



## “Voltas Limited Q2 FY-25 Earnings Conference Call”

**October 30, 2024**



**MANAGEMENT:** **MR. PRADEEP BAKSHI – MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER**  
**MR. JITENDER VERMA – CHIEF FINANCIAL OFFICER**  
**MR. NIKHIL R. CHANDARANA – HEAD CORPORATE FINANCE**  
**MR. VAIBHAV VORA – HEAD TREASURY**

**MODERATOR:** **MS. BHoomika Nair – DAM CAPITAL ADVISORS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Voltas Limited Conference Call hosted by DAM Capital Advisors.

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 the “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Bhoomika Nair from DAM Capital Advisors Limited. Thank you and over to you, ma'am.

**Bhoomika Nair:** Good afternoon everyone and a warm welcome on behalf of DAM Capital to the Voltas Limited 2Q FY25 Earnings Call.

We have the Management today being represented by Mr. Pradeep Bakshi – Managing Director and CEO; Mr. Jitender Verma – Chief Financial Officer; Mr. Nikhil R. Chandarana – Head (Corporate Finance); and Mr. Vaibhav Vora – Head, Treasury.

At this point, I will hand over the floor to the Management for the “Initial Remarks”, post which we will open up the floor for Q&A. Thank you and over to you, sir.

**Jitender Verma:** Hi, this is Jitender Verma. I will be taking a few minutes to give you Analysis of Results and then we will take the questions and answer along with our MD and CEO – Mr. Pradeep Bakshi, who is also on the call.

So, as you are all aware that global growth remains resilient, despite the sluggish outlook for the Eurozone and China. Stronger than expected growth in the United States among advanced economies along with robust performance in India within developing economies is sustaining overall growth momentum. However, uncertainties stemming from disruptions in production and shipping, geopolitical conflicts and extreme weather events. Upcoming US elections may influence the global economy in the near term. Domestically, the economy is projected to grow between 6.5% and 7% in FY25. Rural demand is improving, driven by high FMCG sales, while urban consumer sentiment appears to be softening. The recent surge in inflation can be attributed to a temporary spike in vegetable prices. However, core inflation remains within a comfortable range and several food items such as pulses have declined in price due to government initiatives. In the current quarter considering underlying global and domestic factors, The Reserve Bank of India has shifted its stance to “Neutral”, focusing on inflation targets while supporting growth. Nevertheless, inflation projections may face headwinds from renewed volatility in commodity prices, particularly due to fiscal stimulus in China which could impact the RBIs inflation targets and potential rate cuts.

Voltas has delivered another remarkable quarter. Two quarters ago, the company achieved the milestone of selling 2 million air conditioners within a 12-month span. Impressively, this

achievement was reached in just eight months during this calendar year, 2024 highlighting strong market demand for the company's products and a year-to-date growth of 52% at this time. During the traditionally lean monsoon season in the current quarter, Voltas reported a 15% growth compared to the same quarter last year. Despite a higher base, the Unitary Cooling Products Division continued to outperform the market, maintaining its growth momentum with an overall volume increase of 56% over the previous six-month period.

For the six months ending September 30, 2024, the company achieved a 33% increase in consolidated total income reaching Rs.7,726 crores up from Rs.5,794 crores in the same period last year. Profit before tax surged by 128% climbing to Rs.657 crores compared to Rs.288 crores previously. Net profit after tax also experienced significant growth reaching Rs.468 crores up from Rs.165 crores in the corresponding period last year. This marks the highest half yearly profit in the company's history. Earnings per share for face value per share of Rs.1, for the six-month period ended September 30, 2024, was Rs.14.15 compared to Rs.5.02 in the same period the previous year.

In the same quarter, consolidated total income grew by 15% reaching Rs.2725 crores compared to Rs.2364 crores in the same quarter last year. Profit before tax surged by 142%, increasing to Rs.205 crores from Rs.85 crores. Net profit after tax saw a substantial rise climbing to Rs.133 crores from Rs.36 crores in the corresponding quarter last year. Earnings per share (face value per share of Re. 1) for the quarter ended September 30, 2024, was Rs.4.05 compared to Rs.1.11 in the same period previous year.

