"Blue Star Limited Q1 FY 2014 Results Conference Call"

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Moderator Ladies and gentlemen good day and welcome to the Blue Star Q1 FY14 Results Conference Call. As a reminder for the duration of the conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call you may signal for an operator by pressing * and then 0 on your Touchtone telephone. Please note this conference is being recorded. I would now like to hand the conference over to Mr. Vir Advani, President, Electro Mechanical Projects Group & Executive Director. Thank you and over to you, Sir.

Vir Advani Thank you. Good morning ladies and gentlemen, this is Vir Advani. My colleague, Mr Thiagarajan, will not be joining us on the call today as he is traveling out of the country on business. I will be giving you an overview of the results for Blue Star Limited for the quarter ended June 30, 2013.

The following are the financial highlights of the Company for the *quarter (Q1FY14)*

- The company reported a Total Operating Income of Rs 770.82 crore for the quarter ended June 30, 2013, as compared to Rs 731.42 crore in Q1FY13, representing an increase of 5%.

- The Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter increased by 15% to Rs 38.42 crore from Rs 33.53 crore in Q1FY13.

- During the quarter, Other Income declined 38% to Rs 4.38 crore as compared to Rs 7.01 crore during the same period last year, due to lower foreign exchange gains.

  The Financial Expenses for the quarter declined marginally by 7% to Rs 11.70 crore from Rs 12.53 crore in Q1FY13 due to a reduction in interest cost as a result of lower borrowing, which was partly offset by higher foreign exchange costs.

- Consequently, Net Profit grew by 11% from Rs 20.54 crore in Q1FY13 to Rs 22.77 crore during the quarter.

- The Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 2.53 vis-à-vis Rs 2.28 in the corresponding quarter of the previous year.

- The Carry Forward Order Book as on June 30, 2013 stood at Rs 1438 crore compared to Rs 1418 crore as on March 31, 2013 with an order inflow of Rs. 791 crore in Q1FY14. The comparison of the order book with Q1FY13 is not relevant as we had de-booked a significant number of jobs in Q2FY13.

I will now go through the general outlook of each segment that we are operating in for Q1FY14, followed by specifics of our performance in each of these segments:

General Outlook for the Segments:

Segment I

The macro-economic environment continues to be challenging for electro-mechanical projects. The market was sluggish in terms of new enquiry generation, order finalization and a liquidity crunch. However, there has been some improvement in demand from the Hotel, Hospital /Healthcare and Industrial Segments.

At an aggregate level, the Central plant market continues to be flat, the ducted AC market has de-grown by around 5% . The only segment that has shown some growth this quarter is VRF, which has grown by 15%.

Segment II

The Room AC Industry witnessed good growth during the quarter. After two consecutive soft summers, Q1FY14 witnessed a healthy summer for two months of April and May'13. This provided the much needed momentum to the Industry. However, the early rains in June have slowed down the overall growth and the market is expected to have grown by around 15% in volume terms this quarter.

There is an increased shift towards Split ACs and Inverter Split ACs. Higher Star Rated ACs is preferred in both Window ACs and Split ACs. As always, the Household / Residential segments were the top performing segment in Q1FY14 followed by the Light Commercial Segment.

Going forward, the input cost increases due to run away depreciation of the Indian Rupee is a major challenge. This may result in a price increases in the Industry resulting in contraction in demand in Q2FY14.

The demand in the Commercial Refrigeration business is stable. While the Freezer market has grown in excess of 20%, the Water cooler market grew by 9% in this quarter. The major segments contributing to business were ice cream, dairy, industrial and educational institutions. However, going forward, the appreciation of the dollar may impact the pricing of imported products in the Commercial refrigeration business.

In Cold storage products, the traditional segments of Pharma, Fast Food & Restaurants, Ice cream, Banana ripening and Fruits & Vegetables storages continue to fetch good business opportunities. In addition, we have also seen good business in the food processing segment and the company has picked up several orders from poultry, Marine and Fruits & Vegetables segments.

