ANALYSIS OF RESULTS
QUARTER AND FULL YEAR ENDED 31st MARCH 2016

The various macroeconomic indicators, both on the domestic and the international front, seem to indicate that a comprehensive economic recovery still eludes us. The US economy grew at a meager 0.5% in the March quarter, the weakest performance in two years. At the same time, the US labour market grew at its slowest pace in seven months, this April. The European Union too advanced at a slow pace of 0.6% amidst concerns about the global economy, especially the slowdown in China. Meanwhile data on industrial production, released more recently seems to indicate a sustained weakness in the Chinese economy. In the Middle East, lower oil revenues continue to constrain fiscal spending thereby exerting pressure on the economy in general. Overall, the global economic environment remains volatile.

Similarly, on the domestic front, the recently announced data including inflation and marginal growth in industrial production were below expectations. Two consecutive years of sub-par monsoon have delivered a significant blow to the output of both food as well as non-food crops. Consequently, while the RBI had cut interest rates by 1.5% since the start of 2015, prospects of further rate cuts remain a challenge. Given NPA's and a variety of other reasons, Banks have been reluctant to reduce their interest rates to end consumers and Corporates. The pace of progress on key reforms met with some headwinds, and forward movement remains hinged on the outcome of state level elections. Capacity utilization reported by RBI along with the private sector spending (sentiment) on new investments remains subdued. Going by the IIP numbers recently announced, manufacturing activities in the country were close to stagnation in April. The Nikkei purchasing managers' index (PMI) survey also indicated a sharp fall to 50.5 in April from 52.4 in March.

Despite the challenging environment, Voltas' Performance for the current year was better as compared to previous year in terms of cash, profits and turnover. With increased sales across all business segments, the Consolidated Sales/Income from Operations for the year ended March 31, 2016 was higher by 13%, at Rs. 5832 crores as compared to Rs. 5144 crores in the previous year. Profit before tax was also higher by 7%, at Rs. 552 crores as compared to Rs. 514 crores last year. Similarly, Net Profit (after Minority Interest) was Rs. 386 crores as compared to Rs. 384 crores. Earnings per Share (Face Value per share of Re. 1) as at March 31, 2016 improved to Rs. 11.65. Noting the better performance in the current year, the Board of Directors have recommended a higher dividend - 260% for the year 2015-16 (PY: 225%), indicating a higher dividend payout percentage of 31.1%.

We present below our detailed comments on the performance of the various business segments in which we operate:-

Segment Reporting	12 months FY 16	12 months FY 15	% Growth over PY	% of Total Revenue FY 16	% of Total Revenue FY 15
1. Revenue					
Segment A : Eng. Projects	2717	2209	23%	47%	43%
Segment B : Eng. Products	370	360	3%	6%	7%
Segment C : Unitary Cooling	2557	2510	2%	44%	49%
Net Revenue from Operations	**5832**	**5144**	**13%**		
2. Segment Results				**Results to Revenue**	
Segment A : Eng. Projects	37	23	61%	1%	1%
Segment B : Eng. Products	113	108	5%	31%	30%
Segment C : Unitary Cooling	338	349	-3%	13%	14%
Total	**507**	**487**	**4%**		
3. Capital Employed				**ROCE (Annualised)**	
Segment A : Eng. Projects	680	526	29%	5%	4%
Segment B : Eng. Products	80	67	19%	141%	161%
Segment C : Unitary Cooling	164	290	-43%	206%	120%

Note :- 'Others' in reported financial results pertains to an Oman JV that undertakes diverse projects including contracts for irrigation, landscaping, water management, etc.

Segment A – Electro-Mechanical Projects and Services

Segment Revenue and results were higher at Rs. 2717 crores and Rs. 37 crores as compared to Rs. 2209 crores and Rs. 23 crores in the previous year respectively. At the same time, Order Book was marginally higher at Rs. 3914 crores.

Pick up in execution of the newer projects in Qatar mainly contributed to the increased turnover. Having crossed the threshold levels for recognition of margins, these projects have also added positively to the Segment results. One must however hasten to add that, the environment on the ground in the Middle East region is yet to improve. The challenges highlighted in past conversations, such as a slow pace of project execution, delay in certification / settlement of commercial entitlements, legal disputes and even arbitrations very much remain a part & parcel of the project business in the Middle East. The industry also remains exposed to the elements of tight liquidity conditions led by oil prices, hindering the ability/willingness to pay. The business continues to focus on speedy closure of delayed projects including recovery of receivables, guarantees, retention money, etc. Consequently, quarterly performances tend to be lumpy and a holistic picture is obtained by looking at project performance on a longer term basis.

