"Voltas Limited Q3 FY'23 Earnings Conference Call"

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MODERATOR: **MS. BHOOMIKA NAIR – DAM CAPITAL ADVISORS.**

Moderator: Ladies and gentlemen, good day, and welcome to the Voltas Limited Q3 FY'23 Earnings Call, hosted by DAM Capital Advisors Limited.

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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors. Thank you, and over to you, ma'am.

Bhoomika Nair: Good afternoon everyone, and a warm welcome to the Q3 FY'23 Earnings Call of Voltas Limited. We have the management today being represented by Mr. Jitender Verma – CFO, Mr. Manish Desai – Head, Corporate Finance, and Mr. Vaibhav Vora – Manager, Corporate Finance.

I will now hand over the call to Mr. Verma for his initial remarks, post which we will open up the floor for Q&A. Over to you, sir.

Management: Hi, good afternoon everyone. I hope you are all having a good day. And we start our call by giving an analysis of business from our side. And then we will open the call for question and answer.

As you are all aware that the impact of multiple headwinds during the calendar year 2022, such as Russia-Ukraine War, resurgence of COVID-19 in China, movement of commodity prices, and policy measures taken by Central Banks of increasing benchmark interest rates to curb the inflation etc, could be felt throughout the year. Considering these above macroeconomic factors USDINR along with other currencies across the emerging markets remained extremely volatile and depreciated about 11% during the year, adding to the woes of inflation and consumer sentiments. While the impact of COVID has slowed down, the consequences of war and inflation still persists. Strong signs of recovery in the last quarter of the calendar year in few economies, defending inflation rates and softening of Central Bank stance on the interest rates are green shoots building positive sentiment across around the globe.

While India has showed resilience to this global inflation, the overall growth of economy has witnessed the effects of various global events. The widening of current account deficit, muted capital inflow and higher inflation rate has affected the consumer confidence index across all segments and in particular, the discretionary sectors. The policy measures taken by the Central Government to strengthen manufacturing in key sectors (i.e. production linked incentive), higher allocation towards building infrastructure and softening of inflation rates shall support the economic growth in the coming quarters.

Given the seasonally weak quarter for the cooling products the Company reported a growth of 12% for the quarter, in consolidated total income at Rs. 2,036 crores as compared to Rs. 1,822 crores in the corresponding quarter last year. Profit before share of profit/loss of joint ventures and associates, exceptional item and tax was at Rs. 90 crores as compared to Rs. 171 crores in the corresponding quarter last year. Profit before and after tax was impacted during the quarter due to an exceptional provision made on an overseas project, earnings per share not annualized for the quarter ended 31st December 2022 was at negative Rs. 3.34 compared to Rs. 2.90 last year.

A snapshot of our results this quarter is presented which already is in our published statements.

Segment A: Unitary Cooling Products

Considering this seasonality of the cooling product business, this segment has performed relatively better reporting a revenue growth of 11% and 44% compared to Q2 FY22, and 9M FY22, respectively.

During the quarter we witnessed positive demand for high tonnage and better Star rated products across the market. The expanded portfolio of SKUs with improved features and tactical pricing of inverter category has helped us in increasing its share to 82% from 65% of split air conditioner sold during the quarter. The success in the split category has led us to launch inverter window category in the recent period. In terms of the overall AC market, we continue to retain our undisputed leadership with the YTD market share of 22.5%. The expansion of exclusive brand outlets and healthy participation with various channels shall assists in the forthcoming season sales, and it shall further strengthen our market leadership in this category.

Commercial refrigerator continued its growth journey during the quarter with participation from OEMs and retail chain. The capacity expansion is progressing as per schedule, which will help us in introducing various consumer centric products with improved features. With the objective of product portfolio expansion, we have signed technical agreements with Vestfrost, Denmark for medical refrigeration products during the quarter. The relevant SKUs will be introduced in the coming year with the long-term objective of attaining leadership in this growing category.

After having muted growth in the Air Cooler category during COVID period, this category has grown during this quarter as well for the period ended December 2022. Introduction of SKUs across all product verticals, a differentiated product from the investment in moulds and the targeted distribution and dealer scheme has supported wider penetration across potential markets, which will bode well for future quarters. The above has resulted in improving overall profitability of the category with a market share of 9.2% in this competitive and fragmented market.

