Voltas Y 2012 Earnings Call 31 May'12

Operator

Ladies and gentlemen, good day. And welcome to the Q4 FY12 Results Conference Call of Voltas, hosted by Prabhudas Lilladher. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. I would now like to hand the conference over to Mr. Kunal Sheth from Prabhudas Lilladher. Thank you. And over to you, sir.

Kunal Sheth

Yeah. Thank you, Marina. On behalf of Prabhudas Lilladher, I would like to welcome the management of Voltas on the call. From the management we have Mr. Anil George, EVP Corporate Affairs and CFO; Mr. B.N. Garudachar, GM-Corporate Communication and Investor Relations; and Mr. Utsav Shah, CFO Central F&C Services.

I'll now request the management to give us some opening remarks after which we will open the floor for Q&A. Thank you. Over to you, sir.

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

Thanks, Kunal. This is Garudachar, representing the Investor Relations functions for Voltas. On behalf of the management let me thank each and every participant who have been with us for the Voltas Q4 FY12 post results con-call.

We have with us as mentioned earlier, Mr. Anil George and Mr. Utsav Shah. We have the con-call little parts. We'll have a brief presentation by Mr. Utsav Shah and subsequently, we'll have the Q&A session addressed by Mr. George.

May I request Mr. Utsav Shah to make a brief presentation.

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

Good afternoon. This is Utsav here. Let me take you through the results for the quarter and the year ended 31st March, 2012 for Voltas Limited.

Both at home and abroad, the challenging economic environment that we speak or spoke about earlier in Q3, has only worsened. All aspects of business, supply, currency and competition were adversely affected, and uncertainty seems to be the only constant.

India's third quarter GDP grew at 6.1% year-on-year and represents the seventh successive quarter-on-quarter drop. The full year GDP growth is now predicted to decelerate to around 6.3% from the 6.9% estimated just a few months ago.

The recently announced IIP numbers contained no cheer, they indicate clear sluggishness and then unfortunate propensity to defer capital investment. There is an all round disappointment at the lack of reforms, the absence of real efforts to contain the large fiscal and current account deficits, and the retrospective tax laws.

Unless the challenges of high inflation and tight liquidity are constructively resolved with determination, consumer confidence may not return. Extreme levels of exchange volatility have further dampened the economic outlook and many analysts predict an even deeper and longer growth slowdown.

At the same time, we continue to be negatively impacted by the turmoil in Europe and other events across the globe. Against this background, the consolidated sales income from operations for the quarter ended 31st March, 2012 was 1,573 crores as compared to 1,671 crores in the corresponding period last year. The profit before tax and after exceptional items at 141 crores as against 153 crores recorded earlier.

However, due to lower incidents of tax, the net profit after minority interest for the current quarter was higher at 104 crores, slightly ahead of 101 crores reported in the previous year. For the year ended 31st March, 2012, the consolidated sales/income from operations was by and large at the same level of 5,175 crores as compared to 5,177 crores last year. High interest rates, inflation, increase in prices of commodities, materials and components had an adverse impact on the operating profit, which was at 370 crores for the year. After exceptional items and charge of an Onerous contract, the profit before tax was 219 crores and net profit at 162 crores as compared to 524 crores and 357 crores, respectively in the previous year.

The Board has recommended a dividend of Rs. 1.60 per share of Rs. 1 each, that is 160% for the year ended 31 March, 2012.

The Voltas balance sheet remains strong, with shareholder equity at 1,478 crores as against 1,362 crores for the comparable period last year. The increase in debt equity ratio reflects higher borrowings of 223 crores, mainly from overseas operations and Rohini Industrial Electricals Limited.

The company's liquidity position is comfortable with cash and bank balances at approximately 271crores and liquid investments aggregating 221 cores. Despite a negative turn of events in the business environment, return on net worth and capital employed at Voltas continues to remain healthy and demonstrates resilience.

We present below our detailed comments on the performance and future outlook of the various business segments in which we operate.
Segment A, Electro-mechanical Projects and Services. The segment's consolidated revenue was higher at 3,183 crores as compared to 3,041 crores last year. However, the profitability of this segment before the Onerous contract and exceptional items was lower at 172 crores as compared to 239 crores last year. The results include the impact of some full and final settlements apart from the usual upward and downward revision of margins on ongoing projects were justified.

The segment's total consolidated order book position stands at 4,292 crores as on 31st March, 2012 as compared to 4,888 crores as at the end of the previous year, reflective of the general slowdown in capital investment and project awards, both in India and overseas.

As earlier reported while publishing the Q3 results, the Onerous contract pertains to the Sidra Medical & Research Centre hospital project in Qatar. This is approximately a USD 2.5 billion large and complex design and build state-of-the-art hospital with world class facilities, which has been under execution since 2008.

Voltas' share of work is valued at over 1,000 crores and involves extensive coordination with multiple agencies and intermediaries. There have been several impediments and constraints arising from delay in designs, frequent changes in architectural and interior layouts, ceiling height restrictions and abortive engineering and rework apart from the non-availability of Indian workmen visas.

Voltas has in line with the requirements of accounting standard AS-7, accounted for the estimated cost on the project, based on an extensive techno-commercial review by the management, taking cognizance of cost incurred and to be incurred to complete this project. A total provision of Rs. 320 crores has just been made during the year including the 277 crores accounted for in Q3.

However, uncertainties exist on variations, additional revenue claims and cost to come until the completion of the project due to the complex nature of the design and build project, changes in the design still being made by the client and delay in completion of this project.

The ongoing execution of the Sidra Medical & Research Centre is receiving special management attention. The focus right now is on high quality, timely and cost efficient conclusion of the project to the entire satisfaction of our plant.

Given the iconic nature of this project, it is expected that the successful completion would generate value in terms of the company's standing and prospects in Qatar, which offer the most attractive growth opportunities in the region.

During the year, the international projects business secured a sizable contract in Abu Dhabi for the Yas Retail Mall for approximately 480 crores apart from several other smaller orders within the region.

Notable achievements during the year include the satisfactory completion of the prestigious Etihad Towers project, consisting of five high rise towers, which was recognized as the MEP project of the year. Significant progress has also been made in the 800 crores central market redevelopment project which will be completed in FY12-13.

We are happy to report that Voltas has won for the second successive year two of the most prestigious awards in the Middle East, namely the MEP Contractor of the Year, and the MEP Project of the Year awards. These awards reflect the industry's acknowledgment of the company's international performance and its ability to successfully execute iconic developments.

The joint venture established in the new geography of KSA has begun to make progress. Olayan Voltas Contracting Company Limited in KSA, secured its first design and build order of Rs. 360 crores for a utility complex in Riyadh.

Voltas Oman LLC, the other new JV is a aggressively bidding in the Oman market. Older JVs and subsidiaries continue to profitability cater to the smaller contracting and O&M marketing segments. The consolidate order book of the international projects business stands at 2,336 crores, of which 1,083 cores including the VL portion of JVs and subsidiaries was won in the current financial year.

The domestic projects business has performed comparatively well despite the difficult economic conditions. It has recorded a higher turnover and was also able to buy and large, maintain its profitability. This has primarily been the result of careful selection of jobs. The company executed the internationally acclaimed Formula 1 circuit in Noida, delivering HVSE, Electrical & Plumbing systems within the shortest available time.

