Q2 2012 Earnings Call – Voltas Dt-11 Nov'11

Operator

Ladies and gentlemen, good day and welcome to Q2 FY12 Results Conference Call of Voltas Limited hosted by Emkay Global Financial Services. We have with us on the call today, Mr. Anil George, EVP, Corporate Affairs and CFO; Mr. B N Garudachar, GM, Corporate Communications and Investor Relations; and Mr. Utsav Shah, CFO, Central F&C Services. Please note that this conference is being recorded. I will now like to hand the conference over to Mr. Pritesh Chadda Senior Research Analyst at Emkay Global. Thank you and over to you sir.

Pritesh Chadda

Thank you Marina. Good evening everybody. Thank you for joining us today. We would like to welcome the management of Voltas Limited and thank them for giving us the opportunity to host this 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 F&C Services.

I would now like handover the call to Mr. George, over to you sir for the opening remarks.

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

This is Garudachar on behalf of Voltas management also welcome you to Voltas Q3 results conference call. As you know, we have with us Anil George and Utsav Shah with us. May I now request Utsav Shah to share with you the analysis of the results for the quarter ended 30th September, 2011.

Utsav Shah, Chief Financial Officer, Central F&C Services

Good afternoon everybody. Voltas entered the second quarter of the current year in the wake of a very challenging and uncertain economic environment both domestically and international. Global economic crisis continued to cast it's shadow on all facets of our businesses applying currency and competition.

In the domestic arena as well, high interest rates and inflation are resulting in the deferment of capital investment and general economic slowdown indicative of an across the board negative sentiment. The general consumer austerity was reflected in sedate festival sales of the unitary cooling products. Unfortunately enhanced by a mild summer. Against this difficult backdrop, the company contained its top-line shortfall and manage its bottom-line to deliver an EBITDA margin of 4.5%.

The turnover of the company on a consolidated basis was at 1,102 crores, 3% above the comparable quarter in the previous year. Consolidated profit before interest and exceptional items declined to 41 crores as against 121 crores reported last year. The company earned 1.27 per share as compared to 2.79 per share in the previous year. The Voltas balance-sheet continued to remain strong with shareholder equity at 1,539 crores as against 1,268 crores for the comparable period last year.

The increase in debt equity ratio to 0.19 indicates a higher borrowing at 197 crores, mainly from overseas operations. The company's liquidity position is comfortable with cash and bank balances at approximately 333 crores and liquid investments aggregating 212 crores, as again 96 crores as at the end of September last year.

Segment A; Electro-mechanical Projects and Services. Lower volumes of business available in the company's established geographies has resulted in a much more intensified competition amongst players. Nevertheless, the consolidated turnover of the Electro-mechanical segment for Q1 at 762 crores was higher by 8% over the comparable quarter in the previous year.

International profitability continues to be adversely impacted by rising input cost, restrictive visa conditions and set backs and cash flows amplified by higher capital engagement. This is specifically evident in certain large iconic projects in Qatar, who's margins are also being squeezed either tightening of completion timelines. The faster tempo of execution including the complexity of sequential design and build projects has led to some un-budgeted cost overhangs.

While these are being contained to the extent possible, there is a probability that higher cost will continue to impact us over the next few quarters. Our consolidated international project order book stands at 2,642 crores. This does not however take into account additional revenues from variations and claims arising in the course of ongoing projects which are customary settled after completion.

It would also mentioned that we have recently secured an LOI for the large retail project in Abu Dhabi of around 500 crores which is not included in the order book as just said by me. Coming on the back of a number of prestigious MEP industry awards back last year in the UAE, we are happy to report a further significant achievement of now winning the MEP Contractor of the Year award in Qatar.

This should position us rather well to capitalize on the emerging opportunities as FIFA infrastructure preparations including the Metro

Rails and several other government led projects begin to crystallize. The consolidated order book situation in the domestic projects business including Water Management and Rohini has been consistently healthy and the carry forward position has risen from 1,545 crores to 1,819 crores which is an increase of 18%.

Notwithstanding the difficult environment, the domestic Electro-mechanical business has been successful in obtaining some good orders, in the health sector apart from our breakthrough order from GNFC for industrial refrigeration systems. Broader sales price realization has shown improvement on the back of an upward price connection. A greater The company has received much appreciation for it's outstanding contribution to the timely completion and delivery of HVAC electrical and plumbing systems for the recently opened, and internationally acclaimed Formula 1, (F1) circuit in Greater Noida. In the Water Management business, the order book shows an increase of 44% compared to the same period last year. Importantly the order book, excludes a sizable order of approximately 165 crores from TATA Steel, bid and successfully won against formidable competition in Q3.

At the same time, the business is growing its technological capabilities and has obtained its first order for Electrolysis based water treatment plants. The business is quite clearly stepping up the tempo while investing in the development of trained resources and ramping up its execution capability. The standalone order book of Rohini amounting to 260 crores which is 13% higher than the same period last year.

However, profitability fell short of expectation being impacted by the slow progress of some old jobs including a high values rural electrification job. At the same time, the high quantum of receivables amidst prolonged payment cycles is posing a challenge which is being addressed with the formation of specific teams charged with the responsibility of collecting old outstandings. A dedicated team has also been focusing on business development. It should hopefully result in a higher order book for Rohini as the quarters progress. Systems and operational processes are also increasingly now getting integrated with those of Voltas.

The current total order book of 4,461 crores for this segment wide revenue growth, visibility over the next 15 to 18 months. In addition, we have also indicated some of the large orders that we have secured in early Q3. While there is a definite slowdown in the international projects business, the more promising opportunities are within countries like Saudi Arabia, Qatar and Oman given their surplus oil and gas revenues.

Despite the economic slowdown, the Jasmine revolution has given an impetus to these GCC governments to use their accumulated reserves to maintain a certain level of minimum investment in infrastructure development for betterment of their economies. In the international markets, the major challenges relates to intense competition resulting in the completion of building margins. Apart from slow decision making and conscious postponement of awarding contracts. In fact, it is not uncommon to find several large projects being re-tendered at lower values and with more austere specifications.

That being said, business prospects appear to be emerging in UAE specially in the realty sector, Abu-Dhabi in the airport segment and KSA built environment and urban infrastructure such as King Abdullah Sports City et cetera. Its just Middle East presence augmented by JV's in both KSA and Oman, the company is pursuing an aggressive bidding strategy. The management is reasonably optimistic about booking adequate orders over the upcoming quarter, albeit at sedate margins.

In the domestic projects business, the more substantial prospects lie live in infrastructure development which continues to be prioritized by the government, considerable investments chocked out in the current 11th five year plan will necessarily be carry forward in to the 12th plan. While opportunities in the Built Environment Sector are expected to more than double in the next five years.

