

May 28, 2012

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Rating	Accumulate
Price	Rs107
Target Price	Rs127
Implied Upside	18.7%
Sensex	16,417
Nifty	4,986

(Prices as on May 28, 2012)
Trading data

Market Cap. (Rs bn)	34.7
Shares o/s (m)	330.7
3M Avg. Daily value (Rs m)	441.2

Major shareholders

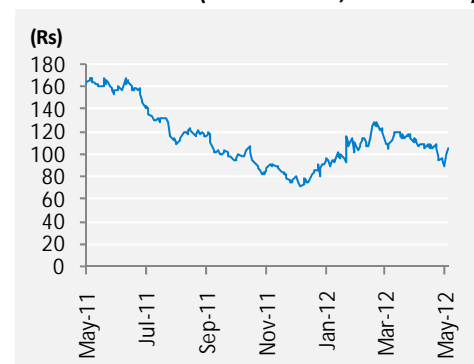
Promoters	30.15%
Foreign	20.00%
Domestic Inst.	26.76%
Public & Other	23.09%

Stock Performance

(%)	1M	6M	12M
Absolute	(1.9)	17.6	(35.0)
Relative	2.3	16.0	(24.9)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2013	8.3	8.6	-3.7
2014	9.7	10.6	-8.5

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


Source: Bloomberg

■ **Margin improvement drive earnings surprise:** Voltas reported numbers which was ahead of our and street estimate by reporting better-than-expected margin for the quarter. It reported EBIT margin of 8.3% in the MEP segment (100bps improvement QoQ). The improved margins were primarily driven by improved follow-up, leading to recovery of variation claims in few old projects. Sales reported de-growth of 5.8% YoY at Rs15.7bn lower than our expectation of Rs17.1bn. PAT was up 7% YoY to Rs1.04bn.

■ **Update on Sidra Project:** Sidra Medical and Research Centre Hospital project in Qatar is ~67% complete. Voltas has taken a hit of Rs3.2bn in FY12 on this project. The company believes that the execution of the Sidra project will get extended beyond FY13 as client continues to make changes in the project design. Voltas will conduct a techno commercial study in July-August (similar to one done in Q3FY12) to assess if any further provisions are required in the project.

■ **Outlook on ordering:** Voltas ended the year with an order book of Rs42.3bn, down 12% YoY. It bagged orders worth ~Rs23bn in FY12 and Rs4.5bn in Q4FY12. In the international markets, the company has started seeing some signs of revival, especially in the Dubai markets and expects to see more traction over the next six months. In Abu Dhabi, the airport order has been awarded to the main contractor. We expect the sub contractor to get finalised by October (Voltas along with JV partner bid for the same). The Joint Venture established in the new geography of KSA has begun to make progress and expects traction in Qatar and the KSA markets (already bagged orders worth Rs3.6bn in Qatar through a private JV). In domestic markets, the commercial real estate and IT/ITES continues to be slow. However, hospital and hotels have seen some traction. Entry into in new segment in industrial space like Power, water and MEP project for automotive industry will help widen the scope of business and support growth in orders.

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Key financials (Y/e March)

	2011	2012	2013E	2014E
Revenues (Rs m)	51,768	51,750	49,363	55,016
Growth (%)	7.7	—	(4.6)	11.5
EBITDA (Rs m)	4,408	3,258	3,081	3,779
PAT (Rs m)	3,114	738	2,760	3,223
EPS (Rs)	9.4	2.2	8.3	9.7
Growth (%)	(13.4)	(76.3)	273.1	16.4
Net DPS (Rs)	2.5	1.6	2.1	2.4

Profitability & Valuation

	2011	2012	2013E	2014E
EBITDA margin (%)	8.5	6.3	6.2	6.9
RoE (%)	25.5	5.2	17.1	16.9
RoCE (%)	24.3	5.9	15.9	15.9
EV / sales (x)	0.6	0.7	0.7	0.6
EV / EBITDA (x)	7.2	10.7	10.5	8.1
PE (x)	11.4	48.0	12.9	11.0
P / BV (x)	2.6	2.4	2.0	1.7
Net dividend yield (%)	2.3	1.5	1.9	2.3

