"Voltas Limited
Q1 FY '25 Earnings Conference Call"
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MODERATOR: **MS. NATASHA JAIN – NIRMAL BANG EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Voltas Limited Q1 FY '25 Earnings Conference Call, hosted by Nirmal Bang Equities 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 your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Natasha Jain from Nirmal Bang Equities. Thank you and over to you, ma'am.

Natasha Jain: Good morning, everyone. Nirmal Bang Institutional Equities welcomes all of you to the First Quarter Results Conference Call of Voltas Limited. I would like to thank the management of Voltas for giving us an opportunity to host the call.

Management is represented by Mr. Pradeep Bakshi, Managing Director and CEO; Mr. Jitender P. Verma, Chief Financial Officer; Mr. Nikhil R. Chandarana, Head, Corporate Finance; and Mr. Vaibhav Vora, Head, Treasury.

I would now like to hand over the call to the management for their opening remarks, post which we shall open the floor for Q&A. Thank you and over to you, sir.

Management: Hi, and good morning to all the participants. At the outset, I will give you a quick brief on our performance. And then after that, we will take up the question-and-answer session, along with our MD, Pradeep Bakshi; and myself, Jitender Verma.

So, as we all know, the global economic activities and trade around the world were improving during the first quarter, with growth on the upside in many countries. Upside risks to inflation stemming from various issues such as price pressures on account of renewed trade or geopolitical tensions in Middle East continued. Weak global sentiments continued amid rising U.S. recession concerns, leading to lower-than-anticipated macroeconomic data in the U.S., and fears of a reverse carry trade in the yen after rise -- rate hike by the Bank of Japan. Potential changes in Govt. in U.S., its trade policies, tariff hikes; slowing China economy may impact global growth.

India's GDP growth continues to surpass expectations. Certain macro-economic indicators have contributed to the momentum in the economy, including growth in Agri business service sector. The rise in manufacturing activity and moderate inflation may be a positive sign for easing monetary policies by RBI. In the recent budget, fiscal consolidation remained a big positive for the country, with the government focusing on the reduction of India's debt driven by lower revenue deficit. Capex budget also remained healthy in the interim budget of the government. All these factors paint a positive picture for the growth story of the country, leading to a positive momentum for the growth of industry and people.

The year 2024 continues to be a milestone year for the company. In the results for the year ended March 2024, we had announced a record-breaking top line with the sale of over 2 million air conditioners in FY '24, indicating a strong market demand for the company's products, registering a quarterly growth of 72% and an annual growth of 35% in volumes at that time. As we entered FY '25, the rising demand and intense summers helped clock an even strong growth in revenue and bottom line in this quarter for the company. We are happy to report strong growth in all the three segments. That is UCP, projects and Engineering Products and Services. The Unitary Cooling Products business continued to outperform the market and maintained its growth momentum with an overall volume growth of 67% over the corresponding previous quarter. Also, in case of bottom line as well, UCP replicated the growth in topline, indicating a steady margin.

With this incredible growth, the company reported consolidated total income for the quarter ended 30 June 2024 higher by 46% at Rs 5,001 crores, as compared to Rs 3,430 crores in the corresponding quarter last year. We are excited and thrilled to inform you that we have recorded a lifetime high in profit before tax, PBT, in any quarter earned by the company at Rs 452 crores, a growth of 123% as compared to Rs 203 crores in the corresponding quarter last year. This quarter's profit is almost close to the PBT earned by Voltas in full year of FY 2024. Net profit after tax was at Rs 335 crores, as compared to Rs 129 crores last year. Earnings per share, for a face value per share of INR1, for the quarter ended 30 June 2024 was at Rs 10.10, as compared to Rs 3.91 in the same period previous year. The corporate balance sheet continues to remain healthy.

Segment A – Unitary Cooling Products (UCP)

As you have already seen a snapshot for our results, I think the main point here is that unitary cooling contributed almost 78% of total revenue of the company. Specifically talking about the segment in Unitary Cooling Products. The scorching heat, rising temperatures and a need for cooling and comfort helped scale the UCP vertical to a newer height. With joint efforts of our sales, planning, marketing and manufacturing teams, we recorded another milestone of selling the fastest 1 million ACs within first 88 days of a quarter, given the unprecedented demand for cooling products. The extraordinary demand due to extreme weather conditions in most parts of the country has pressurised and disrupted supply chains across the industry. However, a mix of round-the-clock operation at factories and strong support from our OEMs have largely helped in meeting the market demand.

