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* Abhijit A. Gajendragadkar

Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell

Edelweiss Securities Ltd., Research Division - VP of Institutional Equities Research

JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst

* Sheena L. Barbosa

T. Rowe Price Group, Inc. - VP

Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst

Amit Mahawar, Edelweiss Securities Ltd., Research Division - VP of Institutional Equities Research [1]

On behalf of everyone, I welcome you all to Voltas' Second Quarter Earnings Conference Call. We have with us today management of Voltas, represented by Mr. Abhijit Gajendragadkar, CFO; Mr. Utsav Shah, Head of Corporate Finance; and Ms. Asawari Sathaye Head of Corporate Communications and Investor Relations. Without further delay, I now hand over the call to the management for opening remarks, post of which we should open the floor for Q&A session. Thank you and over to you, Asawari.

Thank you, Amit. Let me welcome everybody on the call and wish everyone a very happy Diwali. Analysis of results for the quarter and 6 months ended 30 September, 2018. In the United States, momentum is still strong as fiscal stimulus continues to increase, but outlook has been revised down due to recently announced straight measures, including those on Chinese reforms.

China might also experience somewhat of a lower growth in the aftermath of the carriage structure implementation. Growth prospects of Middle East economy has been lifted by higher oil prices. Despite such uncertainties, a certain IMF report -- a recent IMF report, I'm sorry, predicts global growth to expand at a steady pace of 3.7% for 2018 and '19. In India, this was an extremely volatile quarter for business. We have seen an upturn in the business cycle as evidenced by strong IRP and GDP numbers. But this is juxtaposed against current account deficit, rupee depreciation and financial markets turmoil.

Coal inflation, excluding all food and energy items, has risen to about 6%, as a result for narrowing output gap and pass-through sites from higher energy prices and exchange rates depreciation. As a result, the central bank raised interest rate and continues to watch inflation closely. Private CapEx thus still remain subdued.

Most of the investment is driven by government or government-funded schemes. During this quarter, both the money and the stock markets were volatile. On the back of the difficult quarter, much of the industry is facing headwinds given the constrained liquidity. In this context, the consolidated growth phase income from operation for the quarter ended September 30, 2018, was higher by 37% at INR 1,415 crores as compared to INR 1,032 crores in the corresponding quarter last year. Aided by the company's diversified business mix, profit before tax increased by 8% to INR 140 crores. Profit after tax simultaneously improved by 12% to INR 107 crores due to a lower tax rate over the corresponding quarter of the previous year. Earnings per share, face value per share was INR 1 not annualized. As of September 30, 2018, moved up to INR 3.13.

Total comprehensive income of the company, includes notional mark-to-market revaluation gains or losses on various strategic longer-term investments held by the company. During the quarter, this was negative due to the decline as compared to the previous quarter end in the stock market price of shares held by the company.

As a result, total comprehensive income for the quarter stands at INR 37 crores as compared to INR 140 crores in the corresponding quarter last year. Our continuous focus on profitability, cash flow and growth has ensured a robust balance sheet in this volatile season.

We present below our detailed comments on the performance of the 3 business segment in which we operate: Segment a, unitary cooling product. The negative impact of a poor summer season across the country, unseasonal rains in some parts of the country in September and a subdued Onam in the South depressed industry growth. As a result, the industry as a whole has de-grown during the first half of the year by around 6%.

With the drop in sales in quarter 1, we are witnessing a higher inventory across the industry and channels. This is, however, a short-term problem and we expect to liquidate this by quarter 4 of this year.

In this challenging environment, brand Voltas continues to sustain its #1 position in the room air conditioner market and has further improved its market share to 25.6% in Multi-Brand Outlets in Q2. In fact, the company has been recently honored with India's Most Structured Air Conditioner Brand by the Brand Trust Report 2018. The competitive and unique product offering combined with customer-friendly promotional offer and dealer support measures have met with an encouraging response on the trade at the end users.

We have ramped up our product with the right mix in the energy efficiency inverter segment, which has been received well in the market. Inverter ACs now amount to approximately 40% of the total split AC sales.

Continuing our promise to introduce better and smarter product experiences to the customers, Voltas recently introduced voice-enabled ACs in partnerships with Amazon Alexa, which are available exclusively on Amazon and have been received well in the market. Moreover, online sales were boosted during the Independence Day flash sales announced for various e-commerce platforms.

Segment's revenue for quarter 2 improved to INR 441 crores as compared to INR 408 crores in the corresponding quarter last year. The increase in input cost due to commodity prices reason along with the depreciation in currency and the height in customs duty among others, continued to put pressure on margins. With fierce competition and increased inventory, there is limited force in the short term for price correction to absorb the cost increases. All this has led to a drop in segment results in Q2.

Capital employed by the division has increased in this quarter, due to higher inventory. Segment B, Electro-Mechanical Projects and Services. Segment revenue for the quarter was higher with 62% at INR 901 crores as compared to INR 557 crores in the corresponding quarter last year. Similarly, segment results improved to INR 76 crores, reflecting a better margin of 8.4% due to better execution of order and positive effects of currency depreciation.

