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February 13, 2019

Dear Sirs,

Sub: Earning Call Transcript – Q3 FY19

With reference to our letter dated January 29, 2019, and pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earning Call Transcript pertaining to Q3 FY19 Financial Results of the Company.

The aforesaid information is also being made available on the website of the Company www.bluestarindia.com

Thanking you,
Yours faithfully,
For **Blue Star Limited**


Vijay Devadiga
Company Secretary



Encl: a/a

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**“Blue Star Limited Q3& 9 Months FY19 Earnings
Conference Call”**

February 06, 2019



MANAGEMENT: MR. NEERAJ BASUR – CFO

Moderator: Good morning ladies and Gentlemen, welcome to the Blue Star Limited Q3& 9 months FY19 Earnings Conference Call. We have with us today from the management Mr. Neeraj Basur, CFO- Blue Star Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing “*” then “0” on your 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. I will be providing you an overview of the results of Blue Star for the quarter ended December, 2018. First, I will cover financial highlights for Q3 FY19.

Effective April 1, 2018, the Company has adopted Ind AS 115 and accordingly, has realigned its revenue recognition policies appropriately. The accounting changes have been applied with retrospective effect to each of the prior reporting periods presented. The Company has opted for a full retrospective approach in view of the seasonal nature of its business. The impact on revenue and profit was not material for the full year FY18.

Following are the financial highlights of the Company for the quarter ended Dec 31, 2018 on a consolidated basis:

-Revenue from operations for Q3 FY19 was Rs 1098.97 cr, as compared to Rs 932.04 cr in Q3 FY18, a growth of 17.9%.

-EBIDTA (excluding other income and finance income) for Q3 FY19 was Rs 42.34 cr as compared to Rs 42.43 cr in Q3 FY18. EBIDTA (excluding other income and finance income) as a percentage of revenue was 3.9% in Q3 FY19 compared to 4.6% in Q3 FY18.

-PBT before exceptional items for Q3 FY19 was Rs 21.36 cr as compared to Rs 21.41 cr in Q3 FY18. PBT before exceptional items as a percentage of revenue was 1.9% for Q3 FY19 and 2.3% for Q3 FY18.

-Tax expense for Q3 FY19 was Rs 0.99 cr as compared to Rs 5.83 cr in Q3 FY18.

-There was a net loss of Rs 0.94 cr for Q3 FY19 as compared to a net profit of Rs 13.36 cr for Q3 FY18 due to one-time expenses on the Company's Platinum Jubilee Celebrations of Rs 7.17 cr and provision of Rs 14.46 cr towards our exposure in the JV in Oman.

-Carry-forward order book as at Dec 31, 2018 was Rs 2277.46 cr as compared to Rs 2162.16 cr as at Dec 31, 2017.

-Capital employed increased to Rs 1173.53 cr as on Dec 31, 2018 from Rs 1059.72 cr as on Dec 31, 2017 to support increased working capital requirements.

-Consequently, net borrowings increased to Rs 376.71 cr as on Dec 31, 2018 from Rs 300.24 cr as on Dec 31, 2017. Our debt to equity ratio was 0.5 as on Dec 31, 2018 as compared to 0.4 as on Dec 31, 2017.

Business highlights for Q3 FY19:

Segment-I – Electromechanical Projects and Packaged Air Conditioning Systems:

Segment I revenue was Rs 655.47 cr in Q3 FY19 as against Rs 566.11 cr in Q3 FY18, a growth of 15.8%. Segment results was Rs 30.11 cr (4.6%) in Q3 FY19 compared to Rs 30.47 cr (5.4%) in Q3 FY18. Order inflow in Q3 FY19 was Rs 684.71 cr as compared to Rs 566.86 cr in Q3 FY18, a growth of 20.7%.

1. Electro-Mechanical Projects business

With a few infrastructure segments such as metro railway and airports offering immediate growth opportunities, our focus is to increase our share of business from these segments. Commercial office projects in select cities are witnessing an uptick and we continue to win bundled MEP contracts in this segment.

Our order bookings in Q3 FY19 witnessed good traction with considerable growth over Q3 FY18. We expect the growth momentum to continue in the upcoming months.

