

**Voltas Ltd. -----Maintain OUTPERFORM**

**Strong growth ahead; leverage in unitary cooling a big positive**

EPS: ▲ TP: ▲

Vinod Chari / Research Analyst / 9122 6777 3791 / vinod.chari@credit-suisse.com  
Gaurav Yadav / Research Analyst / 91 22 6777 3713 / gaurav.yadav@credit-suisse.com

- We upgrade our target price for Voltas to Rs175 from our earlier target price of Rs 155.
- This upgrade comes on the back of strong 1QFY08 results. The biggest surprise in the quarter has been the swing in the margins of the unitary cooling business, for which margins expanded 533 bp.
- Management indicated in its latest conference call that it is looking at 4-4.5% sustainable margins in the unitary cooling business segment.
- We increase our EPS estimates for FY08 by 8% and FY09 by 13% to reflect the increase in our EBIT margins assumptions to 4.5% from the earlier 2.5%.
- We assume that the steady state margins for the electromechanical business will continue in the range of 6-6.5%.
- Based on the revised earnings, we arrive at a target price of Rs175, on a P/E of 21x FY09E consolidated EPS (Rs8.32) and re-iterate our OUTPERFORM rating on the stock.

company, Voltas should be seen on an annual basis and not based on a particular quarter's performance, in our opinion. Hence, we are using steady state margins in our assumptions.

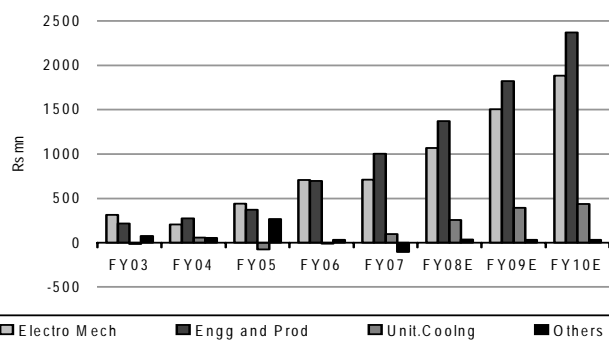
**Increasing EBIT margin assumptions for unitary cooling**

The margin expansion in unitary cooling has occurred essentially due to Voltas's moving its manufacturing plant from Hyderabad to a lower-cost location. We increase our EBIT margin assumptions in the unitary cooling business to 4.5%, which we believe to be a sustainable number, and is also indicated by management. This compares with our earlier assumption of 2-3% for this segment.

We have been conservative in our margin assumption and assume the 4.5% margins kick in only in FY09. We still assume 3.5% EBIT margins for the unitary cooling business in FY08E. We have maintained our assumption that margins in the electromechanical segment will continue in the range of 6-6.5%, which is more sustainable over a longer time frame.

Bbg/RIC	VOLT IN / VOLT.BO	Price (24 Jul 07, Rs)	145.75		
Rating (prev. rating)	O (O) [V]	TP (Rs) (prev. TP)	175 (155)		
Shares outstanding (mn)	330.89	Est. pot. % chg. to TP	20		
Daily trad vol-6m avg (mn)	1.7	52-wk range (Rs)	148.85 - 65.22		
Daily trad val-6m avg (US\$ mn)	4.0	Mkt cap (Rs/US\$ mn)	48,226.5/ 1,201.8		
Free float (%)	75.0	Performance	1M	3M	12M
Major shareholders		Absolute	37.0	62.7	120.9
		Relative	26.0	44.0	41.6
Year	3/06A	3/07A	3/08E	3/09E	3/10E
Revenues (Rs mn)	18,531	24,006	30,458	38,599	47,412
EBITDA (Rs mn)	1,007	1,007	2,074	3,036	3,944
Net profit (Rs mn)	966.8	1,104.2	1,813.5	2,525.6	3,203.4
EPS (Rs)	2.93	3.34	5.49	7.64	9.69
- Change from prev. EPS (%)	n.a.	n.a.	9	13	n.a.
- Consensus EPS (Rs)	n.a.	n.a.	4.50	5.58	9.07
EPS growth (%)	113.1	14.2	64.2	39.3	26.8
P/E (x)	49.8	43.6	26.6	19.1	15.0
Dividend yield (%)	0.4	0.7	1.0	1.4	1.4
EV/EBITDA (x)	47.5	47.3	22.5	15.2	11.4
P/B (x)	20.0	12.7	9.5	7.1	5.2
ROE (%)	44.5	35.5	40.9	42.5	39.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Figure 1: Segmental EBIT composition for Voltas



Source: Company data, Credit Suisse estimates.

