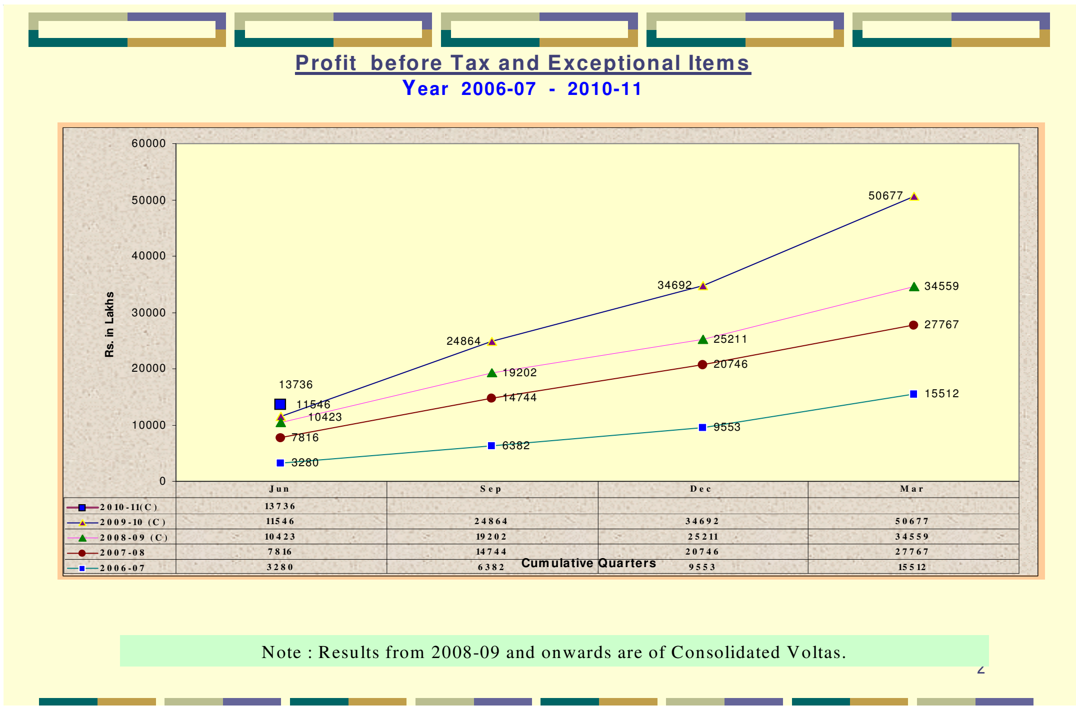
## ANALYSIS OF RESULTS FOR THE QUARTER ENDED 30th June, 2010

We are pleased to present the results for the quarter ended 30th June, 2010. The Company has continued its progress in the first quarter, and the Profit before Extraordinary Items is higher by 19% over the same period last year. The Company's Earnings Per Share for the quarter stands at Rs.2.82 (not annualized - on face value of Re. 1), an 18% increase over the previous year.




Given above is a chart of Operating Profits over the last five years.

### Some highlights are as under:

- Turnover and Other Income of the Company for the quarter is Rs. 1428 crores, ( US$ 0.306 billion) @ Rs. 46.65 = INR 1
- Operating Profit of Rs. 137 crores (US$ 29 million)
- Net Worth is at Rs. 1180 crores (US$ 253 million)
- Market Cap of Rs. 6826 crores (US$ 1.5 billion)

Consolidated results include Voltas stand-alone results and the results of the following Subsidiaries and Joint Ventures:

## Subsidiaries:

### Segment A

- Weathermaker Ltd. – a company manufacturing Ducts and allied products, based in Jebel Ali Free Trade Zone, Dubai, Isle of Man, UAE. (100%)
- Rohini Industrial Electricals Ltd. – an electrical contracting company based in Mumbai, India (67.33%)
- Saudi Ensas Company for Engineering Services WLL – an MEP contracting company based in Jeddah, Saudi Arabia (100%)

### Segment C

- Universal Comfort Products Ltd. – a company manufacturing Unitary air-conditioners, both window and split units, with a manufacturing facility based in Pant Nagar, India (100%)

