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“Blue Star Limited Q4&FY15 Earnings Conference Call”

# June 8, 2015

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**Management: Mr. Vir Advani – Executive Director & President - Electro-Mechanical Projects business, Blue Star Limited**

**Mr. B. Thiagarajan – Executive Director & President - Air-Conditioning and Refrigeration Projects Business, Blue Star Limited**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Blue Star Limited Q4&FY15 Earnings Conference Call. We have with us today from the management Mr. Vir Advani – Executive Director and President, Electro-Mechanical Projects business and Mr. B. Thiagarajan – Executive Director and President, Air-Conditioning and Refrigeration Projects Business. 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 ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vir Advani. Thank you and over to you Mr. Advani.

**Vir Advani:** Thank you. Good afternoon ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter and year ended March 31, 2015.

Before I get into the financial highlights, I want to remind all of you about the significant progress that we have made on closing legacy projects over the last three years. I had explained in our last conference call that we were in the final lap and that we would try and close the legacy projects chapter in the fourth quarter. We are disappointed to inform you that closing this last leg of projects has been much harder than anticipated. We have closed fewer than expected projects with a larger than anticipated impact in the quarter. Coupled with this, we have been let down in a few large projects where legitimate claims have not been settled with customers in spite of assurances being given to us at the highest level. Given the further delays in concluding these negotiations and keeping financial prudence in mind, we have taken a decision to make provisions on these few large projects, which has resulted in an exceptional loss in the quarter. I will of course explain more in the opening remarks as well as take any of your questions on the subject, but would like to acknowledge our inability in putting these legacy issues behind us within the expected negative impact.

**The following are the financial highlights of the Company for the year ended March 31, 2015 - FY15 on a Standalone basis:**

* The Company reported Total Operating Income of Rs 3080.79 crores for the year ended March 31, 2015, as compared to Rs 2789.51 crores in FY14, representing a growth of 10%.

* Operating Profit (PBIDT excluding Exceptional Items and Other Non Operating Income) for the year grew 15% to Rs 173.59 crores from Rs 150.68 crores in the same period last year.
* Other Income for the year stood at Rs 10.14 crores. In FY14, the Other Income was significantly higher at Rs 26.41 crores mainly due to a considerable special dividend from a subsidiary as well as interest on some IT refunds.
* Financial Expenses for the year decreased to Rs 43.47 crores from Rs 49.64 crores in FY14. While last year, due to the forex volatility, the hedging costs on borrowings were higher, the same was lower in FY15 resulting in an overall decrease in financial costs. There was also an overall reduction in cost of domestic borrowings.
* Profit Before Tax (excluding Exceptional Items) increased by 9% from Rs 92.76 crores in FY14 to Rs 100.92 crores in the year.
* As regards to Tax Expense, there was a net benefit of Rs 9.71 crores in the year compared to nil in FY14. In FY15, deferred tax asset of Rs 15 crores was recognised at the year-end contributing to this net tax benefit.
* Exceptional items for the year were a gain of Rs 41.90 crores as compared to a loss of Rs 16.86 crores in FY14.
* Consequently, Net Profit increased to Rs 152.53 crores during the year as compared to Rs 75.90 crores in FY14.
* Earnings per share (basic) for the year (Face value of Rs 2.00) more than doubled to Rs 16.96 vis-à-vis Rs 8.44 in FY14.
* The Borrowings (Net of cash in hand) went down significantly from Rs. 384 crores as on March 31, 2014 to Rs. 296 crores as on March 31, 2015, mainly on account of the Company’s continued focus on cashflow.
* Order inflow during the year witnessed a marginal increase of 5% from Rs 2836 crores in the previous year to Rs 2990 crores in FY15.
* Carry Forward Order Book as on March 31, 2015 declined marginally by 4% to Rs 1413 crores compared to Rs 1478 crores as at March 31, 2014.
* Total Capital Employed of the Company stood at Rs 957 crores on March 31, 2015 as compared to Rs 976 crores on March 31, 2014.
* The Directors have recommended a Dividend of Rs 5.00 per equity share (Previous Year Rs 4.00 per equity share).

#### Exceptional items for FY15

The Board of Directors and shareholders had approved the transfer of the Company's Professional Electronics and Industrial Systems business to Blue Star Engineering and Electronics Ltd. (BSEEL) (erstwhile Blue Star Electro-Mechanical Ltd.), a wholly owned subsidiary of the Company during the quarter ended March 31, 2015 for a consideration of Rs.110.50 crores. The transaction has been effected and a surplus of Rs. 83.34 crores has been recognized which forms part of the Exceptional item gains for FY15. In addition, there was a gain of Rs 22.48 crores on profits on sales of assets during the year. The total Exceptional Gains amount to Rs. 105.83 crores in FY15.