During the quarter ending September 30, 2024, the Board of Directors approved a long-term incentive scheme for 2024 aimed at driving company performance and retaining key talent. This scheme which commenced in the Financial Year '24-25 would end in the Financial Year '26-27, has resulted in a provision being added to employee benefits of Rs.24 crores for the first six months in the current quarter which moderately impacted the bottom line. These actuarial valuations will be reassessed periodically.

Overall, the corporate balance sheet remains healthy.

A snapshot of our Results for this Quarter and for the Financial Year is already aware to you guys.

**Segment-A Unitary Cooling Products:**

The 2nd Quarter typically marks a lean period. The extended heat wave in the Northern regions helped sustain the growth momentum in the company's air conditioning business. However, persistent rains throughout the country during the quarter slowed industry progress. Despite these challenges, the segment performed relatively well reporting revenue growth of 30% compared to Q2 FY24 and 44% compared to H1 FY24. All products within the room air conditioner category experienced strong demand driven by consumers desire for comfort and

convenience. Both window and split air conditioners saw robust growth, with demand emerging from across the country. The premium segment particularly five star rated products continued to thrive, leading to an improved overall sales mix for Voltas. With the new facility operational, we aim to enhance sales and service through our extensive distribution network. Leveraging our supply chain has enabled us to maintain our leadership position with an exit market share of 21% as of September 2024.

Over the past few quarters, we have consistently strengthened our brand proposition and product placement across all channels. During the season our performance in the RAC segment has remained strong. We also noted significant volume growth in other cooling products including air coolers and commercial refrigeration items.

The commercial refrigeration industry currently faces headwinds due to a reversal in the capital expenditure cycle after two to three years of consistent growth. Products such as chest freezers and chest coolers have reported moderate growth. Nonetheless, demand for water coolers and dispensers within this category has remained supportive. Thanks to our new plant and the higher base from the previous year, commercial refrigeration products showed a healthy performance. Our new offerings in cold room and medical refrigeration's are gaining traction bolstered by a solid order book. While revenue growth was commendable challenges in the market stemming from reduced capital expenditures by customers have led to a decline in margins during this quarter.

The air cooler and water heater categories continued to outperform achieving substantial growth compared to the previous year. Strong sales in the first half coupled with healthy order commitments from our channels set the stage for an exciting year. Aggressive initiatives to expand our distribution network combined with quality products and favorable climatic conditions have helped us establish a robust foothold this season. Our new cooler models were well received further fueling growth in this category. Recent reports indicate that our market share has grown to 11.1% exit September. Positioning Voltas as the number two brand in September 2024. In the water heater segment, partnerships with distributors and sub-dealers have also contributed to strong performance.

The Commercial Air Conditioning (CAC) vertical maintained steady performance during the quarter driven by sales of VRF, cassette and ducted ACs. The higher volume of margin product sales value engineering initiatives and the current mix of AMC jobs have positively impacted our bottom line.

Consumer centric financing schemes significantly contributed to sales growth this season. However, elevated commodity prices and a depreciating USD-INR exchange rate have affected profitability. Our investments in BTL advertising have helped keep margins steady aligning with our expectations. Simultaneously, various value engineering initiatives and cost control measures have contributed to stable margins.

In summary, Segment revenue grew massively by 45% reaching Rs 5,384 crores up from Rs 3,723 crores during the same period last year. The segment result increased by 48% amounting to 443 crores compared to 300 crores in the corresponding six months of the previous year. For the quarter ending September 2024 segment revenue grew by 31% totaling Rs 1,582 crores compared to Rs 1,209 crores in the same quarter last year. The segment result for the quarter was Rs 116 crores up from Rs 93 crores in the corresponding quarter last year.

On the capacity expansion front, we are pleased to report that production at our new factories in Chennai and Waghdia is progressing as planned. These facilities provide us with strategic advantages in location, enabling us to effectively cater to markets in South and West.

