VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th September 2014

The initial euphoria generated by the formation of a stable government at the Center, seems to have moderated. After reporting encouraging growth trends across important parameters, the expectations now appear to be more balanced and rational. All eyes are on execution - the new Government has started some initiatives targeted at reigning in inflation, bringing fiscal prudence and reviving the investment climate. Removal of some bottlenecks in obtaining clearances is beginning to pay off, with the reported revival of stalled projects. Core inflation has also eased to some extent, while concrete on the ground improvements to the investment cycle and food inflation are yet to be seen. More recently, the correction in international crude prices offers hope of further reduction in prices and improvement in the economic environment. While the RBI continues to maintain vigil and keep the interest rates high, recent surveys conducted by various industry bodies & media indicate the prevalence of a positive sentiment within the Industry. The HSBC Purchasing Managers Index although down from the 17-month high reached in July, continues to be positive @ 51.8.

In the United States, the stock market is booming, budget deficits are melting away, corporate profits are breaking records and the unemployment rate is falling. Meanwhile, Japan's economy which has been under deflation seems to be responding positively to its aggressive bond-buying program. However, Europe continues to face woes and remains on the brink of its third recession in six years, with even the region’s stronger economies indicating a slowdown. In the Middle East, more relevant to our operations, respective governments continue to exude confidence by maintaining their growth targets. Nevertheless, concerns remain around the steep correction of International crude prices and its impact on the spending across these economies.

The Consolidated Sales / Income from Operations for the quarter ended 30th September, 2014 was at ₹ 969 crores as compared to ₹ 1077 crores in the corresponding quarter last year. For the first half, the corresponding Sales figures were higher by 1.6% at ₹ 2721 crs.

Due to better margin realizations and cost controls, the Profit before Tax for Q2 was higher at ₹ 85 crores as compared to ₹ 62 crores in the corresponding quarter last year. Net Profit after Minority Interest was higher at ₹ 50 crores as compared to ₹ 42 crores in the corresponding quarter last year. Earnings per Share (not annualized) was higher at ₹ 1.51 as compared to ₹ 1.28 in the corresponding quarter last year (Face Value per share of ₹1).

Consolidated Segment Results for the quarter:

Segment Reporting	For the Quarter		% Growth over PY	% of Total Revenue	
	FY 15	FY 14		FY 15	FY 14
1. Revenue					
Segment A : Eng. Projects	525	671	-22%	54%	62%
Segment B : Eng. Products	87	126	-31%	9%	12%
Segment C : Unitary Cooling	345	264	31%	36%	25%
Net Revenue from Operations	**969**	**1076**	**-10%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	5	5		1%	1%
Segment B : Eng. Products	32	28	14%	37%	22%
Segment C : Unitary Cooling	43	29	48%	12%	11%
Total	**80**	**62**	**29%**		
3. Capital Employed				**ROCE**	
Segment A : Eng. Projects	804	629	28%	2%	3%
Segment B : Eng. Products	85	95	-11%	151%	118%
Segment C : Unitary Cooling	258	189	37%	67%	61%

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

Segment A – Electro-Mechanical Projects and Services

Segment Revenue was at ₹ 525 crores as compared to ₹ 671 crores in the corresponding quarter last year, largely on account of drop in turnover of International projects. Segment Result was at ₹ 5 crores, by and large at par with the corresponding quarter last year.

<u>International</u>

Over the course of the last 12-18 months, the Division has taken various actions to strengthen internal capability to plan for and squarely address some of the changes seen in the local environment impacting our business. While increased and often illogical pricing based competition was always a problem, we now have to contend with current day concerns that plague the industry - delays in approval of designs, multiple scope changes, availability of adequate Indian visas, timely certification, resolution of claims and more importantly final settlement of accounts. In response to these challenges, the Division has adopted a more stringent commercial approach apart from changes made earlier to the leadership team. However in the interim, extension of the completion dates and delays in settlement warrant conservative provisioning in line with the requirements of AS-7. Although the local propensity to dispute is high, our internal expectation is that some of these provisions might get partially reversed based on the quantum of variations, claims and settlements finally negotiated.

