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August 13, 2021

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
BSE Scrip Code: 500067	**NSE Symbol: BLUESTARCO**

Dear Sir/Madam,

Sub: Earnings Call Transcript – Q1FY22

With reference to our letter dated July 24, 2021, and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q1FY22 Financial Results of the Company.

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

Kindly take the same on record.

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

BLUE STAR LTD.

Neeraj Basur
Group Chief Financial Officer & Company Secretary

Encl: a/a

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Blue Star Limited
Q1FY22 Earnings Conference Call

August 5, 2021

MANAGEMENT: MR. NEERAJ BASUR – GROUP CFO & COMPANY SECRETARY

Moderator: Good day ladies and gentlemen and a very warm welcome to the Blue Star Limited's Q1FY22 earnings conference call. We have with us today from the management Mr. Neeraj Basur – Group Chief Financial Officer & Company Secretary of Blue Star Limited. As a reminder, all participants' 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 an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I am now glad to 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. Firstly, I would like to wish the best of health for you and your loved ones, and I hope all of you are safe. I will be providing you an overview of the results for Blue Star Limited for the quarter ended June 2021.

I. FINANCIAL HIGHLIGHTS

The quarter commenced on a promising note with a normal summer season coupled with a general improvement in the customer sentiments. However, in the second fortnight of April, the momentum was interrupted by the resurgence of the second wave of COVID-19. The consequent lockdown like restrictions imposed in various States continued to disrupt the business through the end of May.

For the second year in a row, this impacted revenue growth in the peak selling season for our Unitary Products business. However, the impact was relatively less as compared to Q1FY21 due to the staggered and localized nature of the restrictions and a pick-up in business activities as the restrictions were gradually eased in June. Additionally, our experience from last year in managing the business environment under the same circumstances enabled us to handle the disruption with agility and end the quarter on a stronger note.

Financial highlights for the quarter ended June 30, 2021, on a consolidated basis, are summarized below:

-Revenue from operations for Q1FY22 grew 68.1% to Rs 1052.04 cr as compared to Rs 626.02 cr in Q1FY21.

-EBIDTA (excluding other income and finance income) for Q1FY22 was Rs 42.23 cr (EBITDA margin 4.0% of revenue) as compared to Rs 1.36 cr (EBITDA margin 0.2% of revenue) in Q1FY21 due to higher scale.

-PBT before exceptional items was Rs 19.40 cr in Q1FY22 as compared to a loss before exceptional items of Rs 29.47 cr in Q1FY21.

-Tax expense for Q1FY22 was Rs 6.52 cr as compared to a tax credit of Rs 9.52 cr in Q1FY21.

-Net profit for Q1FY22 was Rs 12.69 cr as compared to a net loss of Rs 19.66 cr in Q1FY21.

-Carried-forward order book as of June 30, 2021, grew by 8.0% to Rs 3152.30 cr as compared to Rs 2918.66 cr as on June 30, 2020.

-Capital Employed reduced to Rs 969.83 cr as on June 30, 2021, as compared to Rs 1193.83 cr as on June 30, 2020, due to continued focus on working capital efficiencies.

In view of the prudent working capital management and other continuing capital preservation measures, net borrowing as on June 30, 2021, reduced to Rs 68.47 cr (debt equity ratio of 0.08) as compared to a net borrowing of Rs 428.53 cr as of June 30, 2020 (debt equity ratio of 0.56) despite short-term challenges to the operating cash flows during the quarter.

II. BUSINESS HIGHLIGHTS FOR Q1FY22

Segment I: Electro-Mechanical projects & Commercial Air Conditioning Systems

Segment I revenue grew 61.7% to Rs 505.24 cr in Q1FY22 as compared to Rs 312.44 cr in Q1FY21. Segment result was Rs 20.03 cr (4.0% of revenue) in Q1FY22 as against a loss of Rs 10.53 cr (3.4% of revenue) in Q1FY21.

Order inflow for the quarter grew by 143.9% to Rs 650.78 cr as compared to Rs 266.78 cr in Q1FY21.

1. Electro-Mechanical Projects business

The pace of execution of projects was slower due to the phased lockdowns across multiple States, which affected material movement and labor availability at sites.

