VOLTAS

ANALYSIS OF RESULTS

QUARTER AND SIX MONTHS ENDED 30 SEPTEMBER, 2022

The current fiscal year started with mixed indicators for the economy and especially the industry we are operating in. On one hand, we had an open window to a complete season after a gap of close to 2 Covid years which supported sales, on the other hand, the global economy continued to face challenges of high inflation owing to global supply chain imbalance, depreciation in currency across the World amid surging Dollar Index and increase in interest benchmark rate by respective Central Banks impacting revival of the economy.

In India, consumer durable industry witnessed weakness due to incessant rains and consequent dip in consumer sentiment towards discretionary spend given the high inflation rate. The CPI continues to be on the higher side and WPI Index is coming down gradually indicating the absorption of the inflation impact by the manufactures due to slowness in overall demand. India too witnessed a currency depreciation taking away the possible benefit of softening of the commodity prices. The Country has demonstrated resilience, however, given the overall Global outlook, the growth is expected to be slowing down as compared to the projections at the beginning of the financial year.

Amid the above challenges in, the Company reported a marginal growth of 6% for the quarter in Consolidated Total Income at Rs.1833 crores as compared to Rs.1737 crores in the corresponding quarter last year. Profit before share of profit / loss of joint ventures/associates and tax was at Rs 149 crores as compared to Rs.162 crores in the corresponding quarter last year. Profit before and after tax was further impacted during the current quarter due to an exceptional provision made on an Overseas project. Earnings per Share (Face Value per share of Re. 1) (not annualized) for the quarter ended 30 September, 2022 was also at Rs. (0.22) compared to Rs.3.13 last year.

The Consolidated Total Income for the six months' period ended 30 September 2022 was higher by 29% at Rs. 4627 crores as compared to Rs. 3598 crores in the corresponding period last year. Profit before share of profit / loss of joint ventures/associates and tax was at Rs. 340 crores as compared to Rs.360 crores in the corresponding period last year. Profit before tax (after share of profit / loss of joint ventures /associates and an exceptional item) was at Rs.174 crores as compared to Rs.311 crores last year. Net Profit (after tax) was at Rs.103 crores as against Rs.227 crores in the corresponding period last year. Earnings per Share (Face Value per share of Re. 1) (not annualized) for six months ended 30th September, 2022 was at Rs.3.07 as compared to Rs.6.81 last year.

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A TATA Enterprise

A snapshot of our results this quarter is presented herewith: -

Segment reporting (Rs. Crores)	Q2 FY23	Q2 FY22	% ot Total Revenue Q2 FY23	% ot Total Revenue Q2 FY22
1. Revenue				
Segment A : Unitary Cooling	1048	1007	60%	60%
Segment B : Eng. Projects	554	537	32%	32%
Segment C : Eng. Products	137	125	8%	8%
Income from Operations	**1739**	**1669**	**100%**	**100%**
2. Profit before tax			**Results to Revenue**	
Segment A : Unitary Cooling	76	102	7%	10%
Segment B : Eng. Projects*	(92)	11	-17%	2%
Segment C : Eng. Products	48	39	35%	31%
Unallocated	(19)	(10)		
Profit before Tax	**13**	**143**	**1%**	**9%**

* after exceptional item(s)

Segment reporting (Rs. Crores)	H1 FY23	H1 FY22	% ot Total Revenue H1 FY23	% ot Total Revenue H1 FY22
1. Revenue				
Segment A : Unitary Cooling	3210	1970	72%	57%
Segment B : Eng. Projects	1009	1225	22%	36%
Segment C : Eng. Products	262	240	6%	7%
Income from Operations	**4480**	**3435**	**100%**	**100%**
2. Profit before tax			**Results to Revenue**	
Segment A : Unitary Cooling	243	220	8%	11%
Segment B : Eng. Projects*	(105)	42	-10%	3%
Segment C : Eng. Products	99	77	38%	32%
Unallocated	(63)	(28)		
Profit before Tax	**174**	**311**	**4%**	**9%**

* after exceptional item(s)

Segment A – Unitary Cooling Products (UCP)

For Unitary Cooling Products, Q2 is usually a lean period. The quarter witnessed incessant rains in many parts of the country coupled with lower consumer sentiment towards discretionary spend owing to high inflation. The overall secondary sales during the quarter were also lower on a high base of same quarter previous year impacting primary sales to the Channel partner. Given the challenges, Segment has performed relatively better reporting a revenue growth of 4% and 63% compared to Q2 FY22 and H1 FY22, respectively.

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The silver lining in the overall lower secondary sales, was a preference of the consumers towards higher star rated products, which has shown a good amount of increase over previous year. The adoption of the inverter technology has also seen traction with the consumers taking share of the split inverter air conditioner to 77% from 66% in the corresponding quarter.

We are pleased to inform you that Voltas continues to be the market leader and has sustained its No.1 position in the overall Room Air conditioner business with its YTD August 2022 market share at 22.8% with the lead of close to 750 bps over 2nd player. Our continued focus on the inverter category with expanded product portfolio, yielded a desired result in sustaining our leadership in the inverter category as well.

On the higher base of the last year and with the pent up demand in Q1 of the current fiscal, Commercial refrigeration (CR) vertical also witnessed a softer demand across OEMs and Channel partners during the quarter. Nevertheless, strong tie-up with the OEMs and a continuous efforts of increasing channel partner's participation has resulted in a higher double digit growth for the category on a half yearly basis.

