



“Blue Star Q1 FY11 Earnings Conference Call”

July 29, 2010



MODERATORS:

MR. VIR ADVANI, EXECUTIVE DIRECTOR, BLUE STAR

**MR. THIAGARAJAN – PRESIDENT, AIRCONDITIONING & REFRIGERATION PRODUCTS
GROUP, BLUE STAR**

Moderator: Ladies and gentlemen good afternoon and welcome to the Q1 FY11 Earnings Conference Call of Blue Star. Joining us on the call today are Mr. Vir Advani, Executive Director and Mr. Thiagarajan, President Airconditioning and Refrigeration Products Group. As a reminder, for the duration of this conference, all participant 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 any assistance during this conference, please signal an operator by pressing "*" and then 0 on your touchtone telephones. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Vir Advani of Blue Star. Thank you and over to you sir.

Vir Advani: Good afternoon ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter ended June 30, 2010.

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

- We reported a Total Operating Income of Rs 664.83 crore for the quarter ended June 30, 2010, representing a 25% increase over the corresponding quarter in the previous year.
- For the quarter, Gross Margin declined from 28.3% to 23.6%, due to three primary reasons - higher input costs, change in business mix and a change in accounting policy related to provisions for bad debts.
- Operating profit (PBIDT excluding Other Income) for the quarter declined 10% to Rs 55.87 crore. Operating Margin decreased to 8.5% compared to 11.8% in Q1FY10.
- Net Profit at Rs 37.15 crore registered decline of 10% compared to 41.17 crore in Q1FY10.
- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 4.13 vis-à-vis Rs 4.58 in the corresponding quarter of the previous year.
- Carry Forward Order Book as on June 30, 2010 increased to Rs 1976 crore compared to Rs 1717 crore as at June 30, 2009, representing a growth of 15%.
- Order Inflow during the quarter increased from Rs 903 crore in Q1FY10 to Rs 925 crore.

During the quarter, the Company entered into an agreement to acquire the plumbing and fire fighting business of D S Gupta Construction Private Limited, the largest independent

plumbing and fire fighting contracting company in the country, on a slump sale basis for a consideration of Rs. 80 crore. The Company proposes to assign its rights and obligations under the said agreement to its wholly owned subsidiary Blue Star Electro Mechanical Ltd (BSEML), which would acquire and operate the said business upon completion of the acquisition. The promoters of D S Gupta Construction will continue to manage the business for the foreseeable future. The transaction is subject to customary closing conditions being met.

D S Gupta Construction Pvt Ltd is headquartered in Mumbai with a turnover of Rs 130 crore in FY10. Established over two decades ago, it has pan India operations and impressive credentials in segments such as hotels, hospitals, educational institutions, commercial buildings, IT/ITES parks and residential complexes. The Company has a carry forward order book of around Rs 300 crore.

This move will fortify an important pillar in Blue Star's integrated Mechanical, Electrical, Plumbing & Fire fighting (MEP) contracting offering. A few years ago, Blue Star recognized the trend of customers preferring an integrated MEP contractor rather than several independent vendors. In order to add electrical contracting capabilities, Blue Star acquired Naseer Electricals in early 2008 and began offering integrated MEP services after a successful integration and roll out of operations across the country. The plumbing and fire fighting contracting skills were being developed in-house. However, the Company thought it prudent to acquire these capabilities inorganically through a strategic acquisition, in order to leverage the growth opportunities available. With this acquisition, not only will the Company be in a position to aggressively pursue integrated MEP business, but will also bid for stand alone plumbing and fire fighting contracting projects by cross-selling its services to its existing airconditioning and electrical contracting customers.

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 Electro Mechanical Projects and Packaged Airconditioning business accounting for 57% of the total revenues in the quarter, grew 19% while segment results remained flat. The Operating Margin of this business in Q1FY11 was 9.1% compared to 11.0% in Q1FY10, mainly due to increase in input costs.

