



“Voltas Limited
Q1 FY2020 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Voltas Limited Q1 FY2020 Earnings Conference Call hosted by Asian Market Securities Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I will now hand the conference over to Mr. Amber Singhanian from Asian Market Securities. Thank you, and over to you, Sir!

Amber Singhanian: Thank you Raymond. Good afternoon everyone, on behalf of Asian Market Securities I welcome you all for 1Q FY2020 Earnings Call of Voltas Limited. We have with us today Mr. Anil George, Deputy MD and CFO; Mr. Utsav Shah, Head Corporate Finance; Ms. Asawari Sathaye, Head Corporate Communication and Investor Relations from the Voltas Limited. Without further delay, I would like to hand the call to Ms. Asawari Sathaye for her remarks and then we can move to the question-and-answer session. Over to you Asawari.

Asawari Sathaye: Thank you Amber. Good afternoon and welcome everybody to the earnings call. I will be talking you through the snapshot of the results and the details of the same will be shared with you post the call.

Analysis of results quarter ended June 30, 2019, in the more recent past, global economic stability has become increasingly fragile as the US, China trade war ramps up. The repercussions of the U.S. punitive tariffs and China’s retaliation, including allowing the Yuan to depreciate has far-reaching implications in global trade and associated group. While many of these will unfold as the year progresses, there is a lack of clarity on how the new UK leadership will deal with Brexit issues.

Closer home in the Middle East, oil is looking for direction, as economic anxiety jostles with regional tension in the backdrop of the escalating Iran situation. Back in India, we have witnessed harsh summers and a delayed monsoon. Although inflation is under control and the government has announced many reforms and infrastructure investments. Consumer mood appears depressed.

We are witnessing sluggish private sector investment and unemployment issues, apart from negative growth in core industrial sectors such as automobiles. Issues in the banking sector and the series of defaults are dampening the economic sentiment. Slowdown concerns have been voiced by many industry stalwarts, and the fact that evident in GDP growth, which is at a five year low of 5.8% in the March quarter compared to 6.6% in the December quarter.

Just yesterday the central bank has announced a 35 basis points rate cut in the repo rate. Hopefully forcing banks to reduce rates and kick start the lending activity. Given this background, the consolidated gross sales from operations for the quarter ended June 30, 2019 was higher by 24% at Rs.2647 Crores as compared to Rs.2134 Crores in the corresponding quarter last year, contributed mainly by UPBG with a growth of 47% over last year.

Profit before exceptional items and tax was higher by 14% at Rs.301 Crores after considering our share of joint ventures and associates, and an one-off provision of Rs.17 Crores in investment income, a write down by one of the MS schemes we were invested.

Profit before tax is marginally lower at Rs.258 Crores, but only after considering impact of an exceptional item, the voluntary retirement scheme aggregating to Rs.43 Crores. Consolidated profit after tax was at Rs.166 Crores due to reversal of deferred tax assets created in a subsidiary RIEL resulting into higher tax expenses and lower profits in current quarter. Earnings per share, face value per share of Re.1 not annualized as at June 30, 2019 was at Rs.4.99.

We now present our detailed comments on the performance of various business segments in which we operate. Segment A, Unitary Cooling Products. Coming off a challenging year, this season started with a nationwide heat waves and delayed monsoon. Temperatures rose across the length and breadth of the country, benefiting the industry as a whole.

While the market grew by a substantial 36% as compared to last year, Voltas grew even stronger as evidence by the increase in externally reported market shares. It may be noted that Voltas sustained its number one market position in the unitary cooling product business for the eighth consecutive year with a market share of 24.1% for Q1 FY2020 and 25.3% for the month of June 2019 at multi-brand outlets.

Within these numbers, our focus on inverter AC sales has paid rich dividend, which we are today the number two player in the segment with a clear strategy of becoming the leader here as well. Inverter ACs today account for a little over 50% of our total AC sales.

The segment's revenue smartly increased by 47% and was Rs.1749 Crores as compared to Rs.1191 Crores last year. At the same time result was higher at Rs.230 Crores as compared to Rs.149 Crores in the previous year. Better quality, wider range of product, deeper distribution and sensible advertising, combined with attractive consumer offers and pricing has strengthened our presence.

We have also reduced our inventory level substantially. This year the company launched the adjustable inverter AC range that comes with a unique value proposition of flexible air conditioning a concept, which has been received well in the market. As a pioneer in bringing energy efficient models in India, Voltas has partnered with EESL to offer 50000 super energy efficient and environment friendly ACs available at an affordable price. Technologically superior, these are 44% more energy efficient than conventional 3 Star ACs ensure low noise operation and have a longer life.