Our quarter 4 FY '24 growth story continued in quarter 1 FY '25 with a whopping 67% volume growth in Unitary Cooling Products, as compared to the corresponding previous quarter. All the products in the room air conditioners category witnessed high demand driven by consumers' desire to have products with advanced features and its long-term advantages of savings in energy costs. We recorded around 65% growth in split air conditioner categories, with demand coming from across the country. Strong demand for premium category of products, i.e. 5-star rated products, continued. And overall sales mix for these products has also improved for Voltas. The zest of meeting the market demand and meeting customer expectations by giving them comfort and convenience and making our products accessible through our widespread distribution reach, leveraging on the supply chain, helped us retain our leadership position for the year, with an exit market share of 21.2% in June 2024.

Since the past few quarters, we have continued to strengthen our brand proposition and product placements across all channel formats. During the season for RAC, the performance and leadership position continues to remain strong. The company also registered significant growth in volume for other cooling products, including air coolers and commercial refrigeration products. Commercial refrigeration industry garnered traction leading to a high demand for cold beverages and ice creams, thus helping us clock positive results for the business.

Within the commercial refrigeration category, demand was buoyant for water coolers and water dispensers. The business recorded all-time-high sales in the quarter driven by sales across all commercial refrigeration products and led to a growth higher than the industry, helping us retain our market leadership position in freezers, water coolers and water dispenser categories. Our new products in cold room and medical refrigeration have also registered good business growth and healthy order booking, ensuring good volumes in the category. However, stock liquidation of non-QCO inventory has led to a slight drop in margin during the quarter.

Like RAC and CR, the performance of the air cooler vertical added extra flavour to the milestones of the company in the current quarter with a staggering 170% volume growth over corresponding previous quarter. High sales in the first quarter have set the path for an exciting year ahead with advanced booking of coolers for the next season. Aggressive schemes supported to expand distribution network and, at the same time, quality products; and support from the climatic conditions helped to establish a strong foothold this season. sell-out remained strong across all channels.

Our new cooler models were well accepted and further fuelled the growth story for the category. As per the latest report, market share has also grown to 10.50%, helping us become the number two brand in the month of June 2024 for this category, widening the gap with brands at third and fourth positions. Water heater sales had a good start for the vertical and are expected to grow bigger in the coming months despite this being a lean period for the product.

The commercial air conditioning (CAC) vertical performance also remained steady during the quarter. Sales of VRF, cassette ACs, ducted ACs drove the top line and bottom line for the quarter. Unlike product sales in the current quarter, margins from retrofit jobs were lower, which moderated the overall EBIT performance for the vertical for the quarter. This, however, will improve over the next few months.

Consumer-centric finance schemes contributed significantly to the increase in sales this season. Additionally, on the cost front, commodity prices have started to accelerate upwards, with USD-INR depreciating over the quarter. And both have been detrimental to the profitability of the business. Considering the seasonality of business, IPL and a move towards TV advertisements and higher sales and promotion expenses kept our margins in line with the previous year. On the other hand, various value engineering initiatives and cost austerity drives have kept the margins stable.

To summarize, for the quarter ended June 2024, the UCP segment registered a revenue of Rs 3,802 crores, a 51% growth in turnover from Rs 2,514 crores in Q1 FY '24. The segment reported an EBIT of Rs 327 crores in Q1 FY '25 as compared to Rs 207 crores in Q1 FY '24, growth of 58%.

On the capacity expansion front, we are happy to announce that we have started commercial operations in our RAC factory in Chennai, with a capacity of 1 million and water dispenser line with a capacity of around 3.5 lakhs in Waghodia. Both these plants provide us with strategic advantage of location and help us cater to the market in South and West India. This will enable us to meet growing demand for the underpenetrated air conditioning and commercial refrigeration products market. This would in turn help us deliver a powerful performance to give our consumers comfort and convenience. With our story of volume growth across channels and products, we are optimistic on utilization of our factories to the optimum scale and achieve cost efficiencies for the business going forward.

