

Result sharply below estimates on cost overrun

First Look

Breaking news, market events and company announcements

November 9, 2011

Rating **Buy**
Remains

Target price **INR 150**
Remains

Closing price **INR 102**
November 9, 2011

Voltas' 2QFY12 results were significantly lower than expectations primarily due to 1) cost overrun in 2 key projects in Qatar that impacted margins in the EMP segment; and 2) lower-than-expected sales in the unitary cooling products segment. Overall sales growth, though, was largely as per expectations. While we await management commentary on sustainable business margins in the EMP segment, we continue to see Voltas as attractively priced (trading at 10.5x FY13F EPS) as we think the bulk of the bad news is already factored in. We believe the cost overrun in the Qatar projects is the result of a conservative accounting policy and is not reflective of sustainable business margins.

Key highlights of the result:

- Net sales at Rs11bn against our estimate of Rs10.7bn, while EBITDA at Rs2.7bn against our estimate of Rs7.8bn.
- EBITDA margin declined 550bps largely due to the Qatar cost overrun and a drop in sales volume of unitary cooling products.
- Even though EMP sales increased by 8% y-y, EBIT margin declined to 1% due to cost overruns in a couple of projects in Qatar.
- Revenue from Engineering Products and Services declined 5% y-y (but not comparable due to business re-structuring). Sequentially, however, revenues grew 23.6% in this segment (like-to-like comparison).
- The unitary cooling products segment remains under strain with revenue off 8% y-y and EBIT margin dropping to 3% from 12% y-y. The press release attributes this to mild weather conditions and continued slowdown in consumption across the country.
- Conference call is scheduled for Friday, November 11, 2011 at 4.00 PM and we look forward to management commentary on the EMP segment. Recovery in EMP would be the key catalyst in the near term, in our view.

Fig. 1: Key numbers vs estimates

INR Mn	Sep-11	Nomura Est	Consensus Est	Sep-10	Jun-11	Change y-y	Changeq-q
Net Sales	11,019	10,673	10,758	13,458	10,636	-18%	4%
Operating EBITDA	273	779	791	1,089	1,075	-75%	-75%
EBITDA Margin	2.5%	7.3%	7.4%	8.1%	10.1%		
PAT	410	573	557	1,323	902	-69%	-55%
Recurring EPS (Rs)	0.74	1.70	1.72	2.44	2.65	-70%	-72%

Source: Company Data, Bloomberg, Nomura estimates

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Fig. 2: Detailed result

Consolidated (INR Mn)	Sep-11	Sep-10	Jun-11
Net Sales	11,019	10,636	13,458
Other Operating Income	197	15	27
Total Income from operation	11,216	10,651	13,484
(Increase) / Decrease in stocks	756	(8)	(376)
Consumption of Raw Materials	7,743	7,287	10,063
Cost of Goods Sold	8,499	7,279	9,688
Gross Profit	2,717	3,373	3,797
Employees cost	1,483	1,268	1,467
Other Expenditure	961	1,029	1,240
Selling Goods, Admin & Other expenses	2,444	2,297	2,708
EBITDA	273	1,075	1,089
Depreciation	89	53	103
EBIT	184	1,022	986
Interest	71	37	85
Other income, net	224	193	188
Exceptionals	250	178	546
Profit Before Tax	587	1,356	1,635
Provision for Taxation	177	453	313
PAT	410	902	1,323
Minority Interest	8	22	(4)
Profit of Associate	-	-	(1)
Minority Interest & Associates	8	22	(5)
PAT after MI and Associates	419	924	1,318
EPS (INR)	1.27	2.79	3.98
Recurring EPS (INR)	0.74	2.44	2.65
Margins (%)			
Gross margins	24%	32%	28%
EBITDA margins	2%	10%	8%
Net profit margins	4%	9%	10%
Tax Rate	30%	33%	19%
YoY Growth (%)			
Revenue	4%	-3%	-4%
EBITDA	-75%	-15%	-15%
Profits	-55%	2%	41%
Segmental Results	Sep-11	Sep-10	Jun-11
Electro - mechanical Projects & Services			
Net Sales	76,232	70,655	67,688
PBIT	498	5,795	3,098
Capital Employed	71,231	23,494	61,628
PBIT Margin (%)	1%	8%	5%
Revenue Y-0-Y growth	8%	-8%	-2%
ROCE(%)	1%	25%	5%
Engineering Products and Services			
Net Sales	12,022	12,668	9,725
PBIT	1,778	2,642	1,701
Capital Employed	10,138	9,802	7,914
PBIT Margin (%)	15%	21%	18%
Revenue Y-0-Y growth	-5%	8%	-19%
ROCE(%)	18%	27%	22%
Unitary Cooling Products			
Net Sales	21,101	22,813	56,253
PBIT	614	2,804	6,363
Capital Employed	34,061	25,100	25,874
PBIT Margin (%)	3%	12%	11%
Revenue Y-0-Y growth	-8%	18%	-4%
ROCE(%)	2%	11%	25%
Others			
Net Sales	867	258	977
PBIT	(72)	56	189
Capital Employed	1,428	726	2,330

