"Blue Star Q4 & FY13 Earnings Conference Call"

May 16, 2013

MANAGEMENT: **MR. VIR S ADVANI – PRESIDENT, ELECTRO MECHANICAL PROJECTS GROUP & EXECUTIVE DIRECTOR.**
MR. B THIAGARAJAN – PRESIDENT, AIR-CONDITIONING & REFRIGERATION PRODUCTS GROUP.

Moderator Ladies and gentlemen good day and welcome to the Blue Star Q4 and FY13 Earnings Conference Call. We have with us today from Blue Star Mr. Vir Advani – President, Electromechanical Projects Group and Executive Director and Mr. B. Thiagarajan – President, Air Conditioning and Refrigeration Products Group and Executive Director. As a reminder 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. If you should need assistance during this conference call please signal an operator by pressing '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand over the conference to Mr. Vir Advani. Thank you and over to you, sir.

Vir Advani Thank you. This is Vir Advani. I have with me Mr. B. Thiagarajan and he will be giving you an overview of the results of Blue Star Limited for the quarter and year ended March 31, 2013.

The following are the financial highlights of the Company for the year on a standalone basis

- The company reported a Total Operating Income of Rs 2767.06 crores for the year ended March 31, 2013, compared to Rs 2700.83 crores earned last year, representing a marginal increase of 2.5%.
- The Operating Profit (PBIDT excluding Other Income) for the year is Rs 99.04 crores as against a loss of Rs 10.51 crores in the previous year.
- The other operating income declined to Rs. 26.5 crores as on March 31, 2013 from Rs. 31.5 crores the previous year. This was mainly due to decline in our Agency Commission income
- The reduction in Operating and General Expenses was primarily due to a significant reduction of Rs.22crs in bad debts written off / doubtful debts provided, partly offset by increase in the advertising spend and other operating overheads

- The increase in other income from Rs. 23.75 crores to Rs 36.31 crores is due to write-back of provisions no longer required and Forex gains

- The Financial Expenses for the year declined by 29% from Rs 70.25 crores to Rs 49.86 crores, on account of significantly lower Forex losses/cost and somewhat lower interest cost

- The borrowings have gone up from Rs. 343.2 crores as at March 2012 to Rs 372.7 crores as at Mar2013, but was contained well within the targeted level of Rs.400crs

- Consequently, the Net Profit was Rs 51.73 crores as compared to a Net Loss of Rs 89.15 crores last year.

- The Earnings per share for the year (Face value of Rs 2.00) stood at Rs 5.75 vis-à-vis a negative of Rs 9.91 in the previous year.

- Carry Forward Order Book as on March 31, 2013 reduced by 12% to Rs 1418 crores compared to the order book of Rs 1613 crores as at March 31, 2012.

The following are the financial highlights of the Company for the *year on a consolidated basis*

- On a consolidated basis, the Total Operating Income stood at Rs 2924.01 crores for the year ended March 31, 2013. The consolidated financial results include the results of the Company's wholly owned subsidiary Blue Star Electro Mechanical Limited, joint ventures namely, Blue Star M& E Engineering SDN BHD, Malaysia, Blue Star Qatar (WLL) and Blue Star Design & Engineering Limited and the share of profit in the associate company Blue Star Infotech Limited.

- The Operating Profit (PBIDT excluding Other Non-Operating Income) for the year was Rs 90.40 crores as compared to an Operating Loss of Rs 22.18 crores in FY12.

- The Net Profit stood at Rs 39.07 crores for the year as compared to a Net Loss of Rs 105.10 crores registered last year.

Here are the financial highlights for the quarter on a standalone basis

- The Total Operating Income at Rs 858.24 crores increased by 5% over the same period last year.

- The Operating Profit for the quarter was Rs 19.92 crores compared to an Operating Loss of Rs 37.40 crores in Q4FY12.

- The Net Profit for the quarter was Rs 18.55 crores as compared to a Net Loss of Rs 45.37 crores registered during the same period last year.