Segment III

The demand for hi-technology imported equipment has been impacted by the appreciation of the dollar. As in the past, it will take a couple of quarters for budgets to be reset before demand resumes for these products.

The capex finalization and Government spending in core industrial segments particularly Steel, Mines and Metals and Oil & Gas continued to be extremely sluggish in Q1FY14.

Our Performance for Q1FY14:

Segment I

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 44% of the total revenues in the quarter, declined 7%, while segment results registered a significant increase of 63% to Rs 20.16 crore.

The margin of 5.9% in Segment 1, was higher than the preceding four quarters. While we have indicated a gradual improvement of margins in FY14, the Q1FY14 results were ahead of plan on account of unexpected delays in closing some older low-margin projects in the quarter.

The Capital Employed in the business stood at Rs. 466 crore as of June 2013 rising significantly from Rs 400 crore on March 31, 2013. The increase in this quarter is primarily on account of increase in inventory levels in our equipment business and a drop in collections as liquidity is getting tighter.

The Order inflow in Q1FY14 has been flat in the Electro-Mechanical Projects business. We continued our strategy of being selective in booking orders while adhering to more stringent margin and commercial term guidelines.

For the Central AC products business, despite the overall sluggishness, we have witnessed some demand from the Industrial, Pharma and Hospital sectors in this quarter.

Our Packaged AC business continues to hold a leadership position with a majority market share in ducted systems and a gradually improving market share in VRF systems. In Q1, the Ducted Systems business was flat, while revenues grew significantly in VRF systems. The top performing segments for the quarter were Offices, Banks and Hospitals.

Some of the major orders won by Blue Star during the quarter in Segment 1 are

Electro-mechanical Projects: PIU Hospital (Government of Gujarat) - Gandhinagar, JSW - Mumbai, IBM - Bengaluru, Apollo Hospitals - Bengaluru, El DuPont - Hyderabad, Shiv Nadar University -Dadri, Jaypee Klassic Towers - Noida, IREO-SKYON – Gurgaon.

Packaged AC Sytems: Hartron Communications - Vizag, Gujarat High Court - Gandhi Nagar, Andhra Pradesh Health and Medical Institute Development Corporation – Hyderabad.

Central AC Products: Laurus Labs - Vizag, Wockhardt Pharma - Aurangabad, Garware - Aurangabad, Accuprint - Mumbai, Phoenix Mall - Chennai, Steria India Ltd. - Chennai, Romell Real Estate - Mumbai

Segment II

In the Cooling Products segment, revenue registered a growth of 19% in the quarter while segment results grew by 13% to Rs 42.31 crore over the same period.

Our Room air-conditioner business posted a strong growth of 27 % and we have improved our market share by around 1% in both number and value terms. This was primarily due to better stock availability, good channel coverage, competitive pricing and increased product range with colour options. The margins for this business held in Q1FY14, as compared to Q1FY13.

For Refrigeration products and systems the demand has typically come from Pharma, Ice cream and dairy segments, Hotels and restaurants, Institutions, Industrial and Office segments. The margins for this business were down in Q1FY14 owing to increasing competition, price challenges and the company's re-entry into National Accounts business where margins are comparatively lower.

Going forward, the company will continue its efforts to increase market share in both Room AC and Refrigeration business through initiatives like channel expansion, focus on the light commercial segment and by increasing visibility through advertising.

The Capital Employed in Segment 2 decreased significantly from Rs 220 crore as on March 31, 2013 to Rs 130 crore as on June 30, 2013. This is primarily due to decrease in inventory levels as a result of strong summer sales and a reduction in receivables.

Segment III

In the Professional Electronics and Industrial Systems , revenue increased by a modest 4%, while segment results declined 53% to Rs 3.37 crore, owing to the unfavourable business climate.

As you are aware, Segment III consists mainly of three components namely a) Agency business, b) System Integration business and c) Industrial Projects business.

