

ANALYSIS OF RESULTS
QUARTER ENDED 30th June 2018

Macro picture

The global growth outlook for 2018 remains positive despite some recent softness and is projected to reach 3.9% in the year. Spill-over risk from advanced financial markets have increased. Tightening of liquidity conditions in the developed markets alongside expansionary US fiscal policy and a strong US dollar have started to adversely impact emerging market currencies, bonds and capital flows. Fluctuating commodity prices, evolving geopolitical developments, and rising protectionist sentiments pose even more risks and are adding to uneven growth prospects among emerging economies. Effect of trade war is already visible on China's Yuan, as seen in its recent fall. The Middle Eastern economies are picking up pace owing to the uptick in oil prices, which augurs well for our International business.

On the domestic front, while economic growth is firming up, conditions that supported fiscal consolidation, inflation moderation and a benign current account deficit over the last few years are changing, thereby warranting an increase in interest rates coupled with exchange rate pressures. Amidst this, the IMF has pegged the Indian economy growth at 7.3% in 2018.

Voltas' performance

Turnover for the current quarter is higher by 9% over last year mainly due to improvement in performance of Projects business. Product business was impacted by unseasonal rains in peak summer months of April & May. Earnings per Share (not annualized) was at Rs. 5.56 as compared to Rs. 5.61 in the corresponding quarter last year (Face Value per share of Re. 1).

Rs. Crores	Act Q1 FY19	Act Q1 FY18	% Change
Gross Sales / Income from Operations	2134	1962	9%
Profit before Tax (PBT)	263	261	1%
Profit after Tax (PAT)	187	188	~
Total Other Comprehensive Income	242	234	3%

Analysis of Segment:

We present below our detailed comments on the performance of the various business segments in which we operate:

Segment Reporting (Rs Crs)	For the quarter ended	
	Jun-18	Jun-17
1. Revenue		
Segment A : Unitary Cooling	1191	1212
Segment B : Eng. Projects	866	661
Segment C : Eng. Products	77	90
2. Results		
Segment A : Unitary Cooling	149	171
Segment B : Eng. Projects	88	35
Segment C : Eng. Products	27	26
3. Capital Employed		
Segment A : Unitary Cooling	191	53
Segment B : Eng. Projects	675	744
Segment C : Eng. Products	68	69

Notes:

1. The Unitary Cooling Products business is now classified as under Segment A, Electro mechanical projects and services as Segment B and Engineering Products Business as Segment C.

Segment A – Unitary Cooling Products

The performance of the Products business was muted this Qtr. mainly due to erratic weather conditions across the stronger northern and southern markets. As is well known, the room AC business is weather reliant and like the rest of the industry, dependent on an appropriately prolonged summer season to maximize sales volume. While sales improved in the month of June, industry de-grew by around 11%. A decline in demand, led to intense competitive intensity in the market with higher inventory seen across channel. Notwithstanding this stiff competition, the Voltas brand has continued to improve upon its No.1 market position, increasing its market share to 23.5% in Q1 June 2018 (24.7% for June 2018) and continues to have the highest market recall.

Better product range, extended warranties, attractive consumer offers, sensible pricing, impactful print and digital advertisement campaigns, and increased penetration through more than 15,000 touch points across the country, have all contributed in sustaining this market leadership. As mentioned in our call of last quarter, the sales of Inverter ACs have been picking up momentum. The Company has also ramped up its product mix to gain market share in this space with Inverter ACs contributing to approx. 50% of the total split AC sales for Voltas.

Our segment revenue stands at Rs.1191 crores compared to Rs.1212 crores last year. Segment result was lower at Rs. 149 crores as compared to Rs. 171 crores in the corresponding quarter last year on the back of a poor season and intense competition. As a cost conscious Company, we strive to keep expenditures under check, although increasing

competitive intensity, aggressive pricing, and depreciation of the Indian Rupee continue to exert pressure on the business.

