# "Voltas Limited Q1 FY23 Investor Conference Call"

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY23 Investor Conference Call of Voltas Limited hosted by HDFC Securities. As a reminder, all participants' 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. Naveen Trivedi from HDFC Securities. Thank you and over to you, sir.

**Naveen Trivedi:** Hi. Good afternoon, everyone. On behalf of HDFC Securities, I would like to welcome the management of Voltas Limited to discuss the post 1Q F23 Results. We have with us today the senior management of Voltas represented by Mr. Jitender Verma – EVP and CFO; Mr. Manish Desai – Head (Corporate Finance); and Mr. Vaibhav Vora – Manager (Corporate Finance).

Now I would like to hand over the call to the management for their comments. Thank you and over to you, sir.

**Jitender Verma:** Hi. Thank you, Naveen and a very warm welcome to everyone. Good afternoon.

For discussing the Voltas results we would go back a few days when the calendar year started, it started with a lot of positive momentum after continuous lockdowns and hindrances caused by COVID. However, multiple headwinds such as pressure on account of elevated commodity and crude oil prices, higher than anticipated inflation worldwide especially in the United States and major European economies and other geographical factors such as a worse than anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns and continued negative spillovers from the war in Ukraine impacted the sentiments across. Additional pain to financial conditions was also caused due to steep interest rate hikes undertaken by major central banks to help ease the inflation pressures.

Back home in India, similar to global economy end of quarter four gave rise to series of green shoots on account of stronger GST collections and PMI numbers, elevated consumer discretionary spends on vehicle sales, rise in exports, etc. However, the trends didn't seem to last long as the good news was followed by widening of current account and trade account deficit, rising inflation and monetary tightening policies adopted by RBI, which dampened consumer sentiments. Although on a positive note IMF still in its recent forecast projected the GDP growth of India to remain stronger for balance part of the fiscal year on the expectation of a positive recovery and controlled inflation as compared to rest of the economies.

In above backdrop for Voltas, the quarter was both exciting and challenging. On one hand, our topline was helped by full season period of hot weather which supported our unitary cooling products business. However, on the other side cost overruns along with liquidity constraints impacted results in the project segment.

For the quarter ended June 2022 unitary cooling products reported a revenue of Rs. 2,162 crores, our engineering project business reported revenue of Rs. 455 crores and the engineering product segment reported a turnover of Rs. 124 crores. Voltas' consolidated total income for Q1 FY23 was Rs. 2,795 crores as against Rs. 1,860 crores in previous year same quarter resulting in topline growth of 50%. Profit before tax was Rs. 160 crores as compared to Rs. 160 crores in the corresponding quarter last year. PAT, that's profit after tax was Rs. 110 crores versus Rs. 122 crores in the previous year. Earnings per share not annualized for the quarter ended 30th, June 2022 was at Rs. 3.29 against Rs. 3.68 reported last year for the face value per share of Rs. 1. We continue to further strengthen our balance sheet with minimal borrowings which remain mainly for our overseas operations.

A snapshot of our fourth quarterly results you have all seen, and we will go to the segment A, unitary cooling products. The unitary cooling products industry witnessed a full period of seasonal sale after two years of washouts due to COVID. Being a leader in the industry, we not only participated, but we led this growth in the market by our presence and registered the lead by recouping the market share after a small bump in the end of the previous year. Capitalizing on the demand from a heatwave and on the strength of our extended dealer relationships in quarter one FY23, the segment has registered a stellar volume growth by 111% as compared to quarter one FY22. The quarter also witnessed and reaffirmed the trust of the consumers in Voltas brand resulting in regaining the market share of 24.1% for June 2022 exit in the overall AC market, which is a 950-bps leap over the nearest competitor.

Our focus on the inverter subcategory with competitive pricing and larger number of SKUs helped us to continue with our growth trajectory. Inverter category witnessed a good traction with the customers and its contribution in split AC segment saw an increase from 70% in quarter one FY22 to 82% in this quarter, quarter one FY23. We are happy to inform that along with our leadership position in overall AC category, we now also lead the inverter AC market share at 21.8% as at June 2022 ahead by almost 300 bps over the nearest competitor.