The Agency business in Q1FY14 was lower vis-a-vis Q1FY13 due to the negative impact created by the appreciating dollar.

The System Integration business, after having a steady FY13, is showing signs of slowing down due to lack of capital expenditure in the light and medium industrial market.

As we have already spoken earlier, the order inflow for the industrial Projects business has reduced significantly on account of poor demand in core metallurgical, Oil & Gas and Power industries. This has led to lower billing and thereby affected the profitability.

Outlook

The corrective steps taken in the previous year are showing results. The company continued its profitable growth in the first quarter through efforts on driving margins, implementing prudent booking guidelines specifically in Segment 1, and by focusing on profitable market segments, entering new markets and geographies through wider distribution and by implementing effective cost control initiatives in segment 2.

While the electro mechanical projects business will continue to be under pressure in FY14 due to the challenging and uncertain business environment, the cooling products business is likely to face challenging times owing to the appreciation of the dollar. However, the company intends to continue its focus on channel expansion and other initiatives related to cost control and prudent financial management in order to sustain this performance for the rest of the year.

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. I will try and answer as many questions as we can. To the extent I'm unable to, I will get back to you via e-mail. With that, we are open for questions.

Moderator Thank you very much, sir. Participants, we will begin the Question & Answer Session. We have our first question from the line of Aditya Bhartia from Espirito Santo. Please go ahead.

Aditya Bhartia Are you seeing any improvement in the competitive intensity in the project business? What could be the kind of EBITDA margin from some of the recent orders that you have got?

Vir Advani We think the pricing in the market has become little more stable. Having said that, we are still seeing some projects going at low prices. But we are not seeing huge swings in the pricing or the terms in general. Our requirement is higher than the average market and so we may not be seeing finalization of orders in many cases because we may be dropping off earlier than others.

Aditya Bhartia And how are the working capital terms? As in are you continuing to see customers delaying payments and customer advances coming down?

Vir Advani The capital employed situation in projects business is not good right now. As you can see, it has gone up in the last year. But we are trying to control it by managing the business more tightly. Even on the newer running jobs, the jobs which we started in the last one year, we are seeing slow down in payments.

Aditya Bhartia Has Blue Star taken any price hike in the room AC business in the first quarter?

Vir Advani Yes. We took a price hike of 6% post rupee depreciation. This was of course done just after the main season because the rains had started and also our stock levels were at an all time low. So we have not actually experienced the down side of that in this quarter but we are little cautious about the rest of the year given these price increases.

Moderator We will take the next question from the line of Ruchi Vora from UBS. Please go ahead.

Ruchi Vora My question is on the Segment-1. We just wanted your perspective in terms of the current order book. We have obviously been very selective in taking orders. Where do we see our revenue growth heading for FY14? In terms of margins, could you touch up on what percentage of the order book is the legacy order and hence what is the kind of trajectory of margins that we see or let us say what period do we come back to targeted normalized margins?

Vir Advani The revenue will be lower this year than last on account of low order inflow. I do not know whether it will be down about 7%-10% over the prior year. As far as the margins are concerned, we had indicated that on an aggregate level we were expecting margins to improve to around 7% from about 5.5% in the last year. We are still on track to do that and in this particular quarter it has been higher.

Ruchi Vora Is there a minimum threshold order book that you would like to maintain for the first segment which is essential to cover your fixed costs?

Vir Advani We do not have any such concept. Actually we have dropped that idea because I think it is counterproductive in today's market. I think the demand on us is to actually cut our costs rather than trying to keep some minimum amount. We had initiated a significant cost reduction plan in Segment-1 at the beginning of the year. Once that downsizing is done, we will begin to see the benefit probably from Q3 onwards on the operating cost side. So that action has already been taken. We are presuming the order book or the inflow target that we have for the year is reasonable and then we plan this operating cost reduction based on that order inflow. But again if we are not seeing adequate orders at decent terms even to meet that number then rather than booking that business we will actually cut the cost further.