**Segment-B Electro-Mechanical Projects and Services:**

The segment revenue for the quarter was Rs 880 crores compared to Rs 924 crores in the previous year corresponding quarter. The segment results for the quarter stood at a positive Rs 46 crores, a significant improvement from a loss of Rs 49 crores during the same period last year. Over the six-month period, segment revenue increased by 14% reaching Rs 1,829 crores compared to Rs 1,603 crores in the same time frame last year. The segment result also turned positive amounting to Rs 114 crores a substantial turnaround from a loss of Rs 101 crores last year. Primarily due to provisions made of receivables.

During the current quarter, heavy rainfall affected project execution across all verticals leading to marginal growth for the business. Delay in job progress and collections from government tendered jobs impacted profitability. However, domestic business performance for the six months showed improvement. A focus on collection of dues and better working capital management has resulted in strong profit growth. The business anticipates a return to normal execution levels and aims to achieve its targets and growth by the year end.

For the domestic project segment, we secured an order of Rs 822 crores with the current order book standing at Rs 5,014 crores. In the international projects sector, operations in the UAE and Saudi Arabia continued to perform well driving the revenue growth. Strong project execution has ensured robust bottom-line performance as well. We have adopted a cautious approach to order booking during the quarter as of September 30, 2024, the carry forward order book for international business stood at Rs 2,473 crores predominantly in the UAE and Saudi regions. The total carry forward on the book for the segment was Rs 7,487 crores as of the same date.

**Segment-C Engineering Products and Services:**

This segment faced certain challenges during the quarter while revenue increased to Rs 308 crores from Rs 277 crores the previous year. Segment results fell to Rs 84 crores from Rs 108 crores during the same period last year. For the quarter segment revenue grew by 9% reaching Rs 147 crores compared to Rs 134 crores in the corresponding quarter last year. The segment result for the quarter was Rs.40 crores down from Rs 54 crores in the previous year.

The mining and construction vertical showed positive momentum on the top line, ensuring continuity in operations and maintenance jobs as well as sales of power screen machines. However, revenue mix and challenges in job renewals at a healthy margins limited the ability to translate top line growth into EBIT.

The textile industry faced headwinds due to fluctuations in cotton and yarn exports. Consequently, capital expenditure across the sector decreased, leading to reduced utilization level for spinners and a corresponding decline in demand and margins for our agency business. Despite these challenges, our after sales and post spinning business showed positive performance.

**Voltas Beko**

Our joint venture, Voltbek Home Appliances Private Limited, also emerged as a beacon of growth, a volume growth of 54% in the first half of the year. This was complemented by a significant increase in market share in the refrigerator and washing machine categories year-over-year. As of YTD September 2024, our market share improved to 7.5% for washing machines and 5% for refrigerators.

The home appliances industry in India experienced steady growth driven by demand for both large and small appliances. However, as compared to industry, Voltas Beko poised a strong growth by offering an impressive product range to meet consumer needs. The launch of the HarvestFresh campaign along with enhanced social media efforts, focus on e-commerce, exhibitions and dealer meetings, significantly boosted overall business performance. Improved traction from modern trade has further supported this growth. In terms of profitability, increased volume has led to a gradual reduction in losses. Voltbek continues to work towards minimizing loss per unit, aiming for EBITDA break even in the coming future.

Voltbek remains committed to enhancing its market presence across various product categories through customized market penetration strategies and growth initiatives. These efforts include expanding distribution reach, adopting channel specific tactics to enhance market presence in key regions and maintaining a strong focus on boosting e-commerce and omni channel development. On the cost front localizing production for a larger portion of its product portfolio, implementing product efficiencies, value engineering and optimizing the product mix have contributed to a positive outlook for the company.

**Outlook**

The period from October to December that is quarter three FY25 for the company is generally a lean season for cooling products due to winter. However, the onset of the festive period may bring an early surge in demand in part of the quarter. It will be interesting to observe the interplay of various factors including inflation. Fluctuations in oil prices, currency behavior and geopolitical challenges. The current economic environment is marked by uncertainty and

volatility. Inflation remains a focal point, influencing future monetary and non-monetary actions that will impact overall economic growth and consumer demand in the upcoming quarters. Nevertheless, we remain optimistic, given the supportive factors for the businesses we operate in.

