

December 04, 2012

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	Accumulate
Rating	
Price	Rs111
Target Price	Rs127
Implied Upside	14.4%
Sensex	19,305
Nifty	5,871

(Prices as on December 3, 2012)
Trading data

Market Cap. (Rs bn)	36.7
Shares o/s (m)	330.7
3M Avg. Daily value (Rs m)	245.3

Major shareholders

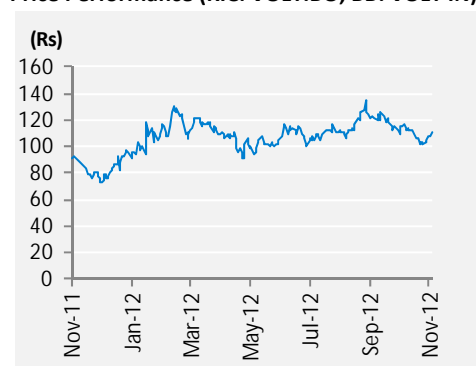
Promoters	30.10%
Foreign	22.55%
Domestic Inst.	26.60%
Public & Other	20.70%

Stock Performance

(%)	1M	6M	12M
Absolute	(4.2)	14.1	20.7
Relative	(7.1)	(6.8)	6.1

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	7.1	7.6	-5.4
2014	9.0	9.2	-2.1

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

Source: Bloomberg

We met the management of Voltas. Following are the key takeaways:

- Markets remain challenging:** Voltas' order book at the end of Q2FY12 stood at Rs41.37bn, down by 9% YoY. The domestic market contributed Rs22.07bn and export market contributed ~Rs19.3bn to the overall order book. The company highlighted that the enquiries in the domestic markets in Q3FY13 have been slower than those witnessed in H1FY13. The order flow in the first half was largely dominated by industries (~60%) followed by urban infrastructure (25%). Weak sentiments have led to slowdown in enquiries in both these segments in the domestic markets. In the International markets, initial tenders for the FIFA World Cup are likely to hit the market in the next two quarters. Dubai also has announced large investments in infrastructure. KSA market also continues to be active (but Visa is a constraining factor for companies) and Abu Dhabi market has very few project pipelines apart from airport project. The company reiterated the increased competitive intensity both in domestic and international markets.
- Update on Sidra project:** Sidra Medical and Research Centre Hospital project in Qatar is almost 85% complete (~Rs15bn project). The revenues booked in the current quarter are with 0% margins. The company had conducted techno commercial audit on Sidra in Q2FY13 and according to the survey, adequate provision has been made for the Sidra project and no further provisioning is required at this point in time. The delivery timelines for the project has been further extended to June 2013 from March 2013 due to delay in arrival of medical equipments. Though the project is ongoing and reviewed every quarter till delivery, however, with only 15% of the project pending to be completed, we do not see any significant negative surprise and expect positive surprise as and when variations and claims are settled.

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Key financials (Y/e March)	2011	2012	2013E	2014E
Revenues (Rs m)	51,768	51,857	50,902	54,760
Growth (%)	7.7	0.2	(1.8)	7.6
EBITDA (Rs m)	4,408	3,365	2,772	3,703
PAT (Rs m)	3,114	737	2,370	2,991
EPS (Rs)	9.4	2.2	7.1	9.0
Growth (%)	(13.4)	(76.3)	220.5	25.8
Net DPS (Rs)	2.5	1.6	1.8	2.2

Profitability & Valuation	2011	2012	2013E	2014E
EBITDA margin (%)	8.5	6.5	5.4	6.8
RoE (%)	25.5	5.2	14.8	16.0
RoCE (%)	24.3	5.9	13.9	15.1
EV / sales (x)	0.6	0.7	0.7	0.6
EV / EBITDA (x)	7.5	10.8	12.5	8.8
PE (x)	11.8	49.8	15.5	12.4
P / BV (x)	2.7	2.5	2.1	1.8
Net dividend yield (%)	2.2	1.4	1.6	2.0

Source: Company Data; PL Research

- **UCP segment - Determined to hold on to market leader position:** Voltas continued to consolidate its leadership position, After having seized the market leadership position in air-conditioners in May 2012, the company has continued to build on its shares in both, multi-branded exclusive outlets. Voltas has a share of 20.3%, some 500bps ahead of the erstwhile market leader. Voltas is also acknowledged as No.1 in 10 out of the 20 key markets, with greater penetration in Tier 2 and Tier 3 towns. *(In Q2FY13, volumes grew by 13% ahead of the industry which reported de-growth of 8%)*. The company highlighted that, going forward, Voltas will fiercely protect its market leadership position and will further strengthen its distribution reach and improve its customer service proposition. In the UCP segment, the high advertisement spend and competition is putting downward pressure on margins.
- **Outlook and Valuation:** The stock is trading at 12.4x FY14E earnings. We continue to believe that the worst might be behind us, given that the provisions on cost overruns on Sidra project have already been accounted for. The outlook might be slightly muted in the near term on order flow, given the increased reach in terms of geography in international markets and business segments in the domestic market which should help order flow once cycle turns. We maintain our **'Accumulate'** rating on this stock.

