Voltas Ltd.

Investors/Analysts Conference Call
(May 15, 2007)

Moderator: Good afternoon Ladies and Gentlemen. I am Monali, the moderator for this conference. Welcome to the Voltas Ltd. conference call hosted by SSKI securities. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the Q&A session. I would now like to handover to Mr. Avishek Datta of SSKI securities. Thank you and over to you sir.

Avishek Datta: Thank you Monali. Good afternoon everyone and welcome to Voltas FY07 result conference call. We have with us Mr. Miyajiwala who is CFO and Mr. Garudachar who is GM-Corporate Communications with us. Over to you Mr. Miyajiwala.

Miyajiwala: Good afternoon. I will take you through my presentation in about 15-20 minutes and thereafter if there are any questions we can take them. This year has ended very positive note with profit after tax or rather operating profit of about 155 Crores which last year was about 170 Crores. All the segments have contributed to this growth. There has been strong growth in Segment A. This particularly domestic AC business has done extremely well and as far as electromechanical segment is concerned it is slightly behind the last year figure but it was substantially behind in first three quarters and in the fourth quarter both in terms of revenues and results it has got up.

As far as segment B is concerned the biggest contribution has come from material handling business but all other businesses also have contributed very well. Textile machinery business has done well but it already had a very high base and therefore the growth is relatively not as high as material handling. But otherwise, it continues its pace of growth. Mining and construction has also done very well. If at all there is some disappointment it is in terms of machine tools business which has not performed as per our expectation though it is much better than the previous year.

In the third segment for Unitary cooling products, the performance is in line with or may be better than our expectation and it is turn in positive results for the last quarter and overall for the year. Last year this business has contributed negative figure. There has been some regrouping of our segments and I would like to take few minutes on the explaining that. In our other segment we have three elements which are now been regrouped. One was what we internally call property development cell where we get rental income on our properties. The second is human resources development site at Thana where we have training facility and we hire it out to outside party. The revenues arising from this also was grouped under other segment and thirdly the technical service fees that we receive from our joint ventures abroad for managing those businesses those were also grouped under the other segment. The auditors have taken a view, that as far as the rental income is concerned both in respect of properties and HRD center they should be grouped as other income, i.e. it should be net out against unallocated expenses and as far as technical service fees are concerned they should be taken in the segment A where it rightfully belongs. So these changes have been carried out and what is left in other segment now is chemical trading and civil construction business.

As I have mentioned in the previous con call, civil construction business is under closure. There is right now one last job on hand and this job is being executed. Whatever foreseen loses we have on this job even coming out in the remaining for a period of the contract. We have taken in account those loses as on 31st March, 2007 and have eightfold provision against the same. We expect that thereafter in the coming year the civil construction business will complete the project without any further loses and there will be end of civil construction business so far Voltas as concerned and that will leave only the chemical trading business in the other segment.

If you look at the comparison of five years' performance of the company in terms of operating profit, the figure was about 24 Crores in 2002-2003 which over 5 year period and has gone through 155 Crores and this shows six fold growth in 5 years' time. In terms of contribution to the total, segment A remains with more or less the same level in terms of revenues, however because of some of the large international project not having contributed to the margins in the first three quarters and they have started contributing only the fourth quarter. Their contribution in overall terms has marginally gone down but on the other hand Segment C has come back as a positive contributor.

As far as the highlights of the results are concerned the turnover over the year has grown by 29% over previous year. The EBITDA margins have remained more or less at the same level as previous year as 7% and increase in profit before exceptional items has been 32%. Profit before tax has grown very substantially to 143% which includes the profit arising from the sale of shares in Simtool Limited which was a different company and shares of which were sold in the month of March as per the press release given at that time. The profit after tax in relation to the last year has grown by 164%. Taxation on an average basis as compared to profit before tax has been 16% for the year. Out of all these numbers some of the numbers will give rise to some questions but as I go forward my presentation, hopefully all of them would be covered in terms of replies that you are seeking. Earning per shares for the year is at 5.62 on Rs. 1.00 share which was last year 2.13 and earning per share before exceptional item is Rs. 3.50 against Rs. 3.00 last year. Net interest cost without taking into account interest received is 5.4% which is substantially low compared to the interest rates ruling in the economy.

The turnover per rupee of employee cost this particular ratio is extremely important for Voltas because our primary resources are human being through whose knowledge we provide the project and engineering solution and therefore we very closely monitored this particular ratio. In case of domestic per rupee of employee cost the turn over has grown to 14 rupees. As far as international business is concerned it is slightly lower than last year primarily because the staff cost for contract employees on the new project have been both but corresponding revenues have not come in. The return on network is slightly lower compared to the previous year, it is 34% but even 34% is a very very satisfactory number and that if that equity ratio has come down to 0.21%. I would like to mention here that we are getting on our balance sheet certain liquid investments and if the borrowing are matched against those then the company Zero debt company. The quarter four has been bumper quarter for the company. There was 38% increase in turnover against average 29% for the year and this has happened primarily because the international projects have now entered the execution phase and revenues and margins have started flowing in.

EBITDA margin for the fourth quarter is very very satisfactory at 8.3% against 7% for the whole year. This margin goes 7% in the previous year's fourth quarter. Increase in profit before exceptional items has been 62% which is double the increase that we had seen in the fourth quarter of the previous year. Profit before tax has of course risen very very strongly. Because of the exceptional items at 237%, an increase in PAT again for the same reason there is has risen by 400%. Earning per share for quarter is 3.62 without taking exceptional items and the turn over per rupee of employee cost which for the year in the case of domestic was 14 has gone up to 15 in the last quarter and correspondingly even in international for the year the ratio was 6 rupees which has now gone up to 8 rupees in the last quarter. You know there will be some confusion regarding the tax provision.

