"Voltas Limited Post Earnings Conference Call"

August 1, 2011

Vihari Purushothaman Good evening everybody, welcome to the Voltas Q1 FY12 results conference call. On the call we have with us Mr. Anil George – EVP, Corporate Affairs and CFO, Mr. B. N. Garudachar – GM, Corporate Communications and Investor Relations and Mr. Utsav Shah – CFO, Central SMC services. So without further ado, I will hand the call over to them. Mr. George, over to you, sir.

B.N.Garudachar Thank you Purushothaman. Purushothaman has already introduced the Voltas management. Let me not waste any time, I will call upon Mr Utsav Shah to briefly share with you the analysis of the Q1 results. Following which, we will have Mr Anil George answering all your queries, related to FY12 Q1 Results. Now over to Utsav.

Utsav Shah Good evening everybody. Voltas has begun the financial year 2011-12 under the shadow of an extra tough economic environment across most of the geographies, both national and international. In addition, unfavorable weather conditions posed significant challenges for our unitary cooling product (room air-conditioning) business which accounts for well over 40% of our revenues in this quarter. Against this difficult backdrop, the company contained its top-line shortfall and managed its bottom-line to deliver a respectable EBITDA margin of 9.5%.

The Turnover of the Company on a consolidated basis was Rs.1346 crs, 4% below the comparable quarter in the previous year and 1% ahead in stand-alone terms. Consolidated EBIT declined by 19% to Rs. 114 crs against Rs. 141 crs earlier. The Company earned Rs. 3.98 per share as compared to Rs. 2.82 per share over previous year, same quarter. The sharp increase is mainly attributable to an exceptional gain of Rs. 79 crs arising from the transfer of the Material Handling business.

A snapshot of the results for the quarter at Consolidated and Stand-alone level are given below :-

	Consolidated		Stand-alone	
	CY	PY	CY	PY
Increase in TO	-4%	13%	1%	17%
EBITDA Margin	9.5%	11.4%	8.6%	10.7%
Increase in Profit before Exceptional Items	-21%	19%	-19%	16%
Increase in PBT	39%	16%	47%	12%
Increase in PAT	41%	18%	49%	15%
Taxation as percentage of PBT	31%	31%	32%	32%
Positive EVA	1.19%	22.27%	0.23%	21.86%
EPS (Re.)	3.98	2.82	3.80	2.56
EPS before Excep. items net of tax (Re.)	1.52	2.84	1.34	2.58
Turnover per Rupee of Employee Cost (Rs.)				
- Domestic	NA	NA	22/-	21/-
- International	NA	NA	4/-	5/-
Return on Net Worth (w/o Excep. Items)	14%	32%	13%	32%
Debt / Equity ratio	0.14	0.06	0.13	0.04

The Voltas Balance Sheet remains strong with Shareholders' equity at Rs. 1495 crs against Rs. 1362 crs for the comparable period last year. The increase in Debt to Equity Ratio to 0.14 indicates higher borrowings of Rs 135 crs, mainly from Overseas operations. The Company's liquidity position continues to be comfortable with cash and bank balances at approx. Rs. 344 crs and liquid investments aggregating Rs. 395 crs against Rs. 377 crs as at end of June last year.

Consolidated Segment results for the Quarter :

Segment Reporting	Qtr-1		% Growth over Pr. Yr
	Jun-2011	Jun-2010	
1. Revenue			
Segment A : Eng. Projects	677	693	-2%
Segment B : Eng. Products	97	120	-19%
Segment C : Unitary Cooling	563	587	-4%
Others	10	4	160%
Less : Inter segment revenue	1		79%
Net Revenue from Operations	1346	1403	-4%
2. Segment Results			
Segment A : Eng. Projects	31	59	-47%
Segment B : Eng. Products	17	28	-38%
Segment C : Unitary Cooling	64	55	16%
Others	2		1854%
Total	114	141	-19%
3. Capital Employed			
Segment A : Eng. Projects	616	260	
Segment B : Eng. Products	79	99	
Segment C : Unitary Cooling	259	49	
Others	23	8	

We present below our detailed comments on the performance and future outlook of the various business segments that we operate in.