The segment includes healthcare, hospitality, education institutions, commercial and rental spaces and sporting venues amongst others with 50% of India's population expected to live in cities by 2025. There is also a pressing need to build and update infrastructure for water, power, urban mass transportation that is metro rail, sanitation et cetera. Although the pace of government decision making is currently constrained by corruption scandals, and other political considerations, we expect the thrust in capacity building, modernization of roads, railways, ports, civil aviation and the power sector to pick up and stabilize particularly in the run up to the crucial 2014 general elections.

There is of course another school of thought that anticipates a deeper crisis and a couple of years of greater economic turmoil before the business cycle turns and confidence begins to return. Be that as if it may. Voltas with its proven capabilities establish track record and balance-sheet resilience is well placed to capitalize and seize longer term growth opportunities as and when they appear.

Segment B, the Engineering Products and Services. The segment turnover at 120 crores declined by 5% over the same period last year. It is to be noted however, that the transfer of the materials handling business makes revenue and results of the current quarter not comparable to the same period in the previous year. Voltas textile machinery and mining and construction equipment divisions have contributed to higher segment revenue as compared to the same period last year. Segment results have however been under pressure specially in the mining and construction equipment business, primarily due to tough business conditions.

The general economic slowdown, inflation and high interest rates has significantly impacted investment sentiment and forward visibility is limited. Our IIP numbers indicates that the capital goods segment has been particularly volatile swinging from 38.2% in June to a negative 13.7% in July and returning to a mildly positive 3.9% in August and 1.9% in September. The poor face of environmental clearance for mines, specially in Karnataka, Goa, Orissa, MP has also particularly impacted the investment sentiment resulting in lower equipment sales and commission.

As announced earlier, there has been a consolidation among global equipment manufacturers Bucyrus and Letourneau are erstwhile principals been taken over Caterpillar and Joy respectively. Although we face tough competition from entrenched Indian distributors of the acquirers, we are in talks and continue to await formal clarity about their future plans. The Textile Machine Division has done better than the same period last year, while the pending order book robust, pace of replenishment has slowed down due to a significant profitability concerns in the user industry.

Although the government has announced it's intention to continue TUF beyond 2012, environmental problems at Tirupur and the change in business confidence, and investment sentiment may begin to it's toll in the forward quarters.

Segment C; Unitary cooling products were comfort in commercial use. Published GFK-Nielsen reports indicate that the total sales volume across the Room AC Industry in India has declined significantly in the second quarter. This downturn is firmly attributable to the significant impact of unfavourable weather duly compounded by the general economic downturn caused by soaring inflation across the full range of household consumables and high interest rates. The company's AC sale by volume has also declined, but lesser than that of the industry. We have strategically, partly compensated the AC downturn by a strong sales push across water coolers and other commercial refrigeration products that

we deal in. In essence, we have managed to contain our volume shortfall in the Unitary cooling business to 18%.

At the same time, the strength of the Voltas Brand has supported us in maintaining our price levels, in a highly competitive environment, resulting in a revenue decline of just 7% in the second quarter, much lesser than the industry average. At the same time Voltas has been able to sustain its number two position in the AC market with a share of 17.6% as at the end of the quarter. We have achieved the number 1 position in the Northern region as per the GFK-Nielsen Report and have aggressive plans to further build our market shares in other regions too.

The AC industry is also facing a turmoil of sorts with increasing fragmentation on the one hand and an extra aggressive play by lead players and Japanese competitors with deep pockets. They have also in the last 6 months exponentially increased their advertising spends and have significantly reduced unit prices. Although this has helped them gain some market share, they are still in and around the 5% level.

Voltas has responded to these challenges by also increasing its advertising spend considerably, but more importantly by concentrating on expanding its distribution reach and network into Tier II and Tier III towns. Considerable emphasis is being placed on strengthening our service capabilities for improved customer satisfaction for which we are working with various NGOs and a number of ITIs across the country. We have already trained and developed over 800 candidates from underprivileged sections of the society and are targeting 2,000 numbers by end 2012. This, apart from ensuring a sustainable livelihood for these youngsters, will help us in effectively expanding our service reach with localized infrastructure.

We are also concerned about the high levels of inventory across the industry which could lead to some players with cash constraints discounting their products. Although Voltas is also impacted by high inventory, our brand strength combined with nil borrowings provides a sense of resilience in holding firm in this environment. Upward volatility of commodity prices and a weak rupee is a further matter to be dealt with.

Long-term prospects for the AC industry remain highly promising. Household disposable incomes are rising, and spreading well beyond metros and large towns. More flexible consumer lending practices are creating a new generation of affluent middle-class consumers influenced considerably by lifestyles and tastes of developed countries. There is also better national power availability, a steady rise in home construction, and an upward trend in social and aspirational factors. Given increasing affordability of AC products and low market penetration 3% compared with 55% for TVs we see a sizable longer term growth opportunity.

As a company, we are well seized of the short-term challenges as well as the longer term opportunities in this segment of our business. Marketing and Product strategy is therefore continuously developed and dovetailed to respond to the expected changes in this dynamic market.

We have spoken about several short-term challenges and several long-term opportunities as well. The dull environment we currently see around us may continue to last for a few more quarters and there could be a possibility of further deterioration and the business cycle turning even more adverse. Our response in managing these developments will necessarily need to be swift and proactive. We are hence already engaged with various initiatives that will help in balancing the short term concerns, but without losing sight of our longer term prospects.

In certain parts of the business, we are aggressively cutting less productive costs whist retaining the capability to quickly ramp up as opportunities eventually arise. Although payment cycle elongation and working capital engagement is a given in the emerging environment, there are areas where we can manage better and cushion the impact of inflation. We will also use the current lull in business to build our internal people capabilities, on the one hand by recruiting new talent and on the other by training and developing our existing people resources.

The one thing we are confident about is that as a Company we are in the right kind of businesses which cannot but grow. This is because we remain conscious of the enormous quantum and type of investments that are being planned across both the domestically and international markets that we service. We have also spoken about the growing trends in consumerism that auger well for our cooling products. To sum up, we are definitely concerned about the short-term, but remain fairly optimistic about our future. Thank you.

Pritesh Chadda

Thank you Mr. Shah for the very detailed explanation of the analysis of the Q2 results of the company. Let me now move to the question-and-answer session. We have Mr. Anil George who will look forward to addressing and answering all the questions coming forward.

Questions And Answers

Operator

Thank you very much. Ladies and gentlemen we will now begin the question and answer session. [Operator Instructions].
The first question is from Sanjay Satpathy from DSB Merrill Lynch. Please go ahead.

Sanjay Satpathy

Hi sir. So, first of all just I want to know how do you explain the margin of the unitary cooling product business to be low and also the second one is related to the MEP business, where you're talking about the cost overrun. Can we understand what exactly is the amount of cost overrun and whatever chances of you getting it back from your key

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

Let me first tackle your question. Thank you for that question. I think it will help to also, this question must be at the tongue tips of many participants. So, thank you for asking that question. Firstly on the unitary cooling product business, one of the things that I think we have mentioned very clearly is that, there have been a very significant impact of weather.