Segment B – Electro-Mechanical Projects and Services

The segment revenue for the quarter was Rs 949 crores as compared to the previous corresponding quarter revenue of Rs 679 crores, a growth of 40%. In the past, while we faced multiple headwinds in the international projects business, in the current quarter, we reported a positive EBIT of Rs 67 crores for this segment.

Healthy opening order book, quality Professional Qualifications (PQE), focused project review and governance structure and a better working capital management has translated into healthy business performance of the Domestic Projects business. The Domestic Projects business recorded a growth of 50% for the quarter ended June 2024.

Elections in the country subdued the order booking for the Domestic Project business. And the order pad stands at Rs 4,769 crores currently. We are anticipating order booking to pick up during the second half of this financial year. For International Projects business, projects in UAE and Saudi continued to deliver good performance and drive the revenue growth for the business. Strong project execution, timely assessment of cost and profitability has ensured a strong bottom-line performance for our businesses after facing challenges for a few quarters. We are further elated to inform that in both the matters of our BG encashments which pertain to financial year '22, 2023, we have received arbitration award in our favour. And whilst the collection of the proceeds may take some time, our efforts of demonstrating fulfilment of our part of the job and defying an unwarranted encashment have worked positively.

We remained cautious in order booking during the quarter. The carry forward order book for international business as of 30 June 2024 stood at Rs 2,734 crores, largely in UAE and Saudi Arabia region. The total carry forward order book of the segment stood at INR7,503 crores as of 30 June 2024. Segment profitability was higher, considering the projects achieving threshold milestones resulting in the accrual of profitability for the jobs.

Segment C - Engineering Products and Services

Segment revenue and results for segment C continued to report better performance for the quarter over previous year. Segment revenue for the quarter was Rs 161 crores and EBIT for the quarter was Rs 45 crores, respectively.

Mining and construction vertical achieved a positive momentum on top line, ensuring continuation of business activities in terms of O&M jobs and sale of Powerscreen machines. However, margin reductions and ancillary overhead costs relating to the business did not help us to replicate the top line growth to EBIT. Going forward, robust growth abilities in both Mozambique and India will help us maintain the business momentum for the year.

The textile industry experienced headwinds owing to fluctuations in cotton and yarn exports. As a result, capex within the industry decreased across the sector, which led to reduced utilization levels of spinners and thereby a corresponding reduction in demand and margins for our agency business. Despite these headwinds, the business performance of our own after sales and post-spinning businesses has been positive.

Voltas Beko

Voltbek, our home appliances brand, continues to grow with the support of Voltas' strong brand presence and distribution and Arçelik's technical expertise, with a formidable team leading Voltbek. The home appliances industry in India witnessed a healthy growth fuelled by a surge in demand for both large and small appliances. And Voltas Beko offered an impressive array of products to meet the demands of the consumers. Voltbek has delivered a volume growth of over 50% compared to corresponding period in the previous year. With regards to the bottom line, with increased volume and gradual reduction in losses, Voltbek continues to reduce loss per units and move towards our goal of achieving EBITDA breakeven in near future.

Voltas Beko has solidified its position among the top 3 brands in semi-automatic washing machines category for YTD June 2024 at 14% market share and overall YTD June 2024 share in washing machine category to 7.8%. The refrigerator segment also achieved over 50% growth in business, reporting a YTD June 2024 market share of 5.2%. Other segments such as dishwashers and microwaves also achieved better business performance.

Voltbek is committed to meet its two objectives of enhancing its market presence across various product categories by deploying customized approaches for market penetration and growth and to attain profitability. These initiatives will involve expanding distribution reach, adopting channel-specific tactics to enhance market reach in key regions through retail and distribution channels and maintaining a strong focus on boosting e-commerce and omni-channel development. And on the cost front, localization of production of a larger portion of its product portfolio, product efficiencies, value engineering efforts and improving product mix have resulted in a positive outlook for the company.

