"Blue Star Q1 FY10 Results Conference Call"

July 30, 2009

MODERATORS: MR. VIR ADVANI – PRESIDENT, CORPORATE AFFAIRS & SPECIAL PROJECTS, BLUE STAR LIMITED.
MR. B THIAGARAJAN – PRESIDENT, CHANNEL BUSINESS GROUP, BLUE STAR LIMITED.

Moderator Ladies and gentlemen, good morning; this is Rochelle, the Chorus Call Conference operator. Welcome to the Blue Star Q1-FY10 results conference call. We have with us here Mr. Vir Advani - President – Corporate Affairs and Mr. B Thiagarajan, President – Channel Business Group from Blue Star. As a reminder, for the duration of this presentation all participant lines are in a listen-only mode and the 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 touch-tone telephone. At this time I would like to hand the proceedings over to Mr. Vir Advani of Blue Star, thank you and over to you Mr. Advani.

Vir Advani 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 June 30, 2009.

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

- We reported a Total Income of Rs 539.81 crore for the quarter ended June 30, 2009, representing a 14% decline over the corresponding quarter in the previous year.

- For the quarter, Gross Margin increased from 24.1% to 26.7%, due to softening of the raw material prices.

- Operating profit (PBIDT excluding Other Income) for the quarter grew 9% to Rs 61.23 crore. Operating Margin increased significantly to 11.4% compared to 8.9% in Q1FY09 owing to tight control on operating costs and cost of sales.

- Net Profit at Rs 41.17 crore registered growth of 13% compared to 36.41 crore in Q1FY09.

- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 4.58 vis-à-vis Rs 4.05 in the corresponding quarter of the previous year.

- Carry Forward Order Book as on June 30, 2009 increased to Rs 1717 crore compared to Rs 1410 crore as at June 30, 2008, representing a growth of 21%.

- Order Inflow during the quarter declined from Rs 947 crore in Q1FY09 to Rs 903 crore. While the order inflow is lower than the same period in the prior year, it is heartening to see that this is the first sequential quarterly growth in the past four quarters.

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 declined by 15% during the quarter. Segment results declined by 21% in the quarter compared to the corresponding quarter in the previous year. The Operating Margin of this business in Q1FY10 was 10.5% compared to 11.4% in Q1FY09, mainly due to slower billings in segments adversely affected by the economic recession. In the central airconditioning business, the Company saw good prospects from the infrastructure, healthcare, hospitality and education segments. Despite the slowdown in the core IT segment, the Company witnessed growing business opportunities in third party data storage which houses and maintains high-end electronic servers to provide support to many leading business houses to park their data in electronic format. During the quarter, the Company strengthened its foothold in the healthcare segment with prestigious orders from Bangalore Medical College and ESIC hospitals at Jaipur and Bangalore, together valued at Rs 27 crore. The Company continued to aggressively pursue business from the Government of India and won prestigious orders from CPWD for Hall No 18 at Pragati Maidan and for the Hatsoff project by HAL, Bangalore. Blue Star also booked an integrated M&E order for the proposed state-of-the-art Tamil Nadu State Legislative Assembly Complex.

In packaged/ducted airconditioning and small chillers, offices continued to be the major driver for growth. While the IT/ITES segments continued to be adversely affected due to the slowdown, the retail segment showed some signs of revival. The business also witnessed enhanced demand for industrial applications. The Company sustained its leadership position in the telecom segment with its customized array of telepac airconditioners especially designed for the telecom industry. Blue Star's Precision Control Packaged Airconditioners (PCPA), which have been specially designed for the data centre segment performed exceptionally well.

The newly formed electrical projects business performed impressively. 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.

Overall, as indicated earlier, this was the first quarter of sequential growth in Order Inflow. While it is too early to extrapolate this into a positive trendline, we are seeing owners and operators cautiously returning to the drawing board on old projects. This should translate into an improvement in order inflow toward the end of the financial year for us. While this is indeed positive, we remain concerned about price realization in these projects.

The cooling products business comprises room airconditioners and refrigeration products and systems. The Cooling Products segment declined by 12% in revenue during the quarter. However, segment results registered a healthy increase of 19%. The Operating Margin increased significantly from 12.8% in Q1FY09 to 17.3% in Q1FY10, due to differentiated products resulting in higher price realizations and softening of raw material prices. The room airconditioner business performed impressively in the quarter with enhanced business from the education and banking segments. Sales from the residential segment were also impressive, given the harsh summer season. The refrigeration products business continued to perform well with growth from the ice cream and dairy segments.