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	51,768	51,857	50,902	54,760
Raw Material Expenses	36,808	37,800	36,140	39,427
Gross Profit	14,961	14,058	14,762	15,333
Employee Cost	5,563	5,995	6,261	7,283
Other Expenses	4,990	4,698	5,729	4,346
EBITDA	4,408	3,365	2,772	3,703
Depr. & Amortization	210	340	329	400
Net Interest	165	314	280	301
Other Income	810	2,490	1,129	1,151
Profit before Tax	4,843	5,200	3,292	4,154
Total Tax	1,729	571	922	1,163
Profit after Tax	3,114	4,629	2,370	2,991
Ex-Od items / Min. Int.	—	(883)	—	—
Adj. PAT	3,114	737	2,370	2,991
Avg. Shares O/S (m)	330.7	330.7	331.7	332.7
EPS (Rs.)	9.4	2.2	7.1	9.0

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	392	(2,064)	3,291	3,722
C/F from Investing	(288)	963	(530)	(500)
C/F from Financing	96	(280)	(1,072)	(1,176)
Inc. / Dec. in Cash	200	(1,381)	1,689	2,046
Opening Cash	4,694	4,980	2,710	4,400
Closing Cash	4,980	2,710	4,400	6,445
FCFF	(208)	(2,790)	2,511	3,120
FCFE	821	(1,920)	2,412	3,120

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	7.7	0.2	(1.8)	7.6
EBITDA (%)	(4.0)	(23.7)	(17.6)	33.6
PAT (%)	(13.4)	(76.3)	221.5	26.2
EPS (%)	(13.4)	(76.3)	220.5	25.8
Profitability				
EBITDA Margin (%)	8.5	6.5	5.4	6.8
PAT Margin (%)	6.0	1.4	4.7	5.5
RoCE (%)	24.3	5.9	13.9	15.1
RoE (%)	25.5	5.2	14.8	16.0
Balance Sheet				
Net Debt : Equity	(0.3)	—	(0.1)	(0.2)
Net Wrkng Cap. (days)	(46)	(31)	(5)	(6)
Valuation				
PER (x)	11.8	49.8	15.5	12.4
P / B (x)	2.7	2.5	2.1	1.8
EV / EBITDA (x)	7.5	10.8	12.5	8.8
EV / Sales (x)	0.6	0.7	0.7	0.6
Earnings Quality				
Eff. Tax Rate	35.7	26.1	28.0	28.0
Other Inc / PBT	16.7	26.7	34.3	27.7
Eff. Depr. Rate (%)	4.8	8.1	7.0	8.0
FCFE / PAT	26.4	(260.4)	101.8	104.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

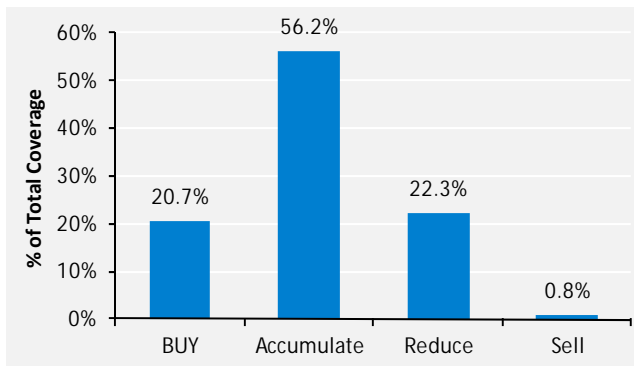
Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	13,617	14,761	17,255	20,234
Total Debt	1,381	2,252	2,153	2,153
Other Liabilities	235	189	187	206
Total Liabilities	15,233	17,202	19,595	22,592
Net Fixed Assets	2,458	2,050	2,221	2,121
Goodwill	916	890	825	826
Investments	2,613	3,116	3,146	3,346
Net Current Assets	9,077	10,885	12,262	14,278
<i>Cash & Equivalents</i>	<i>4,980</i>	<i>2,710</i>	<i>4,400</i>	<i>6,445</i>
<i>Other Current Assets</i>	<i>30,329</i>	<i>32,558</i>	<i>29,801</i>	<i>31,620</i>
<i>Current Liabilities</i>	<i>26,232</i>	<i>24,383</i>	<i>21,938</i>	<i>23,788</i>
Other Assets	170	261	1,141	2,021
Total Assets	15,233	17,202	19,595	22,592

Quarterly Financials (Rs m)

Y/e March	Q3FY12	Q4FY12	Q1FY13	Q2FY13
Net Revenue	11,539	15,735	16,116	11,601
EBITDA	766	1,356	887	397
<i>% of revenue</i>	<i>6.6</i>	<i>8.6</i>	<i>5.5</i>	<i>3.4</i>
Depr. & Amortization	84	64	73	77
Net Interest	64	95	121	85
Other Income	272	184	402	227
Profit before Tax	(1,708)	1,407	1,106	607
Total Tax	544	360	316	177
Profit after Tax	353	1,013	780	284
Adj. PAT	353	1,013	780	284

Source: Company Data, PL Research.

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

BUY	: Over 15% Outperformance to Sensex over 12-months	Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months	Sell	: Over 15% underperformance to Sensex over 12-months
Trading Buy	: Over 10% absolute upside in 1-month	Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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