VOLTAS
A TATA Enterprise

ANALYSIS OF RESULTS
QUARTER AND NINE MONTHS ENDED 31ST DECEMBER 2019

Trade policy concerns and geopolitical tensions continued to weigh on global economic activity - especially manufacturing and trade, in the second half of calendar year 2019. Intense social unrest in some countries posed new challenges, as did weather related disasters - from hurricanes in the Caribbean, to bushfires in Australia, not to mention simultaneous floods and drought in various parts of the African expanse.

The year 2020 began with escalated global pressures given unrest between US-Iran and the rapid spread of Coronavirus, threatening to impact industries across Nations which are dependent on imports from China. As a case in point, the total value of India-China Trade is alone estimated at a substantial $ 87 billion, with electronic items close to 24% thereof. Expected sluggishness in the China offtake of commodities have also begun to reflect in lower price of oil, copper, etc. The impact of depressed oil prices may, in due course, have a bearing on Middle East economies.

Not surprisingly, the latest IMF report suggests that the global economy is in a slowdown mode, with growth for FY19 downgraded to 2.9% and that of FY20 to 3.3%, its slowest pace since the global financial crisis. The downward revision in growth also reflects slower economic activity in a handful of emerging market economies, including India.

Back home, sector specific weakness in automobile, consumer durables, real estate and banking, and political tensions amidst implementation of CAA, etc., continue to overshadow growth. Leading indicators point towards waning consumer demand, accompanied by slower credit offtake, lower capacity utilization, and drop in private capital formation and household savings rates. At the same time, the rise in unemployment levels, a general reduction in corporate earnings, a declining trend of tax collections and GDP growth are worrisome. Set against this complex backdrop of a slowing economy, Budget 2020 has unfortunately been perceived as rather incremental, falling short of the 'transformational roadmap' expectation.

Set against this backdrop, the Consolidated Total Income for the quarter ended 31st December, 2019 was at Rs. 1547 crores at par with the corresponding quarter last year, although segment composition was different with a much stronger play by the AC vertical. Profit before tax was higher by 10%, at Rs. 119 crores as compared to Rs. 109 crores in the previous year. Profit after tax was even higher by 13%, at Rs. 88 crores reflecting the net impact of a reduction in the Corporate tax rate. Earnings per Share (Face Value per share of Re. 1) (not annualized) as at December 31, 2019 was also higher at Rs. 2.63 as compared to Rs. 2.45 last year. The Balance sheet as of 31st December remains healthy with strong reserves, adequate cash and minimal borrowings.

Analysis by segment:

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

Segment reporting (Rs. Crores)	Q3 FY20	Q3 FY19	9months FY20	9months FY19
1 Revenue				
Segment A : Unitary Cooling	601	526	2875	2158
Segment B : Eng. Projects	808	875	2442	2643
Segment C : Eng. Products	83	83	237	233
2 Results				
Segment A : Unitary Cooling	61	45	337	222
Segment B : Eng. Projects	37	69	159	233
Segment C : Eng. Products	23	22	72	78
3 Results (%)				
Segment A : Unitary Cooling	10%	9%	12%	10%
Segment B : Eng. Projects	5%	8%	7%	9%
Segment C : Eng. Products	28%	27%	30%	33%
4 Capital Employed				
Segment A : Unitary Cooling	307	775	307	775
Segment B : Eng. Projects	1213	918	1213	918
Segment C : Eng. Products	85	55	85	55

Segment A – Unitary Cooling Products

Given seasonality factors, the UCP business is traditionally slow in Q3. That said, Voltas has successfully improved its performance across all product vectors. The TO has grown by 14% while bottom line has accelerated even further by 36%. This is the conscious result of driving better product mix, together with our penchant for cost efficiencies.

Improved margins have not come at the cost of market shares – we are happy to report a YTD market share of 24.3% at multi-brand outlets. This share reflects the anticipated acceleration of Inverter ACs, which now accounts for 43% of our AC sales. Intensity of competition in the overall market has multiplied with more than 20 producers chasing the underpenetrated market with enticing consumer offers, including heavily discounted prices. Our strategy remains steadfast – offering best in class, value for money, convenience products with improving reach across the length and breadth of India.

