VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th JUNE 2012

The macroeconomic business environment both in India and Overseas continues to remain fragile. While India's GDP forecast has been revised downward and currently hovers around 6%, the Rupee has been one of the poorest performing currencies in Asia over the last quarter. At the same time, inflation has remained in a stubborn range of 7-8% with IIP numbers refusing to provide any cause for cheer. FII inflows have also been subdued due to uncertainty over pace of reforms and GAAR provisions. Hopes have now been pinned on the new (or rather, return of the old) leadership at the Finance ministry and the political environment will be closely watched for definitive Govt. action which could provide growth impetus. Farther from home, weak employment and industrial output numbers from US point to a sluggish recovery and the uncertainty about the Euro zone crisis continues.

In essence, there has been no real positive progress in the business environment in India and abroad, as compared to the last few quarters. Under the circumstances Investor sentiment is cautious and in the absence of tangible signs of turnaround in the economic climate, the prevailing industry attitude of watch-and-wait is expected to continue.

Against this backdrop, the consolidated Sales/Income from operations for the period was Rs. 1612 crores as compared to Rs. 1346 crores in the comparable quarter of the previous year. Operating Profit was maintained at Rs. 109 crores, the same level as in the previous year. It may be recalled that in Q1 2011, the Company had transferred its Materials Handling business to a Joint Venture, resulting in a onetime exceptional income of Rs. 79 crores. Due to this, the Profit before tax (after exceptional items) of Rs. 111 crores for the current quarter is not directly comparable to the Rs. 190 crores earned last year. The Net Profit after Minority interest for the current quarter was at Rs. 79 crores as compared to Rs.132 crores in Q1 last year.

We are happy to report that Voltas has emerged as the **Market leader in the Room AC segment** in May 2012 across multi-brand outlets with an 18.3% share (independently reported by GfK Nielsen). This share has further improved to 19.1% in June – widening the earlier lead of 60 bps over the nearest competitor in May to 280 bps in June. Market share in Northern India (> 35% of domestic AC market) is particularly satisfying at 25.6%. The brand also enjoys an undisputed 37.7% market share in Delhi and 35.7% in Punjab, which are India's largest markets for room ACs.

Given below is a snapshot of the highlights for the consolidated results for the period under review:

	Quarter 1 CY	Quarter 1 PY
Increase in TO	20%	-4%
EBITDA Margin	8.1%	9.5%
Increase in Profit before Excep. Items	1%	-21%
Increase in PBT	-42%	39%
Increase in PAT and Minority Interest	-40%	41%
Taxation as percentage of PBT	29%	31%
Positive EVA	6%	9%
EPS (Rs.)	2.39	3.98
Return on Net Worth (w/o Excep. Items)	20%	14%
Debt / Equity ratio	0.24	0.14

The Voltas Balance Sheet continues to remain strong with Shareholder's equity at Rs. 1556 crores against Rs. 1495 crores for the comparable period last year. Increase in the Debt Equity Ratio reflects higher borrowings of Rs. 362 crores, mainly from Overseas operations and RIEL. The Company's liquidity position is comfortable with cash and bank balances at approx. Rs. 220 crores and liquid investments aggregating Rs. 471 crores.

Consolidated Segment Results for the Quarter :

Figs in Rs. Crores

Segment Reporting	Quarter 1		% Growth over Pr. Yr	% of Total Revenue	
	FY 13	FY12		FY 13	FY12
1. Revenue					
Segment A : Eng. Projects	741	677	10%	46%	50%
Segment B : Eng. Products	107	97	10%	7%	7%
Segment C : Unitary Cooling	754	563	34%	47%	42%
Net Revenue from Operations	1612	1346	20%		
2. Segment Results				Results to Revenue	
Segment A : Eng. Projects (*)	33	31	7%	4%	5%
Segment B : Eng. Products	19	17	14%	18%	17%
Segment C : Unitary Cooling	63	64	-1%	8%	11%
Total	116	114	2%		
3. Capital Employed					
Segment A : Eng. Projects	1014	614			
Segment B : Eng. Products	85	79			
Segment C : Unitary Cooling	30	259			

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

Segment's consolidated revenue was higher at Rs. 741 crores as compared to Rs. 677 crores last year. Profitability before exceptional items also stood higher than the previous year, at Rs. 33 crores as compared to Rs.31 crores last year.

