

VOLTAS LTD.

BUY
CMP Rs162
TP Rs211

20 May 2011

Voltas Ltd's Q4FY11 revenue grew by 16.4%YoY to Rs16.8bn. As expected, OPM contracted by 210bps to 8.4% dragged by Electro-Mech segment (PINCe 8.6%). Lower operating profit coupled with higher interest charges translated in a 23.9% fall in adj. net profit to Rs961mn (PINCe Rs882mn). Reported net profit was Rs1.0bn including exceptional income of Rs77mn.

Muted performance by Electro-Mech (MEP) segment: Revenues from MEP segment (contributes ~57% to topline) grew by 2%YoY. PBIT margin for the segment contracted by 184bps to 8.3% on the back of lesser revenue booking, higher raw material cost and loss of Rs160mn in Rohini Industrial Electricals. This led to 16.6% de-growth in PBIT from this segment resulting inYoY decline in net profit for the company.

Strong Revenue growth from Engineering/Cooling segments: Revenues from Engineering segment grew by 45.2%YoY driven by mining & construction, material handling business. Also, Cooling segment posted strong growth of 44.7%YoY in Q4FY11. However, PBIT margins for the segments fell by 599bps and 133bps respectively mainly due to higher raw material prices.

Strong order inflows: Total order book for MEP segment as of Q4FY11 stands at Rs49bn (up 4%YoY and 4%QoQ) out of which, domestic orders comprise of Rs20bn. Order inflows in the quarter of Rs11bn (up 175%QoQ) includes ~Rs2bn Metro Rail project and another ~Rs2bn order from Middle East.

Outlook: Pickup in industrial activities and volume traction in cooling product division promise better performance for Engineering and Cooling segments. Rohini Industrial Electricals is expected to see a turnaround in FY12 which should provide support to MEP segment. Strong order inflow in the current quarter provides further upside.

VALUATIONS AND RECOMMENDATION

We maintain our estimates for FY12 on back of strong order inflow and encouraging performance from Engineering /cooling segments. However, given the recent sharp correction in stock price and healthy growth prospects, we upgrade our recommendation to BUY with a target price of Rs211 (18x FY12E PER). At the CMP of Rs162, the stock trades at a P/E of 13.8x and an EV/EBITDA of 7.3x its FY12E estimates.

KEY FINANCIALS						Rs mn
	FY08	FY09	FY10	FY11P	FY12E	
Net Sales	32,156	43,617	47,748	51,914	58,752	
YoY Gr.(%)	27.3	35.6	9.5	8.7	13.2	
Op. Profits	2,657	3,189	4,769	4,554	5,258	
Op. Marg.(%)	8.3	7.3	10.0	8.8	9.0	
Adjusted Net Profit	1,863	2,335	3,628	3,303	3,876	
YoY Gr.(%)	29.7	25.4	55.4	(9.0)	17.3	
KEY RATIOS						
Dil. EPS (Rs)	5.6	7.1	11.0	10.0	11.7	
ROCE (%)	48.6	44.6	49.5	39.5	36.5	
RoE (%)	37.2	34.2	38.7	27.0	25.5	
PER (x)	28.8	22.9	14.8	16.2	13.8	
EV/Net sales (x)	1.6	1.2	1.0	0.9	0.7	
EV/EBITDA (x)	17.3	13.4	9.2	8.7	7.3	

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-10	Dec-10	Mar-11
Net Sales	10,651	10,422	16,757
YoY Gr. (%)	(2.8)	5.3	16.4
Op. Profits	1,075	793	1,410
OPM (%)	10.1	7.6	8.4
Adj. Net Profits	805	602	961
YoY Gr. (%)	(10.9)	(13.3)	(23.9)

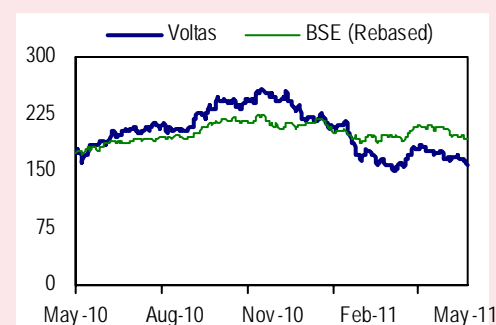
STOCK DATA

Market Cap	Rs53.6bn.
Book Value per share	Rs41.3
Eq Shares O/S (F.V. Rs1)	330.7mn.
Free Float	69.4%
Avg Traded Value (6 mnths)	Rs202mn
52 week High/Low	Rs263/147
Bloomberg Code	VOLT IN
Reuters Code	VOLT.BO

