



## **ANALYSIS OF RESULTS**

### **QUARTER ENDED 30<sup>TH</sup> JUNE, 2020**

We are now well past the half-way mark of a calendar year that will go down as one of the most stressful periods in modern history. Covid cases across the globe have crossed the 20 million mark, and India has become the 4<sup>th</sup> most affected country with more than 10% of the cases being reported here. Despite various measures adopted by Governments across the world, the collective ability to contain the spread of the virus in the shorter term remains indeterminate, particularly in the absence of a well-tested and reliable vaccine.

From an economic standpoint, global predictions for FY 21 are rather gloomy, with year on year GDP estimated to decline by 4.9%, and Trade by a sizeable 22.6%. While China's real GDP growth seems set to sharply decelerate to around 1%, there are forecasts of a full year recession across almost all of the other G20 countries including the US and Euro zone nations. Extending support to businesses and households, Central banks have cut interest rates and Governments have increasingly adopted the route of fiscal expansion. Closer home, GCC countries are scaling down their expenditure and pace of construction given the decline of oil prices; a mid-to-high single digit real GDP contraction is anticipated across the Middle East.

Although estimates for the Indian economy vary, the general consensus is a de-growth upward of 5%, given the impact of many macro-economic constraints. Manufacturing PMI dropped 4 months straight to 46, and Service PMI dropped even further to 34. With job losses and pay cuts hitting household incomes, consumer confidence has plummeted. Meanwhile, political tension at our borders with China, intermittent lockdowns, natural calamities and floods across various parts of India, have dampened the overall sentiment.

The country-wide lockdown for the first half of the quarter led to a complete washout of sales, and it was only by the 3<sup>rd</sup> week of May that industry could resume a semblance of activity. Quick and nimble to respond, Voltas managed to grab the opportunity and sold over 3.4 lac units of Unitary cooling products in a window of 45 days. Given its nature, the Project business however remained more susceptible to the downside of intermittent lockdowns, resulting in slow execution of work amidst poor availability of labour, not to mention certification delays and liquidity constraints impacting collection.

Against this challenging background, the Consolidated Total Income for the Quarter ended 30th June 2020 was lower at Rs. 1364 crs compared to Rs 2,697 crs in the previous year. Similarly, Profit before tax was lower at Rs. 108 crs.

#### **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

Segment reporting (Rs. Crores)	Q1 FY20	Q1 FY21	% of Total Revenue	
			Q1 FY20	Q1 FY21
<b>1. Revenue</b>				
Segment A : Unitary Cooling	1749	707	66%	55%
Segment B : Eng. Projects	824	518	31%	41%
Segment C : Eng. Products	74	48	3%	4%
<b>Income from Operations</b>	<b>2647</b>	<b>1271</b>	<b>100%</b>	<b>100%</b>
<b>2. Profit before tax</b>				
Segment A : Unitary Cooling	230	110	13.1%	15.5%
Segment B : Eng. Projects	66	(39)	8.0%	-7.6%
Segment C : Eng. Products	24	20	32.4%	41.3%
Unallocated	(62)	17		
<b>Profit before Tax</b>	<b>258</b>	<b>108</b>	<b>9.7%</b>	<b>8.5%</b>

## Segment A – Unitary Cooling Products

Intermittent lock and unlock decisions announced by various States and Local Authorities throughout the quarter has taken its toll on the AC industry, resulting in a volume de-growth of 49% during what has traditionally been the peak season for sales. Yet, on a higher base of the previous year, Voltas was able to firmly contain its downside to 45%, amply visible in a significantly improved YTD market share of 26.2%. In fact, for the exit month of June, Voltas had a lead of over 1400 bps above the nearest competitor, also well ahead of the market shares of the number 2 and number 3 player, combined. In parallel, leadership in the Inverter AC category has been reinforced with the latest market share of 22.9% in June. Inverter now accounts for 63% of the Split air-conditioner and 44% of overall AC sales.

The heat-wave experienced in parts of the country during May, coupled with Voltas's well know distribution reach and Tata Brand Loyalty helped to partially neutralize the absence of adequate footfall across lockdown impacted retail outlets. Mainly the North, and parts of the South and East saw a fair bit of demand, while the West was largely passive given containment measures and the onset of early rains.

Adding to these challenges, the sheer quantum of unsold inventory across the value chain had invariably led to aggressive discounting and price disruption across markets. Armed with an artillery of innovative products and a customer centric approach, Voltas was able to navigate this turbulence without resorting to any substantial price cuts. Cost effective cashback and consumer offers were sensibly combined with a digital marketing thrust to promote sales. At the other end, improved product mix balanced with an agile supply chain (overcoming manpower issues in logistics and warehousing), helped improve overall margin by 240 bps for the quarter to 15.5%, even under trying circumstances.

### 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



Given the relatively small seasonal window for sale of Air Coolers, category performance has been affected – we registered a negative growth of 70% over the previous year in line with Industry trend. However, the better availability of electricity in villages, humid environment in most parts of the Country and the promise of cooling comfort at a relatively lower price point, augurs well for the future of this category.

The performance of the Commercial Refrigeration category was also unfortunately influenced by the repeated lockdowns affecting consumption of impulse purchase items like ice cream, chocolates and beverages. Here again, change in consumer life style along with expanding mini 'cold chain' facilities across Mom & Pop / Kirana type Stores in tier two / three cities supports the basis for increased focus on this category. Equally, the width and depth of our sales network with over 19,000 touch points is a catalyst for distributive advantage.

