"Blue Star Limited
Q4 FY2019 Earnings Conference Call"

May 3, 2019

MANAGEMENT: MR. NEERAJ BASUR – GROUP CHIEF FINANCIAL OFFICER

Moderator: Good morning ladies and gentlemen, welcome to Blue Star Limited Q4 FY2019 Earnings Conference Call. We have with us today from the management, Mr. Neeraj Basur – Group CFO. 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, please signal an operator by pressing "*" and then "0" on your touchtone telephone. 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: Thank you. Good morning ladies and gentlemen, this is Neeraj Basur. I will be providing you an overview of the results for Blue Star Limited for the quarter and the year ended March 2019. First, I will cover financial highlights for 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 year ended Mar 31, 2019 on a consolidated basis:

-Revenue from operations for FY19 was Rs 5234.84 cr, as compared to Rs 4648.13 cr in FY18, a growth of 12.6%.

-EBIDTA (excluding other income and finance income) for FY19 was Rs 346.54 cr as compared to Rs 265.90 cr in FY18, a growth of 30.0%. EBIDTA (excluding other income and finance income) as a percentage of revenue was 6.6% in FY19 compared to 5.7% in FY18.

-PBT before exceptional items grew by 30.6% to Rs 248.46 cr in FY19 as compared to Rs 190.30 cr in FY18. PBT before exceptional items as a percentage of revenue was 4.7% for FY19 and 4.1% for FY18.

-Tax expense for FY19 was Rs 41.99 cr as compared to Rs 49.42 cr in FY18.

-Consequently, consolidated net profit for FY19 increased to Rs 190.06 cr from Rs 143.96 cr in FY18, a growth of 32.0%.

-Carry-forward order book as at Mar 31, 2019 was Rs 2430.07 cr as compared to Rs 2015.11 cr as at Mar 31, 2018, a growth of 20.6%.

-Capital employed increased marginally to Rs 1121.51 cr as on Mar 31, 2019 from Rs 1088.96 cr as on Mar 31, 2018 to support growth led increased working capital requirements.

-Working capital remained tightly managed despite challenging business environment. Consequently, net borrowings reduced to Rs 246.62 cr as on Mar 31, 2019 from Rs 294.71 cr as on Mar 31, 2018

-Our debt to equity ratio improved to 0.3 as on Mar 31, 2019 as compared to 0.4 as on Mar 31, 2018.

I will now talk on business highlights for FY19:

Segment-I: **<u>Electromechanical Projects and Packaged Air Conditioning Systems:</u>**

Segment I revenue was Rs 842.31 cr in Q4 FY19 as compared to Rs 698.66 cr in Q4 FY18, a growth of 20.6%. Segment result was Rs 36.29 cr (4.3%) in Q4 FY19 as against Rs 31.80 cr (4.6%) in Q4 FY18.

In FY19, segment revenue was Rs 2748.11 cr as against Rs 2361.07 cr in FY18, a growth of 16.4%. Segment result was Rs 150.85 cr (5.5%) in FY19 compared to Rs 121.96 cr (5.2%) in FY18. Order inflow in FY19 was Rs 2951.98 cr as compared to Rs 2490.98 cr in FY18, a growth of 18.5%.

Electro-Mechanical Projects business:

We achieved a notable revenue growth both in FY19 and in Q4 FY19 in a competitive market. Our superior project delivery through intelligent engineering, modern execution practices enabled us to get major business from offices, malls and healthcare segments.

Faster pace of order finalization in the factory and office spaces segments besides orders from industrial EPC and substation projects contributed to booking growth in Q4 FY19. We expect construction activity to pick up momentum after the elections.

For the third year in a row, more than 50% of the orders were for bundled MEP jobs and we continue to lead the industry in this category.

Some major orders won during Q4 FY19 included Apollo Tyres Sricity, Wipro Hyderabad & Chennai, Brookfield Gurgaon & Noida, Karle Bangalore, Odisha Power Transmission Corporation Ltd, Bhubaneshwar.

Carry-forward order book of the Electro Mechanical Projects business was Rs 1716.29 cr as at Mar 31, 2019 as compared to Rs 1401.79 cr as at Mar 31, 2018, a growth of 22.4%.