Other jobs which were successfully completed, included some prestigious MEP projects for automotive manufacturing units such as Maruti at Manesar, Mahindra & Mahindra's engine design and R&D facility at Chennai and Tata Cummins globally benchmark facilities at Phaltan. The business was also able to seek out opportunities and make inroads into some new areas in the industrial sector.

Power sector projects include Koradi, Indiabulls Power, Amravati and Nashik to name a few. In the industrial refrigeration segment, a sizable order was booked from GNFC. The business also took on some important hospital projects that will help secure leadership in this segment, including the Employee State Insurance Corporation hospitals at Gulbarga and the Mumbai Trauma Hospital.

Faced with the challenges of managing cost and cash flow, the business has taken numerous steps and put in place, several processes to reduce operational and administrative cost. It has also expanded its operations in the Electro-mechanical, O&M contracts and AMC arena as promising at adjuncts to the mainstream business.

The water management business increased its carry forward order book by 55% over the previous year. New business included a breakthrough large order for the company worth 165 crores from Tata Steel for its plant at Kalinganagar which was announced in Q3. With the advent of bigger orders, the business has increasingly focused on enhancing its underlying executional capability, recruiting and adding to its manpower resources and improving its operational processes where necessary.

During the year, the business executed several water treatment projects. In the industrial segment, they include water systems for a steel melt shop in Rourkela, zero discharge ETP at Durgapur, coal rolling mill at Bokaro, raw water treatment plant in Jamshedpur, et cetera.

In the urban infrastructure space, a sizable amount of work is in progress at Kolkata, under the city's environmental improvement plan including various drainage, pumping stations, raw water treatment plants and other facilities at spread-out locations.

The performance of Rohini Industrial Electricals continued to be disappointing in the face of poor margins and losses from carry forward legacy projects attributable to its earlier management. While new orders are being procured at reasonable margins, various initiatives to reduce costs have been undertaken along with some key personnel changes.

Poor collection of older receivables continue to be a matter of concern, impacting the timely availability of cash. During the year, RIEL issued preference shares of Rs. 25 crores which were fully subscribed by Voltas. Apart from injecting cash, this has also ensured a positive net worth, qualifying RIEL to bid for government and other public sector projects.

The domestic project business has also been reorganized to comprehensively extract synergies, and introduce the ability to offer a one-window solution to the customer. Consequently, the water management business and RIEL have been operationally integrated with the Domestic Electro-mechanical business.

A full scale commercial team has also been put in place to enhance contract administration capabilities, timely billing and swift recovery of receivables. The domestic projects business maintained a healthy consolidated order book of Rs. 1,956 crores as at the end of the year of which Rs. 1,310 crores was won in the current financial year and Rs. 352 crores in the current quarter.

Outlook, in the Middle Eastern market, with oil prices likely to sustain above $100 per barrel in the foreseeable future, substantial cash surpluses are expected to be available for investment. Longer term opportunities therefore look good. And the company is well placed to seize future growth in this geography, given its high visibility, reputation and track record.

The company hopes to benefit from the several large-scale projects that the Abu Dhabi government intends to pursue in various segments, as well as the multiple projects that will be launched in Qatar in preparation for the 2022 World Cup.
Welcome indications of a long awaited pickup in activity are also reported from Dubai.

In Saudi Arabia, the State's largest latest budget seeks to channel, substantial investments into infrastructure, housing, transportation and healthcare activities. Now that Voltas' new JV with Olayan is operational in KSA, the company is reasonably well placed to leverage its position and grow. Likewise, the joint venture in Oman is expected to be positively impacted by investments reserved for health, education and housing.

Having said the above, it is however unlikely that the market will, in the short term, return to the pre 2009 levels of high project activity. The truth is also that over the past half decade or so, dozens of new contractors have entered the region. Competition has consequently intensified and the results of multiple contractors chasing fewer jobs is clearly evident through shrinking margins.

To profitability survive, businesses have little choice but to curtail their overheads, improve efficiencies and excel in project execution. Voltas recognizes these hard realities and has put in place a series of measures to improve its processes and extract the desired outcome. The domestic Electro-mechanical business will also continue to experience the adverse impact effects of the prevailing headwinds in the global economy.

Dampened investment sentiment in India is further aggravated by high interest rates, lethargic governmental policies and increased competition. Here again, margins will be subject to significant stress and efficient cash and working capital management will assume even greater importance. Nevertheless, the company expects that some opportunities for its MEP offerings will grow out of investments in certain key areas, namely; the advent of several multinationals in the industrial segment with plants to commence manufacturing operation in India over the next few years; the sizable investments in infrastructure announced in both public and private sectors although the realization remains subject to numerous unforeseen, foreseeable, and more often non-economic factors; the expected growth in built environment, largely foreseeing in Tier II and Tier III markets.

The outlook for the water treatment industry is positive. The demand for water treatment solutions will increase, resulting from the rising stress on water usage caused by population growth, increasing urbanization and rapid industrialization. We also expect strong regulatory pressure towards better water management forcing the pace of investments.

Segment B, Engineering Products and Services. In view of the transfer of the materials handling business, the figures for the segment revenues results in capital employed in the previous -- in the period under review are not directly comparable to the corresponding period in the previous year. The consolidated revenue and results were at 4,012 crores and 69 crores as compared to 564 crores and 103 crores respectively last year. The textile machinery business sustained its revenue and increased its profitability.

Voltas has during the year satisfactorily concluded its selling agency agreement with its key principal Lakshmi Machine Works for a further period of five years. Voltas has also managed to consolidate its business for allied machinery in spinning and weaving looms from Rifa, China.

The mining sector came under harsh scrutiny and regulatory challenge in Andra Pradesh, Karnataka and Goa, mainly owing to alleged environmental malpractices and deforestation. The stoppage of numerous iron ore mines negatively impacted the sales of crushing and screening equipment and related spares. At the same time, we were adversely affected by global consolidation and takeovers of our erstwhile principals, Bucyrus and LeTourneau by Caterpillar and Joy respectively.

Caterpillar has transferred part of its Indian business to its own dealers. Voltas continues to retain some maintenance contracts and the unit rig business. The company has also expanded its Mozambique based maintenance operations with the addition of more items of equipment, a welcome testimony to the Principal's confidence in the Voltas's dependability.

The large number of ongoing construction projects helped sustain growth in demand for some select categories of equipment. The company's Japanese principal Kobelco are setting up facilities in Andhra Pradesh to manufacture crawler cranes for Indian markets. This opens a door to better opportunities for the company in sales and other offerings.

Outlook, the textile industry is cyclical in nature. While we have a sufficiently large order book which ensures full visibility for 2012-13, new investments are clearly lagging behind given poor sentiment, volatility of yarn prices and the context of pollution based environment issues.

There are some positive indications as well, including the anticipated reinstatement of the TUF apart from additional subsidies announced by the Maharashtra, Karnataka and Gujarat governments, to promote investment. While domestic textile consumption is expected to grow at around 10%, resurgence in investment in textile machinery is largely predicated on a number of other broader economic factors alluded to earlier.

