"Voltas Limited Q4FY22 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen. Welcome to Q4FY22 Earnings Conference Call hosted by ICICI Securities.

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

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

Aniruddha Joshi: On behalf of ICICI Securities we welcome you all Q4FY22 Results Conference Call of Voltas Limited. We have with us Mr. Jitender Verma - EVP and Chief Financial Officer; Mr. Manish Desai – Head of Corporate Finance and Mr. Vaibhav – Manager, Corporate Finance.

Now I hand over the call to the Management for the initial remarks and presentation on Q4FY22 performance, and then we will open the floor for question and answer. Thanks. And over to you, sir.

Jitender Verma: A warm welcome to everyone good morning.

For Voltas, the start of Quarter 4 was anticipated to give glimmers of prosperity and growth. However, the beginning of new year came up with its own challenges as India and the world were accelerating vaccination drive to overcome the pandemic another variant came up as a surprise, differing the efforts with the apprehension of more severity than earlier variant and cost impact on the economy and health. The extended vaccination had reduced the impact of this third wave considerably, both on the health and economic across countries.

As the economic activities were returning to normalization, the world economy received other jolt caused by geopolitical tensions between Russia and Ukraine, causing disturbance and economic activity. The invasion has a spiral impact on the commodity prices. Global economic prospects have worsen amidst disruption in supply chain and due to imposition of various sanctions on Russia. Global economy now is on the edge of uncertainties arising from the ongoing geopolitical conflicts reflected in global commodity prices including crude prices, differential pace of monetary policy normalization amidst persistence of inflation at higher levels globally. Supply disruptions emanating from China's zero COVID policy and resultant restrictions on activities will be weighing on prices and growth of the economy.

For India, all these factors have paused a speedy economic recovery and cost worry given the elevated global trade deficit. The balance of payments is also expected to shift given the global monetary policies especially that of the U.S. Fed. IMF under the set unsettling issues and revised it's grown forecast downwards from 4.4% to 3.6% for the world and from 9% to 8.2% for India.

In the early months of COVID wave, extended winter and increased input cost have impacted financial results during this quarter. Our Unitary Cooling products segment reported a revenue of Rs. 1,818 crores while Project Business reported a revenue of Rs. 692 crores and the Engineering product segment reported a turnover of Rs. 124 crores.

Our consolidated total income for Q4FY 22 was Rs. 2,704 crores as against Rs. 2,683 crores in Quarter 4 last year. Profit before tax was Rs. 247 crores as compared to Rs. 321 crores in the corresponding quarter last year. Profit after tax was Rs. 183 crores versus Rs. 239 crores in the previous year. Earnings per share not annualized for the quarter ended 31st March 22 stood at Rs. 5.52 against Rs. 7.18 reported for the year.

For the year ended 31st March 2022 the consolidated total income was higher by 5% at Rs. 8,124 crores as compared to Rs. 7,745 crores. Profit before tax was at Rs. 697 crores as compared to Rs. 709 crores in the corresponding period last year. Profit after tax was reported at Rs. 506 crores as compared to Rs. 529 crores in the corresponding period last year. EPS for the financial year ended 31st March 2022 was Rs. 15.23 as compared to Rs. 15.87 last year.

The corporate balance sheet continues to remain healthy with minimal borrowings for our overseas operations. While operational cash flow during the initial part of the year had been relatively weak due to loss of cooling product sales, given the COVID induced lockdown. However, revival of economy thereafter and pent-up demand for the cooling product towards the end of the quarter helped generate surplus cash on our balance sheet. As at the yearend cash and cash equivalents in our books stood at Rs. 2,835 crores as against Rs. 2,465 crores in the previous year.

You all must have seen our snapshot of our results. So, I will not be delving more into those numbers. I will go segment-by-segment.

Segment A-UCP

Quarter 4 and Quarter 1 of a financial year are considered to be the strongest quarter for the year because of the seasonality. However, the segment witnessed lockdown and restrictions for operations since last two years. Despite the fact and the hopes that this year would be clear of COVID and the industry will be able to bank on full season Omicron at the start of the year dampened the hopes amongst the trade. Extended winters in the initial months of the quarter, and increased prices of cooling products has further impacted sentiments of the channel partners and thereby the primary sales.

Under the shadows of dampened demand and high inflation owing to geopolitical conflict, a start of severe summers across length and breadth of the country brought cooling products in high demand. Riding on this demand the quarter has seen improved value growth over the previous year resulting into restricted degrowth for the Quarter 4.

