ANALYSIS OF RESULTS
QUARTER ENDED 30^{th} June 2017

Central banks the world over, led by the US Federal Reserve, are preparing to roll back easy credit policies as their economies recover. More recently, Canada raised interest rates for the first time since 2010, joining US and seven other major countries in doing so. The European Central Bank and the Bank of England too have hinted at the need to tighten their monetary policies.Meanwhile, IMF in its latest economic update continues to estimate Global GDP @3.5%for2017. Growth for the Chinese economy appears to be inching up after decelerating for six consecutive years. Middle east economies remain hampered by low oil prices, not to speak of other geo-political concerns particularly following the standoff situation between Qatar and certain other Arab nations.

On the domestic front, demonetisation and the ambiguity over the ‘actual’ impact of the Goods and Services Tax (GST) weighed in across quarterly results of Corporates. A GST filing maze now awaits assesses and navigating the many forms could prove challenging. Industrial growth in May slowed to a three-month low due to adjustments in factory production ahead of the July 1 roll out of GST. Owing to demand and supply mismatches, consumer prices rose by just 1.5% in June, well below the RBI’s forecast range of 2% to 3.5%. At the same time, data on fresh investments & capacity utilization also indicate a weak demand environment. Monsoon arrived earlier than usual, with most parts of India receiving above normal rains, while some of the southern states experience scarcity. In general, there is an increasing expectation of a stronger rural economy this year. Given these factors, RBI has lately reduced the repo rate by 25 bps, falling somewhat short of industry expectations. However, the overall sentiment remains positive, with the Sensex on a record breaking run. Estimates from the Government as well as those from various Independent agencies indicate a GDP growth of over 7% for the current year.

The Consolidated Sales/Income from Operations for the quarter ended June 30, 2017 was higher by 6%, at Rs. 1962 crores as compared to Rs. 1845 crores in the corresponding quarter last year. Profit before tax increased by 16%, to Rs. 261 crores. Profit after tax simultaneously improved by 18% to Rs. 188 crores, a delta of Rs. 28 crores over the previous year. Earnings per Share (Face Value per share of Re. 1, not annualized) as at June 30, 2017 moved up to Rs. 5.61, better than Rs. 4.76 last year.

Other Comprehensive Income recognized as per Ind-AS mainly includes notional mark to market revaluation gains / losses on various longer term investments. Total Comprehensive Income for the Quarter stands at Rs. 234 crores as compared to Rs. 186 crores in the corresponding quarter last year.Despite environmental headwinds, diligent financial planning has ensured the continued robustness of our Balance sheet, with low debt, lower working capital 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 June'17	For the quarter ended June'16	% Growth over PY	% of Total Revenue June'17	% of Total Revenue June'16
1. Revenue					
Segment A : Eng. Projects	661	580	14%	34%	31%
Segment B : Eng. Products	90	69	30%	5%	4%
Segment C : Unitary Cooling	1212	1196	1%	62%	65%
Income from Operations (Gross)	**1962**	**1845**	**6%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	35	10	250%	5%	2%
Segment B : Eng. Products	26	19	37%	29%	28%
Segment C : Unitary Cooling	171	178	-4%	14%	15%
Total	**232**	**207**	**12%**		
3. Capital Employed (Net)				**ROCE (Annualised)**	
Segment A : Eng. Projects	744	790	-6%	19%	5%
Segment B : Eng. Products	70	71	-1%	149%	107%
Segment C : Unitary Cooling	53	(148)	136%	>100%	>100%

Segment A – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was higher at Rs. 661 crores as compared to Rs. 580 crores in the corresponding quarter last year. Segment Result was also higher at Rs. 35crores reflecting a higher result to revenue margin of 5%, coming frombetter quality carry forward orders and efficient execution. Order Book of the Segment stood higher at Rs. 4906 crores as at 30th June, 2017 as compared to Rs. 4417 crores in the corresponding quarter last year.

