VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th JUNE 2013

The overall macroeconomic environment both in India and overseas has seen no major advances in stability and growth. In spite of the government's commitment to reducing the current account deficit to 2.5% of GDP, the gap has grown to an alarming 4.8% of GDP. While the Central government has embarked on some reforms over the last few quarters, the present quarter saw limited evidence of actual positive change in the economic environment. The recently released Index of Industrial Production (IIP) reported a fall of 3.3% for the Capital Goods sector - importantly, over and above the negative 20.1% reported in the previous year. With the steep fall in the Rupee vis-à-vis the Dollar, RBI resorted to various measures which momentarily reined in the Rupee but had an adverse impact on the interest rates. The hopes of the Indian economy's immediate return to the previous rates of growth have dimmed, as also indicated by the GDP expectations for FY13-14 being reduced to 5-5.5% by various agencies.

From a global perspective, there have been definite signs of an upward trend in the US economy, while Europe is trying to recover from its crisis. It is significant that the developing economies of Asia – especially China, Indonesia, the Philippines and Thailand – are showing signs of a noticeable drop in the momentum built up over the last few years. In the Middle East, with oil prices remaining relatively high, GCC countries have begun cautiously investing in their economies and infrastructure. Among them, Kingdom of Saudi Arabia, Qatar and Oman continue to be resilient.

The **Consolidated Net Sales/Income from operations for the Quarter** ended 30th June, 2013 was ₹ 1602 crores as compared to ₹ 1612 crores in the corresponding quarter last year. Operating Profit for the quarter was ₹ 60 crores as compared to ₹ 109 crores last year. The Profit before tax was ₹ 59 crores as compared to ₹ 111 crores last year.

The Voltas Balance Sheet continues to remain strong with Shareholder's equity at ₹ 1676 crores against ₹ 1556 crores for the comparable period last year. Marginal decrease in the Debt Equity Ratio 0.15 reflects borrowings of ₹ 255 crores, mainly from overseas operations. Total liquid balances including Investments in Mutual Funds have appreciated to a very comfortable position of ₹ 866 crores.

Consolidated Segment Results for the quarter:

Rs. crores

Segment Reporting	For the quarter Q1 FY 14	For the quarter Q1 FY 13	% Growth over PY	% of Total Revenue Q1 FY 14	% of Total Revenue Q1 FY 13
1. Revenue					
Segment A : Eng. Projects	693	741	-6%	43%	46%
Segment B : Eng. Products	111	107	4%	7%	7%
Segment C : Unitary Cooling	787	754	4%	49%	47%
Net Revenue from Operations	**1601**	**1612**	**-1%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	(26)	33	-179%	-4%	4%
Segment B : Eng. Products	31	19	63%	28%	18%
Segment C : Unitary Cooling	79	63	25%	10%	8%
Total	**83**	**116**	**-28%**		
3. Capital Employed				**ROCE**	
Segment A : Eng. Projects	660	1014	-35%	-4%	3%
Segment B : Eng. Products	98	85	15%	32%	22%
Segment C : Unitary Cooling	82	30	173%	96%	210%

In the quarter under review, around 56% of the Company's revenue has been contributed by Unitary Cooling Products and Engineering Products segments. Both these segments have performed much better than expectations, even in the continuing depressed market conditions.

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

Segment A – Electro-Mechanical Projects and Services

The Segment's consolidated revenue was lower at ₹ 693 crores as compared to ₹ 741 crores last year. Its profitability stood at negative ₹ 26 crores as compared to profit of ₹ 33 crores last year. The Segment Results were largely impacted on account of International projects business, which had to contend with environment led delays in project execution, completion and settlement, especially in the UAE market.

Given these circumstances as well as the required adherence to AS-7 guidelines, there has been a drop in apparent profitability in this Segment. Nevertheless our experience has been that AS-7 driven provisions taken in one Quarter, could end up reversing subsequently based on the quantum of variations, claims and settlements effected over a period of time. In essence, EMP margins remain lumpy in the near term, till such time settlements come thru and Order flow picks up.

While the construction industry in the Middle East geography as a whole is grappling with delays and cost overruns, in our specific case the company is also booking revenue on Sidra at nil margins. This leaves our segment results even more susceptible to swings in the short term.

The Sidra Medical & Research Centre project is now 93% complete. Costs and revenue continue to be re-assessed from time to time, in line with accounting standards. Adequate provision currently exists. The Company continues to pursue its entitlements vigorously through all possible channels while ensuring that the project is closely monitored.

We have more recently strengthened Regional Leadership in UAE, Qatar and Saudi Arabia. This will help advance the overall growth agenda in the Middle East, while focusing on completing jobs on hand, growing the order book, reducing operating costs, and hastening realizations from past orders.

The recent order received in August 2013 for the MEP works of a mixed-use development in Qatar featuring a stadium, amounting to ~ ₹ 280 crores bodes well in the run up to other FIFA-related developments in Qatar. The Company is also in an advanced stage of negotiation on LOI's aggregating to ₹ 525 crores pertaining to projects in Qatar and Oman. Notably, these projects are being negotiated at the right internal benchmark for target profitability.

