VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30 th June 2014

It has been approx. 80 days since the New Government assumed office amidst an understandable feeling of general euphoria across the nation. There are expectations that the Govt. would be able to address the economic woes more firmly, supported as it is with an absolute democratic mandate. The Government has made a start on the reforms front with focus on growth through some structural changes via proposed labor reforms, streamlining and hastening of approvals, liberalization of FDI limits in Railways, Defence and Insurance, etc. Overall industry sentiment too demonstrates a positive trend, for example, the HSBC Purchasing Managers Index rose to a 17 month high of 54.4 more recently.

In the meantime, the Reserve Bank of India continues its efforts to temper inflation, apparently supported by the New Government's attempts at fiscal consolidation and its intention to contain the longer term fiscal deficit to 3% by 2016. The RBI also reduced the SLR rates inducing liquidity and freeing up more money for lending and spurring growth. The recently announced data has however cast some doubt, with the CPI accelerating to 7.9% and IIP coming in lower at 3.4 (compared to the 4.7, a month ago). It is becoming more apparent that substantive reforms and kick-starting various stalled projects is a pre-requisite to build industrial confidence. The Government would also need to work around the challenges of a lack of majority in the Upper House of the Parliament.

From a global perspective, the data from the US continued to be positive, supporting the Fed announcement to reduce the monthly assets purchase program. The recovery in Europe continued, albeit at a slower pace. Meanwhile, the turmoil in Iraq and Libya, the Israel-Gaza conflict and the tensions between Russia and the West have deepened global concerns, leading to a steady rise in oil prices. The higher oil prices will of course benefit the GCC economies and provide additional funds for their continued spending on development.

The Consolidated Sales/Income from Operations for the quarter ended 30th June, 2014 was higher at ₹ 1752 crores as compared to ₹ 1602 crores in the corresponding quarter last year. Despite slowdown in the economy coupled with higher interest costs, the Operating Profit (Profit before Exceptional Items & Tax) was substantially higher at ₹ 146 crores as compared to ₹ 60 crores in the corresponding quarter last year. Net Profit after tax and Minority Interest was ₹ 109 crores as compared to ₹ 41 crores in the corresponding quarter last year. Earnings per Share (not annualized) was at ₹ 3.29 as compared to ₹ 1.23 in the corresponding quarter last year (Face Value per share of ₹ 1).

Consolidated Segment Results for the quarter:

Segment Reporting	For the Quarter		% Growth over PY	% of Total Revenue	
	Q1 FY15	Q1 FY14		Q1 FY15	Q1 FY14
1. Revenue					
Segment A : Eng. Projects	622	693	-10%	36%	43%
Segment B : Eng. Products	111	111	-	6%	7%
Segment C : Unitary Cooling	1001	787	27%	57%	49%
Net Revenue from Operations	**1752**	**1602**	**9%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	4	(26)	115%	1%	-4%
Segment B : Eng. Products	24	31	-23%	22%	28%
Segment C : Unitary Cooling	116	68	71%	12%	9%
Total	**148**	**72**	**106%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	690	660	5%	2%	-16%
Segment B : Eng. Products	90	98	-8%	107%	127%
Segment C : Unitary Cooling	(70)	82	-185%	-	332%

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

Segment A – Electro-Mechanical Projects and Services

Segment Revenue was at ₹ 622 crores as compared to ₹ 693 crores in the corresponding quarter last year. While overall margin realization has started improving with the execution of newer orders, the Segment Result at ₹ 4 crores (compared to negative ₹ 26 crores in the corresponding quarter last year), continues to remain impacted largely on account of delayed execution across projects.

International

Completion on the Sidra Medical and Research Centre Hospital, in Qatar, has crossed 95%. Subsequent to close of the quarter, the Main Contractor has been terminated by the end customer and a new main contractor has been appointed. As provided in the original contract, the end customer has asked for the assignment of contracts of select subcontractors, including Kentz-Voltas JV to the new Main Contractor. However, a formal understanding to that effect is yet to be reached. As uncertainties in the completion schedule, assignment of the sub-contracts and approval of variations/claims continues, the Company's current estimates of cost and entitlements could get modified. Based on developments on the ground, the estimates of costs and revenue would be revisited from time to time in line with accounting standards. Adequate provision currently exists and no additional provisions were made during the current quarter. The Company continues to pursue its entitlements vigorously.