**Increasing EPS estimates by 8% in FY08 and 13% FY09**

We are increasing our EPS estimates in FY08 and FY09 by 9% and 13%, respectively, to indicate the increase in EBIT margins of the unitary cooling business. We also introduce FY10 numbers in our estimates.

Figure 2: Changes in our standalone EPS estimates

	FY08E	FY09E	FY10E
New Estimates (Rs)	5.49	7.64	9.69
Earlier Estimates (Rs)	5.06	6.74	-
% change	8%	13%	-

Source: Company data, Credit Suisse estimates.

**Increasing target price; Maintain OUTPERFORM**

We re-iterate our OUTPERFORM rating and increase our target price to Rs175. We have retained the same multiple as earlier, valuing the stock at 21x FY09E consolidated EPS (Rs8.32). The increase in target price only reflects the increase in our earnings estimates. Even here, we believe Voltas has the potential to provide earnings surprises on the back of its improving margins and strong volume growth. It remains one of our preferred plays in the engineering mid cap space.

**Q1 has been robust**

Voltas saw good top line growth as sales grew 39% YoY. The strong top line trend was accompanied by margin expansion of 346 basis points that drove net profit up 140% YoY.

All segments contributed but the performance of unitary cooling and electro-mechanical projects was the most significant. First quarter remains a seasonally strong quarter for the unitary cooling segment; however, the company's performance in the segment was impressive even when compared with 1QFY07. Sales grew nearly 30% YoY for unitary cooling, while margins expanded 533 bps.

Similarly, electromechanical segment saw a big jump in margins at 9.2%, after two consecutive quarters of lower margins. However, as a

**Companies Mentioned** (Price as of 24 Jul 07)

Voltas Ltd (VOLT.BO, Rs145.75, OUTPERFORM [V], TP Rs175.00)

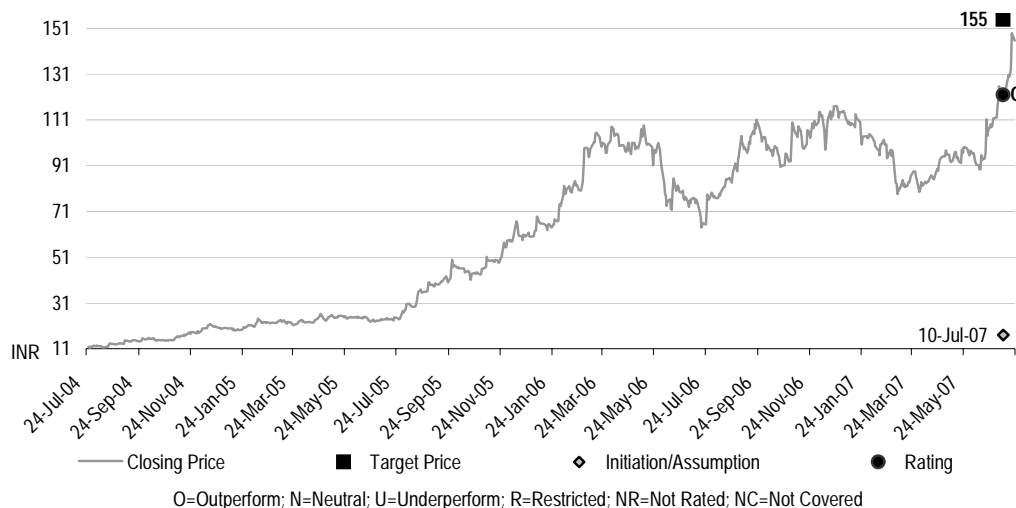
**Disclosure Appendix**

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**3-Year Price, Target Price and Rating Change History Chart for VOLT.BO**



VOLT.BO Date	Closing Price Price (INR)	Target Price Price (INR)	Rating	Initiation/ Assumption
10-Jul-07	121.85	155	OUTPERFORM	X

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**Price Target:** (12 months) for (VOLT.BO)

**Method:** Our Rs 175 target price for Voltas is based on a PER of 21x FY09E consolidated EPS of 7.38. The company is a strong transformational story from a diversified company with no clear focus to a niche engineering services provider in electromechanical and HVAC.

**Risks:** Potential risks to our Rs 175 target price for Voltas are: 1) Slowdown in the Middle East construction boom 2) Slowdown in domestic projects such as airports etc would affect the overall business of Voltas 3) The company's agency business depends on the renewal of the arrangement by the principals, some of whom might decide to go on their own.

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