



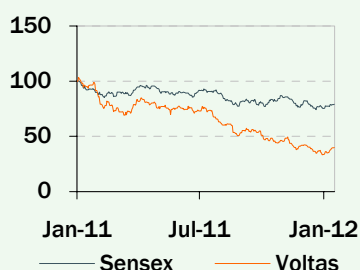
# Voltas

 Relative to sector: **Underperformer**
**Kashyap Pujara**

 Executive Director – Midcaps  
 Email: kashyap.pujara@enam.com  
 Tel: 9122 6754 7603

**Farzan Madon**

 AVP – Midcaps  
 Email: farzan.madon@enam.com  
 Tel: 9122 6754 7671

**Relative Performance**


Source: Bloomberg, ENAM Research

**Stock data**

 No. of shares : 331 mn  
 Market cap : Rs 30.5 bn  
 52 week high/low : Rs 219/ Rs 72  
 Avg. daily vol. (6mth) : 1.2 mn shares  
 Bloomberg code : VOLT IB  
 Reuters code : VOLT.BO

Shareholding (%)	Dec-11	QoQ chg
Promoters	30.3	(0.2)
FIs	17.5	(0.2)
MFs / UTI	6.4	(1.5)
Banks / FIs	23.8	0.5
Others	22.1	1.4

**Financial summary (Consolidated)**

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)	P/ BV (x)
2010	48,059	3,471	-	10.5	58.1	-	36.5	48.7	-	2.0	-
2011	51,768	3,361	-	10.2	(3.2)	-	27.1	38.4	-	2.0	-
2012E	47,125	1,716	7.4	5.2	(49.0)	17.8	11.6	17.5	10.4	2.0	2.0
2013E	50,912	2,050	8.6	6.2	19.5	14.9	12.5	18.5	8.5	2.0	1.8

Source: \*Consensus broker estimates, Company, ENAM estimates

## NOT YET OUT OF THE WOODS

Our lateral meetings and channel checks suggest sluggish business environment to continue for main business segments of Voltas – Mechanical Electrical & Plumbing (MEP) and unitary cooling.

### Maintain SELL with revised TP of Rs 74

- We have cut our FY12 and FY13 earnings estimates and TP to factor in: 1) slowdown in MEP segment along with drop in margin profile - revival unlikely till H1FY13, 2) decline in engg product segment revenue due to lower off-take in mining and construction industries, and 3) demand deferment, higher costs, and rising competitive intensity in unitary cooling segment.
- Reduce FY12E and FY13E adj. EPS to Rs 5.2 and Rs 6.2 (from Rs 6.0 & Rs 7.1) respectively. Based on 12x FY13E EPS, we arrive at our revised TP of Rs 74 (vs. Rs 85 earlier).

### Key highlights

- **Painful days for MEP segment to continue:** Construction activity in UAE continues to be sluggish (down ~60% YoY) with ~US\$ 958 bn of projects either scrapped or on hold. This forces MEP players like Voltas to accept orders at lower margins to maintain revenue run rate. The situation in domestic market also continues to be grim with government inaction and lower spends by private players leading to dearth of MEP orders.

We have reduced our EBIT margin estimate for FY12 and FY13 to 2% and 3.5% resp. (3.3% and 4.5% earlier) to factor in 1) low margin orders being executed currently spilling over to H1FY13 and 2) impact of new orders being bid at 3-5% EBIT margins easing pressure in H2FY13.

**Segmental Results – Consolidated**

(Rs mn)	FY11	FY12E	FY12E	FY13E	FY13E
Sales		New	Old	New	Old
Electro-Mechanical	30,411	28,756	28,756	30,970	30,970
Enggg Prod & Services	5,638	3,947	4,341	4,341	4,776
Unitary Cooling	15,608	14,093	14,093	15,451	16,759
EBIT					
Electro-Mechanical	2,393	575	935	1,084	1,394
Margin (%)	7.9	2.0	3.3	3.5	4.5
Enggg Prod & Services	1,031	631	695	695	764
Margin (%)	18.3	16.0	16.0	16.0	16.0
Unitary Cooling	1,599	951	951	927	1,006
Margin (%)	10.2	6.8	6.8	6.0	6.0
Adj. PAT	3,361	1,716	1,994	2,050	2,354

Source: Company, ENAM Research, \* Segmental EBIT, before unallocable expenditure

- **Unitary cooling products - peak season at risk:** We have reduced our FY13 revenue estimates by 10% to Rs 15 bn from this division to factor in lower demand for air conditioners and rising raw material prices (higher import cost). With demand and cost factors unlikely to turn favorable in the medium term, we believe peak season for room ACs (Q4 and Q1 which account for 70% of sales) is at risk.

Also, we expect competition in room AC segment to intensify with (1) entry of Japanese companies (such as Daikin and Hitachi) in low priced segment and (2) likely price discounts due to de-stocking of older versions on account of change in energy consumption norms (star ratings).

- **Reduce engineering products revenue estimate:** We reduce the division's FY12 revenue estimate by 9% to ~Rs 4 bn due to slowdown in mining and infrastructural activities. While we expect de-growth in FY12 revenue, better business conditions in FY13 are likely to drive 10% revenue growth for the division.

---

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature

Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors

Enam Securities Private Limited has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document

The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval

Enam securities Private Limited, its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document

This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of ENAM Securities Private Limited. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein

This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Neither this document nor any copy of it may be taken or transmitted into the United State (to U.S. Persons), Canada, or Japan or distributed, directly or indirectly, in the United States or Canada or distributed or redistributed in Japan or to any resident thereof. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions

Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

**Copyright in this document vests exclusively with ENAM Securities Private Limited.**