India Equities
Airconditioning

Quarterly Update

Voltas Limited

BUY

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CMP	**Rs 183**
Target Price	**Rs 215**
Investment horizon	12 months
Sensex	16,742
Nifty	5,020

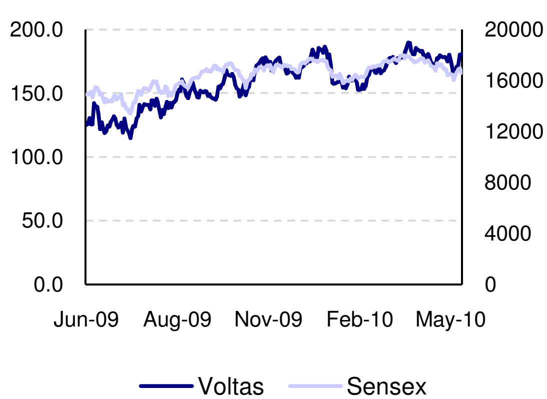
Stock Details

BSE Code	500575
NSE Code	VOLTAS
Reuters Code	VOLT.BO
Bloomberg Code	VOLT IN
Market Cap (Rs cr)	6,065.3
Beta	1.18
52 W High / Low (Rs)	191.4 / 107.0
Avg Daily Volume	4,80,631
Face Value (Rs)	1.00

Shareholding Pattern (%)

Promoters	27.68
MF/Banks/Indian FIs	38.99
FII / NRIs / OCBs	12.23
Indian Public	21.10

Price Chart



Performance Highlights

Order inflow turns positive: Voltas' carry forward order book for FY2010 stood at Rs 4,678cr, of which the international order book contributed Rs 3,178cr (67.9% of total order book). The order inflow picked up in Q4FY2010 and the company bagged orders worth Rs 850cr in the international market. The outlook for the electro-mechanical projects and services segment, which contributes 64.8% of the revenues, looks positive with the management getting a number of enquiries and being in the process of finalizing new projects. The company's Mechanical, electrical & plumbing (MEP), water management businesses have seen a revival, though the management expects the Heating, ventilating and air conditioning (HVAC) business to pick up in the second half of FY2011.

Profit margins to face pressure in FY2011: During FY2010, due to specific situations like the decline in commodity prices, completion of large projects in the international market, settlement of claims on the project completed in previous year, etc. Going forward, the EBIDTA margin may get tampered with the rise in commodity prices in FY2011. The PAT margin may also be affected due to higher tax rate as compared to FY2010.

Valuation: We have used Relative Valuation based on average of EV/EBIDTA and Price/Earnings (P/E) ratios. The stock is currently trading at EV/EBIDTA of 11.2xFY2011E and P/E of 15.6xFY2011E earnings. The revenue growth prospects look positive on account of a strong existing order book and the revival in order inflow. **We maintain our Buy recommendation on the stock with a target price of Rs 215**.

Exhibit 1: Quarterly Analysis Rs cr

Particulars	**Q4FY2010**	**Q4FY2009**	***YoY(%)***	**Q3FY2010**	***QoQ(%)***
Revenue	1480.6	1357.1	*9.1*	990.5	*49.5*
Other Income	17.9	22.6	*(20.5)*	17.5	*2.6*
Total Income	1498.5	1379.6	*8.6*	1008.0	*48.7*
Total Expenditure	1330.7	1277.3	*4.2*	903.0	*47.4*
EBIDTA	149.9	79.8	*87.9*	87.5	*71.3*
EBIDTA Margin (%)	*10.1*	*5.9*	-	*8.8*	-
Depreciation	5.4	4.4	*24.6*	5.5	*(1.3)*
EBIT	162.5	98.0	*65.8*	99.5	*63.3*
Interest	2.6	4.5	*(42.6)*	1.2	*113.1*
Profit before Exceptional Items and Tax	159.9	93.5	*71.0*	98.3	*62.6*
Exceptional Items	12.9	4.8	*170.8*	9.4	*37.9*
Profit before Tax	172.7	98.2	*75.8*	107.6	*60.5*
Tax	35.9	29.7	*20.8*	31.2	*15.1*
Net Profit	136.9	68.5	*99.7*	76.5	*79.0*
PAT Margin (%)	*9.2*	*5.1*	-	*7.7*	-
EPS	4.1	2.1	-	2.3	-