Thank you, maybe we can open it for questions.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Nitin Arora from Axis Mutual Funds. Please go ahead.

**Nitin Arora:** Just as you articulated, market share coming back as you stated in the press release and the primary growth looks pretty promising. Can you talk about, how the secondary market has gone during this quarter? I understand this is something, not a season but generally, if primary has been on such a higher side, how is the secondary market. And number two, given festive you have already seen, must have seen last 10, 15 days or 20 days of festive. How has the response been, on overall sentiment wise, on the product itself and how you are doing it. That's my first question.

**Management:** Okay, firstly you asked about the secondary sale. So, this year right from March onwards, of course last seven, eight months the sales have been hit and we are sharing with you that's the secondary sales market share only, which is by third party Syndicated Research International Agency. So, that shows that we have continued to do well by clocking in 21% market share exit September. So, this shows the sales have been quite robust. It's not that we are just pumping the material in the market, secondary has also been happening equally good but could be better. Also, for your information, if you wanted to know about Diwali, previous season sale is not happening around this time for the AC business, it is not giving a great numbers during these festival period. However, it is more of other appliances like washing machines and also, we continue to do pretty well on our appliances segment, Voltbek product and we have clocked very good numbers even during October period, because of Diwali procurement starts happening from September onwards which is even 30 days in advance actually. So, this last one-month appliances sale has been very big, all appliances across both categories have done very well. AC has also done well compared to last year, we have continued to grow. But, more to talk about, we are currently talking about quarter two and half yearly results. So, our primaries and secondary have done well. Yes, of course in the quarter two because of rains, actually in several parts of the country and extended rains this time caused a bit of a disruption in certain areas. However, overall, we have done pretty well for ourselves as a brand and even industry has done reasonably okay, everybody has shown growth whatever numbers we have seen for both of the brands. So, that's the answer for your question.

**Nitin Arora:** Sir, why I asked specific AC because, when we were talking to a few channel partners and all surprisingly, they are talking about October festive is some 20%, 25% growth in AC. So, I was pretty surprised to hear that. So, I thought I will ask you.

**Management:** Yes, that is what I am saying, but I am controlling my growth earlier months right from March until May, month of June I was growing 100%. But yes, looking at, festival growth is not so strong for ACs.

**Moderator:** The next question is from the line of Saumil from Kotak Mutual Funds. Please go ahead.

**Saumil:** So, two questions. The first one in Voltbek. Obviously, you have alluded to the market share going up both in ref as well as washing machine. But the losses seem to be at 30 crores on a quarterly basis. Now at what revenue threshold or at what market share you believe you can achieve a break even. That's my first question, any broad indication of that.

**Management:** So, firstly as we said it the initial five years, we are investing into the brand actually. And we are building the revenue and the numbers. Yes, I would believe that very soon we are likely to reach 10% market share in the washing machine and probably 7- 8% in the refrigerator segment because we are already 5% and 7.5% it's been hovering around month-on-month in the washing machine. And in case you talk about only semi-operated washing machine it has been there about 14%+ all along across the month after month for almost a year now. So, when we overall from the margin issue by probably next year we should see some EBITDA positive. That's what we had committed and given the guidance also, we have been working towards it. Probably in a years time, we should cross this threshold numbers, which I am saying probably 8% to 10% market share in both the category and from there onwards probably you will see a better result on that front. So, you will see that we have been continuously building network, we are continuously building making the consumers aware about the category, about the products that you have been offering our products have been accepted very well. No complaints whatsoever from any segment, all the channel partners across segments including e-commerce, including modern trade, including organic trade, everywhere this product seems to be doing very well. And then also hopefully we will get good news very soon.

**Management:** Yes, Saumil just to add, we have always been maintaining that somewhere in this year, we should break even in EBITA and that is looking highly likely. And as it is also evident by the fact that with higher volumes, our losses per unit are also coming down gradually. And if I were to actually put a number, I would say somewhere closer to Rs 2,500 – Rs 2,600 crore kind of a turnover we should be definitely breaking even.

**Saumil:** Perfect. And sir my second and last question now, obviously once the new plant which is already operation in Tamil Nadu in year two or year three, what could be the utilization rates in the volume sold, any broad number and subsequent to that, what could be the broad margin differential versus where we are today?

