"Blue Star Limited Q3FY18 Earnings Conference Call"

February 7, 2018

MANAGEMENT: **MR. NEERAJ BASUR – CHIEF FINANCIAL OFFICER, BLUE STAR LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Blue Star Limited Q3 FY18 Earnings Conference Call. We have with us today from the management Mr. Neeraj Basur, Chief Financial Officer. As a remainder, 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. In case you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur. Thank you and over to you Sir.

Neeraj Basur: Good morning ladies and gentlemen, this is Neeraj Basur and I will be providing you an overview of the results for Blue Star Limited for the quarter ended December 2017.

Prior to GST going live, revenue for previous periods included excise duty and other applicable input taxes. Revenue and EBIDTA percentage for Q3FY17 in this update have been computed by adjusting excise duty and other applicable input taxes from revenue. There is no impact of this on the profit before tax and profit after tax figures.

Following are the financial highlights of the company for the quarter ended December 31, 2017 on a comparable consolidated basis: -

- Revenue from Operations for Q3FY18 was Rs 981.30 Cr, as compared to Rs 872.21 Cr in Q3FY17, a growth of 13%

- EBIDTA (excluding other income and finance income) for Q3FY18 was Rs 51.33 Cr as compared to Rs 33.91 Cr in Q3FY17, a growth of 51%. EBIDTA as a percentage of Revenue improved to 5.2% in Q3FY18 from 3.9% in Q3FY17

- PBT for Q3FY18 was Rs 30.31 Cr as compared to Rs 15.71 Cr in Q3FY17, growth of 93%. PBT as a percentage of Revenue improved to 3.1% in Q3FY18 from 1.8% in Q3FY17

- Tax expense for Q3FY18 was Rs 9.31 Cr as compared to Rs 1.53 Cr in Q3FY17. Increase in effective tax rate is due to general increase in taxable profits

- Consequently, consolidated Net Profit for Q3FY18 increased to Rs 18.78 Cr from Rs 14.50 Cr in Q3FY17, a growth of 30%

- Carry-forward order book as on Dec 31, 2017 increased by 21% to Rs. 2,163 Cr as compared to Rs. 1,794 Cr as at Dec 31, 2016

- Consolidated net borrowings increased marginally to Rs 295 Cr as on Dec 31, 2017 from Rs 286 Cr as on Dec 31, 2016. Our Debt to Equity ratio reduced to 0.38 as on Dec 31, 2017 from 0.39 as on Dec 31, 2016

- Consolidated capital employed increased marginally to Rs 778 Cr as on Dec 31, 2017 from Rs 724 Cr as on Dec 31, 2016 due to growth in revenue.

Now I will talk about business highlights for all the three segments for Q3FY18.

In Segment I, Electro-Mechanical projects and Packaged Air Conditioning Systems, comparable revenue was Rs 576.72 Cr in Q3FY18 as against Rs 532.23 Cr in Q3FY17, a growth of 8%. The segment results grew to

Rs 36.19 Cr (6.27%) in Q3FY18 from Rs 27.22 Cr (5.12%) in Q3FY17. Order inflow in Q3FY18 was Rs 566 Cr as compared to Rs 446 Cr in Q3FY17, a growth of 27%.

Overall for Electro-Mechanical Project business, the market demand and project execution pace continued to remain weak in Q3. Investments in infrastructure continued to be largely driven by Government through various infrastructure projects like metro and healthcare while private investments remained sluggish. Our sales prospects base remained stagnant with a drop in the office segment and growth in the residential space mostly for fire, ventilation, electrical & plumbing services. New order booking from heavy industrial & factory segments continued to be low and customer preference for single vendor for multi services is gradually on the rise. Select large value investments from Government and a few corporates are going the super bundled route through general contractors.

While the order bookings have been improving, our revenue growth in Q3 slowed down as billings from Government and few large projects are yet to gain momentum due to slow pace in concluding revised contract values post GST. Pace of billing is likely to remain slow in Q4.