Expansion of commercial establishments across various sectors and the growing demand for light commercial adaptable products resulted in growth for the commercial air conditioning category with improved margins. The focus on customer retention with value-added services is supportive in securing long-term orders of after sales service at a competitive pricing.

On the cost front, the quarter has seen reversing of down trend on commodity pricing witnessed in the previous quarter. However, the rupee depreciation has taken away this marginal advantage of softening commodity price from the peak level. The intense competition to grab the market share by the players in the industry has kept the consumer price competitive despite an energy upgradation in July increasing the cost across air conditioner products. The value engineering coupled with heavy negotiation with the suppliers have mitigated the above risk partially, reducing the impact on margins sequentially.

In summary, for the quarter ended December 2022 the UCP segment registered 11% growth in turnover from Rs. 1,094 crores to Rs. 1,216 crores. Segment reported an EBIT of Rs. 89 crores in Q3FY23 as compared to Rs. 102 crores in Q3 FY22. For the nine months ended December 22, the segment registered 44% growth in turnover to Rs. 4,426 crores from Rs. 3,064 crores with the EBIT of Rs. 332 crores.

Segment B: Electromechanical Projects and Services

Segment revenue for the quarter was Rs. 648 crores as compared to the previous corresponding quarter of Rs. 554 crores. Segment result reported a loss after exceptional items of Rs. 183 crores as compared to profit of Rs. 36 crores last year.

Domestic projects business witnessed a jump in order booking of Rs. 1,040 crores as compared to Rs. 185 crores in similar period previous year. This quarter witnessed a planned execution of the projects, however a delayed certification by customers coupled with new projects, not crossing the milestone of recognizing margin in-line with internal policy impacted the financial results.

International business have secured an MEP project heralding our entry again in the Kingdom of Saudi Arabia. The progress of the ongoing projects across the Middle East is at scheduled base, and few of them are at the completion stage is the near future.

Delayed collection in a few of the projects continued in this quarter resulting in provision in-line with the risk policies. In addition to it in one of the overseas projects in Qatar, the main contractor has unilaterally encashed the underlying bank guarantee regardless of any such action from the client to his bank guarantee and in spite of satisfactory execution and performance of our scope of work. The company has considered a provision towards retention dues and encashed guarantee of the said project following appropriate approach and disclose the same as an exceptional item during the quarter and nine months period ended 31st December 2022. The Company has initiated legal actions and issued requests for arbitration to recover the amounts due from them.

On the domestic front we remain optimistic with an increased allocation of infrastructure relevant to our project skill set expertise covering water, electrical and modern infrastructure. At the end of the quarter, the carry forward order book for domestic projects stands at Rs. 4,538 crores containing orders across water, HVAC, rural electrification and urban infra-activities. The international order book as at 31st December 2022 stood at Rs. 3,505 crores. Total carry forward order book of the segment stood at Rs. 7,543 crores. Approximately near the pre-COVID levels giving a fair visibility to future performance.

Segment C: Engineering Products and Services

Segment revenue and results continued to report improved performance for the quarter over corresponding quarter of previous year. Segment revenue was Rs. 118 crores and EBIT was Rs. 46 crores, respectively.

During the quarter, Mining operation in Mozambique was in full swing. At home, export levy on iron ore has slowed down the mining activities impacting equipment sale and after sales services. However, recent announcement of lifting the levy and foreseeable improved price realization of commodity should accelerate the equipment purchase by the Industry players.

Improved delivery of Textile Capital machinery from the Principal and a tactical approach towards after sales service revenue augured well for the segment during the quarter. Albeit, supply chain related disruptions and volatility in the yarn prices impacting the running of textile mills continued to pose challenges in the interim period. However, having a good and secured order booking of capital machinery and a recent announced PLI scheme for textile should bode well for the industry at large.

Voltas Beko

At the outset, the Voltbek brand has crossed a milestone of selling close to 3 billion units cumulatively since launch, which is first one is the Appliance category in a short period of around 4 years. And this demonstrates the strength of Voltbek brand and acceptance of the products across value chain.