In the mining and construction equipment business, sales are picking up in the company's own range of wheeled crushing and screening plants and cranes. There are some good prospects for growth, resulting from the investments expected in infrastructure and road projects. The company's offshore services in Mozambique have also been well received, and we expect to grow these opportunities as we go forward.

Segment C, Unitary Cooling Products. Despite intense competition, the entry of new players in the market, unfavorable climatic conditions and subdued consumer sentiments, Voltas maintained its number two market position in the Unitary Cooling Products business. April GfK-Nielsen reported market share of 16.9%, just 150 basis points short of the market leader.

While the Indian AC industry witnessed de-growth in sales volume, estimated at 20% during 2011-12, Voltas was able to contain its revenue shortfall through some timely mix and pricing interventions. The segment's revenue marginally dropped by 1% to 1,539 crores for the year as compared to 1,561 crores in the previous year. The corresponding profit was 130 crores as compared to 160 crores last year.

The business enhanced its energy efficient quotient by selling the widest range of 5-star products in the market, without wavering from its mission to promote green products. In response to market findings, the business launched an up-to-date range of 40 models of window and split ACs in 2011-12. The range offers buyers a spread of choices in term of features, energy rating, price tag and cooling capacities.

As a part of the launch, a new brand platform was introduced across a selection of models, all weather air conditioning. The new concept was based on intensive consumer research and reflected the company's determination to create a clear and wining differential at amidst the chaos of existing messages. Equally, it helped transcend the seasonality of the category, creating a basis for engaging with consumers around the year. All weather models are well equipped for all climatic conditions with intelligent heating for the cold months, active dehumidifier for the monsoons, and high torque compressors for hot summers.

The associated advertising campaign featuring the humorous Mr. Murthy has also served to connect with consumers. To maintain its operational agility, the company engage a large number of contract manufacturers for outsource assembly in more locations across the country, judiciously mixed with in-house manufacturing. This had the added advantage of shortening the time to market and reducing the company's carbon footprint.

The company now has a presence of over 5,000 plus consumer touch points. It will continue with its strategy of channel expansion, more specifically focused towards Tier II and Tier III markets, where higher demand is expected.

The business also increased its trust in the commercial refrigeration products market, resulting in a volume growth of 4% despite adverse market conditions. Voltas continues to maintain its number one position in this segment.

Future growth in the commercial refrigeration segment is likely to be driven by the rising demand for quality products for end user segments such as retail, dairy, brewery and cold chains.

Outlook, the domestic room AC industry can look forward to modest growth in the coming years, making allowances for a possible weakening of momentum caused by delayed onset of summer and unseasonal rains ahead. However, the rise of disposable incomes and wages and the prevailing low penetration levels of ACs will continue to drive demand in the long-term, further boosted by the spread of electrification and demand growth in Tier II or Tier III markets in India.
Going forward, competition is likely to be intense, especially from the more recent Japanese entrants. At the same time, the extreme volatility in ForEx movements brings in a degree of uncertainty in the economics of sourcing decisions from overseas vendors.

While other cost effective alternatives will need to be explored, margins are likely to be eroded if the impact of increases cannot be appropriately passed on to consumers. Apart from the specific market context of high competitive intensity and the more recent slide in consumer confidence, Indian consumers are also generally known to be more price sensitive. Decisions on pricing needs to be therefore well deliberated. Growth will depend upon the ability to be price competitive while offering a superior value proposition to consumers.

Thank you.

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

Thank you, Utsav for a very detailed comment on the performance of the company and its various businesses as well as presenting the outlook for the various businesses in the company. So, being very candid on the challenges being faced by the company and its businesses, I am sure it will be well appreciated by the participants.

May we now move on to the second part of this presentation. May I request Kunal to start the question-and-answer session, which will be addressed by Mr. George.

Kunal Sheth

Yeah. Can we please move on to the Q&A?

Questions And Answers

Operator

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

Sanjay Satpathy

Hello, sir. And congratulation for turning around the performance quite rapidly within one quarter. And sir, just wanted to kind of understand from you, what drove this margin expansion that we saw during this quarter and how sustainable it is? That's number one. And number two, also just wanted to kind of get the data that is how much revenue that you've got in MEP from domestic and how much is from international? Thanks, sir.

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

Okay. Thank you Sanjay for that question. In the first place, I think I must clarify that there is the use of word saying turning around, I think we are looking at difficult one or two years ahead, given the environment that we see ahead. So, I think it will be very premature to conclude that one quarter really has made a big difference.
The second thing that I have always been saying in all these con-calls that I have addressed, is that the project business and the very nature of the project business is such that you cannot draw conclusions about how the project business is doing by just looking at one quarter here and one quarter there. You need to look at it on a continuum. Because what happens is that any point of time in the overseas market for example, we have something like about 20 projects that are actively being progressed. And the domestic, you probably have close to about 200 odd projects that are being progressed. And these projects will be closed financially, variations will be claimed, the settlements will be made at various periods of time.

Depending upon how much of settlements that we have got during a particular quarter, you will find a certain blip up or a blip down in the fortunes of one particular quarter. So, I would suggest, and that is particularly the reason why I have used the consolidated segment results for the year for you to really look at it in terms of a continuum. So, if you really look at that, what we have got in the Engineering Projects segment in terms of result is a 5% on an average is the thing excluding the Sidra type. So that is one fact that I'd like you to register.

Having said this, we are extremely conscious about the need to recover our money. We are extremely conscious about commercial activity, billing everything, following through all that. And that I am happy to say is creating a certain amount of traction. So, whatever old projects et cetera that we have closed, financial closures, getting additional amounts from variations et cetera, that's really what has contributed to the quarter four results.

Sanjay Satpathy

Sir, in that context, if you can just give us a guidance as to what kind of margin is really the sustainable margin in MEP and also sir, my data request for revenue from domestic as well as international?

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

Garud wanted to say something.

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

Sanjay, I just wanted to add sentence, we are saying that we are doing all the right things that we need to do during this environment, keeping in mind that the challenge still continues to be as it is, and more importantly to see that the turnaround of this business happens more sustainable than in one quarter.

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

Yeah. Sanjay, are you there?

Sanjay Satpathy

Yeah. Yes, sir.

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

Do you want to...

Sanjay Satpathy

No sir, I just wanted a data that revenue from domestics and revenue from international MEP.

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

Okay. That's something that Utsav can give you.

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

We will send it to you.

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

We will send it to you, separately.

Sanjay Satpathy

Okay. And sir, my last question, I just wanted to understand this part that this domestic MEP business. How do we manage the ForEx fluctuations risk because we are fixed price contract and lot of these things I would assume would be imports. So, how are we managing that risk in this environment, sir?

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

In the -- whatever imports we have, as soon as they are fructifies, we follow a rather conservative policy. As per our policy, the Board dictated policy, we necessarily cover 25% at the point of incidence itself. Okay? That is the first thing. And we do not take undue risk going forward. We tend to follow generally a conservative policy on this, because we believe that profit and loss should actually come not from ForEx or ups or downs, but really from intrinsic project execution.