There was an improvement in profitability as compared to last year and the same was driven by higher scale and better margin profile of certain key jobs. The strategy to focus selectively on profitable and healthier cash flow projects continues to contribute to segment results. Blue Star continues to invest in smart systems and technology in line with its value proposition of superior project delivery through intelligent engineering, modern execution practices and committed teams.

Blue Star maintained its dominant leadership position in the electro mechanical space in India. Some major orders won during Q3FY18 included Bhartiya City, Medanta Hospital, Microsoft and IIT Jodhpur.

Moving on to our Central and Packaged Air Conditioning Systems business, overall market witnessed recovery in demand post slow-down in Q2 due to GST transition. Market growth was seen across all the product categories. Our ducted and VRF products continued to grow faster than the market. Our newly launched products like Inverter Ducted, VRF V Plus and configured series Screw Chillers witnessed good growth momentum. Further, our marketing strategy of conducting product launches to penetrate key markets in tier 2 and tier 3 cities was well received.

Major orders booked during the quarter were SJR Builders, PSG College, Saint Gobain India Pvt Ltd, L&T Limited, ITC Limited, KC School and Hanon systems Pvt Limited.

In international business, Blue Star continued its focus on expanding its product export business. Healthy order inflow continued for water coolers, room air conditioners and other applied products such as VRF, AHU & chillers from various distributors and OEM customers. Strengthening of Rupee against the US dollar and increase in commodity prices in Q3 impacted export billing in INR terms and profit margin.

Blue Star's VRF system was approved and listed by Abu Dhabi Quality and Conformity Council (Abu Dhabi QCC). We were also successfully placed in the approved list of vendors for applied system products registered by CEO Engineering Consultancies for the UAE region. This would enable the company to sell our equipment for projects in the UAE.

Blue Star's international business is currently present in 19 markets and we are currently focused on deepening the penetration in these markets. On the economic outlook, emerging markets of the Gulf Cooperation Council (GCC) countries and Africa remained under pressure. The ongoing sanctions on Qatar by GCC countries have impacted both order inflow and cash flows.

Blue Star continues its journey to strengthen its brand in select international markets. Blue Star has an aggressive plan to selectively and profitably grow its international business and overall business outlook remain positive.

Moving to Segment II, Unitary Products, comparable revenue for this segment was Rs 365.33 Cr in Q3FY18 as against Rs 286.47 Cr in Q3FY17, a growth of 28%. The segment result grew to Rs 27.08 Cr (7.41%) in Q3FY18 as compared with Rs 10.31 Cr (3.61%) in Q3FY17. While the commodities remained costlier, due to price revisions implemented in Q3FY18, the margins were better.

I will now talk about our Room Air Conditioner business.

Room Air Conditioner business which remained subdued in the previous quarters due to GST transition returned back on the growth trajectory in Q3FY18, with the dealers beginning to restock. Blue Star's room AC business grew by 25% in value terms while the market grew by 20%.

Blue Star's market share increased to 11.5% in YTD Q3FY18 as compared to 11% YTD Q3FY17. The company continued to perform better in the high energy efficient products such as 5 star and inverter ACs.

With the new energy efficiency norms coming into effect from January 1, 2018, Blue Star has increased prices of its room air-conditioners ranging from 4% to 6% in line with other market players. It is early to pass the judgment on the summer demand, but we expect that the market will continue to grow.

In Commercial Refrigeration business, the overall market for Commercial Refrigeration products also witnessed smart recovery in demand post slowdown in Q2 due to GST transition. Blue Star grew faster than the industry during Q3FY18. The growth was seen across categories of Deep Freezers, Storage Water Coolers, Bottled Water Dispensers and Modular Cold rooms. Our new lines of business 'Kitchen Refrigeration' and 'Medical Refrigeration' witnessed reasonable growth in the market with increase in secondary sales.

Blue Star continued to strengthen its product offerings and scaling up its business catering to the needs of constantly growing market and also continued to be a dominant player in the Commercial Refrigeration space.