In spite of having started on a positive note, unprecedented and incessant rains in certain parts of the country and early monsoon starting from south dampened demand in secondary market for later parts in the quarter. This in combination with the fear of rising inflation brought about a cut in the discretionary spend by the consumers. The results of UCB business also were impacted on account of high procurement cost of the inventory sold during the season, disruptive pricing by the competition and a normalized advertisement spent in this quarter after minimal advertisement spent in the last year due to COVID.

We would like to inform that BEE Star labeling has been made effective by the government from 1st July 2022 and Voltas has taken all relevant steps with regards to the table change. The commercial refrigeration vertical continues to deliver yet another period of impressive growth. The growth in CR products was driven by demand of beverages and ice cream products in summer by mom-and-pop stores and expansion in trade sales. Unlike previous few quarters, we witnessed a turnaround in our air cooler sales for the industry as well as for Voltas. Overall weather conditions boosted secondary sales and in turn primary sales resulted in growth over the previous year.

We are also happy to report that our commercial air conditioning business also registered substantial growth. Sale of light commercial air conditioning, packaged air conditioners, and ducted split units drove the growth in this turnover. Business continued to take various cost reduction initiatives and value engineering processes to offset increased input cost and thereby mitigated the risk albeit partially on the margin. For the quarter ended June 2022, the UCP segment registered 125% growth in turnover from Rs. 963 crores to Rs. 2,162 crores. The segment reported Rs. 166 crores in quarter one FY23, earnings before interest and taxes EBIT as compared to Rs. 118 crores in Q1 FY22 a growth of 41%.

Segment B, electromechanical projects and services. Segment revenue for the quarter was Rs. 455 crores as compared to the previous corresponding quarter of Rs. 688 crores primarily owing to a low carry forward order book and most of the projects reaching to the completion stage during the quarter. The segment has reported a loss of Rs. 12 crores on account of cost overruns and conservative provisions affecting results for the current quarter. For domestic projects business, the orders booked were higher that Rs. 225 crores as compared to Rs. 58 crores in similar period previous year. The buildup of contingency owing to the project extension and possible cost escalations in few projects have impacted the overall profitability of this segment. The judicious approach followed by the management towards order booking had resulted in us retaining few but healthy orders in MEP. However, going forward with the revived hopes on public and private capital expenditure, we expect an increase in healthy order booking for the current financial year.

In the Middle East, most of the big ticket and running projects are closer to the completion stage. Further, the new projects are under an early stage or a nascent stage wherein margin recognition will accrue later falling the internal margin like omission policy. During the quarter, we continued to witness delay in work certification, deferral of payments by clients owing to liquidity constraints. This has resulted in some conservative provisions affecting results for the current quarter. We remain conscious of the risks entailed and remain suitably cautious and vigilant in accepting new orders in the GCC region.

Over Rs. 660 crores of fresh orders were added across both domestic and international markets. The carry forward order book for domestic projects now stands at Rs. 3,597 crores containing orders across water, HVAC, rural electrification and urban infra-activities. The international order book as at end of quarter one FY23 is Rs. 2,214 crores. Total carry forward order book of the segment stood at Rs. 5,811 crores.

Meanwhile, the increase in global oil price and opening up of economy along with focus of the government on the infrastructure development is expected to improve business sentiment and open up further opportunities in our operating markets. We will continue with our strategy of picking up healthy orders, which shall help in delivering a consistent and sustainable performance going forward with minimal risk.

Segment C, engineering products and services. Segment revenue and results continue to report improved performance for the quarter over corresponding quarter of previous year. Segment revenue was Rs. 124 crores and EBIT was Rs. 51 crores, respectively. During the quarter performance of both Mozambique and Indian operations were satisfactory. Increase in export duty fines in the iron ore market marginally impacted demand for the capital equipment. Nevertheless, vertical continued to maintain consistency in its performance. High demand for capital machinery in textile industry, both in spinning and post spinning and a well-defined approach on improving after sales business had achieved a significant growth by textile machinery division, albeit price increase by principals and supply chain related disruptions continue to pose some challenges in the interim period. However, in the long run, the PLI benefits announced by the government and an opportunity of expansion in the export market should bode well for the textile sector.

Voltas Beko (14.51). Voltas Beko continues its journey towards growth during the quarter. The brand, Voltas Beko and trade acceptance of Voltbek products enhance the overall performance of this joint venture. The strength of Voltas distribution has been leveraged to increase touch points for the brand sequentially. The in-house manufacturing of products has helped the brand to introduce more customer centric and value for money products with high quality and comfort. The value engineering across all product categories along with healthy product mix has resulted in the improvement of gross margin and thereby containing losses despite increased input cost and a higher advertisement spend compared to previous year. Lower penetration, consumers preference toward premiumization and a technological advanced product are expected the brand to further strengthen its presence in this competitive market.