The Professional Electronics and Industrial Systems business has an innovative business model of a system integrator and value added re-seller. During the quarter, this 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 registered a growth of 31% during the quarter. The main highlight for the quarter was the award of a prestigious turnkey project order from Indian Iron & Steel Company, Burnpur, valued at Rs 42 crore. This is the largest order ever won by the division and is the first order for a centralized compressed air station. The company sees good prospects for similar projects in the Iron & Steel, Power Generation and Oil & Gas industries.

In conclusion, the dull economic situation has affected demand in several segments, leading to delays in project execution and decline in topline growth. However, the Company’s focus on value engineering and stringent cost control measures has enabled it to significantly enhance margins and profitability. Further, the carry forward order book continues to be reasonable with several large infrastructure-related jobs expected to get executed over the next few quarters. Though the overall economic scenario is not very clear, the Company is confident that its diverse experience, leadership position and strong credentials will see it through these current conditions and enhance its prospects for the future.

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 Mr. Advani. Ladies and gentlemen we will now begin with the question and answer session. Anyone who wishes to ask a question at this time may please press * followed by 1 on their touch-tone telephone; our first question is from the line of **Rahul Bhangadia of Lucky Securities**, please go ahead.

Rahul Bhangadia Sir, could you help me with few debtor points, at the end of the quarter what was your inventory and sundry debtors in absolute terms?

Vir Advani We do not give you the balance sheet data just as a procedure but you can see from the numbers where capital employed is up; that's largely on account of debtors increasing. Inventory is very much under control, so actually compared to the same quarter in the prior year, there is a dramatic improvement in inventory. The reason is that you may remember last year the entire industry had overproduced on room air conditioners, and so there was a lot of stock piled up across the board including with us - that took us about 2 quarters to clear out. This year we have not had the same problem; in fact its been the reverse; we had stock out on room air conditioners and so inventory is much under control but debtors have risen slightly over Q4. You have the Q4 numbers, they have well increased marginally over that.

Rahul Bhangadia Okay so it is above the March number as of now at least?

Vir Advani Yes it is.

Rahul Bhangadia Okay! Where do you see these margins, do you see them sustaining, of course these margins have been helped by the fact that raw material prices have gone down but where do you see them over the next 3-4 quarters?

Vir Advani Yes, so you are asking the million dollar question. We are struggling with this as well, maybe we can look at the two main segments that is probably important, well I think I will cover all three.

In segment I you can see margins are down. The main driver for that is price realization being down significantly. However, for the rest of the year margins should be slightly better than what we have seen in Q1 and in this business looking at quarterly margins is not very sensible, because what happens is we have closed a couple of large-old projects that finally got commissioned in this quarter. These projects, given when they were booked, which was maybe over 24-36 months ago, by the time they have been commissioned, the margins have been affected negatively. Some of that have come into this quarter numbers and brought down the operating margin to about 10.5%. I think that going forward we see slightly better margins. Probably, as good as last year and hopefully a little better if things hold out the way we are hoping.

As far as Segment II goes, there you have seen a dramatic jump in margins. I think there it would be difficult to sustain this because as you know raw material pricing is now stabilized, marginally increasing as well and in this segment, raw material flows through the system much faster than in Segment 1. So, we should expect lower margins than Q1, though we are still aiming to maintain last year's margins on an overall basis. I think in the next few quarters you will see more realistic margins coming in.

As far as Segment III goes, it is very difficult to look at revenue and margins and make any sense of it. Overall Segment 3 will see a muted year which means that there will be some growth. Again, we do not look at revenue as much as the profit because that is really what counts in that business. So, on the profit line we will see some marginal growth, it will not be exceptional because many of the segments that we are selling to, the CAPEX cycles, while they have returned, have been slow. The steel industry for example, even the oil & gas industry and in power, while there is a fair amount of buying, there is still some time before things ramp up. So, overall probably there will be some growth in segment III but not exceptional and the margin should hold compared to last year.

Rahul Bhangadia Okay and you said the pricing in the central air conditioning division was under pressure, could you give us an idea of how much reduction we have seen in the pricing in a year-on-year or a quarter-on-quarter basis?

Vir Advani Well, the problem is that these are projects.

Rahul Bhangadia I know….. I just need a rough sense, I understand that projects basis.

Vir Advani Yes, I would hazard a guess of somewhere around 10% to 15%.

Rahul Bhangadia But would not that also be correspondingly netted off by the fact that raw material prices would have gone down?