Source: Company Data; PL Research

- **Working capital and cash generation continue to be under stress:** Working capital continues to be impacted due to: (a) a cautious approach in the international market towards passing on variation claims (b) stress on liquidity in the domestic market leading to difficulty in money collection (c) requirement to fund Sidra project losses and (d) low order flow leading to lower advances. Also, the change in nature of business to sub contractor from main contractor and more MEP project against HVAC project also impacted the working capital. The working capital % sales went up to 15.8% in FY12 against 7.9%. However, though the working capital is likely to be elevated due to change in business mix, some improvement from current levels can be expected as domestic liquidity improves over the course of the year.
- **Looking at a turnaround in RIE in FY13:** The performance of Rohini Industrial Electricals (RIE) continued to be disappointing due to poor margins and losses from carried-forward 'legacy' projects attributable to its earlier management. It reported a loss of Rs260m for FY12 and an order book of Rs2.3bn. The company highlighted that new orders are being procured at reasonable margins; various initiatives to reduce costs have been undertaken along with some key personnel changes to ensure a turnaround. During the year, RIE issued preference shares of Rs250m subscribed by Voltas, apart from injecting cash to ensure a positive net worth, qualifying RIE to bid for Govt. and other Public Sector projects.
- **Targeting 10% growth in the UCP segment:** Indian AC industry, on the whole, witnessed de-growth in sales volumes (estimated at 20%) during 2011-12. Voltas' volume saw a de-growth of ~10%. It managed to hold on to the 'No. 2' position in the industry, with a market share of 16.9% and narrow the gap with No. 1 to 150bps from 500-600bps). The new 'all-weather' AC has received good response from the consumer. The company now has a presence of over 5000+ consumer touch points. It will continue with its strategy of channel expansion, more specifically focused towards Tier-2 and Tier-3 markets, where higher demand is expected. However, the outlook on margin continued to be subdued due to intense competition from the more recent Japanese entrants. Also, weak overall sentiment makes it difficult to pass on cost increase to the market, given the price sensitivity of Indian consumers.
- **Upgrade to Accumulate:** The stock is trading at 10.8x FY14E earnings. We believe that the worst might be behind us, given the large part of provision on Sidra project has already been accounted for. Write-back from Sidra project could provide positive surprises. 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. This should help order flow once cycle turns. We believe that a lot of pessimism related to order flow is in the price and hence, downside seems to be limited. We upgrade the stock to '**Accumulate**' from '**Reduce**'.

Exhibit 1: Q4FY12 Result Overview (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Net Sales	15,735	16,708	(5.8)	11,539	51,750	51,768	(0.0)
Expenditure							
Raw Material	11,629	12,369	(6.0)	7,983	37,780	36,808	2.6
<i>% of Net Sales</i>	<i>73.9</i>	<i>74.0</i>		<i>69.2</i>	<i>73.0</i>	<i>71.1</i>	
Personnel Cost	1,417	1,504	(5.8)	1,628	5,995	5,563	7.8
<i>% of Net Sales</i>	<i>9.0</i>	<i>9.0</i>		<i>14.1</i>	<i>11.6</i>	<i>10.7</i>	
Others	1,332	1,474	(9.6)	1,162	4,715	4,990	(5.5)
<i>% of Net Sales</i>	<i>8.5</i>	<i>8.8</i>		<i>10.1</i>	<i>9.1</i>	<i>9.6</i>	
Total Expenditure	14,378	15,347	(6.3)	10,773	48,490	47,360	2.4
EBITDA	1,356	1,361	(0.4)	766	3,261	4,408	(26.0)
<i>Margin (%)</i>	<i>8.6</i>	<i>8.1</i>		<i>6.6</i>	<i>6.3</i>	<i>8.5</i>	
Other income	184	188	(1.8)	272	1,092	810	34.8
Depreciation	64	53	21.0	84	340	210	61.5
EBIT	1,477	1,496	(1.3)	954	4,013	5,008	(19.9)
Interest	95	42	129.4	64	314	165	90.0
PBT	1,381	1,454	(5.0)	891	3,699	4,843	(23.6)
Total Taxes	360	544	(33.9)	544	1,661	1,729	(3.9)
<i>ETR (%)</i>	<i>26.0</i>	<i>37.4</i>		<i>61.0</i>	<i>44.9</i>	<i>35.7</i>	
Adjusted PAT	1,063	940	13.0	661	2,686	3,224	(16.7)
Reported PAT	1,047	980	6.9	(1,165)	1,616	3,516	(54.0)

