



Economy News

- ▶ Chairman of Prime Minister's Economic Advisory Council, C Rangarajan said that the hardening of interest rates would depend on inflation in the coming two to three months and added that there has been some decline in headline inflation. If this trend continues, there should not be any need for further rise. On the other hand, if inflation picks up, it would have to be dealt with. (BS)
- ▶ Leading global rating agency Fitch Ratings has revised upwards its forecast for the country's economic expansion to 8.7 per cent in the current fiscal from 8.5 per cent earlier as economic activity has proved more buoyant than previously expected. (ET)
- ▶ The Union Food and Agriculture Minister, Mr Sharad Pawar, on Tuesday said that any respite for the consumer from onion prices is unlikely for the next three weeks but going by a report of the National Horticultural Research and Development Foundation (NHRDF), the issue of high prices is unlikely to end soon. (BL)

Corporate News

- ▶ State-run **ONGC** and Russian conglomerate Sistema have decided to merge their oil & gas businesses in Russia under a joint venture in a no-cash deal where the Indian firm will have a 25% shareholding with a say in management. (ET)
- ▶ **Coal India (CIL)** is close to buying a stake between 10% to 15% in an Australian mine owned by Peabody, a US company. Peabody will transfer the mine to a special purpose vehicle or a company set up for a particular transaction in which it will hold up to 90%, with the Indian company owning the rest. (ET)
- ▶ Public sector powerhouse **Bharat Heavy Electricals Ltd (BHEL)** is mulling a partnership with Japanese automaker Toyota to make electric vehicles (EVs) in India, the second fastest growing auto market in the world. (BL)
- ▶ The Bombay High Court said it can't decide on Lavasa Corporation's (**Hindustan Construction Company's** subsidiary) writ petition against the Ministry of Environment and Forest's stop-work order in isolation, and all litigation against the company's proposed hill station township project near Pune needed to be clubbed together. (ET)
- ▶ **JSW Steel** will become India's largest steel company by capacity, as it agreed to buy a controlling 41.29 per cent stake in Ispat Industries for Rs 21.57 bn, valuing the company at Rs 52.24 bn. JSW will announce an open offer for an additional 20 per cent stake in Ispat on Wednesday. (BS)
- ▶ **Carborundum Universal India (CUMI)** has opposed the proposed acquisition of Winterthur Technologies AG of Switzerland by 3M. The company said 3M's buying of Winterthur Tech is an indirect acquisition of Wendt India, a company that manufactures super abrasives and is a joint venture of Carborundum Universal and Wendt GmbH. (BS)

Equity

	21 Dec 10	% Chg		
		1 Day	1 Mth	3 Mths
Indian Indices				
SENSEX Index	20,060	0.9	0.5	0.6
NIFTY Index	6,001	0.9	(0.2)	0.2
BANKEX Index	13,078	2.3	(7.0)	(6.2)
BSET Index	6,679	(0.2)	10.6	12.4
BSETCG INDEX	15,321	0.1	(2.2)	(2.6)
BSEOIL INDEX	10,732	0.8	3.4	0.3
CNXMcap Index	8,703	0.8	(6.4)	(4.8)
BSESMCAP INDEX	9,309	1.0	(10.4)	(8.3)
World Indices				
Dow Jones	11,533	0.5	3.2	7.4
Nasdaq	2,668	0.7	5.4	14.3
FTSE	5,952	1.0	4.8	7.2
Nikkei	10,371	1.5	2.6	8.5
Hangseng	22,994	1.6	(1.8)	4.8

Value traded (Rs cr)

	21 Dec 10	% Chg - Day
Cash BSE	3,382	2.9
Cash NSE	12,592	(1.6)
Derivatives	96,661	(4.2)

Net inflows (Rs cr)

	20 Dec 10	% Chg	MTD	YTD
FII	(33)	(71.3)	(2,651)	128,924
Mutual Fund	119	(230.8)	1,159	(27,498)

FII open interest (Rs cr)

	20 Dec 10	% Chg
FII Index Futures	19,277	4.4
FII Index Options	57,023	1.5
FII Stock Futures	35,740	1.7
FII Stock Options	779	(1.6)

