VOLTAS

7th November, 2022

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

National Stock Exchange of India Limited
Listing Department
Exchange Plaza
Bandra-Kurla Complex
Bandra (East), Mumbai 400 051

Dear Sirs,

Sub: Transcript of the Conference Call pertaining to Financial Results

Further to our letter dated 1st November, 2022, we enclose herewith a copy of the transcript of the Analysts/Investors Call on the Unaudited Financial Results (Standalone and Consolidated) for the quarter and six months ended 30th September, 2022 held on 2nd November, 2022.

2. The same is also available on the Company's website at https://www.voltas.in/images/Investor/schedule-announcements/download/Voltas_Q2FY23Transcript.pdf

Thanking you,

Yours faithfully,
VOLTAS LIMITED

VARUN PRAKASH MALHOTRA
Digitally signed by VARUN PRAKASH MALHOTRA
Date: 2022.11.07 19:05:16 +05'30'

V. P. Malhotra
Head – Taxation,
Legal & Company Secretary

Enc.

"Voltas Limited

Q2 FY '23 Earnings Conference Call"

November 02, 2022

MANAGEMENT: **MR. JITENDER P. VERMA – CHIEF FINANCIAL OFFICER – VOLTAS LIMITED**
MR. MANISH DESAI – HEAD - CORPORATE FINANCE – VOLTAS LIMITED
MR. VAIBHAV VORA – MANAGER - CORPORATE FINANCE – VOLTAS LIMITED

MODERATOR: **MR. ANIRUDDHA JOSHI – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Q2 FY '23 Earnings Conference Call of Voltas Limited, hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aniruddha Joshi from ICICI Securities. Thank you, and over to you.

Aniruddha Joshi: Yes. Thanks, Yashashri. On behalf of ICICI Securities, we welcome you all to Q2 FY '23 results conference call of Voltas. We have with us senior management represented by; Mr. Jitender P. Verma, Chief Financial Officer; Mr. Manish Desai, Head of Corporate Finance and Mr. Vaibhav Vora, Manager, Corporate Finance.

Now I hand over the call to the management for the initial comments on the quarterly and half yearly performance, and then we will open the floor for question-and-answer session. Thanks, and over to you, sir.

Jitender Verma: Thanks Aniruddha for the introduction. And welcome to everyone to this call. As you are all aware, the current fiscal year started with mixed indicators for the economy and especially the industry we are operating in. On one hand, we had an open window to a complete season after a gap of close to two COVID years, which supported sales. On the other hand, the global economy continued to face challenges of high inflation, owing to global supply chain imbalance, depreciation in currency across the world amid surging Dollar Index and increase in interest benchmark rate by respective central bank impacting revival of the economy.

In India, consumable durable industry witnessed weakness due to incessant rains and consequent dipping consumer sentiment towards discretionary spend given the high inflation rate. The CPI continues to be on the higher side and WPI Index is coming down gradually, indicating the absorption of the inflation impact by the manufacturers due to slowness in overall demand. India too witnessed the currency depreciation, taking away the possible benefit of softening of the commodity prices. The country has demonstrated resilience however, given the overall global outlook, the growth is expected to be slowing down as compared to the projections at the beginning of the financial year.

Amid the above challenges, the company reported a marginal growth of 6% for the quarter in consolidated total income at INR 1,833 crores, as compared to INR 1,737 crores in the corresponding quarter last year. Profit before share of profit, loss of joint ventures associated and tax, was at INR 149 crores as compared to INR 162 crores in the corresponding quarter of last year. Profit before and after tax was further impacted during the current quarter due to an exceptional provision made on an overseas project. Earnings per share for a face value per share of INR 1, not annualized for the quarter ended 30th September 2022, was at negative at INR 0.22 compared to INR 3.13 last year.

The consolidated total income for the six months period ended 30th September 2022 was higher by 29% at INR 4,627 crores as compared to INR 3,598 crores in the corresponding period last year. Profit before share of profit loss of joint ventures associated and tax was at INR 340 crores as compared to INR 360 crores in the corresponding period last year. Profit before tax after share of profit loss of joint venture associates and an exceptional item was at INR 174 crores as compared to INR 311 crores last year. Net profit after tax was at INR 103 crores as against INR 227 crores in the corresponding period last year. Earnings per share, face value per share of INR 1 not annualized for six months ended 30th September 2022 was at INR 3.07 as compared to INR 6.81 last year.

On a snapshot of our results this quarter is presented, as you have already seen on the segment revenue as well as on the segment's profit before tax for each of the segments.

Segment A, Unitary Cooling Products, UCP:

For Unitary Cooling Products, quarter 2 is usually a lean period. The quarter witnessed incessant rains in many parts of the country, coupled with lower consumer sentiment towards discretionary spend and high inflation. The overall secondary sales during the quarter were also lower on a high base of same quarter previous year, impacting primary sales to the channel partner. Given the challenges, segment has performed relatively better reporting a revenue growth of 4% and 63% compared to quarter 2 financial year '22 and first half FY '22, respectively.

