

May 20, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 162	Rs 200
EPS change FY11E/12E (%)	NA / -12
Target Price change (%)	-20
Nifty	5,486
Sensex	18,326

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	(8)	(34)	(10)
Rel. to Nifty	1	(6)	(29)	(18)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Engineering & Capital Goods
Bloomberg	VOLT@IN
Equity Capital (Rs mn)	331
Face Value(Rs)	1
No of shares o/s (mn)	331
52 Week H/L	263/147
Market Cap (Rs bn/USD mn)	54/1,201
Daily Avg Volume (No of sh)	300934
Daily Avg Turnover (US\$m)	1.1

Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	30.6	30.6	30.5
FII/NRI	17.9	15.4	12.2
Institutions	30.7	32.7	33.8
Private Corp	1.8	2.0	3.0
Public	18.9	19.3	20.5

Source: Capitaline

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- Voltas disappoints yet again with 33% yoy decline in net profit to Rs0.8 bn – led by 170 bps yoy drop in EBITDA margin. Revenue growth in line at 13% yoy with all round contribution
- Secures orders worth Rs11.4 bn – addresses revenue visibility concerns for FY12E. Order book increase 5% qoq to Rs49 bn
- Downgrade FY12E earnings by 12% to Rs11.2 per share – do not expect further downgrades. Only caveat is profitable and timely execution of Qatar projects
- Valuation of 14.3X FY12E factors all concerns. Retain BUY rating with revised price target of Rs200/Share (18X FY12E)

Disappointment yet again – Net profits decline 33% yoy

Voltas disappointed for the third consecutive quarter with 33% yoy decline in net profit to Rs820 mn. This was despite healthy revenue growth at 13% yoy (highest in past 7 quarters) - led by improved traction across divisions, in line with estimates. Fall in net profit was due to (1) 170 bps yoy decline in operating margins to 8.4% - attributed to high input prices (up from 70.5 in Q4FY10 to 73.8% as of sales) and slow execution on certain large international projects (2) 24% yoy drop in other income (3) Higher tax incidence and Minority interest.

EPS & UCP continue to trend up; Mixed bag for EMP

- After declining for past 4 quarters, Electro Mechanical Projects (EMP) division witnessed uptick in revenue booking – up 2% yoy to Rs9.5 bn, in line with estimates. However, EBIT margins fell by 180 bps yoy to 8.3% – led by Rs120 mn loss in Rohini Industrial Electrical (Vs Rs40 mn profit in Q4FY10), slow execution in few projects.
- Unitary Cooling Products (UCP) division witnessed continued traction with revenue growth at 30% yoy to Rs5.5 bn (ahead of estimates) – despite concerns from a prolonged winter season. EBIT margins also improved 30 bps yoy to 10.3% on back of improved product mix.
- The Engineering Products & Services (EPS) division grew smartly by 45% yoy to Rs1.7 bn led by strong performance across divisions - Textile Machinery, Mining & Construction Equipment and Material Handling. EBIT margins declined 560 bps yoy to 13.9% – due to low contribution from commission income.

Secures orders worth Rs11.4 bn – addresses revenue visibility concerns for FY12E

Voltas secured orders worth Rs11.4 bn (down 40% yoy). This is lower than our target of Rs14 bn – but commendable in view of slow revival in domestic commercial market as well as macro headwinds and competition in Middle East. Voltas' order book also increased 5% qoq to Rs48.9 bn – thus addressing concerns on revenue visibility for FY12E. Major orders secured by Voltas include Chennai Metro rail project – Rs2 bn.

Consolidated Financial Snapshot

Rs Mn

YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS %Chg	ROE (%)	P/E	EV/ EBITDA	P/BV
FY10	48,059	4,727	9.8	3,442	10.3	55.8	36.3	15.8	9.1	4.9
FY11P	51,914	4,553	8.8	3,114	9.6	55.8	25.9	16.9	9.7	3.9
FY12E	58,224	5,301	9.1	3,680	11.2	(6.9)	23.9	14.5	7.9	3.1
FY13E	69,679	6,354	9.1	4,355	13.2	16.8	22.8	12.3	6.4	2.6