Delays in order finalization due to uncertainties impacted order inflows from the commercial buildings sector. Muted government expenditure continued to impact order inflows in the infrastructure sector. Enquiries and order inflows from the factories and light industrial sector continued to be encouraging, driven by the Make in India initiatives of the government.

We continued to moderate the pace of our execution, basis assessment of customer credit profile and operating cash flow visibility for the ongoing jobs which enabled an improvement in margins for the business.

We will continue to focus on opportunities in the infrastructure sector such as metro railways, electrical substations and water distribution and sectors such as factories, data centers and warehousing which are expected to throw up good opportunities in the medium term.

Carried-forward order book of the Electro-Mechanical Projects business was Rs 2232 cr as on June 30, 2021, as compared to Rs 2040 cr as on June 30, 2020, a growth of 9.4%.

Major orders received during the quarter were from Ola Electric (Tamil Nadu) and Netmagic IT services (Mumbai).

2. Commercial Air Conditioning Systems

Our commercial air conditioning business registered a growth of 108% as compared to Q1 FY21, albeit on a low base due to healthy traction from the industrial, government, healthcare, and pharma segments.

Key segments such as builders and developers, marriage halls, auditoriums, hotels, and restaurants continued to be impacted by the pandemic and are yet to revise.

We continue to maintain our number one position in ducted air conditioning. Number two in VRS and number three in chiller products categories.

Major orders bagged in this category in Q1 FY22 were from MMRDA COVID Hospital, Salcomp, Reliance Zoo, Kalinga Institute of Technology and Adichunchanagiri Institute of Medical Sciences.

3. International Business

Revenue during the quarter grew on the back of substantial normalization of business activities in the markets that we operate in.

Demand for both air conditioning and refrigeration products improved across PAC and Middle East markets.

With elevated vaccination levels in the Middle East and expectations of a good summer the forecast for this business is very positive. The projects business in Qatar showed encouraging recovery.

The operations and the joint venture at Malaysia were impacted during the quarter due to lockdown restrictions imposed there on the resurgence of COVID-19.

We continue to explore new markets of business opportunities and focus on the expansion of the Blue Star product range and building brand awareness and brand visibility in different markets that we are present in.

Segment II: Unitary Products

Segment II revenue grew 83.9% to Rs. 505.37 crore in Q1 FY22 as compared to Rs. 274.85 crore in Q1 FY21. Segment result was Rs. 21.77 crore which was 4.3% of revenue in Q1 FY22 as compared to a loss of Rs. 3.76 crore which was 1.4% of revenue in Q1 FY21.

1. Cooling and Purifications Products Business

When the lockdown restrictions were lifted in June, severe summer conditions in the Northern region supported growth. Further, expansion of conventional channel and increase in the share of business from e-commerce portals complimented the revenue growth. Consequently, our room air conditioner business registered a growth of 58% as compared to last year, while the market grew by around 55% during this period. We continue to maintain our market share at13%.

2. Commercial Refrigeration Business

Increased demand from the healthcare, pharma, food processing and food delivery segments enabled a growth in our commercial refrigeration business as compared to Q1 FY21.

With end-to-end solutions for vaccine distribution, we have further enhanced and strengthened our brand presence in the pharma and healthcare segments.

We continue to maintain a leadership position in deep freezer, storage water cooler, and modular cold rooms. Major orders were bagged from Biological E, Gland Pharma, Accent Pharma and Zydus Cadila, to name a few.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue grew by 7.0% to Rs 41.43 cr in Q1FY22 as compared to Rs 38.73 cr in Q1FY21. Segment result of Rs 5.56 cr (13.4% of revenue) in Q1FY22 is lower compared with Rs 10.18 cr (26.3% of revenue) in Q1FY21 due to product mix.

Revenue from this segment continues to be driven by opportunities from the BFSI sector for the Data Security Solutions business and in healthcare for medical diagnostic equipment. With the revival of investments in the manufacturing sector, our Testing Machines business is witnessing growth.

Major orders were bagged from Man Industries, Central Imaging & Diagnostic, Canara Bank, ICICI Bank, MRF etc. to name a few.

