VOLTAS
A TATA Enterprise

ANALYSIS OF RESULTS
QUARTER ENDED 30th September 2015

Discussion on the global economy appears to be dominated by four themes - the Chinese slowdown, the impending rate hike by the US Federal Reserve, the large-scale slump in global commodity prices (especially oil), and the continued sluggishness in the pace of economic recovery. The recovery in the US and UK is likely to be modest in the near term while Europe is slated to grow only marginally higher at 1.5%. The timing of the US monetary decision also appears contingent on the turnaround of certain key macro-economic indicators. Without a bounce back in the Chinese economy, the outlook on commodity prices remains weak. At the same time, given the high fiscal dependence of GCC countries on oil, a continued downward trend will limit their public spend - even rich economies like Saudi are now beginning to feel a fiscal pinch.

The Indian economy is however widely anticipated to grow at 7-7.5% with potential for even higher growth. The industry is hoping for private investment and consumer sentiment to revive once the initiatives taken (and talked about) by the Union Government begin to find traction. The RBI recently cut interest rates given the backdrop of moderate inflation – WPI inflation has been in negative territory for the last 11 months. The higher than expected rate cut has largely been perceived as a timely attempt to push-start growth in the economy. That said, erratic monsoons have resulted in deficit rainfall which could possibly affect food prices going forward. More recently, the PMI for manufacturing sector announced in October has slowed down to 50.7, a 22 month low. In general, urgent progress on reforms by the Govt. remains of paramount importance in building the fortunes of the Indian economy. The expectation is that the RBI and the Government will work together to create the necessary growth enablers like moderate inflation, stable exchange rate, and prudent fiscal consolidation. Early resolution of gridlocks on land acquisition, enactment of GST and labour policy would also provide a strong push to the investment climate in the country. The latest election results further underlines the need for the Govt. to re-think and re-strategize on how to pass the pending reforms on an urgent basis.

In this environment, the Consolidated Sales / Income from Operations for the quarter ended 30th September, 2015 was higher at Rs. 1060 crs as compared to Rs. 969 crs in the same quarter last year. Net Profit (after Minority Interest) was Rs. 44 crs as compared to Rs. 50 crs last year. Corresponding numbers for the Half Year FY 16 are Rs. 2655 crs and Rs. 155 crs respectively. Consequently, Earnings per Share (not annualized) stood at Rs. 4.68 as at 30th September 2015, as compared to Rs. 4.80 as at 30th September 2014 (Face Value per share of Re. 1).

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

Segment Reporting	Q2		% Growth over PY	% of Total Revenue	
	FY 16	FY 15		FY 16	FY 15
1. Revenue					
Segment A : Eng. Projects	621	525	18%	59%	54%
Segment B : Eng. Products	96	87	10%	9%	9%
Segment C : Unitary Cooling	314	345	-9%	30%	36%
Net Revenue from Operations	**1060**	**969**	**9%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	11	5	121%	2%	1%
Segment B : Eng. Products	34	32	6%	35%	37%
Segment C : Unitary Cooling	35	43	-17%	11%	12%
Total	**84**	**80**	**4%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	580	804	-28%	6%	2%
Segment B : Eng. Products	75	85	-12%	155%	132%
Segment C : Unitary Cooling	382	258	48%	78%	123%

Segment A – Electro-Mechanical Projects and Services

Segment Revenue was higher at Rs. 621 crs as compared to Rs. 525 crs in the corresponding quarter last year due to a pick-up in the execution of new projects. Segment Result was at Rs. 11 crs as compared to Rs. 5 crs in the same period last year. Carry forward Order Book of the Segment stood at Rs. 3599 crs as compared to Rs. 3679 crs last year with Rs 201 crs of Orders being booked in Q2 FY 2016.

The International business continues to deal with a difficult environment plagued by various issues including slow pace of execution, delays in settlement, significant increase in commercial disputes, visa availability problems, etc. The drop in oil prices combined with some regional instability has further added to the uncertainty in an already damp market. A paucity of appropriately risk-mitigated orders therefore continues to impact order booking as well as the overall performance of the International Division.