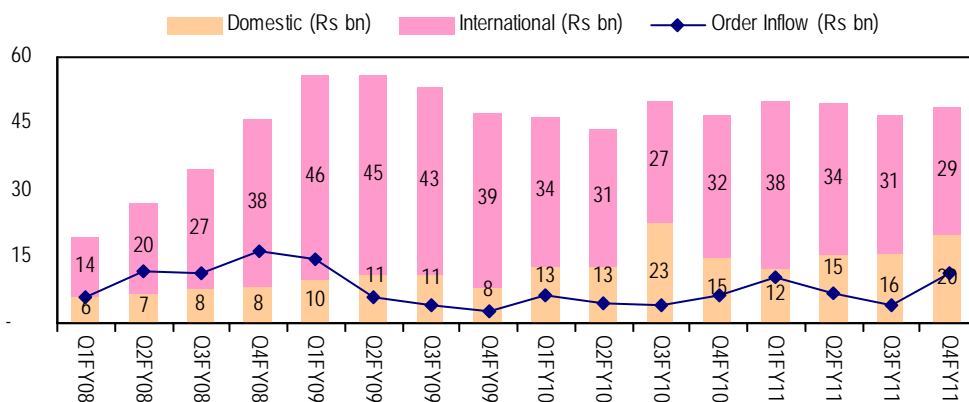
PERFORMANCE (%)

	1M	3M	12M
Absolute	(8.6)	(7.2)	(9.9)
Relative	(3.4)	(6.6)	(18.3)

RELATIVE PERFORMANCE



Order Book (Rs bn)



Source: Company & PINC Research

Segmental Result - Consolidated

Rs mn	Mar-10	Mar-11	YoY (%)	Dec-10	QoQ (%)	FY10	FY11	YoY (%)
Revenues								
Electro-mech. Proj. & Serv.	9,310	9,494	2.0	6,926	37.1	31,134	30,411	(2.3)
Engineering Prod. & Serv.	1,198	1,740	45.2	1,428	21.8	4,680	5,638	20.5
Unitary Cooling Products	3,793	5,490	44.7	1,969	178.9	11,387	15,608	37.1
Others	90	(9)	-	72	-	391	126	-
Total	14,391	16,715	16.1	10,395	60.8	47,592	51,783	8.8
Less: Inter segment revenue	3	6	-	2	-	18	15	-
Net Sales	14,388	16,709	16.1	10,393	60.8	47,575	51,768	8.8
PBIT								
Electro-mech. Proj. & Serv.	944	788	(16.6)	440	79.1	3,091	2,393	(22.6)
Engineering Prod. & Serv.	238	242	1.5	250	(3.0)	769	1,031	34.1
Unitary Cooling Products	452	581	28.5	191	204.9	1,203	1,599	32.9
Others	37	1	-	8	-	72	16	(77.9)
Total	1,671	1,612	(3.6)	888	81.5	5,135	5,039	(1.9)
Capital Employed								
Electro-mech. Proj. & Serv.	2,218	4,704	112.1	3,427	37.3	2,218	4,704	112.1
Engineering Prod. & Serv.	960	845	(12.0)	964	(12.4)	960	845	(12.0)
Unitary Cooling Products	1,414	1,908	34.9	2,376	(19.7)	1,414	1,908	34.9
Others	120	220	83.1	87	154.4	120	220	83.1
Total Allocable capital	4,712	7,677	62.9	6,853	12.0	4,712	7,677	62.9
Add: Unallocable capital	6,278	6,159	(1.9)	6,541	(5.8)	6,278	6,159	(1.9)
Total	10,990	13,835	25.9	13,394	3.3	10,990	13,835	25.9
PBIT Margin (%)								
Electro-mech. Proj. & Serv.	10.1	8.3		6.4		9.9	7.9	
Engineering Prod. & Serv.	19.9	13.9		17.5		16.4	18.3	
Unitary Cooling Products	11.9	10.6		9.7		10.6	10.2	
Sales Mix (%)								
Electro-mech. Proj. & Serv.	64.7	56.8		66.6		65.4	58.7	
Engineering Prod. & Serv.	8.3	10.4		13.7		9.8	10.9	
Unitary Cooling Products	26.4	32.8		18.9		23.9	30.1	
PBIT Mix (%)								
Electro-mech. Proj. & Serv.	56.5	48.9		49.5		60.2	47.5	
Engineering Prod. & Serv.	14.3	15.0		28.1		15.0	20.5	
Unitary Cooling Products	27.0	36.0		21.4		23.4	31.7	

Year Ended March (Figures in Rs mn)

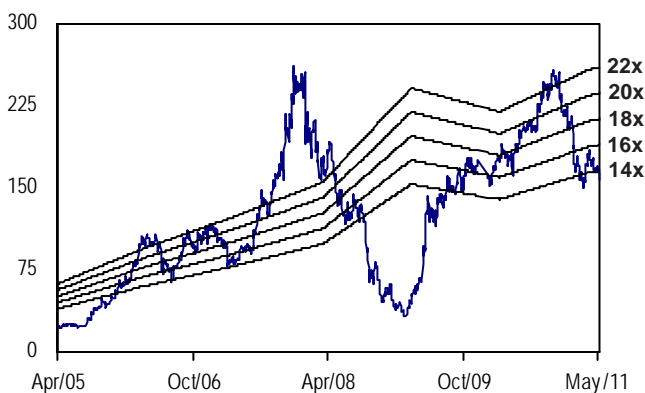
Income Statement	FY08	FY09	FY10	FY11P	FY12E
Net Sales	32,156	43,617	47,748	51,914	58,752
Growth (%)	27.3	35.6	9.5	8.7	13.2
Operating Profit	2,657	3,189	4,769	4,554	5,258
Other income	316	604	612	664	706
EBITDA	2,973	3,793	5,380	5,218	5,965
Growth (%)	56.3	27.6	41.8	(3.0)	14.3
Depreciation	167	210	214	210	229
EBIT	2,806	3,584	5,166	5,008	5,736
Interest paid	50	128	98	165	118
PBT (before E/o items)	2,756	3,456	5,068	4,843	5,618
Tax provision	997	1,172	1,472	1,729	1,742
E/o Income / (loss)	316	261	250	402	-
Net Profit	2,076	2,514	3,809	3,572	3,876
Adjusted net profit	1,863	2,335	3,628	3,303	3,876
Growth (%)	29.7	25.4	55.4	(9.0)	17.3
Basic EPS (Rs)	6.3	7.6	11.5	10.8	11.7
Adj Dil EPS (Rs)	5.6	7.1	11.0	10.0	11.7
Diluted EPS Growth (%)	29.7	25.4	55.4	(9.0)	17.3

