

**Voltas Ltd**

₹ 102

*Feel the Chill***Buy**

Nov 23, 2012

**Company Background**

Voltas Limited (Voltas) is a premier Air-Conditioning and Engineering company was established in the year 1954. It is a Tata Group company in the field of air conditioning, refrigeration, electro-mechanical projects as an EPC contractor both in domestic and international geographies, and also in the business of engineering product services for mining, water management and treatment, construction equipments and textile industry. It caters to a wide spectrum of industries in areas such as heating, ventilation and air conditioning, refrigeration, electro-mechanical projects, textile machinery, mining and construction equipment, materials handling equipment, water management & treatment, cold chain solutions, building management systems, and indoor air quality.

**Key Highlights**

- ➔ Revenues in Electro-mechanical Projects and Services were higher by 7% as compared to the previous year. The international as well as domestic projects businesses have recorded higher turnover in 2011-12 as compared to last FY.
- ➔ Defying market trends, unitary cooling grew 22% YoY on improved volumes as well as pricing. Operating margins in the segment remained stable at 7.8%, supported by increased local production.
- ➔ Despite challenging environment, order book for the domestic projects business improved 21% YoY to ₹ 22bn. Key orders bagged were from – Maruti Udyog, Ford Motors, Gammon (for Chennai Metro) and Bhilai Steel.
- ➔ Though there were a few new entrants in the segment, the sales in the textile machinery business witnessed a sales growth of 12% YoY.
- ➔ The Sidra Medical and Research Centre Hospital project in Qatar in which Voltas executes orders of ~ ₹ 15 bn is almost 85% complete. The revenues booked in the current quarter are with 0% margins. A technocommercial audit was conducted on Sidra in Q2FY13 and according to it, no further provisioning is required at this point in time. The delivery timelines for the project have also been extended to June 2013. 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.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	3,398.2	3,699.7	4,467.6
Rev. growth (%)	60.07	8.87	20.76
EBITDA (INR mn)	5,380.4	5,788.8	2,660.0
Net profit (INR mn)	3,442.2	3,535.3	1,518.7
Shares outstanding (mn)	330.9	330.9	330.9
EPS (INR)	10.4	10.7	4.6
EPS growth (%)	36.28	2.70	(57.04)
P/E (x)	17.0	17.0	24.4
RONW (%)	33.4	26.7	22.9
ROCE (%)	30.8	25.4	20.8

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**Info Codes**

Reuters	: VOLT.BO
Bloomberg	: VOLT@IN
NSE	: VOLTAS
BSE	: 500575

**Market Data**

52 Wk Range (₹)	: 139 / 72
Shares in Issue (mn)	: 330.9
Mkt. Cap (₹ bn)	: 33.83
BSE 2 Wk Avg Vol	: 150000

**Share Holding Pattern (%)**

Promoters	: 30.15
DII's	: 26.60
FII's	: 22.55
Others	: 20.70

**Investment Theme**

Over more than five decades, Voltas has reached a position of leadership in its businesses and markets. It leads in air conditioning projects in India. It is India's largest exporter in the field of electro-mechanical projects. It is a manufacturer of India's leading air conditioner brands. It is one of India's most trusted names in supply, service and support of mining and construction equipment. It leads in sourcing, installing and servicing state-of-the-art textile machinery in India. It is a leader in forklift trucks, manufactured to in-house design. With so much to its portfolio the company is well diversified. The current issue with the company is the delayed Sidra Medica Research Project and the loss making startup Rohini Industrial Electricals. Both of which should sort out within the next two years. We therefore remain positive.

**The Worst has passed !**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	45188.1	51816.9	14.67	52055.5	0.46
Other Income	1298.8	1169.0	(9.99)	(437.9)	(137.46)
Change in Stocks	708.7	1260.4	77.85	195.3	(84.50)
Raw Material Con.	3132.2	3859.0	23.20	5203.1	34.83
Employee Exp.	4965.6	5155.3	3.82	5520.5	7.08
Indirect Taxes	249.9	366.5	46.66	352.4	(3.85)
Other Exp.	33467.5	39076.7	16.76	38076.9	(2.56)
Operating Exp.	41106.5	47197.1	14.82	48957.6	3.73
Operating Profit	4081.6	4619.8	13.19	3097.9	(32.94)
Total Interest	87.5	211.4	141.60	259.0	22.52
Gross Profit	5292.9	5577.4	5.38	2401.0	(56.95)
Net Dep.	272.5	331.4	21.61	330.9	(0.15)
Total Taxation	1578.2	1710.7	8.40	551.4	(67.77)
Net Profit/Loss	3442.2	3535.3	2.70	1518.7	(57.04)

