VOLTAS
A TATA Enterprise

ANALYSIS OF RESULTS
QUARTER ENDED 30th June 2019

In the more recent past, global economic stability has become increasingly fragile as the US-China trade war ramps up. The repercussions of the US punitive tariff and China's retaliation, including allowing the Yuan to depreciate has far reaching implications on global trade and associated growth. While many of these will unfold as the year progresses, there is a lack of clarity on how the new UK leadership will deal with Brexit issues. Closer home in the Middle East, Oil is looking for direction as economic anxiety jostles with Regional tensions in the backdrop of the escalating Iran situation.

Back in India, we have witnessed harsh summers and a delayed monsoon. Although inflation is under control and the Government has announced many reforms and infrastructure investments, consumer mood appears depressed. We are witnessing sluggish private sector investment and unemployment issues apart from negative growth in core industrial sectors such as automobiles. Issues in the banking sector and a series of defaults are dampening the economic sentiment. Slow-down concerns have been voiced by many Industry stalwarts, and the facts are evident in GDP growth which is at 5-year low of 5.8% in March Qtr. compared to 6.6% in December Qtr. Just yesterday, the central bank has announced a 35 bps rate cut in the Repo rates, hopefully forcing Banks to reduce rates and kick start the lending activity.

Given this background, the Consolidated Gross Sales from Operations for the quarter ended 30th June, 2019 was higher by 24%, at Rs. 2647 crores as compared to Rs. 2134 crores in the corresponding quarter last year, contributed mainly by UPBG with a growth of 47% over last year. Profit before exceptional items and tax was higher by 14%, at Rs. 301 crores (mainly contributed by 54% growth from the UPBG business) after considering our share of joint ventures and associates and a one off provision of Rs. 17 crs in Investment income (write-down by one of the MF schemes where we were invested).

Profit before tax was marginally lower at Rs. 258 crores, but only after considering impact of an exceptional item - Voluntary Retirement Scheme aggregating to Rs. 43 crores. Consolidated Profit after tax was at Rs. 166 crores due to reversal of deferred tax assets created in a subsidiary, RIEL resulting into higher tax expenses and lower profits in current quarter. Earnings per Share (Face Value per share of Re. 1) (not annualized) as at June 30, 2019 was at Rs. 4.99.

A snapshot of Consolidated results is given below:

Rs. Crores	Q1 FY20	Q1 FY19	%
Gross Sales / Income from Operations	2647	2134	24%
Profit before exceptional items and tax	301	263	14%
Profit before Tax	258	263	-2%
Profit after Tax	166	187	-11%

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)	Q1 FY20	Q1 FY19
1	**Revenue**		
	Segment A : Unitary Cooling	1749	1191
	Segment B : Eng. Projects	824	866
	Segment C : Eng. Products	74	77
2	**Results**		
	Segment A : Unitary Cooling	230	149
	Segment B : Eng. Projects	66	88
	Segment C : Eng. Products	24	27
3	**Capital Employed**		
	Segment A : Unitary Cooling	(60)	191
	Segment B : Eng. Projects	1039	665
	Segment C : Eng. Products	71	68

Segment A – Unitary Cooling Products

Coming off a challenging year, this season started with a nation-wide heat wave and delayed monsoons. Temperatures rose across the length and breadth of the country, benefitting the industry as a whole. While the market grew by a substantial 36% as compared to last year, Voltas grew even stronger as evidenced by the increase in externally reported market shares.

It may be noted that Voltas sustained its No.1 market position in the Unitary Cooling Products business for the eighth consecutive year with a market share of 25.3% for the month of June 2019, and 24.1% for Q1 FY20 at Multi-Brand Outlets. Within these numbers, our focus on Inverter AC sales has paid rich dividends – we are today the number two player in this segment with the clear strategy of becoming the leader here as well. Inverter ACs today account for a little over 50% of our total AC sales.

The Segment's Revenue smartly increased by 47% and was Rs. 1749 crores as compared to Rs. 1191 crores last year. At the same time, result was higher at Rs. 230 crores as compared to Rs. 149 crores in the previous year. Better quality, wider range of products, deeper distribution and sensible advertising combined with attractive consumer offers and pricing has strengthened our presence. We have also reduced our inventory levels substantially.

