VOLTAS LIMITED
A TATA Enterprise

RESULTS FOR THE QUARTER AND YEAR ENDED 31ST MARCH 2012

Both at home and abroad, the challenging economic environment that we spoke about earlier in Q3 has only worsened. All aspects of business, supply, currency and competition were adversely affected and uncertainty seems to be the only constant. India's third Qtr GDP grew 6.1% YOY and represents the seventh successive quarter on quarter drop. Full year GDP growth is now predicted to decelerate to around 6.3% from the 6.9% estimated just a few months ago. The recently announced IIP numbers contain no cheer – they indicate clear sluggishness and an unfortunate propensity to defer capital investment. There is an all-round disappointment at the lack of reforms, the absence of real efforts to contain the large fiscal and current account deficits and the retrospective tax laws. Unless the challenges of high inflation and tight liquidity are constructively resolved with determination, consumer confidence may not return. Extreme levels of exchange volatility have further dampened the economic outlook and many analysts predict an even deeper and longer growth slowdown. At the same time, we continue to be negatively impacted by the turmoil in Europe and other events across the globe.

Against this background, the consolidated Sales / Income from operations **for the quarter ended 31st March**, 2012 was Rs. 1573 crores as compared to Rs. 1671 crores in the corresponding period last year. The Profit before tax (after exceptional items) was Rs. 141 crores as against the Rs. 153 crores recorded earlier. However, due to lower incidence of tax, the Net Profit after Minority interest for the current quarter was higher at Rs. 104 crores, slightly ahead of Rs. 101 crores reported in the previous year.

For the year 2011-12, the consolidated Sales / Income from operations was by and large at the same level of Rs. 5175 crores as compared to Rs. 5177 crores, last year. High interest rates, inflation, increase in prices of commodities, materials and components had an adverse impact on the Operating Profit, which was at Rs. 370 crores for the year. After exceptional items and charge of an Onerous contract, the Profit before tax was Rs. 219 crores and Net Profit Rs. 162 crores as compared to Rs. 524 crores and Rs. 357 crores, respectively in the previous year.

The Board has recommended a dividend of Rs 1.60 per share of Re. 1/- each (160%) for the year ended 31st March, 2012.

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

	Quarter 4 CY	Quarter 4 PY	Full Year CY	Full Year PY
Increase in TO	**-6%**	15%	**0%**	9%
EBITDA Margin	**9.8%**	9.4%	**8.4%**	10.1%
Increase in Profit before Excep. Items	**-5%**	-9%	**-24%**	-4%
Increase in PBT	**-8%**	-11%	**-58%**	-1%
Increase in PAT and Minority Interest	**3%**	-26%	**-55%**	-6%
Taxation as percentage of PBT	**26%**	36%	**26%**	33%
Positive EVA **	**10%**	14%	**10%**	14%
EPS (Rs.)	**3.14**	3.05	**4.90**	10.80
Return on Net Worth (w/o Excep. Items)	**28%**	28%	**21%**	24%
Debt / Equity ratio	**0.15**	0.10	**0.15**	0.10

** *EVA calculated on Profit before Exceptional & Onerous Contract*

The Voltas Balance Sheet remains strong with Shareholder's equity at Rs. 1478 crores against Rs. 1362 crores for the comparable period last year. The increase in the Debt Equity Ratio reflects higher borrowings of Rs. 223 crores, mainly from Overseas operations and RIEL. The Company's liquidity position is comfortable with cash and bank balances at approx. Rs. 271 crores and liquid investments aggregating Rs. 221 crores. Despite the negative turn of events in the business environment, Return on Net Worth / Capital Employed at Voltas continues to remain healthy and demonstrates resilience.

Consolidated Segment Results for the Year :

Segment Reporting	Annual FY 12	Annual FY 11	% Growth over Pr. Yr	% of Total Revenue FY 12	% of Total Revenue FY 11
1. Revenue					
Segment A : Eng. Projects	3183	3041	5%	62%	59%
Segment B : Eng. Products	412	564	-27%	8%	11%
Segment C : Unitary Cooling	1539	1561	-1%	30%	30%
Net Revenue from Operations	5175	5177	0%		
2. Segment Results				Results to Revenue	
Segment A : Eng. Projects	172	239	-28%	5%	8%
Segment B : Eng. Products	69	103	-33%	17%	18%
Segment C : Unitary Cooling	130	160	-19%	8%	10%
Total	375	505	-26%		
3. Capital Employed				ROCE	
Segment A : Eng. Projects	777	468		22%	51%
Segment B : Eng. Products	84	84		82%	123%
Segment C : Unitary Cooling	190	191		68%	84%

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 Segment's consolidated revenue was higher at Rs.3183 crores as compared to Rs.3041 crores last year. However, the profitability of this segment, before the Onerous contract and Exceptional items, was lower at Rs.172 crores as compared to Rs.239 crores last year. The results include the impact of some full and final settlements, apart from the usual upward and downward revision of margins on ongoing projects, where justified. The Segment's total consolidated order book stands at Rs 4292 crores as of 31st March 2012 as compared to Rs. 4888 crores as at 31st March 2011, reflective of the general slowdown in capital investment and project awards both in India and overseas.

