



ANALYSIS OF RESULTS

QUARTER AND SIX MONTHS ENDED 30 SEPTEMBER, 2020

As we entered Quarter 2, GDP of the most advanced economies of the world had shrunk – G7 nations receding anywhere between 7.6% (Japan) up to 20.4% (UK). China had meanwhile managed to grow by 3.2%, also in sharp contrast to the fortunes of India which declined by some 23.9%. Fiscal deficit of the Centre and States put together was estimated close to 13.5% of India's GDP for FY 21, more than double the 6.4% projected earlier. This was of course not a surprise considering the humungous shortfall in GST collections, averaging a mere Rs. 68,000 crs or so in the first several months of the fiscal year. At the same time, shrinkage in core sector industries continued unabated, accentuated by significant job losses and surging CPI inflation, especially across food items impacting the common man.

All through the reporting quarter, we witnessed intermittent lockdowns across the length and breadth of the country, with 3 days per week market operations, weekend disruptions and curfews which affected secondary sales across Industry. That apart, inconsistent weather conditions with rain and floods particularly in South, West and East India took its toll. It is externally estimated that the Covid lockdown combined with Consumer frugality, has led to an AC industry de-growth of ~ 59% in the first half of the year.

Labour shortage and demand reduction in sectors like Hospitality, Entertainment, Malls and Office space impacted project progress. Given the overall subdued sentiment, there were hardly any fresh investments from the Private sector and Project completion has continued to remain in limbo amidst serious liquidity concerns. Government efforts to infuse optimism through new project announcements, increased outlay and spending were yet to bear fruit. Given the deemed 'essential services' tag for project activities in Middle East, the pace of existing work in the Middle East remained largely secure from the travails of Covid. Unfortunate however, that we continue to experience a conscious propensity to delay certifications, postpone grant of EOTs and withhold payment against due receivables.

The gradual easing of lockdown towards the later part of the Quarter provided an opportunity for recovery which was proactively seized by our business teams. We managed to grow our revenue from operations by over 13%, improving across all three business segments. The UCP business extended its growth by 9% overcoming the seasonality effect, firmly underlining our no. 1 leadership position. Pace of execution was simultaneously stepped up across Projects to register a 15% top line growth in Segment B. Even Segment C, our smallest, left no stone unturned to grow by over 16% y-o-y.

VOLTAS LIMITED

Finance and MIS Department

Registered Office Voltas House 'A' Dr Babasaheb Ambedkar Road Chinchpokli Mumbai 400 033 India

Tel 91 22 66656290 66656891 Fax 91 22 66656311 e-mail manishdesai@voltas.com mprabhu@voltas.com website www.voltas.com

Corporate Identity Number L29308MH1954PLC009371

A **TATA** Enterprise

Coming to the bottom line, the UCP segment improved its results by some 37%, stepping up its Q2 EBIT % by some 230 basis points. Alongside, given the business constraints mentioned earlier, time based ECL and other conservative provisions particularly in the Middle East, constrained Project profitability. That apart, a drop in 'Other income' via mark-to-market changes reflecting the external reality of a dip in average yields of Investments, have impacted results.

The Corporate Balance Sheet continues to remain healthy with minimal borrowings which are required mostly for our overseas operations. While operational cash flow during the first six months have been weak given the context of the lockdown and AC sales lost out in high season, availability of cash on our Balance Sheet is a definite strength in these difficult times.

A snapshot of our results this quarter is presented herewith:-

| Segment reporting (Rs. Crores) | Q2 FY20 | Q2 FY21 | % to Total Revenue | |
|-----------------------------------|-------------|-------------|--------------------|-------------|
| | | | Q2 FY20 | Q2 FY21 |
| 1. Revenue | | | | |
| Segment A : Unitary Cooling | 525 | 566 | 37% | 36% |
| Segment B : Eng. Projects | 809 | 928 | 57% | 58% |
| Segment C : Eng. Products | 80 | 93 | 6% | 6% |
| Income from Operations | 1415 | 1588 | 100% | 100% |
| 2. Profit before tax | | | | |
| Segment A : Unitary Cooling | 46 | 63 | 8.76% | 11.13% |
| Segment B : Eng. Projects | 56 | 23 | 6.92% | 2.48% |
| Segment C : Eng. Products | 25 | 29 | 31.25% | 31.18% |
| Unallocated | 23 | 0 | | |
| Profit before Tax | 150 | 115 | 11% | 7% |