A few large value infrastructure projects that form a subset of a larger number of legacy projects have been under close scrutiny at the Corporate level for settling of additional claims that have been under discussion for a long period. Unfortunately, these genuine claims are now being disputed. Considering the low likelihood of settlement as well as the expected timeframe to resolve these issues, the Company thought it prudent to provide for these claims. Thus, an amount of Rs 58.25 crores has been accounted as an exceptional loss for the year. In addition, there was a voluntary retirement scheme entailing cost of Rs 5.67 crores. The total Exceptional Losses amount to Rs. 63.92 crores in FY15.

Considering the above exceptional gains and losses, there was an overall net gain of Rs 41.90 crores during the year on a standalone basis.

#### Segment-wise results for FY15 on a standalone basis

* The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 52% of the total revenues in the year, increased marginally by 1%, while segment results registered a decline of 30% to Rs 64.71 crores. The market continued to be sluggish and the slow moving jobs resulted in a higher cost structure that adversely impacted segment profitability. This was further compounded with revision in cost estimates of specific legacy projects. In addition, increased investments in central airconditioning products affected the overall profitability of this segment.
* The revenue of Cooling Products in the year increased by a healthy 24%, while segment results grew 55% to Rs 146.83 crores over the same period. Enhanced distribution reach, strong brand salience, higher operational efficiency due to larger volumes, extended summer in some parts of the country and a higher favourable product mix were some of the factors responsible for the increase in profitability of this segment.
* The Professional Electronics and Industrial Systems business revenues increased by 18%, while segment results registered a significant increase of 43% to Rs 31.20 crores due to a conducive economic environment.

**The following are the financial highlights of the Company for the year ended March 31, 2015 - FY15 on a consolidated basis:**

* On a consolidated basis, Total Operating Income stood at Rs 3181.94 crores for the year ended March 31, 2015 as compared to Rs 2934.27 crores in FY14. The consolidated financial results include the results of the Company's wholly owned subsidiary, Blue Star Engineering and Electronics Limited (erstwhile Blue Star Electro-Mechanical Limited) and Blue Star Design & Engineering Limited; joint ventures Blue Star M& E Engineering SDN BHD, Malaysia and Blue Star Qatar (WLL); and the share of profit in the associate company Blue Star Infotech Limited.
* The Operating Profit (PBIDT excluding Exceptional Items and Other Non Operating Income) for the year stood at Rs 167.28 crores as compared to Rs 150.48 crores in FY14, representing a growth of 11%.
* Profit Before Tax (excluding Exceptional Items) grew 10% from Rs 76.28 crores in FY14 to Rs 84.10 crores in FY15.
* Exceptional items totalled to a loss of Rs 41.44 crores during the year which was negligible in FY14. This was mainly on account of provisions towards disputed claims of a few major infrastructure projects as well as the costs incurred in a voluntary retirement scheme, as explained earlier. The amount is net of profit on sale of assets.
* Consequently, the consolidated Net Profit for the year declined by 30% from Rs 77.54 crores in FY14 to Rs 54.18 crores during the year.

**The following are the financial highlights of the Company for the quarter ended March 31, 2015 - Q4FY15 on a Standalone basis:**

* For the quarter ended March 31, 2015, the Total Operating Income grew by 15% to Rs 1005.37 crores, as compared to Rs 877.27 crores over the same period in the previous year.
* Operating Profit (PBIDT excluding Exceptional Items and Other Non Operating Income) increased 21% to Rs 69.15 crores from Rs 57.19 crores in Q4FY14.
* Net Profit at Rs 106.17 crores was significantly higher than Rs 42.80 crores earned during the same period in the previous year, representing a growth of 148%.

## Business Highlights for Q4FY15

**Segment I (Electro Mechanical Projects & Packaged Airconditioning Systems)**

During Q4FY15, this segment registered a marginal revenue growth of 5% to Rs 505.10 crores with enhanced demand from power and utilities, integrated commercial complexes, banks/offices and healthcare. While, the complete revival of the commercial real estate segment is likely to take some more time, the macro-economic indicators are positive to fuel growth.

The segment registered a decline in profit of 16% to Rs 21.98 crores as compared to Rs 26.31 crores in Q4FY14. This resulted in a segment margin of 4.3% as compared to 5.4% during the same period last year. As indicated in the previous updates, the Company aggressively closed and/or made provisions for most of the legacy jobs in this fiscal in order to release the resources engaged in such projects so that it can focus on the imminent growth opportunities. Further, the market continued to be sluggish and the slow moving jobs resulted in a higher cost structure that adversely impacted segment profitability The Capital Employed in this segment decreased from Rs 454 crores as on March 31, 2014 to Rs 419 crores as on March 31, 2015.

The order inflow in Q4FY15 for this segment grew 114% to Rs 519 crores as compared to Rs 243 crores during the same period last year. Heavy Industrial, IT/ITES and Residential segments contributed to over 80% of the orders booked during the quarter in terms of value. The carry-forward order book for this segment stood at Rs 1340 crores as at March 31, 2015 as compared to Rs 1408 crores as at March 31, 2014, a decline of 5%.