Our revenue grew in Q3 FY19 over Q3 FY18 contributed mainly by offices, malls and healthcare segments. We continue to invest in smart systems and technology in line with our value proposition of superior project delivery through intelligent engineering, modern execution practices and committed teams.

We maintained our leadership position in the electro mechanical space in India. Some major orders won during Q3 FY19 included L&W–RMZ One Paramount at Chennai, L&T – AIIMS Guntur, Kohinoor Square Mumbai, DLF Camellias Gurgaon, Barclays Pune, Biocon-Syngene Pharma at Mangalore, Sigma Freudenberg Factory at Chennai, LuLu corporate office at Kochi and Blue Wheel Hospital at Bhubaneswar.

Carry-forward order book of the Electro Mechanical Projects business was Rs 1573.04 cr as at Dec 31, 2018 as compared to Rs 1518.93 cr as at Dec 31, 2017.

2. Commercial Air Conditioning business (Central and Packaged Air Conditioning Products)

The business grew faster than the market and achieved growth of 13%. Our major growth drivers in Q3 FY19 were large infra, Government and industrial segments, increased penetration in the Northern region and network expansion in unrepresented markets. We were able to consolidate our position and enhance market share in VRF Systems & Chillers with the

innovative product portfolio and got healthy order inflow in this quarter. Product portfolio has been rejigged to offset the cost increase due to customs duty hike.

Major orders bagged in Q3 FY19 were Flextronics, ITC Limited, Deloitte Consulting (I) Pvt Ltd, Delhi University, Avenue Supermart, CEAT Ltd and VST Motors.

With healthy order booking in Q3 FY19 and the momentum in VRF Systems and Chillers, this business is expected to grow faster than the market in the near future..

3. International Business

Our International business continues to focus on growth in Middle East, Africa, SAARC and ASEAN countries. Our first international state-of-the-art exclusive showroom in Dubai will get opened in Q4 FY19. This showroom would display the complete range of our latest energy efficient products to serve the UAE market.

Our International projects executed through the JVs at Qatar and Malaysia continued to do well.

In view of cost overruns in the projects executed by our Oman JV and the unattractive business potential in Oman, we have decided to exit the JV. Accordingly, as a prudent measure, we have provided for our entire residual exposure in this JV, with an impact of Rs. 14.46 cr on the consolidated net results of the quarter.

Segment II: Unitary Products:

Revenue for this segment grew to Rs 391.52 cr in Q3 FY19 as against Rs 320.95 cr in Q3 FY18, a growth of 22.0% driven by enhanced demand for commercial refrigeration products and growth in air coolers and water purifiers businesses. The segment results decreased to Rs 9.39 cr (2.4%) in Q3 FY19 as compared with Rs 15.79 cr (4.9%) in Q3 FY18.

1. Room Air Conditioner business

The prices were under pressure during the quarter with the industry saddled with large inventory and festival season demand turning out to be lukewarm. Further with the escalation in interest rates, consumer financing cost burden increased.

Our focus was to expand our footprint in North by aligning market operating prices and also to accelerate liquidation of inventory.

We managed to grow the revenue by 8% but the operating margin erosion was in the order of 200 bps as we had planned. In the process, we have improved our market share by 50 bps to 12.8%. Large part of excess inventory has been liquidated. For the forthcoming season, the product portfolio has been rejigged in order to return to the original margin levels. As far as

this business is concerned, we are optimistic about the demand revival from March 2019 onwards.

Major orders booked during Q3 FY19 were Paradigm Builders, Poonam Developers and Commander Builders in the Mumbai Metropolitan Region, Purple Leaf Design - Chennai, Shivam Developers – Surat, Vatika Developers – Gurugram, Maitry Properties Ltd – Nagpur, P.N.Patel Commerce College – Himmatnagar and South City Builders – Patna.

2. Commercial Refrigeration business

This business continued to do well in the quarter and we grew faster than market at 35%. Deep freezer category continued to maintain a steady growth momentum from key national accounts and our Bottled water dispensers noticed modest positive growth. The new lines of business, namely Medical refrigeration and Kitchen refrigeration also grew faster than the market. Our foray into Retail refrigeration has evoked good response and this business should see results in the year ahead. The Commercial Refrigeration business is poised for scaling up with its strong and wide product range.

