ANALYSIS OF RESULTS
QUARTER AND YEAR ENDED 31st March, 2020

At our Q3 Results Conference call, we spoke about the year 2020 beginning with escalated global tensions combined with the rapid spread of the Coronavirus, threatening to disrupt trade, and seriously impact economic growth across Nations. It must be said however, that the gravity and sheer extent of the Covid pandemic could not be foreseen – the World has since cumulatively reported over 6.1 mln cases of infection, and as many as 370,000 deaths. In essence, it has brought the World to a complete standstill, sparing neither the most developed economies, nor the poorest of the poor nations. In fact, as much as 28% of the deaths have been reported from the US, closely followed by the European geography, taken as a whole.

Thanks to early lockdown decisions, Covid numbers reported in India (as a proportion of our large population) has been relatively contained, at around 190,000 positive cases with some 5,400 unfortunate deaths. The economic impact of the crisis has nevertheless been even more severe. We hear predictions of de-growth exceeding 5% in FY 21, notwithstanding several well intentioned Government announcements and RBI interventions. Meanwhile PMI indicators have plummeted in April and Industrial output has sharply contracted. The Government now faces a real and present danger of revenue shortfall, which may progressively constrain its ability to meaningfully intervene and kick start the economy.

At the same time, India has to deal with the massive exodus of lakhs of migrant workers fleeing job losses, starvation, and the absence of livelihood in locked-down cities. Dismal as it might sound, opinions indicate that India could perhaps see more deaths due to hunger than from the pandemic, if it continues to remain in lockdown. The country must accept the virus as the new normal and increasingly adopt a balanced approach that facilitates the return-to-work of the able-bodied, while protecting the most vulnerable. Although the lockdown has now been extended in vulnerable containment zones, with restrictions being selectively eased in other less exposed parts of the country, the danger of spikes requires careful management.

Coming to Voltas, a sales increase of ~ 50% in our Unitary Product business for the first 11 months of the year seemed to indicate that we would handsomely finish FY 20, surpassing our own expectations. The month of March was sadly, a different story - Covid 19 became the spoil sport and the entire industry has for all practical purposes, lost out a month of sales, made all the more disappointing in the context of peak seasonality. Our Domestic Project and other businesses were also simultaneously constrained by the lock-down, with follow through consequences on the pace of work, labour availability, deferment of certification, etc., not to mention an intentionally high propensity to delay due payments.

VOLTAS LIMITED
Finance and MIS Department
Registered Office Voltas House 'A' Dr Babasaheb Ambedkar Road Chinchpokli Mumbai 400 033 India
Tel 91 22 66656290 66656891 Fax 91 22 66656311 e-mail manishdesai@voltas.com mprabhu@voltas.com website www.voltas.com
Corporate Identity Number L29308MH1954PLC009371
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Set against this environment, the Consolidated Total Income for the Quarter ended 31st March 2020 was higher at Rs. 2,150 crores as compared to Rs. 2,120 crores in the corresponding quarter last year. Net profit before tax was higher by 30% at Rs. 217 crores as compared to Rs. 166 crores in the previous year. Profit after tax stood at Rs. 160 crores.

The Consolidated Total Income for the Year 2020 improved by 8% to Rs. 7,889 crores as compared Rs. 7,310 crores earlier. Profit before exceptional items and tax was up by 15%, at Rs. 796 crs compared to Rs. 689 crores in previous year. PBT was at Rs. 744 crores and Earnings per Share (Face value per share of Rs. 1) as at 31st March 2020 was Rs. 15.63.

We would also like to mention that the strength of our Balance sheet as of 31st March 2020, with its strong reserves and adequate cash, is a definite source of comfort in these troubled and liquidity stressed times.

Analysis by Segment:

(Rs Crores)	Q4 FY 20	Q4 FY 19	FY 20	FY 19
1. Revenue				
Segment A : Unitary Cooling	1199	998	4074	3156
Segment B : Eng. Projects	805	976	3246	3619
Segment C : Eng. Products	95	78	332	312
2. Segment Results				
Segment A : Unitary Cooling	175	104	512	325
Segment B : Eng. Projects	11	44	170	277
Segment C : Eng. Products	27	27	99	105
3. Capital Employed				
Segment A : Unitary Cooling	476	556	476	556
Segment B : Eng. Projects	1101	930	1101	930
Segment C : Eng. Products	84	65	84	65

Segment A – Unitary Cooling Products

The first two months of the quarter witnessed high demand on the backdrop of a severe summer prediction, combined as it was with Trade anxiety on forward product availability, given the perception of possible supply chain disruptions ex China. As mentioned earlier, our own YTD volume growth was 50%, well ahead of Industry benchmarks. Unfortunately, the lockdown commenced before sales in March could accelerate, adversely affecting primary dispatches and resulting in a substantial loss of revenue. Nonetheless, the Division delivered an impressive full year revenue growth of 28% at Rs 4,049 crores. This was accompanied by a smart expansion in profitability – segment margin improved by some 230 bps extracting benefits from input cost efficiencies and improved mix, helping to register an impressive bottom line of Rs. 512 crores.

