VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER AND 9-MONTH PERIOD ENDED 31st DECEMBER 2011

The global economic crisis continues to adversely impact all aspects of business and the economy. In the domestic sphere, high interest rates and inflation persist, resulting in the deferment of capital investment, a slowdown in business activity, and a decline in consumption, all pointing to a largely negative sentiment across the board.

Against this backdrop, the Company's consolidated Sales and Income from Operations cumulatively grew by 3% to Rs 3622 crores, as compared to Rs 3530 crores in the corresponding period last year. Profit after Tax and Minority Interest and share in loss of Associate was Rs 58 crores, as against Rs 256 crores in the previous year, primarily due to the recognition of expected cost over-runs on a particular Onerous contract. Earnings per share (EPS) stood at Rs 1.76 on face value of Re. 1 per share (not annualized).

Given below is a snapshot of the highlights for the consolidated results for the period under review:

	Qtr-3		9 months FY12	
	CY	PY	CY	PY
Increase in TO	11%	5%	3%	6%
EBITDA Margin	9.0%	9.1%	7.8%	11.0%
Increase in Profit before Excep. Items	7%	-15%	-32%	-2%
Increase in PBT	-272%	-8%	-79%	3%
Increase in PAT and Minority Interest	-264%	-7%	-77%	5%
Taxation as percentage of PBT	NA	31%	27%	32%
Positive EVA	8%	15%	8%	15%
EPS (Rs.)	(3.49)	2.13	1.76	7.74
Return on Net Worth (w/o Excep. Items)	41%	17%	20%	23%
Debt / Equity ratio	0.21	0.08	0.21	0.08

The Voltas Balance Sheet continues to remain strong with Shareholder’s equity at Rs. 1429 crs against Rs. 1338 crs for the comparable period last year. Increase in the Debt Equity Ratio reflects higher borrowings of Rs. 194 crs, mainly from Overseas operations. The Company’s liquidity position is comfortable with cash and bank balances at approx. Rs. 290 crs and liquid investments aggregating Rs. 308 crs against Rs. 126 crs as at end of December last year.

Consolidated Segment Results for the Quarter :

Segment Reporting	Q3 Dec-11	Q3 Dec-10	% Growth over Pr. Yr	% of Total Revenue Dec-11	% of Total Revenue Dec-10
1. Revenue					
Segment A : Eng. Projects	824	693	19%	71%	66%
Segment B : Eng. Products	88	143	-39%	8%	14%
Segment C : Unitary Cooling	234	197	19%	20%	21%
Net Revenue from Operations	1154	1039	11%		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	60 *	44	37%	7%	6%
Segment B : Eng. Products	17	25	-34%	19%	18%
Segment C : Unitary Cooling	14	19	-25%	6%	10%
Total	90	89	1%		
3. Capital Employed				**ROCE**	
Segment A : Eng. Projects	550	344		44%	51%
Segment B : Eng. Products	90	96		74%	104%
Segment C : Unitary Cooling	296	238		19%	32%

* Rs. (216) crs after Onerous Contract

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 & Services

The Consolidated Turnover of the segment was higher by 19% in the Quarter and 8% for 9 months over the comparable periods in the previous year.

Without considering the impact of the onerous contract of Rs. 277 crores accounted in this quarter, the profitability of the segment has, by and large been maintained. It however includes the impact of some full and final settlements, apart from the usual upward and downward revision of margins on ongoing projects where found necessary.

The Onerous contract referred to pertains to the Sidra Medical & Research Centre, a prestigious project in Qatar. This is a large and complex, design-and-build, state-of-the-art hospital with world-class facilities with a total investment of approx. USD 2.5 bn. The Company's share of work is valued in excess of Rs 1000 crores, and involves extensive coordination with multiple agencies and intermediaries. This project which has been in execution since

2008, has more recently been speeded up, and is expected to be completed in phased stages by end 2012.
The design and build nature and complexity of the project, combined with the Client's quest for attaining truly global standards has had an impact on various cost parameters. In addition to elongated project schedules and lapsed time, there have also been numerous difficulties and complications including the non-availability of Indian Workmen visas.

Although only 53% of the project has been completed as of 31st December, the company has in line with AS-7 accounted for the total estimated cost of the project. The estimates for Sidra have been finalized after an extensive techno commercial review by the Management taking cognizance of cost incurred, and to be incurred, to complete the project on time. Additional revenue claims will be recognized at a later stage as per the accounting standard requirement, once they are crystallized and there is greater clarity about the final outcome.

At this point of time, in the best tradition of Voltas, our efforts are focused on the timely high quality conclusion of the project to the entire satisfaction of our Client. The completion of this 'one of a kind' project will be a creditable achievement and an important milestone for the Company. We also believe Sidra will have great value in terms of the Company's standing and prospects in Qatar, which offers the most attractive growth opportunities in the Region, especially with the upcoming events of FIFA 2022. The various iconic projects we have done in recent times, including the Burj Khalifa, the Conference Palace Hotel, the Ferrari Experience, Formula 1 Race Track, Etihad, etc have helped the Company emerge as one of the more preferred contractors in the Middle East Region.

The Company has won the prestigious 'MEP Contractor of the Year' Award in both the UAE and Qatar for 3 years and this has considerably enhanced our reputation and brand value. The Company's order backlog stands at Rs.3145 crores, of which Rs. 829 crores (incl. VL portion of JVs and Subsidiaries) was won in the current financial year and Rs. 560 crs in the current quarter. The long-run business prospects in the GCC region remain excellent, and the Company has in fact formed joint ventures in Saudi Arabia and the Sultanate of Oman to expand its reach.