Blue Star's water purifier business continued to make deep inroads during the quarter. After having penetrated over 100 towns and increasing its availability to 1750 outlets, the business is now focusing on enhancing the productivity of its channels. It has engaged over 400 star water consultants (in store demonstrators) who are available at retail outlets to highlight the superior features of Blue Star's water purifier range. These personnel also carry out activations and other field marketing activities for brand awareness and lead generation.

Having gained market acceptance, the product range is being expanded to cover all the price points and customer segments. We launched 6 new models in Q3FY18 under a series called Imperia. Another 6 models under two new series are planned to be launched in Q4FY18.

As already indicated, Blue Star expects segment II results to be impacted by 120-150 bps for the current financial year, due to investments in this product category primarily in marketing, brand building and R&D.

Coming to Segment III, Professional Electronics and Industrial Systems, revenue declined by 27% in Q3FY18 to Rs 39.25 Cr from Rs 53.51 Cr in Q3FY17. Segment result degrew to Rs 3.25 Cr (8.28%) in

Q3FY18 as compared with Rs 8.41 Cr (15.59%) during the same period last year. Revenue in Q3 was lower due to continued softness in industrial capex and slow pace of project execution. Margins in this segment were impacted by lower demand coupled with lower realization due to sluggish market conditions. Plans are on the anvil to rejig and renew the product portfolio in order to improve profitability and at the same time, the demand is expected to revive in the last quarter of the current financial year.

During the quarter, large orders were received from TUV SUD South Asia Pvt. Ltd., Hindustan Aeronautics Limited, Space Application Centre and Brakes India Pvt. Ltd.

Our business outlook; the electro-mechanical projects business environment, especially demand from Construction and Real Estate sectors is expected to remain muted in the medium term. However, growth from the residential and light commercial segments is expected to be strong. The Company will continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few quarters in order to capitalize on the imminent growth opportunities.

With that ladies and gentlemen, I am done with the opening remarks. I would like to now pass it back to moderator, who will open up floor to questions. I will try and answer as many as question as I can.

To the extent I am unable to, we will go back to you via e-mail.

With that we are now open for questions, please.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: Ahead of new energy efficiency norms, was there any pre-buying during Q3FY18? Will that impact demand in Q4FY18?

Neeraj Basur: The energy efficiency norms went live on January 1, 2018. There was an increase in demand in the month of December. Our key focus remains on higher energy efficient products. Therefore, our sales of higher energy efficient products 5 star and inverters was robust in Q3. We also experienced channel restocking getting restored to pre-GST levels. There could be some sales impact probably in the months of January and February since the dealers have restocked to their pre-GST levels, they will take some time to create primary demand. The real push during Q4 is linked to the setting in of early summers. So, there will be a dependency on the weather to have a visibility on how Q4 sales will eventually play out.

Aditya Bhartia: Post these new energy efficiency norms, what kind of price hikes where necessitated by the industry? Do you think that the complete impact of commodity cost and new norms has been passed on to the customers?

Neeraj Basur: While some players have already announced the new prices, others are in the process of doing the same. We also increased our product prices. We had not taken price increases in Q2 mainly because of GST transition. Towards the end of Q4, we will take a stock of the competitive pricing following energy labeling changes and decide our pricing strategy for Q1 subsequently.

Aditya Bhartia: With 5-Star AC now becoming a 3-Star AC, I believe that the 3-Star pricing would have increased compared to what it used to be before new energy efficiency norms implementation?

Neeraj Basur: That is correct; prices of new 3 star machines will be relatively higher than the earlier prices. There will be an optical shift to that extent.

Aditya Bhartia: What would be the incremental cost now for a 3-Star AC, do you think that the complete cost has been passed on to customers? Or will companies take some hit on account of that?

Neeraj Basur: There is no price increase in the cost of 3-Star per say, the labeling change itself by itself not resulted in any major cost increase. The cost pressure was there because of increase in commodity prices over last few quarters. We have corrected our selling prices for us to maintain our margin levels. We are not in a position to comment or we will not know at this point in time price hike taken by all the players.