I would like to explain that the operating profit for the year was 155 Crores, exceptional items are 68 Crores and profit before tax is 224 Crores. In the figure of 155 Crores there is an item of 12 Crores of dividends included which is from one of our subsidiaries Simto Investment Limited. Simto Investment ltd was also holding shares in Simtools Limited which company was sold in the last quarter and they had a profit arising from sale of shares of Simtools limited. The profit was used for giving an interim dividend and that dividend is to 12 Crores.

For calculation purpose if you would remove this 12 Crores from the operating profit and add it to the non-operating exceptional item. Then recast figures are adjusted operating profit before tax is 144 Crores, exceptional items are 80 Crores and the total remains with 224 Crores. The tax for operating profit was found to approximately 40+ Crores. That is there is full tax on the operating profit except on dividend amount on within India which is tax free in India and therefore the operating profit have borne full tax. On the other hand, all the exceptional items have been tax free because we have capital losses brought forward from the previous year which was set off against the profit on sale of shares plus 12 Crores of dividend, which is exempt India entire 80 Crores was exempt from tax. If we adjust the figures on this basis profit after tax at operating level comes to about 100 Crores, exceptional items are 185% Crores and total is 187 Crores.

Earning per share on operating basis after tax is 3 rupees and exceptional items is about 2.5 rupees and I hope that will answer question on the taxation. Going forward baring certain very large tax matters being decided in our favor, the company will continue to be in full tax bracket on the operating basis. Of course, the dividend that we receive during the year from our investments which are most of the trade investment they will remain exempt because those companies who is paying dividend would have paid DDT.

As far as segment researches are concerned the year has been very satisfactory in terms of return on investment. The return on investment in Segment A where there was substantial increase in the working progress on domestic and international project the return on investor capital has been 49% and if we look at domestic alone, it is very very high. It is almost 200%. Segment B has turned in return on investment of 123% and these are the figures that you can directly calculate based on the capital employee in each segments given in the segments result and segment C which had negative contribution in the previous year that has turned positive and that has given ROIC 13%. The growth in domestic business taking all the three segments together has been very robust and profit at operating level has grown by something like 65% whereas in international there is a margin reduction as compared to the previous year.

Looking at the cost you will find that in the press release there are two elements where there has been a very substantial cost increase. The first one is staff expenses and second one is other expenses. As far as staff expenses are concerned the growth in domestic has been almost 30% and in the international it is about 70%. In the case of international the increase is primarily on the basis of the contract employees who are employed on the Bruj contract as well as Bahrain project which are very very large in size. In the case of domestic there is an increase in number of employees.

There is some change in the level of employees that means there is reduction in the junior employees and there is increase in the senior management staff in line with growth with in our businesses and restructuring that we wish to undertake for meeting the future challenges. Also there has been some pressure on the wage level and all in wage there has been about 15% wage hike in the domestic market. As far as other expenses are concerned there are additional costs in respect of legal and professional charges for hiring BCG consultant. There has been some contract employees taken for the jobs in India but get accounted in other expenses. Also there is an exchange loss which is about 5 Crores and that has been included in other expenses and on one particular contract in India there is provision for non recoverable receivable and that is also included in other expenses. Barring that all other increases are in line with growth in the turn over and in line with the expected future growth. We take great deal of satisfaction in saying that in terms of internal budgets also barring one small division all divisions have exceeded either they have made the budgeted levels or they have exceed the budgeted levels.

When you get balance sheets in you hand you will find that capital engagement has risen very substantially and in terms of domestic market there is an increase of about 54 Crores of which 50% is cash in bank balances so which needs to be eliminated and balance 50% of work, 27 Crores is primarily in inventory and once again it is matter of satisfaction that in number of days credit receivable have come down in all the businesses. In international market also the receivable in absolute terms have come down and there has been an increase primarily in working progress or in access of 100 Crores which hopefully will get in the next few quarters and will get converted in to revenues. When that happens temporarily they will move in to receivable and there could be an increase receivable but that should not be a matter of concern. In terms of finished goods once again in terms of number of days in all business the numbers of days of receivable and finished goods have come down. Receivables we very closely monitored receivables over three months and over six months and once again it is matter of great satisfaction that receivable over six months despite the increase in turnover have remained more or less at the same level one number keenly awaited which is order books position are domestic order book is about 600 Crores and international business is 1600 Crores and domestic order book shows growth of 20% whereas international shows an increase of 16% and it may be noted that as far as international business is concerned we already had very high order book per year end of last year because of the two large contracts having been received towards end of the year and therefore the comparison is not very correct but despite this highly inflated order book is on end of last year there is still growth of 16% in international order book and overall the company order book has grown by 18%.

In terms of cash flow, the cash generated from operation has been rather small compared to the operating income but once again we need to take in to account the growing turn over and to meet growing turnover there is investment as I explained in inventory and in finished goods as well as receivable and that is pushed up or rather push down the cash generation. The consolidated numbers the stand alone profit after tax which stands at 187 Crores goes up by 16 Crores and stands at 203 Crores for consolidated company. The subsidiary associate companies have all done very well and they have contributed profit of 36 Crores. However, out of that 20 Crores was already paid by way of dividend and accordingly that is being setup so the net result is increase of 16 Crores. In terms of capital engagement, the capital engagement of 500 Crores at the Voltas standalone level goes up to 575 Crores at the consolidated level and therefore the subsidiary and associate companies after locking out inter form revenues and capital engagement have returned about 20% on the capital engagement. That is all I have to present to you friends and if you have any question we will be happy to answer them. Thank you very much.

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question please press *1 now. First in line we have Mr. Parag Gupta from Morgan Stanley.

Parag Gupta: Hi Mr. Miyajiwala. This is Parag here. Ok just on your unit free cooling business could you just explain what was key reason for the turnaround in the business in this quarter, what was some of key steps taken by you and how is market shaping up and do you see this business continue to make profits going forward.