As earlier reported, while publishing the Q3 (2011-12) results, the Onerous contract pertains to the Sidra Medical and Research Centre Hospital project in Qatar. This is an approx. USD 2.5 billion large and complex design-and-build state-of-the-art hospital with world-class facilities which has been under execution since 2008. Voltas' share of work is valued at over Rs.1000 crores and involves extensive co-ordination with multiple agencies and intermediaries. There have been several impediments and constraints arising from delay in designs, frequent changes in architectural / interior layouts, ceiling height restrictions and abortive engineering / rework, apart from the non availability of Indian workmen visas.

Voltas has, in line with the requirements of Accounting Standard (AS) -7, accounted for the estimated costs on this project, based on an extensive techno-commercial review by the management taking cognizance of cost incurred and to be incurred, to complete this project. A total provision of Rs. 320 crores has thus been made during the year including the Rs. 277 crores accounted for in Q3. However, uncertainties exist on variations, additional revenue claims and costs to come until the completion of the project due to the complex nature of the design-and-build project, changes in the designs still being made by the client, and delay in the completion of this project.

The ongoing execution of the Sidra Medical & Research centre is receiving special management attention - the focus right now is on the high quality, timely and cost efficient conclusion of the project to the entire satisfaction of our client. Given the iconic nature of this project, it is expected that its successful completion would generate value in terms of the Company's standing and prospects in Qatar, which offers the most attractive growth opportunities in the Region.

During the year, the **International Projects Business** secured a sizable contract in Abu Dhabi for the Yas Retail Mall for approximately Rs. 480 crores apart from several other smaller orders within the region. Notable achievements during the year include the satisfactory completion of the prestigious Etihad Towers project consisting of 5 high rise towers which was recognized as the 'MEP Project of the year'. Significant progress has also been made at the Rs. 800 crore Central Market Redevelopment project, which will be completed in FY 2012-13.

We are happy to report that Voltas has won, for the second year in continuation, two of the most prestigious awards in the Middle East, namely 'MEP Contractor of the Year' and 'MEP Project of the year'. These awards reflect the industry's acknowledgement of the Company’s international performance, and its ability to successfully execute iconic developments.

The Joint Venture established in the new geography of KSA has begun to make progress. Olayan Voltas Contracting Company Limited in KSA secured its first design-and-build order of Rs. 360 crores, for a utility complex in Riyadh. ‘Voltas Oman LLC’, the other new JV is aggressively bidding in the Oman market. Older JVs and subsidiaries continue to profitably cater to the smaller contracting and O&M market segments.

The Consolidated order book of the International Projects business stands at Rs. 2336 crores, of which Rs. 1083 crores (incl. VL portion of JVs and Subsidiaries) was won in the current financial year.

The **Domestic Projects Business** has performed comparatively well, despite the difficult economic conditions. It has recorded a higher turnover and was also able to, by and large, maintain its profitability. This has primarily been the result of a careful selection of jobs. The company executed the internationally acclaimed Formula 1 Circuit in Noida delivering HVAC, electrical and plumbing systems within the shortest available time. Other jobs which were successfully completed include some prestigious MEP projects for automotive manufacturing such as Maruti (Manesar), Mahindra & Mahindra’s Engine Design and R&D Facility (Chennai), and Tata Cummins' globally benchmarked facilities (Phaltan).

The business was also able to seek out opportunities and make inroads into some new areas in the industrial sector. Power sector projects include Koradi (1980 MW), India Bulls Power, Amravati & Nasik (2700 MW) to name a few. In the industrial refrigeration segment, a sizeable order was booked from GNFC. The business also took on some important hospital projects that will help secure leadership in this segment - these include the Employee State Insurance Corporation Hospital at Gulbarga and the Mumbai Trauma Hospital.

Faced with the challenges of managing cost and cash flow, the business has taken numerous steps and put in place, several processes to reduce operational and administrative costs. It has also expanded its operations in the electro-mechanical O&M contracts and AMC arena as promising adjuncts to the mainstream business.

The **Water Management** business increased its carry forward order book by 55% over the previous year. New business included a breakthrough large order for the Company, worth Rs 165 crores, from Tata Steel for its plant at Kalinganagar, Orissa, which was announced in Q3. With the advent of bigger orders, the business has increasingly focused on enhancing its underlying executional capability, recruiting and adding to its manpower resources and improving its operational processes where necessary.