Outlook for the period of July to September, that is the quarter two FY23 is usually a lean period for cooling products. However, the start of festival period may witness a spurt in demand. It will be interesting to see the impact of myriad of factors such as inflation, movement in crude oil prices, rupee behavior, and geopolitical challenges. As far as previously informed business transition is concerned, we will now like to inform that all the conditions precedent for a consummation of business transfer agreement have been fulfilled and a closing date of 1 August 2022 has been finalized as the effective date for the transfer of MEP, mining and construction equipment and textile machinery businesses to Voltas' wholly owned subsidiary Universal MEP Projects & Engineering Services Limited or UMPESL in short.

Government has remained optimistic in meeting its CAPEX commitment for FY23. Positive sentiments and resolution of pre-qualification after the transition of the business will help us regain momentum in project business to overcome some possible teething issues which may arise in the initial period of business transition.

In general, to conclude, we anticipate a pickup in the pace of overall economic activity and Voltas would seize the opportunity to continue with growth momentum.

Thank you. We can open for question-and-answer session.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Naval Seth from Emkay Global. Please go ahead.

**Naval Seth:** I have two questions, first on your market share. So, congratulations on steady improvement there. Can you please highlight the way you had stated in the last earnings call that market share loss was in south, so this recovery has been happening in south or we have incrementally gained share in the other regions. That is first question. Second on competitive intensity, can you share your thoughts there. And with commodity prices cooling off, how far are we from normalization of margins? Yes, these are my two questions.

**Jitender Verma:** Thanks for your questions. The market share, as we had explained, it was a kind of a blip and we have continued and as we had previously also mentioned that with the start of summer north would be the major thrust area as it has always been in this season. So, both north and south and other regions played part in continuing to increase this growth in the market share over the three months of the quarter. On the other side, your question was on the softening of commodity prices. We have based on our contracts and the inventories in hand, we are discussing, and we have discussed new contracts with suppliers, and we would start to see the impact of those positive changes in the, starting I would say more likely from quarter three, that would be the right assessment at this stage. And we have to continuously keep watching this space how much of the changes are being passed on by the vendors to their constituents. We have already seen the copper prices have started coming down. We are yet to see on the plastics and all those discussions are going on, but the major cost is on that. So, we would see the impacts coming in from quarter three.

**Management:** Dhaval, just to add to what Mr. Verma said, if you recollect our call in quarter four, we have attributed a loss of market share for two primary reasons. One obviously was south, and second thing is some kind of a supply chain disruption resulting into some of the product portfolio which we could not meet as for the demands of the channel partners. So, those corrections we paid out by mid-March itself although reports and all have come later on. So, that helped us not only to recover our lost position in south, but to have a position well prepared for the other reasons as well with the season across all countries fared well in this regard, all regions.

**Naval Seth:** Sure. And your comments on competitive intensity right now how it is compared to what it was in peak of the season?

**Management:** Competitive intensity, Dhaval, almost it remains same. There is no change in any of the laddering of the competition side. Lloyd was occupying a third position in March quarter, and they are still having the third position at the end of the June as well. On the laddering side I would say that the gap between us and the nearest competitor LG has widened to a 950 basis points, if I take the overall AC position. The good aspect is we were trailing to LG in the inverter category being they had started their portfolio early to the market expectations. At the end of the June, we have gained our leadership there as well with the gap of 300 basis points. Going forward our endeavor is to ensure that we maintain, or we increase those spread or the basis points difference over the competitor and go back to our earlier market share what we used to have in the range of 25% to 25.5%.

**Moderator:** Thank you. The next question is from the line of Ankur Sharma from HDFC Life Insurance. Please go ahead.

**Ankur Sharma:** First question again on the margins in the UCP segment. So, clearly now that we also have the BEE norms coming in, I remember there was another 2%-3% kind of hike needed July onwards to kind of cover that. And if I understand correctly during Q1 there really hasn't been any price hike despite the pressures on the RM side. So, just trying to understand, how do we now kind of get back to that double digit margins in the UCP segment? Will it be only because of RM prices correcting over the next few quarters or do you believe you and the industry also need to take price hike and clearly being the market leader, you lead that. So, just trying to understand how the margins for the industry as a whole move from hereon because margins of you know every player has kind of been hurt.