Consolidated Quarterly Results

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Revenue	14,842	14,083	10,651	10,422	16,757	12.9	60.8	51,914	48,236	7.6
Expenditure	13,343	12,807	9,576	9,629	15,348	15.0	59.4	47,360	43,467	9.0
Consumption of RM	10,468	10,107	7,279	7,053	12,370	18.2	75.4	36,808	32,992	11.6
as % of sales	70.5	71.8	68.3	67.7	73.8			67.7	73.8	
Employee Cost	1,308	1,347	1,268	1,444	1,504	15.0	4.2	5,563	5,357	3.8
as % of sales	8.8	9.6	11.9	13.9	9.0			10.7	11.1	
Other expenditure	1,567	1,354	1,029	1,133	1,474	-5.9	30.1	4,990	5,118	-2.5
as % of sales	10.6	9.6	9.7	10.9	8.8			9.6	10.6	
EBITDA	1,499	1,276	1,075	793	1,410	-6.0	77.8	4,554	4,769	-4.5
Depreciation	54	50	53	54	53	-2.6	-2.0	210	214	-1.8
EBIT	1,445	1,226	1,022	739	1,357	-6.1	83.6	4,344	4,555	-4.6
Other Income	184	200	193	131	140	-24.2	6.2	664	612	8.7
Interest	30	53	37	34	41	37.5	21.8	165	98	68.1
PBT	1,599	1,374	1,178	836	1,455	-9.0	74.0	4,843	5,068	-4.4
Total Tax	359	429	453	302	544	51.6	79.9	1,729	1,472	17.4
Adjusted PAT	1,240	945	725	534	911	-26.5	70.6	3,114	3,595	-13.4
(Profit)/loss from JV's/Ass/MI	8	5	-22	-17	91	995.2	-628.5	57	36	
APAT after MI	1,231	940	746	551	820	-33.4	48.8	3,057	3,560	-14.1
Extra ordinary items	129	-7	178	154	77	-40.1	-49.9	402	250	60.6
Reported PAT	1,360	932	924	705	897	-34.0	27.2	3,459	3,810	-9.2
Adjusted EPS	3.7	2.8	2.3	1.7	2.5	-33.4	48.8	9.2	10.8	-14.1

Margins (%)						(bps)	(bps)				(bps)
EBIDTA	10.1	9.1	10.1	7.6	8.4	-170	80	8.8	9.9	-110	
EBIT	11.0	10.1	11.4	8.3	8.9	-200	60	9.6	10.7	-110	
EBT	10.8	9.8	11.1	8.0	8.7	-210	70	9.3	10.5	-120	
PAT	8.3	6.7	7.0	5.3	4.9	-340	-40	5.9	7.4	-150	
Effective Tax rate	22.4	31.2	38.5	36.2	37.4	1490	120	35.7	29.1	660	

Downgrade FY12E earnings by 12% to Rs11.2

We downgrade FY12E consolidated earnings for by 12% to Rs11.2 per share (from Rs12.8 per share) to factor (1) Pressure on operating margins from rising input costs and competitively secured orders (2) Lower growth in UCP division – owing to slow delayed pick-up in summer season sales. Voltas sold its MHE business to 34:66 JV with KION wef May '11 for a consideration of Rs1.1 bn. Impact from the above sale on account of loss of profit is expected to be largely offset by higher other income (on consideration received) as well as contract manufacturing to be carried out by Voltas for the JV. We also introduce FY13E consolidated earnings of Rs13.2 per share.

Revision in Earning Estimates

Y/E, Mar (Rs. mn)	FY12E		
	Earlier	Revised	% Change
Revenues	61,417	58,224	-5.2
EBITDA	5,976	5,301	-11.3
EBITDA Margin (%)	9.7	9.1	-60 bps
APAT	4,228	3,704	-12.4
EPS (Rs)	12.8	11.2	-12.4

Retain BUY with revised price target of Rs200

Voltas has witnessed significant derating in 1-year forward PER since Nov'10 (down from 20.3X to 14.5X FY12E) – and is at a mere 12% premium to long term average (15-year) forward PER. We believe above de-rating fully factors all concerns wrt order book accretion and execution. We do not expect further downgrades to our FY12E earnings of Rs11.2 (post two successive rounds of downgrades) – only caveat being profitable and timely execution of 2 large projects in Qatar. Further, we believe downsides to be limited to the extent of downgrades in earnings. With improved clarity and visibility for FY12E and low probability of negative earning surprises, we retain our BUY rating on Voltas with revised price target of Rs200 (18X FY12E)