International Operations

Despite the benefits of an uptick in the global economy, the growth in GCC economiesfacedstructural limitations due to their reliance on commodity exports, the stronger US dollar and a lack of readiness (with the exception of the UAE), to operate as trading hubs. The much awaited spending related to the Mega events (Expo 2020 and FIFA 2022) has now started picking up with projects being awarded to Main Contractors. We continue to see inflow of suitably risk mitigated orders leading to a more comfortable order backlog of Rs. 1972 crores. Orders booked during the quarter include Rs. 359 crores for MEP works of a commercial building in UAE and Rs. 137 crores (VL share) for a museum in Oman.

Learning from the past, a number of internal initiatives have been undertaken to enhance labour productivity, strengthen commercials and build execution capabilities. Meanwhile, given lower carry forward order book and slow pick up in execution at the newer project sites, turnover for the quarter was lower than last year. However, profitability was better than last year owing to better quality projects under execution. The situation in Qatar is being monitored on a regular basis and steps have been taken to mitigate likely delays in the event of a prolonged deadlock.

Domestic Projects

Performance in theDomestic Projects business was encouraging with over Rs 700 crores worth of new orders booked during the current quarter. This includes Rs. 490 crores for electrification projects backed by Central Government sponsored schemes. Enquiries particularly for infrastructure projects such as Metros, Airports, and Water treatment have picked up. As mentioned in earlier con-calls, our strategic shift in focus to Govt. projects / externally funded investments has started bearing fruit - we have an increased order back log of Rs. 2934 crores as compared to Rs. 2018 crores last year. Various process improvements and restructuring activities done over the last few years provide us greater comfort oninternal efficiency, reflecting in better profitability. The implementation of GST, although positive in the long run, led to some disruptions in the quarter particularly in the run-up to the transition date.

Segment B – Engineering Products and Services

Segment Revenue and Result for the quarter were higher at Rs. 90 crores and Rs. 26 crores as compared to Rs. 69 crores and Rs. 19 crores, respectively in the corresponding quarter last year.Performance of this segment has improved mainly due to higher capital machinery sales in the current quarter.

As seen from the widespread protests across the country owing to perceived ill-effects of GST, the sentiments in the Textile Industry were muted. While subsidy driven spending particularly in the western part of the country continued, the later part of the quarter met with very weak demand, as well as reduced activity levels.

In Mining and Construction Equipment,Mozambique operations continue to smartly contribute to the Divisions performance. Meanwhile, continued Govt. spending on road infrastructurein India bodes well for the sale of Crushing and Screening equipment. Mining activities remain subdued with some of the re-auctioned mines yet to commence operations.

Segment C – Unitary Cooling Products

Despite the high base of last year, Segment Revenue improved to Rs. 1212 crores as compared to Rs. 1196 crores in the corresponding quarter last year. While the quarter started off well led by hot weather and strong demand, growth in the later months was impacted owing to unseasonal rains in southern India, and more significantly due to the many uncertainties surrounding GST.Particularly in the month of June, the lack of clarity on GST transitional provisions led to a great reluctance on the part of dealers to pick up fresh inventory. At the same time, in many parts of the country, dealers resorted to heavily discounted pre-GST sales in a bid to minimise their own stock levels at the time of transition.

Despite these uncertainties, the Voltas brand sustained its No. 1 position in the Room Air-Conditioner market (at Multi-Brand outlets) with an increased market share of 22.2% as at end June-17 (QTD 21.6%).The new advertisement campaign combined with promotional offers / trade support measures met with an encouraging response. While Segment Result for the quarter was marginally lower at Rs. 171 crores as compared to Rs. 178 crores in the corresponding quarter, margin remained strong at 14% notwithstanding higher selling expenses.

Sum-up

The Room AC business is weather reliant and we would, like the rest of the industry, look forward to the second summer and the upcoming festive season to maximize sales volume. Depleted inventory in the channel provides reasonable opportunity to players across industry while we expect the effect of GST to gradually wane.

Over the next few quarters, we anticipate the continuation of strong Govt. led investments to offset the subdued nature of private capex sentiment. Our focus remains on securing good quality, reasonably risk mitigated orders with bettermargins and balanced commercial terms. Meanwhile, we have to be suitably cautious of the emerging political and economic situation for our international business. Our balance sheet continues to remain robust with low debt and a comfortable cash position, indicative of appropriate resilience.

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.

4th August 2017