### **Segment B – Electro-Mechanical Projects and Services**

Segment Revenue for the quarter was lower at Rs. 518 crores as compared to Rs. 824 crores in the corresponding quarter last year. All across the Industry, both top and bottom line has been impacted as a direct consequence of the pandemic, combined with a general and yet overbearing liquidity led sluggishness surrounding the incurrence of any and all expenditure.

In the domestic market, the non-availability of requisite skilled labour together with regulated access to job sites and mandatory social distancing norms, has considerably slowed down the pace of work. At the same time, managing inward transport and receipt of materials, parts and components posed some challenges based on source of supply. The slower pace of project execution has in turn manifested itself into delayed certification and consequent difficulties in reckoning TO and the appropriate margin. Additionally, for almost one half of the Qtr, idle costs were incurred on staff and other personnel at various sites without being specifically accretive to Project TO. In keeping with accounting norms, such costs have been identified and charged to expenses.

As far as the International business in the Middle East is concerned, project activities are deemed to be part of essential services. While in theory this should have meant zero Covid impact, in reality, site productivity was badly affected owing to the adherence of extra strict safety guidelines. At the same time, Mega events like Expo 2020 has been postponed, and we see ample evidence of Clients consciously going slow on Project completion. All of this adversely impacts timely handing over of project sites, and demobilization of workers in a well-planned and effective manner. In certain cases, we also await the formalization of EOT (Extension of Time) agreements with proper acceptance of costs.

The general tendency of delaying certification and holding payment against due receivables has resulted in time based ECL and other conservative provisions, affecting results for the current quarter. Overall conditions and outlook remains sedate for the next 2 to 3 quarters, esp. given the probable need for accelerated provisions in absence of secure collections. Needless to state, all required steps to legally and contractually protect our interests has been taken to mitigate forward risk.

### **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



Project Orders booked during the quarter of Rs. 366 crs reflects the general environment and our need to balance risk with potential reward in these uncertain times. While private investments in India continue to be subdued, infrastructure spend is expected to be on the lower side given limited resources available in the hands of Central & State Governments. In International as well, the GCC economy remains weak as a consequence of anticipated decline in oil based revenue and other disruptions, impacting the financial outlay for expenditure on infrastructure. Voltas currently has a carry forward order book of Rs. 7663 crs (Rs. 4755 crs for Domestic and Rs. 2908 crs for International) providing sufficient forward visibility.

### **Segment C – Engineering Products and Services**

Segment Revenue and Results for the quarter were at Rs. 48 crs and Rs. 20 crs respectively.

Fresh capital investment, owing to weak demand both at home and in the export market, has continued to decelerate during this quarter, affecting the results for Textile Machinery vertical. However, the earlier focus on accelerating After Sales revenue (comprising parts and services) together with efforts to partner new Post Spinning principals has helped balance the revenue shortfall in Spinning machinery.

Mining support activities for Vale in Mozambique has been expanded even further with the addition of more equipment under annual maintenance contracts. The operation has thus far remained secure from Covid, and contributes significantly to the segment results. Mining India business remains rather slow. At the same time, Crushing & Screening equipment and Part sale has de-grown owing to delayed infrastructure projects and limited running of mining sites.

### **Voltas Beko**

Long months of extended lockdown, and seemingly endless household chores has spurred the demand for high convenience and comfort based home appliances. While certain categories like washing machines, dishwashers and microwaves are finding increased traction across households, the sale of Direct Cool refrigerators has substantially increased. The aesthetics and quality of our products have been greatly appreciated by Channel Partners and Customers alike, with extra marks for higher value-for-money proposition and India (habit centric) design and functionality. In parallel, a strong and cost effective digital marketing communication has been launched resulting in even more traction with our target audience.

Post unlock 1.0, the new factory at Sanand has continued to accelerate its production to accommodate the swelling demand for DC refrigerators from the Trade. Despite being a relatively new introduction to the market, it is satisfying to note that we are able to leverage the strength of Voltas's distribution, and sell without extending credit.

Voltas Beko currently has ~ 6000 touch points which will be progressively increased as we build sufficient output capacity at Sanand to service these outlets. Anticipated JV synergies in sourcing, supply chain, after sales service and distribution network is working to plan, and will be strengthened further. On a combined synergistic basis, we now have ~ 130 EBOs selling a

**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



range of Voltas and Voltas Beko products, not to mention a suitably large and well-trained force of In-Shop-Demonstrators (ISDs).

### **Sum-up**

In essence, although the performance of Q1 has been impacted by Covid, we take satisfaction in that we appear to have done relatively better than competition in our consumer facing business. The improved market share in ACs, together with deeper market acceptance and better traction of Voltas Beko products is certainly encouraging. The project businesses are unfortunately more susceptible to lockdown constraints, and will take a couple of quarters to bounce back.

Although Q2 is a lean period for Cooling products, it will be interesting to see the gradual development and release of pent up demand as we move into the festival season. Amidst dealing with various issues presented by Covid, a digital transformation and improvement of various processes and systems are underway. We are equally determined to proactively manage corporate expenditure in an austere manner to better face the challenges of the environment. Sharper focus on working capital management and conservation of cash will additionally ensure the ongoing strength of our balance sheet.

#### *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.*

17th August, 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