International operations. We continue to pursue risk mitigated opportunities in the region. While we have some good quality orders in the UAE, we remain particularly conscious of the political impact in Qatar and have adopted a cautious approach towards suitably mitigated order booking.

During the period, the division delivered at improved performance due to the positive impact of better project selection and execution and execute commercial and cost management.

The total order book for the international operation at on September 30, 2018, is around INR 2,035 crores, with orders of around INR 450 crores booked during the quarter. A recent report from IMF indicates growth in the region is expected to strengthen in the next few years on the back of higher oil prices, increased government spending and growth in private credit should be a positive and improving order book over a period of time.

Domestic projects. The bear-ish market sentiment, data monitoring policy measures as well as the challenges faced by the banking sector today, including lower liquidity, have affected the private CapEx. Thus, the strategy for the domestic business continue with its core intent on picking up good quality work in government or governments sponsored projects.

Domestic projects has INR 630 crores of orders booked for the quarter with a number of projects under finalization. Our business of electrification work continues to increase its order book with recent wins investment volume. We see even more opportunities for our scope of work in the recent announcement by the government on infrastructure and electrification projects.

Smart execution and productivity will continue to be the driver for profitability. The total order book as of September 30, 2018, for the domestic project is around INR 2,848 crores. Segment C, Engineering Products & Services. Segment revenue and results for the quarter were maintained at INR 73 crores and INR 29 crores as compared to INR 67 crores and INR 28 crores, respectively, for the segment. The textile industry is passing through a difficult period, and in this scenario, our focus on after sales business in both spinning and post-spinning sectors of textile has enabled us to maintain the bottom line. In

mining and construction equipment, Mozambique Corporation continue to drive the majority of the revenue, while the focus on building mining India remains.

Voltbek joint venture. The 50-50 equity JV between Voltas and Arcelik, Voltbek Home Appliances Private Limited, recently launched its product range at a well-publicized event in Delhi. Voltbek, which will cater to the consumer durables segment, has launched an extensive range of SKUs of refrigerators, washing machines, microwave ovens and dishwashers. The brand

Voltas-Beko has positioned itself as partners of everyday happiness with the consumer benefit of nutrition, preservation for refrigerators and cleaning efficiency for washing machines. The brand aims to provide its consumers the state-of-the-art innovative products, leveraging Voltas' brand and distribution strength, coupled with Arcelik's global expertise in research-based product development. While initially the imports will be from Thailand to China and Turkey, eventually, the product will start rolling out from the factory, which is currently being set up in Sanand, Gujarat. After the launch, the products are now available in the phased manner across the country to multichannel outlets.

The recent colorful print and online advertisement campaign and the engaging TVCs that talk about all products being tested by real mothers has generated the required buzz and were received well by the audience. In summer, notwithstanding the environmental and economic challenges, we remain cautiously optimistic on the opportunities for growth. In the unitary cooling product segment, restocking via trade partner, higher focus on energy-efficient products, a growing rural economy and improving economic situation would be the growth drivers over the next 6 months.

We expect the Indian government to continue the investment cycle, which would generate demand for MEP work and offset. To some extent, the subdued activity in the private sector CapEx spend. However, while on one hand near-term headwinds prevail in the form of liquidity constraints and slowdown in project activity due to the upcoming elections in the domestic side of the business, on the other hand, we are cognizant of the potential political and economic headwinds for our international business. Focus remains on securing good quality, commercially viable risk-mitigated orders in our project business. Our balance sheet continues to be robust with low debt and a comfortable cash position.

With that, we are now open for questions

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Questions and Answers

Operator [1]

(Operator Instructions) The first question is from the line of Venugopal Garre from Bernstein.

Venugopal Garre, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [2]

For the first question is on the cooling product margin. While I think is early to reflect both in terms of commodity price increase, rupee depreciation but still increase in import duties, I -- and your peers have shown 2% to 3% margin. So you still have slightly larger margin right now for the peers. But I just wanted to understand that sort of 10% to 11% margin you indicate for the sustainable margin as compared to the 12% 13% you used to report earlier, does that still bode -- hold growth? And number two is, is there any sort of more stronger strategy around how you look at the AC business in terms of sourcing, especially moving into manufacturing, et cetera, of your own given that some of your competitors are looking at and identifying internal sourcing?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [3]