Consolidated Segmental Performance

Rs mn	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
Segment Revenues										
EMP	9,310	6,926	7,066	6,926	9,494	2.0	37.1	30,411	31,134	-2.3
EPS	1,198	1,203	1,267	1,428	1,740	45.2	21.8	5,638	4,680	20.5
UCP	4,211	5,868	2,281	1,969	5,490	30.4	178.9	15,608	11,871	31.5
Others	90	38	26	72	-9	-110.1	-112.7	126	391	-67.7
Less: Intersegment Rev	3	4	4	2	6	-	-	15	18	-
Total	14,806	14,031	10,636	10,393	16,709	12.9	60.8	51,768	48,059	7.7
Segment Results										
EMP	943	586	580	441	788	-16.5	78.9	2,394	3,091	-22.6
EPS	237	276	264	250	242	2.2	-3.0	1,031	768	34.2
UCP	437	547	280	191	586	34.1	207.7	1,604	1,203	33.4
Others	37	1	6	8	1	-97.3	-88.0	16	72	-77.9
Total	1,654	1,410	1,130	889	1,617	-2.2	82.0	5,045	5,134	-1.7
Add- Unall Income / (Exp)	-60	9	263	-19	-291	-	-	-37	-32	-
Less- Interest Exp	60	53	37	34	41	-30.8	21.8	165	98	68.1
PBT	1,534	1,366	1,356	836	1,285	-16.3	53.6	4,843	5,004	-3.2
Segment Cap Employed										
EMP	2,086	2,461	2,349	3,427	4,704	125.5	37.3	4,704	2,086	125.5
EPS	960	987	980	964	845	-12.0	-12.4	845	960	-12.0
UCP	1,414	486	2,510	2,376	1,908	34.9	-19.7	1,908	1,414	34.9
Others	114	77	73	87	220	92.9	154.4	220	114	92.9
Unallocated	6,278	7,785	6,777	6,541	6,159	-1.9	-5.8	6,159	6,278	-1.9
Total	10,852	11,796	12,689	13,394	13,835	27.5	3.3	13,835	10,852	27.5
Segment Margins (%)										
						(bps)	(bps)			(bps)
EMP	10.1	8.5	8.2	6.4	8.3	-180	190	7.9	9.9	-210
EPS	19.8	22.9	20.9	17.5	13.9	-590	-360	18.3	16.4	190
UCP	10.4	9.3	12.3	9.7	10.7	30	100	10.3	10.1	10
Average	11.2	10.0	10.6	8.6	9.7	-150	110	9.7	10.7	-90

Note: EMP - Electro Mechanical Projects & Services

EPS - Engineering Products & Services

UCP - Unitary Cooling Products

Key Consolidated Financials

Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Net Sales	48,059	51,914	58,224	69,679
<i>Growth (%)</i>	11.1	8.0	12.2	19.7
Expenditure	43,332	47,360	52,923	63,325
Materials Consumed	32,992	36,808		49,491
Employee Cost	5,357	5,563	6,239	7,466
Manufacturing Exp	141	152	171	204
Other Exp	4,842	4,838	5,348	6,164
EBITDA	4,727	4,553	5,301	6,354
<i>Growth (%)</i>	62.5	(3.7)	16.4	19.9
EBITDA margin (%)	9.8	8.8	9.1	9.1
Depreciation	214	210	232	253
EBIT	4,513	4,343	5,070	6,101
EBIT margin (%)	9.4	8.4	8.7	8.8
Other Income	664	665	762	762
Interest expenses	98	165	109	90
PBT	5,078	4,843	5,723	6,773
Tax	1,635	1,729	2,043	2,418
<i>Effective tax rate (%)</i>	32.2	35.7	35.7	35.7
Adjusted PAT	3,442	3,114	3,680	4,355
<i>Growth (%)</i>	55.3	(9.5)	18.2	18.3
Net Margin (%)	7.2	6.0	6.3	6.3
(Profit)/loss from JVs/Ass/MI	36	-57	-24	6
Adj. PAT After JVs/Ass/MI	3,407	3,170	3,704	4,349
E/O items	403	402	737	-
Reported PAT	3,810	3,572	4,441	4,349
<i>Growth (%)</i>	51.5	-6.2	24.3	-2.1

Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
PBT (Ex-Other income)	5,318	4,843	5,723	6,773
Depreciation	214	210	232	253
Interest Provided	98	165	109	90
Other Non-Cash items	-401	402	737	0
Chg in working cap	-348	-3,279	-1,249	-1,220
Tax paid	-1,611	-1,729	-2,043	-2,418
Operating Cashflow	3,271	612	3,508	3,478
Capital expenditure	40	-500	-500	-500
Free Cash Flow	3,311	112	3,008	2,978
Other income	0	0	0	0
Investments	-1,011	-70	0	0
Investing Cashflow	-1,011	-70	0	0
Equity Capital Raised	0.014	0	0	0
Loans Taken / (Repaid)	-1,463	1,030	-400	0
Interest Paid	-99	-165	-109	-90
Dividend paid (incl tax)	-615	-767	-794	-860
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-2,176	97	-1,303	-950
Net chg in cash	124	139	1,706	2,028
Opening cash position	4,571	4,689	4,828	6,534
Closing cash position	4,695	4,828	6,534	8,562

Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11P	FY12E	FY13E
Equity share capital	331	331	331	331
Reserves & surplus	10,521	13,326	16,974	20,463
Net worth	10,852	13,657	17,304	20,794
Minority Interest	139	82	88	94
Secured Loans	307	307	307	307
Unsecured Loans	45	1,075	675	675
Loan Funds	352	1,382	982	982
Net deferred tax liability	-202	-202	-202	-202
Total Liabilities	11,140	14,918	18,172	21,667
Gross Block	4,654	5,154	5,654	6,154
Less: Depreciation	1,821	2,031	2,263	2,516
Net block	2,832	3,122	3,391	3,638
Capital work in progress	193	193	193	193
Investment	2,339	2,409	2,409	2,409
Current Assets	28,268	33,974	38,970	46,970
Inventories	11,441	15,070	16,902	20,227
Sundry debtors	10,060	11,998	13,457	16,104
Cash & bank balance	4,689	4,828	6,534	8,562
Loans & advances	2,078	2,078	2,078	2,078
Other current assets	0	0	0	0
Current lia & Prov	22,493	24,781	26,822	31,574
Current liabilities	19,848	22,136	24,177	28,929
Provisions	2,645	2,645	2,645	2,645
Net current assets	5,775	9,193	12,148	15,397
Misc. exp	0	0	0	0
Total Assets	11,140	14,918	18,142	21,637

Key Ratios

Y/E, Mar	FY10	FY11P	FY12E	FY13E
Profitability (%)				
EBITDA Margin	9.8	8.8	9.1	9.1
Net Margin	7.2	6.0	6.3	6.3
ROCE	49.8	38.4	35.2	34.5
ROE	36.3	25.9	23.9	22.8
RoIC	96.1	56.5	45.5	45.3
Per Share Data (Rs)				
EPS	10.3	9.6	11.2	13.2
CEPS	11.2	10.2	11.9	13.9
BVPS	32.8	41.3	52.3	62.9
DPS	2.0	2.0	2.4	2.6
Valuations (x)				
PER	15.8	16.9	14.5	12.3
P/CEPS	14.5	15.9	13.6	11.7
P/BV	4.9	3.9	3.1	2.6
EV / Sales	1.0	0.9	0.8	0.6
EV / EBITDA	9.1	9.6	7.9	6.4
Dividend Yield (%)	1.2	1.2	1.5	1.6
Gearing Ratio (x)				
Net Debt/ Equity	-0.6	-0.4	-0.5	-0.5
Net Debt/EBIDTA	-1.4	-1.3	-1.5	-1.5
Working Cap Cycle (days)	41.4	52.6	66.9	72.1

Recommendation History: Voltas – VOLT IN

Date	Reports	Reco	CMP	Target
03/02/2011	Voltas Q3FY11 Result Update	Buy	181	250
27/10/2010	Voltas Q2FY11 Result Update	Buy	246	275
29/07/2010	Voltas Q1FY11 Result Update	Buy	208	234
31/05/2010	Voltas Q4FY10 Result Update	Buy	180	234

Recent Research Reports

Date	Reports	Reco	CMP	Target
20/05/2011	Larsen & Toubro Q4FY11 Result Update	Buy	1,595	2,015
13/05/2011	Havells India Initiating Coverage	Buy	384	470
29/04/2011	Greaves Cotton Q3FY11 Result Update	Buy	94	124
04/04/2011	BHEL FY11 Flash Result Update	Buy	2,114	2,760

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