Apart from delays on account of design / scope changes and Indian visa procurement issues, timely certification and resolution of claims has also been extended on account of multiple layers of approvals. This is particularly true in case of large projects given the involvement of multiple consultants, certifying surveyors, auditors and commercial teams. Extension of the completion dates very often also impact the forward costs to come, warranting provisions in line with the requirements of AS-7. Needless to state, these could end up being partially reversed based on the quantum of variations, claims and settlements negotiated over a period of time.

The Company has recently in June 2014, received an order for MEP works of Dubai Trade Centre District project amounting to ₹ ~260 crores. This is in line with our strategy to look for medium sized projects at the right margin and risk profile. The total carry-forward international order book, as of June 2014 now stands at ₹ 1615 crores. Additionally, the Company is also in an advanced stage of negotiation for a project worth ₹ 100 crores in KSA. These orders mark our planned re-entry into geographies which are expected to be drivers of future growth in Middle east.

Domestic

As might be seen from the results of other players in the larger Capital Goods industry, there has been a general decline in the pace of execution. While the elections and formation of a stable Govt. has led to an improvement in general sentiment, the actual on ground impact in the capital goods space is yet to be seen. Recent studies by the Ministry of Statistics, Assocham and other agencies all indicate a trend of delays and cost overruns across the project spectrum. This slow pace of execution and delayed payments has also put a strain on the working capital of this business. Collection of outstanding is thus receiving greater focus. The business efficiency improvement program initiated last year has also started bearing some fruit, via realization of savings and improved processes / internal control systems.

The quantum of new project announcements continue to be at a low level (with some reports suggesting as low as in the year 1996), which coupled with the increasing trend of stalled projects has led to an acute shortage of enquiries. The Company has however booked a new order for construction / O&M of pumping stations in Cuttack for the Orissa Water Supply and Sewerage Board worth around ₹ 136 crores. The pending order of the Domestic Projects Business stands at ₹ 2175 crores.

Segment B – Engineering Products and Services

Segment Revenue and Result was at ₹ 111 crores and ₹ 24 crores as compared to ₹ 111 crores and ₹ 31 crores respectively, in the corresponding quarter last year.

With the ban on mining, there has been limited improvement in activity levels in this industry. The overall performance of the Mining & Construction equipment business is not fully comparable to the previous year. This is, given the absence of one-time credits recognized in the previous year owing to the transition and assignment of certain long term maintenance contracts to new dealers. The business had however ensured better than budgeted success with higher sales of Crushing and Screening equipment, apart from growing its operations in Mozambique.

The Textile Machinery business too had its fair share of challenges, but reported performance ahead of the previous year. With rising cotton prices and change in China's policy, there has been a sizeable fall in yarn exports. Accordingly, the demand for new capital equipment in the Indian market has been subdued in the spinning side of the business. While the Union Budget has provided little support to the textile industry, the revised and restructured TUF scheme is yet to have the desired effect. Meanwhile, the business continues its efforts to shore up its Value Added Service (VAS) offerings and the post-spinning part of the Business.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

Segment Revenue crossed the ₹ 1000 crore mark for the first time. This is compared to ₹ 787 crores in the corresponding quarter last year. The company has seen a substantial increase in sales volume assisted by numerous strategic marketing & communication initiatives enhancing brand recall. The AC industry has also benefitted from an extended summer season, with the Voltas business notching an impressive 29% growth against industry-wide growth of 22% (GfK-Nielsen). The Commercial Refrigeration business too performed well generating increased sales.

Segment Result was also significantly higher at ₹ 116 crores as compared to ₹ 68 crores in the corresponding quarter last year, due to improving margin realization and better product mix (incl. growth in share of split ACs). Appropriate amounts were effectively spent on advertising, targeting various media formats & popular events (FIFA, IPL, etc) in the face of intense competition. The overall spend on promotion schemes including the popular 0% finance scheme have also increased.

Voltas sustained its No.1 market position in the Unitary Cooling Products business with a June market share of 21.7% (as per GfK-Nielsen), and has substantially extended its lead over the nearest competition reflective of the strong brand recall and associated customer pull.

Sum-up

As mentioned earlier, several steps have been taken to bolster the profitability of our Projects business. Together with suitably risk-mitigated business development, the focus also remains on bringing existing jobs to speedy completion while pursuing commercial entitlements. Meanwhile, the Products business (Unitary Cooling, Mining and Textiles) would continue its efforts to maintain its growth trajectory. The Voltas Balance Sheet is a strong point with Shareholder's equity at ₹ 1922 crores against ₹ 1676 crores for the comparable period last year.

Going forward, the Company remains cautiously optimistic about the future while looking ahead for improvement in the external business environment.

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.

14th August 2014