VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th SEPTEMBER 2013

While the Indian economy grew at around 5% (RBI data) in the first half of the current year, overall demand conditions remained sluggish. The average IIP has remained flat and Capital Goods production, a barometer for investments in the economy, contracted over the quarter. The consumer goods sector also witnessed negative growth. Amidst doubts of widening deficits and winding back of the U.S. Federal Reserve's stimulus program, the Rupee was amongst the worst performing currencies and witnessed significant volatility. Going forward, the Current Account deficit is likely to moderate in Q2 and a good monsoon along with some pick-up in exports, could provide momentum to the economy.

In the Middle East geographies where we also operate, there is a definite push for new investment. This is especially in infrastructure and construction, most notably in Qatar, KSA, Oman and also potentially Bahrain and Dubai. With Dubai becoming a strong contender to host the prestigious Expo 2020, there are possibilities of a faster revival in the economy.

The **Consolidated Net Sales/Income from operations for the Quarter** ended 30th September, 2013 was at ₹ 1077 crores as compared to ₹ 1160 crores in the corresponding quarter last year. However, due to better margin realizations, the Operating Profit for the quarter was higher at ₹ 62 crores as compared to ₹ 46 crores last year. Although there was an absence of exceptional income during the current quarter as compared to ₹ 14.5 crores same quarter last year, the Profit before tax was marginally higher at ₹ 62 crores (compared to ₹ 61 crores last year).

Profit after tax and Minority Interest was ₹ 42 crores as compared to ₹ 43 crores in the corresponding quarter last year. Earnings per share (not annualized) was ₹ 1.28 as compared to ₹ 1.30 in the corresponding quarter last year (Face Value per share of ₹1).

The Voltas Balance Sheet continues to remain strong with Shareholder’s equity increasing to ₹ 1732 crores against ₹ 1603 crores for the comparable period last year. Marginal decrease in the Debt Equity Ratio to 0.14 reflects reduction in borrowings to ₹ 242 crores which mainly pertain to the overseas operations. Total liquid balances including Investments in Mutual Funds have appreciated to a very comfortable position of ₹ 772 crores.

Consolidated Segment Results for the quarter:

Rs. crores

Segment Reporting	For the quarter Q2 FY 14	For the quarter Q2 FY 13	% Growth over PY	% of Total Revenue Q2 FY 14	% of Total Revenue Q2 FY 13
1. Revenue					
Segment A : Eng. Projects	671	778	-14%	62%	67%
Segment B : Eng. Products	126	114	11%	12%	10%
Segment C : Unitary Cooling	264	257	3%	25%	22%
Net Revenue from Operations	**1077**	**1160**	**-7%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	5	8	-38%	1%	1%
Segment B : Eng. Products	28	21	33%	22%	18%
Segment C : Unitary Cooling	30	20	50%	11%	8%
Total	**63**	**50**	**26%**		
3. Capital Employed				**ROCE (*)**	
Segment A : Eng. Projects	629	933	-33%	-7%	9%
Segment B : Eng. Products	95	96	-1%	122%	85%
Segment C : Unitary Cooling	189	239	-21%	155%	69%

** ROCE: Annualized based on half yearly results*

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 and Services

The Segment's consolidated revenue was lower at ₹ 671 crores as compared to ₹ 778 crores last year with a profitability of ₹ 5 crores as compared to ₹ 8 crores last year. The Segment Results were adversely affected primarily by the International projects business which, like much of the construction industry in the Middle East, continued to grapple with cost-overruns led by delays in projects booked at the peak of the boom period.

As part of a conscious emphasis on reducing Capital Employed, the International business has remained strongly focused on pursuing commercial entitlements and closure of existing projects. The business including JVs and Subsidiaries has more recently procured new orders worth ~ ₹ 1000 crores consisting mainly of (a) A Multi-purpose Sports Hall and Indoor Stadium being built in Qatar for the World Hand Ball Competition in 2015 (b) A Workers' Hospital in Qatar and (c) The Kempinski Wave in Muscat (Oman), the capital's first new 5-Star hotel in 20 years. These projects have been negotiated at the right internal threshold profitability criteria and execution is already under way. With a gradual improvement in the economic environment, the business looks forward to recovery over the coming quarters.

The Sidra Medical & Research Centre project is now over 93% complete. In compliance with AS-7, costs and revenue continue to be re-assessed from time to time and, currently, adequate provision exists. While the Testing and Commissioning phase has begun in several parts of the project, the Main Contractor is simultaneously negotiating a Supplementary agreement to cover its entitlements relating to extension of time. Voltas too continues to pursue its claims and variations vigorously through all possible channels.