Vir Advani Well, again in our projects business, you will be surprised to know that we do not buy too much raw material, most of it is finished goods including ducting which we buy profile, we do not buy a sheet. So, whether it is chillers, pumps, and air handlers, whether they come from the factory or they come from outside, these are equipment suppliers so their prices have come down, but equipment pricings does not drop as dramatically as project pricing does. But again like I said, I think this Q1 is bit of an anomaly. We are fairly confident that margins will improve. Even though pricing is under severe pressure I am expecting our input cost to be matched in reduction. So, I would look at Q1 as an exceptional quarter, a negative exceptional quarter for this business, I think going forward it should be better.

Rahul Bhangadia Thank you sir, that is it, thank you very much.

Moderator Thank you Mr. Bhangadia. Our next question is from the line of **Nirmal Shah of Alchemy Shares**, please go ahead.

Nirmal Shah Sir, I just wanted to have a sectoral breakup of the order book and the average execution period for the same?

B Thiagarajan See, what we gave you in last conference call, there is no significant change from that at all. We made a rough estimate of which sectors are giving us what kind of order inflow. All that we can tell you right now is that the majority of the order inflows are from infrastructure related projects. IT/ITES as well as retail are not showing any revival. We are beginning to see inquiries coming in from retail, hotels & education sectors. Other than infrastructure, these are the three segments and as Vir mentioned, the telecom sector has been doing well and it will continue to do well for the rest of the year.

Nirmal Shah And sir considering the project execution delays, is there any change in the average execution period for the order book?

Vir Advani Yes, there will be. Frankly, we have not done a scientific calculation of it. But last year was a funny year because the first half and second half were completely different. We go back a year before that, we had said that average execution has come down to about 7 months. Let's avoid last year because we do not quite know what it was. Currently, now the things have settled down and we are seeing movement, I think that equivalent 7 months may have crept up to maybe about 10 months or so mainly on account of two things - one is of course the jobs are slow that means customers are moving slower than expected and secondly the share of infrastructure project as a percentage of the order book has grown dramatically and these will naturally be slower moving, so it is a combination of both.

Nirmal Shah Okay thanks a lot sir.

Moderator Thank you Mr. Shah. Our next question is from the line of **Sanjay Sathpathy Merrill Lynch**, please go ahead.

Sanjay Sathpathy Sir, I wanted to understand the revenue growth trend of your cooling products segment, while you are saying that your inventories went down substantially but the revenue is down from 12% year-on-year and it has been showing declining trend for last 3 quarters, can you give some sense on that?

Vir Advani Yes this is a combination of three businesses shown as room air conditioners, refrigeration products and cold chain business. Of course, the big one out of all of them is room air conditioners so that's what really drives the numbers. So, let us talk about room air conditioners. Basically, what happened for the entire industry for last summer, the summer for us starts in about March and runs to about June. So, everyone had built up inventory for last year's summer. Business revenues did not close, sales did not happen, so the entire industry got saddled with a huge amount of inventory including us that lasted till about November-December. We spent most of last year's time to reduce inventory. When January 2009 came to decide about this current summer, because this is a 3 months cycle on deciding production volume, we all budgeted for somewhere between 0 and some negative 5% growth as far as the industry is concerned and therefore for each of us, but I mean pretty much everyone in the industry did that. So, what ended up happening is that, surprisingly the sales did quite well, I do not know what the number is but I believe that there was an overall growth in room air conditioner sales over the prior year. So, because of that we stocked out of one problem, so you will see revenues dropping in spite of me saying that the inventory was under control. Second thing is we had an internal issue which is that we moved over to SAP as our ERP backbone on April 1st and generally the right practice is to start on the first day of the financial year and in any migration you lose about 15 days. There is a blackout in which you cannot actually run any transactions. So, we had two weeks blackout in the month of April. Now, for the rest of the businesses it is not significant because business continues, wherein room air conditioners is very sensitive to even a day or two blackouts of transactions. So, the combination of the blackout as well as not having produced enough because of our fear of the market situation led to lower revenue. Going forward for this year, we are expecting there to be marginal improvement over the prior year as far as both volumes and revenue is concerned for room air conditioners.

Sanjay Sathpathy Sir, can I just ask what proportion of the segment revenue is from the room air conditioner?

B Thiagarajan Again for the quarter it will be very high because it was a summer period for the year. We do not actually give you that but I think on an annual basis it should be about half the segment. However, for this quarter it maybe higher given that it was a summer quarter.

Sanjay Sathpathy Sir, in this segment are you worried that you lost out in terms of having a stock out situation and that opportunity may not really come back again and so that is a major opportunity loss, is that what you are trying to say?

