VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 31st DECEMBER 2014

There appears to be an uptick in economic sentiment in India largely led by announcements and an inflow of positive news. The HSBC Purchasing Managers Index in January continues to remain in positive territory @ 52.9, although lower than the two year high achieved in December. While some other Business confidence / market indices are also positive, the macro indicators have been fluctuating. Yesterday's announcements indicate an increase of 1.7% in IIP as contrasted to 3.9% in November. Similarly, CPI rose to 5.1% in January from 4.3% in Dec, albeit still within the target of 6% set by RBI. That said, with both the Fiscal deficit and CAD being largely under control (thanks to the steep correction in crude prices), there is a perception of improved macroeconomic stability.

More recently, the RBI announced a cut in the Repo rate by 25 bps. All eyes are now on the Budget which will hopefully contain strong measures to improve and take the investment cycle into a better trajectory. As one of the newspapers commented, this is a 'make-or-break' budget. On an optimistic note, the turnaround is generally expected, but likely to be gradual. There is an acknowledged need to evidence firm action and improvements on the ground.

Overseas, the US appears to be in revival mode, amply reflected by the more recent strengthening of the Dollar. However, Europe remains weak and is in danger of continued recession. Meanwhile, with the steep correction of international crude oil prices, the Middle East geographies (more relevant to our operations), are expected to tone down their spending over a period of time. However, the respective countries have for now, maintained their budgets and growth targets, perhaps awaiting the outcome of the next OPEC meeting scheduled in June 2015.

The Consolidated Sales/Income from Operations for the quarter ended 31st December, 2014 was at Rs. 939 crores as compared to Rs. 1115 crores in the corresponding quarter last year. However, improved margin realization and greater cost controls contributed to higher Profit before Exceptional items and tax at Rs. 76 crores, as compared to Rs. 74 crores in the previous year. During the current quarter, an exceptional gain amounting to Rs. 234 crores was realized on the sale of property. This was partially offset by an exceptional charge of Rs. 190 crores on Sidra, a well known onerous contract. Accordingly, Profit before Tax was higher at Rs. 121 crores as compared to Rs. 78 crores last year. Net Profit after Minority Interest was similarly higher at Rs. 107 crores. Earnings per Share (not annualized) was higher at Rs. 3.2 compared to Rs. 1.9 last year (Face Value per share of Rs. 1).

Consolidated Segment Results for the quarter:

Segment Reporting	For the Quarter		% Growth over PY	% of Total Revenue	
	FY 15	FY 14		FY 15	FY 14
1. Revenue					
Segment A : Eng. Projects	461	643	-28%	49%	58%
Segment B : Eng. Products	81	112	-28%	9%	10%
Segment C : Unitary Cooling	384	347	11%	41%	31%
Net Revenue from Operations	**939**	**1115**	**-16%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	9	(4)	319%	2%	-1%
Segment B : Eng. Products	23	36	-36%	28%	32%
Segment C : Unitary Cooling	51	45	13%	13%	13%
Total	**84**	**77**	**9%**		
3. Capital Employed				**ROCE (Annualized)**	
Segment A : Eng. Projects	665	579	15%	6%	-3%
Segment B : Eng. Products	80	107	-25%	115%	135%
Segment C : Unitary Cooling	396	268	48%	52%	67%

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 was at Rs. 461 crores as compared to Rs. 643 crores in the corresponding quarter last year, mainly on account of the slow pace of execution in both Domestic and International projects. However, Segment Result turned positive at Rs. 9 crores as compared to loss of Rs. 4 crores in the corresponding quarter last year.

<u>International</u>

We had in earlier con-calls, spoken about various challenges in the Project business - environment led challenges, procedural delays, payment deferrals, visa sanctions, etc., apart from a generally adversarial approach to certifications and timely settlement of entitlements. Strategically, the International Projects business has focused on upgrading commercial capability to comprehensively deal with the new market realities, whilst shoring up the order pad with fresh orders in an appropriately risk mitigated manner. We have therefore chosen to selectively build up our order book emphasizing on end profitability, rather than Turnover. Over the course of the last 12 months, the Division has booked new orders of close to Rs. 1000 crores. However these being in the early stages of execution, they are somewhat slow to suitably provide an uptick in revenue.

In the interim, extension of the completion dates and delays in settlement on the legacy projects continue to warrant conservative provisioning in line with the requirements of AS-7. Nevertheless, our internal expectation is that some of these provisions might get partially reversed based on the quantum of variations, claims and settlements finally negotiated.