This is Abhijit Gajendragadkar. Before I begin answering the question, I just wish you all a very happy Diwali. Your first question is relating to the margins. I think, while one looks at the margins for this quarter, and you rightly ascribed the reasons which we have also stated in our write-up, in terms of the various currency depreciation, commodity cost increases, et cetera. One must also remember that the AC market is highly seasonal. So markets or margin for what is inherently much lower volume for quarter, which is quarter 2 and a better comparison of margin would be the margin for the half year, which is today, at around 11%. And to me, that would be the more better indicator of the margins for the business. As you know, the AC market has been passing through a rough patch, primarily both in quarter 1 and quarter 2. There was some expectation that the market might improve in quarter 2, but some of the unseasonal rates, particularly in the high AC consumption markets in the South and in some parts of North, hit us during the quarter. As well as there was flooding in some parts of the country and all of that combined tended to depress the entire industry. As you know, the entire industry has shown de-growth in this particular period. And as we have stated in our submissions, our market share in this period has increased. So I think the margins that we have reported should be looked in this backdrop of a very sluggish market, and I would say, that one would look at the margins for the 6 months period, which are around 11%. And that 11% to 12% I think is what we have been saying. Coming to your second question around the sourcing strategy for the business. I have mentioned in my earlier calls and earlier submissions as well that we're, over a period of time, looking at making -- at investing in our own source. So that is one activity. If you look at our import content, our import content used to be the compressors, which typically the outdoor unit of the split air conditioners and the indoor units, which used to be also imported from China. So we are gradually moving some of the indoor units to the manufacturer and third-party locations, using our own source, which will not only provide us with greater flexibility, but also it will help us in terms of cost, et cetera, and it will also get some -- it will also bring some uniqueness in terms of design to our products. So that is an activity that is continuing. And we will continue to pursue it greater vigor. We're also pursuing indigenizing of some of the components of the inverter AC, as I've stated in earlier calls. I think, that effort continues. Compressors, as we've stated, in the past is an activity which requires huge amount of volume for economies of scale and -- but one would also find that some of our sources, which make compressors in China are setting up plants in India as well that we should come up over a little longer period of time, over a period of maybe 18 months or so. These should be on stream. So we would be able to then source compressors from a source in India, which will help in terms of better inventory planning and inventory management. And also, it will help in terms of responsiveness to the marketplace.

Venugopal Garre, Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst [4]

Sure, sir, that's very helpful. My second question for capital employed for the same segment, cooling products, that has increased quite substantially. And also if I look at the balance sheet, there has been some liquidation of current investments while your debt has gone up a bit. So just wanted to understand the elements and how these are interconnected?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [5]

Right, so largely this has been due to -- the increase in capital has been because of the higher inventory that we sold. And we have stated that in our investor write-off as well that is really the higher inventory that is driving the increase in capital. Partly also, as I mentioned -- I mentioned earlier that we have typically a strong season quarter 1 and followed by a relatively neutral volumes in quarter 2. So in a way, the cash flow is more or less similar pattern. So part of the higher inventory has been funded through liquidation of mutual funds and partly through some of the overdraft facilities in banks. That is the reason why you see this. But we're hopeful that as the AC market improves with the second summer, the festive season as well as the quarter 4, which is typically a much higher volume quarter, the inventory that we currently -- that we hold will be used up and will get liquidated.

Operator [6]

(Operator Instructions) The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora, Axis Asset Management Company Limited - Equity Research Analyst [7]

Sir, just one question on what Venu asked. In terms of margin, what you've been guiding 11% to 12%, the range which you used to give. Are we on a change that range from here on now? I understand it's a low volume quarter. Then it would have not been impacted that much which also in the margin side, if you look at it the other way. But it has impacted it because of the reasons which you stated, the depreciation and the ForEx. So can you just elaborate on the margin side a little bit? And let's say, a higher volume quarter will be equal towards the higher band of your guidance of 12% or you think it's should be around 10% to 11%?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [8]

Good thing that -- I think, I have partially answered this question. We've always stated that the reason -- there is a lot of background noise in your -- or I think on one of the phones. But in summary, this has been a much lower volume quarter and if you see that even in terms of our total revenues for the business, you will find that in quarter 2, there's a revenue of INR 441 crores and the revenue for the half year is INR 1,630 crores. So I think that shows the extent of the seasonality in the AC business and this is typically a feature of the air-conditioning business. So I don't think margin for the half year with all -- with the impact of what we have talked about the challenging environment, the low season, the impact of currency depreciation, the commodity cost increase, we have been able to report a margin of around 11% and we have also been able to improve our market share in this very difficult market. So we would continue to be on the guidance for our margins. And I think, as I said earlier, the half year would be a good indicator for that.

Nitin Arora, Axis Asset Management Company Limited - Equity Research Analyst [9]

And in terms of Arçelik, can you elaborate (technical difficulty)

Is in terms of -- and has it started reflecting in your associate profit loss right now? Or is it from the next part onwards? Can you elaborate what kind of response that you've got in terms of

(technical difficulty)

getting the fees but the product is still not available on the shop floors.

Asawari Sathaye, [10]

Your voice is still muffled. We couldn't hear your question properly.

Nitin Arora, Axis Asset Management Company Limited - Equity Research Analyst [11]

On the Arçelik -- my question is on the Arcelik, how is Voltas.

(technical difficulty)

response because what we are hearing from...