Moderator Thank you, sir. We have our next question from the line of Sonal Minhas from Saif Partners. Please go ahead.

Sonal Minhas My question on the capital employed for the first segment. It is around Rs. 466 crore. You have mentioned that the inventory levels and the debtor collection cycle are little weak. Are you seeing some debtors becoming bad and been provisioned during the period or it is pretty much the same?

Vir Advani Our capital employed in segment one is high. There are two reasons. One is on the equipment business we have got higher inventory levels than we wanted. So there is nothing bad and it is just about moving, it is not dead stock or anything. We have too many configurations probably and not everything is moving simultaneously. So I will say that that is not a major concern as of now. On the debtor side, in the projects business clearly the debtor level is no worse than it was last year. Actually in Q1 what happened is that we paid out faster than we brought money in. So the debtor level is the same but on a lower revenue base. So from an aging and quality point of view, it is marginally worse off. So it is a concern to us, we are providing, we do a statistical provision of these debtors anyway which is built in to the numbers. We have also cleaned up our debtors significantly in the last two financial years. We are anticipating that while there is a regular clean up that goes on the current level of statistical provisioning, it should adequately cover current year and there should not be any surprises on that front in the book this year.

Sonal Minhas How MEP orders are reviewed? So is it that above the cut off point, most of the new projects that come go through you or the team of 5 people who are like the risk managers of a particular project or is there a screening committee of people who say yes, the margins are fine this kind of asset to return is fine? Is that how it has been followed now?

Vir Advani We have a very thorough internal process put in place last year. There are thresholds of approvals. So at a regional level they get to approve certain size of projects and beyond a certain value they come to me for approval. Then we also have the next level where we have a management council and finally the large value projects go to our directors committee. Each of these whether it goes to a director's committee, management committee or to me depending on the value it is usually passed through a task force that reads costing as well as checks the term. So we have put in a fairly rigorous process in place.

Moderator Thank you, sir. We have our next question from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal Of the total Rs. 1000 crore business, room AC should be around Rs. 700 crore?

Vir Advani No, I think last year we did about Rs. 550 crore of room air-conditioners.

Madan Gopal So the Rs. 450 crore between commercial refrigeration and cold storage?

Vir Advani Yes correct.

Madan Gopal So how will they be of the remaining Rs. 450 crore equal, in each of them or one of them?

Vir Advani No, the refrigeration products business is the second largest. Cold storage is the third. Again cold storage business may be about Rs. 100 plus crore and the rest is refrigeration.

Madan Gopal And between these three categories margins are better in which segment?

Vir Advani Between these three, the cold storage margins are very much the highest. They could actually be the highest in the company but it is a small business obviously. Between room air-conditioners and refrigeration products is more or less the same.

Madan Gopal Sir, can you give the size of this cold storage market and what is the kind of market share we have over the other key players in this space?

Vir Advani Cold storage market is around Rs. 700-800 crore. Half of it is organized; the other half of it is unorganized. We operate in the organized market where we have some 25% -28% market share.

Madan Gopal You were very positive on this market in your initial comment. This market is growing that is what you were saying, right?

Vir Advani Yes. The market continues to grow but you can see it is a very small market for us. The room air-conditioner market is 15 times the size. So unfortunately it is not a large market but we continue to believe that there is a long term prospect for it. In the mean time I think the refrigeration products business is actually a larger market growing as well. So probably in order of priority right now room air-conditioners is the first, refrigeration products is second, and cold storages is the third.

Madan Gopal In commercial refrigeration what kind of market share you might be having?

Vir Advani In commercial refrigeration, in the organized market we have about 25%-28%.

Madan Gopal Okay, you are talking about commercial refrigeration; I thought it is cold storage.

Vir Advani Cold storage is 25% to 28%. As far as refrigeration products are concerned there are many categories so it is difficult to give you a market share. There has been freezers, coolers, bottled water dispensers etc. So depending on the segment our market share ranges somewhere between 15% and 30% depending on the segment.

