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“Blue Star Limited Q3-FY15 Earnings Conference Call”

# January 28, 2015

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

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

**Moderator:** Ladies and gentlemen, good day and welcome to the Blue Star Limited Q3 FY15 Earnings Conference Call. We have with us today Mr. Vir Advani – Executive Director & President, Electro Mechanical Projects Business, and Mr. B. Thiagarajan – Executive Director & President, Air-conditioning & Refrigeration Products Business. 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 this conference call, please signal an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vir Advani. Thank you and over to you Mr. Advani.

**Vir Advani:** Good afternoon ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter ended December 31, 2014.

With the economy now favourable for growth, we have outlined the strategic direction of the Company. With an anticipated revival in the construction cycle, the Company intends to grow the electro mechanical and packaged airconditioning business cautiously and will try to leverage on the imminent opportunities that the upswing in the commercial construction industry is likely to offer in the near future. The Company also intends to aggressively grow its cooling products business – both in domestic as well as international markets by making prudent investments in marketing, product development and human resources. As regards to the Professional Electronics and Industrial Systems segment, the Company plans to provide adequate focus by transferring the business into a separate entity. We believe that an independent identity along with specialised resources will enable it to exploit its full potential.

**With that backdrop, let me take you through the financial highlights of the Company for the *quarter (Q3FY15)***

* The Company reported Total Operating Income of Rs 590.75 crore for the quarter ended December 31, 2014, as compared to Rs 545.90 crore in Q3FY14, representing a growth of 8%.

* Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter reduced to Rs 2.28 crore from Rs 6.53 crore in the same period last year.
* Financial Expenses for the quarter decreased to Rs 10.51 crore from Rs 12.60 crore in Q3FY14. While last year, due to the forex volatility, the hedging costs were higher, the same was lower in Q3FY15 resulting in an overall decrease in financial costs.
* Other Income including exceptional items for the quarter grew to Rs 26.97 crore as compared to Rs 17.41 crore in the same period last year, mainly on account of profit on sale of assets.
* Consequently, Net Profit increased to Rs 6.30 crore during the quarter from Rs 2.81 crore in Q3FY14.
* Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 0.70 vis-à-vis Rs 0.31 in the corresponding quarter of the previous year.
* Order inflow during the quarter witnessed a decline of 5% from Rs 537 crore to Rs 509 crore over the same period last year.
* Carry Forward Order Book as on December 31, 2014 declined by 19% to Rs 1412 crore compared to Rs 1737 crore as at December 31, 2013. The Company continued to be selective in pursuing orders with good commercial terms and healthy margins.
* The total Capital Employed of the Company stood at Rs 975 crore on December 31, 2014 as compared to Rs 993 crore on December 31, 2013.

#### Segment-wise results for Q3FY15

* The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 60% of the total revenues in the quarter, declined marginally by 1%, while segment results registered a sharp decline of 87% to Rs 2.90 crore, mainly due to a significant correction in the estimates of specific legacy projects based on revised quantity estimates coupled with higher debtor provisioning. The order inflow continues to be poor and job closures are slow. The legacy jobs continue to be a burden on the Company.
* The revenue of Cooling Products in the quarter increased by a healthy 26%, while segment results grew 120% to Rs 10.09 crore over the same period. Better market penetration, benefit of excise duty reduction, as well as a higher favourable product mix resulted in the increase in profitability.
* The Professional Electronics and Industrial Systems business revenues increased by 27%, while segment results registered a significant increase of 86% to Rs 7.00 crore due to a favourable economic environment.

**The following are the financial highlights of the Company for the *9-month period* ended December 31, 2014**

* For the 9-month period ended December 31, 2014, the Total Operating Income grew by 9% to Rs 2074.20 crore, as compared to Rs 1901.70 crore over the same period in the previous year.
* Operating Profit (PBIDT excluding Other Non Operating Income) increased by 7% to Rs 75.97 crore from Rs 70.93 crore.
* Net Profit at Rs 46.36 crore grew 40% as compared to Rs 33.10 crore in the same period as the previous year.