**Management:** So, let me answer this, if you look at our current sales, it is well past 2 million in the first 240 days of this year. And we have been growing at a pace of almost 52% in this category, obviously we have set up this factory. So, if we continue to grow with pace, we are likely to cross 2.5, 3 million very soon. So, this particular factory what we have set up is only at the moment 1 million

units. And existing factory at Pantnagar is able to produce about 1.5 million. So, put together as it is, I am running short of the capacity, and we are augmenting it further. Probably we may soon take it to 1.5 million and 2 million by 2026. So, therefore, it will just be sufficient for my needs. So, when you are talking about full capacity, it has to run on the full capacity and continue to cater to the demand and that we are and the obligation on that factory. So, you don't worry this will be running at full capacity and this full capacity will be utilized also. Coming back to you say, that how the profitability is going to improve. We want to first fulfill the consumer requirement; we want to provide convenience to my consumers and profitability has been reasonably good as of now. Our endeavor is to expand the absolute margins continuously because India's penetration level is pretty low as compared to similar kind of geography with similar kind of population base and consumption-base as China if you look at. So, we need to expand the margin, our ownership on the brand, which is a leading brand to extend the market provide comfort to the consumers, that's the objective of this factory.

**Moderator:** Thank you. The next question is from the line of Naushad Chaudhary from Aditya Birla Sun Life. Please go ahead.

**Naushad Chaudhary:** Two questions, Then I will come back in queue. Firstly, again on Voltbek, I take your point sir, but just to help us understand more, at what gross margin we operate this business and what specific steps are we taking to make it profitable, how much capital we have deployed so far in this business. This is my first question sir.

**Management:** So, partly we have already it's been way much we have answered on to this how we are making it profitable, et cetera, it was answered. If you are asking about what kind of gross margins we have been making in this category. See, different products make different kind of gross margin, it ranges between 10%-12%. And as we said is, EBITDA break even we want to make probably this year, by this yearend that's the endeavor at the moment. And that's what we are applying for and profitability, as we said this in terms of revenue, my colleague has said something Rs 2,500 odd. We are growing very fast in this category, we are the fastest growing brand. So, you can be rest assured we will be profitable in this category. This is initial investment, formative years where you need to build the brand because we are bit late entrant into the category, you will appreciate that there are mighty Koreans and other brands, Chinese brands are available, American brands are available. So, we have to make our mark into the industry. So, our endeavor would be to grow this industry also, we have been doing about 1.8 million products for all around, you look at how fast is it growing. A couple of years back, we were 5-6 million, we will be able to cross 2 million now.

**Naushad Chaudhary:** How much capital have we deployed in the business, sir?

**Management:** Voltbek, Jitender corrects me it's about Rs 1,500 crores. So, put together by both partners out of which 50% is by Tata including Voltas and Tata Investment and 50% by the partners in a similar proportion 49%

**Naushad Chaudhary:** Alright. I have follow-up on this. I will come back, but the second question is on the raw material side sir, if I see from last time, from Q1 there is slight gradual inch up in the raw material cost. So, do you think the market is ready to absorb that cost or we may see some challenges in coming quarters in terms of passing on that raw material?

**Management:** I am sure you know that in all the categories including air conditioners, refrigerator, washing machine, get the pricing by some percentage point because raw material cost. Yes, you are right, obviously there was one escalation in the commodity prices in the last few months. So, we have passed some part of it already and we will continue to see, continue to observe, partly we are trying to cover up through value engineering in our factories as to how can we minimize the cost of production. And similarly, part of it needs to be passed on, we have passed on also and we will continue to do so depending upon how we can mitigate that, of course the brand cannot absorb everything, something has to be passed on to the market as well.

**Moderator:** Thank you. The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

**Natasha Jain:** Sir my first question is on the domestic side of the EMPS business. Now, historically, in the past couple of quarters, we have seen quite strong growth and honestly very bullish commentary as well. But this quarter in the domestic side, the growth has just been 6%. I understand incessant rains could be a factor. But, could there be a possibility that there is some slowdown in certain projects that we are executing. And on a related note, how do you see order book execution for domestic business in the second half? That's my first question.