The segment-wise break-up of the carry forward order book of the Electro-Mechanical Projects business is as follows:

Office including IT and non-IT buildings were 41.8%, metro rail 5.2%, industrial spaces 12.7%, power generation and distribution 2.9%, hospitals 15.6%, mixed used development 5.4%, malls 6.3% and all others 10.1%.

Commercial Air Conditioning business (Central and Packaged Air Conditioning Products):

We continued to grow at a faster pace than market in Q4 FY19 and FY19 in all the product categories and improved market shares. Our products across this category are well received and continued to demonstrate healthy growth traction. We continue to maintain leadership position in Ducted Systems with a market share of 39% and improved market share in VRF to 17%. Introduction of a new range of configured screw chillers helped enhance market share to 15%.

Key segments that contributed to revenue growth in Q4 FY19 are Government, Retail, Hotels, Industrial, Educational Institutions and Light Commercial segment such as shops, showrooms and boutique.

Major orders bagged in Q4 FY19 were from Xavier University, Poddar School, MES-Cochin, Defence Research & Development Organization (DRDO) – Kolkata, Park Hotel, Avenue Super Markets Ltd, Amity School, ISGEC Heavy Engineering Ltd, Polycab Wires Pvt Ltd, Medanta Hospital, Noida International Stadium, IIT- Roorkee, Banaras Hindu University, Small Scale Industrial Development Corporation (SICOP) Jammu &Kashmir & Gravity Mall - Patna.

Having mastered inverter technology, we would be pioneering the same in Ducted Systems to further strengthen our market share.

<u>**International business:**</u>

The international business made steady progress across all markets in Middle East, Africa and SAARC countries. A state – of- the – art exclusive showroom in Dubai was inaugurated on April 15th 2019. This showroom will display a complete range of our latest energy efficient products for the Middle East.

International projects executed through the Joint Ventures at Qatar and Malaysia continued to do well.

We continue our journey to strengthen our brand in selected international markets. We have plans to profitably grow our international business and the overall business outlook remains positive.

Segment II: Unitary Products:

Segment II revenue was Rs 703.63 cr in Q4 FY19 as compared to Rs 591.36 cr in Q4 FY18, a growth of 19.0%. Segment result grew to Rs 73.32 cr (10.4%) in Q4 FY19 as compared to Rs 40.75 cr (6.9%) in Q4 FY18. Margin improved during the quarter due to better product mix, cost rationalization, price increase in select models of Room Air conditioners and better realization in the Commercial Refrigeration business.

In FY19, revenue grew to Rs 2268.97 cr as against Rs 2088.73 cr in FY18, a growth of 8.6% driven by enhanced demand for commercial refrigeration products and growth in Split Air conditioners and water purifiers categories. The segment results increased to Rs 185.92 cr (8.2%) in FY19 as compared with Rs 168.05 cr (8.0%) in FY18. Segment II results were impacted by around 150 bps due to investment in water purifiers category primarily in marketing, brand building and R&D.

Room Air Conditioner business:

The first two months of the quarter were impacted due to delayed onset of summer. However, the Southern and Central parts of the country and some parts of North India witnessed demand revival in March. We grew 6% for the quarter due to the revival in March.

With the introduction of several innovative products and expanded distribution reach in North, we continued to grow faster than the market and improved our market share to 12.3% in FY19 from 11.5% in FY18.

Weather conditions in most parts of the country barring East are favorable and prospects for Q1FY20 look encouraging. We are well positioned with the launch of a wide range of products.

Commercial Refrigeration business:

We grew faster than the market during the quarter at 34% aided by growth in Ice Cream and frozen foods segments. Medical Refrigeration witnessed good traction with some major breakthroughs. In Retail refrigeration business, we bagged orders from some major retail players like SPAR, Metro Cash & Carry during the quarter.

Overall, the commercial refrigeration business has scaled up well in FY19, with expansion in all product categories across the spectrum.

Water Purifier business

Our Water Purifiers business continued to perform well during Q4 FY 19. We are prepared for the forthcoming season with the successful launch of Eternia model, India's first point-of-use instant UV LED purifier. Our lifetime warranty on the UV LED of this model makes this product a unique and differentiated offering in markets. Aggressive sales and marketing initiatives during the quarter coupled with a comprehensive product range across price points helped to enhance our market share to nearly 2% and we doubled volumes in FY19.