This year, the Company launched the *'Adjustable Inverter AC'* range that comes with the unique value proposition of *'Flexible Air Conditioning'*, and provides the customer the option of switching the compressor over from 1.5tn to 1tn and vice versa in cooling, a concept which has been well received in the market. As a pioneer in bringing energy efficient models in India, Voltas has partnered with EESL to offer 50,000 Super Energy-efficient and environment-friendly ACs, available at an affordable price. Technologically superior, these are 44% more energy efficient than conventional 3-star ACs, ensure low-noise operation and have a longer life. The ACs will be initially distributed to the Delhi consumers of BSES Rajdhani Power Limited (BRPL), BSES Yamuna Power Limited (BYPL) and Tata Power Delhi Distribution Limited (Tata Power-DDL).

With the wider range of consumer durable products that are now available via Voltas Beko, we have now more than 150 Exclusive Brand Outlets (EBOs), increasing the brand's presence pan-India. These outlets deliver a unique customer walk-through experience, displaying the entire range of Voltas and Voltas Beko products and have seen an increased traction in both enquiries and sales.

Alongside ACs, commercial refrigeration also witnessed better traction and healthy growth. Voltas's Fresh Air Coolers continued to provide respite in the harsh summers, with the brand gaining more ground and posting a substantial growth coming off a challenging year. The team is driving aggressive growth in these categories as well.

The Company has recently launched Air-purifiers with three variants in the current year. Customer response on Products has been encouraging and further product portfolio expansions are planned to tap the potential.

Segment B – Electro-Mechanical Projects and Services

Segment Revenue and Results for the quarter was lower at Rs. 824 crores and Rs. 66 crores respectively. Carry forward order book for the Segment was marginally higher at Rs. 4756 crores compared to Rs. 4623 crores in the corresponding quarter last year. (Break-up: International Rs. 1852 crores & Domestic Rs. 2904 crores. Order inflow for this Qtr. Rs. 680 crores of which Domestic is Rs. 450 crores)

Domestic Projects Group (DPG)

The general elections (which inadvertently slows down order finalization) have concluded but the economy continues to reel under pressure with slower than usual private spending. Few of the orders picked up in the recent past are currently in the early stages of execution and will provide an uptick to earnings in the forward quarters. That apart, some LOIs are in the pipeline which will, as per our practice be announced only when finalized.

The Govt. spend on urban infra such as Water, Electrification, etc continue to remain the focus. Given the subdued investment climate, the management has strategically focused on the industrial sector and Government orders.

The growth in RIEL (a subsidiary focused on rural electrification) has been encouraging. Seeing the impetus from the Govt. on sustainable forms of energy, the Company has plans to foray into solar business and has recently commenced developing capability to address this market.

International Operations Business Group (IOBG)

The Middle Eastern economies are going through turbulent times. Notwithstanding the volatile Oil market, governments in some of the Middle Eastern countries have announced some investments in long term infrastructure projects. Our strategy in this environment is to look for good quality orders with reasonable margins and commercial terms. Qatar as a market is also seemingly opening up and we are considering business that meets our risk mitigation criteria. Meanwhile, the challenges faced by a JV partner of the main contractor(Carillion) in Oman continue and we are watching the situation closely.

Segment C – Engineering Products and Services – Textile Machinery Division (TMD) and Mining & Construction Equipment Division (M&CE)

The Indian textile industry went through yet another period of turbulence, as China with its significant surplus stock of cotton cut down on yarn imports from India. Many of the spinning mills are cash strapped and have resorted to either full or partial shut-downs. In this environment, orders for new capital machinery are fewer than before. Meanwhile, our strategic focus on other growth avenues including Post Spinning and the Services & Parts business continues.

The Mining business has continued its good performance in Mozambique, while the India mining story is at an impasse. On the positive side, we are seeing some pick-up in spending in road construction activity.

Voltbek Home Appliances Pvt. Ltd. (Voltbek)

As you are aware we have recently launched a JV with Arcelik to offer a range of home appliances under the brand Voltas.Beko. Although relatively new in the field, the business is stabilizing itself in line with internal plans and has done reasonably well. We are in the process of setting up the manufacturing plant at Sanand which will be functional from 2019 year end. This factory will produce direct cool refrigerators and washing machines.

The brand has launched several SKUs of Refrigerators, Washing Machines, Dish washers and microwave ovens which have been received well by the Trade. Consumers are also appreciative of the many India centric product features and we expect to increase our penetration and market reach further.

Sum-up

The Room AC business is weather reliant and we would, like the rest of the industry, look forward to the second summer and the upcoming festive season to maximize sales volume. Nonetheless, we remain determined even while we are cognizant of the slowdown and the liquidity stress in the economy.

With a stable Government pushing the agenda on growth in infrastructure, we expect several opportunities to grow in the project business. We remain suitably conscious of associated risks while picking up orders in the Middle East. Needless to state, the strength of our Balance sheet holds us in good stead to grow further.

8th August 2019