**Management:** Natasha, to answer that very quickly. In your question, the answer was there, the incessant rains that is the real reason and I will therefore call it a kind of a one-off thing. And the H1 was good, we don't have any issues on that. Yes, slightly bit of a lesser growth than as we have been showing. But the H2, we should be able to recoup all these things because in the projects business, sometimes we don't have to look at it quarter-to-quarter because different projects have different kind of speed. And therefore, on a yearly basis, we should be able to recoup. And the order picking on the domestic side also has been really good and we have picked up some nice, good margin orders. This has also been our strategy to be selective and pick up only those orders which we believe are having good KYC and all those factors. So, we have been on track for that.

**Management:** So, let me add to what Mr. Verma has said the order side has been reasonably heavy incase the same number it was last year. And 31st March, we are about hovering around 5,000 odd crores worth of order pad with us. And while we have said that during the rainy season, there is always a bit of disturbance because right off way, etcetera, etcetera at times is not available and therefore you cannot complete the deadlines, et cetera. However, if you look at H1 numbers we have been way ahead of our company's numbers and targeted numbers in this category, H2 also looks very promising. We have got very healthy orders of almost Rs 800 odd crores which we need to execute during the course of next few months. So, we have got a very good order bag, and I am

very confident and bullish on that segment as well, we will stick to that segment as well. We will do well in this segment as well.

**Natasha Jain:**

Understood sir that helps. And my second question is on the RAC side, while you have mentioned earlier in the call that, there was tertiary demand in the sense that end consumer demand did pick up. But I would just bring in a lean quarter like Q2 when practically your August and most of your July was also completely washed out because of rain still we have had healthy growth in the RAC category. So, sir, should we read it as, there could be some bit of channel filling also because the inventory was low. And if that has happened, how do we see the near term, because now we will end the quarters wherein, we sit at very high basis. So, what is the kind of growth that we can expect in the second half from RAC as a category?

**Management:**

Natasha, in my report and in my initial comments, I mentioned that we did exit in September of 21% market share. So, when we are reporting that that's the secondary data only which we pick up from the market. And that would also show you that the secondary have been doing pretty well. Of course, there would be some, stocking up but those are like normal levels. It is not that people are or the dealers are building up unprecedented inventories or anything. And this market share data actually alludes to that fact.

**Management:**

Actually, the market knows, the dealers are really smart people, and they understand what to stock and what not to stock up. History shows that there is a greater demand of appliances. Therefore, they invest more into the other appliances than they are able to do during this period. So, I don't think, but of course they need to prepare themselves for each category and therefore, air conditioner also they would have kept in stocks and they have been able to sell and liquidate part of it. Inventory built up in the channel in September was for festive season sale and is at a normalised levels right now. Also in case of second summer in October-November West has done very well for us actually, while North of course, I can understand because of Diwali, festival and all there is a more focused towards appliances, but West and South their second summer catches up and the demand of cooling products there. So, I don't think I am worried about any stock. So, you can be rest assured we will continue to do well in next two quarters as well.

**Moderator:**

Thank you. The next question is from the line of Ravi Swaminathan from Avendus Park. Please go ahead.

**Ravi Swaminathan:**

Sir thanks for taking my question. Most of my questions have been answered. One question on the engineering product side. So, our profitability, which used to be in that range or band of 33%, 35% at any EBIT level had come off to 27%, 28% in the first half. Is it because of the fact that the profitability in the textile side is generally way better than that of the mining side? Is that the major reason or is there something else that we need to really do it and how sustainable or should we read it like, the margin should be in this band at least this year to 27% to 28%?