The silver lining in the overall lower secondary sales was a reference of the consumers towards higher star rated products, which has shown a good amount of increase over previous year. The adoption of the inverter technology has also seen traction with the consumers taking share of the split inverter air conditioner to 77% from 66% in the corresponding quarter.

We are pleased to inform you that Voltas continues to be the market leader and has sustained its No. 1 position in the overall room air conditioner business with its year-to-date August 2022 market share at 22.8%, with the lead of close to 750 bps over the second player in this segment. Our continued focus on the inverter category with expanded product portfolio yielded a desired result in sustaining our leadership in the inverter category as well.

On the higher base of the last year and with the pent-up demand in quarter 1 of the current fiscal, commercial refrigeration vertical also witnessed a softer demand across OEM and channel partners during the quarter. Nevertheless, strong tie-up with the OEMs and the continuous effort of increasing channel partners' participation has resulted in a higher double-digit growth of the category on the first half yearly basis.

Lower inventory at channel partner end coupled with incentive schemes directed towards primary sales and expansion of channel footprint resulted in higher double-digit growth for air cooler in a generally weak quarter. The investments in moulds catering to the various types of air coolers shall help in further strengthening our product offering to the consumers and participation of channel partners across the length and breadth of the country. The targeted dealer schemes deviating from the standard trade practices resulted in a phased primary billing and in securing a higher order booking for the coming quarters.

The commercial air conditioning (CAC) business reported a growth in the quarter on opening of the commercial spaces, expansion of the middle to small outlets and increased focus on conversion rates for aftersales service to a higher participation of the channel partners. Quarter witnessed a growth across product categories of ducted split units, packaged ACs, light commercial ACs, and VRF. The orders in hand also provide a good visibility of sales in the forthcoming quarters.

The challenges on the margin front persists in the quarter owing to the carrying of high cost inventory and intensive competitive pricing. The concern on the supply chain, especially logistics costs has relatively eased out and commodity prices are also softening. However, the rupee depreciation has neutralized the impact of the same to some extent.

In summary, for the quarter ended September 2022, UCP segment registered a 4% growth in turnover from INR 1,007 crores to INR 1,048 crores. The segment reported an EBIT of INR 76 crores in quarter 2 FY '23 as compared to INR 102 crores in quarter 2 FY '22. For the six months ended September '22, the segment registered 63% growth in turnover to INR 3,210 crores from INR 1,970 crores. Segment EBIT reported was at INR 243 crores in first half of financial year '23, vis-a-vis INR 220 crores in first half of financial year 2022.

For the segment B, Electromechanical Projects and Services:

Segment revenue for the quarter was INR 554 crores as compared to the previous corresponding quarter of INR 536 crores. Segment result before exceptional items was profit of INR 14 crores as compared to profit of INR 11 crores last year. Segment results after exceptional item EBIT was loss at INR 92 crores.

Domestic Projects business witnessed a better traction in order bookings, including potential orders in pipeline during the current quarter, aggregating to INR 950 crores as compared to INR 99 crores in similar period previous year. Collective efforts towards project monitoring, execution of the projects and intense focus on the collection has supported the results for the Domestic Projects group. With the consummation of the BTA, the challenges of securing fresh orders has largely been addressed, which should result in improving bid-to-win ratio for the new orders across project verticals and will help improve the order book.

In International business, revenue was muted owing to low carry-forward order book and most of the running projects being closer to the completion stage. Headwinds in terms of delay in certification and collection, lower-than-expected productivity and low availability of the skilled manpower impacted the overall results of the international business.

Amidst about various challenges in one of the overseas project, the main contractor has unilaterally terminated the contract in October with Voltas, and also encashed the underlying bank guarantee pursuant to the termination of the main contractor's contract by their customers. The company has considered a provision towards outstanding dues and encash performance guarantee on this said project following a prudent approach and disclosed the same as an exceptional item during the quarter and six months period ended 30th September 2022. The company is also evaluating legal remedies to challenge the termination of the contract by the main contractor and recover the proceeds.

The carry-forward order book for domestic projects now stands at INR 3,866 crores, containing orders across water, attract rural electrification and urban infra activity. The international order book as at 30th September 2022 stood at 2,110 crores, total carry-forward order book of the segment stood at INR 5,976 crores.

Segment C, Engineering Products and Services:

Segment revenue and results continue to report improved performance for the quarter over corresponding quarter of previous year. Segment revenue was INR 137 crores and EBIT was INR 48 crores respectively.

During the quarter, performance of both Mozambique and Indian operations were satisfactory. Increase in export duty on the iron ore by Indian government has impacted the demand for the capital equipment and also reduced production machine hours affecting our after field rate. Nevertheless, the vertical continued to maintain consistency with performance.