3. Water Purifier business:

Our Water Purifiers business continued to perform well during festive season and our revenues in Q3 FY19 doubled over revenues in Q3 FY18. Concerted digital campaigns on ecommerce platforms not only helped to boost online sales but also signify immense traction for the brand. Various promotion schemes also helped increasing footfall conversions at the retail level.

During the quarter, we also made significant investments in brand building, by publishing advertisements in leading dailies as well as outdoor media including branding of nearly 1000 Uber cabs in all the metros. These initiatives coupled with a comprehensive product range across price points helped to enhance our market share to nearly 2.5% in the retail segment.

Our network increased to 2800 touch points across 150 towns and cities.

Segment-III – Professional Electronics and Industrial Systems

Segment III revenue was Rs 51.98 cr in Q3 FY19 as against Rs 44.98 cr in Q3 FY18, a growth of 15.6%. The segment results grew to Rs 6.86 cr (13.2%) in Q3 FY19 as compared with Rs 4.44 cr (9.9%) in Q3 FY18.

Q3 FY19 revenue from Data Security business continued to maintain growth momentum due to increased industry focus on data security. Revenue from Non-Destructive Testing Products and Systems business also improved significantly from multiple large orders. Improved billing resulted in increased margins in Q3 FY19 over Q3 FY18.

Increased focus on healthcare continues to offer good opportunity to grow the Healthcare business. With depreciation of rupee, the market for refurbished MR and CT systems is expected to grow further.

We have added niche products to widen our reach in material testing market and increase our market share.

Major orders bagged in Q3 FY19 were Ceat Limited, Larsen & Toubro Limited, SKF India Limited, Bhabha Atomic Research Centre, Mahindra Sanyo Special Steel Private Limited, City Union Bank Limited, MRF Limited and Mangalore Refinery and Petrochemicals.

Business Outlook

Emerging opportunities from infrastructure and office segments would help in scaling up the Electro Mechanical Projects business. We expect Room Air-conditioners business to revive in Q4 FY19 and Commercial Refrigeration business to maintain the growth momentum. Water Purifiers business continues to scale up in line with our expectations. We also expect to maintain the pace of revenue growth in the Professional Electronics & Industrial segment. We would continue to focus on maintaining the growth momentum in revenue and persist with product portfolio changes in order to improve the margins.

With that ladies and gentlemen, I am done with the opening remarks. I would like to now pass it back to the moderator who will open up floor to questions. I will try and answer as many questions as I can to the extent, I am unable to we will get back to you by a email. With that now we are open for questions.

Moderator: Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: What is our total exposure to Oman JV and what was the order size and is there anything pending which we need to further provide for?

Neeraj Basur: I am sure some other analysts may also have similar questions, so I will answer this for the benefit of everyone so that it gets addressed right at the upfront. When we announced our quarter two results, we had shared with you that there were cost overruns in the projects which were being executed by our Oman JV. Though these jobs were getting completed in Q2FY19, we had made a provision of around Rs 5 cr towards our share of losses in the venture. We had also mentioned that our endeavor is to close out these jobs as soon as possible. We have now taken complete stock of and evaluated the attractiveness of Oman as a market. Considering the same strategically, we have decided to exit the joint venture and Oman as a market for project business. This is an unfortunate outcome for us, however, we need to take decisions in the best interests of the company as a joint venture. Since the jobs are almost completed we have evaluated our exposure at this point in time and the residual exposure amount of Rs 14.5 cr has

been fully provided in Q3FY19, so that this issue does not linger on any further.. With this being done, we can confirm that our exposure in Oman stands fully provided.

Renjith Sivaram: How much we had invested into this JV and will there be any sale of this or we will be selling it back to the JV partner? What is the understanding there?

Neeraj Basur: Our investment was not too high, we had invested about Rs 10 cr and as far as the exit modalities are concerned, we are in active discussion with the JV partner and we are expecting to conclude on the modalities shortly. Having taken care of the entire financial exposure, we think the procedural and legal formalities will get closed out in due course.

Renjith Sivaram: You told that room AC you grew 8% for this quarter and we have an increased market share to 12.5%.

Neeraj Basur: That is right.

Renjith Sivaram: So, how much was the industry growth and what is your outlook given now and half of Feb is done, so our dealers stalking inventories or they are still in a wait and watch mode so what is outlook out there in the room AC in the domestic market?