Miyajiwala: In fact, I should have explained it. There are two to three primary reasons why there has been a turn around. One is of course which is well known and that is closure of Hyderabad unit in July 2006. The second is that Panchnagar plant has started operating and they are producing at full capacity and the third and more important reason is that we have had change in strategy. Earlier we used to compete on the basis pricing and for getting higher volumes. It was decided that those particular products which were not contributing very high margins. We would increase the price and we would like to pipe on basis of higher profits rather than only quantitative growth. This strategy has worked well. The price increases have not dampened our market share. In fact, we have grown market share not only in the last quarter of last year but also for the current year and all our products have done exceeding well turning positive results these are reason and these sectors are going to continue in the year to come. The answer to your second question is yes we are hopeful that we will be able to continue to change

Parag Gupta: And all this price hikes that you have done are those already effective in Q4 or with the effect of this price hikes start coming only in Fiscal 08?

Miyajiwala: No, effective in Q4 and in the current year also they are continuing and there has been almost 50% growth in the month of April

Parag Gupta: There are a couple of exception items that you have mentioned in your accounts for the entire year fiscal 07. Would it be possible if could you run through some of those key exceptional items and just let us know how those have been taken for in the accounts or whether they will be shown under your bottom line.

Miyajiwala: Sorry the last part I did not get.

Parag Gupta: The couple of exceptional items even in the quarter and in the year as a whole if you could just take us through which are some of those key exceptional items and how they have been accounted for. Whether they have been accounted for in the entire body of the accounts or whether they have been taken after the bottom line?

Miyajiwala: We do not account anything below the bottom line so all the exceptional items get accounted before tax. If you look at our exceptional items there are about 100 Crores of profit from property and sale of fiscal shares. Actually if you add the 12 Crore dividends then that amount becomes 112. Against that made provisions for about 10 Crores for accounts of one of the joint venture that we are trying to exit. After making this provision we do not foresee any further hit on the bottom line. In addition to that, we had arising from AS15 we have reviewed the methodology for providing for some regardless benefits and that review resulted in additional provision of 7.5 Crores. Hyderabad unit closure cost which we had accounted earlier and in the second quarter those are about 8 Crores. We have been reviewing our tax contingent liability with respect of taxation method resulting from which we have made contingency provision of 3.5 Crores but once again this items pertains about three years old matter but because of change of status we have made provision for this. I think all the items that we have provided under exception. I would like to clarify also one more thing that barring the 12 Crores of dividends that I spoke about earlier there are no non recurring one time items included in the head other income and entire other income barring the 12 Crores should be considered as operating income.

Moderator: Thank you very much sir. Next in line we have Mr. Deepak Agarwal from Dara Shaw & Company.

Deepak Agarwal: Good afternoon.

Miyajiwala: Good afternoon.

Deepak Agarwal: Can you tell us why the excised duty going down compared to the previous quarter in absolute terms.

Miyajiwala: You know it all depends on product mix. For example if the agency lines have done well the excise duty will be lower. Now we have started clearing good from Panchnagar where there is no excise duty. If a higher turnover comes from international project there is no excise duty. So these are some of the factors why excise duty would remain constant from quarter-to-quarter.

Deepak Agarwal: Quarter-to-quarter your production, I think, in this quarter your sales from the excisable plant has actually gone down right. Because excise duty has gone down?

Miyajiwala: Yes but that does not mean that manufacturing items have gone down.

Deepak Agarwal: Can you give the breakup of this other income balanced 12 Crores in the quarter which is recurring as you said.

Miyajiwala: There are many items included over there. For example some liabilities provided in earlier years which are not required particularly payables to creditors those will come then. Similarly if we make settlement with particular debtor where we get higher amount or creditors rails somewhat does not need to be paid. The Scrap sale of scrap items comes over there. There will be dividend from joint ventures and associate companies which would come over there. Those are the main items.

Deepak Agarwal: But is settlement with creditors and debtors are these, like recur, they recur.

Miyajiwala: See some way or the other, it continues to happen.

Deepak Agarwal: And can you also give the breakup of.

Miyajiwala: If you look at the previous year also, these kind of items would have been included there.

Deepak Agarwal: Right. And, the net interest break up , can you give some interest paid and interest received.

Miyajiwala: Interest paid is about 7 Crores, if my memory shows me right.

Deepak Agarwal: Okay, for the quarter.

Miyajiwala: No, no, I am saying for a year.

Deepak Agarwal: Okay. And, the unitary products, the quarterly margin for the quarter is like 5.7% EBIT margin. Now that you started this plant etc. and stopped doing production at the old plant, is this kind of a sustainable margin or it is like this is one kind of one of a kind of a.

Miyajiwala: As I said the strategies which have been adopted are going to be continued. But then market forces can act very differently from time to time. So, while we do hope to maintain this margin. They could marginally come down.

Deepak Agarwal: Alright. Thanks and this is apt, this is alright at this point in time.

Moderator: Are you through with your question Sir.

Deepak Agarwal: Yes.

Moderator: Thank you very much. Next in line we have Mr. Vishal Shah from Techno Shares.

Vishal: Good afternoon Sir.

Miyajiwala: Good afternoon.

Vishal: Sir, my question is specifically deals with the cold storage industry.

Miyajiwala: Yeah.

Vishal: The corporate giants IL and Bharati did announce big investments in the retails space likely to boost to the cold storage industry. What I wanted to know was, what is the status of cold storage industry right now? I mean, example, the current market size. The growth prospects, the future market size, and what are initiatives we are taking to tap this industry.

Miyajiwala: As far as initiatives are concerned, we are in touch with all the large groups who have announced investments in retail of frozen food products or fresh vegetables, fruits, etc. We have already executed some or behind the process of executing some cold storage jobs. As far as market size is concerned, at this point of time, it is not very large, only the investments have been announced, but over the next couple of years, we expect the market size to grow very very substantially and then it will become a sizable part of our business.

Vishal: I mean can.

Miyajiwala: We have expertise in this business. We have products in this business and we should be able to find competition for our rightful share.