We won the prestigious Water Digest Award for the third time in a row for the 'Best RO+UV Domestic Purifier'. In addition, we also won 'Best Water R&D and Technological Breakthrough' for Eternia. Water Digest award is considered as "the Oscars" of the water industry and is supported by the Ministry of Water Resources and UNESCO.

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

Having reached healthy traction in FY19 with a complete product range across price points, the focus is on scaling up with an objective to reach 10% market share by FY21. Towards this objective, the sales and service of water purifiers category has been integrated with Room Air conditioners to leverage the wider distribution footprint and enhance customer experience.

Segment-III – Professional Electronics and Industrial Systems

Segment III revenue was Rs 49.90 cr in Q4 FY19 as compared to Rs 56.31 cr in Q4 FY18. Segment result was to Rs 16.08 cr (32.2%) in Q4 FY19 as compared to Rs 7.27 cr (12.9%) in Q4 FY18 due to certain high margin orders executed in Q4 FY19.

In FY19, segment revenue was Rs 217.76 cr as against Rs 198.33 cr in FY18, a growth of 9.8%. The segment results grew to Rs 43.78 cr (20.1%) in FY19 as compared with Rs 24.02 cr (12.1%) in FY18.

Industrial capex improved partially on the back of adoption to Industry 4.0, IoT and BS-VI, resulting in comparatively better demand than previous quarters in some segments. Plans are on the anvil to rejig and renew the product portfolio in order to improve profitability. Focus is on customized and automated solutions across industries, with a wider range of applications.

The growth potential of Indian digital payment sector and rising focus of enterprises on data security create a huge opportunity for Data security business.

With multiple positive indicators and some initiatives by Govt. of India, the Healthcare market in India awaits exponential growth in up-coming years.

Major orders bagged during Q4 FY19 were Research & Development Establishment, Maruti Suzuki India Limited, Bank of India, Mastercard Technology, Electronics Corporation of India Limited, FIS Payment Solutions, Mahindra Sanyo Special Steel Pvt. Ltd.

Business outlook

Increased opportunities from the commercial real estate market and factory segments besides continuing thrust on infrastructure projects are expected to drive growth in the Electro Mechanical Projects business. Room Air-conditioners is expected to grow faster than FY19 with the onset of summer in most parts of the country in April. The continued growth momentum in the Ice Cream and frozen foods segments are expected to drive demand for commercial refrigeration products. We also expect to maintain the pace of revenue growth in the Professional Electronics & Industrial segment.

We will continue to maintain a close watch on commodity prices and exchange rates as well as macro and micro economic environment. While the pending order book is healthy, the speed of execution will be a focus area apart from cost and working capital control measures.

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 questions as I can. To the extent I am unable to, we will get back to you via e-mail.

With that, we are open for questions.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is with regards to the cooling product business, you had mentioned that the demand had picked up in second half for the fourth quarter. I assume it would have been just secondary sales, right? Primary sales would be catching along with a lag only in spite of that we have seen decent growth in the room AC business. So is it function of your market share gains, distribution reach increase and the traction in commercial refrigeration? Can you do bifurcation of the revenues?

Neeraj Basur: Room AC sales during January and February were bit tepid. However, the weather pattern changed towards the second half of March and that is how we were able to log 6% growth for this quarter. While the market has de-grown for the quarter as well as for the year, we managed to close the year, with a 3% growth and our market share increased from 11.5% of last year to 12.3% for this year. As mentioned over the last few quarters, this year has been very good for our commercial refrigeration products We witnessed a healthy growth rate across all our product categories that we have in the commercial range of our products. Lastly, the new product categories that we have been incubating mainly air coolers and water purifiers though on a smaller base also helped us to register reasonable growth in segment II. Overall, it is a mix of several factors contributing to the performance of the unitary products segment.

Ravi Swaminathan: Can you give a bifurcation of revenue in the cooling product segment, I mean between AC, non-AC and then the new products that is air coolers, water purifiers?

Neeraj Basur: We have consistently maintained a blended revenue disclosure for the segment and will continue to do that.

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

Bhoomika Nair: Congratulations on a good set of numbers. Sir you mentioned that we saw 6% revenue growth in the room AC segment for the quarter and the industry has seen a decline, so if you can give us an outlook on what was the industry decline and what is our outlook for FY2020 both for industry as well as products within the room AC segment?