Outlook

The period of July to September, that is quarter 2 FY '25, is usually a lean period for cooling products. However, the start of festival period may lead to an early spurt in demand. It will be interesting to see the impact of the interplay of multiple factors such as inflation, movement in crude oil prices, rupee behaviour and geopolitical challenges.

I'd also like to inform that company has on June 20, 2024, as part of internal restructuring earlier announced, executed the share purchase agreements with Universal MEP Projects Pte. Limited, UMPPL, a step-down wholly owned subsidiary of the company incorporated in the Republic of Singapore, for transfer of the company's direct investments in overseas subsidiary companies, namely Weathermaker FZE in UAE (100%), Saudi Ensas Company for Engineering Services WLL in Kingdom of Saudi Arabia (92%) and Lalbuksh Voltas Engineering Services and Trading LLC in Sultanate of Oman (20%) to UMPPL. The transactions are targeted to be completed on or before 30 September 2024, subject to satisfactory completion of the condition's precedent, including necessary approvals and procedures as may be required in the respective local jurisdictions and in accordance with the provisions of the share purchase agreement. It is pertinent to note that post transfer of these investments, the economic interest of the company and in the aforesaid overseas subsidiary companies shall continue to remain intact.

The government has remained optimistic in meeting its capex commitment for FY '24 in its budget. And while the order pickup was low in quarter 1, with a stable government now in place, we anticipate order pickup for our project business. However, we will continue to follow a cautious risk-mitigated approach while selecting new orders.

For us, currently the execution of the orders in hand is paramount to ensure timely completion of the projects with tendered margins. In general, we will remain cautiously optimistic on pickup in the pace of overall economic activity and Voltas will seize the opportunity to continue with the growth momentum. That's all from my side.

We can open the session for question-and-answer.

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

Ankur: Hi sir good morning. Thanks for your time and great set of numbers. So my first question was on the room AC segment and more of your market share and how competition is behaving. And clearly you've obviously been doing a great job of taking back market share. And what I specifically also see at the GfK data is that Koreans seem to be losing out across ACs, refs, washers, a trend we've been seeing for the past few months.

So any comments on your side? What's really happening on competition maybe what the Koreans are thinking? Are they like refocusing more on margins over volumes and therefore it's obviously helping players like us take back market share? Some color also other players is the industry a little more rationale in terms of taking price hikes? So yes, some color there on competitive behaviour?

Management: I would like to refrain from commenting about the competition, but of course, I can talk about our numbers here. So this year, it has been quite hot and humid summer. And Voltas, of course, being a Tata group company the faith, love, affection and trust which we got from our consumers was enormous this year and all along in our journey. So that's one part.

Secondly, we were very strong in managing our supply chain. We had planned better. Therefore, we could gain on that ground coupled with our wider reach and distribution compared to other players It helped us gain momentum and continue to gain momentum in our category.

And our product portfolio, and strong dealer network and along with our capability of manufacturing and providing the aftersales service to the consumer have played well. All these things have played good role in enabling us to regain some of our market share. And as of June end, our market share stands at a strong 21.2%. And we have been able to widen the gap with the number 2 player by almost 800 basis points.

Ankur: Right. And any sense on -- I understand that obviously summers were good and that's helped overall industry pricing and margins, but even otherwise do you believe or moving on to a high level of margins? Would that be a fair assumption?

Management: So it is difficult to say because we'll have to play here cautiously, because competition is very stiffer each passing days, passing months. We've got more than 65 brands available in India and quite a few of them are private labels as well. So to retain this kind of market share is itself a big challenge, but yes our endeavour is going to continue to retain this kind of market share and to remain the market leader.

More than anything else, we would like to retain our leadership. On the margin front, whatever we have always been giving guidance that we will retain- the high single-digit profitability % which we have been ensuring all along. And our endeavour going forward also will be to retain that high single-digit profitability. That's what we can suggest.

Ankur: Yes. And quickly a second question would be on the projects business where clearly margins looked very healthy this quarter at 7%. So any provisions which have been taken or is this more like the mid-single-digit margins is what you could -- or you would expect for the remaining quarters going forward?