The Segment's total consolidated carry-forward order book stands at Rs. 4574 crores as compared to Rs. 4553 crores as at 30th June 2012.

The **International Projects Business** was impacted by the overall subdued market conditions in the Middle East. The availability of reasonably sized good margin projects in these geographies was limited and there appears to be an inclination to postpone investment decisions in the face of global uncertainties. In Saudi Arabia, Abu Dhabi and Muscat, a large number of targeted projects still await final decision. However, some bit of movement seems to have begun. For example, the main contract for the large Abu Dhabi International Airport project has just been formalized and sub-contractor appointments will now follow. An infusion of US$ 4.6 billion has been reported into ALDAR, the primary real estate developer in Abu Dhabi. Similarly, numerous tenders are in the process of being funded in Qatar for the upcoming FIFA 2022 and are expected to be released from Q3 onwards.

In the face of strong competition, the Company continues to bid aggressively for these and other new orders, based on risk-reward assessment and margin criteria which are critically important given the changed environment. Independent Middle East Analyst reports also underline certain emerging trends - elongated project schedules, disinclination to grant mobilization advance, slowing payment recoveries as an off-shoot of increasing client-contractor disputes and contentions w.r.t. variations and claims, etc. The overall quality of the order book is thus of paramount importance.

The company formally entered into a project specific JV at Qatar for execution of the North Gate Mall in the private sector. In total, Rs. 348 crores of international orders was secured during the Qtr, including VL portion of JVs & Subsidiaries. Going forward, we hope to see increasing traction via our existing JVs and Subsidiaries in multiple geographies, designed as they are to address the mid-market project segment opportunities. In some geographies like KSA and more recently Qatar, workmen visas pose a degree of difficulty in context of timeliness, numbers and specific country restrictions.

The business continues to objectively deal with the challenges placed by the Sidra Medical & Research Centre project at Qatar. At 77% completion, there has been satisfactory progress in project execution and we see the high quality conclusion of this project as an important milestone for the company. During the previous year, the company had revised the estimated costs on the project and had accounted for the same in accordance with requirements of AS 7. The company is closely monitoring the project and is of the view that adequate provision has been made after considering upward revision in costs as well as the variations and claims being negotiated. However, uncertainties exist given the project's complex 'design and build' nature, changes in design still being made and the unfortunate delay in completion. A detailed Techno Commercial Review is scheduled before the end of Q2 which will provide greater clarity on costs likely to be incurred and additional revenue possibilities. In the meantime, we retain our focus on best possible execution to our client's satisfaction, recognizing the significant growth opportunities that will be available in the Region given the build up to FIFA based events.

The sedate and somewhat uninspiring **Domestic Business** environment in India is well known and needs no reiteration. Hold back of new investments and conscious delay of committed projects amidst the general need to conserve cash and save costs has impacted our business as well. Our Domestic project business thus recorded a small decline in turnover for the Qtr driven by extraneous factors.

Notwithstanding the executional delays, new orders worth Rs. 421 crores were procured during the Qtr. This growth is a result of continued focus on urban infrastructure and industry (esp. metals and automotives), and the expansion of scope of work on existing projects, such as the Chennai Metro.

As in the last few quarters, priority has been placed on management of costs and cash flow, with several initiatives in place to trim operational and administrative expenditures. This would support the business to be more competitive in an intensely competitive market.