Unitary Cooling Segment reported revenue of Rs. 1,818 crores Rs. 1,655 crores representing a 10% increase over the corresponding quarter of the previous year. However divisional bottom-line has been impacted amidst increasing input costs, disruptive pricing by the competition and resistance by the trade on price increase. These factors resulted for decline in segment the EBIT by 26% from Rs. 261 crores to Rs. 192 crores. Nevertheless, our focus on product placement, trust amongst the general partners and the value proposition has helped us register overall volume growth for the full year.

Our focus on the Inverter subcategory with competitive pricing and larger number of SKUs continue to favor. Inverter category witnessed a good traction with the customers and now contributes over 75% of all AC sold by us compared to 70% for the similar period in the previous year. Voltas continued its leadership in RAC category, the Room Air Conditioner category, with the year-to-date market share of 23.4% as of March '22.

To enhance our reach, and to provide a customer first experience, Experience Zone for Voltas and Voltas Beko product has been launched in Mumbai during this quarter. In addition to it we have continued with our expansion in Exclusive Brand Outlets which has reached over 200 outlets. And we aim to expand further buy additional 50 outlets during the year. These will provide an enriched experience to our consumers with the complete product range along with attractive and differentiated consumer offer.

The Commercial Refrigeration vertical has delivered yet another year of growth and even surpassed volume of pre-COVID period. Growth in commercial refrigerator products has driven by expansion of mom & pop stores, change in food habits largely driven by beverages and ice cream products in Tier-III and Tier-IV cities and higher participation from OEM engaged in chocolate, beverages, and ice cream products.

In the Air Cooler category, limited window of sale and washout of season in the early months of the year resulted in piling of inventories at the channel partner end. However, heatwave during Quarter 4 has picked up demand for this economically cooling product. At the present in all subcategories of the air cooler balanced SKUs with competitive consumer pricing and expansion of channel network has resulted in brands increasing its year-to-date January '22 market share to 12%.

We are happy to report that our Commercial Air Conditioning business has done well even in these uncertain times. Opening of commercial places and focus on retrofit jobs along with retention of the customer with attractive after sale offering has resulted in the overall value growth for the quarter and full year under review.

Business took, various cost reduction initiatives and value engineering processes to offset increased input costs and thereby mitigated risk partially on the margin.

<u>Segment B – Electromechanical Projects and Services</u>

The segment revenue reduced to Rs. 692 crores as compared to the previous corresponding quarter of Rs. 875 crores primarily owing to a low carry forward order and reaching to the completion stage for major projects during the year. Segment results during the quarter showed a positive momentum. The EBIT percentage to revenue increased from 6.46% to 6.88%. The carry forward order book of this segment stood at Rs. 5,360 crores.

Over Rs. 2,000 crores of fresh orders were added across both domestic and international markets. The carry forward order book for domestic projects at Rs. 3,638 crores contain a bouquet of orders across Water, HVAC, Rural Electrification and Uran Infra activities. The international order book stood at Rs. 1,722 crores.

Better and timely execution of projects coupled with a healthy project mix has driven performance of Project Business during the quarter. The division has not been spared by the increased commodity prices. However, a sensible negotiation with the customers and suppliers have mitigated the impact to certain extent. The focus on the work certification and collection has improved cash flow and thereby the return on capital employed while comparing with previous year.

Meanwhile, the increase in global oil prices, lifting of COVID related distinction and focus of the government on the infrastructure development should improve business sentiment and open up further opportunities in our operating markets. We will continue with our strategy of picking up healthy orders, which will help in delivering a consistent and sustainable performance and minimal risk.

Segment C – Engineering Products and Services

The segment's revenue and results for the quarter we are at Rs. 124 crores and Rs. 41 crores, respectively. Both our Mozambique and Indian operations have contributed towards improved performance on the back of the revival of the crushing and screening equipment and renewal of the maintenance and repair contracts with customers. Growing yarn exports, high demand for capital machinery both in spinning and post spinning and a well-defined approach on improving after sales business resulted in positive performance during the period.

Price increase by principals and supply chain related disruptions continue to pose challenges. Overall, textile sector is expected to perform better given the PLI announcement and various other initiatives directed towards growth for this sector.

Voltas Beko

For Voltas Beko in the short tenure of close to three years the Voltbek brand has crossed an important milestone of 1 million units in the year, and thereby becoming one of the first brands to reach this landmark. Cumulatively the brand has sold 2 million units. Wherein the first 1 million units took two years and the next 1 million has been achieved in these 12 months.