So, whatever are the exposures that you have as at this particular point of time, you can be rest assured that a large portion of it has been covered as per policy and a small bit of exposures that we have towards the later parts of month, we might have not covered it because of the high premium, we will look at it as we along. But, it is a constant vigil that we maintain on ForEx.

Sanjay Satpathy

Thank you, sir. That's all from my side.

Operator

Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all the participants, please limit your questions to two per participant. The next question is from Lokesh Garg from Kotak. Please go ahead. Mr. Garg, your line has been unmuted. If you have a question, please go ahead.

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

Hello?

Operator

Mr. Garg? There is no response from this line. We'll move on to the next question. Next question is from Aditya Bhartia from CLSA. Please go ahead.

Aditya Bhartia

Good evening, sir.

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

Good evening.

Aditya Bhartia

Sir, could you give us some idea, how much revenues did you book from Sidra project in the fourth quarter?

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

The total Sidra project, as you are aware is about 1,000 crores. The exact amount of revenue that is the thing we will ask Utsav to give that to you at a later point of time after the meeting. Yeah?

Aditya Bhartia

Sure, sir. And sir, how does the outlook for new order inflows look like, both domestically and internationally?

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

In terms of the international, I think Utsav covered it fairly well in his comments. And what we are really seeing is a couple of things. One is that, we are able to see -- if you recall, in the past, I've been talking about Dubai beginning to show signs of some revival. And I think, that seems to be, slowly seems to be coming true. So, I think that would open up, in the next six months to eight months, I think this should be getting a little more of traction in Dubai.

In terms of Abu Dhabi also, the big order that we were looking at, the airport order that has been awarded to the main contractor and now they are looking at the sub-contractor. So, we -- actually, as you know, we are in a three way kind of a project integrated JV format with -- EPA and are bidding for that. So that would possibly come through in somewhere around the September, October. That's how we are really looking at it at this particular point of time.

The other movements are there, but it's not off a very significant nature that we are really seeing. It's mainly some more of smaller orders and not -- nothing very substantial that is really coming to the core at the particular point of time.

KSA, of course, there is significant amount of opportunity there. And we were able to conclude our joint venture there last quarter. We have now finished all the registration formalities et cetera. We have started one particular project, we have started. And we are now actively building for others that are coming up. And so, we hope that we will be getting some bit of traction there in KSA. Actually, the bulk of the opportunity seems to be in KSA and more in Qatar as we go forward into the future.

Longer term, again, there is a lot of opportunity because I think it's a foregone conclusion now that the oil will remain at more than $100 per barrel, which means that there will be surpluses for quite some time. So, where is this money going find its way, it should find its way through to projects and infrastructure, which is sadly lacking in some of these countries.

The joint venture format that we have adopted are also one of our strategies of go to market. And I am sure that this will give us additional revenues and give us more joy as we go forward. In fact, what has not been reported in this, which we have just concluded in the first week of April is, private joint venture with one of the parties in Qatar. And we have picked up a job of about 360 cores, and our share of it will about 265 crores in the international book order. Now, those are all reasonably with descent margins but we have to see how it will really play out.

On the domestic market, I think the outlook is you all know it much better than I do. We really cannot see very much ahead as to what is happening. Sentiment is very, very poor. The commercial office spaces as you know right from Nariman Point here in Bombay out to all over, there is a lot of vacant space across and construction there is stalling a little.

ITS and IT spaces are also not going in that kind of a pace that we saw before. However, good news is that hospitals and five star hotels are going -- are seem to be doing better. And we have also started making some inroads into the industrial sector. So, we are actually doing work for power project, we are also doing various other things in terms of automotive manufacturing sector et cetera, et cetera. So, we are actually casting our web a little more wider to be able to mitigate the risk in a more constructive and sensible manner.

Aditya Bhartia

Okay. And sir, in room AC business, what would have been the volume decline in the fourth quarter and in FY12 as about? And what would have been the impact of price increases?

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

Aditya, during the year, '11, '12, the decline was approximately 20% for industry and for Voltas, it was about 10%. But in Q4, we managed to maintain the more or less the same kind of volumes as we had done in the previous year.

Aditya Bhartia

Understood. Thank you.

Operator

Thank you. The next question is from Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chedda

Yeah. Thank you for the opportunity. Just an observation, if you look at the cash generation in the business for the last couple of years, ideally it's weaken a lot. In fact, we have not generated cash, we have burned cash. So one, if you could identify the key reasons, the stress portfolio within the total business if any?

Second, if I have to look now at your model, is it fair to assume that this problem is slightly structural, considering the fact that on one side we have international business orders which are now 50% of the total inflow which we saw in fiscal '12? Plus, if I have to look at the new areas that we are incrementally targeting other than the core HVAC, which means that the cash generation is going to be a bit of a task. If you could share your thoughts on this?

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

I think it's a very good question. Actually, Voltas has the good fortune and build up by predecessors actually, a good cash reserve position. But, you are right in the sense that we are seeing a certain amount of weakness in that. And why is that weakness because firstly, you know what is happening across the Indian market, the very same thing is happening across the international markets also. At one point of time, we were able to get whatever we claimed without too much of a propensity to dispute.

Increasingly, we are finding that with all our clients, and this is not just for Voltas, across the industry, people are being extremely careful about granting variations. So, variations will come because we have a sense of properly documenting it, doing it in a properly project executed manner, but they take time. And that has actually affected the cash flow.

In the Indian market particularly, we are finding it difficult to collect money. And you can see that our outstandings et cetera have gone up substantially over a period of time. And this is not just us but it's the rest of the industry also. So that is one aspect that is impacting the cash generation.

Number two is that we have also had to fund the Sidra losses, we have had to fund by sending money out from here. So, a lot of money that we generated here had to go back into Sidra.

The third factor is that when customers are now -- when you don't have a continued flow of orders, earlier, we used to get large orders, let us say, you got an order of a 1,000 crores, one of the things that happened was that they would give you a mobilization advance of 10% straight off, or may be 15% straight off. So, if you don't have too many big orders coming in, you don't get those mobilization advances, plus some of the smaller orders, they actually prefer not to give mobilization advance, that's also change in trends that we are seeing of late.

Pritesh Chedda

Okay. Looking at the way the portfolio is shifting from the core HVAC, just wanted to understand how would you manage this shift, A, profitably; and B, having a tight control on cash generation?

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

I just want to give a little clarification. See, if you look at the Electro-mechanical business today contributes to the turnover 62%, the unitary cooling products contributes about 30% and the engineering contributes about 8%. Okay? Within the Electro-mechanical business, I think domestic is contributing to about 45% to 48% and the balance is international. So what is -- if you can be a little more clear on your question?

Pritesh Chedda

Sure. I am actually looking at within domestics as well, we are moving to from HVAC to segments like water management, or power, or industrials, infra. And in this press release also, we talked about power slightly at length. So, that's the one shift within the overall shift. Second, also my guess is export probably could be slightly higher than what the international could be higher than the domestic now. So, that's the second shift.

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

Actually by the shifts that we are talking about in terms of more going into power or more going into industry, I don't think it is actually impacting the cash generation bit of it. That is very much the same. If anything, I think it is even better if you're dealing with for example, people like Mahindra & Mahindra would be a much better bet than dealing with some of the other people in the contractors.