Source: Company data, Parsoli Research

Voltas

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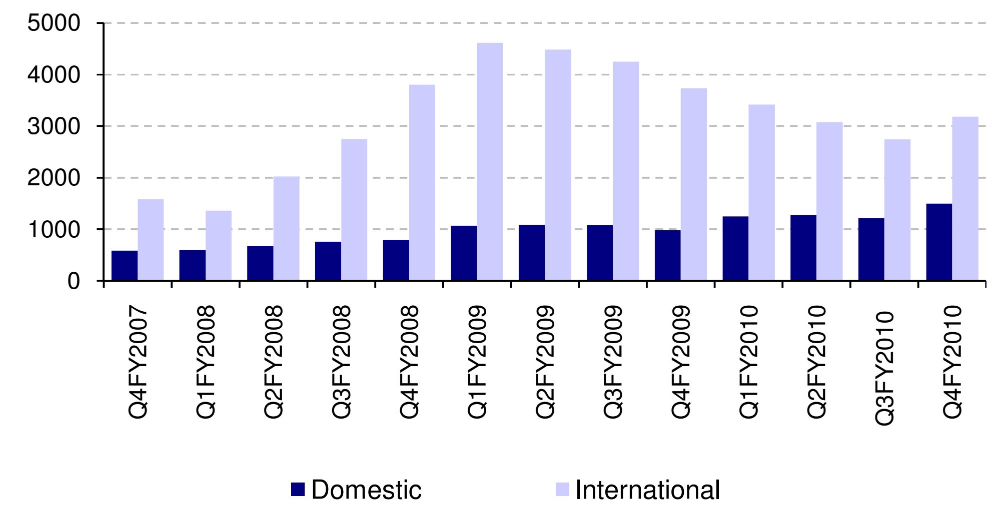
Key Updates

Order inflow picks up

Voltas' carry forward order book stood at Rs 4,678cr in Q4FY2010, up 18.0% yoy from Rs 3,963cr in Q4FY2009 with new orders worth Rs 850cr coming from the international market

During Q4FY2010, the carry forward order book of Voltas increased by 18.0% yoy to Rs 4,678cr as compared to Rs 3,963cr in Q4FY2009. The domestic order book contributes nearly Rs 1,500cr (32.1% of the total order book) and the international order book contributes the remaining Rs 3,178cr (67.9%). During the quarter, the international business bagged orders worth Rs 850cr which includes a Rs 800cr Central Market project in Abu Dhabi. The scope of work covers the supply, installation, testing and commissioning of the complete MEP system including HVAC, electrical and public health systems which is to be completed in 26 months. The Rs 4,678cr order book does not include the Rs 708cr Yas Retail project, which was earlier under suspension, has been cancelled and is likely to come up for bidding shortly

Exhibit 2: Order Book Growth Rs cr



Source: Company data, Parsoli Research

The MEP and water management business have revived, though the traditional HVAC works are expected to see pick up in order execution in the second half of FY2011

While the market scenario remains uncertain, the company's order inflow is showing signs of pick-up. Going forward, the management expects the domestic order book to remain strong and the execution cycle to improve. Voltas has been successful in enhancing the component of its MEP, water management business and its foray into industrial MEP works has also been gaining strength. However, in the traditional HVAC business the conversion of orders into execution is still slow and the management believes that these conditions will improve in the second half of FY2011.

