

July 22, 2008

Rating	BUY
Price	Rs121
Target Price	Rs156
Implied Upside	28.8%
Sensex	14,104

(Prices as on July 22, 2008)

**Trading Data**

Market Cap. (Rs bn)	40.0
Shares o/s (m)	330.7
Free Float	72.4%
3M Avg. Daily Vol ('000)	457.8
3M Avg. Daily Value (Rs m)	70.4

**Major Shareholders**

Promoters	27.6%
Foreign	20.0%
Domestic Inst.	24.0%
Public & Others	28.4%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(8.3)	(36.1)	(18.6)
Relative	(5.1)	(20.4)	(9.2)

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



Source: Bloomberg

■ **Results in line:** Voltas reported a topline of Rs10bn, growth of 22% YoY, for Q1FY09. EBITDA margin decreased by 120bps to 7.7%. But Q1FY08 numbers included Rs67m as write-back towards final settlement for compensation against claims for Queens Mary II luxury liner.

Adjusting for this, EBITDA margin declined marginally by 30bps. The company reported a PAT before extraordinary items of Rs696bn, a growth of 35% YoY. There was an extraordinary income of Rs232m, on account of surrender of lease of a property in Hyderabad. This extraordinary item has been adjusted on a post-tax basis to Rs155m.

■ **Other Income increases:** Other income increased 242% YoY to Rs289m. There are four components to this - Rs60m of rental income, Rs70m of forex gain, Rs120m of mutual fund investment income and Rs40m towards other recurring income. Since most of these components are one-time in nature, we expect the annual other income number to be in the range of Rs540 to Rs550m.

■ **Bulging order book:** Voltas has a current order book of Rs56bn, which is a 183% YoY increase and 23% QoQ growth. This order book includes Rs10bn from domestic and Rs46bn from international orders. The company's domestic and international orders are executable over a period of 9-12 months and about 30 months respectively.

■ **Valuation:** At current market price of Rs121 the stock trades at 15.4x FY09E and 11.6 x FY10E earnings of Rs7.9 and Rs10.4. Despite the negative outlook on the engineering segment, we maintain a positive outlook on the MEP and Unitary cooling segment in terms of both revenue growth and margin improvement and thus maintain BUY rating on the stock, with a target price of Rs156, an upside of 28.8%.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenues (Rs m)	25,267	32,029	43,379	58,138
Growth (%)	29.3	26.8	35.4	34.0
EBITDA (Rs m)	1,282	2,531	3,677	4,866
PAT (Rs m)	2,017	2,076	2,599	3,436
EPS (Rs)	4.0	5.3	7.9	10.4
Growth (%)	32.0	33.5	47.7	32.2
Net DPS (Rs)	1.0	1.4	1.6	2.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	5.1	7.9	8.9	5.9
RoE (%)	38.0	35.2	38.2	37.2
RoCE (%)	29.7	30.2	35.0	35.1
EV / sales (x)	1.6	1.2	0.8	0.6
EV / EBITDA (x)	30.8	14.9	9.5	10.7
PE (x)	30.4	22.7	15.4	11.6
P / BV (x)	9.4	6.9	5.1	3.8
Net dividend yield (%)	0.8	1.1	1.3	1.7

Source: Company Data; PL Research

Apurva Patel  
ApurvaPatel@PLIndia.com  
+91-22-6632 2257

## Highlights

### MEP segment makes a comeback

Sales for the MEP segment grew by 24% YoY. EBIT margin for this segment stood at 8.1% as compared to 7.4%(after adjusting for Rs67m write-back) in Q1FY08. Given the strong order book and higher margin new orders, we feel that both volumes and margins could improve further in the second half of the fiscal.

### Unitary cooling division - impressive performance

Unitary cooling grew by 20% to Rs4bn, which was in line with expectations. EBIT margin for the segment has improved by a mammoth 237bps to 9.2%. Although not sustainable, this high margin in Q1FY09, which is typically the heaviest quarter for the segment, has set the tone to match if not better previous year's margin of 6.6% for FY09.

### Engineering division - hit by textile slowdown

Although sales for this segment grew by more than 22% YoY, EBIT margin contracted by 713bps to 15.7% during the same period. This fall in margin can be attributed to increase in sales of mining and construction equipments, and slowdown of sales in textile manufacturing equipments. Typically, mining and construction equipments have a lower margin as compared to textile manufacturing equipments. The slowdown in textile industry is expected to continue for some more time, however, the mining industry demand is expected be robust.

## Valuation & outlook

At current market price of Rs121 the stock trades at 15.4x FY09E and 11.6 x FY10E earnings of Rs7.9 and Rs10.4. Despite the negative outlook on the engineering segment, we maintain a positive outlook on the MEP and Unitary cooling segment in terms of both revenue growth and margin improvement and thus maintain BUY rating on the stock, with a target price of Rs156, an upside of 28.8%.