ANALYSIS OF SEGMENT REVENUE AND RESULTS AND OUTLOOK:

Segment A - Electro-mechanical Projects & Services

Consolidated Turnover of Segment A for Q1 was lower by Rs.16 crs, a shortfall of 2% over the comparable quarter in the previous year, primarily on account of Rohini where the shortfall was Rs. 29 crs.

As you are aware, the Company is going through a challenging year in the Project Segment, particularly where international operations are concerned. Of late, certain projects at Qatar have gathered momentum and we are witnessing rushed clearance of design drawings combined with the announcement of firm completion deadlines. In any given project environment, a sudden step-up of activity impinges on internal planning mechanisms resulting in increased cost of material, labour and other resource procurement. At the same time, execution also becomes more complicated leading to cost overruns and a consequent strain on profitability which needs to be appropriately recognized.

Lower margins (5% as compared to 9% earlier) were thus evidenced affected by increased cost and cost to come estimates of certain International Projects and a Rs. 4 crs negative swing at Rohini. Standalone Domestic projects contributed positively via improved control of staff-costs and other overheads, profitable finalization of some major AMC renewals, etc. However, Capital employed in segment A has disproportionately increased, largely a consequence of slower collections, lower advances available (due to slower intake of new orders), some increase in on-site inventory and slower clearance of certifications.

The lower volume of available business in our established international geographies, has resulted in intense competition amongst players for garnering business. We see a reduction in available margins in the potential business. At the same time, the political unrest in the Middle East and North African region has also affected overall sentiments.

In this adverse environment, our consolidated international order book has not grown as per our expectation. As against Rs. 3514 crs as of 30th June, 2010, we now have a carry forward of Rs. 2634 crs which, however, provides adequate cover for the year 2011-12. It may be also noted that the revenues generated from the order book go up due to variations and claims that arise during the execution of the project. Order book and revenues also get impacted by the fluctuations in the rate of exchange from time to time.

In contrast, the consolidated order booking situation in the domestic Projects market, including Water Business & Rohini, has been healthy and the carry forward position has risen from Rs.1493 crs to Rs.1919 crs, an increase of 29%. Major projects include Airports at Kolkata and Chennai, Metro Rail in Chennai, AIIMS Hospitals in Delhi, Formula 1 in NOIDA, Tata Consultancy Projects in Gandhi Nagar, Chennai, etc.

Rohini's stand-alone order book amounts to Rs. 228 crs. This provides a strong base for the growth in the revenues in the remaining part of year 2011-12. The lower performance in Q1 is due to the impact of erstwhile low / nil margin jobs which are now mostly completed. New jobs have been booked with adequate margins and we expect that the position will consolidate and that the company will not incur any additional loss during the current year. A task force has been specifically appointed to focus on collection of old receivables.

The Company's Water business has not only shown good growth, but also has a strong carry forward order book of Rs.197 crs as at end of this Quarter. The business is currently ramping up its execution capability, stepping up the pace and investing behind development of trained resources.

Outlook : Attractive long-term opportunities exist and, without losing sight of reasonable margins, the Company is aggressively bidding for several tenders both overseas and in India.

In the international market, the award of certain major projects such as the Louvre Museum, Al-Ain Hospital, Abu Dhabi, Airport, etc., by the local Govt. has got delayed. As part of forward strategy, large projects above a certain value will be bid in partnership with other strong players, thereby increasing our combined chances of winning these projects as and when these fructify. The Management is hopeful of booking adequate orders for 2012-13, particularly in view of our expanded geographical presence thru two new Joint Ventures in Kingdom of Saudi Arabia and Oman and in the Far East.

In the Indian market, the major concerns and challenges are related to inflation, resultant increase in wage levels, the spike in commodity prices and dropping IIP numbers. The Domestic project Business has consequently seen a slowdown in the built environment and margins remain compressed due to MEP projects now being finalized through Main contractors. There are opportunities for O&M contracts for MEP scope of technical services. We are also seeing some level of enquiries in Urban Infrastructure & Industrial Sectors, Process Chiller segment and for VRF system supporting the growth of Premium Residences. The focus is therefore on enhancing operating effectiveness, in order to continue to do well in this business environment.

