## *ANALYSIS OF RESULTS*
## *QUARTER AND SIX MONTHS ENDED 30th September 2017*

The global economy is increasingly characterised by improving indicators in major economies. While China seems to be on a rebound, the American economy too is showing signs of an initial recovery. Meanwhile the Qatar embargo continues and recent developments in Saudi Arabia seem to be pushing up the oil prices. Global commodity prices esp. for copper and aluminium are also on an increasing trend.

On the domestic front, the signals are mixed. On one hand, the implementation issues on the Goods and Services Tax (GST) are especially hurting SMEs and cash dependent businesses. This together with lingering effects of demonetization has led to operational disruptions in supply chains. The GST council is seized of the issue and some industry beneficial changes in GST rates and procedures are expected to be shortly announced.

Green shoots of economic recovery can be seen, with an increase in IIP (4.3%, Aug'17, y/y) and inflation (CPI 3.3% Sep'17, y/y). The economic recovery is partially reflected in the increasing sales of 2 and 4 wheelers during Q2. The rural economy is also now showing signs of improvement due to an increase in wages, Minimum Support Prices (MSPs), and a largely normal monsoon. The Government has announced plans for increasing spend on infrastructure (Bharatmala project), electricity transmission (*Saubhagya* scheme) and cleaner water distribution (*NamamiGange* project). However, the Private Sector capex spend is yet to pick up.

The Consolidated Sales/Income from Operations for the quarter ended September 30, 2017 was higher by 6%, at Rs. 1032 crores as compared to Rs. 972 crores in the corresponding quarter last year. Profit before tax increased by 8%, to Rs. 130 crores. Profit after tax simultaneously improved by 22% to Rs. 95 crores, due to a lower tax rate over the corresponding quarter of the previous year. Earnings per Share (Face Value per share of Re. 1, not annualized) as at September 30, 2017 moved up to Rs. 2.86.

Other Comprehensive Income recognized as per IND-AS mainly includes notional mark to market revaluation gains / losses on various longer term investments. Total Comprehensive Income for the Quarter stands at Rs. 140 crores as compared to Rs. 101 crores in the corresponding quarter last year. Our continued focus on profitability, cash flow and growth has ensured a robust Balance Sheet.

**Analysis by segment:**

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

| Segment Reporting | For the quarter ended | | % Growth over PY | % of Total Revenue | |
|---|---|---|---|---|---|
| | Sept'17 | Sept'16 | | Sept'17 | Sept'16 |
| **1. Revenue** | | | | | |
| Segment A : Eng. Projects | 557 | 543 | 3% | 54% | 56% |
| Segment B : Eng. Products | 67 | 75 | -11% | 6% | 8% |
| Segment C : Unitary Cooling | 408 | 354 | 15% | 40% | 36% |
| **Gross Income from Operations** | **1032** | **972** | **6%** | | |
| **2. Segment Results** | | | | **Results to Revenue** | |
| Segment A : Eng. Projects | 30 | 0 | > 100% | **5%** | 0% |
| Segment B : Eng. Products | 28 | 30 | -9% | 41% | 40% |
| Segment C : Unitary Cooling | 51 | 41 | 24% | 12% | 12% |
| **Total** | **109** | **72** | **52%** | | |
| **3. Capital Employed** | | | | **ROCE (Annualised)** | |
| Segment A : Eng. Projects | 704 | 732 | -4% | **19%** | 3% |
| Segment B : Eng. Products | 72 | 82 | -12% | 148% | 121% |
| Segment C : Unitary Cooling | 266 | 248 | 7% | 166% | 176% |

**Segment A – Electro-Mechanical Projects and Services**

Segment Revenue for the quarter was marginally higher at Rs. 557 crores as compared to Rs. 543 crores in the corresponding quarter last year. Similarly, Segment Result improved to Rs. 30 crores reflecting a better margin of 5%. Order Book of the Segment stood higher at Rs. 5000 crores (Domestic Rs. 3200 crores) as at 30th September, 2017, as compared to Rs. 4252 crores in the same period last year.

International Operations

The situation in GCC countries indicates a slow pickup in economic activity, mainly tied to the upcoming Mega Events in the geography. In the UAE, we are witnessing award of contracts to the main contractors for Expo 2020 related work. As far as Qatar is concerned we remain conscious of the political impasse and have adopted a cautious approach towards suitably risk mitigated order booking. The improved performance of the Divisions can be attributed to better project selection and execution, and astute commercial cum cost management.

Domestic Projects

Our strategy to focus on Government projects and continuous efforts to pick up good quality work has held the business in good stead. However GST related issues have impacted turnover of this business. Domestic projects had Rs. 600 crores of orders booked for the quarter. This includes Rs. 300 crores of orders for electrification projects. We see even more opportunities for our scope of work in the recent announcements by the Govt. on infrastructure and electrification projects. Smart execution and productivity will continue to be the drivers for profitability.

## Segment B – Engineering Products and Services

Segment Revenue and Result for the quarter were lower at Rs. 67 crores and Rs. 28 crores as compared to Rs. 75 crores and Rs. 30 crores respectively. In the Textile Machinery business the lingering effects of demonetization apart, challenges in the GST implementation for the sector has slowed down investments in new projects. Additionally, there has been a pressure on margins due to the declining yarn prices and residual ambiguity on implementation of state specific policies.

In Mining and Construction Equipment, Mozambique operations contribute a significant share to the Division's performance. Mining activity in India remains tepid as re-auctioned mines are yet to commence operations. Meanwhile, the Govt. announcements on increasing spend on road infrastructure (*Bharatmala* project) augurs well over the medium term for the sale of Crushing and Screening equipment.

## Segment C – Unitary Cooling Products

The lack of clarity of GST transitional credits in the month of June led to a spurt in secondary sales while primary sales slowed down. Dealers offered heavy discounts on products. In Q2 we witnessed a restocking of inventory, however secondary demand was affected due to the pre-buying in June and prolonged monsoons.

The Voltas brand maintained its No. 1 position in the Room Air-Conditioner market and improved its market share to over 23% (in Multi-Brand outlets) in Q2. The early to market festive campaign combined with customer friendly promotional offers / dealer support measures met with an encouraging response from the Trade. We have ramped up our products, with the right mix in the energy efficiency segment which are being well received in the market. With these products and allied marketing initiatives we are improving our market share.

Segment Revenue for Q2 improved to Rs. 408 crores as compared to Rs. 354 crores in the corresponding quarter last year. The Segment Result for the quarter was 24% higher at Rs. 51 crores as compared to Rs. 41 crores last year, with a margin of 12.4%.

## Sum-up

Notwithstanding the environmental and economic challenges, we remain cautiously optimistic on the opportunities for growth. In the unitary cooling products segment, restocking by our trade partners, higher focus on energy efficient products, a stronger rural economy and improving macros could well be the growth drivers.

We expect the Indian Govt. to continue the investment cycle which would generate demand for MEP work and offset, to some extent the subdued activity in private sector capex spend. At the same time, we are cognizant of the potential political and economic headwinds for our international business. Focus remains on securing good quality, commercially viable, risk mitigated orders in our Projects business. Our balance sheet continues to be robust with low debt and a comfortable cash position.



*10th November 2017*