"Voltas Limited Q1 FY24 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to Q1 FY24 Earnings Conference Call of Voltas Limited hosted by ICICI Securities.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Aniruddha Joshi: Thanks, Yashasri. On behalf of ICICI Securities, we welcome you all to Q1 FY24 Results Conference Call of Voltas Limited.

We have with us senior management represented by Mr. Jitender Verma - Chief Financial Officer, Mr. Manish Desai - Head of Corporate Finance and Mr. Vaibhav Vora – Manager (Corporate Finance).

Now I hand over the call to the management for the initial comments on the quarterly performance and then we will open the floor for question and answer session. Initially, each participant is required to ask two questions in initial round and then they can join for another round of questions. Thanks and over to you, sir.

Jitender Verma: Thank you, Aniruddha. This is Jiten and welcome to everyone who has joined us in this call.

As we begin, I would start by saying that the Financial year 2024 began on a subdued note with high inflation and concern on slowing of economic growth and poor health of banking sector. Policy tightening by central banks in response to this inflation continues to raise the borrowing costs, leading to constrained economic activity. While inflation may continue to remain high, it may further escalate owing to shocks posed by geopolitical unrest, natural calamities hitting various parts of the globe. This in turn may trigger a more restrictive monetary policy.

Concerns regarding the performance of banking sector receded during the quarter with high interest rates filtering through the financial system trimmed the supply of credit. The rise in central bank policy rates to high inflation will continue to impact economic activity. As per IMF, global growth is anticipated to fall from an estimated 3.5% in 2022 to 3% in 2023.

While economies across the world are facing issues, the Indian economy has shown resilience and grown during the quarter. Center's fiscal deficit remained under control. GST collections, manufacturing PMI, sale of automobiles, number of UPI transactions, electricity consumption all reported strong numbers during the quarter. The resumption of interest by FPI's in the equity market showed a good infusion of funds raising the indices were record high**.** The Indian economy does not seem to dither with the concerns on the inflation and given by improved crude oil prices due to inflation. The USD INR, however, continues to remain under pressure moving to the upper end of range to Rs. 83 owing to the raise in yield due to US credit downgrade and other macroeconomic factors that may lead to higher import cost impacting the overall growth.

Given the overall business backdrop, this quarter, for us at Voltas, was both exciting and challenging. The incessant rains impacted the sales during the quarter and thereby slowed down the anticipated growth in the cooling business segment both for the company and the industry. Delayed collections in our overseas business, resulted in a conservative provision impacting the overall result. Our Consolidated Total Income for Q1FY24 was Rs 3,430 crores as against Rs 2,795 crores in Q1FY23, growth of 23% year on year. Profit before tax (PBT) and after Tax was Rs. 203 crores and Rs. 160 crores respectively. Earnings per Share (EPS) (Face Value per share of Re. 1) (not annualized) for the quarter ended 30th June, 2023 was at Rs. 3.91 against Rs. 3.29 reported last year.

You all have seen the snapshot of our results for this quarter; therefore I am not repeating that.

Segment A Unitary cooling products (UCP):

Q1 of FY24 was projected to be high growth quarter; however, erratic weather conditions in April and May, especially in North and West India, our usually stronger markets, dampened the spirits. However, availability of high tonnage products, aggressive consumer finance scheme, strong channel and network presence coupled with revival of the demand in the month of June helped Voltas achieved volume growth of 15%.

Voltas' product booking with advanced features and long-term advantage of energy savings helped the split inverter category of air conditioners remain in high demand aiding to the growth for the segment. The expanded product portfolio, SKUs designed in-house and competitive pricing has continued to have a high share of contribution in excess of 80% for inverter sales in Room Air Conditioner category for the quarter. While Split AC shown the growth, demand for Windows AC, primarily driven by sales in North, remained weak because of the unseasonal rains.

Our competitors went aggressive on the pricing to meet their primary billing, which impacted market share and margins. However, secondary sales driven by incentive schemes across sales channels, healthy tie-ups with modern trade and organized channels, growing network of Exclusive Brand Outlets or EBOs including Experience Zones at strategic locations along with a focused customer centric approach during the season helped Voltas to strengthen market share to 20.6% at the end of June 2023.

