Voltas Q3 2014 Earnings Call 4 Feb'14

Operator

Ladies and gentlemen, good day, and welcome to the Voltas Limited Q3 FY14 Earnings Conference Call hosted by IDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this conference is being recorded. I now hand the conference over to Ms. Bhoomika Nair from IDFC Securities Limited. Thank you and over to you, Ms. Nair.

Bhoomika Nair, Analyst

Thanks. Good afternoon, everyone. Welcome to the Voltas 3Q FY14 earnings call. The management today is being represented by Mr. Anil George, President, Corporate Affairs and CFO; Mr. B.N. Garudachar, GM, Corporate Communications and IR; and Mr. Utsav Shah, CFO, Central F&C Services. I'll now hand over the call to the management for their initial remarks, post which we'll open up the floor for Q&A. Over to you, sir.

Anil George, President, Corporate Affairs & CFO Utsav Shah, Central F&C Services

Good afternoon. I'll just take you through the analysis. There is a mix feeling about the Indian economy going by the various business performance and sentiment indicators. The IIP, a widely used reference point for the state of industrial activity fell be 2.1% in November on a year-on-year basis, even sharper than October's decline of 1.6%. Entrenched in these numbers the capital goods barometer has cumulatively declined some 11% over the last two years.

While government investments in new projects appear to have more recently looked up, private investments have continued to shrink. FDIs remain on hold yielding only marginal growth opportunities for construction, engineering and capital goods industries. However, there are some green shoots. Improved GDP growth of 4.8% in Q2 supported by the weaker rupee boosting exports, plus a favorable monsoon benefiting agricultural output.

This morning's paper also talks about the HSBC PMI Index for Jan at a better pitch, although 370 basis points below the series average of 55.1, led by a fall in vegetable prices, the WIP [ph] inflation fell to 6.2% in December 2013 from 7.5% in the previous month. Being somewhat above the RBI's comfort level, we witnessed a surprise rate hike; overall it remains a wait-and-watch till the political uncertainty and governance related issues are resolved. Business prospects are somewhat brighter in certain Middle Eastern geographies with a clear-cut investment thrust, especially in infrastructure and construction.

This is more pronounced in Qatar, KSA, and most recently Dubai, where substantial investments are expected in preparation for the prestigious Expo 2020, which could hasten a region-wide revival. The consolidated sales, income from operations for the quarter ended 31st December 2013 was at 1,115 crores as compared to 1,150 crores in the corresponding quarter last year.

Operating profit, that is profit before exceptional items and tax was higher at 74 crores as compared to 34 crores in the corresponding quarter last year. As exceptional income in the current quarter was only 4 crores as compared to 60 crores in the corresponding quarter last year, profit before tax was lower at 78 crores as against 94 crores last year and net profit after tax and minority interest was 62 crores vis-a-vis 77 crores in the corresponding quarter last year.

Earnings per share, not annualized was at 1.87. The Voltas balance sheet remains strong with shareholders' equity increasing to 1,796 crores as against 1,677 crores for the comparable period last year. Marginal decrease in debt equity ratio at 0.11 reflects reduction in borrowings to INR225 crores, which mainly pertain to the overseas operations. Total liquid balances including investments in mutual funds have appreciated to a very comfortable position of 833 crores.

Segment A, Electro-Mechanical Projects and Services. Segment revenue stood at 643 crores as compared to 797 crores in the corresponding quarter last year. The segment result was negative at 4 crores, performance being impacted primarily by overseas projects. International, although economic prospects have considerably improved in certain Middle Eastern geographies, the construction industry in the region continues to grapple with cost-overruns arising from delays in projects booked at the peak of the boom period. During the current quarter, the completion dates in a couple of ongoing projects have got extended necessitating AS-7 mandated cost provisions.

Needless to state, these could end up partially reversing based on the quantum of variations, claims and settlements effected over a period of time. The business has responded to these forced circumstances with a strong drive towards speedy closure of such projects.

Projects-specific task forces have been constituted with clear roles and responsibilities to focus on early completion and settlement of commercial entitlements. One such team working on the Sidra Project has begun to register progress in its Given these negotiations progress has been somewhat slow with the project now reaching 94% completion. Meanwhile, the testing and commissioning phase has begun across several sections of the project. While there is a rising level of enquires from Qatar, UAE and Saudi Arabia, the company is responding in a suitable, selective criteria-based and risk mitigated manner. The carry forward order book of the international business was at 1,813 cores providing forward visibility. The execution of the new projects announced in the previous quarter has commenced and progress is satisfactory.

Domestic, the domestic projects business continued to face an environment marked by protracted pace of project execution, lowered business confidence and deferral of new projects, especially in the private sector. There was a further slowdown in new projects enquires which the division pursued with great selectivity resulting in 135 crores worth of new orders being booked. The carry forward order book for domestic was at 2,133 crores. As in the international business, the primary focus remained on bringing existing jobs to speedy completion and keenly pursuing commercial entitlements. Consequently, profit held steady despite a drop in revenue. Simultaneously, significant progress was made in a business efficiency improvement program commenced last quarter with the project now heading towards Phase II.

Capital engagement and cash flow in the project segment has shown considerable improvement vis-a-vis the previous quarter and year-end due to persistent follow-up and successful collection of receivables. This is all the more satisfying in an environment marked by high interest rates and a liquidity crunch.

Segment B, Engineering Products. Segment revenue and result were at 112 crores and 36 crores respectively as compared to 107 crores and 26 crores respectively in the corresponding quarter last year. Both mining and construction equipment and textile machinery businesses have done well in the lackluster market conditions. The mining and construction equipment business continued to face severe policy constrains with mining activities still frozen in most states. Despite these adversities, the business sustained its pursuit of opportunities in service, spares and O&M business through addition of principals and new geographies.

As a consequence of consolidation in the overall mining industry, we have transited dealership rights of certain products to the new dealers. This has resulted in an exceptional gain of 4.3 crores during the current quarter. The transfer also brought about a one-time reversal of certain provisions previously made in line with conservative accounting practices thereby yielding a spike in the bottom line.

