

VOLTAS

Lying low for now

India Equity Research | Engineering and Capital Goods



We met the management of Voltas (VOLT) to get an update on its businesses. The company indicated that tough times persist in EMPS on account of delays in project finalisation. Its Sidra project is now expected to be completed by June 2013 while the Abu Dhabi Airport project award is likely by Q4FY13. Silver lining comes from the UCP segment which has posted strong growth, improvement in market share and cost pass through on back of two price hikes. Maintain 'HOLD' with TP of INR120.

Sidra delayed by 3 months; EMPS facing project finalisation delays

The Sidra project is likely to face a further three months' delay and expected to be completed by June 2013, which is likely to add time related costs. Incremental orders in Middle East continue to face finalisation delays. The Abu Dhabi Airport order is now expected to be awarded in Q4FY13. VOLT has enhanced focus on domestic market to counter Middle East slowdown. Government's recent reforms push is likely to help revive infra projects. VOLT estimates Rohini Electricals to breakeven by FY13 end.

UCP expected to shine; tough macros continue to dent EPS units

With two price hikes (in January and July) totalling 6-7%, VOLT is well placed in terms of passing on the increased input costs. While the competitive intensity remains high in AC business, the company has maintained its leadership position—market share improved to 20.6% (18.4% earlier). The company continues to face uncertainty / macro headwinds in its EPS segment, which we believe is likely to suppress growth.

Outlook and valuations: Challenging; maintain 'HOLD'

The business environment remains challenging for VOLT as international projects face finalisation delays. It is looking at the domestic market to counter international slowdown. UCP is expected to pick up even as competitive intensity remains high. The EPS segment is likely to face headwinds due to tough macro environment. The stock is trading at 14.6x and 13.3x FY13E and FY14E earnings, respectively. We maintain 'HOLD/ Sector Performer' recommendation/rating with a target price of INR120.

Financials

Year to March	FY11	FY12	FY13E	FY14E
Revenues (INR mn)	51,768	51,857	56,893	62,946
Rev. growth (%)	8.4	0.2	9.7	10.6
EBITDA (INR mn)	4,408	3,364	3,995	4,546
Net profit (INR mn)	3,171	3,128	2,875	3,147
Share outstanding (mn)	331	331	331	331
EPS (INR)	9.6	9.5	8.7	9.5
EPS growth (%)	(10.9)	(1.3)	(8.1)	9.4
P/E (x)	13.2	13.4	14.6	13.3
EV/EBITDA (x)	8.2	11.5	9.7	8.5
ROAE (%)	25.9	22.0	18.1	17.2

EDELWEISS 4D RATINGS

Absolute Rating	HOLD
Rating Relative to Sector	Performer
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

MARKET DATA (R: VOLT.BO, B: VOLT IN)

CMP	: INR 127
Target Price	: INR 120
52-week range (INR)	: 139 / 72
Share in issue (mn)	: 330.9
M cap (INR bn/USD mn)	: 42 / 789
Avg. Daily Vol.BSE/NSE('000)	: 2,703.1

SHARE HOLDING PATTERN (%)

	Current	Q4FY12	Q3FY12
Promoters %	30.1	30.1	30.1
MF's, FI's & BK's	27.0	27.0	26.8
FII's	20.6	20.6	20.0
others	22.2	22.2	23.1
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Capital Goods Index
1 month	11.8	5.3	(4.4)
3 months	26.4	10.9	(2.8)
12 months	8.3	16.6	(29.0)

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Company Description

Voltas, a part of the TATA group which holds ~31% stake, is a leading air conditioning and engineering services provider. It offers engineering solutions through its four business segments in areas such as heating, ventilation and air conditioning, refrigeration, climate control, electro-mechanical projects, textile machinery, machine tools, mining and construction, material handling, water management, building management systems, pollution control and chemicals. It has a large business of EMPS coming from Middle East and Far East.

Investment Theme

VOLT's strong presence in the West-Asian region (particularly Middle East) and Far East (Hong Kong & Singapore) specialising in EMPS contracts has made it a preferred EPC-HVAC contractor. The flagship EMPS division contributes 60% plus to the topline, driven by contracts in domestic as well as international markets. We believe VOLT may gain from international experience and tap opportunities from the ongoing infrastructure boom in India. Further, with capital goods industry continuing its growth trend, we expect VOLT' EPS division to capitalise on the opportunity, which can lead to improvement in overall margins.

Key Risks

Any slowdown in capex spend in Middle East and in economic activity with respect to infrastructure creation in India is likely to dry incremental order intakes for its EMPS division.

