

October 27, 2010

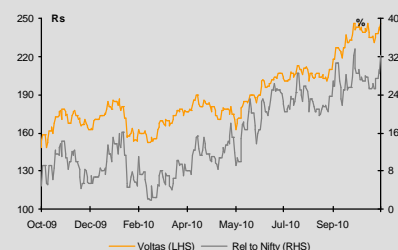
<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs 246	Rs 275
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	6,013
Sensex	20,005

### Price Performance

(%)	1M	3M	6M	12M
Absolute	3	19	39	67
Rel. to Nifty	4	8	20	34

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	258/140
Market Cap (Rs bn/USD mn)	81/1,821
Daily Avg Volume (No of sh)	1158436
Daily Avg Turnover (US\$m)	5.9

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	30.5	30.5	27.7
FII/NRI	12.2	9.2	10.1
Institutions	33.8	36.9	39.0
Private Corp	3.0	2.7	2.2
Public	20.5	20.8	21.1

Source: Capitaline

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- **Results marginally below estimates with (1) 3% yoy decline in revenues to Rs10.7 bn (2) 140 bps yoy drop in EBITDA margins and (3) 17% yoy decline in PAT to Rs746 mn**
- **EMP division performance negatively impacted due to slower execution on international orders & one-off expenditure**
- **Order inflows up 76% yoy to Rs8.5 bn – YTD secured 44% of FY11E target order flows. Order book at Rs49.7 bn – equivalent to 1.4X standalone FY10 revenues**
- **Maintain earnings estimates and Maintain 'BUY' with target price of Rs275/Share**

### Net profits decline 17% yoy to Rs746 mn – below estimates

Led by low revenue booking and impact of one-off expenditures, Voltas consolidated net profits declined 17% yoy to Rs746 mn in Q2FY11, marginally below estimates. Key highlights of the Q2FY11 performance - (1) Revenues for the quarter decreased 3% yoy to Rs10.7 bn – attributed to 8% yoy decline in the EMP division (2) EPS and UCP division registered healthy growth at 8% yoy to Rs1.3 bn and 16% yoy to Rs2.3 bn respectively (3) One-off expenditures / write-offs aggregating Rs240 mn – largely attributed to the EMP division and (4) 140 bps yoy drop in EBITDA margins to 10.1%

### EMP – Impacted due to slower execution on international orders & one-off expenses

Electro-Mechanical Projects (EMP) division performance was negatively impacted due to (1) about 57% of FY10 order inflows received in Q4FY10, not yet gathered momentum in booking (2) 23% yoy decline in revenue booking on international orders – due to continuing delays in large projects execution and (3) One-off expenditures / write-offs aggregating Rs240 mn – split as forex loss of Rs90mn (Vs forex gain of Rs20 mn in Q2FY10) and losses in JVs / Subsidiaries of Rs145 mn (Vs gain of Rs45 mn in Q2FY10).

### Sustained momentum in order inflows – up 76% yoy to Rs8.5 bn

Led by healthy order inflows, Voltas order book stands at a healthy Rs49.7 bn (net of Rs1.5 bn decrease on forex fluctuation) –equivalent to 1.4X revenues. Voltas witnessed sustained momentum in order inflows – up 76% yoy to Rs8.5 bn, led by improvement in ordering activity in local and international markets. YTD, Voltas has secured orders worth Rs18.0 bn in H1FY11 – equivalent to 44% of FY11E target order flows.

### No change in earning estimates, Maintain 'BUY' rating

Prima facie Q2FY11 results seems disappointing, but by large impacted by one-offs and extra-ordinary expenditure in EMP division. Management has guided for a better performance in H2FY11 over H1FY11- based on ramp-up in execution. We retain our earnings estimates of Rs11.3/Share and Rs13.3/Share for FY11E and FY12E respectively. We maintain BUY rating with target price of Rs275/Share.