In the Central Airconditioning business, the Company saw good prospects from the healthcare, education, hospitality, power and steel segments. The Company also witnessed a modest recovery in the retail and real estate segments. During the quarter, Blue Star won three prestigious HVAC orders in the power sector. These included an order from Lanco for their 2 x 660 MW super thermal power plant coming up in Amarkantak; an order from BGR Energy Systems for 2 x 600 MW power plants in Kalisindh, Rajasthan and a ventilation order for Nabinagar power plant from NTPC.

The Electrical Projects business caters to both the commercial building market as well as the power sector. During the quarter, we received impressive stand-alone electrical orders in the power sector. These included Madhya Pradesh Electricity Board, Indore for fifteen 33/11 kV substations and augmentations; Central Electricity Supply Utility, Orissa for a 33/11 kV substation and Reliance Infrastructure for our first 220kV erection package. In commercial

buildings, we continued to win and execute several prestigious electrical jobs in a stand-alone, M&E and MEP model.

In Packaged/Ducted airconditioning and small chillers, there was a good inflow of orders from the light commercial segment such as showrooms as well as educational institutions. In addition, banks also contributed to growth. Blue Star's Precision Control Packaged Airconditioners (PCPAs) performed well driven by the rapid expansion of data centres in the country. The quarter witnessed the Company booking the largest PCPA order in its history of 1200 TR from Nokia Siemens, Bengaluru. The Company also booked a large VRF order from Chennai Public School.

The Cooling Products business comprises room airconditioners and refrigeration products and systems. Segment revenue registered a healthy increase of 33% in the quarter, driven by room airconditioner sales. Segment results increased marginally by 6%. The Operating Margin declined from 17.5% in Q1FY10 to 13.9% in Q1FY11, due to significant increase in input costs compared to the same period last year when raw material prices were at its lowest. The Room Airconditioners business performed impressively in the quarter recording a robust 34% growth. Sales from the residential segment were also significant, given the harsh summer season. The Company also doubled its room airconditioner sales from National Accounts during the quarter.

The Refrigeration Products business continued to perform well with healthy growth in the water cooler business, mainly from the manufacturing and educational institutions. The Company also witnessed considerable growth in the chest coolers and freezers business driven by the ice cream and dairy segments. Further, bottled water dispensers continued to do well due to enhanced demand from the residential segment, small offices and commercial establishments. For the cold chain, Blue Star offers equipment right from the farm to the fork. During the quarter, the Company booked significant orders from the hospitality segment.

The revenues of the Professional Electronics and Industrial Systems business grew significantly by 31%, while segment results registered a decline of 23%. Although revenue growth was healthy, the segment results performed below expectations on account of two reasons. Firstly, commission income on imports was far below budget on account of delayed orders and secondly, Industrial Projects billings fell short due to project delays. On a positive note, the Material Testing business which was adversely impacted due to the slowdown in the automobiles, construction and steel segments last year, grew impressively due to the economic revival as well as change in the product mix offering. The Medical Equipment business also performed impressively. And although billings fell short of expectations, the Industrial Projects team booked orders worth Rs 33 crore from Tata Steel for a gas boosting and mixing station and a pressure reducing station.

In conclusion, while Q1 financial results show strong revenue growth, higher input costs, change in business mix and a change in accounting policy related to provisions for bad debts adversely affected margins and profits. The Company is taking steps to address the impact of raw material and input costs. On the whole, the reasonable carry forward order position and

the growing Indian economy make the Management confident that our results will improve in the coming quarters.

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 sir. Ladies and gentlemen, we will now begin with question and answer session.. Our first question comes from line of Amitabh Sonthalia from SKS Capital. Please go ahead.

Amitabh Sonthalia: You have explained that your gross margins have been impacted due to change in business mix and change in accounting policy related to provision of bad debt; what were these changes in the business mix and the quantum of impact on the profit loss account due to the change in policy?