### Others

- Metrovol FZE – a trading company based in Jebel Ali Free Trade Zone, the operations of which are being wound down. (100%)
- Simto Investment Company – an investment company based in India (95.57%)
- Auto Aircon (India) Ltd. – a manufacturing company which has ceased operations, based in India (100%)

### Unallocated

- VIL Overseas Enterprises B. V. – an Investment arm of the Company based in the Netherlands (100%)
- Voice Antilles N. V. – an Investment arm of the Company based in Antilles, Netherlands, which is under closure. (100%)

## Joint Ventures

### Segment A

- Universal Voltas LLC – an MEP contracting company based in Abu Dhabi, UAE (49%)
- Universal Weathermaker Factory LLC – a Duct manufacturing company based in Abu Dhabi, UAE (49%)
- Naba Diganta Water Management Ltd., - a company in the water supply business based in Kolkata, India (26%)

## Others

- Lalbuksh Voltas Engineering Services & Trading LLC – a contracting company based in Muscat, Oman (49%)

## A summary of the Consolidated Results is as under:

Highlights of results
for the quarter ended on 30th June, 2010

| | Consolidated CY | Consolidated PY |
|---|---|---|
| Increase in TO | 13% | 18% |
| EBITDA Margin | 11.5% | 10.4% |
| Increase in Profit before Exceptional Items | 19% | 11% |
| Increase in PBT | 16% | -4% |
| Increase in PAT | 18% | -5% |
| Increase in Profit after Minority Interest and Share of Profit of Associate | 18% | -5% |
| Taxation as percentage of PBT | 31% | 33% |
| Positive EVA | 23% | 24% |
| EPS (Re.) | 2.82 | 2.39 |
| EPS before Exceptional items net of tax (Re.) | 2.84 | 2.33 |
| Turnover per Rupee of Employee Cost (Rs.) | | |
| - Domestic | NA | NA |
| - International | NA | NA |
| Return on Net Worth (w/o Exceptional Items) | 32% | 36% |
| Debt / Equity ratio | 0.02 | 0.08 |

- The Company's Sales / Income from Operations increased by 13% to Rs. 1403 crores over the same period last year.
- EBITDA margins at 11.5% are better compared to the previous year, with better margins in both Engineering Products and Services and Unitary Cooling Products businesses.
- Electro-Mechanical segment comprises of 49% of the Company's turnover. About 54% of turnover of this segment has come from International Operations.
- PBT before exceptional items has grown by 19% and PAT by 18% over the same period last year.
- EPS (not annualized) stands at Rs.2.82 compared to Rs. 2.39 on face value of Re.1 per share. EPS excluding exceptional items net of tax stands at Rs. 2.84 as against Rs. 2.33 of the same period last year.
- Consolidated Order-book stands at Rs. 5006 crores in Electro-Mechanical segment. Out of this, the domestic order book would amount to approximately Rs. 1500 crores.
- Debt:Equity ratio stands at 0.02:1. The borrowings are marginal at Rs. 1 crore, relating to working capital.
- The Company has current investments (made out of surpluses) of Rs. 377 crores as on 30th June, 2010. In the second quarter however, these are likely to come down.
- Return on Capital employed (annualized) stands at 46%. The Company has generated positive EVA of 23% over the WACC.

- Other Operating Income has gone down from Rs.8 crores to Rs. 5 crores. Other Operating Income includes an Exchange gain of Rs. 3 crores. Non-Operating Other Income has gone up from Rs. 14 crores to Rs. 20 crores due to higher income from Investments, cash discounts from vendors and rental income.
- Taxation as a percentage of PBT stands at about 31%.
- Turnover per rupee of employee cost in the domestic market is slightly higher at Rs. 21 as against Rs. 17 in the same quarter last year. In the international market, it stands at Rs.5 against Rs.6 due to slower pace of execution of some projects.
- There is a charge of Rs. 1 crore for Voluntary Retirement Benefits under the head of Exceptional Items for the quarter against profit from sale of property of Rs. 3 crores in the same quarter last year.

