"Voltas Limited
Q1 FY27 Earnings Conference Call"
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MODERATOR: **MS. NATASHA JAIN – PHILLIPCAPITAL INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Q1 FY27 Earnings Conference Call of Voltas India Limited hosted by PhillipCapital India 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 call, please signal an operator by pressing star then zero on a touch-down phone. Please note that this conference is being recorded.

I would now hand the conference over to Ms. Natasha Jain from Phillip Capital India Private Limited. Thank you, and over to you, ma'am.

Natasha Jain: Thank you, Muskan. Good evening, everyone. I'm Natasha Jain on behalf of Phillip Capital. Welcome all of you to the First Quarter FY27 Earnings Conference Call of Voltas India Limited. From the management, we have Mr. Mukundan Menon, Managing Director; Mr. K.V. Sridhar, Chief Financial Officer; Mr. Nikhil R. Chandarana, Head, Corporate Finance; Ms. Sumana Tripathi, Head FP&A; and Mr. Manish Somani, Head, Finance Controlling.

I request the management to give their opening remarks, post which we shall open the floor for Q&A. Thank you, and over to you, sir.

K.V. Sridhar: Yes. Good evening all. This is Sridhar here, CFO, Voltas. Glad to connect this evening with our earnings call. To give an overall summary, Voltas delivered a strong performance in Q1 FY27, significantly outperforming competition and further strengthening its leadership in the cooling segment.

The company achieved a 17.3% secondary market share in room air conditioning for FY27 for the first quarter and widened its lead over the nearest competitor to 4 percentage points, reinforcing its position as the undisputed market leader.

Strong execution across marketing, product management, channel expansion, manufacturing capacity and supply chain readiness supported the performance. During the April to June quarter, the global economy continued to face geopolitical tensions, elevated energy prices and persistent inflationary pressures. Conflict in the Middle East added to commodity and currency volatility and supply chain uncertainty.

Against this backdrop, India continued to demonstrate resilience supported by domestic consumption, infrastructure investments and strong underlying macroeconomic fundamentals. The Indian consumer durables industry witnessed steady demand during the quarter, continued demand for cooling products, Room Air Conditioners remained a key growth lever supported by the summer season, aided by increased penetration and expanded demand across Tier II and Tier III markets.

Against this operating environment, Voltas delivered a substantially strong performance compared to the previous year, supported by growth across its key businesses and disciplined operational execution. The company achieved a significant milestone by selling 1 million RACs in just 81 days, demonstrating the strength of its brand, product portfolio, distribution reach and execution capabilities.

Voltbek also emerged as an important growth lever substantially outgrowing the industry and recording its highest ever quarterly sales in both value and volume. The Projects & Engineering business provided further resilience and balance, underscoring the strength of the Voltas diversified portfolio.

For the quarter ended 30th June 2026, Voltas recorded consolidated income of Rs 4,765 crores compared to Rs 4,021 crores in Q1 FY26. Profit before tax was Rs 285 crores versus Rs 203 crores in the previous -- for the same period last year. Net profit was Rs 213 crores compared to Rs 141 crores last year.

Now if we go into the detail of the respective segments. Segment A delivered a strong growth of 33%, led by exceptional performance in the Room Air Conditioner business. RAC volumes grew by 45% year-on-year, significantly outperforming the industry and key competitors.

As mentioned earlier, the secondary market share was 17.3% for Q1 of '27 and Voltas progressively strengthened its competitive position through the quarter. For Q1 '27, the company widened its market share lead over nearest competitor to 4 percentage points, reinforcing the strength of its brand equity, product positioning, distribution network and execution capabilities.

A sharper brand and marketing strategy was an important contributor to this performance.The refreshed brand positioning supported by sustained investments across television, digital, retail and consumer touch points, strengthened consumer engagement and brand salience. The "True 1.5 TR Cooling Capacity" campaign and industry-first initiative highlighted the superior 5,000-watt cooling capacity of the Voltas 1.5 TR Air Conditioners, enabling consumers to make more informed and value-driven purchase decisions while enforcing the brand's credentials around powerful cooling and performance.

Product management and innovation remains central to the growth strategy. The refreshed RAC portfolio led by AI-powered VirtIs Split AC series introduced in March 2026 offered differentiated features across AI Adaptive cooling, AI GeoFencing and AI Energy Manager. A sharper portfolio across capacities, energy ratings and price points enabled Voltas to address evolving consumer requirements, increasing premiumization and growing demand for intelligent and energy-efficient cooling solutions.

The Company continued to expand and deepen its channel presence across Tier II and Tier III markets, where RAC penetration remains relatively low. Wider distribution, stronger dealer engagement and increased presence across traditional trade, modern retail and emerging channels improved product availability and enabled Voltas to capture incremental demand across markets.

Another key enabler was the Company's manufacturing and supply chain preparedness. Capacity was progressively ramped up ahead of the summer season with the Chennai and Pantnagar facilities operating at high utilization levels. Strong raw material planning, supply readiness deeper localization and disciplined inventory management ensured product availability during the peak season and enabled the company to effectively service the significant increase in demand.