Vir Advani: Yes sure, on business mix one particular thing which I referred in my comments, essentially our third segment which is professional electronics, a large amount of that margin comes from commission income on imported goods - that has fallen compared to last year. Actually some orders were delayed as well as cancelled. This is what I was referring to as far as business mix is concerned. Otherwise at macro level projects and products, the mix is roughly the same. It's the commission income that is significantly different in this quarter. We have also always maintained that commission income tends to be lumpy from quarter to quarter, so it's very difficult to compare one quarter to the other as far as the third segment is concerned. But anyway in this particular quarter commission income is significantly lower. As far as the accounting policy is concerned, we make provisions for bad debts at the end of the year, so we do it once a year in Q4. What we have done from this year based on our auditors recommendation is that we have started providing for this on a quarterly basis. So for the quarter we have taken provisions of about just little less than 2 crores.

Amitabh Sonthalia: Okay. What was the commission income in previous quarter?

- Vir Advani:** We don't get into that amount of detail at this level, and you will see that at the end of the year.
- Moderator:** Thank you. Our next question comes from the line of Kirti Dalvi from Enam AMC. Please go ahead.
- Kirti Dalvi:** Would it be possible to get the breakup of contracting revenue in our segment one that is electromechanical project, the products and projects?
- Vir Advani:** No, we don't do that.
- Kirti Dalvi:** No, I am not asking for the commission part, I want to know whether it is an EPC kind of revenues and how much we had in the first quarter.
- Thiagarajan:** I understand your question, but we don't break down the segments further. However, I can say that segment one grew by 19% top line. The projects and product businesses both grew at roughly the same, but they were both in the vicinity of about 20%.
- Kirti Dalvi:** Okay. The second question is primarily on the cooling products, on an average industry growth, what would it be in Q1?
- Thiagarajan:** Q1, again our cooling products have got room air conditioners, refrigeration products and cold storages. So in room air conditioner, the market should have grown between 35% -40%, refrigeration products would have grown by 15%-20% because it is a summer season this particular quarter. Cold storages should have grown by around 30%.
- Kirti Dalvi:** Okay, would it be possible to broad mix in the cooling products segment?
- Thiagarajan:** 50% is room airconditioners; the balance 25-25 is refrigeration and cold storages respectively.
- Kirti Dalvi:** Okay. Generally our first quarter and the fourth quarter are very good quarters for this particular segment, do we see this pattern to continue this year as well?

- Thiagarajan:** Year after year the pattern slightly changes and summer skew is reducing slightly. You can say it should remain the same with a minor adjustment.
- Kirti Dalvi:** And the segment one since we have a very good order book currently, would it be possible that we can grow 25% in this segment or is it that the execution has elongated on this order book?
- Vir Advani:** No, I will just clarify; I think the order book is now normalized to take care of long gestation projects. So last year, we had explained to you that the order book was growing much faster than revenue. Now because we are transitioning from fast to slow moving projects that has not happened and therefore projects are now flowing through the order book clearly at a slower rate than 2½ years ago, but faster than last year. So we are expecting the projects business to grow between 20%-25% for the year.
- Moderator:** Thank you. Our next question comes from the line of Pritesh Chheda of Emkay Global.
- Pritesh Chheda:** On the project business side, the EBIT this quarter is flat despite good revenue booking in the quarter, what is the reason for this?
- Vir Advani:** Raw material prices are going up versus the same last year. Q1 of last year had probably the lowest input cost. They started rising for the last four or five months and so on a quarter to quarter basis, there is a clear difference in input cost. Like I mentioned, we hope that by the end of the year, this will get normalized to some extent, because we are expecting some ease off on this input cost pressure as well as we are buying a lot more this year. So with that, its not that larger billing is larger profit but the main point is that larger billing means more purchase and more purchase means more purchasing power and therefore we hope to be able to be able to cut some of the cost.
- Pritesh Chheda:** Okay. On the billing side based on the current order catalogue, is it evenly spread out in the quarters or are the orders are largely executable towards the end of this year?

