Blue Star Limited Earnings Conference Call

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MODERATORS: **MR. VIR ADVANI – PRESIDENT - CORPORATE AFFAIRS & SPECIAL PROJECTS, BLUE STAR LTD**
MR. B. THIAGARAJAN – PRESIDENT- AIRCONDITIONING & REFRIGERATION PRODUCTS GROUP, BLUE STAR LTD

Moderator Ladies and gentlemen good morning, this is Rochelle your Chorus Call Conference Operator. Welcome to the Blue Star Ltd quarterly results conference call. As a reminder for the duration of this presentation all participant lines will be in the listen-only mode and this conference is being recorded. After the presentation, there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call, they may signal an operator by pressing '*' and then '0' on their touchtone telephones. At this time, I would like to hand the proceedings over to Mr. Vir Advani, President Corporate Affairs and Special Projects of Blue Star. Thank you and over to you Mr. Advani.

Vir Advani Thank you. Good morning 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, 2009.

The following are the financial highlights for the Company for the quarter

- We reported a Total Income from operations of Rs 595.62 crore for the quarter ended December 31, 2009, representing 5% growth over the corresponding quarter in the previous year.
- For the quarter, Gross Margin increased marginally from 22.4% in Q3FY09 to 22.9% in Q3FY10.
- Operating profit (PBIDT excluding Other Operating Income) for the quarter was Rs 53.84 crore as compared to Rs 51.27 crore in Q3FY09. Operating Margin was maintained at 9.1% during the quarter owing to tight control on operating costs.
- The Profit before Tax (PBT) excluding exceptional items grew 18% to Rs 47.03 crore for the quarter. PBT including exceptional items recorded an increase of 39% over Q3FY09.
- Net Profit at Rs 42.33 crore registered growth of 32% compared to Rs 32.19 crore in Q3FY09.

- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 4.71 vis-à-vis Rs 3.58 in the corresponding quarter of the previous year.
- Carry Forward Order Book as on December 31, 2009 increased to Rs 1890 crore compared to Rs 1626 crore as at December 31, 2008, representing a growth of 16%.
- Order Inflow during the quarter increased from Rs 628 crore in Q3FY09 to Rs 663 crore.

During the quarter, the Company divested 80% of its equity stake in Ravistar India Pvt Ltd to Systemair AB, Sweden for a consideration of Rs 8.88 crore. Ravistar India, founded in 1997, is a market leader in manufacturing air distribution products such as grilles and diffusers. Blue Star had invested in Ravistar as a strategic partner to source air distribution products which are part of central airconditioning projects. Initially, Blue Star was the captive customer for Ravistar India Pvt Ltd. However, in order to expand and leverage on the opportunities available in the market place, Ravistar began selling its products to other airconditioning contractors as well, thereby achieving a leadership position. This divestment is part of Blue Star's strategy of exiting non-core businesses and allocating resources to its core businesses. Systemair AB, headquartered in Sweden is a leading ventilation company. The Systemair Group comprises 60 companies in 38 countries with 13 manufacturing plants.

I will now spend some time on each of our lines of business and give you both financial as well as operating highlights for the quarter.

The central airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems, registered a 10% increase in the quarter, compared to the same period in the previous year. Segment results increased by 14% in the quarter compared to Q3FY09. This segment which mainly includes the contracting businesses of the Company comprised 78% of the overall revenues. The Operating Margin of this business increased marginally to 10.3% from 9.9% in Q3FY09. In the central airconditioning business, the Company saw good prospects from the healthcare, power, airports and hospitality segments. There were also modest signs of recovery in the IT/ITES and retail segments.

During the quarter, the Company strengthened its foothold in the healthcare segment with a prestigious order from ESIC Hospital, Parel, Mumbai for the combined mechanical and electrical works valued at Rs. 33 crore. Blue Star also booked a large integrated Mechanical, Electrical and Plumbing (MEP) order valued at Rs. 32 crore from Market City Group for their proposed 38-storey hotel, Shangri-La coming up at Lower Parel, Mumbai. In addition, the Company won a significant order from Mumbai International Airport for airconditioning the south-west pier of the airport. The Company also performed exceeding well in the power sector booking two orders from NTPC and Reliance.

