Q3 2012 Earnings Call – Voltas **Dt-16 Feb'12**

Operator

Ladies and gentlemen, good evening. And welcome to the Q3 FY12 Earnings Conference Call of Voltas Limited, hosted by MF Global Sify Securities India Private Limited. As a reminder for the duration of this call, all participants lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kapil Bagaria. Thank you and over to you, sir.

Kapil Bagaria

Thank you, Mohsin. Good evening, everyone. On behalf of MF Global, I welcome you all to the Q3 FY12 earnings conference call of Voltas Limited to discuss the results. We have with us today from Voltas Mr. Anil George, Executive Vice President, Corporate Affairs and CFO; Mr. B.N.Garudachar, GM-Corporate Affairs; and Mr. Utsav Shah, CFO Central SMC.

I would first like to hand over the floor to the management to give their initial remarks and then we can proceed to the question-and-answer session. Over to you, sir.
Good evening. This is Garudachar. May I on behalf of the Voltas management, thank you for being with us this evening, especially this evening because you have spared your valuable time to be away from voting and being with us. May be welcome you again for the Q3 FY12 post results conference call. As mentioned to you earlier, we have Mr. Anil George, Mr. Utsav Shah.

May I know request Utsav Shah to make his presentation.

Utsav Shah, Chief Financial Officer, Central SMC Services

Hi. Good evening, everybody. Analysis of results for the quarter and nine month period ended 31 December 2011. The global economic crises continues to adversely impact all aspects of business and the economy.

In the domestic share, high interest rates and inflation persist resulting in the deferment of capital investment, a slow down in business activity and a decline in consumption, all pointing to a largely negative sentiment across the Board.

Against this back drop, the company's consolidated sales and income from operations cumulatively grew by 3% to 3,622 crores as compared to 3,530 crores in the corresponding last year.

Profit after tax and minority interest and share in loss of associates was 58 crores as against 256 crores in the previous year, primarily due to the recognition of expected cost overruns on a particular Onerous contract.

Earnings per share stood at 1.76 on a face value of Rs. 1. The Voltas balance sheet continues to remain strong with shareholder equity at 1,429 crores as against 1,338 crores for the comparable period last year.

Increase in debt equity ratio reflects higher borrowings of 194 crores mainly in overseas operations. The company's liquidity position is comfortable with cash and bank balances at approximately 290 crores and liquid investments aggregating 308 crores as against 126 crores as of the end of December last year.

Segment A, Electro-Mechanical Projects and Services. The consolidated turnover of the segment was higher by 19% in the quarter and 8% for nine months over the comparable periods in the previous year. Without considering the impact of the Onerous contract of 277 crores accounted in this quarter, the profitability of the segment has by enlarged being maintained. It however includes the impact of some full and final settlements apart from usual upward and downward revisions of margins on ongoing projects where found necessary.

The Onerous contract referred to pertains to the Sidra Medical & Research Centre, a prestigious project in Qatar. This is a large and complex designed and build state-of-the-art hospital with world class facilities with a total investment of approximately USD2.5 billion.

The company's share of work is valued in excess of 1,000 crores and involves extensive coordination with multiple agencies and intermediaries. This project which has been in execution since 2008 has more recently been speedened up and is expected to be completed in phase stages by the end of 2012. The design and build nature and complexity of the project combined with the clients' quest for attaining truly global standards has had an impact on various cost parameters.

In addition, to elongated project schedules and elapsed time, there have also been numerous difficulties and complications including the non-availability of Indian workmen visas. Although only 53% of the project has been completed as of 31st December, the company has inline with AS-7 accounted for the total estimated cost of the project. The estimates for Sidra have been finalized after an extensive techno commercial review by the management taking cognizance of cost incurred and to be incurred to complete the project on time.
We also believe Sidra will have great value in terms of the company's standing and prospects in Qatar which offers the most attractive growth opportunities in the region, especially with the upcoming events of FIFA 2022. The various iconic projects we have done in recent times including the Burj, Conference Palace, Ferrari Experience, Formula-1, IT hub et cetera has helped the company emerge as

one of the most preferred contractors in the Middle Eastern region.

The company has won the prestigious MEP Contract of the Year Award in both UAE and Qatar for three years and this has considerably enhanced our reputation and brand value. The company's order backlog stands at 3,145 crores of which 829 crores which includes JVs and subsidiaries was won in the current financial year and 560 crores in the current quarter. The long run business prospects in the GCC region remain excellent and the company has in fact formed joint ventures in both Saudi Arabia and the Sultanate of Oman.

The domestic projects business has performed well, despite their difficult economic conditions. At a time when several competitors in this business have reported less than satisfactory results, the company had seen an increase in both revenue and profit. The consolidated order backlog including water management and Rohini is healthy and the carry forward order position has risen to 1,949 crores which is an increase of 23% over the corresponding figure for last year. This order book includes 403 crores of orders booked during the quarter and 958 crores orders booked during the year.

However, managing cost and cash flow continues to be a challenge in the domestic projects business, given the current industrial environment. We are seeing a slower pace of project movement and a tendency of delayed payments and sub-consequently higher outstanding. As part of our mitigation efforts we have put in place various majors to reduce operational and administrative costs. The electromechanical segment has also expanded its O&M and EMC operations and the business has renewed its certification for ISO 9011:2008 for a further three year period.

In the water management sub segment, the order book has grown by 83% over the same period last year to reach 342 crores. This includes a sizable order of approximately 165 crores from Tata Steel as well as a break through order in the power sector for pre-treatment. This business continues to focus on marketing and business development and building up human capital capability to meet the growth needs of the future. In order to extend our offerings to many more clients across India we have re-organized the water management business and combined it with the domestic electromechanical business.

This will help leverage there business development, projects and customer care network as well as provide a substantially larger platform for the water management business to grow in a sustained manner. Apart from the obvious synergy, the business has also gained from relationship with common customers that is in steel, power, oil and gas and pharmaceuticals and with key consultants. In addition, common functions such as procurement, HR finance, et cetera will provide increased cost efficiencies and facilitate continuous process improvement in a more cost effective manner.

The standalone order book of Rohini showed a 10% increase over the previous year at 235 crores. The proportion of legacy orders with poor margins has lessened and the endeavor is to close a majority of such orders by the year end. The business is making a concerted effort to develop new businesses, while reducing it's fixed cost to become more competitive and profitable in times to come.

Outlook.