**Management:**

So, textile machinery it is having a little bit of a challenge at the moment because, Bangladesh because of tensions there, Bangladesh lot of yarn goes to Bangladesh, and that was actually had come to a halt there, that's one. Secondly, yarn prices also had suffered and therefore the margins have shrunk during this period. Looking at, even the policies, etc., probably we are presuming that the margins are going to be around this level for the next few months until situation starts picking up, yarn prices need to get corrected. And of course, the Bangladesh starts operating in the normal fashion that will be the ray of light for this particular category. But it's been a healthy number. They have been delivering about 100 odd crores for last two years, this year also slightly lower than the previous number or the revenue number. But we are likely to catch up in the game by the year because we are focusing on vast value-added services also past sales also, the energy or for the textile needs. My team gets engaged whenever these kind of situation comes, now we start doing some other things which continue to give us some revenue and profit, which makes up for the a bit of a loss which may happen because of all these events. So, don't be worry, actually we are reasonably growing in this category as well and by the year end, we should be well close to our targeted numbers.

**Moderator:**

Thank you. The next question is from the line of Keyur Pandya from ICICI Prudential. Please go ahead.

**Keyur Pandya:**

Sir, one question on the UCP margin side. You mentioned last quarter that the industry has increased the prices near the end of the season and year-over-year 30% kind of growth. And despite that if margins are lower Q-on-Q, if you can just throw some light on what is driving the margins in this narrow band, is it competitive pricing or this OPEX of the new plant or something else and in that backdrop, how should we think of margins going ahead also?

**Management:**

There are number of reasons for this, one as we explained initially also that we have additionally provided for long term incentive for our team, for the team to continue to keep them motivated and highly charged up to continue to keep giving us growth. So, that's an additional cost which has come up and for complete H1 has been accrued into this quarter only because the scheme were finalized and approved by the Board now only. So, that's one piece. Secondly, of course there are some investments in BTL activities, but currently, of course, it is because of lesser volume its tilted toward margin depletion. So, therefore we cannot presume similar kind of margins in quarter-to-quarter, the margin will, if you compare with last year also, last year also you can see and compare, margins were about the same level in this quarter.

**Management:**

Sure. See, we have to also see that we are building up for future growth. So, therefore, we are investing in ISD also, which are our in shop demonstrators. So, that's one part of the thing and we have kept even during the lean season, we have continued to work with them. And as Mr. Bakshi said, long term incentives for our employees, like it's sharing of profits with our employees as well. We also mentioned in my speech that the commercial refrigeration bit which is part of the UCP, didn't really come up to the party for this quarter and, and we are seeing a bit of challenge there. Yes, depreciation impact has been there, but I wouldn't say that anything major on the RAC side. Commodity prices also had been slightly bit up during this period, which

we couldn't pass on. So, all that things impacted, but the margin was not very big drop. And, as we have been saying that rather than focusing on these quarterly minor adjustments on these kind of margins, we should look at the rupee profit rather than a margin percentage. And if you would look at and focus on that profits, we have done pretty well and these numbers are really remarkable in that sense.

**Management:** So, some substance of what both of us have said is, we continue to invest in brand promotion, and also on building and expanding the market and building the market share and also on our team to keep them motivated, engaged and charge up and investing into all these things. And this is what is going to pave the way for our success in the coming year. So, that's what it's an investment then I don't think, we should be hassled about that as well. And I am sure all of you would be happy the kind of results the team has put up, both our team has put up in the first half is unprecedented.

**Keyur Pandya:** Understood, sir. Just last and second question on the commercial refrigeration's you mentioned that it did not pick up the way it was expected. So, is it because of the product gaps or basically internal reasons or there is slow down at the macro level or industry level?

**Management:** Water coolers and water dispensers, water cooling products have done well. However, part of this commercial refrigerators, which is freezers and bottle coolers, etcetera have not been doing well. This is industry driven and that's what we have been able to witness through results of the other peers as well. But this is the feedback which we have gathered from the market and from our team. The demand for this category is being a bit subdued because CAPEX has been put on a bit of a hold at the moment because last two, three years, it's slightly sort of a bit where people list into this category two, three, four years and again a bit of a slowdown, like that this continues the technical nature of this. And therefore, this is a bit but our still we registered some growth. So, that's a bit of a consolation to me overall in this category. And however yes, when we compare with air conditioner growth or other appliances which is more than 50% is a bit muted growth that I agree with you. However, we are happy because probably our market share, we have continued to remain within this category, most of the reserves we have been about between 35% and 37% all along in this category for last several years. Water dispenser would be more than 55%, 60% in this category all around. Water coolers have been more than 40%, 45% market share, so we continue to do well in this category as well. But yes, of course, related performance if we compare with other categories is a bit muted one.