Earlier this year, Air Coolers was carved out as a separate product vertical. The increased focus is now yielding dividends in terms of higher growth (135% over Previous year), better profitability and sustained market share (exit Nov @ 11.2%). The Commercial refrigerator vertical segment has also grown on a YTD basis, and shows promise into the future.

The rapid spread of the Coronavirus threatens to disrupt component supply chain from China, and the situation is being closely monitored on a continuous basis. While we are adequately covered for Q4, certain alternate sources of supply can and will be pressed into action. Meanwhile, the Budget has increased customs duty on few components, the impact of which is expected to be appropriately passed on to the ultimate consumer.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was Rs. 808 crores as compared to Rs. 875 crores in the corresponding quarter last year. Segment Result was also lower at Rs. 37 crores reflecting broader concerns in the project segment – mainly slow pace of project execution, coupled with the delayed collection of receivables as an offshoot of well-known environmental strains.

Carry forward order book of the Segment stood higher at Rs. 7024 crores (including major orders booked in Water) as compared to Rs. 4994 crores in last year.

<u>International Operations</u>

The total order book for the international operations business as on 31st December, 2019, was around Rs. 2715 crores. Given the risk related diligence exercised, fresh orders were limited to around Rs. 170 crores during the quarter.

As reported earlier, in respect of a project where Carillion is the main contractor, we continue to face the challenge of delayed receivables. In general, there is a tendency to delay certification across the Middle East and the volatility of oil prices may further strain liquidity. Meanwhile, the leadership transition to Sultan Haitham bin Tariq Al Said in Oman has been smooth, with no evident disruption of earlier investment policies.

<u>Domestic Projects</u>

Domestic projects have successfully enhanced its order book to around Rs. 4300 crores, having booked Rs. 1077 crores of orders during the quarter. This includes prestigious Water projects under RWSS in Orissa, apart from sections of Mumbai Metro.

Excess capacity, liquidity concerns and a muted view of future growth seem to be a major impediment in jump starting Private Sector spends. In fact, year on year Gross fixed capital formation as a % of GDP is reported to have declined to 28%, although the India rank in ease-of-doing-business has improved to number 63 on a global scale. While the Company has continued to focus on Govt. / Govt. funded projects in the interim, change of Administration (post-election) in certain States has contributed to delays.

Segment C – Engineering Products and Services

Segment Revenue and Result for the quarter were at Rs. 83 crores and Rs. 23 crores, largely similar to the previous year's performance. This is despite the significant headwinds faced by the Textile industry, partly compensated by our focus on after-sales business in both Spinning and Post Spinning segments.

In Mining and Construction Equipment, we have expanded our Mozambique operations with the addition of further maintenance contracts. Although, some policy pronouncements have been made, we are yet to evidence a proper come-back of mining led opportunities in India.

Voltas Beko

As part of the 'Make in India' initiative, Voltas Beko commenced production at a state of the art manufacturing facility spread over 60 acres at Sanand near Ahmedabad in India. The factory will roll-out home appliances like refrigerators and washing machines and will scale up annual production capacity to about 2.5 mln units in due course, from a current capacity of 1 mln units.

The expansion of Trade reach, leveraging the distribution strength of Voltas bodes well for the future. We have in this short period of time progressed well, garnering market share gains in both Washing Machine and Refrigerator categories. The availability of the entire range of products including Direct Cool refrigerators will help optimise throughput from the 4000+ touch points currently available, apart from securing accelerated growth.

Sum-up

Truth be told, most industries face substantial challenges in the near term future exposed as they are, to environmental headwinds and the economic implications of a possible spread of disease. Within this context, Voltas will diligently strive to continue our growth momentum in a profitable and sustainable manner. We remain cautiously optimistic.

10th February 2020