### Consolidated Financial Snapshot

Rs Mn

YE-	Net	EBITDA		EPS	EPS	ROE	EV/			
Mar	Sales	(Core)	(%)	APAT	(Rs)	%Chg	(%)	P/E	EBITDA	P/BV
FY09	43,259	2,909	6.7	2,217	6.6	23.9	32.0	37.2	21.9	10.3
FY10	48,059	4,727	9.8	3,442	10.3	55.8	36.3	23.8	14.4	7.5
FY11E	55,613	5,270	9.5	3,769	11.3	9.6	30.3	21.8	12.8	5.9
FY12E	65,717	6,270	9.5	4,433	13.3	17.8	28.4	18.5	10.4	4.7

## Consolidated Quarterly Results

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
<b>Revenue</b>	<b>10,956</b>	<b>9,928</b>	<b>14,842</b>	<b>14,083</b>	<b>10,651</b>	<b>-2.8</b>	<b>-24.4</b>	<b>24,735</b>	<b>23,467</b>	<b>5.4</b>
<b>Expenditure</b>	<b>9,701</b>	<b>9,030</b>	<b>13,343</b>	<b>12,807</b>	<b>9,576</b>	<b>-1.3</b>	<b>-25.2</b>	<b>22,383</b>	<b>21,095</b>	<b>6.1</b>
Consumption of RM	7,247	6,701	10,468	10,107	7,279	0.4	-28.0	17,385	15,822	9.9
as % of sales	75.1	68.5	66.1	67.5	70.5			69.2	68.0	
Employee Cost	1,426	1,315	1,308	1,347	1,268	-11.1	-5.9	2,615	2,734	-4.4
as % of sales	13.0	13.2	8.8	9.6	11.9			10.6	11.7	
Other expenditure	1,029	1,013	1,567	1,354	1,029	0.1	-24.0	2,383	2,538	-6.1
as % of sales	9.4	10.2	10.6	9.6	9.7			9.6	10.8	
<b>EBITDA</b>	<b>1,255</b>	<b>898</b>	<b>1,499</b>	<b>1,276</b>	<b>1,075</b>	<b>-14.3</b>	<b>-15.7</b>	<b>2,352</b>	<b>2,372</b>	<b>-0.9</b>
Depreciation	56	55	54	50	53	-4.3	6.6	104	105	-1.4
<b>EBIT</b>	<b>1,199</b>	<b>843</b>	<b>1,445</b>	<b>1,226</b>	<b>1,022</b>	<b>-14.8</b>	<b>-16.6</b>	<b>2,248</b>	<b>2,267</b>	<b>-0.8</b>
Other Income	157	152	184	200	193	23.2	-3.4	394	276	42.7
Interest	24	12	30	53	37			90	56	60.4
<b>PBT</b>	<b>1,332</b>	<b>983</b>	<b>1,599</b>	<b>1,374</b>	<b>1,178</b>	<b>-11.5</b>	<b>-14.2</b>	<b>2,552</b>	<b>2,486</b>	<b>2.6</b>
Total Tax	415	312	359	429	453	9.2	5.7	882	802	10.1
<b>Adjusted PAT</b>	<b>917</b>	<b>671</b>	<b>1,240</b>	<b>945</b>	<b>725</b>	<b>-20.9</b>	<b>-23.3</b>	<b>1,669</b>	<b>1,685</b>	<b>-0.9</b>
(Profit)/loss from JV's/Ass/MI	13	8	8	5	-22			-17	20	
<b>APAT after MI</b>	<b>903</b>	<b>663</b>	<b>1,231</b>	<b>940</b>	<b>746</b>	<b>-17.4</b>	<b>-20.6</b>	<b>1,686</b>	<b>1,665</b>	<b>1.3</b>
Extra ordinary items	0	94	129	-7	178	-59300.0	-2500.0	170	28	514.4
<b>Reported PAT</b>	<b>903</b>	<b>757</b>	<b>1,360</b>	<b>932</b>	<b>924</b>	<b>2.3</b>	<b>-0.9</b>	<b>1,856</b>	<b>1,693</b>	<b>9.7</b>
<b>Adjusted EPS</b>	<b>2.7</b>	<b>2.0</b>	<b>3.7</b>	<b>2.8</b>	<b>2.3</b>	<b>-17.4</b>	<b>-20.6</b>	<b>5.1</b>	<b>5.0</b>	<b>1.3</b>