Advances / Declines (BSE)

	21 Dec 10	A	B	S	Total	% total
Advances	146	1,127	254	1,527	59	
Declines	55	697	167	919	36	
Unchanged	2	106	19	127	5	

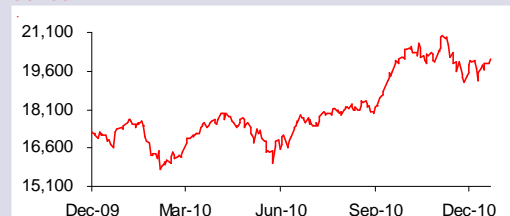
Commodity

	21 Dec 10	1 Day	1 Mth	3 Mths
Crude (NYMEX) (US\$/BBL)	89.9	0.1	10.0	20.4
Gold (US\$/OZ)	1,388.0	0.1	2.4	7.9
Silver (US\$/OZ)	29.4	0.2	6.5	40.0

Debt / forex market

	21 Dec 10	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %	7.93	7.97	8.03	7.96
Re/US\$	45.24	45.48	45.41	45.68

Sensex



COMPANY UPDATE

Sanjeev Zarbade

sanjeev.zarbade@kotak.com

+91 22 6621 6305

VOLTAS LTD

PRICE: Rs.220

TARGET PRICE: Rs.245

RECOMMENDATION: BUY

FY11E P/Ex: 19.9

Outlook on Middle East MEP is improving and the company's recent JV with Olayan should enable Voltas to effectively enter the Saudi market (largest in GCC countries).

In view of the 15% price correction from recent high in Voltas stock, we upgrade the stock to BUY with a target price of Rs.245.

Voltas announced the formation of JV with Olayan Financing Company, Riyadh for execution of electromechanical projects in the Kingdom of Saudi Arabia (KSA). The share holding pattern will be in equal proportion of 50% each and the JV is expected to be operational by April 2011. The Olayan Group is a private multinational enterprise comprising 50 companies and affiliated businesses engaged in distribution, manufacturing, services and investment. The JV will take up MEP projects and subcontract the entire project to Voltas for design, supply of equipment as well as project execution. Thus, bulk of the profits for projects undertaken in KSA will flow to Voltas directly as well as through JV.

The Voltas management has not been present in the KSA as the management was not comfortable with the terms of doing business in the country. However, the KSA market for MEP is huge and almost the entire size of the GCC market. The KSA also continues to invest heavily into infrastructure development and announced a expansionary budget in 2010. Some of the important projects are listed below.

Management bullish on the demand outlook for Middle East MEP

The voltas management is quite optimistic about the rebound of the MEP market in the Middle East and expects the recovery to gain momentum from 2012 onwards. Frost and Sullivan predicts that regional MEP market which stood at USD 13.5 bn in 2008 should expand to USD 22 bn by 2013. As per the research firm, the market expansion will be driven KSA, Qatar and Abu Dhabi. From a MEP contractor standpoint, for gaining a competitive edge, availability of skilled (for project design and service support) and semi-skilled manpower is a must.

Summary table

(Rs mn)	FY10	FY11E	FY12E
Sales	48,059	51,049	59,566
Growth (%)	11.1	6.2	16.7
EBITDA	4,592	5,030	5,837
EBITDA margin (%)	9.6	9.9	9.8
PBT	5,318	5,465	6,402
Net profit (adj)	3,560	3,650	4,354
EPS (Rs)	10.8	11.0	13.2
Growth (%)	58.0	2.5	19.3
CEPS	11.4	11.7	13.9
Book value	31.8	41.0	52.3
Dividend/share (Rs)	1.6	1.6	1.6
ROE %	38.0	29.5	27.6
ROCE %	42.3	35.5	33.0
Net cash (debt)	4,338	6,627	9,289
NW Capital (Days)	8.2	11.4	14.9
EV/Sales (x)	1.4	1.3	1.1
EV/EBITDA (x)	14.9	13.1	10.9
P/E (x)	20.4	19.9	16.7
P/Cash Earnings	19.3	18.8	15.9
P/BV (x)	6.9	5.4	4.2