Cash Flow Statement	FY08	FY09	FY10	FY11P	FY12E
Pre-tax profit	3,072	3,717	5,318	5,245	5,618
Depreciation	167	210	214	210	229
Total tax paid	(597)	(1,048)	(1,611)	(1,729)	(1,742)
Chg in working capital	1,279	(1,954)	(258)	2,179	(1,091)
Other items	(354)	65	(604)	(725)	(778)
Cash from oper. (a)	3,567	990	3,059	5,179	2,237
Capital expenditure	(287)	(902)	33	(1,135)	(500)
Chg in investments	(1,335)	1,076	(1,011)	(82)	(250)
Other items	237	475	213	773	815
Cash flow from inv. (b)	(1,385)	649	(764)	(444)	65
Free cash flow (a+b)	2,182	1,639	2,295	4,735	2,302
Equity raised/ (repaid)	0	0	0	-	-
Debt raised/ (repaid)	(378)	577	(1,561)	143	(100)
Interest Paid	(90)	(128)	(615)	(48)	(38)
Dividend (incl. tax)	(388)	(520)	-	(774)	(774)
Other items	0	(0)	(0)	-	-
Cash flow from fin. (c)	(856)	(71)	(2,177)	(679)	(911)
Net chg in cash (a+b+c)	1,325	1,569	118	4,056	1,391

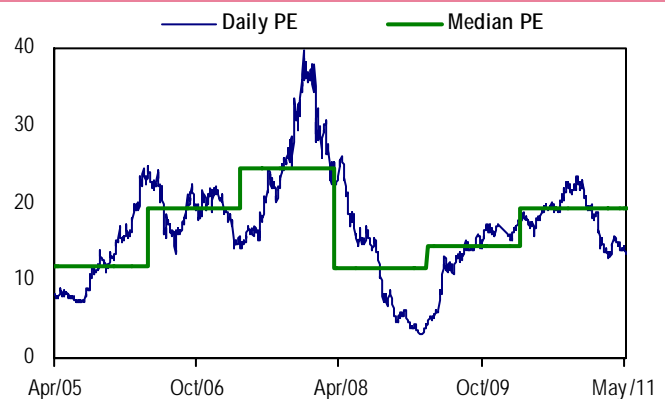
Balance Sheet	FY08	FY09	FY10	FY11P	FY12E
Equity Share Capital	331	331	331	331	331
Reserves & surplus	5,442	7,567	10,521	13,320	16,421
Shareholders' funds	5,772	7,897	10,852	13,650	16,752
Total Debt	737	1,814	352	494	394
Minority interest	5	159	139	82	83
Capital Employed	6,515	9,871	11,342	14,227	17,230
Net fixed Assets	1,898	2,955	3,026	3,951	4,222
Cash & Cash Eq.	5,275	5,755	6,719	10,772	12,402
Net other current assets	(1,160)	558	1,085	(1,093)	(2)
Investments	312	378	309	395	405
Net Deferred tax asset	189	224	202	202	202
Total Assets	6,515	9,871	11,342	14,227	17,230

Key Ratios	FY08	FY09	FY10	FY11P	FY12E
OPM (%)	8.3	7.3	10.0	8.8	9.0
Net margin (%)	6.5	5.8	8.0	6.9	6.6
Dividend yield (%)	0.8	1.0	1.2	1.2	1.2
Net debt/ Equity (x)	0.1	0.2	0.0	0.0	0.0
Net working capital (days)	40.7	44.6	43.3	46.0	47.0
Asset turnover (x)	4.9	4.4	4.2	3.6	3.4
ROCE (%)	48.6	44.6	49.5	39.5	36.5
RoE (%)	37.2	34.2	38.7	27.0	25.5
EV/Net sales (x)	1.6	1.2	1.0	0.9	0.7
EV/EBITDA (x)	17.3	13.4	9.2	8.7	7.3
PER (x)	28.8	22.9	14.8	16.2	13.8
Price/Book (x)	9.3	6.8	4.9	3.9	3.2

P/E Band



Median PE v/s Daily PE



T E A M

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