The top four segments of the carry forward order book of the electro mechanical projects business are:

|  |  |  |
| --- | --- | --- |
| **Application Segment** | **Value (in Rs crores)** | **Share** |
| Integrated Commercial Complexes (Office+Hotel+Mall+Multiplex) | 180 | 16% |
| Hospital & Healthcare | 170 | 15% |
| MRTS (Metro Rail) | 170 | 15% |
| Industrial | 150 | 13% |

While the business will take some more quarters to recover, the enquiry levels are growing at an encouraging rate. The electro mechanical projects business has an open funnel of firm enquiries totaling to about Rs 3250 crores. The following three segments account for over 60% of this funnel:

|  |  |  |
| --- | --- | --- |
| **Application Segment** | **Value (in Rs crores)** | **Share** |
| Power & Utility | 750 | 23% |
| Integrated Commercial Complexes (Office+Hotel+Mall+Multiplex) | 675 | 21% |
| Banks/Offices | 575 | 18% |

On the central airconditioning equipment front, while the Company is a leader in scroll chillers, and a significant player in screw chillers, we did not offer centrifugal chillers which are deployed in large projects. During the quarter, the Company forayed into the centrifugal chiller category in order to provide a comprehensive range of chillers for various applications. This and other similar investments in new technologies have impacted the segment results but will benefit the business in the long term. The Company also took a conscious decision to discontinue its range of low-margin air distribution products in order to enhance profitability.

As regards to packaged airconditoning, there was enhanced demand from industrial, marriage/banquet halls and showrooms during the quarter. While the ducted systems market continued to be muted during the quarter, VRF systems market registered healthy growth. In the first quarter of FY16, the Company is set to launch a new VRF range called the 100% Inverter VRF which encompasses all variable speed compressors. All field trials of this range called the VRF IV Plus have been successfully completed and the Company is confident that with this new offering, it will further strengthen its foothold in the fast-growing VRF market. Water cooled ducted mini split ACs as well as free match inverter ACs which were launched recently continued to perform well.

**Segment II (Cooling Products)**

During the quarter, the Cooling Products segment of the Company registered a 27% increase in revenues to Rs 454.47 crores. Segment result also registered a 31% growth from Rs 39.72 crores to Rs 51.98 crores. Consequently, segment margins increased from 11.1% to 11.4% over the same period in the previous year. The Capital Employed decreased significantly from Rs 251 crores as on March 31, 2014 to Rs 189 crores as on March 31, 2015.

The room airconditioners business of the Company continued to perform well registering a healthy growth of 20% in value in the last quarter of this fiscal. Better market penetration and strong brand salience helped the Company register higher growth than the industry, thereby increasing its market share to 9.5%. Inverter split ACs is growing at a very past pace, albeit on a small base, and this product category is likely to get a large pie of the room airconditioners industry in the years to come.

As regards to the commercial refrigeration products business, bottled water dispensers registered good growth, since the Company has now begun using the distributor channel to market this product. The water cooler segment has been growing due to demand from offices, manufacturing and educational institutions. The chest freezer business also performed well due to significant orders from key accounts. Glass top freezers grew faster than the regular hard top freezers indicating a growing preference for display freezers. In the modular cold rooms segment, the Company enjoys a major share amongst most of the national QSR chains and is a leader in this segment. The Company was also able to book some key orders from the pharmaceutical segment during the quarter. It anticipates significant demand for modular cold rooms as several QSR chains are planning a foray into the market.

During the quarter, a new first-of-its-kind set-up for cold room panel manufacturing with eco-friendly foaming process using cyclopentane was added at the Company’s Wada Plant, supported by the Ozone Cell, Ministry of Environment and Forests. This is in line with Blue Star’s commitment to phase out CFC/HCFC substances. Cyclopentane blown foam contains no ozone depleting substances and has a negligible impact on global warming. This facility will commence production in Q1FY16.

#### Segment III (Professional Electronics and Industrial Systems)

The Board of Directors and shareholders had approved the transfer of the Company's Professional Electronics and Industrial Systems business to Blue Star Engineering Engineering and Electronics Ltd. (BSEEL) (erstwhile Blue Star Electro-Mechanical Ltd.), a wholly owned subsidiary of the Company in January 2015. This business was successfully transferred in Q4FY15 and the transition has been smooth. With the expected revival of the economy, most of the segments targeted by this business are planning to increase their capex investments which will result in significant growth in demand.  Since this business segment is distinctly different from the main AC&R businesses of the Company, this move enables the business to be an independent identity along with specialised resources in order to exploit its full potential.

During the quarter, the segment registered a growth of 20% to Rs 45.80 crores, while segment results grew substantially from Rs 4.83 crores to Rs 11.17 crores, a growth of 131%. This resulted in an enhancement in margins from 12.7% to 24.4% over the same period last year.

