MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Macro picture

1. According to a latest IMF (International Monetary Fund) report, global growth is expected to rise 3.9% in 2018. Growth drivers include a notable rebound in global trade, an investment recovery in advanced economies, continued strong growth in Asia, a sizable upswing in emerging Europe and signs of recovery for several commodity exporting economies.

2. Economic growth in the Gulf Cooperation Council (GCC) countries, the main arena for the Company's International Projects' operations, was lower in 2017-18 as compared to the previous year due to the impact of reduced oil output and prices. It is expected that growth will pick up in 2018-19 with an uptick in oil prices, although geo-political tensions in Qatar and other regions continue.

3. India recorded the highest growth rate amongst the emerging economies of BRICS (Brazil, Russia, India, China and South Africa) during 2017-18. India's foreign exchange reserve that stands at around USD 424 billion, provides some cushion for managing foreign exchange outflows. The Government's policy reforms such as the implementation of the GST (Goods and Service Tax), the Insolvency and Bankruptcy Code (IBC), recapitalization package to improve the financial health of public sector banks, schemes targeted at Power for All have contributed to the growth momentum. However, the inflationary impact of factors such as the recent increases in oil prices and depreciation of the Indian currency need to be watched.

Tata@150

4. The calendar year 2018 also marks the 150th year of the Tata Group. Voltas is proud to be a Tata Enterprise Company. To mark the milestone, the Group has released a special logo which represents the Group's vision of a brilliant tomorrow. The colours represent the youthful energy and potential the Group sees in the future. 150 circles in the logo create a graphic representation of a global community bound together by the ideals of the Group. The 150 itself is slanted to indicate a forward-facing outlook. Keeping with the tradition, Voltas too has incorporated this logo in its communication material for the year. The Company has a series of programs to celebrate the 150th year of the Group.

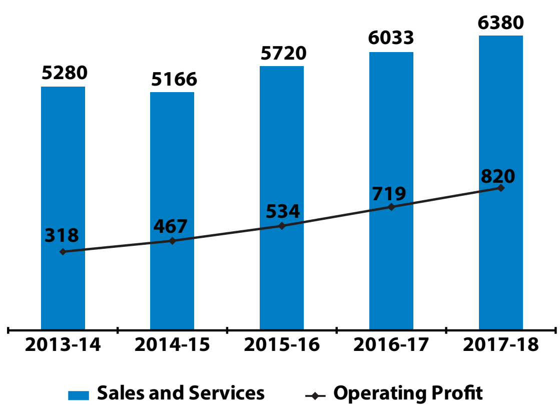
Voltas – Driving Value through Smart Engineering

5. The Company continued to remain focussed on the path for attaining Vision 2020 – 'Driving Value through Smart Engineering' – across its workforce. By doing differently, and more efficiently, the employees are strategically using and applying smart thinking for enhancing value. The zest to provide best-in-class solutions based on logic, facts and consumer insights are a part of the organisation's DNA. The culture of SWIFT (Smart Thinking, Winning Attitude, Innovation & Initiative, Flexibility and Teamwork) drives the ethos at Voltas.

6. The year gone by showcases multiple examples of Smart Engineering be it the launch of the innovative Window Inverter AC - a first for the industry, the customised, value additive solutions offered by the Textile Machinery and Mining businesses, or the IoT (Internet of Things) that tracks installed chillers across the country remotely. The International Business ensured smart execution and speedy completion along with commercial and financial closure of the older projects.

7. Sales and Services and Operating Profits (Profit before exceptional items) of Voltas (consolidated) for the period between financial year 2013-14 and 2017-18 are given below:

Financial Performance (Consolidated)
(₹ in crores)

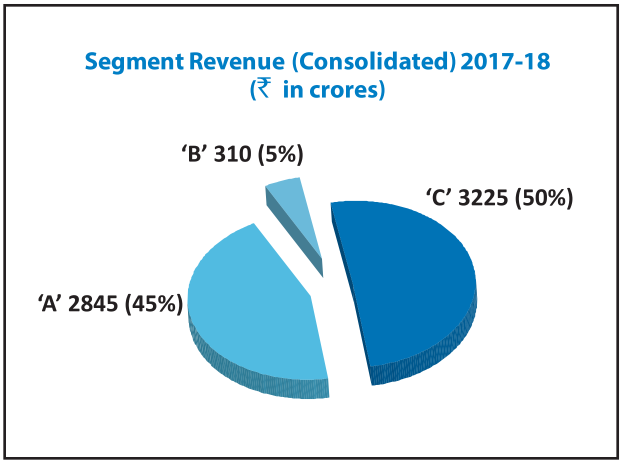


8. The business segments of Voltas (Consolidated) are:

'A' - Electro-mechanical Projects and Services

'B' - Engineering Products and Services

'C' - Unitary Cooling Products for Comfort and Commercial use



Voltbek Home Appliances Private Limited

9. Shareholders would be happy to know that, Voltas and Ardutch B.V. (a subsidiary of Arçelik A.Ş.; part of the Koç Group (Revenue of USD 21 billion approx in 2017) – Turkey's largest industrial and services group), have established a Joint Venture company (JVC) in India, to enter the consumer durables market in the country. The new company incorporated in India in the name of Voltbek Home Appliances Private Limited (Voltbek) is an equal partnership joint venture.