In packaged/ducted airconditioning and small chillers, growth came from the traditional segments viz industrial, educational and Government/PPP segments. While the drop in business from the IT/ITES segment continued to adversely impact the revenues of the business, the Company witnessed signs of a recovery from stand-alone retail customers in the light commercial segment. There was also a marked increase in business inflow from Tier 2/3 towns, taking the ratio of contribution from non-metro cities/towns to a higher level in the overall pie. Blue Star's Precision Control Packaged Airconditioners (PCPAs) continued to perform well. The rapid expansion of data centres in the country has resulted in significant demand for precision cooling airconditioning. The Company also continued to sustain its leadership position in the telecom segment with its customized array of telepac airconditioners especially designed for the telecom industry. The electrical projects business performed well. Apart from cross-selling its services to existing HVAC customers and booking integrated M&E/MEP orders, the Company booked several stand-alone electrical contracting orders.

The cooling products business comprises room airconditioners and refrigeration products and systems. The revenue of the Cooling Products segment was maintained in this quarter compared to the same period last year. The segment results registered a decline of 13% during the quarter. The Operating Margin declined to 9.4% in Q3FY10 compared to 10.8% in Q3FY09, mainly due to a change in the product/project mix. Q3 is a lean season for unitary cooling products such as room airconditioners and water coolers, and there was a considerable contribution from the cold storage projects business during the quarter, thereby impacting the overall margins. However, as the economy opens up, unitary cooling products are likely to form a significant portion of the segment, which will have a positive impact on the margins.

The refrigeration products business was driven by enhanced sales of chest coolers and chest freezers. The Company executed large orders from the ice cream and dairy segments. For the cold chain, Blue Star offers equipment right from pack houses at the farm end to refrigeration equipment for retail outlets. During the quarter, the Company witnessed improved demand from third party refrigerated logistics players. The recently launched Banana Ripening chambers also contributed substantially to the business, with large orders predominantly from the Western Region. The business also witnessed renewed activity from the fast food retail segments.

The Professional Electronics and Industrial Systems business registered a 28% decline in revenues. The topline of this business is predominantly commission income and domestic value addition since most of the equipment is sold to customers on a high-sea basis by its Principals. Segment results recorded a decline of 29% during the quarter. Given the nature of the business, quarterly performance is not an accurate indicator and the prospects of this business continue to be solid.

In conclusion, Blue Star has shown positive top line growth in Q3 after 2 quarters of decline. Profit maintains its upward trend due to tight control of costs and lower interest charges. The Company's future growth is largely dependent on general economic revival which seems to be picking up. With an established track record, the Company remains confident that it is well positioned to exploit new opportunities as they arise.

With that ladies and gentlemen, I am done with my opening remark. 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 all as well. With that, we are open for questions.

Moderator Thank you very much Mr. Advani. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of **Sanjeev Zarbade of Kotak PCG**. Please go ahead.

Sanjeev Zarbade Sir, just wanted to have an idea on the execution cycle of our order backlog and do you see increase in competitive intensity in the domestic market especially given the fact that your competitor Voltas is not getting enough orders from the Middle-East market. So, do you see the competitive intensity increasing?

Vir Advani First, on execution cycle what we have been maintaining and what continues to happen is that because of our changing mix of business, we mentioned that fast-track IT and retail projects are obviously much smaller and slower than they were. I think at one time, we had said that those two segments contributed well over 50% of the order book. Today, that is been down to some 20% or so. That has been replaced by 3 primary markets, hospital segment, the hotel segment, and infrastructure which for us are largely metros and airports. Power is yet to really take off for us, obviously there are lots of investments in power, but downstream in HVAC projects we are still little a while away. So these four segments - hospitals, hotels, airports, and metros, by nature have a slow and longer execution cycle because they involve much more coordination with other agencies. So because of that, the average time that the order sits in the order book has increased. It had reduced to about 7 months on average in the order book at the peak of demand. From what we can see that its across 12 months now. But again, I will clarify this is on account of changing business mix. In itself, a like-to-like project last year to this year has slowed down, but not as dramatically as 7 months to 12 months.