Although comparatively small today, the Company's Water business has shown good growth, has built its order book and is expected to become a major growth driver for the Company in the coming years. Together with building capability, the business plans to extend its reach beyond the Eastern market. Significant investments for treatment plants in Power, Steel and Municipal sectors are envisaged.

Segment B - Engineering Products & Services

The Company has transferred its Materials Handling (MH) business to a joint venture company - Voltas Material Handling Private Limited, effective 1st May, 2011 which makes revenue and results of current quarter non-comparable to the previous year. Transfer of MH business has contributed to an exceptional gain of Rs. 79.4 crores. During the quarter, the Company has also incurred a one-time cost of Rs. 1.7 crores at operating level, arising out of this transfer.

The Textile Machinery Business enjoying a market share of 70% in the spinning segment has continued its good performance during the quarter. The fluctuations and drop in prices of yarn, cotton and polyester pose a major challenge to this industry. We are reliably told that there is, in fact, a cash loss situation for many mills who had procured raw material at high prices. Tirupur, which consumes 20% of the yarn production, is also impacted by pollution compliance related issues.

For the moment, we have a healthy order book, but the situation will need to be watched for business sentiment. TUF has been re introduced w.e.f. May 2011 and would hopefully help to reduce the negative sentiments on forward investments. GOI announcements covering Duty Drawback / DEPB for the spinning industry would generate some added impetus to correct sentiment. Voltas has, during the Qtr satisfactorily concluded the extension of its selling agency agreement with its key principal Lakshmi Machine Works (LMW) for a further period of 5 years upto March 2016.

The Mining and Construction equipment business is challenged as several client companies are facing delays in obtaining environment and Forest clearance. The company continues to earn revenue from Mozambique operations commenced last year and is gearing up to increase its business in the African territory. However, some of the international Principals represented by us have sold their businesses and we await clarity about the future of the distribution plans for India. In the meantime, Singrauli workshop construction has started which should help support our case for dealership.

Apart from environmental issues impeding growth of mining, the markets for Engineering Products and Services remain uncertain due to the falling IIP numbers, particularly for Capital goods.

Segment C - Unitary Cooling Products for Comfort and Commercial

Sales volume all across the Room AC Industry in India was impacted during the first quarter by unfavorable weather and the general economic downturn. However, within this constraint, Voltas has indeed recorded good progress. The Gfk-Nielsen secondary market share data for June released late last week, now formally confirms Voltas' number 2 position in the market with a share of 18.8%. It is also gratifying to note that our market share increase has been steady and consistent – over the past 15 months, Voltas has added some 380 bps to its share which has come mainly at the expense of other lead competitors.

While the drop in Industry volume during the first quarter is estimated to be well ahead of 15%, Voltas has successfully managed to contain its volume shortfall at 11%. More importantly, revenue in absolute terms is down by only 4%, indicative of the strength and ability of our brand proposition to extract better price realization across the range of our products. Total Segment results have grown by 16% over the previous period and margins are up by 200 bps to a comfortable 11.3%, following a series of cost reduction and bottom-line improvement measures initiated by the business.

On the flip side, the business has seen a substantial increase in Capital engagement to Rs. 259 crs, largely representing inventory built up as a consequence of weather-related factors. Sales volume of Commercial refrigeration products (water dispensers, visi-coolers, etc) have also been impacted by the lukewarm summer and rainy weather.

Outlook : In the shorter term, continuing inflationary pressures and high interest rates is expected to have an impact on this business. Upward volatility of commodity prices is a further matter of concern and will need to be carefully watched and passed on wherever possible. Margin pressures are unavoidable and are not helped by the fact that the industry as a whole faces the problem of high inventory levels. Combined with the increasing cost of capital, this could going forward, result in higher discounting to liquidate unsold stock. The market is also getting increasingly fragmented with the entry of new players - the top 3 players now account for roughly 60% of the total opportunity as compared to greater than 65% some months ago.

However, the longer term prognosis for the AC industry remains robust. Higher consumer incomes are becoming less exclusive to Metros - the forward outlook cannot but be seen other than in the context of low per-capita usage, better national power availability, relative affordability of air-conditioning products and several other positive social and aspirational factors. With an eye on the future, Management at Voltas is working on additional strategies to further improve our market share, particularly in certain zones where we are can derive further mileage. Our initiatives also include the preparation and implementation of a longer term customer service road-map.