Commercial Air Conditioning delivered a stable performance and continues to represent a significant long-term growth opportunity supported by urbanization, infrastructure development, data center expansion and increased adoption of intelligent building solutions. Commercial Refrigeration and Air Coolers recorded a relatively muted performance, primarily due to slower market uptake following price increases. The Company continues to focus on institutional sales, channel development customer diversification and new product introductions to drive improved performance in the coming quarters.

Segment A margins improved significantly compared with the previous year despite commodity inflation and currency depreciation. These pressures were partially mitigated through progressive price increases and comprehensive cost optimization program initiated in FY26, encompassing strategic sourcing, deeper localization, product design improvements and manufacturing productivity initiatives.

Overall, the combination of sustained brand investments, differentiated products, sharper product management, expanding channel reach, enhanced manufacturing capacity and resilient supply chain execution enabled Voltas not only to maintain its leadership, but to materially widen its lead over competition.

Voltas has entered into a binding term sheet with Atomberg Innovation Private Limited for a proposed 50-50 joint venture to develop and manufacture high-efficiency RAC compressors in India. The proposed venture will strengthen indigenous sourcing, reduce import dependency and enhance long-term supply security. The transaction remains subject to satisfactory due diligence, product validation, definitive agreements and necessary approvals.

Voltbek continued its strong growth trajectory in Q1 '27, substantially outgrowing the industry and recording its highest ever quarterly sales in value and volume. The business achieved a year-to-date market share of 9.4% in Washing Machines and 7.4% in Refrigerators, further strengthening its position in highly competitive Indian home appliances market.

The Company maintained its number 2 position in the Semi-Automatic Machine category, touching highest ever market share of 15.6%. The performance was supported by sharper product and premiumization strategy with refreshed product lineups across Frost-Free refrigerators and Fully Automatic Washing Machines.

These introductions strengthened Voltbek presence in higher value segments, improved overall product mix and enhanced its relevance among consumers seeking differentiated features, contemporary design and superior performance.

Voltbek continued to sustain its brand and channel strategy through an expanding retail footprint, deeper channel penetration, enhanced in-store visibility and stronger consumer engagement across key markets. At the same time, increased focus on localization, strategic sourcing, material optimization, product design and manufacturing efficiencies is expected to progressively strengthen cost competitiveness and profitability.

With increasing scale, improved market share and a stronger premium portfolio, Voltbek remains a key pillar of Voltas' long-term strategy, supporting portfolio diversification, premiumization and the company's evolution into a comprehensive home appliances player offering integrated cooling and home appliances solutions.

Segment B

Electromechanical Projects and Services. Segment B continue to play an important stabilizing role in Voltas' diversified portfolio, reinforcing the company's position as a leading engineering and project solution enterprise.

During Q1 FY27, the Domestic Projects business maintained strong order momentum, securing strategic wins across key growth sectors, including Industrial Infrastructure, Electronics Manufacturing, Metro and Tunnel projects and Data Centers.

The Company continued to selectively pursue fast track and value-accretive opportunities, strengthening the quality of the order book and supporting healthy revenue visibility. The business maintained strong execution discipline across projects and geographies with continued focus on timely delivery, project profitability, working capital management and risk controls.

Within the International Projects business, pursuant to the Court award received Sidra Bank guarantees amounting to QAR 167 million equivalent to RS 433 crores were canceled during the quarter. The Quarterly Financials released have more details. While Voltas effectively mitigated risk arising from geopolitical crisis and ensured continuity across key projects and customer engagements, new order book remained delayed following the impact of the conflict in the Middle East. Against this backdrop, the business continued to focus on operational stability and tighter project controls, disciplined risk management and selective pursuit of opportunities.

As of 30th June 2026, the total carryover order book value for segment B stood at Rs. 6,345 crores, providing revenue visibility and underpinning the Company's confidence in the long-term prospects of both its Domestic and International Projects businesses.

Engineering Products and Services.

Segment C delivered high double-digit top-line growth during Q1 FY27, further strengthening the scale and contribution of Voltas's engineering projects, products and services portfolio.

The Mining and Construction Equipment division delivered impressive top-line growth supported by sustained demand for Crushing and Screening equipment, continued execution of Operations and Maintenance contracts and stable performance from the Mozambique operations. The Division also continued to strengthen its higher-margin aftermarket and service annuity business through deeper customer engagement, enhanced life cycle support and expanded service capabilities.

The Textile Machinery Division delivered double-digit growth despite a challenging operating environment characterized by geopolitical uncertainty and cautious industry sentiment.

Encouragingly, the market has begun to demonstrate early signs of a gradual revival reflected in improved order booking levels. Continued focus on aftersales, spinning accessories and services delivered encouraging results and further strengthen the resilience of the business.

Together, Segment B and C continue to enhance the resilience and diversification of the Voltas portfolio, providing balance to the consumer businesses, while contributing to sustained growth and revenue visibility.

Supported by strong summer season and disciplined execution, the Company exited the quarter with a strong liquidity position and well-controlled working capital profile. Continued focus on inventory collections and cash flow discipline strengthened the balance sheet and provides the flexibility to support investments in brands, products, channels and manufacturing capabilities, while maintaining financial strength.