We have seen a prolonged monsoon. We have see a very weak start of summer itself. And the first two quarters anyways are not too very hot as far as our sales are concerned. Now, this is a business that is highly volume sensitive. If you do not sell that many number of air-conditioners there is indeed a difficulty in absorbing your fixed cost and making sure that a certain portion really falls down to the bottom-line.

Now, what has really happened is as I have mentioned in the note here, if you really look at the published GFK news and reports, actually the total air-conditioning industry in second quarter that is from June, July, August, September has actually declined by something like over 50% in terms of volume terms. And this is not just Voltas, this is across the lengths and breadth of the industry.

Now, as far as we are concerned, we have been able to restrict our impact by doing several things. One is that we have actually been able -- we have a product range that also goes into commercial refrigeration.....

Operator

Please go ahead sir.

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

So what we have actually done is that we have been able to sustain the volume by also pushing up the sales of the other commercial refrigeration products and visicoolers et cetera that we have. And as a result, we have been able to contain our volume shortfall for the entire unitary cooling business to just 18%, one.

Number two is that because of the brand strength that we enjoy, we have been able to again contain the revenue decline to just 7%. We have not sold as many number of volume of air conditioners and machines as we could, we obviously have a problem in being able to protect our fixed cost and own it completely.

Secondly, we've also had maintained the tempo of advertising expense because that is very important for the longer term success of our business. Because here we are talking about a consumer business which needs a certain brand. So therefore, despite the fact that we might not be selling as many number of air conditioners, we still need to incur these costs in air-conditioners, in advertising for air-conditioners. So these are the two fundamental things, volume and advertising expense that has really made a difference.

A third factor is that the cost of production in terms of raw materials and commodity costs et cetera have also got it. So it's a combination of all these things.

In a quarter, where we can see huge volumes, there will no problem as far as the bottom-line is concerned. If you then look at the consolidated half year results, you will see that we have got a margin of something like 8.5% flat for the first year in the air-conditioning business. So that's the answer to your first question. The second question is that should I move on to the second question on any of your business?
Sir, on AC business, just wondering a bit more clarification. We know that this room AC business is fairly seasonal for you and the company has operated at lower revenue level earlier also. But the margin never used to be this low, the other thing that wanted to clarify is that are we saying that the June quarter number was at the margin or somewhat overstated and hence one should be looking at the overall H1 number?

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

I'm not saying, I'm just saying that in the quarter two you have to understand the result as a consequent of the volume that we have sold. Yeah? So if you have a quarter with a very high volume, because growth margin into per unit multiplied into the number of units we have sold, provides you with that much of capacity to absorb fixed cost and advertising and promotions and everything else.

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

So, if you don't have those volumes and as the interest itself has not had the volumes in the second quarter. Everyone has fallen short.

Sanjay Satpathy

Okay. I mean sorry to kind of repeat the question there. What I am trying to say here is that we have heard Voltas has brought down its breakable level in the room AC business quite substantially by going to low cost assembly in Patnagar. And secondly, while in September quarter your revenue was about 2011 crore which I understand includes lot of other things. You have had much lower revenue even in the past for similar quarter, but the margin never used to be this low.

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

But the point is that we have also spent on advertising and promotion. We have decided that we will not cut down on advertising and promotion and put a question mark on the future of our brand.

Sanjay Satpathy

Is it during off season.

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

We also understand that the competitive scenario is also becoming very acute. The more number of players, more number of aggressive players, more number of players who have de-pocket coming into this business. Obviously, the Japanese are also coming in. The advertising spend will have to be related to the environment that we are in.
Understood, understood. And if you can just touch upon the MEP business?

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

The question that you really had is that what is the cost overrun in the MEP business, right?

Sanjay Satpathy

Right.

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

The first thing that I must say is that the MEP business is comprised of two major partner. One is the domestic and one is the international.

Sanjay Satpathy

Yeah.

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

And as Utsav clarify in his earlier presentation, the problem has gravitated around the international business. And mention also in the last time's concall that we're having two projects Sidra and Barwa in Qatar where we are having a certain amount of difficulties because of the speeding up of the projects.

The first project Sidra is a design and build project and we have necessarily incurred certain overrun in cost. And what we do as a regular accounting process is that we look at what are the costs that are already incurred, what are the costs that are anticipated to come. And if you see, if you think that the cost anticipated to come and complete in the project, is going to be more we take as a matter of abundant proportion and good accounting practice we create those provisions. So we have done these two projects which is explaining the shortfall in the results of the MEP segment.

Sanjay Satpathy

When are these projects likely to be completely?

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

The Sidra 1 is supposed to be completed in June. Yeah. But there could be some bit of delay because we must also understand that we are in a sense dependent upon other contractors finishing their job also unless the civil has finished, The second thing is in many of these cases, we do not at this particular point of time take in provisions or profit based on variations if they are not certified. Once they are certified, we take them in to our books and very often in the Middle-East specific environment, the variations get settled at the end of the project. So it does not necessarily mean that the project is heading in a very, in certain directions that cannot be reversed or cannot change along the line. Yeah. But as for the moment, we have a problem in the Sidra and Barwa, Sidra project particularly and in the Barwa projects were we have had to take lower margins.

Sanjay Satpathy

Sir just, I mean the Sidra project having done all the things that we have in terms of accounting. Do you think the margin will improve from December quarter onwards or it will be like this till the time the settlement is done?

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

I am not in a position nor do I know sufficiently enough to be able to give an affirmative action or other thing because much depends upon how the project itself progress.

Sanjay Satpathy

Okay.

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

As the project progress, the one thing that you should be assured about is that every quarter when we look at it, we look at it very critically and whatever needs to be provided or whatever needs to be taken back we will do that. Yeah.

Sanjay Satpathy

Understood. Can I just ask one basic number that is how much revenue came from international MEP and how much from domestic this quarter?

Utsav Shah, Chief Financial Officer, Central F&C Services

Yeah, this is Utsav here. Can I get back to you after this concall on this.

Sanjay Satpathy

Surely. Then that's it from my side sir.
Thank you. Next question please.

Operator

Thank you. The next question is from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal

Sir how much of your sales came from these two projects in Qatar in this quarter?

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

I don't want to go into the specific size of the project itself.

Madan Gopal

Okay.

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

That's not something that we would really want to deal with it. At any point of time let me just say that the international side we have at least 20 plus projects, some of them are large, some of them are small and the average that you see is what you really get there, yeah?

Madan Gopal

Okay. But can you give a sense of whether that proportion would be coming down at least in the future quarters or it will be in the same level?

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

To tell you the truth, as far as Q3 is concerned and as I have indicated also in the North, Q3 and Q4 we have to watch these cost pretty carefully.

