VOLTAS LIMITED
A TATA Enterprise

ANALYSIS OF RESULTS
QUARTER AND FULL YEAR ENDED 31st MARCH 2015

Starting with the formation of a stable government at the Centre, followed by a stream of positive announcements, the year gone by has been somewhat positive for the Indian economy. Inflation has moderated to comfortable levels helped by the decline in Oil prices and WPI has been in the negative territory for the last five months. Fiscal & Current account deficits have both stayed within target levels and India's forex reserves are reportedly at a record high. While it may be argued that the rupee is slightly overvalued, the exchange market has nevertheless seen a semblance of stability. At the same time, interest rates have drifted lower and the HSBC PMI has remained in positive territory, now for the eighteenth successive month. International rating agencies (S&P, Moody's and Fitch) have also more recently affirmed a 'stable' rating for the economy.

Despite all of the above, the situation on the ground is yet to change significantly. The IIP has been fluctuating and the recently announced numbers for March shows a five month low of 2.1. Similarly, exports fell sharply in March and a variety of tax issues have progressively undermined investor sentiment. While Government led project announcements have increased, this is yet to translate into visible spending on the ground. Meanwhile, the private sector remains in a state of wait-and-watch with a paucity of fresh investments. In fact, credit growth is understood to be at an 18 year low, and industry opinion clearly suggests that marginal reduction in interest rates will not be sufficient – a minimum of 1.5% or more is required to kick start higher levels of growth in the economy.

The environment has been difficult on the overseas front as well. The US economy appears to be impacted by a more recent slump in business investment and exports. China marked its slowest growth since the first quarter of 2009, and announced further stimulus measures to help restructure its debt. Europe continues to remain weak and is in danger of further slowdown. Although oil prices have dropped significantly, the GCC governments have for now, largely kept up their investment agenda supported by fiscal expansionary policies. However, slow recovery of oil prices in the latter half of 2015 could constrain forward government spending.

Given this overall background, the Consolidated Sales/Income from Operations for the year ended 31st March, 2015 was at Rs. 5144 crores as compared to Rs. 5244 crores last year. Profit before tax was however higher at Rs. 514 crores as compared to Rs. 340 crores in the previous year. Accordingly, Net Profit after Minority Interest was also higher at Rs. 384 crores and the resultant Earnings per Share has improved to Rs. 11.62 as compared to Rs. 7.42 last year (Face Value per share of Rs. 1).

Analysis by segment:

The segment results are given below. In overall terms, the Products businesses has done well contributing significantly to both the top and bottom-line of the Company. Although constrained by the general environment and various issues that are well known, the Projects business has also managed to remain profitable.

Segment Reporting	For the year		% Growth over PY	% of Total Revenue	
	ACT FY 15	ACT FY 14		ACT FY 15	ACT FY 14
1. Revenue					
Segment A : Eng. Projects	2209	2692	-18%	43%	51%
Segment B : Eng. Products	360	448	-20%	7%	9%
Segment C : Unitary Cooling	2510	2052	22%	49%	39%
Net Revenue from Operations	**5144**	**5244**	**-2%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	23	(39)	159%	1%	-1%
Segment B : Eng. Products	108	125	-14%	30%	28%
Segment C : Unitary Cooling	349	252	39%	14%	12%
Total	**487**	**338**	**44%**		
3. Capital Employed				**ROCE**	
Segment A : Eng. Projects	526	624	-16%	4%	-6%
Segment B : Eng. Products	67	107	-38%	161%	117%
Segment C : Unitary Cooling	290	275	6%	120%	92%

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

As expected, Segment Revenue was lower at Rs. 2209 crores compared to Rs. 2692 crores in the previous year. However, Results turned positive at Rs. 23 crores in contrast to a loss of Rs. 39 crores in the last year.

International Operations

While there has been some growth in the number of new project enquiries, this has unfortunately been often accompanied by illogical commercial conditions, particularly in Qatar. The business has however succeeded in securing some reasonably risk mitigated orders worth Rs. 1185 cores over the course of the year. Some of these are currently in the early stages of execution and will hopefully, provide an uptick to earnings in the coming year.