The carry forward total order book of 5,094 crores for the business, provides revenue growth visibility over the next 15 months to 18 months. In the international project business, the overall slowdown continues and the awarding of contract remains cautious and often delayed.

On the positive side, Abu Dhabi and Qatar markets are beginning to show promise after two years of uncertainty. Intense competition however remains a challenge along with the consequence shrinkage of bidding margins. As earlier mentioned, the company is pursuing JVs and strategic tie-ups as a promising avenue for growth, especially in terms of Commercial registration of the Olayan JV has been recently received, and we are now in the process of mobilizing resources to cater to our project execution needs in the rather promising KSA geographies.

In the domestics sphere, we are hopeful of seeing a perceptible improvement in investor sentiment as well as a greater government commitment and activity towards infrastructure investment and economic development. We expect matters to gradually improve over the medium-term and good prospects opening up in urban infrastructure, core industries and build environment.

Segment B; engineering products and services. In view of the transfer of the materials handling business, the figures for segment revenue results in capital employed in the period under review are not directly comparable to the corresponding period in the previous year.

The consolidated nine months segment turnover stands at 305 crores with a profit of 51 crores. The textile machine division has performed well, achieving growth across this nine months on the back of a sizable order book build earlier. New investments in the textile industry are however lagging given the poor sentiment cyclical nature and pollution based environment issues being encounter.

At the same time, high interest rates and the poor pace of environmental clearance for mining activities is effecting the mining and construction division. Global industry consolidation and their takeover of erstwhile principals, Bucyrus and Letourneau by Caterpillar and Joy respectively has also impacted our business. While we continue to retain OMK maintenance contracts, Caterpillar has transferred part of it's India business to its own dealer. Service agreements with Joy P&H India is currently under discussion. In the meantime, business management is making a determine effort to manage cost and take advantage of each growing growth opportunity.

Segment C; unitary cooling products. In spite of intense competition and unfavorable climatic conditions, Voltas has successfully maintained it's number two position nationally. December G.K. Nelson report, -- reported market share of 16.4%. At the same time, it has held on to it's number one position in the important market of Northern India. The industry as a whole has suffered aggregate sales volume degrade of 28% over the nine months period under review.

Voltas however, contain the volume shortfall and has managed a 19% revenue growth in Q3 on the back of mix and pricing corrections. As compared to the immediately proceeding quarter two of the current year, the company has been able to reduce its capital employed by over 45 crores, mainly through liquidation of inventory. The trust in commercial refrigeration products has -- growth over the nine month period.

Over this period, we have also undertaken extensive market research, the finding of which will be used to revitalize the Voltas brand in preparation of the upcoming season. As a part of its strategy, the company continue its focus on tier-two and tier-three towns.

Segment profitability has declined by 4.8 crores due to increase in raw material cost, greater advertising spend and exchange rate fluctuations. There is also been an impact of a one-time spend of 3 crores towards reversal of service tax.

Outlook. Long-term prospects for room ACs remains highly promising due to low penetration levels, coupled with the growing perception of air conditioning as a necessity rather than a luxury. Customer sentiment is expected to improve in 2012-'13, with household disposable income on the rise and hopefully both interest and inflation rates declining. The company has planned a new line of energy efficient room ACs, coupled with a strong thrust in distribution, marketing and advertising.

Power availability is improving and it is hoped that climate change will for once be for a positive factor. There is also a concern that the new norms established by the Bureau of Energy Efficiency across the industry will obsolete some of the current products leading to growing inventory in the industry. This could lead to some players with cash constraints being tempted to discount their products to reduce their inventory levels and improve cash flow. Volatility of commodity and currency prices is a further matter to be dealt with. 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 market in which the company operates, changes in the government regulations, tax loss, and other statutes and other incidental factors.

Thank you.

B.N.Garudachar, General Manager, Corporate Communications and Investor Relations

Thank you, Mr. Shah for a very detailed analysis of the Q3 and nine month period result of the company. Maybe now we look forward to the question-and-answer session.

Questions And Answers

Operator

Thank you. We will now began the question-and-answer session. [Operator Instructions]. Participants also requested to restrict the questions to two per participant. The first question is from the line of Sanjaya Satapathy from Merrill Lynch. Please go ahead.

Sanjaya Satapathy

Thank you, sir. My first question is relating to the Qatar project where you have shown the value have gone up by almost 30% and it is, do you know that the other contractors have also faced similar kind of issue as that of Voltas in the same project?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Thank you for the question. Actually what has happened is that I think in the note that we have said also. This has been an evolving world class kind of project.

So when the Qatar Government went through this project in 2008, they had a certain view of how this project should really emerge. And as they went along, they have been making changes very frequently, mainly to be able to render the project more and more world class.

So the answer to your question is, yes. This has not only impacted us. As we know, it has impacted the Kent consortium, OHL, the other people who are the main contractors and everyone in the project is under some kind of certain strain.

More recently because of the speeding up of the project, what has happened is that the smooth planning that would have been otherwise been possible has gone a little off. And therefore, people are struggling to get Visa, people are struggling to put in labors, and try and complete the project as per the deadline.

The project itself is sponsored by the royal family and their vision is that by 12-12-12, the first patient should be taken into the the Sidra Hospital. And that is not intended to be just that outpatient but a patient with real problems.

Sanjaya Satapathy

Thanks a lot, sir. The related question to that is that should one assume that the whole project which was up to $2.5 billion would have also gone up this 30%, 40% value? And also what would be the compensation mechanism for companies who have seen this cost escalation? And lastly sir, I would like to know that having paid such a high price for this project, what are the benefit that Voltas gets for example -- I mean because after this project we have not really won many contracts in Qatar. So will this facilitate to win more contracts in Qatar?

Corporate Participant

Sanjay, before Mr. George answer that question, I just want to bring to your notice that most of the contractors who have been involved in this project are leaders in the fields of activity. They're actually global leaders in the fields of activity. And they are fairly professional in the field that they are doing in and they more reputed in the field too. So we are one amongst them.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Sanjay, coming back to your question as to what would be the benefit of this project I think Utsav addressed that and it's there in our press note. Because fundamentally I think amongst all the countries in the GCC, Qatar tends to be most promising in this particular point of time. The outlook and the expectation of a lot of infrastructure investments coming ahead of FIFA 2022 although it sounds quite long, you must remember that we are infrastructure space which takes a long time for planning execution et cetera. So there is a lot of promise that is held out to us. At the same time we do not have the -- at this point of time in Qatar to deal with too many multiple projects because this project is important to us and we want to complete to this project to the complete satisfaction of the client. And this by itself will lead us to even further projects and more profitable ventures that we go forward. Yeah.