The demand for the appliances at large was muted during the quarter given the overall trade and consumer sentiments. On the relatively higher base of the previous year and the limited offtake during festival season has affected the trade participation in the primary sales resulting into a small volume drop during the quarter. Nonetheless the brand is aggressively pursuing growth strategy by increasing channel participation, focusing on the online retail channels, and E-commerce players.

Voltbek continues to provide good quality products in refrigerators, washing machines, microwaves and dishwashers at value for money. The aggressive localization of these products accelerated the launch of customer centric products with improved margins and improved supply chain to mitigate related risks. Voltbek will continue to leverage the strength of our international joint venture partners across value chain to further strengthen its presence of Voltbek in this competitive environment.

Outlook

The softening of the rural inflation and buying across sales channels on the forecast of hot weather should support cooling product sale in the coming quarter. The easing of supply led disruption shall also bring stability in commodity and other related costs. In addition, a focus on the infrastructure by the Government in the operating territories should help in securing profitable orders for the project business as well. In general, we remain optimistic with improvement in general macroeconomic environment. Thanks.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: So, three questions, one, on the room AC side first, given the fact that we had a second summer and when I look at the GFK data as well, on the retail side, AC sales have actually declined, at least for October, November, December. But clearly the details have not been very good. So, if you could help me understand the kind of inventory that is there, both with you and also with the channel as we get into the upcoming summer season. So, do you believe given this high inventory you may see slightly softer primaries going into Q4?

Management: Ankur, yes if I look from even October to December GFK data, the growth in the category of the air condition is not even more than 2%. And primary led by some growth what we have seen in the month of December whereas the reading of the October, November what you said holds good over there. And that is resulting into an indent of the material by the channel partner as well. So, I would say that the inventory at the channel partner has largely been regularized or largely been in-line with the secondary sales. And according in our own reading, the inventory with channel partner is not in excess of what the clear demands for the season.

If I look from the manufacturer perspective, Ankur, obviously we are building up for the season period, looking into various initial, I will say hearings on the supply chain, possible supply chain disruption on account of COVID or whatever the reasons and by learning from the past lesson, we won't like to take any risk during the season period of time and because of that our inventory levels are slightly higher.

But if I take into account the growth or when I take the volume of last year, what we did, for us as well as for the industry, I will say that the players will be holding inventory of not more than even 75 to 80 days or more than 90 days. In our case, if I take into the future, the volume growth what we are eyeing for it, our inventory days are in 75 to 80 days.

Ankur Sharma: And second would be on price hikes and your guidance on margins more importantly for FY'24 typically brands announced new models for summers during Feb and possibly take price hikes as well. So, what are you seeing or hearing and what are you planning to do as well given you are the market leader for the coming summer?

And I remember you said that for the foreseeable, at least for the next few quarters you have said in your Q2 call, margins could be in high single digits, are you still retaining that? Would you want to kind of raise that given RM prices, at least seem to have cooled off and kind of stabilizing?

Management: Ankur, in fact, the new models will get introduced during this Quarter 4, because that's where the model launch plan is scheduled, taking into consideration the season preparations and season demand from the consumer side. But if I look both from the cost and price side, yes, there is a pressure on the cost, we have seen softening of the commodity price. However, we all will agree that in the latter fag end of the Quarter 3 the cycle is getting reversed and we are again seeing the escalated commodity price setting in. Although it is still lower than the peak what we have seen at the beginning of the calendar year.

However, we all know that still the component perspective, the larger dependence is still continuing on the import side, which means any currency depreciation also have an impact on the overall cost structure for the category. And that's where in the initial spiel which we just put it out, we clearly say that the cost has not actually seen any significant reduction. In fact, after the energy labeling it has marginally gone up. However, the Quarter 2 and Quarter 3 from the consumer perspective, the demand was not that strong, and there was no sense to do a price increase in the market. We have to wait and watch for Quarter 4, how it is panning out. If it is showing a good amount of or a reasonable amount of growth what industry is expecting it, some kind of price hike can be expected at the beginning of the Quarter 1 of the next fiscal year, but for the Quarter 4 and even for the Quarter 3 which we have seen. There was no price increase announced at least by Voltas for the Quarter 3 and there is no plan for any price increase to be announced for Quarter 4 as well.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK. Please go ahead.