Operator [12]

Excuse me, this is the operator. Mr. Arora your voice is breaking. The next question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [13]

Just wanted to understand like how much of inventory of room ACs still left in the system for us to liquidate because when I look into the balance sheet, it shows around INR 1,070 crores of inventory. Of that, how much will be the room ACs?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [14]

I would say that the room AC inventory is somewhere in the range of between 2 to 2.5 months.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [15]

Okay. So if you can put a figure to it or a percentage?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [16]

I think this is the right thing that it is about 2 to 2.5% months of sales.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [17]

Okay, so by...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [18]

We've not been -- we've not given you in general a breakup of what the inventory is between our divisions, et cetera. So the figure that I have indicated to you is a good indication of what the inventory level is today.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [19]

Okay. And we have seen a sharp increase in employee cost. So anything particular in that? You said...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [20]

No, I think it is -- no, nothing to be alarmed of. I think, partly it is a bit of regrouping because some of the cost of the employees was in other expense, which is now reflected as an employee cost, with a corresponding reduction there and there is also -- and employee cost is also a function of the stage of the project that we are in. So sometimes, if the projects are in earlier stages, we bear the cost, but it is not reflected in the margins. So depending on the stage of the various projects that we have, the employee cost would fluctuate.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [21]

Is that pertaining some visa cost?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [22]

No.

Utsav Shah, Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell [23]

If you see that our order book is much higher in the projects business. The level of activity is much higher in the projects business as compared to the previous year. And to that extent, the employee cost are obviously higher.

Operator [24]

The next question is from the line of Abhishek Puri from Deutsche Bank.

Abhishek Puri, Deutsche Bank AG, Research Division - India Utilities Analyst [25]

Sir, first of all, can we understand the impact of the duty hike that has happened? So you said that INR depreciation et cetera has been and the raw material pricing impact has been taken in the current quarter. I believe duty hikes have happened just recently. So would that have some impact on our sourcing or strategy per se? And how much is the import component? That's my first question. And secondly from the projects business side, electrification has obviously elured (sic) [allured] some big games in your order inflows. So could you tell us the share of electrification and outlook for next year on that side?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [26]

If I turn to your first question, can you hear me, Abhishek?

Abhishek Puri, Deutsche Bank AG, Research Division - India Utilities Analyst [27]

Yes, I can, sir.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [28]

Yes, so your first question was about the impact of import duties. So if you see that import duties have been impacted primarily it has been on -- the biggest impact have been on the imported completely built unit. So if you look at our import composition, a lot of it is on importing of compressors and in some cases, as I explained in response to an earlier question, the indoor units. So in that case, the impact of the increase in custom duty is much lesser than the impact on the imported completely built unit. Of course, in some cases we do import a completely built unit as well. So I have also mentioned to you that all that in a way our procurement also follows the pattern of our sales. So it tends to be much higher in quarter 4 and it tends to be relatively much less in this, relatively lower periods of quarter 2 and quarter 3. So the impact of this -- so we will probably be procuring significantly more now for the next season. And I've also explained that we've taken some steps to maybe move from sources abroad to sources within India and investing in our own sources for more than one reason. And we've talked about this in the response to an earlier question. So it would not -- so the impact of the import duty, we're trying to minimize through a variety of these cases as well as maybe altering the extent of the mix. So while compressors will continue to be imported, some of the other ODU's or the IDU's particularly or the indoor units, we wish to shift some part of that to more local production either in our plants or a third-party production sources. So that is in response to your first question.

Abhishek Puri, Deutsche Bank AG, Research Division - India Utilities Analyst [29]

I'm sorry, how much is the cost differential between local manufacturing and importing? Would it be quite significant or is it just 5%, 6%?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [30]

It's very -- it's -- Abhishek, it's not so readily quantifiable. But the important direction is that we will continue to import compressors. Naturally, we would like to minimize complete units because there is an impact of increased custom duty in complete import of air conditioners. And fortunately, parts of air conditioners that is the indoor units, still continues to be at the old custom duty. While we have started investing in our own moat, the whole idea is that we will try to shift procurement of some of the indoor units instead of only relying on imported, we will try to see how well we can get it outsourced in India. The second question you had was about the share of rural electrification, if I understood you correctly?

Abhishek Puri, Deutsche Bank AG, Research Division - India Utilities Analyst [31]

Yes, sir.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [32]

We have said in our earlier calls that we've also stated here that our general approach to the project business has been suitably risk-mitigated order booking. And I think that approach continues in any type of project that we choose. Today, because of a combination of the government trust on rural electrification, availability of orders and availability of the right kind of funding for the orders, we've chosen to be in certain states as far as rural electrification is concerned. And you will find in the last 1 year, our order book in that business had gone up. Out of the total order book that we have, it would be around roughly 35% of our order book would be on rural electrification. And our approach to this business continues to be more selective, as in every type of project work that we do and driven by the opportunities that we see, given the government intent on rural electrification.

Operator [33]

The next question is from the line of Charanjit Singh from DSP Mutual Funds.