The **Water Management** business which has a carry forward order book of Rs. 297 crores has had to contend with bureaucratic slowdowns, affecting the progress of existing jobs. In the eastern part of India, where we have a substantial number of projects, we have been impacted by the poor financial health of the West Bengal Govt. and uncertain ADB funding. The business remains focused on building capability which will stand us in good stead to fully exploit future opportunities. Better estimation and on-ground executional capability will be critical and the more recent internal alignment with the Domestic Projects Group will help streamline operations and support services.

At **Rohini Industrial Electricals**, the execution of most of the unprofitable legacy orders are approaching completion. The business has incurred a relatively small loss during the quarter. While there are still one or two pockets of concern, it is working towards the target of break-even by year end. Strategically speaking, RIEL is also re-gearing itself to move up the value chain as the electrical execution arm of the domestic MEP business - recent management change and integration with domestic projects is seen as an important step in this direction. RIEL has a healthy order book of Rs. 218 crores at the end of this quarter.

The Capital employed in the Project Segment has increased owing to a variety of environmental factors commented upon earlier. While ongoing projects such as Sidra & Central Market require day-to-day funding, we are also impacted by the lack of mobilization advance which was traditionally available from booking large International orders. In addition, we are (as is the case with everyone else in this industry), facing difficulty in the timely collection of outstandings.

The Segment's consolidated Revenues and Results were at Rs. 107 crores and Rs. 19 crores respectively as compared to Rs. 97 crores and Rs. 17 crores in the same period last year.

Despite volatility, the Textile machinery business sustained its revenues and profitability by executing pending orders. However, this market has also become increasingly competitive with some multinationals setting up local manufacturing facilities. The business continues to focus on its service capabilities and seeks to further strengthen and cement its customer relations. Apart from the Textile Upgradation Fund (TUF) scheme which has been recently reinstated, some subsidies have also been announced by various State Govts. These measures along with better power availability should provide further impetus for new investments.

The Mining & Construction Equipment business registered an increase in turnover notwithstanding the negative IIP numbers seen in this industry. The local mining activity continues to be impacted by environmental regulation and political turmoil. In the meantime, our overseas service capabilities have been stepped up with the addition of more items of equipment at Mozambique in a clear indication of the Principal's confidence on our dependability.

The Segment's revenue has grown by 34% to Rs 754 crores, as compared to Rs 563 crores in the same period last year, while the results remained more or less at the same level (Rs. 63 crores) as that of the previous comparable quarter. The results need to be understood in the broader context of higher brand building costs associated with the new 'all-weather' campaign, exchange loss caused by the depreciating rupee, and some other cost escalations.

As earlier mentioned, Voltas is now the undisputed No.1 in Room Air conditioners with a 19.1% share in Multi Brand outlets. This rise is an outcome of a 15% volume growth in Air-conditioners, well above Industry which is reported to have de-grown by around 5%. Our overall growth has been supported by a strong advertising campaign based on well researched consumer insights, culminating in the "all-weather" proposition. The extended summer and delayed onset of monsoon has helped as well. In performing beyond expectations, the Company has also reaped the benefits of good acceptance of the new product range and increased penetration into tier-II and tier-III towns.

The business is determined to jealously guard its market share and intends to further increase its penetration and focus on building its customer-care and service capability. Having said that, some uncertainties exist in context of volume growth (given weather dependency), competitive threats, market acceptability of price increases and other factors such as exchange fluctuations. Based on the intensity of competition, we will continuously review and adjust the level of investment required in trade, marketing and advertising activities. In the long term, we believe that the entire industry has excellent growth opportunities given the low penetration levels, the spread of the power grid, and the rise in popular demand.

Turnover growth during the first quarter was further boosted by strong growth in sales of commercial refrigeration products. This is an outcome of focussed efforts in business development aided by a large order received from an institutional customer.

The increased volume growth has also resulted in a sharp reduction of capital employed. In addition, the business has monitored its receivables closely whilst negotiating better terms of payments from its suppliers.

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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