Segment A – Unitary Cooling Products

Swift recovery post easing of lockdown helped achieve volume growth of 11% in ACs, 20% in Commercial refrigeration and 28% in Coolers. Volume in RAC was further driven by a 36% growth in Inverter AC, brisk sales of which helped re-emphasize our overall market leadership, which stood at 26.8% exit August 2020 (YTD 26.4%). Beneficial mix benefits from higher sale of Inverter ACs together with lower material costs, supply chain efficiencies and sensible marketing spends led to a handsome increase in EBIT as shown above.

In so far as Govt. regulations are concerned, it may be noted that the Central Pollution Control Board has in response to industry representations, reduced the e-waste collection target from 40% to 30% for FY 20-21. Emphasizing the Make in India initiative, the import of ACs with refrigerant (CBU) has also been banned, which will negatively impact several 'import and sell' fringe players, helping control market fragmentation.



At Voltas, we have always remained conscious of the need to increase localization and have over the years, consistently reduced the risk of over dependence on imports. Certain components like compressors, a hitherto import item is now available in India. Meanwhile, together with investment in moulds and balancing equipment to improve the throughput of our existing manufacturing unit in Pant Nagar, efforts to set up a South India based AC factory are being fast tracked. We have in parallel, made sufficient arrangements to ensure there is no dearth of inventory to meet the expected demand of the upcoming festival season and beyond.

Strong order booking across existing and newly appointed distributors coupled with various offers led the growth of sales in the Air Cooler category. With a 10.8% July exit market share, we are currently no. 2 in this category. Improved performance of the Commercial Refrigeration category reflects the change in consumer life style along with expanding mini 'cold chain' facilities across Mom & Pop / Kirana type Stores in tier two / three cities, where Chocolate coolers and Chest coolers are particularly in demand.

In addition to regular expansion of the distribution channel, and ~ 180 EBOs, the Company is also setting up exclusive outlets which will act as an 'Experience Zone', providing a hands-on feel for the complete range of Voltas and Voltbek products. Armed with attractive consumer schemes, these outlets are expected to enhance consumer interest and footfall, while augmenting brand awareness.

Segment B – Electro-Mechanical Projects and Services

Segment revenue for the quarter increased to Rs 928 crs as compared to the previous corresponding quarter of Rs 809 crs, increase being largely across international operations.

The Domestic Projects business saw an encouraging turnaround across various parameters in the current quarter. While Rs. 273 crores worth of new orders were booked during the current quarter, enquiries particularly for infrastructure projects including Metros, Electricals, Water treatment, etc. have picked up. Many of these are Govt. led and are expected to be converted to orders in the coming quarters. In addition, there is an increasing demand for 'Solutions' in the Indoor air quality space using UVGI Products, automated duct cleaning, filtration, etc., which we are well placed to provide.

The pace of execution in few of the recent projects in the Middle East was better, given the availability of labour and Government supported access to project sites. At the same time, some of the older projects, have witnessed delays (not always attributable to Voltas) resulting in cost overruns. Although legitimate contractual claims (including EOT) are regularly raised, revenue recognition is possible only post formal approval. Apart from delay in work certification, payments are also consciously deferred by Clients owing to liquidity constraints. All of these have resulted in time based ECL and other conservative provisions, affecting

VOLTAS LIMITED

Finance and MIS Department

Registered Office Voltas House 'A' Dr Babasaheb Ambedkar Road Chinchpokli Mumbai 400 033 India

Tel 91 22 66656290 66656891 Fax 91 22 66656311 e-mail manishdesai@voltas.com mprabhu@voltas.com website www.voltas.com

Corporate Identity Number L29308MH1954PLC009371

A **TATA** Enterprise



results for the current quarter. We remain conscious of the risks entailed and are suitably cautious and vigilant in so far as new orders in the GCC region are concerned.

Voltas currently has a carry forward order book of Rs. 6852 crs (Rs. 4529 crs for Domestic and Rs. 2323 crs for International).

Segment C – Engineering Products and Services

Segment Revenue and Results for the quarter were at Rs. 93 crs and Rs. 29 crs respectively.