Overall

From the foregoing, it would be clear that there are many shorter term uncertainties prevalent in the market spanning various segments of our business. While many of these are unfortunately external to our business, there are several underlying opportunities as well. We believe that the longer term story both in India and the Middle East will be strong, generating profitable business opportunities for those organizations that can transform and become more 'fit to compete'. In this context, we have consciously initiated a series of cost optimization measures, whilst placing a higher emphasis on controlling capital engagement in various businesses. At the same time, several new tenders are in the pipeline and we are hopeful of procuring new orders at acceptable margins. Forward liquidity position is likely to remain comfortable and the Management is cautiously optimistic about future growth in revenues and profits.

B.N.Garudachar Thank you Utsav for the detail analysis of the Voltas Q1 FY12 results. We will now look forward to the participant's response. Mr. George will be most happy to respond to there queries.

Nilesh Shetty For Segment A (Electro-mechanical Projects), the last 4 or 5 quarters has been bad. Last year you were grabbling with Rohini and this year again the Qatar project seems to be denting margins. Can you give us the sense, when can we see normalized margins in this segment and what is the order pipeline like in domestic and international?

Anil George Firstly as far as the order pipeline is concerned, we have already clarified that in the international business we have got an order book of 2634 crores, which gives the complete visibility for the current year 2011-12. We have also mentioned to you that we are bidding actively for several tenders. There is a lot of opportunity in the Middle East, but the problem that we are actually encountering, and indeed lot of other people are also facing, is that the margins are under pressure. As you know, we do not buy turnover, we want to look for decent margins in the projects. As you can clearly understand that, if you take a project at a low margin or with a small margin it can easily become a millstone around your neck and you will be much better not having those projects. So as a matter of strategy, Voltas will always look for good projects, good customers and people from whom we can expect the last drop of money that we are entitled to.

In the domestic segment, together with the water business and Rohini, we had an order book of Rs1493 crores last year which has now gone up to Rs 1919 crores, an increase of 29%. So what I am communicating to you is that the domestic business is moving in a fast pitch forward and very importantly many of these are good quality projects, for example, airports at Calcutta and Chennai, Metro rail, 3 AIIMS Hospitals, Formula1 race track, in Noida and a whole lot of good prestigious contracts where we expect to be able to get reasonable margins. Regarding Rohini, the fact is that in this quarter we find them stabilized and the order book for Rohini (included within the figure of Rs1919) is at Rs 228 crores, which is a reasonable order book and we believe that with the tapering of the old orders and the addition of new orders with better margins, going forward, we expect to see Rohini slowly but steadily moving to a level of margins that can be sustainable. For the year, as we have mentioned in the earlier con call and analyst meetings, we expect Rohini to breakeven.

In the international business, the question in our minds is how do you see the rest of the year panning out, ie in terms of 2011-12. We have got two projects in Qatar, which have been speeded up considerably. What is happening is that the number of design drawings that are required for the projects, puts the onus on us to be able to execute them very quickly. In most of them we have got firm completion dates. Therefore we are putting people, resources, and other things behind the project to complete them which then dictates a certain additional expenditure and that is what you see is reflected in the 1st quarter.

Nilesh Shetty Can you give the sense when can we see normalized margins in the segment on an annual basis, would it be similar to what we achieved in Q1?

Anil George From a longer-term perspective, on a sustainable basis, what we do look for is 7% margin. Now in the projects business, in the international business for example, you got something like around 26 projects at any point of time. It will be untruthful to say that all the 26 projects are profitable. It will be untruthful to say that all the 26 projects are negative, so all the time there is a bit of balance that goes on. So when you really look at the profitability of the segment, my own submission is that you should look at it at a longer-term period rather than quarter-to-quarter period. You might have achieved 5% during the quarter gone by, you might have something more in the next quarter, depending on how much variation has been certified, how much of payment are coming in, etc. So, on a longer-term basis the answer is that we are looking at a sustainable margin of 7% at least.

Nilesh Shetty Thanks a lot. Interest and depreciation cost have virtually doubled vis-à-vis last quarter a**s** well as Q1 of last year?