10. The JVC is working towards launching refrigerators, washing machines, microwaves and other white goods / domestic appliances under the brand name Voltas-Beko. Beko, the global brand of Arçelik A.Ş., has been the fastest growing home appliances brand of Europe. The brand is the market leader in UK and the No. 1 freestanding white goods brand of Europe. The complementary strengths of the two partners will help build a sustainable consumer durables business in India. A manufacturing facility will be set up in the country, and the JVC will also source products from Arçelik's global manufacturing facilities and vendor base.

UNITARY COOLING PRODUCTS

11. Overcoming many challenges, the Unitary Cooling Products business was able to achieve good growth, selling around 1.15 million Room Air Conditioners, during the year. Voltas launched its range of 'All Star' Inverter ACs, with the value proposition of 'All Weather Comfort – All Year Savings' during the summer of 2017. Based on 'Two Stage Steady Cool compressor technology', these ACs offer high degree of energy efficiency in extreme weather conditions. The model range for Inverter ACs was substantially enhanced during the year. Voltas now has the largest range of Inverter AC's to cater to the varied customer preferences across the country. Inverter AC's were a significant portion of the total sales in Q3 and Q4 of 2017-18.

12. As per latest independent third party retail audit report, Voltas continues to have the largest Distribution Reach among the pure AC players in the market, with more than 15,000 touch points, across the country. All this led to an overall increase in YTD Market Share to 22.1% in FY18, an improvement of 100 bps over the last year. This is the 7th consecutive year of Leadership with increasing market share well ahead of several formidable multi-national and local competitors.

13. This was a difficult year for the industry with sales impacted in Q1(2017-18) due to GST implementation and migration to higher energy efficiency standards in Q3(2017-18). Summer months began on a high note, but demand was soon dampened due to early onset of rains in some regions in May/June 2017. Market sentiments in June 2017 were mixed, given the uncertainty over impact of GST on trade partners.

14. The Bureau of Energy Efficiency (BEE) started mandatory star labelling for ACs from 2010. Since then, the bar for energy efficiency has been periodically raised. Synonymous with the responsibility of the market leader, Voltas has been able to align itself well in time with the changes made by BEE. From January 2018, industry started following common Star labelling table for Inverter Split AC and Fixed Speed Split AC, based on ISEER (Indian Seasonal Energy Efficiency Ratio) methodology. Voltas had voluntarily adopted these revised BEE energy norms for Inverter AC from 2017 (which were made mandatory from January 2018).

15. With the market shifting towards Inverter ACs, the Company has geared its R&D, to develop super-efficient Inverter ACs. Voltas is also the first in the industry to launch Window Inverter AC in India. The Company has more than 35 SKUs in the All-Star DC Inverter range today, with features like:

High ambient and instant cooling; Super silent operations; Two-stage steady cool compressor; Five motors using DC technology and Eco friendly refrigerant.

16. The Company launched attractive consumer offers, such as, financing schemes and cash-back offers, along with fresh TV commercials, bringing back the favourite, Mr. Murthy.

17. In its third year of operations, Voltas Fresh Air Coolers further enhanced its product portfolio, across Personal, Window, Desert and Towers series, with a range of 24 models. The significant growth registered in this category was driven by enhancing the model mix, expanding touch points across the white goods and brown goods channel, expanding service network and clear communication of features like honeycomb cooling pads and three-stage filters. The automatic humidity control feature in air coolers, which extends the usage period of the products across both sticky and dry heat, was well accepted by the market.

18. The Company's performance in the Commercial Refrigeration category was augmented by the availability of an enhanced portfolio by introducing products catering to changing consumer preferences, such as top-glass freezers and curved freezers among others. Voltas continues to retain its market leadership position.

19. Voltas believes that After-sales-service is critical in sustaining its leadership position. In this regard, Voltas is continuously investing in avenues for strengthening the Service Network such as developing a separate network of in-house Direct Service Centres and improving last mile service delivery. The service network was considerably expanded in terms of newer outlets and reach. A number of customer friendly initiatives such as extended warranty on product and compressor, auto alerts to customers for service, were introduced during the year.

OPPORTUNITIES AND OUTLOOK

20. Voltas ensures that it stays relevant to the market by continuously engaging with various stakeholders and using these insights to modify its products and service offerings. Owing to the increasing consumer spending capacity, changing consumer preferences and better availability of power, the AC category is expected to witness good growth in the coming years. Voltas, being the market leader, is well poised to lead the industry in this direction. Government initiatives such as GST implementation, migration to ISEER, etc., will improve the product performance and increase efficiencies in supply chain, for the entire industry. In the air cooler business, the Company expects a positive impact of GST implementation on demand shift to organized sector products.