I will now go through the general outlook of each segment that we are operating in for Q4FY13, followed by specifics of our performance in each of these segments:

General Outlook for the Segments:

Segment I

The macro-economic and operational environment continues to be challenging for electro-mechanical projects. Though inquiries are floating, the order finalization continues to remain sluggish on account of political uncertainties, high cost of finance, cash flow problems of builders etc. This coupled with intense competition has impacted the company's business. The company however has witnessed demand from Hospital/Healthcare, Pharma, Residential and Industrial Segments.

At an aggregate level, the Central air-conditioning equipment market continues to grow marginally. Central plant market is roughly flat, the ducted AC market is growing at 5% this year and the market for VRFs continues to grow at 15%, with demand coming primarily from Hotels & Hospitals, Offices and Industrial.

Segment II

The Room AC Industry witnessed growth during the quarter, after two successive quarters of marginal de-growth. The onset of summer was delayed in most parts of the country. However in March, the summer picked up in Southern and Eastern parts of the country and this ensured positive growth in the industry. Another noteworthy trend is the gaining popularity of Inverter Split AC s in the residential segment. This is due to prices going down, increased awareness about the product and aggressive promotion by many Room AC players in their mass media communication.

The demand in the Commercial Refrigeration business is stable. However, the appreciation of the dollar impacted the pricings of imported products such as chest freezers and bottled water dispensers.

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.

Segment III

The slowdown and deferment of capex finalization in core industrial segments particularly Steel, Mines and Metals and Oil & Gas has continued for the entire year FY13. This has impacted our Industrial Projects business quite substantially.

The demand for hi-technology imported equipment has been flat over last year owing to the foreign exchange position. Government, scientific, education, etc. have been cautious in adding new equipment.

The demand for Destructive and Non-destructive testing machines continues to be reasonable with the light and medium industrial market continuing to make incremental capital investments.

Our Performance for Q4FY13:

Segment I

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 59% of the total revenues, increased 4% while segment results increased to Rs10.61 crores in Q4FY13 as compared to a loss of Rs 57.63 crores in Q4FY12. The Operating Margin of this business in Q4FY13 increased to 2.2% compared to -12.4% in Q4FY12 . The margins in Q4 FY13 however dropped from 5.79% in Q3FY13.

The major factor affecting the drop in operating margins in the quarter was a drop in billing as projects execution continues to be slow.

The Capital Employed in the business reduced from Rs. 477 crores as of Dec 2012 to Rs. 400 crores as on March 31, 2013. The decrease in this quarter is primarily on account of decrease in inventory levels in our equipment business, improvement in collections, speedy execution of certain old projects leading to better cash realization.

Order inflow in FY13 has decreased significantly in the Electro-Mechanical Projects business. This was due to both a general slowdown in the market as well as on account of us taking a cautious approach of selecting projects with better commercial terms. While the market is subdued, we continue to see some demand in the metro rail, hospital and IT SEZ segments. For example, there are several MEP bids that had been submitted by us in Q3FY13 that are now being awarded by Delhi Metro currently. Unfortunately, we are not the successful bidder in the HVAC packages. Although we had an opportunity to bag the first HVAC order being the lowest bidder, we subsequently realized that the cashflow requirements of that order would have put a strain on the company's Balance Sheet at the margin envisaged in the job at the time of quoting. Our bids for the remaining electro-mechanical packages are still active and subject to our competitiveness, we may book an order by Q2FY14.

Our carry forward order book as on March 31, 2013 stands at Rs 1418 crores, of which Rs 1283 crs is the carry-forward in the Electro-mechanical Projects business. While builder /developer led Offices and Commercial segments account for 55% of the order book, Infrastructure and Industrial contributed 22% and roughly 16% is comprised of the Hotel and Hospital segment.

Based on the mix of jobs that we carry in our order book, which includes zero margin jobs, 5% margin jobs and 7-11% margin jobs, we were able to realize site margins of around 6-6.5% in FY13. As per our new order booking guidelines we are targeting 11-12% site margins subject to market conditions not deteriorating further.

Given the current economic scenario that is not expected to improve for another 1 year, and weak order inflow, we anticipate FY14 to be equally challenging for us in the EMP segment. We however would like the site margins to be slightly better at 7-7.5%.