Sales growth in the commercial refrigeration was lower during the quarter on a higher base of the corresponding previous quarter. Weather disruptions have impacted the consumption of cold beverages, chocolates and ice creams, leading to the lower than expected demand from the OEMs. Within the commercial refrigeration category, demand was buoyant for water coolers and Visi coolers. Affordable pricing tie-ups with modern and retail channels, active channel participation, aggressive pricing with lucrative dealer incentive scheme garnered a positive and a strong growth for the air cooler segment as well. The category has grown by 49% in volume with improved gross margins.

Commercial air conditioners garnered good traction in chillers, VRFs and Ducted AC during the quarter with large scale O&M orders paving the way for good numbers this quarter. Our focus on customer needs and our track record has helped us win multiple big ticket orders for O&M.

On the cost front, softening of commodity prices, tactical sourcing, manufacturing efficiencies and various value engineering initiatives across all our products has helped contain material costs and protected margins to a great extent. We will continue with our efforts to remain competitive and continue to provide value for money products to our consumers, which will help us not only to maintain our leadership position in both the market share and margins, but also continue to be a key differentiator among other players in the industry.

To summarize, for the quarter ended June 2023, UCP segment registered revenue of Rs. 2,514 crores, a 16% growth in turnover from Rs. 2,162 crores in quarter 1 FY23. Segment reported an EBIT of Rs. 207 crores in quarter 1 FY23 as compared to Rs. 166 crores in Q1 FY23, a growth of 25%.

Segment B: Electromechanical projects and services:

Segment revenue for the quarter was Rs. 679 crores as compared to the previous corresponding quarter revenue of Rs. 455 crores. Segment for the quarter reported a loss of Rs. 52 crores. Loss in quarter ended June 2022 was Rs. 12 crores.

With renewed focus on our wholly owned subsidiary post business transfer, our collective efforts resulted in better performance of the domestic project business in terms of both execution and managing working capital efficiently and also securing healthy orders during the quarter. The domestic projects segment booked orders worth Rs. 608 crores as compared to Rs. 191 crores during the previous quarter. Further, a tight monitoring on working capital with focus on certification and collections in return on capital employed and delivered good results during the quarter.

All ongoing projects in our international business are largely under nascent stages and while the business reported a higher revenue, as per our internal policy, the margins on all such projects will be recognized on reaching a key milestone. Considerable delay in certification and slowing collections against due receivables continued in a few projects resulting in provisions following our prudent and conservative approach. Having said that, all efforts are focused on engaging with customers for expediting certification work and improving collections of the amounts due. Order booking for quarter 1 FY24 was Rs. 755 crores as compared to Rs. 435 crores in the similar period last year.

During the quarter, the company has been intimated of a request received by the bank for encashment of the bank guarantee from the main contractor in one of the projects in Qatar. The company has issued a cession request to the bank pursuant to which the bank guarantees have not yet been encashed. Basis internal assessment on technical merits of the case and legal opinion on the contractual aspect, we are confident that it has good grounds to successfully defend any claims that may arise on the company.

The carry forward order book for domestic projects stands at Rs. 5,244 crores containing orders across water, HVAC, rural electrification and urban infra activities. The international order book as at 30th June 2023 stood at Rs. 2,949 crores, largely in the UAE, Qatar and Saudi Arabia regions. Total carry forward order book of the segment stood at Rs. 8,193 crores vis-a-vis Rs. 5,362 crores of outstanding orders as at 30th June 2022.

Segment C, Engineering products and services:

Segment revenue and results continue to report improved performance for the quarter, registering healthy growth over previous year. The segment revenue for the quarter was Rs. 142 crores and EBIT for the quarter was Rs. 54 crores respectively.

Cutting edge engineering solutions coupled with a focused customer-oriented approach supported Mozambique operations in performing well, contributing significantly to the results. The revival of the capital cycle, along with lifting of export duty on iron ore has sustained the sale of crushing and screening equipment, albeit with restricted credit to the contractors.

While capital machinery rollout from the principle has increased, the volatility in yarn prices and slowing exports, coupled with supply chain disruptions has lowered the momentum for textile business. Nevertheless, the focus on sale of accessories, recent announcement of PM MITRA Park and the proposed PLI 2.0 scheme should help in sustaining the performance going forward.

Voltas Beko:

Voltas Beko continued to garner strong sales since March 2023. High demand across all company products that is refrigerators, washing machines, microwaves and dishwashers resulted in a growth of over 40% during the quarter. Revenue was also driven by increased tie-ups with organized retail, improved participation from e-commerce and a better product mix. The expansion of distribution reach, focus on product placements with existing and evolving sales channels, wider range of product SKUs and in-house manufacturing of the high value added products continued to support the overall growth.