Source: Company, Kotak Securities - Private Client Research

Major Projects in Saudi Arabia (ongoing in phased development)

	(USD bn)
King Abdulla Economic City	50
Sudair City Development	40
Princess Noura	11.5
Land bridge project	10
Mousaed Economic city	8
Knowledge Economic city	8
King Abdul Int Airport	4.5
Jizan Economic	3

Source: Company

Major MEP Projects in Abu Dhabi (ongoing in phased development)

	Cost USD bn
Khalifa City	40
Yas Island	39
Saadiyat Island	28
Burooj Properties	24
Masdar City	22
Al Raha Beach complex	18.5
Ghantoot green city	10
Al Reem Island	7.8
Al Ghadeer Development	4

Source: Company

Earnings Outlook

Segment Revenues

(Rs mn)	Q2FY11	Q2FY10	YoY (%)
Electromechanical projects	7,066	7,692	-8
Engg products and services	1,267	1,170	8
Unitary cooling	2,281	1,968	16
Others	26	103	-75
Total	10,643	10,935	-3

Source: Company

- Electromechanical Projects and Services is the core business of the Company and comprises 65% of the annual turnover. About 70-75% of the segment turnover comes from International Operations mainly the Middle East. Revenues were down for the quarter due to delay in execution of two large projects in Qatar (approx Rs 10.5 bn) as well as India. The management indicated that the momentum in project execution should improve from H2 FY11. The company's order book of Rs 50 bn provides a visibility of 19 months of projects revenues, which is adequate.
- The management appeared positive on the order pipeline and indicated that opportunities are substantial. Voltas has won a large international order in October, which will get reflected in the 3Q order book as the company does not announce individual order wins
- Margins shrunk 140bps in Q2 FY11 to 10.1% mainly as due to the Electromechanical Projects segment which reported a margin loss of 350 bps as some of its overseas subsidiaries engaged in the projects segment had to incur one-time charges. Even adjusting for non-recurring items of expenditure, margins are likely to remain under pressure as revenues are flowing from contracts taken at very competitive margins during poor market conditions.

Segment Margins

(%)	Q2FY11	Q2 FY10	Q1 FY11
Electromechanical projects	8.2	11.7	8.5
Engg products and services	20.9	18.4	22.9
Unitary cooling	12.3	9.5	9.3
Total	10.6	12.0	10.0

Source: Company

Capital engagement has increased significantly in Electromechanical projects and Unitary Cooling segment

On account of the substantial client advances, Voltas's electromechanical projects business has been working on a very lean working capital. However, capital employed has increased substantially in the Electromechanical projects business despite no increase in volume of work. This may be due to execution sluggishness in some large projects.

Capital Employed

(Rs mn)	Q2FY11	Q2FY10	Q1FY10
Electromechanical projects	2349.4	383.8	2461.4
Engg products and services	980.2	1258.9	987.1
Unitary cooling	2510	1029.2	485.6

Source: Company

Future Prospects

The company sees a healthy project pipeline from the Middle East market and volume of new enquiries has increased and so has been the fresh orders that have been booked in the first quarter.

We believe that the Electromechanical segment would continue to post sedate growth in the current fiscal but momentum in growth should accelerate in the Engineering services business. The Unitary cooling segment should grow at a healthy clip in the current year. Thus, we have built in a 15% rise in revenue in FY11.

Valuation

The Voltas stock has corrected 15% from its 52 week high of Rs 258 due to general weakness in markets. There were also some misleading reports on the company's involvement in recent telecom scam (which the company has already clarified on the exchange). In our previous update, we had recommended "Reduce" citing stagnant order backlog, increasing capital engagement and fair valuations. In view of the recent correction in stock price and the optimistic outlook on the Middle East MEP market, we upgrade stock to **BUY** with an enhanced price target of Rs.245 (Rs 231 earlier)

Voltas is currently trading at 19.9x and 16.7x FY11 and FY12 earnings respectively. On a FY12 EV/EBITDA basis, the stock is trading at 10.9x.

Based on WACC of 13.4% and terminal growth rate of 4%, we arrive at a DCF value of Rs 245 (Rs 231 earlier).