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

The main contractors.

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

Main contractors. So, it's not really harming us in that sense. What importantly we have done is that while we have seen -- we are not looking at the market and saying oh my god, this has dried up and we can't do anything about it. What we are actually doing is, trying to expand the focus and get into adjunct area so that we can continue to keep our order inflows and we can continue to keep our people gainfully occupied and continue to move forward.

Pritesh Chedda

And your comment on the profitability aspect?

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

On profitability of?

Pritesh Chedda

On account of the shift in the first segment?

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

The profitability, where there is a strategic thing that we have taken up. For example, it might be that we are going into a new industry and there we don't have a pre-qualification or we have not touched and pressed them earlier, we might decide to play down the margins a little bit just to put our footing. But, it's not something that we will be taking a lot of orders at low profitability, no.

Pritesh Chedda

Okay. Just one data point if you could share.

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

I would also like to share with you that especially in the domestic business, the management is fairly conscious to pick up those jobs which they feel that there is a delivery deadline. In fact, very cautiously I've done it last year. For example, the F-1 and couple of other jobs which got closed during the year, which actually has helped us compared to competition.

Pritesh Chedda

Okay. Just one data point if you could share, in the total order backlog that we have and the order inflows that we had in the last couple of years, how much of those orders would be a subcontracting order and how many of those orders would be a main contractor?

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

That will be very difficult. See, any given point of time, we'll have hundreds of jobs, especially in the domestic area.

Pritesh Chedda

Should the subcontracting portion would be higher than the main contractor, at least if you could give that direction?

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

Actually international operations, we are always as subcontractors to the main contractors.

Pritesh Chedda

And in the local?

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

In the local, it depends whether it's a HVAC job or a MEP job. If it's an MEP job, we will be a subcontractor.

Pritesh Chedda

Okay. Lastly, the Sidra project, how much have we executed and when this project will get closed? And any event just like quarter three is possible after probably you guys have evaluated that project?

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

At this particular point of time, we have completed about 67% of the entire project.

Pritesh Chedda

Okay.

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

And as I said, we have done a very detailed techno-commercial audit in the month of December. And we believe that those estimates still stand by and large in terms of few ups and few downs. Now, as we go forward, it is our intention that from the month of July, August, September, we are planning to do another full techno-commercial audit. So that we will get an idea about what are the actual costs that have already been incurred and what are the further costs to come.

The client is still making a few changes in design parameters. And so, it seems to us that the projects will extend beyond March 2013. So, as in any other projects, there will always be some uncertainties in both in cost, but equally there also -- these events also give rise to variations and claims, which also will be factored in at the right point of time.

Pritesh Chedda

I just wanted to understand, why in quarter three a certain cost overrun was considered as extraordinary and earlier to that it was considered as regular and booked in the P&L and not considered as extraordinary?

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

Because of the size of the event.

Pritesh Chedda

Because of the size of the event?

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

Size of the event, in terms of our accounting standards and in terms of the way it is. If we had put it along with the others, it would not standout. So whenever there is a large event or very short, you are supposed to show it as an exceptional item. And that's what we have done in consultation with our auditors and good advice.

Pritesh Chedda

Which means that if a techno feasibility is done yet again, there are -- both the options are open of considering it as extraordinary or considering it as routine, depending upon the extent?

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

Yes, depending upon the extent at that particular point of time.

Pritesh Chedda

Many thanks to you...

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

Because now, it's about 330 crores.

Pritesh Chedda

Thank you, sir. And all the best to you, sir.

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

Thank you.

Operator

Thank you. Before taking the next question, we would like to remind participants to limit their questions to two per participant. The next question is from Ruchi Vora from UBS. Please go ahead.

Ruchi Vora

Yeah, hi. Good evening. Thanks for taking our questions. My first question is on the order book. Just wanted your sense...

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

Sorry. We are not able to hear you properly. Can you just slow down...

Ruchi Vora

Hi. Can you hear me now?

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

Yeah, that's better.

Ruchi Vora

Okay. Just wanted some clarity on your order book. In terms of, are there any large ticket size projects where we've seen execution delays, say like a Sidra or Barwa?

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

No, there are none at this particular point of time, where we are seeing execution delays, no. But, in the Indian domestic market, generally there is a slowdown in terms of the overall execution. People are not pumping in money with the same amount of speed that was happening earlier.

Ruchi Vora

Right, okay. And my next question is really on the working capital cycle. Could you break it down a little bit in terms of what is it in India and how much is it in Middle East? And given the fact that going forward the contribution of -our focus is more on the infra and the industrial sectors, where the working capital cycle is much longer, so could you highlight how this is going to move forward?

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

See, as compared to a few quarters back or a year back, the working capital cycle has got elongated, both in domestic and international. International has got its own reasons because unless you don't complete milestones, you don't have the option of raising the invoices to collect the money and because of delays in certain large projects, the working capital cycle has got elongated in the Middle East. As far as domestic...

Ruchi Vora

By how many days?

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

Sorry?

Ruchi Vora

By how many days has it got elongated?

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

It doesn't really matter by number of days, but certainly it has got elongated, may be by about at least 15 days to 20 days as compared to what we have been doing in the recent past.

Ruchi Vora

Yeah.

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

As far as domestic is concerned, if you look at it over a one year period, yes, the debtors has gone up by about 10 odd days as compared to what it was a year back.

Ruchi Vora

Right, sir. Is it more macro driven or has the industry structurally changed in terms of the terms and condition advances, payment et cetera?

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

Actually, it has not changed that much, but it is more that we started doing more of MEP than HVAC before. So to some extent, that has impacted.

Ruchi Vora

Yeah.

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

But generally, it's been a slowdown across, not really any structural change.

Ruchi Vora

Right. And my last question, if I may, on the margins in the first and the third segment. Just wanted to check with you, how much of the margin is a continual margin and how much is due to onetime settlement et cetra? Can we quantify it?

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

You can assume that general margins in this business is around may be anywhere ranging between, since the bid margins are at 4% to 5%, at beast it would go to 6% or 7%, not more than that. So, the balance 1% odd or slightly more than that would be because of one-offs.

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

Ruchi, and it's not as if that it is very high one project that we are taking a huge write down or write on, it isn't like that.

Ruchi Vora

Yeah.

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

It is because when we do 200 odd projects, at least 10 odd projects come in for final settlement during a quarter.

Ruchi Vora

Yeah.

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

So, depending on how you have been able to get that, that damage can go up or down. And this is the nature of our business right from day one. So, please look at it for the full year, and you will be on the right track.

Ruchi Vora

Yeah, appreciable. And there is more write back of previous cost provisioning in this quarter, right?

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

No, nothing of a substantial nature. And if it was of a substantial nature, you can be rest assured that BHS will fortify this.

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

You could have partied.

Ruchi Vora

Okay. Thank you so much. And all the best.

Operator

Thank you. The next question is from Venugopal Garre from Barclays. Please go ahead.

Venugopal Garre

Hi. Good evening, sir. Sir, firstly on the order inflow number, just wanted some clarity on that. What will be the absolute Q4 order inflow?