Voltas enters the coming quarters from a position of strength, supported by structural initiatives undertaken across businesses. Refreshed product portfolios, sharper product management, sustained brand and marketing investments, channel expansion, enhanced manufacturing readiness, localization and cost optimizations have strengthened the Company's competitive position.

While Q2 is traditionally a leaner period for the cooling industry and geopolitical uncertainties continue to create commodity currency and supply volatility, Voltas continues -- remains well positioned to navigate these challenges. In Room Air Conditioners, the focus will remain on consolidating and extending leadership through product innovation, premiumization, sustained brand investments and deeper channel penetration.

Commercial Air Conditioning delivered a stable performance and continues to represent a significant long-term opportunity, supported by urbanization, infrastructure development, data center expansion and increased adoption of intelligent building solutions. Voltbek continues to be one of the fastest-growing Home Appliances businesses in the country with product segmentation, premiumization, innovation and channel expansion expected to drive market gains and progressively improve financials.

Within the projects business, the Company remains focused on selective and value-accretive orders booking, execution excellence and cash flow discipline and project profitability. The Engineering Products and Services business will continue to build on their growth momentum with increasing emphasis on higher-margin aftermarket and service revenues.

Across its businesses, profitable growth, market expansion and sustained improvement in profitability remains central to Voltas' strategy. The Company continues to unlock efficiencies through strategic sourcing, localization, product and design optimization, manufacturing excellence, process improvements and increasing benefits of scale. Thank you.

Natasha, over to you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Indrajit Agarwal from CLSA.

Indrajit Agarwal: Congratulations on a good numbers. First, if you can share some contours of the Compressor JV, what kind of capex can there be? And when can we see commercial production? And how is the capex is shared between the three entities?

Mukundan Menon: Yes. Good evening, everyone. My name is Mukundan Menon. And thank you for the question, Indrajit. So this JV that we've signed with Atomberg, it's for a manufacturing capacity of around 2.8 million Compressors for Room Air Conditioners. That's what we have sort of trying to achieve. And this is an effort to secure the supply chain for compressors which is a very important component..

So the heart of the Room Air Conditioner is the Compressor. And we always felt that it is very important to secure this very important part within India because with all the challenges that are happening with respect to the QCO restrictions, the quantum of imports which are allowed, the quota system, there's also something called the transition QCO rules. We felt it would be good for us to have as a leader in the Room Air Conditioner market with a very high volume, we did not want to leave this very important component unhinged.

So that was the reason we went for this sort of arrangement. In terms of the overall capex, it's still in the early stages. As we work out the details of the definitive agreement, we'll arrive at that. It's a little early to sort of comment on the total capex requirement actually.

Indrajit Agarwal: Sure. Secondly, while our market share in Voltbek has been gradually inching up, do we have an EBITDA breakeven line of sight yet or it's still too early?

Mukundan Menon: This particular year was when we initially were aspiring to get to an EBITDA breakeven. Unfortunately, what has happened with respect to the West Asia crisis took up prices of the commodities quite sharply.

And most of the brands, including us, we struggled to pass the entire commodity price increase on to the market. I think the way it is, it may get sort of pushed over by a few quarters. That's the way we see it.

Moderator: The next question is from the line of Achal Lohade from Nuvama Institutional Equities.

Achal Lohade: Sir, my first question is with respect to the volume growth. If you could call out what has been the volume growth for the industry? We have grown by -- you mentioned 45%, but what has been for the industry? And secondly, how do you see it in terms of the current channel inventory and the way forward for the full year? If you could comment a little bit on...

Mukundan Menon: Yes. On the Room Air Conditioner, Achal, the industry seems to -- on the secondary sales, what is published by GFK Nielsen, they showed a 15% growth in secondary. That's what they have said. My sense is the primary increase would be anywhere between 20% to 22% in volume terms and maybe around 25% to 26% in value terms, maybe the industry growth.

As against that, we have done better, which is reflected in our market share growth, we have seen our market share significantly growing from 15.9% for the full financial year last year to

17.3%. So the -- our volume growth was around 44% and our value growth on equivalent basis is around 50-odd percentage.

Achal Lohade: Understood. If you could give us some sense in terms of what is the extent of cost inflation and how much price hike we have taken so far and how much we are expecting now?

Mukundan Menon: So the cost -- yes, the -- so this year has seen 2 things happening. One -- there was a table change which happened, and that took up the prices of all the 3-star ACs by roughly 5% and the 5-star by 15%, a weighted average of somewhere around 7% to 8%. Then there was the commodity price increase, the depreciation of the rupee plus the increase in the ocean and freight charges, some increase in plastic costs.

All that added up to another sort of 4%to 5%. And so overall, all put together, 10% to 12% was the cost, and we have also passed on very close to that number into the market, maybe a percentage or 2 lesser, if at all. Actually, because we had a reasonable stock of these units a little before all these disturbances started, and we were blessed with the fact that we did not have any disruption in our production during the peak summer months, which is March, April, May, despite all the disturbances which were there, we managed to keep our production running.