Corporate Participant

Healthcare is a very promising sector in the global environment and if you can establish yourself in the healthcare sector in a very advanced project, you can appreciate the benefit that you would have in the future.

Sanjaya Satapathy

Then sir my last question is relating to the impact of foreign exchange on your order backlog as well as the margin and revenue of this quarter. Can you quantify that sir?

Utsav Shah, Chief Financial Officer, Central SMC Services

Sorry Sanjay. Can you just repeat that again?

Sanjaya Satapathy Utsav Shah, Chief Financial Officer, Central SMC Services

The order backlog, the impact of the currency fluctuation is not very large and for the quarter the impact is 3 crores.

Sanjaya Satapathy

Okay. Thanks sir.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

You also asked, Sanjay, let me answer this question, probably you seen to have forgotten it. You asked whether the 2.5 billion will really go up? Our expectation is yes, it will go up. And that there will be a reasonable settlement once the project is complete.

Sanjaya Satapathy

Thanks a lot sir. And wish you all the best.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Thank you.

Operator

Thank you. The next question is from Aditya Bhartia from CLSA. Please go ahead.

Aditya Bhartia

Good evening sir.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Hi Aditya.

Aditya Bhartia

Good evening, sir.
Hi, Aditya.

Aditya Bhartia

Hello sir. Sir, is there a possibility of further cost revision for the Sidra project? And is there a possibility of writing back some of the provisions that you have created this quarter if the next quarter you feel that costs are likely to be low?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

To answer the first question is there a possibility of further cost upward revision. The fact of the matter is that you know the transparency with which we run these, our businesses. At this particular point of time we have and as I mentioned even in the last couple of two investor conferences also, I had mentioned that we will be doing an exhaustive techno-commercial audit of the project. So we have done that, and although only 53% of the project is actually completed, we see cost coming up of a certain nature which we have provided in accordance with good governance under AS-7. Now as we go along, this project will be reviewed quarter-after-quarter and will also get reviewed with significant management attention.

So what happens at that particular point of time, I cannot really estimate at this particular time, but we believe that we have taken all the costs that we find are likely to be incurred at this particular point of time in accordance with the accounting provisions. In terms of cost provisions is there a possibility of the cost itself coming down? I think that again Aditya is a very good question. Because one of the things is that today we see that cost as being X, but it is not a good sign of responsible management to just say that I will take any cost that comes my way. So we also have internal teams that are working and trying to reduce and chip off these cost elements as much as possible going forward.

Yeah. So we will keep you informed as we go along as to what is the cost that is likely to come up, what is this thing. One thing that you can be sure about is that we will communicate whatever we can and we will go fully with the accounting provisions in this.

As we go forward and as you've rightly noted also in another article that I saw from CLSA, normally the settlements and things like that take place towards the later part of the project. So our first intention at this particular point of time is to do the project well.

And AS-7 was extremely clear and what it actually say is that recognition of claims can be based only on an advanced stage of negotiation and assurance of customer acceptance. And this typically can happen only towards the later end of the project.

Aditya Bhartia

Understood, sir. And secondly, could you please explain us the impact of full and final settlement from the profitability of EMP division. You've discussed about that in the note that you've sent?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So in all these projects, what happens is at every quarter, there is a full and final settlement that takes place. It's a regular feature, yeah?

Aditya Bhartia

Correct.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So that's why I have always been saying that when you look at the profitability of the projects business, you need to look at it very consciously from a slightly longer time frame and not from quarter-to-quarter.

Similarly, even when we look at these projects, we evaluate the projects and say this is a project where we believe that the margin can be slightly up, this is a project where we see a loss coming up provide for it. And these are done in full discussion and transparency with the auditors.

B.N.Garudachar, General Manager, Corporate Communications and Investor Relations

And we would like to be a little more safer while doing this.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Yeah.

B.N.Garudachar, General Manager, Corporate Communications and Investor Relations

And make sure while doing it.

Aditya Bhartia

Okay. But were there any variation that received in this quarter in respect of some of the earlier projects?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Not variations, we have had a couple of settlements. But on a overall balance, it is not something that is so very material. But I just wanted to place it on board so that you understand when you're looking at your own analysis. You understand that it is not just that a margin falls like a manufacturing operation, where I sell so much, I know definitely

Aditya Bhartia

Okay. And lastly sir, did you incur any lose on Rohini projects this quarter and are you like confident of the subsidiary breakeven on FY12 basis?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Rohini, actually we've had that EBITDA loss of something roughly of the order something like about 8 crores. Yeah?

Aditya Bhartia

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

That is something that, because what is happening is that many of the old legacy projects, recovery of cash, completion of those things are creating a bit of problem at this particular point of time.

The new projects what we have taken in has all been taken in at reasonably good margins. And so, we are confident about the future going ahead but we still have a little bit of the oldness that needs to be cleared out.

Going forward, the order book is quite healthy at something like about 235 crores or odd and that will actually see us through in the next year. But this year is going to be a little difficult situation for Rohini as well as for the others.

But in the consolidated results, please recognize that Rohini has also been combined into the results of the whole thing.

Aditya Bhartia

Right, right. Sir, this EBITDA loss of 8 crores is for the third quarter or for nine months?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

For nine months.

Aditya Bhartia

For nine months. And what could be the number for third quarter, sir?
Just one SEC, Utsav will tell you. I think it's for the third quarter that is 8 crores, yeah?

Aditya Bhartia

Okay. Thank you, sir.

Operator

Thank you. The next question is from the line of Ruchi Vora from UBS. Please go ahead.

Ruchi Vora

Yeah. Hi, everyone. And many thanks for taking our question. My first question is on the 277 crores provision. Sir, just wanted to clarify, is this provision done taking into account some normalized margins on the Sidra projects, on the non-executable part, or are we assuming a breakeven?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

No, no. you see in a project, in any project. Yeah?

Ruchi Vora

Yeah.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Let me take just an example of 100, right?

Ruchi Vora

Yeah.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

If the revenue is that we expect is 100, yeah.

Ruchi Vora Corporate Participant

And the costs that we incurred is 80.

Ruchi Vora

Yeah.

Corporate Participant

There is a 20% margin, yeah. And that 20 is what we start booking in as the project starts progressing in terms of the percentage completion method.