For the Central AC products despite the overall sluggishness, we have witnessed demand from the Industrial, Hospitality, Health, Manufacturing, Educational, IT and few Retail sectors in this quarter.

Our Packaged AC business continues to hold a leadership position with a majority market share in ducted systems business and gradually improving market share in VRF systems. Though the competition is tough, Blue Star has been able to retain its market share with a good product portfolio and robust after sales support. The company is planning to invest more in the business by introducing a range of new category products to address the emerging customer needs. The company is also planning to increase its focus on light commercial segment which is offering great opportunities to explore and which was neglected earlier .

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

Electro-mechanical Projects: Jaypee Klassic Towers – Noida, DLF Corporate Greens - Gurgaon, Medicity Hospital - Gurgaon, Success Towers- Gurgaon, Mantralaya - Mumbai, Oberoi Excuisite - Mumbai, Institute of Public Enterprises - Secunderabad, SDM Super Speciality Hospital - Bangalore

Packaged AC Sytems: Gujarat National Law University - Gandhi Nagar, BHEL - Trichy, Asia Pacific Institute, Jasola -New Delhi, Sucharayalu Health Care - Hubli, Ranbaxy Laboratories, Glaxo Smithkline

Central AC Products: Renata Pharma- Bangladesh, Dahej Petrochemical Complex - Dahej, Ultratech Cements - Gulbarga, Arges Pharma - Bangladesh, Ruban Hospital - Patna etc.

Segment II

In the Cooling Products segment, revenue registered an increase of 8.4% in Q4FY13 over Q4FY12, while segment results grew by 12% to Rs 31.11 crores. The company also witnessed a small increase in margins in Q4FY13 over Q3FY13. The margins however dropped by a percentage in FY13. The primary reasons are:

A) Losses in the business of sourcing and selling of installation accessories such as copper pipes, Refrigerant and insulation material, which has been subjected to high commodity price fluctuations. You would be pleased to know that we have wound up this business in March 2013.

B) Dropping operating margins in the refrigeration products business. You may be aware that we had invested in a new factory in Ahmedabad in H1FY13. The commissioning of the factory got delayed by 4 months due to which we were stocked out in the last summer. The lower volumes pulled down the operating margins of the business. We are happy to inform you that we are adequately prepared for the current summer season.

Our Room air-conditioner business however posted a healthy growth of 13% in volume terms and 16% in value terms in Q4FY13. This was primarily due to better stock availability, good channel coverage and appropriate pricing. On account of a favourable summer we are expecting the business to grow by 25-30%. The margins however will remain at last year’s levels as we are planning to increase the advertising spend to support the business. The Company is also planning to increase its market share through initiatives like channel expansion and focus on the light commercial segment.

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 Capital Employed in Segment 2 increased slightly from Rs 216 crores as on Dec 31, 2012 to Rs 219 crores as on March 31, 2013. This is primarily due to increase in inventory levels for summer season sales.

Segment III

In the Professional Electronics and Industrial Systems , the business revenues grew by 4% in Q4FY13 over last year, while the segment results declined by 32% to Rs 9.56 crores, owing to the decrease in demand in the capital goods sector and challenging economic environment.

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

As explained earlier, the Agency business in Q4FY13 continued to be slightly lower vis-a-vis Q4FY12 due to the impact of a strengthening dollar.

The System Integration business is doing reasonably well and showing some growth.

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 had returned back to profitability by taking sincere efforts on driving margins, implementing prudent booking guidelines specifically in Segment 1, affecting price increases, value engineering, effective working capital management and cost control. 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 perform well during the summer season. The company intends to further enhance these efforts in order to sustain this performance over the current year as well.

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 sir. We will now begin with the question and answer session. We have the first question from the line of Ruchi Vora from UBS Securities. Please go ahead.

Ruchi Vora My first question is on your order book. If you recollect, in the last year quarter we have been discussing that there is a certain part of your order book which was at zero margins or which was less profitable. Can you give us on an update on how much of that has been cleared?

Vir Advani In the project business, out of Rs.1,250 crores odd of carry forward we have about Rs.50 crores zero margin business remaining, about Rs. 300 crores 5% margin business remaining and the remaining amount would be between 7%-11%.