Moderator Thank you. Our next is from the line of Sanjaya Satapathy from Merrill Lynch. Please go ahead.

Sanjaya Satapathy Can you just give us some idea as to your order backlog, in that how much would be hospitals, hotels and some of those segments which are seeing growth?

Vir Advani It should be somewhere around Rs. 250 crore.

Sanjaya Satapathy And this is the segment which is really growing?

Vir Advani The market was growing. We are actually not a very big player in hotels because we do not like that business. We are a big player in hospitals and that market is growing. But the hospital segment itself is relatively still small in India. We expected it to grow over the next 5 years.

Sanjaya Satapathy If you say hospital does that include this pharmaceutical industry and everything?

Vir Advani No, this is purely hospitals. We separate our Pharma and all comes under industrial for us. So industrial air-conditioning, industrial refrigeration is actually a different segment for us.

Sanjaya Satapathy And in that which are the segments which are growing? Can you give us some flavor on that?

Vir Advani As I mentioned in my opening remark, industrial is doing quite badly. We are exposed to industrial in various aspects of our business. First is in our Segment-1 we do air-conditioning and ventilation projects for heavy industrial application like steel and power generation etc, where there is relatively no movement either in new enquiries nor in running jobs. The next place where this matters is down in Segment-3 where we have two of our businesses, one is our testing machines business which is catering to light and medium industry which is automotive and down. There again for the first time after a long time we are witnessing some soft demand. Now finally our industrial projects business, which is also in Segment-3 that has mechanical contracting work in steel, oil & gas segment. There again while running projects are moving and hence we are seeing billing happening on carry forward ,there is absolutely no new order / enquiry generation happening. So you can see across the board, industrial growth is very low. We are seeing some amount of industrial revamp business so that is upgrading the existing facilities.

May be there is some opportunity but as a percentage of total as very small.

Sanjaya Satapathy Sir, my last question is relating to your room AC business. You said that April and May were good and overall market grew some 15% in quarter 1. Can you give us a sense of what the year looks like because for this early monsoon, etc.?

Vir Advani I will just clarify. The early monsoon is not really the problem. The main problem is the dollar appreciation and the reason is that a bulk of the businesses imported is not fully imported but definitely components come in. In our case we do more components import and some others do more CDU import. So either way the imports are much higher than the domestic value adds. And with the dollar moving in the way it has, cost has shot up. We have increased our prices; some others have also increased prices. Obviously there is elasticity to this demand. We are concerned that the price increased while the consumer will absorb it we may not get the volume that we wanted. So usually what happens is that the summer growth rate, so in this case it was 15%, In the usual year that 15% will carry through the year and you can presume that you have a 15% growth in the volume. This year we are not feeling the same confidence, we are seeing a 15% summer opening will not result in a 15% closing for the year, which basically means that the rest of the quarters in the current yea,r the volume will be actually lower than last year. So net-net it will still be a positive year overall growth over FY13 but it will not be 15%.

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

Nirav Vasa Sir, my query pertains to your manpower cost. If I am not wrong sir, there was some restructuring which was done for the manpower. But if I see your 1QFY14 manpower cost it is almost up 10% of Y-on-Y. So

I just wanted to get some clarity and guidance on your manpower cost for FY14?

Vir Advani Sure. So you are right. The first is we have done some restructuring in April-May. That result obviously does not hit immediately in fact what happens is that temporarily the short term cost goes up because of separation cost, etc., we are expecting that benefit to come in from September-October onwards that is on track already. So that we will see in the second half. Having said that obviously there is some manpower reduction clearly. In Q1 in particular this 10% is actually not like-to-like because we had some provisioning of last year which came in to this year. So it is not really like-to-like, if I pull out that excess of last year in to this year you will see that we see the employee cost increase of around 3%- 4%. So it is not as high as 10. So that is point number one. Second is that the initiative taken in Q1 will benefit us in Q3. But having said all that we are due to give increments in the coming month or so which will obviously impact the future cost for the company. So our aim this year is to contain the employee cost at the same level as last year. It is a challenge very clearly but we have taken it internally to see how to manage that. We will have a better idea of it in mid year I think.