The ACs will be initially distributed to the Delhi consumers of BSES Rajdhani Power limited, BSES Yamuna Power Limited and Tata Power Delhi Distribution Limited. With the wider range of consumer durable products that are now available via Voltas Beko, we have now more than 150 exclusive brand outlets, increasing the brand presence PAN India. These outlets deliver a

unique customer walk through experience, displaying the entire range of Voltas and Voltas Beko products and have seen an increased traction in both enquiries and sales.

Alongside ACs, commercial refrigeration also witnessed better traction and healthy growth. Voltas's fresh air coolers continue to provide respite in the harsh summer with the brand gaining more ground and posting a substantial growth coming off a challenging year. We have also put in place a dedicated team to focus on and drive aggressive growth in these categories.

The company has recently launched air purifiers with three variants in the current year. Product response from customers have been encouraging and further product portfolio expansions are planned to tap the potential.

Segment B, electromechanical projects and services. Segment revenue and results for the quarter was lower at Rs.824 Crores and Rs.66 Crores respectively. Carry forward order book for the segment was marginally higher at Rs.4756 Crores compared to Rs.4623 Crores in the corresponding quarter last year. The breakup, international is Rs.1852 Crores and domestic Rs.2904 Crores. Order inflow for the quarter Rs.680 Crores of which domestic is Rs.450 Crores.

The domestic project growth, the general elections, which inadvertently slows down order finalization have concluded, but the economic continues to reel under pressure, with slower-than-usual private spending. Few of the orders picked up in the recent past are currently in the early stages of execution and will provide an uptick to earnings in the forward quarters, that apart, some LOIs are in the pipeline, which will as per our practice be announced only when finalized.

The government spend on urban infra such as water, electrification etc., continue to remain the focus. Given the subdued investment climate the management has strategically focused on the industrial sector and government orders.

The growth in RIEL a subsidiary focused on rural electrification has been encouraging. Seeing the impetus from the government on sustainable forms of energy, the company has plans to foray into solar business and has recently commenced developing capability to address this market.

International operations business group. The Middle Eastern economies are growing through turbulent times, notwithstanding the volatile oil market, government in some of the Middle Eastern countries have announced some investments in long-term infrastructure project.

Our strategy in this environment is to look for good quality orders with reasonable margins and commercial terms. Qatar as a market is also seemingly opening up, and we are considering business that needs our risk mitigation criteria. Meanwhile the challenges faced by our JV partner, Carillion which is the main contractor in Oman continue, and we are watching the situation closely.

Segment C: Engineering products and services. The Indian textile industry went through yet another period of turbulence, at China which has significant surplus stuff of cotton, cut down on

yarn import from India. Many of the spinning mills are cash tracked and have resorted to either full or partial shutdowns.

In this environment, order for new capital machinery are fewer than before. Meanwhile our strategic focus on other growth avenues including post spinning and the services and parts business continues.

The mining business has continued its good performance in Mozambique, while the India mining story is at an impasse. On the positive side we are seeing some pickup in spending in road construction activity.

Voltbek Home Appliances Private Limited. As you are all aware we have recently launched a JV with Arçelik to offer a range of Home Appliances under the brand Voltas Beko. Although relatively new in the field the business is stabilizing itself in line with internal plans and has done reasonably well.

We are in the process of setting up the manufacturing plant at Sanand which will be functional from 2019 year end. This factory will produce Direct Cool refrigerators and washing machines. The brand has launched several SKUs of refrigerators, washing machines, dishwashers and microwave ovens, which has been received well by the trade. Consumers have also appreciated of the many India-centric product features and we expect to increase our penetration and market reach further.

To sum up the room AC business is weather reliant and we would like the rest of the industry look forward to the second summer and the upcoming festive season to maximize sales volume. Nonetheless we remain determined even while we are cognizant of the slowdown in the consumer durable sector and the liquidity stress in the economy.

With the stable government pushing the agenda on growth and infrastructure we have set several opportunities to grow in the project business. We remain suitably conscious of the associated risks, while picking up orders in the Middle East. Needless to state, the strength of our balance sheet holds us in good stead to grow further.

We are now open for Q&A, and as stated earlier the details of the note will be shared later on.