Sanjeev Zarbade Okay and on the second part of my question sir, on the increasing competitive intensity, if any?

Vir Advani Yes. So actually competition has been very severe for quite a while. So, there is nothing new or different on account of Voltas, I do not know if you are indicating something oversees I am not clear, but regardless, the competition has been very severe for a while. Now, the only difference what we are seeing is because of this moving trend towards bundling of contracts into MEP. The number of players capable of delivering a MEP solution is obviously few. That means that the independent electrical and independent airconditioning and independent plumbing contractors do not find a place in those contracts. My best guess is about 30-35% of the contracts getting finalized today in the market are bundled. So, to that extent the number of competitors has reduced for that segment of the buying. However, within that, there are a couple of very strong competitors and competition is as severe as always. So, there is no real change.

Sanjeev Zarbade Sir, in MEP how many players typically compete?

Vir Advani In MEP, depending on the type of contract, there will be 3 or 4.

Moderator Thank you Mr. Zarbade. Our next question is from the line of **Kirti Dalvi of Enam AMC**. Please go ahead.

Kirti Dalvi Sir, a few questions. Was there any forex gain or loss in quarter 3 as well as for 9 months FY10?

B. Thiagarajan For the 9 months this year, Rs. 2.3 crore was the gain as against the loss of 1.7 crore in the previous year.

Kirti Dalvi And this gain is the part of other operating income?

B. Thiagarajan That is right.

Kirti Dalvi If we see last year Q4FY09, we had a tremendous benefit of lower raw material prices as well as the tight cost control as well as the stimulus effect had come into the picture, do you see Q4FY09 getting repeated in Q4FY10?

B. Thiagarajan We hope to, but I think what you are driving at is gross margin levels or operating margin level. March will see a sharp growth from December but it will not be a dramatic jump. Traditionally, in Q4, Blue

Star's margin improves but whether it will be as sharp as last year, I am not sure at all. I do not want to speculate at all.

Vir Advani It will be probably not as sharp as last year. In the last year, you might remember raw material prices crashed around September-October of the prior year. There was also stimulus package excise duty that came in. So, last Q4 was actually from that angle quite a good quarter from a cost input perspective. We have not seen that this Q4. However, on the flip side we are seeing fairly good volumes in Q4, so that may counter some of this extreme raw material price pressure that is coming in.

Kirti Dalvi The segment I at this quarter you have done 10% growth which compared to last quarter is much better one, so do you think that performance continuing in Q4 at least?

Vir Advani You can see the improvement in billing for segment I. As we were telling you for the last couple of quarters that pent up order book that keeps increasing has to get executed. So these are projects that have been booked in Q4 and Q1 of last year which are long gestation projects and you should expect billing 6 to 9 months after booking. So, that is now bearing fruit, so you see Q4 onwards billing for segment I being much stronger.

Kirti Dalvi So for 9M whatever margins you have done across the segments would be maintained in Q4? Would that be a fair assumption to do?

Vir Advani Yes, that will be.

Kirti Dalvi Okay and sir, what is our take on the raw material prices. Most of our orders are fixed price contracts and we do have certain components getting imported or to a certain extent certain raw materials also, so given the raw material scenario do you think that mixture of margins will be under pressure or we will be able to improve?

B. Thiagarajan It will be under pressure. The raw material prices are going up but not escalating very sharply again; that is the good news. What we have to wait and watch for, is the stimulus package related Cenvat benefits, whether it will be modified 50% or totally. It affects us in the projects related input material because when we pay duty, it becomes a cost. In case of certain products, it is passed on to the customer directly, so that is not a problem. In certain products it affects us is in the countervailing duty, like in Himachal Pradesh it will affect us as an input cost. But for product business, it becomes a level playing field because the market forces will correct the prices. So in projects business, we are not seeing any major concern that margins are going to crash now dramatically - not at all. If at all, it is under pressure, we need to monitor it and we are hoping that we will be able to maintain these margins for the next year.