Contrary to expectation, there has been limited progress in the textile industry following the announcement of the much anticipated revised and restructured TUF scheme. Consequently, equipment sales remained at their previous modest levels, keeping revenue and profit flat for the textile machinery business.

Yarn exports presented a declining trend due to the fall in demand from China and increase in cotton prices. Nevertheless, the steep drop in the rupee may augur well for the ramping up of post-spinning facilities in India and the resultant export of finished merchandise. The business continues to scout for additional opportunities in post-spinning, leveraging its strong relationship with customers and principals.

Segment C, Unitary Cooling. Segment revenue was higher at 347 crores as compared to 239 crores in the corresponding quarter last year. Notably, this performance is despite the quarter being traditionally low in demand coupled with muted consumer sentiment and a sluggish festive season. In fact, the Voltas AC volumes increased by 37% as compared to last year as a result of several initiatives. The business tapped the increased demand in Tier 2 and Tier 3 towns as well as the rise in rural demand driven by good monsoons. We now have deeper penetration with a growth in touch points from well over 6,500 outlets. Primary sales were also stimulated by the prospect of new product lines and increased forward pricing to comply with tightened energy norms. In addition, there was a higher contribution from the execution of certain hard won institutional orders.

Segment results were significantly higher at 46 crores as against 15 crores in the corresponding quarter last year. Profit margins were positively impacted by good growth in 5-star and 3-star AC sales, which together accounted for 90% of The commercial refrigeration business too performed well, generating better margins. The brand sustained its market leadership at 20.4% share over the quarter compared to 17.1% during the same period last year as per the GFK Nielsen Retail study. This a clear 250 basis point ahead of the nearest competitor as we continue our market leadership in three out of four zones.

To sum up, the performance in segment B and C has been ahead of expectation, which is commendable given the adverse business environment. Going forward, we expect the Unitary Products business to continue on its growth trajectory and maintain leadership. At the same time, the future performance of segment A is predicated on improvement in the external environment and a reasonably risk mitigated approach to orders.

While the business is realigning itself to new market realities and targeting to become more competitive, the satisfactory financial closure of legacy projects is also of critical importance. The strong non-leveraged balance sheet and good operational cash generation provides a definitive advantage in uncertain times. Thank you.

Anil George, President, Corporate Affairs & CFO

Thank you, Utsav. There are some obvious questions, which I can anticipate and I am sure you answered most of them. May I now request Bhoomika to take over for the question-and-answer session.

Questions And Answers

Bhoomika Nair, Analyst

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aditya Upadhyay from Espirito Santo. Please go ahead.

Aditya Upadhyay, Analyst

Hello. Good afternoon, sir.

Anil George, President, Corporate Affairs & CFO

Good afternoon, Aditya.

Aditya Upadhyay, Analyst

Sir, what has been the reason of a sudden spike in volumes in the UCP segment?

Anil George, President, Corporate Affairs & CFO

I think it's fairly explained there, but let me just take you through the thing once more. Fundamentally, Aditya, the quarter is generally a weak quarter in terms of sales, yeah, and we have been able to get a little more spike in terms of volumes as compared to the rest of the market fundamentally driven by two things, such as, one is the increased demand in Tier 2 and Tier 3 towns where we have reached out and we now have something like about 6,500 odd Number two is that we have also introduced a number of new product lines which is being coming in, our new air conditioning proposition as well as a number of new models, we have something like about 47 different variants now, different colors, different configurations etcetera, and that has also helped in terms of increasing the sales.

Next is that with the price increase for the new BEE restrictions, everyone, the trade particularly is expecting a price increase to come up. And that has been advantageously utilized by most of the people in the industry to try and push more sales into the primary line, yeah.

And the last is, of course, that we have had higher institutional orders which incidentally has also given a little more of greater margin also.

Aditya Upadhyay, Analyst

Okay. Sir, the reason why I had asked this question is, because the trend of you penetrating more in Tier 2 or Tier 3 towns or in the rural market, things like this had been happening in the last few quarters, whereas in this particular quarter itself you've seen such a very sharp increase in volumes. And also, because, in first half you had mentioned that B2B sales had lacked [ph] B2C sales as retailers had mainly cleared their inventories. Is there a possibility of retailers now getting flooded with unsold inventory which probably they'll be clearing in the next few quarters and consequently Voltas' sales might take a beating even though end customer sales might continue to be strong?

Anil George, President, Corporate Affairs & CFO

I just want to make one thing clear, that is that we don't pump sales into the trade where we find issues that will put a question mark on cash recoverability or on future sales, yeah. A certain amount of it will certainly happen, yeah, but not over a shop in the sense that the -- a normal credit rating or a normal kind of capability to pick up a material is X, we are not going to do 2X down into the trade, yeah. So as it stands now, I don't think that there should be too much of a problem. And remember, that we are also getting into the season as we go ahead. So it will start liquidating more and more.

And the material that we have now given to them, the ACs, they have this energy efficiency criteria, so we will need to necessarily liquidate and push out those things from the stock.

So net to net, I don't see that as a very significant risk at this particular point of time, small variations here and there could take place, but, no, I don't see it as a big problem.

Utsav Shah, Central F&C Services

But just to add here, I think the market is expecting that the Tier 2 and Tier 3 towns do a little well because earlier there were very good monsoons there. Anticipation of Tier 2 and Tier 3 doing it -- doing well, I think, our sales also to a certain extent are representing that we are doing well in those markets.

Anil George, President, Corporate Affairs & CFO

And the other thing is, Aditya is the market shares. If you really look at it, I don't know you are following us for a number of years. So if you look at our shares in December '12 for example, we were something like about 17%, which has now been climbed up to 20.4%. And at that point of time, the market was fairly cluttered with a number of players and that include the Koreans as well as the Japanese as well as the Indians etcetera, lot of them who were all hovering around 9%, 10% etcetera.