## Subsidiarization of Professional Electronics and Industrial Systems undertaking

For over six decades, the Professional Electronics and Industrial Systems business has been the exclusive distributor in India for many internationally renowned manufacturers of hi-tech professional electronic equipment and services, as well as industrial products and systems. Over the years, the Company has changed its business model from merely being a distributor to that of a system integrator and value-added re-seller, thereby moving up the value chain. The Company has carved out profitable niches for itself in most of the specialised markets it operates in, such as Industrial Products and Systems, Material Testing Equipment and Systems (Destructive/Non-Destructive), Data Communication Products & Services, Testing and Measuring Instruments and Healthcare Systems.

With the expected revival of the economy, most of the segments targeted by this business are planning to increase their capex investments which will result in significant growth in demand.  Further, the Company has been selling Blue Star branded products in some of the segments and this initiative has met with encouraging response. Since this business segment is distinctly different from the main AC&R businesses of the Company, it needs an independent identity along with specialised resources in order to exploit its full potential.

Keeping the above strategic imperatives in mind, the Board of Directors, in its meeting held on January 21, 2015 approved, subject to receipt of all statutory and regulatory approvals, the transfer of the Professional Electronics & Industrial Systems undertaking of the Company to Blue Star Electro-Mechanical Limited (BSEML), a wholly owned subsidiary of the Company, before the end of this Financial Year on a "going concern" basis at fair value estimated at about Rs 110.50 crore determined by an independent valuer. BSEML will discharge the consideration for the said transfer by issue and allotment of fully paid up equity shares to the Company. The Company intends to stay invested for a long term and grow this business. Further, BSEML will be suitably renamed to reflect the nature of its business.

The business is proposed to be subsidiarised at a fair value since this is a related party transaction. In addition, the settlement of consideration would happen through issuance of equity shares and not by way of cash as BSEML is a 100% subsidiary. Housed in an independent subsidiary, this investment is expected to be value accretive in the long term for Blue Star shareholders.

The leadership and management structure of Blue Star Electro-Mechanical Limited will be strengthened, and the Company is confident that this step will provide the necessary growth impetus for Professional Electronics and Industrial Systems business in order to capitalise on the impending opportunities.

## Business Highlights for Q3FY15

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

During Q3FY15, the market continued to be sluggish. While the macro-economic indicators are positive and the economic environment is conducive for growth, the revival of the commercial construction cycle is likely to take a few more quarters. Segments such as integrated commercial complexes, power and utility and healthcare witnessed some demand during the review period.

During the quarter, this segment registered a sharp drop in segment margins from 6.3% in Q3FY14 to 0.8% in the current quarter on account of closures of some legacy jobs and increased debtor provisioning. As indicated in the Q2FY15 update, the Company intends to aggressively close and / or make provisions in most of the legacy jobs in this fiscal in order to release the resources engaged in such projects so that it can focus on the imminent growth opportunities. While this will affect the overall profitability in the last quarter of this fiscal, it will be beneficial in the long-term when the growth revives. The Capital Employed in this segment decreased marginally from Rs 523 crore as on December 31, 2013 to Rs 514 crore as on December 31, 2014.

The order inflow in Q3FY15 for this segment declined 24% from Rs 349 crore to Rs 266 crore compared to the same period last year. Heavy Industrial, IT/ITES and malls/multiplexes contributed to over 75% of the orders booked during the quarter in terms of value. The Company chose to pursue only those orders with healthy margins and better terms of payment. The carry-forward order book for this segment stood at Rs 1320 crore as at December 31, 2014.

