

# Voltas

Rs177

**OUTPERFORMER**

## RESULT NOTE

**Mkt Cap: Rs58.6bn; US\$1.3bn**

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**Result:** Q3FY11

**Comment:** Sharply below estimates – Rohini Industrial Electricals impacts profitability

### Key consolidated financials

Year ended	Revenues (Rs m)	% growth, yoy	Adj. PAT (Rs m)	EPS (Rs)	% growth, yoy	PE (x)
2008	32,029	-	1,853	5.6	-	31.6
2009	43,259	35.1	2,191	6.6	18.3	26.7
2010	48,059	11.1	3,477	10.5	58.7	16.9
2011E	50,574	5.2	3,266	9.9	(6.1)	17.9
2012E	57,140	13.0	3,768	11.4	15.4	15.6

### Key highlights of consolidated results

- Voltas's 3QFY11 consolidated profit before exceptional items was at Rs599mn (-13.4% yoy growth) sharply below our estimates (Rs832mn).
- Revenues grew by 4.9% yoy to Rs10.4bn led by a sharp growth of 28% yoy in the unitary division revenues (air conditioners, cooling products, etc) as also the engineering agency service division (+22% yoy to Rs1.4bn) led by pick up in demand.
- However, revenues fell by 2.9% yoy in electromechanical projects in the quarter driven by slower execution of its order backlog of Rs47bn at the end of 3QFY11, especially in international markets.
- The international revenues (53% of MEP revenues) fell by 9% yoy to Rs3.74bn as some large projects are in the designing stage and hence the execution has been slow. On the other hand, domestic revenue growth was muted led by slow execution in projects, where Voltas is the sub contractor in areas such as infra and industrial projects.
- EBITDA margins fell by 150bps to 7.3% during the quarter.
  - EBIT margins in the electro mechanical division fell sharply by 250bps yoy to 6.4%. The sharp fall in operating margins have been due to the losses in Voltas's subsidiary, Rohini Industrial Electricals (RIE), wherein higher input costs, cost overruns and entry into new areas of segment impacted margins. Consequently, RIE incurred losses of Rs90mn in the quarter against a profit of Rs40mn in 3QFY10. Further, higher input prices impacted margins in the domestic business sharply.
  - The engineering products and services division's EBIT margins improved sharply by 410bps yoy to 17.5% in 3QFY11 led by strong demand as also increase in commission based revenues, which now account for 27% of the segment revenues.
  - EBIT margins of the consumer segment fell by 260bps to 9.7% due to high base effect as also higher input costs and adverse change in product mix towards window air conditioners. Going forward, the management expects some pressure on margins led by higher input prices as also increased competitive intensity.

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- Voltas had a nominal interest expense of Rs34mn in the quarter, while the other income fell by 8.1% yoy to Rs161mn. The interest income was lower due to lower surplus cash. Voltas has investments of Rs1.26bn and cash of Rs4.3bn (including advances from customers).
- Overall, capital employed in the business has increased led by higher inventories in the unitary cooling division in view of rising input prices. Further, a longer time frame for certification in both domestic and international markets has also led to a higher capital employed in the MEP business.
- Consequently, adjusted profits after tax (before extraordinary items) on consolidated basis fell by 13.4% yoy to Rs599mn.
- Post exceptional items (profit on sale of property) Voltas has reported consolidated PAT of Rs706mn (-7% yoy).

#### Consolidated segmental trend

(Rs m)	1Q10	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	3Q11
<b>Revenues</b>								
Electromechanical Projects	7,001	7,692	7,131	9,310	31,134	6,926	7,066	6,926
Engineering Products	1,139	1,170	1,173	1,198	4,680	1,203	1,267	1,428
Unitary Cooling	4,153	1,968	1,539	4,211	11,871	5,868	2,281	1,969
Others	127	103	71	90	391	38	26	72
Less: inter segment	3	3	9	3	18	4	4	2
<b>Total</b>	<b>12,418</b>	<b>10,930</b>	<b>9,905</b>	<b>14,806</b>	<b>48,059</b>	<b>14,031</b>	<b>10,636</b>	<b>10,393</b>
<b>yoy % change</b>								
Electromechanical Projects	44.6	21.8	2.6	(2.6)	12.5	(1.1)	(8.1)	(2.9)
Engineering Products	(16.5)	(27.7)	6.8	(10.8)	(13.7)	5.6	8.3	21.7
Unitary Cooling	3.5	26.7	26.9	72.3	28.7	41.3	15.9	27.9
Others	(43.1)	(63.4)	(75.8)	(62.7)	(62.4)	(70.4)	(74.9)	1.4
<b>Total revenues</b>	<b>19.4</b>	<b>12.1</b>	<b>3.8</b>	<b>9.1</b>	<b>11.1</b>	<b>13.0</b>	<b>(2.7)</b>	<b>4.9</b>
<b>EBIT</b>								
Electromechanical Projects	612	898	637	944	3091	586	580	440
Engineering Products	157	215	159	238	768	276	264	250
Unitary Cooling	389	187	190	452	1203	547	280	191
Others	14	14	7	37	72	1	6	8
<b>EBIT</b>	<b>1173</b>	<b>1314</b>	<b>993</b>	<b>1671</b>	<b>5134</b>	<b>1410</b>	<b>1130</b>	<b>888</b>
<b>EBIT margin (%)</b>								
Electromechanical Projects	8.7	11.7	8.9	10.1	9.9	8.5	8.2	6.4
Engineering Products	13.8	18.3	13.5	19.8	16.4	22.9	20.9	17.5
Unitary Cooling	9.4	9.5	12.3	10.7	10.1	9.3	12.3	9.7
Others	11.3	13.8	9.3	40.6	18.4	2.7	21.7	11.5

#### □ Order backlog of Rs47bn

Voltas reported a consolidated order backlog of Rs47bn at the end of 3QFY11 (-6% yoy). The fall in the order backlog is due to slower order intake in Rohini Industrial Electircals (RIE), which has witnessed order intake of Rs280mn against Rs2bn in 3QFY10. However, the order intake in Voltas's standalone business continued to be strong in both domestic and international markets. The order inflow from international markets continues to remain buoyant and the management expects the order inflow to pick up led by finalization of some large projects. The international order backlog accounts for 66% of the total order backlog or Rs31bn, while the balance Rs16bn is for projects in the domestic space.