Madan Gopal

Okay.
At the same time there are a number of variations because when there is delay there is responsibility across the chain in terms of what delay is caused, because the client is there, some other issue that is being caused. So there are also cases for variations that come.

Madan Gopal

Okay.

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

So depending for how much of variation get passed, how much of other things gets managed, how much of change in the scope is there, there will always be an adjustment plus and minus. In this specific case because the projects are large, I'm saying that this is something that we need to really watch and see how we control and that's we go along.

Madan Gopal

Okay.

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

And rest assured that everything that management can do in terms of containing this cost are being done and number two is also that this is a very important project for us to do well and get out because our reputation is very, very important to us. And when you look at it, the reason why we are paying so much of attention to it is that the FIFA is going to come up and the Qatar Government is going to open up it's floodgates of a lot of things, lot of projects whether it is a Metro Rail or infrastructure et cetera. And we do not to be in a position where we have failed in one project and that becomes a bit of an issue. So, we will complete the project and complete it well despite whatever cost that we take because we see the future is bright in Qatar as we see it.

Madan Gopal

Okay, good. Sir, second question is on the acing margin, you said that lower sales led to actually compression of margin in this particular quarter...

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

Margin in percentage terms very little, but volume compression of absolute numbers in gross margin. Yeah.

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

Margin will be in tack there is not cost for diluting that margin, it's going to go anywhere. But the point is that H2 Q4 is actually a much stronger quarter as far as air-conditioning business is concerned.

Madan Gopal

Exactly. That's what I was saying.

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

Other thing being equal and if the weather gods are willing we will be doing far better in Q4, than we would be doing in this thing. But Q3 is a weak quarter for PBT.

Madan Gopal

Exactly. Sir the third question is on the auto front, what is the H1 order flow so far?

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

I'll deal with that. We have an order book of 4,461 completed, yeah. 2,642 of that is EMV. 1,370 is domestic project, 189 is water, and 260 is RIL broadly.

Madan Gopal

And order flow for the first half?

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

Order flow for the EMV has been 230 crores, but this as I mentioned excludes the 500 crores.

Utsav Shah, Chief Financial Officer, Central F&C Services

Your question was on the first half or the further quarter?

Madan Gopal Utsav Shah, Chief Financial Officer, Central F&C Services

The first half, the total order flow is to the tune of about 825 crores in this segment.

Madan Gopal

Okay. Sir, have you been -- is the Chennai Metro going on as per the schedule or has you been intimated of any swopping the work or something because the current - was against the metro?

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

No. As for the moment we are not really seeing any big problem because there is also a World Bank funding that is at the back of the Chennai Metro. So they are not really disturbing that and we are not seeing any issues at the moment.

Madan Gopal

Okay. Thank you sir and best of luck.

Operator

Thank you. The next question is from Sangam Iyer from Alpha Accurate Advisor's. Please go ahead.

Sangam Iyer

Yeah. hi sir. Sir in your previous margins....

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

Can you speak a little louder, we can't here you.

Sangam Iyer

Yeah, am I audible now?

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

Yes, now you are audible, tell me.

Yeah, sir in your earlier remarks, you had mentioned that in this particular quarter we have made some cost overruns provisions for the MEP segment in particular in anticipation of the increase in cost. So but again you are saying that going forward again the costs could be a matter of concern and we should be monitoring it closely for these two projects. So just trying to understand I mean the provisions were made in anticipation of the overruns, right? So further in coming quarters there could be further provisions that need to be made for the same?

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

Depending upon how the project actually progresses, because what happens is at the end of every quarter we do a cost incurred and we also estimate the cost likely to come to complete the project 100%. So that is a continuous process in project accounting, we do that for each we do that for each and every project.

Sangam Iyer

Okay, sir. As of now whatever provision has been made is based on whatever amount of...

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

That is t this particular point of time.

Sangam Iyer

Okay, great. And sir with regards to your unitary cooling segment, I just wanted to understand considering the kind of competition that's prevailing which you mentioned, do we see that on an steady state base is going forward. The margin level is actually coming down and stabilizing at a certain level say maybe 6 to 7% as against the earlier level of around 11%?

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

Let me just give you a quick comparison of what is the change in dynamics in the AC industry. At one point of time it was just LG, Samsung and Voltas, the three people were commanding a share of something like close to 68 to 70% of the market. Okay? And there has been very sharp awareness of the longer term sustainability and growth prospects of the air conditioning industry and this has meant that there has been a flurry of competition and competitors who have entered the market. We have had, so we have something close to something like about 15 to 20 people in the freight, manufacturing or stock importing air-conditioners from China and selling it here.

Sangam Iyer

Right.

Now, the Japanese people Daikin, Hitachi and Panasonic has particularly been very aggressive since last three to four months. Daikin for example was a very upper end premium brand and they have now cut their prices in the season by about 40%. Panasonic has taken a 15% reduction, Hitachi has taken a 10% reduction and if you just turn on the TV you will see the amount of advertising that both Hitachi and Panasonic are doing. Yeah?

Sangam Iyer

True.

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

So there is a lot of intense competition that's happening. At the same time many of the other players had all stopped up very high levels of inventory in anticipation of the 30 plus kind of percentage of growth that we saw last year over the previous year.

Now, that's not for various reasons has not happened because of the weather and other industry factors and sentiments et cetera. And as a result there is a lot inventory in the pipeline across various players. All that will actually pan out into the market is something that we will wait, watch and see. As far as Voltas is concerned we have not taken down our pricing. And that is why you see that our decline in revenue top-line is only 7% as compared to far higher double-digit numbers in the rest of the industry.

Analyst

Right sir. Thanks a lot for that explanation. Just taking this thing a step forward if we look at this kind of inventory level that is there in the system, still uncorrected. Going forward, how do we see, I mean, the logical thing would be that the competition further increases it further cuts.

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

Right

Analyst

In order to liquidate the inventory.

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

Right So then...

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

But there is the pricing point isn't it that you really look at, even you as a consumer the moment that the price falls below a certain value you would think that there is something that's happening to the quality here. That's where the brand really comes into picture and most of the big players, also will not take down that prices. Because dropping prices is easy but never be able to work your prices up. So that is also a build up, there. And if you look at today's market also you will find unbranded air conditioning and unbranded products also selling at very low prices. But it's not that they gain market shares exponentially they don't. So there is a certain amount of balance in this whole thing.

Analyst

Yeah. But then on a conservative basis going forward at least for the next couple of quarters, if this inventory does clean up margins are remaining going to be subdued or under pressure.

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

It depends upon the volume. It depends upon the volume. Okay, especially the fourth quarter.

Analyst

Right, right. Okay. And sir on the agency services segment with the clarity on the mining segment is not yet emerging, how do we see that segment going forward?