Earlier in the year, the Company appointed The Boston Consulting Group to develop a strategy and action plan for profitable growth of the projects business. The key objectives included identification of attractive customer segments, acquiring higher share of business from target customer segments, and developing a best-in-class delivery model. The strategic review is completed and the key elements of our strategy are: First, we will focus on profitable market segments within our core capability set of MEP projects in Buildings. Realizing that industrial projects are a key to stronger profitability, we will have a stronger focus on MEP projects in light & medium industries and on utilities related projects in heavy industries (Steel and Power). To drive scale, we will continue to have a strong focus on large infrastructure projects (government and private). Second, we will have a higher bar on selection of projects in likely unprofitable segments – like low specification residential projects, budget hotels, general contractor driven infra projects, etc. Third, we will focus on investing in stronger engineering capabilities to provide value-engineering solutions to our customers. Fourth, we have also identified multiple initiatives for stronger project management across projects. The projects business is being suitably reorganized to implement the new growth strategy and management is confident that we will regain our leadership position in the coming construction cycle.

On the central airconditioning equipment front, demand seemed to be picking up especially from the light commercial segment, though it may take a couple of more quarters for a full-fledged revival. While the ducted systems market continued to be muted during the quarter, the Company’s expansion in Tier 3/4 markets with this product category resulted in it maintaining its market leadership in this segment. VRF systems market grew by about 12% with several residential projects opting for VRFs. Blue Star offers both - the digital scroll and inverter-based systems in the VRF segment. It is also testing a new VRF range which encompasses all variable speed compressors called the ‘100%-Inverter VRF’. This product is expected to be commercially launched in the next quarter and will significantly strengthen the Company’s offerings in the VRF segment. The recently introduced new product line of free match inverter continues to meet with a positive response in the market place specifically amongst residential and light commercial segments.

**Segment II (Cooling Products)**

The room airconditioners industry continued to perform well growing by about 19% in value terms for the first 9 months of the year over the same period last year. The residential segment as well as the light commercial segments contributed to growth. The positive consumer sentiment during the festive season resulted in enhanced demand during the period. The inverter AC category picked up momentum during the quarter with several consumers opting for the same. While inverter ACs currently comprise 7% of the overall sales of room airconditioners in the industry, they are likely to comprise a quarter of the overall sales in a couple of years.

During the quarter, the Cooling Products segment of the Company registered a sharp increase in margins from 2.9% to 5.1% mainly due to stable foreign exchange and commodity prices. The Capital Employed decreased marginally from Rs 205 crore as on December 31, 2013 to Rs 193 crore as on December 31, 2014.

The room airconditioners business of the Company continued to perform well registering a healthy growth of 30% in value over the 9-month period in this fiscal thereby increasing its market share. Enhanced distribution reach and superior brand perception contributed to growth. Consumers perceive Blue Star as an expert and specialist in airconditioning and this differentiator has enabled the Company to perform better than the industry over the last few years.

As regards to the commercial refrigeration products business, the water cooler segment performed well owing to enhanced demand from the educational and manufacturing segments. During the quarter, the Company announced a collaboration with the leader in health and hygiene, Eureka Forbes to launch a range of Blue Star storage water coolers with in-built Aquaguard water purifiers. The market for pure drinking water has been on the rise with enhanced awareness about water-borne illnesses and the need for safe drinking water. Most water cooler customers have been combining the water cooler with an external water purification system to provide pure water. However, this solution has limitations, compromising the safety of water. The new integrated offering being launched comes from the stable of two experts – Blue Star and Eureka Forbes, which will reassure the customer as well as consumers of water that the water is absolutely pure, apart from chilled. The range will be available with both RO and UV filtration treatment options. The market for storage water coolers with in-built purification is in its nascent stage and is expected to grow with more and more consumers shifting to in-built purification to a total expected market value of about Rs 300 crore in FY18.

In the chest freezers business, there was significant demand from the ice-cream segment due to the extended summer coupled with the festive season. The market is showing a definite trend towards glass top machines especially in Tier 1 and 2 markets, as these aid in impulse purchases for ice cream and other frozen produce. The cold rooms business witnessed enhanced demand from the Quick Service Restaurants (QSR) and pharma segment. In the QSR segment, while several new chains such as Burger King, Sbarro and Wendys are making their entry into India, the established ones are aggressively expanding in Tier 3 and 4 markets.