Sujit Jain: If I look at your Q1 presser you spoke about exit market share at 24.1%; then in Q2 presser you spoke about August market share, and in Q3 presentation you spoke about YTD market share, our request would be to stick to one format. If there is an improvement that you need to highlight, you can highlight it separately. So, so that we can maintain a series across all quarters and all these years for your market share, that was one.

Management: See the reporting what happens is, since you are in a seasonally product category and when you have a secondary; to give you a perspective for the October to December quarter as per the GFK data, the entire secondary in this quarter is half a million unit. And if I take the industry size, it will come in a small percentage. And that's why any swing in the market share for any players as such in the industry during Quarter 2, Quarter 3 will not have that meaningful difference or meaningful kind of indication towards it. And that's why we refer to our YTD market share generally during Quarter 2 and Quarter 3, compared to the Quarter 1 and a Quarter 4 where the exit market share does make relevance due to this season peak time for this category. So, this is a clarification, but if you require separately you can contact any one of us and we will give you the month-by-month if you need for that market share.

Sujit Jain: So, the other company listed a larger player they report YTD for every quarter. So, basically there is some resemblance as to how the series is moving?

Management: So, I have not seen, if I look from the listing category, I have seen only Blue Star which is making the investor call up like us. And in that if you look into that itself they do talk about the market share what they have. And then it goes, that's why and when they report about it, generally prefers the YTD during the quarter-to-quarter, it is my reading.

And furthermore, to give clarity on that, there is a difference between appliance and the air conditioner. Generally, we look into appliances because of the festive season. You have a good amount of buying coming into the refrigerator, washing machine and also draws them in order to report a market share in a particular frequency. So, this is what the analogy I can drive for it, being in industry for some period of time.

Sujit Jain: I will take this offline. But to maintain the same series you should be reporting YTD, so that there is no confusion.

Management: As I said, you can interact with us at any point of time to get any month, market share in between, for the reporting period, I cannot talk about the non-reporting period for that month.

Sujit Jain: And EMP, the negative margin that you have reported the EBIT margin and you have called out provisioning for delayed collection. Is this on account of Indian orders or Middle Eastern orders?

Management: I would say largely it pertains to, when I look into the domestic side we have delayed certification of the claim amount, because generally what happens Sujit, the certification of the regular bills takes at a normal/ regular. But when the project is coming to an end, or when you have a substantial amount of variation in the claims to be certified, it generally takes a longer time. And as our internal policy, we have to, we cannot wait endlessly to get it approved, because in our books of account it has been accounted as a cost and I have to make reasonable provision in terms of any delays over there.

So, in the case of domestic this was a dominant kind of factor where the settlement of the claims actually took a longer time, and the claim and the variation. But if I look from the international side, yes, the delayed collection played a larger role. In addition to the exceptional items, which we have just spelled out in terms of one of the contract, one of the order, where the relatively action being taken by the contractor regardless that his position with the main client remain same.

Moderator: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Building on the earlier question, is it possible you can quantify the provision that you have made towards receivable and the provision you have made towards the international project? So, we have a very clear understanding as to what is the provision that are for the receivables, which obviously, it's more of a delay rather than not coming; whereas international project, we don't know what could happen over there?

Management: No, as I said Rahul, I have just clarified to the earlier participant when in the case of domestic it was largely because of settlement of the claim getting delayed it. So, on that front, the provisioning on account of receivables, delay or collection delay is not so high compared to the international. We are not giving any breakup in between these two verticals of the project. So, I would like to maintain it.

Rahul Gajare: With respect to this particular project, do you see any more risk of similar provisions which would come in international projects? How the risk management ensure that such things do not happen?

Management: Rahul, if you asked me this question in Quarter 2, I was more confident that probably such kind of action is not foreseeable in any of the projects which we are doing is the international projects. But after having this Quarter 3 incidents as well our confidence is also somewhere going into much in a deeper way, in order to see that what more can come and how best we can safeguard those risk.

If you look into this, there is no similarity between Quarter 2 and Quarter 3 event, if you look from the Quarter 2, it was, although we have mitigated the encashment of bank guarantees by putting a condition, but that condition got fulfilled and thereby the guarantee got invoked. But in your present event, it was, as I said, regardless that the main customer has not done any action against the contractor, but contractor has acted unilaterally. So, in this case, I would say we have a limited kind of avenues in order to mitigate those kinds of risks. Because we all know bank guarantee be it domestic or international operation is like a bearer check or bearer instrument you are giving in the hands of the beneficiary. And whatever we can think about the condition to put in order to mitigate the risk, we are taking care of the same. But beyond reach, the options available to mitigate the risk of encashment to any of the players or any of the participants in this project business by way of bank guarantee are anyway limited.

