“Voltas Limited Q3 FY22 Earnings Conference Call”

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MODERATOR: **MR. NAVEEN TRIVEDI – HDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Voltas Limited Q3 FY22 earnings conference call hosted by HDFC Securities. As a reminder, all participants' lines will be in the listen-only mode. 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 '*'then '0' on your touchtone phone. Please note that this call is being recorded. I now hand the conference over to Mr. Naveen Trivedi from HDFC Securities. Thank you and over to you, sir.

Naveen Trivedi: Thank you, Tanvi. Good afternoon, everyone. On behalf of HDFC Securities, I would like to welcome the management of Voltas Limited to discuss the post 3Q FY22 results. We have with us today the senior management of Voltas represented by Mr. Jitender Verma – EVP and CFO; Mr. Manish Desai – Head Corporate Finance; and Mr. Vaibhav Vora – Manager, Corporate Finance.

I would now hand over the call to Mr. Jitender Sir. Over to you, sir.

Jitender Verma: Thank you Naveen and a very good afternoon to all the participants.

We started the quarter three with the optimism of festival season. However, the subsequent news of the highly contagious Omicron variant spread jitters across the world. On one hand while post-crisis recovery seems to be robust, but on the other hand, it continued to remain uneven due to the new concerns about the evolving virus dynamics. Rising energy prices and supply chain disruptions resulted in higher inflation than anticipated in both the advanced and the developing economies. Taking cognizance of the same, IMF now anticipates global growth to be lower from 5.9% in current year, 2021 to 4.4% in current year 2022.

While the disruptions also continued in the quarter, in China disruptions from COVID outbreaks, interruptions to industrial production from power outages, closure of various industries amidst stricter norms by the local government to protect the environment protocol and congestion at some of the ports resulted in input cost in escalations. This led to non-fulfillment of contracts by some suppliers.

Monetary conditions are being tightened globally. In United States with price and wage pressures broadening and inflation at peak, the Federal Reserve decided to accelerate tapering of asset purchases and signal that it will raise rates in 2022. On the other hand, fear of Russia border conflict intensification has affected oil prices, which has crossed USD 90 per barrel adding to the high inflation. India has not remained untouched from these global events. Prospects for India seem more optimistic with IMF raising growth forecast of the country to 9%. Central bank's accommodative stand and higher direct and indirect tax collections, point towards economic recovery. However, at the same time the increased WPI index reflects the difficulty of the manufacturers to pass on the increased input costs to the end consumer. Reliable data indicates growth in top line in general. However, margin has witnessed decline across all sectors.

In this overall context, we reported a mixed bag of results for the current quarter. Unitary Cooling product segment reported a revenue of Rs. 1,094 crores, while Project Business reported revenue of Rs. 554 crores and Engineering product reported a turnover of Rs. 125 crores. Our consolidated total income for Q3 FY22 was Rs. 1,822 crores as against Rs. 2,046 crores in Q3 FY21. Profit Before Tax was at 139 crores as compared to Rs. 166 crores in the corresponding quarter last year. Profit After Tax was Rs. 97 crores versus Rs. 128 crores in the previous year. Earnings per Share, not annualized for the quarter ended 31st, December 2021 was at Rs. 2.90 against Rs. 3.87 which was registered last year.

For the nine months ended 31st December 2021 the consolidated total income was higher by 27% at Rs. 5,420 crores as compared to Rs. 5,061 crores. PBT was higher by 16% at Rs. 450 crores as compared to Rs. 388 crores in the corresponding period last year. Profit After Tax was higher at 11% at Rs. 323 crores as compared to Rs. 290 crores in the corresponding period last year. EPS not annualized for the nine months ended 31st, December 2021 was Rs. 9.71 as compared to Rs. 8.69 last year.

A snapshot of our results has already been given in our press release. I will not go through the numbers in more details on that.

However, in our segment businesses:

Our Segment A – the Unitary Cooling products:

UCP business witnessed a tepid demand post the festive season on a higher base of corresponding quarter last year. Fear of lockdown amidst the highly contagious Omicron virus made the channel partners cautious enough not to stock high levels of inventory. Unitary Cooling segment reported revenue of Rs, 1,094 crores as against Rs. 1,003 crores representing a 9% increase over the corresponding quarter of the previous here. However, divisional bottom line declined by 17% from Rs. 123 crores to Rs. 102 crores amidst increasing input costs, disruptive pricing varying competition and resistance by the trade on price increase given generally a low off take volume quarter. Nevertheless, our focus on product placement, trust amongst the channel partners and value proposition has helped us register a lower volume de-growth as compared to the industry in general.