Kirti Dalvi Okay and sir, you are seeing volumes picking up across the board including segment I, so do you think that Blue Star will report 15-20% kind of growth next year or is it too early to take a call?

B. Thiagarajan There are enough signs in the market place that the growth will revive, but I am unable to comment on whether it is 15% or something like that. Because new large infrastructure projects are not just getting on the drawing board, for us to get the benefit out of it, it is going to be a while. There are no big airports that are coming up, there are some metros in the offing, IT/ITeS recruitments are reviving. There are enough vacant spaces that have to get occupied, small retail is reviving, no big retail projects are in the offing. Telecom, hotels, hospitals, cold chains continue to grow. Residential segment continues to be growing and we expect more than 25% growth there in the room airconditioners market. Putting them altogether, there will be growth, but we would not know how much it will be.

Kirti Dalvi But Sir, on the other way, if you have 15-20% growth, what kind of order book we need to do on that?

B.Thiagarajan Order book is not an issue. As you can see the carry forward order book has grown. The packaged airconditioner, room airconditioner, telecom airconditioning or cold chains does not require a huge order book, they all are 6 months kind of.

Kirti Dalvi That scalability is higher, and you foresee that scalability happening probably say first half or second half of FY11?

Vir Advani I think that the first half will continue to be muted for us. It may have a few exceptions. The way we look at the businesses is that the traditional airconditioning projects and the traditional packaged airconditioning, i.e. all central airconditioning business will be very muted for 6-9 months. We do not see any revival in those businesses. The businesses that are adding to our overall company growth would be the related diversifications into electrical and plumbing projects, and a growing room airconditioner business. After several stops and starts, cold chain investment in the country seems to be increasing; now it is gone from talk to actually orders being booked and of course the telecom segment. So, these are the 4-5 businesses which are going to help the growth. However, it is purely countered by a slow down in the central airconditioning business which is corporate/commercial buying. So, now we have to see whether these other businesses are able to counter the negative growth in those two main states, so that is why we are little hesitant to tell you whether it will be 0 or 5 or 10 or 15%, but one can optimistically say 10-15% growth is possible.

Kirti Dalvi Okay what will be your effective tax rate for the current year as well as for the next year?

B. Thiagarajan Whatever is the Q3 rates and what we project for Q4, the same percentage you can take it to be. And for next year it is not going to dramatically change.

Kirti Dalvi Okay, so 28-29 would be the range?

B. Thiagarajan That is right.

Kirti Dalvi And what is your capex for 9M FY10 and the whole year?

B. Thiagarajan Nine months is Rs.32.5 crore as we have not invested anything. This was basically a carry forward plus the R&D related regular investments. Full year is likely to be Rs.50 crore.

Kirti Dalvi And for the next year, are the plans ready?

B. Thiagarajan We are discussing, it is not yet frozen. I do not see any major investment into manufacturing or any other stuff. It should be in our normal average level which is around 30 crore or so and if we see that by first quarter growth has really come back and if we have to prepare for the subsequent year, we may review it in June. We have been taking these decisions on a quarterly basis.

Kirti Dalvi And sir, how is our working capitals doing?

Vir Advani Working capital is not very healthy. It continues to be under pressure. It is largely debtors, customers are stretching payments. We continue to be careful about how far we go in projects before we pull them back. It has increased but we are confident that in next 6 months the capital employed would come under control because we are starting to see customers. Because customers are coming back for repeat orders and new projects and that is when they start paying. So, we are expecting now that the new demand is slowly trickling back, some of those customers who have been sitting on old project outstandings, will start to clear them.

Kirti Dalvi But sir, could you give us few figures of your debtors, cash, and inventory?

B. Thiagarajan It is not disclosed in public, then it becomes a regular phenomena. All that I can say, as Vir mentioned the debtors have gone up, the inventories have come down.