With the wide portfolio of products and solutions forming part of our offerings, the prospects for this business segment continue to be positive.

III. Business Outlook

With the capital investment cycle playing out in a significant manner, the demand for our products and services is expected to be robust. The consumer spending continues to be healthy and despite price increases implemented, we expect to witness growth in demand.

We will continue to focus on controlling operating costs and improving working capital efficiencies and operating cash flows. With the vaccination drive expected to pick-up momentum, the impact of the third wave, if any, should be also minimal. Therefore, we believe the prospects for the ensuing quarters are good.

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 the 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 very much, ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: What was the mix of revenue of UP and other businesses in Segment II? Even if you don't want to give an absolute number, the percentage would do. Just wanted to understand if the AC business really saw a much more decline and the other business did well? So, if you can throw light on that, that's number one. Number two, in terms of margins, we understand this was a more of an impacted quarter, how are you looking at the UCP margins for the whole year? We have taken price increase, but obviously, it's more of a lean season starting, so can you throw some light how we are looking at the margin trajectory of UCP segments for this year and should we be able to do double digit next year or looks tough as of now?

Neeraj Basur: We have been strategically expanding the range of the products in our Unitary Products segment. Q1FY22 was not a real representative quarter, however, around 60% of the Segment II revenues were from the room air conditioner business and the remaining is derived from the basket of other products.

As far as the overall margin profile is concerned, Q1 tends to influence the full year's margin profile. In case Q1 doesn't really play out as it should in a normal summer season, it has a cascading impact on the full year's margin. We ended Q4FY21 with a margin profile of around 8%. We expect to get back to the same level by Q4FY22, assuming there is no further disruption due to a third wave.

Nitin Arora: Just one clarification, you are saying margins for the UP for the whole year 8% or for the Q4 8%?

Neeraj Basur: My comment was on Q4, because Q1 was a compressed quarter. We should come back on the trajectory of 8% margin in Q4.

Nitin Arora: That takes our overall margin for the whole year closer to 5%-6%. Despite taking so much price increase, I understand the volume loss has happened, but I think we are trying to increase market share here in north, how is that response, I understand we were not able to make the mark because of the impact what we saw.

Neeraj Basur: This year won't be the correct year to look at the annualized margin profile due to Q1 impact, but it may be in the range of 6%-6.5% for the full year. That's the reason I had mentioned Q4 as that is expected to be the normalized level. We expected the impact of price increases that we took in January and then in April to play out in the later part of FY22. So, FY23 will be a better year to look at. The macro-outlook is quite positive.

Moderator: The next question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram: If we look at the overall energy label change in room AC which was expected last year, we were expecting whether that can get postponed to this Jan, is that going to happen, or will it get further extended because by now you should have some clarity on that?

Neeraj Basur: The effective date of change as per the current notification is 01 January 2022. However, that was announced prior to the second wave and the consequent lockdown like restrictions. We will get to know closer to the date as to whether there would any change in that effective date.

Renjith Sivaram: How much was the price increase taken in Q1, if you can help with that number?

Neeraj Basur: We took a 5% price increase in Q4FY21 and another 3% towards the beginning of Q1FY22.

Renjith Sivaram: But despite that the margins are lower, so what was the reason because the complete pass through has not happened or will it come with a lag, and the margins are still lower besides these price increases?

Neeraj Basur: The cost cuts that we took across our operating costs last year was very incisive. We have been coming back gradually to the normalized operating cost structure from Q3 and Q4 of last year. We took some fairly deep cuts across several of our operating cost lines in the first two quarters of FY21. Most of the cost lines, specifically employee cost has been restored back in Q4 last year and now the cost structures are back to almost the normal levels. The Q1 revenue was impacted because of the lockdown and hence the margins were lower in spite of the price increases. The other way of understanding these results is that despite absorbing back the normalized cost structure in the operating cost lines, our profitability has improved.

Moderator: The next question is from the line of Saiyed Arafat from Reliance Securities.

Saiyed Arafat: My first question is on online sales. I want to understand how the market is over there and what kind of investments you have done to increase your online sales and is it AC is more saleable on online channels or how is that?