Moderator:

Thank you very much. We will now begin with the question and answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora:

Sir just wanted to ask you given that the kind of market share gain you have seen in the starting of the season itself, in respect to margin, does that give you confidence because in the last year because there was so much fluctuation in the weather, we did not meet our guidance and that is so because of the late summer coming up. But given that we have started this year on a very strong note, also increasing your market share part, you did a 13% kind of an EBIT margin in the UCP business. So does that give you enough confidence, that it would, should look at the

margins beyond 11% now on the higher side, that is first part of my question, and the second question is related to, with respect to the Voltas Beko, given the season is coming in sometime, I am talking about the festive season. If you can take us through that whether that will be important for Voltas Beko this year or we could be again, it would be have a similar year as compared to the last year because the plant is still not operational so we will be able to cater this festive season or not? Those are my questions

Anil George:

Thank you Nitin for those questions. In the first place, the one, that you asked with respect to margin. You made a comment very quickly saying that we were not able to meet up our guidance, and I think that is not right because always we have been guiding at a margin about 11% to 12% and that is something that we have stuck to, and the reason why we guide that, that those kind of our margins is not to say that we do not have an ambition to top up those margins, but it is more to say, that in every quarter we face different types of competitive activity, and for example, in the second question you asked also about the festive season.

In a festive season everyone is out, they are trying to do something or other to get their products flying off their shelves and that puts us as a market leader under pressure and we have to also very often respond to some of those things. So this quarter yes we have got a 13% EBIT margin and this EBIT margin, you have to understand from the point of view that the season was extremely good and in retrospect, I think I would be honest in saying that not only Voltas but the entire industry missed the trick in not being able to take up prices earlier in January, because had we known that the weather is going to be so intense, most people would have taken prices, but what was the situation? The situation is mainly that because of the depressing conditions last year everyone have had huge amounts of inventory and everyone was concerned about how do we get this inventory out and so no one took price increases.

At the same time we have had some impacts like for example the change in duty structure which went up from 10% to 20% for IDUs and ODUs, compressors went up from 7.5% to 10% and all of those factors. So considering all of that I would really think that getting at a 13% EBIT margin despite the volumes and everything, it was a fairly good job and I hope you see it in the same light.

Moving on to the second question, so I, as a rule I do not give a forward guidance in terms of margins, but I would only say that watch our performance, we believe that we can do better and it would certainly be our aspiration, but if you ask me what is the longer-term guidance I would still say in and around 12% until I am able to actually look and understand at what the competitive intensity is going to be, because the fact I think that Asawari also mentioned that we have done extremely well in inverters and it has grown disproportionately well and so we do not know what the competitor activity will be, and we need to conserve a certain amount of our margins to be able to beat and to be able to both meet and beat these kinds of competitive activities.

Coming to Voltas, Voltas Beko, yes the festive season is important, but at this particular point of time we do not have the full range of products as you said, because the Direct Cool refrigerators,

which is the large part of the market has not actually, we do not have that with us at this particular point of time. But what is the good thing, the good thing is that we are establishing our market well, we had increased our distribution quite a lot, people are getting to touch and feel parts of our products and are feeling reasonably happy with the price and the quality equation, and we believe that we are well placed to be able to meet up to our long-term ambitions and we will get there in and according to plan. As of the movement, the Voltas Beko is progressing completely according to plan and we are not seeing any significant deviation, although there are some ups and downs in regional markets.

Nitin Arora: Sir that is a fair point thanks for a detailed answer. So basically what our guidance was for the last year.

Anil George: Come again Nitin.

Nitin Arora: I am saying whatever be the guidance for us for last year of 11% at least in this environment and given you have started on a very strong note; you do see a 12% should be doable. I understand the economy is changing too fast, but it is still higher than the last year, that is where you see it.

Anil George: Yes, we have started off well and I do not know what is the... because in the economy, just as you Nitin, you follow the market. So there is every day is a new wicket you are waiting up to see different, different things happening. So that is the way that we will look at it and we are reasonably confident, but at the same time, I would not like to give it as a firm assurance.

Nitin Arora: Absolutely sir, taken your point. Thank you very much.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Sir my first question is on the VRS scheme, just wanted to understand what could be the likely charge in Q2 and what are the kind of annual savings that we are anticipating from this?

Anil George: Aditya one of the things that I would say is that this quarter the number is quite evident there, when you announce what we have done is that we have reopened the scheme again because there seems to be a lot more of interest in the VRS. Now how many people will take it etc., is not something that I can really comment up on because the scheme is still on in a manner of speaking. So what is the end purpose of all these VRS schemes? We are not in the habit as you are well aware Aditya of throwing off money. So there has to be certain productivity in the indices to this, there is a longer-term IRR in doing all of these things and that is how we would treat it, and it is a scheme that has gone through the rigors of both the board audit committee and our board before we have really announced it. So I do not really want to come back and say what the return is, etc., etc., going to be but let me say that wherever a company implements a sensible VRS it pays off longer-term dividends in terms of productivity etc. Remember also that we as a 60 year old company, we do have quite a number of employees, who are at a certain level and large number of employees with productivity picking up, new norms and new ways of doing

things, computerization, artificial intelligence etc. It make sense to look at more, shall I say, effect of smaller teams and all of those kind of things and that is where we are coming from.