Our focus on the inverter subcategory with competitive pricing and larger number of SKUs continued to favor us. Inverter category witnessed a good traction with the customers and now contributes over 65% of all ACs sold compared to 60% for the similar period in the previous year. In terms of the overall AC market, we continue to retain our undisputed leadership with a year-to-date market share of 25.8% at multi-brand outlets. As concerns on global warming from increased energy consumption is growing, protecting and preserving our environment continues to form a prominent part of Voltas commitment to sustainability.

We are happy to report that Voltas has once again, won the prestigious National Energy Conservation Award, outperforming other brands in fixed-speed and variable-speed AC categories. It may be noted that Voltas has won this National Energy Conservation Award for the fifth time, a testimony to our leadership in technology as well.

The commercial refrigeration vertical has delivered a positive performance in Q3 by registering a reasonable growth and volume, growth in commercial refrigerator products was driven by expansion in trade sales, exports and higher participation from OEM.

In air cooler category, the lockdown disrupted the limited seasonal window available for secondary sales even in the current year. This resulted in trait, reporting a substantial level of inventory impacting primary sales in this category. As a second preferred brand in the country, we command a market share of 12.5% in air cooler category. We are happy to report that commercial air conditioning business has done well, even in these uncertain times. Government, pharma and healthcare related orders for VRF and other categories along with increase in demand for light commercial air conditioning in financial services and food industries has driven the growth in this product category. We continue to receive O&F contracts in many metro and infrastructure projects. Retrofit bookings have seen a spurt in high growth segments through repeat customers.

Looking ahead and in the broader context of the commodity price increase and enhanced supply chain costs. The further price increase across all product categories is inevitable which should support better margin.

Segment B – Electromechanical Projects and Services:

Segment revenue for the quarter reduced to Rs. 554 crores as compared to the previous corresponding quarter of Rs. 847 crores primarily owing to a low carry forward order book. However, segment results showed a positive growth from Rs. 14 crores to Rs.36 crores, carrying forward order book of the segment stood at Rs. 5,600 crores as compared to Rs. 7,076 crores last year. Over Rs. 400 crores of fresh orders were added across both domestic and international markets. The carry forward order book for domestic projects stands at Rs. 3,327 crores contained a bouquet of orders across water, HVAC, rural electrification and urban infra-activities. The international order book stood at Rs. 2,273 crores. Better and timely execution of projects availability of sites and a healthy project mix has driven projects business during the quarter. However, since most of the big size projects are approaching completion and new projects being at nascent stage at both domestic and international levels resulted in an apparent de-growth of revenue.

An increase in commodity prices seems to impact the project cost budget. However, a sensible negotiation, both with the customer and suppliers helps in mitigating the risks. Meanwhile, the increasing global oil price and lifting of COVID related restrictions should improve business sentiment and open up further opportunities in our operating markets. As always, we will continue to follow a cautious approach while bidding for fresh orders. Adding to our technical execution credentials Voltas was recently recognized as one of the HVAC Power 25 lists in the Middle East for our international project business.

On the domestic front delay in fulfillment of CAPEX commitment by center and state has led to a low order booking. However, we remain optimistic with an allocation of higher amount towards the infrastructure and recently unveiled union budget to boost the investments in the necessary and much awaited infrastructure activities.

Segment C – Engineering Products and Services:

Segment revenue and reserves for the quarter was at Rs. 125 crores and Rs. 40 crores, respectively. Both Mozambique and the India nations have contributed towards improved performance on the back of the revival of the crushing and screening equipment and renewal of the maintenance and repair contracts mark with the customer. Growing yarn exports, demand for capital machinery, both in spinning and post spinning contributed significantly to this vertical. While announcement of product linked incentive, PLI scheme for textile sector will help the industry on a long-term basis. However, price increases by principals and supply chain related disruptions may pose some interim challenges.

Voltas Beko, lower seasonal demand and trade sentiment to go slow on the inventory front, given uncertainty of the COVID induced restrictions resulted in lower volumes sold. The manufacturing of frost-free refrigerator has commenced at seven factories. We have also added a production line for fully automatic washing machine, this initiative of in-house manufacturing shall help the brand to introduce more customer centric products, helping in optimizing the working capital and other cost savings associated with it. The recent external study conducted by Voltbek points out that Voltbek products carry a good brand recommendation with the customers among the established players in this segment. On back of the stronger acceptance of its product by the customers Voltbek has registered a market share of 2.8% and 3.4% in refrigerator and washing machine category, respectively. Voltbek will continue to leverage synergy of the distribution capabilities and other strengths of Voltas to optimize the benefits across value chains.