Improved delivery of textile capital machinery from the principal and a tactical approach towards after sales service revenue augured well for this segment during the quarter. Opening a few markets and government's focus to increase textile exports along with targeted PLI schemes will act positive for the segment, albeit price increase by principal, supply chain-related disruption and volatility in the yarn prices impacting the running of textile mills continue to post challenges in the interim period.

Voltas Beko

The demand for the appearances at large was muted during the quarter given the overall trade and consumer sentiment. The limited uptake during festive season has affected the trade participation in the primary sales resulting into a volume drop during the quarter.

Nonetheless, the brand, Voltas Beko, is aggressively pursuing growth strategy by focusing on the channel participation, creating a unique selling proposition for the consumer by providing a technical advanced product at value for money with the tactical marketing and sales promotion activities. The localization of few products, along with value engineering is supporting the margin improvement. Cumulatively, the brand has sold 2.5 million units till date in a span of three plus years, which is an evidence to the strength of the brand and acceptance of the product across the value chain.

The lower penetration, value expiration capitalizing on the demographic dividend and leveraging technical and distribution strength of the joint venture partners of Voltas should work positive for the category and strengthen its presence in this complicated market.

Outlook:

The current economic situation is surrounded with uncertainty and volatility. The inflation continues to remain a focus point on all the future monetary and non-monetary actions were impacting the overall economic growth and consumer demand in the coming quarters. We remain very optimistic given the various sporting factors for the businesses we are operating with.

With this, I close my presentation, and I can request the organizer to open for question and answer. Thank you.

Moderator: Thank you, very much. We will now begin the question-and-answer-session. We will now begin the question-and-answer-session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. In order to ensure that the management is able to answer all queries, kindly restrict your questions to two at a time. Ladies and gentlemen, we will wait for a moment while the question queue assembles. We have a first question from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: I wanted to ask you, with more in-house manufacturing versus outsourcing as it was earlier, would ROCEs be impacted going ahead?

Jitender Verma: Mr. Bagrodia, I think that's a very good question. However, because whenever you start manufacturing, you have to carry sufficient inventory for the purposes of manufacturing, carry sufficient finished goods also for the purposes of managing the seasonality of the product. So therefore, definitely, capital employed would be a bit higher. However, at the same time, you do get the benefit of not having to hold the inventory, which was the case when you were importing a lot of finished goods in the past.

So there is a kind of a nullifying effect. But however, with the current scenario where we are seeing the margins are lower. So therefore, definitely, there would be a lower return on capital employed. I think that was your question. So there would be an impact, but we are looking at this to improve our sourcing methodology just in time inventory management system. So with those methods since it's a relatively new manufacturing setup, but we are aggressively pursuing those opportunities to come to the original return on capital employed numbers. However, it may take a while before we actually start to see those benefits across all our supply chains.

Dhananjai Bagrodia: And sir, so my second question would be with raw material prices decreasing, would we, as brands look as terms of giving it -- passing it back on to customers, or would we like to recoup the gross margins, which we've lost over the last few years?

Jitender Verma: See, you have to remember that when the prices increase, we, as brands, did not pass on all the price increases to the consumer. A lot was absorbed by, I would say, almost all the brands and which is reflected in the lower margins and in certain cases of other suppliers that increased losses also. So therefore, it will be a judicious approach where we would see whenever the softening of prices reaches the level, which is before the increase, then obviously, we would not shy away from passing on those benefits to the consumer, but it would not happen immediately because immediately, it will be just to recoup the earlier price increases, which were not taken.

I mean, which were the cost increases, which were not pushed on to the consumer. So that level will happen first and only thereafter, we would think of -- or would consider starting to pull back on the prices because the softening of commodity prices is happening, but not to a very great extent. So there is a cautious approach here. But the intention is all there if the prices do fall, as a company, I would say, a very good social player in the scene, we would be the first ones to pass on whenever the prices soften to the right stage.

Dhananjai Bagrodia: And lastly, book-keeping question, sir. What would be our exit market share for the quarter? Because it's been given YTD this time?

Jitender Verma: It's 23.

Dhananjai Bagrodia: Sir, how much?

Jitender Verma: 23.

Dhananjai Bagrodia: 23. Okay.

Jitender Verma: 23, as of August because September data is still expected.

Dhananjai Bagrodia: 23 as of August. Okay, sir. Thank you.

Moderator: Thank you. We have our next question from the line of Gopal Nawandhar from SBI Life. Please go ahead.

Gopal Nawandhar: So the last quarter, our exit market share was at 24%. Did you lost market share in this quarter?

Jitender Verma: See, like, we have advised you that 24% was last quarter's exit and 23%. Of the current quarter So you can say there is a 1% drop. However, with that drop, we still continue to maintain a big difference from our second player, close to almost 750 basis points as we have indicated in my presentation. Yes, to that an extent, we are definitely the front runners in our market share.

Gopal Nawandhar: So this loss...