Timely availability of affordable and durable products has been the key strength for Voltas Beko. Our concentrated efforts on innovation with differentiated features and long-term tie-ups with organized trade in the targeted and strategically important markets is anticipated to further support our growth in future. These collaborative steps have resulted in securing a market share of 5% in the washing machine category with 9.6% market share in the sub segment of semiautomatic washing machines. The company also maintained its market share in refrigerators at 3.5%.

Our objective is to have a vast array of value added products which will be manufactured at our own factory, which will help us control and thereby strengthen the supply chain to improve overall margins. With this objective trial for the Fully Automatic Front Loaded (FAFL) washing machine to be manufactured in-house have been completed and the production of the first pilot batch is underway currently.

Outlook:

The period of July to September is usually a lean period for cooling products. However, the start of festival period is expected to witness a spurt in demand. It will be interesting to see the impact of factors such as inflation, revival of rural demand, movement in crude oil prices, rupee behavior and policies made by RBI to address the overall economic growth agenda.

Both the government and private sectors Capex commitments for FY24 remain strong. Uptake in the order booking coupled with momentum in execution of the MEP projects should help report better performance for our project businesses too.

In general, we anticipated pickup in the pace of overall economic activity and we would seize the opportunity to continue on the momentum of growth.

That is all from my side and I would now request the moderator to open the meeting for question and answers. Thanks.

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

Ankur: Just a few questions on the UCP segment, so very good performance, 15% volume growth that we are seeing, but just if you could help us because industry volumes were maybe flattish on the secondary side during the quarter, so if you could help us understand how would our secondaries have done during Q1 and is it also a case of us kind of filling in inventory in the channel, is that the reason why our primaries look so much higher than maybe what the overall secondary growth would have been?

Management: Ankur, this is Manish over here. Ankur, in fact, the question of higher primary sale and the inventory with channel partner probably because if the inventory is there with the channel partner, obviously it will see a reverse impact on the primary sales from the brand. So, what is happening is although we all know North region which is strongest for the air conditioner market and contributing larger share in the overall that didn't go well and if I look from the Voltas' perspective, we are relatively stronger, as you all know in the North region. So, in a way in the initial months of the quarter we were having a lot of apprehension on the volume and the growth, the reason being is because industry was not looking into our volume growth at all in this quarter because of this inclement weather, however you recall that we have taken some steps in the

South market to strengthen our market share, which were continuously on a weak foot. That actually has resulted in our favour because what we have seen in our trend that we have, if I look from my primary perspective and generally secondary also follows the primary our volume growth for both East and South was on a much higher side followed by North because North you all know that the growth was marginal. So, in and all, I would like to say that the strategy or the focus what we did in the past 2-3 quarters, since I would say last year to make our position stronger in South region actually started getting some kind of momentum. But I will be saying it will be too early to celebrate on this front because what we need to ensure now that we sustain this momentum in South winning the confidence of the channel partners and customers both and should further strengthen our position as we move forward. Similar steps have helped us in moving in the East region as well, where we have been relatively performed much better than any of the brand. As I said, we will continue to monitor on our steps and our strategies in these two regions to further strengthen our positions, not anyway going to be a strong foothold in Voltas as well as for the overall industry and will not leave our footage or leave not any stone unturned, if I have to further aggressively move on the North when the market becomes more open for the cooling product categories.

Ankur: I just want to reconcile the fact that our volume growth of 15%, how would that have been versus the industry growth given the fact that our market share numbers both Q-o-Q and Y-o-Y seem to be lower right for Voltas?

Management: So, in fact, if you look for the month of June, we improved upon, if I look into sequentially from the month of May, on a Y-o-Y also if I look into it on a quarter-on-quarter what we normally on Q3 basis there also we have seen some improvement over there. As I said, had the North would be doing better for the industry and definitely for Voltas probably would have seen good amount of improvement in market share for the Voltas as such. So, this is where it stands. If I look from the industry perspective, you are getting this perfectly all right. Industry has not grown in the volume. The growth is there, but what the data we are getting from all our industry players and from the market, it is lower than single digit.

Ankur: And just on pricing, any change in competitive behavior from any of your peers, if I can name some like Lloyd, Daikin who obviously become hypercompetitive over the last few quarters, any change there or is it still very volume focused over margins?