Other Matters and Outlook:

Looking ahead at Q4 FY22, which marks the beginning of the summer season sales for all cooling products and availability of the complete season period unlike past two years of COVID, we remain cautiously optimistic. Budgetary boost given to the infrastructure sector by the Centre may help us in building a strong order book, albeit higher vaccination rates, the unwinding of supply bottlenecks and policy choices, may remain influential factors for revival. In general, we anticipate a pickup in pace of activity, which can reasonably be expected over the coming quarters and Voltas would continue this growth momentum. Thank you.

Moderator: Thank you. We will now begin the question-and-answer session. The first question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Inventory and the demand which you are picking up in the current quarter, what will be the monthly levels and outlook?

Manish Desai: Is this the only question or you have a second question as well?

Siddhartha Bera: The second question will be on the pricing, you mentioned that there was some resistance in passing on the prices, in the last quarter I think we indicated we had taken up by about 3%, was that rolled back and any further price increases which have happened in the current quarter?

Manish Desai: Let me answer in the sequence. In terms of the inventory days, as we said in our opening remark, that the trade has become a more cautious while keeping them higher inventory level at their end, which means our anticipation is that the inventory days with the traders are hovering anywhere between 30 to 45 days. Largely it is driven by the last two season experience on the COVID outbreak and the kind of uncertainties what we've seen among the trades, or I can say in terms of the secondary sales. I hope that the Omicron variant has come to rest, and all the old state governments are opening up or are releasing the restrictions in a phased manner. We should bode well for the cooling product categories, which is starting this season period as early as now, mid of the February month. That's why we have put outlook that everything goes well, and we are not encountering with any other COVID mutant. Probably this is the first year where we are going to see a complete season period available for our cooling product categories. We should bode well for the industry. On the second questions on the pricing side, I would say that whatever step the brand manufacturers are doing, the increased costs is taking a one or maybe a larger step in terms of increase in the input cost. Sequentially as well we have not seen any of the commodities has come down on a pricing front except steel, which has some kind of moderate decrease over the last quarter. Having said that all costs, which are coming up or the additionally I would say the inputs, which we were getting it on a regular basis for preparing ourselves for season are coming at a higher cost. In a way, even though the price increase which we did so far on a year-on-year basis, falling short in terms of the increased input cost. As we all know the demand after festival season actually has come down. The Q3 generally, if you go on a regular period is not so strong in terms of the volume and all, it was not fertile to have the price increase or think about the pricing increase again, having said that we'll be cautiously looking into the market and the demand supply gap in order to take the necessary call in this regard during Q4.

Siddhartha Bera: But with the current commodity prices, would it be possible to indicate how much prices you will improve to achieve the targeted margin of sales, 12%, 13% on an annual basis?

Manish Desai: If somebody can say that the commodity price will not go further up from this moment, I can easily calculate on excel sheet and tell you what we're price increase we need to do, to go back to a margin trajectory. We all know it is practically difficult for any of the brand to do so. We'll be doing the increase in a phased manner so as to not to disturb the demand, as well as to gain the advantage in terms of passing off some of the costs to the end consumer.

Moderator: The next question is from the line of Sandeep Tulsian from JM Financial, please go ahead.

Sandeep Tulsian: First question is pertaining to the UCP segment. If you can give some more color in terms of growth rate between how your B2B commercial air conditioning business has grown and the B2C business at what pace that has gone and Within B2C, if you can also give some more color on RAC growth and commercial ref growth on a year-on-year basis?

Manish Desai: If I look from the growth perspective, we generally look from both primary as well as secondary perspective. As you know we do not have a confirmed data on the commercial air conditioner side from the third-party source, it is difficult to give any kind of objective numbers in terms of growth or de-growth for the sector or for Voltas as such. However, we are seeing a good amount of demand coming up from the small institutions as Mr. Verma said in his opening remark, the schooling institutions food outlets and small restaurants are seeing good amount of light air conditioner or commercial conditioning requirements. Overall, the business has registered a 9% growth together the RAC and the CAC, we were not given the competitive scenario would not like to give any further breakup into this, but broadly I said last year, or last time that the CAC contributing around 20% of the overall RAC business, what we are reporting it, and rest goes into the air condition, the commercial refrigeration, they have cooler category of the UCP segment.

Sandeep Tulsian: Second question is on the PLI investment, where you have committed 100 crores equipment, which was mentioned, if you can give, how this will change your in-sourcing component, was it outsourcing where it is currently and within outsourcing, how much is the domestic imports? One clarification is this entire order book pertaining to EMP segment, or there is a component of CAC also merged within that?