Vir Advani Yes I mean in room air conditioners if you are stocked out then you lost the sale because no one waits three months for a room air conditioner. So, to that extent you are right but I think most of the players in the industry I think landed up with the same situation. But I think at best as against a revenue de-growth of some 10%, we may have seen a revenue growth of some 5%, I am not saying that the demand grew by 30% or something and we lost out 50 or

100 Crores of business. We are talking about relatively small differential but even though it is a loss of business.

Sanjay Sathpathy So, that is precisely the reason why you managed to report a much better margin for the segment?

Vir Advani Yes, I will say that we held on to our pricing because we were stocking out, we were able to be selective about the business but I do not think we charge some 20% premium over the market frankly. It was not as though we were rationing out room air conditioners. So, I would say that as against having to maybe drop prices we are able to hold it. So, to some extent the margins have been positively impacted by this situation. Like us, everyone else in the industry has obviously increased production so we are not expecting stock outs for the rest of the year and so to that extent again the margin should float down to more realistic levels.

B Thiagarajan Yes we have another reason as well. Due to the stimulus package Cenvat reduction that has gone as a reduction in the countervailing duty of all imported components, it is a very significant part of the cost reduction as well, going forward…..

Sanjay Sathpathy Can you quantify that sir?

B Thiagarajan Cenvat reduction was 6% due to stimulus package, which came into effect in Q3-Q4 of last year. Last year's Q1 to this year's Q1, strictly speaking 6% should be the reduction in the input cost itself, due to Cenvat reduction. Going forward, if the markets are not picking up, the manufacturers will reduce price, because obviously they will be interested in increasing the volumes rather than increasing the margins; that is what is going to happen. So, going forward I think the margins will be lowering, you can see that trend very clearly.

Sanjay Sathpathy Okay, so you think that though the summer was great, subsequently there may not be a really good amount of demand?

B Thiagarajan In June itself the market showed that the rough estimate of the industry is flat compared to last June. There is no growth to be seen, whereas April-May might have seen a growth of 15%. And also our initial feedback is that July again is flat. This is basically because the residential sector would have bought more, rather than commercial or industrial.

Sanjay Sathpathy Okay so sir on the commercial space, both in room AC, as well as your project business that you are still not too sure whether it will grow or not in this quarter but do you see enough signs of revival in the second half?

B Thiagarajan We are seeing revival in the sense that first of all in infrastructure there was never a slowdown. There is nothing to complain about railway or power or telecom, these sectors never slowed down and they will continue to grow. As far as other sectors are concerned we are definitely seeing order finalization taking place in hotels, there is some activity in retail and in healthcare. Quite a few people have gone back to the drawing board; I suppose there are enough signs that the second half of the year should be growth.

Sanjay Sathpathy Okay thanks a lot sir.

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

Kirti Dalvi Just wanted to check, our order book belongs to our segment EMP only or there are some cooling product orders also?

B Thiagarajan There will be all segments; even electronics from Segment 3 is included but when we talk about pending orders predominantly it would be from Segment 1.

Kirti Dalvi Okay, what is the proportion of packaged air conditioning in our segment EMP?

B Thiagarajan It all depends on how one defines packaged airconditioners. It is very difficult to say that because packaged airconditioners is a product, which may go into large central airconditioning, in the same way a chiller may go into packaged airconditioning project. The way to look at it is what is defined as a packaged airconditioner? Like a VRF is also called as packaged airconditioners by some. So, all that you should be concerned is that it relates to medium and the large spaces, starting from showroom, restaurant, boutique, hotel, to airports & power plants.

Vir Advani And just to add I think what is clear is that the medium segment has been more impacted than the larger applications for some reasons.

Kirti Dalvi Okay the question is because I think this is the most scalable business compared to a project business, because probably the lead time could be one or two months, correct me if I am wrong?

Vir Advani No you are right.

B Thiagarajan You are absolutely right. The question is when the revival is taking place. In hospitals or retail, for space to be occupied and for interior decoration to happen it takes 8 to 10 months of time for us to convert it into revenues. Retail shops, showrooms, boutiques or a small clinic or a small hospital can happen in 3 months of time. And if it is a split airconditioners, it can happen within 1 month. Therefore, to that extent it is a critically important business for us.

Kirti Dalvi Sir, was there any kind of FOREX gain or loss in the first quarter Q1-FY10?

Vir Advani Frankly, we have not tracked that this quarter, but it was nothing significant. What we will do is we will get that and circulate it.