And we have utilized some of the stocks of the products that we had imported at a little better price before all this hit us. So more or less, we have passed on, maybe a couple of percentages, if at all, we would have held on to it.

Achal Lohade: So does that mean we don't necessarily have to take any further price increase? Have I understood right, sir?

Mukundan Menon: Yes. So the price increase, generally, we wouldn't. Normally what we do, Achal, is that if at all, there is some moderation, if the cost keep moving up further, we'll have to obviously take a price increase. We are watching what's happening on the overall West Asia crisis, if things worsen, obviously, if the costs get impacted, we will necessarily have to take a price increase. However, if it is nothing significant, what will happen is to shore up the margins, a little bit of reduction in the channel schemes that is what we will do.

Achal Lohade: Understood. Just a clarification in terms of the mix for the season, if I were to ask from Jan to June, what would that be in terms of outsourcing versus in-sourcing sir, for us?

Mukundan Menon: Yes. So the -- out of the total Air Conditioners that we sell, in the peak season quarter 1, maybe around little more than around 10% of the sale happens to be Window Air Conditioners. Window Air Conditioners are completely OEM. And out of the Split ACs, which is the balance, 90%, we have a 70-30 mix, actually 75-25 mix kind of thing between Self-manufactured and OEM manufactured.

Achal Lohade: Got it. Just a second question with respect to the Compressor Joint Venture. What I wanted to check, is that the energy-efficient compressor we are talking about? If you could give some sense in terms of, a, how soon can this go on stream and what kind of advantage it can bring to us?

Mukundan Menon: So the compressor that is getting developed, the platform that is getting developed is for the 3-star as well as the 5-star, which are the popular categories. And we begin with the most voluminous product, the one which is a volume driver, the 1.5 ton, 3-star and 5-star. And all of them have energy efficiency levels sort of meeting the requirements of the energy table.

So really energy-efficient machines, which will meet the 3-star requirement as well as the 5-star current tier requirements. Current table requirement, which goes on to next year December, '27. December, '28, there's another table change. All these products are capable of getting upgraded to a better energy efficiency.

The energy efficiency of a compressor is driven by the motor and the motor -- the motor gets upgraded when there's an energy table. So to answer your question, Achal, these are the best-in-class in terms of energy efficiency today, and it also can be upgraded to the best-in-class when the table changes.

Achal Lohade: Right. And in terms of costing, that's my last question, sorry, sir.

Mukundan Menon: Yes.

Achal Lohade: Would that help in terms of cost savings compared to the regular compressor as of now?

Mukundan Menon: Yes. So the way we have looked at it is currently, as we had mentioned at the beginning itself even in Mr. Sridhar's message, it was essentially to have a supply chain security. Being the largest manufacturer of Room Air Conditioners with a leadership position, we have to secure the supply chain, and it was done with that intent.

Most of the other things like cost, all this will be a work in progress because as the product gets sort of commercialized over the next 1.5 to 2 years, all these numbers will play out. A little early to comment on that Achal.

Moderator: The next question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: So my first question again is on Atomberg JV. How long is it likely to take for the plant to become operational? How would technology be sourced? And until then, how are we going to meet the QCO norms? What are the arrangements that we have done until then?

Mukundan Menon: Yes. So Aditya, the way we have planned this out from assuming the work starts on this immediately, it's an 18-month kind of runway that we are looking at before the commercial production starts. So during that period, the plant has to be put. The products have to be manufactured. The pilot batch has to be taken out.

The field testing of the pilot batch has to go on. And then we start the full-fledged commercial production. So 18 months from now is when we are expecting full-fledged commercial production of the compressors. And the second question was -- what was it, Aditya? The second question?

Aditya Bhartia: Until then, how are we going to manage the QCO norms? What are the arrangements that we have done for that?

Mukundan Menon: Okay. Okay. So the -- currently, the QCO norms is that up to 30%, you can import from sort of -- of your FY25 numbers. So that we can continue to import. That is point number 1.

Point number 2, the 2 big compressor manufacturers, which is Highly and GMCC, have built up capacities in India, and we have blocked those capacities and so that we take it from there. And our idea is that even after these products come into the thing, our scale will be so much by the time this gets commissioned that we will still have a mix of these compressors from these 2 vendors made in India, along with our own secure supply chain of compressors.

So it will be a blend of that. It is not this or that. We will continue to buy from them, and we will also continue to manufacture and secure our supply chain. So it's a double 2-sided thing. We wanted to ensure that we secure our supply chain, both with suppliers as well as have our own indigenous technology.

Aditya Bhartia: Understood, sir. Sir, my second question is that you mentioned that besides the BEE norm change, there was roughly a 4%-odd kind of a price escalation or cost escalation that we saw. Given how sharply some of the commodities moved and rupee depreciated, is this 4% the hit that we saw with the benefit of lower cost inventory or are you saying that with these increased costs, the overall increase in terms of costing is only around 4%? Just want to clarify.

