VOLTAS

## *ANALYSIS OF RESULTS*

## *QUARTER ENDED 30 JUNE, 2022*

Calendar year started with positive momentum after continuous lockdowns and hindrances caused by Covid. However, multiple headwinds such as pressure on account of elevated commodity and crude oil prices, higher than anticipated inflation worldwide especially in the United States and major European economies and other geographical factors viz. a worse-than-anticipated slowdown in China-reflecting COVID19 outbreaks and lockdowns; and continued negative spillovers from the war in Ukraine impacted the sentiments across. Additional pain to financial conditions was also caused due to steep interest rates hikes undertaken by major central banks to help ease the inflation pressures.

Back home, similar to Global economy, end of Q4 gave rise to series of green shoots on account of stronger GST collections and PMI numbers, elevated consumer discretionary spends, on vehicle sales, rise in exports, etc. However, the trends didn't seem to last long, as the good news was followed by widening current account and trade account deficit, rising inflation and monetary tightening policies adopted by RBI which dampened consumer sentiments. Although, on a positive note, IMF still, in its recent forecast, projected the GDP growth of India to remain stronger for balance part of the fiscal year on the expectation of a positive recovery and controlled inflation as compared to rest of the economies.

In above backdrop, for Voltas, the quarter was both exciting and challenging. On one hand, our top line was helped by full season period of hot weather which supported Unitary Cooling Products (UCP) business, however, on the other side, cost overruns along with liquidity constraints impacted results in project segment. For the quarter ended June 2022, Unitary Cooling Products (UCP) reported a revenue of Rs 2162 crs, Eng. project business reported revenue of Rs 455 crs and Eng. Product reported a turnover of Rs 124 crs. Voltas' Consolidated Total Income for Q1FY23 was Rs 2795 crores as against Rs 1860 crores in Q1FY22 resulting in top line growth of 50%. Profit before tax (PBT) was Rs. 160 crores as compared to Rs. 168 crores in the corresponding quarter last year. Profit after tax (PAT) was Rs. 110 crores vs Rs. 122 crores in the previous year. Earnings per Share (EPS) (Face Value per share of Re. 1) (not annualized) for the quarter ended 30th June, 2022 was at Rs. 3.29 against Rs. 3.68 reported last year.

We continue to further strengthen our Balance Sheet with minimal borrowings for our overseas operations.

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

| Segment reporting (Rs. Crores) | Q1 FY23 | Q1 FY22 | % of Total Revenue Q1 FY23 | % of Total Revenue Q1 FY22 |
|---|---|---|---|---|
| **1. Revenue** | | | | |
| Segment A : Unitary Cooling | 2162 | 963 | 79% | 55% |
| Segment B : Eng. Projects | 455 | 688 | 17% | 39% |
| Segment C : Eng. Products | 124 | 115 | 5% | 7% |
| **Income from Operations** | **2741** | **1767** | **100%** | **100%** |

| 2. Profit before tax | Q1 FY23 | Q1 FY22 | Results to Revenue Q1 FY23 | Results to Revenue Q1 FY22 |
|---|---|---|---|---|
| Segment A : Unitary Cooling | 166 | 118 | 8% | 12% |
| Segment B : Eng. Projects | (12) | 31 | -3% | 4% |
| Segment C : Eng. Products | 51 | 38 | 41% | 33% |
| Unallocated | (45) | (19) | | |
| **Profit before Tax** | **160** | **168** | **6%** | **10%** |

**Segment A – Unitary Cooling Products (UCP)**

Unitary Cooling Products industry witnessed a full period of seasonal sale after 2 years of washouts due to Covid. Being a leader in the industry, we not only participated, but we led this growth in the market by our presence and registered the lead by recouping the market share after a small bump at the end of the previous year. Capitalizing on the demand from a heat wave and on the strength of our extended dealer relationships in Q1 FY23 the Segment has registered a stellar volume growth by 111% as compared to Q1 FY22. The quarter also witnessed and reaffirmed the trust of the consumers in the brand resulting in regaining the market share of 24.1% for June 2022 exit in the overall AC market, a 950 bps lead over nearest competitor.

Our focus on the Inverter sub-category with competitive pricing and larger number of SKUs helped us to continue with our growth trajectory. Inverter category witnessed a good traction with the customers and its contribution in split AC segment increased from 70% in Q1 FY22 to 82% in Q1 FY23. We are happy to inform that along with our leadership position in overall AC category we now also lead Inverter AC market share at 21.8% as at June 2022 ahead by almost 300 bps over the nearest competitor.

Inspite of having started on a positive note, unprecedented and incessant rains in certain parts of the country and early monsoon starting from south dampened demand in secondary market for later parts in the quarter. This, in combination with a fear of rising inflation, brought about a cut in the discretionary spend by the consumers. The results of UCP business also were impacted on account of high procurement cost of the inventory sold during the season, disruptive pricing by the competition and a normalized advertisement spent after minimal advertisement spent in last year due to Covid.

We would like to inform that BEE star labelling has been made effective from 1 July 2022 and Voltas has taken all relevant steps with regards to the table change.