### 4 Years Balance Sheet

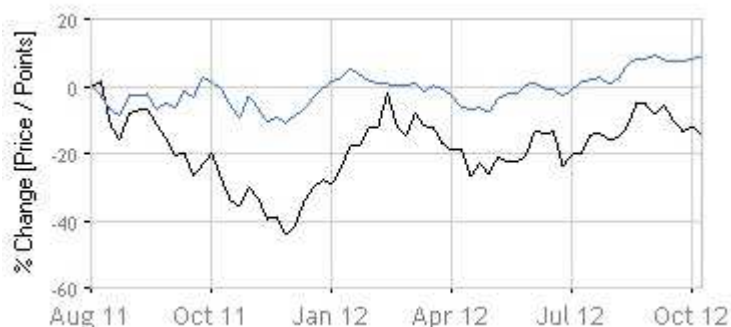
(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 09	Mar 10	Mar 11	Mar 12
<b>SOURCES OF FUNDS</b>	<b>8,574.4</b>	<b>10,143.2</b>	<b>13,656.6</b>	<b>15,414.8</b>
Equity Share capital	330.7	330.7	330.8	330.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	6,959.3	9,621.7	12,386.7	13,306.1
Secured Loans	1,284.4	190.8	939.1	1,777.9
Unsecured Loans	0.0	0.0	0.0	0.0
<b>USES OF FUNDS</b>	<b>8,574.4</b>	<b>10,143.2</b>	<b>13,656.6</b>	<b>15,414.8</b>
Gross Block	2,939.3	3,063.8	3,279.0	3,299.4
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,305.3	1,393.0	1,443.6	1,659.8
Net Block	1,634.0	1,670.8	1,835.4	1,639.6
Capital Work in Progress	96.5	76.1	6.1	40.3
Investments	2,492.6	3,631.0	4,044.6	4,800.1
Current Assets	25,699.6	26,264.8	32,825.7	31,964.7
Less : Current Liabilities	21,348.3	21,499.5	25,055.2	23,029.9
Total Net Current Assets	4,351.3	4,765.3	7,770.5	8,934.8
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	1,197.0	1,515.9	1,785.1	2,208.4
Mkt Val. Quoted Investments	1,549.0	3,189.8	3,586.2	3,532.5
Contingent Liabilities	2,529.8	3,265.1	18,008.9	19,602.6
Dividend (%)	160	200	200	160

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Dec 11	Mar 12	Jun 12	Sep 12
Net Sales	11,346.2	16,210.0	16,766.5	11,113.1
Cost Of Sales	13,268.8	14,925.6	16,076.7	10,805.6
Operating Profit	(1,922.6)	1,284.4	689.8	307.5
Recurring Income	167.7	181.5	386.1	451.9
Adjusted PBDIT	(1,754.9)	1,465.9	1,075.9	759.4
Financial Expenses	51.7	76.4	106.8	67.5
Depreciation	70.5	49.4	59.8	59.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(1,877.1)	1,340.1	909.3	632.5
Tax Charges	0.0	344.2	280.8	155.9
Adjusted PAT	(1,877.1)	995.9	628.5	476.6
Non Recurring Items	716.0	21.3	11.6	2.8
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Net Profit	(1,161.1)	1,017.2	640.1	479.4

**52 Week Index Relative Percentage Appreciation**

**Voltas vs SENSEX**
**Risks Associated**

The state of the global economy has a direct impact on the health of the Indian economy. If recovery in the US and Europe were to falter, its adverse impact could be felt across businesses in India, causing plans in infrastructure and industrial segments to be shelved for the time being. It is expected that some reputed multinational project companies will make their move in the Indian market in the year ahead. A related threat continues to arise from the development of in-house MEP capabilities by Main Contractors, putting operating margins at risk. The relative volatility in prices of commodities like steel, copper and aluminum remains a factor potentially jeopardizing the health of the projects business.

The Chinese and other low-cost exporters of HVAC products are aggressively using their significant economies of scale to build increasing pricing pressure across a range of products. The Japanese companies too seem to be bullishly price-competitive in India, leading to a decrease in margins across the industry.

The vast opportunities in the domestic water treatment market is attracting numerous multinationals armed with up-to-date and superior technologies, which are likely to dictate the form of competition. The water business is an integral part of the projects business and therefore faces the same generic risks, such as cost and time overruns, delay in payment, commodity price variation, currency fluctuations, etc.

**In a Nutshell**

Voltas is one of the world's premier engineering solutions providers and project specialists. Its strengths lie principally in management and execution of electro-mechanical projects, including air conditioning and refrigeration, the design and manufacture of industrial equipment, cooling appliances and materials handling equipment, sourcing, installation and servicing of diverse technology-based systems serving Indian industry through representation of global technology leaders. Voltas' operations have been organized into three independent business-specific clusters. Each having its own facilities for market coverage and service to customers. They are :

1. Electro-Mechanical Projects & Services - Providing Electrical, Mechanical & Refrigeration Solutions and Water Treatment.
2. Engineering Products & Services - Providing Equipments for Textile, Mining & Construction & Materials Handling.
3. Unitary Cooling Products Unit - which provides Air Conditioners, Commercial Refrigeration, Water Coolers & Dispensers

Over the years, Voltas has built up a substantial reputation and is actively engaged in turnkey projects in fields such as electro-mechanical works comprising HVAC, electrical systems for buildings, plumbing, fire fighting, ELV and specialized systems, building security and other utilities, electrical power projects, environmental and water pollution control, pumping stations and water supply, and water and waste water treatment projects. Voltas has successfully undertaken and executed prestigious high-value projects in the Middle East, Far East and South East Asia, CIS countries, Africa and India. The Company is well diversified and has good growth prospects.

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**Rating Interpretation**

**Buy** : Expected to appreciate 20% or more over 12-months      **Reduce** : Expected to depreciate up to 10% over 12-months  
**Accumulate** : Expected to appreciate 10% to 20% over 12-months      **Sell** : Expected to depreciate 10% or more over 12-months  
**Trade Buy** : Expected to appreciate more than 10% over 45-days      **Trade Sell** : Expected to depreciate more than 10% over 45-days

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