Anil George In the international projects, the fact is that, we have not had big inflow of projects, so as the bill gets settled the advances shown in the books are consumed, and become lower. Therefore you will find the capital employment is slightly higher. Equally, given the environment we exist in, both, in the domestic as well as international markets, collections are becoming a little bit difficult and this has affected not only Voltas, but companies across the industry. We are therefore focusing on improving our collections but it'll take a little bit of time.

Nilesh Shetty Why has depreciation doubled sequentially?

Utsav Shah Basically we have made a small change in the depreciation of assets regarding the projects, instead of doing it on a straight line basis over a limited period as specified in the Company's Act, based on the advice of our statutory auditors, we are now depreciating the assets for the useful life of the project. And on account of that there is greater charge in the quarter on the depreciation of assets by about 4%.

Nilesh Shetty In segment B (Engineering Product and Projects), what I understand was that MH business, which adds to the turnover was being hived off and the agency business is what remains. Should not margins be higher in the segment compared to what we have witnessed in the 1st quarters?

Utsav Shah The margins are still fairly good here. If you really look at it, we actually have a margin of about 18%. That is a very comfortable margin I would suggest.

Nilesh Shetty But given that yoy it is still lower substantially. Considering that the manufacturing business is not a part of post-Q1 of this year? Would it not be decently high?

Utsav Shah We have incurred a one-time cost of about Rs.1.7 crores in the segment on transfer of the Materials Handling business, if you exclude that, we think there is a reasonable improvement compared to the same period last year.

Ketan Jain Last week one of our domestic competitor on the project side reported the numbers and operating parameters were far weaker, so just wanted to get a sense of whether you are also seeing such kind of impact in your domestic business.

Anil George Firstly, as a matter of policy we do not comment on our competitor's performance. You have your phone calls with them and they will tell you how good their performance is. And what are the markets that they are seeing. As far as we're concerned I think Mr Shah also covered it as part of the earlier presentation, Despite all the IIP numbers going down, higher interest rates, higher commodity cost, etc., we are still seeing a certain amount of traction in the domestic projects. In fact that is why you can see the order book also has gone up. This is party because we are also getting out of our comfort zone and getting into a little more of the industrial segment and that I think is rewarding us in terms of rich dividends. At the same time I think the business management is looking very carefully at reducing costs, trying to exploit synergies and doing whatever it takes to be able to get ahead, because we clearly see the environment being difficult, cash will not be easy to come by, therefore, you have to do whatever it is possible within the constraints of your own business and leave the external to take care of itself, I think this strategy, being executed for past 6 to 8 months, is beginning to have great amount of traction and is beginning to work. So as far as the domestic segment is concerned we are not saying that we will not be able to get orders. We're seeing a fairly comfortable kind of situation going forward, considering a number of inquiries that are coming our way.

Ketan Jain Sir, do you believe that the operating margins has structurally come down since the last three years, partly because of the MNC competition and partly because of the lower activity in the overall market, so maybe for one job lots of people are eyeing for it, so how do you see the margin, on the domestic project side and what is the scenario on business?

Anil George Competition is a fact of life I do not think we can wish it away. And even if you're able to make extraordinary profits the nature and the rule of business is that you will not be able to sustain those extraordinary profits for an extended period of time. Sooner or later there will be new entrants there'll be competition and people will push the price down. So what is an intelligent logical company do? What it does is, it grabs onto these orders and works on its own internal systems trying to fine tune them, extract whatever savings that it can and try and deliver the good quality at cheaper and better cost. That is the kind of approach that we would largely take rather than worrying too much about the competition. And when there is extraordinary competition we believe that the market will also grow. And that is good for the business as a whole.

Ketan Jain What kind of OPM on the domestic project business do you see in the next one or two years?

Anil George We are again looking at something around 7% on a longer-term sustainable basis.

Ketan Jain **O**n the domestic side of the business, what are the drivers or the end-users which will keep on supporting the business in terms of order inflows amid these rising interest rate environment ?