THREATS

21. While the AC industry is growing at a rapid pace, there are some challenges in the external environment. On one hand, GST, exchange rate and commodity prices impact pricing, and on the other, competitive pricing, especially in energy efficient products, results in lower margins. Improved focus on value engineering, cost innovation, customer service and logistics will help Voltas sustain its market dominance, in an increasingly competitive market.

ELECTRO-MECHANICAL PROJECTS AND SERVICES

Domestic Projects

22. The Domestic Projects business continues to align itself with the Vision 2020 statement while creating a differentiator in the market through reliable solutions and delighting the customer through trust worthy after-sales service offerings. The IoT controlled, remote monitoring system for predictive maintenance now covers over 1,000 chillers, across India. Service personnel in the field are empowered to use technology in the form of smart mobile device, giving them a single window solution to address their needs in customer complaint resolution process. This has enabled uniform service delivery across locations. This year witnessed a turn-around for Rohini Industrial Electricals Limited (RIEL), a wholly-owned subsidiary of the Company. It's scope of work includes electrification projects. In fact, Voltas has been instrumental in electrifying more than 2500 villages across the country as a last mile connector. These projects are driven under the Deen Dayal Upadhyaya Gram Jyoti Yojana – a Central Government funded scheme.

23. New regulations on Energy Efficiency norms (Energy Conservation Building Code) along with refrigerant changes has led to upgradation of technology in the existing product range and introduction of energy efficient products confirming to standards. Expansion of the distribution channel for products to increase the reach across India, led to

better penetration. The Company has strategically focussed on Government projects for the last few years and is executing projects in rural electrification, metro rail, air ventilation, water management and HVAC. Besides early introduction of Bharat-Stage VI is leading to large scale expansion and modernization of refineries, thus giving opportunities for specialized Low Temperature Product Offerings.

International Projects

24. The International Projects business had a successful year with good progress on commercial and financial closure of old projects and efficient execution of ongoing projects. The combination of improved execution, client relationship building and selective, risk-mitigated booking of new projects were the primary reasons for a profitable year. New projects booked included amongst others, an additional phase of a mixed-use development, a museum, and re-entry into specialized areas such as District Cooling Plants and Industrial Projects.

25. During the year, many Middle East countries and in particular, the UAE saw project announcements and awards in sectors like leisure and hospitality, in addition to retail and Expo 2020 related developments.

26. Efforts were intensified to expand and accelerate growth of MEP Facilities Maintenance and Water Treatment offerings with projects being booked in the UAE and Oman. Pre-fabricated modular installation of MEP services became a standard approach adopted for the Company's own projects and also offered to the market as a standalone solution. The recent award of 'Contractor of the Year 2017' in both Dubai and Oman was a recognition of the Company's project management capabilities.

OPPORTUNITIES

Domestic Projects

27. The Company has strategically increased its focus on orders from Government projects. With the Government emphasizing inclusive growth encompassing needs of the common man, opportunities in urban infrastructure, transportation, electrical distribution, water treatment, education, healthcare besides smart cities are increasingly visible. The recent impetus from the Government on announcements and increased budgetary allocations covering the following adjacent areas of the Company's core business, has led to growing opportunities in India in areas such as:

- Rural Electrical Distribution
- Transportation infrastructure (including Metros, Airports, Ports, etc.)
- Buildings including educational institutions, hospitals and Government buildings
- Railway Station Redevelopment Projects
- Water and Effluent Treatment Projects

Voltas, given its long term experience and expertise, is well positioned to be the preferred partner for execution of such projects.

28. The Government's intention to build social infrastructure through development of hospitals and educational institutions has been demonstrated through the announcement of major investments in these areas and represents significant potential for the Company's HVAC Solutions business. The rapid emergence of Cold-Chains due to increased organized retail and improved logistics also represents an opportunity for this business.

29. While Phase I of the Electrification program under the GOI scheme is on, the next Phase Saubhagya will also begin soon, opening up opportunities in the space of connecting each house in the village with a electric connection. The Company has been involved in execution of electrical distribution projects in the States of West Bengal, Rajasthan, Madhya Pradesh, Jharkhand and Bihar and is looking at expanding this line of business to other States.

International Projects

30. With some improvement in oil prices, the economies in the GCC region are also looking at a growth phase. This will boost the spending levels across construction and other sectors. According to the Middle East Economic Digest (MEED) Projects forecast, the construction sector in the UAE is projected to grow to USD 37.3 billion by 2021. This will provide opportunities for Voltas in the areas of Built-Infrastructure including Hotels, Malls, Airports, Metros, Commercial and Industrial establishments, etc. Orders are also being awarded for hotels, malls, recreational facilities and theme parks towards the goal of increasing tourism and travel into the region.

31. VAT was introduced in the UAE and Saudi Arabia from January 2018 and planned in other countries by 2019. Ambitious longer-term vision and plans to 2030 or even beyond have been announced by UAE and Saudi Arabia. UAE is taking several steps in the area of smart and sustainable cities, e-trade and transportation. Resolution of the Qatar situation will see opportunities resume in that market. In parallel, in countries including Oman, the Company is making efforts to book orders on infrastructure related projects.