Neeraj Basur: The industry numbers are still getting validated, but whatever data that we have been able to gather, our own sense is that for the full year the industry would have de-grown by around 4% to 5% whereas we managed a growth of 3%, in room ACs. As we are all aware FY19 was a difficult year for room ACs with the summer season in the first quarter not playing the way it normally does. We believe that the worst as far as the weather driven impact on that segment is behind us with even the inventory levels becoming normalized in quarter four for the market. We had substantially liquidated our excess inventory in quarter three itself and so we were fairly stable in quarter four.

The summer has started on a good note. There is no intense heat wave yet, but it is unlikely that weather in Q1FY20 will be a repeat of FY19.. Assuming that the market normalizes on the back of a normal weather season, we think market growth will get restored to a 10% to 12% growth trajectory in FY20. Of course we have our own growth aspirations in line with or ahead of the market as we have been maintaining consistently.

Bhoomika Nair: Sir if I look at the margins profile for the current quarter, it has clearly improved quite sharply, so as you said that it has got to do with price hikes and product mix so if you can just throw some light in terms of what has been the price hikes and what is we have in the product mix, also in terms of outlook because we are hearing that some players have cut down on the five star inverters so what is the trickled down effect that is happening on the three star ACs given that that is a largest chunk of the market?

Neeraj Basur: It is mix of several factors driven by realization and cost optimisation measures that we were able to implement in quarter four particularly on the sales and marketing front mainly advertising where we have optimized significantly our overall spend as compared to last year. We had taken a price increase in quarter three but the discounting structure, which was then prevailing because of the inventory levels had prevented us from fully taking the benefit of that price increase, which was not the case in quarter four. Therefore to some extent relative to quarter three and the earlier quarters we were able to experience a healthier realization and the product mix change in favor of inverters also helped. So overall it is a mix of pricing, the rationalisation of discounting and incentives and also the other cost elements, which have been tightly controlled that helped get back to this margin level. Overall for the full year on a blended basis, the margins are back to the normalized levels of 8.2%, which we had believed we should be able to close the year with..

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

Nitin Arora: I am delving on the same question, when you said that you have grown 6% for the quarter in the room AC, and assuming it is a 70% of your segment revenue implies a 4% growth, then your 30% of your revenue which includes the commercial even the water purifier, air coolers, would have grown 50% is that the right understanding?

Neeraj Basur: As I had already mentioned earlier, the growth of commercial refrigeration products, which for the full year has been quite healthy and the growth in other product categories, which is air cooler and water purifier albeit on a small base also helped. Overall therefore the revenue mix, notwithstanding the tepid performance of room ACs, enable growth of 19%-19.5% in quarter four and around 9% growth for the full year.

Nitin Arora: Is it possible to quantify how April has been for the industry and for you in the room ACs itself?

Neeraj Basur: **W**e do not have access to industry numbers yet, it is too early. We certainly expect a more normalized quarter one in comparison with FY19 quarter one, and expect that some of the structural issues, which were there all of last year should not be there this year.

Nitin Arora: What is your outlook on the EBIT margin of cooling products, so we ended this year at 8.2%, how we are looking the benefit of let us say a little losses would have been on the water purifier and on the core, how you are looking EBIT margins?

Neeraj Basur: At a high level over the medium term, now that we will not have the kind of pressures we had in FY2019, and with water purifier business also scalping up, we expect that we should be back to around 9% margin levels.

Moderator: Thank you. The next question is from the line of Harshil Kampani from JM Financial. Please go ahead.

Harshil Kampani: **C**an you highlight why are the tax being so low and how would it look going forward in FY2020?

Neeraj Basur: The tax is low because in one of our wholly-owned subsidiaries, Blue Star Engineering, which actually houses the professional electronic business, we were having some carry-forward tax losses which we recognized now as deferred tax asset since the business has been demonstrating consistent profitability for the last two years Therefore, for the full year blended effective tax rate is lower, since this is one time we will get back to our normalized effective tax rates of 27%-28%, in the years to come.

Harshil Kampani: We have seen good increase in the order book in MEP segment. Can you quantify as to which are the large orders that we have received in this quarter and the outlook for FY2020?

