

## **ANALYSIS OF RESULTS** **QUARTER ENDED 30<sup>th</sup> June 2016**

Everyone is aware of the many issues and uncertainties that surround us today – globally speaking, Brexit, EU and the US presidential elections have dominated news headlines. Some green shoots were visible in the US, although economies dependant on crude oil continue to remain under pressure. Meanwhile, the Indian economy appears to be on a better footing, supported by Government spending and urban consumption. The IIP, although fluctuating, remains positive at 1.2% while inflation numbers have inched up led by rising food prices. The Government seems committed to its reforms agenda by pressing ahead with the GST bill and other long pending legislation. Nevertheless, the private sector appears to remain in a state of wait-and-watch combined with a paucity of fresh investments.

Given this overall background, the Consolidated Sales/Income from Operations for the quarter ended June 30, 2016 was higher by 18%, at Rs. 1845 crores as compared to Rs. 1561 crores in the corresponding quarter last year. Profit before tax was higher by 53%, at Rs. 225 crores. Net profit after taxes, minority interest and share of profit / (loss) of associate and joint ventures was Rs. 158 crores as compared to Rs. 103 crores last year. EPS (not annualized) as at June 30, 2016, improved to Rs. 4.76 from Rs. 3.10 last year. The Balance sheet remains robust with low debt and a comfortable cash position.

### **Analysis by segment:**

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

Segment Reporting	For the quarter ended		% Growth over PY	% of Total Revenue	
	June'16	June'15		June'16	June'15
<b>1. Revenue</b>					
Segment A : Eng. Projects	580	563	3%	31%	36%
Segment B : Eng. Products	69	70	-1%	4%	4%
Segment C : Unitary Cooling	1196	928	29%	65%	59%
<b>Net Revenue from Operations</b>	<b>1845</b>	<b>1561</b>	<b>18%</b>		
<b>2. Segment Results</b>					
Segment A : Eng. Projects	11	9	22%	Results to Revenue	
Segment B : Eng. Products	19	24	-21%	2%	2%
Segment C : Unitary Cooling	178	114	56%	28%	34%
<b>Total</b>	<b>208</b>	<b>147</b>	<b>41%</b>	15%	12%
<b>3. Capital Employed</b>					
Segment A : Eng. Projects	791	543	46%	ROCE (Annualised)	
Segment B : Eng. Products	71	76	-7%	6%	7%
Segment C : Unitary Cooling	(149)	139		107%	126%
					328%

The Company has adopted and prepared the financials for the quarter ended 30<sup>th</sup> June 2016 as per the new Indian Accounting Standards (Ind AS). The above figures for the previous period have been appropriately regrouped / restated to ensure comparability.

### **Segment A – Electro-Mechanical Projects and Services**

Segment Revenue for the quarter was higher at Rs. 580 crores as compared to Rs. 563 crores in the corresponding quarter last year. Segment Result was similarly higher at Rs. 11 crores as compared to Rs. 9 crores, last year. Order Book of the Segment stood increased to Rs. 4417 crores from Rs. 4181 crores in the same quarter last year. 'Others' segment has been regrouped to reflect Ind AS requirements.

In the International business, there has been some increase in the number of new project enquiries, accompanied by intense competition and often, illogical commercial conditions. While remaining committed to the strategy of selectively booking suitably risk mitigated orders, the business has bagged fresh orders worth Rs. 772 cores over the course of the quarter at threshold margin levels. This includes Rs. 530 crores for MEP works of a Mall and Rs. 201 crores for MEP works of a commercial building, both in Qatar. With this the order backlog of the International projects business now stands increased to Rs. 2399 crores from Rs. 2017 crores, last year.

With the international oil prices again falling below \$ 45, the GCC Governments have responded by launching austerity drives targeted at reducing public spending. Accordingly, the industry continues to be exposed to tighter liquidity conditions, evidenced by certification & payment delays. Given this dispute prone environment, commercial closure and settlement of completed projects continues to occupy significant amount of management attention. Against this background, quarterly performance would continue to be somewhat lumpy, closely linked as they are to final settlements. In so far as Sidra is concerned, the complicated nature of the arbitration between the main contractor and Qatar Foundation is likely to be long-drawn.

