ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th JUNE 2011

Voltas has begun the financial year 2011-12 under the shadow of an extra tough economic environment across most of the geographies, both national and international. In addition, unfavorable weather conditions posed significant challenges for our unitary cooling product (room air-conditioning) business which accounts for well over 40% of our revenues in this quarter. Against this difficult backdrop, the company contained its top-line shortfall and managed its bottom-line to deliver a respectable EBITDA margin of 9.5%.

The Turnover of the Company on a consolidated basis was Rs.1346 crs, 4% below the comparable quarter in the previous year and 1% ahead in stand-alone terms. Consolidated EBIT declined by 19% to Rs. 114 crs against Rs. 141 crs earlier. The Company earned Rs. 3.98 per share as compared to Rs. 2.82 per share over previous year, same quarter. The sharp increase is mainly attributable to an exceptional gain of Rs. 79 crs arising from the transfer of the Material Handling business.

A snapshot of the results for the quarter at Consolidated and Stand-alone level are given below :-

	Consolidated		Stand-alone	
	CY	PY	CY	PY
Increase in TO	-4%	13%	1%	17%
EBITDA Margin	9.5%	11.4%	8.6%	10.7%
Increase in Profit before Exceptional Items	-21%	19%	-19%	16%
Increase in PBT	39%	16%	47%	12%
Increase in PAT	41%	18%	49%	15%
Taxation as percentage of PBT	31%	31%	32%	32%
Positive EVA	1.19%	22.27%	0.23%	21.86%
EPS (Re.)	3.98	2.82	3.80	2.56
EPS before Excep. items net of tax (Re.)	1.52	2.84	1.34	2.58
Turnover per Rupee of Employee Cost (Rs.)				
- Domestic	NA	NA	22/-	21/-
- International	NA	NA	4/-	5/-
Return on Net Worth (w/o Excep. Items)	14%	32%	13%	32%
Debt / Equity ratio	0.14	0.06	0.13	0.04

The Voltas Balance Sheet remains strong with Shareholders' equity at Rs. 1495 crs against Rs. 1362 crs for the comparable period last year. The increase in Debt to Equity

Ratio to 0.14 indicates higher borrowings of Rs 135 crs, mainly from Overseas operations. The Company's liquidity position continues to be comfortable with cash and bank balances at approx. Rs. 344 crs and liquid investments aggregating Rs. 395 crs against Rs. 377 crs as at end of June last year.

Consolidated Segment results for the Quarter :

Segment Reporting	Qtr-1 Jun-2011	Qtr-1 Jun-2010	% Growth over Pr. Yr
1. Revenue			
Segment A : Eng. Projects	677	693	-2%
Segment B : Eng. Products	97	120	-19%
Segment C : Unitary Cooling	563	587	-4%
Others	10	4	160%
Less : Inter segment revenue	1		79%
Net Revenue from Operations	1346	1403	-4%
2. Segment Results			
Segment A : Eng. Projects	31	59	-47%
Segment B : Eng. Products	17	28	-38%
Segment C : Unitary Cooling	64	55	16%
Others	2		1854%
Total	114	141	-19%
3. Capital Employed			
Segment A : Eng. Projects	616	260	
Segment B : Eng. Products	79	99	
Segment C : Unitary Cooling	259	49	
Others	23	8	

We present below our detailed comments on the performance and future outlook of the various business segments that we operate in.

ANALYSIS OF SEGMENT REVENUE AND RESULTS AND OUTLOOK:

Segment A - Electro-mechanical Projects & Services

Consolidated Turnover of Segment A for Q1 was lower by Rs.16 crs, a shortfall of 2% over the comparable quarter in the previous year, primarily on account of Rohini where the shortfall was Rs. 29 crs.

As you are aware, the Company is going through a challenging year in the Project Segment, particularly where international operations are concerned. Of late, certain projects at Qatar have gathered momentum and we are witnessing rushed clearance of design drawings combined with the announcement of firm completion deadlines. In any given project environment, a sudden step-up of activity impinges on internal planning mechanisms resulting in increased cost of material, labour and other resource procurement. At the same time, execution also becomes more complicated leading to cost overruns and a consequent strain on profitability which needs to be appropriately recognized.