The multipurpose sports complex project in Qatar (booked in late 2013) has now been handed over to the Clients with profitability in line with expectations at the time of tendering. Meanwhile, given that some of our new projects are yet to cross the threshold limit, it may be noted that the growth in turnover has not resulted in corresponding expansion in profitability. While we remain focused on sensibly improving the carry forward order book, considerable emphasis is also being placed on quick commercial closure and resolution of past projects. Order book for Intl. Projects now stands at Rs. 1734 crs.

On the Domestic front, even as the RBI has reduced the borrowing rates, availability of capital continues to be a worry with large parts of the private sector still waiting for public spending to take off. Activity in our addressable segments of HVAC and E&M is limited with the few orders being tendered, witnessing intense competition and often illogical pricing. Given our focus on profitability, we continue picking up orders selectively in an appropriately risk mitigated manner at our threshold margins. Nevertheless, delays in project execution, deferment of commercial entitlements and an adversarial approach to settlements have, to some extent, subdued the performance for the business.

The Business is making a conscious effort to expand the service portfolio - during the current quarter, O&M contracts aggregating to Rs 64 crs for 3 year maintenance of Chennai and Kolkatta Airport have been booked. With that, 14 airports across India are now being serviced by Voltas. Although delays in decision making on some orders have caused a spill over to Q3, the total order book for the Domestic Division stands at Rs. 1865 crores at end of Q2.

Despite the liquidity constraints of the current business environment, the projects business has remained focused on commercial closure / collecting cash, thereby reducing the capital employed in the segment by over Rs. 200 crs.

Segment B – Engineering Products and Services

Segment Revenue and Result were higher at Rs. 96 crores and Rs. 34 crores as compared to Rs. 87 crores and Rs. 32 crores respectively, in the corresponding quarter last year.

The textile industry in India is passing through a rough patch given China led decline in exports, excess capacity, muted yarn prices as well as limited support from the Govt. Due to weak sentiments and lack of clarity on TUF, the demand for machines particularly in the weaving clusters remain subdued. Despite these adversities, the Textile business has performed better than last year given a spurt in investment activities in certain States in anticipation of Policy change. Our order book and market shares for spinning machinery have continued to grow.

The Mining & Construction Equipment business has shown improvement in performance due to better margins in overseas service operations. In recognition of our on-ground performance in service and maintenance contracts, Vale management has added further heavy equipment to our service portfolio. However, activity levels on the domestic mining front are yet to pick up despite resolution of some of the roadblocks. Tendering activity for equipment for coal mines remains delayed, with some tenders going in for re-tendering. Weak market conditions have also slowed down the sales of construction equipment including crushing, screening, etc.

Segment C – Unitary Cooling Products

Segment Revenue was at Rs. 314 crores as compared to Rs. 345 crores in the corresponding quarter last year. Demand was subdued in the room AC business given erratic weather, lower customer offtake and the resultant muted industry growth. The larger northern market actually recorded a de-growth of 10% in H1. Given the weak performance of the industry in the peak summer season, competition has increased substantially with price undercutting along with attractive sales & service promotional offers being provided. The Company has however, chosen to adopt a more prudent longer term approach, suitably protecting the profitability of this segment. Voltas continues to maintain its market leadership position with more than 20% market share and a difference of over 400bps vis-a-vis the nearest competitor.

Learning from the test launch of Air Coolers earlier in the year, the business is ramping up its product portfolio and dealership network for the upcoming season.

Segment Result was at Rs. 35 crores as compared to Rs. 43 crores in the corresponding quarter last year on account of lower sales volumes combined with under absorption of certain costs. Moreover, last year's performance included a large one time order for Commercial Refrigeration products.

Sum-up

Major infrastructure spends both in India as well as in Middle East would provide suitable opportunities to selectively book orders in a risk mitigated manner in the next few quarters. The room AC business is weather reliant like the rest of the industry. While H1 this year witnessed some de-growth in terms of primary sales, it is anticipated that the upcoming festive season would boost consumer demand. The Textile and Mining equipment product segments continue to hold their own, patiently waiting for the upswing in the business environment.

09th November 2015