A poor summer season affects the Air Coolers even more as the window for sale is smaller as compared to ACs. Despite the unsupportive weather, Voltas continues to be amongst the top 3 air cooler brands owing to our increasing market presence, new product offerings, better features, sleeker designs, and competitive pricing. The Commercial refrigeration business has seen an uptick in demand, owing to addition of new corporate customers and concentrated efforts on channel expansion, along with addition of new and customised products.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the year was higher at Rs. 866 crores as compared to Rs. 661 crores in the corresponding period last year, a growth of 31%. Segment Result improved to Rs.88 crores as compared to Rs.35 crores last year, underlining the improved trajectory over the past several quarters. The increased margins are on account of better execution of quality orders both in domestic and international business. In current quarter, some of these projects have also crossed the internal threshold, thus margins have been reckoned.

International Projects

Having delivered turnkey electro-mechanical solutions and services for several prestigious and complex projects, in more than 35 countries in a span of over 4 decades, Voltas is today the preferred, tier-1 MEP service provider in Middle Eastern countries like UAE, Oman, Bahrain, etc. With the uptick in oil prices & improved investor sentiment, the team is well poised to reap the benefits of its long established standing as a preferred and trusted contractor. The Company will continue to focus on labour productivity improvements and skills development which is contributing to better execution.

At the same time, we are conscious of the continued embargo in Qatar and are suitably booking orders in the region. The total carry-forward order book of International Projects stands at Rs.1914 crores.

Domestic Projects

While keeping HVAC (Heating, Ventilation and Air Conditioning) at its core, Voltas has strategically focussed on Govt./Govt. funded projects, given the subdued pace of investment from the private sector. With the Indian Government pushing the growth agenda, opportunities are increasing in urban infrastructure (incl. Metros, Malls, Hospitals, Hotels, etc.), electrical distribution and water treatment. Our focus on maintaining internal efficiencies remains. Our expertise in customer care solutions also opens up opportunities for on-going maintenance service revenues. The focus in this Division has always been on applying technology and expertise to engineer smarter, greener, sustainable, better-connected and energy efficient solutions that can make a meaningful difference to lives.

Our subsidiary RIEL which turned profitable last FY, continues to execute projects in rural electrification. Under Deen Dayal Upadhyaya Gram Jyoti Yojana – a Central Government funded scheme, the Company has been instrumental in electrifying more than 2000 villages across the country as a last mile connector.

The Domestic order book now stands at Rs. 2,709 crores as of 30th June 2018 with additional orders under advanced stages of negotiation.

Segment C – Engineering Products and Services

Segment Revenue and Result were Rs. 77 crores and Rs. 27 crores as compared to Rs. 90 crores and Rs. 26 crores, respectively in the corresponding period last year.

Due to subdued yarn prices and a steep increase in raw cotton prices not only is the profitability of the spinning mills under pressure, but this has also impacted the investor sentiment. Despite these headwinds, the Textile Machinery Division's thrust on both capital equipment sales and value added after sales services has helped us mitigate the risks of slowdown.

For Mining and Construction Equipment, while Mozambique operations continue to drive the performance, a gradual recovery appears to be on the horizon on the domestic front. Meanwhile, the focus on road development has led to an increase in orders in the crushing & screening equipment sector.

Voltbek Joint Venture

In 2017, Voltas Limited and Arçelik A.S. agreed to establish Voltbek Home Appliances Private Limited (Voltbek), a Joint Venture Company (JVC) in India, to enter the consumer durables market. The JVC will launch refrigerators, washing machines, microwaves and other white goods / domestic appliances. Voltbek has during the past few months taken various actions including identification of land for its manufacturing activities in Sanand, Gujarat. The 60 acres facility will manufacture Refrigerators and Washing Machines in the first phase. The product launch plans are under finalization and we propose to launch products within this festive season. We are confident that the complementary strengths of the two partners will help build a sustainable consumer durables business in India over time.

Sum-up

IMF has predicted a growth of 7.3% for the Indian economy on the back of a strong rural pick up. While it is too early to predict the impact of the errant weather on the entire year's sales we are looking forward to the festive season and the second summer. Longer term prospects remain robust given low penetration levels, rising incomes and several other supportive indicators. Additionally, our expansion into the bigger consumer durables category through the Voltbek JV holds promise.

In the Projects space, we will focus on building a larger order book, while continuing to pick up risk mitigated projects. Needless to state, the strength of our balance sheet and the availability of cash surplus, remains an advantage as we look at opportunities for growth.

Cautionary Statement:

Statements in this release describing the Company's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.

10th August, 2018