Mukundan Menon: So actually, if you've seen the results that we have published, we seem to have sort of done a little better than some of the key competitors. And I think we did a lot of right things. One is we had planned for the season well. As I mentioned, there was no disruption in the factory. So the volumes came and the absorption of the cost of the factory also was well done. We also have a very active cost optimization project, which is going on.

-- I think it has helped us at the right time when the things started going wrong, that cost optimization project has started sort of fructifying into some savings. And I think a mixture of the sheer scale, the lack of discontinuity in the manufacturing, the proper absorption of our cost because of the larger volume and lack of disruption, coupled with this cost optimization project, I think a mixture of these 4 things, I think, played out in our favor, I suppose, Aditya.

Moderator: The next question is from the line of Siddhartha Bera from Nomura.

Siddhartha Bera: So first question is on the UCP segment. So like you alluded to the fact that while the RAC revenues have grown at 50% plus, our overall revenues are up 30%. So can you please share like in the Commercial Refrigeration and the CAC segment, what has been the decline? And how do you see the outlook for the Commercial Refrigeration segment going ahead given that it has remained under stress for quite some time. So some thoughts there?

Mukundan Menon: Yes. So Siddharth, so what you said is right, the kind of buoyancy that we saw in the Room Air Conditioner segment within UCP was probably not seen in the other 2 categories, which is Commercial Refrigeration, which is Deep Freezer, Water Coolers, Water Dispensers. Nor was it seen in the Commercial Air Conditioning category, which is ducted VRF and Chillers and the Light Commercial Air Conditioners.

So the -- it was indeed a muted -- it was, I think, a reasonable growth in the Commercial Air Conditioner segment, which is the Ducted VRF and Chillers, but a muted kind of performance in the Commercial Refrigeration. And what you said is absolutely right. You would have heard from the other major competitors in the Commercial Refrigeration space, the industry seems to have degrown by around 15% or so.

And I think we did a little better than that, I suppose, compared to that. But going forward, I think things will indeed settle down. This was a category where the price increase was significant, unlike in the Room Air Conditioner category, here, the costs went up a little more significantly like for Freezers by 10%, Water Coolers by around 15% and Water Dispensers again by 10%.

So very steep, cost increases forced all the major brands to increase selling prices to that effect. And probably the channel was not fully ready to absorb that cost, so they played a wait-and-watch thing. But over the last few months, we are seeing them taking to that because there seems to be a normalization and a complete acceptance of the fact that this is a cost pass-through and there's no other way to manage. So we are seeing some improvement in the traction this quarter.

Moderator: The next question is from the line of Sameer Gupta from IIFL Capital.

Sameer Gupta: Sir, I'm a little new to the Company, so pardon me if some of the questions sound very naive. Just trying to get some color on the margin performance first. So EBIT margin in Unitary Cooling Products is around 5.3%. Now this is on the back of a good summer season and you alluded to market share gains in the RAC segment.

I understand commodity cost inflation would have had a negative impact. But if I look at overall Company gross margin, it is flattish. And you have also expected 32% revenue growth to have some kind of operating leverage benefit -- so just trying to understand, this is the best quarter of the season, and we are doing a 5% kind of an EBIT margin. What can we then assume as a steady-state profit expectation for this segment?

Mukundan Menon: Yes. So Mr. Gupta, what you said is absolutely right. So this -- if you look at some of the other brands-- this has been a rather difficult quarter for the industry as a whole. The summer -- a reasonably good summer compared to the very weak summer last year in that increased the demand, as I mentioned, by around 20-odd % to 25%.

However, the commodity price increase, and the dollar depreciation, , it hurt everybody. So if you look at the results of most of the competitor brands, some 5 or 6 of them who are top players in this category in this category of Room Air Conditioners saw a significant shrinkage in the EBIT by almost like 3% down, some of them 4% down. So in comparison to that, we seem to have done better.

We have -- in fact, our Q1 to Q1, there is an increase in our EBIT percentage last year to this year. So we have, I think, weathered the storm, much better than the rest of the people. And the reason for that is the points that I mentioned a little while earlier, which is to do with the way we manage the factory without a disruption, cost absorption, the sheer scale effect and the fact that we have an active cost out.

So whether these numbers don't reflect that very high buoyancy in the sales volume, completely. I agree. It is primarily because of the dampening effect of the cost increases which came, which could not get passed down typically into the market, Gupta.

Sameer Gupta: Got it, sir. But the problem was in the -- below the RM cost, like more channel financing or more discounts and schemes because the GM line still seems to be reasonably okay if I look at the full quarter -- full company performance?

Mukundan Menon: Actually, yes, it's essentially the -- yes, probably the material cost actually is the one which affected that big time, yes.

Sameer Gupta: Okay. Got it, sir. Second question is on the Atomberg JV. Firstly, why is there -- I mean, I'm sorry if this sounds naive, but why is there a big import dependence in compressors in this industry? Is it that certain RMs are not available in India or is it just cheaper procuring it from outside? And how does whatever this constraint is, get addressed with this JV? And secondly, why a JV and not do it organically?