Manish Desai: The order book, what we reported is for the EMP segments only comprising of both domestic and international project operations. As far as the PLI is concerned, as we said in our last call, that we are putting that PLI application for some of the components like Cross Flow Fan and Heat Exchangers, along with it some kind of plastic molded components. The way in which we are planning this expansion of backward integration, it will be coming in a phased manner, which means that we will be having a source both coming from our backward integration, as well as from the supplier from whom we are sourcing currently. In terms of the Heat Exchangers, largely it is being sourced domestically and it will continue to have it so even though with the backward integration. However, the absolute volume may go down, because our factories or backward integration will contribute some of our requirements, where the need is adjacent to the plant, where we are going to have this manufacturing, but complete outsourcing will not be stopped or will not be discontinued because the capacity with which we are coming up certainly will fall short of the total requirements which were in force under RAC business.

Moderator: The next question is from the line of Manoj Gauri from Equirus Securities. Please go ahead.

Manoj Gauri: My question is given that like January and so far even in February, the secondary as well as the primary continues to remain in the pressure for the RAC category. Like have we taken any price hike over the last few days, just to get a broad sense on the pricing action.

Manish Desai: Let me give you answer on the why the primary remains still low in January or in the month of January. This is partly because of the extended I would say the weather situation which entire country is going through it. We have seen that there was an extended winter across all parts of the country, because the temperature is still hovering around much comfortable level than the person required to go for air conditioner requirement. I'm sure if I look into the weather forecast, we were looking for a slightly high temperature compared to the last year, as well as the summer season is concerned. That's why we said if weather is supporting us and we are not come across or coming across to the other variant of the COVID, probably this entire season period should work well and better for the industry as such. In terms of the price increase as I said till the time, we are not seeing a good traction in the secondary market, it is difficult to do any price increase because otherwise it will remain on a piece of paper. Therefore, as I said, we will cautiously be monitoring, the market, demand supply, how it is shaping up before we announce, before we carry out effectively, any price increase. In terms of communications with trade partners, we have been continuously in touch with them on the need of increasing the price and which will continue to do so. However, in terms of the effective price increase, probably it's, as I said, it's a continuous kind of exercise, but more effectively be done across markets shortly once we see the demand is coming back.

Manoj Gauri: My second question would be on the demand front and given that there has been a bit of slowdown in the consumer purchases, obviously since the third quarter itself, like how do we look at the upcoming summer seasons? Is there any change in outlook, your internal targets, like how the summer would pan out, whether the pent-up demand, which we have lost over two years should kick in. Industry should witness huge volumes during the upcoming summer, any outlook on that?

Manish Desai: Considering the penetration level at which this category, all these cooling categories are, we are reasonably short once we enter into a summer and the weather supports this category, the growth could be a tremendous over the past two years because the product category didn't see a full-fledged kind of summer season for the last two years under the outcome of the COVID. In terms of why the demand is slow in the initial period, obviously the penetration level at which we're operating it, it means the first users are going to be more in the market. That can only happen once we see a temperature is rising and people require a need of the air conditioners. We are very much optimistic that once we have the complete season and the summer, which the weather forecast is projecting currently this should bode well for the category as such.

Moderator: The next question is from the line of Praveen Sahay from Edelweiss Financial, please go ahead.

Praveen Sahay: Is it possible to share the volume growth for the UCP? Is there any price competition also you are facing in the market for RAC?

Manish Desai: See, we have given the value growth of 9%, as we said, if I want to give you a secondary data, because that is more will be driven towards the indication in terms of how the primary moves, the October-November data for the quarter, because December is still expected to have it. The industry has shown has resulted or industry has seen de-growth of close to 5% in terms of the volume term. However, if I look from the same secondary data, the Voltas de-growth was close to 4%, which means as continuing our practice we are doing presumably better than the industry as such. In terms of your second question was price, right?

Praveen Sahay: Yes. Like credit pricing, how is the scenario in the market?

Manish Desai: I would say that the kind of pinch which we are facing as a manufacturer, probably the other brand manufacturers are also facing the same because considering the larger volume, the brand Voltas will much in competitive positions in order to sourcing the supply of the components or sourcing the components compared to any other brand. However, we have seen that none of the brand has passed on the entire increase input cost to the consumer. In fact, we have seen from the past record, there was a time lag between when we have announced the price increase compared to the other brands which we have done fairly in the market. So, there are many brands, and we normally won't talk much about the competition because it is their own strategy and the declared results are in front of all of you because it is not required to go and name the company, whoever the results are available today in the market in the financial world. So, considering that looks like everyone is facing the pressure. But as a leader, we have done the price increase across the categories, and we will be doing it on a need basis once we see opportunity to take the lead into that. And I am sure that competition will also follow but with some kind of time lag continuing with the past practice of past trends.