- Vir Advani:** Bookings happen through the year, billings as you see for the last few years results of Q4 is the largest billing and that will probably be submitted this year.
- Pritesh Chheda:** We got some electrical projects in the power side. Will this also be booked in the first segment or this then forms a part of the professional electronics and industrial systems segment?
- Vir Advani:** No, such electrical projects form a part of segment one and there is something else that we call industrial projects. That is the part of Segment C. So for industrial projects what I mentioned, billing was lower than what we had anticipated There have been delays and therefore our billing has been delayed there.
- Pritesh Chheda:** And lastly since D.S. Gupta Construction is now acquired, would you share the broader figures and the growth prospects there?
- Vir Advani:** We have not yet finished the acquisition. We are hoping to do that in other couple of weeks. We have done the signing. They had revenues of Rs 130 crore last year & have a carry forward order book of about 300 crores and about 300 employees. We will be sending out the separate communication with some more detail once everything is done.
- Moderator:** Thank you. Our next question is from the line of Sanjeev Zarbade from Kotak Securities.
- Sanjeev Zarbade:** My question was on the D. S. Gupta Construction, what is the strategy here, can we amalgamate the company into our current business or can we grow it independently because it's a different vertical probably?
- Vir Advani:** What we have been talking about for a little while now is how buildings, commercial and residential building construction is undergoing change in India. Earlier you had several contractors coming in and coming together and putting up a building. We were having air-conditioning contractor, electrical plumbing, fire fighting. Now what is going on is that more and more projects are getting organized under a civil contractor and under an electro-mechanical contractor and then interior contractors. Three primary

contractors take on the bulk of the work, interiors you understand is fittings etc. Electromechanical is where we are playing and under electromechanical we include air-conditioning, electrical plumbing, fire fighting. With that background, the company that we are acquiring is a plumbing and fire fighting contractor. Historically they have worked alongside Blue Star in most of the projects that we have done. We are now acquiring that business. We are housing it in a subsidiary for tax reasons more than anything else. But the business will be run seamlessly under our electromechanical projects with us and these that we will be tendering and executing projects together.

Sanjeev Zarbade: And the funding would be done through internal accruals?

Vir Advani: Yes internal accruals and borrowings, between the two, we will be funding.

Sanjeev Zarbade: And our tax rate for the quarter has increased to some 29%, for the full year, it should normalize to around 26%-27%?

Vir Advani: No, it can be 28. It has gone up on account of one of our factories coming out of income tax benefits and so you should expect the higher tax rate for the year.

Moderator: Thank you. Our next question comes from the line of Sanjay Satpathy from Merrill Lynch.

Sanjay Satpathy: What is the amount of other inflow for the quarter?

Vir Advani: 925 crores.

Sanjay Satpathy: And can you give us some more sense on the order inflow being driven by the new segments like electrical etc., or the core business has also started recovering?

Thiagarajan: Some of them have started recovering. We are seeing order flow in the airconditioning projects, packaged airconditioning. In any case the room air conditioners, has never slowed down that continues to be growing.

Sanjay Satpathy: And can you give us more sense of how the competition is and whether the raw material cost is the only reason why the margin had gone down or it is also because of competition?

Vir Advani: Pricing has been fairly stable in the market, this is on the product side. For the projects, we have been talking about pricing being under pressure for the last 18 months and that continues and that we should expect to continue until market recovers which I think we are still about 4-6 months. The pricing continues to be an issue. On products, my own sense is that pricing has not been a major concern; it's mainly been around raw material costs.

Sanjay Satpathy: And in terms of the project business effort, are you saying that the pricing is still under pressure, but the new order inflow has started picking up, so can you give a sense of how many quarters we are aware from the margin and the pricing and revenue growth coming out to be much stronger?