Neeraj Basur: In the room AC category, the biggest challenge in quarter three was in the context of inventory which were being carried by most players. So, in that context we had taken a conscious call to liquidate the inventory as far as possible so that we do not enter Quarter 4 with an overhang of inventory. So, pretty much in line with a thought out and we have been able to substantially reduce our inventory and have limited inventories left with us as of December end. As a consequence not only have we been able to register modest growth, we have been able to protect and consolidate our market share, which is exactly what we wanted to do. Though in Quarter 3 results our Segment 2 margin profile is depressed, but it was planned. It was planned and executed that way because we are optimistic about the prospects of this business in Quarter 4 and once the early summer starts we did not want to be in a situation where we were still having to deal with residual inventory from Quarter 1. With that behind us, we are now focusing on bringing the growth and the margin profile of this business back on track. As far as the full year prospects are concerned our sense is that the market will be either flat or at best grow by around 5%. We have come back to a point where we are now neutral in terms of our overall room AC sales year-on-year growth. With an accelerated growth in Quarter 4 we are quite optimistic about getting to around 8% to 10% overall growth for the full year. This assumes market grows at around 5%. On the room AC, the worst is behind us is our overall sense.

Renjith Sivaram: As a follow up to that was there any price hike?

Neeraj Basur: No we have not taken any further price hike in a market where already there was a stress on liquidating inventory. We will take a view on pricing depending on how Quarter 4 goes.

Moderator: The next question is from the line of Rahul Murkya from Jeffries. Please go ahead.

Rahul Murkya: Sir just wanted to know about this MEP margins this quarter. Was it like because of some project issues or this is the new norm that we should look forward going forward?

Neeraj Basur: We have been maintaining consistently that the margin profile of Segment-I will be in the range of 5.5% to 6% and I have also been maintaining to all of you that there will be quarters where we end up closing out jobs which are healthier in terms of their relative margin profile. In such quarter, obviously the segment will demonstrate better margin results and there will be quarters where some of the lower than our average margin profile jobs get closed out. So, this is a quarter where we have closed out on few large projects where the margins were relatively lower that is why you see weighted result at around 4.6%. The year-to-date margin is around 6% for this segment. We remain optimistic about the prospects of the segment because as I mentioned not only the order booking has seen good traction of about 21%, the commercial air conditioning products business is also witnessing good growth in terms of order booking and the overall market potential. We think for the full year we should be more or less on track to maintain margins levels of 5.5% to 6% in Segment 1.

Moderator: We will move on to the next question that is from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: Sir just wanted to understand the cooling segment a little better given that we also have the water purifier and other products out there, so how would have the water purifier segment done in terms of the units sold, revenues and the impact on margins and also if you can just comment on the advt. spend during the quarter?

Neeraj Basur: As far the water purifiers business is concerned, the base is still small. I mentioned we have achieved 2.5% market share in Q3. To give you a sense on where we are overall during the quarter, we had revenues of about Rs 20 cr from this particular category which is more than double over the same quarter last year. Our growth trajectory continues in line with our plan and overall, we think that by the time we end the year we will be in the same 2.5% to 3% market share range which is to be taken in the context of the fact that this is the second year of our operations in this category. In terms of the product portfolio we have now products which are very competitive, very well received and accepted in the market. The price points at which we are selling are extremely competitive and quite compelling for the dealers to consider. We are doing well on the online channel as far as our water purifiers are concerned, which is encouraging for us because that opens up opportunities for us to expand and grow quicker than normally general trade distribution channel would take us to do that. Overall, we are optimistic on water purifiers and we think by the time we close the financial year pretty much we will be in the range of revenues what we have anticipated. Our product portfolio, distribution footprints, etc., are in line with plans and we will enter the next year with a healthy platform for this category.

Bhoomika Nair: On the margin impact on the water purifier for the segment and what is the overall guidance for the full year given that this quarter we have seen the liquidation which has impacted the margins?