Participant: On the JV business, you are still making losses. Can you give any indication by when you believe the JV will achieve the scale to breakeven?

Manish Desai: If I recollect and what we have always given a direction to the investors that will be, we are eyeing to have a breakeven in 2024-2025, which means we are at least two years away or we have a two-year timeframe in order to turn around. And we are reasonably confident that we will be able to achieve those breakeven as per our strategic objectives, objective we have to 2024-2025. Pandemic has created some kind of disruptions or some kind of a delay in our plan. However, we are reasonably confident that we will overcome those constraints and we have not revised our guidelines and we are still looking for a breakeven by 2024-2025 at EBITDA level.

Moderator: The next question is from the line of Rahul Gajare from Haitong Securities.

Rahul Gajare: Could you throw some light on the growth that the industry and the company has seen region-wise, which regions have done well for the company industry? That is the first question.

Manish Desai: Rahul, if I give the region-wise, in fact, it is difficult or it is becoming difficult to compare the growth over the last year, if I were to take only volume or a value front. The reason being is because two peers are not actually comparable. If I look from the first peer or first year of a year before, the country has seen intense amount of lockdown for a close to 60 to 75 days. However, in the current year that lockdown period is hovering between 30 to 45 days based upon the state relaxation guidelines followed during that period of time. So, that's why even when we see our data, we are getting a little bit confused in terms of interpretation, what should we do or what should we take as a base? If I take a pure base of year-to-year comparison, then the industry is showing a growth in the range of 35% to 40% over the last year on a YTD basis. And obviously, we have retained our market share, so definitely we have done better than the industry aspect as such. However, in terms of the primary growth and degrowth, as I said, it won't matter much because it is of no use to dump the material with the channel partners when the secondary is not happening. So, we will be definitely following closely the market move. And in our reading, the north has slightly done better, followed by East and South is also coming up aggressively and West is catching up in the order of, I would say, our growth trajectory for that matter.

Rahul Gajare: You think north has done better for you or the industry?

Manish Desai: As I said, industry data is giving a contradictory view, but overall, it looks like north has done better compared to the last year and catching up by south thereafter.

Rahul Gajare: My second question is on this project business, I understand Voltas has been very selective on new orders, but there has been a steady decline in the backlog over the past few years. Could you please highlight what exactly is happening in this segment? Is it more competition or lower enquiries, what is really happening that the orders are actually coming down?

Manish Desai: See, I would say that in terms of the order book there are two reasons which we can attribute towards it. One, is a reasonable amount of delay at the center and the state level in awarding the project. At the same time, as you all know we are moving into a transition period by transferring this project business to a 100% subsidiary company. Both those factors actually is impacting or having impact or affecting securing the new order book. Having said that, we have seen that state and central governments are now aggressively looking for announcing the order book. We have seen some kind of traction coming into this and hopefully we are coming closer to the transition as well. All this will go well with, I would say, clarity in terms of winning the customer contact as well when we are negotiating with them. So, all of this should go well when we are building up the order book in the coming years, and that should give enough confidence or enough visibility on the revenue for the segment to grow.

Moderator: The next question is from the line of Girish Achhipalia from Morgan Stanley.

Girish Achhipalia: I had just one question. The quarter three basket that you have for raw material right now is that a fair representation where the costs are right now, or have you seen further inflation in quarter four?

Manish Desai: Quarter four we have seen only one month which is January and February 15 days have gone. If I look from the lending cost perspective, the cost is still going up, but largely on account of the exchange fluctuations and not because of any base commodity price increase. However, if I look sequentially between quarter two and quarter three, yes, we have seen increase in almost all categories of raw material which we are looking into it or which we are procuring or which we are sourcing it for this category to be there. Except steel which has seen some kind of, I would say, a stay front on that, but we have to see how these things will shape up because demand domestically as well as internationally will go up to build up the necessary infrastructure which we are eyeing to do. So, steel and commodities to be watched closely on their front. But as I said, the inflation in the commodity has not come down and we are seeing some or the other kind of inflationary impact in all the communities.

Moderator: The next question is from the line of Naval Seth from Emkay Global.

Naval Seth: I have couple of questions. First, did we have any inventory gain on account of low-price inventory in the last quarter? If yes, can you quantify that as well? Second, Manish as you have been highlighting about price increases getting delayed, so is it fair to assume or what I have kind of interpreted that it is not because of competitive intensity it is because of demand which is lower which is restricting industry to take price hike. Is that fair? And third question is that by when we are expecting the transfer of our project business to the subsidiary? Where is the process right now and how much time we are expecting it?