The product enhancements is based on consumer insights, delivering a quality product at an affordable price. With the objective of localization manufacturing facility has been expanded to frost free refrigerator and fully automatic top loaded washing machine at Sanand factory during the year. The production at the factory has also crossed 1 million units with better productivity and higher quality. This initiative of in-house manufacturing has helped the brand to introduce more customer centric products, overcome supply chain disruptions, optimizing working capital and other cost savings associated with it.

The brand continues its journey towards better market share, and it bodes well for its target of reaching market share of 10% by the year 2025. The recently conducted Brand Track Study shows the group scoring brand awareness among consumers and higher recommendation as compared to the few incumbent players in the industry. Lower penetration in the market strength of the joint venture partners and accelerated expansion of reach will favor the Voltbek brands to achieve its prime objective in a time bound manner.

Outlook

As the outlook goes hot weather will certainly help the cooling products to have an exponential growth after two seasons of wash out due to COVID. And with this positive demand and increased input costs, fragmented market and disruptive pricing by the competition will of course have its impact on the margin. However, presence of large number of SKUs in the growing inverter category, focus on the weak market, improving weighted average distribution and sensible price management shall help the Voltas brand to perform better than industry and thereby gain market share.

In case of Projects business, completion of most of the running projects and internal policy of margin recognition in the initial phase of the project will affect the financials in the near term. However, a completion of business division, a higher allocation towards infrastructure spend in domestic market and improved opportunities in the overseas market should help us in overall performance for the year as we move forward.

In difficult times, such as these the resilience of our brand, the strength of our balance sheet, the competence of our time-tested systems and the capability of our people provides a definite measure of confidence. We remain optimistic.

Thanks. I will be ending my introduction at this stage and pass it on for further Question and Answers.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question-and-answer session. The first one questions on the line of Bhoomika from DAM Capital. Please go ahead.

Bhoomika: Just wanted to understand that after a long period of time, we are seeing some market share loss, because as you mentioned in your press release and in your opening remarks that we have a market share of 23.4% as on March '22 versus last year 25.6%. So, what has driven this market share loss in the last two months, like we understand that there has always been a competitive intensity in the market, but if you can just talk about that?

And #2 if you can talk about the price hikes that we have taken in FY22 and any further price hike that we have taken in the month of April, May?

Jitender Verma: I think you are right in assessing that there has seen a drop of Voltas market share, and it's very evident. However, in this period when we look at the month of January, February, March, the summer, specifically comes in the market of South zone. And it is also a known fact that for Voltas, our major strengths are in the other zones, though, we cover all the national market across the country.

And in the Southern market, when we look at the price disruption by the other players has contributed in this fall of the market share. And as we would move into the later part of the summer months, the expectations are quite positive, that the market share would be maintained.

On the price hikes, we have taken price hikes in the month of January, in the beginning. However there is a time lag between the input cost and also for other competitors to take those price hikes. We will have to further analyze at what level of inventory and numbers they were sitting at, when they entered the Quarter 4 which we will not be able to answer at this moment. And depending on that some of the players have not taken the price hikes and that's where we are seeing the disruption to a certain extent.

For us, we still continue to see the cost increases, as we are all seeing on the commodity side, which increase our input costs. And if these costs continue to increase, as we go into the month, we will have to go for cost push price increases. Other than that, we don't see any reason. And whenever there is a decline on the input costs, we would be even willing to go down to be reasonable and fair to our consumers. So, we are being very cautious or rather judicious on that aspect of price increases.

Bhoomika: Just a follow-up on this, what would have been the price hike we would have taken in Jan, which got implemented through the quarter or this quarter now. And with this price hike and given that the other peers have not increased their prices to a similar level or maybe lower. What is the price gap that is there in the market today between Voltas and some of the other key competitors?

Manish Desai: Bhoomika, just to that, if I take the full financial year, probably the price hike will be in the range of 12% to 15%. You can say in terms of the effective utilization the period will be close to one to two months gap, before the increased price gets billed to the channel partner.

Now having said that knowing the fragmented market, each player is trying to find out a place for his market to gain and to have the presence over there. And because of which it is extremely difficult to see which market, which players are playing on the price or on the other side. But our analysis is that what Mr. Verma rightly said a few minutes back that South where we have find some kind of more disruptions, generally because of the early setting of summer over there, where we have lost some of the market share. And to overcome that we have also done some corrective actions, to ensure that we sustain and maintain our leadership across all regions.

So, in terms of price gap between us and the competition, I would still say 2% to 2.5% could be the easy cakewalk, if I look some of the selective markets, but to get All India average price and all, knowing the fragmented market and the players working in different strategies, it will be difficult to quantify off hand.