Moderator Thank you Ms Dalvi. Our next question is from the line of **Madhuchanda Dey of Kotak**. Please go ahead.

Madhuchanda Dey Hello sir, between order inflow, execution and raw material prices, what is your assessment, in terms of where do you see the maximum challenge and the maximum opportunity?

Vir Advani Order inflow is the main challenge simply because our whole business model is driven around growth - because you have a sitting cost that needs to execute much higher volume both on manufacturing in the product business. In our product business, we have an investment in manufacturing and we have dedicated channels to push a lot more business through these channels and through the factories. Second, as well as on the execution side, you can scale it relatively easily without increasing too much manpower.

Madhuchanda Dey No, why I was asking you this question in particular was because there are lot of companies in the project business not in your line of business exactly who are seemingly sitting on huge orders, but are not getting to execute the projects, for various client related issues. Are you also in the same league or is it very different for you?

Vir Advani No it is not very different. Compared to the beginning of the year, you will see billing improve in segment I which basically reflects that the projects are now moving through the order books. So that is less of an issue, 6 months ago that was the main issue; today the new order inflow is the major issue.

Madhuchanda Dey So, going forward, the key thing to watch out for as far as your business is concerned is going to be order inflow, right?

Vir Advani Yes.

Madhuchanda Dey And how much new orders have you booked in the first 9 months, if you could share that figure?

Vir Advani Order inflow is 2221 crore for 9 months.

Madhuchanda Dey Okay and given the kind of visibility that you have, you expect this figure to cross 2500 or slightly higher or what is your take on that for the full year, FY10?

Vir Advani We do not give projections on that. In Q3, order inflow is 663 crore. 2500 implies 300 crore order inflow in Q4 which seems too low.

Madhuchanda Dey Okay, so it should be at least similar quantum as Q3, if not higher?

Vir Advani Yes.

Madhuchanda Dey My last question is, in previous queries, you were referring to should growth come back kind of a statement. When you are making this statement, you have an assumption of something going right in some segment, right? I wanted to know what is that you are expecting which has yet not happened. On the basis of which you are saying that growth should come back in the second half of FY11.

B. Thiagarajan What has not happened is basically in IT/ITeS, the recruitments are beginning to happen. It has to happen in lakhs and millions because each person occupies about 75 square feet of airconditioned space. There is enough commercial property which is lying vacant. This has to get filled in and they have to create a new space. Having said that, the recruitment has to pick up for us to see new projects in the corporate IT/ITeS. Many large infrastructure projects have to get cleared. After Delhi & Mumbai airport, we are not seeing any announcement about new airports at all. I suppose it is connected with the overall economic revival. SEZ is still a question mark. Residential market has picked up. Generally our understanding is, after 1-1.5 years of residential market picking up, the commercial real estate also opens up. So, these are the drivers we are looking for.

Madhuchanda Dey Just hypothetically, should all these 3 happen in the next 6 to 9 months, you expect to do 15-20% in FY11 in that case?

Vir Advani No, it does not work that way because we have a lead time on.

Madhuchanda Dey Because you still have not got the orders, so it will be FY12 when this should get reflected provided all these 3 things fall in place?

B. Thiagarajan If the current businesses has to grow to 30% plus level, what you are saying is right, but even with whatever is happening in new areas, I would say 15% growth is not ruled out. But still we have to wait and watch what is going to happen in Q4 and Q1 in terms of order inflow.

Moderator Thank you Ms. Dey. Our next question is from the line of **Nirav Vasa of Gupta Equities**. Please go ahead.

Nirav Vasa Hello. If you can just throw some light on the performance of Naseer Electricals for first 9 months of FY10?

Vir Advani We do not break out into that and Naseer Electricals no longer exists. We now have what we call our electrical projects business. The electrical projects business is now very different one to the old Naseer. The old Naseer was Bangalore and Hyderabad business. Today, we have a presence in all 4 regions in the country, while the south which is the old Naseer business has obviously been under pressure on account of Bangalore, Hyderabad, and Chennai being the very badly hit ones in market. On an overall country basis, the business is doing exceedingly well. About 75% of the business at the electrical projects group is part of a bundled M&E or MEP contract. So, which was our whole hypothesis, about 25% continues to be standalone electrical projects.