Neeraj Basur: E-commerce channel has been gaining traction since last year because of the shutdowns in the general trade and modern trade. The share of e-commerce is roughly about 15% as far as the market is concerned. Our share of e-commerce is also broadly in line with the market at around 13% to 14%.

Saiyed Arafat: My next question is on your inhouse manufacturing versus outsourcing. How is that going after let's say some buying from China, so what is your outsource and inhouse mix in terms of production?

Neeraj Basur: Share of our own manufactured product is close to 70%. We do get some SKUs manufactured through contract manufacturers based in India. The import of finished SKUs is reduced. We continue to fulfill a substantial 70% of the requirements through our own factories.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: My first question is pertaining to the ASPs in the Room AC Segment, how they have changed? What is happening is we have rolled out price hikes, but at the same time, we are aggressively trying to increase our market share in the affordable range, which you gave us an update, was close to 70% of your sales in 4th Quarter. So, if you can share how the ASP's have moved due to this change in mix and where is the share of affordable range ACs right now?

Neeraj Basur: There are counter pressures in the market where on the one side because of commodity price increases, all players have been compelled to course correct on the pricing and at the same time, due to the disruption caused by the lockdown, the overall pricing pressure remains from an ASP point of view. A part of it also gets reflected in the form of discounts and other incentives that are offered. The full impact of price increase will be visible from Q3 onwards when the overall market normalcy resumes. Q1 of this year is certainly not the right quarter to have a view on this. Our mass premium range of products is doing very well. The entire range has gone down quite well with all our dealers, distributors and they are very happy with the extended portfolio. Now we are very competitive in terms of the coverage, the features, the price points and a much better portfolio to offer which is far more competitive. We experienced good traction in Q4FY21 and also in June when the markets opened up. We are quite optimistic that once normalcy is restored, this range will do well and will gain further traction closer to the festival season.

Sandeep Tulsiyan: So, if I got that correctly, the 8% price hike that you took cumulatively in the first four months were not fully reflective in the quarter due to higher discounts and that should normalize by festive season?

Neeraj Basur: It will start getting corrected as we get into Q3 and Q4.

Sandeep Tulsiyan: I have two more questions. One is on the strategy of entering or making a dent in the North India market. You did make a comment in the press release saying that, should the weather conditions have helped, you would gain some market share or helped you grow better than the other regions where you are present. If you can share a little bit of update, where is it in terms of total share, what was your other regions in North India, and what is the strategy of growing market share over there going forward? Second question is pertaining to the investments in the PLI scheme where I think by 15th September most participants are expected to submit the proposals, so which components we are planning to participate and what can be outlay over there?

Neeraj Basur: As far as the North India market is concerned, it's played out well for us and that's one of the reasons for the performance in Q1 despite the fact that we had rains in South and the sales there were lower than normal for the peak summer season. Share of North in Q1 is about 40% of our overall sales for these products.

As far as your question on PLI investments is concerned, you are aware that PLI is now available only for components and not for finished products. We are evaluating the feasibility of making an application for certain components. That plan is not yet fully firmed up and probably by the time we meet you after Q2 results we should be able to give you a more definitive statement. To the extent, the PLI benefits can be realized on the component side, we will be interested and keen to look at that.

Sandeep Tulsiyan: Just the comparable number for 40% North share, what was it last year?

Neeraj Basur: Share of North last year would have been close to about 30-35%. Last year, share of North and South was almost equal. This year North is a shade better because of extended summer, but these proportions change.

Moderator: The next question is from the line of Charanjit Singh from DSP Mutual Fund.

Charanjit Singh: If you could just help us understand the price laddering in terms of where does in the mass premium Blue Star stack-up versus the competitors like Voltas and other players, what's the kind of pricing differential as of now, if you can touch upon that?

Neeraj Basur: This range of products and the reference being a 1.5 ton, 3 Star machine we are quite competitive when it comes to the top three or four players. The difference between our price and their price will be nominal. We may still be about 3% to 5% higher compared to few others. As far as the market positioning is concerned, this is a highly price competitive range now. We call it mass premium because there are differentiators when it comes to the quality and the overall experience that the customer will get. That is the reason why there's a difference as compared to couple of players.