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	11.5	9.0	10.1	9.1	10.1	-140	100	9.5	10.1	360
EBIT	12.4	10.0	11.0	10.1	11.4	-100	130	10.7	10.8	420
EBT	12.2	9.9	10.8	9.8	11.1	-110	130	10.3	10.6	340
PAT	8.2	6.7	8.3	6.7	7.0	-120	30	6.8	7.1	180
Effective Tax rate	31.2	31.7	22.4	31.2	38.5	730	730	34.6	32.2	610

**Consolidated Segmental Performance**

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	Gr (%)
<b>Segment Revenues</b>										
EMP	7,692	7,131	9,310	6,926	7,066	-8.1	2.0	13,991	14,693	-4.8
EPS	1,170	1,173	1,198	1,203	1,267	8.3	5.3	2,470	2,309	7.0
UCP	1,968	1,539	4,211	5,868	2,281	15.9	-61.1	8,149	6,122	33.1
Others	103	71	90	38	26	-74.9	-31.4	63	230	-72.4
Less: Intersegment Rev	3	9	3	4	4	-	-	7	6	-
<b>Total</b>	<b>10,930</b>	<b>9,905</b>	<b>14,806</b>	<b>14,031</b>	<b>10,636</b>	<b>-2.7</b>	<b>-24.2</b>	<b>24,666</b>	<b>23,348</b>	<b>5.6</b>
<b>Segment Results</b>										
EMP	898	637	943	586	580	-35.5	-1.1	1,165	1,510	-22.8
EPS	215	159	237	276	264	23.1	-4.2	540	373	44.9
UCP	187	190	437	547	280	49.9	-48.7	828	576	43.6
Others	14	7	37	1	6	-60.6	460.0	7	29	-77.0
Total	1,314	993	1,654	1,410	1,130	-14.0	-19.9	2,539	2,488	2.1
Add- Unall Income / (Exp)	34	2	-60	9	263	-	-	273	25	-
Less- Interest Exp	16	12	60	53	37	127.4	-29.2	90	56	60.4
<b>PBT</b>	<b>1,332</b>	<b>983</b>	<b>1,534</b>	<b>1,366</b>	<b>1,356</b>	<b>1.8</b>	<b>-0.8</b>	<b>2,722</b>	<b>2,457</b>	<b>10.8</b>
<b>Segment Cap Employed</b>										
EMP	384	1,440	2,086	2,461	2,349	512.1	-4.6	2,086	2,086	0.0
EPS	1,259	924	960	987	980	-22.1	-0.7	960	960	0.0
UCP	1,029	1,125	1,414	486	2,510	143.9	416.9	1,414	1,414	0.0
Others	80	80	114	77	73	-9.4	-5.7	114	114	0.0
Unallocated	6,752	6,755	6,278	7,785	6,777	0.4	-13.0	6,278	6,278	0.0
<b>Total</b>	<b>9,504</b>	<b>10,324</b>	<b>10,852</b>	<b>11,796</b>	<b>12,689</b>	<b>33.5</b>	<b>7.6</b>	<b>10,852</b>	<b>10,852</b>	<b>0.0</b>
<b>Segment Margins (%)</b>						<b>(bps)</b>	<b>(bps)</b>			<b>(bps)</b>
EMP	11.7	8.9	10.1	8.5	8.2	-350	-30	8.3	10.3	-200
EPS	18.3	13.5	19.8	22.9	20.9	250	-210	21.9	16.1	570
UCP	9.5	12.3	10.4	9.3	12.3	280	300	10.2	9.4	70
<b>Average</b>	<b>12.0</b>	<b>10.0</b>	<b>11.2</b>	<b>10.0</b>	<b>10.6</b>	<b>-140</b>	<b>60</b>	<b>10.3</b>	<b>10.7</b>	<b>-40</b>