Thiagarajan: I will clarify that revenue growth has already started as you can see, and the issue is on new order inflow which has still not recovered. So we think that we are still about 6 months away from new order inflow recovery. Once new orders start to flow in then there is a further lead time on pricing improving because you know that first the market opens and the vendors start booking business and then the company starts to get more choosy about what business they are booking, so I think we are still about a year plus away from pricing moving up.

Moderator: Thank you. Our next question comes from the line of Nirmal Shah from Alchemy.

Nirmal Shah: Can you just help me in figure the execution cycle for the electromechanical work on our industrial side vis-à-vis the traditional airconditioning side, is there any difference or are they the same?

Vir Advani: In power we do electrical projects and in industrial we do mechanical projects. In both of them execution cycles are around 12-18 months.

Nirmal Shah: So right now on our current order backlog what would be the execution time?

Vir Advani: About 14 months.

Nirmal Shah: Okay. So if we compare the execution cycle, let's say year and half before than what we have right now, because of the longer execution cycle, are we more prone for a raw material risk in terms of volatility vis-à-vis then we were before?

Vir Advani: Yes, so you answered your question with an answer. I think I will have to agree with you, longer execution cycles tend to have that problem. However on flip side, if you look at raw material price movement in the last 15 months, you will see very significant movement both positive and negative. And so on one level actually a longer execution cycle allows you to even take advantage of prices coming down which we have seen. So if it's up on a macro level, I will agree with you. But on the ground, we are seeing some benefit also by being long term. But honestly these prices, I know if you follow copper and all on the LME, it looks like rollercoaster, so it's very difficult to say which way this thing will go.

Nirmal Shah: Okay. What is the CAPEX for this year?

Vir Advani: This year, it will be roughly around 20 crores of 35 crores; this will not include the acquisition cost.

Moderator: Thank you Mr. Shah. Our next question comes from the line of Shiladitya Das Gupta from ICICI Prudential.s

Shiladitya Das Gupta: I wanted to understand what is happening on the working capital because if things are recovering, do you find some kind of a relief? Second thing, you had also indicated that ducting business seems to be a very good indicator of things to come, so how is that business doing?

Vir Advani: Our ducted systems business is our packaged air conditioner business. So two things, on capital employed you can see that it's is still high. We have not seen any respite on that yet. Essentially what we had said was, we expect debtor position to start improving in the second half of this year, around September or October. We should start to see some improvement which will be the first indication that the projects business is in fact improving. So we

have got a few more months to work on that and we intend to. We have not seen that yet as you can see from the June numbers. As far as the ducted systems business goes, Q1 saw a growth for the first time in several quarters. It would have been about 15%. So month on month the ducted systems business is improving

Thiagarajan: Packaged airconditioning business sells into medium sized application or what we call commercial, light commercial application and we feel that that is the indicator. Once that business starts growing, then about 6-8 months after that we expect the larger projects to also start moving. So we are happy to see that month on month that business has started growing now after about, what 15-16 months of negative growth. . So that's a positive sign and we are tracking that quite carefully.

Shiladitya Das Gupta: Talking to customers on project side, they say that still things are not picking up, what sense are you getting? Are people still apprehensive of the environment?

Vir Advani: I don't know if this apprehension essentially comes. You know our business 80% of it is commercial real estate and the fact is that in all the major markets there is still excess capacity that has been built prior to 2009 and that has not been pushed out of the system yet. So unless that happens we are not going to see significant turn.

Moderator: Thank you. Our next question comes from the line of Shefali Doshi from KJMC Capital Markets.

Shefali Doshi: As far as your third segment was concerned, you mentioned that there was a decline in the commission and that was for two reasons, one was that the imports were down on account of delays and cancellation of orders. So, what was the amount of this delays and cancellation of orders?