Management: Ankur, we all know that if the initial months of the season quarter won't perform as in the line with the growth which company has projected or the brand has projected for the only tool what they have is to resort on the pricing. So, we did see aggressive pricing by few brands, you name almost all, so I am not going to put again to save time on the Q&A session, so that we have seen it, but as I said, we won't concentrate only on the price because there are certain tools in our hand, which Mr. Verma in his opening spill has clearly spelled out on which we focused upon it have been circulated to all the investor fraternity as well. So, I would say that rather on price, we have more focused upon the BTL activities and winning the confidence of the channel partners on some of the markets where we were focusing upon for a long time and that has helped us and as I said, we have to continuously drive this as we move forward to achieve our strategic goal of market share as well as margin what we are looking for.

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

Siddhartha Bera: Sir, you have indicated that in the quarter we have seen some commodity softness as well and our revenues are also higher on a sequential basis compared to last quarter, so this margin drops sequentially, can you just explain what has been the major issue, I understand that you have not taken any price cut is what you are indicating, but slightly more color on how to look at the margins from current level?

Management: Siddhartha, in fact in the past call also when we said why the commodity softening is not going to generally help the industry, the reason being is because looking into the seasonality of the product, generally the raw material gets indented at least three or four months in advance and that is why if I can see the announcements, because this time we were late in our announcements of the results, but if I see from the other brands who have announced the results, they have also not seen any significant improvement in the gross margins. This is a prime reason. The softening of the commodity price most had been seen after the February and March where for the brand as such and for almost all brands, the raw material got indented and the material starts flowing it for the seasonal purpose. Now, having said that, your valid question is sequential drop in the margin, if you recollect during our March investor concall and thereafter as well, the brand incurred substantial amount of advertisement expenditure during this season period and it goes if I look into quarter as a percentage, quarter revenue to quarter outflow and advertisement, it goes as high as 4% for an half percent and that gets settled down once we go down and at the end of the year you find we end up growing 3% or 2.75% to 3% of the overall turnover. So, that is prime reason that some of the expenditure which are required to go on a supporting the BTL and the ATL activities being incurred impacting the overall margin on a sequential basis.

The question from your side is how should we look, as you move forward to the subsequent quarter, we have been telling that the industry is becoming more competitive. Most of the brands are harping for the volume. Furthermore, the PLI scheme, if you have to qualify for each of the brand players in the industry, we can see more aggressiveness of the price to drive the volume growth and thereby qualify for the PLI scheme. So, in and all Siddhartha, we keep our stand, maintain that industry will now come to a single digit margin, and among those even Voltas which continue to be a leader in the margin. I would not like to quote any percentage currently, because we have been telling about the single digit margin, but I would like to maintain the same point, rather I would go on that irrespective whatever happens, the Voltas will remain leader both in margin as well as market perspective.

Siddhartha Bera: Also for the quarter, will it be possible to share the secondary volume growth which you have seen or that will be difficult?

Management: No, we can share with it. If I am not wrong, the secondary growth for the industry in the market, if I take generally we take Siddhartha from February or January to June because that is a period where because different parts of country goes into a different kind of trajectory of the season and all, so if I look from this perspective, probably the industry has seen secondary growth of around 8% if I take January to June, but I would request, Vaibhav, we did one snapshot on that, so can you just reconfirm on those numbers, if I take January to June and if you take April to June for that matter?

Management: Sir, Jan to June is 8%.

Management: Jan to June is 8% right for the industry as such?

Management: Yes, sir.

Management: And that is what I said, Siddhartha. So, why we took Jan because we know very well this summer in the South region starts from the February and probably looks like this year, although we have seen good amount of monsoon, I would say unseasonal rains, but the second summer has already started both in West and South, as I am sure who are attending from Bombay and all they are feeling the pinch about the second summer and all, but if I take April to June, Siddhartha, so I have given you Jan to June and if I take April to June period, the growth for the industry is around 20%.

Siddhartha Bera: And sir, second on this project business, so we have continued to see with recurring losses coming out in the past few quarters, possible to highlight when we get back to the normal sort of margin levels going ahead or there are many more provisions which will keep coming up in every quarter?