Ruchi Vora

Correct.

Corporate Participant

When you do a techno-commercial audit, what you actually do is that you take into account the cost already incurred, that is what you have actually spend, yeah.

Ruchi Vora

Right.

Corporate Participant

Also very importantly, the cost to be incurred in future to be able to complete the project. So in this example that I'm giving you, it could be possible that that 80 has moved to 110, and therefore because of A7 Regulations, I have to take that 10 as a provision and an accounting entry although I have not actually as on today incurred that loss.

Ruchi Vora

Right. So basically what we are saying is the 500 crores order book which is remaining in Sidra, we're going to make a 0% margin on that based on our current cost analysis right?

Corporate Participant

Yes. The project actually has a negative margin.

Ruchi Vora Corporate Participant

Yes.

Ruchi Vora

And a related question on Barwa, just wanted to check with you what percentage of the order book is executed? And what is the extend of any future cost provisions that are required in that project?

Utsav Shah, Chief Financial Officer, Central SMC Services

Hi Ruchi, Utsav here.

Ruchi Vora

Yeah.

Utsav Shah, Chief Financial Officer, Central SMC Services

As far as Barwa is concerned, the project is broken up into four phases. Two phases have already been handed over and the balance two phases are going to be handed over by 31st March.

Ruchi Vora

Right. So in Barwa, we should not expect a significant...?

Utsav Shah, Chief Financial Officer, Central SMC Services

All under control.

Corporate Participant

It's all control and more or less through.

Ruchi Vora

Okay, great. My second question is on your order book just wanted to check with you on what is the kind of margins at in terms of order flow that we've taken in the last one year, and excluding that, at what margin do you believe is our old order book?

Corporate Participant Ruchi Vora

Yeah.

Corporate Participant

Because of the facts that we need to get orders...

Ruchi Vora

Yeah.

Corporate Participant

Bidding margins have not been at the historical 7% and 8% that we work -- we were used to, yeah.

Ruchi Vora

Yeah.

Corporate Participant

So, we have gone down in the margins in terms of bidding.

Ruchi Vora

Right.

Corporate Participant

But having said that, that is not the end of the story, good company also unleashes various synergies as we go along, and builds up the margin as we work through it. For example, good procurement of materials, good planning of various activities, putting a lot of resources at the right time in terms of design and build and things like that. All these things can actually make a difference in the margin. So in the past we have had cases where we have actually taken projects at least seven, eight but we have actually ended up with twice the margin, yeah.

Ruchi Vora

Right.

Corporate Participant Ruchi Vora

Right sir. And sir, my last question is really on the market. Just wanted to check with you if there have been structural changes in India Middle East on this three, four points. One is margin, second is nature of contracts in terms of fixed price versus variable, third is working capital and upfront advances, and last is on competitive intensity?

Corporate Participant

I think the answer to all of this is that the business pressures are a lot more intense than it was before. So the competitive intensity has definitely gone up...

Ruchi Vora

Yeah.

Corporate Participant

We are finding it more harder as indeed the rest of the participants in the industry are to recover money, we also find that the working capital cycle gets extended because of various things that we are doing. And the certifications itself get delayed. But then these are not unique to us alone. It is also common to all the other people who are operating within this industry.

Corporate Participant

Especially when the market is shrinking.

Ruchi Vora

Right. Okay. Thank you, sir. And all the best.

Corporate Participant

Thank you.

Operator

Thank you. The next question is from the line of Abhinav Khandelwal from AEGON Religare. Please go ahead.

Abhinav Khandelwal

Hello. Sir, you have mentioned about the margin profile in your project business. But your other two divisions are also witnessing a -- margin declines if you compare on year-on-year. So it's some kind of understanding on these two divisions, engineering products and unitary cooling?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

The engineering projects division is actually -- products division is actually quite small at this particular point of time. And if you look through the segment results, you will see that they are about 8% of the total revenue or something of that order. Now there what has happened is it comprises of three things; one is the mining and construction equipment. We are facing a lot of headwinds because you are reading daily in the papers about all the issues a mining industry is facing because of the lack of environmental clearances. And everything seems to be getting into a political tangle. Therefore people are not placing orders, people who are having machines are also not able to actually mine as much as they could in the normal course of events.

And what has also happened is that we had a couple of large principals Bucyrus and Letourneau. As part of global consolidation they have been taken over by Caterpillar and Joy. Now Caterpillar has, follows a practice of having only one dealer in any country and they already had a dealer here in India when they took over Bucyrus. And we have been indicated that the contract for whatever the sales part of it will go to their whole erstwhile dealer. The contracts for maintenance some of them will remain with us and will continue. As far as Joy Global is concerned, we are still in negotiation. They are keen on appointing us as agents for the country here and so those negotiations will close hopefully within this quarter.

So and if you look at the IIP numbers, you could see that there is a decline of something like about 3.8% in mining. And the -- if you really look at the whole, you would be following IIP numbers and December IIP growth was subdued at 1.8%. The mining about 3.7% is capital goods at about 16.5%, what have drive it is really costing to industrial growth. That's part of the mining and construction equipment. So the business is not as healthy as it was before, it is a cyclical industry and you have to appreciate that. As far as textile machinery is concerned, we have done ahead of budgets and ahead of previous year in this, so far in the nine months are expect to continue so for the remaining part of the year.

Now what is happening there is also again a lot of issues caused by environment pollution, act of profitability in spinning and post spinning segments et cetera et cetera, yarn prices and so on and so forth. What it means is that the orders that we are getting for textile machinery at this quarter has been pathetically low. We have not got sufficient orders because people are not placing orders. Our Principals have a habit and practice of taking a 10% advance on every orders that is placed and that gives us a certain amount of certainty for the orders that we have in hand. It does not gets canceled out because you will loose the 10% otherwise.

So, but going forward in the next year, unless the fortunes of the textile industry revise, we see an impact coming in the second half of FY12-'13 if still don't rectify itself as far as textile machinery is concerned. Third part of the business is actually held in a joint venture with Keon. You'll recall that earlier this year we had actually got into a joint venture, 75%-25% with Keon and they have taken off the material handling business, the forklift manufacturing. So we're doing contracted business for material handling. And I think they have been able to push ahead with various different models and with greater focus. And actually we are now doing something of the order of 1,500 machines as against what we were doing of about 800 et cetera. But then this is the joint venture. So that's the segment two.