Ruchi Vora My next question is on the margin profile. I do appreciate that you don’t give guidance but can you highlight in your view what would be our sustainable margins for each of your segment, let’s say for FY15 or on a long-term?

Vir Advani For FY14 I think Segment-1 will continue to be at these levels of about 5%. Going to FY15 once we clear out this Rs. 350 odd crores of back log, we should be at about 7.5%-8%. This should subsequently go up to 10% as the product volume and Segment-1 order intake increases because that is part of our strategy going forward. In Segment-2, we are currently at 8%. I think even in FY14 it will be at same levels. FY15 is a little uncertain in this business because there will be a heavy weightage of room air conditioners. It is too early right now to judge what the market is going to do at that stage. We are internally expecting that FY14 will be at the same level as FY13 and I am unable to comment on FY15 right now.

Moderator Thank you. We have the next question from the line of Pranav Gokhale from Religare Asset Management. Please go ahead.

Pranav Gokhale Any chances to re-classify the opening order book? Previously you had given the order book as on March 2012 as Rs. 1,917 crores.

Vir Advani You are probably right. I will clarify this. We had mentioned during the current year that we had de-booked a large amount of business. It must be to the tune of Rs. 300 crores. You are right I should have read it out as 1,900 something compared to 1,418. When we de-book, we go back to the beginning of the year and pull it out as well.

Pranav Gokhale So this is only because of those orders which have been de-booked?

Vir Advani Yes.

Pranav Gokhale In the fourth quarter, normally your other expenditure and other income components tend to be a bit higher. What is the reason for the same?

B. Thiagarajan Firstly, it is a provisions write back for provisions being created. Also the advertising expenses may be coming in the month of March.

Pranav Gokhale Where are this provisions write back clubbed in for different segments?

B. Thiagarajan Respective segment it will go.

Pranav Gokhale Because generally what we have seen is there has been no write back of provisions. Especially in the first segment the provisions tend to be higher. So what I am trying to ask is if I consider this reported number of EBIT for EMP and packet air conditioner business, are these numbers after including the provisions for write back?

B. Thiagarajan Yeah that's right.

Pranav Gokhale What I am just trying to understand is even if I remove these kinds of provisioning, are we still not making reasonable margins in the first segment? Or is that we have not been able to book margins on the first segment because if I remove it, the margins will be even lower?

Vir Advani We do provision write back. As you know, we are also closing a large number of old jobs that I have been mentioning quarter-on-quarter. Last year, we had indicated we are going to close about 600 jobs. By December, we had closed about 300 jobs. So a large number of jobs were closed at the end of the year. We ended out by finally closing 515 jobs in the year. When we close these jobs, we do have reversal of margins. Q4 will be a combination of closing jobs, of provisions write backs as well as future provisions being made. Hence we always say that for Segment-1, it is more important to look at a 12-months period on a rolling basis rather than just a quarter.

B. Thiagarajan Actually at this juncture you will not be able to draw any kind of a trend out of this. For the simple reason that some old jobs are getting closed. So let us take a job: (a) there is a cost incurred. (b) there is extra work claimed which is to be approved by the customer. So as a right accounting practice we will be providing for the same because the amendment has not come. This particular thing can render both possibilities.

One is the customer agreed to give you the amendment so the provision will be written back. The customer denied the amendment it will be written off. So this particular margin will be an aberration. It is not a steady state condition at all.

Moderator Thank you. We have the next question from the line of Sonal Minhas from SAIF Partners. Please go ahead.

Sonal Minhas I just wanted to understand the procurement efficiency that you were talking about Vir in the third quarter. You were mentioning that you are carrying on some internal review on procurement of equipment materials and that is supposed to give you some buffer in terms of our margins so that you can be a little bit more aggressive for the first business.

Vir Advani What we had talked about in the middle of the year is that we felt that there was an opportunity pull out some cost and procurements. We have actually brought in an external consultant to help us in our program. That program was brought to an end in March. Now of course it is carrying forward into a day-to-day procurement. We have identified significant savings in both our equipment business as well as for our project business. It should be to the tune of 3-4% of our total procurements. These are identified savings which are now being converted into certain purchase orders and long-term commitments.