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The commercial refrigeration (CR) vertical continues to deliver yet another period of impressive growth. Growth in Commercial Ref. products was driven by demand of beverages and ice cream products in summer by mom & pop stores and expansion in trade sales.

Unlike previous few quarters, we witnessed a turnaround in Air Cooler (AR) sales for the industry as well as for Voltas. Overall, weather conditions boosted secondary sales, and, in turn, primary sales resulted in growth over previous year.

We are happy to report that the Commercial Air Conditioning (CAC) business also registered substantial growth. Sale of Light CAC (LCAC), Packaged Air conditioners and Ducted Split Units drove the growth in turnover. Business continued to take various cost reduction initiatives and value engineering processes to offset increased input cost and thereby mitigated risk, albeit partially, on the margin.

For the quarter ended June 2022 the UCP segment registered 125% growth in turnover from Rs 963 crs to Rs 2162 crs. Segment reported Rs 166 crs in Q1 FY23 EBIT as compared to Rs 118 crs in Q1 FY22, a growth of 41%.

**Segment B – Electro-Mechanical Projects and Services**

Segment Revenue for the quarter was Rs.455 crores as compared to the previous corresponding quarter of Rs. 688 crores, primarily owing to a low carry forward order book and most of the projects reaching to the completion stage during the quarter. The Segment has reported a loss of Rs. 12 crores on account of cost overruns and conservative provisions, affecting results for the current quarter.

For domestic projects business, the orders booked were higher at Rs. 225 crs as compared to Rs. 58 crs in similar period previous year. The build-up of contingency owing to the project extension and possible cost escalations in few projects have impacted the overall profitability of the segment. The judicious approach towards order booking had resulted in us retaining few, but healthy orders in MEP. However, going forward, with the revived hopes on public and private capital expenditure, we expect an increase in healthy order booking for the current financial year.

In the Middle East, most of big ticket and running projects are closer to the completion stage. Further, the new projects are under nascent stage wherein margin recognition will accrue later following the internal margin recognition policy. During the quarter, we continued to witness delay in work certification, deferral of payments by Clients owing to liquidity constraints. This has resulted in some conservative provisions, affecting results for the current quarter. We remain conscious of the risks entailed and remain suitably cautious and vigilant in accepting new orders in the GCC region.

Over Rs. 660 crores of fresh orders were added across both Domestic and International markets. The carry forward order book for Domestic projects now stands at Rs. 3597 crores containing orders across Water, HVAC, Rural Electrification and Urban infra activities. The International order book as at end Q1 FY23 is Rs. 2214 crores. Total carry forward order book of the Segment stood at Rs. 5811 crores.

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Meanwhile, the increase in global Oil price, and opening up of economy along with focus of the Government on the Infrastructure development is expected to improve business sentiment and open up further opportunities in our operating markets. We will continue with our strategy of picking up healthy orders which shall help in delivering a consistent and sustainable performance going forward with minimal risk.

**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. 124 crores and EBIT was Rs. 51 crores, respectively.

During the quarter, performance of both Mozambique and India operations was satisfactory. Increase in export duty fines in the iron ore market marginally impacted demand for the capital equipment. Nevertheless, vertical continued to maintain consistency in its performance.

High demand for Capital machinery in textile industry, both in spinning and post-spinning and a well-defined approach on improving after sales business helped achieve a significant growth by Textile Machinery Division. Albeit, price increase by principals and supply chain related disruptions continue to pose challenges in the interim period. However, in the long run, the PLI benefits announced by the Government and an opportunity of expansion in the export market should bode well for the Textile Sector.

**Voltas Beko**

Voltas Beko continued its journey towards growth during the quarter. Brand and trade acceptance of Voltbek products enhanced the overall performance of the Joint Venture. The strength of Voltas distribution has been leveraged to increase touch points for the brand sequentially. The in-house manufacturing of products has helped the brand to introduce more customer centric and value for money products with high quality and comfort. The value engineering across all product categories along with healthy product mix has resulted in the improvement of gross margin and thereby containing losses despite increased input cost and a higher advertisement spend compared to previous year.

Lower penetration, consumer preference towards premiumization and a technological advanced product shall favour the brand to further strengthen its presence in this competitive market.

**Outlook:**

Period of July-September (Q2 FY23) is usually a lean period for Cooling products, however, the start of festival period may witness a spurt in demand. It will be interesting to see the impact of myriad of factors such as inflation, movement in crude oil prices, rupee behaviour and geo-political challenges.

As far as previously informed business transition is concerned, we would now like to inform that all the 'Conditions Precedent' for consummation of Business Transfer Agreement (BTA) have been fulfilled and a closing date of 1 August 2022 has been finalized as an effective date

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for the transfer of MEP, Mining and Construction equipment and Textile Machinery businesses to Voltas' wholly owned subsidiary, Universal MEP Projects and Engineering Services Limited (UMPESL).

Government has remained optimistic in meeting its capex commitment for FY23. Positive sentiments and a resolution of pre-qualification on the transition of the business will help us regain momentum in project business to overcome some teething issues which may arise in the initial period of business transition.

In general, we anticipate a pickup in the pace of overall economic activity and Voltas would seize the opportunity to continue with growth momentum.

*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.*

4 August 2022

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