32. Opportunities exist and will continue to be available for players who take a judicious risk-reward balanced approach towards booking and executing projects. Additionally, projects in the mid to small size segment will also be targeted on the back of partnerships with main contractors in this segment and through the Business' joint venture operations in the UAE and Oman. The Business will also continue to grow its MEP Facilities Management and Water Management Solutions with growth potential being high from a current relatively small base.

THREATS

Domestic Projects

33. Weak private investment remains a cause for concern, along with delays in project completion and payments. The Company thus continues to cherry pick and focus on risk mitigated opportunities which are priority projects for the Government, with assured funding and certainty of completion.

34. The market is gradually shifting towards new technology to meet climate change protocols. The Company's Engineering Centre is working on new designs and applications to meet new market and regulatory requirements while exploring partnerships with the right technology partners.

35. Fluctuations in commodity prices and input cost increase is a cause of concern and the Company has adequate risk mitigation processes for the same.

International Projects

36. Budget constraints of clients and irrational pricing by some contracting companies in the region are driving down prices. In addition, cost increases due to introduction of new levies and an increase in commodity prices will need to be countered by improved productivity, especially given turnkey lump sum contracts, with no price escalation clauses. Enhanced approaches to integrated planning, productivity and change management through the use of technology and automation will be key to delivering sustainable efficiency in the execution of projects.

37. Potential economic and political developments, in the region as well as globally, pose threats to sustained growth, progress of ongoing projects and payments. New geographies providing opportunities will be targeted and growth of MEP Facility Management and Water Management Solutions will be further accelerated to supplement revenue and income streams into the future.

ENGINEERING PRODUCTS AND SERVICES

Textile Machinery

38. The Indian Textile Industry is going through a difficult phase both in the domestic as well as export front. The domestic yarn production did not show any growth despite addition of spindles; exports also witnessed negative growth both in garments / apparels and yarn. The lingering and prolonged effects of Demonetization and GST have created a difficult environment, though it is expected to benefit the Industry in the longer term.

39. The reduction in the export incentives post GST increased the difficulties experienced by the textile manufacturers. This led to margin pressure and muted sentiments across the value chain, especially in the spinning sector. As a consequence of this, the capex growth in the industry was muted; however, the continued focus on 'After Sales businesses' in addition to machinery sales helped mitigate the impact.

40. The Business has rolled out a "Five Point Strategy" for its growth to strengthen its leadership position across its offerings by increasing market share and 'After Sales'.

41. Textile Machinery business has a good set of Principals and is looking at setting up more alliances to explore value additive areas in the post spinning space – a case in point being the recent JV with the Japanese brand Shima Sheiki.

Mining & Construction Equipment

42. Mozambique operations continue to drive performance of Mining business while the business in India continues to be impacted with a number of external constraints. In this

environment, the Crushing equipment business in India has seen modest growth due to demand from road construction companies.

OPPORTUNITIES

Textile Machinery

43. The long term potential for Indian Textile Industry looks promising given the huge domestic market driven by aspiring middle class as well as natural advantages available to Indian exporters.

44. The impact of GST related taxation changes and tepid textile exports has led to a slow down of new investments in textile sector. This naturally, affected the Company's mainstay business of selling spinning and post spinning machinery. The strategy of providing both, capital equipment solutions and ongoing operating support means that the Company is increasingly seen as a 'one stop' solution provider through a comprehensive portfolio of products and solutions.

Mining & Construction Equipment (M&CE)

45. Customer centricity of M&CE was the growth driver in Mining Services in Africa. M&CE had steadily grown business/ revenues in Africa through additional contracts for Loaders, Excavators and Auxiliary equipment. The business is also exploring opportunities to enter into maintenance contracts in other African nations.

46. A global trend of Mining OEM consolidation and increasing commodity prices had impacted Mining industry during the past few years. On the domestic front, with the opening up of commercial Mining, there is good opportunity for global Mining companies in India. At the same time, expansion plans of Coal India coupled with spending boost by Government for Road and Infra projects are expected to provide good growth opportunities, especially for Powerscreen crushing and screening business.

47. As the activities in Mining India pick up, there will be opportunities for the India business. The Company is selectively participating in tenders leveraging on its service expertise and network of depots.

THREATS

Textile Machinery

48. The Textile Industry continues to be supported by the Government through export incentives and investment subsidies, which partially offsets the lack of competitiveness due to the Free Trade Agreement enjoyed by the competing countries like Bangladesh, Vietnam, etc. (with the major textile markets like USA and EU). The latest directive by the World Trade Organisation (WTO) to India to curb the incentives / subsidies may have major impact in the short term as more than 30% of the textile produce is directly / indirectly exported.

49. Further, the increasing trend in the import of textiles and garments into India post GST, if not addressed could become another threat to the Textile Industry. As the Company's Textile Machinery business is closely linked to the fortunes of the textile industry, such external factors may have an adverse impact on the performance. Availability of finance has been a deterrent in the past for the Textile Industry and continued delays in disbursement of loans by banks can slow down conversion of orders into dispatches.