Anil George Largely I would say that the Indian infrastructure story on a longer-term basis is extremely strong. You will of course have ups and downs, but they are I think a temporary problem. Over a longer period of time, when you look at the five-year plan numbers, you will find that there is a substantial amount of money that has been devoted for infrastructure development. To quote some figures in terms of planned investments in infrastructure. They are Rs.150 million in power, Rs. 80 billion in roads and highways, Rs. 65 million for railways, Rs. 32 million for ports and Rs. 8 million for airports. So I believe that it must drive at some point of time. So there'll be government expenditure, we think that the longer-term story is intact and we think that we will be able to compete as well. In fact, we are actually looking beyond the building segment and going more and more into urban infrastructure and industrial segments which has good potential for our type of work. Equally, there is a very strong impetus for consumption to grow in the domestic market. It might be a matter of one or two years, for the markets to revive, but with the elections coming on we expect to see some traction on Government spending even earlier.

Ketan Jain When you say that the MEP project now being finalized through main contractor, what do you mean by that?

Utsav Shah Basically, it would be like the international business in MEP, We are into only the HVAC, plumbing and electrical segment. The main contractor will always be the civil contractor. So the project is normally awarded to the main contractor which is the civil contractor and in turn the civil contractor finalizes the project with the air-conditioning, electrical and plumbing contractors. So we will always be subcontractors to the main contractor.

Sachin Trivedi In reference to the transfer of the MH business to the JV, can we know what is the total consideration at which it has been transferred?

Utsav Shah The total consideration was 110 crores.

Sachin Trivedi **W**ith respect to your opening remarks you said that in the international contracts you have done some provisioning with respect to cost escalations. Can you quantify what is the provisioning done? Is there any likely provisioning in the future?

Anil George Firstly we would not like to specify and get into specific details of the project and what we have done as provision. The company operates on a very fine control system, internal control mechanism where every quarter there is an assessment that is taken, of the costs already incurred and the cost to come. As I mentioned we have two projects in the Qatar, which have been speeded up and when we really look at the cost to come vis-à-vis the costs that have already been incurred, we needed to revise our cost and probability statement and we therefore see the impact of that coming into the books of proprietary. This does not necessarily mean that there should be a repeating factor quarter-after-quarter, neither does it mean that it will totally go away. We will review the situation quarter-by-quarter and we will keep you informed of the progress.

Sachin Trivedi **M**y understanding is that when there is a client request to change the design, probably he is also willing to pay for that, maybe at some point of time later. So is it at the end of the cycle or you can start recovering with the billing? How does it happen if you can just give some broad indication?

Utsav Shah Variations are generally taken up after the project has been delivered and completed. ie. at the end of the cycle.

Sachin Trivedi Is it possible to give breakup of the international order book, which we said is Rs 2600, country wise, so that we have ideas which countries you have how much?

Utsav Shah Qatar and Abu Dhabi contributes close to 90 to 95% and Singapore is 5%.

Kirti Dalvi Could you just elaborate a bit on Rohini Electricals? In terms of what they did in revenues as well as EBIT, because 29 crores is a swing, so if you could throw light on what are the actual numbers?

Anil George **In** Rohini, the last quarter we had a turnover of 58 crores and at the current year we have got 29 crores therefore there is the swing of 29 crores in the turnover. In terms of the profit we got a swing of 4 crores.

Kirti Dalvi What is the consolidated order inflow in Q1?

Anil George In the domestic EM&R business we have got about Rs 200 crores.

Kirti Dalvi **W**hat is the update on Calcutta and Chennai airport?

Anil George **Both** Chennai and Calcutta airport jobs are moving forward, and we are getting our revenues and profitability.

Kirti Dalvi **S**ir you did mention about 2 Qatar projects, which are these projects and how much balance work is pending in these two projects?

Anil George We will not be able to comment on how much of the work is pending, but regarding the two projects, one is the large hospital project which we spoke about. And the other one is the housing project called Barwa City. Phase 1.

Fatima Pacha Sorry to repeat the question but just wanted additional idea on the MEP Qatar project, I think you said, you are speeding it up, I think it's a 900 crore kind of project. I just want to confirm that you believe that there are some cost escalation and you have re-priced as you have re-assessed the entire cost of the project and loaded all the additional costs that you could potentially incur for this year in this quarter.

Utsav Shah Fatima, just to clarify to the best of our ability and knowledge whatever information we have based on that is what we have estimated.