Vishal: I mean do you see a growth in access of 50%, or maybe?

Miyajiwala: Immediate year, I don't see a growth of 50%.

Vishal: Great.

Miyajiwala: Of course. No sorry. There could be a 50% growth also, but you are talking about the very small base. In terms of both will get reflected in our profit and loss account, it may not be very substantial.

Vishal: Okay. Okay Sir. Thanks Sir.

Moderator: Thank you very much sir. Next in line we have Mr. Sanat Kohli from AM Capital.

Sanat: Hello Mr. Miyajiwala. I have 2 queries.

Miyajiwala: What is it?

Sanat: Hello.

Miyajiwala: Yes.

Sanat: Firstly, I think you regrouped your you used to earlier show your income from lease of properties under the operational income and now you started showing it in the other income. Can you quantify the impact for 07-06 and this quarter?

Miyajiwala: I don't have the figures readily available, but they could be in excess of 13 Crores.

Sanat: 13 Crores.

Miyajiwala: 13-14 Crores.

Sanat: And for this quarter.

Miyajiwala: Could be pro-data, you can assume $1/4^{th}$.

Sanat: And second question pertains to your contact, you international contracts. Do you structure these contracts in dollars or in which currency?

Miyajiwala: They are always in the local currency.

Sanat: Okay.

Miyajiwala: And most of the contracts are in Middle East where the currencies themselves are tied s into dollars.

Sanat: Okay.

Miyajiwala: So, I think the next question, I defer you or somebody in the meeting would be about, you know what is the impact of that on our bottom lines. Our bottom line would be impacted only to the extent of the profit repatriated to India, because most of our billing is in the local currency. Our reports are in US dollars and to that extent, we are well covered. There are some in foreseen in Euro, and primarily Euro, that those will not be very sizable. And we are in addition of risk of that.

Sanat: What would be your net dollar exposure during the year?

Miyajiwala: In term if you look at our turnover of 2400 Crores.

Sanat: Okay. Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Milan from ASK Securities.

Milan: Hello Sir, congratulations on good results.

Miyajiwala: Thank you very much, thanks.

Milan: Sir, I have 2 queries. Firstly on, unitary cooling solutions business. Quarter growth in that segment has been around 11%, which is kind of lower than overall growth for the full year. And we will even increase prices as you said. So, what is the reason for low volume growth as such.

Miyajiwala: Are you relating it to the previous quarter, previous year same quarter.

Milan: A Year on year.

Miyajiwala: One of the reasons could be that although, the volume growth has been there, the models which are high priced may have come down. General levels of prices in the economy have come down because of certain factors like, in our case, commercial coolers. They have all been most of the Uttaranchal. So, now the price is net of excise duty.

Milan: Okay, okay. The same kind of growth for 2008, also, or it would be higher than this rate like 10 than 11%.

Miyajiwala: I didn't get your question.

Milan: Sir, we expect for FY08 in this division, we expect same kind of 10%-11% growth?

Miyajiwala: Could be more than that. By the trend in the current summer, it could be more than that.

Milan: Sir, and another thing in the same part. What would be our expenses on advertisement?

Miyajiwala: I don't have this number right now.

Milan: Okay.

Miyajiwala: But, maybe separately I can share it with you once, I have to summarize point of view.

Milan: And lastly on engineering services, this quarter we have grown by 50% year on year. Do we expect similar kind of growth for 2008?

Miyajiwala: This. You know the revenue growth can be misleading.

Milan: Okay.

Miyajiwala: because in the agency business when it grows, the revenues don't grow, only the results grow.

Milan: Only the?

Miyajiwala: Only the results grow. The statement results to see an increase, but we don't see corresponding growth in revenues. But, if our manufacturing items grow much faster, then you see a very substantial jump taking place in result.

Milan: Okay.

Miyajiwala: We have sold own manufactured cranes and very large number of forklifts in this quarter. As for the results, the revenue growth is very very substantial. So, depending on which part of the business moves, there is a way the mix takes place, you can see a difference in the growth of results of revenue.

Milan: Okay, Sir, Thank you very much.

Moderator: Next in line we have Mr. Anirudh from JP Morgan Stanley.

Anirudh: Hi. Just a couple of questions fro my side. This was more in line which means that you are 10/10 vision. Just wanted to ask, will the growth that you are targeting by 2010, will it be comprising of inorganic growth and would you be acquiring new businesses other than your existing business to, you know, to increase your margins more towards the 10% target which you have?

Miyajiwala: At this point in time, I will only make 2 comments. I will not go into specific detail and that is that yes, one of the focus areas is going to be improvement in margins that has been given internally as well as by board. So, that is going to be one focus area and the business growth to expansion of activities in adjacent territory. I am not talking about geographic territories. I am not talking about geographic territory, which will also, geographic also will happen, but in terms, of product lines also it will happen that we move into existent directories. For example: In the fork lift business, we are resistively moving into warehousing equipment as well. So, the growth will come from growth in the existing businesses, expansion in product line, expansion in geographies and margins as well.

Anirudh: Okay. Are you expecting the new orders from Middle East, anything on the cards?

Miyajiwala: The pipeline is strong, when it will materialize, we will have to wait and see. But the moment it materializes, we will help inform the stock exchange. So, you will all get to know about it.

Anirudh: Alright. That is it from my side.

Miyajiwala: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. Bhaven Shah from Amit Dalal Securities.

Bhaven: Hello.

Miyajiwala: Hi.

Bhaven: Good afternoon Sir, and congratulations on the great set of numbers. Sir my two questions have already been answered. I just had, I just wanted to have some idea on what kind of domestic order are we getting in and since we are going in 20% growth, just to have a feeling of, which industry are we really, you know, moving towards. I have just a few details on the orders.

Miyajiwala: 50% growth in order book does not mean that a business is growth by 20%.

Bhaven: Yeah.