The **Domestic Projects Business** has performed well, despite the difficult economic conditions. At a time when several competitors in this business have reported less than satisfactory results, the Company has seen an increase in both revenue and profit. The consolidated order backlog (including Water Management and RIEL) is healthy, and the carry-forward position has risen to Rs 1949 crores, an increase of 23% over the corresponding figure for last year. This includes Rs. 403 crores of orders booked during the quarter and Rs. 958 crores during the year.

However managing cost and cash flow continues to be a challenge in the domestic projects business, given the current industrial environment. We are seeing a slower pace of project movement and a tendency of delayed payments and consequently, higher outstandings. As part of our mitigation efforts, we have put in place various measures to reduce operational and administrative costs. The electro-mechanical segment has also expanded its O&M and AMC operations and the business has renewed its certification for ISO 9011:2008 for a further 3-year period.

In the **Water Management** sub-segment, the order book has grown by 83% over the same period last year, to reach Rs 342 crores. This includes a sizeable order of approx. Rs 165 crores from Tata Steel, as well as a breakthrough order into the power sector for pre-treatment. The business continues to focus on marketing and business development, and building up human capital capability to meet the growth needs of the future.

In order to extend our offering to many more clients across India, we have reorganized the Water Business and combined it with the Domestic Electro-Mechanical Business. This will help leverage their Business Development, Projects and Customer Care network as well and provide a substantially larger platform for the Water Management business to grow in a sustained manner. Apart from the obvious synergy, the business will also gain from relationship with common customers (Steel, Power, Oil & Gas, and Pharmaceuticals) and with key consultants. In addition, common functions such as Procurement, HR, finance, etc, will provide increased cost efficiencies and facilitate continuous process improvement in a more cost effective manner.

The stand-alone order book of **Rohini Industrial Electricals** showed a 10% increase over the previous year, to Rs 235 crores. The proportion of 'legacy' orders with poor margins has lessened and the endeavour is to close a majority of such orders by March-end. The business is making a concerted effort to develop new business while reducing its fixed costs, to become more competitive and profitable in times to come.

Outlook

The carry forward total order book of Rs 5094 crores for the business provides revenue growth visibility over the next 15-18 months.

In the international projects business, the overall slowdown continues and the awarding of contracts remains cautious and often delayed. On the positive side, the Abu Dhabi and Qatar markets are beginning to show promise after two years of uncertainty. Intense competition however remains a challenge, along with the consequent shrinkage of bidding margins. As earlier mentioned, the Company is pursuing JVs and strategic tie-ups as a promising avenue for growth, especially in terms of bidding advantage and maximising reach. Commercial Registration of the Olayan JV has been recently received

and we are now in the process of mobilizing resources to cater to our project execution needs in the rather promising KSA geography.
In the domestic sphere, we are hopeful of seeing a perceptible improvement in investor sentiment, as well as a greater governmental commitment and activity towards infrastructure investment and economic development. We expect matters to gradually improve over the medium term, and good prospects opening up in urban infrastructure, core industries and built environments.

Segment B - Engineering Products & Services

In view of the transfer of Material Handling business, the figures for Segment Revenues, Results and Capital employed in the period under review are not directly comparable to the corresponding period in the previous year. The consolidated 9-month segment turnover stands at Rs 305 crores, with profit at Rs 51 crores.

The Textile Machinery Division has performed well, achieving growth across these 9 months on the back of a sizeable order book built earlier. New investments in the Textile industry are however lagging given the poor sentiment, cyclical nature and pollution based environment issues being encountered.

At the same time, high interest rates and the poor pace of environmental clearance for mining activities is affecting the Mining and Construction Division. Global industry consolidation and the takeover of our erstwhile Principals (Bucyrus and Le-tourneo by Caterpillar and Joy respectively) has also impacted our business. While we continue to retain O&K maintenance contracts, Caterpillar has transferred part of its India business to its own dealers. Service agreements with Joy / P&H India is currently under discussion. In the meantime, business management is making a determined effort to manage costs and take advantage of each growth opportunity.

Segment C - Unitary Cooling Products

In spite of intense competition and unfavourable climatic conditions, Voltas has successfully maintained its No 2 position nationally (Dec GfK-Nielsen reported market share of 16.4%). At the same time it has held onto its No 1 position in the important market of Northern India. The industry as a whole has suffered aggregated sales volume de-growth of 28% over the 9 months under review. Voltas however contained the volume shortfall and has managed a 19% revenue growth in Q3 on the back of mix and pricing corrections. As compared to the immediately preceding Qtr 2 of current year, the company has also been able to reduce its capital employed by Rs. 45 crs mainly through liquidation of inventory. The thrust in commercial refrigeration products has yielded growth over the 9-month period.

Over this period, we have also undertaken extensive market research, the findings of which will be used to revitalize the Voltas Brand in preparation of the upcoming season. As a part of its strategy, the Company continues its focus on Tier-II and Tier-III towns.

Segment profitability has declined by Rs. 4.8 crs due to increase in raw material costs, greater advertising spend, and exchange rate fluctuations. There has also been an impact of a one-time spend of Rs 3 crores towards reversal of service tax.

Outlook

Long-term prospects for room ACs remain highly promising due to low penetration levels, coupled with the growing perception of air conditioning as a necessity rather than a luxury. Customer sentiment is expected to improve in 2012-13, with household disposable incomes on the rise and hopefully, both interest and inflation rates declining. The Company has planned a new line of energy-efficient room ACs, coupled with a strong thrust in distribution, marketing and advertising. Power availability is improving and it is hoped that climate change will for once be a positive factor.

There is also a concern that the new norms established by the Bureau of Energy Efficiency across the industry will obsolete some of the current products leading to growing inventory in the Industry. This could lead to some players with cash constraints being tempted to discount their products to reduce their inventory levels and improve cash flow. Volatility of commodity and currency prices is a further matter to be dealt with.

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.

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