Mining & Construction Equipment

50. The main challenge will be to build the Mining India business, which has been impacted in the last 3-4 years due to transfer of Terex Unit Rig/O&K agency business to Caterpillar dealers, and suspension of EMTA mines due to Supreme Court order for cancellation of Coal Blocks. The trend of global consolidation, impacting the entire mining industry is also expected to affect M&CE business. However, M&CE is well poised to cater to the situation by re-positioning itself as an equipment supplier and service provider and identifying new mining sector OEMs which seek representation in the Indian market.

FINANCIAL PERFORMANCE - CONSOLIDATED

51. Financial performance as a measure of operational performance.

(a) **Gross Sales / Income from Operations (Segment Revenues):**

₹ in crores

	2017-18	2016-17	Change	Change%
Segment-A (Electro-mechanical Projects and Services)	**2,845**	2,655	190	7%
Segment-B (Engineering Products and Services)	**310**	332	(22)	(7%)
Segment-C (Unitary Cooling Products for Comfort and Commercial Use)	**3,225**	3,046	179	6%
Total	**6,380**	6,033	347	6%

The Consolidated Segment Revenue for 2017-18 was higher by 6% at ₹ 6,380 crores as compared to ₹ 6,033 crores last year mainly due to higher sales recorded by Electro-mechanical Projects and Unitary Cooling Products businesses.

(b) **Exceptional Items:**

₹ in crores

	2017-18	2016-17	Change	Change%
Exceptional income	**1**	1	—	—

Exceptional income during 2017-18 was on account of surrender of tenancy rights.

(c) **Employee Benefits Expense:**

₹ in crores

	2017-18	2016-17	Change	Change%
Employee Benefits Expense	**587**	618	(31)	(5%)

Employee Benefits Expense consists of salary, wages, commission to Managing Directors, Deputy Managing Director, Company's contribution to Provident Fund and other funds, gratuity and staff welfare expenses. There has been an overall 5% decrease in Employee Benefits Expense during the year under review as compared to the previous year, due to demobilization of workmen, post completion of certain international projects.

(d) **Finance Costs:**

₹ in crores

	2017-18	2016-17	Change	Change%
Interest	**12**	16	(4)	(25%)

Finance costs pertain to interest paid on borrowings from banks for execution of overseas projects.

(e) **Profitability:**

₹ in crores

	2017-18	2016-17	Change	Change%
Profit Before Tax	**805**	720	85	12%
Profit After Tax and Minority Interest/ Share of Profit/loss of Associates	**572**	517	55	11%

Consolidated Profit before tax in 2017-18 was higher at ₹ 805 crores due to better performance across all businesses, with a significant increase in the Projects business. On the domestic front, Universal Comfort Products Limited reported profit before tax of ₹ 97 crores in 2017-18 and Rohini Industrial Electricals Limited reported profit of ₹ 2 crores.

52. FINANCIAL POSITION - CONSOLIDATED

(a) **Borrowings:**

₹ in crores

	2017-18	2016-17	Change	Change%
Borrowings	**142**	171	(29)	(17%)

Borrowings were primarily for execution of overseas projects, including by subsidiaries/joint venture companies. With completion of some overseas projects, the overall bank borrowings were lower by 17% as compared to last year.

(b) **Investments:**

₹ in crores

	2017-18	2016-17	Change	Change%
Non-current Investments	**2,266**	2,068	198	10%
Current Investments	**488**	200	288	144%
Total	**2,754**	2,268	486	21%

Current Investments include Liquid Funds (Dividend Schemes) and Debt Mutual Funds (Growth Schemes). The Non-Current Investments comprise investments in subsidiaries, joint ventures and associates, Investment Properties, other Investments and FMPs/Debt Mutual Funds (Growth Schemes).

(c) **Inventories:**

₹ in crores

	2017-18	2016-17	Change	Change%
Raw materials, components, stores and spares	**200**	189	11	6%
Work-in-progress (net)	**6**	6	—	—
Finished goods	**183**	218	(35)	(16%)
Stock-in-trade of goods (for trading)	**424**	495	(71)	(14%)

Overall, the inventory levels were lower in 2017-18 due to increase in sales volumes.

(d) **Trade Receivables:**

₹ in crores

	2017-18	2016-17	Change	Change%
Current Trade Receivables (Net)	**1,570**	1,454	116	8%

The increase in Current Trade Receivables is mainly owing to Projects business.

(e) **Other Assets:**

₹ in crores

	2017-18	2016-17	Change	Change%
Other Current Financial Assets	**82**	72	10	14%
Other Non-Current Financial Assets	**35**	18	17	94%
Other Current Assets	**1,357**	1,022	335	33%
Other Non-Current Assets	**88**	67	21	31%

Other Financial Assets (current and non-current) comprise of advance payment of taxes (net), capital advances, security deposits, advance to customs, port trust / other authorities and suppliers. Other Assets (current and non-current) are the contract revenues recognized in excess of certified bills in Projects business. In the Projects business, revenues are recognized on the basis of Percentage Completion Method, in line with the Accounting Standard.