Moderator: Thank you. The next question is from the line of Siddhartha Bera from Nomura. Please go ahead.

Siddhartha Bera: Just to clarify one thing, if I heard correctly, you said that there was no price hikes taken in the 4^{th} Quarter in the UCP business. And I assume that the BEE new rated products are now in the market which would have needed certain cost increase. So, is it fair to understand that for those new products we have not taken any price increase till now?

Management: Siddharth, your reading is correct, I said Quarter 3 we have not taken any price hike. And for Quarter 4 also, we are not looking into any price increase currently. So, this is one sentence, yes the second thing is the Quarter 3 yes the energy leveling got changed in July itself. And we have to now sell whatever we are selling with the upgraded Star rating. And obviously, each Star rating involves the increased cost and we are incurring those costs over there. But somehow we are managing as I said softening of the commodity price, some kind of value engineering, good negotiation with the suppliers, we are mitigating those risks and delivering this product at the same price, delivering the improved products at the same price.

Siddhartha Bera: Is it a fair assumption that given the lower cost of procurement which we would have done in the last few quarters, which was probably we have not sold till now so that would take care of the cost increase and at gross level we will not see any further margin pressure or do you think that may not be accurate?

Management: Siddharth, If I look into this, I would say that the label change would have resulted into some kind of price increase to the end consumers had I done this price increase. If the industry would have moved into a reasonable price increase, probably the players would have seen the improved gross margins sequentially compared to what we have seen in Quarter 2. However, that has not happened.

Second thing is, the second question comes about and I am talking more than what you asked about is on the leverage of the volume. Obviously, Quarter 3 primary billing is slightly higher than my Quarter 2. But those volumes will give you some kind of leeway in managing your costs but not resulting into any improved gross margin. So, what we are looking for/ eyeing for a Quarter 4 now where the volume should be much higher than what we have seen in Quarter 3. And that should also leave some space for the leverage to play on the margin side.

So, in all Siddharth, carry forward inventory will anywhere be there for some time, and it gets averaged out with the new indent material which is flowing in. However the commodity price again touched to as I said level of closer to the peak level, , what we are looking from the leverage perspective on the volume side, that will also not flow with the gross margin in the Quarter 4.

So, we have to wait and watch and that's what even, Ankur I could not answer the first participant from HDFC, when he asked this question, that how the Quarter 4 on the gross margin, I am still maintaining stand on a single digit. These are the uncertainties in which we are living for, and the commodity price is going up we will not get the leverage on the, it will remain where it is, probably we can see some kind of improvements sequentially when we move out. Siddharth I stand to it, I wrongly mentioned gross margin, I am talking about the EBIT margin.

Moderator: Thank you. The next question is from the line of Amber Singhania from Nippon India AMC. Please go ahead.

Amber Singhania: My first question is towards the project side, as you mentioned that this quarter it is less confident about the future trends compared to last quarter. If you can just give some highlight about how much is the more projects we have or how much is the more claim we have there where in other projects also which have any probability of going otherwise? And also, currently these two projects, the last quarter, it was one project where we have provided everything. Now again, another project has come in, how much was the total size of these project where we have provided so far around Rs. 250 odd crores?

Management: Amber, Rs. 250 crores is the cumulative amount. For the quarter the provision was equal to or slightly higher than the Quarter 2. Again, when I am saying I am not so confident, I told in the context of happening this transaction one-by-one in the two quarters period. Although we take all required steps to mitigate the risk a bank guarantee to another project business is the normal market --

And if you recollect, and if you can do those who have been seeing the Voltas for a past quarter, for a long period of time, we never had an encashment of bank guarantee positions or situation ever, even I take from the last 10 years where I have been working in this company for long. However, situations keep on changing in the external world. And we have to keep a close eye on it and that's what we do normally. And that's why we have some kind of condition also get inbuilt into the guarantee so that it won't trigger on a normal way of business. But that's where we have to be more careful about it.