So, from that perspective, it has been a very successful acquisition and has been in line with our earlier projections.

Nirav Vasa Okay and apart from it you had informed earlier that competition for you is getting lower because the builders are ready to give you contract which are bundled together. So, do you plan to expand your product portfolio by entering into some kind of civil engineering services through a joint venture or acquisition or something like that, so that you can get a big pie of a particular project from a particular developer?

Vir Advani I will first clarify something and answer your question. I said the number of competitors is dropping in the bundled market, however, the severity of competition continues to be very strong. Having said that, our intention is not to get into civil contracting. Actually, our intention is to broaden the definition of electromechanical projects. Today, it means airconditioning and LT-electrical & building-plumbing. These are three descriptions what we do, where as electromechanical projects is a much wider description in the commercial, residential & industrial market & in the power sector etc. So, we will continue to stay focused on electromechanical projects and we will keep looking at new mechanical and electrical areas that we need to build capability and start executing projects in. So, many types of projects that civil contractors are currently doing in India, we will start to compete more in those. So, in the whole subject of water and power, these are areas where civil contractors tend to do work that they are not capable of doing because there are no competent electromechanical contractors that can step in, their competency is in civil and that is where they would like to stay. So I think what is going to happen over the next 5 years is that we and some others will develop into more competent and broad based electromechanical contractors and the civil guys will get more focused on civil and will work together to execute projects, so that is the direction where we are headed.

Nirav Vasa So, what would be the application that you are looking for in the water related business domains?

Vir Advani Water actually right now is a little far away, we are currently focused in power.

Nirav Vasa Would that be related to supplying of Gensets and everything?

Vir Advani No, this is substations and transmission, distribution. So, that is where we are looking at opportunities from a contracting perspective. At a later date, we will look at power generation - what we can do there and at an even later date, we have to evaluate water. So, we are still in the middle of rewriting the whole script.

Moderator Thank you Mr. Vasa. Our next question is from the line of **Shefali Doshi of KJMC Capital Markets**. Please go ahead.

Shefali Doshi Just wanted to know what will be the percentage of exports in your total revenue.

Vir Advani It has dropped this year as our exports are all focused in the Middle-East. I think that overall international will drop down to about 3% or so. I think it was around 5% last year, it will drop this year.

Shefali Doshi Okay. Is it possible to give industry wise order book break-up?

Vir Advani We do that now once a year, so I do not have that ready, but whatever we had indicated you last, you can take that.

Shefali Doshi It was in Q4FY09, so it would not be of much relevance as of date.

Vir Advani So, you will have to wait for the end of the year for us to give you that update. It is not meaningful giving it quarter-to-quarter because the things would not change that fast.

Shefali Doshi But sir, any broad classification like infrastructure is running at what percentage of the order book.

Vir Advani Honestly Shefali, we have not updated that information since the last time we gave it to you, all I can say is that there is nothing significantly different from that time.

Shefali Doshi Okay. And VRF and PCPA, having good growth prospects in some last 1-2 quarters which I have been studying, so what is the market size for that particular segment overall and where do you see yourself going ahead in future?

B. Thiagarajan **A** VRF system is a newly evolving technology in the country. For any significant multi zone area, VRF can occupy a room airconditioner space or a packaged airconditioning space. But if you have to look at the data center business or Precision Controlled Packaged Airconditioner (PCPA), our guess is it is around 200 crore market.

Shefali Doshi So, what will be your market share overall in PCPA?

B. Thiagarajan Roughly around 20%.

Shefali Doshi And going ahead, you look forward to increase it to around 25-30% or like what would it be?

B. Thiagarajan Everywhere we would like to, but the growth has to come from the overall market growth. Actually, third party data centers are growing. Internet usage and telecom is driving the data center growth and the US data centers are getting shifted to India. These are the drivers of that business. So, we will be happy if we are able to grow that business in excess of 30% every year.