Electro-Mechanical Projects and Services

Electro mechanical projects and services segment's revenues were down 2.6% yoy during Q4FY2010, though the EBIDTA was up by 53.7% yoy and the operating margin improved to 11.1%

This segment contributed 62.9% of Q4FY2010 revenues. During the quarter, the segment revenues stood at Rs 931.0cr, down 2.6% yoy due to a decline in the revenues from the international business while the domestic turnover increased by 37.0% yoy. However, the operating profit for the segment was up by 53.7% yoy and the operating margin improved from 7.0% in Q4FY2009 to 11.1% in Q4FY2010 on account of lower commodity prices and completion of several large projects in the international business.

For FY2010, the segment revenues showed 12.5% yoy growth to Rs 3,113.4cr with the EBIDTA up 44.8% yoy at Rs 309.1cr

During FY2010, the segment showed a growth of 12.5% yoy with the revenues increasing from Rs 2,766.8cr in FY2009 to Rs 3,113.4cr in FY2010. The EBIDTA for the segment was up 44.8% yoy at Rs 309.1cr. The segment's operating margin also improved 221bps yoy supported by benign commodity prices. The revenues from this segment, which contributed 64.8% of the total revenues in FY2010, were up on account of execution of several large projects in the international business, settlement of claims on the projects completed in the previous year and on the cancelled orders.

During the quarter, Voltas won a Rs 800cr order Central Market project in Abu Dhabi

For the international business, which contributes a major portion of the segment revenues, the order book looks strong with the company bagging Rs 850cr worth of orders during Q4FY2010. In addition, Voltas has entered into a joint venture (JV) with Mustafa Sultan Enterprises LLC of Oman which is expected to facilitate Voltas' entry into the electromechanical segment in Oman. The JV will be 65.0% owned by Voltas and 35.0% by the Sultan group. The company's Saudi Arabia business is also expected to start booking orders soon.

Engineering Products and Services

The engineering products and services segment's revenues declined 13.7% yoy during FY2010 on account of continued slowdown in the mining and construction and textile machinery business

During Q4FY2010, the performance of this segment was down with the revenues declining by 10.7% yoy to Rs 119.8cr. However, the segment's EBIDTA rose sharply by 234.0% to Rs 23.8cr on account of higher commission income owing to a pick up from the mining and construction business and textile machinery business. For the quarter, the margins showed a sharp improvement from 5.3% in Q4FY2009 to 19.8% in Q4FY2010. This was due to an improvement in demand in the mining and construction business with a robust growth in volumes. For FY2010, the segment revenues were down 13.7% while the operating profits were up 22.7% at Rs 76.8cr. The segment's margins also showed an improvement of 486bps yoy from 11.6% in FY2009 to 16.4% in FY2010. The margins have improved mainly because of due to a pick-up in demand in the second half, particularly Q4 of FY2010.

Going forward, the management believes that the textile machinery is expected to continue to grow as the exchange rate is favorable which would boost the growth in exports and profitability of textile mills. Till now, the company's material handling business has been slow in picking up growth, but the volumes are likely to grow in FY2011. The mining and construction business performed well in Q4FY2010 and there are a number of enquiries from customers which gives a more upbeat picture on the business' growth prospects.

Unitary Cooling Products

The unitary cooling products segment showed a robust growth of 72.3% yoy increase in revenues to Rs 421.1cr during Q4FY2010 on account of higher volume sales in airconditioners and commercial cooling products

During Q4FY2010, the Unitary cooling products segment performed extremely well on the back of volume growth in sales of room and split airconditioners and refrigeration products. The segment revenues were up 72.3% yoy at Rs 421.1cr in Q4FY2010 from Rs 244.3cr in Q4FY2009. Voltas saw a huge pick-up in demand for airconditioners during February and March with the onset of summers in India. The commercial cooling products also grew with volume growth. The product mix has been improving in favor of locally manufactured products. The margins were also enhanced from 9.2% in Q4FY2009 to 11.3% in Q4FY2010 supported by the volume growth. The operating profit for the quarter also more than doubled from Rs 22.4cr in Q4FY2009 to Rs 47.5cr in Q4FY2010.