During the year, the business executed several water treatment projects. In the industrial segment they include, Water systems for the Steel melt shop in Rourkela (SAIL), Zero discharge ETP at Durgapur (Matix Fertilizers), cold rolling mill at Bokaro (SAIL), Raw Water Treatment Plant at Jamshedpur (Tata Steel), etc. In the urban infrastructure space, a sizeable amount of work is in progress at Kolkata under the city's environment improvement plan including various Drainage Pumping Stations, Raw Water Treatment Plants and other facilities at spread-out locations.

The performance of **Rohini Industrial Electricals** continued to be disappointing in the face of poor margins and losses from carry forward 'legacy' projects attributable to its earlier management. While new orders are being procured at reasonable margins, various initiatives to reduce costs have been undertaken along with some key personnel changes. Poor collection of older receivables continues to be a matter of concern, impacting the timely availability of cash. During the year, RIEL issued Preference shares of Rs. 25 crores which were fully subscribed by Voltas – apart from injecting cash, this has also ensured a positive net worth, qualifying RIEL to bid for Govt. and other Public Sector projects.

The domestic project business has also been reorganized to comprehensively extract synergies, and introduce the ability to offer a one-window solution to the Customer. Consequently, the Water Business and RIEL have been operationally integrated with the Domestic Electro Mechanical Business. A full scale commercial team has also been put in place to enhance contract administration capabilities, timely billing and swift recovery of receivables.

The domestic projects business maintained a healthy consolidated order book of Rs 1956 crores at the end of 31st March of which Rs. 1310 crores was won in the current financial year and Rs. 352 crores in the current quarter.

Outlook

In the Middle Eastern market, with oil prices likely to sustain above US $100 per barrel into the foreseeable future, substantial cash surpluses are expected to be available for investment. Longer term opportunities therefore look good and the Company is well placed to seize future growth in this geography, given its high visibility, reputation and track record.

The Company hopes to benefit from the several large-scale projects that the Abu Dhabi Government intends to pursue in various segments, as well as the multiple projects that will be launched in Qatar in preparation for the 2022 Football World Cup. Welcome indications of a long awaited pick-up in activity are also reported from Dubai.

In Saudi Arabia, the State's latest budget seeks to channel substantial investments into infrastructure, housing, transportation and healthcare activities. Now that Voltas's new JV with Olayan is operational in KSA, the company is reasonably well placed to leverage its position and grow. Likewise, the Joint Venture in Oman is expected to be positively impacted by investments reserved for health, education and housing.

Having said the above, it is however unlikely that the market will, in the short term, return to the pre 2009 levels of high project activity. The truth is also that over the past half decade or so, dozens of new contractors have entered the Region. Competition has consequently intensified and the result of multiple contractors chasing fewer jobs is clearly evident through shrinking margins. To profitably survive, Businesses have little choice but to curtail their overheads, improve efficiencies and excel in project execution. Voltas recognizes these hard realities and has put in place a series of measures to improve its processes and extract the desired outcome.

The domestic electro-mechanical business will also continue to experience the adverse effects of the prevailing headwinds in the global economy. Dampened investment sentiment in India is further aggravated by high interest rates, lethargic Governmental policies and increased competition. Here again, margins will be subject to significant stress and efficient cash and working capital management will assume even greater importance.

Nevertheless, the Company expects that some opportunities for its MEP offerings will grow out of investments in certain key areas, namely :

- The advent of several multinationals in the industrial segment, with plans to commence manufacturing operations in India over the next few years.
- The sizeable investments in infrastructure announced in both Public and Private Sectors (although their realization remains subject to numerous unforeseeable and more often, non-economic factors).
- The expected growth in Built-Environment, largely foreseen in tier-2 & tier-3 markets.

The outlook for the water treatment industry is positive. The demand for water treatment solutions will increase, resulting from the rising stress on water usage caused by population growth, increasing urbanization and rapid industrialization. We also expect strong regulatory pressure towards better water management, forcing the pace of investment.

Segment B – Engineering Products & Services

In view of the transfer of the Materials Handling business, the figures for the Segment Revenue, Results and Capital employed in the period under review are not directly comparable to the corresponding period in the previous year. The consolidated Revenue and Results were at Rs. 412 crores and Rs. 69 crores as compared to Rs. 564 crores & Rs. 103 crores, respectively last year.

The Textile machinery business sustained its revenues and increased its profitability. Voltas has, during the year, satisfactorily concluded its selling agency agreement with its key principal Lakshmi Machine Works (LMW) for a further period of 5 years. Voltas has also managed to consolidate its business for allied machinery in spinning and weaving looms from RIFA, China.

