VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th SEPTEMBER 2012

The macroeconomic business environment both in India and Overseas continues to be challenging. While India's GDP forecast has been further revised downwards to 5.5%, the Rupee seems to have marginally appreciated temporarily; nevertheless, its performance remains unsatisfactory. The IIP numbers show no sign of improvement, with India's overall industrial capacity utilization hitting a three-year low in the last quarter. The Finance Minister has responded to the crisis with measures to kick-start growth and curbing inflation, but these measures have not been supported by expected reduction in Interest Rates. The Ministry and RBI will hopefully synchronize their views on the growth-inflation dynamic as we await further measures to provide the required growth impetus.

On the global front, employment and industrial output numbers have begun to creep upwards in the US, pointing to a sluggish recovery. The Euro-zone crisis remains dire, with no clear signs of early resolution. Turning to Voltas' primary overseas geographies, the forecast for economic growth has been lowered to 3-4 % in UAE, while in KSA, GDP is projected to slow down to under 4% in 2012 compared with almost 7% in the previous year. Qatar however, continues to sustain its growth trends despite heightened downside risks to global recovery.

Against this backdrop, the consolidated Sales/Income from operations **for the Quarter ended 30th September** was higher by 5% at Rs. 1160 crores as compared to Rs. 1102 crores in the comparable quarter of the previous year. The Operating Profit (Profit before Exceptional Items & Tax) was also higher by 37% at Rs. 46 crores as compared to Rs. 34 crores in the corresponding quarter last year. Profit before tax was Rs. 61 crores as compared to Rs. 59 crores last year and Net Profit after tax and Minority Interest was maintained at Rs. 43 crores as compared to Rs. 42 crores in the corresponding quarter last year. During the Qtr, the Company has transferred its entire shareholding in Simto Investment Company Ltd for a gross consideration of around Rs. 30 crores.

On a Half Yearly basis, the consolidated Sales/Income from operations was higher by 13% at Rs. 2772 crores as compared to Rs. 2448 crores in the previous year. Operating Profit was also higher by 10% at Rs. 156 crores as compared to Rs.142 crores in the corresponding period last year. The Company had in May 2011 of the previous year, transferred its Materials Handling business resulting in a onetime exceptional income of Rs. 79 crores. Due to this, the Profit before Tax and Net Profit was lower at Rs. 171 crores and Rs. 122 crores respectively, as compared to Rs. 249 crores and Rs. 174 crores respectively for the previous year.

A snapshot of the highlights and results for both the Quarter and Half Year at consolidated level are given below:-

Figs in Rs. Crores

	Q2		H1	
	FY13	FY12	FY13	FY12
Increase in TO	5%	3%	13%	-1%
EBITDA Margin	5%	5%	7%	7%
Increase in Profit before Excep. Items	37%	-71%	9%	-44%
Increase in PAT and Minority Interest	3%	-55%	-30%	-7%
Return on Net Worth (w/o Excep. Items)	7%	4%	14%	9%
Debt / Equity ratio	0.19	0.19	0.19	0.19

The Voltas Balance Sheet remains strong with Shareholder's equity at Rs. 1603 crores against Rs. 1539 crores for the comparable period last year. The Debt Equity Ratio reflects borrowings of Rs. 301 crores, mainly from overseas operations and RIEL. The Company's liquidity position is comfortable with cash and cash equivalents at approx. Rs. 247 crores apart from liquid investments aggregating to Rs. 217 crores (versus Rs 192 crores in the previous year)

Consolidated Segment Results for the Quarter:

Segment Reporting	Q2 (Rs. Crs)		% Growth over Pr. Yr.	% of Total Revenue	
	FY13	FY12		FY13	FY12
Revenue					
Segment - A (Eng. Projects)	778	762	2%	68%	70%
Segment - B (Eng. Products)	114	120	-5%	10%	11%
Segment - C (Unitary Cooling)	257	211	22%	22%	19%
Net Revenue from Operations	**1160**	**1101**	**5%**		
Results				**Results to Rev.**	
Segment - A (Eng. Projects)	8	5	64%	1%	1%
Segment - B (Eng. Products)	21	18	19%	19%	15%
Segment - C (Unitary Cooling)	20	6	225%	8%	3%
Total	**50**	**28**	**78%**		
Capital Employed				**ROCE**	
Segment – A (Eng. Projects)	933	712	31%	3%	3%
Segment - B (Eng. Products)	96	101	-5%	88%	70%
Segment - C (Unitary Cooling)	239	341	-30%	33%	7%