For FY2010, the segment showed a robust growth in revenues which were up 28.7% yoy to Rs 1,187.1cr. The segment's contribution to total revenues has also gone up from 21.3% in FY2009 to 24.7% in FY2010.

Going forward, we believe that the segment will continue to grow during the current summer season. However, the segment's EBIDTA margin would be under pressure as the company, in order to avoid stock-out situations, has had to procure inventories at short notice at relatively higher prices.

Strong profit margin growth in FY2010; to decline in FY2011

During Q4FY2010, the EBIDTA margin expanded 425bps yoy to 10.1% due to low COGS and employee expenses and PAT margin was up at 9.2% on account of tax reversals

During Q4FY2010, the total revenues stood at Rs 1,487.0cr, up 9.1% yoy from Rs 1,363.2cr in Q4FY2009. The revenue growth was mainly supported by the Unitary cooling products segment which grew 72.3% in Q4FY2010. The EBIDTA margin expanded 425bps yoy to 10.1% in Q4FY2010 on account of a decline in commodity prices (as compared to FY2009) improving the overall COGS which came down by 504bps yoy to 70.7% of net sales. The employee cost for Q4FY2010 was also down 52bps yoy at 8.8% of net sales. For Q4FY2010, the PAT almost doubled to Rs 136.9cr from Rs 68.5cr in Q4FY2009 and the PAT margin was also up at 9.2% from 5.1% in Q4FY2009. During the quarter the company's tax rate was down from 30.2% in Q4FY2009 to 20.8% in Q4FY2010 on account of tax reversals.

Exhibit 3: Cost Analysis **% of sales**

	Q4FY2010	Q4FY2009	*bps change yoy*	FY2010	FY2009	*bps change yoy*
COGS	70.7	75.7	*(504)*	68.6	73.2	*(460)*
Employee Expenses	8.8	9.3	*(52)*	11.1	10.8	*38*
Other Expenditure	10.3	9.0	*130*	10.7	9.4	*120*
Total Expenditure	89.9	94.1	*(425)*	90.4	93.5	*(301)*

Source: Company data, Parsoli Research

Going forward, the high profit margins of FY2010 may get tampered in FY2011 due to rise in commodity prices and higher tax rate

Voltas' revenues were up by 11.1% yoy from Rs 4,325.9cr in FY2009 to Rs 4,805.9cr in FY2010. The revenues showed a respectable growth in an economic environment which was abound with uncertainty and decline in order book growth. The company's electro-mechanical projects and services segment performed well and contributed 64.8% of FY2010 revenues. The EBIDTA for FY2010 showed a strong growth of 62.2% yoy from Rs 283.1cr in FY2009 to Rs 459.2cr in FY2010. The EBIDTA margin also expanded 301bps yoy during the year from 6.5% in FY2009 to 9.6% in FY2010. The net profit for FY2010 was up 51.1% yoy at Rs 384.6cr from Rs 254.5cr in FY2009. The PAT margin also expanded 212bps yoy to 8.0% in FY2010 owing to higher operating profit and lower tax rate.

Going forward, the management believes that the market is expected to revive and the company's revenues would grow in FY2011. However, the profit margins would be under pressure as the market has now become extremely competitive and there is now an apparent rise in commodity prices. Hence, while the profits are expected to continue to grow, though at a slower pace, the margins may get slightly tampered in FY2011. We believe, the EBIDTA margin would settle at around 8.7% in FY2011 impacted by an expected increase in commodity prices. The PAT margin is expected to be at 7.1% during FY2011 as the low tax rate (of 27.7% on account of tax reversals in FY2010) would rise.

