ANALYSIS OF RESULTS

QUARTER AND SIX MONTHS ENDED 30 SEPTEMBER 2024

Global growth remains resilient despite a sluggish outlook for the Eurozone and China. Stronger-than-expected growth in the United States among advanced economies, along with robust performance in India within developing economies, is sustaining overall growth momentum. However, uncertainties stemming from disruptions in production and shipping, geopolitical conflicts, and extreme weather events, upcoming US elections—may influence the global economy in the near term.

Domestically, the economy is projected to grow between 6.5% and 7% in FY25. Rural demand is improving, driven by high FMCG sales, while urban consumer sentiment appears to be softening. The recent surge in inflation can be attributed to a temporary spike in vegetable prices; however, core inflation remains within a comfortable range, and several food items, such as pulses, have declined in price due to government initiatives. In the current quarter, considering underlying global and domestic factors, the Reserve Bank of India (RBI) has shifted its stance to "Neutral," focusing on inflation targets while supporting growth. Nevertheless, inflation projections may face headwinds from renewed volatility in commodity prices, particularly due to fiscal stimulus in China, which could impact the RBI's inflation targets and potential rate cuts.

Voltas has delivered another remarkable quarter. Two quarters ago, the company achieved the milestone of selling 2 million air conditioners within a 12-month span. Impressively, this achievement was reached in just 8 months during the calendar year 2024, highlighting strong market demand for the company's products and a year-to-date growth of 52% at that time. During the traditionally lean monsoon season in the current quarter, Voltas reported a 15% growth compared to the same quarter last year, despite a higher base. The Unitary Cooling Products division continued to outperform the market, maintaining its growth momentum with an overall volume increase of 56% over the previous six-month period.

For the six months ending September 30, 2024, the company achieved a 33% increase in consolidated total income, reaching Rs. 7,726 crores, up from Rs. 5,794 crores in the same period last year. Profit before tax surged by 128%, climbing to Rs. 657 crores compared to Rs. 288 crores previously. Net profit after tax also experienced significant growth, reaching Rs. 468 crores, up from Rs. 165 crores in the corresponding period last year. This marks the highest half-yearly profit in the company's history. Earnings per share (face value per share of Re. 1) for the six months ended September 30, 2024, was Rs. 14.15, compared to Rs. 5.02 in the same period the previous year.

In this same quarter, consolidated total income grew by 15%, reaching Rs. 2,725 crores compared to Rs. 2,364 crores in the same quarter last year. Profit before tax surged by 142%, increasing to Rs. 205 crores from Rs. 85 crores. Net profit after tax saw a substantial rise, climbing to Rs. 133 crores from Rs. 36 crores in the corresponding quarter last year. Earnings per share (face value per share of Re. 1) for the quarter ended September 30, 2024, was Rs. 4.05, compared to Rs. 1.11 in the same period previous year.

During the quarter ending September 30, 2024, the Board of Directors approved a Long-Term Incentive Scheme (LTIS) for 2024, aimed at driving company performance and retaining key talent. This scheme, which commenced in the financial year 2024-25 and would end in the financial year 2026-27, has resulted in a provision being added to employee benefits of Rs 24 crores for the first six months in the current quarter, which moderately impacted the bottom line. Actuarial valuations will be reassessed periodically.

Overall, the corporate balance sheet remains healthy.

A snapshot of our results for this quarter and for the financial year is presented herewith: -

Segment reporting (Rs. Crores)	Q2 FY25	Q2 FY24	% to Total Revenue Q2 FY25	% to Total Revenue Q2 FY24
1. Revenue				
Segment A: Unitary Cooling	1582	1209	61%	53%
Segment B: Eng. Projects	880	924	34%	41%
Segment C: Eng. Products	147	134	6%	6%
Less : Inter segment revenue	8			
Income from Operations	**2601**	**2267**	**100%**	**100%**
2. Profit / (loss) before tax			**% to Total Revenue**	
Segment A: Unitary Cooling	116	93	7%	8%
Segment B: Eng. Projects	46	(49)	5%	-5%
Segment C: Eng. Products	40	54	27%	40%
Unallocated	3	(13)		
Profit before Tax	**205**	**85**	**8%**	**4%**