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

There is a bit of an issue on this which is not this is not -- let me say factors that are far beyond our own control. Because if a mining environmental clearances from mines are not coming and if to be fixed the cost of capital is not defined. And as you see in today Utsav mentioned that IIP today was 1.9%.

Yeah, and you also know that the capital goods be that the capital goods. The IIP is actually a negative of minus 6.8%, compared to a plus 7.2% last year. So there is a significant decline there. These are things that we cannot really control. So we have to watch the market as it develops and be able to manage within that.

And what can we do in the mean time. In the mean time, we can cut our costs, we can be as austere as possible and then move forward. Because there is a cyclicity to these industries, which we cannot run away from. But at any rate I want to tell you is, that segment B is not a very great segment that one needs to really, really worry about in that sense.

And the textile machinery's division which is there, is continuing to any way at least for the next one quarter, we're very sure that it will sustain its margins. And after that we'll have to see how it really comes on. Because the order book is also stalling a little bit in the textile machinery.
Got it sir. And sir, finally on the -- you mentioned that the time line for Sirsa order is...

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

-- come louder please.

Analyst

Yeah, the time line for the Sirsa order you mentioned that by June it should be completed provided all the others are executing on time. Could you give for he Barwa order as well as in what's the time line?

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

Barwa is a little earlier it's actually in March.

Analyst

March, okay, great sir. Thanks a lot and all the best.

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

Welcome.

Operator

Thank you. Ladies and gentlemen in order to ensure that the management is able to address questions from all the participants, please limit your questions to two per participant. The next question is from Rajan Kumar from Quest Investments. Please go ahead.

Analyst

Thank you for taking my question. Sir could you throw some light on what would have been your amercing on the domestic MEP business because you're saying that it has delivered better then last year?

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

Yeah. The domestic MEP business has actually if you see the order book or you see the kind of margins that we have it has actually gone from surface to surface. We have also been able to expand our ambit of operations from just a pure
The margins there the new projects that we're getting albeit is under certain pressure. We are able to work through our system and be able to get a sustainable margin of 7 to 8% indeed seek business without too much of an issue as matters time.

However, it would be truthful to say that we are facing a certain amount of slowdown in the amount of orders that are being released into the environment itself. Because of the fact that people wanting to invest are not sure about how these things will pan out they don't know what is the cost of their capital finally. They do not know how the environment is turning.

So there is a little but it of a slowdown that is catching out. But within these constraints we are able to add our orders and we are able to execute them well, we're able to get suitable margins on those projects.

Analyst

What would that have been in this quarter, if rough number we can get?

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

I couldn't get you.

Analyst

What would have been the margin in domestic MEP business during this quarter? Just a rough number would do.

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

I don't think we really want to talk in terms of margins in this particular quarter, overall margins you can see from the segment results. But domestic as certainly be doing far better and it is closer to the 7, 8% that we're talking about.

Utsav Shah, Chief Financial Officer, Central F&C Services

In the projects business, it's very important to note that please don't look at margins on a quarter-on-quarter basis. Depending on the pace of certain projects, the margins could go up or down.

Analyst

Okay. And coming to the next question, you have mentioned that in the international business, you are pursuing the progress aggressively and that might lead to a bit lower margin. So I mean sir, has there been a rethinking in terms of our strategy of like, earlier we were talking about being very selective in the project and going in for a very reasonable margin. So what kind of margin that would have got in the recent orders that are coming right now?
As I said there has been a lot of competition in the international market. And the fact of the matter is that if we look for erstwhile we were looking for bidding margins or something like about 8 to 9%. Now that is no longer possible in the international market because of the shear amount of competition we face.

So our strategy really is to look at lower margins and at the bidding stage we are looking at about 5% kind of bidding margins. And then what we are really doing is to work on it and then develop it stronger in terms of synergies in terms of buying efficiencies et cetera. So, that in the first place we are able to obtain the odds. And then we work up our margins and then work it out and do a suitably large figure. So, project execution becomes very key in this whole basket. But the kind of margins that we probably saw three years in terms of this thing is not available anymore.

Operator

Excuse me. This is the operator. I'm sorry to interrupt Mr. Kumar. We have other participants waiting for it, later.

Analyst

Okay. Thank you. I'll come back later.

Operator

Thank you very much. Ladies and gentlemen, participants are requested to limit their questions to two per participant. The next question is from Aditya Bhartia from CLSA. Please go ahead.

Aditya Bhartia

Hello sir.

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

Hi, Aditya.

Aditya Bhartia

Sir just wanted to get a sense of what is the probability, that you see of recovering variations for design changes in the two Qatar projects?

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

It's the question is a little difficult to answer, Aditya to be honest. Because we have to watch the situation as it comes up, yeah. At this particular point of time, we have adjusted whatever we know in terms of positive and negatives in terms of taking whatever provision in the cost to come.

So it's a little bit of difficult thing. But our experience has been if you execute a project well and you execute it in time when you really are able to get additional variations as we go along and the settlements in the Middle East is also tends to be liberal as we complete the project and complete the project well.

Aditya Bhartia

Okay. And sir can you give us sense of what has really extent of provisioning that you have made this quarter?

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

I don't want to really go there in terms of the exact provisions Aditya. Because it is we have provided for certain costs we have got profits also so I don't want to be talking about individual projects this is the provision that is the provision we have made that is our internal matter really.

Utsav Shah, Chief Financial Officer, Central F&C Services

Aditya, just to clarify it's no provision is not being made. What we are doing is dependent on the actual cost incurred and the cost to come, we are factoring our margins to that extent. So, I really don't think it's a provision that we are making for a particular quarter. And this is a number which would change quarter-on-quarter depending on the movement of the job.

Aditya Bhartia

Okay. As of now sir, on the overall contract are we expecting a loss?

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

For the Sidra project, we're keeping our fingers crossed. For Barwa we certainly see a lot of variations that will come in. Sidra also when we, as we looked towards the end of the project, there could be a lot of variations that come in. As we said, we will come back to you because it is still in a certain stage of the projects doing. So it is very difficult for example, if you're doing a house at when it's about 50% done, it is very difficult to say this is going to be the total cost, this is going to be. You have to watch it as it comes along. That is the nature of the business we are in. Yeah.

Aditya Bhartia

Okay. But as you see it today. I mean the way you have accounted for it today?

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

Aditya Bhartia

Okay.

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

And there could be loss on the Sidra project I will not roll it out.

Aditya Bhartia

Okay. And lastly sir that you have kind of trying to factor in all the foreseeable costs to losses on this project.

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

Yeah.

Aditya Bhartia

But does that mean that if the scenario parts out as you're seeing today that there would be no profits on this contract for the next couple of years until the execution gets over?

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

Not that is not a question of couple of years it is only.

Aditya Bhartia

Couple of quarters I meant to say.

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

Couple of quarters June is the Sidra is over March Barwa is over. Yeah.