Aditya Upadhyay, Analyst

Right. Sir, just a clarification on that point. If you look at market shares on a quarter-on-quarter basis, then that has broadly stayed flatter at around 20.5%. Does this mean that the market has also grown at the pace of Voltas which is around 37% growth in volumes?

Anil George, President, Corporate Affairs & CFO

The market has actually grown less that what Voltas has grown, yeah.

Aditya Upadhyay, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

Market has grown less. And let me also -- Aditya, 20% market share is a huge, huge achievement.

Aditya Upadhyay, Analyst

Absolutely.

Anil George, President, Corporate Affairs & CFO

Out of every five air conditioners that are sold in this country, one of them bears the Voltas logo. So from there to be able to move it up further is a different task, yeah, but where we get the this thing as to volume growth in terms of the market itself growing etcetera we will be able to continue growing further.

Aditya Upadhyay, Analyst

Right, right. Great, sir. This is really helpful. Thanks a lot sir.

Operator

Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

Ankit Fitkariwala, Analyst

Sir, if you -- my first question is, I would like to know what is the reversal of provisions and warranty write back, if you could help us with the amount? And secondly, can -- what are the sustainable margins for segment two, because

Anil George, President, Corporate Affairs & CFO

In the first place, I don't want to get into a granular kind of an accounting exercise to really say that this much has come from rebates, this much has come etcetera, I just want to give you a broad reconciliation. And that reconciliation is that, fundamentally that we have been able to sell more air conditioners which are having a better margin.

And that's why I have emphasized on the five and three star AC sales there, yeah, and which is now accounted for almost 90% of the total volume. So that's given me a certain forward push.

The second part of it is that, the ratios of between the window air conditioner and split air conditioners have been changing. Last year, at this particular point of time, or even the last quarter, we were selling something like about 70% of splits which has now gone up to something like about 76% and odd.

So splits have better margins and therefore that's also helped, yeah. And the most important thing also is that my margin is a fall out of how much I spend on advertising as well. Suppose I -- this is a quarter which has generally been not, traditionally a very hot quarter. So we did -- we have not advertised as much. So in the next quarter, for example, I will go ahead and spend may be whatever it takes to beat my competition. So you might suddenly see that the margin might be looking different based on, of course, the volume. So in a quarter where I have high volume and low advertising expenditure, you can expect that the margins will be better, yeah.

Ankit Fitkariwala, Analyst

Okay. Okay, sir, that would help. But if you can just give some color on the kind of provisions and warranty write backs which have impacted anything?

Anil George, President, Corporate Affairs & CFO

No, I don't want to get in there, but I will answer your last question which was, in terms of what do I see as a sustainable kind of a margin which should give you a bit of a this thing.

I certainly see that, we know about 10% should be achievable with all the improvements that we have done over -- in our own set up and things like that. The only exception being is there is a huge advertising war against me, then I will have to fight back that's what, but otherwise that notwithstanding normal pay is 10%, I think we can do that.

Ankit Fitkariwala, Analyst

Okay. Sir, just a last question.

Operator

Sorry to interrupt, sir. May we request you to come back in queue for follow-up questions?

Ankit Fitkariwala, Analyst

Okay. I'll do that.

Thank you so much. Ladies and gentlemen, we would request you to limit your questions to two per participants. The next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram, Analyst

Good afternoon, sir. Sir just wanted to know in the project segment, like was there any write back from Sidra or going forward like how do you see the margins in that segment panning out?

Anil George, President, Corporate Affairs & CFO

No, we haven't had any write back in the project this thing. There will be some small things always which will be of a much smaller nature which happens in the run and mill [ph] of this business. That is, sometimes we look at better margins, sometimes some small (inaudible) so we adjust it, but nothing significant, yeah. The reason why we are taking the negativity is because two projects which I have mentioned there have actually had an extension of time, yeah. We have to postpone that by another three to four months and as a consequence of that I have to account for the cost, yeah.

We follow the AS-7 in terms of accounting and as it comes by, when the settlements come in, we are at least hoping for some partial reversal etcetera. But I also want to use this opportunity to talk about the general trend that one is seeing in terms of delays of projects in the international arena.

We actually analyzed something like about 198 projects that has happened in the Middle East, projects -- when I say projects, projects that are over 100 crores plus, we analyzed them. And it appears that the average delay -- average, yeah, so which means that there might be projects that have done well or done badly etcetera, average delay is about 136 days in UAE and about 111 days in Qatar, yeah.

Now that means technically if you have a project and you have 500 people sitting there for 136 days extra in UAE as per AS-7 you have to take that cost and then you will be auguring [ph] it out.

Ranjit Shivram, Analyst

Okay. So is there any other projects apart from these you are seeing delays or when do you see these project margins to come back to normal level, sir?

Anil George, President, Corporate Affairs & CFO

It is -- the project business is unfortunately always a moving wicket, it keeps on -- as the project progresses, there are always ups, there are some positives, there are some negatives, that's the run and mill of the business that we are in.

At this particular point of time, the loss has actually come by largely because of this extension of time that we have got on these and apart from the fact that the continuing legacy projects that we have, including Sidra etcetera, record a turnover but they don't record any margin because of the negativity they are in. So it's a combination of that entire thing.

When will you see this coming back to normal levels? My own guess would be that you have to wait it out for another two to three quarters at least before we are able to get in to the new projects coming in, strongly performing and this thing. So that's when you'll see it bouncing back to something like normal levels as the new projects start -- actually, let me say, producing or in a sense going above the 20% completion mark.
Okay. And, finally, sir --

Operator

Sorry to interrupt Mr. Shivram --.

Ranjit Shivram, Analyst

Okay, sure. I'll come back for --.

Operator

Yes, thank you so much. The next is from the line of Sachin Maniar from CIMB. Please go ahead.

Harish Bihani, Analyst

Yes, sir. Hi. Harish from CIMB. My first question is on segment A. In the last quarter con call you had indicated that we were trying to complete six overseas projects, we're trying to have a speedy closure of those. As you already indicated that two projects where we are facing delays is one of those Sidra and status of other projects?

Anil George, President, Corporate Affairs & CFO

No, no, this does not include Sidra. These are two other projects.