And as we move forward, if this is going to be a trend, I said we are not foreseeing any such kind of guaranteed encashment taking place on any of the projects we give. But that opens the eyes that we need to find out an alternate instrument to bank guarantee which doesn't tantamount to give a bearer cheque to the beneficiary.

Amber Singhania: Why I am asking this, if I am looking at last entire decade of our operations in this business as such, we have made roughly around Rs. 800 crore of EBIT and at the same time we have provided for roughly around Rs. 600 crore kind of money including Sidra, if I took a look at the 10 year horizon as such.

So, would it make sense to for us to do this business in Middle East going aggressively so much and at the end of the decade, we realize that we are virtually not making anything because the thing is, the geography is panning out to be very difficult continuously in every period of time, be it Sidra and be it now again, these things are cropping up. So, what is management’s thought process on this line, whether we should have a relook at this geography as such?

Management: Amber, if you go in our reading, if you go to any of the geography because if you look from the market perspective, if somebody was doing project in Sri Lanka, Pakistan or any other countries Bangladesh even they didn't see the economies will go into such kind of crisis and will have such kind of situation to come up. Whereas the Middle East countries have not gone into such kind of financial crisis, but somewhere, as I said the indiscipline has cropped up, leading to such kind of events.

I would not like to compare Sidra with the two events which took place in the current period, because Sidra was all together a different kind of incident to take place or some kind of provisioning which we took at that point of time. And the learning also has continued in the subsequent projects, when we took. I would not like to elaborate more on this, but on a one-to-one, I can talk about it the difference between these two, considering the time constraint what we have and to provide for the other participants.

So, I would say that the business does go through this kind of cycle. Yes, we did provide a good amount of profit what we earn in this quarter, but that doesn't mean that we should ignore this territory if we are able to do this business and generate some kind of ROCE in a better way. That's what the focus we are having currently. Some learning, as I said, something comes up, but we will definitely ensure that how best we can navigate those kinds of risks and ensure that we remain, I would say a much profitable but a reasonable profitable driven territory as we move forward. However, in terms of, if we have to discontinue this line of business, I will not say the biggest risk to run into it. But you have to take risk perspective into a larger perspective, when we look holistically into all business verticals.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: So, three questions from my side. First is in the unitary segment, if you could help us either nine months or a Quarter 3 basis, how is a broad breakup between room air conditioner, commercial refrigeration, commercial air conditioning and air cooler business, that's the first question.

The second question is again on the projects where asides of the extraordinary, you mentioned there is a ECL provision. So, either what is the quantum of that ECL provision or if we were to take that ECL provision out what is the underlying margins of that, of the segment for the Quarter 3 or nine months? These are my two questions.

Management: So, if I look from the, let me answer the second question first, to answer my first. If I talk about the ECL provisions, and if I take out the exceptional item, obviously at least to a level at which we were making the profit or recognizing this profit in terms of business. But we cannot compare, we cannot shy away from reality. So, we have to take cognizance in terms of what kind of provision we have taken up. And as I said, we take this as a pinch of salt and we always work towards improving it as we move forward.

And you have seen some of the project when we talk about the order inflow we have reduced taking orders where we find, seeing some kind of risk. But those risks which I am seeing today was on encashment which is both actions taken by the contractors were unilaterally, there was no need of taking those actions from their end, but having taken I have to follow the consequences of the risk policy what we have. And we have to take, I would say a stock of the same.

Now when you come to the question first the contribution of CAC into the overall segment, if I look from the YTD perspective, the CAC will contribute around 20% odd in the overall AC mix, probably when we go to the Quarter 4 the percentage will be more towards the other businesses than CAC because Quarter 4 is generally a season period for that matter.

Moderator: Thank you. The next question is from the line of Gopal Nawandhar from SBI Life. Please go ahead.

Gopal Nawandhar: My question is more related with project only, because in the past we have been seeing such incidences, at least for last three quarters we have been making provisions also, you have provided the dues which are related with these two projects. And when I compare with the peers like Blue Star and all and their project business, so if I compare five, six years quarterly margins they are on an average 5% margin. And in our case it is hardly a 2% to 2.5% margin. So, I just don't want to waste more time on this, but advice from our side, you can just put some more risk measures or either something which should be there, which can take care of such kind of events in the future either in terms of margins or something else.