Segment reporting (Rs. Crores)	H1 FY25	H1 FY24	% to Total Revenue H1 FY25	% to Total Revenue H1 FY24
1. Revenue				
Segment A: Unitary Cooling	5384	3723	72%	66%
Segment B: Eng. Projects	1829	1603	24%	29%
Segment C: Eng. Products	307	277	4%	5%
Less : Inter segment revenue	16			
Income from Operations	**7505**	**5603**	**100%**	**100%**
2. Profit / (loss) before tax			**% to Total Revenue**	
Segment A: Unitary Cooling	443	300	8%	8%
Segment B: Eng. Projects	114	(101)	6%	-6%
Segment C: Eng. Products	84	108	27%	39%
Unallocated	16	(19)		
Profit before Tax	**657**	**288**	**9%**	**5%**

Segment A – Unitary Cooling Products (UCP)

For Unitary Cooling Products, the second quarter typically marks a lean period. The extended heatwave in the northern regions helped sustain the growth momentum in the company's air conditioning business. However, persistent rains throughout the country during the quarter slowed industry progress. Despite these challenges, the segment performed relatively well, reporting revenue growth of 30% compared to Q2 FY24 and 44% compared to H1 FY24.

All products within the room air-conditioner category experienced strong demand, driven by consumers' desire for comfort and convenience. Both window and split air conditioners saw robust growth, with demand emerging from across the country. The premium segment, particularly 5-star rated products, continued to thrive, leading to an improved overall sales mix for Voltas. With the new facility operational, we aimed to enhance sales and service through our extensive distribution network. Leveraging our supply chain has enabled us to maintain our leadership position, with an exit market share of 21% as of September 2024. Over the past few quarters, we have consistently strengthened our brand proposition and product placement across all channels.

During the season, our performance in the RAC segment has remained strong. We also noted significant volume growth in other cooling products, including air coolers and commercial refrigeration items.

The commercial refrigeration industry currently faces headwinds due to a reversal in the capital expenditure cycle after two to three years of consistent growth. Products such as chest freezers and chest coolers have reported moderate growth. Nonetheless, demand for water coolers and dispensers within this category has remained supportive. Thanks to our new plant and a higher base from the previous year, commercial refrigeration products showed a healthy performance. Our new offerings in cold room and medical refrigeration are gaining traction, bolstered by a solid order book. While revenue growth was commendable, challenges in the market—stemming from reduced capital expenditures by customers—have led to a decline in margins during the quarter.

The air cooler and water heater categories continued to outperform, achieving substantial growth compared to the previous year. Strong sales in the first half, coupled with healthy order commitments from our channels, set the stage for an exciting year. Aggressive initiatives to expand our distribution network, combined with quality products and favorable climatic conditions, have helped us establish a robust foothold this season. Our new cooler models were well received, further fueling growth in this category. Recent reports indicate that our market share has grown to 11.1% exit September, positioning Voltas as the No. 2 brand in September 2024. In the water heater segment, partnerships with distributors and sub-dealers have also contributed to strong performance.

The commercial air conditioning (CAC) vertical maintained steady performance during the quarter, driven by sales of VRF, cassette, and ducted ACs. The higher volume of margin-accretive product sales, value engineering initiatives, and the current mix of AMC jobs have positively impacted our bottom line.

Consumer-centric financing schemes significantly contributed to sales growth this season. However, elevated commodity prices and a depreciating USD-INR exchange rate have affected profitability. Our investments in BTL advertising have helped keep margins steady, aligning with our expectations. Simultaneously, various value engineering initiatives and cost control measures have contributed to stable margins.

In summary, segment revenue grew remarkably by 45%, reaching ₹5,384 crores, up from ₹3,723 crores during the same period last year. The segment result increased by 48%, amounting to ₹443 crores compared to ₹300 crores in the corresponding six months of the previous year. For the quarter ending September 2024, segment revenue grew by 31%, totaling ₹1,582 crores, compared to ₹1,209 crores in the same quarter last year. The segment result for the quarter was ₹116 crores, up from ₹93 crores in the corresponding quarter last year.

On the capacity expansion front, we are pleased to report that production at our new factories in Chennai and Waghodia is progressing as planned. These facilities provide us with strategic advantages in location, enabling us to effectively cater to markets in South and West India.