Fatima Pacha Does that mean that whatever data you have today you should be back to your 7% margins from next quarter, assuming that there is no further cost escalation, right?

Utsav Shah I would not like to comment on that just now but we are certainly looking at a sustainable average margin of 7% over long-term.i.e.3-5 years

Fatima Pacha Will it be fair to say that the cost escalation has happened only in one of the Qatar project and most other projects are as per our original plan?

Anil George I think no project actually goes as per the original plan. You take the project at a certain margin, the margins goes up based on the variations. Sometimes they come down but on an overall basis, annualized, we try to maintain our projects at certain percent sustainable margin. Regarding the specific two projects that we have got, you are absolutely right, we have done a cost estimate based in terms of what we can possibly foresee at this particular point of time and those numbers have been audited as we looked at and then we have taken the provision and we are conservative about it. Garud, little while ago also mentioned that there is a process of claiming variations. as the project goes forward we will also be putting up variations to the extent that we are allowed by the clients and the customers and the consultants those who also fetch us some amount of money as we go along. At this particular point of time the visibility what we have, we have reflected it in the books of accounts.

Fatima Pacha Can you give an idea of what is the bidding pipeline in the MENA region as of today, what could be the size, what do you think is the ordering activity looking like. Has things stabilized there. Is construction coming back?

Anil George In terms of the overall scenario in the Middle East, just look at it from a different kind of paradigm. You know, how oil prices are now shooting up and have maintained something like $100 plus for quite a long time. Now the average value that they look at, in terms of oil prices, is something around $ 60 for their internal budgeting purposes. So just take the balance $40 per barrel and multiply the million of barrels these countries actually produce on a daily basis and on a monthly basis, and on a weekly basis, you would realize that there is a lot of money available out there. The revolution that has taken place in certain geographies around the ME will also influence the rulers of the ME countries to invest more in terms of infrastructure and construction activities to develop a local economy supporting the there own population. If you take KSA by itself, the Government is talking about investing around $ 400 billion over the next five years. And around $ 86 billion of investment in 2011-12. . Similarly in Qatar, you have the FIFA, which is a growth driver. They have also planned an investment of around $123 billion over the next 10 years. These are all numbers that you can be seeing in the **MIR**.

Fatima Pacha What according to you is the ground reality?

Anil George I think that is a very good question. Actually some years back the profitability on some of these projects was extremely good. Over a period of time the clients have also recognized and realized that the profitability is little too much and so they are also demanding and cutting down the margins. Many of the projects have actually been retendered, re-quoted. So what is happening is that there is a certain amount of slowdown, there is a certain amount of indecisiveness in terms of the project actually hitting the ground but when those projects do hit the ground, we along with the other partners - particularly in the case of a mega type of project- will be there bidding for it .

Sumit Agarwal What is your current stake in Rohini, is it still 83% or you have acquired the entire 100%?

Anil George We are currently at 86%.

Sumit Agarwal When do you plan to acquire the balance stake? My understanding is that you would not be required to pay anything for the remaining 14%?

Anil George Yes, your understanding is right. That has been discussed with the ex promoters of the company and is being sorted out but we will not require to pay anything for the remaining 14%.

Fatima Pacha Wanted some clarification, you said the order inflow for this quarter was only Rs 200 crores, am I correct?

Anil George That is the order inflow for the domestic project business

Deepal Deliwala You have mentioned that your order book for the international business gives you enough coverage for the current year? Given the Qatar project, is it a fair assumption to make that they would execute the whole of it in FY12.

Anil George No, the Qatar project will extend into the next year also. And this is not the only project we are having in the Middle East, there are a number of other projects also, some you will be hearing as we go along into the next quarter. As we pick up new projects there will be a bit of book and build. There will be also other projects which we have booked in the last year, which will now be fructifying itself into larger volumes and larger turnover and profitability.

Deepal Deliwala So coming to my second question, on the Qatar project, as far as I understand, what has happened is you have executed the project with increased costs and you have the increased cost as a receivable from the clients. Once the project is close to completion, and the variation gets approved by the clients, this amount will get reversed in the balance sheet, is that why your capital employed has gone up?

Utsav Shah Just to clarify Deepal the increased costs is not booked as a receivable from the client.

Deepal Deliwala How are you booking it?