Neeraj Basur: As far as water purifiers margin impact is concerned it will be, as I mentioned in the past, about 150 basis points for Segment 2 largely due to advertising and branding spends. As far as the Segment 2 overall margins are concerned, Quarter 3 margin dip is due to room AC category was a planned one and again it has been clearly driven by our priorities to liquidate inventory. This also releases the warehousing space, . and reduces other associated costs. Segment 2 margins are roughly about 7% overall YTD Quarter 3. We think we should be able to achieve full year margin profile of anywhere from 9% to 9.5% before considering the impact of water purifier. If we factor in the 150 basis points impact due to water purifiers, Segment 2 margin will be in the range of 8% to 8.5%, which is our current estimate for the full year.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just to carry on with the question on margin as you mentioned earlier also in your call the 150 basis impact which eventually comes down to 8%, 8.5% on the margin side, that implies a very high margin in Q4 about 15% - 16% if you have to achieve your guidance, so is it something because you said that inventory has come down but that is not getting reflected in capital employed as well and pricing you said you have not taken I understand that is a market scenario that was because I think in the last concall you said we have taken a 5% price increase in October. So just wanted to understand little more where does this margin comes back to such a high level in Q4?

Neeraj Basur: It is again linked with the discounting actions we have undertaken in Quarter 2 and Quarter 3 because of the inventory pressure. Now since the inventory pressure is out of the way we will revert to the pricing levels that we would have realized normally in a normal year. Normally margins tend to be highest for Quarter 1 and Quarter 4. The full impact of price increases that we took beginning of last quarter is yet to be realized and once we rationalize down the entire discounting structure we are reasonably confident that the overall Quarter 4 margin profile will be back on the usual trajectory.

Nitin Arora: Given the inventory has come down it is not getting reflected in capital employed if you can clarify on that and I just need some book keeping data points like what is the gross debt, what is the working capital in this quarter?

Neeraj Basur: The overall capital employed in the unitary products segment is around Rs 450 cr which is below the overall 30th September Rs 494 cr level. Of course this also has the receivables from some of the other businesses which get rolled up into this particular segment. Overall, the net reduction is largely driven by the inventory. Our debt is now fairly comfortable and we are at now Rs 370 cr against almost Rs 500 cr in September which is again reflective of the improvement in the working capital, especially inventory. We think by the time we end the year even though there is a little bit of inventory buildup again which happens towards Q4 end we will end the year anyway between Rs 350 cr to Rs 375 cr borrowing since our preferred debt equity is in the range of 0.3x to 0.5x. We are comfortably tracking in that range.

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

Varun Agarwal: My question is leading to these performances in other JVs in terms of Middle East and outside India. So how are they, do you see any further impact on the cost due to those cost overruns or any other kind of scenario there?

Neeraj Basur: I would like to specifically clarify that beyond Oman which we have already talked about, the other two joint venture that we have one in Malaysia and the other in Qatar are profitable and healthy and they continue to contribute to the bottom line. Now as far as Malaysia is concerned it is a 25-year-old joint venture and we do not carry much exposure there and the same is the case with Qatar. So, there are the only two joint ventures where we carry out project business at a very low scale. Most of our international business focus is actually centered on strategy of distributing our entire range of products in 19 countries. We had shared with you that last year, we setup a wholly owned subsidiary in Dubai Free Zone to consolidate our footprint and to further expand our presence across these countries. We have recently also stepped up further business development effort in the main land UAE. Our basic approach is to ensure that our central air conditioning products and the complete range of commercial products that are manufactured by Blue Star do well in these markets and towards that, we have already established our footprint. Therefore, we will continue to focus more on that. A major share of our international business is and will continue to be from product distribution and not as much from projects.

Varun Agarwal: How much investment will be there in two JV? Total investment of capital employed?

Neeraj Basur: It is not a very significant amount. It is in the range of Rs 10 cr to Rs 15 cr, because these are very old investments

Varun Agarwal: How much is the total export size in terms of products?

Neeraj Basur: Overall at this point in time annualized export is in the range of US\$40 to \$45 million and as we expressed our intention even during our analyst meet we aspire to take this up to around US\$100 million in the near short term over 3 to 5 years.

Varun Agarwal: So, the key product in these segments would be refrigeration products, our room AC and other adjacencies which you are looking to?

Neeraj Basur: Well it will be a mix and our endeavor is to promote the entire range of central air conditioning products namely VRF, chillers etc. We also sell refrigeration products such as water cooler outside India particularly in Middle East and of course our range of commercial ACs. These are markets where we see lot of good opportunity to expand our product sale footprint and that is what we are focusing on.