**Management:** Yes, that's the most important point that it is not that there is a de-growth or anything. It's not as high growth as in other products. So, it's stays as the nominal thing and two, three years it was a very high growth and therefore there's a bit of a slowdown we are not bothered with it a lot and the margin in fact, if we were to just simply mathematically remove the LTIS numbers, my margin percentage also would have been higher. But anyway, it is the cost which we have decided to defer to our hard-working teams. So, we will keep that and that will be the feature. And we have also said that these values would be reassessed by the actuarial evaluation as every period as the accounting norms are. So, we will take that as it comes.

**Moderator:** Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead. As there is no response from the participant. We will move on to the next question it's from the line of Siddhartha Bera from Nomura. Please go ahead.

**Siddhartha Bera:** Sir, on this margin side some color in terms of the commercial category, you indicated last quarter there were some inventory adjustments and that led to margin pressure. So, now with this type of competitive intensity which we are seeing, includes some improvement for the commercial category also in terms of margins going ahead or this is something which may continue to be there in the next few quarters?

**Management:** You need to understand which commercial category we are talking about, commercial refrigeration, commercial air conditioning, or commercial project. What exactly is the question about, which category you are referring to?

**Siddhartha Bera:** So, sir problem is basically commercial refrigeration there we have seen some margin softness in the quarter.

**Management:** I said commercial refrigeration last quarter when we talked about it was a QCO things which have been brought in by the government on components. So, therefore there was some inventory and that inventory needed to be liquidated. So, that was the issue in the last quarter. And from here, we will have to see if there is really a slowdown on the capital investments within the industry, whether it be the ice cream manufacturers or whether it be other consumers or other business users of these products. So, this quarter we have seen there is a kind of a slowdown on that investment and we will wait and watch on this thing. We have some orders that we will be willing to complete, which will be filling going forward.

**Management:** So, what, we believe we observed during this last two, three quarters in this category, as also mentioned by colleague, people were holding stock and they were building stocks for the summer season. But, as unfortunately the Q2 came in place actually, and they wanted to liquidate those inventories, they will be best at some of the brands. And since they were selling, they were easily placed in terms of inventory and all because our sales and secondary sales have been reasonably good, but because the competition, as you rightly said competition intensity or the anxiety to liquidate those stocks which were not QCO compliant. So, they were trying to liquidate at discounted prices in the marketplace. So, which was exactly based on all of us to compete, to remain competitive in the marketplace. And therefore, the margins are better in the category for the moment. And we will start looking up in this category also going forward.

**Siddhartha Bera:** Got it sir. And sir lastly, if you can highlight what was the price increase which we have taken to pass on the near-term commodity cost pressure which you indicated that will be out of...

**Management:** So, in which category sir you said, we have been able to pass on you are saying?

**Siddhartha Bera:** In UCP sir, you indicated that.

**Management:** UCP as in Room AC I am saying firstly I will talk about, roughly around 3% to 4% price increase we had passed on in the marketplace in the last quarter, quarter two and in probably refrigerator washing machine also if I am not mistaken roughly around 2.5%, 3% of margins have been the commodity price hike or hike has been passed on to the market.

**Moderator:** Ladies and gentlemen, this was the last question for today's conference call. I would now like to hand the conference over to Ms. Bhoomika Nair for the closing comments.

**Bhoomika Nair:** Very thank you to everyone and particularly the management for giving us an opportunity to host the call. Wishing you all the very best and a very Happy Diwali to you and all the participants. Thank you very much sir.

**Management:** I will take this opportunity, I would also like to take this opportunity to wish all of you a very, very Happy Diwali and all the festivals around this period. And also, I would like to thank all the investors and our consumers to this call for posing faith in this brand and continue to allow us to grow this with speed. Thank you very much once again.

**Management:** Happy Diwali to all of you. Thank you.

**Moderator:** On behalf of DAM Capital Advisors Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.