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

Utsav, can you answer? Just a minute.

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

Yeah, just continue, I'll answer your question.

Venugopal Garre

Yeah. And also I wanted to know the duration of our order backlog, or what is the execution period of a current backlog of 4,290 crores?

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

See, generally, if you look at the Indian order book, it is generally 0 to 18 months is what you'd generally have. If -- on the international project where there are more sizable orders, it will generally be it anywhere between two to three years.

Venugopal Garre

So, per se, I mean just to put it in a different way, there is no material change in execution terms for this backlog compared to what it was in the past, right, so...?

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

It would be the same, by and large.

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

Sorry, your question was on orders booked during Q4?

Venugopal Garre

Order inflow in...

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

Orders in Q4?

Venugopal Garre

Yeah.

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

Yeah, about 415 crores.

Venugopal Garre

Right. Sir, I just wanted to know that if you look at the order backlog, so that seems to have declined more. If it was 415 odd crores, you would have probably seen the backlog at 4,500 crores. So, is it because of currency which is sort of...

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

Yes, to a certain extent, because of currency fluctuation, it could have an impact.

Venugopal Garre

No -- nothing to worry about the order cancellations?

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

No order cancellations.

Venugopal Garre

Okay. Sir, just one last thing on Rohini, just wanted to understand two things, one is Q4 loss, if you can give the number? And secondly, in the commentary, you mentioned about receivables sort of being a bit sticky there. I just wanted to be very -- bit comfortable about that. Is it a very large receivables pending which could hit us sometime later in the year, or is it like insignificant number?

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

Yeah. Let me just tell you that for the full year, we have in Rohini, we have a loss of 26 crores. This is for the full year, right from beginning till the end. Now, in terms of Rohini has got a very strong order book going forward, they have got 229 crores of order book of carry forward order book. Now, in this, the orders that have been picked up in the more recent past, after the change in management, have been at good margins, and we have every reason to believe that those will be executed well.

We still have a certain amount of legacy orders which need to be completed. And these will be completed during the course. We believe that bulk of whatever we needed to have provided for has already been provided for and we are not seeing too much of an issue there.

However, there could still be one or two jobs particularly with the government which we'll need to see it as we go along. And if there is any early indication of that, we will let you know. But, this year, we certainly expect to turnaround Rohini and be on the path of growth.

Venugopal Garre

Sir, my last question, just wanted to get some understanding of the AC products market, I mean, this year -- last year, the end market was bad, right, because of summer issues and stuff.

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

Yeah.

Venugopal Garre

Now, it seems that some degree of problems continue in this year. I wanted to understand is that how much of the volume growth impact is because of the channel saying, we don't want to get take in more or buy more from companies like you, or is it more that -- or rather, how is the channel inventory rather looking like this year compared to...

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

Channel inventory is by and large remains the same. We would be very foolish to just pump in inventory at the channel if there is no secondary sales because that actually then represents to me, it represents the possible bad debt coming up. So, we will not pump in and neither will rest of industry pump in beyond a point. I mean if a normal inventory in the channel let's say is one month, it is fully perceivable that it might go up at certain month ends to may be a 40 days, 45 days. But certainly not -- people will not pump that in beyond that.

Venugopal Garre

Fair enough. Sir, I was looking it more from a positive perspective. I thought the channel inventory is starting the deplete, it would have been...

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

No. Channel inventory, normally what happens in -- all the manufacturers keep a good track of what is the inventory in the channel. And whenever those go down, we make sure that the channel keeps picking it up again and again. So, that's how it works. Because if the channel inventory goes down, then they will not be interested in pushing the secondary phase, you see?

Venugopal Garre

Right.

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

So, we'll always keep the pipeline placed reasonably, so that the inventory can go out into the secondary. And the market sales that we have quoted, that 16.9% that we have quoted is actually the April 2012 market share. And the important thing that I am trying to bring out here is also that we now have only a difference of 150 basis points with the market leader, which was at one point of time, was as close as 600 basis points to 700 basis points. So, we are actually shrinking the level of the distance between the market leader in secondary sales.

Venugopal Garre

Thanks a lot, sir.

Operator

Thank you. The next question is from Ankush Mahajan from K R Choksey. Please go ahead. Mr Mahajan, your line is unmuted. If you have a question, please go ahead.

Ankush Mahajan

Hello?

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

Yeah. We can hear you.

Ankush Mahajan

Yeah. Sir, most of the questions have been answered. Just a few questions regarding the -- sir, what is the CapEx for this FY13? And what was the reason that the tax rate is low in the fourth quarter?

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

The CapEx is a very normal CapEx. But as we go forward, we will be looking at various alternatives. Because as I have mentioned in the con-call transcript, because of the exchange fluctuation, a huge amount of imports that we are doing from China et cetera, might become unprofitable or might become more expensive than what we want it to be. So, we might, during this particular point of year, we might be looking at various options to either increase our contracting manufacturing or to be able to look at other ways to cut those costs, one. So, CapEx will depend on that. And we have the money. So, it's not a problem, we don't have to borrow from outside at break neck interest rates et cetera.

The second part of your question was dealing with?

Ankush Mahajan

Sir, it's tax rate in the fourth quarter.

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

Tax rate. The tax rate, two things, one is that you are aware that the government had provided during last year a concessionary rate of tax for dividends remitted from overseas.

Ankush Mahajan

Okay.

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

We had a few joint ventures there where money was being kept there, we have moved that money in. Incidentally, that same rate has been extended for one more year. So, that's one part of it. Secondly is that Mr. Utsav Shah manages a fair amount of money investments and he channels them also into mutual funds, some of which are tax free. So to that extent, the average rate comes down.

Ankush Mahajan

Okay. Sir, would you throw some light in the UCP division, what kind of growth that we are looking in the next year?

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

What type of?

Ankush Mahajan

What kind of a growth that we can get in next year in the UCP segment?

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

We are looking -- as I put it in the con-call's transcript, we are actually looking at something like about 10%. Actually, my hope is that we will do far better than that, because one of the things is that we have all been, not only Voltas, but the rest of the industry have all been very bullish about the growth prospects in the air conditioning market. But, some or other, the weather goes wrong or the prices go up and we have not been able to or the consumer confidence is down. But if you were to ask me going by the per capita levels, by the expansion that's happening in Tier II, Tier III cities, by the electrification that's happening and the general level of affluence that's coming up across the length and breadth of our population, I'm very confident that this market is bound to grow much better.

If you have a little bit of help from the weather, I can tell you that we should be looking at well ahead of 10%. But, 10% is what we are currently using in terms of our estimates because we don't want to also get stuck with huge unsold inventory.

Ankush Mahajan

Thank you. Thank you, sir. That's it from my side. Thank you very much.

Operator

Thank you. The next question is from Vinay Pandit from PUG Securities. Please go ahead.

Vinay Pandit

Yeah. Good evening, sir.

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

Good evening.

Vinay Pandit

Sir, regarding Qatar, I mean a lot of CapEx over there is going to be targeted towards FIFA 2021, right? And we expect these projects to be typically taking four years to five years, which means some activity should be happening in terms of designing, finalizing. So, could you just run us through what's happening on the Qatar side, and when do you see tendering and bidding starting over there?