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

- Aditya Bhartia:** My question is a continuation of what Nitin had asked earlier. Just trying to understand about the margin guidance that you have spoken about. For achieving around 8% margin post the water purifier losses were essentially making in almost 10% margin from Q4 while in the same quarter last year after IndAS 115 implementation our comparable margins were only around 7%. So, we are rather speaking about a sharp expansion in margin in fourth quarter when complete cost pass through is yet to happen. So why is that happening?
- Neeraj Basur:** We took a 5% price increase somewhere in Quarter 2 and the full impact of that is yet to be realized by us because we have been focusing on liquidating inventory . Our basic premise is that we will have early good summers which will start somewhere between now and March so that is the fundamental premise and whatever weather changes are predicted, we are quite optimistic. So, if that happens there is an element of pent up demand from Quarter 1 which is and should help sales in Quarter 4. We understand that postponement of buying decisions happened from Quarter 1 and Quarter 2. If we are looking at that kind of demand coming back in the normal course and the prices having been readjusted upwards plus rationalization of the incentives and discounts, we are quite sure that we will climb back to 8% to 8.5% after water purifier impact for the full year.
- Varun Agarwal:** So, 10% margin during peak period you think is possible?
- Neeraj Basur:** It is possible because if you see historically Quarter 1 and Quarter 4 is when the margin profile tends to be relative healthier and not Quarter 2 and Quarter 3. In Quarter 3 anyways the margin profile ranges from 5% to 6% . This year we suffered a 200 basis points contraction in the Quarter 3 margins due to the inventory liquidation plan otherwise even at the current pricing levels we would have been tracking in the range of 5.5% to 6% in Quarter 3.
- Moderator:** The next question is from the line of Anupam Gupta from IIFL. Please go ahead.
- Anupam Gupta:** So, just firstly on the capital employed front, you said there is some receivables also which is forming part of that number because if you look at YoY it is still double the December'17 levels what are the receivables pertaining to sir?
- Neeraj Basur:** These are the normal receivables. There are receivables in our room AC business commercial refrigeration product business and these are all tracking normally.
- Anupam Gupta:** It would have been the same case in December last year as well so why is it still double if your inventory which is a primary portion it has?
- Neeraj Basur:** Because of the growth, the business size has also grown across all businesses.
- Anupam Gupta:** And secondly, on margins when you said your margins should revert, so you have liquidated your inventory, but what is the system inventory brought in to you has that also gone away or the completion remains intense?

- Neeraj Basur:** We do not have final number yet on the volume, etc., but if you remember this number was around 7 lakh to 8 lakh units beginning of Quarter 3 and towards the end of Quarter 2. Our sense is it has reduced to around anywhere between 1.8 lakh to 2 lakh units now across all players. To that extent also reflecting on the last question we feel quite confident that the overall inventory in the system has become more manageable. This 2 lakh will not be too much of an issue for anyone to worry too much.
- Moderator:** The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.
- Amber Singhania:** What is the industry growth in volume terms in 9 months and in this quarter as such for both room AC as well as chillers and VRF markets.
- Neeraj Basur:** Like I said earlier, we do not have the volume number yet for the industry and we do not track it closely because it has a mix of many products. Value wise our understanding the industry growth will be slightly negative. We are expecting this to get converted to anywhere between either 0% growth to 5% growth as far for the industry is concerned for.
- Amber Singhania:** So, for that they need to grow almost 15%- 20% in Q4 to convert 5% full year growth, right?
- Neeraj Basur:** Yes which is what we are expecting because again there will be a catch up demand from Quarter 1. That is why I said it should be 0% to 5% even if half of that it is achieved, it should still give industry growth to around 1 or 3%.
- Amber Singhania:** And for chiller and VRF growth, market growth versus our growth?
- Neeraj Basur:** For VRFs YTD market grew by around 11% while we have grown 25% and chillers market would have grown in the range of 15% to 18% while our growth is in the range of about 25% to 30%. When I talked about some healthy improvement in central air conditioning that is where we are experiencing it.
- Amber Singhania:** My second question is sir if you can give some color on the overall CAPEX expansion plan and what would be tax rate we can assume going forward and what is the status of our CAPEX and the expansion plans?
- Neeraj Basur:** This year our Wada plant CAPEX being fine-tuned but we are expecting to spend close to about Rs 140 to Rs 150 cr in Wada over a space of two financial years,. Excluding Wada expansion our normal CAPEX will be in the range of about Rs 100 cr every year and in this current year also we think we will spend to that level. Your second question was around effective tax rate. We are currently at around 27%. Now that the various incentives on R&D, etc., are on the decline, we think next year this should track by about 100 or 150 basis points higher. Around 29% is what could be the expected tax rate for FY20.
- Moderator:** The next question is from the line of Abhilasha Satale from Dalal & Broacha. Please go ahead.