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 & Services

Segment’s consolidated revenue was higher at Rs. 778 crores as compared to Rs. 762 crores last year. Profit before exceptional items also stood higher than the previous year, at Rs. 8 crores as compared to Rs. 5 crores last year. The Segment's total consolidated carry-forward order book as at 30th September 2012 stands at Rs. 4137 crores as compared to Rs. 4461 crores, same period last year.

Turnover in the **International Projects Business** grew compared to the previous year, largely due to accelerated progress in execution of various jobs. Lower profitability is a reflection of the substantial Turnover booked on Sidra being recognized at nil margin, apart from some provisions in other projects in compliance with AS-7 guidelines. However revenue from variations are foreseen and will be accounted in subsequent quarters based on the progress of realization thereof.

In the backdrop of various political developments across the Middle Eastern geographies, the Company continues to face challenges in securing visas for Indian workmen, adding to the cost of existing projects. The business continues to objectively deal with these challenges and a longer term business strategy is being framed, recognizing the significant growth opportunities that the Region offers.

The Techno Commercial Review of the Sidra Medical & Research Centre project at Qatar conducted in Q2 has provided greater clarity on costs as well as additional revenue possibilities. The project is now 85% complete. Following a detailed review, the company is presently of the view that adequate provision has been made after considering the further upward revision in costs as well as the variations being negotiated. The project will continue to be closely monitored and appropriate measures would be taken as and when required.

The International Order Book stands at Rs 1930 crores as on 30th September 2012. There was no major inflow of orders during the quarter, reflecting sluggish market conditions, stiff competition and extended delays in awarding of tenders.

The consolidated order book situation in the **Domestic Projects** B**usiness** (including Water Management and Rohini) has consistently shown healthy growth, in spite of the industry-wide decline in awarding new orders. The carry-forward order position has increased 21% from Rs 1819 crores to Rs 2207 crores. Relatively speaking, there has been a good intake of new orders, especially in automotive and urban infrastructure sectors. Noteworthy orders include some from Maruti Udyog, Ford Motors, Gammon (for Chennai Metro) and Bhilai Steel. Apart from the key focus areas of automotives, urban rail, tunnel ventilation, steel and power, signs of revival have been seen in the commercial building sector in Tier-2 cities, with the prospect of more opportunities in store. Domestic Project profitability over the next one or two quarters is also dependent upon the pace of job execution, quick turnaround of certifications and final account settlements. A re-vamped Commercial team is now in place to aggressively push forward these priorities.

The **Water Management** business has an order book of Rs 291 crores. However, profitability has declined due to bureaucratic slowdowns in progress of existing jobs, and consequently in realization of revenues. Substantial jobs in the Eastern region have been impacted by uncertain ADB funding. Although current profitability is lower than expectation, the Water business is considered to be a future growth driver and the Company is consciously investing in this vertical and building additional capability.

Rohini Industrial Electricals Limited (RIEL) is experiencing challenges in improving profitability and has reported a loss in this quarter. Given environment, the progress in execution of RIEL's carried-forward orders has been slow impacting turnover and delaying closure of unprofitable legacy orders. While the performance has also been impacted by weaker cash flows, carry forward order book is a healthy Rs. 205 crores. The company has also managed to reduce its overhead costs and is closely monitoring progress across various performance improvement measures.

The company has progressed further on integration of the Water Management and RIEL businesses with the Domestic Electro-mechanical business. We are beginning to see considerable reduction in fixed operating costs apart from benefits of streamlining operation and support services. The consolidation into one cohesive group also provides the Company with additional value as it is now able to strategically service its customers better by offering an end-to-end MEP solution. Potential improvements in Government policy provides hope of cyclical correction in the periods to come and augurs well for the Domestic projects business.