Utsav Shah It is just a provision made for cost to come, and cost incurred.

Deepal Deliwala Okay so you have basically knocked it off from the margins.

Utsav Shah Absolutely right, you can only book to a client once it is certified. Till that point of time you cannot show it as a receivable from the client. Typically any large international projects, the discussions on variations and extra work starts happening either towards the end of the project or only on completion of the project. So that aspect of it will only come after the project is completed, then you get into the discussions with the clients and as and when it gets certified you start showing it as receivables from the clients.

Deepal Deliwala Given that you have transferred the MHBD to a JV, you said that you have got Rs 1.7 crores of exceptional item in the current quarter, will your EBIT margin get adjusted to 20%

Utsav Shah Right.

Deepal Deliwala Will that continue?

Utsav Shah We expect to maintain a sustainable EBIT margin of 18%

Deepal Deliwala Regarding the unitary cooling product business, you have mentioned that margins could take a knock, given that you have inventory to liquidate. So what is the kind of margin outlook that you have for this segment going forward.

Anil George On a longer term sustainable basis, we will be happy to do 8.5%

Deepal Deliwala 8.5 % on the unitary cooling products business. But in the interim, this year, could you see some pain?

Anil George We have to watch these markets as they evolve. That is why I drew your attention to the fact that we have had poor whether situation in the 1st Quarter of the year, we had early rains. As a result there is a lot of inventory that has piled up across the length and breadth of the industry. How they will actually liquidate it, is what we need to see. Also the industry has witnessed a lot of fragmentation, so smaller players might not be able to hold on given the high interest scenario and they might actually resort to a bit of dumping into the market. Therefore, we want to share a little bit of caution but the good news which I want to emphasize is that we have been, over the past 15 months, improving our market share. 380 basis points improvement on market share is not something that is easily achievable. And we are now being formally acknowledged as being Number Two in the industry. We are very hopeful about the future. I think the business is doing all the right things. There are a number of initiatives that are being taken in terms of sourcing, customer service, and commercial activities to increase profitability. But having said that the nature of the business is such, that it is weather dependent, so we need a little bit of blessing from above, the weather gods, to be able to do well. But apart from that we will do everything that is within our control to make sure that this business grows and flourish.

Nilesh Shetty On the Unitary Cooling Products Division, Voltas' market share has gone up. Your note suggests that competitive intensity has also gone up, top three has lost market share. Even though it has been a bad quarter you have been able to maintain margins. Had it been a good quarter, in terms of revenue margins, would there have been double digit margin, because there is a large operating leverage?

Anil George This is a consumer based business. There are a lot of levers in the business and some of the levers include the commissions that you pay, the advertisement cost, and the other overheads that we incur, all these things actually move around in a kind of a circle. By managing these levers most effectively, we can get maximum output at the bottom-line. But having said that, if the volumes were far better, on the basis of what we had projected, we would have been able to report far better numbers.

Nilesh Shetty LG and Samsung have lost market share. Is it a trend which you think will continue, what has happened here?

Anil George The market leader LG's market share according to a study by GSK Nelson, which is now public knowledge, has actually declined and Samsung who was number 2 has also declined and we have been climbing slowly but steadily over the past few months and even beyond. We hope the trend continues

Nilesh Shetty Do you expect them to get more aggressive in terms of pricing because of the loss of market share?

Anil George Possible, but challenge in any business is that if your competition does something, we may not do the same thing, but respond appropriately and with strategically well thought measures.

Nilesh Shetty Considering long term, what is your sense of growth for the sector this year, in this segment?

Anil George Growth this year is weather dependent, but long term I think I can cross my heart and say that it is anywhere between 15-20% compounded year after year for the Room Air conditioner business.

Vihari Purushothamanan Thank you Mr. George, Mr. Garudachar, and Mr. Shah for joining us this evening. Ladies and gentlemen, thank you very much for being on the call.

Anil George On behalf of Voltas may I thank all the 85 plus participants who were there on the con-call. I would like to say that I do recognize that the time that we have provided for this interface has been limited but if you do have any questions, any other clarifications that you need, please do feel free to contact either Mr. Garudachar, Utsav Shah or myself and we will be more than happy to provide you those clarifications to you.