Manish Desai: And furthermore, Gopal, just to give you overall flavor, in the month of August, if I look to overall secondary sales because we always report on a secondary basis, the numbers are very small compared to the seasonality period. And any changes of even 10,000 units can make a difference in the market share.

Gopal Nawandhar: Is it because of pricing action by the competition or just...

Manish Desai: No. No price action is witnessed during July, August because that has anyway came to a lean period of this season. To just give you a flavor of it, if I talk about the secondary in the first quarter, it is somewhere around 3.4 million. And if I look into the July, August because that's what we got the data, September is still awaited, this is well less than 1 million. It's close to 6 lakh units and all, 6 to 7 lakh units.

Gopal Nawandhar: And is there any change in the competitive landscape laddering anything?

Jitender Verma: So if I want to give the answer, only one change we witnessed over there, whereby the Lloyd is seen Nr. 4th position now after remaining consistently No. 3 for the consecutive period of three months to for 6 months or so, by close to 60 to 80 basis points, and that can help overcome them. So to that extent, I would say the laddering has undergone a change. Rest, all was remained same.

Gopal Nawandhar: And how are the inventories in the system for us and for the system?

Jitender Verma: So if I look from the value chain perspective, it will be in the range of around 35 to 40 days for the channel partners of September, if I look from the manufacturing perspective, it will be in the range of 90 to 110 days.

Gopal Nawandhar: Okay. And we don't any...

Jitender Verma: And largely attributed at the manufacturer's end because we have to take care of any potential supply chain disruptions, which can happen, given the global uncertainty which we all are living in. And furthermore, we have to prepare us for the season upcoming as well starting from the quarter 4. So all these factors goes actually when you start building up the inventory for a future period.

Moderator: Thank you. Ladies and gentlemen, in order to ensure that the management is able to answer the questions from all participants, kindly restrict your questions to two at a time. We have a next question from the line of Renjith Sivaram from Mahindra Mutual Fund. Please go ahead, sir.

Renjith Sivaram: Just wanted to understand like what is the status of that Highly joint venture? Because today, there is some news that government has eased out their norms for high-end electronic JVs from China. So is there a probability that this Highly JV also can come under this easing of norms and work can restart on that? Just wanted your thoughts on that.

Jitender Verma: Renjith, we have also seen that news and since our people are already in touch with the ministry. So discussions have been going on. We would wait for a few more weeks before the real action starts at the ministry level. However, in the interim, we still remain in a waiting mode. At the same time, if you're talking of the report, which came out today, it also talked about certain stipulations which have to be met by these joint ventures and all, wherein the control of the Board has to be with the local JV partner and things like that which actually is not the case in all the applications. So we'll have to wait and watch whether is that going to be the new directive or is that just a guidance or what exactly would happen. So therefore, we remain, I would say, cautiously optimistic and we'll wait.

Renjith Sivaram: And sir, this INR 106 crores of provision because I think post Sidra, we have taken so many measures from our side in terms of risk mitigation and putting up much more good processes in which to avoid such kind of thing. And still we are coming out with such a situation where our main contractor has banged over and we have to take such provision. So what had gone wrong because despite all these risk mitigation measures, still we are coming back to the drawing board on the same, so...

Jitender Verma: I agreed that Sidra was one event sometime in 2011-odd. And then after so many years, we have had one event, but the two were quite different. I'll let Manish answer the difference a little later. But let me tell you on the risk mitigation efforts which we have been taking and I'd like to reiterate and agree with your thought process that, yes, the company is very selective in who we partner with, how do we do our business, what kind of contracts we entered into, who are our counterparties. However, in spite of all these risk protection, there is a continuous risk, which is, I would say, is in the -- inherent in the nature of the business is that if somebody wants to play unfair and want to encash the bank guarantee, that risk is something which remains with us because in this contract business, you have to offer advanced bank guarantees or performance bank guarantees. And then you have DLP periods during which these guarantees continue.

So as long as everybody plays fair, we are very, very, I would say, in a position where business like conditions, we are fully taking care of mitigating that risk, but the open risk definitely remains. And something to that thought, I would not be in a position to explain more than that. And something to that sort has happened in this particular case where there is a dispute or disagreement between the main client or the original customer and his main contractor and the main client terminated for the main customer. And in turn main contractor did a termination on us and encashed the bank guarantee.

And that's why we have said in our obligation that we will be going legal against this person at this particular main contractor and take all the legal remedies to recover this amount. And we should remain hopeful on that recovery. Now the difference between Sidra and this one, maybe I'll let Manish come in.

Manish Desai: No, in fact, I don't want to highlight the difference between these two incidents. Renjith, the fact is that when you are carrying out risk mitigation approach while selecting the project, the project execution generally in such kind of large size take a good amount of duration, in terms into two to three years' time frame.

Although we keep a close eye on the execution of the project and the parameters, what we shortlisted, what we have considered that point of time. However, the certain external events on which we have limited control can result into such kind of incident. You must have seen that enough incidences or the care has been taken for by the management to look after or to consider or to have a cautious approach.