Charanjit Singh, [34]

Sir, if you can highlight how has the pricing changes done by Voltas over the last 2 quarters? And how the inventory has moved over the 2 quarters, like, what it used to be previous year at the same time and now we're sitting at 2, 2.5 months of inventory. So how does this change over the quarter?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [35]

As far as -- I'll will just let Utsav Shah to answer this question.

Utsav Shah, Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell [36]

So as far as inventory is concerned, Charnjit, you're aware that Q1 was very, very big disappointment this year. Coming from a year that there was an increase in the industry growth last year. So naturally all the competitors have planned for better volume sales and typically the inventory was prepared for keeping in mind that the industry would do better this year than compared to the same period last year. Because your Q1 was a dampener, your inventory levels both within the company and with the inventory channel partners, is comparatively much higher than what we had invested and what we had planned. What was the second question, you had asked on?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [37]

How is it higher as compared...

Utsav Shah, Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell [38]

So typically -- at this point in time, normally we would have had about 1 month or 1.5 months of inventory which is much higher. They were about 2 or 2.5 months.

Charanjit Singh, [39]

Okay. And sir on the pricing changes, how -- over Q1, Q2 -- like in Q2, specifically how is the pricing being for Voltas? And how you've seen for a market changing in terms of passing on this autumn price increase? And how do you see going forward in Q3 on the pricing front?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [40]

Well I think we have guided more than one occasion and even in this call that this is a very challenging environment. There's -- Q1 was very sluggish and therefore higher inventory is a feature across the industry. And in this feature, in this environment, it has been difficult to actually pass on some of the cost increases in terms of prices or a pass-through in terms of price increases. However, we have been very alert to any opportunities to increase the price and on selective basis for maybe selective models where we have either some unique features in the model and where we have a certain advantage, we have been able to take a small price increase. However, one must remember that while price increase is one part of the story, given the fact that it's a challenging market there has also been an increase in some of the market related spends during the half year that we have just seen. And some of these costs were also, in a sense, disproportionately higher in this period, given the sluggishness.

Charanjit Singh, [41]

And, sir, going forward, what's your expectation of -- what's the price you would be expecting to take in...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [42]

I don't think we will be able to comment on how much price increase and price hike we will be able to take. But as I mentioned, a little while ago, we're alert and sensitive to any opportunities for being able to get a better price. And we will continue to be that in the challenging market that we're in.

Operator [43]

The next question is from the line of Bhoomika Nair from IDFC Securities.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [44]

Sir, just wanted to understand how would have been our volume growth in the current quarter on a primary basis as also for the industry? And also if you could -- I mean on the margin, which is to continue, you mentioned that the impact of custom duties would be largely felt with the end of 2Q as also the sharp rupee depreciation. We've also introduced a lot of warranty schemes and EMI schemes in the last couple of -- in the last month. So will there be further pressure on margins going ahead in the second half as we try to liquidate this inventory? And I believe some of the competitors have talked about price hikes in the month of October. Are we seeing that on the ground that peers are taking price hikes? What is our experience? How are we reacting to that? If you can comment on that and also in terms of volumes.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [45]

I would say that in response to your question -- last part of your question, which is around the price hikes in October. I think, we've not seen any net price increase, which is very evident. And one would have expected this given the fact that the market itself is very, very challenging and continues to be very competitive, given the higher levels of inventory, et cetera. As -- so with the higher level of inventory, I think, a lot of our production in quarter 3, et cetera, we will -- having the inventory to be able to support and sustain that. Of course, there may be some minor model level of mining which we may have to do. But other than that, I think we would have inventories to support the volumes in quarter 3, which in any case, is a fairly lean and subdued quarter like quarter 2. One of your questions was also on what is our volume growth in primary. I don't think, we have talked about it in any of our calls and maybe our turnover for the period is for quarter 2, I will say, more or less, it's just been a very minor increase in turnover, as you can see from the numbers. I think that is an indication. So that's -- I think I told about in volume. I think was there any part to your question that I missed out?

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [46]

No, sir. And just on the Arçelik JV, if you can comment what has been the initial feedback? How are the losses that we've seen on the associated, if any, in the current quarter? If you can comment on what has been the initial spend, et cetera, if you can just give some qualitative fees out there?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [47]

Yes, as we have said, we launched this product in mid-September. And then we'll -- this product is being, in a phased manner, is made available across the country, given the logistics, et cetera, involving moving the product. So the initial feedback is -- of the dealers have been very, very positive for the product, which is something which we're seeing more during the launch and also in the products that were actually received by the dealers. Our advertising has also been well received and some of the technology and features that we have had in the products, which also, you see, the advertising that is out in the print and in the TV media. I think that would also is some something that has been well received by the customers and the dealers. So overall, I think it's been positive launch, and we're continuing to expand our reach in a phased manner as well as increase the numbers of outlets where it will be available for the number of SKUs, et cetera.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [48]

And if you can just comment any losses booked in the current quarter from the JV?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [49]

See the unallocated part, you will find that, that includes the losses that are there in the Voltbek joint venture.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [50]

Okay, so it's not there on the line item of associate -- profit from associates?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [51]

That will be in -- well -- P&L format as we call it, it will be in the JV and associate side.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [52]

Could you comment how much we would have booked in the current quarter?