Moderator: Thank you. The next question is from the line of Vishal Biraia from Max Life. Please go ahead.

Vishal Biraia: Could you elaborate a bit more as to what could be our exit market share in March of '22, and when you say you have taken corrective actions, so what are these corrective actions, and what and how much time do you expect to recoup the market share?

Jitender Verma: For our exit market share we are somewhere close to 18.5% but having the lead in the earlier periods of the year, the market share YTD reported 23.4%. And these are the external data being done by the external agencies. And we normally follow that given the status and the one uniform agencies carrying out this kind of market share collection of the data.

Now, having said that, on the cost actions during the season time we come out with various schemes and initiatives directed towards the channel partners and the consumers and more such actions requires where we are seeing price disruptions or where we are seeing the other way around where the demand is very high, and the manufacturer or market is running short of the products.

So, all in all, there are certain initiatives like aggressive consumer subvention scheme, taking advantage of the lower borrowing cost today which is prevailing in the market, you have a subsidized installation scheme directed towards consumer, giving the off-shelf schemes to the channel partners, there are various initiatives, I would not like to elaborate more on this front. But there are various tactics and tools the brands are having today on the shop floor, to play around to ensure that the confidence and the shelf life which we desire to have it along with the channel partner.

Vishal Biraia: Has there been any change in competitive intensity when you moved to March to April and May, or does it continue to be as severe, as intense, as it was in Feb and March?

Jitender Verma: I would say that if I take the summer period which is Feb to June, knowing the demographics of India, we have early summer that starts in the South, extended to West, East, and North. So, as we move forward, given our strong presence in the North region, we are hopeful that we will be able to overcome this market share drop, I would say a matrix. And would go back to our old market share kind of leadership what we used to have. We are still leader in terms of the exit market share however, the gap has been reduced over the second player, which probably we will catch it up once we complete or exit the season at the end of June, July.

Vishal Biraia: And just one follow-up on the same point is that some of your peers have focused on mass-market products, whereas we may be on the mass-premium site. So, is it that the downtrading in this few months has increased and that has contributed as well to the loss of market share for us?

Jitender Verma: I would say other way around given the under penetrated market, probably the larger and all categories or the old Top 8 players, are eyeing for a mass affordable kind of product. You have the premium category and then premium generally categorized as a 5 Star, and when you are looking for a higher tonnage, because otherwise you won't be able to differentiate as such, the normal or the mass product, vis-à-vis, a premium one.

Yes, our focus is also there on increasing our market share on a 2 Ton 5 Star category which we are proud to inform you that we have done a better over there in the last three- or four-months' timeframe and increased our sub-segment market share over there. More is needed to do that and we will be definitely focusing upon that, to improve or to balance the market in terms of premium as well as the mass production based on the consumer needs.

Moderator: Thank you. We will move on to the next question that is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: Just harping back on the share lost on the AC side. So, as you highlighted coming mostly in the Southern part of the country. So, is it just that you have seen more competition, disruptive pricing, was that the only reason and you clearly did not want to match those prices or was it also some element of supply chain issues, some shipments from China etc. also kind of hurting your share in the South.

Jitender Verma: Ankur, if I look, even though when we talk about South, the South comprises of four major regions Tamil Nadu, Kerala, Karnataka and Andhra Pradesh, we are relatively strong in Andhra Pradesh and Karnataka where we have seen more disruption is largely in Tamil Nadu and Kerala market, where we have seen this market being largely driven by the organized and regional retailers, where the ask on the price is generally on a higher side. This is where our deep analysis showing that some actions which we have taken on the spot, albeit in the later part of the quarter, but I am sure that the action team is working on the ground. But this is a prime reason I can say, otherwise, in case of East and West, we have sustained or we have actually improved our market share over the last comparative year. And in terms of North, we continued our leadership over there. And just to add to that, Ankur is that the supply chain from China didn't have any major impact in the sale of the product. We didn't feel any shortages or anything like that.

Ankur Sharma: I just have a very basic question, because if demand is so strong, we are even talking of stock outs possibly over the next month or so. Why is it becoming so difficult to pass on price hikes, typically, when demand is so strong and having been in the industry for the last 14, 15 years, typically price hikes are relatively easy to pass, right?

Jitender Verma: When you look at the competition, by way of the product differentiation and as you will understand, a 2 Ton, 5 Star market or a 1.5 Ton, 3 Star market, the product differentiation between one brand to the other brand is there, but not a very significant difference. So, in that sense when there is a one player, let's say, another competitor, who doesn't increase the prices following the Voltas price increases, at that stage for the consumer, if there is a propensity for him to move to the other brands, we are trying to study this more in detail. And that's where we say that we are taking immediate actions on the ground to come out of this thing. It's mainly from the price disruption as it is being seen right now.