Gaining some kind of traction, but one or two incidents, as I said, between the award of the contract or selecting the value partner in the execution of the entire contract. The duration of the project, anything can happen at any point of time. And that's what we have to see some of the situations beyond our control of anyone for that matter.

Renjith Sivaram: And how much is the receivable portion in that, which is actually the work done by us, which we haven't paid?

Manish Desai: Everything has been provided. If you read our enclosures or the notes what we have given, we have even provided the retention money as well, although we have a continued support from the main customer or following the prudent approach in terms of the accounting, we have ticked up and we have provided the retention portion also out of the exposure.

Moderator: Thank you. We have a next question from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: My first question is with respect to the UCP segment margin. This first half, we would have done 7%, 7.5% kind of margins. How confident are we to get back to last year's levels of 10%, 10.5%. Is there a possibility like that? Or the margins are likely to be more in the range of 8% to 9% for the year?

Manish Desai: Ravi, we have been telling this from the start of the year and more particularly after the Q1. Given the situation of inventory and the competition which we, the market is setting in currently, to go to a trajectory of in excess of double-digit looks difficult. And I am seeing that it is difficult for this current year as well as for the one or two quarters later on as well.

We have to carefully watch the situation in the market dynamics in the same sense. We guided in the earlier quarter as well that achieving double-digit looks difficult, however our efforts are there to go closer to a higher single digit. And obviously, the efforts are on the ground to ensure that we go to that objective. We may not be seeing in the quarter 3 immediately because we still have some high-cost inventory with us on account of the lower quarter 2 and a quarter 1 volume, which we expected and considering the disruptions which would build around on the season volume.

For the larger benefit should -- the commodity price benefit should move in on a limited way, because we all know currency also got depreciated to a certain extent, but some improvement is visibly there or expected from the mid of the quarter 4.

Ravi Swaminathan: And my second question is with respect to Voltas Beko. So you had talked about volume decline during the quarter to what extent was the volume decline? And the thing is that basically in this quarter other larger players with a much higher market share, they have reported -- listed companies, they have reported revenue decline. But we, with our lower revenue base, we should ideally still register good healthy growth rate from the slow base. Can you give a thought process on this?

Manish Desai: Yes. That's what we're always saying that we should not look into the industry growth or the growth or increase or decrease in the volume. But what happens is, although we are among one of the players in the industry. And when the industries are tremendously behaving in a different way, probably some of the impact will still fall into the brand, which is also a nascent brand and continues to looking for a growth in the business.

So that is actually impacted because if you see the results of the -- I'm sure each one of you have gone through the results of the other appliance company also, which has come out on the result. Even though with the price increase and being a top player in the industry, the industry witnessed a kind of a muted performance of the revenue and a much larger impact on the bottom line. And if you look into our results, we could protect our bottom line to a certain extent of the rollback.

The revenue despite I would say, the revenue was down in the range of 15% to 20% for the world back as such compared to the quarter 2 of the last year.

Moderator: Thank you. We have a next question from the line of Siddhartha Bera from Nomura Holdings. Please go ahead.

Siddhartha Bera: Sir, first on the margins, will it be possible to indicate the broad range of benefits factoring in the commodity as well as rupee depreciation. Can we look at net level about 100, 200 bps benefit? Or will it be higher or lower than that?

Manish Desai: Siddhartha, to give this answer, I hope that I should have been astrologer knowing how the future is going to work, which is not the true case we all know today. Like when we were happy that the commodity prices are coming down, rupee has taken a different knock altogether. And probably whatever benefit what we anticipated as an industry player in the commodity price is generally getting squared off against the rupee depreciation because still, in our case, and in the industry as such, few components are still import sourced and will the foreign currency or the rupee level will still make a lot of difference.

So it's difficult, Siddhartha, to say that how much benefit can accrue to it. And furthermore, we have to see that how the other players in the industry are going to react to it. Mr. Verma, a few minutes back, clearly said that if the commodity prices are continuously going down and if the market dynamic remains competitive, probably some of the players despite completely absorption, not absorbing the overrun, may require, of course, to pass on some of the converted benefits to the end consumers to revive the overall demand during season time.

So I would say that, Siddhartha, it is too much uncertain or much in advanced stage to know how much we can improve upon. However, on a broad basis, we are expecting at least 50 to 60 basis points should minimum accrue from the mid of quarter 4, where we should get most advantage of the new inverting of the commodity into our warehouses.

Siddhartha Bera: Got it, sir. And then the second question is, sir, again, on the slightly medium term, if I look at industrial market share, we had said we wanted to get back to, I think, 25%, 25% plus. And I think medium-term margin guidance is also probably low-double digit. So given the competitive dynamics, which one do you think you will prioritize more and you believe you can achieve compared to the other, if you can share some thoughts there?