Utsav Shah, Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell [53]

No, I don't think we cannot.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [54]

In the segment, it will be under unallocated.

Bhoomika Nair, IDFC Securities Limited, Research Division - Security Analyst [55]

Sir. I'm just saying so what would have that amount?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [56]

It will be in our P&L.

Operator [57]

The next question is from the line of Sandeep Tulsian from JM Financial.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [58]

My first question is pertaining to again price hike...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [59]

Sandeep, I'm sorry to interrupt you. But your voice is very, very faint.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [60]

Is it better now?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [61]

Significantly better, Sandeep.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [62]

Sorry to harp on these price hikes. Just wanted to know, so what would be the approach that the industry would be taking. As in, we know the cost have increased for all the players in the segment itself. It's not just for Voltas. So will the industry -- I mean, you being the leader, what is the view on the scene that will you go for a staggered kind of a price increase? Or will there be like a one big jump just prior to the summer season? Or do you think the industry margin levels itself has to come down because they were at an all-time high? Just want to know your thoughts more from the industry perspective here.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [63]

I think, let me just answer it this way. In a sense, price is one of the many elements of the total market mix that one would look at. There's a combination of offering more value at the same price, offering certain features, which are not there in the competition, and we have talked to some of that in our write-ups as well. Some of our other offering in terms of either financing or in terms of warranty schemes, et cetera, all of these is what the customer value. So it would be very difficult to say what would be the approach, whether it would be a staggered one, but we are close to the market. We're on the -- we have our ear to the ground in terms of what the market can bear. And given the fact that it's a very challenging and very competitive market, and as you have seen from our write-up, the industry itself has shown the growth. And we've improved our market share in that. So we would be sensitive to all of this, as we look at any further price corrections or price hikes.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [64]

Okay. And what about the industry margin levels over there sir?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [65]

I wouldn't be able to comment on any industry margin level. I think you've seen our results, you would have also seen some of the competition's results.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [66]

So sir, that's what I wanted to understand. On the results portion, I think more or less, the growth of all the player at least is coming in line. But you reported a very sharp jump in your market share increase. So was there a big difference between the primary sales that we do, what we report and the secondary sales that we do at the counter?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [67]

Well the market share that we report is the secondary market share, as you know. And this is the market share which is based on multi-brand outlets and it is data, which you're well aware, is compiled by an external third-party agency reports. So in a way there would always be some lag between primary sales and secondary sales. The extent of the lag varies between each month and between each quarter, but there's a lag and the market share we're reporting is the secondary market share, as I mentioned.

Sandeep Tulsian, JM Financial Institutional Securities Limited, Research Division - Senior Research Analyst [68]

Okay. My second question is on the accounting that we do for this contract under NDS. We've seen a sharp increase in the debt levels as well as liquidation of current investments. So under the new accounting norms, the kind of increase that we have seen in contract assets less contract liability of, say, INR 500 crores, is this more permanent in nature of 70, 75 days on a company-wide level? Or you think this is just because of higher execution in this quarter and should normalize and what would those levels be in future?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [69]

Well, I would -- well, to answer the second part of your question, I wouldn't be able to comment on what these levels would be in future. But I would definitely agree with you that this does tend to vary between quarters depending on the state of execution of a project. There are, for example, if you see the overall activity in the project business, as evidenced by turnover and as evidenced by order book, there has been increase in the activity in the project business. So naturally as a consequence of that, there would be some increase in the contract as such that one were borne. The other aspect to this also in that sometimes as the project comes to an end, very often we have -- we move towards the final negotiations assessment of the entire contract. Typically as a project comes to its closure and that may also have been a factor. And sometimes, as we said, sometimes even the margin gets bunched up, sometimes some of these things also get bunched up. I think vis-à-vis some of the factors in terms of why this is at this level, I would say, a combination of the volumes of the project business and some of the other seasonal or tactical factors, I would say.

Operator [70]

The next question is from the line of Sheena Barbosa from T. Rowe Price.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [71]

I wanted to ask, what is the average for the most popular AC Voltas has now versus last year? I think (technical difficulty)
The extent of price increase...