Manish Desai: Naval sorry, since you raised three questions, I missed out your first question what it was.

Naval Seth: Inventory gain of low-cost inventory.

Manish Desai: Naval, in fact, even if you see our working capital or the kind of capital employed what we have in the business, we have never kept the inventory for a period of one year. It was on escalated level for some period of time. So, that point of time we took an advantage of the average holding of inventory cost. However, now all the materials which are getting inverted from the quarter two onwards are coming on incremental order what we placed with the suppliers. As we have given comments in our opening remarks, a lot of disruptions in the supply chain, actually putting a lot of pressure on the increased cost and which is making it difficult for the suppliers with whom we contracted the material to supply at the order price. All this is giving a kind of inflation or an increased input scenario on each of the further inward which you are taking into it. We may get some kind of advantage when I bundled out between the quarter two inward vis-à-vis the quarter three inwards and how it will move to a subsequent period. But if I compare on a YoY basis, it will still be going or giving a higher kind of increased input cost compared to what we were getting in the earlier years. So, that's the answer, there is no inventory gain as such all gains are periodically accruing it and getting accounted in terms of declaring the results, but on a YoY basis till the time we are not seeing any hold or any kind of stability on the commodity side, probably this trend will continue, because we are preparing now for the season, so definitely the more inward of categories or the commodities or the material will flow in the quarter four.

Now, having said that your second question was in terms of when we are transferring the project business. As I said in my earlier remarks to Rahul that almost looks like by 31st March, we will be able to complete the entire transition related work and hopeful to transfer this business to 100% subsidiary company effective 1st April 2022.

Naval Seth: Second question on price increase, so it is demand and not competitive intensity which is delaying the price increase?

Manish Desai: I would say both because if the demand is there, which means the customers are coming in and I keep on saying that if out of four machines, if one machine is getting sold of Voltas, none of the retailers will have a afford or will have a situation of not keeping the Voltas material on their shelf. Everyone would like to have Voltas brand being put up on their shelves. Having said that once I see the demand it becomes a favorable factor for me to increase the price. Competitions, as I said, they always do a time lag. When we announce a price increase, they will be doing subsequently at a later period of time but being a leader, we believe that it's our reasonable course to so and we will definitely doing so in the future when we get an opportunity to do.

Moderator: The next question is from the line of Pulkit Patni from Goldman Sachs.

Pulkit Patni: Just one question. You made this statement that the project business is also not being able to win orders because of this transition of business being moved to subsidiary. I don't understand this. Effectively it's still a subsidiary of Voltas. Even it gets transferred later on, it will be to probably a group company. So, I don't understand why the order wins are getting impacted. Is it employee morale or something in that business, because that does have an impact on how we should look at order win and the profitability of the business for the next few quarters? So, if you could just clarify what you meant by not winning orders because of it moving to a subsidiary.

Manish Desai: I said when it is moving to subsidiary, I am not saying project are not getting to win on that count because there is a delay over there. What is happening is, we are bidding for infrastructure projects. When you go for infrastructure projects, we require to have a pre-qualification, qualifying yourself to have work experience to do those kinds of projects. As you know, three sectors are coming up on those projects sites aggressively. They are water, electrical and the modern infra. When I say modern infra it is like your airport, your metros, and all such kinds of infrastructure which is getting developed. In all these contracts when we do with the governments or to a main contractor, they require a certainty in terms of who is going to execute the project. And furthermore, whomsoever is doing it, it carries a requisite, a pre-qualification. On both the fronts when we bid for the contract, we have said, it's a 100% subsidiary contract. Today we are bidding for it, however, sooner or later this project business is going to get transferred to it. So, it will have both technical, financial and all other capabilities in order to execute this project. Some of the customers may listen to it and on that ground, we won the project. We want some of the contracts. We said, we have closer to almost 200 crores worth of contract we took on 160 crores to 180 crores on domestic front and put together 400 crores of contract we won in this current period. But some of the customers may not be openly looking into it and they will say, I'll give you this once you are actually completing the transition. So, it's a mixed situation on that front, which is creating some kind of, I would say, a temporary blockage in getting the orders. But as I said, we are reasonably sure in the next two months the transition will complete and all other things like pre-qualifications and all will get transferred to our subsidiary company, and we should be able to go back on our trajectory of winning the orders and building up the strong order book for the same.

Pulkit Patni: Just one more bookkeeping question. What exactly had been the order inflow in the quarter, if you could split it domestic and international?