Participant: How much has been the cost push post this custom duty hike and whatever price hikes we have taken in Q2 will that suffice, with that we will be able to pass on the cost increase or are we expecting any further price hikes to be in the near term to come to the original normal margin?

Neeraj Basur: As far as the custom duty hike impact is concerned which happened on 27th of September last year, largely the impact for us was limited to compressors because compressor custom duty increased from 7.5% to 10%, but the value impact of that was not very material. In our case because the bigger impact which we were kind of insulated was from the completely built units imports that is where most of the custom duty increase happened from 10% to 20%. The indoor units which we do import in large numbers were not covered by the custom duty change in the last round. So, as far as the current position on custom duty goes, we did not have a very significant impact on the overall cost structure. We have as you remember already taken a price increase not just for whatever custom duty impact that had to be mitigated, but also bear in mind that the rupee depreciation which has happened in the current financial year close to about 9% needed to be recovered. So, the price increase was related to that and also the other commodities that we consume. So, overall we are fairly okay with the price increase that has already been effected. We are not expecting any further price increase in Quarter 4, but like I said depending on how the summer goes and how the entire new seasons starts to play out, we will take a pricing call for Q1 of FY20 somewhere may be in March or closer to when the season starts.

Participant: FY19 has been lack luster year for RAC industry as such for the market as well as for the players, so how do we see FY20 planning out to be on this base, do we have any early estimates of industry coming back to the normal growth level?

Neeraj Basur: These things do happen in the course of journey of a business, we all need to be mentally prepared for years which will be extremely healthy and the ones where there will be more challenges and headwinds. So, FY19 is one such year we are all encountering, facing, managing and responding to multiple headwinds all at the same time. Having said that we are quite optimistic and we can see nothing has changed as far as the fundamental macro enablers and drivers of this category are concerned. Given where we are in terms of overall penetration levels and the fact that we are going to come out of a damp year in terms of customer demand, once there is a revival of the weather patterns we expect a good demand push. We, therefore continue to believe that next year market revival and market growth should be in the range of 12% to 15% as it would have happened normally and the overall growth trajectory will get resumed.

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

Aditya Bhartia: Sir just on the capital employed front, given that inventory you are saying has normalized, why exactly is capital employed in UCP segment so much higher than the past period?

Neeraj Basur: There are two reasons which I have explained. It has other items other than inventory and receivables which are linked with the growth across other businesses. The other reason which

impacts our overall inventory or the net capital employed is the timing of our procurement. So, depending on if we start purchasing early on in the cycle, we will also have relatively higher payable and supplier credits sitting in the capital employed which is what had happened last year. This year our procurement has been deferred to some extent into Q4 so there is a procurement pattern shift which also contributes to capital levels. What is important to us is where we land in our overall capital employed end of March because that is where the full year impact of purchase and sales will get normalized. We are comfortable with our current capital employed levels and we are equally comfortable with the current levels of our borrowings. Our borrowings have remained under tight control despite these headwinds and we expect year-end borrowings to remain fairly tight within the debt equity levels of 0.4x or 0.5x.

Aditya Bhartia: And sir you mentioned that inventory for the system has come down to 1.8 to 2 lakhs units right?

Neeraj Basur: Yes.

Aditya Bhartia: What was it at the end of Q2 and what is generally the case at end of Q3?

Neeraj Basur: Last year will not be a good year to compare because there was some accelerated sales in Q3 of last year in anticipation of table changes in the energy efficiency ratings. Inventory levels were abnormally low in December end last year and that is another factor which also explains our year-on-year movement in capital employed in that context and that goes to for industry as well because everyone was accelerating the disposal of the older rated models to prepare for Quarter 4 newer rated models which is not the case this year. Somewhere in Quarter 2 or end of Quarter 2 our sense is that the entire inventory levels were around 8 to 9 lakh units which has come down quite significantly as far as the industry is also concerned.