Shefali Doshi Okay sir, do you find any competition in this particular segment from any players?

B. Thiagarajan There are big multinational competitors like Emerson, Uniflair, Stulz apart from us. So, these four are the large players in this.

Shefali Doshi From domestic players, none of them are your competitors?

B. Thiagarajan No, not at all. In fact among all of us, we have one major advantage. A typical facility has a chiller and comfort airconditioning, and one or two floors may get a dedicated data center. Customers have begun chilled water system for precision airconditioning, so that is actually the trend. So, Blue Star is well placed because we can offer him a single window solution.

Moderator Thank you Ms. Doshi. Ladies and gentlemen, our next question is from the line of **Prerna Jhavar of Emkay Global**. Please go ahead.

Prerna Jhavar Hello sir, sir could you tell me what are the existing capabilities in the power sector?

Vir Advani I think not much, we have some amount of capability in building sub-stations up to a certain KV and we have extensive experience in airconditioning on the power generation side, but these are the only two right now. We have a very small business that does ash handling to some extent. We add up all of these, total spend we address is relatively small; the intent over the next 2 years is to increase that exposure to the power sector first on the transmission, distribution side and then on the generation side, but right now it is insignificant.

Moderator Thank you. Our next question is from the line of **Mehul Mehta of Mangal Keshav Securities**. Please go ahead.

Mehul Mehta We are seeing flat revenues in cooling products segment. What is the reason for that because you are saying cold chain has done well? So, is it on room airconditioner side, we have not done well?

B. Thiagarajan That is true. In room airconditioners, the market growth is predominantly in the residential segment. The corporate/commercial had been dull. Refrigeration products have done well and cold chain related business has done well. Room airconditioners are indeed negative in our case.

Mehul Mehta But we do cater to residential segment as well?

B. Thiagarajan True, but our focus on residential is probably high end and some people who are interested in the installation or the turn key capabilities. So, in the summer season it will be more pronounced and I am of the opinion that in the coming season, business will turn positive. Also, the most important fact is that room airconditioner business has got two parts, one is the window airconditioner and other is the split airconditioner. If we have to take split airconditioner, marginally we have grown. Window airconditioner, we have de-grown terribly that implies that it is the bedroom buyers who are not being catered to by Blue Star.

Mehul Mehta And employee cost is showing negative growth yoy, so any specific reason to it during the quarter?

B. Thiagarajan It is due to the headcount, number of employees has gone down compared to last year.

Mehul Mehta Is it because we were adequately staffed or business has gone down? Is it for any particular segment or overall corporate level we have reduced head counts?

B. Thiagarajan It all depends on how the market is going to open up. If next year is going to be 15-20% growth, probably we have to add people.

Vir Advani So, very clearly same time last year we were starved for growth. So at any given point you staff for 6 months future growth, so when we saw in September last year growth dropping, we had to take action. So, that action was actually taken between December and April/May. So, in comparison now it will be lower.

Mehul Mehta But there is no exception in the sense that there was some sort of incentive last year and that has been taken off this year?

Vir Advani No, there is nothing.

Mehul Mehta It is like-to-like kind of?

Vir Advani It is not an accounting correction. It is a like-to-like.

Moderator Thank you Mr. Mehta. Ladies and gentlemen due to time constraints, last question is from the line of **H.R.Gala of Quest Investment Advisors**. Please go ahead.

H.R.Gala On the professional electronics front, we have seen turnover de-growing in 9 months by about 25%. So, is it because of the slowdown in the user segments where we are selling these instruments?

Vir Advani We cater to so many segments there, difficult to say. But broadly it is again corporate and commercial buying, it is capex spends. And across the board there is correction in capex, but we are not overly worried because the order book is growing even in this business and we have been saying we are moving more into a project and system integration type of business. So, I think this is just an annual phenomenon, there is nothing significant.

H.R.Gala But there is no change in the way in which we recognize revenue in this year as compared to the earlier year. It continues to be commission plus domestic value addition.

Vir Advani That is right.