In the healthcare systems business, the Company won a significant CT Scanner order. It also extended its range of Blue Star branded colour doppler systems which met with an encouraging response. In the test and measuring instruments business, the newly launched product line of RF over Fiber (ROF) converters continued to be popular amongst defence and PSU customers. The data communications business performed impressively with substantial demand from the banking segment. The non-destructive testing business won several orders for ultrasonic/X-ray inspection, while the industrial products as well as the standard destructive testing businesses were muted during the review period.

**International Business**

Construction has always been the largest single sector in the GCC. Investments are being driven by substantial population growth, particularly in the areas of the social housing, education and healthcare. At the same time, private sector real estate has now regained the confidence as housing prices rise close to their historical peak and new projects launch every week.

In Q4FY15, the Product Exports business of Blue Star registered healthy growth. During the quarter, the Company received good inflow of orders in room air conditioners, water coolers, ducted systems and refrigeration products from OEM accounts and various distributors in UAE, Oman, Qatar, and Kuwait. Blue Star products were showcased in BIG (Builders International Gathering) Show, held under the patronage of Ministry of Housing - Sultanate of Oman from March 17-20, 2015 at Oman. This event was attended by well-known consultants and contractors and offered a good opportunity to showcase Blue Star’s products.

As regards to SAARC countries, there has been unrest in Maldives, in terms of the political situation. However, markets such as Bangladesh and Sri Lanka are likely to witness stable growth with FDI in place. During the quarter, the Company held a successful product launch at Nepal with its distributor, which was attended by well-known consultants, contractors, retailers and Government officials. However, the massive earthquake has caused a lot of destruction in several parts of Nepal and it will take some time before the market returns to normalcy in that region.

In conclusion, the economic climate is improving and the macro-economic indicators are encouraging. The residential and light commercial segments are registering healthy growth with enhanced spends by consumers. While the revival in the commercial construction cycle is taking longer than anticipated, some activity is expected in this sector during FY16 which will benefit several businesses of Blue Star, especially the electro mechanical projects business which has been under severe pressure over the last few years. The Company intends to continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few quarters in order to capitalise on the imminent growth opportunities.

With that ladies and gentlemen, I am done with my opening remarks. I would like to now pass it back to the moderator, who will open up floor to questions. Between Thyag and me, we will try and answer as many questions as we can. To the extent we are unable to, we will get back to you via e-mail. With that, we are open for questions.

**Moderator**: Thank you very much. Participants, we will now begin with the question-and-answer session. The first question is from the line of Ananth Narayan from Kotak. Please go ahead.

**Ananth Narayan**: My question is regarding the order book of Rs.1,413 crores which you mentioned. Can just give us a breakup of legacy orders and the new jobs?

**Vir Advani:** Out of Rs.1,413 crores, the Project business carry forward is Rs.1,340 crores and out of that Rs.1,340 crores, only Rs.25-30 crores worth orders are legacy.

**Ananth Narayan:** That means we were able to close the Rs.100 crores of legacy orders, if I am not mistaken, in the last quarter?

**Vir Advani:** Yes. Last quarter we had Rs.100 crores and about 85 Projects which is down to about Rs.30 crores and 25 Projects or so.

**Ananth Narayan:** What kind of guidance are you looking at for FY16 in the Segment-I?

**Vir Advani:** In Segment-I, as discussed, we are now done with majority of the legacy projects. Like I said, we have the last set of projects to go which we will close out in the first six-months of this year. That is now less of the challenge. The current challenge is the pace of new order execution. The execution continues to be slow over there which in turn is leading to depressed operating margins. We should have been back to normal operating margins of (+8%) in Segment-I, but we will not see that in the current year as against Segment-I operating margin of about 4% for FY15. We should be able to get back to about (+6%) in FY16.

**Ananth Narayan:** You said there are a lot of enquiries coming your way. Are they expected to translate into improved order book during the next quarter?

**Vir Advani:** The enquiry levels have been increasing every month and the order finalization tempo has also improved. You would have heard that Q4 order inflow was substantially higher than last year.

**Ananth Narayan:** You said Rs.519 crores.

**Vir Advani:** So that is continuing in Q1. The order inflow is certainly better than last year but still nowhere close to the pace that we expect. We are hoping that in the second half, the pace of finalization should improve.

**Moderator**: Thank you. The next question is from the line of Harish Biyani from Kotak Securities. Please go ahead.

**Harish Biyani:** My question is on the Room AC segment. Can you please share the volume and value data for 2015, for the industry and for Blue Star? Also a lot of the companies have grown by over (+20%) in the Room Airconditioning side or the Unitary Cooling Products side and the industry growth according to our understanding is somewhere around 10%. So who is exactly losing market share? If everybody is growing by 20%, how is the industry growing by 10%?

**B. Thiagarajan:** The market size for FY14 was somewhere around 3.75 Million Units. The market grew by around 10% or so in volume terms. The estimate we have is that the industry grew around 19% in value. Blue Star’s growth was 30% against that.