Vir Advani: This segment includes three types of businesses, the first one is imported equipment that comes in and on which we are paid the commission. The second one is on system integration work where we get paid and there is a gross margin attached to that. And then there is a third type of business which is our industrial projects business which is very similar to our

electromechanical projects business. The first one is a commission business that tends to be very lumpy from quarter to quarter. Its very difficult to forecast how much commission income is going to come in a quarter. It depends on the time it lands at port and it is cleared, it could be either Q1 or Q2. On account of all that so we had forecasted a certain commission income in Q1, it did not happen, it will catch up in Q2, The second thing as far as industrial projects is concerned, I made a point, these are projects that we execute in integrated steel plants and there were delays in those projects, unforeseen delays on account of which we could not bill as much as we had expected.

Shefali Doshi: Okay. Another thing on your DS Gupta Construction, as you mentioned that the company will be run on an independent basis, so will there be any sharing of revenue in future on whatever projects you get through DS Gupta Construction Company in fire fighting and plumbing segment?

Vir Advani: This will be a 100% subsidiary of Blue Star and we will be consolidating the results of DS Gupta, which has been renamed now as Blue Star Electro-Mechanical Ltd. But for the first year, you will see the consolidation only at the end of the financial year. So we will be owning the company from, I expect another 15 days from today and we will be running it along with the promoters and we will be owning a 100% of the business.

Shefali Doshi: Okay. Can you share the margins of DS Gupta with us?

Vir Advani: No, we can't. We will share more financial information with you once we close the transaction.

Shefali Doshi: And has the amount of 80 crores already been paid or is it still to be paid?

Vir Advani: We have signed the purchase agreement. Along with signing, we paid an advance of 20 crores. The remaining 60 crores is to be paid on closing and that we expect will be in the second week of August.

Shefali Doshi: Can you share the debtors days and inventory days as of Q1?

- Vir Advani:** No we don't get into our balance sheet on a quarterly basis, you can just look at the capital employed, and it will give you some indication of what it is.
- Shefali Doshi:** Can you share the cash on hand?
- Vir Advani:** I am not sure.
- Shefali Doshi:** And industry wise breakup of your order book?
- Vir Advani:** Again we do that once a year, we have not done that as of now, I should have done it in this time, I will make sure we do it in our next call, sorry about that.
- Moderator:** Thank you. Our next question comes from the line of Mitul Mehta from Lucky Securities.
- Mitul Mehta:** My question to you is basically on the margin side, where we have seen margins being volatile between 9%-11%. In good times we have reported 11% with lower raw material prices and with higher raw material prices it has slipped to about 9%. So at steady state, what EBITDA margin can we anticipate going forward?
- Vir Advani:** We are trying our best to make sure that we keep in double digits. We feel that we should be able to. We are trying to reach last year's level. If we don't, then we hope to be at least in double digits
- Mitul Mehta:** And you did give us a guidance of 20%-25% growth in the segment A, but on the overall, would you give us some indicative growth? What kind of visibility do you see for Blue Star?
- Vir Advani:** We don't give this guidance. If you look at our carry forward order book, you can see it is up and you can see what's happening in segment two and three. So if one looks at that 20%-25% revenue growth should not be a problem.
- Mitul Mehta:** You seem to be gaining a lot more traction on the power side, what kind of opportunity do you see going further in this particular segment?