Neeraj Basur: I talked about few order names which we have booked in Q4 FY2019, we will release the entire notes to all of you. Generally the traction in the electromechanical projects business and also our commercial air-conditioning products businesses have been looking up as you would have noticed for the last few quarters. The positive aspect is that this is spread across multiple of sectors segments within the segment, which is not restricted to commercial spaces, it is across buildings, factories, little bit on infrastructure industrial and metro rail as well.

It is a mix of most of these customer categories where we are witnessing some healthy and positive traction. The projects business segment had been on a slow growth trajectory over the last two or three years, and we have been expecting some form of revival in terms of project launches happening as the commercial capacities start to get absorbed. With the order book that we now have our outlook is positive , However, it is the pace of execution is what we will watch out for and also make sure that the entire working capital and cash flow is kept on a tight leash because that is the third critical element for us for this business. So overall the outlook is healthy and we expect to make the most of the opportunity.

Moderator: Thank you. We will move onto the next question that is from the line of Lavina Quadros from Jeffries Group. Please go ahead.

Lavina Quadros: You mentioned that water purifier impacted margins of the cooling product segment by 150 BPS, was this specific to the quarter or full year?

Neeraj Basur: This is for the full year.

Lavina Quadros: So is it fair to say that Q4 did not really see incremental investments for water purifier per se because margins have been really good, so I just wanted to understand that?

Neeraj Basur: The bulk of the 150 basis points, cost impact was largely on brand marketing, and category awareness, creation. Quarter four is not the peak quarter for these kind of spends. Typically these spends peak up between quarter two and three, so to that extent some of those cost elements were relatively lower for water purifier in quarter four and would have been higher in quarter two and quarter three. To that extent the burn on spends in water purifier in quarter four would be low.

Lavina Quadros: This would like you highlighted the lower spends would continue into FY20 as well right, now that you have established a base on the purifier segment?

Neeraj Basur: Obviously this is linked with how closer we get to breaking even and we are fairly confident with the kind of scale, we have now built up. We should be on a reducing cash burn trajectory from FY20 onwards and that we are factoring in to our overall plans.

Lavina Quadros: On your room AC segment, there were clearly price hikes that were taken on a blended basis year on year, so is that volume growth has therefore been negative in the quarter?

Neeraj Basur: Yes. Volume growth has been lower than the overall realization growth, both for us as well as the market. Partly because of the shift from fixed price to inverters for us as well as market, you will see a favorable realization impact and generally the price increases also helped, so to that extent, it is value driven growth more than volume growth.

Lavina Quadros: So effectively that would have hurt margins as well?

Neeraj Basur: This has been a very abnormal year, so it would not be correct to summarize that way because the entire inventory issues which were there till Q3 prevented the real margin impact to be realised. However, quarter four margin is healthier because the pressures on incentive wise were relatively lower than what they were two quarters back.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC. Please go ahead.

Shrinidhi Karlekar: You touched upon a growth of 10% to 12% for room AC segment if summer turns to be normal. I just wanted to know that 10% to 12% is it volume growth are you referring to or it is a revenue growth?

Neeraj Basur: We always talk about growth and reporting in terms of value because volumes tend to be little inconsistent and a little confusing, so we are talking about value growth.

Shrinidhi Karlekar: Fair enough. That is helpful. And the second one Sir, when I go to like retail shops typically the multibrand ones, what I have observed is that typically Blue Star products are price about Rs.3000 higher compared to say to large domestic brands, so do you intend to have such premium or it is just a matter of time that you think some of this premium will bridge because some of the peers will take price hike. So I just wanted to know whether it is something which is intended and you want to keep and that is what you think that the brand deserves or it is just at the matter of like pricing actions by peers.

Neeraj Basur: We have traditionally been a premium priced brand and that premium has been in the range of 3% to 5%. Of course, lot of it is also influenced by the market context and the overall demand scenario and we remain flexible enough to lower down this gap should the market context require us to do that. Of course, in the current context, we probably were more comfortable taking pricing decision in quarter four as compared to some other players who may not have taken their price increase decisions, yet or fully. **Moderator:** We will move onto the next question that is from the line of Bhavin Vithlani SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Congratulations for good set of numbers. Could you give us an update of given in the analyst meet when you spoke about product developments that the AC with filters or AC which will be like cooler, that is one. The second thing is in the analyst meet you spoke about increasing your market share specifically on the north side where you are weak, could you give us an update what is the way forward on that? These are my questions.