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

The stable forex rate as well as the conducive economic environment resulted in enhanced demand for the products and services offered by this business. During the quarter, the segment registered an enhancement in margins from 12.9% to 18.8% over the same period last year. The Capital Employed as at December 31, 2014 declined to Rs 23 crore as compared to Rs 33 crore as on December 31, 2013.

In the healthcare systems business, the pharmaceutical segment contributed to growth. In the test and measuring instruments business, the newly launched product line of RF over Fiber (ROF) converters is finding lot of traction among customers in defence and PSUs due to its new and innovative concept. The data communications business performed impressively with substantial demand from the banking segment.

**Exports**

There are several drivers boosting the airconditioning market in the Middle East. Expo 2020 in the UAE as well as FIFA World Cup 2022 are anticipated to significantly enhance demand. With rapid change in the rules and regulations in the GCC countries such as Saudi Arabia and the UAE, the market for energy-efficient airconditioners is likely to increase. As regards to SAARC and ASEAN Regions, the market in countries such as Nepal, Bangladesh, Vietnam & Myanmar expected to grow with higher FDI.

In Q3FY15, the Product Exports business of Blue Star registered healthy growth. During the quarter, the Company received good inflow of orders in room airconditioners, water coolers, ducted systems and refrigeration products from OEM accounts and various distributors in UAE, Qatar, and Kuwait. It also received good orders from Maldives and Nepal. Blue Star products were showcased in Big 5, Middle-East’s largest international building and construction show held in November 2014 at Dubai World Trade Centre. The show, which witnessed participation from top consultants and contractors, offered an excellent opportunity to showcase the Company’s stellar range of products to this important and influential community.

**Outlook**

In conclusion, the economic environment is improving and the macro-economic indicators are encouraging. The residential and light commercial segments are registering healthy growth with enhanced spends by consumers. The commercial construction cycle is likely to revive in FY16 and the company intends to address its legacy projects through closures and/or provisions ahead of this. In order to leverage on the overall growth opportunities available, the Company plans to make prudent investments in manufacturing, marketing, product development as well as human resources in the next few quarters.

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

**Moderator:** Thank you very much. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Sonal Minhas from Saif Partners. Please go ahead.

**Sonal Minhas:** My first question is with regard to the MEP business. The company decided to write off some legacy orders. Were these orders closed? And second question is; what is the current outstanding order value of these legacy projects?

**Vir Advani:** We had about Rs. 125 crores of carry forward under legacy projects in September 2014. We brought that down to just under Rs 100 crores. So these are the closed jobs on which we have taken the provisions. As you all know, it is in line with our policy. We work to close out the jobs in the most effective and fast;est manner we can and then take the provision. We are trying everything we can to close the bulk of them in the current quarter which is Q4. And even if we are unable to close the legacy projects we may still chose to go ahead and make provisions in the current quarter in anticipation of trying to open next year on a better wicket.

**Sonal Minhas:** Vir just a follow-on question. We have closed around 25 crore worth of orders. If I look at your EBIT margin for the business between the same this quarter and last quarter there is a difference of around 20 odd crore. I want to know whether this difference can entirely be attributable to the orders which you closed by force or there is something else which leads to this 20 crore of dip in the margins?

**Vir Advani:** There are some provisions which we have taken for old debtors, which are sometimes unrelated to these. So there is debtor provisioning along with some margin erosion that we are taking on account of provisions on the jobs as we close them. So these are two different factors which have impacted EBIT.

**Sonal Minhas:** Got it. Second question was about your market share in the room AC segment. Could you or Mr. Thiagarajan probably just highlight the growth in the market share?