Consolidated Segment Revenue and Results

For the quarter ended 30th June, 2010

Rs. In Lakhs

| Segment | Quarter ended 30th June 2010 | | | | | | | Quarter ended 30th June 2009 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Revenue | % of Total | Results | % of Total | % of Results to Revenue | Cap. Empl. | ROIC (Annualised) | Revenue | % of Total | Results | % of Total | % of Results to Revenue | Cap. Empl. | ROIC (Annualised) |
| a) Segment - A | 69,257 | 49.3% | 5,857 | 41.6% | 8.5% | 24,614 | 95.2% | 70,011 | 56.4% | 6,115 | 52.7% | 8.7% | 13,045 | 187.5% |
| Growth over PY | -1.1% | | -4.2% | | | 88.7% | | 44.6% | | 51.1% | | | -247.7% | |
| b) Segment - B | 12,034 | 8.6% | 2,758 | 19.6% | 22.9% | 9,871 | 111.8% | 11,394 | 9.2% | 1,581 | 13.6% | 13.9% | 13,020 | 48.6% |
| Growth over PY | 5.6% | | 74.4% | | | -24.2% | | -16.5% | | -26.1% | | | 40.4% | |
| c) Segment - C | 58,676 | 41.8% | 5,471 | 38.8% | 9.3% | 4,856 | 450.7% | 41,537 | 33.4% | 3,773 | 32.5% | 9.1% | 12,223 | 123.5% |
| Growth over PY | 41.3% | | 45.0% | | | -60.3% | | 3.5% | | 1.4% | | | -24.2% | |
| d) Others | 376 | 0.3% | 10 | 0.1% | 2.7% | 770 | 5.2% | 1,271 | 1.0% | 145 | 1.2% | 11.4% | 712 | 81.5% |
| Growth over PY | -70.4% | | -93.1% | | | 8.1% | | -43.1% | | -9.9% | | | -48.6% | 81.7% |
| TOTAL : | 140,343 | 100.0% | 14,096 | 100.0% | 10.0% | 40,111 | 140.6% | 124,213 | 100.0% | 11,614 | 100.0% | 9.4% | 39,000 | 119.1% |
| Growth over PY | 13.0% | | 21.4% | | | 2.8% | | 18.9% | | 15.4% | | | 117.1% | |

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## ANALYSIS OF SEGMENT REVENUE AND RESULTS:

The contribution of Segment A, i.e., **Electro-Mechanical Projects and Services,** to the Revenues and Results stand at 49% and 42% respectively as compared to 56% and 53% in the corresponding quarter last year. The relative contribution to the total has changed primarily due to other segments growing at a faster pace than in this segment. This is due to delay in project implementation by some international customers, leading to a lower turnover of Rs. 120 crores. Domestic turnover has increased by 56%. The margin percentage has remained constant at 9%.

The Order Book of the business segment stands at Rs.5006 crores as against Rs.4653 crores at the end of last financial year. During the quarter, EMD international business secured orders worth Rs. 407 crores. This included a Metro Tunnel Ventilation project in Singapore. This is a very important project since it opens up opportunities in South East Asia, India and the Middle East where large investments are planned for improvement in mass transport networks. In the domestic market the move into industrial projects and complete MEP works helped shore up the Order book.

Capital engagement has increased in international business due to delays in certification and payments of some of the projects. However, this is likely to be reversed in the coming quarters as the final certification and measurements are completed.

Revenue and Results of Segment B, **Engineering Products and Services**, have started improving. The segment's turnover during the quarter grew by 6%, whereas profitability rose sharply by 75%. However, the margins are likely to moderate over time. The margin percentage stands at 23% for the quarter as against 14% for the corresponding previous quarter. Capital engagement in the business has come down by 24% mainly due to Mining and Construction business reverting to normal inventories.

After around two years of negative sentiments/outcomes, Textile Machinery business has started showing improved turnover and margins.

In Mining and Construction Equipment business, profitability has improved significantly due to delivery of high value equipment yielding commissions for the Company, increased mining activities, and higher revenues on spare parts.

Materials Handling business has also started picking up with substantially higher inquiries and unit sales month on month.