Miyajiwala: The business has grown much more substantially. It was the cycle time, which shot of this business. Or it has received an executed very fast as per order book does not reflect the kind of growth that is taking place, but the growth is coming from sports, malls, hospitals, hotels, I think close to both, all the activities are growing and it is well spread out for growth. Incidentally, it seems that which has been announced and which are getting approved. That also will throw up a huge opportunity for the air conditioning business.

Bhaven: Right Sir, And would that be a substantial part of the revenue going forward?

Miyajiwala: We hope it will be.

Bhaven: Right Sir, And just a second thought on the on the balance sheet in 2008, are we saying we are going to be debt free.

Miyajiwala: We are already debt free.

Bhaven: Alright, great sir. Thank you so much, thank you so much.

Moderator: Are you through with your question sir.

Bhaven: Yeah, Yeah. It is through.

Moderator: Thank you very much. Next in line we have Mrs. Deepal from Citi Group.

Deepa: Hello Sir, good afternoon. Hello. Can you hear me sir.

Miyajiwala: Yes**.**

Deepa: Okay, Sir just 2 questions, actually one in terms of the Unitary product division. I am sorry to kind of ask this question again. I understand somebody already answered this question, but given that the top line I won't grow that much in this current quarter and you have like a 6% you know EBIT margins for this quarter. Is it all due to pricing improvement?

Miyajiwala: Pricing for 3 quarters.

Deepa: Okay. Hello, hello, hello.

Miyajiwala: Yeah. I am, I can hear you.

Deepa: Yeah. Okay sir there was some kind of traffic on the line, you said pricing high?

Miyajiwala: Pricing. Product mix and it is dispatches from the excise free zone.

Deepa: Okay so and that excise free you have passed on to the customer and it is helping the margins.

Miyajiwala: Both.

Deepa: Okay. Sir, in terms of you know mentioned about airports, is there any particular airport that we are bidding for current. Can you share that information?

Miyajiwala: I do not think any new airport has come up, right now. Delhi has already been allotted to Larsen & Tubro.

Deepa: So, they are doing their own H-Rack component also?

Miyajiwala: That is right.

Deepa: Okay.

Miyajiwala: So, we are awaiting the other airports, but there are a number of smaller airports that we have already executing.

Deepa; Okay sir, and one last question on this. International order, which you know you said that it is in WIP of what about 100 Crores, as I understand the cost has already been booked in the current year. You only have the revenues there utilizing the next year and all of that is flow through the margins. Right?

Miyajiwala: Hopefully all of that will get billed in the coming year.

Deepa: in the coming year, but the cost pertaining to both have already been booked.

Miyajiwala: It has been booked in WIP.

Deepa: It has been booked WIP. Okay, sir, been looking WIP, right. Okay Sir.

Miyajiwala: As per profit and loss account.

Deepa: Okay. Sir, can I just have a couple of numbers in terms of the CAPEX that I have done for this year?

Miyajiwala: CAPEX for a coming year will be of 50 Crores.

Deepa: And sir in FY 2007 how much was incurred.

Miyajiwala: Around 50 Crores.

Deepa: Around 50 Crores. Sir you mentioned that the working capital requirement have gone up if you can share out with the debtors and the Inventory numbers?

Miyajiwala: The inventory are in at level of 380 Crores receivables are at 40 Crores.

Deepa: so the cash on book.

Miyajiwala: Cash on book would be approximately 153 Crores.

Deepa: Debt level is same as the last year.

Miyajiwala: Marginally low.

Deepa: Okay sir I will come back with more questions if have, thank you very much sir.

Moderator: Thank you very much. Next in line we have Mr. Deepak Agarwal from Dara Shaw & Company.

Deepak: Net unallocable expenditure during has become very negligible in the current quarter

Miyajiwala: Rental income has been noted against that business.

Deepak: Can you give us break up of your engineering products services in revenue how much is forklift and external machinery assistance?

Miyajiwala: We normally do not share those details

Deepak: For the full year anyway it will be coming down in annual report right

Miyajiwala: Yeah it will not come revision by revision

Moderator: Thank you very much. Next in line we have Mr. Rishabh Bhaksar Anand Rathi Securities.

Rishabh: Good evening sir, congratulations on the good set of numbers. Sir just two things which is needed to clarify, one was in the water treatment project in Singapore had that been completed and any new projects on that space.

Miyajiwala: That is nearing completion but it has not been completed but however it will take place in 2007-2008.

Rishabh: Sir, any new projects on that space.

Miyajiwala: Not as yet.

Rishabh: Sir, other was on the other income, on the rental side, sir there are two companies where we are earning rent as if now, two main properties? One is at the Chinchpokli just behind the corporate head house and the other one is at Thane?

Miyajiwala: We have rental income coming from Jamshedpur on the land resource from Ballard Estate Chinchpokli and there are other small areas otherwise.

Rishabh: Jamshedpur, Ballard Estate, and Chinchpokli are the three main areas? Sir can you give just approximately how much yearly rent do we get from each of these properties?

Moderator: Thank you very much. Next in line we have Mr. Kush from Insec Securities

Kush: Sir, secondly we are saying the continuous decline in the margins, sir, where we see the margin stabilizing in segment B?

Miyajiwala: This is primarily because of own manufacturing component has gone up, that is not real declining. The margin division by division of the business per business depends

Kush: So, we will see that as more increasing on own manufacturing margins will decline further?

Miyajiwala: Because the manufacturing cannot give you 40% t0 30% margins.

Kush: How many numbers of forklifts was sold in quarter 4?

Miyajiwala: We have been selling forklift at about 120 or so per month.

Kush: Do you see the same continuing going further?

Miyajiwala: As we say Insha Allah**.**

Kush: Okay. For that one project which you made provision for the contract in India. What is amount of that provision for?

Miyajiwala: It is fairly large, but you do not want to give too much detail because it is a sensitive issue.

Kush: Okay. As percentage of sale of the project can give us?

