



Business Outlook – December 2008

Segment A – Electro-Mechanical Projects & Services

Domestic: The Order Book of the Company continues to be strong (over Rs. 1000 crores per end of September 2008 with average completion cycle of 9 to 12 months). New inquiries inflow is still positive, although a little slower than in the past. There are some signs of delays in execution of projects, particularly in the realty sector, and some customers seem to be having tight liquidity conditions, which may affect the conversion of orders into revenues in the very near term.

In the meantime, the Company has formed various industrial verticals to sharpen focus on areas with likely large growth (e.g., airports, power, steel, pharma etc.) and is gearing itself for future growth. The Company has been successful in growing its MEP business, and the response from customers has been very positive. Arising from concerns about growth in Indian GDP, the Government is likely to take various initiatives including pushing investments in the Infrastructure sector. This should help the Company grow its business in the Domestic market. The receivable days have been extended due to tight market conditions, but there is no concern about quality of the receivables.

International : The Company has a very comfortable order book (Rs. 4500 Crores per end of second quarter with overall average completion cycle of 24 to 30 months), primarily focused on Abu Dhabi and Qatar. Most of these projects are either Government-sponsored or Government-supported and are very prestigious and high profile ones, which are unlikely to be affected adversely. We expect that these two regions and Saudi Arabia (another of our focus areas) will continue to invest their resources in their own economies even if it means pulling out resources from overseas investments.

The break-even for the budgets of these governments in terms of crude prices is not very high and therefore, even in the face of falling crude prices, the investments in their domestic economies are likely to continue. The construction activities in Dubai are slowing down, and a number of projects are being deferred. However, the projects that we have in Dubai are high-profile and far advanced in implementation, and therefore unlikely to be adversely affected by the market conditions. These projects in Dubai have completion schedules within 2009. In the international markets, there are further inquiries relating to new projects. However, our focus right now is on strengthening our structure and processes and on efficient execution of the projects on hand before we aggressively resume booking new orders.

In this segment, our focus continues to be on improving risk management practices, sharpening the systems and processes (global procurement, global designing centre and

IT systems) and increasing capabilities. We expect the margins to continue to improve over a period of time.

Segment B – Engineering Products and Services

About 80% of our revenues in this segment now come from Manufacturing (forklift trucks, cranes, warehousing equipment, construction equipment etc.), sale of accessories and spare parts and maintenance services, and the balance 20% comes from commission income. Mainly this change in composition, and to a lower extent certain other factors described below, have lowered the margins to a little under 15%.

Textile Machinery business: The slowdown in Textiles Machinery business continues unabated though some factors like Rupee value vis-à-vis US\$, which previously worked against the industry, have now turned favorable. Low demand for garments in the developed markets and restricted availability of power in South India, coupled with high cotton prices, are adversely affecting the business. It is believed that the overall situation in the Textile Machinery market will turn positive after mid-2009 and the Company is accordingly strengthening its market standing through customer relationship building and servicing. Key to revival in the industry would be increase in off-take from the US, which is the largest market for textile products. Considering the very large engagement of employees and the potential for generation of employment of this sector, and its contribution towards growing export revenues for the country, the Government is aware of the situation, and is very keen on helping the industry revive its fortunes. It is expected that a slew of measures will be taken by the Government which may hasten the turnaround.

Materials Handling business has been growing, albeit much more slowly from the beginning of the year. However, in the immediate past, the growth has turned negative. The margins have been affected due to high input costs, as well as competition from imported machines arising from the high value of the Indian Rupee that prevailed pre-global slowdown. The fall in commodity prices internationally, depreciation of Indian Rupee vis-à-vis US\$ by over 30%, and appreciation of Chinese currency should help us improve our competitive position against the imported machines. The Company therefore believes that going forward, the profitability of the business will improve considerably. Growth in number of machines sold would, however, depend upon the overall economic conditions and IIP growth. In the meantime, the company is expanding the range of products offered, re-engineering the same for cost reduction, and working on improving aesthetics of the products.

Mining and Construction Equipment business continues to do well. The order book position has improved significantly over the last year. However the growth is tapering down. Some of the service contracts, and stock & sale of spare parts, will continue to generate recurring revenues. The substantial correction in the commodity prices as well as tight financial conditions are affecting the pick-up of equipment against firm orders, since most of the equipment is third party financed. However, there has been no cancellation of orders so far. Renewal of some Service contracts upon expiry may get impacted if the slow-down continues much longer. The Coal sector continues to show good demand and this should help in alleviating the overall slow-down. Construction Machinery business has slowed down; however, the thrust being given to infrastructural

investments by the Government is likely to offer new opportunities. The strong order book and fresh inquiries give us confidence that barring some short term variations, the growth momentum in the business will continue in the medium and long term.

Segment C – Unitary Cooling Products for Comfort and Commercial Use

About 70% of revenues come from Room air conditioners including Split air conditioners. Due to the present economic conditions, the growth in the business has slowed down considerably. The market for air conditioners has hardly grown in the past few months and there are concerns of negative growth in the market. Rupee depreciation has also had an adverse impact on the cost of imported inputs and finished goods. Substantial inventories of finished goods due to the early monsoons and subsequent slow down continue to put pressure on the profitability and working capital of the business.

In the face of these adversities, the Company has continued to grow at a higher rate than the industry, but the immediate future seems uncertain. In the short term, the margins are likely to be under pressure. However, we believe that this business has tremendous potential for future growth, and as soon as domestic conditions improve, the business will be back on the path of high growth, particularly because of the high consciousness of health and hygiene as well as very low penetration.

In certain segments, air conditioners are considered a necessity now, rather than luxury goods as was the case earlier. The market is also moving towards split air conditioners from window air conditioners, providing a higher revenue stream. In commercial coolers, there has again been a slow-down in demand; this situation will improve only after the general feeling of despondency changes.

Overall Outlook

The Company has earned substantial Non-operating Other Income consisting of Income from Investment of surplus funds and recurring Rental Income. In view of the tight liquidity conditions currently being faced, the treasury income is likely to come down in the short term. However, the other component of Other Income, i.e., Rental Income, which is derived from long-term lease of properties, is likely to continue.

Company's leverage continues to be low, with Working Capital borrowings remaining at around the same level.

Overall, the Company is likely to be less impacted by the current slow-down compared to most other companies, due to its presence in the growth regions of the Mid-East market, and diversified nature of its businesses. The Company is focusing on cost erosion, and building up its internal capabilities for meeting the requirement of future growth. Cash generation is also being given high priority.