What I had mentioned and I think what you are now referring to is are we taking an advantage of these lower costs that we have identified, rate contracts that we have entered into and put that into our costing going forward, in order for us to be comparative in what is turning out to be a highly competitive projects market. So to that extent, what I had explained is that the procurement benefit will benefit our bottom-line and part of it will make us more comparative in the market. So there will be a saving that will come to the bottom-line on all new jobs that we started booking after Q3 FY13, the same will be reflected in FY14. We are taking an advantage of that lower cost into our costing and quoting. Hence we are confident we will be able to execute at sight margins of 11%-12%.

On the manufacturing side those savings that we have identified obviously will flow first through to the bottom-line. Subsequently as the pricing pressure comes in, we will revise the pricing of products and be competitive. So that's where we are on that.

Sonal Minhas This 3% - 4% is the percentage of sale. Just wanted to clarify that?

Vir Advani Let me clarify that. Percentage on our procurement spends.

Sonal Minhas And how would that translate to the top-line business? I think we don't get the outsource versus own manufacture spend. To add some sense to this number.

B. Thiagarajan You can take it as somewhere around Rs. 35 to 40 crores of savings, on an annualized basis, on our own procurement for manufacturing components. This wont flow entirely to the bottom-line because some things will go in the pricing hike. For example, last year we did for room air conditioners. My rough sense is that 50% of the saving may get diluted in pricing of certain products itself.

Sonal Minhas So in terms of positioning on the costing term for MEP business vis-à-vis our peers, would we say that we are now pretty much at par with them? Or there is some more efficiency that can be squeezed out if not in the short-term but in the long-term?

Vir Advani I have probably passed a general judgment saying that our cost is comparative but our margin requirements are considerably higher than some of these competitors. So that's a choice we are making that some others may not be making or they may have a different strategy. But yes, from a cost point of view I would like to clarify that our overheads were at earlier levels, especially in projects business. It was because we have focused on closing large number of jobs in the last 18 months. We have closed somewhere around 1,000 jobs in this period. As we enter into FY14, the requirements of those overheads has dropped substantially because the carry forward is now looking cleaner and it is a lot more healthy. So we will be now shedding overheads in our project business, which I think is the element of comparativeness which is yet to kick in. We will begin to see those benefits in FY15.

B. Thiagarajan And to add to that compared with some of our competitors, our requirement at this point of time in terms of working capital and the balance sheet management also may be different. Like one major competitor may have cash positions better. But our interest is to shrink the balance sheet or go ahead and reduce the borrowings. So therefore we may be making a choice based on that requirement as well.

Sonal Minhas So taking out of that on the Metro project that you said you got and then later on based on the working capital requirement and the cash flow situation you decided to pass that particular opportunity. If you just throw some numbers on the table as to what is the matrix you were evaluating there and what will be the size of the project?

Vir Advani This is the air conditioning contract for underground metro. There were four lots; any bidder could only be successful in one lot. It was roughly about Rs. 800 crores of business divided up between four lots. We were successful in one lot but however opted out of it because we were looking at some high margins. We revisited our margins which we had quoted in Q3. Going into FY14, I think our margin requirements have actually increased quarter-on-quarter and through the last year. You will see that in our order inflow as well. So there was some amount of that. More importantly we are looking at a very positive summer. We are more optimistic on the equipment side of our business which requires significant amount of capital now, more from a stocking point of view than anything or any manufacturing capacities. So I think between the requirements of the product business as well as our own changing internal requirements of margin in our project business we took a call to forego that opportunity. We still have some bids out on the rest of the packages in Delhi Metro wherein we have got an opportunity to quote at higher margins, better terms than the air conditioning package and so we are continuing to pursue those.

Moderator Thank you. Next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda On the balance sheet, we have bifurcated the receivables into two parts so one is the current and one is the non-current part. Just first wanted to check the quality of these receivables and if after closing down about 500 or 1,000 odd projects which you commented, is there a scope for receivables clean up in the future or that's already been done?