Charanjit Singh: On Southern market, because there are still concerns on Kerala and other parts , if you can touch upon what are your thought process in terms of going forward? How do you see that Southern market can pan out and also on the inventory levels where we are right now, and you think that it may take longer to get it liquidated?

Neeraj Basur: Southern market in Q1 has got impacted because of the twin reasons of early rains in Kerala and parts of South India, plus the pandemic driven disruptions in Karnataka and a couple of more states. That is the reason why South has not done well in Q1 relative to its potential. We don't see any macro reason to feel concerned about South. We expect it to come back on its normal trajectory once the situation stabilizes by the festival time.

Charanjit Singh: Last question from my side is on the commercial ref. If you can touch that category, how it did in Q1 and how we see it going forward, contributing to in the category?

Neeraj Basur: In the commercial refrigeration business, the traditional customers segments such as ice cream manufacturers or QSR restaurants, hotels etc., .are still not normalized and they will take some more time to recover. However very encouragingly for this particular business we are seeing good traction from pharmaceutical, the healthcare & government sectors that have emerged very well, in addition to the traditional segments which continue to exist. The vaccine supply chain as of now continues to offer good opportunities, both in terms of vaccine storage solutions, right from cold rooms to equipment which is needed at the vaccine storage center as well as vaccine transporters that are needed at the vaccination centers. We expect this opportunity to continue as the vaccination pace increases further over the next couple of quarters or little more than that. A bulk of buying has already happened and it may not continue with the same momentum, but this is one area and the newer segments we entered in terms of the supermarket refrigeration, as well as the overall retail refrigeration solution are also showing some encouraging signs. All in all, commercial refrigeration is a segment or a category we continue to be quite optimistic about.

Charanjit Singh: Can you highlight any number from the growth side and are these new categories are able to offset the dip in the traditional customer base and what's the kind of growth expectations you might have on the commercial ref?

Neeraj Basur: We always take a view on the segment as a whole. As I mentioned towards the beginning of the call about 40% of Segment II comprises of a basket of other than room AC products of which the commercial refrigeration definitely an important constituent. Overall, though the Room AC business does continue to be significant, the dependency gets mitigated by strategic diversification of the product portfolio between room AC and commercial refrigeration range of products.

Moderator: The next question is from the line of Anupam Gupta from IIFL Capital.

Anupam Gupta: My first question is for our AC business basically. Based on your current inventory levels and the procurement cycle, assuming commodity prices remain here, what sort of price increases would we need assuming market is coming back? What sort of price increase will be needed to restore margins to finally older levels of let us say (+) 9%? Also, if you can include, assuming that your energy level change happens from January, what sort of price increase will that require over and above this?

Neeraj Basur: As far as the inventory levels are concerned, it's not alarming as at end of June this year. It should start normalizing early Q3 on the lines of what we were able to achieve last year. As far as the market is concerned, towards the middle of or end of Q3 when the festival season starts, inventory levels should normalize. Inventory is unlikely to be a key concern. As normalcy gets restored across states, it may not make sense to take a pricing revision in Q2. We will watch closely and take a view a little ahead of Diwali as to whether a further revision is required. It's a little early to talk about price increase. We will take that call in Q3.

Anupam Gupta: The energy level change would require what sort of cost increases for you?

Neeraj Basur: The product portfolio is in the process of getting finalized. The effective date of change as of now is January 1, 2022. We will take a view in Q3with focus on the mass premium portfolio profile. We'll be able to share the details with you around Q3.

Anupam Gupta: The second question for the project business, what sort of growth are you now looking at given that obviously you're coming back in first quarter, but should things normalize fully from the second quarter onward and the margin recover in the balance of part of the year? What levels are you looking at?