Management: In the last few of our interactions with all of you we've shared, we have become more prudent because in the previous years and in , last couple of quarters we had some challenges. We had to make provisions on some projects . The payments were getting delayed, etc and also our bank guarantees also got encashed.

However, this quarter there was no such incident happened and therefore, we did well. And projects generally give us margin of between 4% and 5% only all along. So that's what we have been trying, that it should continue. We should continue in that way by remaining prudent in selecting the project. Actually we are doing a lot of screening from the business side, when we get the tenders, etc. So we look at it very carefully and select the projects which are prudent and which are worthy of carrying forward and execution

Ankur: I get that. Okay sir great. Thank you so much.

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

Bhavin Vithlani: So my question is on the unitary cooling, if you could just help us. What was the revenue from the commercial HVAC, commercial ref segment? You gave the breakup last quarter for the full year number, so this year what's the growth in those segment? A continuing question here is you mentioned there have been certain one-off costs in the commercial ref segment. If you could just help us with that?

And on the pure air conditioning segment you mentioned full year profit margins were 10% last quarter. What were they now and historically we have seen margins in the band of 12% to 14% and 1 year 15% as well. Now that you have gained scale, you have own manufacturing, could we expect double-digit margins going forward? May not be this year, but over a couple of years. Is that something which is also you believe achievable?

Management: Commercial refrigeration and commercial air conditioning put together the revenue share has been about 18% of the UCP segment. So since you know that we are a very diversified business house. So all in all our edeavor is to to retain a high single-digit margin, scale up our business and retain leadership position in all the businesses. That is also of significant importance for us. And therefore, we are trying to address both retaining the high single-digit profitability and retaining the number one position, leadership position, in all the category and businesses which we deal in.

So therefore, I'm not very keen about only increasing the profitability to double digits and triple digits. That is not the endeavour. Endeavor is to more scale up the businesses in a big way and expand the industry. That is what we look forward to. As you grow there your absolute profitability goes up. Your absolute revenue goes up, so that's what we aim for. And you are -- you become a very – number one with a wider gap with the number two, three, four players that is what we look forward to.

Management: Unitary cooling also you will see that -- last couple of quarters you would have seen we've tried to retain 8.5%, 9%. So that is what we will be aiming for going ahead. And if there is an opportunity to improve further, we will not leave any stone unturned on that also, but that's what guidance I'll give only, the high single digit, as of now.

Bhavin Vithlani: Great. And just that what was the negative impact of the inventory write-off on -- because of the change in law? You mentioned about that in your opening remarks?

Management: I think usually we do not quantify. We have not said any inventory write-offs in our opening remarks. We did say there was a QCO-related impact in the CR industry, where most of the industry players had to sell off their QCO-related inventory at discounted or cheaper prices, and due to which, we couldn't increase our prices. But we didn't have any write-offs or anything, just to clarify that.

Moderator: The next question is from the line of Nikhil Kale from Invesco.

Nikhil Kale: Congratulations on a very strong quarter. Sir, so I just wanted to understand, even on the CAC side, you said the margins were kind of impacted. Can you just highlight what was the issue here? And would it be fair to say that like if you kind of keep aside the dry box which commercial refrigeration and CAC, RAC margins would not kind of improve on a Q-o-Q basis?

Management: So as far as CAC, commercial air conditioning is concerned, you will not see much of a margin dip. It's about minor percentage point only. However, there also was the impact of the margins from retrofit jobs were lower, which moderated the overall EBIT performance for the vertical for the quarter. So that was the reason. This, however, will improve over the next few months.

Nikhil Kale: So then the RAC margins were kind of include in a Q-o-Q basis if you kind of remove this CAC?

Management: RAC quality control order has already happened quite some time back. So that is -- that impact is, I think, gone away long back. So now RAC margins have been slightly reasonable. And if we look at Segment A margins those have already improved. Only thing is CAC and CR will have to look up now after the quality control orders have been implemented and our products are compliant with this quality control order.

Nikhil Kale: Okay. So what I was saying was like Q4, we did 9.2% in UCP and this quarter was 8.6%. So can you attribute the decline entirely to CAC and the commercial refrigeration?