Harish Bihani, Analyst

Then how about the other four projects that we are trying to complete?

Anil George, President, Corporate Affairs & CFO

What I have mentioned here is that we have had to take under AS-7 extension of time related cost for two projects.

Harish Bihani, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

Rest are motoring along well. I can't say what will happen in the next quarter or the quarter next after that.

Harish Bihani, Analyst

But, sir, the remaining four projects, are we targeting to complete those in the next six months or will it take longer?
It should be finishing around the next six, seven months it should be finishing even with whatever extensions etcetera. And, of course, you recognize that we do have the tax liability periods etcetera that generally runs for 12 months to 18 months on each project.

Harish Bihani, Analyst

Correct, sir. Sir and you indicated in the release that the main contractor is negotiating some conclusion -- they are trying to conclude a supplementary variation agreement. So what could be the timeline of conclusion of this particular agreement and how could this be beneficial to --?

Anil George, President, Corporate Affairs & CFO

This quarter, we certainly hope that it will get -- see, what happens is that, why I mentioned is that, anything that the main contractor gets, because all the contractors on this project have suffered and people have suffered enormously, yeah. So at this particular point of time with all the changes etcetera, the main contractor is also negotiating back and saying, look, this project was supposed to have finished about two-and-a-half years back and we're still on the site. Now if you want us to complete, you need to shell out XYZ, and that has a follow-through and fall back on to us also that, if -- for example, if the main contractor is able to negotiate a large extension of time with the main client, a part of that will definitely come through to us.

So in a way what I'm saying is that our interests are joined against the client, yeah, or vis-a-vis the client. At the same time, we will have domestic claims between us and the main contractor. Are you with me?

Harish Bihani, Analyst

Yes, sir. Okay, okay. Sir and -- in segment B, we mentioned that due to some consolidation in the mining industry, we have transited dealership to certain new dealers. Can you explain this? And there was this one-time reversal of certain provisions, so if you can explain that also?

Anil George, President, Corporate Affairs & CFO

I'll just tell you what it is. We have had two -- I don't know if you were following us earlier. We were dealers for Caterpillar and LeTourneau, yeah. And there was global consolidation -- no, sorry, when Caterpillar acquired both Bucyrus and LeTourneau -- and Joy Global acquired LeTourneau, the dealership of the acquiring company was being done by certain other companies in India.

Harish Bihani, Analyst

Correct.

Anil George, President, Corporate Affairs & CFO

So as a result, we had long-term maintenance contract which needed to be passed on or assigned on to the new dealers, because we will not be able to maintain it anymore, because we will not get spare parts at a concessional rate or with additional markups etcetera.

Harish Bihani, Analyst

Okay. Can you share the quantum sir, if possible.

Anil George, President, Corporate Affairs & CFO

No, I said that, 4.3 is the exceptional, yeah.

Harish Bihani, Analyst

Right.

Anil George, President, Corporate Affairs & CFO

Which is there and the rest of this thing, it is small, small -- as and when these small contracts are getting transited, we are writing back those.

Harish Bihani, Analyst

Okay, sir. Sir and can you quickly share the advertisement cost for nine months FY14 and nine months FY13? Thanks.

Anil George, President, Corporate Affairs & CFO

I will need to -- Utsav can give it to you later, yeah?

Harish Bihani, Analyst

Okay, sir. Thank you so much.

Operator

Thank you. The next question is from the line of Sanjay Satpathy from Merrill Lynch. Please go ahead.

Sanjay Satpathy, Analyst

Hi, sir. Congratulations on a good set of result. Basically you -- first of all, if you can just again elaborate on the Sidra thing which you just mentioned that you may get some kind of compensation in a quarter or so. Is that --?

Anil George, President, Corporate Affairs & CFO Sanjay Satpathy, Analyst

Yeah.

Anil George, President, Corporate Affairs & CFO

What -- I was asked a specific question as to when would this SVA get concluded. And I said that my hope is that it would be concluded in this quarter, yeah.

Now, when I get the actual compensation, we'll have to see about it. But once the SVA is done and then at least I will start getting cash on various things and then we'll have to tie up all the loose ends in terms of our negotiation with the main contractor will also need to be completed.

It'll be our intention to try and see how we can complete it as soon as possible. Now, I am not making a statement saying that I will get back money or that -- whatever it is, but in the previous I have been asked questions as to whether we see -- of the total Sidra cost will it just be this or will it be more.

I think I have -- I'm at a stage now where I can reasonably say that a large part of the uncertainty is well under control and I will not, I don't expect to see any negatives going forward on Sidra at least.

Sanjay Satpathy, Analyst

Understood. And, sir, the other two questions, now that we are seeing such a product mix change etcetera in room AC. What is our sustainable margin guidance now --?

Anil George, President, Corporate Affairs & CFO

I would think that at least 10%, but please understand that it also depends upon the advertising expenditure which happens and the various things that go into the price increase, the mix etcetera as it goes along. But I would be fairly comfortable with seeing a 10% kind of a margin going forward.

Sanjay Satpathy, Analyst

And Engineering, sir?

Anil George, President, Corporate Affairs & CFO

Engineering, depends upon, because this time it is also the -- difference is that, we have had this benefit of Caterpillar transition, we've had these mark contracts going on for some time. Going into next year, for example, you might not see those, yeah.

So I can see a kind of a, the absolute number, the margins might be alright, but the absolute number of the revenue that you get in Engineering products will be a little lower as we go along.

Sanjay Satpathy, Analyst Anil George, President, Corporate Affairs & CFO

No, no, we have -- this quarter has been high because of various other things, but as we go along, we should be able to easily see an 18% to 20% in that segment, segment B. But what I'm trying to say is that the absolute number will be lower because I'm not do -- now that we transited some of these contracts, I will not be doing Caterpillar for example, I will not be doing LeTourneau for example, those are the things.

So I won't have those revenue going forward in as strong a manner, but of course we will have new principals, we are expanding into new geographies, so we'll try and compensate as much as possible as the business grow strong.