On the domestic front too, there has been an increase in enquiry levels and order finalization during the quarter mainly on account of public sector spending. With the Government pushing the growth agenda, opportunities are increasing in urban infrastructure, rural electrification, water and smart cities. The above mentioned strategy of selectively booking orders also holds true for the Domestic business – we remain intensely conscious of appropriate risk mitigation before booking orders. The order booking for the quarter of Rs. 177 crores includes an order for HVAC works of 4 stations of the Kolkata Metro. The pace of execution on certain carry-forward projects has unfortunately been slower than expected owing to various delays. We might also mention that the prudent provisioning policies of the Company have

ensured minimal impact on profitability, despite the more stringent requirements of Ind AS.

### **Segment B – Engineering Products and Services**

Segment Revenue for the quarter was marginally lower at Rs. 69 crores as compared to Rs. 70 crores in the corresponding quarter last year. Segment Result was Rs. 19 crores as compared to Rs. 24 crores, last year.

As is well known, the textile industry in India is largely dependent on spinning. Given the steep rise of cotton prices in India without commensurate increase in price of yarn, mills are exposed to pressure on margins. Availability of bank finance to this sector has also slowed down, given the risk of NPAs. Accordingly, there has been delays and deferment in dispatch of capital machinery. Overall activity levels of mills too has come down as seen from partial shutdown across numerous mills.

The Mining business in India remains in a state of limbo with the re-auctioned mines remaining shut. Nevertheless, the pickup in spending in road construction activity augurs well for the construction side of the business in India. In Mozambique, the performance was positively supported by the inclusion of additional heavy equipment under our scope. However, on account of the steep depreciation in Mozambique currency (MZN), some loss in Forex had to be accounted during this quarter.

### **Segment C – Unitary Cooling Products**

The Cooling Products industry continues to be largely weather dependent with demand especially for AC's being closely linked to temperature movements. While the summer months last year were interrupted by intermittent rains, this year, the onset of sustained hot weather was brisk with exceptionally high temperatures being recorded in certain parts of the country. Accordingly, given the weather led spurt in consumer demand, the AC industry witnessed a significant growth in volumes, also assisted by the benefit of a low base. During this period, Voltas launched the 'All Star' range of products with an innovative marketing campaign based on the energy saving tag-line which was well received. This was ably supported by better quality cum range of products, wider distribution, appropriately timed advertisements, promotions and sensible pricing. Volume related benefits and favorable product mix helped improve margins during the quarter.

At the same time, the supply chain side of the business stepped up to the challenge of increased demand ensuring our continued leadership position. As at June end, we have a market share of 22% at Multi-Brand Outlets and have also increased our lead over the nearest competitor. Accordingly, Segment Revenue was higher at Rs. 1196 crores as compared to Rs. 928 crores in the corresponding quarter last year. Similarly, results were also higher at Rs. 178 crores against Rs. 114 crores last year.

We also recorded satisfactory sales performance (around 50000 units) in our Air Coolers business, building on the 'Fresh Air' equity during our first full season. At the

same time, the Commercial Refrigeration business continues to build on its relationship with various Corporates while strengthening its product portfolio with more relevant offerings.

## **Sum-up**

On an overall basis, good monsoons are expected to support favorable business policies and we expect to see revival of consumer spending in context of the 7<sup>th</sup> pay commission. The Room AC business remains weather reliant and we would, like the rest of the industry, look forward to the second summer and the upcoming festive season. The challenge of performance in the second half to be also reckoned in the context of a higher base effect of the previous year. Our strategy in the Projects segment is to look for good quality orders at reasonable margins with favorable commercial terms. Having said that, we remain cautiously optimistic about the future given the nature of our industry is one of dependence on the economic 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.*

3<sup>rd</sup> August 2016