H.R.Gala Okay, and we saw the other expenses significantly increasing yoy as well as qoq, so is there any one-off item?

B. Thiagarajan No, there is no one-off item at all there.

H.R.Gala Because it has significantly increased, if you see the trend of say last few quarters.

B. Thiagarajan It is not significant.

H.R.Gala Okay and you say that working capital is under stretch, debtor space have increased while inventory has come down, yet we see interest cost has come down drastically? Why is it so?

B. Thiagarajan The borrowings are actually much lower, that is the reason. The borrowing has not gone up in line with the working capital increase because there is an internal accrual of the profits which are being utilized for funding this. The second reason is probably our creditor period has gone up back to back. So, compared to the previous year, interest cost is at the lowest possible level.

H.R.Gala So, probably this creditor period increase would have been built into your material cost?

B. Thiagarajan Plus you take the 9 months profit that will be funding this.

H.R.Gala That is right. What would be your broad take on Q4? You were saying that it is not going to be significantly better than what we had now, but do you see large projects getting punched up in Q4 so that could be a surge in qoq revenue that we have been witnessing for past several years. Do you think that phenomenon still continuing this year?

Vir Advani Yes, billing will grow and is growing because these are Q4, Q1 projects of last year, just flowing now through the system. So, again you will see volume growth, but of course there is margin pressure because input costs are going up.

H.R.Gala Last year, it grew from 9% in Q3 to 13% in Q4 that kind of thing is not likely to happen?

Vir Advani That is a combination of volume growth as well as raw material cost reduction. This year, you see volume growth, but you will see probably an increase in raw material cost. So, the net effect will be muted, but it is certainly going to be higher than Q3.

H.R.Gala Okay. Overall what will be your outlook for FY11, do you think it will be much better than this year on different parameters?

B. Thiagarajan I think so. We expect it to be far better and tend to feel that the worst is over for this financial year. Though internally many of our business heads are very optimistic about, however we are still cautious.

H.R.Gala I think probably a lot to look at in the interim budget in Feb?

B. Thiagarajan Not a lot, for quite some time the budget exercise to business became somewhat meaningless because duty rates or custom duty rates have been lowered. The point is if the stimulus package is withdrawn, in the immediate short-term there will be an impact in the margin. Again, we will be more interested in the investments flowing through the overall market sentiment, to that extent the budget is important how the people on the drawing board will go and expedite the projects. And the other thing we will indeed look at is the IT segment tax concession as their investments will also depend on that front.

H.R.Gala Another worrying factor probably is if the interest rates go up, then all of a sudden we will find a very queer situation where by on one hand the fiscal measures are going to be very harsh to control the fiscal deficit and then monetary measures are also there to tighten inflation. So, on two ways if things get hurt, then probably new projects to come out of the drawing board and get into the execution cycle would be punctured a little bit?

B.Thiagarajan I think so, but the government is very clear - how to create employment and how to create growth. I think even if they hike the interest rate, it will keep in mind that growth should not get affected.

H.R.Gala Okay, thank you very much. Wish you all the best.

Moderator Yes sir there is one last question from the line of **Shefali Doshi of KJMC Capital Markets**. Please go ahead.

Shefali Doshi Sir, what will be your market share in window airconditioner as well as split airconditioner on an overall basis?

B. Thiagarajan All India some locations we have 20% market share. In Hyderabad, our market share is 20% and if we take all India, it will be somewhere around 6%. This is for total room airconditioners. If it is to do with window and split, our market shares will be somewhere around 7.5 in split airconditioner. It will be single digit for both, I think. That is why when the economy revives we see potential opportunity growth at business significantly.

Moderator Thank you Ms. Doshi. Ladies and gentlemen that was the last question and now I hand the conference over to Mr. Vir Advani for closing comments.

Vir Advani Thank you very much everyone for joining us on this conference call. We will look forward to talking to you after the end of the financial year. Thanks.

Moderator Thank you very much Mr. Advani, and thank you Mr. Thiagarajan. Ladies and gentlemen on behalf Blue Star that concludes this conference call.