The mining sector came under harsh scrutiny and regulatory challenge in Andhra Pradesh, Karnataka & Goa, mainly owing to alleged environmental malpractices and deforestation. The stoppage of numerous iron ore mines negatively impacted the sales of crushing / screening equipment and related spares. At the same time, we were adversely affected by global consolidation and takeover of our erstwhile principals (Bucyrus and Le-Tourneau by Caterpillar and Joy respectively). Caterpillar has transferred part of its Indian business to its own dealers; Voltas continues to retain some maintenance contracts and the Unit Rig business. The company has also expanded its Mozambique-based maintenance operations with the addition of more items of equipment, a welcome testimony to the Principal's confidence in the Voltas's dependability.

The large number of ongoing construction projects helped sustain growth in demand for some select categories of equipment. The Company's Japanese principal Kobelco are setting up facilities in Andhra Pradesh to manufacture crawler cranes for Indian markets. This opens the door to better opportunities for the Company in sales and other offerings.

Outlook

The Textile industry is cyclical in nature. While we have a sufficiently large order book which ensures full visibility for 2012-13, new investments are clearly lagging behind given poor sentiment, volatility of yarn prices and the context of pollution based environment issues.

There are some positive indications as well, including the anticipated reinstatement of the Textile Up-gradation Fund (TUF), apart from additional subsidies announced by the Maharashtra, Karnataka and Gujarat Govts., to promote investment. While domestic textile consumption is expected to grow at around 10%, resurgence in investment in textile machinery is largely predicated on a number of other broader economic factors alluded to earlier.

In the Mining & Construction Equipment business, sales are picking up in the Company's own range of wheeled crushing & screening plants and cranes. There are good prospects for growth, resulting from the investments expected in infrastructure and road projects. The Company's off-shore services in Mozambique have also been well received, and we expect to grow these opportunities as we go forward.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

Despite intense competition, the entry of new players in the market, unfavourable climatic conditions and subdued consumer sentiments, Voltas maintained its No.2 market position in the Unitary Cooling Products business *(April GfK-Nielsen reported market share of 16.9%, just 150 basis points short of the market leader)*.

While the Indian AC industry witnessed de-growth in sales volumes (estimated at 20%) during 2011-12, Voltas was able to contain its revenue shortfall through some timely mix and pricing interventions. The Segment's Revenue marginally dropped by 1% to Rs.1539 crores for the year as compared to Rs.1561 crores in the previous year. The corresponding profit was Rs.130 crores, compared to Rs.160 crores last year.

The business enhanced its energy efficiency quotient by selling the widest range of 5-star products in the market, without wavering from its mission to promote 'green' products. In response to market findings, the business launched an up-to-date range of 40 models of Window and Split ACs in 2011 -12. The range offers buyers a spread of choices in terms of features, energy rating, price tag and cooling capacities.

As part of the launch, a new brand platform was introduced across a selection of models – 'All Weather' air conditioning. The new concept was based on intensive consumer research, and reflected the Company's determination to create a clear and winning differential amidst the chaos of existing messaging. Equally, it helped transcend the seasonality of the category, creating a basis for engaging with consumers around the year. 'All Weather' models are well equipped for all climatic conditions, with Intelligent Heating for the cold months, Active Dehumidifier for the monsoons, and High torque Compressor for hot summers. The associated advertising campaign, featuring the humorous Mr. Murthy has also served to connect well with consumers.

To maintain its operational agility, the company engaged a larger number of contract manufacturers for outsourced assembly in more locations across the country, judiciously mixed with in-house manufacturing. This had the added advantage of shortening the time to market and reducing the company's carbon foot-print.

The company now has a presence of over 5000+ consumer touch points. It will continue with its strategy of channel expansion, more specifically focused towards tier-2 and tier-3 markets, where higher demand is expected.

The business also increased its thrust in the Commercial Refrigeration products market, resulting in a volume growth of 4% despite adverse market conditions. Voltas continues to maintain its No. 1 position in this segment. Future growth in the Commercial Refrigeration segment is likely to be driven by the rising demand for quality products for end-user segments such as retail, diary, brewery and cold chains.

Outlook

The domestic Room AC industry can look forward to modest growth in the coming year, making allowances for a possible weakening of momentum caused by delayed onset of summer and unseasonal rains ahead. However, the rise of disposable incomes and wages and the prevailing low penetration levels of ACs, will continue to drive demand in the long term, further boosted by the spread of electrification and demand growth in tier-2 and tier-3 markets in India.

Going forward, competition is likely to be intense, especially from the more recent Japanese entrants. At the same time, the extreme volatility in forex movements brings in a degree of uncertainty in the economics of sourcing decisions from overseas vendors. While other cost effective alternatives will need to be explored, margins are likely to be eroded if the impact of increases cannot be appropriately passed onto consumers. Apart from the specific market context of (high) competitive intensity and the more recent slide in consumer confidence, Indian consumers are also generally known to be more price sensitive. Decisions on pricing needs to be therefore well deliberated - growth will depend upon the ability to be price competitive, while offering a superior value proposition to consumers.

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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