Aditya Bhartia:

And Sir you mentioned that inventory in the channel as well as with the company has largely been liquidated. Is it fair to assume that, that should help the industry in taking price hikes and also a related question what kind of price hikes do you think, we need to be taking in order to reach back to 13.5%, 14% kind of margins that we have done in the past.

Anil George:

The first question if you really look at the segment results also Aditya you would see that we have a negative working capital for this quarter. So that just gives you an indication of that we have substantially reduced our inventory, but at the same time we are now building back inventory because we also want to be in readiness for the second summer and the festival season and all of those kind of things.

Now as far as price hikes is concerned I think it would be grossly inappropriate for me to say that I am going to take a price hike or I am not going to take a price hike, we will really have to look at it in terms of what has required at each region, what is required in terms of each competition, how do we really budget. At the end of the day, our strategy and our focus are on two things, one is generously protect our market share; number 2 is make sure that market share is not coming at the cost of your profitability and like someone commented the other day market share is not something that you can put into the bank and we are intensely aware of that.

Aditya Bhartia:

And Sir my last question is on Sowbhagya Scheme. How is the execution going for those orders and how the cash collection to basic. Do you think that we will continue to see impetus in this scheme especially as the initial phase is coming to an end?

Anil George:

What is happening as far as that rural electrification scheme is concerned one is that given the election and as Asawari mentioned inadvertently a lot of things slowed down you do not get cash, you do not get the completions and all those kind of things. So a little bit of delay creeps in. But we are now in four, or five states and we are doing a fairly good job in terms of the last mile connectivity and now there would be other kinds of jobs that will be opening up after the scheme such as underground cabling because people do not want to be going with these poles stretched out, they want to do underground there are other things like for example feeder separation all of these activities also that comes in. So I frankly feel that it is not as if that just because of scheme is coming to an end that is the end of the story for electrification. There will always be new, new, avenues that will come up. At the same time I want to also mention that water is a very significant opportunity that we are seeing now and our ability to be able to connect various points in the rural electrification is also our strength and we are now learning and experiencing how we can do this better. At some point of time like the Prime Minister has his ambition to say that as the bulb at least in every single house of this country, the other way of looking at it is there needs to be a tap with flowing water in every single home of this country and that is where we will be heading to. So there is a very continual business and I think our strategy of looking at the government-owned or government-supported or externally funded projects the initiative that we took about two or three years back the focus on it has really paid off so we are not seeing that the

kind of intense pain that many other companies are going through in the project business as far as we are concerned as of this moment, and we will watch of course there is a big part of which is the economy a big part of it is how various things go. But we are cautiously optimistic about the future.

Aditya Bhartiya: Perfect Sir, this is really useful. Thanks.

Moderator: Thank you. The next question is from the line of Venupal Garre from Bernstein. Please go ahead.

Venupal Garre: On Voltbek I just wanted to take a stock of the situation now in terms of the SKUs that you have currently for all the products that you have. So what is the sort of SKUs that you have for example a refrigerator, dishwasher, or washing machine etc., so wanted to understand that, and number two is from a point of view of optimal reach how much so even with these SKUs how much time could it take us for us to reach an optimal reach across the country, which is basically having optimal number of SKUs, per store and also reaching PAN India at a larger number of stores.

Anil George: If you really look at it at this particular point of time one of the things that we have always believed in is that there must be handful amount of choice as far as the consumer is concerned and so your question is bang on. Now I do not really want to go into specifics, but since you ask for it let me tell you that in refrigerators we have got 31 SKUs at this particular point of time including bottom-mounted refrigerator and all of those things. In washing machines just in frontloaded load washing machines we have got something like 5 SKUs, we have got 12 SKUs of top load washing machines and so on and so forth. Many of microwaves etc., etc.

So we have a certain range, but this is not to say that we have a full range. For example, if you look at our AC business something like about 70 to 80 SKUs we have got. Now and we do recognize that people like to see a lot more of SKUs so as we go into deeper and deeper and as our market prominent gets better we will be introducing more and more SKUs and apart from distribution that will be an important part of gaining foothold in the market. In the refrigerators, for example now that you raise it there is a lot of demand for example for floral designs many of the upper-end refrigerators carrying to be muted colors but at the range that we are talking about let us say 200 to 300 liters etc. Lots of people prefer floral designs and let me say dark colors and different shades so that is something that we are really catering to and that will be our intension. But the market itself we will have sufficient number of frost freeze etc., for the Diwali, but it is not going to be as good as a time if we have the production going from our factory because there are costs involved in and logistics issues in terms of transporting DC refrigerators which happened to be the larger part of the market.