**Management:** Ankush, if I look from the margin perspective, if you recollect that in our quarter four call, we have briefed the investors that we had an exit of 10.5 in March quarter and knowing that the advertisement expenditure is going to be on our higher side in the quarter one, because that's a season period where we do a higher a larger part of the sales and marketing campaign and we do incur a close to 3% of revenue into the advertisement campaign. So, knowing that fact, we believe that yes, the price increase have also not taken place in the quarter one of the current year, although it was a good time backed by the heat waves, season was doing good, sale was the secondary was I would say on a much larger a traction basis, however, the competitive scenario and looking into the regional distribution to our reading all competitors have withheld increase in the prices and nobody has thought to pass on this increase input cost to the consumers. Given this current stalemate, okay the BE table also got upgraded or updated on the 1st July resulting into some kind of incremental cost given that the quarter two is generally a lean period, the inventories will be there at both retailers as well as at the manufacturers end, we won't see any further price hike by any of the competitor in the near future. However, beginning quarter three when the dealers start moving into some of the primary, building up the inventory, we may look into passing off some of the increase input cost and we may initiate the process being leader in this category and what we have demonstrated earlier as well when we started doing this price hike.

**Ankur Sharma:** Okay, perfect. So, basically industry profitability has not kind of changed structurally. So, basically, we do get back to our…

**Management:** Structurally there is no change. Only our worry, I would not say worry, but the looking into the market scenario if the commodity price continues to head towards southwards and we get some kind of cost advantage in procurement, what Mr. Verma rightly said in the earlier question that possibility is there from our procurement starting from quarter three onwards. However, it all depends upon how the competitions and the market is going to behave. If we are not passing on this increase, the input cost benefit to the end consumers, probably we can see a recovery of the margin for the entire industry and obviously for Voltas as well. But if the competition and we need to pass on this increased benefit or the cost benefit to the customer, probably the margin will remain in the trajectory what we are seeing today for the industry as well as in the long term for Voltas as well.

**Moderator:** The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

**Charanjit Singh:** One thing is in terms of our price laddering versus the other players in the industry, as you mentioned that in Q1 we didn't take the price hike, but what would be the gap now between maybe Lloyd, Samsung, LG versus Voltas in the key models? That's my first question.

**Management:** So Charanjit, in fact if price remains same which was there in quarter four as well, because we have not seen a price increase where a further discounting by any of the players to a great extent, you may find some kind of regional balancing of the price and other structure depending upon the demand supply and the availability of the scales, so the laddering remains same which was there in quarter four and the quarter one as well. Obviously, Lloyd being low on the price quadrant, Samsung actually in the quarter has lost a market share compared to what they were in March, so obviously either a price or the balancing of the region demand, probably creating some kind of issues at their end. We got the June data just a few days back. So, further deep analysis of the same is in the process. But our overall view reading says that the landscape or I would say the laddering of the price has not gone into a significant change between any of the players because the market dynamics almost remain same, be a competitor or be I would say looking into the demand supply condition as well.

**Charanjit Singh:** In terms of our sourcing right now, if you can touch upon, for the Room AC side, how we are managing the sourcing and in terms of the inventory levels in the channel and our side, how are those positioned at this point of time?

**Manish Desai:** If I look from the sourcing side, what we keep on saying that we are now looking more of the localized kind of product wherein the IDUs and ODUs to a larger extent gets manufactured within India through our OEM support and some of by getting out our own investments in the moons. As far as the, I missed out your second question, what was the second question?

About inventory levels Charanjit, if I look from the market perspective, it would not be more than 30 to 40 days as such, because any which way where the season is coming to an end, the channel partner also balances its inventory in such a way that they won't be required to carry for a longer period of time. At the company level, the inventory would be slightly higher to take care of the BEE table change requirement which has come from 1st July to ensure that we can supply new energy rated machines immediately in the market on becoming this effective.

**Charanjit Singh:** What would be the number for us in terms of the inventory level?

**Manish Desai:** Inventory level it will be somewhere around close to 1,000 crores what we have, but as I said, largely will be of the raw material and the small portion will be on the finished goods side.