Vir Advani You will know that between last year and this year we have done significant debtor provisioning as well as write-offs which is largely an outcome of this 1,000 project close out. Just to give you a sense of the numbers we have still open in our business about 1,000 projects of which about 350 or so are active. About 100 and something will be inactive or going slow or non-moving. We have about 550 jobs that we will close in this current year. Hopefully by the end of H1, we would have crossed about 300 odd jobs. So I think this will be one more year of closing out the past and then focusing on billing this 350 odd jobs that we have. As far as our debtors are concerned, the aging of the debtors has improved a little bit over last year. With these debtors provisioning which we have done, we are confident that the debtors that we are carrying on are now collectable and shall be collected. What we have managed do is not really visible in these numbers per say. But we have managed to move a fair amount of debtors into and out of revenue in excess of billing and into actually collectable debtors. Having said that, we however continue to face a lot of pressure on a monthly basis with collection of outstandings. Customers are paying very slowly and I don't think that has changed substantially in the last 6 months.

Pritesh Chheda For FY13, if you could tell us, what were the debtors provided for? And what was the write back for the full year?

Vir Advani Our debtor, write-offs, and provisions made on bad debts, in our P&L for FY12 it was Rs.40 crores, in FY13 it was Rs.17 crores

Pritesh Chheda And the write-back?

Vir Advani In FY12 the write-back was Rs.16.7 crores. In FY13 the provision write back was Rs.22.9 crores

Pritesh Chheda On the AC business side, did we say that April has seen some pick up in the volumes and what's your assessment there in terms of the market? Because it has been two years back-to-back wherein volume decline in the overall AC market has been fairly large. Generally this market works in binary. So you either have very great growth and you either have a very sharp fall. So your assessment there.

B. Thiagarajan Market is growing extremely well. It should grow around 20% in FY14.

Pritesh Chheda That's volume or that's value?

B. Thiagarajan In value and in terms summer alone if you have to take I think it will grow close to 30%.

Pritesh Chheda Last just two questions on book keeping side. One, difference between stand-alone and consolidated profits, so there is some loss in certain subsidiaries. Can you tell us which and how much? And secondly on the inflow and the back log side, we couldn't recollect the numbers which you shared initially on the inflow industrials and the first segment and in case of backlog what is the combination?

Vir Advani I will do the subsidiaries first. The loss is in our Blue Star Electro Mechanical Limited which is our plumbing business. We had a loss of about Rs.15 crores in FY12 and about Rs. 15 crores in FY13 again. Largely this is similar to our electromechanical project business. In FY13 we had a margin erosion of approximately Rs. 10 crores and the balance loss is on account of lower volume. We also billed much lower than what we would have otherwise. So about Rs. 97 crores of billing and a loss of about Rs. 15 crores. So that's why you see a consolidated reduction.

Pritesh Chheda That's the only subsidiary which is largely 42.48

Vir Advani The others are actually profit making and therefore the net is actually lower than that entity.

Pritesh Chheda On the order book and the inflow you tend to share the number on industrials and the orders which are linked to Segment-1 and what is the inflow for the quarter?

Vir Advani The company order book is Rs. 1,418 crores, of that electromechanical projects are Rs. 1,283.

Moderator Thank you. We have the next question from the line of Piyush Mittal from Franklin Templeton. Please go ahead.

Piyush Mittal Given the order book where it is currently, is it possible to make a comment on what you think should be the expectation for revenues next year in the 1st Segment when it is down significantly? So should we assume a similar kind of reduction?

Vir Advani Segment-1 has electromechanical projects as well as package air conditioners as well as service. As we foresee for the full year you can say it may be flat. That is our judgment.

Piyush Mittal And then coming to Segment-2 you mentioned about that the strong growth of may be 30%. I suppose given the initiative that you are taking, are you looking to grow at par with the market growth or you are thinking of growing faster?