Neeraj Basur: As far as the new product portfolio is concerned, we launch a new range of products every year and we did so in the month of February. This being our Platinum Jubilee Year we have launched a complete range of 75 SKUs. The contemporary range of products which have features such as inbuilt purification, inbuilt precision cooling and are also higher on IoT enabled models were also part of these 75 SKUs. We continue to do a lot of product portfolio category improvements and at the same time there is always the need to remain competitive on the core of product portfolio, which would be the three star and the five star inverter range. You will find the products that we have in the market are very competitive and would be better when compared with the comparable product options available on all the features etc. Our R&D continues to do lot of good work. We have a dedicated R&D unit and we stay completely on top of evolving regulatory as well as market dynamics.

The next big change is likely from 01 January 2020 will be again a rating table change. Our R&D teams are now focusing closely on ensuring that before we get into a new table and rating norms in January 2020, or later, we need to be ready with set of products to cater to those new requirements, so it is a very evolving situation as far as product portfolio in the room AC category is concerned.

As far as your question on North is concerned, we have caught up quite a bit on our performance. We have now reached a point where West and North are almost at the equal level, which is giving us a lot of good visibility also in the largest market. We do not expect any region to suddenly get a disproportionate share of the market, but as long as all our regions are having an equal weightage in the top three regions of North, west and South, we will be happy. So things are happening in North and we will continue our focus and attention to penetrate deeper.

Moderator: We will move onto the next question that is from the line of Anupam Gupta from IIFL. Please go ahead.

Anupam Gupta: We have seen a gradual improvement in the margins in the project business, what would be the trajectory assuming your improved execution remains on track going forward?

Neeraj Basur: **W**e are consistent with what we have been saying in the past. We do expect that the EBIT margins for a full year blended basis at around 5.5% and better than what we did last year. It will be not appropriate to look at a quarter-on-quarter margin for this business as there will be variations. Our own sense is anything between 5.5% and 6% will be a fair margin outlook in the short term for projects business. However we will have quarters where this can even cross 6% and quarters where it will be shade below 5.5%, so it will be a blended performance year-on-year.

Anupam Gupta: But you are not seeing because your order inflows are very strong, have you seen underlying improvement in the profitability there or what is driving this margin guidance?

Neeraj Basur: Your question is whether there is a degree of operating leverage which will help in margins? Well this is a tendered business and therefore we need to be L1 with fiercely competitive pricing pressures, therefore, pricing continues to be under pressure. So the increased order booking pace is not yet translating into any improvement in the margins profile and also the fact that the entire cost structure needs to be actually controlled well while executing continues to ensure that by the time we close these projects, we come back on our trajectory of 5.5% odd margin levels. To that extent we are not at a scale yet where there would be a very significant improvement in the margins. More important for us is that is to ensure that we continue to bill and collect cash in a disciplined manner and as you are aware in most contracts business, there is a tradeoff between what margins you can expect what prices you can expect and what terms of payment you can expect to negotiate. So we are consciously opting for healthier commercial terms such that not only are we able to register growth, but that growth must translate for us in cash flow terms and at least for next one year we do not intend to change anything significantly in that particular strategic orientation. We will continue to focus on growth, billing, cost management and cash flow management, so that will be the broad structure.

Anupam Gupta: Secondly just on your JV losses, which were there, so this year obviously there was Oman JV which created losses, but going forward that should get back into profitable levels or you see some losses continuing?

Neeraj Basur: We had made full provision for the entire exposure in Oman JV in Q3 itself. Q4 on a standalone basis is containing profits from other JVs, and that will continue. Oman JV exposure stands fully provided.

Moderator: We move onto the next question that is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Can you help us understand on these commercial refrigeration products within the unitary cooling product segment, what is the kind of growth outlook going forward, how large is this market and what will be our market share right now?