On the flip side, the dearth of experienced MEP contractors (esp. Qatar) with adequate financial standing appears to result in an increase in enquiry levels for Voltas. That said, we are particularly conscious about threshold margins and inherent risks associated with new order booking. During the quarter we have selectively booked orders of Rs 615 crores, and carry forward an overseas pending order book of Rs. 1889 crores.

On the Domestic front, the state of the Indian economy is well known to all – while there has been a sporadic inflow of positive data points & announcements, the Private sector especially in the manufacturing space continues to adopt a conservative 'wait & watch' strategy. Accordingly, the business has strategically focused on the industrial sector and Government orders. Benefiting from Central Government spending on Rural Electrification, RIEL (a 100% subsidiary) has also witnessed a recovery over the course of the year. Overall, the Domestic Projects business has ended the year with better performance in terms of both revenue and results as compared to last year. Similarly, the carry forward order book after considering orders booked during the quarter of Rs 344 crores, stands improved to Rs 2025 crores. However, the liquidity constraints of the current business environment require rigorous monitoring of outstandings as well as speedy closure of protracted negotiations.

Segment B – Engineering Products and Services

Segment Revenue and Results were higher at Rs. 370 crores and Rs. 113 crores as compared to Rs. 360 crores and Rs. 108 crores respectively, in the previous year. The improvement in performance was despite various environment led adversities and difficult business conditions in both Mining and Textile Machinery businesses.

The Indian textile industry went through yet another turbulent year marked by a China led drop in yarn prices, margin pressures on domestic spinning industry, weak job work rates, and tight liquidity conditions. Weaving sector in particular was subdued with limited order inflows in FY15-16. In the short term, the business is capitalizing all available opportunities taking advantage of Central & State level subsidies wherever possible. For the Mining and Construction industry, the year under review continued to be challenging with slowdown in activity on the domestic front and drop in global commodity prices. The overseas operations in Mozambique remain a significant contributor to the business. Meanwhile, the construction side of the business shows early signs of pickup driven by Govt. led spending in the road segment.

Segment C – Unitary Cooling Products

Segment Revenue was higher at Rs. 2557 crores as compared to Rs. 2510 crores in the previous year. Given erratic rainfall especially in the larger Northern market in Q1 (the peak summer season), we started the year on a relatively subdued note. At the same time, given the somewhat higher inventory levels across industry there was a general increase in intensity of competition, visible via price cuts and higher sales promotion offers & schemes.

More recently, we have launched our new 'All Star' range of products with an innovative marketing campaign based on the energy saving tag-line. Using smart advertisements, prudent sales promotions and some selective correction of prices, Voltas has successfully maintained its market leadership position at MBOs. The full year market share is at 21% with a lead of over 500 bps vis-a-vis the nearest competitor. Various market interventions were thankfully complemented by improved demand in the festive season in Q3 and warmer weather in Q4, especially in Southern India. This has helped the business recoup the weather led losses of the first quarter and close the year on a positive note.

Year one for Air Coolers ended on an encouraging note, with satisfactory progress on expanding the product range and dealership network. Television advertisements for Air coolers in preparation for the upcoming summer months were launched in the last quarter. At the same time, the Commercial Refrigeration business continues to strengthen its offerings and now caters to the needs of a constantly growing dairy, chocolate & ice-cream segment.

The weakening of the Rupee coupled with higher spending on sales promotion has put some pressure on margins. Nevertheless, Segment Result at Rs. 338 crores represents a creditable margin of 13%.

Sum-up

As reported in the media, the early onset of the summer season has in general supported Cola, Ice-cream & AC Sales. With continued assistance from favorable climatic conditions, the AC industry is expected to continue its growth trajectory. The second summer as well as Q4 2016-17 will however be key determinants as well. Our expectation is that the projects business would return to gradual growth following anticipated improvements in the larger economy and recovery of oil prices.

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.

19th May 2016