We have simultaneously focused on the commercial closure and resolution of legacy projects, but disputes and delayed payments continue to be the order of the day. Meanwhile visa issues, design changes, non-availability of work fronts (impacted as they are by the crawling pace of main contractor's construction activity), etc. are challenges that sub-contractors like Voltas constantly wrestle with.

During the quarter, there has not been any significant development regarding the on-going discussion surrounding the Sidra Medical and Research Centre project in Qatar. While the Client and the Main Contractor are busy preparing for the London arbitration, the Company continues to pursue its own entitlements suitably guided by its legal counsel.

Domestic Projects

The difficulties of the contracting environment in India and the slow pace of project execution are well known and require no elaboration. Delayed payments and postponed projects continue to strain and challenge the overall performance of this business. Some of the newer projects incl. Metro have yet to pick up pace, leading to a drop in turnover. Nevertheless, the business efficiency improvement program which we had commenced earlier has helped improve internal processes & systems, contributing to an improvement in profitability.

As reported in the previous con-call, opportunities on the HVAC side of the business are yet to pick up. Most of the MEP orders that are coming up for tendering are below the defined threshold margins. Meanwhile, the intensity of competition has increased, with both Main contractors as well as smaller regional players targeting the limited hand-full of available orders. While this has led to price undercutting and an unavoidable reduction in projected margin, the business stands by its strategy of selective bidding and securing orders only at comfortable margins.

The overall carry-forward order book for Segment A as of 31st March, 2015 stands at Rs. 3893 crores (International Rs. 1871 crores & Domestic Rs. 2022 crores).

Segment B – Engineering Products and Services

Revenues and Results of this segment were at Rs.360 crores and Rs.108 crores as compared to Rs.448 crores and Rs.125 crores, respectively, last year.

The Indian textile industry went through some turbulence, in contrast to its healthy growth in 2013-14. China with its significant surplus stock of cotton cut down on yarn imports from India leading to a consequential and steep correction of yarn prices, especially in the early part of the year. Accordingly, the demand for textile machinery from the domestic spinning industry has been slow. Nevertheless, the business has witnessed an uptick as compared to last year, given our strategic focus on other growth avenues including Post Spinning and the Services & Parts business.

The Mining business has capitalized on its strategic diversification into Mozambique and performance during the year was positively supported by improvement in profitability of this business. Nevertheless, these gains could not fully offset the momentary void created by the transition of certain long term maintenance contracts last year. Further, the continued impasse affecting the domestic mining operations has increased the challenges for our Mining & Construction equipment business.

Segment C – Unitary Cooling Products

Despite intense competition and subdued customer sentiments, Voltas sustained its No.1 market position in the Unitary Cooling Products business for the second consecutive year during 2014-15 with a market share of 20.8% for the full year at Multi-Brand Outlets compared to 19.8% in the previous year. With growth in sales volumes exceeding the overall industry growth, the Segment's Revenue increased by 22% and was Rs.2510 crores as compared to Rs.2052 crores last year. Better quality cum range of products, wider distribution, sensible advertising and appropriate pricing has assisted our revenue performance.

Commercial refrigeration also witnessed increased traction and healthy growth. More recently, the Company has launched Air Coolers in select North-Indian markets which should add to the performance in the quarters to come.

Segment Result was also significantly higher by 39% at Rs.349 crores as compared to Rs.252 crores last year, due to improving margin realization, better product mix, savings in material costs and prudent control of marketing spend. In recognition of the performance of this business, the Company recently received an award as the Top Indian Company in the Consumer Durables & Appliances sector.

Sum-up

We are cautiously optimistic about the future, but the nature of our industry is one of dependence on the economic environment. Our strategy in the Projects segment is to look for good quality orders with reasonable margins and commercial terms. In the International business, our stated preference is to go for medium sized projects rather than large, iconic and long duration projects, susceptible as they are to delays, disputes and protracted commercial settlements.

The Room AC business is weather reliant and we would, like the rest of the industry, look forward to an extended summer to maximize sales volume. On an overall basis, we would also hope for good monsoons, favorable business policies and a lower interest rate regime to support macroeconomic growth.

Meanwhile our Balance sheet remains robust with low debt and a comfortable cash position. As the business cycle turns, we expect to build on our strengths and grow further without unnecessarily compromising our cash and bottom-line focus.

25th May 2015