VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 31st DECEMBER 2013

There is a mixed feeling about the Indian economy going by the various business performance and sentiment indicators. The IIP, a widely used reference point for the state of industrial activity fell by 2.1% in November on a year-on-year basis, even sharper than October's decline of 1.6%. Entrenched in these numbers, the Capital Goods barometer has cumulatively declined some 11% over the last two years. While Government investments in new projects appear to have more recently looked up, Private investments have continued to shrink. FDIs remained on hold, yielding only marginal growth opportunities for construction, engineering and capital goods industries. However, there are some green shoots - improved GDP growth of 4.8% in Q2, supported by the weaker Rupee boosting exports plus a favorable monsoon benefiting agricultural output. This morning's paper also talks about the HSBC PMI index for January at a better pitch, although 370 bps below the series average of 55.1. Led by a fall in vegetable prices the WPI inflation fell to 6.2% in December 2013 from 7.5% in the previous month. Being somewhat above the RBI's comfort level, we witnessed a surprise rate hike. Overall, it remains a 'Wait & Watch' till the political uncertainty and governance related issues are resolved.

Business prospects are somewhat brighter in certain Middle East geographies, with a clear-cut investment thrust, especially in infrastructure and construction. This is more pronounced in Qatar, KSA and most recently Dubai, where substantial investments are expected in preparation for the prestigious Expo 2020, which could hasten a region-wide revival.

The Consolidated Sales/Income from Operations for the quarter ended 31st December, 2013 was at ₹ 1115 crores as compared to ₹ 1150 crores in the corresponding quarter last year. **Operating Profit (Profit before Exceptional Items & Tax) was higher at ₹ 74 crores as compared to ₹ 34 crores in the corresponding quarter last year.** As exceptional income in the current quarter was only ₹ 4 crores compared to ₹ 60 crores in the corresponding quarter last year, Profit before tax was lower at ₹ 78 crores as against ₹ 94 crores last year. Net Profit after tax and Minority Interest was ₹ 62 crores vis-a-vis ₹ 77 crores in the corresponding quarter last year. Earnings per Share (not annualized) was ₹ 1.87 (Face Value per share of ₹ 1).

The Voltas Balance Sheet remains strong with Shareholder's equity increasing to ₹ 1796 crores against ₹ 1677 crores for the comparable period last year. Marginal decrease in the Debt Equity Ratio to 0.11 reflects reduction in borrowings to ₹ 225 crores which mainly pertain to the overseas operations. Total liquid balances including investments in Mutual Funds have appreciated to a very comfortable position of ₹ 833 crores.

Consolidated Segment Results for the quarter:

Segment Reporting	For the quarter		% Growth over PY	% of Total Revenue	
	Q3 FY 14	Q3 FY 13		Q3 FY 14	Q3 FY 13
1. Revenue	Rs. Crores	Rs. Crores			
Segment A : Eng. Projects	643	797	-19%	58%	69%
Segment B : Eng. Products	112	107	5%	10%	9%
Segment C : Unitary Cooling	347	239	45%	31%	21%
Net Revenue from Operations	**1115**	**1150**	**-3%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	(4)	6	-167%	-1%	1%
Segment B : Eng. Products	36	26	38%	32%	24%
Segment C : Unitary Cooling	46	15	207%	13%	6%
Total	**78**	**46**	**70%**		
3. Capital Employed				**ROCE**	
Segment A : Eng. Projects	579	1084	-47%	-6%	6%
Segment B : Eng. Products	107	117	-9%	118%	76%
Segment C : Unitary Cooling	268	218	23%	77%	60%

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

Segment A – Electro-Mechanical Projects and Services

Segment Revenue stood at ₹643 crores as compared to ₹797 crores in the corresponding quarter last year. The Segment Result was negative at ₹ 4 crores, performance being impacted primarily by overseas projects.

International

Although economic prospects have considerably improved in certain Middle Eastern geographies, the construction industry in the Region continues to grapple with cost-overruns arising from delays in projects booked at the peak of the boom period. During the current quarter, the completion dates in a couple of ongoing projects have got extended necessitating AS-7 mandated cost provisions. Needless to state, these could end up partially reversing based on the quantum of variations, claims and settlements effected over a period of time. The business has responded to these forced circumstances with a strong drive towards speedy closure of such projects. Project specific task forces have been constituted with clear roles and responsibilities to focus on early completion and settlement of commercial entitlements.

One such team working on the Sidra Project has begun to register progress in its ongoing discussions. In parallel, the Main Contractor is also conducting negotiations to conclude a Supplementary Variation Agreement (SVA) to cover their entitlements arising from the extension of the project's timeline.