Manish Desai: Domestically we are at 165 crores and rest all are for international total we have secured 400 crores of order book.

Moderator: The next question is from the line of Sanjay Ramani from Envision Capital.

Sanjay Ramani: Are there any margins guidance can you provide us? As we see that the prices are rising and we are facing some difficulties in increasing the prices and which will be seen in coming months or coming quarters, I would say. But then too there would be some margin guidance as such that we would be able to maintain. If you can highlight something on that, sir?

Manish Desai: Sanjay, are you looking for margin guidelines for product business or project business or on Voltas business?

Sanjay Ramani: I would say overall margins?

Manish Desai: So, overall margins in fact, if you see the current year, wherein we are better to do in our project business, given that the kind of project mix which are flowing through and execution capabilities which we are able to demonstrate. In terms of the product business, just because of the volume degrowth in this season period of time, because of the COVID situations and this increased input cost has impacted the margin, I would say a percentage to the results. At the same time, the other income, because it consists of my other segment as well, which is segment C has reasonably done well both in terms of revenue as well as on the margin. Interest income has fallen short because we all know the yields have come down and that continues to do so unless and until we are seeing a policy direction from our central bank on increasing yield turns over there. So, in all I would say that probably we would like to continue, like to maintain the current trajectory in which we are operating through. Also, I would not use the word bullish, but we are optimistic about the margin on the product business side because sooner or later we should be able to pass on a substantial amount of increased input cost for the end consumers and once we do so probably we come back to the double digit which anyway we are there today, but at some kind of suppressed level to go bounce back to the trajectory which we were enjoying earlier. So, this is why I would say that probably another two quarters we are seeing that we should roll back on the product side and should start earning a margin coming back to the trajectory which we always used to have in the range of 11.5% to 12%. In case of project business probably we remain where we are, probably we try to improve upon it, but the uncertainties and execution largely depends upon the external factors, but we would not like to go below 4.5% to 5% where we reach currently on a YTD basis. So, that's what I would say on the kind of overall outlook. Although we all are seeing that there are very many uncertainties around us, but we are reasonably confident, everything works well or what we have anticipated the move should result into this kind of overall margin.

Sanjay Ramani: One last question on any CAPEX plans for FY23? If you can provide some guidance on that.

Manish Desai: FY23? Because FY22 is about to end now in the next two months.

Sanjay Ramani: Yes, FY23, right.

Manish Desai: Obviously, falling in line with the PLI which we talked about where we applied for lower intermediaries with high investments, we are trying to carry out a CAPEX of 100-125 crores on a PLI front. At the same time, we are augmenting our manufacturing facility for a commercial refrigerator as well as for the air conditioner which will require us to put another around 100-150 crores over there. So, in all, we are eyeing for close to 250-300 crores in the next 18 to 20 months for the causes which I just narrated above.

Moderator: The next question is from the line of Ranjeet from Mahindra Manulife Mutual Fund.

Ranjeet: We have heard that July the new energy transition is going to happen. In that context, just wanted to check with you some of the competitors are planning to launch their new labeling products from February itself. So, what will be our strategy? Because I think post July, we won't be able to manufacture the older table products. Just wanted to check with you what will be our strategy in that?

Manish Desai: Definitely we will not be falling back if I look from the competition side. Rather we will take a lead into this kind of aspect. Obviously, we are also going to have those kinds of star labelling product will be there. But what is happening is that first July which you all are talking about, we all need to see how things pan out because of the season four, we are optimistic to have good inflow season over there, but for any reason if the season is not falling in line with expectations, then in that case probably the industry may again approach the ministry in order to give a further extension. To just recall the entire discussion on this front, the industry has requested for a one-year deferment on the energy table. However, the industry or the ministry has given a grant of six months with a promise that they will review the position in the next six months down the line. Any upgraded products which you try to sell will have an impact on the cost. At the same time, the industry, the manufacturers are trying to pass on the incremental cost as well. If we are doing both the fronts together, I am sure that the price increase for the consumer will be suitable for that matter. I believe that we will also come out with a new labeling kind of product but in a limited way, and we will collaborate in such a way that it won't impact the demand. At the same time, we can easily migrate to the new table from 1st July when the situation becomes mandatory to do so.

Ranjeet: Then there can be a lot of pre-buy happening before for the season. The restriction is only in production, right? There is no restriction in terms of sales?

Manish Desai: Because some of the inventories still lying with the channel partners. It is always there. We always say that manufacturer will start because unless and until the inventory won't exhaust at the channel partner level, those inventories will be keep selling to the end consumers.

Ranjeet: So, probably 4Q can see a pre-buy impact because of this.