Manish Desai: To add more to what Mr. Verma said, Ankur, if you have the fragmented markets and the Top 20 or Top 10 players are eyeing to capture a market size, in order to get the leverage on the volume obviously, you will find that such kind of disruption will take place over there. Some of the brands when we said we have increased the price hike of 12% to 15% when you see the other brands, probably they would have gone into a lower price hike. And since the product differentiation is not clearly visible on the shelf for the retailer it then all depends upon the kind of price competitiveness which is playing around in the ground.

So, these are the obvious results which we are finding it over there. But having said that, we still continue with our policy as objective of balancing both margin as well as market share, because we keep saying that the market share you can't bank, but yes the market share also will give you in terms of the scale, to leverage some of the cost on which you can ride up on.

Ankur Sharma: And so the understanding is correct that as you said you will take back the loss share by the end of the season. And the corrective action would be mostly by matching price cuts of competition. Is that how we should look or why incentive, subvention scheme is that the way out or help me if I understood this wrong.

Manish Desai: Ankur there are various cards in your hand to play around, depending upon how the market is reacting to it. Somewhere we play a price card, somewhere we play the SKU a differentiation, somewhere we go for a more consumer directed initiatives rather directly putting price into the picture. So, all these tools are available and when you are peak in the season time, all these tools can be effectively used to capture whatever you have the objective to attain.

Moderator: Thank you. The next question is from the line of Atul Tiwari from Citi. Please go ahead.

Atul Tiwari: Just another follow-up question on this market share thing. So, can you comment who are the big disruptors in the market, I mean, in terms of whether they are domestic players or MNCs or the Chinese players?

Jitender Verma: We have seen the, see generally the fight takes place between #1 and #2. Obviously, we have seen some of the loss of the market share to LG. And we all know Lloyd become more aggressive in this market; probably we don't require to comment anything about the competition. But looking into the volume which they are eyeing to have capture, because of the new factory setup and all, and we have seen the results, it's publicly out, which they have reported a higher loss.

So, these two players we have lost the market share, coupled with if I go to the Samsung, to a certain extent they have a very strong corner in the South, where also helped them to gain market share over Voltas. So, these are the three key players I would say to whom we have lost the market share, all Hitachi, Daikin, and all remain in the same bandwidth where they were there a year before.

Atul Tiwari: And on Voltas Beko, would it be possible to share FY22 revenue, EBITDA, PAT, and the exit market share?

Manish Desai: I would say that we can share the data but knowing the confidentiality and all, we wouldn't like to put it anyway it is a part of our annual accounts and reports as such. However, let me give you the indications, we are very close to a four-digit number as far as the turnover is concerned for the Voltbek. And in terms of the exit market share we are inching towards; in case of refrigerator we are somewhere at 3% to 3.5% and for washing machine we surpassed 4%.

Moderator: Thank you. The next question is from the line of Niket Shah from Motilal Oswal Mutual Fund. Please go ahead.

Niket Shah: Just two questions. One is that when you send the competition it is very high. So, for example, if you are selling at Rs. 100, the competition is selling at what, is it 5% cheaper? And is it at a price where you can't match it, otherwise the margins will really collapse. Is that's the way to think about?

Jitender Verma: See, as I said, we are widely spread in terms of the market, you won't find the price disruption or the price difference across all brands in some of the markets which are largely mature or which are I would say behaving in a proper way. However, in some of the markets, we have seen a difference of almost and as I said when I say the difference, you won't be able to get the difference in the average price index, which has been measured in terms of the end consumers. But the specific deals would have been created with the channel partner, in order to ensure to get the shelf over there in the counter. So, I would say the average price difference will be close to 2.5% to 3%. However, in some of the markets, it may go as high on the 5% side, and some of the markets that may go low less than 1%.

Niket Shah: And just to reconfirm what you said earlier, you said that, is my understanding correct that we expect our market share to come back to original level by the end of the 1st Quarter or you think it needs some more time?

Jitender Verma: See when I say we always optimistic in our approach, and many times you find us conservative as well, when we give any forward outlook statement. So, in our case, we are working as I said we have taken some of the corrective actions, some of the corrective actions we cannot do it knowing the margin and the reasonable share you need to have it in your financials. However, looking into all the possibilities we are comfortable or we are looking forward to regain some of the market share which we lost in the last two months. How much and more I would not like to quantify as such. We remain conservative and prefer to deliver more than what we give outlook to the stakeholders.

