

Mega change at Voltas

The Voltas story demonstrates that an ambitious goal and vision can drive both internal transformation and business growth

Thirteen years ago, Voltas was on the verge of shutting down. Today, it's a company that has consistently shown over 30 per cent growth year on year, declared a 50 per cent boost in profits in the midst of a global industrial slowdown and shown the highest shareholder returns in the Tata group over the past 10 years. Voltas is a company associated with path-breaking projects such as the world's tallest tower, Burj Khalifa at Dubai; the F1 track and Ferrari World at Abu Dhabi; one of the world's biggest water treatment plants, at Singapore and the new Sidra Medical and Research Centre at Qatar.

The question is: What is the secret of this phenomenal success in the midst of the industrial recession, cash crunches and credit squeezes? The answer lies in the path of internal transformation that Voltas has chosen for itself.

There are a couple of major milestones in the Voltas journey. The first was in 1997. The company found itself awash in red with losses of Rs168 million, a turning point that led to the company paring down non-performing businesses, flattening hierarchies, slashing employee rolls, rationalising real estate assets and successfully chasing new business opportunities.

The second milestone came in 2005, when all three main divisions — air conditioning and refrigeration, unitary cooling products and engineering products — had stabilised; in fact, turnover had nearly touched Rs14,500 million with a profit before tax (PBT) level of Rs580 million.

Mega vision

This was the point when, with newfound optimism and confidence, Voltas formulated a brand new vision: Megavol — a business plan that aimed to achieve Rs100,000 million turnover with 10 per cent profitability by 2010-11. "Our

plan involved pursuing both organic and inorganic growth," says managing director Ashok Soni, the man who took over the wheel in 2001 and has steered the organisation to its present course.

The Megavol plan has brought about several dramatic changes in Voltas, and these have mainly been the reason for both Voltas's growth spurt and its relative insulation from the recession, which has done little more than slow down the pace of targeted growth.

The most visible one has been the change in the nature of the company's business model. In India, it has graduated from a company that executed only heating, ventilation and air conditioning projects for its clients, into an integrated solutions provider for mechanical, electrical and public health engineering (MEP) projects and industrial and infrastructural electro-mechanical projects. Overseas, it has grown into a preferred contractor in MEP projects and a serious contender for projects of the highest scope, value, visibility and complexity. Today, as much as 63 per cent of the company's revenues come from execution of MEP projects in India and overseas. In fact, global business accounts for nearly 40 per cent of the company's turnover.

The company's high-profile overseas projects have played a huge role in building its reputation, credibility and stability. "We had built up a very healthy order book position, which has helped us tide over the recession with minimum impact," says Mr Soni.

Megavol changed not just the scope of operations at Voltas, it also boosted the scale of operations; the company has gone from executing projects worth Rs200-300 million to a level where a single project can bring in as much as Rs8,000 million in revenues. The Burj Khalifa MEP business, for instance, was worth Rs15,000 million



and was executed in a joint venture with two other contractors.

Dubai's fortunes have taken a beating in the past couple of months, but Voltas has already widened its focus to new geographies, executing projects in Qatar and Bahrain while exploring opportunities in Oman, Kuwait and Saudi Arabia. The Sidra Medical Centre MEP project, for example, is worth Rs10,000 million.

New capabilities and resources

To manage the new growth, the company built and developed several new competencies, especially in the area of contract management, risk management, technical audits, inventory management and people management.

The company has set up a Global Engineering Centre in Mumbai as a single point design centre for all its MEP projects. There is also a centralised procurement centre to aggregate requirements and negotiate better rates from suppliers. Even the processes for managing people have had to become more efficient; there are centralised training centres which yield a good crop of technical talent. At one point in time, Voltas was able to comfortably mobilise 6,000 workmen for its projects in the Middle East. In fact, the company has grown exponentially in its ability to manage workforces of varied nationalities, cultures and languages.

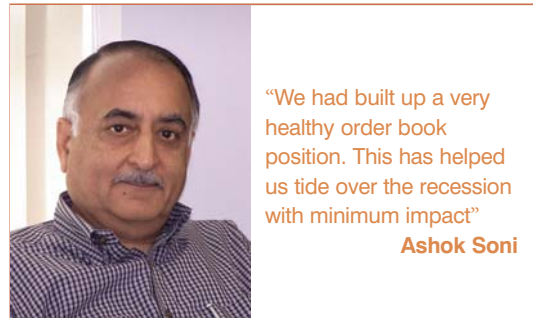
The impact of Megavol on the Voltas balance sheet is clearly visible; in 2008-09, the turnover had crossed Rs40,000 million, with PBT at Rs3,670 million (a fivefold growth in bottom line within four years).

There is also an intangible change that, according to Mr Soni, has been just as significant in the Voltas growth story, and that has been the positive impact of the new vision on the mindset of Voltas personnel. "It's very important to leave behind the legacy of the past," says Mr Soni. "Megavol is aspirational and people respond very well." All Voltasites, at all levels, share and participate in the company's growth plans and progress. It's part of a company-wide culture of engagement, performance, transparency, teamwork and two-way communication.

Peak productivity

With growth and profitability in mind, Voltas has taken several steps to improve efficiencies and productivity. The company has introduced performance-linked salaries, cut down on wasteful processes, introduced online auctions for procurement, improved working capital management, increased earnings from assets and improved delivery times to customers.

"We are a flatter, leaner organisation; we are benchmarking our processes, cutting costs where we can and trying to keep people costs low. We are trying to sweat our assets: we have reduced outstandings and we ask for cash discounts from vendors; basically, we are



leveraging our liquidity as much as possible," says Mr Soni.

At the end of the day, all savings contribute to the profitability of the company. Mr Soni, a finance man to the core, puts it succinctly, "The top line is vanity, bottom line is sanity, but cash flow is the reality!"

This thinking has taken Voltas a long way. One reason why the unitary cooling products division contributes as much as 18-19 per cent to the bottom line is that it has moved into an asset-light, low capital cost business model based on outsourcing air conditioners or their components from China for assembly in India. The MEP division's business model is different; here it is the central design and procurement centres that are expected to generate significant cost savings.

Realising Megavol

With the Megavol deadline of 2010-11 looming just one financial year away, Voltas is thinking of future plans. "We had planned for 70 per cent of the Megavol target to come from organic growth and the balance from inorganic growth," says Mr Soni. Acquisitions are going to play a big part in the future of the company. The MEP division is looking at new verticals to drive business — hospitals, water, power and industrial infrastructure. Voltas is on the hunt for companies with capabilities in these areas.

One such recent acquisition has been Rohini Industrial Electricals, a company with a presence in industrial MEP work; more such buy-outs are expected. The company is also looking at green business opportunities such as MEP projects specifically for buildings seeking LEED (leadership in energy and engineering design) certification, which have a smaller energy and carbon footprint. A recent notable success in this field is Hyderabad's new Rajiv Gandhi International Airport, Asia's first LEED-certified airport.

The Voltas story makes it clear that the Megavol vision has been a key factor in the transformation of the structure and culture of the company. "You need the confidence to set goals. Only then, lasting achievement is possible," says Mr Soni, who will be retiring from his post in April 2010. His words have indeed been proven true. ●

Gayatri Kamath

Voltas's MEP division is stretching its wings with new projects in the Middle East



Sidra Medical Centre, Doha, Qatar



Al Ain International Airport, UAE



Ferrari Experience theme park, Abu Dhabi



F1 Race Track, Abu Dhabi



Etihad Towers, UAE