ANALYSIS OF RESULTS
QUARTER AND SIX MONTHS ENDED 30th September 2018

In the United States, momentum is still strong as fiscal stimulus continues to increase, but outlook has been revised down due to recently announced trade measures, including those on Chinese imports. China might also experience somewhat of a lower growth in the aftermath of the tariff structures implementation. Growth prospects of Middle East economies have been lifted by higher oil prices. Despite such uncertainties, a recent IMF report, predicts global growth to expand at a steady pace of 3.7% for 2018–19.

In India, this was an extremely volatile quarter for business. We have seen an upturn in the business cycle as evidenced by strong IIP and GDP numbers. But this is juxtaposed against current account deficit, rupee depreciation, and financial markets turmoil. Core inflation (excluding all food and energy items) has risen to about 6% as a result of a narrowing output gap and pass-through effects from higher energy prices and exchange rate depreciation. As a result, the Central Bank raised interest rates, and continues to watch inflation closely. Private Capex thus still remains subdued. Most of the investment is driven by Govt./Govt. funded schemes. During this Quarter both the money and stock markets were volatile. On the back drop of a difficult quarter, much of the industry is facing headwinds given the constrained liquidity.

Consolidated In Rs. Crores	Q2 FY19	Q2 FY18	% Change	YTD FY19	Act YTD FY18	% Change
Gross Sales	1415	1032	37%	3549	2994	19%
PBT	140	130	8%	403	390	3%
PAT	107	95	12%	294	283	4%

In this context, the Consolidated Gross Sales/Income from Operations for the quarter ended September 30, 2018 was higher by 37%, at Rs.1415 crores as compared to Rs.1032 crores in the corresponding quarter last year. Aided by the company's diversified business mix, Profit before tax increased by 8%, to Rs. 140 crores. Profit after tax simultaneously improved by 12% to Rs.107 crores, due to a lower tax rate over the corresponding quarter of the previous year. Earnings per Share (Face Value per share of Re. 1, not annualized) as at September 30, 2018 moved up to Rs. 3.13.

Total Comprehensive Income of the company includes notional mark to market revaluation gains / losses on various strategic longer term investments held by the company. During the quarter, this was negative due to the decline, as compared to previous quarter end, in the stock market price of shares held by the company. As a result, Total Comprehensive Income for the Quarter stands at Rs.37 crores as compared to Rs.140 crores in the corresponding quarter last year. Our continued focus on profitability, cash flow and growth has ensured a robust Balance Sheet in this volatile period.

Analysis by segment:

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

Segment reporting (Rs. Crores)	Q2 FY19	Q2 FY18	H1 FY19	H1 FY18
1. Revenue				
Segment A : Unitary Cooling	441	408	1632	1619
Segment B : Eng. Projects	901	557	1768	1218
Segment C : Eng. Products	73	67	150	157
2. Results				
Segment A : Unitary Cooling	28	51	177	221
Segment B : Eng. Projects	76	30	164	66
Segment C : Eng. Products	29	28	56	53
3. Capital Employed				
Segment A : Unitary Cooling	848	266	848	266
Segment B : Eng. Projects	824	704	824	704
Segment C : Eng. Products	68	72	68	72

Segment A is seasonal in nature

Segment A – Unitary Cooling Products

The negative impact of a poor summer season across the country, unseasonal rains in some parts of country in September and a subdued Onam in the south depressed industry growth. As a result, the industry as a whole has de-grown during the first half of the year by around 6%. With the drop in sales in Quarter 1, we are witnessing a higher inventory across the industry and channel. This is however a short term problem & we expect to liquidate this by Q4 of this year.

In this challenging environment, brand Voltas continues to sustain its No. 1 position in the Room Air-Conditioner market and has further improved its market share to 25.6% (in Multi-Brand outlets) in Q2. In fact, the Company has been recently honoured with *India's Most Trusted Air Conditioner Brand* by the Brand Trust Report 2018. The competitive and unique product offerings combined with customer friendly promotional offers / dealer support measures have met with an encouraging response from the Trade and the end-users. We have ramped up our products, with the right mix in the energy efficiency Inverter segment which have been received well in the market. Inverter ACs now amount to approx. 40% of the total split AC sales.

Continuing our promise to introduce better and smarter product experiences to the customers, Voltas recently introduced Voice enabled ACs in partnership with (Amazon) Alexa, which are available exclusively on Amazon and have been received well in the market. Moreover, online sales were boosted during the Independence Day 'flash sales' announced by various e-commerce platforms.