Operator [72]

This is the operator. Sorry to interrupt. Sheena, may we request you to use the handset please? Your voice is echoing.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [73]

So I just wanted to ask what's the average price of the Voltas AC versus last year. And what has been the extent to the price increase? And basically what I wanted to gauge is if there is limit to which you can pass through higher cost for now and you'll have to basically absorb the, planned in, sort of demand if things can't catch up? So margins remain at this 10% to 11% level until that happens?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [74]

Again, sorry. I lost you a bit. Can you repeat the question? I again, I think the second part, your voice sort of trailed off.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [75]

Okay. No, I was asking what's the average price of your AC now versus last year? And what I wanted to gauge is there -- have the price increased to an extent already where you need to wait for some time for demand to catch up? So until the demand catches up, you'll have to absorb these higher costs by yourself. So the margins are now resetting, sort of, for the near-term into 10% to 11% level?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [76]

It's -- I mean, you've asked a relatively simple question, which is somewhat difficult to answer this year. And I'll give you the reason here. You asked for a comparison on the price of this period versus last period. I think there have been 2 important

changes in that: One is that you know that the first -- and you're probably well aware of both. The first is the extent of the mix of inverter ACs into total price. So when you look at the turnover here, you'll find that inverter ACs a much higher proportion of the mix as compared to last year. And inverter ACs, in general, are a little -- priced a little higher than a fixed period of any equivalent star rating. So that's been first. So it would take a mix and it would take an average around that average would tend to get depreciated because of it. The second is even within 6 weeks, there has been a change in the energy rating norms starting from 1st of January. So the AC -- so the 3-Star ACs that we sold last year, the stock keeping unit for that is not the same as stock keeping unit last year. So obviously what was a 5-Star AC last year has now become a 3-Star energy rating AC. So it's a little difficult and try to and do exactly apples-to-apples comparison. I only want to answer that there's not been a very significant price increase between last year and this year. There have been price adjustments for the reason that SKUs have changed. And therefore some amount of re-batching because the product itself is different as some that 3-Star fixed speed will be a little bit different from the 3-Star fixed speed last year. And there are obviously more of consumer offers this year, given the fact that the industry is sluggish and there's so much of competition.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [77]

And sir, as a result of these changes, I understand there are different sort of SKUs as units now. But as a result, if I had to buy an AC last year, was it like INR 30,000 and now I have to pay INR 40,000?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [78]

Actually at the retail end, it has not been that kind of thing because -- I mean, it depends actually and this is some data which we actually try to analyze. Does the consumer buy the SKU or does he buy a Star rating AC? So the consumer always wants more value at the price. So at least from last year to this year, it's somewhat difficult comparison.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [79]

But sir if I was a customer, like -- because I'm not living in India, but I just wanted to gauge. So now if I'm going to the store today, sir, the unit that I am choosing, is it like 20% higher than what...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [80]

No, no it will not be because there will be more -- as I said, there will be more consumer offers and the price really hasn't increased. But there would be more variety of offers in terms of inverter and fixed speed. I just let Asawari come in.

Asawari Sathaye, [81]

Sheena, what Mr. Abhijit was also trying to point out here that the comparison will be difficult because your Star ratings have changed. So obviously for a lower Star rating today, you're getting even a better product as compared to with the same Star rating was last year. So that price...

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [82]

What is the price difference between that?

Asawari Sathaye, [83]

It will be a very difficult to compare a 3-Star price today with a 3-Star of last year only because we're getting more value with 3-Star today as compared to the 3-Star of last year. So don't...

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [84]

What is the price?

Asawari Sathaye, [85]

The comparison like that...

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [86]

What is that price?

Asawari Sathaye, [87]

On the look of it, the prices have definitely increased because it's a better product at a better value that the product is delivering. Not because of any other reason, it's just that the Star ratings have changed and therefore was the pricings have moved in the same kind of an order. So it will be difficult for us to compare and say that a 3-Star has increased by an X percent. I think the way to look at it would be a better way rather than look at it would be that a 3-Star today is offering you much more than what 3-Star was offering last year.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [88]

So can you tell me what is the price of the 3-star last year compared to what the price is of 3-Star today?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [89]

Sorry I think, I'm repeating the same thing. It will not be comparable Sheena because 3-Star of last year...

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [90]

I am not comparing them, but just to know that price point.

Asawari Sathaye, [91]

So it would be -- if you look at the ranges, it would be difficult to say price point, but the ranges would be anywhere around about the INR 32,000 to INR 35,000.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [92]

Okay. For between last year and this year?

Asawari Sathaye, [93]

Which is what is prevalent today.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [94]

Sorry, which is the equivalent?

Asawari Sathaye, [95]

Equivalent in the market today.

Sheena L. Barbosa, T. Rowe Price Group, Inc. - VP [96]

INR 32,000 to INR 35,000 is the price...

Asawari Sathaye, [97]

We can have special discussion on this, we can have it offline. But I think overall...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [98]

I think we should do that because there's a queue of people. So sorry about this, but I think we should probably take it offline.

Operator [99]

The next question is from the line of Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty, [100]

Just one bit from sir, while I understand that this quarter is typically a leading quarter. But given the fact that it's a festive quarter and also there's a bit of a harsh summer reports as well how has been the demand trends during the festive period?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [101]

It really too early to gauge that because what we're really discussing is quarter 2, which is ending in September 30.

Prashant Kutty, [102]

Okay. But sir, just generally any early feelers on that in the...

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [103]

I don't -- there's probably not anything that we can share at this point of time.