Niket Shah: And would it be possible for you to comment on because while on one side there is a significant amount of raw material inflation, but on the other side, this year, summers have been extremely strong. So, if you are able to show a disproportionate growth then some operating leverage should benefit at some sense. So, how should one think about margins for the next step?

Jitender Verma: Still you are facing a gap between your increase input cost and the price hike which you announce, which means that whatever comes on a volume part we will try to mitigate those kinds of gap or bridging those kinds of gaps. So, in terms of margin, we are of the view that industry will see some kind of stress on this industry, on this product front. And it will be difficult to quantify today at what margin and all, but to go back to double digit of market for the industry and for people like us, probably it will take some time.

I would not like to quantify the period as much. But as I said the efforts will be first to tap upon it but knowing the situation in which the industries and inflation is moving and having the period of June and July to go on the summer, probably we have to cautiously watch on this position.

Moderator: Thank you. The next question is on the line of Ranjeet from Mahindra Manulife Mutual Fund. Please go ahead.

Ranjeet: Just wanted to check with you, was there any disruption in terms of supply chain, because we have a lot of imports coming from China. So, would you say that there were some issue because of that or it's largely because of the pricing only we have lost the share?

Jitender Verma: Ranjeet, as we had earlier mentioned on the supply chain front there were no major disruptions. We had planned for our supplies for the full season. And there is no disruption on that aspect, except for one or two small --, some SKUs where delay was seen because of Shanghai lockdown and this and that, but majority of the summer was planned much in advance. And we fairly did well.

Manish Desai: And Ranjeet if you recollect in terms of the import as well only few components now remain on import source, largely every other components have been localized. So, on that front also the mitigation steps which were taken by us, helped us along. As I said there is some kind, we have witnessed some kind of delay. But disruption to assign one the supply chain probably is absolutely no.

However let put a cautious note on that, we have seen a good amount of growth both in March and April. And I would go with the words of the other industry players as well, if you are seeing in excess of 100% growth further till June and July, probably the industry will have a complete stock out season because to have a continuous growth of 100% is like achieving something which has not been --

Ranjeet: If I can ask one more like what is our strategy now, like we have seen through this and all this price disruptions. So, if you can share like as Voltas how are you going to react to the situation if you can whatever you can share?

Manish Desai: Ranjit, we are not seeing this price disruption for the first time. Some of the brands in the past also have come, disrupted the price, but it could not continue for a long. I am sure each one of them are looking into the bottom-line as well while furthering the business. So, it will automatically get settled over a period of time. And obviously being a leader in this category, the kind of as I said some of the tools which we have, some of the cards which are in our hand we will play it at appropriate time to ensure that we remain healthy and leaders both in margin as well as market share.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Can you give a rough breakup of the UCP segment, in terms of revenue between air conditioner and non-air conditioning products like air coolers and other products?

Jitender Verma: So, if you recollect, Ravi, in the year beginning we have a merged commercial air conditioner to UPBG business, aligning on the risk and reward kind of metrics. So, that contributes around 17% to 18% on the UCP segment. If I remove that, the balance in the cooling product segment, we do have close to 80% going towards the Air Conditioner. Commercial refrigerator will have around 15% to 17% and rest is, I would say the air cooler. Air cooler being a low-cost item, although it won't contribute significantly to the turnover, but given the advantage on the, I would say on the pricing side and the cost side, it will have a better contribution in the margin. However benefit also not been witnessed in the current year because of the pile up inventory at the channel partner end due to the washout of two seasons in the past.

Ravi Swaminathan: So, with respect to margin for the UCP business, so you had given some kind of comment, so just wanted to reconfirm on that, if you are talking about a 10% to 11% margin, we would be able to maintain in FY23 or there might be some downside risk to it because of the rawmat inflation being seen.

Jitender Verma: Ravi, in the today's time it is very difficult to, I would say expect the increase input costs. Although we have seen softening of the commodity price backed by the lower demand in some of the economies. However, we cannot still rule out the disruptions and inflation which is prevailing in the respective home countries. So, it would be difficult to say, to give any guidance. But as we said in the past that we won't like to be leader only in the market share but continue our leadership in the margin as well. And that will be the driving factor for us as we move forward.

Ravi Swaminathan: And my last question is with respect to the joint venture with Highly for compressors, can you talk about it a bit more. And also the CAPEX plans that we are going to do this year and next year.