Segment three, the one on the unitary cooling, we have already covered it extensively in the note. And the good thing about it is that despite everything that's happened, the brand has got value which helps us to sustain its number market place. And we have not cut prices unlike some other people who probably have. And we are actually taking up our prices and we are able to manage that business. But there are pressures in the business in terms of margin, which is across the industry. And we do not want to cut advertising spend at this particular point of time because that will effect the longer term prospect of the business.

Abhinav Khandelwal Operator

Thank you. The next question is from the line of Sangam Iyer Alpha Accurate Advisor. Please go ahead.

Analyst

Sir, you had mentioned that the Rohini loss in the Q3 was 8 crores, could you give the number for nine months?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Can we get back to you on that?

Analyst

Sure. Sir and in terms of the MEP margins that we were talking about, in terms of the new order that we have been getting in the last one year, we have been getting it around 4% to 5%. And coupled to that, would be the completion of this Sidra order also coming in in the next financial year.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Yeah.

Analyst

Would it be fair to assume that the margin profile of 3% to 4% is what one should be looking at in a near-term and subsequently may be with improvement in or execution et cetera, the margin probably expanding in '14 onwards?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

See if you really look at it as a near-term, I mean you could have issues in terms of margins. But as you go along, what happens is that there is no which way that a business can really survive at 3% margin going ahead. So the business will again consolidate, the project managers, clients will also come back to reasonable margins because that's the only way that they will get their project done, that's the only way that competent projects people can do their jobs.

So it will really workout in my opinion the longer term, it will work back to 7%, 8% that we were saying. But it's not going to go to the heavy ways of 15% et cetera which we saw in 2008, 2009 et cetera in the Middle East book.

Analyst

Right. And sir for Sidra project, around 500 crore worth of order is left pending to be executed, if I am not...?
Yeah. Of the original order.

Analyst

Of the original order, okay. And this is expected to be completed by, what June 2012?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

In phase stages right from May onwards, it will start. Yeah, so we will giving up because this is got a large campus. So we will be submitting, finishing building-by-building and starting to hand it over for their rest of the work.

Analyst

Okay. So the final completion is expected by...

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

December '12.

Analyst

By December '12, okay. And sir, finally on the third segment, the UCP. When we look at the kind of competition that is heating in this segment, do we see that the increased ad spend is going to be the norm of the day? Hence, the margin profile going forward for this segment will not be that 8% to 9% that we were looking at earlier and would be around 5% to 6% because of the increased competition, I mean even your competitor recently said that you would do anything in order to gain market share, in one of the recent press releases that came out.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Yeah, I know that one of the competitor said that. But the point really is that the margins cannot be that healthy because there the market is fragmented, there is a lot of people in this market.

What has happened is also that the Japanese are coming in, in a very, very significant way. Now whether they are really making bottom-line money, I am not very sure because they are spending a lot of money much, much ahead of us and any of the other competition in terms of advertising, yeah?

And you can see that when you switch on your TVs or your drive faster highway, you can see the kind of money that they are spending. So over a period of time, I think that the margins cannot stick up at 9% and 10% that you saw earlier, because the whole industry is in a sense partly or fully dependent on China imports. Yeah?
Yeah.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

And those have gone up in terms of costs, the foreign exchange's plate, a little bit of--. So all these things happening together, the margins cannot be as healthy at 9% and 10% as we saw earlier. And we need to advertise, we need to make sure that our brand is robust and healthy.

B.N.Garudachar, General Manager, Corporate Communications and Investor Relations

And I think we should also going ahead look at not only margins but return on capital employed, and various other qualitative factors.

Analyst

Yeah, okay. Agree to that.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Can I also answer your question on Rohini? Rohini Q3 was 8 crores, cumulative is 11.

Analyst

11. Thanks a lot, sir. And all the best.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Thank you.

Operator

Thank you. The next question is from Nitin Bhasin from Ambit. Please go ahead.

Nitin Bhasin

Good evening. Since you are talking about UCP and you mentioned about the Japanese. I was reading an article with Dycon says that they will put up manufacturing capacities in the country. So do you think the Japanese putting in manufacturing capacities? Why I'm asking this is because in your press release, you've mentioned today that there

Corporate Participant

See, we have -- at this particular point of time we have a flexible sourcing way of doing our business. Some of our products are coming in from China. We also have a factory in Pantnagar where we assembles air conditioners. We also take commercial refrigeration products from various other third party vendors, but manufactured under appropriate quality and under our guidance and under our design.

Nitin Bhasin

So, we already in a sense have that bit of advantage, if you could say so. But going forward depending upon the growth that we really looking at, we would also be evaluating various options, and we are actually doing that for how we need to handle the air conditioning market as we go forward.

Nitin Bhasin

So, that means the new technology if it comes, can you -- if the regulations changed and you need to bring in the new product, how early can that be?

Corporate Participant

This is actually the B rating, is an energy rating is what I've referred to here.

Nitin Bhasin

Yeah.

Corporate Participant

You're talking about this new norms established by Bureau of Energy Efficiency right?

Nitin Bhasin

True.

Corporate Participant

That's what -- what they've said very simplistically put, what was the two star rated AC last year is now a one star rated AC, yeah.

Nitin Bhasin

Yeah.

Corporate Participant

And the government has also said that come March end, end of March you cannot sell any of these machines which are unrated, which is available for sales earlier. So what happens is that we are not caught into that problem so much. We have actually liquidated much of our inventory. But there are lot of dealers and lot of companies in the market who have gone ahead and procured inventory. Now the caution that I was drawing there was really saying that it's because of the deregulation, they are forced to sell their inventory. They might actually start discounting widely in the market.

Nitin Bhasin

Okay. And since you are also talking about the marketing expenditure. If you look at your selling and distribution expenses you mentioned in the result. On a nine month to nine month, you have a small decline in that. So it's kind of a stagnant or a decline. So what do you see in terms of -- these mostly Japanese here are spending a lot of money in advertising. What is the plan from here on in terms of the company terms of Voltas brand increase spending? How would be the strategy to hold off loosing any more market share because I believe you've already loss some market share from 18.5% to 16.5% now?

Corporate Participant

No.

Corporate Participant

No, just to clarify at the end of the second quarter, we were at 17.4.

Nitin Bhasin

Okay.

Corporate Participant

The end of the third quarter at, -- we are at 16.5.

Nitin Bhasin

Okay. In between...

Corporate Participant

We are confident at the end of March, we should get back to around 17.5.