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

See, in fact, what is happening in Qatar is that they have put together a large team under the Qatar Foundation, actually to look at what is the kind of investments that they should be putting in. A lot of this drawing and a lot of this conceptual work is really happening. At the same time, the GCC neighbors are also discussing amongst themselves to see how this prosperity should be divided between all the nations.

For example, people are really saying that can we not locate one or two of the stadiums in adjoining GCC nations and the then link the whole area up by high speed bullet trains, okay? That's one thought.

Number two is, people are really saying that should we be looking at a huge expenditure on hotels, which do not come to any use at the end after the projects are over. Therefore, can we look at some kind of a via media while there we do some minimum kind of investment and the rest of it is actually catered by for example, cruise ships parked along the way in Qatar and after the games are over, they go away and therefore, you are not left with surplus capacity for the next few years.

So, a lot of the thinking is going around. But, at the same time, even here in India, they are now looking at people. They are registering contractors. And we have got letter saying that would you be interested in this et cetera. The embassy is also active. So, I think by the end of this year or so, we will certainly see a deluge of opportunities really coming up. And that is why we are very keen that we remain on the good side of the Qatar Foundation by doing this project completely to their satisfaction and into high quality.

Vinay Pandit

Okay. Then, regarding your Unitary Cooling segment, especially air conditioners, we've seen that Jan to March quarter was not the best quarter as it has been probably in previous years. However, we've also seen that the quarter between April to June has been quite hot. And have you seen a significant improvement in your AC sales or inventory build up with distributors?

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

In the month of April, we have done fairly well. Yeah?

Vinay Pandit

Okay.

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

But in May, again in the early part of May, there was a little bit of a slowdown in the weather. I call it a slowdown in weather. But now, I believe again, it's picking up. So, it is almost like a day to day kind of a situation.

We -- see, I think you need to look at the industry on one side and look at Voltas on other side. The assurance that I can give you is that, if the industry is growing, we will not be far behind. But if the industry itself peeks off a little because of weather and another conditions, we will also be impacted, but perhaps not impacted as much as the rest of industry.

Vinay Pandit

And the all weather AC that you've lately introduced, how do you see the prospects for that?

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

It seems to be getting a lot of traction. Actually, I spoke last time about detailed advertising campaign coming out on the context of -- on the back of our having done a lot consumer insight and research. And so, the advertisement that you have seen with Mr. Murthy and all those billboards et cetera are actually a consequence of that.

We believe that advertising has been able to cut through the platter. We are very happy to see that people are actually walking in the stores and saying, [Non-English]. I think that's really helping. So, a bit of the -- we have the inventory for that, we will be able to sell it, we will be developing on this further as we go along. And we need to be more cost effective as we go along.

The Japanese players are spending a lot of money, particularly on advertising and advertising while we have this our friend Mr. Murthy there. I mean the Japanese players use the likes of Katrina Kaif and others. So, there is a shift in that. But having said that we believe that Mr. Murthy is perhaps equally or if not more effective in launching some of our products.

Vinay Pandit

So, you'll get the first mover advantage in the all weather other ACs?

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

Yes.

Vinay Pandit

That's it from my side, sir.

Operator

Thank you. The next question is from Amber Singhania from Quant Capital. Please go ahead.

Amber Singhania

Hi, sir. Thanks for taking my question. I have a couple of questions. One, as you have taken cost overrun in Sidra project, could you just throw some more light about the remaining order book, both in terms of domestic and the foreign order book? What kind of cost overrun or expected cost overrun are build up on that?

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

I don't think that we have said anywhere that we're going to have a cost overrun. Certainly, the idea of doing business is not perhaps cost overruns in all projects. Sidra was specifically a particular project of a particular kind where there were very significant issues. And therefore, we had cost overruns. But when we have cost overruns also, we will also have some variations that will come in at a later point of time.

Amber Singhania

Okay.

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

The accounting for projects is such that, whatever cost that I see that has already been incurred or what I can see will be incurred, needs to be accounted. But my variations, I cannot account for it in day one.

Amber Singhania

Okay.

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

So, that is the issue with Sidra. And the rest of the projects, it is not that we have cost overruns in every projects, not at all. Otherwise, we wouldn't be profitable. This company has been built on a number of projects that we have done profitability and some extraordinarily profitably, and that is the way that we have built this business. Once in a while, you will of course have, not every project will go right. Just as when you make a call on a stock, not every call on your stocks will be right, some will be wrong, some will be very, very right and some will really take you to the top. So, it is that kind of a mix that you also need to see in our project business. In the domestic, we have something like 200 projects; in the international, we have something like 20 projects; and the mix and of that, and that is our ability to be able to manage that in a manner that shows overall profitability for the company as we go forward.

Amber Singhania

Sir, so could you just throw some light on what could be the blended margin in our current order book may be in domestic and international front?

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

I think we've been saying for the past few quarters, we are bidding for projects at around 4% to 5% margin, and we try to...

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

Improve those.

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

Improve them to around 6% to 7%.

Amber Singhania

And what percentage of our order book would be fixed price contract, or is there any?

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

Most of these contracts are fixed price contracts.

Amber Singhania

So, won't there will be any hit in terms of cost increase, because of maybe increase in the labor cost or delaying the execution, we might be...

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

That's where the estimation comes in. So, that's a kind of little bit of a risk one has to take while doing the estimations.

Amber Singhania

Okay.

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

That is where your experience counts, how well you can judge about the future.

Amber Singhania

Okay. And sir, on the Sidra project, like we have already completed 67% and we have also taken a write-off of 320 crores. What kind of variation claim we are keeping in pending which might come, which we've already written-off at present from the book, just to have...

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

No, variation claims, we don't write-off. The variation claims are there because what happens is...

Amber Singhania

Yeah.

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

In the Sidra project also, see, they have changed the design. Let's say that they've changed the design, just to give you an example. What means is, under FDIC regulations, we are expected to do the job. So, we cannot walk out of that. So, we do the job but at the same time, it is a variation. And that variation is built. And once the job is completed, both jobs are certified. And once it is certified, the payments for that would also follow.

Now, how much of it is disputed, not disputed, those are the normal run and mill of any project. But, there are variations. And I do not want to preempt anything by saying that this is some of variations or this is not the sum of variations et cetera. We will watch it as it goes along. When we do the full techno-commercial order in August, September of later this year, we will be able to get a further clarity on that. And I'll update you at that point of time.

Amber Singhania

Okay. And sir, my last question is, as you...

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

Speak a little louder.

Amber Singhania

Yeah. As you have taken your 320 crores on the Sidra project, out of which 277 crores was Q3, when was the remaining 43 crores accounted for?

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

That's already accounted for.

Amber Singhania

So that is in Q4 or that is in...

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

No, that was accounted for in Q1 and Q2.

Amber Singhania

So, there is nothing in Q4?

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

No.

Amber Singhania

Okay. And sir, just one last question if I am allowed to. Sir, I wanted to know about your ForEx treatment at present like, what kind of hedging policy we are going to...

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

I'll ask Utsav to answer that.

