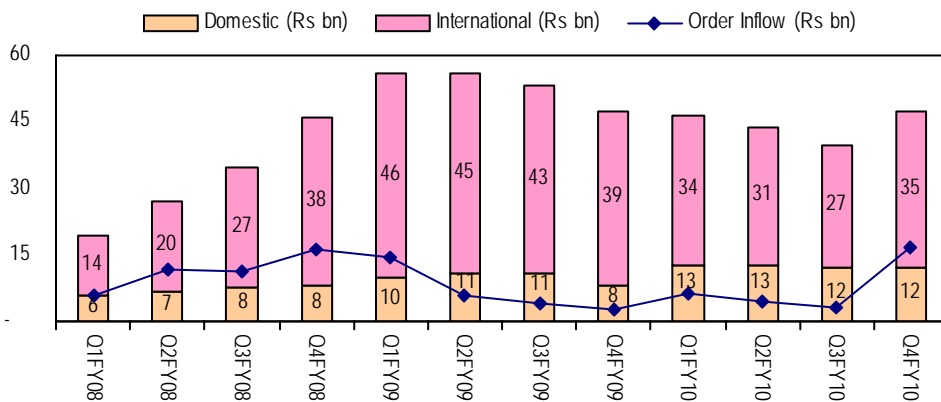
PERFORMANCE (%)

	1M	3M	12M
Absolute	(3.4)	10.0	83.7
Relative	0.7	8.4	57.6

RELATIVE PERFORMANCE



Order Book (Rs bn)



Source: Company & PINC Research

Segmental Result - Consolidated

Rs mn	Mar-09	Mar-10	YoY (%)	Dec-09	QoQ (%)	FY09	FY10	YoY (%)
Revenues								
Electro-mech. Proj. & Serv.	9,560	9,310	(2.6)	7,131	30.5	27,668	31,134	12.5
Engineering Prod. & Serv.	1,342	1,198	(10.7)	1,173	2.1	5,422	4,680	(13.7)
Unitary Cooling Products	2,443	4,211	72.3	1,539	173.6	9,223	11,871	28.7
Others	243	90	-	71	-	1,039	391	-
Total	13,588	14,809	9.0	9,914	49.4	43,352	48,076	10.9
Less: Inter segment revenue	17	3	-	9	-	93	18	-
Net Sales	13,571	14,806	9.1	9,905	49.5	43,259	48,059	11.1
PBIT								
Electro-mech. Proj. & Serv.	674	1,034	53.5	637	62.3	2,135	3,182	49.0
Engineering Prod. & Serv.	71	238	234.7	159	50.0	628	769	22.5
Unitary Cooling Products	264	460	74.0	190	142.3	611	1,226	100.5
Others	15	37	-	7	-	95	72	(24.1)
Total	1,024	1,769	72.7	993	78.2	3,470	5,249	51.3
Capital Employed								
Electro-mech. Proj. & Serv.	1,353	2,086	54.1	1,440	44.9	1,353	2,086	54.1
Engineering Prod. & Serv.	1,290	958	(25.8)	924	3.7	1,290	958	(25.8)
Unitary Cooling Products	1,612	1,414	(12.2)	1,125	25.7	1,612	1,414	(12.2)
Others	131	114	(12.6)	80	42.4	131	114	(12.6)
Total Allocable capital	4,386	4,572	4.2	3,569	28.1	4,386	4,572	4.2
Add: Unallocable capital	3,512	6,278	78.8	6,755	(7.1)	3,512	6,278	78.8
Total	7,898	10,850	37.4	10,324	5.1	7,898	10,850	37.4
PBIT Margin (%)								
Electro-mech. Proj. & Serv.	7.0	11.1		8.9		7.7	10.2	
Engineering Prod. & Serv.	5.3	19.9		13.5		11.6	16.4	
Unitary Cooling Products	10.8	10.9		12.3		6.6	10.3	
Sales Mix (%)								
Electro-mech. Proj. & Serv.	70.4	62.9		71.9		63.8	64.8	
Engineering Prod. & Serv.	9.9	8.1		11.8		12.5	9.7	
Unitary Cooling Products	18.0	28.4		15.5		21.3	24.7	
PBIT Mix (%)								
Electro-mech. Proj. & Serv.	65.8	58.5		64.2		61.5	60.6	
Engineering Prod. & Serv.	7.0	13.5		16.0		18.1	14.7	
Unitary Cooling Products	25.8	26.0		19.1		17.6	23.4	

Year Ended March (Figures in Rs mn)