Nitin Bhasin

In between somewhere you had crossed 18% if I'm not mistaken, sometimes towards the earnings call of November or something, we had actually crossed about 18%. so -- but any way you lost marginal market share but how would you

Corporate Participant

As I mentioned we have actually revitalized, we have actually done an extensive market research in figuring out what the bank actually stands for. As we speak today, we have actually developing advertising and marketing campaign that will revamp and revitalize the Voltas brand in time for the upcoming season. We've also taken and strengthened our marketing team across the board, so that's one part of it. The second part of it is that distribution makes a lot of difference in this business.

Nitin Bhasin

Yes.

Corporate Participant

As a huge amount of distributors in the rural areas in tier-two and tier-three and we will strengthened it as we go along. The third part of it where we have an advantage is also that we are consciously training people for customer service and in something like an air conditioning business that can also be a key differentiator. So these are the two or three things that we would be doing. We have the money, and we can spend for advertising but we will not unnecessarily spend just because the Japanese are spending and then get into a [Non-English] kind of thing where neither they went nor we went. And we have good advertising stories and good campaigns, we will combine it with a judicial use of marketing spend also at the distributor end.

Nitin Bhasin

Okay.

Operator

Excuse me, this is you last question.

Nitin Bhasin

I'm sorry.

Operator

May I please request you to come back in the queue, sir, because there are other participants in the question queue.

Nitin Bhasin

Okay.
Thank you, sir.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

You can catch-up with us separately.

Nitin Bhasin

Okay, sir. I will do that.

Operator

Thank you. The next question is from the line of Kirti Dalvi from ENAM Asset Management Company. Please go ahead.

Analyst

Thanks, sir. Majority of my questions have been answered. Just a few clarifications. In segment three, in your press release, you've mentioned that there is...

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

A little louder.

Analyst

Yeah in segment three, I your press release, you've mentioned that there is one-time spend of 3 crore. So that means our EBIT should have been higher by 3 crores in segment three?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Yes. If we had taken it obviously, yes.

Analyst

Yeah. So there is no reversal of tax. We have actually spent on the earlier tax which was pending.

Utsav Shah, Chief Financial Officer, Central SMC Services Analyst

Okay. That has got reversed.

Utsav Shah, Chief Financial Officer, Central SMC Services

B reversed.

Analyst

Okay. And sir you also mentioned that because of thrust in the ad spends and the distribution in segment three, probably we'll not get those margins. But in this particular quarter, we also must have had some impact of ForEx because we must be importing from China as well. So given the scenario and currency as well as going forward, do we see these margins improving a bit purely because of the ForEx impact?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

The ForEx impact, Kirti the thing is also that you have to consider when we would have taken that exposure, because what you are seeing today is a low dollar rate, right?

Analyst

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

But remember that these orders that come from China are actually negotiated a lot earlier.

Analyst

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So there is a bit of play there that is available. And by policy, we do not keep everything uncovered, because if the currency walks the other way around, you would be a dead duck in the water. Yeah?

Analyst Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

What the confidence that I can give you is that we have cost it at a certain rate, yeah? At this particular point of time, within Utsav and the division, we have covered the foreign exposure at a rate that is tandem or lower than that cost...

Analyst

Sure. And sir, second question on the segment one. You have given fair details on that in terms of the margins. But sir if you want to exclude this Sidra loss and given Rohini is also making losses till nine months, though we must be bidding for the lower margins in the Middle East, there is at least one time gain which had happen in the next year in terms of your margins where one can see this 7% margins sustaining probably going forward as well in segment one?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

It all depends upon when the projects are settled and what actually happens. And that's why I once again say that please look at it on a longer term basis, because quarter-to-quarter you cannot read anything because this is the nature of the business that we are in.

Analyst

So, sir blended versus domestic and international projects taken together as well as the Rohini becoming profitable next year, one can at least have a fair estimate of 6% to 7% a broad range for this segment?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

That is what we would expect certainly, Kirti, that's what we want to do. But remember also that we are in a project business, so we have to deal with things as it comes along. But this is certainly our expectation, this is our certainly drive, this is certainly ambition.

Analyst

And sir on a liquidity front.

Operator

Excuse me, this is the operator here.

Analyst

Sure.

Operator

Sorry to interrupt you.

Analyst

Yeah, thank you very much, sir. And wish you good luck.

Operator

Thank you. The next question is from the line of Bhoomika Nair from IDFC Securities.

Bhoomika Nair

Good evening, sir. Sir, could I first get an idea of how much will be the impact on our revenues and profitability due to the loss of the Caterpillar business?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

I am not in a position to actually say how much in this year.

Bhoomika Nair

Right.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Because this is a later development in Q3.

Bhoomika Nair

Correct.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

At the time, that this actually impacts and how much actually goes out, we are doing arithmetic because of the fact that there are these contracts that are still there. We have to really figure out those contracts, sign them also up and some of the things that we've already

dealt with and the first three quarters are already there with us.
So what could have been the revenues in FY11 from the Caterpillar business?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

We'll get back to you...

Utsav Shah, Chief Financial Officer, Central SMC Services

Bhoomika, I'll get back to you in a couple of days.

Bhoomika Nair

Okay. And sir, you mentioned in the UCPL segment that there has been a 28% drop in the industry volumes, what would have been the volume drop that we would have been the volume drop that we would have seen in the nine-month period.

Utsav Shah, Chief Financial Officer, Central SMC Services

21%.

Bhoomika Nair

Sorry sir.

Utsav Shah, Chief Financial Officer, Central SMC Services

21%.

Bhoomika Nair

21%. And in this quarter how much it would have been?

Utsav Shah, Chief Financial Officer, Central SMC Services

In this quarter actually the volumes are higher than the same period last year.

Bhoomika Nair

So there would have been some marginal growth actually.

Utsav Shah, Chief Financial Officer, Central SMC Services Bhoomika Nair

Okay. And the FoEx impact in the quarter sir, I mean there would have been some gain in the E&P segment and some loss in the UCPL segment. So if I could get those numbers please.

Utsav Shah, Chief Financial Officer, Central SMC Services

As I'd mentioned earlier the gain in the project segment was 3 crores in international operations.

Bhoomika Nair

Okay.

Utsav Shah, Chief Financial Officer, Central SMC Services

In domestic operations there would have been just a very marginal loss in this particular quarter.

Bhoomika Nair

For the UCPL segment.

Utsav Shah, Chief Financial Officer, Central SMC Services

Yes.