**Note:** EMP - Electro Mechanical Projects & Services  
 EPS - Engineering Products & Services  
 UCP - Unitary Cooling Products

## Key Consolidated Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>43,259</b>	<b>48,059</b>	<b>55,613</b>	<b>65,717</b>
<i>Growth (%)</i>	35.1	11.1	15.7	18.2
<b>Expenditure</b>	<b>40,350</b>	<b>43,332</b>	<b>50,343</b>	<b>59,447</b>
Materials Consumed	31,685	32,992	38,512	45,657
Employee Cost	4,656	5,357	6,199	7,325
Manufacturing Exp	153	141	163	193
Other Exp	3,856	4,842	5,469	6,273
<b>EBITDA</b>	<b>2,909</b>	<b>4,727</b>	<b>5,270</b>	<b>6,270</b>
<i>Growth (%)</i>	9.9	62.5	11.5	19.0
<b>EBITDA margin (%)</b>	<b>6.7</b>	<b>9.8</b>	<b>9.5</b>	<b>9.5</b>
Depreciation	210	214	228	249
<b>EBIT</b>	<b>2,699</b>	<b>4,513</b>	<b>5,042</b>	<b>6,021</b>
<b>EBIT margin (%)</b>	<b>6.2</b>	<b>9.4</b>	<b>9.1</b>	<b>9.2</b>
Other Income	828	664	549	549
Interest expenses	128	98	32	32
<b>PBT</b>	<b>3,400</b>	<b>5,078</b>	<b>5,560</b>	<b>6,538</b>
Tax	1,183	1,635	1,790	2,106
<i>Effective tax rate (%)</i>	34.8	32.2	32.2	32.2
<b>Adjusted PAT</b>	<b>2,217</b>	<b>3,442</b>	<b>3,769</b>	<b>4,433</b>
<i>Growth (%)</i>	25.7	55.3	9.5	17.6
<b>Net Margin (%)</b>	<b>5.1</b>	<b>7.2</b>	<b>6.8</b>	<b>6.7</b>
(Profit)/loss from JVs/Ass/MI	31	36	36	36
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>2,186</b>	<b>3,407</b>	<b>3,733</b>	<b>4,397</b>
E/O items	328	403	-	-
<b>Reported PAT</b>	<b>2,514</b>	<b>3,810</b>	<b>3,733</b>	<b>4,397</b>
<i>Growth (%)</i>	21.1	51.5	-2.0	17.8