Manish Desai: Siddhartha, we always guided by the balanced approach between market share and the margin, and that's why we have lowered down the expectation on a higher single digit. So both objectives are of a paramount importance and probably we'd like to play intellectually to ensure that we remain a leader in both the aspects. And that has been reflected so far in the announcements of results we have seen. And the kind of efforts we've done on the ground to ensure that we remain competitive at both the parameters.

Siddhartha Bera: So we are saying that for the next few years, margins should be closer to high single digits. Is it for the next few years or for this year?

Manish Desai: As I said, looking into the situation currently, probably we'd like to guide it by the short-term period of 12 to 15 months rather than going in the long-term projections because many things may get evolved when you are doing the backward integrations, a lot of localization initiatives are working on the ground, which may help us to give a better guidance on the margin once we have a complete access to it. But till this time, we are going live or we are going to have the commercial production part of the backward integration, I would say that the lower single digit will still prevail.

Moderator: Thank you. We have a next question from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: Sir, first question is regarding the market share shuffle that kind of happening. I just want to get your perspective on this. Earlier, we saw this low-value brands like in-house brands of Flipkart, Amazon, some low market share companies like Godrej, Whirlpool, et cetera. There's a preference towards no value ACs.

There was a downgrade, which is happening within customers. But now in your commentary it says that higher star rated ACs are growing faster. So where do you see a post PLI?

How should this tail end players lose market share to larger players, which will become larger? Or do you think there's been upset of market share exchanges between the larger players? How do you see this industry going forward in the next, say, two to three years?

Manish Desai: If I give you a further elaborate to more to your question, the tail end players are actually losing the importance because of the huge price difference between them and the leaders in this category. They also make or manufacture five star or high star rated products because they cannot be different from the consumer preference.

The question then arises, being a consumer, what you would like to prefer with the price gap between the leading brand and the tail brand is, to a certain extent, which they can easily absorb with the -- in support of the consumer scheme also being available to them to buy the product.

So this is going to drive the consolidation in the industry as such whereby the talent peers may find more and more difficult in order to compete with the leaders in this category. When I say leaders, there's a top five or top size players who have, I would say, consistent performance in the overall in the segment for that matter. So this is 1 exception out of I would try to clarify that. It doesn't make sense yes, it doesn't say that the talent players won't make the four-star or five-star rated products.

What is happening is the shift is taking place largely in the saturated market where people are going for more and more replacement and finding a five-star after the complete usage of the product for the earlier product makes sense for them because the usage in turn also have gone up.

And that's what our reference is that the contribution of the high-star rated products is increasing in our product basket and we have seen the general trend also in the overall industry.

Sandeep Tulsiyan: And second question is pertaining to this year A&P spend. We noticed that over the last 2 years, we've completely cut down our A&P spend to a very low proportion of INR 20 crores, INR 30 crores odd, which was INR 75 crores, INR 80 crores earlier. That has held margins. How do you see this panning out? Because you're doing more of digital marketing, at what level of sales would this ideally sustain because that in tandem with price actually kind of determine the margins?

Manish Desai: So Sandeep, if I look from the compared to the last two years and the current year, actually it is not like we have not spent on the A&P. There was no need or a merit to go for this expenditure because market was not there to support this. The complete lockdown, the COVID situation was not helping out any which way by putting those spend on the brands or on the outlets on the ground. And because of that, we didn't spend.

Otherwise, we tend to incur the expenditure in the range of what we are doing earlier as well, but when the shift between -- because we may require to go more on a technical marketing by going more spend on the digital side rather than going on a print media or a TV media for that matter. But we do balancing it out based upon the kind of reach what we get on our targeted audience base, and we play around on those things to ensure that we remain visible as a brand in the minds of the consumer.

Sandeep Tulsiyan: We should go back to that 2%, 2.5% of sales you see?

Manish Desai: We have been. In fact, as I said, COVID period is not comparable, Sandeep, because if there is no market, there is no sale happening, the retail outlets are closed, what you're going to do by incurring the expenditure.

Moderator: Thank you. We have a next question from the line of Keyur from ICICI Prudential Life Insurance. Please go ahead.

Keyur: A bit longer-term question. So sir, two years from now, how do you see your sourcing settling between in-house, outsource within India and import. If you can just break it up in terms of, say, from INR 100 of bill of materials, what will the breakup or say in terms of key components or total assembly? So how it will be divided, say, in next two years?

Manish Desai: See, in the next two years, I would say that, see, many -- when I say indigenized, which means that we may not do our own production, but we start looking into sourcing from within India rather than going for outside India. I'm answering from that perspective, because we are not going to manufacture as a brand many of the components, which anyway will continue to source from the outside. Even our PLI applications, we have restricted our scope of backward integration to our heat exchanges and some kind of plastic components.

To give you an answer on the overall indigenization versus what we are doing today, probably you can see the motor heat exchangers and to a certain extent, the compressor will be localized over the next two to three years' time frame. And if I put together their constituents to the bill of material, today, they go as high as 40%, put together all three components.

