Business Outlook – December 2010

My best wishes to you for a happy and prosperous 2011. May this year see continuous improvement in business scenario and increased infrastructural and other investments.

The General Business sentiment in India has been gradually improving over the last few months and in fact, some of the sectors have shown very positive growth over the last nine months or so. We discuss below the business scenario and the outlook for each business.

Segment A - Electro-mechanical Projects & Services EMPS

Domestic:

New Order inflows in the domestic project business have been growing quite well and execution, which was an area of concern earlier, also has started picking up. The Company has expanded its offerings from HVAC for built environment to MEP in built environment, MEP for Infrastructure including metro rail stations, tunnel ventilation, industrial, metal and power sector, etc. When the market starts reflecting robust growth, we will have a significantly larger opportunity leading to much faster growth compared to the past.

The water treatment and purification business has been faring very well in terms of booking new business as also in execution although with a small base. This business promises to grow fast in the near to long term.

The Company started the current quarter with an order book of Rs. 1500 Crores which more than covers a year's turnover. Commodity prices and other cost increases are having some negative impact on the profitability in the short term. Cash flows are also under pressure due to change in business profile. Performance of Rohini, our subsidiary in the electrical contracting business, will remain a matter of concern for the current year and is expected to turn the corner slowly thereafter.

International:

The Company has recently won three awards in the GCC MEP Projects competition namely, MEP Contractor of the year, GCC Project of the year and Project Manager of the year. These awards were won against stiff competition from other well-known contractors in the GCC region and therefore, are a matter of great pride for the Company.

The Company had been looking for a good partner for entry into Saudi Arabia for some time and has now signed a JV agreement with Olayan Group, a very well respected and influential business group in Kingdom of Saudi Arabia (KSA). Several clearances are required before we start business, which are likely to be in place before the current financial year end, enabling the JV to start functioning from April 2011. In the meantime, the Company has started looking for business in the territory. KSA is very large geographically as also in terms of GDP. While large number of new projects is being launched, there is a paucity of good and reputed MEP contractors compared to the amount of work available, thereby, offering good opportunity for a Company like ours.

FIFA 2022 has been awarded to Qatar. This will result into significant investments in the infrastructure development in Qatar over the next decade, probably starting as soon as 12 months from now. As you are aware, Qatar is one of our important areas of focus and this augurs well for the Company and its International MEP business.

In the coming years, significant investment is expected in trans-GCC metro/rail system. This will also result in associated infrastructural works, which is also likely to offer big opportunities.

With the KSA JV agreement signed in Oman and the steps being taken for business in Hong Kong and Singapore, the Company has large geographical spread which should also help in procuring further business.

The Company started the current quarter with an order book of Rs. 3500 Crores approximately as compared to Rs. 750 Crores of turnover from International market in the first half assuring of a reasonable growth in the near future. We have secured new business valued at Rs. 1500 Crores during the period 1st March 2010 to 30th September 2010 and the future looks reasonably good. The markets in Middle East have, post collapse of Dubai market, become very competitive and new project announcements have come down relative to the pre-collapse period. However, with the past track record of the Company, it should be able to face the challenges of booking new business as also successfully completing some of the technically challenging jobs, albeit with lower margins.

Overall EMPS Segment:

Due to the slow progress of two large international projects in the first half of the year, completion of some large iconic projects in the previous year, the challenges associated with the large technically difficult projects, slowed down the business of some of the Middle East based subsidiaries and JVs due to very high levels of competition for small and medium sized jobs, significant drop in the profitability at Rohini, etc., the current year's turnover growth and profitability will be subdued.

However, looking at the positives listed under the International Market and the improved fundamentals and sentiments in the Domestic market, there is reason to believe that starting FY12 we should be in for a sustained growth phase for this business extending 5-7 years, barring unforeseen circumstances.

Segment B - Engineering Products & Services (EPS)

Textiles Machinery business :

This business has seen significant improvement in terms of new order booking and the general sentiment seems very positive, despite suspension of TUF over the last few months, high cotton prices and volatile Forex markets. We understand that the customers are planning significant investments over the next few years both in spinning and in post spinning activities. In the recent past, we have expanded our offerings in post spinning areas and this should also help in our growth being more than the growth in the industry over the next few years.

Materials Handling:

Forklift trucks have been doing very well since the beginning of the year. Sales numbers have been on an average 30% higher than the previous year. Profit growth has also been keeping pace with the quantitative growth. Sale of warehousing equipment, a new manufacturing initiative, has also grown very well. The growth in Exports and resultant port activities, improvement in IIP and GDP numbers and resultant goods movements are all indicative of the growth momentum continuing in the foreseeable future.

Mining & Construction Equipment :

This business has started its operations of Maintenance Services to an international customer in Mozambique. This holds significant promise for future growth as a large number of Indian and other companies have set up base for mining in that country and they would all need the kind of upkeep services we provide.

Apart from this, in India too, the services business provides steady stream of revenues and help in sale of spare parts. New equipment business is however, not keeping pace with our business plans due to factors like export ban on iron ore, etc. We expect new inquiries and orders to flow shortly from Coal India and others.

In the Mining equipment business, one of our principals Bucyrus have sold their business to Caterpillar who are already present in India. Once this takeover is completed we will know their plans for the future. However, this is not likely to affect the immediate future one way or the other.

Overall, the Company is very positive on the performance of the Engineering Products and Services businesses and expects the growth momentum of the first half to continue going forward.

Segment C - Unitary Cooling Products for Comfort and Commercial Use

The hot summer season this year, helped in boosting the growth of room air-conditioners business. The volume growth, however, has tapered down from almost 100% in the summer season to 30%+ at present. Seen against the significant cooling down of most areas in the country in current winter season, this growth of 30% is also very encouraging. This year, the mix of sales has changed with faster growth of Window units compared to Split units. This, plus sales incentives offered for clearing old stocks ahead of the peak season, are likely to dampen the growth in profits this quarter. Adverse movements in value of Indian Rupee and commodity prices have also had a temporary negative impact on the profitability. However, going forward the profitability should resume its earlier pace.

With the improvement in consumer sentiments, leading to higher consumption expenditure, the sales of commercial coolers have also been improving at a decent 20%+ pace.

Overall Outlook

In summary, the current year, is going to be a mixed bag with the projects businesses coming under pressure but the Engineering and Unitary Cooling Products businesses doing quite well. Subject to a stable political scenario in the country, and provided inflationary pressures within India and worldwide increase in commodity prices do not get out of hand, we look forward to the future years with optimism.

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27.12.2010

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.