Lower inventory at channel partner end coupled with incentive schemes directed towards primary sales and expansion of channel footprint resulted in higher double digit growth for Air Cooler in a generally weak quarter. The investments in Moulds catering to the various types of Air Coolers shall help in further strengthening our product offering to the consumers and participation of channel partners across the length and breadth of the Country. The targeted dealer's schemes deviating from the standard trade practices resulted in a phased primary billing and in securing a higher order booking for the coming quarters.

The Commercial Air Conditioning (CAC) business reported a growth in the quarter on opening of the commercial spaces, expansion of the medium to small outlets and increased focus on conversion rate for after sale service through a higher participation of the channel partners. Quarter witnessed a growth across product categories of Ducted Split Unit (SSU), Packaged AC (PAC), Light Commercial AC (LCAC) and VRF. The orders in hand also provide a good visibility of sales in the forthcoming quarters.

The challenges on the margin front persist in the quarter owing to the carrying of high cost inventory and intensive competitive pricing. The concern on the supply chain specially logistics cost has relatively eased out and commodity prices are also softening, however, the rupee depreciation has neutralised the impact of the same to some extent.

In summary, for the quarter ended September 2022, UCP segment registered 4% growth in turnover from Rs. 1007 crores to Rs. 1048 crores. Segment reported an EBIT of Rs. 76 crores in Q2 FY23 as compared to Rs. 102 crores in Q2 FY22. For the six months ended September 2022, the segment registered 63% growth in turnover to Rs. 3210 crores from Rs. 1970 crores. Segment EBIT reported was at Rs. 243 crores in H1 FY23 vis-à-vis Rs. 220 crores in H1 FY22.

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Segment B – Electro-Mechanical Projects and Services

Segment Revenue for the quarter was Rs. 554 crores as compared to the previous corresponding quarter of Rs. 536 crores. Segment Result before exceptional item was profit of Rs. 14 crores as compared to profit of Rs. 11 crores last year. Segment results after exceptional item EBIT was loss at Rs.92 crores.

Domestic projects business witnessed a better traction in order booking including potential orders in pipeline during the current quarter aggregating to Rs. 950 crs as compared to Rs. 99 crs in similar period previous year. Collective efforts towards project monitoring, execution of the projects and intense focus on the collection has supported the results for the domestic projects group. With the consummation of the BTA, the challenges of securing fresh orders has largely been addressed, which should result in improving bid to win ratio for the new orders across project verticals and help improve order book.

In international business, revenue was muted owing to low carry forward order book and most of the running projects being closer to the completion stage. Headwinds in terms of delay in certification & collection, lower than expected productivity and low availability of the skilled manpower impacted the overall results of the International business.

Amidst various challenges, in one of the overseas project, the main contractor has unilaterally terminated the contract in October with Voltas and also encashed the underlying bank guarantees pursuant to the termination of the main contractor's contract by their customer. The Company has considered a provision towards outstanding dues and encashed performance guarantee on the said project following prudent approach and disclosed the same as an exceptional item during the quarter and six months' period ended 30 September 2022. The Company is evaluating legal remedies to challenge the termination of the contract by the main contractor and recover the proceeds.

The carry forward order book for Domestic projects now stands at Rs. 3866 crores containing orders across Water, HVAC, Rural Electrification and Urban infra activities. The International order book as at 30 September 2022 stood at Rs. 2110 crores. Total carry forward order book of the Segment stood at Rs. 5976 crores.

Segment C – Engineering Products and Services

Segment Revenue and Results continued to report improved performance for the quarter over corresponding quarter of previous year. Segment revenue was Rs. 137 crores and EBIT was Rs. 48 crores, respectively.

During the quarter, performance of both Mozambique and India operations was satisfactory. Increase in export duty on the iron ore has impacted the demand for the capital equipment and also reduced production machine hours affecting after sales revenue. Nevertheless, the vertical continued to maintain consistency in its performance.

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Improved delivery of Textile Capital machinery from the Principal and a tactical approach towards after sales service revenue augured well for the segment during the quarter. Opening of few markets and Governments' focus to increase textile exports along with targeted PLI schemes will act positive for the Segment. Albeit, price increase by principals, supply chain related disruptions and volatility in the yarn prices impacting the running of textile mills continued to pose challenges in the interim period.

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The demand for the appliances at large was muted during the quarter given the overall trade & consumer sentiments. The limited offtake during festive season has affected the trade participation in the primary sales resulting into a volume drop during the quarter.

Nonetheless, the brand is aggressively pursuing growth strategy by focusing on the channel participation, creating a unique selling proposition for the consumer by providing a technical advanced product at value for money with a tactical marketing and sales promotion activities. The localization of few products along with value engineering is supporting the margin improvement. Cumulatively, the brand has sold 2.5 Mn units till date in a span of 3 plus years, an evidence to the strength of brand and acceptance of the products across value chain.

The lower penetration, value aspiration, capitalizing on the demographic dividend and leveraging technical and distribution strength of the joint venture partners should work positive for the category and strengthen its presence in this competitive market.

Outlook:

The current economic situation is surrounded with uncertainty and volatility. The inflation continues to remain a focus point for all the future monetary and Non-monetary actions impacting the overall economic growth and consumer demand in the coming quarters. We remain optimistic given the various supporting factors for the businesses we operate in.

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.

2 November 2022

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