So this will be localized largely as we move forward. However, as I said, every component is the direct and indirect kind of contribution. So I would say that if I were to go on a one single line, I would say that after three years of time frame, probably compressor to a certain extent, will still be imported. Rest all materials should be sourced within India or -- yes, within India.

Keyur: And of that, you are seeing heat exchangers and some plastic components will be made by us?

Manish Desai: Yes, we are doing it. But as we said that even though for heat exchangers, we are increasing our capacity in a phased manner. So today, if I'm producing in excess of 1.2 million units, we're starting our backward integration phase with the 0.5 million kind of heat exchangers, which means that 0.5 million is still -- we will still source it from the OEMs or to the -- depending upon the sources available to us. And gradually, we'll be increasing our capacity to ensure that we remain, I would say, a balanced as far as our sourcing is concerned for this component.

Keyur: Basically shift more from outside India to within India than outside Voltas to within Voltas?

Manish Desai: Yes. That's what the game is because the PLI benefit being extended to many players in the industry and many new players are also going to move in, which they were not having any presence as such. And I don't want to give a name of the players. We all know as a part of the PLI application. Some of the players who do not have a presence in the air conditioning market altogether. But because of the downstream of the product or upstream of the product, they are entering into this category as well.

Moderator: Thank you. We have a next question from the line of Atul Tiwari from Citi. Please go ahead.

Atul Tiwari: So sir, again, going back to the question of market share versus margin. One of the three your key competitors is prepared to operate at deeply negative margins, and they have clearly communicated that they are going for the market share. So to what extent will you be ready to compromise on margins to hold on to your 23% market share? I mean will you be happy with even 20% margin -- 20% market share to hold onto your margins? Or for you, say, a band of 23% to 25% market share is?

Manish Desai: See as I said, we look -- we do look into the market dynamics and the competitive move. It doesn't mean that Voltas has been leading this category, blindly follow the strategy of the other players. I know about the brand which you're talking about, but you have seen that in the exit month, the August, they dipped down on the margin. If they have to work consistently on the strategy, they should have exceedingly doing well on a quarter or on a month-on-month basis, which means that beyond that point, the price card doesn't play in the minds of channels, in the minds of the consumer as well.

And that's what the hard learning we learned being present in this industry for a long period of time. And that's why we always say we always play a balance card between the margin and the market share. And our objective remain strategic to have the market share in excess of 25% just for the benefit of all the audiences since we are discussing about exit market share from 24% of market share what we reported in June exit, we did touch upon 24.5% during the July, and we came down from there to 23 being the lower second day in the month of August.

So that's what -- so we always see that one or two months down, but we prudently reported the YTD although the exit month would have given some 20 basis points. But that's why I would like to highlight to the audience that the pricing card will never go or never reach to a position beyond a threshold which probably we tell a part of the customers are looking for.

Atul Tiwari: Sir. Very clear. And just the last one from my side. So I think in your opening remarks, Mr. Verma briefly touched upon some orders in hand, which kind of bodes well for third and fourth quarter volumes. So I don't know whether I heard it correctly, but could you please expand on that point that how does it compare with the orders in hand in the past? And what kind of volume or the market share numbers we could look forward to, say, in third and fourth quarter?

Jitender Verma: No, chief. When we talk about the orders, this is largely part of the commercial air conditioner because we carry out a lot of retrofit projects as well. And we further carry out because unlike your air conditioner, which is of the counter, in case of commercial air conditioners, some of the purchase take a longer time in terms of the ductables and the VRF the chain of businesses. So Mr. Verma was referring to those kind of orders in hand. And that's where it comes and it doesn't have any relation to the market share as such, when we talk about the segment A for that matter.

As far as the segment -- project business is concerned, you all know we had a concern on the account of business transfer, which we initiated and took a longer time because of the COVID period. And really because of this uncertainty of the long delayed period. We faced the situation where the orders were flowing to us, but we could not -- the customer was asking us to execute the orders, but under the BTA, we could not proceed further on that. So those constraints also being taken care by consummating the business transaction agreement. And now UMPESL the subsidiary company are open and their customer is also very clear who is going to execute the orders and orders started seeing -- flowing into the -- both the domestic project for that matter.

Moderator: Thank you. We have a next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Most of my questions have been answered. I just had one data point to seek if possible. Just within UCP, if you could share the proportion of the commercial segment and also the air cooler segment if possible?

Manish Desai: So Commercial segment, if I look into it, CSC to be in the range of 16% to 18% of the overall turnover. And I'm taking YTD, chief, because the reason being is because quarter one will always be air condition driven, residential air conditions. So the comparison won't go well or won't be giving a meaningful, I would say, benefit to it. And if I look from the air cooler, air cooler is still a nascent category for us. We are looking into it. And if you look for the price point, it is like one fourth of the air conditioner price. So in terms of its overall contribution to the sales turnover, it is still within -- is less than 5% for that market.