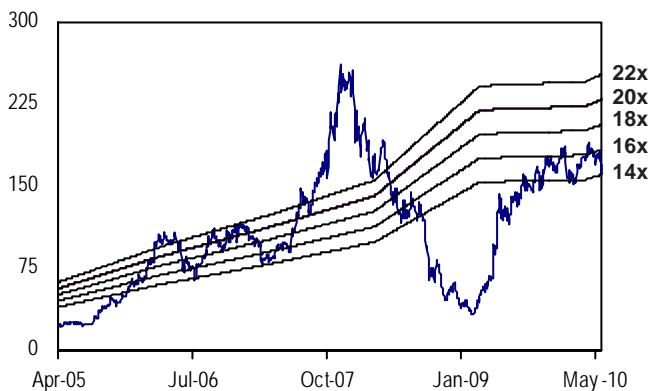
Income Statement	FY08	FY09	FY10	FY11E	FY12E
Net Sales	32,156	43,617	48,236	53,639	64,851
Growth (%)	27.3	35.6	10.6	11.2	20.9
Operating Profit	2,657	3,189	4,769	5,026	5,999
Other income	316	604	612	615	654
EBITDA	2,973	3,793	5,380	5,641	6,652
Growth (%)	56.3	27.6	41.8	4.9	17.9
Depreciation	167	210	214	227	240
EBIT	2,806	3,584	5,166	5,414	6,412
Interest paid	50	128	98	61	53
PBT (before E/o items)	2,756	3,456	5,068	5,353	6,359
Tax provision	997	1,172	1,472	1,660	1,971
E/o Income / (loss)	316	261	250	-	-
Net Profit	2,076	2,514	3,809	3,693	4,387
Adjusted net profit	1,863	2,338	3,638	3,693	4,387
Growth (%)	29.7	25.5	55.6	1.5	18.8
Basic EPS (Rs)	6.3	7.6	11.5	11.2	13.3
Adj Dil EPS (Rs)	5.6	7.1	11.0	11.2	13.3
Diluted EPS Growth (%)	29.7	25.5	55.6	1.5	18.8

Cash Flow Statement	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	3,072	3,717	5,318	5,353	6,359
Depreciation	167	210	214	227	240
Total tax paid	(597)	(1,048)	(1,472)	(1,660)	(1,971)
Chg in working capital	1,279	(1,760)	(259)	1,628	(1,881)
Other items	(354)	(147)	(615)	(594)	(640)
Cash from oper. (a)	3,567	973	3,186	4,955	2,107
Capital expenditure	(287)	(902)	(600)	(500)	(500)
Chg in investments	(1,335)	1,076	(1,323)	(100)	(250)
Other items	237	475	651	655	693
Cash flow from inv. (b)	(1,385)	649	(1,271)	55	(57)
Free cash flow (a+b)	2,182	1,622	1,915	5,010	2,050
Equity raised/ (repaid)	0	0	-	-	-
Debt raised/ (repaid)	(378)	577	(1,200)	1,080	(100)
Interest Paid	(90)	(111)	(37)	(61)	(53)
Dividend (incl. tax)	(388)	(520)	(774)	(774)	(774)
Other items	0	(0)	-	-	-
Cash flow from fin. (c)	(856)	(53)	(2,011)	245	(927)
Net chg in cash (a+b+c)	1,325	1,569	(96)	5,255	1,123

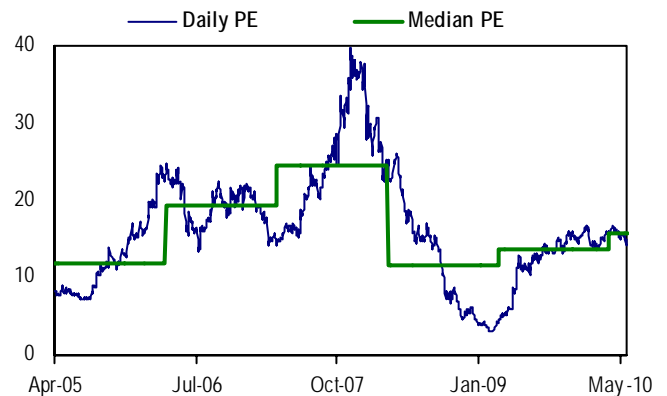
Balance Sheet	FY08	FY09	FY10P	FY11E	FY12E
Equity Share Capital	331	331	331	331	331
Reserves & surplus	5,442	7,567	10,602	13,521	17,134
Shareholders' funds	5,772	7,897	10,933	13,852	17,464
Total Debt	737	1,814	614	1,694	1,594
Minority interest	5	159	196	197	198
Capital Employed	6,515	9,871	11,743	15,743	19,256
Net fixed Assets	1,898	2,955	3,341	3,614	3,874
Cash & Cash Eq.	5,275	5,755	6,980	12,320	13,683
Net other current assets	(1,160)	558	817	(811)	1,070
Investments	312	378	380	395	405
Net Deferred tax asset	189	224	224	224	224
Total Assets	6,515	9,871	11,743	15,743	19,256

Key Ratios	FY08	FY09	FY10P	FY11E	FY12E
OPM (%)	8.3	7.3	9.9	9.4	9.2
Net margin (%)	6.5	5.8	7.9	6.9	6.8
Dividend yield (%)	0.8	0.9	1.2	1.2	1.2
Net debt/ Equity (x)	0.1	0.2	0.1	0.1	0.1
Net working capital (days)	40.7	44.9	48.0	46.0	52.0
Asset turnover (x)	4.9	4.4	4.1	3.4	3.4
ROCE (%)	48.6	44.6	48.1	39.4	36.6
RoE (%)	37.2	34.2	38.6	29.8	28.0
EV/Net sales (x)	1.7	1.2	1.1	0.9	0.7
EV/EBITDA (x)	18.4	14.3	9.9	8.7	7.2
PER (x)	30.5	24.3	15.6	15.4	13.0
Price/Book (x)	9.9	7.2	5.2	4.1	3.3

P/E Band



Median PE v/s Daily PE



T E A M

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