Bhoomika Nair

Okay. And sir I mean basically if we look at it next year in the engineering segment, would it be fair to say that since most of the revenues are coming more on, from the mining and construction, textile division. Margins would sustain, continue to remain at healthy levels at 17%, 18%?

Corporate Participant

No, I don't know if that is an assumption that I would make, mainly because it depends upon the contracts that we really get, because the sales of this equipments and things like that are moving up. So how much of it will we really have is something that we need to see and look at a subsequent point of time.

Bhoomika Nair

Okay. Great sir this answers my question. Thank you very much.

Operator Kashyap Pujara

Yeah. Just wanted to check up what is the quantum of execution of Sidra in this quarter? And what's the cost that has been booked along side?

Utsav Shah, Chief Financial Officer, Central SMC Services

Kashyap this is Utsav here.

Kashyap Pujara

Yeah.

Utsav Shah, Chief Financial Officer, Central SMC Services

I think in this quarter the execution would -- see the total executed so far is about 53% to 54% of the total project.

Kashyap Pujara

Correct.

Utsav Shah, Chief Financial Officer, Central SMC Services

And in this quarter, I would assert a guess of about close to 150 crores, 160 crores about 15% you can assume.

Kashyap Pujara

Okay. And what cost would we have booked along side, because the extraordinary in that sense, the incremental cost over 1,000 crores has been booked as owner's contract. So we have more or less expensed that out. But again this execution, what kind of cost have we built?

Utsav Shah, Chief Financial Officer, Central SMC Services

Kashyap it is like this, for completing 53% of the project as on date I've incurred X amount of cost.

Kashyap Pujara

Okay.

Utsav Shah, Chief Financial Officer, Central SMC Services

For completing the balance 47%, I have estimated that this is the probable cost to be incurred.
Okay.

Utsav Shah, Chief Financial Officer, Central SMC Services

Some total of that for the argument purposes later assume is 1,300 and total project is 1,000. I have taken a hit of 300.

Kashyap Pujara

Okay. So incremental hit you have taken below, more or less which means I can -- I am fair to assume that whatever revenue you have booked on Sidra the same cost have booked against it.

Utsav Shah, Chief Financial Officer, Central SMC Services

The total -- we are right now going with the assumption that when we close this project, total revenue will be 1,000. As on date the total cost will be 1,300.

Kashyap Pujara

Correct.

Utsav Shah, Chief Financial Officer, Central SMC Services

And therefore we've taken a provision of 300.

Kashyap Pujara

Fair enough. So which means that if I strip the Sidra execution out of the current order execution, the actual margin seems to be far better than what it has been reported. Am I fair to say that?

Utsav Shah, Chief Financial Officer, Central SMC Services

Yeah

Kashyap Pujara

Okay. And what would be the settlement you are saying, mentioning something about a settlement front that there is some settlements that has also come in. So what is that portion or settlement that has come through?

Utsav Shah, Chief Financial Officer, Central SMC Services

It's nothing very so substantial which affects the profitability of the segment.

Kashyap Pujara Utsav Shah, Chief Financial Officer, Central SMC Services

But in the projects business there is a typical nature. As and when you complete your jobs and you put up certain variations, claims and they take their own sweet time in settlement, there were couple of settlements which happened for some of the projects which we had executed last year.

Kashyap Pujara

Okay. And so which means that, I mean if I would just like to finally ask you that what would be the sustainable or the broader margin. Because you have bit -- you've got a order intake, so you definitely you know the kind of margins you have bid those orders at. So what is the margins that one can look at on a normalized basis in the MEB segment. Say at least 12 months from now, not two three years hence, but at least 12 to 15 months from now.

Utsav Shah, Chief Financial Officer, Central SMC Services

Kashyap, I think you can make a fair assumption that whatever orders have been booked in the current year are at a much lower margin of around 3% to 4%.

Kashyap Pujara

Okay.

Utsav Shah, Chief Financial Officer, Central SMC Services

Mr. George has already addressed the issue that there is a mix of old orders which we are carrying and new orders that we have booked in the current year.

Kashyap Pujara

Okay.

Utsav Shah, Chief Financial Officer, Central SMC Services

Our endeavor is to work on synergies either in procurement execution.

Kashyap Pujara

Fair enough.

Utsav Shah, Chief Financial Officer, Central SMC Services

Ramp-up to around 6% to 7%.
Good. And these 3% to 4% margin orders are EBIT level, right? Not site level.

Utsav Shah, Chief Financial Officer, Central SMC Services

We are at the big stage for orders which has just been booked and we need to work upon them.

Kashyap Pujara

Okay. Fair enough, I will take the balance questions offline.

Operator

Thank you. The next question is from HR Gala from Quest Investment. Please go ahead.

HR Gala

Hi. As you said sir, the assumption is that in the Sidra order, we have taken 276 crore as an extra ordinary item. And in the note which we have given to the result, we say that, that excludes 43.75 crore cost overrun which has been accounted in the earlier quarters. So that has gone as part of the normal cost which we did not segregate as an extraordinary item?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

See the reason why it was shown as an item is because of the size and significance of the event itself.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Or else it would have gone into the normal segment result itself.

HR Gala

Okay, I understand. So now because of this large magnitude we have shown it separately.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer HR Gala

Okay. Sir can you just tell that how do you see the overall scenario for the next year in terms of the new order bookings et cetera. Do you see any improvement taking place in the international market and in the domestic market?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

See in the international market what Utsav also clarified is that the phase of orders, new orders has not opened up as much as it should.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

But what we can see is that two economies Abu Dabi and Qatar are relatively now speeding up in terms of their own infrastructure needs, in terms of the various things that they are planning to do.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

We have a joint venture in the kingdom of Saudi Arabia for which we received commercial registration on the 8th of February.

HR Gala

Yes.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

And that will also open out more doors to us in terms of getting orders in that geography.

HR Gala Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

But remember that -- it's a joint venture, therefore we are only going to be getting 50% of whatever...

HR Gala

Right.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Turnover that we record.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

In the domestic market what we can see at this particular point of time is a lot of people are postponing and slowing down the project execution.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So in fact if you really look at it, some of the orders that we have got before we should actually started constructing against that. For example if the Chennai Metro we had taken, yeah?

HR Gala

Yeah.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer
HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

We are depended upon other contractors taking it to a certain extend and then taking on from that.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

As the nature of MEB.

