VOLTAS
A TATA Enterprise

ANALYSIS OF RESULTS
QUARTER AND SIX MONTHS PERIOD ENDED 30th SEPTEMBER 2016

We live in an increasingly unpredictable world - the US presidential elections, Brexit and socio economic tensions dominate newspaper headlines across the World. Meanwhile, crude oil prices have not recovered, the yuan has slipped marginally and new energy norms are here to stay. While the IMF has reduced global growth rate projections to 3.6%, it sees India as more resilient with double the growth average.

Supported by a better monsoon this year, sentiments have improved and select economic indicators like inflation, interest rates, etc., indicate a level of positivity. At the same time, the Government continues to demonstrate serious intent to fast forward the reform agenda as evinced by more recent developments (GST, demonetization, infrastructure spending, rural electrification, etc. to mention a few). Nevertheless, capacity utilization levels remain subdued, IIP for capital goods is significantly negative, private sector spending continues to be muted and there are some uncertainties surrounding demonetization.

At Voltas, the Consolidated Income from Operations for the six month period ended September 30, 2016 was higher by 8%, at Rs. 2817 crores as compared to Rs. 2605 crores in the corresponding period last year. Led by higher sales of Unitary Cooling Products, Profit before tax was higher by 40%, at Rs. 350 crores as compared to Rs. 249 crores last year. Profit after tax was also higher at Rs. 234 crores as compared to Rs. 166 crores last year. Earnings per Share (Face value per share of Re. 1, not annualized) as at Qtr. end improved to Rs. 6.9 as compared to Rs. 5.1 last year.

For quarter ended September 30, 2016, the Consolidated Income from Operations was Rs. 972 crores as compared to Rs. 1044 crores in the previous year. This reflects increased revenue from unitary products offset by lower revenues in Projects. However, Profit before tax was higher by 22%, at Rs. 125 crores as compared to Rs. 103 crores last year. Profit after tax was also higher by 15%, at Rs. 74 crores as compared to Rs. 65 crores 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:-

Rs. Crs

Segment Reporting	For the quarter ended		% Growth over PY	% of Total Revenue	
	Sept'16	Sept'15		Sept'16	Sept'15
1. Revenue					
Segment A : Eng. Projects	543	636	-15%	56%	61%
Segment B : Eng. Products	75	96	-22%	8%	9%
Segment C : Unitary Cooling	354	312	13%	36%	30%
Income from Operations (Gross)	**972**	**1044**	**-7%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	5	17	-71%	1%	3%
Segment B : Eng. Products	30	34	-12%	40%	35%
Segment C : Unitary Cooling	41	34	21%	12%	11%
Total	**77**	**85**	**-9%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	732	590	24%	4%	9%
Segment B : Eng. Products	82	75	9%	121%	154%
Segment C : Unitary Cooling	248	386	-36%	176%	77%

To ensure comparability, the figures for the previous periods have been appropriately regrouped / restated as per the new Indian Accounting Standards (Ind AS).

Segment A – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was lower at Rs. 543 crores as compared to Rs. 636 crores in the corresponding quarter last year partly owing to slower than expected progress on some International projects. Segment Result was Rs. 5 crores as compared to Rs. 17 crores last year, reflecting the progress made on commercial closure of certain overseas legacy projects. Order Book of the Segment stood higher at Rs. 4252 crores as compared to Rs. 3736 crores in the same quarter last year, providing better forward revenue visibility.

On the International front, the pace of project execution willy-nilly depends upon the movement and forward price projections of crude oil. During the Qtr, liquidity conditions remained tight, leading into certification / payment delays, protracted negotiations on settlements etc. for the industry as a whole. It is no secret that many of our regional industry peers are facing significant financial stress. Given the environment, our internal priorities are on speedy settlement and commercial closure of legacy projects. As stated in previous conversations, quarterly performance would continue to be somewhat lumpy, closely linked as it is to these developments. The performance for the current quarter thus factors in both positive & negative outcome of legacy project negotiations. That said, we have progressed well, and our endeavor is to substantially complete financial closure of legacy projects by end of the financial year. We expect to have only a couple of arbitrations pending as we go into the next financial year. With the inflow of suitably risk mitigated orders in more recent times and the higher order backlog of Rs. 2065 crores (compared to Rs. 1871 crores, last year), we feel a little more confident about our international business.