Moderator: Thank you. The next question is from the line of Lavina Quadros from Jefferies. Please go ahead.

Lavina Quadros: Were there price hikes in Q3 as well?

Neeraj Basur: We did take some price hikes towards the end of Q3 to establish our prices post labeling changes as of Jan 1st.

Lavina Quadros: And the 4-6% you referred to was from 1st January in line with the rating changes?

Neeraj Basur: We have taken price increases towards the end of Q3 in the largely to catch up with the commodity price increase. The 4%-6% price hikes taken by us will remain effective Jan 1st post labeling change.

Lavina Quadros: In the water purifier business, was there lesser investment in Q3? As you have seen a very good sequential improvement, I thought water purifier might take away some of the margin impact for the cooling product segment.

Neeraj Basur: We are very much in line with our investment plans for our Water Purfier business. Besides, as we have indicated, the annual impact on the margin for segment 2 will be 120-150 basis points and that remains true for Q3 as well. We are stepping up our expansion of distribution and on the product portfolio for this business. Better margin for the segment level is related to the price corrections which we have taken and also because of increase in our scale during the quarter relative to last year.

Moderator: Thank you. The next question is from the line of Chanchal Khandelwal from Birla Mutual Fund. Please go ahead.

Chanchal Khandelwal: So the price of 5-Star has become a 3-Star price?

Neeraj Basur: That is correct. So effectively for the customer, there will be an optical increase in prices because the 3-Star that they will buy from January onwards will carry the same price as an erstwhile 5-Star rated machine was carrying and similarly a 5 star machine will carry a price which an inverter machine was carrying earlier. That by itself does not impact our realization or margins. The major impact on our cost and margins was because of commodity price increase which we have taken care of. As the labeling changes settle down, there will be further realignment in the prices at a level where most players will find it competitive to play. We are just waiting for these changes to settle down and to whatever extent we need to make any further changes and respond to market forces; we will do that in Q1 next year.

Chanchal Khandelwal: Also, on the water purifier, is that a better margin business? Also, how big is water purifier as a percentage of sales now?

Neeraj Basur: Once our Q4 results are announced in May, we will talk to you more about our future plans in the Water Purifier business.

Chanchal Khandelwal: And lastly on the MEP business, we have a very good margin. Can we further improve the margins from here given that GST would be helpful to us? What is the margin guidance from 2-3 years perspective?

Neeraj Basur: There is no impact of GST on the margins in Segment-I because the GST levy is a pass through. As you know, our customers are eligible to claim GST input tax credit. So whatever GST we are charging is a pass through for them and so there is no cost or margin impact for us, either way. Segment-I margins were better than what we had realized in the same quarter last year. This is because of the better margin profile of some jobs that we were able to close in the current quarter. As indicated earlier, there will be quarters where some jobs or few jobs may have relatively better site margins. If they get closed out, we end up realizing somewhat better margins. But at the same time, there may be quarters wherein some other jobs, not so comparable on margins, may get closed. That is why while quarter-on-quarter there could be some shift in margins, we believe that Segment-I should generate 4.5% - 5% margins on a sustainable basis. We are already at 5% on a year-to-date basis and we expect it to remain at that level.

In this segment, CAPEX by private sectors and also the pace of order execution has been slower than our expectations. That can impact margins. We are yet to see a significant revival in the private sector CAPEX and announcement of new projects. As an outlook, as of now, we don't think it is prudent for us to consider any significant improvement in the margin profile and expect it to remain in the range of 4.5% - 5%.

Moderator: Thank you. We move to the next question that is from the line of Abhineet Anand from SBI Capital Securities. Please go ahead.

Abhineet Anand: For Segment-I, we are guiding for a 4.5% - 5% margin range and year-to-date we are at around 5%. So for the last three quarters, we are practically above 4%. So do you see any negatives coming up in Q4? Is that the reason why you are saying 4.5% - 5% range?

