VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS FOR THE QUARTER ENDED 31st MARCH 2013

Although the Indian economy as a whole is growing at its slowest pace in a decade, Industrial growth has shown some recovery per the latest IIP numbers announced for March. Despite signs of global economic stabilization in the US and China, Europe continued to give cause for concern and the overall momentum in global economic growth was slower than anticipated. Across the MENA Region, the latest IMF report indicates that the hitherto healthy growth rates of oil exporters might moderate from an average 5.7% in 2012 to 3.2% in 2013. This is mainly in the context of scaling back oil production amidst modest global demand. There are however some signs of rising property prices and associated economic activity picking up in Dubai and certain parts of UAE.

Closer home, we have more recently witnessed some respite in terms of both interest rates and inflation. Inflation rates, although high have been on the decline, although supply side problems and subdued production levels continue to pose concerns. A large deficit, in both fiscal and current account needs to be aggressively addressed to avoid forward risks to growth and macro-economic stability. In fact, the balance sheet crisis has already impacted production, investment and growth across key sectors. Nevertheless, with WPI inflation at 3-year lows, and the RBI having obliged with a volley of rate cuts, the growth-inflation dynamic has a better chance of a favorable tilt. The wave of reforms earlier started by the Finance Ministry may have slowly died down; but rejuvenation in anticipation of the 2014 general elections might perhaps help trigger an eventual recovery.

The **Consolidated Net Sales/Income from operations for the Quarter** ended 31st March, 2013 was ₹ 1592 crores as compared to ₹ 1573 crores in the corresponding quarter last year. Operating Profit for the quarter was ₹ 78 crores as compared to ₹ 138 crores last year. The Profit before tax (after exceptional items and an additional charge of ₹ 96 crores towards Onerous contract) was lower at ₹ 14 crores for the current quarter.

For the year as a whole, the company recorded a 7% increase in Turnover, a 6% increase in EBITDA, and a 28% increase in PBT (after exceptional items). Earnings per share also increased to ₹ 6.28 as compared to ₹ 4.90 in the previous year.

The Voltas Balance Sheet continues to remain strong with Shareholder's equity at ₹ 1626 crores against ₹ 1478 crs for the comparable period last year. Marginal increase in the Debt Equity Ratio 0.16 reflects borrowings of ₹ 261 crores, mainly from overseas operations. The Company's cash and bank balances as at year end, have appreciated to a comfortable ₹ 350 crores apart from Investments in liquid Mutual Funds aggregating to ₹ 318 crores.

Consolidated Segment Results for the year:

Segment Reporting	For the year		% Growth over PY	% of Total Revenue	
	ACT FY 13	ACT FY 12		ACT FY 13	ACT FY 12
1. Revenue					
Segment A : Eng. Projects	3200	3183	1%	58%	62%
Segment B : Eng. Products	431	412	5%	8%	8%
Segment C : Unitary Cooling	1836	1539	19%	33%	30%
Net Revenue from Operations	**5514**	**5175**	**7%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	51	172	-70%	2%	5%
Segment B : Eng. Products	84	69	22%	19%	17%
Segment C : Unitary Cooling	173	130	33%	9%	8%
Total	**308**	**375**	**-18%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	708	778	-9%	7%	22%
Segment B : Eng. Products	109	84	29%	77%	81%
Segment C : Unitary Cooling	237	190	25%	73%	68%

Note : Excludes Onerous Contract

It will be observed that Segment C (Unitary Cooling) now accounts for a clear 1/3rd of the overall business. At the same time, results to revenue have appreciably increased across both Segment C and B, while Segment A faces the brunt of environmental issues discussed elsewhere in this document.

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 and Services

The Segment's consolidated revenue was higher at ₹ 3200 crores as compared to ₹ 3183 crores last year. However, its profitability was significantly impacted by a variety of environmental and other reasons and stood lower at ₹ 51 crores as compared to ₹ 172 crores last year. While an element of comfort may be drawn from the muted results of most Companies in the Capital goods sector, Voltas faced the additional challenge of the onerous contract in Sidra where a provision of ₹ 96 crores was required to be taken in compliance with Accounting Standard (AS) 7.

As earlier reported, the execution of the Sidra Medical and Research Centre project in Qatar has faced several impediments arising from delay in designs, frequent changes in architectural / interior layouts, abortive engineering / rework, and other unforeseen circumstances. The Company had accounted for ₹ 277 crores in the previous year, taking due cognizance of the total cost to be incurred to complete this project, based on the information available at that time. Since then, progress on execution by the Company has been steady, and the overall project is now ~ 91% complete, ahead of other contractors.

During the current quarter, the Main Contractor has instructed a revised schedule of completion, expected to end on 31st March 2014, including integrated Testing and Commissioning. The further elongated schedule of completion obviously entails additional costs as well as the possible enhancement of revenue. However, as is well known, AS 7 defers recognition of revenue enhancement via Claims, till certain stringent conditions are met, e.g. advanced stage of negotiations, acceptance by Customer, reliable measurement, etc. In view of the continuing uncertainties in the process of approval of variations and the complex nature of the project, additional net cost overruns of ₹ 96 crores have now been accounted based on current technical data. In the meantime, the company continues to pursue its entitlements vigorously through all possible channels. Once completed, the Sidra project will add to Company credentials as a showpiece of its capabilities and reliability, especially in the promising healthcare sector. It may also be recalled that the Region offers significant opportunities in the construction run up to the FIFA World cup.