Source: Company data

Appendix A-1

Analyst Certification

We, Amar Kedia, Lalit Kumar and Indrajit Yadav, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Voltas	VOLT IN	INR 102	09-11-2011	Buy	Not rated	

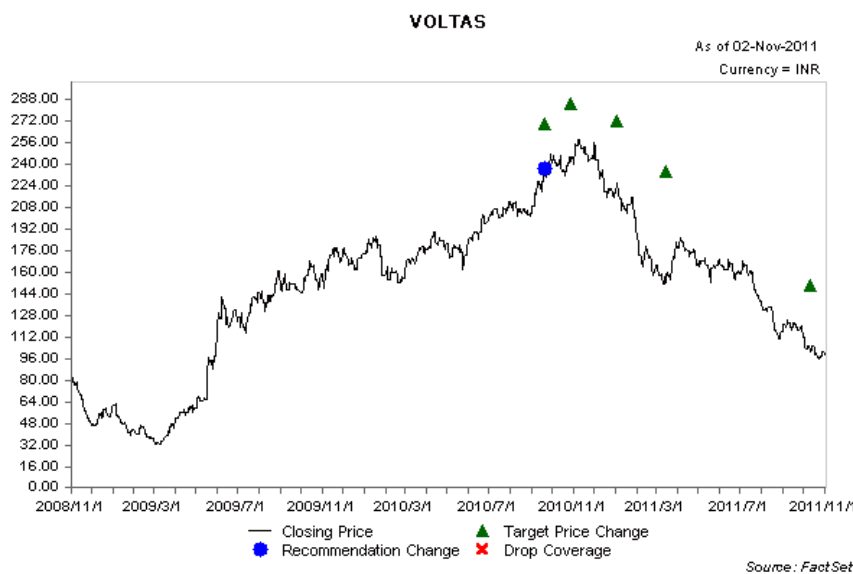
Previous Rating

Issuer name	Previous Rating	Date of change
Voltas	Not Rated	20-9-2010

Voltas (VOLT IN)

INR 102 (09-11-2011) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
12-Oct-2011		150.00	100.65
15-Mar-2011		234.00	151.75
04-Jan-2011		271.90	223.15
28-Oct-2010		285.00	242.25
20-Sep-2010		270.00	236.35
20-Sep-2010	Buy		236.35

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology Our TP of INR150 is based on a one-year forward P/E multiple of 14x Sep 13F EPS of INR 10.85, which is in-line with the average one-year forward P/E multiple for the past eight years.

Risks that may impede the achievement of the target price A delay in the pick-up in the domestic capex cycle would pose a key risk to our numbers and rating. Both domestic EMP (31% of revenue) and EPS (9% of revenue) businesses are dependent on domestic capex spending and would likely be affected by any delay in capex.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

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Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009

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