Neeraj Basur: This will be closer to 5% on a year-to-date basis. Last quarter we were at 5.2% and this time we are at 5.8%. So we are hovering in that range. We do not expect any negative per say but the final margin realization depends on the jobs which we close. There will always be a blend of jobs in the basket that we work on and on an aggregate basis that is why we expect this to remain in the range of 4.5% - 5%. The important thing for us, what we have been mentioning during the last many quarters, is the sustainability of margins at these levels which we are confident of. I also mentioned that the pace of execution of projects is still not at that level which we would want it to be. That also impacts our margins. Once we are surer of the overall execution pace, we may change our outlook on the overall margin profile for this segment.

Abhineet Anand: On the professional electronics, we consistently used to clock 15% EBITDA margins. The same has come down to 7% - 8% during the last two quarters along with bit sluggish sales. So can you throw some light, as to what are the products that we sell and what is the solution that we sell? Also, an outlook in terms of revenue and margin for that.

Neeraj Basur: We work with a number of principals and provide system integration and product sales and solution services. There are multiple lines of businesses in this segment. We provide data security solutions, testing solutions, healthcare equipment solutions and so on. In this segment, the big chunk of our business is dependent on the industrial CAPEX pace. Unless that happens, further investments in our products, solutions and services does not really happen. So, the slowdown in private and industrial CAPEX has impacted our sales. We have been trying to substitute some of that business by adding new lines of products and services which have its own gestation time. That is why we have talked about the need for us to rejig and renew our product portfolio for this segment. Historically, this has been a highly profitable segment for us wherein we have realized segment margins of around 15%. We are confident that once the initiatives which we have taken in terms of adding new product lines and once there is more visibility of investments from some of our customers, we should look at a healthier order book and hence better margins in the segment also.

Abhineet Anand: And lastly, on this unallocable expenses. Is there some one-off in the quarter, or do we assume this as a run rate?

Neeraj Basur: In last year we had some one-off income lines which were netted-off against unallocable expense line. We had investable corpus for part of the last year which we had accrued by selling our information technology business. So that corpus was temporarily invested in the last financial year in the first two quarters, which generated investment income for us. We also had interest that we realized on certain income tax refunds last year. Therefore, relatively, some of those income lines are lower this year. Otherwise on a gross basis, we are at a pretty steady run rate for our unallocable expenses, both for the quarter and for the year.

Abhineet Anand: So can you maybe quantify that out of that Rs. 22 crores last year what could have been incremental income which netted-off from the unallocable expense?

Neeraj Basur: Around Rs. 12-14 crore related to the higher one time income last year, that was netted off against unallocable expenses

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Markets Securities. Please go ahead.

Amber Singhania: Just a couple of questions on the things following the rating change. How is the situation at the dealers end? What we understand is that till sometime back, dealers were still selling the old products. So is the old inventory completely out of the system even at the dealer's end?

Neeraj Basur: No, the old inventory is not fully liquidated by the dealers though there was accelerated push by the dealers to restock in the month of December across all product categories. It will take them some time before they liquidate whatever they have bought in Q3. The channel is back to around 60 days inventory as was the case pre-GST. So right now, replenishment of channel stock has happened. Beyond this, of course dealers will keep buying in-line with the summer demand which should start somewhere in the month of March.

Amber Singhania: So, can we see some impact happening on our sales in Q4 as dealers were already flushed with the inventory?

Neeraj Basur: The inventory level is back to the pre-GST normalized levels. There was a dip in primary sales during Q1 and Q2 and the December sales push has brought the stock levels back to the normal levels. We think the market will grow and especially if it is supported by an early onset of summer, then this inventory will get consumed pretty fast. Hence we don't see an immediate concern on the overall inventory levels which are there in the trade as of now.

