VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 31st DECEMBER 2012

The macroeconomic business environment both in India and Overseas continued to be grim, posing multiple challenges in the way of industrial growth. On the Domestic front, various growth parameters appear to have hit an all-time low. GDP growth has so far been at 5.3%, the lowest in the last nine quarters. IIP numbers announced this morning for December have similarly recorded dismal numbers - capital goods de-growth of over 10% YoY. At the same time, new Investment proposals have dropped for the ninth consecutive quarter, the lowest since June 2004. The Government has responded by setting up a Cabinet Committee on Investments to fast track large projects in what is widely seen as a positive development. The RBI has also lent a hand with a dual rate cut and it is indeed hoped that business and investor sentiment will begin to gradually revive.

On the global front, the New Year began with some policy stimuli which could improve fundamentals in the year to come. While US GDP performance in the last quarter was comparatively lower, their economy seems to now be showing small signs of revival. The Euro-zone however remains in its ongoing state of crisis, although fears of collapse have temporarily receded. In the Company's principal overseas geographies the economic outlook is mixed – some positive trends in Qatar contrasted with weak GDP growth forecasts in UAE and KSA.

Against this difficult backdrop, the consolidated Sales/Income from operations **for the Quarter ended 31st December** at Rs. 1150 crores was largely in line with the comparable quarter of the previous year. Operating Profit was lower at Rs. 34 crores as compared to Rs. 89 crores in the corresponding quarter last year. Together with the sale of the remnant minority shareholding in the erstwhile Material Handling Business to Kion, Profit before tax was higher at Rs. 94 crores as compared to a loss of Rs. 170 crores last year. Net Profit after tax and Minority Interest was Rs. 77 crores as compared to loss of Rs. 115 crores in the corresponding quarter last year.

Given below is a snapshot of the highlights of the consolidated results :

	Quarter 3 Rs crs		Cumulative Rs crs	
	FY13	FY12	FY13	FY12
Increase in TO	-0.3%	11%	9%	3%
EBITDA Margin	4%	9%	6%	8%
Increase in Profit before Except. Items	-61%	7%	-18%	-32%
Increase in PAT and Minority Interest	166%	-264%	241%	-77%
EPS (Rs.)	2.32	-3.49	6.01	1.76
Return on Net Worth (w/o Excep. Items)	4%	41%	10%	20%
Debt / Equity ratio	0.23	0.21	0.23	0.21

The Voltas Balance Sheet continues to remain strong with Shareholder's equity at Rs. 1677 crores against Rs. 1429 crores for the comparable period last year. Increase in the Debt Equity Ratio reflects higher borrowings of Rs. 381 crores, mainly from Overseas operations. The Company's liquidity position is comfortable with cash and bank balances at approx. Rs. 238 crores as at end of December last year.

Consolidated Segment Results for the Quarter :

Segment Reporting	Quarter 3		% Growth over PY	% of Total Revenue	
	Dec-12	Dec-11		Dec-12	Dec-11
1. Revenue					
Segment A : Eng. Projects	797	824	-3%	69%	71%
Segment B : Eng. Products	107	88	22%	9%	8%
Segment C : Unitary Cooling	239	234	2%	21%	20%
Net Revenue from Operations	**1150**	**1154**	**-0%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	6	60	-90%	1%	7%
Segment B : Eng. Products	26	17	59%	25%	19%
Segment C : Unitary Cooling	15	14	4%	6%	6%
Total	**46**	**90**	**-49%**		
3. Capital Employed				**ROCE (annualised)**	
Segment A : Eng. Projects	1084	550	97%	6%	23%
Segment B : Eng. Products	117	90	30%	76%	76%
Segment C : Unitary Cooling	218	296	-26%	60%	38%

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 Company's experience in recent years confirms that the industry today is faced with a significantly more challenging operating environment. This is marked by intense and often illogical competition, wafer-thin margins, rising input costs and unreliable cash flows. Clients are increasingly risk-averse, trending away from large-scale and lavish project expenditure. The few projects that become available are also prone to extended award and execution delays, combined with an increasing propensity to dispute legitimate contractor claims and variations.

In both the domestic and overseas markets, a number of these adverse factors have brought about an apparent and more or less endemic decline across the engineering & construction industry, also seen in the Q3 results of many engineering companies. It is well known that under prevalent accounting standards (AS-7), <u>all</u> costs incurred as well as those costs that are still to be incurred need to be immediately and fully recognized in the current / reported quarter itself. However, revenue recognition is often deferred to future accounting periods given the absence of prompt certifications and firm acknowledgement of liability towards settlement of claims filed. Given this nature, swings / lumpiness in short term profitability across project businesses are unavoidable and tend to be based on the quantum of variations, claims and settlements that are physically effected from time to time. Equally, Capital employed in this business has grown disproportionately due to delayed certification and disputed settlements apart from the lack of mobilization advance that comes from procuring new orders.

While the Project business environment continues to be thus oppressive, the Company has used the economic downturn to take a pause and re-evaluate its business strategy. Our Order book, particularly in the International market is not what it used to be – we have in fact, steered clear of certain prestigious orders by conscious design. Indeed, obtaining Turnover without an appropriate assurance of adequate profitability and finality of Cash in hand is not a cause we can subscribe to.

Over the last two quarters, we have been in the midst of reorganizing and optimizing our business model. We had earlier spoken about the integration of our Water Management and RIEL business with the Domestic Electro-mechanical business to strategically service our customers, streamline operations and extract various synergies. Similarly in the International business, new leadership is in place, and business boundaries have been drawn based on margin thresholds and select geographies to help focus on profitability and consolidate.