**B. Thiagarajan:** Our market share has grown from 7.5% to around 9%.

**Sonal Minhas:** And in terms of your ranking in the market, would you be at number 5 or 6 now?

**B. Thiagarajan:** So far for most of the months we were either at 5 or 6 except one month when we were at number 4.

**Moderator:** Thank you. Our next question is from the line of Anand Narayan from Kotak. Please go ahead.

**Anand Narayan:** My question pertains to the order book. You said about 100 crore of legacy orders are pending. In what range do you expect margins to be in the balance order book?

**Vir Advani:** The site margins in balance order book will be in the range of 10 and 13.

**Anand Narayan:** Okay. And if you can just give us the break-up of order book across various sectors?

**Vir Advani:** There is no substantial change than what we had shared in the previous quarter.

**Anand Narayan:** How much was the debt at the end December 2014?

**Vir Advani:** The debt has come down to Rs.402 crore.

**Moderator:** Thank you. Our next question is from the line of Gaurav Sanghavi from Bajaj Allianz. Please go ahead.

**Gaurav Sanghavi:** Sir, can you just throw some light on the cooling product segment? How much was the industry growth during the quarter and our growth rate in terms of volume?

**B. Thiagarajan:** Till YTD, the industry growth rate was 10% and our growth rate was 19% in terms of volume.

**Gaurav Sanghavi:** With an increase in excise duty by around 2%, does the company plan to hike prices?

**B. Thiagarajan:** It depends on the Union Budget. As of now we are not revising the prices at all. There are two reasons for the same. One is basically we are in the excise free location as of now. So whatever is the excise increase it is impacting only the counterveiling duty. Second you cannot revise the price now and again after seeing the Union Budget. The impact on us is anyways very minor.

**Moderator:** Thank you. Our next question is from the line of Nirav Vasa from Motilal Oswal Securities. Please go ahead.

**Nirav Vasa:** My question pertains to your Air-Conditioning business. Sir in the opening remarks you had referred that you are trying to grow this business very-very aggressively. So can I please request you to elaborate a bit more on this strategy? Whether you are trying to appoint new dealers or launching new products or exports to some nearby countries?

**B. Thiagarajan:** Very clearly our strategy is to improve the dealer productivity while the dealer expansion takes place. Number two, there are certain markets where our market share maybe much lower than the all India average. We would like to increase the same by introducing products meant for that particular region. And the third is the inverter room air conditioner segment which is growing segment. We will have quite a few new models and promotion associated with it.

**Nirav Vasa:** Sir you mentioned that you are focusing on dealer productivity. Is there any scope of expansion or appointment of new dealers across smaller countries Sri Lanka, Nepal, Bangladesh, or these areas?

**B. Thiagarajan:** Yes, one of the stated objectives in the opening remarks itself is to grow our international footprint which will be Middle East, North Africa, and SAARC countries.

**Nirav Vasa:** So any target you have in terms of appointing number of dealers or in terms of getting more percentage of volume?

**B. Thiagarajan:** In international markets it will be distributor per town rather than a dealer per town because in each of these markets you need to have a distributor.

**Moderator:** Thank you. Next question is from the line of Renjith Sivaram from Batlivala & Karani Securities. Please go ahead.

**Renjith Sivaram:** Have we reported such good margins for Cooling Products due to fall in commodity prices?

**B. Thiagarajan:** Yes.

**Renjith Sivaram:** Even though the sales of Cooling Products grew by 26%, the margins were at 5%. Is that due to higher ad spends or due to some other reason?

**B. Thiagarajan:** It was due to the third quarter being a lean quarter and an off-season for the industry.

**Renjith Sivaram:** The other expenses figure was also higher during the quarter. Was it due to FOREX impact or any other reason?

**Vir Advani:** Yes, the other expenses are up on two counts – one is higher debtor provisioning which is related to Segment I and the other is higher advertising spend related to the Products business.