Manish Desai: As I said, the best thing is to look into how the season is going to go. As I said, in our opening remarks, we are looking into a complete season period unlike past two years where we have some kind of restrictions or limitations. If that is so, the 2022-2023 should see a bumper growth for this industry and which will take care of all past issues which we are facing on this industry front.

Moderator: The next question is from the line of Gopal Navandar from SBI Mutual Fund.

Gopal Navandar: What I wanted to ask you Manish, is that generally the understanding that for season the supplies are tied up two quarters back. So, in terms of cost inflation and all, is it right to assume whatever cost inflation we have seen in the Q3 is being locked for the season?

Manish Desai: Provided the supplies also have been made based upon the contractual terms. In our opening remarks we clearly said, having seen the continues increasing the commodity price, the suppliers are finding it difficult to honor the contract or to honor the supply at the contracted rate. And that's why it is coming to and fro kind of situation whereby they have to come back, and we have to agree on an incremental price on a mutual agreed terms and conditions. So, that's why I said it is difficult to say how much my cost increase has gone up and how much I need to more compensate because every week or every 15 days, I am getting some kind of inward supply. Some of the cases, it is coming at the same price, some of the cases it is coming at an incremental price. So, it is difficult to judge, but that's what dynamic situation which we are, and we are taking cognizance of the situation of the same and doing the corrective actions on the further value chain as well.

Gopal Navandar: The second question is on the project business. Despite having such a strong order book, the execution has been slipping for last 2-3 quarters. Any particular reason would you assign to this.

Manish Desai: I feel that the execution in this current year is much better than compared to the last year where we have seen many kinds of immobility and the restrictions impacting, even access to the project site. So, this year in terms of the accessibility and the execution actually went well or worked in our favor so far. What is impacting us is project mix which is going through it. At one hand, we are having a limited amount of order inflow coming to us for the reasons I have already explained in my call. Second thing is some of the projects which we are running into the last 15 to 18 months are coming to an end. So, all this project mix creates some kind of revenue impact and that's what we are seeing currently. However, in terms of the bottom line you all are seeing that it is our approach of taking, I would say selective project and in a risk mitigated way helping out in terms of improving our bottom line. As I said, we are in the project business, we are cautiously optimistic to see that whether we should continue this trend because any change or any limitation on the ground, be it a project site or the liquidity or a certification or any kind of work from the customer side may have an impact on the overall bottom line of the project and the project business.

Moderator: In interest of time, we will take the last question which is from the line of Sujeet Jain from ASK Investment Managers.

Sujeet Jain: The other significant listed company spoke about 25% value growth for the industry for Q3 FY22. And we are close to 9% increase value growth YoY. Does that mean that we would have lost the market share?

Manish Desai: If I look from the 25% value growth in terms of the YoY, I will see that the product mix which is probably giving some kind of flip to it, however, generally primary also drove based upon the secondary. We cannot have a primary section which is not moving, and the secondary is moving in the other direction. We have to watch and get the further clarity on this 25% value growth, because for the quarter if I see the industry actually has de-growth and for the year, I have clearly said the industry has done a growth of in excess of 35%. If 35% is the growth in terms of the volume, value growth cannot be a 25% at the first stage. And in the industry in the quarter is concerned, then quarter has shown a de-growth over last year when I compare with the previous year's similar period.

Sujeet Jain: So, you are saying Q3 FY22 there is a degrowth in terms of value in primary YoY.

Manish Desai: I am saying secondary. When I said 5% degrowth for the industry, because the secondary data is more validated, because that has been conducted by the third party independently. Although we didn't have a December data, so I clearly said in one of my answers to the call or the question that for October-November put together, we are seeing the industry has seen a degrowth of (-) 5% in volume terms and (-) 4% Voltas has seen a degrowth in this period.

Sujeet Jain: In value terms, what it would have been in your opinion in Q3 FY22 for the industry.

Manish Desai: We are not tracking the value term as such, because as I said, we have not seen any kind of premiumization in this category as such except the inverter category and some of the five-star product. But that if I take the inverter which is there last year as well, and the five-star for the industry as such is contributing in the range of between 20% to 25%. And because of which we go more into volume terms and not the value terms.

Moderator: Thank you. In interest of time, I would now like to hand the conference over to management for closing comments.

Jitender Verma: Manish, thanks for taking up the answers. And we would like to thank all the participants for their questions. Thank you very much again.

Manish Desai: To add to what Mr. Verma said, if any questions remain unanswered, me or Vaibhav, you can write to us, and we will be responding to you as early as possible. Thanks to you and wish all of you a good evening and happy Valentine's Day to all of you.

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