The Segment's total consolidated carry-forward order book stands at ₹ 3811 crores as compared to ₹ 4574 crores as at 30th June 2012 (excluding Stadium Order of August and LOIs mentioned above). Orders secured by the Domestic Projects Business, saw a healthy growth – we carry forward a domestic order book of ₹ 2412 crores. New orders came from our continued emphasis on Urban infrastructure, IT/ITES, Industrial and Automotive sectors. Notable among them is the ₹ 250 crores contract for Delhi's Mass Rapid Transport System, for environmental control and tunnel ventilation of eight underground stations, as well as related electrical and mechanical works. The contract comes on the heels of the Company's ₹ 350 crores Chennai Metro Rail project (now under execution). With these two orders, the Company is well on its way to establishing itself as a strong contender in India's urban infrastructure development, which has immense potential for the future.

At Rohini Industrial Electricals Limited (RIEL), the pace of turnaround has been protracted mainly owing to the sluggish pace of the economy and clearance delays. The progress in executing certain legacy carry-forward orders including a rural electrification project was slower than expected.

Capital engagement and cash-flow has shown a considerable improvement vis-a-vis the previous quarter and year, due to persistent follow-up and successful collection of receivables. This is all the more satisfying in an environment marked by high interest rates and a liquidity crunch.

Segment B – Engineering Products & Services

The Segment's consolidated Revenue and Results were at ₹ 111 crores and ₹ 31 crores compared to ₹ 107 crores and ₹ 19 crores respectively in the previous year. Overall, both Textile Machinery and Mining & Construction Equipment business performed well in the face of uncertainties in the economy and industry.

The Indian mining sector continued to suffer the ill-effects of policy constraints, although there has been some recent relief in the form of partial lifting of bans in certain states. Despite adversities, the Mining & Construction Equipment business showed a good increase in profits. During the Quarter, we have also established the certainty of recovery on some claims in Maintenance contracts leading to one-off gains which has boosted the margin. The business also deserves appreciation for delivering ahead of expectations with enhanced contribution from Mozambique operations, increased sale of machines including several in the aggregate sector. Better traction is also seen in the newer lines of business, including Colorado tires, Mateo filtration plants, Troten sensors and Simem concrete batching plants.

In the Textile Machinery business, lack of clarity regarding the Centre's implementation of the TUF fund continues. However, the initiative garnered some State-level support, resulting in the gain of some orders for spinning machinery. Overall, in the Spinning segment the order book and market-share held steady at 70% and 60% respectively as per management estimates. The Company also extended its penetration in the post-spinning market, procuring orders for Dilo of Germany and Benninger of Switzerland. New partnerships were also finalized with certain other post-spinning equipment manufacturers which should augur well for the Division as and when the business environment improves.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

The quarter was marked by a good growth in Results, from ₹ 63 cores to ₹ 79 crores, in spite of the Rupee depreciation and the growing cost of offering 0% finance schemes. Revenue was also higher at ₹ 787 cores as compared to ₹ 754 crores in the corresponding period last year.

The air conditioner business has grown by 5% in terms of primary sales (B2B sales to Dealers, stockists, retailers and other agents) and by 34% in Secondary sales (B2C Sales by Dealers, etc., to end consumers). An extract from the GFK Nielsen Retail Study indicates that we have grown well ahead of Industry.

Month	Industry Sales Units '000s			VL Sales Y-o-Y %
	FY13	FY12	% Y-o-Y	
April	308	271	14%	22%
May	475	322	48%	60%
June	277	265	4%	14%
Total	1,060	858	24%	34%

As per the latest GFK reports, the Voltas brand has not only maintained its No. 1 position in the market, but has also strengthened its share to 20.9% in June. The lead over the nearest competitor is now well over 300 bps. Importantly, the brand retained its leadership in the all-important North zone (the largest market in India), while making inroads in the West to become No. 1 in Mumbai, as well as in Madhya Pradesh, Jharkhand and Bihar.

Segment performance in the current quarter would have been even better, but for the heavy rains that plagued large parts of the country over the entire month of June. These factors dampened market sentiment, thus limiting the volume growth in the quarter under review, which otherwise made a good showing in the months of April & May. Nevertheless, it should be noted that the 5% growth in Primary sales in the quarter is on the back of a strong 15% growth in the previous year, which also had the advantage of an extended summer season due to delayed monsoon.

Sum-up

Segment B & C continue to perform well ahead of Competition and in line with our planned growth strategies, which we expect to sustain. The Projects business is currently facing environmental headwinds and intense competition in procuring the limited number of orders that become available. At the same time, reorganization plus the various efforts to grow business and contain costs should bear fruit and position us more strongly as and when the business picks up. The strength of the Voltas Balance Sheet and availability of cash is a definite advantage in facing any uncertainties ahead.

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.

16th August 2013