

## Business Outlook – March 2009

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

**Domestic market** The Company's Order Book continues to be strong, and is likely to offer high visibility over the next 10-12 months. New inquiries inflow is comfortable, after a slowdown towards the end of the third quarter. The bulk of the potential business is presently in infrastructure, commonwealth games and related projects.

The Company has not borne any large cancellation of orders, or deliberate delays in execution of projects, although the liquidity concern in the private sector prevails.

The Company has, in the face of such constraints, been largely able to maintain the number of days' receivables. The recent actions of Reserve Bank of India in easing liquidity and bringing down the borrowing costs augur well for the future.

Similarly, the stimulus packages announced by the Central Government are in the right direction, although their positive effects will materialize with a lag.

The Company continues to be cautiously optimistic about the future outlook of the business. The Company has been successful in growing its MEP business and the response from customers has been very positive. MEP business comprises about 25% of the Order Book.

**International business** Voltas received significant recognition in the form of two key awards: for 'MEP Project Manager of the Year', and 'Health and Safety'. These are highly prestigious awards, and go a long way towards enhancing Voltas' brand value.

Various regions in the Middle East have announced their budgets for the coming year. According to these, there are likely to be significant Government backed investments in Abu Dhabi, Qatar and Saudi Arabia giving a boost to their economies. Crude oil prices seem to have stabilized over the recent past, and if they continue at similar levels, there will be less concern about budget deficits. Irrespective of crude prices, governmental investment in infrastructure and industrial projects in these regions is likely to continue, although their pace of finalization and implementation may be somewhat slow.

Accordingly, the Company has adopted a cautious approach, and will be selecting customers and projects that would be relatively low risk. The Company had a very robust order book of around Rs.4200 Crores as of 31<sup>st</sup> December 2008, which provides clear visibility for the next 18-20 months with reasonable year-on-year growth, even after taking into account the partial execution that would have taken place in the current quarter.

These orders include a small exposure in Dubai, relating mainly to Burj Tower and DIFC District Cooling projects. These are far advanced and scheduled for completion in the early part of the next financial year. Apart from two small projects in Singapore, all other ongoing projects are in Abu Dhabi and Qatar, and are government sponsored or supported. There are thus no perceived risks of cancellation or delays due to financial conditions.

### Segment B - Engineering Products & Services

The slowdown in **Textiles Machinery business** continues. However, garment exports have risen in recent months, supported by low rupee value vis-a-vis US\$. If this trend continues, it would support the industries' expectation that the Textile Machinery market may turn the corner post mid-2009, although the recovery may be slow. Meanwhile, the Company is strengthening its market standing through customer relationship building/servicing. The Company is also looking at alternative areas for expanding its share of the customers' spends.

**Material Handling Business** has been slowing down in the recent past. An important positive is that with Rupee depreciation, imported machines have become prohibitively expensive, at both the low and high ends, making the market less competitive for Indian products.

Although fall in commodity prices is a major positive for this business, we expect the same to reflect in margins in the next financial year.

**Mining and Construction business** is showing some signs of improvement. The exports of Iron Ore have started showing signs of an upward trend. The inquiries are also looking better than the last quarter. The accumulated inventory of machines has also been steadily going down over the last three months.

The service contracts continue to generate recurring revenues.

The announcements relating to further investments in Highway projects by the Central Government in the stimulus package is also a positive for this business.

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

Commercial Cooling Products business has been doing well over the last few months and the factory's capacity utilization has improved significantly. The market conditions for air conditioners have also improved relative to the third quarter. Although there has been lower demand than last year, the fall in demand is just about 10%.

There are indications of a very hot and prolonged summer, with expectations of a positive upturn in business. The severe inventory problem faced by the Company during the earlier part of the year is now behind us. Voltas' market share has consistently grown during the year and now stands at 18%. The present conditions warrant an agile supply chain wherein there is a dynamic assessment between local sourcing and imports. We have geared ourselves for making Pantnagar as the base for manufacturing.

The Management continues to believe that this business has tremendous potential for future growth, and as soon as external conditions improve, the business will be back on the path of high growth.

### **Overall Outlook**

Overall, the Company's performance has been sustained by the Electro-mechanical Projects Businesses with product and geographic diversification being a key advantage. We hope to substantially offset the negative domestic impact of current economic conditions by growth in the International projects business.

Another key positive for the Company is its low leverage and sizable free cash resources. The management is looking closely at all costs with the aim of aggressively cutting these wherever possible, without affecting the core capabilities, and maintaining high priority in cash generation.