Sanjay Satpathy, Analyst

And, sir, my last question in this segment one, in which you have said that order enquires are rising in Middle East. If you can just (Technical Difficulty) as to -- I mean, what kind of increase are we seeing? I mean, what kind of order inflows drain that we may see in next couple of quarters, and what really we should see in terms of execution in fiscal '15. That means our revenue will be -- how will it compare to fiscal '14, the revenue side, at least?

Anil George, President, Corporate Affairs & CFO

As far as the revenue side is concerned, when we -- there is a lead time between the time that the order is taken and the time that their execution actually takes place, one.

Number two is, on top of that lead time, I have to be able to at least get 20% of my project completed before I start reckoning any margin, right?

Sanjay Satpathy, Analyst

Yeah.

Anil George, President, Corporate Affairs & CFO

So those are the two things. And you know our order book at this particular point of time. We are hopeful that we will be able to pick up maybe an order or two in this quarter, we'll need to see, but we are very, very careful in the way that we pitch ourselves now. We want to be risk mitigated, having learnt all these things that we have learnt in the past few years and the fact that the environment has changed very much, we will be extra careful.

So our strategy going forward now is to look at projects that are more in the 200 to 500 kind of range, which are fairly secure as far as profitability and cash is concerned. And those are the type of orders that we would take. We will not take on any large iconic projects, which we might find difficult to actually manage.

Sanjay Satpathy, Analyst

Thanks a lot, sir, and wish you all the very best.

Operator Salil Desai, Analyst

Yeah. Sir, is it possible to share what could be the proportion of revenues in the UCP segment from institutional, from regular business, and from commercial refrigeration?

Anil George, President, Corporate Affairs & CFO

I'll give you the -- maybe you can contact Utsav separately, yeah.

Salil Desai, Analyst

Sure, sure. And, sir, second question is the Supplementary Variation Agreement, now how much is our claim and the contractor dependent on whether the contractor is successful with his negotiations with the main -- with the client amount. So is there a flow through that is 100% or we will get something irrespective of what --?

Anil George, President, Corporate Affairs & CFO

No, it will not be 100%. What normally happens is the main -- the claim that the main contractor is dealing with a client relates to the extension of time, which is that the contract should have finished at a certain stage, which is now getting extended, therefore compensation for that stay back.

Now assuming that X amount is received by the main contractor toward the extension of time, he then has a liability to pay part of that amount to his sub-contractors which includes Voltas, which includes Kent, which includes Siemens, which includes 30 other sub-contractors working on the project.

Salil Desai, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

Yeah.

Salil Desai, Analyst

But in case he does not receive anything, is there -- you still have a claim with the main contractor for what all variation you would have had at your end?

Anil George, President, Corporate Affairs & CFO

Yes. We will still have a claim with the main contractor, because as far as we are concerned, our privity of contract is with the main contractor, not with the client.

Salil Desai, Analyst Anil George, President, Corporate Affairs & CFO

But it is not a good situation to be in, because what happens is, if he has not got the money then we will have to go legal and then it is going to be dragged out for quite some time.

Salil Desai, Analyst

That's why I wanted to check if what the flow through could be?

Anil George, President, Corporate Affairs & CFO

And then we also -- get the down flow through.

Salil Desai, Analyst

Fine. And, sir, finally, what could be, say, a transition period in terms of in the Engineering product segment, the loss of dealership from these two companies?

Anil George, President, Corporate Affairs & CFO

Another -- this quarter we will -- we are in negotiation for transiting many of the contracts, that is I am talking about quarter four. There might be some spill through to quarter one also depends on -- because many of the -- it is -transitioning is not such an easy thing because many of the final clients might really turn back and say that, no, I am not comfortable with the new dealer.

Salil Desai, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

Services for so long, so then we'll have to negotiate, we'll have to figure out how exactly it was. So we are dealing with one contract by one contract by one contract in whatever way we can. So to answer your question, in quarter four, you will see some transition benefits and maybe in quarter one also if there is a spillover.

Salil Desai, Analyst

Okay. So it's not that these suddenly disappear overnight or in the next quarter? You kind of see a gradual tapering off of --?

Anil George, President, Corporate Affairs & CFO

For this -- for quarter four, definitely it is there, some more things are being discussed in terms of transition. For quarter one, depends on how far -- fast I'm able to move. Interest of Caterpillar is of course to move the contract as quickly as

Salil Desai, Analyst

Got it, sir. Thank you so much.

Operator

Thank you. The next question is from the line of Deepak Agarwala from Elara Capital. Please go ahead.

Deepak Agarwala, Analyst

Yeah. A couple of questions from my side. First is how do you see --.

Anil George, President, Corporate Affairs & CFO

Speak a little louder, please.

Deepak Agarwala, Analyst

Yeah. Now it's clear?

Anil George, President, Corporate Affairs & CFO

Yeah.

Deepak Agarwala, Analyst

Yeah. How is the momentum in terms of the ordering intake going on in the Qatar for the FIFA? Because earlier when we discussed the thinking of -- at the main stadium orders were about to get finalized, so which we subsequently --?

Anil George, President, Corporate Affairs & CFO

They have started, they have started doing a lot of groundwork. Many of the main contractors have not been awarded, but the plans etcetera getting more and more steadier, the outlay is being made and they are moving forward.

So I -- my own feeling is that we will probably see greater benefit out of these things probably coming into quarter two of next year after the main contractors announce and then we are -- and they in turn get the subcontracts to us.

Deepak Agarwala, Analyst

Sir, quarter two for the Voltas or quarter two for the main contractors?

Anil George, President, Corporate Affairs & CFO

Quarter two for Voltas.

Deepak Agarwala, Analyst

Okay. Next question is that there were some visa issue which we had earlier this year in Saudi Arabia and fortunately Voltas did manage to get some good contracts because they had more visas at hand. So how do you see the situation now and the order intake pipeline in Saudi Arabia?