The Capital employed in the Project Segment has increased owing to a variety of environmental factors commented upon earlier. Ongoing overseas projects such as Sidra require additional funding. We are also impacted by the lack of mobilization advance which was traditionally available from booking large International orders. The industry in general is facing difficulty in the timely collection of outstandings, due to longer certification cycles and tight liquidity conditions.

Segment B – Engineering Products & Services

The Segment's consolidated Revenues and Results were at Rs. 114 crores and Rs. 21 crores respectively as compared to Rs. 120 crores and Rs. 18 crores in the same period last year.

The **Textile machinery** business revenues have grown by 12%, as compared to the same period last year, while the results remained more or less at the same level as that of the previous comparable quarter. The improved revenue is inspite of increasing competition from multinationals like Rieter setting up local manufacturing facilities. Nevertheless, products marketed by the Company in Spinning continue to command leadership position. The business is simultaneously expanding its offerings in Post spinning to diversify its product bouquet and provide more complete solutions for Textile manufacturers. Focus on service capabilities and customer relations are being maintained. Some positive catalysts in the form of policy announcement initiated by a few State Governments provide the business with opportunities to strengthen the order book across new territories.

The **Mining & Construction Equipment** business sustained it profitability with improved margins despite lower turnover. Local mining activity continues to be impacted by environmental regulation and political turmoil as witnessed by the negative IIP numbers seen in this industry. In the meantime, the business has been able to successfully explore opportunities in the aggregate sector through better product positioning, as well as opportunities overseas, leveraging on its local customer relations. The business continues to focus on building capabilities through addition of more items of equipment with existing Prinicipals and exploring additional tie ups with other big players.

Kion, the majority shareholder in the Voltas Material Handling Pvt. Ltd. JV, has exercised its option to acquire the entire minority shareholding of 34%, as of 1st November 2012, for a consideration of Rs 58 crores. Under the existing Supply Agreement, the Company has supplied, since May 2011, over 1500 forklifts manufactured at its Thane plant. This arrangement will continue subject to the Company continuing to meet the quality standards of the products and competitive pricing.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

In **Unitary Cooling**, the industry saw de-growth in sales volume, largely because of the absence of a well-defined summer season, with the persistence of erratic rains. Purchasing decisions were therefore deferred indefinitely. Consumers were also impacted by inflationary price increases and the overall caution in expenditure.

Notwithstanding these adverse trends and de-growth of 8% in the Air Conditioning industry in the current year, the Company registered a growth of 13% and chalked up a good performance, assessed across a range of parameters. The Segment's revenue grew by 22% to Rs 257 crores, as compared to Rs 211 crores in the same period last year, due to a variety of planned interventions including improvement in net realisation. Growth was also driven through better traction witnessed in Commercial refrigeration products through sizeable OEM orders.

Overall Profits have grown to Rs 20 crores, not withstanding continued spend on advertising / brand building and due to margin improvement measures like increase in local production and timely pricing decisions. Additionally, improvement in Cash flow was made possible by tight control on outstanding, low inventory levels, and more Working Capital turns.

After having seized the market leadership position in air-conditioners in May 2012, the business has continued to build on its shares in both multi-brand and exclusive brand outlets. For Q2 on an averaged basis, Voltas has a share of 20.3%, some 500 basis points ahead of the erstwhile market leader. Voltas is also acknowledged as No.1 in 10 out of the 20 key markets, with greater penetration in Tier 2 and Tier 3 towns. Its leadership status is the outcome of focused advertising with a clear well-researched message, coupled with numerous efficiencies and initiatives in sales, distribution, merchandising and servicing.

Polling has clearly shown that the 'all-weather' proposition has established itself well with both consumers and trade, and is a valuable property for the future. The intensity of competition however is expected to increase in the coming quarters with some multinationals establishing local manufacturing facilities and offering aggressive pricing and promotions.

Going forward, the business is determined to fiercely protect its market leadership position and will further strengthen its distribution reach and improve its Customer service proposition. Longer term prospects for the business appear to be on a solid footing in context of low penetration combined with the aspirations of a younger and more comfort conscious population.

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.

8th Nov 2012