**Moderator:** The next question is from the line of Sujit Jain from ASK Investment Managers Private Limited, please go ahead.

**Sujit Jain:** What would be the advertisement promotion spend in UCP division this quarter versus Q4, as a percentage of sales?

**Manish Desai:** See, if I look from Q1 to Q1 I would say practically there is no comparison because Q4 is when we see a March period to start the advertisement and you know very well this time, IPL also getting start in the first week of April, which got the larger traction among the consumers and good platform for the manufacturers to have the ATL spend to be carried out. If I look from the percentage to revenue Q4 will be in a decimal and generally what happens is the larger part when we have our annual budget of the market spend 75% of the spend takes place in the Q1 given the seasonality of the product. If I compared to revenue only for the Q1, it will go as high as 3 to 3.5% of the revenue. But if I take on annualized basis, we normally spend in the range of 2.8 to 3% on the overall on the spend side.

**Sujit Jain:** Done this table change in terms of pricing action. What kind of price action we would have taken as an industry and Voltas as a leader?

**Manish Desai:** So, if I look from the pricing perspective, obviously the table change will increase the input cost or increase the price of the machine. Our reading says anything between 1.8 to 2.3%, depending upon tonnage and the stars which we are looking for. In terms of the pricing obviously when the season is not there in the Q2, the price increase will be moderated as we move forward till the demand, we are seeing the demand is going to pick up. At least I can say the effective price roll out to the market will be probably in the mid of the Q2 or maybe the later part of the Q2 as such,

**Sujit Jain:** To that extent the margin should have looked higher, right? If we had taken this at the beginning of the season during Q1, margin should have been 9.7…?

**Manish Desai:** From margin perspective, there are many ifs and buts gentleman and we could not do a price increase given that we were any way on a higher trajectory and the overall price increase which we were not show our category, we have to balance it out in terms of the regional, in terms of the channel ask and in terms of looking into what secondary traction is from the consumer side. All this judicious call being taken, when we look into the margin versus the market share for that matter, we are not there for market share as we keep on saying, but at the same time, we cannot be out of the price to the market to remain only a good brand to have it, but the traction of the secondary is not there for the brand as a channel partner had. In fact, it will lose out the confidence of the channel partner because today, if out of four, one machine is getting sold for Voltas, the shelf life of our Voltas product on the retail shop is minimal compared to any other brand, by not having the attractive schemes or the aggressive sell off his working capital his investment, the brand goes up. All these factors intern goes into our detail, I would say, in a much more detailed calculation or study before we do any act on this part, having said that some kind of price adjustments is given across regions. But when we are talking about price increase over here, we are talking about across all markets, across all scales, that has not taken place in Q1, but some price adjustments, where we find a good amount of demand to recover something over there that keeps on happening across all regions and across on our channel mix as well.

**Moderator:** The next question is from the line of Siddhartha Bera from Nomura Holdings, please go ahead.

**Siddhartha Bera:** First question again is margin side, so you highlighted that, obviously ad spends have all gone up in the quarter. How will be the gross margins if we look on the AC business on a quarter and quarter basis?

**Manish Desai:** So Siddhant if you see our Q4 and Q1, the margin dip is around 330 basis points. That's what I've explained towards spend on the advertisement. In a way indirectly the gross margin remained almost intact between the Q4 and Q1 and this amount of spend on the advertisement actually resulted into a slight dip, I would say a dip in our EBIT margin. Probably this, you may see across all brands because this is a good time to have those advertisements spend given that the season was on our side, as well as the manufacturers were getting to the complete season period after two years wash out.

**Siddhartha Bera:** Understood. In terms of going ahead now we are at 24.1 and as you highlighted that we will look forward to a 25% plus market share for the year, so going ahead what is the strategy to take it up, will it be pricing as a catalyst, or because competition, as you said, that is a very aggressive and then how do we sort of work on the market share gains, keeping margins probably better?

**Manish Desai:** Siddhant being a leader in this category, probably as a brand, we have to take a balanced view, both between the margin as well as the market share. In the last quarter itself, we have given some kind of trajectory through which we are going to increase our market share month on month. Probably we delivered, based upon the commitment, what we have given to the investors in terms of how much gain we are expecting by June, when we are talking about 20-25 and close to it, we are looking into trajectory by July August to achieve those yardsticks. In terms of the catalyst, I would say that there is no significant division compared to what we used to follow. The only issue was having on the supply chain disruptions and all which has been addressed now satisfactory. So, looking into the market dynamics and competitions and all, we play our cards to ensure that we remain healthy both on market shares as well as margin.