Amber Singhania

Yeah.

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

As a company, it is mandatory to hedge at least 25% exposures at any point of time.

Amber Singhania

Okay.

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

And depending on what calls we take, sometimes even 50% or may be 70% is hedged.

Amber Singhania

So that is of the net exposure, right sir?

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

Yes.

Amber Singhania

Okay. Thank you, sir.

Operator

Thank you. The next question is from Hiral Desai from ialpha Enterprises. Please go ahead.

Hiral Desai

Sir, on the international business, I wanted to understand where...

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

Can you speak a little louder, please?

Hiral Desai

Hello. Am I audible now?

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

Yeah.

Hiral Desai

Sir, I just wanted to understand on the international business, where is the material procurement done form, so it's largely local and what currency would it be denominated in?

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

See, it depends from project to project. In -- for example, let's take Sidra, Sidra as an example, you have also the design consultants and the architects for that. They will specify where a material has to be procured from.

Hiral Desai

Okay.

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

For example, if you are having some huge kind of equipment, they might say that this is the particular specification, we want this particular brand. In which case, what we do is that at the very moment that we get the order, we do a back to back ordering immediately.

Hiral Desai

Okay.

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

So, to that extent, we are not exposed to the waggeries of exchange and other things at that point. So, we secure it immediately.

Hiral Desai

Sir, but on an overall basis, if you could just give me a rough sense of how does the sourcing work for materials, local versus overseas on the Middle East business, if you could give us just some sense?

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

See, in the Middle East business, all the currencies, the Middle Eastern currency are picked to the dollar.

Hiral Desai

Okay.

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

So basically, whether I'm sourcing it from Abu Dhabi or from Qatar or from Bahrain or from the U.S. for that matter, I am not subject to any risk as far as exchange is concerned because the currencies are picked.

Hiral Desai

Okay.

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

The only risk is if I'm importing anything from Europe.

Hiral Desai

Okay. Sir, the other question is on the unitary cooling business, if on the AC side if you could give us a sense of what are the sort of price increases we have taken in last six months, given the way the rupee is behaving?

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

See, in the past, the industry as a whole has taken anywhere from 7% to 10% increases in the prices. Now, going forward, we'll really have to see how much of it can be passed on. Because as I have hinted at the note, the Indian consumer is extremely price sensitive.

Hiral Desai

Right.

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

And AC prices have gone up quite a bit over the last one, one and a half years or so. And we really need to be very careful about that. But as a whole as an industry, I think we will, with this high exchange rate and the Chinese people increasing their cost of manufacture, and commodity cost going up, we will need to take some prices. How much we will be taking, how much we will be absorbing, how much we will be making up by cost efficient manufacturing processes or sourcing processes et cetra, needs to be seen.

Hiral Desai

Sir, the last question was on the JV order that we got in Saudi Arabia, this 360 crores, just wanted to understand what are the sort of bidding margins in Saudi Arabia versus say Qatar and Abu Dhabi?

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

Saudi Arabia, this particular order has a decent bidding margin, there is no problem about it. But, as we go along, each and every project has a separate bidding margin, depending upon the competition.

Hiral Desai

Okay. Okay, sir. Thanks. And all the best.

Operator

Thank you. The next question is from Fatema Pacha from ICICI Prudential. Please go ahead.

Fatema Pacha

Hello, sir. Great set of numbers. Just had two queries. We started the call saying that we should not look at quarterly margins and actually you are working with the 5% margin and there are a lot of write backs or some project completions that have happened. Have you quantified how much could that impact be? And the second question is, you are saying that you are bidding at 5% margins today. Is that net level that we are talking about?

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

Yes.

Fatema Pacha

Okay.

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

See, the other way -- two things, Fatema. One of which is that, when we are talking in terms of bid margin, recognize that they are bid margins, they are not the end margins for that project. What we always do is that when we do a bid margin, apart from that bid margin, there is also some contingency that we hold. And then, we work at -- during the project and try and see how we can improve the margin, and that's what the final margin that will come up at the end of the period while we finish the completion of the project. Yeah?

Fatema Pacha

Okay.

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

And the other part of it, in terms of at any particular quarter, what the point that I was trying to say is that, we will have certain projects that are financially closed. When you close a project financially, we settle all the accounts. So at that particular point of time, there will be a few write backs, there will be a few write downs, depending on what we are taking during that quarter. But, there is nothing that is so very substantial like a Sidra or something that is making or breaking the chains in quarter four.

Fatema Pacha

Sir, and if I have to just to ask, 5% NPM is yet not a very -- it's not a depressed number, 5% NPM is a good number in the current scenario.

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

Yes.

Fatema Pacha

So, if you are saying that you could even do 6% or 7%, it's definitely not showing a lot of depressed environment, is it, because from whatever I see of the South Korean guys, whatever they report, the EBITDA margins are around 6 or 7?

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

But, I don't think that you can really survive, on a longer term basis, with 4% to 5% margins, or 5%, it becomes very difficult. We really need to have 6% to 7% kind of margins, that would be the longer term sustainable margin. And this is something that we will be looking at, and this is the way that we are working our business too. The reason why we started dropping our bid margins a little was because we had a dearth of orders. We were not getting orders because we were not being able to be competitors in the sense of quoting and a lot of people have entered the Middle Eastern market and everyone is undercutting each other.

So, one way of it is putting up our hands and saying, we are not getting orders. The other way of it is saying that yes, I will lower my bid margins a little bit, put my leg into the door and then I will try and see how I can work with my own synergies, my own efficiencies and try and pick up those margins to more decent levels. And that's what we have chosen to do.

Fatema Pacha

Sir, even if 5% margin, would it be fair to say that you would be making 20% ROE?

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

Yeah, in fact, if you see the ROCE that we are having, we have a 22% for the full year, if you look at...

Fatema Pacha

Yeah, despite -- exactly, my point, sir. Because, it's a very lucrative business because a lot of domestic companies that you will see...

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

Yeah, but it's not bad business at all. This is the thing about Voltas. We don't have too much of an investment, all our ROCE numbers, return on net worth is 21%. And if you look at certain segments, unitary cooling for example, ROCE is as high as about 65%. So, that's pretty good. I agree with you 100% there. But, the thing is that we are always a little more greedy in the sense of wanting to do more and wanting to do better. And we are really looking at being able to increase our margins, for the projects business a little more in terms of it.

Fatema Pacha

Fair enough, sir. Sir, you are doing a great job. And thanks a lot.

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

Thank you.

Operator

Thank you. Ladies and gentlemen, due to time constrains, that was the last question. I now hand over the conference back to Mr Kunal Sheth for closing comments.

Kunal Sheth

I would like to thank the management of Voltas for giving us this opportunity. And I would also like the management if they would want to give some closing comments.

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

Thank you, Kunal. It has always been a pleasure to speaking to you on a con-call. And I hope we have clarified many of the issues, and you would have also got our detailed write-out which was sent to you in the morning at about 12 noon. If there are still anymore questions to be answered, you are most welcome to call us anytime and look forward to answering them. Thank you.

Operator

Thank you very much. On behalf of Prabhudas Lilladher, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines. Thank you.

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

Thank you.