Management: Siddhartha, you are right in saying that there have been certain collection delays and certain other additional provisions which we have to take. I will assure you that these are following the conservative approach, which I can't say for other companies, but we being part of a larger group, we always report whatever is the truth out there. Now in the project business and specifically in the global markets in the Middle East, there have been certain headwinds with which when we are looking at our projects business, we are taking those provisions and this is in a way, cleaning up of the whatever legacy issues or whatever would have been like even in this quarter we have reported and we have shown in our financial statement, press release that there was a request for encashment which we will be fighting and we will be going with that. So, I wouldn't say that this is something which will continue because on the other side we have also started becoming more and more strict in our order taking, so that it will not restrict our kind of growth in that part of the region, though for a year or so we may step back and look at our procedures and the way we select our partners in terms of who we work with and what kind of contracts we take and we ensure that we get payments on time because when we do our work on time, we expect our payments also to get on time and we don't want to get in situations that once the work is done we are pushed or the payments are slow, so that is an approach or you can say it is a retreating of the business a little bit and just taking the prudent approach on the numbers.

Moderator: Thank you. We will take our next question from the line of Abhijit Akella from Kotak Securities. Please go ahead.

Abhijit Akella: Just on the UCP segment, I wanted to confirm the number that you cited earlier. I think that air cooler has grown about 49% in the quarter and if you could also please just share how much the commercial AC and commercial refrigeration parts of the segment have grown as well as RAC on a pureplay basis?

Management: So, if I look from the commercial refrigerator perspective we have put on our spiel that what we anticipated, the growth actually has on lower side, the reason being is on a higher volume base that is the first and second thing is due to the incessant weather, the demand for the cold beverages, chocolate and the ice creams actually had tapered down. So, once we see this kind of cycle, you find that the demand is not there and impacting the overall primary sales from the brand as such. To put together, our growth in the commercial refrigerator was in single digit and if I look from the UCP perspective, the product sales actually have done much better. Service revenue, which will combine with the commercial air conditioner, has seen a lower growth if I compare with the product sales, but the overall growth for the CAC business was around double digits and exceeding 25% to 30%.

Abhijit Akella: And then just the other thing was on the market share numbers, so when I look at the exit run rate of market share reported for June, it seems to be about 20.6% versus last year, I think it was 24.1% as of June again, so it seems to be a decline, I was just sort of trying to reconcile that with your statement earlier that market share has actually increased, so perhaps if it is possible to share the average market share for the quarter both for 1Q this year and last year?

Management: When I was saying we have improved on the market share, so I was more referring to the sequential improvement from the May if I take from April or I can take it from March, April, May and June, yes if I compare with the last year June on a Y-o-Y basis, yes, the market share has done and we have been steering into it for the last almost 8 to 9 months, so we have came down from 24% to around 20.6% now in the June exit. If I take an average market share we are somewhere around 19%. There is no comparison for the last year because last year we were running most of the sphere in excess of 24%. So, you can say for a calculation purpose we are running around 24% average market share in the last year and this year we have came around 19% what I just told you for that matter, but as I said, there is a journey for it and that is why I said some of the markets we analyze much deeper way where we have to focus upon. The efforts are there and we are hopeful that as we move forward it turns out to be result oriented gain in all the efforts that we are putting currently.

Abhijit Akella: Just one last question if I may flip in, just the geographical or region wise split of revenues, if it might be possible to share some color on that for this year versus the comparative last year numbers?

Management: Abhijit, what I said that the industry has seen the tilt toward this current year, otherwise North normally contributes 50% to 55% of the overall business for the industry and that even Voltas is very strong, but we cannot be far away from the industry, otherwise our market share sees reflection to it.. So, in an overall basis, if I look into it, the South and East have done this time much better. They have inched up by 2% to 3% what they used to have, otherwise North has dipped down and West has affected the most.

Management: Abhijit, Vaibhav this side. The market share for Q1 FY23 was around 22.5%.

Abhijit Akella: So, 22.5 compared to about 24 last year?

Management: 22.5 last year and vis-à-vis 19% this year.

Moderator: Thank you. We have a next question from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: Just a couple of questions, if we see our EBIT for our EMP business, the losses as you taking in the exception of the last two quarters also has been equivalent to five-year EBIT of the same business before that, so net-net, all the hard work is not being able to be fructified, is any thoughts about maybe scaling down the business or even going about it slowly because five year business to be lost in 3 quarter is a huge number if you think about it?