Our strategy is to remain highly selective in choice of Projects keeping in mind risk based parameters. Whilst pushing for new orders, focus will be on identified areas of opportunity including strong growth in Qatar (where awarding of contracts has begun in preparation for the upcoming FIFA). Possible revival in Dubai given likelihood of Expo 2020 may also trigger demand as do the potential of KSA, Oman's investments in healthcare and aviation, etc. However, given the demographic imbalance (in favour of workmen sourced from the Indian subcontinent), procuring adequate number of visas is becoming increasingly difficult.

The Company's overseas JVs and subsidiaries will also feature prominently in the growth strategy for the Middle East region. Meanwhile, restructuring and operational changes are being undertaken, to shore up their performance in the interest of a larger strategic role.

The Domestic Projects business witnessed considerable slowdown in project execution given the continuing slowdown in the economy coupled with a general decline in business confidence. As also reported by others in the industry, there was a general scarcity in finalization of larger-sized orders. This was particularly evident in Private sector projects, which as per CMIE halved as compared to same quarter last year.

Revenue and Profitability for Voltas however held steady in comparison with the same quarter last year. Measures to curtail costs and accelerate collection of receivables have yielded some results; apart from a separate internal initiative to improve operational efficiency and profitability. Continuing its thrust into the market for HVAC products, the business has also developed a line of energy-efficient screw chillers, with potential in the growing 'green' segment.

The Company purchased the balance shareholding (16.33%) of Rohini Industrial Electricals Limited (RIEL) from the Promoters on October 14, 2013. Accordingly, the Company's shareholding in RIEL stands increased to 100% of the equity share capital of RIEL, making it a wholly-owned subsidiary of the Company. RIEL has begun to reap the benefits of aligning with the larger Domestic Projects organization, although the speedy execution and closure of legacy carry-forward orders continues to be a challenge to cash and profitability.

At Quarter end, the carry-forward order book of this Segment stands at ₹ 4349 crores, including ₹ 2262 crores pertaining to the Domestic business and balance ₹ 2087 crores for the International Projects business.

Despite the liquidity issues and concerns elsewhere in the Industry, capital engagement and cash-flow in this segment has shown a considerable improvement vis-a-vis the previous quarter and year. Persistent follow-up would be maintained to drive further improvements and boost the liquidity position.

Segment B – Engineering Products & Services

The Segment's consolidated Revenue and Results was higher at ₹ 126 crores and ₹ 28 crores as compared to ₹ 114 crores and ₹ 21 crores respectively in the previous year. Overall, both Textile Machinery and Mining & Construction Equipment business performed well in spite of continuing adversities in the environment and industry.

Notwithstanding policy constraints, the Mining & Construction Equipment business posted a healthy increase across various business indicators. The performance upswing was also attributable to the recognition of revenue and profit of approx. ₹ 7 crs on substantial completion of certain long term maintenance contracts. Following the BAUMA International Trade fair in Johannesburg, we are also in receipt of some enquiries for the African continent. This provides an impetus for expanding our footprint in Africa on the lines of the success experienced in Mozambique.

In the Textile industry too, policy paralysis continued with the delayed announcement of TUF and other incentives. The prevailing uncertainties and subdued investment, combined as they were with Rupee devaluation and volatility, impacted sentiment leading to postponement of equipment orders. Nevertheless, the business successfully leveraged its relationships with customers to sustain its performance. The Q2 market share for spinning machinery was sustained at 60%. The more recent announcements on TUF along with a devalued Rupee may augur well for a general ramp up of post spinning facilities in India, and resultant export of finished merchandise.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

An extended monsoon as well as cyclones in South and East India, impacted overall demand for air conditioners. Nevertheless, the business sustained its no. 1 market ranking (per GFK Nielsen), improving its average market share during the Qtr to 20.5%. It is particularly satisfying to record significant market share gains in the historically weaker West and East zones. In addition, the Voltas brand has experienced a surge in Institutional sales, with successful orders for several thousand ACs to be deployed in ATM locations across India.

The Commercial Refrigeration business also performed exceptionally well, benefitting from retail expansion in FMCG and packaged frozen product segments, apart from a large order for chocolate coolers.

Overall, the segment’s revenue was ₹ 264 crores in the current quarter as compared to ₹ 257 crores in the same quarter last year. Results however grew more than proportionately, to ₹ 30 crores as compared to ₹ 20 crores. This improvement came from a combination of positive developments including favorable change in product mix with larger share of higher margin Splits and optimized advertising support expenditure. In addition we had the benefit of a one time savings in logistics costs and a write back of warranty related cost provisions no longer required.

Sum-up

Segment B & C continue to deliver commendable performance despite environment led adversities. Using the extended slowdown as an opportunity to take a pause, reflect and re-build, the Projects businesses are progressing with their individual reorganization plans while selectively booking orders. The strength of the Voltas Balance Sheet and availability of cash also offers a definite longer term advantage vis-à-vis others in the industry.

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.

12th November 2013