Now, most of the companies who kept the pace with the market growth would have grown by 20%. There is no doubt that FY15 was a good year for the industry. The market share improvement would have happened for some companies. The GfK data gives the market share movements in the Room Airconditioner as a category. It will be unfair on my part to be point out on who lost the market share. There are years in which some brands lose and some gain.

**Harish Biyani:** Just to understand better, Blue Star has gained about 100 bps market share to somewhere around 9.5%? And secondly, about a month or a month-and-a-half back, Blue Star had issued a press release wherein they had highlighted how they are going to incrementally gain market share on the Room Airconditioner side. Can you highlight some of the measures? How they have been shaping up overall and what according to you could be the potential market share for Blue Star over a 1-year period and a 3-year period?

**B. Thiagarajan:** We entered the Residential segment in 2011 and that point of time our market share was somewhere around 4%. Every year we have gained the market share and we are somewhere between 9% and 9.5% in FY15. Our goal is to reach 10.5% market share for which we will have to grow 10% more than the market growth. So that will push our market share beyond 10% to 10.5%. This is where our goal is.

During April and May, though market growth was not very encouraging, we have grown better than the market. It was not a strong summer and we still have some 4 or 5-weeks left. I think against the original estimate of 15%, market will grow by 10% only. Initially we had anticipated a market growth of 15%, in that case we wanted to grow by 25%. Now if market grows by 10%, we will grow by 20%. When we talk about our market share we are talking about the average. There are markets in which we have 15% share and in some we have 3% share. Our entire northern India market share has not been in line with the all India market share average. There are quite a few states in which we have just 5% or less market share. The reason for the same is lower distribution network penetration plus our not so strong presence in the Window Airconditioners compared to Split Airconditioners. We are strong in 5-Star Splits and the Inverter Airconditioners rather than the 3-Star or 2-Star because it is a price-sensitive market. So, our strategy is in Northern India is to gain the share which will come through products, pricing and extensive advertising and sales promotion in these regions apart strong dealer network penetration. So that is how we have executed, we have to see whether we are able to accomplish our goals when the year passes.

**Harish Biyani:** On the competition, we have seen increased pace of advertisement by some of your competitors and increase in distribution channel also, say for example, Panasonic, Lloyd, Whirlpool. So what are you seeing on the ground at this point in time?

**B. Thiagarajan:** In the categories which the Residential consumers are consuming, obviously the growing middle class population is the one which the companies would like to target for growth because manufacturing or commercial institutional businesses are not growing. At this point of time, business is happening from residential segment. Within that, if you see televisions, washing machines or other appliances, it is not offering growth. In most of the samples, people will have all these appliances and also two-wheeler or a four-wheeler. The only appliance that may not be possessed by them will be airconditioners. So this is a window that is available over next 5-10 years of time wherein penetration will improve dramatically. That is why most of the companies are focusing on Airconditioner as a category. And when the growth opportunity is available, everyone is trying to grab their share. Brand plays a very important part. As you know, this is a very seasonal product. So in a very short window of 4-6 weeks, everybody has to make a noise. I have a feeling it will further intensify perhaps next year and a year after as well. Look at the picture; it is just 4 Million Units in India we are talking about as against China’s 55 Million Units or world market of 105 Million Units. So this 4 Million Units has to become at least 10 Million Units by 2018. Hence the competition will be severe.

**Harish Biyani:** This means that you might have competition. But despite given that there is a market for everybody; you would not see any rationale in pricing?

**B. Thiagarajan:** Your assumption seems to be right except that it is a hope of yours, hope of mine, in the sense because the market will be growing. The competition will be manageable. Everybody has something to gain from that. But it is a game to be played in an intense manner and it can change overnight. For example, this year, the moment rains were there, there was an irrational behavior in the market of dropping the prices. Second is, as you know, the exchange rate is not favorable at this point of time. I am imagining some global event may push up the commodity prices. But we are very clear about our strategy. We are here to play a long-term game, one summer or one quarter is not going to matter. Our goal is to have somewhere around (+12%) market share. We may not want to be a #1 or #2 player but we will be a significant player. We want to provide solutions and want to run this business profitably.

**Harish Biyani:** On the EBIT apart from volume gain, is there any impact on accounting-led changes? Low warranty provisioning or anything of that sort?

**B. Thiagarajan:** Absolutely nothing. It is on a very-very like-to-like basis. There is no other reason except the volumes gained and the favorable commodity prices and the exchange rate which push up the margins.

**Moderator**: Thank you. The next question is from the line of Tanuj Mukheja from Ambit Capital. Please go ahead.

**Tanuj Mukheja:** Just a follow-up on the previous question. In an interview today, you mentioned that in the year FY16, your EBIT margins could be lower than the EBIT margins in FY15. Could you please elaborate on that statement?