(f) **Liabilities and Provisions:**

₹ in crores

	2017-18	2016-17	Change	Change%
Current liabilities	**3,271**	3,042	229	8%
Non-Current liabilities	**102**	102	—	—

Current liabilities include borrowings, trade payables, short-term provisions and other current liabilities. The increase in current liabilities was mainly due to an increase in short term trade payables in the Products business. Non-Current liabilities consist of long-term provisions, trade payables and deferred tax liabilities. Provisions (long-term and short-term) are towards Employee Benefits – gratuity, pension, medical benefits, compensated absences, etc., and for trade guarantees, contingencies, taxation and proposed dividend, including dividend distribution tax.

FINANCIAL PERFORMANCE – STANDALONE

53. Financial performance as a measure of operational performance.

(a) **Gross Sales / Income from Operations (Segment Revenues):**

₹ in crores

	2017-18	2016-17	Change	Change%
Segment-A (Electro-mechanical Projects and Services)	**2,180**	1,875	305	16%
Segment-B (Engineering Products and Services)	**310**	332	(22)	(7%)
Segment-C (Unitary Cooling Products for Comfort and Commercial Use)	**3,306**	3,218	88	3%
Total	**5,796**	5,425	371	7%

Revenues in Electro-mechanical Projects and Services (Segment A) were higher by 16% as compared to the previous year. In Segment B, Revenues of both Textile Machinery and Mining and Construction Equipment business were lower than previous year due to various exogenous factors and certain one offs in the previous year. Supported by strong performance in the peak summer season, Revenue of Unitary Cooling Products (Segment C) was higher by 3% as compared to last year.

(b) **Other Income:**

₹ in crores

	2017-18	2016-17	Change	Change%
Other Income	**237**	267	(30)	(11%)

Other Income comprise rental income, dividend from investments, interest income and profit from sale of investments. Owing to an increase in bond yield, the MTM (Mark to Market) of the Company's investments in debt mutual funds was lower as compared to 2016-17.

(c) **Exceptional Items:**

₹ in crores

	2017-18	2016-17	Change	Change%
Exceptional Income	**(4)**	(6)	2	33%

Exceptional income during 2017-18 was on account of surrender of tenancy rights, offset by reduction in provision for diminution in value of investments in an overseas joint venture company.

(d) **Employee Benefits Expense:**

₹ in crores

	2017-18	2016-17	Change	Change%
Employee Benefits Expense	**422**	407	15	4%

Employee Benefits Expense consists of salary, wages, commission to Managing Directors and Deputy Managing Director, Company's contribution to Provident Fund and other funds, gratuity and staff welfare expenses. The overall increase in Employee Benefits expense during the year under review was 4%. Inflation linked salary increases were partially offset by demobilization of workmen, post completion of certain projects in the Middle East.

(e) **Finance Costs:**

₹ in crores

	2017-18	2016-17	Change	Change%
Interest	**8**	10	(2)	(20%)

Finance costs largely comprise interest paid on borrowings from banks for execution of overseas projects.

(f) **Depreciation and Amortisation Expenses:**

₹ in crores

	2017-18	2016-17	Change	Change%
Depreciation and Amortisation Expenses	**19**	18	1	6%

The charge for depreciation on fixed assets is marginally higher for the year as compared to previous year.

(g) **Other Expenses:**

₹ in crores

	2017-18	2016-17	Change	Change%
Other Expenses	**513**	524	(11)	(2%)

Other Expenses include service maintenance charges, other selling expenses, external services / contract labour charges, subscriptions, e-auction charges, C&F charges, moving and shifting expenses, staff selection expenses, brand equity expenses and commission paid to Non-Executive Directors.

(h) **Profitability:**

₹ in crores

	2017-18	2016-17	Change	Change%
Profit Before Tax	**683**	651	32	5%
Profit After Tax (Net Profit)	**501**	486	15	3%

Projects business segment showed considerable growth in profits during the year due to prudent project selection and efficient execution while Unitary Cooling Products segment maintained its increasing profit trajectory. Overall profit before tax improved by 5% and profit after tax improved by 3%.

54. FINANCIAL POSITION – STANDALONE

(a) **Borrowings:**

₹ in crores

	2017-18	2016-17	Change	Change%
Borrowings	**28**	69	(41)	(59%)

Borrowings were primarily for execution of overseas projects. With completion and financial closure of old projects, the overall bank borrowings at the end of the year were lower by 59% as compared to last year.