Management: What you are saying is exactly the thoughts in the minds of the management are and that is a fact the numbers don't like, but rather than scaling down the business, like I said, the opportunities are great, you have to go in with more improved processes in terms of who we contract with, how we contract with and what kind of procedures we will be putting and those are the things which we have been doing over the last few months and we continue to strengthen that part of our business in terms of getting the things properly. On the execution side as the project is executed, we are very strong and we have been in that part of the region for the last 40 years; however, certain players in that part, they have started this new thing of not paying on time and then once the project is done, then finding excuses for not paying it. So, those things which we need to improve it, so I would say it is more external, but we need to be stronger internally to face these kinds of external situations. I do not want to name or be specific, but yes it definitely does not look good that all the efforts of last few years get wiped out in a smaller portion, but at the same time as the top of the larger business of Voltas, we always stand with our businesses because each vertical or each segment of the business have their good days and the bad days. So, at this time, we can say that we are facing some rough weather in reference to our international operations and we need to stand with them. So, there is no scaling down, but it is prudent cleaning up of the process.

Dhananjai Bagrodia: So, from your assumption, having seen other players also do a similar business, what are we doing wrong in this compared to other players because no one else is having this EBIT level loss or recovering anything which we are doing different versus them and then what we can incorporate to do something similar to them?

Management: We are looking at other businesses also which are in the similar field like us in the electromechanical projects. We have seen people facing similar problems in the business. How are they doing their accounting is what we would not like to comment and like we had said that we always take a transparent approach and the prudent approach. So, in the business side, we are seeing the kind of similar issues being faced by others.

Dhananjai Bagrodia: And sir, would we also look at like other players have started realizing that to go about this segment by maybe having outsource model, so that to increase our asset turnover, is that something which we could also look at for our UCP business?

Management: I don't know really what you refer to. I mean in this contracting business outsourcing is the norm because.

Management: No, sir, he is referring to the UCP segment, you were talking about UCP.

Management: Sorry, I thought he was talking about that.

Management: Project is always on outsourcing model, what rightly said by you, sir. So, in case of UCP, what happens generally is asset light model was the key till such time we have seen or I would say we have a different sources to put the material in. Now the question is when you go on a higher on the volume side, it all depends upon how you strengthen your backend or I would say backend process, in order to gain control on the design as well as on the uniqueness which product is going to differ. To our reading, when we have gained our market shares this time, we could do it by virtue of our in-house SKUs which are there in the market today in a larger spectrum and that actually helped us to go on this. We are still following the asset light model because we have not gone for the entire backend or the all components getting manufactured in our own factory, we are going to outsource some of these through the OEMs and in the import source, but the balancing needs to be done in order to attain the product differentiation, design, controls and more importantly, to get advantage on the shift in the economics which you are seeing today in terms of the sourcing.

Dhananjai Bagrodia: What do you think will be volume for the industry for the year?

Management: You are asking me at the end of the quarter 1 to forecast for the quarter 4, in fact for the quarter 1 the industry was expecting around more than 20% growth, but the way in which weather behaved all forecasts have come down drastically. So, I would say that was, let us wait for the festival period to get over for us to assess in terms of how the overall volume growth will look like.

Moderator: Thank you. We have our next question from the line of Nihar Davey from Vallum Capital Advisors. Please go ahead.

Nihar Davey: My question was since that market share has come down, like you said, on an average from about 22% last quarter to 19% at the moment, do we have any plans or strategy in mind to gains get back to that 22 or do we see our strategy aligning more to 19 itself and continuing that 19?

Management: See, as I said, none of the brand would like to stay where they and they make all efforts to climb up on the stage, and that is where we are leading upon. Our internal target is on a much higher side and I would not like to quantify on the call because we have to prove ourselves, which we have proven now in quarter 1 by improving upon it and hopeful as you move in the year forward, we will see a good amount of improvement over there.

Nihar Davey: And sir, my second question is like you said, the gross margins are also down, any strategy change that we are expecting that we will start the pricing more aggressively like our competitors are to gain that internal target which is a higher market share?

Management: As I said, we always try to balance the market share and the margin and we will continue to focus upon it. That doesn't mean that no price correction we have taken in this quarter, which has gone by, but that correction was not across the market and across all categories or across all SKUs. So, we do balance it out and we will do that activity or that, I would say eyeing detail which you talk about and keep our eyes close to the market. So, we continuously follow it, you won't find any price correction happening across markets and across all SKUs. It balance it out to gain wherever we can and to release the price wherever we find it is better to do it to maintain our positions in that particular market, in particular potential territories.