**B. Thiagarajan:** All along I have been saying that the sustainable margins maybe around 10%. Last year the guidance of 10-11% was because of the commodity prices and the exchange rate. I do not think that luxury will be available. In this particular context, I am saying that you cannot tell whether 11% will become 12%, 12% will become 13% and that is not the way we should go about. What I am saying is that it could be lower if the exchange rate is going to be like this plus the volume build-up is not at some 20%. The next thing is that if you are going to be interested in the long-term, you have to invest in brand-building. You cannot show your margin increase by cutting down some advertising expenses because after all it is not for this summer you are promoting. Therefore I was cautious in giving that kind of message that it may be more in 10% kind of a thing, in Cooling products may not be 11%.

**Tanuj Mukheja:** Can you give your outlook and guidance for Electro-Mechanical Project segment for the year FY16?

**Vir Advani:** We are not expecting a great increase in revenue during FY16. It is primarily because the execution time continues to be delayed. However, we will certainly see a pickup in order inflow for the year and we expect around 15% improvement in order inflow. Revenue will not be up by that amount because the first half of this year appears to be just like last year. Hence I would say that for the full year it maybe a single digit revenue growth of 5-7%.

**Moderator**: Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

**Ankit Fitkariwala:** Can you give a sense on the break-up between Split and Window ACs and the Room ACs segment? What was the trend two years back and what it is currently?

**B. Thiagarajan:** It has been around 20% for Window Airconditioners and its not changing dramatically. Plus we have a replacement market and also the Northern India is still consuming a lot of Window Airconditioners.

**Ankit Fitkariwala:** When you say legacy of 25-odd projects for Rs.30-odd crores, what does it mean – can we assume that going forward, whatever the worst case scenario, the provisioning for these cannot exceed this amount? It has to be a fraction of this amount only, right?

**Vir Advani:** Yes, that is right.

**Moderator:** Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** On the EMP business, just wanted to understand, what is the order book pending in Chennai Metro and Delhi Metro?

**Vir Advani:**  We do not have Chennai Metro. We have two Metro jobs in the order book right now. Delhi Metro is E&P and Bangalore Metro is HVAC. Both together, the pending order is about Rs.170 crores.

**Madan Gopal:** Are you seeing Delhi Metro moving slow?

**Vir Advani:**  No, it is on track. Bangalore Metro is delayed by almost 15 months.

**Madan Gopal:** Any other new Metro Projects for which you are seeing enquiries coming in now?

**Vir Advani:**  No, we lost a couple of jobs last year. We lost Kochi Metro and that was of course elevated. The PQ is much lower for elevated metros, so we lost that, but other than that nothing was finalized last year. In the current year Mumbai Metro is just in PQ stage right now, that is Phase-3, and Ahmedabad Metro will come up for tender later in the year, that again is elevated, I believe last week or week before the long pending issues on Kolkata Metro have been resolved between the center and the state, and I believe therefore those tenders will probably come out later in the year. These are the only three that are even being spoken about as of now.

**Madan Gopal:** Any pick up in momentum on Commercial side in Southern India?

**Vir Advani:**  Bangalore, things are looking very positive. Both enquiry levels and finalizations are up. Pace of work has improved. This is all IT buildings primarily. While the customer is a developer, more often than not, it is linked to an end user tenancy deal. So you know who the end user is, you know who the developer is, and the specifications are actually finalized by the end user but the project is paid for by the developer. So that seems to be a new model in Bangalore which is doing quite well. Other than Bangalore, Hyderabad and Chennai are very quiet. There is some pickup in Kerala, but of course the volume is very low.

**Madan Gopal:** Sir, one of your peers was very critical about taking orders on this developer-based model. Are we comfortable given that the developer-based projects have given some pain the past? What is your take on that?

**Vir Advani:**  We have different thresholds and internal requirements for the developer business. We work with only a handful of builders on an all India basis now. I do not think it will be more than 15 developers that we are working with. So far things have been fine. Like I said, they are also very cautious about building. They are only building when there is tenant or owner identified. So as long as you keep track of all those metrics, it appears to be safe business to do. We are, for example, not doing any hotels right now and things like that, so that exposure also is not here.

**Madan Gopal:** Sir, with the current size of our AC business alone, which is Split plus Window, will it be around Rs.1,000 crores or where it will be?

**B. Thiagarajan:** Slightly lower than Rs.1,000 crores.

**Madan Gopal:** So you are factoring in a market share accretion of another 100 bps next year in your guidance?

**B. Thiagarajan:** That is right.

**Moderator;** The next question is from the line of Ravi Swaminathan from Spark Capital, please go ahead.

**Ravi Swaminathan:** In the UCP segment, apart from the Room ACs can you give me the breakup of the other products, in terms of revenue for this year?

**B. Thiagarajan:**  Every call I say, it becomes a selective disclosure. It will not be fair on my part, but you can safely conclude that 70% of that is Room Airconditioners.

**Ravi Swaminathan:** In the fourth quarter, what was the pace of growth in room ACs alone in the UCP space?

**B. Thiagarajan:**  Around 27% or so.

**Ravi Swaminathan:** No, that was for the entire Cooling Products segment?

**B. Thiagarajan:**  Correct, all of them would have grown more or less equally because Deep Freezers peak season is actually Q4 rather than Q1.