Venupal Garre: And Sir reach perspective.

Anil George: Sorry.

Venupal Garre: Distribution reach perspective on Voltbek.

Anil George: The distribution reach I mentioned to you that we have got close to about 500-odd people now at this particular point of time, but it is expanding, on a daily basis we are appointing and things but it is also has to be balanced with the product availability because one of the things that we think about is that when we do have distributors we also insist on having a fair range displayed there. Apart from that Asawari read and mentioned also that there are about 150 exclusive outlets which caters towards both Voltas and Voltas Beko that have been started, and this is something that we did not have earlier and the reason we did not have it earlier was because that we only had air conditioners. Now we have a complete range of product, so consumer has a very good walk through experience in terms of what we can see for many of the consumer durable products that he or she uses at the home, and this I am glad to say that the response at the videos in terms of both enquiries and sales have been pretty good and in some places actually going beyond our own expectations.

Venupal Garre: One last question on air conditioners, now this margins that you have reported in this quarter of course it is in a discussion by some other participants too. I just wanted to understand, given that we had last year weak summers and there was a baggage of inventory that the system was carrying competitors as well as us and the channel. So is it more a issue with the beginning of the quarter when nobody was sure of how summers would be even let us say the end of March or early April because of which there would have had been some degree of inventory sort of push or where you would have to cut prices etc., and thereafter things stabilized and hence...?

Anil George: It is a combination of all of those, like I admitted I think the entire industry could have done with the price increase had they have seen this kind of an intense summer. But then hindsight is a great thing here, it, but then the Delhi centers, when we were talking to you in Q3, you are also expressing a lot of concern about the level of inventory and asking does this mean that your margins will actually go down below 10% because you will have to liquidate your inventory. So the proof of the pudding is in the eating and the fact that we have been able to get the volume growth of this substantial number and still maintain 13% I think is something that you should, I do not want to be suggestive, but it should be a good tick in our box.

Venupal Garre: One last remark on this I wanted to add is that so assuming in next season you have good summers now since it is at the back of good summers with the same level of revenues that you have reported in this quarter which is good, ideally margins would be higher because you do not have that. So it is a right way to look at it, assuming competition does not really distort a change as and it is as bad as it is.

Anil George: No, but it never stays like that it is always every week is different we went ahead just on beginning of this month, we went and launched our Onam program in Southern India. Now we do not know what is going to come up from competition and how we need to get it. So I cannot make a broad assumption that assuming that competition is going to be constant price is going to be constant and other things. That is not the way business is mentally and that is never the way that business will ever be. So every day that we wake up we are bowling to a new wicket but every day we also sharpen our wits and have sufficient insights into the market and to the consumer to be able to do better.

Venupal Garre: Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Arafat Sayyed from Reliance Securities. Please go ahead.

Arafat Sayyed: Sir my question is on solar business that Asawari mentioned that they are looking into Indian solar business as well. So can you throw some light on that what exactly you will be doing Sir in this space?

Anil George: What we plan to do is that we as you know much of our project business is about executing projects not so much into the equipment so we are not planning to buy solar cells and deal with them. What we are planning to do is to get together with people who are plans for large solar farms who want to change those things, and then do the execution for them in terms of design of the stands, in terms of fixing it, in terms of making sure that it flows through properly, and the fact that we have certain expertise in dealing with electricity and power helps and this is the way that we want to take it forward. It is at still at a very initial nascent stage but the way it is going both in terms you see in those announcements on the cars now very soon that, I personally believe that they will come up with systems where you will be able to have your own solar panel cells on top of your billings and supply into the grids like indeed what is happening in the international market. So we do see an opportunity and we are now putting our capability into place. We have picked up a few people and we are now ratcheting up ourselves. It is not to say that next quarter it is going to be a big business, no, but it is going to be a big business as we go forward just a same way as we ventured into rural electrification at a time, we are now currently venturing into water now. We are just seeing the opportunities that lie ahead and we are moving into a position or where we can be in considerable advantage as we go forward.

Arafat Sayyed: And my second question Sir, there is a rumor last month that you may look into the separation of this project business. So any light on that Sir.

Anil George: I think this question has been asked and if I recall that right from the point of time when I first started addressing these conferences in 2011, people used to ask me why do not you just get rid of all this AC business and go fully into project business, then after sometime people have been changing the other way around. Now this kind of speculations will remain we do and have any comment to offer really. I think as you would have seen the fact that we have got multiple businesses has really helped us in the past and we are continuing to do well in all the sectors that we are concentrating on and so and if there is anything of this and like any other intelligent business and we look at our portfolios continuously. We look at what we should be doing what we should be focusing, what should be defocussed etc. But I do not want to really get into saying that this is what we are doing etc., etc., no, then if and when something of this nature of the thing you will be amongst the first to know.