**Renjith Sivaram:** And Sir, overall how do you see the order book panning out for the full year?

**Vir Advani:** As you can see, the order inflow has been very weak for the first nine months. For the quarter, it was actually one of the lowest order inflow quarters in a long time. We are not losing market share as there continues to be very few finalizations. It is just that enquiries are not getting finalized. I think Q4 will continue to see that. If maybe some positive decisions are taken during the budget we will see some movement in the first half of the next year. But as of now the order book is not strong. The only positive thing in our order book is that it has healthy margins and we are quite confident of executing and actually saving money in this execution because of the commodity prices easing off.

**Moderator:** Thank you. Next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

**Sanjeev Zarbade:** My question is regarding the Cooling Products division. I understand this segment has room ACs as well as refrigeration products and water coolers. So could we get some mix and growth in the two segments during the quarter?

**B. Thiagarajan:** Room air-conditioners constitute 70% and the balance is refrigeration products and systems.

**Sanjeev Zarbade:** Okay. And the outlook for the other segment, that is the refrigeration.

**B. Thiagarajan:** The segment is growing well, specifically the deep freezers. The market is growing and we are also growing, but still it is a small base. It is yet to reach any kind of a scale. The good news is that we are the market leaders. And there is other product also – the storage water coolers. There again we are the market leaders.

**Sanjeev Zarbade:** Okay. Do you see the competitors who don’t have their plants in excise duty zones increasing their prices which may possibly take the overall prices up and which in turn will benefit us?

**B. Thiagarajan:** Whosoever is in the excise location, the impact of withdrawal of excise duty will be on the assessable value - in other words MRP applied with the abatement. In our case it will affect the input cost of the material because we are in an excise-free location. So the impact to all will be more or less the same, in our case it may be lower. The reason why no one is raising the price is because the exchange rate has been stable, commodity prices have been stable, and for all the players the margins have been good. If GST is introduced in the forthcoming Budget session, there will definitely be a hike because at this rate the GST applicability will become an issue. So people will wait for and do that, this is the second reason.

**Moderator:** Thank you. Next question is from the line of Pranav Gokhale from Religare Invesco. Please go ahead.

**Pranav Gokhale:** If I heard you right, you are also thinking of entering into SAARC countries, Middle East and North Africa. Is there a significant change in the energy ratings in these countries versus in India? And if so, will the product profile or something change because I believe the average EER in India is close to 2.7 versus some other countries.

**B. Thiagarajan:** By and large, India’s rating is higher than most countries. UAE and Saudi Arabia are also trying to make it higher than Indian EER rating. So it is no longer an issue as Indian companies would have mastered it and we too have. The only issue will be pricing which will be higher.

**Pranav Gokhale:** Sir the other question is in terms of the room ACs only. In terms of product positioning, as you enter or try to increase market share, is there some specific product range where you could be strong which in turn will help you? For example, you could be strong in 5 Star versus a 3 Star AC or an inverter AC versus a non-inverter AC. Does this kind of product differentiation actually help you versus the peers?

**B. Thiagarajan:** That is also one particular thing but it is not the main thing. Everything has to work – the product, pricing, distribution, positioning, advertising, and promotion. Very clearly in our case, we have gained market share every year i.e. we grew better than the market, number one. Number two is that as regards to all India market share, there will be markets in which we will be weaker due to distribution or due to pricing or due to promotion. It can be very easily addressed; of course it will require efforts to make it happen.

**Moderator:** Thank you. Our next question is from the line of Alok Ramachandran from SBI CAP Securities. Please go ahead.

**Alok Ramachandran:** Can you please share the exact amount on the write-off debtors?

**Vir Advani:** The drop of Rs.20 crore in operating profit is partly on account of debtor provisioning and partly on account of cost increase in closed jobs. The cost increase on closed jobs goes into gross margin and cost of sales but not in the other expenses. The other expenses in the company have gone up by about 15 crore which is partly to do with advertising and partly to do with debtor provisioning. So I am just trying to explain to you that further the cost increase is related to the 125 crore dropping to 100 crore. But the debtor provisioning is not necessarily related to that because the debtor provisioning is based on aging. It could be on other jobs that have come up for provisions.