## Order intake and backlog details

(Rs m)	3Q10	3Q11	% yoy growth
Domestic order intake	3,760	3,940	5
- Standalone	1,720	3,660	113
- RIE	2,040	280	(86)
International order intake	400	1,040	160
Order intake	4,160	4,980	20
Order backlog	49,980	46,970	(6.0)

## □ Maintain Outperformer

We have downgraded our earnings estimates for FY11E and FY12E by 15% each to reflect the slower execution as also the pressure on operating margins led by higher input prices, apart from the losses in its subsidiary, RIE. We believe the order inflow is likely to increase over the next few quarters led by turn in activity both in domestic markets as also in Middle East (led by government backed investments in countries such as Abu Dhabi, Qatar and Saudi Arabia), which is being demonstrated by the pick up in order intake from 4QFY10 onwards as also the enquiries in hand. Accordingly, we believe valuations of 15.6x FY12E consolidated earnings are attractive and maintain an Outperformer rating with a target price of Rs205/share.

## Consolidated quarterly results

(Rs m)	1Q10	2Q10	3Q10	4Q10	FY10	1Q11	2Q11	3Q11
<b>Net Sales</b>	<b>12,419</b>	<b>10,930</b>	<b>9,905</b>	<b>14,806</b>	<b>48,059</b>	<b>14,031</b>	<b>10,636</b>	<b>10,393</b>
Total Expenditure	11,323	9,738	9,030	13,307	43,397	12,807	9,576	9,629
<b>EBITDA</b>	<b>1,095</b>	<b>1,192</b>	<b>875</b>	<b>1,499</b>	<b>4,662</b>	<b>1,223</b>	<b>1,060</b>	<b>763</b>
OPM (%)	8.8	10.9	8.8	10.1	9.7	8.7	10.0	7.3
Other Income	189	212	175	179	789	253	209	161
Interest	10	16	12	26	98	53	37	34
Depreciation	49	56	55	54	214	50	53	54
<b>PBT</b>	<b>1,225</b>	<b>1,332</b>	<b>983</b>	<b>1,598</b>	<b>5,138</b>	<b>1,374</b>	<b>1,178</b>	<b>836</b>
Tax	374	415	284	333	1,427	429	395	255
Tax Rate (%)	30.5	31.2	28.9	20.8	27.8	31.2	33.5	30.4
Pre-exceptional PAT	851	917	699	1,265	3,710	945	783	582
Minority interest	(7)	(13)	(8)	(8)	(36)	(5)	22	17
<b>Adjusted PAT</b>	<b>844</b>	<b>904</b>	<b>691</b>	<b>1,257</b>	<b>3,675</b>	<b>940</b>	<b>805</b>	<b>599</b>
Extra-ordinary Items	(55)	(0)	65	103	135	(7)	119	107
<b>PAT</b>	<b>789</b>	<b>903</b>	<b>757</b>	<b>1,360</b>	<b>3,810</b>	<b>932</b>	<b>924</b>	<b>706</b>
<b>Growth, % yoy</b>								
<b>Sales</b>	<b>19.4</b>	<b>12.1</b>	<b>3.8</b>	<b>9.1</b>	<b>11.1</b>	<b>13.0</b>	<b>(2.7)</b>	<b>4.9</b>
<b>EBITDA</b>	<b>33.1</b>	<b>66.7</b>	<b>63.5</b>	<b>97.8</b>	<b>64.7</b>	<b>11.7</b>	<b>(11.1)</b>	<b>(12.8)</b>
Other Income	(5.1)	20.9	(11.3)	5.1	6.3	34.1	(1.6)	(8.1)
Interest	1,011.1	(22.3)	(65.0)	(51.0)	(10.5)	427.0	127.4	178.7
Depreciation	1.4	(9.0)	(2.5)	24.5	2.1	1.8	(4.3)	(1.8)
<b>PBT</b>	<b>25.9</b>	<b>64.9</b>	<b>53.3</b>	<b>92.1</b>	<b>57.9</b>	<b>12.2</b>	<b>(11.6)</b>	<b>(14.9)</b>
Pre-exceptional PAT	29.6	67.5	52.1	130.4	67.7	11.3	(10.9)	(13.4)
<b>Reported PAT</b>	<b>(5.5)</b>	<b>48.1</b>	<b>82.5</b>	<b>107.9</b>	<b>51.5</b>	<b>18.1</b>	<b>2.3</b>	<b>(6.8)</b>
Outstanding shares (mn)	330.9	330.9	330.9	330.9	330.9	330.9	330.9	330.9
EPS (Rs)	2.6	2.8	2.1	3.8	11.2	2.9	2.4	1.8
PER (x)	17.2	16.0	21.0	11.6	15.8	15.5	18.7	25.2

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