Source: Company Data, PL Research

Exhibit 2: Segmental Breakup (Rs m)

Y/e March	Q4FY12	Q4FY11	YoY gr. (%)	Q3FY12	FY12	FY11	YoY gr. (%)
Revenue							
Electro-mechanical projects & services	9,199	9,494	(3.1)	8,241	31,832	30,411	4.7
<i>% of total Revenue</i>	<i>58.5</i>	<i>56.8</i>		<i>71.4</i>	<i>61.5</i>	<i>58.7</i>	
Engineering products & services	1,069	1,740	(38.6)	877	4,121	5,638	(26.9)
<i>% of total Revenue</i>	<i>6.8</i>	<i>10.4</i>		<i>7.6</i>	<i>8.0</i>	<i>10.9</i>	
Unitary Cooling products	5,315	5,490	(3.2)	2,338	15,388	15,608	(1.4)
<i>% of total Revenue</i>	<i>33.8</i>	<i>32.8</i>		<i>20.3</i>	<i>29.7</i>	<i>30.1</i>	
Total	15,735	16,715	(5.9)	11,539	51,751	51,768	(0.0)
EBIT							
Electro-mechanical projects & services	763	788	(3.1)	602	1,724	2,393	(27.9)
<i>% of total EBITDA</i>	<i>56.3</i>	<i>57.9</i>		<i>78.5</i>	<i>126.7</i>	<i>175.8</i>	
Engineering products & services	173	242	(28.4)	167	688	1,031	(33.3)
<i>% of total EBITDA</i>	<i>12.8</i>	<i>17.8</i>		<i>21.8</i>	<i>50.5</i>	<i>75.8</i>	
Unitary Cooling products	458	581	(21.1)	143	1,298	1,599	(18.8)
<i>% of total EBITDA</i>	<i>33.8</i>	<i>42.7</i>		<i>18.6</i>	<i>95.4</i>	<i>117.5</i>	
Total	1,433	1,617	(11.3)	902	3,956	5,039	(21.5)
EBIT Margin (%)							
Electro-mechanical projects & services	8.3	8.3		7.3	5.4	7.9	
Engineering products & services	16.2	13.9		19.0	16.7	18.3	
Unitary Cooling products	8.6	10.6		6.1	8.4	10.2	
Total	9.1	9.7		7.8	7.6	9.7	

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2011	2012	2013E	2014E
Net Revenue	51,768	51,750	49,363	55,016
Raw Material Expenses	36,808	37,800	35,048	39,612
Gross Profit	14,961	13,951	14,315	15,405
Employee Cost	5,563	5,995	6,072	7,317
Other Expenses	4,990	4,698	5,163	4,309
EBITDA	4,408	3,258	3,081	3,779
Depr. & Amortization	210	340	338	410
Net Interest	165	314	290	313
Other Income	810	2,597	1,382	1,421
Profit before Tax	4,843	5,201	3,834	4,476
Total Tax	1,729	571	1,073	1,253
Profit after Tax	3,114	4,629	2,760	3,223
Ex-Od items / Min. Int.	—	(883)	—	—
Adj. PAT	3,114	738	2,760	3,223
Avg. Shares O/S (m)	330.7	330.7	331.7	332.7
EPS (Rs.)	9.4	2.2	8.3	9.7

Cash Flow Abstract (Rs m)