Nirav Vasa Sir, my second query pertains to your strategy. What my understanding is that the maximum capex which is happening right now is mainly from the public sector units and these are the areas where the competitive intensity is to ease the maximum because we only prefer the lowest price bid. So under these circumstances you have been mentioning in earlier calls as well that you are focusing on tender terms which are favorable to you. How do you think the growth prospects are going to be for you?

Vir Advani So you can see from the order inflows as well as the order book that there is a decline and that is a result of us taking certain decisions as well as the market being down, very clearly with these kind of decisions we are taking, government business is much harder to come by because of the L1 syndrome. So we have not actually seen too much order inflow from government or PSUs frankly in the last six months or so. And I do not know, people keep saying there is money there but I have not really seen too much money even in the PSU Government jobs that we had booked prior to last year which we were executing right now. Money continues to be a struggle there as well. We are looking at segments where there is some cash flow and where there are decent customers. But very clearly it is a struggle to find good business in the market right now.

Nirav Vasa So effectively what way if my understanding is right once your financial position is improving then your aggression towards government business might improve? Am I right on it or the terms which you have set right now that is for getting new business in a project business would continue even when the times are good?

Vir Advani No, absolutely they will only keep getting more stringent because as the market opens up we will increase our threshold. So as the market improves we will increase the threshold we will not drop them.

Moderator Thank you. Our next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chheda So my question is that you gave the backlog breakup at Rs. 1200 crore for projects so the balance Rs. 200 crore should it be linked to products and linked to commercial refrigeration, packaged air-conditioners and others?

Vir Advani I think largely in Segment-1. I think it is in VRF, chillers, etc. So our central air-conditioning products are also there and there will be some cold storage carry forward. So cold storage there will be a little bit and central air-conditioning will be the rest.

Pritesh Chheda Second, for the Segment-1 you gave some qualitative comments and directions on the market growth rates for central plant ducted and VRF. If you could just tell what was the chillers market growth, number one and number two, the overall ordering pace in the Segment-1 how would have that been for the overall market?

Vir Advani I think I have answered both but I will go again. What I call central plant is actually the chiller business. So central plant market is flat. As far as the projects business is concerned, our projects order inflow is flat over last year and slightly higher than Q4 of this year. But that I do not think is any trend per se. It is best way running flat over last year.

Pritesh Chheda So since the chillers market was flat, is it safe to assume that the projects market should also be flat?

Vir Advani Yes, that is what I said. The project market is flat. Unlike last year where we were loosing market share in our projects business because we were reeling under some other issues. This year we do not have that issue. Our market share or order enquiry conversion rate is roughly where we want it to be, it is just that the absolute market is not growing. So we are growing in line with the market.

Pritesh Chheda And my last question is your sense of the market growth in projects for this year?

Vir Advani I think last year was roughly flat over the prior year. I say the same thing this year when although having said that **we are** marginally lower because I think this most recent July events has really got us concerned. The enquiries of projects that were meant to be finalized in July-August and now already people are talking about September-October. So I am getting a sense that this leads up to election and all that is going to put some strain. So actually order finalization will be lower than last year. We are still expecting our order inflow to be slightly higher than last year because we are a lot more in the market this year compared to last year. So relatively we will do a little better than last year but as in the market may actually be down.

Pritesh Chheda Ok. Is there a reduction on your debt?

Vir Advani Yes. It is lower by Rs. 25 crore.

Moderator Thank you. Our next question is from the line of Ananth Narayan form Kotak. Please go ahead.

Ananth Narayan What is your view on the debt levels that will be there in half year and the full year for this FY14?

Vir Advani We are down about Rs. 25 crore right now. I think I have stated our intension this year to bring it down by Rs. 75 crore. It is challenging very clearly.

Ananth Narayan Because you mentioned that you are facing liquidity constraints now.

