

ANALYSIS OF RESULTS

QUARTER AND NINE MONTHS PERIOD ENDED 31st DECEMBER 2017

Global economic growth has been broad based with growth upsides across Europe and Asia from the second half of 2017. In the US, tax policy changes are expected to stimulate activity over next few quarters. Crude oil prices have increased due to improving global growth outlook, OPEC agreements and geopolitical tensions. Copper and aluminum prices which were on an increasing trend have moderated in the recent past.

In India, the economy is coming to grips with the after effects of GST (Goods & Services Tax) rollout and demonetization. There have been a few green shoots of recovery viz. a stronger rural economy, and pick-up in consumer demand. Growth in core sectors is driving the growth in the IIP (8.4%, Nov'17 y/y) with the Manufacturing index growing at 10.2% in the same period and Inflation (CPI Nov'17 3.9%, y/y). The Finance Minister in the recently announced National Budget focused on electrification (Saubhagya Scheme), road construction & infrastructure (Bharatmala Scheme) and cleaner water (Namami Gange Scheme) among others, which are expected to result in relevant project announcements. However, private sector spending continues to remain subdued.

During the quarter, Voltas achieved consolidated turnover of Rs.1365 crores and profit after tax of Rs 100 crores:

Rs. Crores	Q3 FY18	Q3 FY17	%Change Q-o-Q	9M FY18	9M FY17	%Change Y-o-Y
Gross Sales / Income from Operations	1365	1194	14%	4359	4011	9%
Profit before Tax	131	125	4%	521	470	11%
Profit after Tax	100	82	23%	384	319	20%
EPS	3.01	2.42	24%	11.48	9.62	19%

Analysis by segment:

Segment Reporting	For the quarter ended		Nine months ended	
	Dec'17	Dec'16	Dec'17	Dec'16
1. Revenue				
Segment A : Eng. Projects	753	703	1972	1826
Segment B : Eng. Products	70	81	226	225
Segment C : Unitary Cooling	542	411	2161	1960
2. Segment Results				
Segment A : Eng. Projects	53	27	119	37
Segment B : Eng. Products	21	20	74	70
Segment C : Unitary Cooling	70	43	292	262
3. Capital Employed				
Segment A : Eng. Projects			709	729
Segment B : Eng. Products			59	61
Segment C : Unitary Cooling			266	297

We present below our comments on the performance of our business segments:

Segment A – Electro-Mechanical Projects and Services

Segment revenue for the quarter was higher by 7% at Rs.753 crores as compared to Rs.703 crores in the corresponding quarter last year. Segment result was also higher at Rs.53 crores reflecting a margin of 7%, coming from better quality carry forward orders and efficient execution. Order Book of the Segment stood higher at Rs.4850 crores as at 31st December 2017 as compared to Rs.4200 crores in the corresponding quarter last year.

International Operations

We have recently been awarded “MEP Contractor of the Year” in Dubai. We continue to be considered amongst top tier MEP contractors given our track record of executing projects. Projects spend relating to Expo 2020 has now started picking up with projects being awarded to main contractors. We are beginning to win suitably risk mitigated orders and our order backlog is Rs.1750 crores with order inflow of Rs.330 crores in the quarter. Better project selection, execution and cost management have led to improvement in performance.

As you are aware, Carillion PLC, a UK Contractor, has filed for compulsory liquidation in January 2018. The Company's Branch in UAE and its joint venture company in Oman are currently executing MEP Projects as a Subcontractor, wherein Carillion PLC is a joint venture partner of the Main Contractor. Based on the initial assessment done and contractual remedies available, the Company does not foresee a material risk to its dues under these contracts. Some delays in receiving certifications and payments may be experienced. The total contract assets of these projects are around Rs.177 crores as of date. We are monitoring the situation through continuous communication with the client.

Domestic Projects

Our strategic focus is on Government projects and good quality orders. Pending order book stands at Rs.3100 crores. Domestic projects booked Rs.225 crores of orders in the quarter with majority of orders coming in from infrastructure space. The recent announcements in the National Budget 2018 is expected to lead to increase in opportunities. Improvement in internal efficiencies and productivity will continue to be the drivers for growth.

Segment B – Engineering Products and Services

While, the result for the quarter was higher by 5% at Rs.21 crores in comparison to the corresponding quarter last year, the revenue for the quarter was lower by 14% at Rs.70 crores. Performance of this segment was mainly impacted due to slowdown in textile business due to lingering effects of GST combined with changes to export incentive schemes and increasing international competition and yarn price volatility. Notwithstanding the above, the Division has adopted a smart approach on increasing the scope for post spinning, value added services, accessories and allied machinery.

In Mining and Construction Equipment, Mozambique operations continue to drive the performance. Mining activity in India remains tepid as re-auctioned mines are yet to commence operations. Meanwhile, the Government announcements in the recent National Budget, on increasing spend on road infrastructure (*Bharatmala* project) is expected to spur demand for Crushing and Screening equipment.

Segment C – Unitary Cooling Products

Segment revenue increased by 32% to Rs.542 crores in this traditionally lean quarter. This was due to pre-buying in the current quarter due to changes in energy efficiency norms for fixed speed airconditioners from 1st January 2018. Segment Results improved by 62% to Rs.70 crores from Rs.43 crores in the corresponding quarter last year.

The Voltas brand continues to be the undisputed market leader and has sustained its No. 1 position in the Room Air-Conditioner market (at Multi-Brand outlets) with a market share of 23.7%.

Supported by an enhanced product portfolio, effective marketing campaign, and wider product placements, Voltas's Inverter AC's under the "All Star" range has met with an encouraging response. Inverter ACs contributes 17% to our split AC sales. We witnessed continuous growth in air cooler sales with sales growth of over 50% in current year.

Investors will be happy to note that Voltas has launched India's first Window AC with Inverter technology. The product range has other features like 'high ambient cooling' up to 52 degrees Celsius, and a 'two stage filtration' which provides cleaner air. With this launch, Voltas has strengthened its commitment to continuously bringing the latest technology in the Indian market, all at an affordable price.

Sum-up

The air conditioning industry continues to be very competitive. We believe that our thrust on energy efficient products and our expanding distribution network will enable us to withstand these competitive pressures particularly as we move into peak selling months. We remain focussed on securing good quality, commercially viable, risk mitigated orders in our Projects business. The launch of consumer durables products under the JV with Arcelik is progressing as per schedule, with the products expected to be launched by the second half of 2018. Our balance sheet continues to remain robust with low debt and comfortable cash position, indicative of appropriate resilience.

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.

9th February 2018