Mukundan Menon: Yes. So there is import constraint in Room Air Conditioner currently. See, around 4, 5 years ago, almost 75% of the BOM of Room Air Conditioner used to be imported. The major component is compressors. There is a copper, there is aluminum, there is controller and there is motors. Most of it used to be imported.

Currently, from that 70% import here, I'm talking about the industry, not only of Voltas. That 70% has now come down to around 30% to 35% because there is copper getting manufactured here, controllers getting manufactured here, motors getting manufactured here, almost 40% of the compressor requirements of the industry getting manufactured here. So that has brought down the import dependence to around 35-odd percentage.

So that is point number 1. The compressor is a thing that we felt that is very important because, while there are many companies who have entered into manufacturing PCB controllers, who have entered into manufacturing the special type of tubes, which are used for Room Air Conditioner, we call it inner grooved tubes.

For aluminum, there are many manufacturers who have entered into India. We felt that the compressor is an area, there is a gap between what is being made in India versus what is required by the industry. And being the most important component in the bill of materials, we felt it is important that we have this manufacturing sort of capability built within the organization or through a joint venture.

The second question you mentioned about whether -- why can't we do on our own, in the compressor, the most important item within the compressor is the motor. Atomberg is a leader in motor and they compete with the global giants in this category because of the sheer volumes that they have made in the ceiling fan category.

So they seem to have cracked the code as far as the most important item on the bill of material is concerned, which is the motor. This is a capability that a company like Voltas does not have and because we have never gone into a component manufacturing so far.

So this is the first time that we want to secure this, and we are doing it. So the answer is that we did not have this capability, and we felt it is better to partner with somebody who is way ahead of the curve and do it along with them.

Sameer Gupta: Just a small follow-up here.

Moderator: Mr. Sameer, I just request you to rejoin the queue for the follow-up question. The next question is from the line of Rahul Agarwal from Ikigai Assets.

Rahul Agarwal: Sir, just one question I had. Obviously, the UCP margin last year is not something to look at in terms of sustainable number, right? Voltas had a very bad year, yes, last year, right? Obviously, first quarter, this quarter is better than last quarter, Q-o-Q, 30 bps increase, which is good.

But I wanted to understand from you, if plants are at peak season, they are fully utilized. You have gained so much market share, volume growth is like 45% on RAC, 44%. If that's played out that peak capacity utilization, pricing being not in so much in favor, but you have passed through. Does that mean that going back to 6%, 7% is going to be extremely difficult for the company going forward? And you can talk about either this year or next 2 years as you feel comfortable.

And second question was also on the project side. I mean, I understand that there were execution issues. We have seen some top line softness. I don't know why, execution softness. But on margins over here, I thought we are getting into more shorter gestation projects.

Our margins should get better here because the quality of order book is getting better. So just your comments on next 24 months, where should we see EBIT margins for UCP and for the project segment?

Mukundan Menon: Yes. Also for the UCP, if you see last year's quarter was a very weak quarter, so 3.7% versus 5.3% current year. So there's a significant gain it's quite an improvement and the numbers would have been a little better if the cost increases had not hit us the way this entire crisis played out and things became very sort of volatile–Else the entire advantage of the -- the huge scale-up would have played out a little better.

So whether there's a room for improvement going forward over a long period of time over the next 8 quarters or so, the answer is certainly yes, actually because that eventually, we've had margins of upward of 7% in these quarters earlier. So our aspiration is indeed to improve this quarter-to-quarter -- year-on-year improvement that continues. So we are working towards that.

The second question was more on the projects margin actually. So what has happened is this was a very volatile period, and we could see that things were looking a little hazy. So we were very calibrated and careful in picking up orders because having an order book at a fixed price without an escalation clause would have hurt us more. So this calibrated order booking and calibrated execution actually is a saving in disguise.

So because once you lock in a price with a client, you can't change it irrespective of any of these. So in a way, we see it as a blessing in disguise. As things settle down, we are continuing to focus, as you rightly said, Rahul, on being very selective of what projects we are getting. We are looking at more of manufacturing, data center kind of jobs, MEP jobs.

Our focus is shifting to shorter gestation jobs, more in the private sector, less to do with government where payment delays will bother us. So we are altering a little bit of a course of our entire journey, and this will start playing out well over the next few quarters.

Rahul Agarwal: Mr. Menon, just one follow-up. The 7% aspiration…

Moderator: Sorry to interrupt…

Rahul Agarwal: Yes. Just a follow-up. I mean it's not a new question, Mr. Menon. Just one follow-up. On the 7%, could you take us through the bridge in terms of 2, 3 points which could help us achieve this?

K.V. Sridhar: Yes. Okay. So just to add to that question, for example, I think one of the things which I think has paid up for us, I think as Mr. Menon alluded to was in terms of cost optimization project, for example, is something that we are actively working on, which should actually help us. Some of the investments in capex that we had done, say, about 18 months back, which is sort of was a bit of a deterrent last year is playing out favorably for us.

So these are some of the things which sort of would help us to get better. Again, the focus, as I think we have said consistently in the past has been we want to grow top line very aggressively. We want to make sure that we continue to gain market share.