Segment Revenue for Q2 improved to Rs. 441 crores as compared to Rs. 408 crores in the corresponding quarter last year. The increase in input costs, due to commodity price increases along with the depreciating currency and the hike in customs duty among others continue to put pressure on margins. With fierce competition and increased inventory, there is limited scope in the short term for price corrections to absorb the cost increases. All this has led to a drop in segment results in Q2. Capital employed by Division has increased in this quarter due to higher inventory.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was higher by 62% at Rs. 901 crores as compared to Rs. 557 crores in the corresponding quarter last year. Similarly, Segment Result improved to Rs. 76 crores reflecting a better margin of 8.4% due to better execution of orders, and positive effects of currency depreciation.

<u>International Operations</u>

We continue to pursue risk mitigated opportunities in the region. While we have won some good quality orders in the UAE, we remain particular conscious of the political impasse in Qatar and have adopted a cautious approach towards suitably risk mitigated order booking.

During the period, the Division delivered an improved performance due to the positive impact of better project selection and execution, and astute commercial cum cost management.

The total order book for the international operations as on September 30 is around Rs.2035 crores with orders of around Rs.450 crores booked during the quarter. A recent report from IMF indicates growth in the region is expected to strengthen in the next few years on the back of higher oil prices. Increased Government spending and growth in private credit should be a positive in improving order book over a period of time.

<u>Domestic Projects</u>

The bearish market sentiments, tighter monetary policy measures as well as the challenges faced by the banking sector today, including lower liquidity have affected private Capex. Thus the strategy for the domestic business continues with its core intent on picking up good quality work in Govt. /Govt. sponsored projects. Domestic projects had Rs.630 crores of orders booked for the quarter with a number of projects under finalisation. Our business of electrification work continues to increase its order book with recent wins in West Bengal. We see even more opportunities for our scope of work in the recent announcements by the Govt. on infrastructure and electrification projects. Smart execution and productivity will continue to be the drivers for profitability.

The total order book as on September 30, 2018, for the domestic operations is around Rs. 2848 crores.

Segment C – Engineering Products and Services

Segment Revenue and Result for the quarter were maintained at Rs.73 crores and Rs.29 crores as compared to Rs.67 crores and Rs.28 crores respectively for the Segment. The textile industry is passing through a difficult period and in this scenario, our focus on after sales business in both spinning and post spinning sectors of textiles, has enabled us to maintain the bottom-line. In Mining and Const. Equipment, Mozambique operations continue to drive the majority of the revenues, while the focus on building Mining India remains.

Voltbek Joint Venture

The 50:50 equity JV between Voltas and Arçelik – Voltbek Home Appliances Private Ltd. recently launched its product range at a well-publicised event in Delhi. Voltbek, which will cater to the consumer durables segment, has launched an extensive range of SKUs of Refrigerators, Washing Machines, Microwaves/Ovens and Dishwashers. The brand 'Voltas Beko' has positioned itself as *'Partners of Everyday Happiness'* with the consumer benefit of 'Nutrition, Preservation for Refrigerators and Cleaning Efficiency for Washing Machines'.

The brand aims to provide its consumers with state of the art innovative products leveraging Voltas' brand & distribution strength coupled with Arçelik's global expertise in research based product development. While initially the imports will be from Thailand, China, Turkey, eventually the products will start rolling out from the factory which is currently being set up in Sanand Gujarat. After the launch, the products are now available in a phased manner across the country through multi-channel outlets.

The recent colourful print & on-line advertisement campaign and the engaging TVCs that talk about all products being 'tested by real mothers', has generated the required buzz and were received well by the audience.

Sum-up

Notwithstanding the environmental and economic challenges, we remain cautiously optimistic on the opportunities for growth. In the unitary cooling products segment, restocking by our trade partners, higher focus on energy efficient products, a growing rural economy and improving economic situation would be the growth drivers over the next six months.

We expect the Indian Govt. to continue the investment cycle which would generate demand for MEP work and offset, to some extent the subdued activity in private sector capex spend. However, while on one hand near term headwinds prevail in the form of liquidity constraints, and slowdown in project activity due to the upcoming elections on the domestic side of the business; on the other hand, we are cognizant of the potential political and economic headwinds for our international business. Focus remains on securing good quality, commercially viable, risk mitigated orders in our Projects business. Our balance sheet continues to be robust with low debt and a comfortable cash position.

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.

6th November 2018