Anil George, President, Corporate Affairs & CFO

In Saudi, the situation is extremely difficult. In fact, they have -- you probably are aware that some two and half, three months back, they have actually clamped down on a lot of illegal emigrants. In fact, they gathered them together, put them on planes and into jails and then send them all out.

The resultant is also that, there have not been -- we are facing visa issues definitely in Saudi, we are not able to get sufficient number of visas. The government has now appointed (inaudible) to try and see how the visas can be managed. I'm still not sure how that'll actually play out, but one thing I'm sure is that, this whole visa bargain game in KSA is going to be much more expensive. That seems to be the writing on the wall.

Deepak Agarwala, Analyst

Okay, so --.

Operator

Sorry to interrupt to Mr. Agarwala. May we request you to come back in queue for follow-up question.

Deepak Agarwala, Analyst

Yeah, just continuing this. Just last thing on.

Operator

Okay, sure.

Deepak Agarwala, Analyst

Does it really mean that we are having a revisit on our strategy for Saudi Arabia in the --?

Anil George, President, Corporate Affairs & CFO

We really need to see, because revisit of strategy is for most companies which are -- is almost a regular affair, because when things don't work out the way that we expected or there are being things that have moved in the environment which is far beyond our control, we have to revisit strategy, we have to look through again.

At this particular point of time, I would be personally very hesitant taking up some very large project in Saudi without the assurance of visas. Because one side -- take up a project, it is my responsibility to complete as might become a problem for me, yeah.
So I have to exceptionally careful about this and it will be a bit of an impediment going forward at least in Saudi. In places like Qatar etcetera, we are able to manage as of now, although it's a little more expensive but we are able to manage.

Deepak Agarwala, Analyst

Okay. I'll come back in the queue. Thanks a lot.

Operator

Thank you. The next question is from the line of Bobby Pauly from Tata Capital. Please go ahead.

Unidentified Participant

Good afternoon sir. This is Kaushik here. The first question would be on the kind of margins that you are seeing on the new projects being booked in India and abroad. What kind of EBIT margins can we accept going forward?

Anil George, President, Corporate Affairs & CFO

Yes, the booking margin and our expectation is that we have taken these new projects with at least a 5% margin at the very minimum. And it's our hope that as we go forward and progress the projects, there will be more variations etcetera which will help us to work that up, yeah. But that is about the new projects and the results that we report is of course a mix and a blend of the old legacy projects and the new projects.

Unidentified Participant

So is this both in India and Middle East, sir? 5%?

Anil George, President, Corporate Affairs & CFO

India the margins are a little better, but the problem with the Indian projects are that many of these projects are getting delayed, yeah, because of all the uncertainty that you see around you, they are getting delayed. And in India there is nothing like an extension of time claim etcetera, so we have to be very careful as to how we manage it.

But the short answer to your question, at least 5% is what we are aiming.

Unidentified Participant

Okay. Right, sir. And my second one would be on your segment results. As I see it, if I sum up your results, it would seem that the other income is also, some are flowing into the segments, would I -- am I right?

Anil George, President, Corporate Affairs & CFO

This is -- the unallocated remains as unallocated. For example, the interest that I get on the mutual funds etcetera or the dividends or whatever it is, they remain unallocated. They don't flow through.
Sir, but just for this quarter where your other income is about 17 crores and then EBIT above that is 62, totally 79; and if sum up your segment results, the number is about 78 crores, which is fairly close. So is that 17 crores, some are flowing into your segments?

Anil George, President, Corporate Affairs & CFO

No, no, no. It doesn't flow and there is a lot of adjustments, which what I suggest is just come across and sit with Utsav and he'll explain it to you.

Unidentified Participant

Sure, sir. Thanks.

Operator

Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni, Analyst

Yeah, thanks a lot for taking my question sir. Sir, my first question is pertaining to the first segment where we've seen almost for the last five, six quarters, we're seeing a decline in topline. Now, given the fact that we want to be a lot more conservative when it comes to the bidding margins, I just wanted to get a sense as to what the management is thinking in terms of topline in that segment? Or would it be fair to assume that this segment is going to remain fairly muted whereas we are looking at more growth coming in from other segments? So if you could just highlight what your thoughts are about topline growth in that particular segment?

Anil George, President, Corporate Affairs & CFO

See, as a business we would definitely like to grow our topline, but as a business again, we don't want to grow the topline at the cost of our bottom line, yeah, or cash. What has happened is that because of all the things that has happened in the environment etcetera, the risk patterns and what we are able to do and what we are able to sustain and the final this thing has changed considerably from the boom periods of 2008/2009 to what we are seeing today.

As a result, what happens is that we have to be necessarily a little more muted, a little more muted, a little more cautious about the kind of orders that we take, yeah. For example, just to mention to you, when the Dubai burst happened, we moved out of Dubai almost about one and a half years before, we stopped taking orders there, yeah. This in retrospect has actually saved us quite a lot of money because we would have lost out on those.

Similarly, at this point of time with the change in the environment, many of the people who are taking projects are not able to successfully complete and come out of it in, with flying colors. And we have therefore strategically decided that we will go a little bit slow, we will be more conscious of the bottom line and the profitability and recovery of cash rather than a single minded attention to just growing the turnover.

So to answer your question in a different way, yes, I am seeing the topline of the project business rather muted, yeah, going forward. We will -- we have started picking up orders now in the coming quarter and the quarters ahead, we hope to be picking up more orders and as it goes, as the year goes past, we will be picking up and gaining more traction in terms of our topline in segment A.

Sure, sir. That's helpful. Just one more question. Could you also discuss what is the order book size for Rohini right now and if you could also talk about profitability there?

Anil George, President, Corporate Affairs & CFO

Yeah, Rohini, this quarter, we ended up with, something like a marginal loss of something like about less than INR1 crore. The order book is close to about 109 crores, we have also got some LOI etcetera in this quarter which we will be reporting in the next quarter.

In the meantime what has happened is that, we have got out of the shareholders -- the previous owners had a shareholding, we have got out of that, so it is now more or less 100%, it is not more or less, it is a 100% subsidiary for us. And that also gives us certain flexibility as we go in, in terms of synergies as well as in terms of other things that we can do with the project.