Neeraj Basur: Segment II for us is contains predominantly room ACs, but consciously we have been growing all other product categories and the largest one amongst these being the entire commercial range of products, which includes deep freezers, water dispensers, storage water coolers and bottle coolers which are the traditional range of commercial products some of which we also manufacture. In the last two years, we have added new product categories to our commercial range namely medical refrigeration products, kitchen refrigeration products and retail refrigeration products. As you would appreciate these three categories are all intensive on the consumer, consumption based factors, which will propel growth whether it is the retail refrigerator requirements for shops and stores or be it the entire medical refrigeration where the labs, the blood banks, the hospitals will need more and more of these products and kitchen refrigeration demand is driven by the growth in the hotels, QSR segments and so on.

Overall our market share continues to track quite strong as far as these categories are concerned. As far as the deep freezer business is concerned, we continued to enjoy close to 28%, 29% market share which by our understanding is the largest in the market. Across water coolers and water dispensers it ranges from 25% to 35%. We also have modular cold rooms which again have been experiencing positive traction. We have also added air coolers, air purifiers and water purifiers in the same segment. We expect segment II to continuously become progressively more insulated against our dependence on room ACs which in some ways is already visible in FY19 because to very large extent the entire unfavorable impact of a poor summer in FY19 could have been far more catastrophic had it not been for the other commercial range of products which we were consciouslygrowing. So we expect that trajectory to continue in the years to come as well and to that extent will fuel growth for the segment as a whole.

Charanjit Singh: On the water purifier segment if I got the number right, your market share right now is 2% and we are expecting 10% market share by 2021?

Neeraj Basur: We are expecting 10% may in be two years' time and that is what we are definitely aiming for.

Charanjit Singh: The scale up on the market share front looks pretty steep and what are the factors which you think will drive this market share gain for us?

Neeraj Basur: The last two years s were spent to build the water purifiers business bottoms up. We have got the product portfolio sorted out, we have got the distribution footprint also established with 2000 plus stores now selling our water purifiers, and also we have a very strong presence online through the e-commerce route. The building blocks are in place and year two has seen some good traction although on a small base and we have doubled what we did over FY18.As I talked about it earlier in the opening remarks, we have integrated the sales force of our room AC business with the water purifiers sales force, so the combined sales force in an integrated manner will now be able to sell water purifiers to the existing as well as the new dealers. We are quite confident that it should give us a trajectory of growth beyond that we experienced in FY19 and should start taking us towards that aspirational 10% market share.

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

Varun Aggarwal: My question is on the competitive intensity. We have seen a lot of Japanese, Korean, Chinese players entering the market, increasing their presence, even setting up manufacturing basis, so how do you see next two to three years in terms of competition. Do you think all the players have widened up looking at the history and the pricing will be more mature or more pragmatic? Can you throw some light on that?

Neeraj Basur: Of course, competition is intense and has remained intense notwithstanding who were the players in question and across all category of Indian and multinational players and we do not expect the competitive intensity to reduce. Now, while the overall pricing and the entire product portfolio level specific dynamics will get determined by how competition plays out and we are also quite sensitive to that fact that beyond a point we will not be able to influence pricing, so what really remains with us to influence is a target cost structure. This would help us to continue to maintain margins despite increasing competitive pricing and competitive forces.

We are amongst the few players who have in-house manufacturing. We are consciously looking at ways and means of enhancing backward integration to the extent possible. In components, the indoor units which have traditionally been imported, we have started assembling them in one of our factories, and so to that extent progressively we will bring more and more critical components into our own manufacturing base. Of course, we will not get into manufacturing of components like compressors or refrigerants because it does not make economic sense, but to the extent backward integration is possible, it will be one answer to becoming more cost effective. Continuous value engineering which our R&D teams own is another way to improve to and of course the operating leverage and the scale growth will also help.

We are cognizant of these challenges and we will continue to take steps as may be needed to make sure that we are responding proactively. This is the category where working capital more specifically inventories is going to be quite critical for us to remain nimble and agile in terms of the levels of inventory we plan for and what level of inventories are held by us at different points in time such that we do not end up losing out any opportunity to sell or grow, at the same time we are not in a situation where we are carrying excessive inventory, which then becomes another problem in terms of margin, holding cost, etc. So it is a very fine balance. Just to conclude we expect more competitors to start looking at India seriously as the overall market size itself will become large, obviously it will be of interest to more players. We have in the past and we will continue to plan for the competitive intensity to go up and we will be ready with our suitable response.