Further, margins and lead time for delivery for its EMPS segment can come under pressure with local players strengthening their operations and entry of more global players.

The profitability of its UCP division is vulnerable to rise in input costs, increase in Chinese imports, excess capacity and increased competitive intensity.

Financial Statements

Key Assumptions

Year to March		FY10	FY11	FY12	FY13E	FY14E
Macro -	GDP(Y-o-Y %)	8.4	8.4	6.5	5.8	6.5
	Inflation (Avg)	3.6	9.9	8.8	7.8	6.0
	Repo rate (exit rate)	5.0	6.8	8.5	7.5	6.8
	USD/INR (Avg)	47.4	45.6	47.9	53.5	52.0
Company -	Segmental Revenue Growth (%)					
	EMP Segment	5.3	16.5	4.7	6.8	9.5
	Engineering Segment	(2.0)	94.5	(26.9)	9.4	15.0
	Unitary Cooling Segment	41.7	32.4	(1.4)	10.6	12.7
	Order inflow (INR mn)	26,304	30,000	23,912	30,000	30,000

Income statement

(INR mn)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Income from operations	47,748	51,768	51,857	56,893	62,946
Direct costs	32,876	36,808	37,800	40,972	45,268
Employee costs	5,450	5,563	5,995	6,562	7,261
Other expenses	4,653	4,990	4,698	5,364	5,872
Total operating expenses	42,979	47,360	48,493	52,899	58,400
EBITDA	4,769	4,408	3,364	3,995	4,546
Depreciation & Amortization	214	210	340	372	445
EBIT	4,555	4,198	3,025	3,623	4,101
Other income	612	810	985	881	933
Interest expenses	98	165	314	375	450
Profit before tax	5,068	4,843	3,696	4,128	4,584
Provision for tax	1,472	1,729	571	1,239	1,421
Net profit	3,595	3,114	3,125	2,890	3,163
Extraordinary income/ (loss)	250	402	(1,505)	-	-
Profit after tax	3,846	3,516	1,620	2,890	3,163
Minority interest	36	(57)	(9)	14	16
Profit after minority interest	3,810	3,572	1,624	2,875	3,147
Shares outstanding (mn)	331	331	331	331	331
Diluted EPS (INR)	10.8	9.6	9.5	8.7	9.5
Dividend payout (%)	21.7	24.3	11.2	21.5	21.5

Common size metrics - as % of net revenues

Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating expenses	90.0	91.5	93.5	93.0	92.8
EBITDA margins	10.0	8.5	6.5	7.0	7.2
Net profit margins	7.5	6.0	6.0	5.1	5.0

Growth ratios (%)

Year to March	FY10	FY11	FY12	FY13E	FY14E
Rev. growth (%)	10.4	8.4	0.2	9.7	10.6
EBITDA	68.4	(7.6)	(23.7)	18.7	13.8
Net profit	58.0	(10.9)	(1.3)	(8.1)	9.4

Balance sheet					
(INR mn)					
As on 31st March	FY10	FY11	FY12	FY13E	FY14E
Equity capital	331	331	331	331	331
Reserves & surplus	10,521	13,286	14,448	16,704	19,174
Shareholders funds	10,852	13,617	14,778	17,035	19,505
Minority interest (BS)	139	218	170	184	200
Secured loans	306	1,280	2,153	2,653	3,153
Unsecured loans	45	101	99	99	99
Borrowings	352	1,381	2,252	2,752	3,252
Sources of funds	11,140	15,064	16,957	19,728	22,714
Gross block	3,890	4,410	3,780	4,480	5,230
Depreciation	1,821	1,987	1,883	2,255	2,700
Net block	2,069	2,423	1,897	2,225	2,530
Capital work in progress	193	36	46	46	46
Total fixed assets	2,262	2,458	1,942	2,270	2,576
Investments	2,339	2,613	3,116	3,116	3,116
Inventories	6,579	8,224	8,334	9,542	10,914
Sundry debtors	10,060	11,705	12,871	14,852	16,951
Cash and equivalents	4,689	4,980	2,710	3,045	3,548
Loans and advances	2,055	2,440	3,246	3,733	4,292
Total current assets	28,249	35,309	35,393	39,815	45,215
Sundry creditors and others	19,830	23,075	21,593	23,573	26,293
Provisions	2,645	3,158	2,790	2,790	2,790
Total current liabilities & provisions	22,475	26,233	24,384	26,363	29,083
Net current assets	5,774	9,076	11,009	13,452	16,132
Uses of funds	11,140	15,064	16,957	19,728	22,714
Book value per share (INR)	32.8	41.2	44.7	51.5	59.0