So I think that's something we want to continue doing. And the profile per se, I think will take care of itself. When we sort of compare it with the same period last year and sort of look at improvements. I hope that answers the question.

Moderator: The next question is from the line of Bhavya Gandhi from Bajaj Alternate Investment Management Limited.

Bhavya Gandhi: Sir, my question is regarding the outsourcing opportunity versus in-sourcing. While the outsourced players claim that the outsourcing pie is increasing. Just wanted your understanding how is it going? Is it the in-sourcing which is increasing or the outsourcing is increasing? If you can comment on the overall industry, what is the mix? And how do you expect this mix to go -- see going forward?

Mukundan Menon: In our case, the outsourcing has not increased because we have built a large capacity in Chennai. We have a capacity of around 1.4 million in Pantnagar, almost the same 1.5 million kind of thing in Chennai. So for us, I think those plants having come fully upstream. We don't see our outsourcing increasing. It's a steady level.

K.V. Sridhar: Fairly steady level. I think the proportion, I think Mr. Menon did answer earlier. I think broadly it will broadly be at the same level, yes.

Moderator: The next question is from the line of Keshav Lahoti from HDFC Securities.

Keshav Lahoti: Sir, in the last question, have I heard -- understand correct? Going forward also, your outsourcing and insourcing mix will remain similar? And secondly, what is your RAC mix in UCP segment in this quarter? And normally, how would this be for the year?

Mukundan Menon: Keshav, the outsourcing will continue in the same ratio. As I said, Window Air Conditioners will continue to be 100% outsourced between the -- in the Split AC bucket, we will have that 75-25 kind of mix. That will continue.

K.V. Sridhar: And the proportion, it has not changed very much. I mean, this -- obviously, it's a quarter-wise, obviously, the proportion within the segment and the RAC keeps obviously changing within the quarters. But at an overall level, broadly, it will remain the same we see it at the annual level, I think, yes.

Keshav Lahoti: And how much was this in this quarter? RAC mix in this quarter?

Moderator: I just request you to rejoin the queue for the follow-up. The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar: Sir, I have 2 questions. Firstly, on the current demand dynamics in terms of AC channel inventory, the demand in July, August so far, maybe in volumes and the festive season, any initial thoughts that we have, how are the channels behaving? Are they restocking, et cetera?

And my second question is on FY27, '28 capex estimates for you as a company, especially because of the JV of Atomberg, will the capex be also split in 50-50? And from where will Atomberg get the technology for manufacturing compressors?

K.V. Sridhar: Okay. So I think Sridhar here. So in terms of the initial feedback that we are hearing from the channel, I think, the channel, I think, has broadly been fairly cautious, I think, in terms of the stock that they are maintaining. So I think we feel that the channel inventory would be in the range of around 4 weeks as what we have maintained in the past. I think that's been the thing.

And based on the secondaries is where the buildup will happen. So I think for the festive season, I think it's a bit early. It will be more relevant maybe for the home appliances, where I think it will be more relevant. And I think that's something we'll have to monitor over the next 4 to 6 weeks, and that's when we will have a better view of it. In terms of the capex for '27, '28, there is no material major capex. I think we already had done the capex for Chennai a couple of years back, as you know, the benefits that we are sort of yielding now. It will be more a maintenance capex that we will sort of continue to have.

No major sort of commitment from our side. The capex from the Atomberg side, yes, should be ideally on a 50-50 basis. The exact quantum, et cetera, is getting sort of getting firmed up. Once we have better clarity, we will be able to share it with you.

Sonali Salgaonkar: So when we say 18 months runway for the commercial production means, correct me if I'm wrong, but our majority capex for this JV should happen over FY28 and '29. That's correct?

K.V. Sridhar: Yes, that would be a fair assumption. Whatever quantum we agree should be -- yes, should be around that time. That's a fair assumption.

Moderator: The next question is from the line of Ram from JPMorgan.

Ram: Two questions. The first is regarding how much is the loss in Voltbek in the current quarter? I understand that we are still not making money in that. And the second question is, I mean, will the margins improve in electromechanical projects and services because in the current quarter, I see on a comparative basis, the results are not good. And what could be the future outlook in this segment?

K.V. Sridhar: Yes. So I think the share of -- I think the JV loss for this is mentioned in the financials. Rs 37 crores is what we have booked for our share. I think that's visible in the financials. In terms of the electromechanical, I think the quarter was a bit soft from a top line due to the execution challenges that Mr. Menon, I think, outlined earlier because of which the top line was a bit lower and also, obviously, the related impact from an EBIT point of view. We see the situation sort of getting gradually better. Maybe Q2 also may not be very much better. But I think post that, Q3, Q4, I think, is when we feel that it should get really better. And I think that's where the recovery should ideally happen.

Moderator: The next question is from the line of Archit Shah from 360 ONE Capital.

Archit Shah: 2 questions on compressor side. First, what -- how much would be the localization of this compressor -- like you said, motors will be manufactured by Atomberg since they have a good technology. I understand that certain parts like magnetics or something China has an upper hand in terms of some rare earth metals. Do we need to import any components and anything?