Amber Singhania: As we are already nearing the start of summer season and we plan during the Q3 for the onset of new season, what is your outlook in terms of overall industry growth for the next year? Last year, we had multiple factors impacting the numbers with GST or demonetization and all. Now with a clean slate, where do we stand as an industry in Room AC and what is your outlook on overall demand scenario for the coming year?

Neeraj Basur: Our sense is that the market growth this year during Q3 has been good at around 20%. Assuming Q4 is also good quarter for everyone, we think that the market should grow in the range of 10% - 11% for FY18. For FY19, we expect it to be in the range of 12% - 15% and it will be a better year on an annualized basis provided do not have external disruption. So we think market will normalize back to healthy growth rate next year on a full year basis.

Amber Singhania: Is this 10% - 15% growth, which you mentioned, after considering the price increase on the back of the new rating change? With the lower price point, which was earlier the 3-Star, now not being in the market and the old 5-Star now being the 3-Star, already there is an increase in average realization by around 8% - 10%.

Neeraj Basur: Yes that is right and hence is mentioned 12% - 15%. Because on an average, CAGR of the market otherwise would have been around 10% - 12%.

Amber Singhania: Are we are seeing single-digit volume growth?

Neeraj Basur: Volume growth may not necessarily be single-digit.

Amber Singhania: If you are seeing a double-digit volume growth with 8% - 10% increase in the average realization, then the industry growth in a value terms should be much higher, somewhere around 18% - 20%.

Neeraj Basur: There is still a large market which will buy the old 3-Star rated machines which will now be rated lower. So there is a mix issue also here. Obviously, if the entire market shifts to higher rated, let's say to 5-Star and inverters, then what you are saying is correct. However as per our assessment, may be next year, around 50% of the market will buy higher energy efficient products which is a combination of 5-Star and inverters. The other around 50% will still be the lower-end product.

Amber Singhania: On order pipeline, are large orders coming in this year for project business? Also if you can give some color on the status of Mumbai Metro Rail bidding?

Neeraj Basur: We share the composition of our overall order book once a year when we declare our Q4 earnings. Also, as and when we get any large orders, we talk about that once we have closed the orders. As Mumbai Metro is currently being tendered, we should get to know the final outcome in couple of months. It is certainly a large tender by value and everyone is watching it closely.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: A small clarification, around 60% of the volume used to happen in 3-Star. Now with the new rating change, will this 60% come to 50% or 40%? Also, if you look at a relative 3-Star to 3-Star comparison, the realization would have increased by 12% - 15%. right? Also, previously 5-Star I think market volumes were lower. Now that same 5-Star is now a 3-Star and is addressing a market of close to 40% -50% of the volume. Hence you are getting a scale reach here. Hence it can be interpreted that you will have higher bargaining power while negotiating with your supplier. So don't you feel that there will be an aggression in terms the 3-Star to 3-Star pricing and the difference can be around 10%?

Neeraj Basur: While the market shifts towards inverters, which is already evident, on an aggregate basis, the current 5-Star and inverter machines will definitely have a higher overall aggregate share. Hence we think the overall 5-Star and current inverters should be in the range of around 50% going forward. But there will still be a market which will be a non 5-Star. We do not think that price realizations will shift so much to cause an overall 8% - 12% aggregate realization impact across the board.

Secondly, the market for the entry-level, below 3-Star, will still be there. That is why on an average the realizations will improve but will not go to the extent of some 6% - 8%. So somewhere in the range of 4% - 6% is what we are anticipating the realization impact on an aggregate basis, considering 50% market will move on to higher energy efficient product and the remaining 50% will still be lesser energy efficient product which would be the bulk.

Renjith Sivaram: Are you seeing shift towards inverters as the new ratings converge? Previously there were 2 rating systems, one separately for inverters and one separately for traditional ACs.

Neeraj Basur: Yes they will be converging more and more.

Renjith Sivaram: Historically, we have seen very low preference for 1-Star and 2-Star. Generally people try to play it safe by going for a 3-Star AC. So with this change in rating system, has that really happened or not? We just wanted to get a sense on it.