As reported earlier, in July-2014, the Main Contractor of the Sidra Medical and Research Centre in Qatar was terminated by the end customer (Qatar Foundation) and a new main contractor was appointed. As provided in the original contract, Qatar Foundation has asked for the assignment of contracts of select subcontractors to the new main contractor. However, a formal understanding to that effect is yet to be reached. Uncertainties in the completion schedule, assignment of the sub-contracts and approval of variations/claims continue, which could modify the Company's current estimates of cost and entitlements. Overall, the situation on the ground remains more or less similar to those that existed at the end of the previous quarter. Nevertheless, the estimates of costs & revenue would be revisited from time to time in line with accounting standards and the Company continues to pursue its entitlements vigorously.

The total carry-forward international order book, as of September 2014 now stands at ₹ 1458 crores. More recently, post closure of accounts, the Company is in receipt of LOI's worth ₹ 510 crores. The Division continues to focus on booking medium sized projects at the right margin and with a more manageable risk profile.

<u>Domestic</u>

The regular inflow of positive statements of intent together with some actions from the Govt. seems to have lifted the sentiments and performance across the industry. However, the uptick in the manufacturing sector has been lower compared to other sectors. In fact, given the absence of substantive reforms the recovery in the wider Capital Goods industry could be further delayed. Order booking across Industry, remains sluggish as is evident from the already published results of various peers. The pending order of the Domestic Projects Business stands at ₹ 2221 crores. This includes a new order of ₹ 104 crs for Rural electrification recently booked in MP; more such tenders are anticipated in the coming months.

Despite an unhelpful environment, the overall performance has been maintained. The slow pace of execution and delayed payments continues to put strain on the overall performance of this business. The larger metro project orders are similarly yet to pick up given slow pace of civil works. Nevertheless, the business efficiency improvement program initiated earlier has led to various improvements in the processes & systems, conserving costs and leading to realization of savings. Collection of outstanding and timely settlements remains a priority for the business.

Segment B – Engineering Products and Services

Segment Revenue and Result were at ₹ 87 crores and ₹ 32 crores as compared to ₹ 126 crores and ₹ 28 crores respectively, in the corresponding quarter last year.

The Mining business which was already reeling under the ban on activities has faced further setbacks with the recent order cancelling allocation of coal blocks. Although the IIP numbers indicate some positive movement, there has been limited improvement on the ground. The strategy of the business to explore opportunities overseas has helped the business tide over the difficulties prevalent in the domestic market. Importantly, the Mozambique operations have contributed to the quarter's performance owing to realization of additional profits on closure of accounts, coupled with some changes in forward profit estimation methods on MARC contracts.

In the Textile Machinery business, the earlier wide-spread expectation of continued high growth rates as in the previous year appears misplaced. With cotton prices in India remaining firm and China continuing to maintain huge stocks, there has been a substantial correction in yarn prices. Additionally, with the changes in China's cotton policy, there has been a sizeable fall in yarn exports. This has substantially dented sentiments & operating levels of spinning mills, thereby affecting new machinery and spare sales. To add to these woes, Governments in certain states like Tamil Nadu have initiated power cuts, while others like Punjab have increased the power tariff adding costs and making exports even more unviable. Battling these odds, the Textile Machinery business has returned Revenue and Result which are better than the previous year.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

Segment Revenue was higher at ₹ 345 crores as compared to ₹ 264 crores in the corresponding quarter last year. The growth in turnover is partly owing to favourable weather, improving customer sentiment apart from a sales push in anticipation of strong festival demand. Accordingly, AC sales volumes have increased by 28% vs. last year. The Company maintains its market leadership in room air conditioners with a market share of 22.3% at Multi-Brand Outlets, based on Sept 2014 GFK Nielsen Retail Audit findings. The substantial lead over the nearest competition continues to be maintained and is reflective of the strong brand recall and associated customer pull. The Commercial Refrigeration business too performed well having executed a large order for supply of chocolate coolers.

Similarly, Segment Result was better at ₹ 43 crores as compared to ₹ 29 crores in the corresponding quarter last year. The growth in profitability is a reflection of higher sales volumes coupled with improved margins. The steady rise in margin realization is also owing to the better product mix (incl. growth in share of split ACs) suitably complemented by optimization of procurement costs. The popular 0% finance scheme continues to add to the overall spend on promotion schemes, while assisting in the buildup of volumes.

Sum-up

Overall, the Products business continues to fare well despite various adversities and intense competition. At the same time, the Projects business has held steady through this lean environment led business cycle. More importantly, Voltas has used the opportunity to gainfully strengthen processes and step-up internal capability in preparation for better times. Needless to state, liquidity is of paramount importance and the virtually debt-free Voltas Balance Sheet continues to offer resilience and safety.

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.

17th November 2014