Abhijit Akella: Sure. So just to understand excluding these two, 16, 18, and then less than 5%, the rest would be basically the B2C business, if you would have?

Manish Desai: That's the B2C comprising of air conditioners or commercial refrigerator.

Abhijit Akella: Commercial refrigerators, also if you could break out, please?

Manish Desai: Say in the range of 18% to -- between 16% to 18%.

Moderator: Thank you. We have a next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, my first question is, again, harping on margins. I mean we've had competition in this business for a long time. Yes, commodity prices are hurting us, but the fact that you are still hesitant giving a higher margin guidance, is it to do with just the amount of capacity that is coming in India and with everybody wanting to produce as much as they can, structurally have the margins come down to the high single-digit number? Or is it just maybe a two to three quarter phenomena when commodities normalize, we could go back? So I mean, is there a change in thought process versus what it was there a couple of years back in terms of the margin profile?

Jitender Verma: Pulkit, actually, we have been saying that during this phase of volatile prices where depending upon different constituents and depending upon their policies and their purchase point exists, this low guidance would definitely prevail. However, the period after that, let's say, once the prices stabilize and maybe a quarter after that, now whether these prices stabilize right away or they take two to three quarters, but at least a quarter after the prices stabilize, then the real price discovery should happen and where the margins would kind of stabilize.

But the guidance would be definitely in the range of, I would say, mid- to high single digits. The manufacturing of products within India has also has its bearing on these margins, which is to be looked at in the initial years of manufacturing.

There would be certain learnings as we go along the learning curve. And then subsequent to that, those benefits would also come in the margin and that would establish. So therefore, in the current scenario, you have to see that we, as Voltas, have been maintaining our margins to a little bit lower, but we are still much higher than all the players who have been publishing their results. And that's, I would say, guidance on the questions which have been asked with respect to market share and margins. So we have been maintaining the leading margin share as well as -- leading the market share as well as in the margins, which has to be taken into account.

Manish Desai: And just further to add, Pulkit, the all PLI led kind of investments by the other players are going into the components, which means that the supplier of the components of the choices available to the manufacturer on the component sites are getting actually widened, which should result into some kind of more benefits to flowing to the manufacturers to a large extent.

So I would say that the PLI is not a reason for going into a margin imbalance between the -- among the manufacturers. So what is happening today is you are sandwich between a lower demand and the high-cost commodity or the carrying inventory which you are doing, or which you are having in your books of accounts. So the question then comes is what action we should take to revive this demand from the consumer side.

And that's where we are making those kind of products more affordable by going with the aggressive consumer subvention scheme, not increasing the price despite seeing the headwinds in terms of the depreciation, the currencies, higher commodity price and all kind of stuff. So over a period of time, these all things will settle down. And once we have seen kind of harsh summer sitting in, although over the period of April we may see a good amount of demand. But I'm sure that as the industry evolves, the situation also gets settled out as we move forward.

Pulkit Patni: So that's helpful. Sir, my second question is on the domestic MEP business. I mean we've seen a pretty decent order inflow number this particular quarter. And obviously, commentary from a lot of your competition and peers is also that the domestic market seems to be pretty good. Is it fair to assume that if we do more work on the domestic side, are margins actually here could improve? Or we think still that 3% to 5% kind of margin is a fair number to go with over, say, next 12 to 24 months in that business?

Manish Desai: Sorry, Pulkit, the more order book, in fact, will help you to strategize many things like sourcing your materials, standardizing your vendor base with you, have a long-term continuity contract with at least because you know very well projects are all depends upon the -- more on the skilled employee and all.

So those execution benefit will certainly become accretive to the margin. But we all know of what is challenging in the project business is the execution. And once we do the execution in a timely manner, and keeping in mind and get the certification of what was done from the main customers, probably, I would say that the project business you can visualize or can earn a margin in excess of 5%. But that only time will say how we move forward.

We all know even the giants like L&T has seen the pressure on the margin side. But as we said, the more -- the reduced competition of, I would say, a decent behavior from the customer side, approving the EOTs considering the situation on the ground and the execution bandwidth should help us to go back to the old trajectories of the margin side.

Moderator: Ladies and gentlemen, that was the last question for the day. I now hand over the conference to management for closing comments. Over to you, sir.

Jitender Verma: Well, I'd like to thank all the participants for asking, I would say, very relevant questions. And as a closing guidance, we still maintain that we will have a judicious balance in our market share as well as margins. And wherever it is required, we would definitely continue to maintain our leadership position, which we are very careful about and we maintain that.

In these inflationary trends -- current inflationary trends, we would like to continue with the same philosophy. But given our strength and our other supporting factors, we are very optimistic on maintaining the margins and the increased volumes, which we expect because of the industry would also help in the increased profit and thereby increase in earnings per share on a long-term scenario basis.

With that, I'd like to once again thank everyone. Thank you.

Moderator: Thank you, sir. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us and you may now disconnect your lines.