Varun Aggarwal: Sure Sir. Thanks a lot for elaborate answer. Sir one question on your segment one, basically in terms of order book office segment is the key segment or the large size of the order book. In next two to three years do you see that changing in the favour of metros and infra and other segments or do you think this is the segment, which will be continue to be the large segment for our segment I?

Neeraj Basur: Well it is a bit contextual because the infrastructure projects do not get launched very regularly, they follow a certain investment and commitment pattern andsequencing cyclicality. As we speak, there are quite a few metro rail tenders on the table, which we continue to participate, but by and large we expect and I spoke about in the opening remarks, a breakdown of segment wise market share, which you will get when we circulate the investor release. We do not expect that composition to change drastically over the next couple of years and of course a lot depends on how under the new government's dispensation, what kind of policy decisions get taken on the infrastructure growth and also on the industrial growth. The entire Make in India theme, which we will wait to see how that plays out post elections, will also be sweet spot for us. **Moderator:** We will move onto the next question that is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please go ahead.

Keyur Pandya: I want to understand how the trend of inverter machine has panned out and what is the proportion for us as well as for the industry. Do you see changing or reversing going forward?

Neeraj Basur: For the last two years now the trend is in favour of inverter machines. Last year, industry would have been around 45% inverter sales, and we were at 47%. Blue Star has been amongst the pioneers in terms of inverter and more energy efficient product range. We had a head start, of course, now market has caught up with us, so we are at inline with the market. To your question how is this trend likely to pan out over the next couple of years, our outlook is that it should continue to grow to around 55% to 60% and should start to stabilize around that. There is a market for fixed speed machines, which will remain, so about 55%-60% inverters is our overall sense.

Keyur Pandya: Sir, second question, the industry growth in value terms that you expect 10% to 12% this year, do you think this is lower number considering the previous year's poor industry performance?

Neeraj Basur: Maybe we are being a bit conservative here. When the entire industry comes out of a bad year obviously to get back to the growth momentum and the entire rhythm takes a little while. Maybe it is a little conservative, but as of now we would like to go with this 10% to 12% view. Again on the premise that FY2020 will pan out to be a normal summer.

Moderator: Ladies and gentlemen we will be taking the last question that is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Can you give some colour on the capex going forward for FY2020-2021 and which segments this will be going to and secondly if you can briefly touch upon the outlook for segment III both in terms of revenue and margins we have seen a huge fluctuations in this year, how you see the margins and the revenue in this segment going forward?

Neeraj Basur: Regular capex continues to be in the range of about Rs.100 Crores and we do not expect that to be any different in FY20. In addition we are expanding our capacities in our Wada plant and these capacities are predominantly to support growth in our commercial refrigeration products, which are currently being produced out of Ahmedabad, so that capex will be to the tune of about another Rs.80 Crores to Rs.90 Crores but may be over the next 12 to 15 months. We are not yet taking any decision on commencing capex in Sri City that will also happen probably in the next few years.

As far as your second question on segment III margin, this year has been a good year for professional electronics business. There have been several good projects they have booked and executed, some of them were very healthy on margin that is what it is also visible from the results. In particular I would just like to remind everyone there was a large project we had won from UP government. This was for supply of some CT machines in around 25-odd hospitals. It was a good business for us in terms of growth as well as margin profile. The only thing is it is very difficult to give you an outlook for this segment because the nature of this business is such where there is a pipeline of several short-term projects and orders, which keep filling in and keep getting executed as the year progresses. For our own purposes we factor around 12% to 15% EBIT margin, which we feel is kind of reasonable for this segment.

Amber Singhania: Okay, this 12% to 15% compared to range of 30% which we have seen in the past?

Neeraj Basur: 30% was Q4, overall for the full year it is around 20% this year, which is somewhat higher as compared to the normal margin that we expect this segment to generate on a more continuous basis.

Amber Singhania: Any other similar kind of revenue growth we have seen in FY2020?

Neeraj Basur: Revenue growth may remain similarrighto FY19 level.

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

Neeraj Basur: Thank you very much ladies and gentlemen. With this we conclude this quarter's earning call. Do feel free to revert to us in case any of your questions were not fully addressed and we will be happy to provide you additional details by e-mail or in person. Thank you very much.

Moderator: Thank you. Ladies and gentlemen on behalf of Blue Star Limited that concludes today's conference. Thank you for joining us and you may now disconnect your lines.

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