HR Gala

Okay. Just a last question that is 5,000 crore order book position which we have, will have the entire portion of the Sidra project or will it have only the balance portion?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

It will have only the balance portion.

HR Gala

Okay. What do you think about the execution cycle of this 5,000 crore? As you said that certain orders are getting delayed.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

See it will be, if you look at 5,000 crores it's a mix of both domestic as well as the international.

HR Gala Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So domestic is for example 5,094 is 1,950. And international is 3,145 which adds up to 5,095 or whatever it is.

HR Gala

Correct, correct.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

So the domestic, the general is 15 to 18 months.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

In the overseas, it tends to be two years plus.

HR Gala

Okay.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

That is the way it will work.

HR Gala

Okay. But in...

Operator

Excuse me, this is the operator sir.

HR Gala Utsav Shah, Chief Financial Officer, Central SMC Services

We are assuming that sentiment should improve in a couple of quarters and we expect things to normalize. So I don't think for too long we expect this delays to continue.

HR Gala

Okay fine. Thank you very much and wish you all the best.

Operator

Thank you. The next question is from the line of Prerna Jhavar from Emkay Global. Please go ahead.

Pritesh Chedda

Yeah sir this is Pritesh. Just one confirmation, the 275 crore number, is it cost estimated accounted for and not billed or it is actually cost incurred accounted for and not billed?

Corporate Participant

Just to clarify, this is cost, cost accounted, the probable cost to be incurred and probable cost to be accounted.

Pritesh Chedda

So it would include estimated as well as incurred cost both...

Corporate Participant

Both estimated as on date which will be reviewed at the end of each quarter till the project is completed.

Pritesh Chedda

Okay. So it's estimated as well as book incurred both?

Corporate Participant

Absolutely right.

Pritesh Chedda

But it won't be build, right. Because on the other hand, the client has not accepted the...
No. Billing will only happened as per the order.

Pritesh Chedda

Okay. No. Sorry I didn't get that. Billing will happened only as per the...

Corporate Participant

As per the original tender. Everything else will happened...

Pritesh Chedda

At the end of the or whenever you guys come for negotiation. Is it right?

Corporate Participant

Absolutely right.

Pritesh Chedda

Okay. Thank you very much.

Operator

Thank you. Ladies and gentlemen, due to time constraints, only one last question would be taken. Last question is from the line of Swarna Maheshwari from Edelweiss Securities. Please go ahead.

Analyst

Sir, this is Rahul here. Sir, I wanted to ask you, do you see such cost escalations in other projects. Both in domestic as well as other international projects?

Corporate Participant

No, I don't think you can use abroad brush to say everything is going to be cost escalated, no, it doesn't happen, yeah. If we did have that then you wouldn't be reporting the prospects that we had in the segmental results that you had seen above the line, right.

As I was mentioning at any point of time, the nature of the project business is as follows: We bid and take contracts, and in the international fields, there are something like about 20 odd projects that we are doing at any particular point of time. Now the expectation and the ambition is that in each of these projects, we actually better the bidding margin. But what really happens is that in some of the project, we make far better margins than what is actually used for bidding. And in some of the project because of issues that are there, we some times drop below and some time get into loss, yeah.
Yes.

Corporate Participant

But at the same time, the nature of project business being what it is, there are also claims and variations that come up because no project just goes into a loss just like that because of execution. It has various other cost potentials to why it went into a loss. Therefore, you create claims saying that this is because of this et cetera, et cetera, et cetera. But those claims take time to get settled. So at a latter point of time, after the project is completed, there are certifications that are done. There are negotiations that are over the table where our -- people try and identify what exactly happened in the project and the settlement take place.

And the Middle East, one of the things that we have found is that by and large the variation settlements take place but after an extended period of time. So we are not at this particular point of time, if I put a claim on some particular client, no client unless the project is complete will give you a letter and give you an assurance saying that I have this claim being accepted, they will not do that. They will wait till the project is completed, and then negotiate with you. So that's the nature of the business.

So it's not as it that all project are going to be downhill or it's not as it that all projects are going to be uphill, and this is not only different, this is just the story for Voltas, this is the story for ETS, this is the story for --, this is story for any project company around the world --.

Analyst

Okay. Sir, one basic clarification I wanted to understand. Now during this particular quarter, we have book some revenue from Sidra into the income -- in sales. Now the costs which are to be incurred and which have already been incurred would be accounted as a loss of or provision of 277 crores. What I want to understand is the revenue that we have booked, have we abortion the costs above -- at may be RM or other expenses, or have -- all of that during the quarter has move to the provision of 277 crores?

Corporate Participant

All of the expenses during the quarter has moved to the -- item contract that we have shown of 277 crores.

Analyst

Which basically means that if we have booked the revenue, the cost of -- for that particular revenue have not really gone above the line?

Corporate Participant

The revenue 824, the revenue includes as Utsav was mentioning earlier something of the order about a 160 crores from the Sidra project, okay?

Analyst

Yes.
No, when you're saying does not have margin below, what does that mean? That the cost have not been put in other expenses or raw material cost as we say?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

277. But this is not in the segment A revenue, includes the revenue that has been incurred in the Sidra project of 160 as Utsav mentioned.

Analyst

Yes.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Segment results A does not include any portion of it because the project is at anywhere a loss and it has gone down the line to the 277 crores in Onerous.

Analyst

Perfect. So it is fair to say that the 7.5% margin on a overall basis is inflated to an extent of that cost not getting accounted on the top?

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Yeah, but then you have to also understand just going back to your old question that our all projects are on a loss...

Analyst

No, no, certainly.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

The answer is that all projects are not under loss. When we get our full and final settlement, we get money back.

Analyst

Perfect. Right, sir. That's it. Thank you very much and all the very best.
Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the floor to the management for closing comments.

B.N.Garudachar, General Manager, Corporate Communications and Investor Relations

Thank you very much again for being with us and I am very happy that this was a very productive discussion we had. And I presume that most of the issues have been fairly well clarified.

However, if there are any issues regard Sidra, we will look forward to clarifying it in the future. And more importantly, we as transparent as we can on Sidra and many other projects too to ensure that you're fully well informed of the development in terms of the project business is concerned. With this, I once again thank you for being with us.

Anil George, Executive Vice President, Corporate Affairs and Chief Financial Officer

Thank you.

Operator

Thank you. On behalf of MF Global Sify Securities India Private Limited, that concludes this conference call. Thank you for joining us and You may now disconnect your lines.