Valuation

We expect the company's revenues to grow at a CAGR of 12.5% during FY2009-12 to touch Rs 6,154.7cr in FY2012

We expect Voltas' revenues to increase at a CAGR of 12.5% (FY2009-12) to touch Rs 6,154.7cr in FY2012. The growth is likely to be driven by the company's electro-mechanical projects and services segment and being equally supported by a continued robust growth in the unitary cooling products segment. The operating and net profit margins are expected to be under pressure on account of an expected rise in commodity prices and higher tax rate in FY2011. However, we believe that the company would be able to grow its profits in absolute terms and perform well during FY2011. The company's new JV with Mustafa Sultan Enterprises LLC, Oman is expected to facilitate its entry into the electromechanical segment in Oman. In addition, the Saudi Arabia operations are also well expected to start booking orders in FY2011. With a better than expected performance delivered in FY2010 and the management's stance on higher expected growth in FY2011, we remain confident on the company's progressive performance in FY2011.

Relative Valuation

We maintain our Buy recommendation on the stock with a target price of Rs 215 per share

Voltas currently trades at an EV/EBIDTA multiple of 11.2xFY2011E and 9.4xFY2012E. The current industry average stands at 18.0x. The company is low on debt and has high amounts of cash on its books. Though the EBIDTA margin may come down during FY2011 as the margins rose in FY2010 due to certain specific conditions, the company is expected to maintain EBIDTA margin at 8.7% in FY2011. For valuing the stock, we have discounted the peer group average by 28.6% and assigned a multiple of 14.0. Using this target multiple on our FY2011 EBIDTA estimates of Rs 473.7cr, we arrive at a target price of Rs 224 per share.

When considering the P/E multiple, the stock currently trades at 15.6xFY2011E and 13.9xFY2012E earnings. We expect the EPS to grow at a CAGR of 19.7% (FY2009-12) to touch Rs 13.2 in FY2012. The peer group average stands at 21.5x. We have discounted the peer group average by 22.7% and assigned a multiple of 17.5 to value the stock. Employing this target multiple on our FY2011 EPS estimates of Rs 11.8, we arrive at a target price of Rs 206 per share.

We maintain our Buy recommendation on the stock with a target price of Rs 215.

Exhibit 4: Valuation

Pricing Methodologies	Weight Assigned	Target Price
Target price using EV/EBIDTA approach	50.0%	224.1
Target price using P/E approach	50.0%	205.6
Weighted average target price (Rs)		214.9
Current Market Price (CMP)		183.3
Upside from current levels (%)		17.2

Source: Company data, Parsoli Research

Financial Statements

Exhibit 5: Profit & Loss Statement					Rs cr
	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net Sales	3,202.9	4,325.9	4,805.9	5,445.1	6,154.7
% chg	*26.8*	*35.1*	*11.1*	*13.3*	*13.0*
Total Expenditure	2,949.9	4,042.8	4,346.7	4,971.3	5,625.4
% chg	*23.0*	*37.0*	*7.5*	*14.4*	*13.2*
EBIDTA	253.1	283.1	459.2	473.7	529.3
Margin (%)	*7.9*	*6.5*	*9.6*	*8.7*	*8.6*
Other Income	48.3	96.2	78.9	94.6	112.5
Depreciation & Amortisation	16.7	21.0	21.4	24.8	28.5
Interest	9.0	12.8	9.8	5.0	5.0
PBT	307.3	371.7	531.8	563.5	633.3
Margin (%)	*9.6*	*8.6*	*11.1*	*10.3*	*10.3*
Total Tax	99.7	117.2	147.2	174.7	196.3
(% of PBT)	*32.4*	*31.5*	*27.7*	*31.0*	*31.0*
PAT	207.6	254.5	384.6	388.8	437.0
% chg	*2.9*	*22.6*	*51.1*	*1.1*	*12.4*
Margin (%)	*6.5*	*5.9*	*8.0*	*7.1*	*7.1*

Source: Company data, Parsoli Research

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