ANALYSIS OF RESULTS
QUARTER ENDED 30th June 2015

The words of Raghuram Rajan that 'economic recovery in India is still work in progress' perhaps best encapsulates the mood of the Indian industry in general. While various statistical indicators including inflation, fiscal deficit, GDP, PMI, etc., are showing an improving trend, the pace of reforms is slower than anticipated. The investment climate, especially in the private sector is weak and capacity utilization remains low (75% of installed capacity, similar level to year 2009). Interest rates, a prime driver for investments have remained largely unchanged. RBI continues to urge banks to increase non-food credit in order to boost industrial activity, but with limited success. All eyes are now on the Govt. to see how it might succeed in pushing forward reforms that are urgently required to kick-start a cycle of growth.

The situation overseas presents some mixed signals. In the western world, the US economy demonstrates stronger consumption growth and steadily improving employment numbers. At the same time, Europe too has grown at a moderate pace although beset with the overhang of a Greek bailout. The China factor including macroeconomic re-balancing, equity market corrections, cooling property market and excess manufacturing capacity (not to speak of the recent Yuan depreciation) needs to be watched carefully. Meanwhile, global oil prices more recently, touched a six year low of $43 per barrel. Given the fiscal vulnerabilities to oil price swings, the GCC countries could curtail government spending.

Our performance during this Qtr., was constrained given the general environment as well as various other external factors more relevant to our businesses, such as the excessive rains impacting AC sales, esp. in the month of June. While, the Turnover has therefore reduced to Rs. 1595 crs compared to last year, the overall profitability has improved. PBT has thus increased to Rs. 154 crs, representing a positive change of 5% over the same period last year. Net Profit after tax and Minority Interest was similarly higher at Rs. 111 crores as compared to Rs. 109 crores, despite an increase in tax rate via surcharge. Earnings per Share (not annualized) was at Rs. 3.34 as compared to Rs. 3.29 in the corresponding quarter last year (Face Value per share of Re. 1).

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

Segment Reporting	For the quarter ACT FY 16	For the quarter ACT FY 15	% Growth over PY	% of Total Revenue ACT FY 16	% of Total Revenue ACT FY 15
1. Revenue					
Segment A : Eng. Projects	556	622	-11%	35%	36%
Segment B : Eng. Products	70	111	-37%	4%	6%
Segment C : Unitary Cooling	949	1001	-5%	59%	57%
Net Revenue from Operations	**1595**	**1752**	**-9%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	7	4	70%	1%	1%
Segment B : Eng. Products	24	24	0%	34%	22%
Segment C : Unitary Cooling	113	116	-3%	12%	12%
Profit before tax	**154**	**147**	**5%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	541	690	-22%	6%	3%
Segment B : Eng. Products	76	90	-15%	126%	107%
Segment C : Unitary Cooling	138	(71)	296%	328%	-

Segment A – Electro-Mechanical Projects and Services

Segment Revenue was at Rs. 556 crores as compared to Rs. 622 crores in the corresponding quarter last year due to slow pace of execution of projects on account of the sluggish environment. However, the Segment Result improved marginally to Rs. 7 crores as compared to Rs. 4 crores last year. Order Book of the Segment was also higher at Rs. 4039 crores as compared to Rs. 3789 crores (International Rs. 2018 crores & Domestic Rs. 2021 crores).

During the quarter, the International business secured orders of Rs. 390 crs including an order of Rs. ~284 crores for a tunnel ventilation project in Singapore. Along with focus on improving the carry forward order book, the emphasis remains on quick commercial closure and resolution of past projects. Nevertheless, environment led challenges still remain with continued procedural delays, payment deferrals, visa sanctions, etc., apart from a generally adversarial approach to certifications and timely settlement. The drop in oil prices has added to the uncertainties and slowness in pace of execution. Given these adversities, the turnover for the quarter was lower as compared to last year although profitability was maintained.

In the Domestic arena, there have been improvements in activity levels in segments like roads, defense, railways, etc. However, the recovery is yet to be seen in our addressable segments of HVAC & E&M. Cash is scarce, orders are few and far between, and these limited orders are increasingly met with illogical competition and pricing pressures. Additionally, in-sourcing of MEP work by Main contractors and advent of smaller regional players has amplified difficulties for the business. Nevertheless, the Domestic projects business booked orders aggregating to Rs. 204 crs which included an order for electrification in MP (Rs. ~60 crores).

As reported in previous con-calls, the difficulties of the contracting environment in India and the slow pace of project execution are well known. Due to tight liquidity conditions and high cost of credit, payments and project closures continue to be unfortunately delayed. While capital employed has suitably reduced, turnover and profitability are expected to improve once the new projects booked in the last few quarters make sufficient progress.

Segment B – Engineering Products and Services

Segment Revenue and Result was at Rs. 70 crores and Rs. 24 crores as compared to Rs. 111 crores and Rs. 24 crores respectively, in the corresponding quarter last year.

The turbulence in the Chinese economy and its impact on the Indian textile industry is known to all. However, in some select states, the ordering activity for spinning machinery has picked up, driven by State & Central subsidies. Capitalizing on this opportunity, the business has successfully increased its market share. There was a small uptick in the processing and finishing part of the business, but given muted sentiment in the weaving clusters, overall sales of post spinning machinery was subdued. Nevertheless, the Textile Division has largely maintained its performance in line with the previous year.

On the mining front (despite conclusion of auction of certain coal mines along with some relaxations on iron ore mining), a number of mines still remain shut. Given this dearth of activity, and the transition of some of the agency lines last year, the turnover has, as expected, reduced. Service business in Mozambique continues to strongly support business profitability - consequently, despite drop in turnover the profits remain on par with last year.

Segment C – Unitary Cooling Products

As mentioned in the previous Qtr., the room AC business is weather reliant and like the rest of the industry, dependent on an appropriately prolonged summer season to maximize sales volume. Erratic weather and lower customer offtake has led to a reduction in Segment Revenue at Rs. 949 crores compared to Rs. 1001 crores last year. It may be recalled that the same period last year also enjoyed the benefit of an extended summer season, coupled with some unlocking of pent up demand in the post-election euphoria.

Compared to an industry-wide growth of 22% reported last year, the current quarter witnessed some de-growth. Dampened demand environment also led to an increase in competitive intensity (esp. by certain industry peers and new entrants), in the larger northern market. Notwithstanding stiff competition, the Voltas brand has continued to maintain its No.1 market position, improving its market share to 21.8% in June 2015.

As a consequence of lower TO, absolute Segment Result was marginally lower at Rs. 113 crores as compared to Rs. 116 crores in the corresponding quarter last year. The margins at 12% are in line with sustainable margins levels commented upon in previous con-calls. Suitable cost controls are continuously exercised to keep expenditure under check, although depreciation of the Indian Rupee continues to exert pressure on the business.

The launch of Air Coolers in select markets has set the base for a larger and wider entry in the upcoming season. The Commercial refrigeration business is also expected to pick up given the addition of new corporate customers and specific efforts towards channel expansion.

Sum-up

Very clearly, the industry segments that we are present in, remain exposed to various environmental challenges. These challenges also present opportunities to take a re-look at our business models and improve our internal processes. Our strength in these difficult times has been our robust Balance Sheet and the comfortable cash position. We remain guided by our longer term strategic focus on profitable and sustainable growth. We are cautiously optimistic about a revival of the economy which would in turn, lead to an uptick in overall performance of both the industry and the Company.

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 2015