**Ravi Swaminathan:** One of your competitors in the EMP space mentioned that the number of bidders for Kochi Metro were as high as 12. How do you see competition panning out, Metro and Airport orders, going forward? It used to be 4 to 5-player segment right earlier.

**Vir Advani:**  Kochi Metro is an elevated Metro. PQ for elevated Metro is much easier than underground. Hence I was not too sad to lose that order. But yes, there were about 12 bidders and we will continue to see that kind of hyper competition in elevated metro. In underground, we continue to see a limited set of players, not more than five or six. That is probably true for most segments of the market. It is very difficult to find any segment where you have less than four or five bidders and there are many projects where there are more than 10. All this depends on the complexity of the job and how PQ is shaped. We find in Hospitals for example, the number of competitors is far lower and so is the case in Underground Metro and Industrial Projects. In Standard Developer projects or Hotel projects the number of bidders tends to be higher. So one of the reasons for enquiry levels and order finalization for us being lower is all of this because rather than wasting our efforts on most of the bids we have been selective about where we bid. Of course, in Metros, we continue to bid as many as possible because we have a legacy there. Other than that we are not indiscriminately quoting.

**Ravi Swaminathan:** These Metro orders, do they have a price variation clause?

**Vir Advani:**  It varies from job to job. Delhi Metro does not have a price variation clause while Bangalore Metro does have. It is just that every metro tenders are different.

**Ravi Swaminathan:** Regarding Residential and Commercial MEP projects, do we have a threshold in terms of size or we look at even smaller projects while bidding for projects?

**Vir Advani:** Value is only one threshold, we have number of parameters on which we score projects and then decide whether to quote or not. For example, residential, we will not bid unless the tower is at least 50 storeys in height and the services are bundled into multi-services. Because unless the scope is right and the complexity of the project is right, you will typically have more than a dozen bidders and developers unbundling. So that is one example. In IT we take a lower threshold, it is more to do with quality of customer than to do with a value itself. Like that, we go segment-to-segment, in Hospitals we work with only certain type of buyer, we stay away for example from individual doctor funded hospitals because typically the funding of such projects is not tied up before the start of the project. So we have come down to that granular level of vetting projects and qualifying them so that the quality of the order book is improving.

**Ravi Swaminathan:** Are you seeing any movement in the Cold Storage space? There are a lot of opportunities being talked about but is anything moving on the ground?

**B. Thiagarajan:**  Not at all. It is only in the Quick Service Restaurant, Fast Food segment, and the essential segments like Ice Cream, nowhere else.

**Moderator:** The next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

**Kirti Dalvi:** Could you explain any tax impact on the adjustments of whatever sale which has happened as well as on the sale of assets? Also there are certain cost provisions which we have provided. Is that the reason for lower taxes?

**Vir Advani:** We have a deferred tax asset which was being created over the last two years because of the doubtful debt that we had piled up. On account of that we took a credit of Rs.14 crores in the P&L. The provision for the current year is negative and going forward in the current year we expect to return to MAT level.

**Kirti Dalvi:** Around 19% to 20%?

**Vir Advani:** 22%.

**Kirti Dalvi:** Henceforth there will not be any benefits left, right?

**Vir Advani:** Yes.

**Kirti Dalvi:** So probably FY17 will be on a full tax basis?

**Vir Advani:** I think it moves gradually up. We still have some benefits around some manufacturing facilities, etc. So I think it will go from 22 to 28%, up to 33% or whatever is normal tax over a three year period.

**Kirti Dalvi:** What was the total order inflow in the quarter and year at the company level? Because you gave the figure of Rs.2,990 crores for the year as a whole. I am assuming that must be consolidated order inflow?

**Vir Advani:**  Q4 order inflow was Rs.983 crores vis-à-vis Rs.618 crores last year Out of that, 519 was for Segment-I.

**Kirti Dalvi:** Rs.1,430 crores order book, which you had given, is that just a standalone or consol?

**Vir Advani:**  That is the standalone.

**Kirti Dalvi:** It would be helpful if you could give us the consolidated as well for the year and inflow also?

**Vir Advani:**  I had explained this earlier in the year, so let me clarify it. The Plumbing business was in the subsidiary, I mentioned to you that beginning April 1, 2014, that is a year ago, we had stopped order inflow in the subsidiary and we were taking all plumbing firefighting orders into Blue Star Limited, the parent. Of course, we had some joint ventures etc., smaller entities, but that is not meaningful. So order inflow in the year will be more or less the same as the standalone. As far as the carry forward is concerned, yes, there are some small number of projects left in the subsidiary which are yet to be closed but that would not amount to more than some Rs.15 crores or so. So you can more or less take the standalone numbers as the correct numbers.