Vir Advani Yes. We open the year with this target.

Ananth Narayan So that will be around Rs. 300 crore. Last year was around Rs. 375 crore. So it will be around Rs. 300 crore.

Vir Advani Yes. So our internal target was Rs. 300 crore. We have not changed the target but it is looking harder and harder to achieve. So we will see how we are doing. Mid-year again we may reset that expectation. As of now we have not changed it.

Ananth Narayan And what is your hedging strategy sir, as of now? How much do we hedge?

Vir Advani We were hedged 85%. We are now up to 90% I think. We will continue to do that for the time being.

Ananth Narayan This is of the net profit exposure or the imports only?

Vir Advani This is our net.

Moderator Thank you. Our next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

Ranjit Shivram In the interest cost you have mentioned there is an element of FOREX, can you quantify how much was that?

Vir Advani No, I do not have it. All I can tell you is that our borrowing any buyers' credit we have is fully hedged. So it is a fully hedged borrowing in any case.

Ranjit Shivram In your annual report, under other expenses you have this AMC subcontracting cost which has gone up for 2013. So is that right in your understanding that this is pertaining to the legacy orders which we had to take some hit? Will this come down going forward?

Vir Advani No, this is related to our service business so as our service business grows this amount will actually keep increasing. It is basically a genuine cost. It is a running cost of delivering an annual maintenance contract.

Ranjit Shivram Okay, so this was a substantial amount in our other expenses so this will continue to grow?

Vir Advani Yes, it will. At about 5% to 10% a year it should continue to grow.

Ranjit Shivram And order intake figure is Rs. 790 crore for Q1, right?

Vir Advani Correct.

Ranjit Shivram And for the full year you are expecting flattish kind of order in take for FY14?

Vir Advani Yes more or less.

Moderator Thank you. Our next question is from the line of Sheetal Bondre from ICICI Bank. Please go ahead.

Sheetal Bondre Sir, I just have two questions, in your order inflow. You said the Rs. 791 crore is your order inflow. So how you will define the margins on it? Like previously in 2012 you had a zero margin projects also, 5% margin project also. So I just want to know the bifurcation of this order book of Rs. 791 crore of order inflow?

Vir Advani So I will clarify Rs. 791 crore is order inflow not order book. The order inflow I have mentioned is at around an average margin of about 11% to 12%. As far as the order book is concerned I mentioned to an earlier caller that please refer to our Q4 opening remarks you will get the break up there. It has not changed substantially and actually I do not have that in front of me.

Sheetal Bondre In your finance cost you have written that apart from bank charges there are some exchange difference on a borrowing net figure. When you say your buyers' credit and everything is hedged around 90% so I just want to understand what this exactly accounts for, like exchange difference on the borrowings in your annual report?

Vir Advani They basically are hedging costs.

Moderator Thank you. Our next question is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.

Kirti Dalvi In your annual report you have mentioned this Forex related expenses and interest cost on almost Rs. 22.5 crore. Everything is mark-to-market or is that the actual cash flow amount**?**

Vir Advani No, that is mark-to-market.

Kirti Dalvi And second question, what are the sustainable margins we see in our Segment-3 given you are saying that 90% is hedged but our margins have not impacted that much in the first quarter in the cooling products. So where do we see the full year margins in this segment, sir?

Vir Advani You are talking about segment two, right?

Kirti Dalvi Yes, the cooling products.

Vir Advani So frankly like you have seen where we were largely hedged in Q1 we did not see that impact and in fact the margins have been held. Our concern actually going through the rest of the year is more on volume and less on margin because this price increase is partially taking care of the margin issue but what impact will have on demand is what they are more concerned about. So the operating margin in segment two will actually be driven more in my opinion by the volume that we managed to do in the rest of the 9 months. Very early right now because you also know it is a lowest point of demand right now because it is the monsoon. So even looking at the demand in the last 3 weeks will not give us any indications for the rest of the year. So the new prices are in the market how they are being reacted to we do not know simply because no one is buying in any case right now. So it is only once we come out of the monsoon if these new prices are there we will see actually how the demand goes. May be in the next call we will have a better sense of what the year will end like.