B. Thiagarajan I am clarifying. Summer growth will be different from the annual growth. As far as Segment-1 is concerned, the package air conditioners as well as the VRF systems or the service business, Vir had indicated the growth rate in the opening remarks. Then in the pure electromechanical projects, there may be a decline but both should get compensated. Now going to Segment-2, room air conditioners part of it, as I mentioned in summer it is expected to grow over 30%. Full year it may be growing only by 20% because there is going to be energy label change which is going to happen by 1 January, 2014. So when the change is going to take place, three months prior to that what will happen is that the new products will be pumped into the system. So they can work both ways. Like for example, somebody will be interested in buying at a lower price and lower standard while somebody will be interested in waiting for new to happen. But the fact of the matter will be that the growth which is happening in summer will not be sustained. That is my assessment. Anybody's guess it is. This whole thing as I have been saying is like T20 Cricket. The three months' of time what is happening is going to determine the full year growth. I do not anticipate full year growth for room air condition industry to be more than 20%. As far as we are concerned, our goal is to grow at least 5% more than the market growth because our interest is to improve our market share from 6%-9%. So our goal is to establish at least 25% growth in the full year. We have started off well and May is going very well and let us see what happens during the year.

Piyush Mittal And coming to the third segment, again on the margin side, if I look at historically the business has been close to 20% - 22% margins. This year wasn't the best. Is it fine to think then that FY14 will be more like FY13?

B. Thiagarajan In Segment-3 that margin percentage has got very little meaning, in the sense there is a high sea sales that is happening and what you are getting is the Indian Agents Commission. So the top-line to bottom-line on any of the fully imported product traded it will be 100% margin because what you are booking is Indian Agency Commission and there are other portions which are Indian value additions. That may be at a lower margin. There is a project kind of business there, system integration. There it may be a much lower margin. So honestly I am of the opinion you have to see the quantum of the margin rather than the percentage rate. It is completely misguiding to look at the percentage margin there.

Piyush Mittal So quantum you feel should be relatively stable going forward, I mean barring economic improvement in which case it might grow?

Vir Advani We were expecting the quantum of margin to increase in FY14. FY13 has actually been a bad year we had cost over runs on running projects, which we have absorbed in the current year. The other issue is that the volume of business is down and therefore the operating margin at a net level drops because of our overheads. So we are expecting FY14 to be better than FY13 as far as our third business is concerned. It will not be a great year but it will be better and therefore the effect of that improving will push up the absolute margin quantum in Segment-3 in FY14 which has nothing to do with the market recovery. If the market improves then of course it will be significantly even better than that.

Piyush Mittal When you guys talk about the site margins, how do the site margins convert to EBIT margins?

Vir Advani I think what we have been explaining is that our site margins are essentially all material, labor and what we call as project management cost that we expend at site. What is below there then is our overheads, which sit in terms of engineering, procurement, etc., in the offices. So that cost is about 4% or so. So the problem that we have right now is our site margins are at 6% level and therefore you are not really earning enough. As we are booking more business at 11% to 12% site margins, we will begin to see the improvement. The issue there is that the order inflow is quite weak at those levels. So we are actually foregoing parts of the market because they don't need those requirements of us but we have decided to take that approach to this business.

Piyush Mittal If I rephrase it, 11% - 12% steady state site margins should convert to 7% to 7.5% of EBIT margins for the segment?

Vir Advani Yes.

Moderator Thank you. We have the next question from the line of Ananth Narayan from Kotak. Please go ahead.

Ananth Narayan Just wanted to understand do you have any plans of merging the subsidiary with the main company, Blue Star?

Vir Advani No we have no such plans as of now.

Ananth Narayan And what is the hedging policy presently sir?

Vir Advani Our hedging policy is we are 60% to 70% hedged, that is what we are running at.

Ananth Narayan And sir looking at the order book which has de-grown, is there a possibility in the future that you will bid aggressively for orders to increase the top-line or will you stick to your present strategy of maintaining margins?

Vir Advani We are currently staying with our strategy. I don't think we will be substantially dropping margins for top-line. What we may do is while we are aiming for 11% to 12% site margins, we do compromise on that on a case-to-case basis with quality of customer or quality of job but again those compromises are fractions. They are not large numbers. So we are planning to stick with this for now.

Moderator Thank you. Participants, that was the last question. I would now like to 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 for logging into our conference call. We will talk to you again in a couple of months when we are talking about our Q1 results. If there are any questions that we left unanswered, please send us an e-mail and we will get back to you quickly.

Moderator Thank you sir. Ladies and gentlemen on behalf of Blue Star Limited that concludes this conference call.