Prashant Kutty, [104]

Okay, sure. And just one more thing, sir. In terms of margins, sorry for harping this again, when you stated that there are obviously a lot of challenges in terms of margins kind of seeing an impact. But typically, even if you look at the growth rate numbers versus the past years as well, the growth rate as such hasn't seen -- I mean, yes, it is lower than probably what used to be in the past. But it's still an 8% kind of growth rate while the cost have kind of gone up, I agree. Incrementally, when we're looking at it since you're talking about a lot of these changes that you're doing in terms of sourcing and improving the extent of local outsourcing and tender add. Is there bias in -- to probably get back to that 10%, 11% in the ensuing quarter? Is that the way one should look at it? And that is what my question is.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [105]

Really, one should look at. And I think we've been saying this for both for our business -- all of our businesses. One should look at margin over the relatively longer period because that's I think a better indicator of the margin.

Prashant Kutty, [106]

No, absolutely, sir. But the only reason it's probably being a bit harped upon is that this margin is something which we kind of reported the 6% was margin which we reported almost 6 years back. So that's the reason as to why that question comes up as to when we're talking about all these efforts being taken, should we kind of look at getting back to that 10%, 11% numbers because you also highlighted that it's pretty difficult to take price hikes, given the current market scenario. So just trying to understand that point of the sustainability of this 10%, 11% number incremental.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [107]

11% number, as I have been saying repeatedly during the call, if you look at our half yearly margin, that number would still be higher. It's 10.9%, to be exact, it's about 11%.

Operator [108]

The next question is from the line of Abhineet Anand from SBICAP Securities.

Abhineet Anand, SBICAP Securities Ltd., Research Division - Analyst [109]

Firstly, can you throw some light on the -- our market share in the inverter AC part?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [110]

Well, we don't disclose our market share in inverters separately. But I would just like to emphasize that we're a company which sells all the models of air conditioners. We are a company which sells window air conditioners, split air conditioners as well as inverter ACs. And our market share for quarter 2 in all of these combined is 25.6% for quarter 2 -- in the month.

Abhineet Anand, SBICAP Securities Ltd., Research Division - Analyst [111]

Okay. And secondly if you can throw some light on the sustainability of the margin in our project business. I think, last time around -- you some -- indicated something like 7% to 8%. Is that sustainable?

Utsav Shah, Voltas Limited - CFO of Corporate Finance and Senior General Manager of Property Development Cell [112]

This is Utsav here. You know the project business is slightly complex because it comprises both international projects as well domestic projects. And considering the kind of order book that we have and the kind of projects which are under execution, we believe that over a 2 year time frame, there's no -- I mean, we believe that we should be able to deliver anywhere between 7% to 8% EBIT level margins. But finally, you must accept the fact that it primarily depends upon the execution of the project. We do believe that the quality of order book that we're carrying today is certainly much better than in the past, and we're fairly confident that we should be able to deliver somewhere between 7% to 8% EBIT level margins in the next couple of years.

Operator [113]

The next question is from the line of Niket Shah from Motilal Oswal.

Niket Shah, Motilal Oswal Securities Limited, Research Division - VP of Research [114]

Just two questions. One is if you can just tell what would be the ad spend that you would likely to spend in this year and maybe next year as far as Beko is concerned? And the second question is on the filing you did on the exchange regarding various offers as well as extended warranties that you're now offering as far as, say, inverter AC was offering lifetime warranty on compressor. So do we have a back-to-back arrangement with our vendors for these warranty agreements? Or it's just going to be a cost to us going forward over the medium to long-term?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [115]

Well, to answer your first question about the advertisement spend, I don't think it is information that we have disclosed in terms of what is ad spend of Voltbek. But you would appreciate that we're launching a brand in a new market category in both refrigerators and washing machines. We're going ahead with the launch of brand Voltas-Beko and there will be obviously be initial efforts to popularize the brand and also to make the products known to a wider public. So I think you should look at the advertising spends in that context. So that's -- that would be my first comment. The second comment is really -- can you please repeat your second question?

Niket Shah, Motilal Oswal Securities Limited, Research Division - VP of Research [116]

No. Was on the filing that you did on the exchange regarding the offers that you've rolled out for the festive season as well as the extended warranties that you're now offering. So how should one look at that from a perspective margins as well as -- do you have a back-to-back warranty arrangement with your vendors? For example, in case of compressors from Chinese players as well.

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [117]

Yes, we have worked out arrangements with our supplier for supporting us in terms of these warranties.

Operator [118]

Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Amit Mahawar from Edelweiss Securities for closing comments.

Amit Mahawar, Edelweiss Securities Ltd., Research Division - VP of Institutional Equities Research [119]

Thank you, everyone. Sir, you have you any closing remarks?

Abhijit A. Gajendragadkar, Voltas Limited - Executive VP of Finance & CFO [120]

I think I just want to wish everybody once again, wish all of you a Happy Diwali and a prosperous new year.