Y/e March	2011	2012	2013E	2014E
C/F from Operations	392	(3,075)	4,300	3,518
C/F from Investing	(288)	890	(577)	(500)
C/F from Financing	96	(80)	(1,098)	(1,256)
Inc. / Dec. in Cash	200	(2,265)	2,626	1,763
Opening Cash	4,694	4,980	2,715	5,341
Closing Cash	4,980	2,715	5,341	7,104
FCFF	(208)	(2,922)	3,510	2,905
FCFE	821	(2,069)	3,510	2,905

Key Financial Metrics

Y/e March	2011	2012	2013E	2014E
Growth				
Revenue (%)	7.7	—	(4.6)	11.5
EBITDA (%)	(4.0)	(26.1)	(5.4)	22.7
PAT (%)	(13.4)	(76.3)	274.3	16.8
EPS (%)	(13.4)	(76.3)	273.1	16.4
Profitability				
EBITDA Margin (%)	8.5	6.3	6.2	6.9
PAT Margin (%)	6.0	1.4	5.6	5.9
RoCE (%)	24.3	5.9	15.9	15.9
RoE (%)	25.5	5.2	17.1	16.9
Balance Sheet				
Net Debt : Equity	(0.3)	—	(0.2)	(0.2)
Net Wrkng Cap. (days)	(46)	(44)	(5)	(6)
Valuation				
PER (x)	11.4	48.0	12.9	11.0
P / B (x)	2.6	2.4	2.0	1.7
EV / EBITDA (x)	7.2	10.7	10.5	8.1
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	29.6	36.0	31.7
Eff. Depr. Rate (%)	4.8	7.8	7.0	8.0
FCFE / PAT	26.4	(280.5)	127.2	90.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

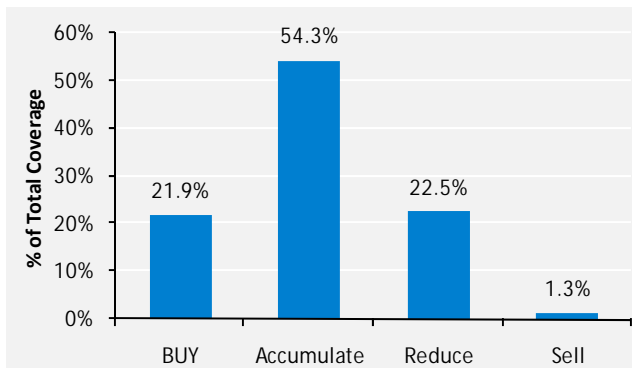
Y/e March	2011	2012	2013E	2014E
Shareholder's Funds	13,617	14,778	17,552	20,696
Total Debt	1,381	2,234	2,234	2,234
Other Liabilities	235	189	187	206
Total Liabilities	15,233	17,202	19,974	23,136
Net Fixed Assets	2,458	2,050	2,212	2,101
Goodwill	916	890	825	826
Investments	2,613	3,116	3,193	3,393
Net Current Assets	9,077	10,885	12,604	14,794
<i>Cash & Equivalents</i>	<i>4,980</i>	<i>2,710</i>	<i>5,341</i>	<i>7,104</i>
<i>Other Current Assets</i>	<i>30,329</i>	<i>32,558</i>	<i>28,824</i>	<i>31,757</i>
<i>Current Liabilities</i>	<i>26,232</i>	<i>24,383</i>	<i>21,562</i>	<i>24,067</i>
Other Assets	170	261	1,141	2,021
Total Assets	15,233	17,202	19,974	23,136

Quarterly Financials (Rs m)

Y/e March	Q1FY12	Q2FY12	Q3FY12	Q4FY12
Net Revenue	13,458	11,019	11,539	15,735
EBITDA	1,062	76	766	1,356
<i>% of revenue</i>	<i>7.9</i>	<i>0.7</i>	<i>6.6</i>	<i>8.6</i>
Depr. & Amortization	103	89	84	64
Net Interest	85	71	64	95
Other Income	215	421	272	184
Profit before Tax	1,904	587	(1,708)	1,407
Total Tax	582	176	544	360
Profit after Tax	1,318	403	353	1,013
Adj. PAT	734	228	353	1,013

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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