Apart from the improved quality of the business, Voltas has sustained its market leadership and increased its YTD share (last available external report: Feb 2020) by 50 bps to 24.2% over the previous year. We are also happy to report that Voltas has achieved a leadership position in the fast growing Inverter Air conditioner segment, overtaking its nearest competitor in the months of January and February. Inverters now account for as much as 64% of split ACs sold and over 50% of all ACs. Sharper focus on customer centric innovation, expansion of distribution channel and a balanced supply chain are yielding desired outcomes.

We have also seen better traction in the Air Cooler segment (growth of 60%) given a variety of measures, including availability of the complete range, wider distribution network, and competitive pricing. The brand is now placed a number 2 with market share of close to 10 % exit Feb 20. At the same time aided by expansion of retailers and change in lifestyle, the Commercial refrigeration category has also grown reasonably well in the current year.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was lower at Rs. 805 crores as compared to Rs. 976 crores in the corresponding quarter last year, primarily due to slow pace of execution and related project challenges given the onset of Covid. Lower revenue is reflected in the segment result of Rs. 11 crores, together with certain conservative time based provisions made owing to collection delays amidst general liquidity concerns.

The Segment revenue of Rs. 3,246 crs for the full year (compared to the Rs. 3,619 crores in the previous year), is also the direct consequence of a low opening Order book in April 2019 of under Rs. 5,000 crs together with very limited book and build orders. That said, new orders have been carefully booked during the just completed year, and we now have a carry forward of Rs. 7,788 crs as of 1st April 2020, which should support reasonable revenue in FY 21.

In so far as our International Business is concerned, Covid 19 has not 'per se' affected projects, since construction activity is statutorily considered as an essential service in the Middle East. Nevertheless, the pace of the execution has significantly reduced and certain mega events like the Expo 2020 has been postponed. The sharp decline in Oil prices caused by the drop in demand, combined with a glut in supply amidst development of viable alternate sources of energy, threatens to impact fortunes in the Middle East. Accordingly, additional care and diligence is being exercised in the procurement of new orders. The total order book for the International operations business as on 31st March is just short of Rs. 3,000 crs.

On the Domestic front, the initial period of lockdown has affected the business resulting into delayed job closures, work certification, and receipt of receivables. While work across many of our sites have since been allowed and has commenced, the remobilization of the work force remains a challenge. While the situation is being closely monitored on a project to project basis, some amount of delay in project execution and collection appears inevitable. However,

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given the subdued demand, material prices have come down and savings are expected to accrue on future project sourcing. Notwithstanding, all reasonable precautions to legally and contractually protect our entitlements have been taken and should help mitigate forward risks.

Whereas private investment sentiments are understandably subdued, limited resources in the hands of the Central & State Government is also likely to affect spend on Infrastructure projects in the near future. We have however witnessed good traction in securing orders of Rs. 1,116 crores during the just completed Quarter and the carry forward order book of Rs. 4,789 crores represent a healthy mix of Water, Metro, Airport, Solar and general MEP projects. That said, forward project management is key, and we will continue our emphasis on timely execution, prompt certification and receipt of physical cash.

Segment C – Engineering Products and Services

Segment Revenue and Results for the quarter were at Rs. 95 crores and Rs. 27 crores, largely similar to the previous year's performance.

Excess capacity, weak export outlook and lack of financial facilities continues to challenge fresh investments in the Textile sector. Meanwhile, our strategic focus on after sale service has helped offset the impact of muted textile machinery sales.

In Mining and Construction Equipment, the quality of engagement with our Mozambique customer has resulted in additional maintenance contracts. While the mining activity has thus far remained safe from Covid interruptions, reduced demand for Coal across the major consuming countries may over time, result into production cuts. Meanwhile, mining activity in India continues to remain largely sedate. The announcement of commercial mining may revive some of the closed mines, but we need to wait and see its execution to assess opportunities.

Voltas Beko

Cumulatively, the company has invested an amount of Rs. 335 crs as of 31st March to further our strategic presence in the wider Consumer Durable market via our joint venture with Arcelik. Manufacture of Direct Cool Refrigerators from the Sanand factory has commenced in the current quarter. With this, the Refrigerator product range is complete, including as many as 36 SKUs in the larger selling 185 to 240 Ltr range. The factory has an annual capacity of 1 million units, which can be scaled up to 2.5 million units for manufacture of refrigerator and washing machines.

Product review and acceptability both at the Customer and Consumer end has been encouraging. As per external sources, we have also attained a reasonable market share of close to 2% in both Frost Free refrigerators and Washing machines, within a short period of time. The current lockdown has meanwhile increased demand for some of the appliances like Dishwashers and Refrigerators. All in all, the underpenetrated market, product quality, trust of the Tata brand and extended distribution leveraging the considerable strengths of Voltas, augurs well for our future ambitions.

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Sum-up

Given the uncertainties around lifting of the lockdown and revival of economic activities thereafter, we remain cautiously optimistic. On the positive side, Covid has helped discover various cost effective ways of doing business, and we will continue to explore opportunities to optimize discretionary expenses. Simultaneously, and as the situation continuously evolves, Voltas will closely monitor and tap potential opportunities for profitable and longer term sustainable business growth. The nature of the pandemic being what it is, we can only hope that the worst is behind us.

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.

1st June, 2020

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