Miyajiwala: So, we you look at the total project revenues we have 1370 Crores for segment A which is primarily quoted. I addition to that, we will have, so totally we will have about 1500 cross in excess of that project revenue. So if you compete with that , this provision

Moderator: Thank you very much sir. Next in line we have Mr. Surya Narayan from Network Stock Broking.

Surya Narayan: Good afternoon sir. Sir, can you share with me the revenues break up of for the segment A and Segment B in terms of products and services when the percent is wise.

Miyajiwala: Segment B is entirely committed to vendors barring the manufacturing.

Surya Narayan: In segment A and segment B there are register of services?

Miyajiwala: Project B primarily services to render to our principal so it is entirely service barring the manufacture of fork lifters and some construction equipments and in segment A also a major part is project revenue.

Surya Narayan: What raised over the significant change in the capital employed from FY 2006 to FY 2007 in segment A 160% that is approximately 90 Crores and segment B 53 Crores and segment C 23 Crores and in all 166 Crores?

Miyajiwala: I have already explained that one is at number of days in segment B there is no increase. In segment A the work in progress has gone up, so the WIP which has not been built yet, that is primary reason for increasing it. What I said was in segment A the primary increase is in work in progress which is yet to be built, setting it in 2 to 3 points of time, I have repeated that explanation. In segment B, number of days wise there is no increase so in terms of volume growth correspondingly capital engagement has gone up.

Moderator: Thank you very much sir. Next we have Mr. Salil Upadhi from Ambit Capital

Salil: Hello sir, are you seeing any BOT or DOT types of projects coming up in India on the HVAC site?

Miyajiwala: HVAC side no. I have not seen any?

Salil: Sir are Indian companies, Indian construction players or mall developers are going for total MEP type of projects?

Miyajiwala: Yes we have booked some MEP projects of course not very large yet, but I think it is purely gaining the preference?

Salil: What is the proportion of HVAC type of job in our total mall development or amount spent in construction of the mall?

Miyajiwala: Out of the total value of the mall, I think about 65% or so with this civil construction and 35% would be electromechanical of which either half of one third could be HVSC depending on what kind of design is adopted.

Salil: If you add MEP on HVAC, so that proportion will go to 25 to 35% of total, if you had mechanical and plumbing also?

Miyajiwala: Out of the total project site 35% will MEP and electrical and of that about half to one-third will be would air-conditioning HVAC depending on what kind of design or what kind of structure they develop.

Moderator: Next, we have Mr. Rajesh Kothari from Voyager Investments.

Rajesh: Good afternoon sir, how are you

Miyajiwala: Fine, How are you?

Rajesh: Fine, just couple of questions, one is that what is the total billing rate two issues in electromechanical volume revenues which do not get recognized because of accounting policy and other is you may not be able to recognize profits because of the percentage completion method? Am I right?

Miyajiwala: Percentage completion method, we do account for revenue, but in certain spaces suppose there are variations etc, they do not get accounted unless they are satisfied or required amount of interest or if there is an assurance that those variations will be accepted. So, I use that several reasons why certain amount will be unbilled so the full revenue does not get recognized on ongoing basis and as far as the margins are the margins at the initial stages up to 10% there will be no margin detaining.

Rajesh: How much of the revenue on which margins are not recognized? What is the amount of revenue on which the margins are not recognized in the current revenue?

Miyajiwala: I do not have full details to that because there will be a large number of projects in India and a few projects abroad where there will be this kind of situation. Right now I do not have number of how much time the turnover so margin is recognized.

Rajesh: Roughly?

Miyajiwala: Very difficult, may be does not make a guess and wrong?

Rajesh: Second question, you said Rs. 12 Crores dividend which you received because of the sale of one of your company, which is including which is 155 Crores PBT before exceptional item.

Miyajiwala: Correct.

Rajesh: If I want to appropriate these two a particular segment why is it going to others?

Miyajiwala: Because it is the sale of our subsidiary which was not included under any segment even in the consolidated accounts. So it does not go into segments.

Rajesh: What I am trying to say that issue referred to our segment wise details. There is a profit before tax on exception time 155 Crores which will be equal to your standalone PBT before exceptional items. So in the 12 Crores which is accounted somewhere is within the segment wise?

Miyajiwala: No it is not account a segment wise.

Rajesh: So where are those?

Miyajiwala: You know there will be a substantial amount of cost which is its unallocated which is at corporate level, against it what is getting netted out is these kinds of dividends as properties, rental income etc and etc.

Rajesh: So when it is going to another unallocated expenditure.

Miyajiwala: 16 Crores.

Rajesh: So, the 16 Crores, other unallocable expenditure?

Miyajiwala: Let it put this way, there still on segment results you have 171 Crores and you have non-operating or other operating incomes of 144 Crores, so the difference is the unallocated expenditure.

Rajesh: Unallocable expenditure is 16 Crores?

Miyajiwala: How did you get the 16 Crores?

Rajesh: That is what the press release, segment wise, will it be a segment wise?

Miyajiwala: It is net. After netting out the other income with property income etc.

Rajesh: It is 16 Crores am I right?

Miyajiwala: Net amount is 16 Crores. So basically it is assuming 16-12. if this 12 would not have been there.

Rajesh: Sir it is then 28. Am I right?

Miyajiwala: Property income.

Rajesh: Yeah.

Miyajiwala: The property income also gets netted out here.

Rajesh: Okay. So, basically, therefore one should see that 28 of your recurring rather than 16 Crores?

Miyajiwala: Yes. You are right.

Rajesh: Right. Okay. Fine. Can you tell us that on the 28 Crores what is the gross unallocable expenditure? Is there is anything further nonrecurring other unallocable expenditure?

Miyajiwala: As I said initially in my presentation whatever is of exceptional nature barring that 12 Crores figure whatever is nonrecurring we push it all under exceptional head. So whatever comes in other income or at the operating level, all of it is recurring in nature.