- Vir Advani:** It's still small. We are talking about it because it is new for us. This financial year, I don't expect it to contribute from a booking point of view more than 100-150 crores, so it's relatively small. We expect first major project to be commissioned and handed over in another 9-12 months, which is when once with those certificates then it becomes a lot more scalable.
- Mitul Mehta:** Incrementally whatever visibility that you see going forward and whatever orders we are booking, where is the thrust coming, where the impetus is coming? Is it if from the government side, it is more from the private side, and are you really seeing disbursement of fund happening on the ground?
- Vir Advani:** The growth is from private sector. It continues to be from hotels, hospitals, educational institutes, smaller shop showrooms for our product business, etc. So it is still not coming from the large buyers. Large buyers for our electromechanical services projects products are pretty slow still and I think it will be another six months before that improves.
- Moderator:** Thank you Mr. Mehta. Our next question comes from the line of Mayur Patel from Spark Capital. Please go ahead.
- Mayur Patel:** I just want to touch upon the units like cooling. We have recorded robust 33% growth. What kind of growth can you expect, just a guidance required for say relatively stable quarter like Q2 and Q3.
- Thiagarajan:** All that you can say is in the full year period; at least 25% growth is expected in the segment.
- Mayur Patel:** Okay. And I don't want an exact breakup, but out of the current order book, what will be the large commercial retail or commercial office in our traditional market share?
- Thiagarajan:** Large retail should be practically less than 5% since that segment has not opened up yet. It is only some hyper markets are happening here and there.
- Vir Advani:** So a broad answer is about 20%-25% of the order book will be IT retail. You know it would be the old large contributors.
- Mayur Patel:** Okay. And is our Dadra unit out of tax exemption?

- Thiagarajan:** In Himachal it is 30%, it used to be 100% last year.
- Mayur Patel:** Okay. So is there any such unit which going forward would remain under the tax shelter?
- Thiagarajan:** I don't think in the immediate future. There are some small R&D investments. We are trying to get it clear and we may probably invest in a small expansion in Himachal, but till the tax rate guidance you should take it as 28%.
- Mayur Patel:** Okay sir, and airport especially from the Mumbai Airport which is big opportunity for electromechanical company, do we see any order inflow in going forward?
- Vir Advani:** Yeah I think as far as airports are concerned only Mumbai Airport is remaining. I believe Goa is also there, but we have not heard much. But other than that, expansion is on hold, there is a lot of talk, but absolutely nothing on the ground. For the next 12 months as far as infrastructure is concerned, all the investment that is relevant to our business is in metro rail essentially Kolkata, Bangalore, and Chennai metros.
- Mayur Patel:** Metro opportunity would be around 1200-1300 crores?
- Vir Advani:** Yes probably roughly that.
- Moderator:** Thank you. Our next question comes from the line of Madhuchanda Dey from Kotak. Please go ahead.
- Madhuchanda Dey:** On the whole, lot of sectors where activity hasn't yet come back in the last six months, are there any sectors where you have seen perceptible change especially off late?
- Thiagarajan:** Yes, in the small commercial segment shops, showrooms, boutiques of 1000 sq ft. 1500 sq. ft. lot of activities are taking place. In all restaurants and fast food chains lots of activities are taking place. Here again, there were no vacant spaces, so these are new spaces being occupied and being airconditioned as far as our businesses is concerned. The education

institutions are happening, banks, health care and hotels of course have been active for the past one year or so.

Madhuchanda Dey: We have been hearing IT companies increasing their recruitment guidance, have you started receiving inquiries from IT sector in general?

Vir Advani: No, we had excess capacity before the downturn and I think they are also changing a lot of their formats of how many square feet each employee occupies because operating cost has also become a big concern. So I think between excess capacities and redoing their own internal requirements, we still are to see anything.

Madhuchanda Dey: Okay. And in view of this acquisition that you did, you have been doing this kind of acquisition to fill in gaps wherever they exist, so are there any further areas of gaps that you are looking at?

Vir Advani: No, we are not evaluating anything in the current financial year. But in the future we will be looking to fill gaps in the power sector and in the industrial markets, both of these involve both electrical and mechanical EPC work. We will be looking to fill gaps but not in the current financial year.

Madhuchanda Dey: If you just could elaborate a little bit what is the area of opportunity that you are looking at power?

Vir Advani: What we have been mentioning over the last six months, we are looking at standalone electrical projects in the power sector which is transmission distribution essentially building substations. And in the industrial market we focus on mechanical EPC work which is essentially related to piping work in and around the blast furnace. So in these two areas, there has to be new businesses for us which are relatively small right now, we are still incubating them. Some time in the next 12-18 months once they are more citable and we perhaps look to fill some gaps there.