Management: I do take your inputs into it. But if you recollect, if you see the past trend of all the companies who are in this business, even Bajaj Electricals who have burnt their hands in electrical projects in the past. We do go through such kind of cycle --

Gopal Nawandhar: I would never compare Voltas with Bajaj Electricals.

Management: No, I am saying all companies --

Gopal Nawandhar: They are not -- comparison for Voltas.

Management: No, I am comparing again, gentleman, I am just saying that all players in the project industry has gone through this up and down. I have just given Bajaj Electrical as an example. Blue Star is also an example, Chief, if you take the last three years back into this project business L&T even a big giant being acting as a main contractor unlike a subcontractor like us, has gone through this up and down, in the margin cycle and the blocking of a working capital. It's a cyclical kind of business; when the things aren't going good, the business will continue to flow into it and you have a better kind of cycle on the working capital side. But if things start getting somewhere halted around, all these consequences follow.

But having said that, we have taken a lot of measures in terms of, you can see that my order inflow has not been, last year, we have not secured more orders. The reason being is because we don't want to pick up the orders where we won't find the merit into it, or we won't find the profit flowing into it. But somewhere the other project which we evaluated that point of time it was on merit. And suddenly this kind of action took place. I am not like to narrate the most story into it. But I am sure that each player in those regions are actually facing headwinds in terms of that and not only Voltas.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from Mahindra Mutual Fund. Please go ahead.

Renjith Sivaram: Just wanted to understand that from here on in terms of insourcing vs outsourcing. So, because what we widely understand is that Voltas was one of the biggest beneficiary, when we had this outsourcing model that most of the ACs were made in China or somewhere else. And we used to get it at a scale we had this one million plus demand per annum. So, now from that outsourcing standpoint now we are getting more into in-house manufacturing, we are forced to do manufacturing, by the government itself. So, in a structural way, you believe the yesteryear margins will never happen because that low hanging fruit of outsourcing is completely out of the window now, and now we have to focus on more of manufacturing, plus this new guys like Lloyd and all coming and cutting prices. So, is there any structural impact in the way we do business? And have we evaluated and engaged with some consultant or something to get back to at least some reasonable margin level to cut our cost or work on those things, just to get some idea on this aspect.

Management: Renjith if I look from the outsourcing versus in-housing, I will say that the players have to take advantage of the situation prevailing at that point of time. That doesn't mean that when I do in-housing, I start heavily bleeding into it. In the scenario which was our strategy, which was adopted by Voltas in the past, most of the players have done it. I am not talking about the Korean players. But most of the other players have followed those strategy what we were following earlier and they blindly followed the leaders in many of the cases as well.

The question then comes is how I am cooperative when I am doing it in-housing. When the government is forcing you to do, carry out in-housing it does give the incentive as well for carrying out those kinds of because government itself knows that there is a price gap, there is a gap between when you do in-housing vis-à-vis what you do outsourcing. And those support also being announced by the government in forms of the PLI. The actual PLI benefit will start flowing when the commencement of the production facility will take place, at the respective players manufacturing capacity.

To answer that whether we have to go for our appointment of consultant and not, I would say that it's a visible with the naked eyes. And what our strategy is very clear, whatever activities we do in-house we want to start with breakeven between the outsourcing costs versus the in-house cost, and accordingly to take any strategic call. If this is not the case, I would have announced in-housing for all the components which are ingredients to the air conditioner, but we have not done that.

All players have applied for a different kind of component under the PLI. So, it is not I would say a common thing which is coming out. Players are emulating their skills, their strength in terms of which component can give advantage in terms of the value addition, in terms of breaking even or in terms of direct, indirect saving in the cost. So, this is the way in which the strategy in terms of in-housing or any manufacturing be outsourcing, be in-housing, be both the models of outsourcing versus and in-housing takes I would say gets implemented for that matter.

Renjith Sivaram: But don't you agree to the fact that the cost has increased from some two, three years before when we used to report some 13% to 14% margins to the current margin levels. Your overall cost of manufacturing how much would be the increase?