Neeraj Basur: The traditional customer segments for the projects such as building and commercial real estate and private infrastructure will take slightly longer to normalize. We have been taking a cautious view on these segments for the last 15-18 months for all the right reasons. We see some very interesting and healthy traction from the light industrial, light commercial customer segments. Expansion in factories segment is a good area for us to get in. E-commerce warehousing spaces and, data centers are the other segment offering opportunity for MEP works. The fourth sector is the government funded infra projects where we are participating quite aggressively in metro rail, airports and so on. Some of these newly emerging customer segments offset the lower traction in the traditional customer segments. Once the credit profile of the traditional customer segments starts to strengthen and improve, we expect those segments to come back. We have differentiated ourselves across two main platforms. Firstly, the integrated MEP services that we provide vis-à-vis some other players and there are not too many national level players who are now able to offer integrated MEP services. And then, the ability to supplement it with the equipment we manufacture. These are some of the differentiators over some smaller regional players, which will provide opportunities and the healthy order book is an indication of that. Over the last two years, we have not really seen a de-growth in the order book, despite being watchful. The margin profile has been stable in the range of 4-4.5%. We see no reason why these should not come back to 5-5.5% levels, once normalcy resumes. So that's on the segment I business dynamics.

Moderator: The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: If you could give us an update on how has the traction being in June and the month of July in the Unitary Cooling product segment?

Neeraj Basur: As the lockdowns started to ease off towards the first week of June, there were three weeks in June and also considering the onset of the monsoon season in South and West India, it has been a very encouraging experience in those three weeks, specifically the North Indian market, which continues to have an extended summer spilling over into the month of July. It's encouraging and that's one of the reasons you see relative to last year, the revival and restoration of normal business activities from our perspective is far faster and quicker. We also had the experience of handling the disruption and restoration last year. We are reasonably satisfied with what has happened in the month of June, in the backdrop of the disruptions that were encountered in the preceding 45 days or so.

Bhavin Vithlani: The second question is in the margins for the professional segment. Historically, we have been seeing north of 20%, but over the last two, three quarters that trajectory has been downward 13.5% in the last quarter, any reasons specific, if you could give us and what could be sustainable level that one should see building on?

Neeraj Basur: If you look at a longer tenor margin performance of that segment, it ranges from 15 to 18%. That's more like a median margin performance. We are hovering now in the range of 13.5 to 14% as of now. In the last few years, we did get a couple of large orders with healthier margin profiles. The nature of that business is like that. It will always have, every now and then some one-off large orders, which will bump up the margin profile over the ensuing two or three quarters when those orders are fulfilled. You will see a certain bump up going up to 20% or 18%. A little bit of variation is to be expected in the margin profile of this segment, but it will stay in the median range of around 15%,

Bhavin Vithlani: A couple of housekeeping questions, on the interest cost in your press release you mentioned that debt has come down to Rs. 68 crores, but when we see Rs. 11 crores of interest cost, so if you could help us understand that?

Neeraj Basur: The debt has been coming down progressively and if you compare the interest expense in Q1 last year with Q1 this year, you will see the reduction more starkly. In the Q1 last year we were building up debt to build sufficient liquidity on the balance sheet. Once that was done, there's a progressive reduction in debt. So there is a reduction in the cost of financing as well as the quantum of money that we needed to borrow. The investment corpus that we are maintaining to ring-fence liquidity on the balance sheet which of course generates interest income or investment income which gets grouped under other income in Regulation 33.

Bhavin Vithlani: Let me rephrase the question. So Rs. 10.7 crores interest in the current quarter or let's say Rs 44 crores on an annualized basis on a gross debt of Rs. 68 crores is something that if you could help me reconcile?

Neeraj Basur: Rs. 68 crores is the net debt level.

Bhavin Vithlani: If you could help me on the gross debt maybe that could answer my question.

Neeraj Basur: Gross debt end of June was around Rs. 450 crores. Another way of understanding the equation is to net off the investment income from the interest expense. There is about Rs 4-4.5 crores of interest income in this quarter.

Moderator: The next question is from the line of Ashish Jain from Macquarie.

Ashish Jain: My first question is on price hikes. Earlier in the call, you made a comment that by Q4 you feel confident to go to 7 to 8% margins, but can you just indicate what kind of cost inflation is still not passed on in spite of the 8% price hike that you have taken? Our understanding is that at least 4 to 5% gap is still there. So, if you can help in triangulate that?

Neeraj Basur: While a price increase of 8% has been taken between two quarters, in Q1 there has been a discounting impact due to the disruption. So that is not the right comparison to study the absorption impact of price increases. We will just wait for another quarter or so to allow the full impact of price increases to settle down. By Q3 before Diwali is when we will decide on the price hike by which time we also expect inventory to normalize.