Management: I just wanted to add that, you have to remember that numbers of course, everybody looks at the numbers on market share, but we continue to maintain our leadership position both in the market share as well as the margin. See, there are certain players who tend to buy the market share, continue to keep on making losses in this segment and then saying that we have the volume numbers, etc., that is why we are very alive to that fact and we have to balance our situation. We are not here to give away our market share to anybody who wants to come in and play the prices. So, we according to the geography, according to the market space, we are also doing what we need to do. On pricing, on other areas like we earlier mentioned, whether it being in increasing our reach, increasing our strategies by introducing more innovative products, more value engineered products to save costs because it is always margin versus market share and we are focused on our market share as well as at the same time if somebody wants to go and keep on hurting themselves, so that is their problem. We have to maintain a balance out there.

Nihar Davey: Just a small follow up on that, so any particular regions or any particular categories that the management is more open to let us say being aggressive at pricing?

Management: So, I would say entire market is open street for us to play around on pricing or on the kind of product differentiation. So, I would say that focus will be continuing where we have put our efforts on South side. North anyway, we are strong, so we have to further ensure that we are not losing on that position, so West and East required to be more, I would say aggressive in terms of fixing the opportunity of the growth in future.

Moderator: Thank you. We have a next question from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Two questions, just trying to understand the construct of your revenue for air conditioner segment, the first is if you could share what is the theme of organized retail and e-commerce in this business currently versus say couple of years ago? And how does profitability metrics track for these channels for you versus traditional dealer's channel? That is the first question and the second question is again, just trying to sense what is the contribution of channel finance to this segment currently, is it very different from what you saw pre-COVID and also does it different in any way the trade margins or the product margin?

Management: So, Latika, if I have to put on the first question in terms of how the organized, the e-commerce has behaved, Latika. In fact, the definition of the organized trade is changing, I would say in a very dynamic way and what we count with the organized trade, we are counting the regional strong partners as well because what is happening with them is they are expanding beyond their home territories. So, in our terms, in the industry terms, we talk about the regional players, but they are now taking shape of the organized player as well. Otherwise, if I go to the old tradition of the organized players, I would find the modern trade which was classifying as the organized trade as such. So, if put together both I look into the e-commerce versus organized trade, they are strengthening their position in the market, making difficult for the moment pop stores for them to survive and eventually if retail has to drive to the Tier-3 and Tier-4 cities as well, probably over a period of time, distribution itself will convert into a retail stream and you won't find any products are getting or being done for distribution channel, but that is probably another, I would say a long term or I would say a mid to long term kind of market development, but otherwise what we see today is put together e-commerce, organized trade, modern trade, put together, they have inched up to close to a contribution sale of industry around in excess of 35% or 40% compared to what they used to have less than 15% to 20%, I would say 3-4 years back.

Latika Chopra: And does it in any way influence the channel margin on a light product?

Management: Obviously, Latika when some becomes more stronger, the monopoly principles drive, right, so it is going to be more difficult for the brand in order to serve the modern trade or the organized dealer and e-commerce as well. I would find the e-commerce is disruptor in the other way because they do announce one day sale or Big Bonanza sale and the price gets dropped without even consent from the brand side. So, we have to deal with it and we have dealt in the past with all these players, and we will continue to do into it, but what is more is like if these are getting more stringent, it will see overall impact of course to serve to the end consumers and that is why you may be recalling that the all brands are now putting more focus on their exclusive brand outlets as well as their own e-commerce portal or the online channel in order to cater to the customers directly. You may not find traction currently, but as a brand, if you see the next 5 years down the line, probably this should start getting good amount of attention from the customer as well. In terms of your second question, what was the second question?

Latika Chopra: That was on channel financing?

Management: Channel financing, yes, in fact the entire market under the channel financing undergone a change for the last 3 to 4 years. We have seen these small finance companies, credit cards and all are now getting participated in the consumer finance, seeing the retail growth in this category and once upon a time, the stronghold like Bajaj Finance, they are overall losing share into it, but if I want to put a percentage on the leaders, Bajaj is still a much higher percentage of share in this overall market, but the credit cards and all also have almost started contributing in around 10% to 12% in the overall channel financing spectrum for that matter.