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	3,717	5,318	5,560	6,538
Depreciation	210	214	228	249
Interest Provided	128	98	32	32
Other Non-Cash items	60	-401	0	0
Chg in working cap	-1,831	-348	297	-277
Tax paid	-1,048	-1,611	-1,790	-2,106
<b>Operating Cashflow</b>	<b>1,236</b>	<b>3,271</b>	<b>4,326</b>	<b>4,437</b>
Capital expenditure	-162	40	-300	-300
<b>Free Cash Flow</b>	<b>1,073</b>	<b>3,311</b>	<b>4,026</b>	<b>4,137</b>
Other income	0	0	0	0
Investments	558	-1,011	0	0
<b>Investing Cashflow</b>	<b>558</b>	<b>-1,011</b>	<b>0</b>	<b>0</b>
Equity Capital Raised	0.237	0.014	0	0
Loans Taken / (Repaid)	577	-1,463	0	0
Interest Paid	-128	-99	-32	-32
Dividend paid (incl tax)	-520	-615	-827	-992
Income from investments	0.37	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-70</b>	<b>-2,176</b>	<b>-859</b>	<b>-1,024</b>
<b>Net chg in cash</b>	<b>1,561</b>	<b>124</b>	<b>3,167</b>	<b>3,113</b>
Opening cash position	3,002	4,571	4,689	7,856
<b>Closing cash position</b>	<b>4,563</b>	<b>4,695</b>	<b>7,856</b>	<b>10,969</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	331	331	331	331
Reserves & surplus	7,567	10,521	13,427	16,832
<b>Net worth</b>	<b>7,897</b>	<b>10,852</b>	<b>13,758</b>	<b>17,163</b>
<b>Minority Interest</b>	<b>159</b>	<b>139</b>	<b>174</b>	<b>210</b>
Secured Loans	1,688	307	307	307
Unsecured Loans	127	45	45	45
<b>Loan Funds</b>	<b>1,814</b>	<b>352</b>	<b>352</b>	<b>352</b>
Net deferred tax liability	-224	-202	-202	-202
<b>Total Liabilities</b>	<b>9,647</b>	<b>11,140</b>	<b>14,082</b>	<b>17,523</b>
Gross Block	4,662	4,654	4,954	5,254
Less: Depreciation	1,839	1,821	2,049	2,298
<b>Net block</b>	<b>2,823</b>	<b>2,832</b>	<b>2,905</b>	<b>2,956</b>
Capital work in progress	132	193	193	193
<b>Investment</b>	<b>1,562</b>	<b>2,339</b>	<b>2,339</b>	<b>2,339</b>
<b>Current Assets</b>	<b>27,489</b>	<b>28,268</b>	<b>46,940</b>	<b>56,777</b>
Inventories	11,194	11,441	27,221	32,167
Sundry debtors	9,521	10,060	9,785	11,563
Cash & bank balance	4,571	4,689	7,856	10,969
Loans & advances	2,203	2,078	2,078	2,078
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>22,360</b>	<b>22,493</b>	<b>38,296</b>	<b>44,743</b>
Current liabilities	19,743	19,848	35,651	42,098
Provisions	2,617	2,645	2,645	2,645
<b>Net current assets</b>	<b>5,129</b>	<b>5,775</b>	<b>8,644</b>	<b>12,034</b>
Misc. exp	0	0	0	0
<b>Total Assets</b>	<b>9,647</b>	<b>11,140</b>	<b>14,082</b>	<b>17,523</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
<b>EBITDA Margin</b>	6.7	9.8	9.5	9.5
<b>Net Margin</b>	5.1	7.2	6.8	6.7
ROCE	44.2	49.8	44.3	41.6
ROE	32.0	36.3	30.3	28.4
RoIC	117.7	96.1	99.6	115.5
<b>Per Share Data (Rs)</b>				
EPS	6.6	10.3	11.3	13.3
CEPS	7.4	11.2	12.0	14.0
BVPS	23.9	32.8	41.6	51.9
DPS	1.6	2.0	2.5	3.0
<b>Valuations (x)</b>				
PER	37.2	23.8	21.8	18.5
P/CEPS	33.0	21.9	20.5	17.5
P/BV	10.3	7.5	5.9	4.7
EV / Sales	1.8	1.6	1.3	1.0
EV / EBITDA	21.9	14.4	12.8	10.4
Dividend Yield (%)	0.7	0.8	1.0	1.2
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	-0.5	-0.6	-0.7	-0.7
Net Debt/EBIDTA	-1.4	-1.4	-1.8	-2.0
Working Cap Cycle (days)	29.3	41.4	47.3	57.4

**Recommendation History: Voltas – VOLT IN**

Date	Reports	Reco	CMP	Target
29/07/2010	<a href="#">Voltas Q1FY11 Result Update</a>	Buy	208	234
31/05/2010	<a href="#">Voltas Q4FY10 Result Update</a>	Buy	180	234

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
19/10/2010	<a href="#">Larsen &amp; Toubro Q2FY11 Result Update</a>	Accumulate	2,013	2,129
24/09/2010	<a href="#">ECI Strategy</a>			
04/08/2010	<a href="#">Punj Lloyd Q1FY11 Result Update</a>	Hold	121	132
29/07/2010	<a href="#">Blue Star Q1FY11 Result Update</a>	Buy	446	464

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