

# **VOLTAS LIMITED**

## **BUSINESS OUTLOOK – JUNE 2009**

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### **1. SEGMENT A – ELECTRO-MECHANICAL PROJECTS BUSINESS:**

- a. **Domestic Market Conditions:** The market has been subdued with level of new inquiries, handing out of project orders and execution of the projects on hand being low key. However, Voltas has been fortunate to have been able to book the MEP orders relating to Kolkata and Chennai Airports to be executed over a period of nearly two years. This takes our Order Book to nearly Rs. 1300 Crores which is a very comfortable level. The Company has been successful in enhancing the component of MEP and Water Management Business in this segment. There are some indications of the liquidity situation easing over the last few days. If this trend continues, it will help in improving the position of Receivables and pace of execution of orders on hand. If the expansionary policies of the Government continue with thrust on infrastructural investments, it would lead to overall improvement in the business environment. Probably, the Budget and accompanying announcements will indicate future trends.
- b. **International Business:** The present Order Book in International Business stands at approximately Rs. 3500 Crores and the execution period of Orders on hand extends up to September 2010, with possibly some overlap beyond that period. This is a very comfortable position. For new orders to commence execution, it normally takes 4-6 months depending upon the size and complexities of the project. Thus we need to

ensure that we have a comfortable order book extending over 18 months execution at the end March 2010. With the inquiries being handled at various locations and the huge infrastructural investments planned in our preferred territories, viz., Abu Dhabi, Qatar and Saudi Arabia, this should be possible. The budgets of these three territories commit substantial resources either from current revenues or from reserves; and the budgets were prepared when the Crude prices were prevailing at about US\$ 40-45 per barrel. Today these prices are running much higher and therefore the budget positions of these countries would be even more comfortable. This gives us comfort and optimism about the future growth of this business. The projects on hand are well on the path of execution and there has been no slowdown in their execution arising from liquidity constraints. The Company is very light in terms of fixed assets on ground and therefore should there be need to seek further Geographical expansion to meet the growth aspirations, that should be possible.

2. **SEGMENT B – ENGINEERING PRODUCTS AND SERVICES:**

- a. The slow down in **Textiles Machinery business** is continuing however, the trend of order booking indicates some turnaround. It is believed that the overall situation in Textile Machinery market will turn the corner post mid 2009-10 but it is likely to be a slow recovery. The Company, in the meantime, is strengthening its market standing through customer relationship building/servicing. The Company is also looking at areas for expanding its share of the Customers' spends. There are general expectations that the coming Budget will include steps for alleviating the difficulties of this Sector and that should also

help in improving the sentiment for further investments in this Business.

- b. **Material Handling Business** has some positives in terms of lower commodity prices, lower value of Rupee vis-à-vis US\$, etc. There is hope that the Budget and various other actions on the part of the Government will boost capital formation. This should result in revival of the business and improvement in overall margins.
- c. **Mining and Construction business** has suffered due to low commodity prices and lack of finance. There are signs that the third party financiers for equipment are now equipped to provide finance and have adequate liquidity. As mentioned earlier, we have also received an order from Hindustan Zinc Limited of over Rs. 210 Crores out of which about 50% pertains to maintenance service fees for a period of 5 years. There is hope of faster investment in Road and Highways constructions. All these factors augur well for this business.

***Overall, the Company believes that with indications of better environment emerging, the Engineering businesses will start showing improvement in the second half of the year, while the first half will remain sluggish. Thus, one possible scenario is that the first half of the current year will reflect the conditions prevailing in the second half of last year and the second half will be somewhat like first half of the previous year. Thus while the current year, overall, will be flattish, the year 2010-11 could be a big year for the business.***

### 3. SEGMENT C – UNITARY COOLING PRODUCTS

Commercial Cooling Products business has done significantly better in this quarter and the factory's capacity utilization has improved significantly. There are signs of improvement in

consumer sentiment and also the summer has been quite severe. This has resulted in growth in the secondary sales, i.e., sale by dealers/retailers to the final consumer, of air conditioners. Though the final numbers will be available some time later, it is believed that the market for air conditioners during the quarter would have grown by a little less than 10% whereas the Voltas Brand has grown more than this rate. However, primary sales have been subdued particularly because of the stock out situations in some models resulting from conservative inventory planning. Local manufacturing is gaining vis-à-vis imports due to Rupee value and this also is a good sign for our subsidiary. The large stock of inventories has been eliminated and now we can judiciously have an inter play between local manufacture and imports. We are focusing on Pantnagar as the base for manufacturing. We continue to believe that this business has tremendous potential for future growth and the business will be back on the path of high growth.

#### **4.Overall**

The Company's performance has been protected by the Projects Businesses, and we hope to offset a substantial part of the negative impact of current economic conditions in the domestic market by growth in the projects business and more so in the International market.

Company remains Cash positive with Liquid investments of about Rs. 170 Crores.

30.6.2009