Arafat Sayyed: Thank you Sir that is it from my side.

Moderator: Thank you. The next question is from the line of Sandeep Tulsian from JM Financial. Please go ahead.

Sandeep Tulsian: Sir my first question is pertaining to the recent import duty hike which was announced in the budget as well as we are seeing some weakening of foreign currency post end of July. So just want to understand from these two incremental data points, how are we looking at the pricing scenario going forward and related question to that is how is Voltas backend integration vis-à-vis competitors on the plastic molding end, are we significantly different over there?

Utsav Shah: Hi Sandeep this is Utsav here. As far as the duty hike in the indoor units was concerned you are aware that we have already started investing in some of our molds and we would obviously prefer to indigenize more and reduce the exposure on exports. We believe the major impact of this has not happened in the current season, but probably in the next ordering cycle which will happen for the next season is where probably some impact will happen. Considering the fact that we are planning to look at more indigenization and reduce the dependency of imports from China, there will not be a very major impact because of the increase in customs duty on indoor units.

Anil George: As far as the question on backward integration is concerned I think it is essentially as you probably know in the country today we do not have good manufacturers of compressors. Compressors constitute roughly around 35% o 40% of the cost of an AC. So that is something that will always in our mind at this point of time remain outside the manufacturing consideration horizon because compressors are very, very different, they are different for an air-conditioner, for an inverter, depending upon the gas use, depending upon whether it is a refrigerator, whether it is a water cooler, there are dozens and dozens and you need to have a critical math if you really need to be able to make the things. So that to me seems to be like and like it is for most of the player seems to be bought out item and that will probably remain so. Having said that some people are investing in India to start compressor manufacturer and we will figure out how we can possibly make some intelligent tie-ups with them on a supply chain basis etc., etc., like we would procure from an 'A' star vendor. The other bit of integration you know that we are planning and investing in certain manufacturing activities and like Utsav rightly mentioned much of the high-volume IDUs also we have been investing in molds and we have been doing our own manufacture. The ODUs button say for the compressors are largely made locally. Many of the other products that we deal with are in the overall unitary cooling products category are also manufacture locally. So over a period of time our strategy has both been tactical, short-term and be strategic long-term. So when we look at it we do not think that the China or the import option is something that is going to be permanently here. We do differentiate and try and see what suits the time both from a short-term, medium-term and the longer-term perspective.

Sandeep Tulsian: Sir my second question was on this energy efficient AC orders that we have taken for 50000 units I recall that our stance on this energy efficient products have always been that the margins are not healthy or the one which Voltas would like to operate on, in this particular segment, but there has been a change of stance over here if you could just give us some more color on how this market is evolving and what is different in the current tender vis-à-vis the old tenders?

Anil George: See in the first place I do not think that we have ever said that this does not impact Voltas. In fact I was one of those people if you recall we were the first is on star rate the air conditioners, much before the law and the statute required. And why was that because as a company we believe that energy efficiency is the way to go it is definitely something that is important to the nation and to the progress of this country and when we deal with and I have always responded the questions when questions come up saying that the star rating has changed how much will it cost you I have responded by saying Rs.400 or Rs.500 depending upon the star rating or whatever it is, but I have never ever said that this is something that we do not want to do or this is at the gross purposes, no. As far as the EESL order of this 50000 units is concerned it gives us a great amount of pleasure because of the first time it actually, it is an acceptance of the technological superiority that we can actually bring to the table, and the price that we have done with this EESL is also not at a price where we are getting that order without making margin, no. Please be rest assure that we are doing business once again not for market share, not for publicity, but at the end of it for safeguarding our stakeholders and for the prosperity of the company in general. So it is at a reasonable margin.

Sandeep Tulsyan: Thanks.

Moderator: Thank you. The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: Sir I have just one question. So we touched upon that the inventory at the Voltas level has kind of normalized and it has gone down to below normal levels, but just I want to know can one extrapolate that it may be the case for other industry players as well and much more importantly, I just want to hear you a thought on the channel inventory Sir. Would you say that the channel so just comment on whether they are carrying normalized level of inventory or it continues to be slightly higher than what they should be carrying?