Aditya Bhartia

Right. Until then we might not be having any profits on these two contracts.
On these we might not but by the time the projects end then you must probably have right backs because of variations and other claims and settlements and all those kind of things.

Aditya Bhartia

Okay. And typically how much time does it take per variations to flow through?

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

Variations there are fleet of variations because this is a matter of cash being received. But once the variations are certified that means that people sign off saying that this is what I've asked you to do, this is what you've done, then normally in the international projects in Middle East we don't have a problem in being able to get the money.

So as the project completes we will be able to get our variations and get clarity on that also.

Aditya Bhartia

Okay. But typically how much time does it take to get those certifications?

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

It's an ongoing process Aditya, it's not that we keep all the variations till the last minute.

Aditya Bhartia

Okay.

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

What we do is, as and when that we get engineer's instructions saying that this is what it is, we get a signature up from the engineers. And then we get them certified and then so it is -- there is a bit of rolling process. But at the end of the project also there will be certain claims there will be counter claims and things like that, that we really sit across the table and sort out with the clients and the consultants.

Aditya Bhartia

Sir so far we haven't had any....
Excuse me, this is the operator. I'm sorry Mr. Bhartia, you will have to get back in the queue, we have other participants waiting for their turn.

Aditya Bhartia

Okay. Thank you sir.

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

Yeah. Thank you Aditya. You can follow us up later if you want questions. Yeah, tell us.

Operator

Thank you. The next question is from Ruchi Bora from UBS. Please go ahead.

Ruchi Bora

Yeah, hi. Good evening. Thanks for taking my question. My first question is on the unitary cooling segment, I was wondering if you'd be able to share with us what was the sales volume in million units last year?

What is it been in first half for the industry and what is the kind of inventory in units is currently present now?

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

Can we provide you those figures later because they are also there in the Gfk-Nielsen published reports, yeah?

Ruchi Bora

Okay. And could you give us a split in terms of revenues between the room air conditioning business and the commercial refrigeration?

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

It changes from quarter-to-quarter.

Ruchi Bora

For this quarter?
But generally the room air conditioning business is roughly of the order of about 70-75% and commercial refrigeration and the others are comprised the balance.

Ruchi Bora

Okay. And is it possible to get some sense on what percentage of the Qatar projects have been executed till date?

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

Which projects?

Ruchi Bora

The Qatar projects, the Sidra and the Barwa.

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

Barwa is fairly well progressed. Because closure is in March. The Sidra project is something like about 60% close to 60% down.

Ruchi Bora

I am sorry sir Barwa in terms of percentage?

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

Percentage will be close 90 plus.

Ruchi Bora

Okay, the substantial portion of the project has been completed?

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

Hello?
Yeah. And could you also give us some color on what has been the outcome of the electro-mechanical audits that we're going to do in the by the end of second quarter?

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

Electro-mechanical?

Ruchi Bora

Audits, internal audit?

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

Internal audits?

Ruchi Bora

Yeah.

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

What are you referring to?

Ruchi Bora

With respect to the Qatar projects?

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

Oh, no, no.

Ruchi Bora

Yeah.

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

Ruchi Bora

Yeah.

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

In a normal business every quarter what we do as I mentioned before we look at the cost already incurred we look at the cost to come, yeah.

Ruchi Bora

Right.

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

And then we decide whether we need to account for any additional cost that we might incurred or we changed the margin et cetera. From time-to-time we also do what is known as a techno commercial audit, yeah.

Ruchi Bora

Right.

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

Techno commercial audit is, as the name goes, is not only done by accountants but it is done by a team of people who are not directly related to the project itself.

So, they go there and look through all the documents all the cost evaluates the completion of the job and then they come back and say that yes this is the cost that is incurred and we see that this will probably end up in a margin of X. So, according to that we discuss with our external auditors and decide whether we need to take an upward revision of the margins or we take a downward revision of the margins at particular point of time.

So that is something that we will be doing for the Sidra project, we will be doing it in the first quarter and Barwa is something that we have done this quarter and based on that we have made some changes already.

Operator

Thank you sir. It seems like the line has been disconnected. We'll move on the next question. The next question is from Lokesh Garg from Kotak Securities. Please go ahead.
Tell me Lokesh.

Lokesh Garg

Yeah. Hi sir.

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

Hi.

Lokesh Garg

Actually I just wanted to ask you on the balance sheet deterioration as well?

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

What is that?

Lokesh Garg

Balance sheet has also deteriorated a little but clearly if you consider on a Y-o-Y basis, so is that all related to inventory build up or is that also partially related to some bit of receivable holdup?

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

I'll tell you. I think that's a good question. See, in the international what really happens Lokesh is that, when you get orders, normally they give you a 10% advance. Now if you get a 1,000 crores it means that you get a 100 crores of an advance which sitting in your books.

So as you know in the international business we haven't had too much of a success in the previous quarters. So we have not really had, that in flow of that additional money.

Number two is as the orders, start getting completed we also adjust a portion of that advance in the invoices. So as the job progresses this 10% advance also starts liquidating, that is one.

Number two is that yes we have had a certain amount of difficulty in terms of getting, the outstandings collected which is a reflection of the economic environment, which is the reflection of the higher interest cost et cetera.

Not everyone wants to pay today if he can avoid it and pay it tomorrow. So there is a little bit of stress on that. And the third as you're rightly pointed out there is also an inventory increase

Lokesh Garg

Sure. Sir my another question relates to your sort of discussion on the result document that you've printed out mentions that there is an LY of Rs. 5 billion that you have received. So that's incremental to obviously Rs. 18.25 billion of order inflows that you have received so far.

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

Yeah.

Lokesh Garg

And there is other additional mention of water sector order that also later than the reported quarter number, right, so it's additional?

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

That's right. And one other thing that I would also tell you is that we also have a 320 crore order in our joint venture in Saudi Arabia, which again we have not taken in, it's been very recently received. And which will be of course at only at 50%. So, Saudi is also beginning to start clicking for us. Yeah, which is not in the figures, which will be reported in Q3 once the JV is formed and signed and it's delivered.

Lokesh Garg

Okay. Sir, my last question is related to other operating income which is reported in statutory P&L. Now we saw that number as being very high in 2Q FY12 versus the trend that we've been seeing over last several quarters. So, is there something which is of one-off nature in that?

Utsav Shah, Chief Financial Officer, Central F&C Services

No. Primarily there is with some bit of exchange gain at the company level, which has been reflected over there. But otherwise it's just normal other income.

Lokesh Garg

Yeah, basically as if I have my numbers correct, this number was only let's say, 27 million in 1Q and is 197 million in 2Q?

Utsav Shah, Chief Financial Officer, Central F&C Services Lokesh Garg

Okay. You've recognized exchange gain in other operating income?

Utsav Shah, Chief Financial Officer, Central F&C Services

Yes.

Lokesh Garg

Okay. Thank you.