And secondly, in terms of competitiveness of the cost of compressors, while we are doing this to secure compressors for future growth in terms of cost, how would we be placed like-for-like for Chinese imports or Highly, GMCC who are doing it and also in terms of LG or PG who are doing it. So both the questions on compressors?

Mukundan Menon: Yes, actually, the most important item in the compressor is the motor, so that Atomberg has sort of mastered it and so that 40%, 50% of the BOM is covered from an indigenous manufacturer. There may be a few things within the compressor, which is imported, that is true. But gradually, that dependence also will come down.

The rest of the items initially will be imported, but gradually, we will try and indigenize it at a cost optimized kind of thing over a period of time. Our expectation is that this will be able to compete with imports for sure. That is the way we are looking at it.

So the way we see it is one is it should secure our supply chain in a complete manner that there is very low risk of anything going wrong with the supply chain. Second is this will certainly not hurt our competitiveness with making the product costly. That's the first sense that we have on this actually.

Moderator: The next question is from the line of Aditya Vikhram from DB Securities.

Aditya Vikhram: I only have one question. In the last con call, you had mentioned that the target to achieve 7% to 8% is a gradual process. Currently, as we stand even on the peak -- even during the peak summer cycle, we have not been able to significantly scale up the EBITDA margin. So do you foresee this getting a little prolonged in terms of achieving that target or do you see that there are more benefits and scale?

It seems like there is a cautious commentary coming along all the way. So just wanted to get your thoughts on that because at 5.6%, we are -- it doesn't look like it would be -- and some of your competitors have called out that it might be tricky to achieve significant increase in margins from where we stand?

K.V. Sridhar: Yes, a fair question. So if you see the results, I think -- I mean, I'm sure you are keeping track of, obviously, some of the peer group also. I think it has been a bit of a difficult quarter because of the events that are well documented. So I don't want to elaborate on that. So because of that, obviously, there was an impact from a cost side.

But I think most had a bit of a degrowth, while we were able to get better in terms of from a margin profile versus same period last year, I think. So I think some of the initiatives, I think we called out earlier, I think, has become a bit of a differentiator for us and sort of helping and supporting us.

We sort of feel that this will help us -- this will pan out -- continue to help us pan out better. And I think we want to make it a sustainable type of thing in terms of working on some of these initiatives, and we feel that it will sort of gradually start getting better. So I think that's broadly where we see it at this point.

Aditya Vikhram: Okay. So just a follow-up on that one. So should we assume that the current quarter EBITDA margin is a steady state for at least some time till the time things pan out or till the time things sort out on their own?

K.V. Sridhar: Now I think if you sort of go through the margin profile, if you're purely looking at the margin profile, the quarter-on-quarter margin profiles are fairly variant if you see. So from that angle, I think we have to sort of go on a quarter-on-quarter basis and see how it sort of goes.

Moderator: We take the last question from the line of Rabindra Nath Nayak from Nirmal Bang Securities.

Rabindra Nath Nayak: Sir, regarding this again, this compressors, so for how many compressors volume we have the joint venture is envisaged? And whether the -- whether it is a greenfield expansion, greenfield investment by Atomberg and us.

And otherwise, whether the Atomberg has already taken some investment, we are just augmenting the investment with the joint venture. And what is the uptake for Voltas from this compressor? And what is the total capacity of the compressors you envisaged, if you can deal on this?

Mukundan Menon: So the factory that is being -- which we'll put up will be gradually ramped up. We will begin with smaller quantities initially and that beginning will be 18 months from now. And then we will ramp up over a period of time, starting with maybe less than 1 million, then taking it to between 1 million and 2 million and then eventually taking it to 2.5-plus million.

So that is the plan actually. And the technology exists. We have -- the product has already been made and it is being tested right now actually. The product is -- it is not that it is -- the designs are sort of new. This product has been in development over the last year or so.

Rabindra Nath Nayak: Okay. And what is that in terms of pricing, what would be...

K.V. Sridhar: So the economic angle, as I think Mr. Menon did elaborate that obviously, key thing was from a supply security point of view that we are sort of looking at and also linked to the QCO angle that Mr. Menon mentioned. The economic aspects are still being finalized as we speak, and then we'll come back to you when we have better clarity.

Moderator: As that was the last question for the day, I would now hand the conference over to Ms. Natasha Jain for closing comments. Over to you, ma'am.

Natasha Jain: Thank you, Muskaan. I request Sridhar, sir, to give his closing remarks, if any?

K.V. Sridhar: Yes. Thanks, Natasha. Yes, just closing comments from my side. Supported by the stronger brands, differentiated products, expanding channels, enhanced manufacturing capabilities, a rapidly scaling home appliances business and disciplined execution across the diversified portfolio, Voltas remains well positioned to strengthen its leadership and deliver sustainable profitable growth over the medium to long term. Thank you all. Thanks for joining the call today.

Mukundan Menon: Thank you, everyone, for joining in. Have a great weekend and Happy Independence Day to all of you.

K.V. Sridhar: Happy Independence Day to all of you.

Moderator: Thank you. On behalf of PhillipCapital India Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.