Manish Desai: Yes, so, if I look from the Highly perspective, although it announced during the silent period, so, I could not elaborate more to the investor fraternity. I would say that the Highly compressor, the investment which has come keeping in mind, I would say it's a strategic decision. The reason behind is because we are not expecting to have the product without compressor being there. And compressor is a critical product we all know, in the air conditioner product category. It has the importance in the refrigerator and the commercial product as well.

So, in all looking into the availability of the compressor as well as a criticalness in terms of having the self-sustainability of this critical component, the decision has been made to invest into a backward integration to have the compressor through a joint venture. And the decision to go for joint venture is largely driven by the technical skill, and the joint venture partner is among the global leader in manufacturing the compressors. And we have done the partnership with them for inverter make compressor. So, we are now looking into fixed bid compressor because market is expected to decline, as we progress in the next one- or two-years aspect.

In terms of the overall CAPEX for the plan, both the joint ventures partners put together, will have investments around Rs. 250 crores to Rs. 500 crores to be taken in two phases, with the capacity of going close to one million units when we complete both the phases.

Ravi Swaminathan: And the overall CAPEX that we may end up doing over the next one to two years, including this JV.

Manish Desai: I would say that the if I take a midterm task of two to three years because we are committed to the PLI as well. And we are in the process of expansion of manufacturing capacity for both, RAC, and CR, put together we are not expecting the CAPEX cycle go beyond Rs. 350 crore to Rs. 400 crores in the near term, if I take two to three years from now.

I just stand corrected on the earlier question, not Rs. 250 crore to Rs. 300 crore, it will be Rs. 450 to Rs. 500 crores, extremely sorry for that.

So, CAPEX will be around Rs. 450 crores to Rs. 500 crores in the next two to three years, which will take care of our PLI applications which we did for the backward integration, for some of the components compressor which was a joint venture, and expansion of the manufacturing or production capacity for both RAC as well as the Commercial Refrigerator.

Moderator: Thank you. The next question is in the line of Ashish Jain from Macquarie. Please go ahead.

Ashish Jain: My first question is again on market share, so while the market share loss is largely in the South, historically, you have said that South is like 20% to 22% of our total revenues. So, is it fair to think that the market share loss in South is like disproportionate in the range of 20% to 25% to drive a overall loss of 6% to 7% points or am I missing something here?

Jitender Verma: See what happened is, if you are there, the other part of the country got an extended winter, we all know. We didn't require to switch on the air conditioner in the night till probably end of the February. And that point of time when we have seen the contribution of South which has gone as high as 30% to 35%, primarily because other reasons were not having the need or the hot summer. So, that increased contribution which otherwise should have been stand at 20% to 22% you are right, which has gone as high as 33% to 35%. And this spur probably has resulted some kind of disruption, which we are seeing in terms of the overall market share among the players over there.

Ashish Jain: Secondly, in terms of window air conditioners, can you just share some data in terms of how much of the industry is window ACs and how much for us is still window ACs? I know it's a pretty small number but can you just share?

Manish Desai: I agree with you, rightly pointed out by you the share of the window has actually coming down year-on-year. And we touched to around 19%, I would say for the Voltas 19% and 20% probably be aligned with the industry as well. So, it has come down from once upon a time to having 25% in the last year it dropped to close to 23%, then 21% and we are now seeing a level of 19% to 20% for the window type air conditioner.

Ashish Jain: And you are saying that the proportion for the industry is also similar at 19%.

Manish Desai: Because you can't be too much away from the market, because obviously you can't be 2x if the market is x.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment Managers Limited. Please go ahead.

Sujit Jain: Yes, just to get this right, the price increase for RAC segment for the full year FY22 for Voltas would have been in the range of 12.5% to 13% overall, right.

Jitender Verma: 12% to 15% Yes.

Sujit Jain: And now that at least one player has spoken about having raised prices in April, at least few players should be on par with Voltas, in terms of price increase taken for 15 months.

Manish Desai: It is difficult to control the expectations of the move the other competition no. So, it is difficult for us to estimate, yes, I know which player you are talking about, which has openly said about price increase. But at the same time, we have to see has it been rolled out effectively across all markets. Because the challenges what the leaders and the other players are facing will be faced by them as well by the other player, when you talk about the across product, across market increase of 2.5% or what is the price increase being announced.

So, as I said in the earlier comment and Mr. Verma also commented, the effective rollout or the price since you announced generally takes almost 30 days to 45 days if I want to go on a PAN India basis across the lead SKUs where the price is being announced. So, that if I look from the quarter end and all, you won't get even advantage of more than 50% of the price being hiked been announced, at the beginning of the quarter. But it's a good start in terms of strategy all players adopting including Voltas when we announced price hike in the earlier period.