Management: So partly, yes, because of Commercial AC and Commercial refrigeration, for sure. But in this first quarter, there is a heavy advertisement cost. We have to advertise a lot. IPL etc., is being happening around that time. Then because the sales are higher, therefore, also our subvention costs, for consumer financing, rebates are higher. So everything goes up relatively and therefore, I think that has taken a bit of an impact due to that. And therefore, as against, 9.2% margin, we are at 8.6% at the moment in this quarter.

Nikhil Kale: Understood. And my second question was on the mechanical project segment. So you said that the arbitration has gone in your of favor. So any sense on what kind of amount will we kind of have to collect from the BG encashment that has happened. So just some sense on what kind of writebacks can we kind of expect over the next few quarters?

Management: See, as we have said in our opening remarks, that we have won the arbitration awards, which is a good win to prove that, the encashments done were unethical or you can even say even without any reason. So that's a kind of vindicating our stand that we were right all the time. Now as far as the process goes, there is an arbitration award then it goes thought the courts. There are appeals, counter appeals.

So I wouldn't be able to confirm when and how we will be able to receive some money. But I can only confirm to you that whenever we receive in the coming quarters, it could be 4 or 8 quarters down the line or even longer, we will have to follow the court process. The only assurance we have is that the court processes in these countries are much faster, and we would see the results sooner unlike some of the results we hear or see in the Indian courts. So within a period of, I would say, 4 to 8 quarters, we should see this. If we may be able to collect the money, that would remain the key.

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

Siddhartha Bera: Sir, given the strong momentum we now see in first quarter, any outlook for the year, if you can share for the UCP industry or for you, how to look at the growth? And does the numbers in the current quarter, quarter 1 also include the production from the Chennai plant or it is yet to come?

Management: So let me answer and then probably my CFO can also add to that. Quarter 2 is generally a bit challenging one because it's a lean quarter and there are a lot of things happening because of range, also in auspicious period, Shraadh and all happening in India. Many of us believe in that. So sentiments remain a bit down. And we are not very gung-ho about quarter 2.

And even quarter 3, if you look for AC category, it is not a big quarter, actually because not very many people come forward to buy air conditioners during this quarter. But of course, for our Voltbek range of products, quarter 3 is expected to be a good season, is going to be a probably bit the stronger one. So that is what we are looking forward to. But then also, there are quite a few geographical -- geopolitical challenges, which are coming across including war situation in some of the countries, not too happy situation in some of the Middle Eastern countries sentiments are bit challenging there, U.S. because of election, etc.

So all this is going to play some part in the next 1 or 2 quarters. So we'll have to be of watchful of all these events as to how it happens. And therefore, we will keep our fingers crossed, but our dream would be to continue to keep pushing numbers as much as possible so that we remain the leaders in each of the category, which we represent.

Management: I think just to add, our strategic intent continues to be strong remain with our number one position. And in that endeavour, we do all our activities in a very cohesive manner, thereby to give you a very quick and short answer. We maintain our guidance or indication of overall single-digit -- high single-digit profitable margins -- profit margins. And that kind of remain. Yes.

Management: I need to also give you answer to the Chennai factory. Yes, Chennai plant is fully ready to start production. Production has begun in this month. We were waiting for the commercial certificate or licensing to be approved by the government, which we've received. So production has commenced. Now they're in the phase to augment and to facilitate us to cater to the rising demands in this category.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies.

Sonali Salgaonkar: Congratulation on the good quarter. So my question, sir, again, some extensions to your earlier question. Firstly, with the peak summer season behind us, what are the indications that you are seeing of the underlying demand trend? We understand summer was very strong. There was stock out at certain quarters and hence, the channel selling can take place. But generally, on the underlying consumer trends, what are you seeing right now? And how sustainable do you think your market share gain of Q1 will be?

Management: So you see, India is very hot and humid country. And if we see because of global warming issue, is going to continue to remain same. And I am not too sure there will be any reluctance from the weather God that India will become a cooler country. So I think we will continue to get opportunities. Secondly, if you look at penetration level in India, it's also very low. It's been hovering around 7-8%, not beyond if you look at. And therefore, that also shows a big opportunity.