Given these negotiations, progress has been somewhat slow with the project now reaching 94% completion. Meanwhile, the Testing and Commissioning phase has begun across several sections of the project.

While there is a rising level of enquiries from Qatar, UAE and Saudi Arabia, the Company is responding in a suitably selective, criteria-based and risk mitigated manner. The carry forward order book of the international business was at ₹1813 crores providing forward visibility. The execution of the new projects announced in the previous quarter has commenced and progress is satisfactory.

Domestic

The Domestic Projects business continued to face an environment marked by protracted pace of project execution, lowered business confidence and deferral of new projects, especially in the Private sector. There was a further slowdown in new project enquiries, which the Division pursued with great selectivity, resulting in ₹ 135 crores worth of new orders being booked. The carry forward order book for Domestic was at ₹ 2133 cores.

As in the International business, the primary focus remained on bringing existing jobs to speedy completion and keenly pursuing commercial entitlements. Consequently, profit held steady despite a drop in revenue. Simultaneously, significant progress was made in a business efficiency improvement program commenced last Qtr, with the project now heading towards Phase-II.

Capital engagement and cash-flow in the Projects segment has shown considerable improvement vis-a-vis the previous quarter and year, due to persistent follow-up and successful collection of receivables. This is all the more satisfying in an environment marked by high interest rates and a liquidity crunch.

Segment B – Engineering Products and Services

Segment Revenue and Result were at ₹ 112 crores and ₹ 36 crores respectively, as compared to ₹ 107 crores and ₹ 26 crores respectively in the corresponding quarter last year. Both the Mining & Construction Equipment and the Textile Machinery businesses have done well even in lackluster market conditions.

The Mining & Construction Equipment business continued to face severe policy constraints, with mining activities still frozen in most states. Despite these adversities, the business sustained its pursuit of opportunities in service, spares and O&M business through addition of principals and new geographies. As a consequence of consolidation in overall mining industry, we have transited dealership rights of certain products to the new dealers. This has resulted in an exceptional gain of ₹ 4.3 crores during the current quarter. The transfer also brought about a one-time reversal of certain provisions previously made in line with conservative accounting practices, thereby yielding a spike in the bottom line.

Contrary to expectation, there has been limited progress in the Textile industry following the announcement of the much anticipated Revised and Restructured (RR) TUF scheme. Consequently, equipment sales remained at their previous modest levels, keeping revenue and profit flat for the Textile Machinery business. Yarn exports presented a declining trend due to the fall in demand from China and increase in cotton prices. Nevertheless, the steep drop in the Rupee may augur well for the ramping up of post-spinning facilities in India, and the resultant export of finished merchandise. The business continues to scout for additional opportunities in post-spinning, leveraging its strong relationships with Customers and Principals.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

Segment Revenue was higher at ₹ 347 crores as compared to ₹ 239 crores in the corresponding quarter last year. Notably, this performance is despite the quarter being traditionally low in demand coupled with muted consumer sentiment and a sluggish festive season.

In fact, Voltas AC volumes increased by 37% compared to last year as a result of several initiatives. The business tapped the increased demand in tier-2 and -3 towns, as well as the rise in rural demand driven by good monsoons. We now have deeper penetration, with a growth in touch points from well over 6500 outlets. Primary sales were also stimulated by the prospect of new product lines and increased forward pricing to comply with tightened energy norms. In addition, there was a higher contribution from the execution of certain hard won institutional orders.

Segment Results were significantly higher at ₹ 46 crores as against ₹ 15 crores in the corresponding quarter last year. Profit margins were positively impacted by good growth in 5 & 3 Star AC sales, which together accounted for 90% of total volume. There is also a rising preference for splits over room ACs which we have been able to beneficially capitalize. Better profitability in the current Qtr is also the result of lower advertising spends, in relation to the volume of sales. In addition, we had some savings in Rebates and write back of warranty driven by improved product quality. The Commercial Refrigeration business too performed well, generating better margins.

The brand sustained its market leadership, at 20.4% share over the quarter compared to 17.1% during the same period last year, as per the GFK Nielsen Retail study. This is a clear 250 bps ahead of the nearest competitor as we continue our market leadership in 3 out of 4 zones.

Sum-up

The performance in Segment B & C has been ahead of expectation, which is commendable given the adverse business environment. Going forward, we expect the Unitary Products business to continue on its growth trajectory and maintain leadership. At the same time, the future performance of Segment A is predicated on improvement in the external environment and a reasonably risk mitigated approach to Orders. While the business is realigning itself to new market realities and targeting to become more competitive, the satisfactory financial closure of legacy projects is also of critical importance. The strong non-leveraged Balance Sheet and good operational cash generation provides a definite advantage in uncertain times.

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.

4th February 2014