Aditya Bhartia: And this includes both inventory at the retailer level or at the distribution channel level as well as with companies?

Neeraj Basur: We only count what is there with the manufacturers or with the companies.

Moderator: The next question is from the line of Gurpreet Arora from Quest Investments. Please go ahead.

Gurpreet Arora: Two quick questions what would be the proportion of metro and airport jobs in our current order books and what would be the pipeline going forward and is it fair to assume that the metro and the airport margins would be better than the 5.5% to 6% of our overall stated guidance. The second and last question is with respect to the Oman JV we had some corporate guarantees to around Rs 22 cr as on March 31, 2018 what is the status for that?

Neeraj Basur: Gurpreet let me answer your second question first and then I will come on to your question on metro and airports. I am reconfirming whatever exposure we have on Oman JV, including the corporate guarantee that we have given, which you are referring to stands fully provided. I hope that clarifies the question on Oman.

Now coming to your question on metro and airport jobs, we are now in the process of building up our order book on metro and the airport projects because a lot of these are coming up for fresh bidding. Currently, of our overall order book about 12% to 15% would be such jobs, but there are several new tenders which are on the table, both for airport expansion as well as newer metro jobs, I cannot give you a number right now because these are all in the tender stage, but clearly we are optimistic about some of these or few of these getting added to our order pipeline and we will talk more about it as they get awarded.

Gurpreet Arora:

In the margin profiling, these segments is better than the other?

Neeraj Basur:

We do not get into margin profile by sub category. These are all tendered jobs and remain s highly competitive when it comes to bidding. So, it will be fair to consider that the overall margin profile for segment that we talked about will be a blend of these and the other jobs.

Moderator:

The next question is from the line of Ritesh Barjatia from Asian Market Securities. Please go ahead.

Ritesh Barjatia:

Sir my question is with respect to the consumer financing which you also highlighted in your opening remarks, so post September that pre and post crisis how the industry sales is impacted and also for the Blue Star per se and for the going ahead season how do you see that consumer financing terms will be changed for the company as well as for the industry to push the sales?

Neeraj Basur:

Consumer financing is indeed an important tool or important driver of sales and for Quarter 3, our sense is that the consumer finance was around 40%. As far as we are concerned our share from consumer finance was around 35%. Of course the cost of this particular mode of finance sales or enabling the sales is also dependent on the overall macro environment prevailing in the country, availability of credit, etc. There has been a bit of a stress in this aspect as far as the cost is concerned, but we continue to mitigate it by adding more NBFCs to our panel so there is an element of competitiveness in terms of our overall cost. This remains stable because in Quarter 2 and Quarter 3 did we witness any reduction or any slowdown in availability of consumer finance. These are all consumer products and financing companies who are providing such capital are able to it seems raise enough money to be able to continue financing.

Moderator:

The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth:

While you mentioned that at the industry level the inventory level has come down as far as manufacturers are concerned, can you give us some sense on how has been the retail sales in Q3 because what we essentially want to know is that inventory is sitting with the dealers or the retail sales has also picked up?

Neeraj Basur:

Some bit of this inventory will indeed be sitting with the dealers because the festival season was not that great as we expected, but having said that there are pockets where the retail has also done well and on an overall basis keep in mind the fact that last year same time even at the

distributor level the stock was very low. So, in a way they would have come back to normal level by end of December so the inventory levels it would not be abnormally high with them. It may be higher in some pockets.

Kunal Sheth: So basically, they are not carrying an abnormally high level of inventory but for the fact?

Neeraj Basur: We do not believe that they are carrying abnormally high inventory, it should be normal and except with the few dealers or some regions, there could be some issues here and there, but by and large it should be okay.

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

Neeraj Basur: Thank you very much ladies and gentlemen. With this we conclude this quarter earning call, do feel free to revert to us in case any of your questions were not fully answered and we will be happy to provide you additional details by email or in person. Thank you very much and have a good day.

Note: This transcript has been edited for readability and is not a verbatim record of the call.