In the International arena, the Company's thrust was towards speedy execution of ongoing jobs in UAE and Qatar, with a view to early settlement. In the meantime, we are beginning to see the value of tactical alliances across private sector offerings and other jobs, though constrained by the availability of visas especially in the more promising geographies like Saudi Arabia. We have a carry forward order book position of ₹ 1558 crs in the International Projects Business including our share of JVs and Subsidiaries.

The macro-economic environment in the domestic market was largely unchanged over the past few months and the investment climate has remained sluggish, with major spending mostly deferred. In spite of the paucity of new opportunities, the Company's Domestic Projects business was successful in securing a creditable number of orders in Industrial, IT/ITES and Urban Infrastructure sectors. The carry forward order book for the Domestic Projects business thus stands at ₹ 2161 crores (including RIEL), ahead of the previous year position.

Adversities of the environment, also impacted the pace of turnaround in Rohini Industrial Electricals Limited (RIEL). While progress in executing carry forward orders was slow, it has successfully reduced its overhead costs, and demonstrates reasonable progress, although cash remains an area of concern. In stand-alone accounts, Voltas has taken a provision of ₹ 17 crores towards diminution in value of its investments. On the positive side, RIEL has secured orders worth ₹ 54 crores in the current year which places the carry forward order book at ₹ 197 crores.

Given the operational challenges of a difficult business climate (over which we have little control), measures were taken during the year to try and insulate our profitability. Across the length and breadth of the Projects business, several value engineering measures have been initiated, apart from suitable re-organization to extract synergies and reduce costs. Leadership changes and infusion of new talent to ramp up internal capability augurs well for the future and will help seize emerging opportunities as and when the climate improves. In doing so, Cash and intrinsic profitability will remain sacrosanct and we will be selective in choosing orders well within our risk parameters and business boundaries.

Segment B – Engineering Products & Services

The Segment's consolidated Revenue and Results were at ₹ 431 crores and ₹ 84 crores compared to ₹ 412 crores and ₹ 69 crores respectively in the previous year. Overall, both Textile Machinery and Mining & Construction Equipment business performed well on the strength of fresh orders, new offerings, and a customer centric approach.

The Indian mining sector continued to be plagued by policy constraints although there are indications of some respite in terms of lifting bans in some States. The Mining Equipment business nevertheless delivered good performance in spite of all adversities. Its O&M business in Mozambique grew significantly with the addition of new loaders along with maintenance contracts. There were also some large orders from Indian operators for equipment delivery in Malaysia and Indonesia. The Company tied up with Belaz (Belarus) for dump trucks, considering the forward prospect of good orders from Coal mining companies. At the same time, entry into Mineral Beneficiation generated new orders.

On the Textile front, investment has been positively impacted by policy initiatives announced by Gujarat, Maharashtra and MP Governments, along with the reinstatement of the Textile Upgradation Fund (TUF). Our association with LMW continues to remain strong and market shares have been retained at a comfortable 60%+, despite entry of several cash rich international players. The increased demand for yarn in both export and domestic markets resulted in the Spinning industry showing improvements in operating performance, notwithstanding the difficult power situation in TN and AP. Expansion in post-spinning areas is also bearing fruit with further inroads being made into the weaving sector, and the commencement of an important partnership with Benninger AG of Switzerland.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

The Room air conditioner industry underwent yet another year of decline, with an overall de-growth of 5% in volume (according to Gfk Nielsen). Overcoming this discouraging consumer sentiment, the Company's Unitary Cooling Products business accomplished sales growth of 19% to reach a turnover of ₹ 1836 crores as compared to ₹ 1539 crores last year. Assisted by various margin improvement measures, profits also grew to ₹ 173 crores reflecting an improved EBIT of 9%.

During the year, the Company seized and sustained market leadership overtaking competition from multinationals, and ending the year with an average share of 18.4%. Voltas now has clear leadership in 10 out of 20 Key markets, and has achieved 3.3 on the brand Equity index, the highest among any 'pure AC' brands. Such exceptional performance grew out of several positive factors including strengthening of the Brand, offering the widest available range of 5-Star-rated energy-efficient products and extended distribution in Tier 2 and Tier 3 towns.

The launch of the new 2013 product range was also marked by the commencement of a new advertisement campaign in time for the upcoming summer months. It was an enjoyable, persuasive and memorable evolution of the 2012 advertising campaign, with its 'All-weather' theme featuring the unforgettable Murthy, that won the Gold EFFIE Award for 2012 in the 'Consumer Durables' category.

The Commercial Refrigeration business continued to extend its customer base, and also retained its market leadership in this segment. Over the course of the year, the volumes in this part of the business have increased by over 50%. Further, with increase in the number of organized players, FDI in retail and entry of large multinationals, there would be an added thrust on improving cold storage facilities which augurs well for this business. This also helps the business to de-risk itself from the seasonality associated with the Room Air-conditioners business.

The Company also instituted several measures to shore up its profitability: maintaining tight control to keep both outstandings and inventory levels low, expanding its unique business model by engaging larger numbers of OEMs for outsourced assembly across the country, further shortening time-to-market, improving asset turns, and shrinking the Company's carbon footprint.

Sum-up

The performance in Segment B & Segment C has been beyond expectations and we hope to sustain the same. The Projects business is currently facing environmental headwinds and extra intense competition in procuring the limited number of orders that become available. At the same time, reorganization and various efforts to contain costs should bear fruit and position us more strongly when business picks up. Needless to state, the strength of the Voltas Balance Sheet is a definite advantage in facing uncertain times ahead.

22nd May 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.