Management: Renjith if this is the case, then I should only make the losses and the industry other players should have done the profit. But this is not the case, which means all industry players, all players in the industry are witnessing this kind of cost increase. And furthermore, the price remains tight at the consumer end this is leading to a margin erosion for most of the players in the industry. So, I would not 100% agree in terms of increasing cost in this parlance because if you have a commodity price coupled with currency depreciation and adding into a normal inflation, which is now getting passed on to the end consumers always the next impact is in your margin. And does it, do we have zero inflation in the last four years in this country? No, we did have inflation, and inflation result into the cost. But that point of time the other factors were supporting me, in terms of mitigating those risks. In this last 18 months, this all factors are turning on a southward kind of trajectory, resulting into the increased costs for the input.

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: I had three quick questions, first is conservatively speaking, what is the closure date for both these projects, I am sorry, if I missed data on this.

Management: For the second project -- the impact which you have taken in the Quarter 2 it's in a halfway, and the process of completing this entire project being initiated by the main contractor, and Voltas to certain extent, may get a chance as a nominated player in the balance scope of work to get over. But that is I would say on a more optimistic side, and that's what the clues we are getting from the main client, but we have to see, wait and watch when ultimately contract gets finalized, and gets awarded. For the Quarter 3 impact which you have taken you will be surprised that the project is almost over and this action has taken place at the fag end of the project.

Amit Mahawar: Second question is, going with the current expansion in the RAC, Pantnagar and maybe Chennai, etc. broadly we will move from one million to maybe two million into two, three years' time. Am I right in my understanding that outsourcing largely can reduce to half in the next two to three years, very directionally?

Management: I would say that in this industry chief it is difficult to say how the outsourcing will go down. Because if I look from the AC product, we are not there in the manufacturing of the motors, we are not there in manufacturing of that controllers, we are not currently in the manufacturing of the compressor as well. This itself accounts for a sizable part of my BOQ, and the players and then to my best knowledge what I carry in this industry none of the players in the industry are having in-house for all these three components.

So, to that extent, outsourcing will continue till the time we have the players are deriving or seeing the benefit getting into the in-house, till such time the leveraging of outsourcing in-housing will continue. What I can say confidently is, if I look from the supply chain from impact to a localization great move will be done in the next one and half year, whereby most of the components will start flowing in from my local manufacturers than getting imported from the overseas market.

Moderator: Thank you. We will take this as a last question that is from the line of Praveen Sahay from Prabhudas Lilladher. Please go ahead.

Praveen Sahay: I have two questions, so first is related to the RAC. How much is in the channel inventory -- how you are seeing the channel inventory filling for a summer? And second is related to the Voltbek, how is the revenue and where we are in the breakeven which we had guided for FY'25?

Management: Yeah, so inventory, Praveen, if I look into it is the time for the channel partners to start building up the inventory. So, in the Quarter 4 during Quarter 4, I would say the inventory level with channel partner will go up, aligning themselves with the seasonal requirement. In terms of Beko, I would say that in terms of the breakeven, we are still maintaining our stand by 24-25. And that's what we are eyeing and heading for the same.

In terms of the overall performance, I would say it's relatively better where we have done almost close to 3 million units in a shorter span of time. And that I would say incredible things to happen for any brand in the appliances were moved in, in this category. So, we are on the path of target, the only concern which comes on the 10% market share, which was another objective, given the COVID period of time where the actual market has started seeing bigger even the current year, the refrigerator market is showing a downward trend, that objective probably will slightly take a longer time than 24-25 we initially conceived for.

Praveen Sahay: So, just a continuation on the channel inventory, you are seeing the similar level of a channel inventory spilling, as of the last year or the normal years.

Management: Yeah, that way they are normally aligned, because seasonality in this appliance business comes one after another quarter, you know. So, last quarter was more for washing machine, now this will move to the air conditioner and refrigerator. So, they will align their inventory accordingly.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference over to Ms. Bhoomika Nair for closing comments. Thank you and over to you, ma'am.

Bhoomika Nair: Thank you, the management for giving us an opportunity to host the call, and answering all the queries of the participants. And thank you to all the participants as well. Wishing you all the very best, sir.

Management: Yeah, so from our management side, I thanks to a DAM and the participants to attend this call. I know our participants are going to have more questions than what has been put up in this con-call. We are there to answer each one of you. And I would say that, thanks for your participation in this call and we look forward for your support in the future as well.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of DAM Capital Advisors Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.