## Segmental breakup

(Rs m)

Y/e March	Q1FY09	Q1FY08	YoY gr. (%)	Q4FY08	QoQ gr. (%)
<b>Revenues</b>					
Electro Mechanical	4,632	3,735	24.0	4,731	(2.1)
<i>% of Total</i>	<i>46.0</i>	<i>45.3</i>		<i>56.2</i>	
Engineering	1,364	1,112	22.7	1,482	(8.0)
<i>% of Total</i>	<i>13.6</i>	<i>13.5</i>		<i>17.6</i>	
Unitary Cooling	4,008	3,334	20.2	2,141	87.2
<i>% of Total</i>	<i>39.8</i>	<i>40.4</i>		<i>25.4</i>	
Others	105	94	12.5	104	1.7
<i>% of Total</i>	<i>1.0</i>	<i>1.1</i>		<i>1.2</i>	
Inter Segment	(42)	(26)	62.7	(36)	14.0
<i>% of Total</i>	<i>(0.4)</i>	<i>(0.3)</i>		<i>(0.4)</i>	
<b>Total</b>	<b>10,067</b>	<b>8,249</b>	<b>22.0</b>	<b>8,421</b>	<b>92.9</b>
<b>EBIT</b>					
Electro Mechanical	375	346	8.4	275	36.4
Engineering	214	254	(15.7)	313	(31.6)
Unitary Cooling	368	224	64.5	145	153.8
Others	10	15	(34.2)	5	113.0
<b>EBIT Margins %</b>					
<i>Electro Mechanical</i>	<i>8.1</i>	<i>9.3</i>		<i>5.9</i>	
<i>Engineering</i>	<i>15.7</i>	<i>22.8</i>		<i>21.1</i>	
<i>Unitary Cooling</i>	<i>9.2</i>	<i>6.7</i>		<i>6.8</i>	
<i>Others</i>	<i>9.3</i>	<i>15.9</i>		<i>4.4</i>	

## Q1FY09 result overview

(Rs m)

Y/e March	Q1FY09	Q1FY08	YoY gr. (%)	Q4FY08	QoQ gr. (%)
Net Sales	10,067	8,249	22.0	8,421	19.5
<b>Expenditure</b>					
Raw Material	7,408	6,116	21.1	6,171	20.1
<i>% of Net Sales</i>	<i>73.6</i>	<i>74.1</i>		<i>73.3</i>	
Personnel Cost	853	629	35.6	759	12.4
<i>% of Net Sales</i>	<i>8.5</i>	<i>7.6</i>		<i>9.0</i>	
Others	1,029	769	33.9	907	13.5
<i>% of Net Sales</i>	<i>10.2</i>	<i>9.3</i>		<i>10.8</i>	
Total Expenditure	9,291	7,514	23.6	7,837	45.9
<b>EBITDA</b>	<b>776</b>	<b>735</b>	<b>5.6</b>	<b>584</b>	<b>32.9</b>
<i>Margin (%)</i>	<i>7.7</i>	<i>8.9</i>		<i>6.9</i>	
Other income	289	85	241.5	145	99.4
Depreciation	41	32	29.2	40	1.2
<b>EBIT</b>	<b>1,024</b>	<b>788</b>	<b>29.9</b>	<b>689</b>	<b>131.1</b>
Interest	(5)	7	(180.6)	5	(200.0)
<b>PBT</b>	<b>1,030</b>	<b>782</b>	<b>31.7</b>	<b>684</b>	<b>331.1</b>
Total Taxes	334	268	24.7	242	38.0
<i>ETR (%)</i>	<i>32.4</i>	<i>34.3</i>		<i>35.4</i>	
<b>PAT</b>	<b>696</b>	<b>514</b>	<b>35.4</b>	<b>442</b>	<b>57.6</b>
Extra Ordinary Items	155	8		113	
<b>PAT after Extra-Ordinary</b>	<b>850</b>	<b>522</b>	<b>63.0</b>	<b>555</b>	<b>58</b>



Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India.

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

This document has been prepared by the Research Division of Prabhudas Lilladher Pvt. Ltd. Mumbai, India (PL) and is meant for use by the recipient only as information and is not for circulation. This document is not to be reported or copied or made available to others without prior permission of PL. It should not be considered or taken as an offer to sell or a solicitation to buy or sell any security.

The information contained in this report has been obtained from sources that are considered to be reliable. However, PL has not independently verified the accuracy or completeness of the same. Neither PL nor any of its affiliates, its directors or its employees accept any responsibility of whatsoever nature for the information, statements and opinion given, made available or expressed herein or for any omission therein.

Recipients of this report should be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The suitability or otherwise of any investments will depend upon the recipient's particular circumstances and, in case of doubt, advice should be sought from an independent expert/advisor.

Either PL or its affiliates or its directors or its employees or its representatives or its clients or their relatives may have position(s), make market, act as principal or engage in transactions of securities of companies referred to in this report and they may have used the research material prior to publication.

We may from time to time solicit or perform investment banking or other services for any company mentioned in this document.