(b) **Investments:**

₹ in crores

	2017-18	2016-17	Change	Change%
Non-current Investments:				
- Investment in subsidiaries, joint venture and associates	**206**	122	84	69%
- Other Investments	**802**	614	188	31%
- FMPs / Units of Debt Mutual Funds (Growth Scheme)	**1,376**	1,478	(102)	(7%)
Total	**2,384**	2,214	170	8%
Current Investments:				
- Investment in Preference Shares	**22**	—	22	100%
- Liquid Funds / Liquid Plus / Arbitrage (Dividend)	**130**	76	54	71%
- Units of Debt Mutual Funds (Growth Scheme)	**358**	124	234	189%
Total	**510**	200	310	155%

The Company's investment of surplus cash in Mutual Funds (non-current and current) has increased by ₹ 186 crores (net) and was ₹ 1,864 crores as on 31st March, 2018 as compared to ₹ 1,678 crores as on 31st March, 2017. To maximize returns on Debt mutual fund investments, a larger portion of investments was last year switched from Dividend Scheme Mutual Funds to Short and Medium term Growth Schemes of Debt Mutual Funds. Upon transition to Ind AS, income arising from such investments is being recognized via periodic mark to market fair valuation. In 2017-18, the Company has also made significant investment (around ₹ 79 crores) in the new Joint Venture company for White Goods (Voltbek).

(c) **Inventories:**

₹ in crores

	2017-18	2016-17	Change	Change%
Raw materials, components, stores and spares	**155**	89	66	74%
Work-in-progress (net)	**6**	5	1	20%
Finished goods	**158**	187	(29)	(16%)
Stock-in-trade of goods (for trading)	**424**	495	(71)	(14%)

Stock of finished goods was at lower level as compared to 2016-17 due to liquidation of inventory by Unitary Cooling Products business.

(d) **Trade Receivables:**

₹ in crores

	2017-18	2016-17	Change	Change%
Current Trade Receivables (Net)	**1,277**	1,188	89	7%

Current Trade Receivables were higher by 7% as compared to previous year primarily in the Domestic operations, both in Projects and Products.

(e) **Cash and Cash equivalents:**

₹ in crores

	2017-18	2016-17	Change	Change%
Cash and cash equivalents	**174**	206	(32)	(16%)

Cash and bank balance at the year end was marginally lower by ₹ 32 crores.

(f) **Other Assets:**

₹ in crores

	2017-18	2016-17	Change	Change%
Other Current Financial Assets	**81**	85	(4)	(5%)
Other Non-Current Financial Assets	**23**	17	6	35%
Other Current Assets	**948**	612	336	55%
Other Non-Current Assets	**79**	58	21	36%

Other Financial Assets (current and non-current) comprise advance payment of taxes (net), capital advances, security deposits, advance to customs, port trust / other authorities and suppliers. Other Assets (current and non-current) comprise contract revenues recognized as being in excess of certified bills and advances to Government. These have increased in the current year due to large order execution by the Projects businesses. Revenues are recognized on the basis of Percentage Completion Method, in line with the Accounting Standard.

(g) **Liabilities and Provisions:**

₹ in crores

	2017-18	2016-17	Change	Change%
Current liabilities	**2,887**	2,533	354	14%
Non-Current liabilities	**74**	78	(4)	(5%)

Current liabilities comprise short term borrowings, trade payables, short-term provisions and other current liabilities. Non-Current liabilities consist of long-term provisions and trade payables. The increase in current liabilities was due to an increase in short term trade payables.

LIQUIDITY AND CAPITAL RESOURCES

55. The emphasis of Management on maintaining a robust Balance Sheet continues. The Company had cash and cash equivalents / liquid investments of ₹ 2,227 crores as on 31st March, 2018. The Company has limited borrowings, mainly working capital finance for International Projects.

RISKS AND CONCERNS

56. The Company has robust systems for risk assessment and mitigation and has a Risk Policy in place with well-established internal control and risk management processes, at both Business Unit and Corporate levels. This also includes review and monitoring of the top risks at an

Entity level by the Risk Management Committee of the Board. The mitigation planning for these risks is embedded in the longer term Strategic Business Plan (SBP) of each of the Businesses. Periodically, the Management along with the Risk Management Committee of the Board reviews the major risks and concerns along with mitigation plans. Based on this, a Corporate Risk Matrix is developed and tracked from time to time.

57. As part of the risk management process, the Company also has a well-defined forex policy which ensures timely monitoring and coverage of foreign exchange exposures. Open exposure is appropriately hedged by utilizing forward cover, EEFC account, repatriation from International Projects and Dividend from overseas JVs and Subsidiaries. Accordingly, despite increased volatility of the Rupee, the Company has ensured that the impact of foreign exchange fluctuations was minimized.

58. Emphasis is also placed on health and safety of employees especially at the work place. With appointment of a qualified full time Safety Officer at Corporate, various steps have been taken for improving the Safety culture. Similarly, with the increasing use of information technology in the businesses, it is important to ensure security and safety of the IT environment. This is being done via testing and evaluating the impact of disruptive occurrences and constantly improving the control procedures around IT systems.

INTERNAL CONTROL SYSTEMS AND ADEQUACY

59. The Company has an adequate system of internal controls in place. It has documented policies and procedures covering all financial and operating functions. These controls have been designed to provide a reasonable assurance with regard to maintaining proper accounting controls for ensuring reliability of financial reporting, monitoring operations, protecting assets from unauthorized use or losses and compliance with applicable regulations.