Pulkit Patni, Analyst

Sure. That's helpful. Thanks a lot sir.

Operator

Thank you. The next question is from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani, Analyst

Good evening, sir. Couple of questions from my end. First of all, as far as the AC division is concerned, the advertisement cost, if you can just -- I think someone did ask, if you can give us the number for this particular quarter last quarter and the same quarter last year as to what was the advertisement expenditure and --?

Anil George, President, Corporate Affairs & CFO

I don't want to be getting into what is specific advertising, next you'll ask me what is the salary that I pay to my COO -no, Nainesh, I don't think, I can go into that.

Nainesh Rajani, Analyst

No, the reason, sir, I was asking was because you mentioned that advertising expenses --?

Anil George, President, Corporate Affairs & CFO

I mentioned that as an overall thing, but then I don't want to go into specific thing, then the next thing would be that it will get into how much of it.

Nainesh Rajani, Analyst

Okay. So if I may put it this way.

Utsav Shah, Central F&C Services

These are classified information.

Nainesh Rajani, Analyst

No, no, if we can put it this way that, if advertisement expenditure continue at a rate which they have been at over the past few quarters, in case if there are no aberrations in advertisement expenditure, will these -- will 10% margins that you've indicated, will that still be sustainable is what we understand correctly.

Anil George, President, Corporate Affairs & CFO

Nainesh, as I was telling to someone earlier, see advertising is, one is that we've got strong brand proposition. Now, we are battling against strong Korean players at the other end, yeah, all of them who have deep pockets. So if, for example, in this season they come out with every break there is one advertisement that's screaming out saying that buy my AC, then I will also have to respond to it.

Nainesh Rajani, Analyst

No, no, I absolutely understand that. I absolutely do understand and appreciate that. So what I'm just saying is that, in case if that aberration does not happen to as deep an extent as one is anticipating, can we still say that the 10% margins, I mean normal advertisement expenditure and obviously some increase in the advertisement expenditure is -- would be expected. But having said, if it's on a normal basis, will we still be able to maintain a 10% margin which is what you've maintained?

Anil George, President, Corporate Affairs & CFO

Yeah.

Nainesh Rajani, Analyst

I didn't show you sir.

Anil George, President, Corporate Affairs & CFO

We'll be able to maintain, that's my -- our estimate, best estimate at this point of time is a margin of about 10% or so because we have done lots of correction. Up to last time I was saying something like about 8% to 9%.

Nainesh Rajani, Analyst

That's right. That's right. That's the reason I was -- because --.

Anil George, President, Corporate Affairs & CFO

Now certain changes have happened in the business, which is also, for example, better quality because of which I do not need to provide as much for the warranty claims as I used to provide for, more distribution, better sales of split air conditioners versus window air conditioners, all these things, and commercial refrigeration is peaking up. So all these things have given me a confidence that I will be able to do something like 10%, adverse and unexpected factors notwithstanding.

Nainesh Rajani, Analyst

Okay. Great, sir. That answers my one question. Sir, second question, just wanted to ask about the third -- the second segment. Sir, the revenues that you had from Caterpillar and others, how much do they contribute at this point of time of your total revenues and by when do you expect that to actually taper off?

Anil George, President, Corporate Affairs & CFO

Actually, question if you notice, we really don't give breakup of individual product lines.

Nainesh Rajani, Analyst

That's right, sir. Sir, but broad idea. Okay, if you can just throw some light in terms of will -- are you in talks with other principal agents that can help you? Obviously, you would be in talks. But at what stage that will help you compensate for any de-growth in revenues on account of Caterpillar which will be going out.

Anil George, President, Corporate Affairs & CFO

Over a period of time, it's not happening only this quarter.

Nainesh Rajani, Analyst

Okay. But over what period of time do you think you should be able to -- be able to compensate that decline in revenues?

Anil George, President, Corporate Affairs & CFO

Logically speaking, compensation obviously comes over a period of time, very difficult for us to share with you and say it will be in the next one quarter or two.

Nainesh Rajani, Analyst

Okay, okay.

Anil George, President, Corporate Affairs & CFO

It depends on how the market provides us the opportunity. In another words, what we are trying to say is that certain level of margins will be maintained in this business keeping in mind the challenges that we have and more importantly with the good mix of mining and textile.
Okay.

Anil George, President, Corporate Affairs & CFO

I think for the next few quarters this should not be worry.

Nainesh Rajani, Analyst

Okay. All right, sir. Just one more question from my end, if I may. It was about the first segment, I'm sorry if I missed on it. You mentioned about delay in couple of small projects that has resulted in slightly lower margins in the first segment. Can you quantify the size of these projects and by when do you expect them to be executed?

Anil George, President, Corporate Affairs & CFO

I only wish I could, but please also appreciate that all the projects progresses quarter after quarter, it's very difficult for me to actually sit down and say, okay, this is the X contribution for this quarter. But at the same time all we would like to say is that the whole focus is now to see how we can close the whole orders.

Nainesh Rajani, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

But unfortunately I think the environment which we are expecting to help us is not helping us the way we excepted as I mentioned earlier. In another words, I think we had to go through this motion in terms of the environment is concerned. However, our focus is bottom line, our focus is closing, our focus is more importantly now on the new projects and seeing how well we can complete 20% of those projects, so that you in the next few quarters will not ask me the same question.

Nainesh Rajani, Analyst

No, no, obviously, but at least the old orders, what proportion of them -- what proportion of this slow moving orders forms part of our international order book, at least if you can share that number with us then that'll be really great sir.

Utsav Shah, Central F&C Services

I think we'll have to leave it at saying that in any project size, yeah, of our nature, of this magnitude of the order book there will be a number of projects.

Nainesh Rajani, Analyst

Okay.
Some of them will be profit making, some of them will be loss making. Average is what you see on the P&L account.

Nainesh Rajani, Analyst

Okay.

Utsav Shah, Central F&C Services

And also you should not get carried away by what is reported in a particular quarter, because it would be misleading to say that.