Operator

Thank you. The next question is from Nilesh Shetty from Quantum. Please go ahead.

Nilesh Shetty

Yeah, hi. Just wanted to understand apart from the two Qatar projects, all the other projects, what kind of margins are we seeing there?

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

At any point of time, as I said, when we book a project we normally, in the past we were booking at something like about minimum bidding margin would be 8 to 9%, that's when we go ahead, yeah.

And what happens is, as the projects progress some of the projects become more profitable, some of the projects retain their profitability, some actually dip. So, in a sense that in a quarter, what we report is a mix of the projects, the turnover that has been recorded from these 20 odd projects, yeah. And, the speed at which certain projects have gone forward.

For example in this quarter projects like Sidra and Barwa have progressed at a greater speed. And if the margins on Sidra and Barwa are not very significant the total margins in that quarter will be looking lower.

And that is why Utsav was cautioning you a little earlier saying that when you look at the projects business, please do not look at it from a quarter-to-quarter basis but look at it on a continue. So that you will get a better idea of the margins of the projects as there are.

Nilesh Shetty

So once these two projects are out of the way, what kind of sustainable annual margins would this segment report?
In a long-term a sustainable, our intention long-term is really to get to something like about 7% is what we see long-term, yeah. Having said that I have also mentioned to you and you are aware that we -- bidding margins now as a matter of strategy we are looking at 5% only, yeah.

But that 5% does not necessarily mean that we will end the project at 5%. Depending upon our own synergies depending upon what the benefits we can extract out of it we can build those margins up. And just the same way and you've seen in the past also that you'll see in margins are that beyond 10% in segment one.

Nilesh Shetty

Right.

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

So, that is -- it depends from case to case. So, at any point of time you should be looking at a continue and I'm really saying that if you look at it, because our projects, the execution of time line for our international projects are almost about two years plus, two, two and a half years, three years in some cases.

Nilesh Shetty

Okay. Just one last question on the UCP side given the way you're saying competition coming up and the intensity. Do you think sustainable margins say over a longer term would be lower than what you've seen in the last two or three years where it could be lower than the 8% guidance that you've given?

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

I would think that there is a pressure on the margins because simple fact because there is a lot of competition that is coming in. Because of the various factors that are going on in the economy. Because of the higher inventory et cetera.

If I were at your end I would look at lower margins for the UCP as we go forward. It cannot be at the 10% that we're talking forward.

And that is now universal anywhere in any business, not just our industry, anyone who is making 10%, 11% consistently over a period of time, will find that in another two quarters some other competition gets in and then it's finally cutting the price.

So it is a continuous, let me say a management called at various points of time, how do you innovate, how do you find smarter ways of increasing your margins. Competition comes in, cuts the price.

We find other ways looking at better efficiencies, cheaper materials, et cetera, synergies and then we push up our margins again.

And then someone else innovates something else, we innovate something else, push up our margins. That's the way that business really operates, isn't it?
Okay. Thank you sir.

Operator

Thank you. The next question is Lavina -- from Jefferies. Please go ahead.

Analyst

Hello.

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

Yeah. Tell me.

Analyst

Yeah. This is Sumit from Jefferies. I just wanted to know if you can give, what is the percentage of central market and the -- towers in the current order book indication would go?

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

We will come back to you because central market has started the execution has started on that. That is almost complete now.

Analyst

Okay. Some percentage if possible?

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

I don't think, I want to go in there because I know I'll have to look at the 20 listing and we will come back to you separately, Utsav will get back to you, yeah.

Analyst

Thank you. Bye.

Operator Ankit Babel

Yes sir good evening. My first question is you said all new orders in the overseas business you're biding at 4, 5% kind of margins.

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

The biding margins is at around 5%.

Ankit Babel

Yes, 5% non this is below the 7, 8% which historically you used to bid at. Now this further reduces your margin of safety. Now if in future situation similar to the one like Qatar project arises how will you cope up with it? I just wanted to understand your strategy.

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

Utsav wants to answer.

Utsav Shah, Chief Financial Officer, Central F&C Services

I'll just answer this question. See in a projects business one needs to realize that whatever be the level of margin at which you bid, because of overrun, because of estimate being changed, because of variations, at no point of time can you say that only if I bid at this margin the project sets.

Ankit Babel

Exactly.

Utsav Shah, Chief Financial Officer, Central F&C Services

And finally the determination whether the project made a margin or didn't make a margin is only determined after the variations are settled and concluded, which happens much after the project gets concluded.

Ankit Babel

Okay.

Utsav Shah, Chief Financial Officer, Central F&C Services

But what really matters is when I end the project, when I put up my variation claim and depending on the settlement of the variation claim is what will determine whether what is the margin that I made on that project.

Ankit Babel

Okay.

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

So, at any point of time, over a period of time you will always have the situation that certain projects have ended subsequently variations will be put up certain earlier projects are happening where they could be cost overall it's a cycle, which will continuously happen.

Ankit Babel

Okay, okay. Fine got your point sir. Sir, second is what is the unexecuted part of the Qatar project. You already mentioned 60% in Sidra and 90% is completed.

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

It's about 60% completed.

Ankit Babel

Yeah. So I wanted to know the absolute terms like okay, 500 crores what is unexecuted or 600 crores what is unexecuted, both combined, sir, how much it would be?

Utsav Shah, Chief Financial Officer, Central F&C Services

See, again we feel it is 60% complete today.

Ankit Babel

Okay.

Utsav Shah, Chief Financial Officer, Central F&C Services

Tomorrow because of the, it's a design and build project, suppose if some other changes happened, that 60 could become 50. Okay.

Utsav Shah, Chief Financial Officer, Central F&C Services

See, it's based on an estimation -- this is the work I have done this is what I'm required to do. I feel I'm 60% complete. This project is expected to end next June.

Ankit Babel

Next, June. Yeah.

Utsav Shah, Chief Financial Officer, Central F&C Services

Ultimately it's a design and build project. I'm assuming the certain designs, which I've given are going to be approved and I will start working immediately, that could be a situation that they may say, change that design. So it's very difficult to say whether 500 crore job is going to end at 900, 925, 950 and say out of 950 we have completed 500 today.

Ankit Babel

Additional 100 crores work could come.

Utsav Shah, Chief Financial Officer, Central F&C Services

I don't know. I am not in a position to...

Ankit Babel

Okay, sir. Then what was the original size of the, both the...

Utsav Shah, Chief Financial Officer, Central F&C Services

900 crores.

Ankit Babel

900 for Sidra and Barwa.

Utsav Shah, Chief Financial Officer, Central F&C Services

Barwa was about 550.

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

We'll get back to you later on that. Utsav will come back.

Ankit Babel

Okay, and what was the corresponding figure in the previous half sir, this 825 versus?