In essence, several business strategies, practices and processes have been put in place, intended to not only mitigate the ill effects of the environment, but more importantly, to seize new opportunities on the upward leg of the business cycle ahead. Internal capability building is critical and business strategies will further evolve as we go forward and are expected to yield tangible benefits.

The Segment’s consolidated revenue was lower at Rs. 797 crores as compared to Rs. 824 crores last year. Profit before exceptional items stood at Rs. 6 crores as compared to Rs. 60 crores last year. Profitability was also impacted by the booking of the Sidra project's turnover at nil margin. The project is now nearing 90% completion and discussions are currently on with Client and Main Contractor to establish a firm date for completion based on arrival of medical equipment and certain other project considerations. Costs and revenue are being re-assessed from time to time, in line with applicable accounting guidelines. Voltas remains committed to completing this iconic project to the best quality and full satisfaction of the client, remaining optimistic as we do, about significant opportunities that the Region will offer in the construction run up to FIFA World Cup.

The Segment's total consolidated carry-forward order book as at 31st December 2012 stands at Rs. 4210 crores at current exchange rates as compared to Rs. 5094 crores, for the same period last year. As mentioned earlier, Management has evaluated risk and has strategically restricted the pursuit of orders which would not significantly contribute to profitability or the certainty of cash. The bulk of the new orders is from the domestic market and mainly from the Industrial segment and IT/ITES sector, where threshold margins are still forthcoming. The break-up of carry-forward orders between domestic and international are Rs. 2261 crores and Rs. 1949 crores respectively. RIEL has secured orders worth Rs 54 crores in the current quarter which places the carry-forward order book at Rs 234 crores.

For the 3rd year running, the Company has won the Award for 'MEP Contractor of the Year' and 'Overall GCC Project of the Year' for Abu Dhabi's Yas Water World, shared with the consultant Atkins. This is a repeat of Voltas' victory in 2011 for Dubai's Etihad Towers, as well as in 2010 for Abu Dhabi's Ferrari World. The Overseas business has also pre-qualified for UAE's Department of Presidential Affairs, whose tenders are known to be very challenging to secure.

Segment B – Engineering Products & Services

Notwithstanding all the issues in Mining and the Textile industry, we are happy to report encouraging results in this segment. Consolidated Revenue and Results were at Rs. 107 crores and Rs. 26 crores respectively as compared to Rs. 88 crores and Rs. 17 crores in the same period last year.

With the continuing ban on mining activities in certain states in India, the sector has been severely crippled. In a timely manner, Voltas has responded by realigning the focus of this division to other geographies, and has taken advantage of existing client relationships as they expanded their footprint to overseas locations. A noteworthy feature has been the supply of 11 large value Powerscreen crushers to mining operators in Malaysia and Indonesia during the year. The ongoing venture in mineral-rich Mozambique continues to be encouraging, with a doubling of revenue there from. Strategically the Company is investing substantially in expanding and reinforcing its strengths in product support, as well as its Operation & Maintenance capability. Its portfolio of offerings has also grown to include more products and new principals.

On the Textile Industry front, high volatility in cotton prices last year, combined with high inflation, high interest rates, severe power shortage in southern India and global economic stress took its toll. However, the situation has partly revived in the past few months, and the New Year is expected to be better, aided by the extension of the Technology Up-gradation Fund Scheme (TUF) by the Government of India. Key strengths of this business include a customer-centric approach and technical selling capability. These fundamentals in an improving business environment should augur well for the Division.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

In this segment again, we are once again happy to report better than industry performance. Business across the industry during the current year was significantly impacted by economic uncertainties, coupled with generally lower disposable incomes, higher prices and poor consumer sentiment. In fact, sales during the festive season were also sluggish, symptomatic of a much broader downtrend in the Room Air Conditioning industry.

Published GfK Nielsen figures indicate an Industry de-growth of 1% in the quarter and an overall de-growth of 7% this financial year. To the Company's credit, in an off-season quarter, the Segment's revenue grew by 2% to Rs 239 crores. Corresponding Profits have grown by 4% to Rs 15 crores notwithstanding the continued spend on advertising & brand building. The Segment's revenue and profitability also grew by 24% and 17% respectively during the year due to a variety of planned margin improvement interventions including increased local production and timely pricing decisions. Growth has also been driven by better traction witnessed in Commercial refrigeration products through sizeable OEM orders. Additionally, improvement in Cash flows was made possible by tighter control on outstandings and lower inventory levels.

Over the nine months period, the Company has sustained the leadership position in air conditioners it seized in May 2012. The 'all weather' proposition proved its appeal with both consumers and trade by addressing market needs of the winter months, and helped secure better sales growth, especially in the Northern markets. In the run-up to the upcoming summer season, the scheduled launch of the new product range coupled with a customer-oriented marketing thrust will help continue the build-up and penetration to seize the market’s untapped potential.

To summarize, the company has done reasonably well in two of its segments – Unitary Cooling and Engineering Products, beating internal expectation. Unfortunately, the performance of Segment ‘A’ has lagged behind as a consequence of the external environment and a variety of other factors including the paucity of good quality jobs. We have embarked on the task of steering our business in a well thought through strategic direction to face present project business realities. Better prepared as we now are, it is indeed our expectation that an upswing in the economic environment, when it comes, will bode well for the company. We remain cautiously optimistic of the future and look forward to an early recovery in the fortunes of the industry.

13th February 2013

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.