**Siddhartha Bera:** The last year on Voltas Beko if you can highlight on the market share side how we have been, and losses have kept on sort of steady at about 30 crores + level. So, when can we see some improvement on the profitability side for Beko?

**Manish Desai:** Siddhant if I look from the bottom line or top line of the Voltbek, the advertisement expenditure, a fact which is relevant to Voltas is true for Voltbek as well. Voltbek has also incurred a good amount of advertisement expenditure in the current quarter, given the complete season for the refrigerator available to the brand. Despite this expenditure we have contained the loss, which means we are recovering on the gross margin steadily in that category and across all product categories, because not the one category can deliver those kinds of improvements. Having seen this, what we prepare for ourselves for the year 22-23 looks promising as of now, although market has turned to a muted kind of demand immediately after the May end. However, unlike air conditioner appliance categories goes well during festival time as well. So, we are hopeful that the recovery will be there in the subsequent period, which at least ensure the volume will be there on the Voltbek side to deliver probably a consistent performance on the bottom line as we move forward for the rest of the year. As far as market share is concerned, market share almost remained same what we had in the month of March. Probably we can see more traction as we move forward. Three months will not give significant for a brand like Voltbek will not give significant leeway or will be catching up on the market share side, but on annualized basis we may find at least we are gaining on this accounted fund as well.

**Moderator:** The next question is from the line of Bhoomika Nair from DAM Capital, please go ahead.

**Bhoomika Nair:** Just wanted to understand what is the status of our JV with Highly and the south plant as well and if you can also touch upon the current import content that we have for our total requirement in the RAC segment?

**Jitender Verma:** Our Highly JV as we know that it's with the country bordering with our Indian border. So, it needs to go for approval, to many departments within the government and we are pushing for that, and we are waiting on that. There may be certain issues which we would come to know once they are communicated to us.

**Bhoomika Nair:** If you could just also talk about the status of our south plant, the land acquisition, the CAPEX that we're talking about et cetera and also what is the current import content?

**Jitender Verma:** When we have to just to continue on the first part of the question on the, the Highly JV, I mean I said that we are waiting for the answers from the government, but given the current political, dispensation it is like looking like it's on a slow track. Keeping that in mind, we are going ahead with our Chennai operations, we have acquired the land in the industrial zone and the processes are starting as we speak. We should hear towards the end of, I would say '23 or the third quarter of the financial year '24, about the start of production there, though every effort will be made to make that much faster than that.

**Bhoomika Nair:** Sure. My second question is on the EMP side, we've seen a loss in this quarter because of the provisions and things. Can we talk about what is a one-time provision and ECL loss that we've accounted for in this current quarter and will it be recurring into the second quarter and what kind of level of margins do we see rebounding into the second half as the benefit of the lower raw materials kick in?

**Manish Desai:** Bhoomika if I look from the EMP perspective, we talk about, there are two aspects or there are two things which happened resulting into a loss for the EMP segment. One is we actually built up the contingency in some of the projects, given that the kind of cost escalations and the extension of time which we are running into. Now, the question comes, should we get the extended time from the customer? In that case, this contingency will act as a buffer. Probably at the end of the project, we may try to, or we may reuse some of the contingency, the situation may arise favorably as well. However, given the fact that the extension of time actually took place compared to where we were supposed to deliver, we have to make those provisions. I would say, you can say about the exception or, but you can take it as a kind of things which may happen in some of the projects which crosses the deadline in terms of delivering of the project site. In terms of the provisions, I would say that delinquency has created this kind of situation, but we were not expecting to have it this item appearing in the Q2, because it is related to one or two projects only not happening to the entire market as such or entire operating areas where we are doing it our business, but we have to be very watchful in the situations to give you answer in a one sentence, as we keep on saying that project business should not be seen on a quarterly basis, we have to have the annualized one and we still believe that on annualized basis will remain, we'll come out to in a positive, the margin percentage wise we also try to go for a 4.5 to 5 what we used to say, but whatever we can do best for, probably we should be able to deliver on that front.