Thirdly, if you look at our per capita income, our GDP growth, everything has been indicating for a big growth and India is poised for a big growth and India will continue to grow. Next 10 to 20 years belong to India, as I would have said earlier also. So I don't think I have got any apprehensions about India growth story.

So that is continued -- going to happen. And we will continue to augment our capabilities to be able to cater to those rising demands. Each, we have earmarked large sums of capex, almost Rs 800 crores to Rs 1,000 crores which we have earmarked for our factories. All the factories are going in the full swing. We're ramping up production. We are investing into plant and machinery. So I don't have any doubt about the growth story of India. So I am looking forward to big growth, and we will continue to keep on harping on those opportunities.

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

Rahul Gajare: Congratulations on very strong performance during the quarter. Sir, I have one question. Sir, I think the entire industry is talking about profitability in the UCP business being in the high single digits. Do you see there are -- you have levers to increase that number, given that government has kind of eased on China visas or JV approvals, etcetera.

So I think what is your thoughts or the update on your JV on the compressor side if you could elaborate on that? And just continuing with the same question, given your Chennai factories commenced operations, you were also looking at export opportunity, given Q2, Q3 are off-season for the AC products? What are your thoughts on export? How soon can we see that area also picking up? Thank you.

Management: So there are many questions embedded in the questions but nevertheless, let me answer. Firstly, when you say on the margins that everybody has been talking about high single digits. I am not too sure whether all the brands, all the players available in India have shown high single-digit barring probably, I will say 1 or 2.

So that's one piece of answer. Secondly, if you talk about the compressor status, as you know that we were stuck up. We tried our level best. We signed up joint venture. But because of approval for want of that, we could not carry on with the compressor manufacturing earlier on.

However, we have been trying and attempting if we can rope-in some technology partner, we'll be more than happy to set up a factory very soon. But we are waiting for something to come up. And as and when the good news comes up, we will share with you. So about that also. But yes, of course, our endeavour is that we should definitely look forward to manufacturing of compressors.

Not only compressor, but a couple of other important components which goes into manufacturing of air conditioner, we are looking forward to building up capabilities in that direction. So our R&D and manufacturing teams have been continuously working towards all this. So that is question 2.

Early, you talked about exports business. So exports, we have made some humble beginnings because of our presence in GCC countries because of our project businesses out there. We've made some in-roads but it is not worth mentioning at the moment. But yes, of course, going forward, as we are setting up more and more factories and we are augmenting our production facilities.

Going forward, we will look at something. But I think if you ask me, honestly, and all of us know that India itself is providing so much of opportunities. There are so much of potential available in India. We need to encash upon that before we look at and explore -- start exploring on the exports.

So I think firstly, I would, whatever factories I'm setting up, my endeavour would be to get that to the rising demand of India. And in case we got excess capacities then we'll start looking at developing some of the geographies where there is meaningful business position. And also, currently, you look at geopolitical situation in many of these geographies, SAARC countries, Europe had a not so good situation in whether it is called Bangladesh or Sri Lanka financially also and there are also some challenges with some of these geographies. Then GCC countries also there is some kind of war-like situation happening. So I think we'd rather like to wait and watch to get things clearer before we jump in export trade. But yes, whenever opportunities come up, we will surely look at that as well.

Moderator: Thank you. The next question is from the line of Venkatesh Balasubramaniam from Axis Capital. Please go ahead.

Venkatesh B.: Questions are related to the UCP segment. I think you -- what you have shared is the exit market share end of June? Is it possible to share what is the market share for the full quarter? That is one part of the question.

The second part of the question is can actually tell what is the -- how is the channel inventory looking at? Because we have read even throughout the first quarter that there have been stock-outs. So is the channel inventory at this point in time like normal levels or it is below normal levels?

Management: So on the market share front both on the volume as well as value, we have increased our market share and YTD basis also by 0.5%. So currently, our market share on a YTD basis for this quarter is 19.5%. And we are about 450 basis points ahead of the nearest rival. So that is about market share.

Secondly, on the inventory front with the trade, it is not high because the channel and all the brands were struggling. And so were we also to cater to the demand, it was hand-to-mouth kind of a situation in the last 1 or 2 months because nobody could have planned a growth of 60%, 70%.