**Alok Ramachandran:** Okay. So this can be also be linked to the Rs.1412 crore of the order book. Is that the right way to look at it in that sense?

**Vir Advani:** So debtor provisioning is obviously on the billing that we had done, say 2 years ago. It will not be in the existing order book. It will be on old billing and will be on capital employed, it will be as a debtor outstanding which we are prudent about on providing based on some internal benchmarks that we have. So even if debtor is collectable, we will still provide for it aggressively keeping in mind the customers and the cash flow situation in the market. As far as the other expenses of the company are concerned, it is actually made up of multiple things like I said, even our AMC cost related to that is shown there now as our AMC business has grown. Similarly advertising has grown because the business volume has grown in products. So the other expenses growing by that is not the issue, I was just making the point in relation to the segment results of it.

**Alok Ramachandran:** The company was expecting to close all legacy projects during this year. Do you still expect the same or there are some changes in the expectation? Also earlier in the call you mentioned that the new order book has a site margins in the range of 10%-13%. Will that translate into EBIT margins of 8%?

**Vir Advani:** As we said we are trying to close out this 100 crore in Q4. In case we are not able to close the projects, we may still go ahead and make cost provisions in them keeping in mind that closure may get delayed. So that is planned to be done in Q4.

As far as the future profitability of Segment-I goes, what I have explained is Segment-I is made up of Projects and Products. The Projects business is meant to run at 10% to 13% site margin and EBIT level or the operating profit level of about 5% or so. The Product business runs at higher margins and hence a higher operating profit. The aggregate of those two should lead us back to that 8%.

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

**Ankit Fitkariwala:** My question is related to the Segment-I again. The new orders are getting booked and I understand that you expect to execute the same at 10% to 13% site margins. Is the pricing improving?

**Vir Advani:** No, the pricing is not improving. In fact the volumes have come down. Because we are not able to book enough business at the margins that we want, we are booking at about 10% or so.

**Ankit Fitkariwala:** Any guidance for margins in Cooling Products segment going forward?

**B. Thiagarajan:** Between 10% and 11%.

**Moderator:** Thank you. Next question is from the line of Peeyush Mittal from Templeton. Please go ahead.

**Peeyush Mittal:** I was just going through the explanation for the Segment-I margins and you had given two different reasons, one being some impact on the gross margins and the other being debtor provisioning. Is it possible to quantify those two independently?

**Vir Advani:** I don’t have the exact number but I think it is roughly 50-50.

**Peeyush Mittal:** Now, given that you have closed out 25 crore of legacy orders in the quarter as against possibly say 7.5 to 10 crore, do you expect the impact to be the same in percentage terms on the remaining order book which has issues?

**Vir Advani:** It is difficult to answer. Each project is sort of specific because it is specific negotiation with a particular customer on a particular project. So on some it could be no impact, on some it could be a large impact. We won’t be able to quantify it right now. But we are trying to minimize it of course and whatever it is we are going to try and take it by March.

**Peeyush Mittal:** If I may get a guess from you, is it the overall hit under 25 crore, is it between 25 to 50 crore?

**Vir Advani:** I am sorry, I am not able to apprise you on that.

**Moderator:** Thank you. Our next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

**Chirag Setalvad:** Could you tell us for the nine-month period what is the impact of closing of full orders on your gross margin in rupee terms and also the total write-off of debtors?

**Vir Advani:** I don’t have that here, what we can do is we can pull that out and then share it with you all. Let me do that, I don’t have that ready here. You want the provisioning that we have done?

**Chirag Setalvad:** Both for closing of old orders as well as for debtors for the nine-month period.

**Vir Advani:** Yes, let me get that, we are going to get that. Let me share that with you.

**Moderator:** Thank you, that was the last question. I now hand the floor back to Mr. Vir Advani for closing comments. Thank you and over to you sir.

**Vir Advani:** Thank you very much everyone. On that note we will close the call. If you have any further questions do send us an email and otherwise we will meet you at the next event. Thanks again.

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