Lower margins (5% as compared to 9% earlier) were thus evidenced affected by increased cost and cost to come estimates of certain International Projects and a Rs. 4 crs negative swing at Rohini. Standalone Domestic projects contributed positively via improved control of staff-costs and other overheads, profitable finalization of some major AMC renewals, etc. However, Capital employed in segment A has disproportionately increased, largely a consequence of slower collections, lower advances available (due to slower intake of new orders), some increase in on-site inventory and slower clearance of certifications.

The lower volume of available business in our established international geographies, has resulted in intense competition amongst players for garnering business. We see a reduction in available margins in the potential business. At the same time, the political unrest in the Middle East and North African region has also affected overall sentiments.

In this adverse environment, our consolidated international order book has not grown as per our expectation. As against Rs. 3514 crs as of 30th June, 2010, we now have a carry forward of Rs. 2634 crs which, however, provides adequate cover for the year 2011-12. It may be also noted that the revenues generated from the order book go up due to variations and claims that arise during the execution of the project. Order book and revenues also get impacted by the fluctuations in the rate of exchange from time to time.

In contrast, the consolidated order booking situation in the domestic Projects market, including Water Business & Rohini, has been healthy and the carry forward position has risen from Rs.1493 crs to Rs.1919 crs, an increase of 29%. Major projects include Airports at Kolkata and Chennai, Metro Rail in Chennai, AIIMS Hospitals in Delhi, Formula 1 in NOIDA, Tata Consultancy Projects in Gandhi Nagar, Chennai, etc.

Rohini's stand-alone order book amounts to Rs. 228 crs. This provides a strong base for the growth in the revenues in the remaining part of year 2011-12. The lower performance in Q1 is due to the impact of erstwhile low / nil margin jobs which are now mostly completed. New jobs have been booked with adequate margins and we expect that the position will consolidate and that the company will not incur any additional loss during the current year. A task force has been specifically appointed to focus on collection of old receivables.

The Company's Water business has not only shown good growth, but also has a strong carry forward order book of Rs.197 crs as at end of this Quarter. The business is currently ramping up its execution capability, stepping up the pace and investing behind development of trained resources.

Outlook : Attractive long-term opportunities exist and, without losing sight of reasonable margins, the Company is aggressively bidding for several tenders both overseas and in India.

In the international market, the award of certain major projects such as the Louvre Museum, Al-Ain Hospital, Abu Dhabi, Airport, etc., by the local Govt. has got delayed. As part of forward strategy, large projects above a certain value will be bid in partnership with other strong players, thereby increasing our combined chances of winning these projects as and when these fructify. The Management is hopeful of booking adequate orders for 2012-13, particularly in view of our expanded geographical presence thru two new Joint Ventures in Kingdom of Saudi Arabia and Oman and in the Far East.

In the Indian market, the major concerns and challenges are related to inflation, resultant increase in wage levels, the spike in commodity prices and dropping IIP numbers. The Domestic project Business has consequently seen a slowdown in the built environment and margins remain compressed due to MEP projects now being finalized through Main contractors. There are opportunities for O&M contracts for MEP scope of technical services. We are also seeing some level of enquiries in Urban Infrastructure & Industrial Sectors, Process Chiller segment and for VRF system supporting the growth of Premium Residences. The focus is therefore on enhancing operating effectiveness, in order to continue to do well in this business environment.

Although comparatively small today, the Company's Water business has shown good growth, has built its order book and is expected to become a major growth driver for the Company in the coming years. Together with building capability, the business plans to extend its reach beyond the Eastern market. Significant investments for treatment plants in Power, Steel and Municipal sectors are envisaged.

Segment B - Engineering Products & Services

The Company has transferred its Materials Handling (MH) business to a joint venture company - Voltas Material Handling Private Limited, effective 1st May, 2011 which makes revenue and results of current quarter non-comparable to the previous year. Transfer of MH business has contributed to an exceptional gain of Rs. 79.4 crores. During the quarter, the Company has also incurred a one-time cost of Rs. 1.7 crores at operating level, arising out of this transfer.