Utsav Shah, Chief Financial Officer, Central F&C Services

Yes. I just tell 825 in the current year previous year the same figure was 1,529.

Ankit Babel

1529.

Utsav Shah, Chief Financial Officer, Central F&C Services

Right. In this domestic is 555 in the current year, 747 in the previous year.

Ankit Babel

545 is the domestic.

Utsav Shah, Chief Financial Officer, Central F&C Services

Domestic, 747 domestic previous year.

Ankit Babel

And the remaining would be international.

Utsav Shah, Chief Financial Officer, Central F&C Services

269 international in the current year 782 international previous year.

Ankit Babel

Okay. That's helpful sir. Thank you sir.
Thank you. The next question is from Gagan Taneja from BNK Securities. Please go ahead.

Analyst

You reported in extraordinary of...

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

Can you speak a little louder please?

Analyst

Yeah. You reported an extraordinary income of 25 crores, is it possible to understand the tax on this?

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

It is possible to understand?

Analyst

The tax on the extraordinary income?

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

You want the taxation rate on the extraordinary income?

Analyst

Yes, yes. Sir your total tax is around 17.7 crores.

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

Total tax is against the 33% that you normally have a taxation, the total tax has come down to something like 30% and odd.

Analyst

Okay.

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

And this is fundamentally because of our few things, one is that we've also got dividend from overseas, joint ventures and I'm talking on consolidated basis. You got dividend that has being taxed at a lower basis of 15%. Then the second thing is that we also have a fair amount of rental income and other income which is coming in which will also make a change on that.

Sir, secondly, is it possibly to understand the pipeline of orders that you would potentially be bidding for are or are bidding for in the Middle-East?

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

At any point of time, as our note actually reads, I mean there is for example the Abu Dhabi of airport order, which are at part of our strategy because it's a very large order. We are actually joining hands with a part some of our competition. Or a project specific daily in terms of bidding.

Okay. That's very large. It is almost about 3,000 crores in terms of the overall project itself. And it is split in three ways that's almost 1,000 crores.

But what -- but that does not necessarily mean that you're getting those orders. Yeah. It means that we are bidding for it. At any point of time, we have something like close to 2,500 3,000 crores of orders, which you were actually bidding for in terms of drawings, in terms of project managers the series being submitted et cetera, et cetera, which we really put in.

So, there is a pipeline of orders. But this pipeline of orders is not as strong as it was sometime before.

But Saudi is actually opening up and we've got for example this King Abdullah Sports City one is really talking in terms of billions of dollars. So, how much of that will really come in and certify. And as I mentioned the Jasmine revolution as I really meant that people are now in the Middle East are trying to do more in terms of infrastructure.

So there will be airports et cetera, et cetera. All that I can tell you is that there is a substantial order we will be in the race for that at this particular point of time we are bidding for orders not less than 3,000 crores.

Analyst

Okay. And in the immediate term will the movement in copper prices give some benefit to you in terms of your margin impact?

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

See what happened in the international order really is that, we do a self hedging in a sense that the moment we get an order, we immediately back cover other key equipments with the suppliers. So to that extent, we are insulated against the ups and downs of that particular project itself.

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

And what really is remaining is once you get the main equipment out, what remains is the more or less the consumables and things like that where they will not be a very fundamental shift in terms of the cost of materials.

In the air-conditioning industry of course, we watch in the unitary cooling projects, we watch the amount of copper exposure that we really have from time-to-time and take calls.

Analyst

Okay. Sir and how would the JV with KION be working out, I understand this year you might not be reporting any sales contribution from the JV but subsequently when you get into the next year, what's the outlook on the that? And also what's the outlook on your subsidiary where margins were below anticipation this year?

Utsav Shah, Chief Financial Officer, Central F&C Services

As far KION is concerned yes you're right in the current year there will not be any margins that would accrue to the company. On a long-term basis I think if the industry the materials handling industry continues to grow I think we expect a decent margins to accrue from sometime next year also.

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

But of course it's the JV. So to extent of our share the JV is the only that we will be accounting for, yeah.

Analyst

Yes, sir. Sir on Rohini what would be the time frame within which the present orders were they might be cost over will probably get executed?

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

It should be over by the end of this financial year we should be able to get through most of these old orders. The new orders that we have picked up are at good margins. And we are also having the adequate control mechanism on those. So it will make a difference on those.

Analyst

And sir, I mean year-on-year would Rohini this year be in a position to breakeven or...?
We were certainly hoping for a breakeven at EBIT level. But as matter stand we might fall a little short of that. This is again something because of the old orders when we've done the settlement the outstanding that is there, how much we are actually able to collect, how much we'll probably need to set away all these things questions are there.

But by enlarge our anticipation is that we will be marginal in terms of a loss in Rohini. This quarter we have taken a loss in Rohini even at the EBIT level. And that is something that we had indicated earlier also that we will be looking at.

And we will be looking at building those margins up. The most positive sign is that we're sitting on 260 crores of orders in the electrical business there.

There is one particular job in the rural electrification that is creating a little bit of tension for us in terms of the delivery and how it actually goes in Rohini. So that is something that we have, to really watch for.

But otherwise, other than that our management team is into Rohini and yes, we're managing the situation on as proactive level as possible.

Analyst

Sir, recently there were media articles talking of, Voltas looking and Wipro's water business. Any truth to that or any degree of finalization?

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

As a company we are in the let me in an advantageous position, of having cash on our balance sheet on advantageous position of being able to leverage that should the opportunity really arise.

So at any point of time, we are looking at various opportunities, various things that come in and I do not want to comment on a specific one saying, yes we are looking at it or no we are not looking at it.

What I would broadly say is that in as a company we will be alive to certain opportunities. And we're not going to be sitting with a large amount of cash in our balance sheet and not doing anything with it over the next two to three years.

Analyst

Thank you sir.

Operator

Thank you. Ladies and gentlemen, that was the last question. I would now like to hand over the conference back to Mr. Pritesh Chedda for closing comments.

Pritesh Chadda

Thank you, Marina. On behalf of MK, I would once again like to thank everyone for joining the call. I thank the management of Voltas for giving us the opportunity to host the call and taking our time to give brief on the quarterly

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

Yeah. I'd just like say, express my gratitude on behalf of the Voltas management and the 100 odd participants for being on this line. And I just want to say that times are difficult but as we can see from our press note and what we have actually released, there is a short-term reality, which we are dealing with.

But there is also equally a longer term opportunity that we are very, very convinced that we are in the right place and that we will be able to extract synergies and we'll be able to go forward.

But the next two quarters are likely to be a little difficult. But as we move in and as business confidence builds in the environment we will see better time is coming on. And I what to thank everyone.

And if there are any questions that are really there, which we have left unanswered for at this time, please feel more than comfortable to contact either Utsav or Garud or me and we will be more than happy to answer it. Thank you Emkay once again for hosting the call.

Operator

Thank you. On behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.