**Kirti Dalvi:** What is the planned CAPEX for the current year as well as next year?

**Vir Advani:**  FY15 the year ended CAPEX was Rs.51 crores, and in FY16 planned is Rs.65 crores.

**Kirti Dalvi:** And this will be in which segment Sir primarily?

**Vir Advani:**  This is for manufacturing and will primarily go into maintenance CAPEX. There are no significant large projects in manufacturing planned in FY16. So this will be spread between Segment-1 and Segment-2 because the manufacturing plants are spread between the two.

**Moderator:** Thank you. The next question is from the line of Abhinav Sharma from HDFC Securities. Please go ahead.

**Abhinav Sharma:** My question is on Segment-2. Sir, we were planning an expansion of capacity in southern region. So what is the update on that?

**B. Thiagarajan:**  We will know something by September. There is a consultant who is working on the complete manufacturing footprint. As you know that by December 2016, we will need the capacity. Hence there is time for that. We are looking at redesigning the footprint itself. During different times, different factories came up and each one of them was set up for a purpose like some were for backward integration, some were for income tax benefits, something for CENVAT benefit. So we are looking at it holistically. The new factory, what kind of backward integration it will do and which products will be manufactured is the question. Also the delay is due to understanding the GST and its implications. So hopefully by September we will be zeroing down on that. The CAPEX will be spread over two years and it will be not be in one particular year. We may have to buy the land and start construction. So hopefully in the October Conference Call we may have an update to provide.

**Abhinav Sharma:** One of our competitors has recently introduced Air Coolers. Would you be looking like something of that sort?

**B. Thiagarajan:** We are looking at it. But the thing is that I do not know why this Air Cooler is being hyped up like this. The organized market is just Rs.700 crores to Rs.800 crores and it is a highly seasonal product. It is not going to change dramatically. The question is that a few things are important to us — one, for our size, what is the portfolio that we should get into, the minimum market size or the huddle rate that we should look at, and what is the market share goal we will have in that. Also, are we able to substantially add value and differentiate ourselves. It is not sourcing some product and putting our label, which is not the way we run our brand. So this is where it is. We are indeed looking at it, but I am not seeing it as a very critical thing.

**Abhinav Sharma:** In a Room AC, what will be the Imported and Domestic content by cost on an average basis?

**Vir Advani:**  40% will be Imported, 60% is Domestic.

**Abhinav Sharma:** Our noncurrent investments in our standalone balance sheet have gone from Rs.120 crores at the end of last year to Rs.232 crores in March 2015.

**Vir Advani:** Like we explained, we have subsidiarized our Professional Electronics business, and with that our investment in BSEEL, that is Blue Star Engineering & Electronics Limited has gone up by Rs.110 crores, so that will be the primary reason for that.

**Moderator:** Thank you. The next question is from the line of Sanjeev Zarbade from Kotak PCG, please go ahead.

**Sanjeev Zarbade:** My question was on the working capital side wherein have seen a good improvement during this year. Do you think worst is over for your company? Also, what kind of debt reduction we can look forward to in the current fiscal?

**Vir Advani:**  One of the few things that we said we would do at the beginning of the year and which we actually did was bringing down the debt by Rs.100 crores. We aim to do the same again this year, bring it down by another Rs.100 crores while growing the business. So further control of cash flow is already underway.

**Moderator:** Thank you. The next question is from the line of Pawan Kumar from Unify Capital. Please go ahead.

**Pawan Kumar:** Just wanted to understand, you mentioned that the potential of the AC segment is around 10 Million Units and current sales are around 3.75 Million Units. Why is it not growing? Basically, in 2009 the sales were around 2 Million Units and now around 3.75 Million Units. What are the constraining factors in the market actually?

**B. Thiagarajan:**  First of all, it would have already grown, so take it as 4 Million Units. What I referred was that by 2018, it should be 10 Million Units if we have to catch up with the rest of the world. Now why it is not growing? I think important reason is the disposable income going into certain other categories, say, for example, in a smartphone category. Each house will have 2 to 3, or 4 smartphones which are more expensive than the Airconditioners and in some smart phones you can buy two air conditioners. Smart phone will last for two years and airconditioners will last for 8 to 10-years time. I think other categories occupying is the reason.

**Pawan Kumar:** What would be your present capacity utilization and what would be the capacity for Room Airconditioners?

**B. Thiagarajan:**  Blue Star’s capacity utilization may be in the order of 80%. Here you have to take into account the peak seasonal requirement. So capacity utilization from July onwards will be less than 50%.

**Pawan Kumar:** And what would be the volume-wise sales figure this year?

**B. Thiagarajan:**  Closer to around 3 lakh numbers.

**Moderator:** Ladies and Gentlemen, that was the last question. I would now like to hand the floor over to Mr. Vir Advani for closing comments.

**Vir Advani:** Thank you very much everyone for attending the call. If there are any open questions, please send us an e-mail and we will get back to you, otherwise we will speak to you at the end of Q1.

**Moderator:** On behalf of Blue Star Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.