Turnover of Segment C, **Unitary Cooling Products for Comfort and Commercial use,** has grown by 41% and margin by 45% over the corresponding previous quarter, on the back of robust growth in sales volumes of air conditioners and also improved sales of commercial coolers. Margins have taken a hit due to exchange losses amounting to Rs. 4 crores. Capital engagement has dropped by 60% and consequently Return on Invested Capital is over 450%.

Volume growth in air conditioners is in excess of 60%. The mix has been improving in favour of locally manufactured products. The Company advertised heavily during IPL and this has been very well received by the consumers.

The Company has over time been getting out of peripheral businesses and consolidating in more important high potential business lines.

During the quarter, Company's Cash flow has been satisfactory and almost equals the profits of the Company.

## **Business Outlook**:

### Segment A - Electro-mechanical Projects & Services

**Domestic business:** The Order Book of the Company is very strong and the cycle of execution also seems to be improving. The Company has been very successful in enhancing the component of its MEP and Water Management businesses while its foray into industrial MEP works has also been gathering strength.

However, in the traditional HVAC business the conversion of orders into execution, although improving, is still slow. We believe that these conditions will improve in the second half of the year. This business has always experienced a lag effect from economic conditions, and it is on this basis that we look to the future with confidence.

**International business:** The Order Book continues to be satisfactory, and success in securing a good large order in the last quarter should help mitigate some concerns. The pipeline of orders also looks quite satisfactory.

A new JV has been signed with Mustafa Sultan Group in Oman which is expected to garner a good share of new orders coming up in that country. There has been good progress in Saudi Arabia as well, and we should be in a position to start booking orders there very soon.

The Company is therefore confident of growing at a reasonable rate in the near future. Since the very large margins earned during 2009-10 arose from specific situations, the margins could get marginally affected during the year 2010-11, but the overall progress should continue. The markets have also become very competitive of late, at a time when commodity prices have been increasing, compared to the previous year, and this too will put pressure not only on the profits of the Company, but also its subsidiaries and joint ventures in the overseas markets.

### Segment B - Engineering Products & Services

As indicated earlier, **Textile Machinery business** has done well and the turnover have been picking up. New inquiries and order flow has also been improving. The exchange rate also continues to be conducive to growth of exports and profitability for the textile mills. All the macro-economic factors seem to be working in favour of this industry presently.

**Material Handling business** has been slow in picking up growth so far but the trend in the recent past has been positive. Pending inquiries have improved significantly and the quantitative sales have been growing month on month, auguring well for the future of this business. The Company's warehousing equipment is also doing well, and new products are likely to be launched shortly in the Forklift segment that should help improve the quantities of sales further.

**Mining and Construction business** has done very well in the quarter and the outlook is very positive. However, delivery of some of the equipment has been stretched due to increasing demand on the factories. The aggregate market (for roads) is showing positive trends. The iron ore industry continues to face challenges, with Forest and Environment clearance norms causing mining project delays; however, with the overall positive signs in the economy, this business should continue to do well.

## Segment C - Unitary Cooling Products for Comfort and Commercial

Volume growth in the business, both in air conditioners and refrigeration products has been very robust. The current summer season has also seen significant growth in volumes. The increased dealership and arrangement with large retailers has helped the Company expand its reach and improve the offtake. To avoid stock-out situations, the Company has had to procure inventories at short notice at relatively higher prices, which has affected the margins in the last quarter.

Going forward, the expectations are positive, although but cost increases due to higher commodity prices and adverse exchange rate are likely to affect the overall margin percentages. The Company will also be closely watching RBI's moves towards controlling inflation. If there is sustained aggressive increase in the interest rate, market sentiment could get affected, temporarily reducing demand for the products. The long-term trend is definitely positive, both for the Industry and more so for the Company.

## Overall

In summary, the growth prospects seem to be quite good. Sentiments are turning positive. Domestic economic scenario is very conducive. However, the margin percentages may get moderated over the levels seen in last year and in the first quarter, particularly in Engineering Products and Services and Unitary Products businesses. The absolute profits of the Company should continue to grow albeit at a more moderate pace than in the past.

The Middle East-based Joint Ventures and Subsidiary Companies are facing some head winds due to the competitive market scenario which has affected their performance during the current quarter. The situation is not likely to be substantially much different over the rest of the year.

## 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.

28.7.2010