In the previous years, due to significant upward revision in estimated costs of the Sidra Medical and Research Centre project in Qatar, the Company had accounted for cost overruns in accordance with the requirement of Accounting Standard (AS) 7. In July-2014, the Main Contractor was terminated by the end customer (Qatar Foundation) and a new main contractor was appointed. Although Qatar Foundation had asked for the assignment of contracts of select subcontractors of the Main Contractor, no understanding could be reached. In view of the uncertainties attached to the sub-contract, the Company has during the current quarter, as a matter of prudence, charged off Rs. 190 crores to the Statement of Profit and loss after evaluation of underlying assets and liabilities, and contingencies related thereto. Nevertheless, the Company continues to pursue its entitlements and has sought legal advice on the way forward.

Domestic

The subdued Domestic business environment is well known and needs no elaboration. Nevertheless, the hope of revival exists given various announcements and statements of intent. With the industry operating at sub-par levels (~72% capacity utilization per RBI estimates), the movement on existing orders has been sluggish. Additionally, even the larger orders including the Chennai and Delhi Metro orders booked by the Division have encountered delays. While this has led to a drop in turnover for the current quarter, the results have been suitably insulated by a series of timely business efficiency improvement measures.

Given the limited opportunities in the HVAC side of the business, the team continues to selectively pursue orders in the rural electrification space with an order of Rs. 103 crores during the quarter, supplemented by an additional LOI of ₹ 76 crs received in January. The closing order book position of Domestic Projects stands at Rs. 2077 crores. In line with the current day imperatives, the business would cautiously progress on new order booking, while maintaining its focus on collection of old outstanding and early realization of settlements.

The total carry-forward order book for Segment A as of December 2014, stands at Rs. 3949 crores excluding LOI's of Rs. 173 crores received post closure of the quarterly accounts.

Segment B – Engineering Products and Services

Segment Revenue and Results were, as indicated earlier, lower at Rs. 81 crores and Rs. 23 crores (compared to Rs. 112 crores and Rs. 36 crores respectively, in the corresponding quarter last year). This was on account of various environment led adversities in both Mining and Textiles, apart from last year's loss of agency due to global consolidation of certain Principals.

The Indian mining industry is yet to recover from the setback of various mining bans. This was further accentuated by the Supreme Court order cancelling allocation of coal blocks, also negatively impacting sale of new equipment. The previous year also had the benefit of one-off gains from transition of certain long term maintenance contracts. Nevertheless, the foray overseas into Africa has helped the business to partially offset the drop in the domestic market. Mozambique operations continue to remain strong, with an additional order for auxiliary equipment.

The China effect leading to correction in cotton yarn prices and drop in yarn exports has come as a wake-up call to the Indian Textile Industry. While the drop in domestic prices with influx of new cotton has eased some of the pressure, the sentiments and operating levels of local spinning mills remain muted. Accordingly, there has been lower than expected sale of spinning machinery, parts & accessories. The tight liquidity conditions and delays in disbursement of funds by financial institutions have added to the difficulties of this business. Despite environmental difficulties the business continues to grow. A large project of 1.77 Lac spindles supplied by our Principal LMW was recently inaugurated at Welspun.

Segment C – Unitary Cooling Products

Segment Revenue was higher at Rs. 384 crores as compared to Rs. 347 crores in the corresponding quarter last year given a 13% increase in AC sales volumes. Traditionally, Q3 is a weak quarter for the AC industry. Notwithstanding this fact and the muted festive season demand, the business has delivered good results. Apart from increasing the number of touch points, the business was also able to extract some traction from the late December spike in sales (given the anticipation of price revisions led by excise duty). The Company maintains its market leadership in room air conditioners with a YTD share of 21% at Multi-Brand Outlets compared to 19.9% in the previous year.

The Segment Result was also higher at Rs. 51 crores as compared to Rs. 45 crores in the corresponding quarter last year. The improvement in results is largely on account of higher volumes coupled with improved margins owing to better product mix. At the same time, given the intense competition from MNC's with deep pockets, there continues to be a steady rise in spending on sales promotion schemes.

Sum-up

While the Projects business needs to navigate environmental turbulence, our hope is that the business cycle will change for the better. Meanwhile, the Products and Service Business continues to deliver positive results successfully overcoming various business and environment-led challenges. As the positive sentiments translate into ground reality, the Company expects to be well positioned to take advantage of the improved business conditions.

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.

13th February 2015