**Moderator:** The next question is from the line of Girish from Morgan Stanley, please go ahead.

**Girish:** Just two questions on commercial AC and refrigerator if you can highlight the growth that we've seen on a YoY basis and second CAPEX outlook for fiscal '23 and fiscal '24, please.

**Manish Desai:** You're talking about commercial refrigerator, right because I misunderstood on the home refrigeration as well.

**Girish:** No commercial AC and commercial refrigeration both.

**Manish Desai:** Commercial AC and commercial refrigeration okay. If I look from the commercial refrigeration perspective, we are, if I look from in fact the growth is over 21, as well as 20 if I look into as a product category and to give you a perspective in the percentage terms, it is somewhere around, I'll open the data and give it to you…

**Girish:** Or maybe if you can say a percentage of sales, whatever is convenient.

**Manish Desai:** Percentage of sale in the composition remains almost saying there is not much change between, I would say in terms of the overall percentage which product is contributing to the overall segment sale. If I look from the volume perspective, the commercial refrigerator has grown almost 138% over the FY21 volume. If I look to the FY20, although it's supposed to be a normal year scored a 20% growth over there, so commercial refrigerator has actually seen a consistent growth, largely backed by the expansion of the market and finding place in the mom-and-pop kirana store expanding to a tier-3 and tier-4 cities as well, because the product categories are expanding those regions, like your ice cream chocolates and other stuff. If I look from the commercial air condition perspective, you recollect that this industry work on an overall tonnage basis because that's where the commercial AC termed is. If I look from the overall growth, the turnover has seen a growth of almost 50% over the last year.

**Girish:** And CAPEX outlook sir?

**Manish Desai:** CAPEX outlook if I look for the next two years, because you asked for '23 and '24, probably we'll be looking towards or close to 400 to 450 crores to put out on a capital side. This will include our expansion of manufacturing facility for both air conditioners and commercial refrigerator and something to work on a PLI for which we make an application. We got a sanction also, except the compressor, which is still Mr. Verma as he said it is still under the consideration stage.

**Girish:** Beko any CAPEX has been thought through in this number or that will be separate?

**Manish Desai:** We have not included the Beko expansion. This is what I said. It is only for Voltas Girish.

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

**Sandeep Tulsiyan:** The first question what I have is pertaining to the primary and secondary volume growth, if you could share. The second is obviously given at 111%, but was this FY20 normalized summer what was the primary volume growth and as a secondary volume growth if you could give expected for the current quarter, please?

**Manish Desai:** Sandeep if I look from, I would give more firm answer on the primary side. On the secondary side I could give the numbers because growth you know very well it is not measurable because last year was a COVID lock down, April-May was generally on a delta wave. So, the operation was also not on equal and more. I will be more on the primary side, and I can give you secondary side what we have seen month on month growth in terms of the secondary one. If I look from the primary side, if I compare in your question, whether we have gone to a level of pre-COVID, I would say that in the month of April, the entire industry was expecting that we will grow almost 20 to 25% over even FY19-20 volume, which used to be a good year or a normal year. However, we all know after the May 15th or May 20th the demand actually started meeting it out, resulting into I would say 10% de-growth on the FY19-20 volume. We are yet to get the industry data, but it cannot be so different. Therefore, our own reading says the industry is also having a de-growth of almost 10 to 12% if we compare with FY19-20 volume, however in the FY22 it's every manufacturer or maybe the industry showing more than 100% growth in primary, as well as in secondary as well. The secondary growth would have been more than 200% given April-May last year was under the delta wave. Given the secondary numbers obviously the secondary in the initial month of summer will be much on a higher side. We have seen almost a 1.3 million units are getting done in April. We have seen almost close to 1 million units getting in May and close to 7.5 lakh units going in the June. If I look from the March also, March was also in excess of over around 1 million and that's where the trend looks like, and it is generally the same if I look from the seasonality period. The moment you come to the June and July, the secondary starts getting fitted upon on a reducing side.

**Sandeep Tulsiyan:** Understood.

**Manish Desai:** Sandeep this is all the MBO data so secondary, which has been published by JFK through which we are relying upon the markets and other stuff.

**Sandeep Tulsiyan:** Okay. This is the secondary data I thought you have sent the primary data on this front.

**Manish Desai:** Primary data I told you about it. FY19-20, we have de-growth of close to 10%.

**Sandeep Tulsiyan:** And that see would have declined, because you would have loss share from 24…?

**Manish Desai:** The loss share was only in March. If I take the quarter one end and all people are comparing quarter one over here to quarter one of 19-20 and that's where industry even would have seen in our reading maybe a larger de-growth than us, because we have gained the market share during quarter one time. So, industry would have de-grown to the tune of 15% to 20%, but we have to gauge the data based upon what kind of information is going around.