60. The Company's Internal Audit team consists of qualified professionals led by the Chief Internal Auditor, who reports to the Board Audit Committee. The Company has also engaged the services of a leading firm of Chartered Accountants as co-sourcing partner for internal audit. The internal audit function provides assurance to the Board and to the Audit Committee on the adequacy and effectiveness of internal controls, compliance with operating systems at all locations of the Company and its subsidiaries. Based on the report of internal audit function, process owners undertake corrective actions in their respective areas and thereby strengthen the controls. Significant audit observations and status on remedial actions thereon are regularly presented to the Audit Committee.

61. Audits are conducted based on an annual risk-based internal audit plan which is approved by the Board Audit Committee at the beginning of the financial year. The scope and coverage of the internal audit plan includes reviewing and reporting on key process risks, adherence to operating guidelines and statutory compliances. The annual audit plan and internal audit reports are shared with the statutory auditors.

62. Processes in the Internal Audit function have been continuously strengthened for enhanced effectiveness and productivity including use of tools for analytics in the audit domain and ongoing knowledge improvement programmes for staff.

63. Internal audit has been entrusted with independent testing of operating effectiveness of internal controls. Based on the assessment carried out and evaluations of the results of the assessment, the Board of Directors is of the opinion that the Company has an adequate Internal Financial Controls system that is operating effectively as at 31st March, 2018.

HUMAN RESOURCES

64. The Company has taken several long term initiatives to ensure appropriate availability of skills, talent and resources for the next five years in alignment with Business Strategy. Accordingly, initiatives like Span & Layer, capability and skill development, engagement initiatives, Digitization & Automation of HR processes, Industrial Hygiene and Occupational Health Surveys in factories and offices and office up-gradation programs were further strengthened during the year. The focus has been on building highly skilled and engaged workforce in order to achieve ambitious growth targets.

65. The Company has augmented its leadership and talent pipeline with a combination of lateral hires in the market together with internal movements and induction of fresh talent through campus hires. To keep the young campus hires engaged and charged till they actually join Voltas, pre-joining engagement initiative is enhanced through

regular communications like Info-byte. There is significant improvement in Learning & Development with customized training for different focused groups from various businesses. The maximum coverage of training is in Middle Management and Junior Management band. In order to maintain sustainable growth and have competitive advantage, the Company has identified its core talent and is currently engaged in developing them via suitable leadership programmes.

66. During 2017-18, the Company had launched Middle Management Leadership Development program (MMLP) for Middle Managers to enhance the internal leadership pipeline. The Assessment & Development Center for MMLP assessed 132 employees (out of population of 484). 37 employees were selected as High Potential for the leadership program and in partnership with Indian Institute of Management – Ahmedabad, underwent a 2-phase Development program. Going forward, the Company would place these high potential employees across divisions in appropriate roles and responsibilities.

67. Voltas has implemented a well-rounded formal engagement calendar to improve employee engagement covering all locations through various initiatives like Cultural Day celebration, Sporting Events, Employee Volunteering.

68. High 5, a Reward & Recognition initiative, is now in its third year of implementation and going strong. Employees and managers are encouraged to recognize and felicitate the contribution of peers and teams. This year, new categories have been introduced in High 5 - Best V-Cas Manager; Inspiring V-Cas Managers for managers who have actively completed training need identification, performance planning and recognition for his / her team; Outstanding contribution towards CSR and Internal Trainers.

69. In keeping with the spirit of professional engagement and pragmatic business relations, the Company successfully entered into a Bonus and Incentive Settlement with its employees across locations. Given an approach of innovative and inclusive practices, the Company enjoyed a favourable Industrial Relations climate during 2017-18.

70. Voltas reiterates its commitment to provide a safe and harassment-free working environment for all its employees. The Company launched a protracted campaign, across locations, to increase the awareness on gender equality and sensitivity at work place with a series of face-to-face meetings and e-learning modules Tools like the Manual on Sexual Harassment of Women at Workplace released by the Ministry of Women and Child Development, Government of India, POSH Classroom trainings and E-learning portal for employees.

71. The Company has participated in "Gender Parity Survey for the Formal Sector of India", conducted by FICCI flo and received the overall rating as ''Good" with score of 14.7 out of 24. The Company has received a certification ''Preferred Work Place for Women" and is allowed to use the logo on the Company's website and in other communication channels to enhance its employer brand.

72. The total staff strength of Voltas Limited (stand-alone) as on 31st March, 2018 was 4769, including 2154 contract staff, primarily for overseas projects. On a consolidated basis, total manpower as on 31st March, 2018 was 8118, including 5228 contract staff. The international projects business including overseas subsidiaries/joint ventures had 4195 contract staff.

CAUTIONARY STATEMENT

73. Statements in the Management Discussion and Analysis describing the Company's objectives, projections, estimates, expectations or predictions may be 'forward-looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the Government regulations, tax laws and other statutes and other incidental factors.