Anil George: Yes, you are absolutely right, as far as Voltas is concerned we have been able to reduce our inventory now when people buy our products, it is because they see something about our products and what do they see about the product they see a value proposition that in terms of money, in terms of spends, in terms of quality, in terms of the product's quality assurance from the house of Tata's and all of those kind of things and so if typically I would say that we have been fortunate with our brand image, with our pricing, with our consumer offers, etc., our inventory has gone down substantially. Now as far as other competition is concerned I would not want to go there or comment on that, that is a question that you really need to ask them in terms of what their inventory is, and once those inventory is exhausted, when an inventory is exhausted what it really means that the distributor now has empty shelves and has money and therefore he wants to invest that money now how soon we can fill those shelves back again is an index of how well your company will do in the upcoming quarters. So that is something that we are aspiring to do and I am sure that as part of this summer most of the people have done very well because that is why GfK-Nielsen says that the 36% growth in the industry in secondary sales during the Q1. So that is where we are and we will make all efforts to make sure that we have the right amount of inventory and try and fill in the channels as soon as possible.

Shrinidhi Karlekar: And Sir one more question. So Sir the 36% number looks great number even if one adjust for like the base which was benign but just want to understand your thoughts because at the end of day it lot of AC purchase is still impulsive so how large part of this growth just qualitatively can be attributed to the heat wave and how far could be like in normal growth rate of these penetration-led growth and adoption of AC. So just comment on how you would look at like splitting this growth like more into heat wave and more into natural growth for this product.

Anil George: Always mentioned that our product is weather resilient or weather relevant. So if there is a hot summer and if it continuous ACs will sell. This is part of the reason, in a sense AC and the refrigerator market has been partially immune to all the consumer slowdown that we have seen in the Q1 and what we are seeing now. People have gone away from automobiles for example and you have seen in July almost a 31% decline is that they are talking about many people have shutdown, lots of other activities are happening but and even ACs if for example if the heat is not there and the consumer sentiment seems to be what it is ACs will also drop like in the normal way. Take the case of LCVs and CVs normally the people had pump stocked in the context of the world cup matches but that really did not take off very well. So what I am really saying is that the nature of our business is that we will always have a tendency to move to higher growth with the harsher summer and difficult weather. That is the nature of our industry. But having said that within whatever be the situation we still will have a certain portion if 100 ACs are sold 25 ACs of that will bear the Voltas name is the way that we look at it.

Shrinidhi Karlekar: Thanks for answering my questions and all the very best Sir.

Moderator: Thank you. The next question is from the line of Utkarsh Nopany from Edelweiss Broking. Please go ahead.

Utkarsh Nopany: Sir my question is regarding the custom duty which the government has imposed on indoor and outdoor units just recently. Sir as per the annual report like Voltas has sourced nearly 50% of AC volumes through import in FY2019. So do we see scope to increase our AC prices in the near future to mitigate the impact of increasing custom duty in an already weak consumer market sentiment or we need to take a hit in our margin in the near future.

Anil George: One of the things you have mentioned the customs duty we of course from our perspective we do wish that this had not happened, but things like these keep happening and a sensible business always finds ways to get cost efficiencies out of the system or to cut somewhere else etc. So whenever something like that happens we kind of rebalance our expenditure and look at it more carefully either in terms of advertisements either in terms of schemes, so many of the other things we balance it in such a way that our sales is not impacted. Having said that ideally, yes we would like to take a price increase but at the same time we also have competition which is now we will be looking at lowering the prices in a sense in because of the fact that they would be saying that here is the company like Voltas which at a certain price level as this seems to be increasing its market share. So should we be looking at a lower price so I think this might be a thought that might go through their heads? The other part of this is that a price increase is never sensibly taken in a lean season it is much better when there is a at a hot summer or something like that it

will motivate people to spend so we have to balance these two things appropriately and the price increase is also be a very seldom actually taken and across the board All India kind of price increase we do not do that, we will look at it from a regional perspective from what is selling in that market what are the schemes available and then make sure that we take something that does not affect and actually grows our contribution from that dealer. That is the way that we deal with it.

Utkarsh Nopany: Sir my second question is like if you can give us some sense that how much of VRS expense amount is going to be booked in the September quarter it would be really great?

Anil George: As I mentioned I answered this question to someone else also that I am not very sure, but I doubt I do not think it is going to be as large as what we had taken. At any rate one of the things that I would like to underline again is that voluntary separation is an exceptional item and we have cash on our balance sheet but at the same time when you do that there is certainly an IRR in the payoff at a longer time that you would expect, yes.

Moderator: Thank you. The next question is from the line of Abhineet Anand from SBI Securities. Please go ahead.

Abhineet Anand: I just wanted to note, the market today, how is it played in terms of inverter, fixed speed and windows? I think you guys mentioned that inverter ACs has significantly increased in this quarter especially for Voltas?

Asawari Sathaye: Between the splits and the windows it is almost like an 80, 20 sort of a ratio for the industry and inverters is significantly becoming a bigger part within this split market. For us as we mentioned earlier windows still continue to be a little higher than the market, so it is close to about 23% for us and split is about 76% and within the splits I mean for in fact across the entire portfolio for us this quarter 50% has been the sales of inverters.