So inventory is not much in the neither with the trade nor with the brands. But therefore, I said is we are augmenting as we go forward. And this quarter is a bit leaner, so we'll start building up for the coming second summers for some of the geographies in India and as we go forward for the next year as well.

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

Shrinidhi Karlekar: Sir, would it be possible to quantify advertisement and promotion spend that you did in the AC business in this summer season versus same period last year in terms of percentage of sales? And sir, also a related question I would have is has there been a material change in your channel mix in the AC business, if I compare this summer season versus last year?

Management: So generally, we have earmarked about roughly around 3% of our yearly budget for the advertisement. And they will tantamount to roughly around Rs 200-odd crores approximately. It should come up to, including the ATL and BTL activities which we're going to spend during the year.

Shrinidhi Karlekar: Has there been jump, sir, if I compare summer period to summer period like year-on-year?

Management: This year, we have earmarked more. Earlier on, we used to do about 2%. But this year, roughly it has been around 3%. We are earmarking because we want to, as I said is, we want to scale up our numbers.

Management: I'd just like to clarify, it is 3% for the quarter. But for the full year, we maintain between 1.5% to 1.75%.

Shrinidhi Karlekar: But we are incrementally looking to spend more.

Management: Yes, I mean, one month, this month here and next month here can happen.

Shrinidhi Karlekar: What I wanted to know is, has there been a material change in your channel mix in the AC business if I compare this summer versus last year?

Management: Generally speaking, there is no change in the channel mix. Of course, our efforts in certain geographies are much bigger than what they were in the previous quarter. And therefore, based on the geography, we all know like South is much more on the organized trade and all. So therefore, those impacts would have happened. But specifically, we continue to maintain and service all the channels. There is no one way or the other differentiating between the channels because all channels are poised for growth, and we are looking at that with that eye.

Moderator: The next question is from the line of Pulkit from Goldman Sachs. Please go ahead.

Pulkit: Sir, congratulations on your market share gain. My question is related to this. Sir, what we understand it, there's been pretty significant discounting that Voltas has done due to subvention scheme in order to gain the market share back, obviously, your distribution and etc., health. But do you think the brand has now sort of moved from premium economy to more like an economy category in terms of where our placement is relative to competition, and that's really something that has helped us significant market share in terms of how we are positioned? Would like to know your view. And if there's a third-party research you've done in order to understand what the brand perception is right now?

Management: See, this perception that we have done heavy discounting to achieve the market share, I would say, it's a wrong perception. We as a corporate, we are always focused on sustainable strategies and trades, both. We never take knee-jerk reactions on any of these kind of things. The market as such has been greater adoption of consumer finance schemes, driven by consumer behaviour to opt for finance options and we have been similar increased adoption for our products.

You can call it to the consumer behavior or maybe the new families, they prefer to take the finance, so therefore, our costs also increased because of that. But it's not that we are going aggressive in any way to go out discounting or to spend more money on subvention, no. That's not the right way to look at it. On the other side, I think what was your last question? Could you repeat.

Pulkit: So it was the first question on have you done any study on brand perception of late?

Management: No, of late we haven't carried out, but generally, we do it once in 2, 3 years only. We haven't carried out any study overselves. However we are pleased to note that the prestigious Brand Finance Report of 2024 has ranked Voltas among top 10 brands in India, with Voltas being only brand listed in top 10 in the consumer durable industry.

I think we seem to have been doing pretty well on our brand image. Brand equity, it goes also whenever we carry out before the season and after the season also, that we'll be able to share with you in the next probably time we are meeting up with you. And then generally, our brand equity scores are also pretty high only.

Management: You can write back to us in case any questions are left. We'll try best in ever to answer you.

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

Natasha Jain: Thank you. Unfortunately, that would have been the last question due to prior commitment for the management. I now request the management to post closing comments, if any.

Management: I think our last comments remain the same. We are in a very interesting time period of growth. And we are poised with our increase in capacities and everything to be able to be part of this growth. And that's all from my side. Yes.

Natasha Jain: Thank you, everyone. On behalf of Nirmal Bang Institutional Equities, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.

Management: Thanks, everybody.