

ANALYSIS OF RESULTS
QUARTER AND NINE MONTHS PERIOD ENDED 31st DECEMBER 2018

It was a mixed quarter for the global economy. While on one hand, the Fed is signaling a pause to increasing its policy rates on the other, growing trade tensions between US and China and uncertainty over Brexit has clouded investor sentiments. Reports of a Chinese slowdown is likely to impact global markets. The consequence was the strengthening of the US Dollar and the subsequent negative FII inflows to India. The recent OPEC decisions on controlling oil production to increase prices has revived growth prospects in the region.

In the recently announced interim budget, the Government expects India's economic growth to accelerate to 7.5% in 2019-20. The transfer of subsidies to farmers, and increase in exemption limit will increase disposable incomes and is expected to have a trickle-down effect on increasing consumer spends. The thrust on infrastructure projects will over a period of time benefit our Projects business. The latest rate cuts from the RBI, with a neutral stance seems to be a step in the direction for reducing interest rates.

During the nine months ended Dec 2018, Voltas achieved a turnover of over Rs. 5000 crores and a profit before tax of Rs. 512 crores.

Consolidated In Rs. Crores	Q3	Q3	% Change	YTD	Act YTD	% Change
	FY19	FY18		FY19	FY18	
Gross Sales	1484	1365	9%	5033	4359	15%
Profit before share of profit / (loss) of joint ventures and associates and exceptional items	151	128	18%	556	514	8%
PBT	109	131	-17%	512	521	-2%
PAT	78	100	-22%	372	384	-3%

Analysis by segment:

We present below our comments on the performance of our business segments:

Segment reporting (Rs. Crores)	Q3 FY19	Q3 FY18	YTD FY19	YTD FY18
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1. Revenue

Segment A : Unitary Cooling	526	542	2158	2162
Segment B : Eng. Projects	875	753	2643	1972
Segment C : Eng. Products	83	70	233	226

2. Results

Segment A : Unitary Cooling	45	70	222	292
Segment B : Eng. Projects	69	53	233	119
Segment C : Eng. Products	22	21	78	74

Segment A – Unitary Cooling Products

This fiscal has been very challenging for the industry. As you are well aware, the performance of this segment was muted due to erratic summer conditions. Adding to this, not only was the Diwali festive season very soft, but we also did not have a strong second summer. With higher inventory in the channel as well as with manufacturers, the pressure on prices and thus on margins continued to be high. Increasing input costs and depreciated rupee, added to the industry's woes. One must also remember that we are coming off a very high base of previous year, with the same quarter last year recording sales growth of 32% due to pre-buying last year, on expected changes in energy efficiency norms for fixed speed ACs. All of this has led to the industry de-growth.

In such an environment, Voltas continued to be the undisputed Market Leader and as the No. 1 brand in the room AC segment, increased its market share (across Multi-Brand outlets) to 24% YTD from 22% in the same period last year. The Company continues to introduce cost effective & smart products with attractive consumer finance schemes. This has helped the brand remain on top of mind for the customer.

During the quarter, Voltas expanded its brand shops in cities such as Ranchi, West Bokaro, Faridabad and Jamshedpur. The brand shops will house all the latest consumer durable products including ACs, Air Coolers, Commercial Refrigeration Products from brand Voltas as well as the white goods such as refrigerators, washing machines, microwaves/ovens and dishwashers from brand Voltas Beko.

The Company also announced on 10th February, its intention to start construction of their new manufacturing facility, spread over 65 acres, in Tirupati. This facility will initially manufacture

and assemble air conditioners and related cooling products. Continuing its thrust on Research and Development, Voltas aims to create technologically advanced products which are expected to start rolling out from the second half of 2020. The chosen location provides dual benefits of superior market access and cost effective connectivity via road and port. The proposed factory will cater primarily to the South and West markets. The Company plans to invest over Rs. 500 Crores over a period of time, while, simultaneously creating local employment opportunities in the region.

Air Coolers faced even more difficult nine months, given their very seasonal nature. Nonetheless, based on recent independent retail audit, Voltas is now the No. 2 player in the Air Cooler category.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was higher by 16% at Rs. 875 crores as compared to Rs. 753 crores in the corresponding quarter last year. Segment Result was also higher at Rs. 69 crores reflecting a margin of 8%, coming from better quality carry forward orders and efficient execution. Order Book of the Segment stood higher at approx. Rs. 5000 crores as at 31st December, 2018 as compared to Rs. 4850 crores in the corresponding quarter last year.

International Operations

This business has been recognised recently by a number of awards, including the *District Cooling Company of the Year* and the *Facilities Management Company of the Year* and *MEP Contractor of the Year*. Besides MEP, we are now looking at strengthening our order book on projects in Facility Management and Water Management solutions. Order inflow for the quarter is at Rs. 340 crores and orders on hand are at Rs. 1900 Crs. With oil prices picking up, Middle Eastern economies are showing signs of a small recovery.

One of the Company's subsidiary in Middle East is currently executing some of its MEP projects as a subcontractor, wherein one of the joint venture partner of the Main contractor has filed for compulsory liquidation in UK in January 2018. There have been delays in certification on these projects. Based on management assessment and prudence, a provision amounting to approx. Rs. 13 crores has been made and disclosed as an Exceptional item, though management will continue its effort to recover the same.

Domestic Projects

The Domestic Projects business continued its steady performance this year with majority of orders coming in from the electrification sector and infrastructure space. Our strategic focus is on procuring Government/Government funded projects with reasonable assurance of cash. Domestic projects booked Rs. 731 crores of orders in the quarter, with pending order book stands at Rs.3100 crores. With the increasing support and an approaching timeline on the electrification program through the *Saubhagya Scheme*, we are seeing even more tender

announcements and completion for rural electrification projects. The recent announcements in the interim National Budget 2019, on investments in infrastructure (Metros, Airports), smart cities, cleaner water, healthcare and educational institutions is expected to increase opportunities.

Segment C – Engineering Products and Services

The segment performance is steady in the quarter at Rs. 22 crores in comparison to the corresponding quarter last year. As highlighted earlier, the Textile industry is passing through a difficult period and our focus on after-sales business continues. In Mining and Construction Equipment, Mozambique operations remains the performance driver.

Voltbek Home Appliances Pvt. Ltd.

The JV launched a basket of products in the second quarter including 44 SKUs of Refrigerators, 40 SKUs of Washing Machines, 12 SKUs of Microwaves/Ovens and 7 SKUs of Dishwashers. The launch was supported by a strong product and marketing campaign. This campaign focussed Voltas Beko as 'Partners of Everyday Happiness' with the consumer benefit of 'Nutrition, Preservation for Refrigerators and Cleaning Efficiency for Washing Machines'. Simultaneously, the JV is also building up its distribution network with special efforts underway this quarter. The civil works have already begun in the Sanand factory, and the products are expected to be rolled out from end CY 2019.

Sum-up

While the air conditioning industry has faced headwinds in the current year, the longer term prospects will be driven by the increasing consumer confidence, disposable incomes and lower penetration. Our thrust on energy efficient products and large distribution network will enable us to benefit from this trajectory. On the Projects side, we remain focussed on securing good quality, commercially viable, risk mitigated orders.

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.

15th February 2019