Sujit Jain: The 25.8% market share that you spoke about in last concall which is Q3 con call, was for nine months.

Manish Desai: YTD, right.

Sujit Jain: And this has basically GfK and Nielsen data, which is secondary data, volume data, only MBOs not EBOs, right?

Manish Desai: Yes, MBOs and you know very well how GfK extrapolates the data. But as I said there is only one agency carrying out such kind of analysis because generally, I don't want to explain the methodology because that methodology being adopted by them earlier as well and now. So, we are not pinpointing out to the terms of the methodology being adopted by them but generally when GfK captures the data, they extrapolate based upon the base data over there. And many times they are not able to collect the data from all retailers across countries.

So, we take all this data in a good spirit. The reason being is because the market share is not probably the one which we are looking from this kind of data. It gives a lot of other insights in terms of the strength and weakness of the other brands including the weighted average distribution of each brand they are enjoying in a particular market. So, when we take this database, we go in a much micro way, in order to find out what are the corrective actions, or the need-based actions we required to do it, in some of the markets, which probably, we have to change or we have to move on terms of the distribution.

Sujit Jain: This is a volume data, right?

Manish Desai: These are the volume data, right.

Moderator: Thank you. We will move on to the next question that is from the line of Keyur Harish Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: Just want to know, on the demand conditions, we are hearing that demand continues to be robust. Now, are we as a company and industry able to source material even at this stage seamlessly or are there supply issues either at the Voltas end, earlier you mentioned that there is no issue, but at the industrial which may help us gain market share?

And just ancillary question is, are we able to source say final products or components locally or versus the import for this kind of demand. So, basically just want to understand with robust demand, how is the supply situation, whether at the channel end or the brand end for Voltas and for the industry?

Jitender Verma: So, let me answer first the channel one, gentleman. We all know today, there is a huge demand of the product in the shelf. So, basically, the channel partners inventory will be a hand to mouth kind of situation probably they are not carrying even more than 15 to 20 days inventory, in their warehouses, but it's our reading because the continuous inventory are coming. And we are seeing good amount of growth over there.

If I look from the Voltas side, obviously, it goes well for the brand manufacturer as well. So, our inventory level has also come down drastically. And if I compare with 31st March inventory level with the capital employed which you are seeing in our statement. And if I take the future consumption in the trend, the inventory is sufficient for 45 to 60 days, although the continuous inflow is still coming, because when we project something on the growth side, we plan it over a base here and here the base year was 2019 because 2021 has still seen some kind of COVID induced lockdown, and reduced demand for that matter.

So, industry has projected a good amount of growth. And I go with the projections which all players have grayed out. And I said in one of the questions, one of the observation was the answer is, if the demand continues to be more than 100% over the last year, I am sure that all industry players result will go into the stock out situation sooner or later. But till today, what we are seeing in the markets, we are adequately covered till June, July. I would say June because June where the primary ends actually.

Keyur Pandya: And how is the proportion of say import versus -- domestic supply would have changed this year versus say two years back or last year, post these restrictions on imports of ref gas?

Manish Desai: See most of the components have been localized, wherever we find the ecosystem in place. We all know that the compressor is still one of the components and some of the PCBs of the high denominations are still getting sourced through import. However, as we move forward, we are expecting that high amount of localization will take place, to start with motors and the PCBs followed by the compressor.

So, in terms of the percentage, I would say that a compressor contributes around 16% to 20% of the cost and if I look from the PCBs which will add further kind of 12% to 13% or 15%, still, that components are largely being sourced through import, although we have the local arrangement as well. So, although their contribution is almost 35% to 40%, in the overall composition, at least 20% to 30% of the requirements are still getting procured locally, where we have some kind of ecosystem available in India.

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

Manish Desai: Yes, we thank all the participants showing interest in Voltas. I am sure that one hour will not be enough for all the participants, given the anxiety and given the I would say the outlook and all. We are open for any questions/answer sessions and you can reach out to us, and we will try to answer it at the earliest.

Jitender Verma: Thanks for all the questions, I think the timing of this question is very correct. And as we have said that we are taking the corrective actions in the market. We should be coming back with the market share and continue to be the market leader on the market share as well as on the margins itself because as we have said that it is not possible for all the other players to disrupt the prices and continue to make losses for long periods. With that, I really appreciate your time and thanks for the same. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of ICICI Securities, that concludes this conference call. We thank you for joining us and you may not disconnect your lines. Thank you.