Free cash flow					
(INR mn)					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Net profit	3,810	3,572	1,624	2,875	3,147
Depreciation	214	210	340	372	445
Others	(623)	(70)	(1,891)	14	16
Gross cash flow	3,401	3,712	73	3,262	3,608
Less: Changes in WC	348	4,206	2,137	2,108	2,176
Operating cash flow	3,054	(493)	(2,064)	1,154	1,431
Less: Capex	(40)	4	(232)	700	750
Free cash flow	3,093	(497)	(1,833)	454	681

Cash flow metrics					
Year to March	FY10	FY11	FY12	FY13E	FY14E
Operating cash flow	3,054	(493)	(2,064)	1,154	1,431
Investing cash flow	(764)	(288)	747	(700)	(750)
Financing cash flow	(2,176)	96	(270)	(119)	(177)
Net cash flow	113	(686)	(1,588)	335	504
Capex	40	(4)	232	(700)	(750)
Dividends paid	(615)	(768)	(848)	(619)	(677)

Profitability & efficiency ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
ROAE (%)	38.0	25.9	22.0	18.1	17.2
ROACE (%)	54.0	39.5	23.0	23.8	22.7
Inventory day	99	73	80	80	82
Debtors days	75	77	86	89	92
Payable days	220	213	216	201	201
Cash conversion cycle (days)	(46)	(63)	(49)	(33)	(26)
Current ratio	1.3	1.3	1.5	1.5	1.6
Debt/EBITDA	0.1	0.3	0.7	0.7	0.7
Fixed asset turnover (x)	22.6	23.1	24.0	27.6	26.5
Debt/Equity	-	0.1	0.2	0.2	0.2
Adjusted debt/equity	-	0.1	0.2	0.2	0.2
Interest coverage	46.3	25.4	9.6	9.7	9.1

Operating ratios

Year to March	FY10	FY11	FY12	FY13E	FY14E
Total asset turnover	4.6	4.0	3.2	3.1	3.0
Fixed asset turnover	22.6	23.1	24.0	27.6	26.5
Equity turnover	5.1	4.2	3.7	3.6	3.4

Valuation parameters

Year to March	FY10	FY11	FY12	FY13E	FY14E
Y-o-Y growth (%)	58.0	(10.9)	(1.3)	(8.1)	9.4
Diluted PE (x)	11.8	13.2	13.4	14.6	13.3
Price/BV (x)	3.9	3.1	2.8	2.5	2.1
EV/Sales (x)	0.7	0.7	0.7	0.7	0.6
EV/EBITDA (x)	7.4	8.1	11.4	9.7	8.5

Peer comparison valuations

Name of the companies	CMP	Market cap (USD mn)	PE (x)		P/BV (x)		ROE (%)	
			2013E	2014E	2013E	2014E	2013E	2014E
Blue star	179	303	23.4	13.4	4.0	3.4	16.6	26.3
Voltas	127	792	14.6	13.3	2.5	2.2	18.1	17.2

Source: Bloomberg, Edelweiss research

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
ABB India	REDUCE	SU	L	Bajaj Electricals	BUY	SO	M
BGR Energy	REDUCE	SU	M	Bharat Electronics	BUY	SO	H
Bharat Heavy Electricals	HOLD	SP	L	Crompton Greaves	BUY	SO	M
Cummins India	BUY	SO	L	Havells India	BUY	SO	M
Jyoti Structures	HOLD	SP	M	Kalpataru Power	HOLD	SP	M
KEC International	BUY	SO	M	Larsen & Toubro	BUY	SO	M
Siemens	HOLD	SO	L	Sterlite Technologies	HOLD	SP	H
Techno Electric & Engineering	BUY	SO	M	Thermax	HOLD	SP	L
Voltamp Transformers	REDUCE	SU	M	Voltas	HOLD	SP	L

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



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Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB India, BGR Energy, Bharat Electronics, Bharat Heavy Electricals, Bajaj Electricals, Crompton Greaves, Havells India, Jyoti Structures, KEC International, Cummins India, Kalpataru Power, Larsen & Toubro, Siemens, Sterlite Technologies, Techno Electric & Engineering, Thermax, Voltamp Transformers, Voltas

Recent Research

Date	Company	Title	Price (INR)	Recos
12-Sep-12	Larsen and Toubro	Geared up for a long haul; <i>Visit Note</i>	1,409	Buy
10-Sep-12	Blue Star	More pain before gain; <i>Visit Note</i>	173	Not Rated
04-Sep-12	KEC International	Changing course; time to BUY; <i>Visit Note</i>	55	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	113	53	19	186
* 1 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	114	58	14	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

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