Rajesh: Fine. Can you tell us what is the duration of you domestic order book and what is your exhibition cycle, 6 months?

Miyajiwala: Approximately 6 to 12 months with any size of the order.

Rajesh: And internationally?

Miyajiwala: It will be 2 to 2 and half years?

Rajesh: Okay. 2-2½ years is it?

Miyajiwala: Yeah.

Rajesh: So, these 1600 Crores will be spread over two year or so? Order book of 1600 Crores?

Miyajiwala: Yes.

Rajesh: Okay and out of your current turnover 1370 Crores can you tell us break up between domestic and international?

Miyajiwala: Let me see if I have that number here. Domestic is about 1700 Crores?

Rajesh: Out of just electromechanical segment revenue which is 1370 Crores, how much is domestic and how much is international?

Miyajiwala: It would be approximately half, 50:50.

Rajesh: Okay. That is fine. Thank you sir.

Moderator: Thank you very much sir. Next in line we have Mr. Akshay from Enam Securities.

Akshay: Good day sir, Congratulations on good set of numbers. I just had a couple of quick queries. Just wanted to know, can you say that we manufacture our own goods in segment B. What are the margins for those products at an average?

Miyajiwala: The margins would be about 20% or so.

Akshay: Around 20% and that is majorly forklift?

Miyajiwala: This is a rough estimate. I do not have the numbers right now.

Akshay: In other expenses, you said there were three or four items which made the expenses higher, I do not want the breakup, but totally how much were these three things to consultancy, the forex loss, and the provisions that you made?

Miyajiwala: Other expenses?

Akshay: Yes, as you said there were three items,

Miyajiwala: Exchange growth would be about 5.

Akshay: Roughly 10 Crores?

Miyajiwala: Yes.

Akshay: Sir, certain items which was shifted out of the segment into other income what is the total amount?

Miyajiwala: Unfortunately, I do not have the numbers right now.

Akshay: I just joined the conference late, if you just clarify how the tax rate, you said full, I did not follow that part? What is the calculation of tax rate?

Miyajiwala: You have 144 Crores after deducting 12 Crores of remunerate income and 144 Crores of operating income on that we have about 140 Crores of tax and on the other hand on the exceptional side with marginal negative tax.

Akshay: Alright. Thank you sir.

Miyajiwala: Welcome.

Moderator: Thank you very much sir. Next in line we have Naynesh from TATA AMC.

Naynesh: Actually all my questions have been answered. Thank a lot.

Moderator: Thank you very much sir. Next is Sanjukta from ASK Securities.

Sanjukta: Good afternoon sir. Sir you are indulge into deal with the Tata Steel, sir could you give us some detail of this review?

Miyajiwala: Unfortunately that is not part of my presentation here and I would not like to discuss it here. This is one of the most intensive and detailed teleconference I have ever managed.

Avishek: Hello Monali.

Moderator: Yes sir?

Avishek: How many questions are there?

Moderator: Sir, there are total of four participants for the questions.

Avishek: Mr. Miyajiwala Is it fine to take four more questions?

Miyajiwala: Sure.

Avishek: Monali go ahead.

Moderator: Sure sir. I think Ms. Sanjukta is disconnected. Next question is from Mr. Dharmandra of Artman.

Dharmendra: Just requesting that if you can take us through how the subsidiary performance has been on an individual basis and how sustainable is this is?

Miyajiwala: Most of the subsidiary and associated companies have done very well and as I have said they have contributed almost 20% on their turnover or rather on capital employees after meeting the interest cost etc. and looking at the kind of business they are in I think the performance is sustainable, so far a reasonably long period.

Dharmendra: What is the kind of growth we can see in the subsidiaries going forward?

Miyajiwala: I am quite positive on that and the kind of profitability we have seen year should hopefully continue?

Dharmendra: Are all these subsidiaries in the related business of air-conditioning and MEP?

Miyajiwala: The major ones are.

Dharmendra: Thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Dhimant HSBC Assess Management.

Dhimant: Good afternoon sir, just 2 or 3 questions. The capital employed in the electromechanical as they are largely accounted for by the work in progress in three, any other element to that?

Miyajiwala: No.

Dhimant: Which are the businesses that can give you I mean in terms of scalability whatever one of these segments are possibly on?

Miyajiwala: Actually, as far as scalability is concerned all our business can provide good scalability.

Dhimant: In terms of what ever you mentioned?

Miyajiwala: Say for an example, in India the potential is so huge apart from that investors whom we have in Middle East, they are now investing in other countries and when they announce investment in other countries including India, in North African, and Saudi Arabia is not a small amount, it runs in billions of dollars. So, electromechanically it is definitely scalable. The only thing we need is human resource over there and we are continuously looking at acquiring human resource in various ways and we are scaling up our capability. So electromechanically it is definitely scalable.

Dhimant: This is more in context in somebody earlier asked your vision in 2010, so just wanted what are the other business that can give you?

Miyajiwala: That I what I am trying to explain to you. Right now I not going to discuss about the businesses that we do not indulge at the moment because when we do come to those business we will have a separate discussion depending on what we are talking about but even if you look at our existing businesses for example textile machinery business can become a vertical they may meet the requirements of the entire lot of requirements of a textile mill, for example electromechanical, HVSC, materials handling all of these capabilities are available in the company and we look at the same business slightly differently, we have huge opportunities coming up there, so I think to a very large extent our existing business themselves will provide the avenues for growth and meeting our goal of 10x10x10.

Dhimant: Any chances of the EBIT margins in the unitary cooling products in growing from here or you feel that possibly this would verify at these levels?

Miyajiwala: There are mega projects or the vision are talks about higher margins. So, our efforts are continuously to be to improve the margins.

Dhimant: Any major projects that we have bid for which you can share or can you share the geography where the opportunities?

Miyajiwala: I cannot share.