Ashish Jain: So, if I can just, get bit deeper into what I'm trying to understand is even if I let's say ignore the discounts and all for a minute, which I understand impacted your Q1 margins, but just from a math of it point of view is 8% enough to offset the commodity you have seen or there is a gap needed whether we take it and the timing of it I understand is a response to how the market is, but just from a maths of it, is there a gap left or we are well covered?

Neeraj Basur: We have sufficient inventory till Q3. The good news is we don't need to buy immediately in the next few months or at least the next one and a half quarters. This will be a question probably for Q4 and Q1 next year and depending on how the commodity price cycles behave at that point in time, including ocean freight. We hope that by the time we close the calendar year and by the time we are ready to procure again, that is the time we will work out what kind of cost to price equation we need to consider. The commodity prices are already costed in the inventory that we are currently holding.

Moderator: The next question is from the line of Kunal Sheth from B&K Securities.

Kunal Sheth: My question was regarding the market share targets that we have for the year. Do we hold on to the market share targets overall for the Room AC segment as well as for the North market that we had set out in Q4?

Neeraj Basur: We are currently at 13%, we think by the time we end the year, we should reach a 13.5-14% level. Our stated objective is to get closer to 15%. We will take it forward from where close the financial year.

Kunal Sheth: Secondly what is the kind of growth that we are now building in the Room AC market for the year, given the disruption that we have seen in the first quarter?

Neeraj Basur: We are quite optimistic based on last years' experience. We expect that the market might be just flat over FY20 and grow around 25-30% over FY21 for the rest of the year. For us, we would want to look at least 10% growth for rest of the year over FY20 and around 30- 35% growth for the full year over FY21. We are optimistic about that.

Kunal Sheth: This is the value growth that we are talking about? There will be a lot of commodity impact in the current year as well.

Neeraj Basur: We always look at value growth.

Moderator: The next question is from the line of Mayank Bhandari from Nirmal Bang Securities.

Mayank Bhandari: In the 55% growth you highlighted, what could have been growth for the inverter AC or what would be the composition of your mix in terms of inverter and non-inverter?

Neeraj Basur: The mix of inverters for us in Q1 FY22 is about 58%. The market was around 65% for inverters. We are having some very good traction for our fixed speed AC, which is around 42%. That's our mix for inverter and fixed speed.

Mayank Bhandari: Secondly sir, in terms of competitive intensity, as we have seen two consecutive summer seasons washed out and we were anticipating larger players gaining more share than some of the smaller players, so how is the competition in the market panning out? Any comment on that?

Neeraj Basur: We have to view competitive intensity in the context of, how different players get to restore their normalcy and what kind of inventory levels they are holding on. There's no let down on competitive intensity as everyone planned for growth in Q1. This planning starts, you're aware in Q3, Q4 of previous year. So, when we plan for growth, we make some investments, we take some position and then suddenly when this disruption of this scale hits, then lot of these plans get disrupted. That leads to unplanned competitive pressures on everyone. However, if we go back to our experience from last year, we were all pleasantly surprised with the level of normalcy that got restored by Q3. We see no reason why that should not happen again in the backdrop of enhanced vaccinations and improved customer sentiments and market normalcy. If that gets restored, we see no reason why we should all not be gearing for again a good Q3, Q4. Then, look forward to FY23.

Mayank Bhandari: We had highlighted opportunity related to vaccine, of about Rs. 200 crores markets size. Any quantum you can give like how much revenue would have booked by how or how much you are anticipating in the next two quarters related to vaccine opportunity?

Neeraj Basur: The vaccine opportunity was around Rs. 150 to Rs. 200 crores. We have been realizing part of that opportunity, about Rs. 75 crores to Rs. 100 crores annualized so far, but just keep in mind this won't be a perpetual, indefinite opportunity. This will be a finite period opportunity, but till such time it is there, as one of the leading players we will continue to tap the opportunity.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Basur for closing comments.

Neeraj Basur: Thank you. 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 were not fully answered and we will be happy to provide you additional details by email or in person. I wish you the best of health and stay safe and stay healthy. We will speak with you next quarter. Thank you.