Kirti Dalvi And sir, what was your consol order inflow in FY13?

Vir Advani Our subsidiary has a carry forward of about Rs. 140 crore and add that on and they had order inflow of about I think Rs. 25 crore or Rs. 30 crore if I am not mistaken. I will just answer that prior one you wanted to know the total order inflow in FY13 that was Rs. 2571 crore in FY13 in BlueStar Limited and in the subsidiary I think it was about Rs. 90 crore, so it is about Rs. 2650 crore to Rs. 2660 crore is the total inflow.

Moderator We have our next question from the line of Ruchi Vora from UBS. Please go ahead.

Ruchi Vora Actually on your last answer on the order inflow do we use the total revenues to calculate the order inflow? What will be the order inflow just in the projects business?

Vir Advani The carry forward usually has about 80% but obviously the order inflow includes all the business coming through. So if you want to know order inflow for our projects business in particular last year is about I think Rs. 1100 crore or something.

Ruchi Vora And what you are effectively saying is that because last year you were not in the market as much as this year your order inflow could be higher?

Vir Advani Yeah, it should be a little higher. We are hoping it will be about 10% to 15% higher.

Ruchi Vora Okay, my question was on the competitive nature of the market; can you just highlight what the size of the market, organized, unorganized and who are the key players in terms of the projects business today?

Vir Advani The project continues to be Voltas, ETA, Sterling Wilson these are the three large organized players. There are some regional players. Every region has a couple of them. These would be companies may be say Rs. 100 crore to Rs. 200 crore in size so they also add on and then there are a large number of small contractors which I have talked about earlier where we were operating in the sub Rs. 5 crore or Rs. 3 crore projects market. So we are out of that sub Rs. 5 crore markets we do not track it any more. So I do not know what is happening there in terms in pricing, etc.

Ruchi Vora What is the size of the organized market let us say in FY13, would you have any numbers?

Vir Advani No, I think last year, if I am not mistaken, it will be in about Rs. 6,000 crore or so.

Ruchi Vora That is the organized market you are saying?

Vir Advani Yes. In contracting, unorganized is relatively smaller, and by organized I just do not mean four of us. I mean the regional players, etc., as well. So just amongst the four of us it will be obviously no more than may be 60% to 65% of that.

Ruchi Vora And just my last question on your sensitivity of margins, let us say if there is a positive movement on commodities and currency how does that impact your projects business given that most of our contracts are fixed price and what is the lead time on the impact? Does it impact us at all? How do we book raw materials, etc.?

Vir Advani So raw material price movement definitely impacts our business. What we try and do to minimize that, from the day we get an order we tend to finish engineering within say 3 to 6 months depending on the size of the project, once the engineering is done we try and place firm orders on vendors and fought with staggered delivery. If you are able to do that in a timely manner then the impact is minimal because most of these firms purchase orders. They are all organized vendors who usually support us through the execution period. If your engineering gets delayed because the project is getting delayed because the client is delaying you all because you have some operational issue that is when the problem starts because you do not say finish your engineering in 12 months and say 6 orders your placing at 12 months later than what you booked the job as that could be anyone's guess what is happening in terms of commodities. So I say that it is that the time between booking a job and placing the order that is a critical. The rest of it we are able to manage.

Ruchi Vora You also lock-in the prices is what you are saying, right? Immediately after the engine leaving or just the quantity?

Vir Advani Exactly.

Moderator Thank you. Sir, we do not have any further questions. Would you like to make any closing comments here?

Vir Advani Thank you very much everyone for attending the call. We will speak to you again in three months. Till then if there are other questions please send us an email and we will respond to you. Thanks very much.

Moderator Thank you, sir. On behalf of Blue Star that concludes this conference. Thank you for joining us you may now disconnect your lines. Thank you.