Latika Chopra: So, what is the total savings of channel finance products in **this**?

Management: So, generally Latika, you find sales on the higher side. So, if I look Q1 sale for us, I would say that if I want to put as a percentage to turnover or I would put percentage to the primary because secondary data we do analyze on an overall basis, it does goes higher as 30%-35% now on the channel financing which otherwise is to have 10% to 15% if I look into 3-4 or 5 years back, but as I said, it is not totally on non-recourse basis and brand contribute towards subvention cost and there also we do many times co-sharing with the channel partners because at the end and that channel is getting benefit along wtth the brand.

Latika Chopra: And just one small follow up, how many brand outlets do you have now?

Management: We are currently around 270 and we have a much aggressive plan to expand it.

Latika Chopra: And across how many cities now?

Management: Across we find more on the Tier-2 and Tier-3 cities because there otherwise metro find difficult to have, although we are planning to go for it, but then more places you find in Tier-1 and Tier-cities. Tire 3 is yet to catch it up in terms of the market as such.

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

Keyur: Sir, first question is on this breakup of the UCP segment either for the season of Jan to June or for the full financial year, what would be non RAC as a percentage of UCP revenues broadly on a steady state basis?

Management: So, obviously the percentage of RAC will be higher during the season time because when I say season in a sense, if I put together CR, Air cooler and AC together the percentage definitely get tilted towards the air condition being the large value per unit item compared to the air cooler and the commercial refrigerator. So, I will say like if I have to go on an average annualised basis, you find that if I take 100 as a part of contribution from AC, CR and the air cooler, you find that 75% to 80% comes from the AC, 15% odd, 15% to 17% comes from the commercial refrigerator and our cooler also the volume may find huge on a higher side, but being the lower price per unit value, it contributes around 2% to 3% of the overall revenue. So, I have calculated this from considering the 100 as comprising of these three, if I added the CAC, then CAC will contribute around 18% to 20% on overall basis.

Keyur: Sir, second question on the inventory, since in a peak season, you have done this kind of great sales growth in UCP, should we assume that channel inventory is normal, so what will be channel inventory and brand inventory levels as of now?

Management: See, as I said in the answer to the first question to one of our colleagues that the generally primary follows the secondary because there is no secondary then primary also will feel some kind of impact into it. In terms of inventory, if you are looking into and particularly the sale which took place or which taking place now under the second summer, in our own reading, the inventory at the trade level is a much comfortable level and probably it will not going beyond even 30 to 35 days if I put together all India bases. Region wise it may differ, but I am sure South and West will not be getting huge inventory including East as well, however, the North because this season has seen some kind of setback maybe slightly having the higher inventory.

Keyur: And sir, just last one clarification on one of the points in the result press release regarding 3.7 billion bank guarantee being asked by the main contractor, so this is already shown as of now as contingent liability since you just clarified it, since it was basically main contractor asked to encash the same, so it continued to be a contingent liability and we don't need provision as of now that is what this stand is right?

Management: Yes, you are correct and that is why we have. It is a case actually from many years ago which has been going on between the original customer and the main contractor, no claims on us, nothing, but at the same time they send the request for encashment to the bank and bank has rightly decided not to encash it and therefore we have continued to keep it as a contingent liability, of course with the note clearly explaining what is the situation that is that.

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

Management: Thanks all of you. I think there were some very wonderful questions to get insights into the business. As closing remark, I would like to maintain that Voltas is a national brand and we continue to focus on our leadership positions and we are always there to provide good products at right price to their customers and customers know what Voltas stands for.. We have shown in this quarter that in spite of incessant rains in all of North India, we still do a very strong growth in other regions, other parts of the country. So, that is a kind of a testimony to the trends to which we can draw on. We are looking to grow this business more. The penetration levels in the country still remain low and we are going to get the fruits of the economy growing as our current government has very aggressive plans for Make in India and all those benefits will definitely accrue this company and we will continue to go for it. We are expanding. We are making the factory in Chennai, so that definitely is an indication that we are out there to make the most of the opportunities which are being given to us and with that, I would like to thank everyone once again.

Management: Just to add on what Mr. Verma said, but this year is going to be challenging for both product and the project business and the efforts from the management side is to continue this growth momentum and seize the opportunities whenever it arises in the future. Thanks a lot to all of you to spend time on the weekend to attend this investor call and wish all of you a good weekend and extended weekend as well. Thank you.

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