Moderator: Thank you. The next question is from the line of Dhairya Dhruv from Equirus Securities. Please go ahead.

Dhairya Dhruv: Just wanted to ask your outlook on the EMP segment and where would be the sectoral value do you see some growth coming from?

Asawari Sathaye: Mainly in the project business at least from the domestic side, we are looking at a lot more opportunities coming in from water segment particularly given the center's focus on Namami Gange and the other schemes that are coming in, also the focus on ensuring that is pure tap water reaching each village and household. Similarly more opportunities are also coming into the rural electrification side, but as we mentioned earlier because of the general election results, we are seeing a little bit of a slowdown but the focus continues from the government side on water, RE it also continues on building in urban infra. So mainly around these three main sectors is where we are seeing the center also pushing in and more opportunities opening up here on the domestic side.

Moderator: Thank you. The next question is from the line of Navin Trivedi from HDFC Securities. Please go ahead.

Navin Trivedi: Sir if you can mention about, is there any growth difference between the window and the split AC this quarter and if you can also talk about considering your inventory levels are normal, what kind of trends you have witnessed during the July month?

Anil George: The July I would not want to comment on July Navin you must excuse me for that, but let me just say that in terms of the overall numbers that we have like Asawari mentioned we have something like about 24% of our total AC sales is coming from the window air conditioners. They have also grown aggressively but the pace of growth is not as sharp as inverters or split because one of the things that we are beginning to see is that the market is slowly moving into split and in splits also to inverter but that is not to say that there is not a market there or that the market is going to completely managed in the next one to two years. They will be there for some time. The other important thing that is happening is that people are becoming more and more energy conscious and I think especially in the southern part of the country, we see that there is a great amount of demand for inverters. People want to be doing their best for the environment one, number two also keep their cost contained suitably.

Navin Trivedi: Sir the reason for asking you for the July month performance is to understand considering in most consumption basket the slowdown has been impacting since last couple of months. So just trying to understand considering your inventory levels are low, how should we see the coming quarters' trend particularly when the slowdown is at a bit high level?

Anil George: Let me once again assure you that we will within what our competitor feel that we are operating in, we will continue to keep up our performance. I do not want to actually comment on July and say that we have grow so much or we have degrown this much now, but consumer offtake and the sentiments are coming down in a little way. In fact one of the financing companies are actually have gone on record to say that their over 30 days views particularly in many of the sectors that their finance has gone up substantially I do not want to take the name but that is part of then what is happening in the environment. But notwithstanding within whatever if you see the industry growing in an X percentage I think that I can at least for the short term very confidently tell you that we will grow in line or even better than the industry.

Moderator: Thank you. We will be able to take one last question. The last question is from the line of Nikhil Shanbag from IDBI Capital. Please go ahead.

Nikhil Shanbag: I have a question regarding what would be the impact of the deal with EESL in terms of cannibalization on the existing product basket and impact on the blended margins and also whether Voltas is looking to carry these products on its own into other markets beyond where EESL is providing them?

Anil George: Yes I think it is initial stages with EESL one of the things is that it is customized to the requirement and it is not something that is across the length and breadth of the entire market and

it is struggling at this point of time not available in the retail chain. That is why Asawari I think mentioned that these 7 Star air conditioners are specifically now available to consumers in Delhi and I think she mentioned the BRPL, BSES and Tata Power-DDL consumers. And in new course I think that the EESL the way that they will operate is that they will want more and more exchange which actually is a good thing for the country in the sense that it takes away low energy ones and replaces it with better energy ones so it is a good move and we would continue to support it and as I had answered in a question earlier we are not doing it at a loss or at a margin, EESL also understands that we have to continue to supply them, we have to make a decent margin on that and we are doing that. So the initial products have started rolling out and we will have to watch and see how this actually progresses.

Nikhil Shanbag: Thank you Sir.

Moderator: Thank you very much. We will take that as the last question, I would now like to hand the conference back to Mr. Amber Singhanian for closing comments.

Amber Singhanian: Thank you Raymond. On behalf of Asian Market Securities, I thank everyone for joining this call and a special thanks to the management of Voltas Limited for providing us the opportunity to host the call, I would now like to hand it over to the management for their closing remarks. Over to you Sir.

Asawari Sathaye: Thanks Amber and thanks everybody for joining in. If you have any further questions kindly get in touch with me and Utsav and we will be happy to answer and take all the questions from your end. Thank you very much for joining in.

Moderator: Thank you very much. On behalf of Asian Market Securities, that concludes the conference. Thank you for joining us ladies and gentlemen. You may now disconnect your lines.