Impacted by the general economic sentiment and ongoing Mill operations which are below capacity, fresh orders for Textile machinery have been slow. The Division meanwhile, focused on growing the 'After Sales business', which together with intelligent cost saving initiatives has helped maintain the EBIT.

Mining support activities in Mozambique have thus far remained insulated from Covid and continues on a brisk note. The team has successfully negotiated further maintenance contracts with the Client (Vale) which augurs well for the future. In so far as India is concerned, the ongoing Commercial auction of Mining blocks may provide avenues for revenue enhancement. Sale of Crushing and Screening (C&S) equipment and parts are picking up as well.

Voltas Beko

Fast increasing demand from our Channel partners for the newly launched Direct Cool Refrigerator Category has been encouraging. Despite multiple operational problems related to the Covid lockdown, production from the new Sanand facility has now been stepped up to a rate of over 35,000 refrigerators per month covering 27 SKUs, which will be increased further in the months to come. Production of Frost Free refrigerators and Automatic Top / Front load Washing machines and Dishwashers will also be commenced in a phased manner.

Work from Home and the search for household convenience, has opened up a good market for Voltas Beko products. As of the moment, we have a decent bouquet of well-priced SKUs across various categories: ~ 50 in Washing Machines, 30 in Frost Free refrigerators, 6 each in Dish Washers & Microwaves, etc. In consonance thereto, a strong and cost effective digital marketing communication platform is helping garner traction with our target audience.

Going forward, we will further leverage the research and development strengths of our partner Arcelik to innovate and bring in, India consumer relevant products. Voltas Beko currently has ~ 900 billing points and ~ 6,000 touch points which can be easily scaled up, riding on the might of Voltas's distribution. There is ample opportunity - together with the increased availability of products, we remain confident of meeting our internal targets, including the promise of 10% market share by year 2024-25.

VOLTAS LIMITED

Finance and MIS Department

Registered Office Voltas House 'A' Dr Babasaheb Ambedkar Road Chinchpokli Mumbai 400 033 India

Tel 91 22 66656290 66656891 Fax 91 22 66656311 e-mail manishdesai@voltas.com mprabhu@voltas.com website www.voltas.com

Corporate Identity Number L29308MH1954PLC009371

A **TATA** Enterprise



Sum-up:

As we moved into Q3, we began to see a trickle of encouraging news – GST collections topping Rs. 1 Lac crs, double digit growth in power consumption, spike in sales of motor vehicles, rise in offtake of diesel and petrol, and a sharp recovery in both Manufacturing and Services PMI.

Additionally, going by the record spike in sales spoken about by e-commerce players such as Amazon and Flipkart, it would appear that Consumer trends are clearly on the move. The festival season is around the corner, and Voltas has launched 'Mahotsav' – a combination of various consumer led schemes including extended warranty, attractive product exchange and exciting finance scheme, making purchase even more attractive for consumers. We feel that the consumer uptick will linger, even if somewhat muted into the following quarters, and are therefore cautiously optimistic about the future growth of the consumer durable market. In terms of readiness, we remain well poised to seize all available opportunities to profitably grow our business in a sustainable manner.

As a Company, we are also keen to improve focus on the B2C Product businesses of the company, and have accordingly notified an 'in-principle' proposal to internally restructure the B2B businesses. Subject to various approvals, the thought is to transfer the B2B businesses to an existing 100% wholly owned subsidiary RIEL which will be suitably renamed, to represent and reflect these businesses.

Going forward in our Project business, we will continue to focus on building our order book following a cautious and risk mitigated approach. A further pick-up in pace of economic activity can be reasonably expected in the coming quarters. Various process improvements, cost control measures and efficiencies which were strengthened during Covid, provides a degree of comfort on future outlook. However, liquidity and environment based near term worries are likely to continue.

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.

9 November 2020

VOLTAS LIMITED

Finance and MIS Department

Registered Office Voltas House 'A' Dr Babasaheb Ambedkar Road Chinchpokli Mumbai 400 033 India

Tel 91 22 66656290 66656891 Fax 91 22 66656311 e-mail manishdesai@voltas.com mprabhu@voltas.com website www.voltas.com

Corporate Identity Number L29308MH1954PLC009371

A **TATA** Enterprise