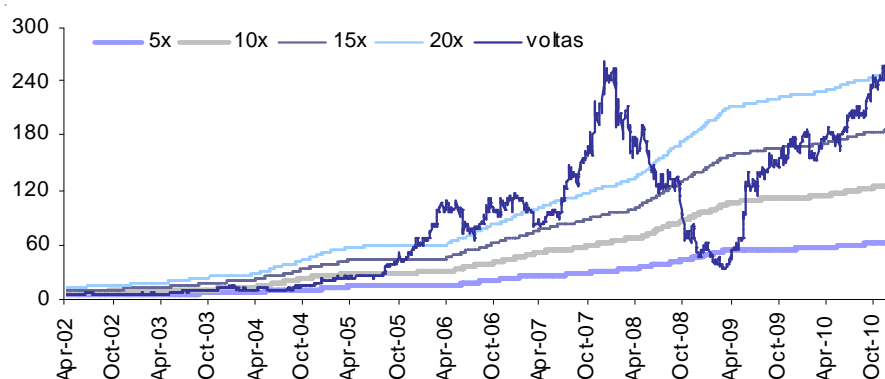
Upgrade to BUY on ...

Improving order intake and order pipeline in the Middle East coupled with recent stock price correction.

Risk to Recommendation

- Delay in order accretion.
- Downside to margins due to unforeseen project costs
- Slowdown in GDP affecting purchasing power of households translating into lower offtake of ACs and subdued real estate demand.

PE band (x)



Source: ACE Equity, Kotak Securities - Private Client Research

DCF valuation

FCFF in FY11	2,995
WACC (%)	13.4
PV of FCF	71,804
TV as % of FCF (%)	35
Present value per share (Rs)	217
One year forward value (Rs)	245
Implied PE (x) FY12	18.7
Revenue growth FY11-17 (%)	17.8

Source: Kotak Securities - Private Client research

We upgrade to BUY on Voltas with an increased price target of Rs.245

Bulk deals

Trade details of bulk deals

Date	Scrip name	Name of client	Buy/ Sell	Quantity of shares	Avg. price (Rs)
21-Dec	Amar Remedies	Credit Suisse (Singapore) Limited A/C Credit Suisse (Singapo	B	131,262	101.0
21-Dec	Balaji Dist	Globe Capital Market Limited	B	319,896	51.7
21-Dec	Cupid Trades	Mukeshkumar Manjibhai Patel	B	15,000	48.4
21-Dec	Dhanus Tech	Avance Technologies Limited	S	200,000	13.8
21-Dec	Elpro Packaging	Techno Broking and Financial Ser	B	30,000	17.0
21-Dec	Elpro Packaging	Parkes Multi Trade Private Limited	S	35,700	17.0
21-Dec	Incap Financial	Nilesh Share Brokers Ltd	B	25,440	30.0
21-Dec	Incap Financial	Dharmendra Harilal Bhojak	B	21,289	30.2
21-Dec	Incap Financial	Suresh Girdharilal Huf	S	20,000	30.2
21-Dec	JMD Telefilms	Udit Gupta	B	300,000	14.0
21-Dec	JMD Telefilms	Milestone Shares & Stock Broking	S	464,000	14.0
21-Dec	JMD Telefilms	Neelanchal Mercantile Pvt Ltd	S	536,000	14.0
21-Dec	Moldtek Tech	Jitendra Narottamdas Mehta	S	22,450	74.9
21-Dec	Mudra Lifestyle	Mint Trading & Investment	B	182,000	57.3
21-Dec	NCL Research	Kohinoor Vincome Pvt Ltd	B	65,500	39.6
21-Dec	NCL Research	Sidharth Silk Udyog Pvt Ltd	S	20,000	39.6
21-Dec	NCL Research	Rajshree Mercantiles Pvt Ltd	S	20,000	39.6
21-Dec	Niraj Cement	Aap Investments	B	52,172	63.3
21-Dec	Parichay Invest	Shyam Construction	B	19,350	128.6
21-Dec	Piccadily Agro	Soon-N-Sure Holdings Ltd	B	300,000	39.6
21-Dec	Piccadily Agro	Rajnesh Kumar Sharma	S	300,000	39.6
21-Dec	Rich Capital	Atul Kumar	B	53,000	109.0
21-Dec	Rich Capital	Raghuvansh Agrofarms Ltd.	S	53,000	109.0
21-Dec	Shree Nath Com	Laurel Securities Pvt Ltd	B	50,000	67.5
21-Dec	Shree Nath Com	Sekhwel Trading & Fin Pvt. Ltd.	B	50,000	67.5
21-Dec	Shree Nath Com	A B I Trading Private Limited	B	75,000	67.8
21-Dec	Shree Nath Com	Prakash K Shah Shares & Securities	B	30,000	67.5
21-Dec	TGF Media Sy	Silver Golden Property Develop Fin	B	30,000	14.2
21-Dec	TGF Media Sy	Regent Finance Corporation	S	150,000	14.0
21-Dec	Trishakti Elect	Abeeda Shahir Bajowala	B	15,000	35.4
21-Dec	Triveni Glass	Sainath Herbal Care Marketing	B	68,868	18.7
21-Dec	Tyche Inds	Lalit Kumar Poddar	B	50,000	17.0
21-Dec	Tyche Inds	Saroj Poddar	S	50,000	17.0
21-Dec	Well Pack Papers	BP Fintrade Private Limited	B	1,075,018	15.7
21-Dec	Well Pack Papers	Santosh Vishram Ghadshi	S	421,045	15.7
21-Dec	Well Pack Papers	Yaminiben Maheshbhai Pandya	S	560,108	15.7