Moderator: Thank you Ms. Dey. Our next question comes from the line of Chirag Setalvad from HDFC Mutual Fund.

Chirag Setalvad: Could you tell us if there are any large chunky orders in the order inflow for the quarter?

Vir Advani: No, there weren't. Actually in same quarter last year, we had very large Delhi Airport Metro Express Rail order that we had booked. In this current quarter, there isn't anything significant like that.

Chirag Setalvad: And has Mumbai Airport order been handed out? What would be the size of that order if you could indicate that?

Vir Advani: You will be hearing about that in other 10 days.

Moderator: Thank you. Our next question comes from the line of HR Gala from Quest Investment Advisers.

HR Gala: Just a very broad question from my side, during our meetings etc., you have said that we got into this project business because of the slowdown in the traditional areas of commercial airconditioning, central airconditioning etc. Say if over next 12 months or so, if you see improvement in that segment, do you think our exposure to the other industrial projects and power could come down and we can spring back to the earlier levels of profitability, do you see that happening?

Vir Advani: I think what's happened is that all these businesses will grow simultaneously. So the product business is obviously more profitable business. We are hoping growth will resume sometime in the next three to four months essentially in ducted system and large central plants. You know you can see room air conditioners has already recovered and growing. The project business has been sluggish over the last year, we are now seeing revenue growth there because the order book has converted to longer gestation, but we expect that six months from now once projects are back online and CAPEX is back, the projects business will scale faster simply because as you know we are now addressing a much larger rupees value in every project that gets finalized. So just from that point of view the projects business as a percentage of the overall business will grow faster. And so to that extent there will be a business mix impact on the margins of the company. But we are hoping that the capital employed will also reflect that because hopefully the capital

employed on commercial building MEP work is definitely better than capital employed in industrial projects and other longer gestation projects. So therefore even though the margin profile may change, the capital employed profile will change and therefore the return on investment should actually improve, that's at least how we see it right now, we will see how things pan out. But for the next 12 months we are very focused on input cost issues improving how we procure what we buy where we buy from because that is a major issue that we are up against as you can see and we need to lift that by the end of the year.

HR Gala: Okay. The second question pertains to, you gave an indication that you may look at some M&A opportunity in the power P&E and industrial projects side. Now in case you don't come across any target, how do you develop the domain expertise which is required in each of these fields where I believe there are experts who deal with the steel companies and power projects and P&E and all that.

Vir Advani: Yes you are right. That is why we chose to look at acquisition as a way to fill gaps. But where we stand, what we can see from both these markets and perhaps new markets in the future is that there is a vacuum of qualified electromechanical contractors in project ties between 20-200 crores. Above 200 crores you have fairly large well established players already out there. But in this 20-200 you either have the large players coming down to execute these, which is not their focus area. You have small mom and pop contractors, labor contractors who are taking free issue of material from customers and hopefully building it out. As the investment cycles change in these markets where customers are deploying - especially private customers- are deploying multithousand crores into a project and they want turnaround time which is faster than most of the world, it's very difficult for them to execute these projects with labor contractors. And similarly the large contractors will not want to operate in this part of the market. Our capability is in contract management, the technical competence of course needs to be built but fundamentally - your success or failure on a contracting business is on how well you manage the contract. So we are defining the technical scope to be either electrical or mechanical. We are defining that we want to work within an enclosed parameter. That means it has to be within an industrial

facility or within sort of cordoned off area. We are not very good at doing contracting work that cuts across hundreds of miles of open area. So we stay away from all of that and then we cut down to fundamental capability of contract management execution in a vacuum in the market and these segments and we think we can succeed.

Moderator: I would now like to hand the floor back to Mr. Advani for closing comments.

Vir Advani: Thank you very much everyone, if there were any questions that we were not able to answer please send us an e-mail otherwise we will speak next at the end of quarter two. Thanks again.