Nainesh Rajani, Analyst

Absolutely.

Utsav Shah, Central F&C Services

Because, I have AS-7, I have claims that are going and suddenly -- let us just say that in case the Sidra works out well, I might get some write back.

Nainesh Rajani, Analyst

Absolutely, absolutely. I do agree and understand.

Utsav Shah, Central F&C Services

At that point of time, you can -- we are not looking at Sidra for that quarter and then saying this is a great performance.

Nainesh Rajani, Analyst

That's right, sir.

Anil George, President, Corporate Affairs & CFO

What we can do is that look at it vis-a-vis the two years of how it performed and then equate out and say that the average margin for this business has been so and so. So I'm a little reluctant to give these numbers because they are often misquoted and you will go wrong in the way that you estimate it, because there is -- it is not a product business where I know that I sell so much and this is the profitability that I'll get.

Nainesh Rajani, Analyst

Okay. All right, sir. No issues at all. Thanks a lot and all the very best, sir.
Thank you. The next question is from the line of Kashyap Pujara from Axis Capital. Please go ahead.

Kashyap Pujara, Analyst

Hi. Thanks for taking my question. Most of my questions have been answered. I think just wanted to underscore just couple of points. One is about the -- your normalized ad spends, like you were discussing earlier, what would be your, the absolute quantum of ad spend on the unitary cooling business that you are looking at? And how much that would add up in terms of percentage?

Anil George, President, Corporate Affairs & CFO

I would really love to give this, but please understand there is also competition listening to my conversation. So I think there are some information which is confidential.

Kashyap Pujara, Analyst

Yeah.

Anil George, President, Corporate Affairs & CFO

But more importantly what is, what Utsav mentioned in his brief, that the level of spent that we have done is directly proportionate to the sales that we have had here.

So the point that we are trying to say here, if we feel there is an opportunity, we will obviously spend more money. If we feel we need to maintain our market share, we'll obviously spend some money. If we feel that there is an opportunity without spending, then obviously we will not. And at the end of the day, the management focus is on bottom line.

Kashyap Pujara, Analyst

Correct.

Anil George, President, Corporate Affairs & CFO

And at this point of time, I think the business is fairly riding on the level of equity that seems to have build over a period of time. Please also notice that even the new product that we have launched is building on the high ground [ph] of energy efficiency that has been established as a brand for Voltas.

Kashyap Pujara, Analyst

Correct.

Anil George, President, Corporate Affairs & CFO

So at this point of time, we generally would not like to give you a quarter-to-quarter, but if you look at the annual level if you look at the trend, it's anywhere between 3% to 4% of the (inaudible) of the business.

Utsav Shah, Central F&C Services

Kashyap, last year we spent something like about 34 crores in terms of advertising totally, that's the balance sheet number.

Kashyap Pujara, Analyst

Correct.

Utsav Shah, Central F&C Services

Now, the reason why we are a little sensitive about it is that, because we have our own rates, we have this thing, we do not spend on advertising by employing cine stars and Bollywood stars etcetera. Our philosophy is different. We spend quite a lot of money in terms of customers -- consumer understanding and we have people like our local Mr. Murthy actually appealing to the TV viewers. So it's a very different kind of thing. And we have our own set up in terms of how to how we negotiate these things. I wouldn't want to get on to it in a quarter-to-quarter basis where someone is then looking at how many hours that you've got into and what it is, yeah.

Kashyap Pujara, Analyst

Fair enough. So I think we'll just go by your number that -- you believe that 10% margins on the AC business is sustainable.

Anil George, President, Corporate Affairs & CFO

That's more important.

Kashyap Pujara, Analyst

Yeah. And just coming to your engineering product division, I think what I just want to understand is while you mentioned that -- I think there were some 4.3 odd crores one-offs there. I mean, if I still look at it, your margins are way higher than what your normalized level that you've been talking off. So could you throw some light there as to how you see that going forward? Like, you did mention that you don't expect -- the sales could be lumpy and essentially you did give a brief there, but can you spend some, shed some more light there, how the margins and revenue can pan out.

Anil George, President, Corporate Affairs & CFO

On the mining and construction, I explained to you as to why we are seeing a spike in the EBITDA margin as well as the exceptional. This is not sustainable over a period of time, yeah, because these are one-offs, yeah. We've got the benefits at this thing and you go forward into next year, you'll find certain (inaudible) of the revenue because of the fact So we then put our force behind the new principal, we expand in the new geography, for example, we are now looking at East Africa as a possibility like we have gone in

Mozambique to try and shore up our revenues.

In the -- the task of any good management is not to, say, put up its hand and say that what can I do because cash has gone, my losses have gone or my profits have gone etcetera, that's not our way of management. We look at trying to open up alternate sources of revenue and that will be our approach. It is difficult in the next financial year to pick up the revenues back to the same level as it was, it'll be a gradual process as we see it.

Kashyap Pujara, Analyst

Okay, okay. And there 20% margins are sustainable basically?

Anil George, President, Corporate Affairs & CFO

18% to 20% should be doable, yes.

Kashyap Pujara, Analyst

Fine. I'm done with my questions. Just one -- wanted to just seek a reiteration from you on your first segment, like post this one-offs and losses are absorbed, typically by the second quarter of next year, what kind of normalized margin range can we expect?

Anil George, President, Corporate Affairs & CFO

If you look at, something like about 5% is what we would expect, yeah.

Kashyap Pujara, Analyst

Okay.

Anil George, President, Corporate Affairs & CFO

So we -- that we are looking at.

Kashyap Pujara, Analyst

Okay, fine. Thank you so much.

Operator

Thank you. Ladies and gentlemen due to time constraints that was our last question. I would now like to hand the floor over to Ms. Bhoomika Nair for closing comments.
Yes. Thank you everyone for making time out for the call, especially the management. Sir, thank you very much for answering all the queries.

Anil George, President, Corporate Affairs & CFO

Welcome.

Anil George, President, Corporate Affairs & CFO

Thank you.

Operator

Thank you. On behalf of IDFC Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.