**Moderator:** The next question is from the line of from Rahul Gajare from Haitong Securities, please go ahead.

**Rahul Gajare:** Now most of my questions are answered, I just want to understand how is this restructuring going to change the way we do business. You are moving only on subsidiary, how is this going to change?

**Manish Desai:** So, if I look from the, Rahul, I understand you are talking about the way which we are going to do the business or the presentation of the accounts?

**Rahul Gajare:** No, I'm actually trying to see on both the fronts and actually it's more important to see how the business is going to take over rather than accounting perspective because, ultimately, this is a wholly owned subsidiary.

**Manish Desai:** Rahul to answer that, sorry, I'm cutting down because we have a last question to take it up this. That's why I'm cutting down in between. If I look from the presentation of the financial perspective the consultation accounts will not see any change compared to where we are today. However, if I look to the standalone, the standalone will go into a major change whereby the standalone accounts now onwards from second quarter will demonstrate. This will have only the UPVG as a product business and international project business being part of the standalone account. So, this is from the presentation of the financials perspective. If I look from how the business is going to work differently, Rahul if you recollect the entire objective of doing this or going for this restructuring or a business transition is to have an equal focus on both the businesses. The current the management bandwidth time is largely getting put into the product business. That doesn't mean we do not have a focus on the projects. However, the kind of potential what we are seeing in the near future for the projects, given the capital commitment or the infrastructure commitment from the local government, as well as on the middle east part of the country, in our strong beliefs, that if equal management time being put on both the businesses, both businesses have a potential to deliver much more than where we are today. That's what the objective with which the business transition being carried out. You can see the results as we move forward in this direction maybe in the next 18 to 24 months timeframe.

**Rahul Gajare:** But you will still have the international project business sitting in standalone, so you'll have to segment any which way. Ultimately do you intend to move international business also into the subsidiary so that you will have only consumer product business sitting in the standalone?

**Manish Desai:** Rahul, there are lot of plans are underway and probably we will keep up the investors updated about the same when we are coming closer to it.

**Moderator:** This would be the last question for today, which is from the line of Abhijit Akella from Kotak Securities. Please go ahead.

**Abhijit Akella:** Just the one question from my side on a Voltbek, if you could share some numbers on the growth rate that you've seen so far and what you expect for the full year FY23 and with regard to the target market share we've articulated in the past of 10% by 2025, where you think you're on track broadly to get there?

**Manish Desai:** Abhijit if I look from, I can give you the growth percentage and all but as you said that the Voltbek will obviously have a higher growth in the industry. The turnover growth is in closer to a 50% if I look from the Voltbek side and in terms of the market share I have just answered to one of the observations that we remain almost at the March level, where we were. If I look from the 2025, we are still committed to get into a 10% market share by 2025. And our promise is based upon the progress the brand is doing now in a shorter span of time with a complete product category in which we have today with a more in-house manufacturing moving in will be able to deliver the customer centric product in a much faster way compared to the earlier the input source base model. All these initiatives should definitely help us in reaching out those market share expectations, although you know very well in this entire plant, we have lost two critical years, which has actually impacted the volume for Voltbek, but we are still hopeful that we'll be able to make it this objective by 2025, by accelerating our, I would say the efforts in this direction.

**Moderator:** Thank you. As that was the last question for today, I would now like to hand over the conference to Mr. Naveen Trivedi for closing comments.

**Naveen Trivedi:** Thank you everyone for participating in this call. We would like to thank the management of Voltas Limited for giving us this opportunity. Sir do we have any closing comments?

**Jitender Verma:** Naveen we would like to thank your team and the analysts for asking relevant questions and bearing with us for this shortage of time. We are still available for answering any questions on email, so you can send us the questions on our reported email. As we know that once the first quarter is gone, this second quarter is a kind of a low season and then we get into the festival season. It would be interesting to see how the inflation and consumer demand play out in this sector. We remain with that growth outlook and the product innovation which should help us, being at the top of the mind of the people, something like an India Ka AC, and with that I would say we like to close the call. Thank you. Thank you everyone.

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