Dhimant: You might not share it in terms of the actual figure but can we share the sense where the geographies are getting? Is it the same geographies?

Miyajiwala: Same geographies.

Dhimant: Okay but these are significantly as large?

Miyajiwala: Yes, we are looking at some.

Dhimant: Great sir, Thank you so much.

Moderator: Thank you very sir. Next we have Kaushal Shah from LKP Shares.

Kaushal: Sir, good afternoon sir. This is Kaushal from LKP. Sir, there is a possibility for my interaction with some of textile companies we understand that the textile industry CAPEX cycle sort of likely to wean going forward. So, since you know, your agency business drives a lot of the income from that particular segment, are you getting any sense of that and in case that is likely to happen what could be the impact of your numbers going forward?

Miyajiwala: There has been little bit of slow down in second month of the last year, but I do not know we cannot say that that is really a trend until it is establish over the next few months and number two, the order book so far principal is so strong that textile will sustain for the next couple of years and number three; we are also looking at weaving and knitting and there is a possibility that there would be a much higher investment coming in these areas, if spinning slows down a bit weaving and knitting would takeover and to that extent we are well covered and lastly as I said, we would be looking at industry specialization and so if we do that whatever relatively lower investments comes into textiles that would be a much larger opportunity towards in terms of HVSC, ventilation, in terms of materials building equipment etc.

Kaushal: Finally sir, you have given the debtors numbers but I have missed them, so can give the debtors receivables numbers for 2007?

Miyajiwala: One sec. 440 Crores.

Kaushal: Right sir. Thank you.

Moderator: Thank you very much sir. Next is a follow up from Mr. Vishal Shah Techno Shares.

Vishal: One last question, if you could elaborate as to why this international project got delayed, I mean the execution started from 2004?

Miyajiwala: The project was not delayed. The new project they have started, there are several things which is need to be done, one is mobilization which takes sometime, second is design engineering works the workable design which takes time because once you make the design you need to get into consultants who will have to got to them and certify them and sometimes the designs which are given by the consultants themselves for the overall project they get notified and finally there is something called value engineering where we along with the main contractors have to sit down and see where the project cost can be reduced and that benefit has to be passed on to the customers. So, these are the kind of activities which take place in the initial phases during which the execution does not spark and it is not that either the project is delayed or that we have not started execution. It is natural part of the project.

Vishal: Okay. So now everything is sorted out? I mean the mobilization and all?

Miyajiwala: There is no question of sorting out. The process is of engineering etc, is being completed and now execution is started.

Vishal: Okay sir. Thank you sir.

Miyajiwala: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Ravindranath Nayak from IDBI Capitals.

Ravindranath: Good afternoon sir.

Miyajiwala: Good afternoon.

Ravindranath: Sir my question is you have mentioned that could you please tell me what is the CAPEX of last year 2007?

Miyajiwala: OPf 55-55 Crores.

Ravindranath: 50-55 and what is the CAPEX expected in the share?

Miyajiwala: About 50 Crores.

Ravindranath: About 50 Crores. Again sir one thing you mentioned that as you moved towards more manufacturing your margins is going to come down. So, what is your expectation for outsourcing any opportunities so that you can improve the margin?

Miyajiwala: See this thing what I mentioned was the question of product mix. If you have agency lines because the commission is accounted with turnover your margins will look like 50%, but when you are manufacturing material cost consumption there is workers salary, wages etc. etc. therefore the margins cannot be 50%.

Ravindranath: Okay.

Miyajiwala: You get a value addition normally between 20%-25%. So if you have more and more of manufacturing, margins will move towards 20%-25% from 50% level in the engineering group. It is more a product mix question rather than margins coming down.

Ravindranath: Okay. Sir, do you import items from other countries in the unitary cooling product.

Miyajiwala: Yes we do.

Ravindranath: So what would be the percentage in terms of the total cost of import?

Miyajiwala: There is no fix percentage.

Ravindranath: Roughly what would be if you are 100% of the cost Rs. 100 the cost of the material you sell in the cooling what would be the percentage you import?

Miyajiwala: It could be 10%. Sometime it could be 20%, sometime it could be 5%.

Ravindranath: Okay. Actually which geography you import particularly?

Miyajiwala: Generally from China.

Ravindranath: Oka7. Thank you very much sir.

Moderator: Thank you very much sir. Next is a followup from Mr. Surya Narayan from Network Stock Broking.

Surya Narayan: Just to understand what is your plumbing business and to what extent it is contributing currently and which segment it is selling?

Miyajiwala: Sorry?

Surya Narayan: Your plumbing business? In MEP your plumbing business?

Miyajiwala: There is no plumbing business.

Surya Narayan: What is the namesake today?

Miyajiwala: It is a project where we do hydraulics, we do electrical, we do KS, building management systems so there is no plumbing business.

Surya Narayan: Okay sir. Thank you.

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press * and 1. Next in line we have Mr. Ankit Sancheti from ING Mutual Fund.

Manish: Hi this is Manish colleague of Ankit. Just wanted to know about the development plan at your Hyderabad real estate?

Miyajiwala: No comments. We do not have any plans right now.

Manish: So but are you looking for an outright sell or.

Miyajiwala: You know if I have shares which are appreciating well I may keep those shares in my individual personal capacity.

Manish: Okay but do you have any time horizon to monetize the investment of your shares?

Miyajiwala: It depends on the needs, depends on when we feel the time is right or if when we get a suddenly a very good opportunity.

Manish: Alright.

Miyajiwala: Then we can do.

Manish: Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, may please press * and 1. At this moment there are no further questions from participants. I would like to handover the floor back to Mr. Avishek Datta of SSKI Securities for final remarks.

Avishek: I would like to thank the management of Voltas for giving us the opportunity to host the conference call and thank you everyone for participating in this call. Thank you.

Miyajiwala: Thank you.

Avishek: Yeah thank you sir.

Moderator: Ladies and gentlemen thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.