Some time ago, we had strategically narrowed our domestic project focus towards public spending and externally funded investments as a sensible way of mitigating the credit risks associated with the private sector. Accordingly, we had increased our order share in areas such as urban infrastructure, rural electrification and water. The current order backlog of Rs. 2187 crores (as compared to Rs 1865 crores, last year) consequently reflects higher quality and a better assurance of financial recovery. Orders of Rs. 382 crores booked during this Qtr. thus include Rs. 121 crores for a water treatment plant at Agra smart city, a large HVAC order in public sector, etc. Progress during the Qtr. on some of the currently ongoing domestic projects have been slower than anticipated, although a pick-up in pace of activity is expected.

Segment B – Engineering Products and Services

The challenges in the Mining and Textile Industry in India are well known. Segment Revenue and Result for the quarter were Rs. 75 crores and Rs 30 crores as compared to Rs. 96 crores and Rs 34 crores, respectively in the corresponding quarter last year. EBIT margins for this segment tend to swing depending on the contribution of equipment sales in the overall revenue mix - compared to last year, equipment sales have been lower in the current period.

In Textiles, we have been witness to a huge surge in price of cotton, not followed through in relative price of yarn. This has led to margin pressures across spinning mills, with many deciding to opt for partial shut-downs. At the same time, the withdrawal of TUF for Spinning and difficulties in obtaining bank finance has delayed investments. We do however see an amount of subsidy driven orders, especially in States offering special incentives. On the positive side, we see an improvement in the Post spinning side of the business.

On the Mining front, Mozambique operations continue to drive the performance. Addition of more machinery in our scope of maintenance services continues to enhance our performance. Meanwhile, business in India remains sluggish with lower equipment sale as compared to last year. However, more recently the business has won a large order for crushing & screening equipment in the road sector.

Segment C – Unitary Cooling Products

Given monsoon across most parts of the country, the consumer demand in this quarter is typically muted. However segment revenue was higher at Rs. 354 crores as compared to Rs. 312 crores in the corresponding quarter last year representing a 13% growth. Segment Result was higher at Rs. 41 crores as compared to Rs. 34 crores in the previous year reflecting a higher growth of 21% and a 12% result to revenue ratio.

While we witnessed significant growth in secondary sales volumes in Q1, the current quarter saw higher demand from channel partners, re-stocking inventory in preparation for the festive season. Sensing the uptick in consumer demand, Voltas had launched an aggressive marketing campaign in the South, ably supported by promotional offers and optimal pricing. This has resulted in further growing our Southern markets and widening the lead vis-a-vis our nearest competitor. As per independent third party reports, Voltas continues to grow ahead of the market and remains the undisputed leader for Room Air Conditioners across all regions of India with an overall market share of 22% at Multi-Brand outlets. The Air Cooler and Commercial refrigeration businesses have also seen better volumes as compared to last year.

The emphasis remains on improving our brand equity, increasing channel partners, building relationship with key accounts and strengthening the product portfolio with price relevant offerings. The recently concluded Kigali climate conference was an important event for the Air-conditioning and refrigeration industry given the impact of refrigerant gases. Although there would not be any immediate changes, the industry at large including component suppliers would need to gear up to ensure compliance to the agreed schedule

A degree of concern has been expressed on the impact of de-monetization on the consumer durables industry. External estimates suggest that approx. 40% of end consumer purchase operates on a cash basis. Till the liquidity position stabilizes, some impact is likely in the immediate short term. That said, the move has come firstly, post the festive season and secondly, in a traditionally lean (colder) phase of the year. By the time we go towards year end and the summer begins to set in, our expectation is that the situation should normalize.

GST is another change that will need to be addressed. While many of the rules and regulations are yet to be finalized, we have already commenced taking appropriate steps to ensure compliance and optimize benefits.

Sum-up

The longer term potential of all the businesses that we are currently present in remains secure. However, the nature of business is such that short term challenges and cyclical trends will always be part and parcel of the environment. We believe that our internal planning based on sensitivity analysis and forward assumptions provide a level of confidence in successfully navigating turbulent times. Needless to state, the strength of our balance sheet with a negligible debt situation puts us in an enviable position.

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.

18th November 2016