Segment B – Electro-Mechanical Projects and Services

The segment revenue for the quarter was ₹880 crores, compared to ₹924 crores in the previous year's corresponding quarter. The segment result for the quarter stood at a positive ₹46 crores, a significant improvement from a loss of ₹49 crores during the same period last year. Over the six-month period, segment revenue increased by 14%, reaching ₹1,829 crores, compared to ₹1,603 crores in the same timeframe last year. The segment result also turned positive, amounting to ₹114 crores, a substantial turnaround from a loss of ₹101 crores last year, primarily due to provisions made on receivables.

During the current quarter, heavy rainfall affected project execution across all verticals, leading to marginal growth for the business. Delays in job progress and collections from government-tendered jobs impacted profitability. However, domestic business performance for the six months showed improvement. A focus on dues collection and better working capital management has resulted in strong profit growth. The business anticipates a return to normal execution levels and aims to achieve its targets and growth by year-end. For the domestic project segment, we secured an order of ₹822 crores, with the current order book standing at ₹5,014 crores.

In the international projects sector, operations in the UAE and Saudi Arabia continued to perform well, driving revenue growth. Strong project execution has ensured robust bottom-line performance.

We adopted a cautious approach to order booking during the quarter. As of September 30, 2024, the carry-forward order book for international business stood at ₹2,473 crores, predominantly in the UAE and Saudi regions. The total carried forward order book for the segment was ₹7,487 crores as of the same date.

Segment C – Engineering Products and Services

This segment faced certain challenges during the quarter. While revenue increased to ₹308 crores from ₹277 crores the previous year, segment results fell to ₹84 crores from ₹108 crores during the same period last year. For the quarter, segment revenue grew by 9%, reaching ₹147 crores compared to ₹134 crores in the corresponding quarter last year. The segment result for the quarter was ₹40 crores, down from ₹54 crores the previous year.

The mining and construction vertical showed positive momentum on the top line, ensuring continuity in operations and maintenance jobs, as well as sales of power screen machines. However, challenges in revenue mix and job renewals at healthy margins limited the ability to translate top-line growth into EBIT.

The textile industry faced headwinds due to fluctuations in cotton and yarn exports. Consequently, capital expenditure across the sector decreased, leading to reduced utilization levels for spinners and a corresponding decline in demand and margins for our agency business. Despite these challenges, our after-sales and post-spinning business showed positive performance.

Voltas Beko

Our joint venture, Voltbek Home Appliances Private Limited, also emerged as a beacon of growth, a volume growth of 54% in the first half of the year. This was complemented by a significant increase in market share in the refrigerator and washing machine categories year-over-year. As of YTD September 2024, our market share improved to 7.5% for washing machines and 5% for refrigerators.

The home appliances industry in India experienced steady growth, driven by demand for both large and small appliances. However, as compared to industry Voltas Beko poised a strong growth by offering an impressive product range to meet consumer needs. The launch of the HarvestFresh campaign, along with enhanced social media efforts, focus on e-commerce, exhibitions, and dealer meetings, significantly boosted overall business performance. Improved traction from modern trade has further supported this growth.

In terms of profitability, increased volume has led to a gradual reduction in losses. Voltbek continues to work towards minimizing loss per unit, aiming for EBITDA breakeven in the near future.

Voltbek remains committed to enhancing its market presence across various product categories through customized market penetration strategies and growth initiatives. These efforts include expanding distribution reach, adopting channel-specific tactics to enhance market presence in key regions, and maintaining a strong focus on boosting e-commerce and omnichannel development. On the cost front, localizing production for a larger portion of its product portfolio, implementing product efficiencies, value engineering, and optimizing the product mix have contributed to a positive outlook for the company.

Outlook

The period from October to December (Q3 FY25) is generally a lean season for cooling products due to winter; however, the onset of the festive period may bring an early surge in demand in part of the quarter. It will be interesting to observe the interplay of various factors, including inflation, fluctuations in crude oil prices, currency behavior, and geopolitical challenges.

The current economic environment is marked by uncertainty and volatility. Inflation remains a focal point, influencing future monetary and non-monetary actions that will impact overall economic growth and consumer demand in the upcoming quarters. Nevertheless, we remain optimistic, given the supportive factors for the businesses we operate.

30 October 2024