Neeraj Basur: It is too early. There are still some old stock in the pipeline which need to be consumed and it will take some time. And secondly, for people to start pushing a 3-Star at a higher price will also take some more effort. So what you are saying may happen over a slightly longer period of time. But we don't see that happen in one quarter itself.

Renjith Sivaram: Have all AC manufacturers introduced their new line of products or are they still waiting?

Neeraj Basur: Our understanding is that all large players are well-stocked with the relevant range of product SKUs.

Moderator: Thank you. The next question is from the line of Tanu Lunia from Kotak Securities. Please go ahead.

Tanu Lunia: What is our current capacity utilization in the unitary products? And we had purchase two land parcels. What is the development over there? Are we setting up new manufacturing plants?

Neeraj Basur: Our capacity utilization ranges from 80% - 85%, depending on production cycle. In the next few quarters, we will complete our plans for enhancement of capacity for which we have had bought land. As and when we are ready with any further announcement, we will let you know.

Moderator: Thank you. The next question is from the line of Varun Agarwal from BOI AXA Mutual Funds. Please go ahead.

Varun Agarwal: Just to understand a bit more about the upper end of the market, like 3-Star and 5-Star and market below it like 2 Star or 1 Star. So how is the competitive scenario there? Do we see more competition in the second half or the first? And how has been your experience in terms of competition at your pricing in the market? Can you please help with that?

Neeraj Basur: As far as Blue Star is concerned, our predominant focus has always been on higher end which is the 5-Star and inverters. 63% of our overall sales in this quarter have come from that segment which also helped us in overall growth. For the nine months of FY18, it is close to 50%. Hence we will continue our predominant focus on these two segments. As I clarified to the last question, aggregate market is also around 30% - 40% for these two categories. So there is still a big market, say around 60-70%, which are not 5-Stars and not inverters. So these would be erstwhile 3-Star, 2 star, 1 star and entry-level products. As far as this market is concerned, we don't think that that portion of the business will shift to a higher energy set of products very quickly and it will take some time. Yes, of course, there will be better adaptation of the new 3-Star and 5 star over a period of time.

Moderator: Thank you. The next question is from the line of Urvil Bhatt from India Infoline. Please go ahead.

Urvil Bhatt: There was some Rs. 2 crores share of JV loss that has come into the P&L this quarter. Wanted to understand the nature of the same.

Neeraj Basur: We have joint ventures in Malaysia and Oman. There are variety of small jobs which we keep closing in both Malaysia and Oman. In this quarter, we have closed some jobs and accounted for the job margins.

Moderator: Thank you. The next question is from the line of Lavina Quadros from Jefferies. Please go ahead.

Lavina Quadros: You do have a very premium brand, which is Daikin, and there is lot of talks in the media that the company is planning to reposition itself from a premium brand to a normal segment or a value segment brand. But there is chatter, for example, that they are dropping prices below levels of other companies which are in that value propositioning brand. So just wanted to understand, are you all also hearing more about this? Anything on those lines that you could comment on.

Neeraj Basur: We are competing in a fairly tight space wherein at the top 6-7 brands are quite well-respected and reputed. We continue to watch and monitor pricing and distribution strategies of all our peers closely. We take cognizance of all the market forces appropriately in our distribution and pricing strategy and we will continue to respond in line with our plans and chosen strategy

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

Aditya Bhartia: For the project business, you mentioned that 4.5-5% should be looked as sustainable margins. Any indicative margins that you can guide for Room AC business?

Neeraj Basur: We are quite optimistic that we can achieve margins of 9.5%-10% this year. It is before considering the impact of investment in our water purifier business.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. Neeraj Basur for closing comments. Thank you and over to you sir.

Neeraj Basur: Thank you very much, ladies and gentlemen. With this we conclude this Quarter's Earnings Call. Do feel free to revert to us in case any of your questions or if any of your questions were not fully answered. We will be happy to provide you additional details by e-mail or in person. Thank you very much and good day.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Blue Star Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.