Source: BSE

Gainers & Losers

Nifty Gainers & Losers

	Price (Rs)	chg (%)	Index points	Volume (mn)
Gainers				
ICICI Bank	1,138	3.5	14.8	4.1
Reliance Ind	1,073	1.6	9.3	3.7
HDFC Bank	2,214	1.9	5.0	0.6
Losers				
Infosys Tech	3,329	(0.6)	(3.4)	1.0
Sun Pharma	428	(3.4)	(1.9)	2.2
TCS	1,161	(0.5)	(1.0)	1.4

Source: Bloomberg

Research Team

Dipen Shah

IT, Media
dipen.shah@kotak.com
+91 22 6621 6301

Sanjeev Zarbade

Capital Goods, Engineering
sanjeev.zarbade@kotak.com
+91 22 6621 6305

Teena Virmani

Construction, Cement, Mid Cap
teena.virmani@kotak.com
+91 22 6621 6302

Saurabh Agrawal

Metals, Mining
agrawal.saurabh@kotak.com
+91 22 6621 6309

Saday Sinha

Banking, Economy
saday.sinha@kotak.com
+91 22 6621 6312

Sarika Lohra

NBFCs
sarika.lohra@kotak.com
+91 22 6621 6301

Arun Agarwal

Automobiles
arun.agarwal@kotak.com
+91 22 6621 6143

Ruchir Khare

Capital Goods, Engineering
ruchir.khare@kotak.com
+91 22 6621 6448

Jayesh Kumar

Economy
kumar.jayesh@kotak.com
+91 22 6652 9172

Ritwik Rai

FMCG, Media
ritwik.rai@kotak.com
+91 22 6621 6310

Sumit Pokharna

Oil and Gas
sumit.pokharna@kotak.com
+91 22 6621 6313

Shrikant Chouhan

Technical analyst
shrikant.chouhan@kotak.com
+91 22 6621 6360

K. Kathirvelu

Production
k.kathirvelu@kotak.com
+91 22 6621 6311

Disclaimer

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Kotak Securities Ltd. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable though its accuracy or completeness cannot be guaranteed. Neither Kotak Securities Limited, nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

Kotak Securities Limited has two independent equity research groups: Institutional Equities and Private Client Group. This report has been prepared by the Private Client Group. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Equities Research Group of Kotak Securities Limited.

We and our affiliates, officers, directors, and employees world wide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

No part of this material may be duplicated in any form and/or redistributed without Kotak Securities' prior written consent.