

**Voltas Ltd.**

₹ 110

**Take a Chill Pill****Accumulate**

Jan 10, 2014

**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**

- ➔ The Company's international order inflow surged significantly in H1FY14, after several tepid quarters. Dubai Expo 2020 and the Football World Cup 2022 (Qatar) will be a further booster in the Middle East. With the two major events, ordering pipeline is expected to catapult significantly in the coming years. This spells bigger orders for Voltas and its margin profile is likely to improve given expansion in the overall pie.
- ➔ Voltas has adopted a cautious approach in accepting new orders of approximately 5% and 6-7% margin threshold for international & domestic markets, respectively. Also, new orders in the Middle East are increasingly entailing higher margins, further bolstering its optimism on potential profitability.
- ➔ Voltas continues to work towards improving its operational efficiency and thus profitability. In the Rohini issue the purchase of the balance stake (16.3%) is complete and management expects Rohini Electricals to turn profitable by FY15, as it targets to complete most of the problematic orders by end FY14..
- ➔ Mega projects are making a come back as Middle East is looking at spending over USD21.4bn in medical projects with Saudi Arabia spending USD9.2bn alone. Similarly, transportation is another area that is likely to see significant spending of over USD41.6bn with the maximum in Saudi Arabia. MEP share in such infrastructure projects is likely to be 25-30% of the total spending.

**Key Financials**

Year Ended 31 <sup>st</sup>	Mar 11	Mar 12	Mar 13
Revenue (INR mn)	52,648.3	54,063.3	57,954.4
Rev. growth (%)	13.81	2.69	7.20
EBITDA (INR mn)	5,853.2	2,686.7	3,276.1
Net profit (INR mn)	3,535.3	1,518.7	1,800.7
Shares outstanding (mn)	330.9	330.9	330.9
EPS (INR)	10.7	4.6	5.4
EPS growth (%)	2.70	(57.04)	18.57
P/E (x)	17.0	24.4	13.9
RONW (%)	26.7	22.9	15.6
ROCE (%)	25.4	20.8	13.7

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**Previous Report**

Recommended Buy on Nov 23, 2012 @ ₹ 102 reached ₹ 125 (21% up) in 2013.

**Info Codes**

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

**Market Data**

52 Wk Range (₹)	: 125 / 63
Shares in Issue (mn)	: 330.9
Mkt. Cap (₹ bn)	: 35.52
BSE 2 Wk Avg Vol	: 381000

**Share Holding Pattern (%)**

Promoters	: 30.15
DII's	: 29.82
FII's	: 14.47
Others	: 25.56

**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 electromechanical 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. Improving business environment in the Middle East along with better profitability & return ratios expected going forward, underpin our positive outlook on Voltas.

**With Expectations from Middle East**

## Financial Statements

### Income Statement

(₹ mn)

Year end	Mar 11	Mar 12	% Chg	Mar 13	% Chg
Total Sales + Excise	51816.9	52055.5	0.46	56165.0	7.89
Other Income	1169.0	(437.8)	(137.45)	1359.6	(410.55)
Change in Stocks	1260.4	195.3	(84.50)	429.0	119.66
Raw Material Con.	3859.0	5203.1	34.83	3698.5	(28.92)
Employee Exp.	5155.3	5520.5	7.08	5792.3	4.92
Indirect Taxes	366.5	352.4	(3.85)	545.8	54.88
Other Exp.	39076.7	38050.3	(2.63)	44640.9	17.32
Operating Exp.	47197.1	48931.0	3.67	54248.5	10.87
Operating Profit	4619.8	3124.5	(32.37)	1916.5	(38.66)
Total Interest	211.4	259.0	22.52	339.1	30.93
Gross Profit	5577.4	2427.7	(56.47)	2937.0	20.98
Net Dep.	331.4	357.6	7.91	511.3	42.98
Total Taxation	1710.7	551.4	(67.77)	625.0	13.35
Net Profit/Loss	3535.3	1518.7	(57.04)	1800.7	18.57

### 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 10	Mar 11	Mar 12	Mar 13
<b>SOURCES OF FUNDS</b>	<b>10,143.2</b>	<b>13,656.6</b>	<b>15,414.8</b>	<b>16,945.9</b>
Equity Share capital	330.7	330.8	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	9,621.7	12,386.7	13,306.1	14,495.4
Long Term Loans	0.0	0.0	0.0	0.0
Short Term Loans	190.8	939.1	1,777.9	2,119.7
<b>USES OF FUNDS</b>	<b>10,143.2</b>	<b>13,656.6</b>	<b>15,414.8</b>	<b>16,945.9</b>
Gross Block	3,063.8	3,279.0	3,299.3	3,584.7
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	1,393.0	1,443.6	1,659.8	1,823.7
Net Block	1,670.8	1,835.4	1,639.5	1,761.0
Capital Work in Progress	76.1	6.1	40.3	0.1
Investments	3,631.0	4,044.6	4,800.1	5,732.2
Current Assets	26,264.8	32,825.7	31,964.8	33,926.7
Less : Current Liabilities	21,499.5	25,055.2	23,029.9	24,474.1
Total Net Current Assets	4,765.3	7,770.5	8,934.9	9,452.6
Misc. Expenses not written	0.0	0.0	0.0	0.0
<b>NOTE</b>				
Bk Val Unquoted Investments	1,515.9	1,785.1	2,208.4	2,173.6
Mkt Val. Quoted Investments	3,189.8	3,586.2	3,235.3	4,373.0
Contingent Liabilities	3,265.1	3,940.6	19,602.6	18,163.2
Dividend (%)	200	200	160	160

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Dec 12	Mar 13	Jun 13	Sep 13
Net Sales	11,489.20	16,285.50	15,470.60	9,958.50
Cost Of Sales	11,325.70	15,634.10	15,269.70	9,621.70
Operating Profit	163.50	651.40	200.90	336.80
Recurring Income	826.90	160.50	453.80	381.00
Adjusted PBDIT	990.40	811.90	654.70	717.80
Financial Expenses	55.70	109.10	164.40	37.20
Depreciation	56.30	46.60	44.70	44.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	878.40	656.20	445.60	636.00
Tax Charges	169.90	18.40	127.50	181.60
Adjusted PAT	708.50	637.80	318.10	454.40
Non Recurring Items	17.50	(682.60)	0.00	0.00
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	726.00	(44.80)	318.10	454.40

**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 pricecompetitive 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**

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

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