The Textile Machinery Business enjoying a market share of 70% in the spinning segment has continued its good performance during the quarter. The fluctuations and drop in prices of yarn, cotton and polyester pose a major challenge to this industry. We are reliably told that there is, in fact, a cash loss situation for many mills who had procured raw material at high prices. Tirupur, which consumes 20% of the yarn production, is also impacted by pollution compliance related issues.

For the moment, we have a healthy order book, but the situation will need to be watched for business sentiment. TUF has been re introduced w.e.f. May 2011 and would hopefully help to reduce the negative sentiments on forward investments. GOI announcements covering Duty Drawback / DEPB for the spinning industry would generate some added impetus to correct sentiment. Voltas has, during the Qtr satisfactorily concluded the extension of its selling agency agreement with its key principal Lakshmi Machine Works (LMW) for a further period of 5 years upto March 2016.

The Mining and Construction equipment business is challenged as several client companies are facing delays in obtaining environment and Forest clearance. The company continues to earn revenue from Mozambique operations commenced last year and is gearing up to increase its business in the African territory. However, some of the international Principals represented by us have sold their businesses and we await clarity about the future of the distribution plans for India. In the meantime, Singrauli workshop construction has started which should help support our case for dealership.

Apart from environmental issues impeding growth of mining, the markets for Engineering Products and Services remain uncertain due to the falling IIP numbers, particularly for Capital goods.

Segment C - Unitary Cooling Products for Comfort and Commercial

Sales volume all across the Room AC Industry in India was impacted during the first quarter by unfavorable weather and the general economic downturn. However, within this constraint, Voltas has indeed recorded good progress. The Gfk-Nielsen secondary market share data for June released late last week, now formally confirms Voltas' number 2 position in the market with a share of 18.8%. It is also gratifying to note that our market share increase has been steady and consistent – over the past 15 months, Voltas has added some 380 bps to its share which has come mainly at the expense of other lead competitors.

While the drop in Industry volume during the first quarter is estimated to be well ahead of 15%, Voltas has successfully managed to contain its volume shortfall at 11%. More importantly, revenue in absolute terms is down by only 4%, indicative of the strength and ability of our brand proposition to extract better price realization across the range of our products. Total Segment results have grown by 16% over the previous period and margins are up by 200 bps to a comfortable 11.3%, following a series of cost reduction and bottom-line improvement measures initiated by the business.

On the flip side, the business has seen a substantial increase in Capital engagement to Rs. 259 crs, largely representing inventory built up as a consequence of weather-related factors. Sales volume of Commercial refrigeration products (water dispensers, visi-coolers, etc) have also been impacted by the lukewarm summer and rainy weather.

Outlook : In the shorter term, continuing inflationary pressures and high interest rates is expected to have an impact on this business. Upward volatility of commodity prices is a further matter of concern and will need to be carefully watched and passed on wherever possible. Margin pressures are unavoidable and are not helped by the fact that the industry as a whole faces the problem of high inventory levels. Combined with the increasing cost of capital, this could going forward, result in higher discounting to liquidate unsold stock. The market is also getting increasingly fragmented with the entry of new players - the top 3 players now account for roughly 60% of the total opportunity as compared to greater than 65% some months ago.

However, the longer term prognosis for the AC industry remains robust. Higher consumer incomes are becoming less exclusive to Metros - the forward outlook cannot but be seen other than in the context of low per-capita usage, better national power availability, relative affordability of air-conditioning products and several other positive social and aspirational factors. With an eye on the future, Management at Voltas is working on additional strategies to further improve our market share, particularly in certain zones where we are can derive further mileage. Our initiatives also include the preparation and implementation of a longer term customer service road-map.

Overall

From the foregoing, it would be clear that there are many shorter term uncertainties prevalent in the market spanning various segments of our business. While many of these are unfortunately external to our business, there are several underlying opportunities as well. We believe that the longer term story both in India and the Middle East will be strong, generating profitable business opportunities for those organizations that can transform and become more 'fit to compete'. In this context, we have consciously initiated a series of cost optimization measures, whilst placing a higher emphasis on controlling capital engagement in various businesses. At the same time, several new tenders are in the pipeline and we are hopeful of procuring new orders at acceptable margins. Forward liquidity position is likely to remain comfortable and the Management is cautiously optimistic about future growth in revenues and profits.

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.

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