Kirti Dalvi Okay and what is the share of the exports in the total revenue in 1st Quarter?

Vir Advani Relatively small, because we had said in the second half last year, most of our exports go to the Middle East and we had explained that there has been a huge collapse in the Middle East and to that extent we were rebuilding. I do not have the revenues ready but my guess is that it would perhaps be down maybe 30% or so over the last year.

Kirti Dalvi Okay, that is similar quarter last year?

Vir Advani Similar quarter last year, Yes.

Kirti Dalvi And sir the question on tax rate, apart from FBT is there any other reason why the tax rate is low?

B Thiagarajan No, it is only FBT. FBT is less than Rs.50 lakh, but the earnings itself is less, right.

Kirti Dalvi Yes, so is that we utilized more of our tax benefit where we get those facilities more, whatever we have earned in this quarter?

Vir Advani Well, yes to the extent I think that room air conditioners becomes the larger percentage of the revenue, maybe to that extent there is some benefit there. But beyond that there is no significant change in our tax structure or approach.

Kirti Dalvi Okay and sir during our last conference call you mentioned that we were bidding for some 600 odd crore orders in this public sector kind of & Chennai and Kolkata, which had gone to Voltas obviously, so what is the status of the balance orders?

Vir Advani We have won some business out of that, I am unable to give you specifics because we are waiting for client approval to release the news. As soon as we get that we will be announcing it so please give us about 2 maybe 3 weeks to do so, but those projects have been finalized and we lost Chennai and Kolkata, but we won the rest. So, you will be hearing from us in another 2-3 weeks.

Kirti Dalvi Okay. And sir final question what would be your CAPEX and tax rate for FY10?

B Thiagarajan FY10 the CAPEX will be less than Rs 40 crore.

Kirti Dalvi Okay and expected tax rate would be?

Vir Advani Tax Rate, you take it as last year with some marginal increase. Last year tax rate was 26% if I am not mistaken; you have to add a couple of percentages more, because last year we received some credit for the previous year. So, I have a feeling the same tax rate for your projection should be somewhere around 28%, that is what I would recommend.

Kirti Dalvi Okay sir thanks a lot and wish you good luck.

Moderator Thank you Mr. Dalvi. Our next question is from the line of **Sanjeev Zarbade of Kotak Securities PCG**, please go ahead.

Sanjeev Zarbade Sir, I have two questions one is on the professional electronics side wherein I have seen that the capital employed has increased substantially at the end of the 1st Quarter. So is there any inventory piled up there, which will get translated into this quarter?

B Thiagarajan No, the electronics business is connected with the debtors actually.

Vir Advani Yes there are two important things; one is of course debtors have gone up. Secondly there is a project business that is a part of that business. That was much smaller last year. I have mentioned that we booked a large project from IISCO Burnpur. Like that there are others, maybe half a dozen fairly large projects that the business is now executing. The last two years we were trying to migrate from being just a box seller or import distributor, to a system integrator. What that means; however, when you take on a project where our Principal's product is a large part of that overall project, even so it is a typical project. So, to that extent there is working capital that is now tied up in these projects just like our EMP business. Now, the project business is not 50% of this division, so do not misunderstand me. But even so it is contributing to the capital employed. So, going forward I think we are doing fairly well on these projects and so you will see the capital employed being higher than prior years. But we are not worried about that because as it is part of the plan that we have.

Sanjeev Zarbade And sir at the end of the 4th Quarter you had said that we are in talks for some large projects, were these airport projects or some other sector projects that we were talking about and have they already been booked in 1st Quarter orders?

Vir Advani Yes so what I mentioned to the prior caller, those projects were finalized & they are included in the order book. However, I am not able to give you the names because we have not got client's approval yet, so as soon as we get that we will be announcing that.

Sanjeev Zarbade	Sir, just last question, we are seeing lot of competition from the South Korean companies in the electrical equipment segment, is there a similar kind of risk in our business also?
Vir Advani	In which business actually?
Sanjeev Zarbade	In the central air conditioning business.
Vir Advani	In Central air conditioning, there are no East Asian contractors as far as we know that are entering India, so that is one. Second answer is as far as equipment is concerned in the air conditioning industry the equipment vendors are all American or Japanese. There are some European but nothing significant and no Korean or any other East Asian companies and not even surprisingly Chinese vendors in central air conditioning. Of course Chinese vendors are very strong in the room air conditioner market and even in the packaged air conditioner market, but not really in the central, in the large tonnage.
Sanjeev Zarbade	Okay sir thanks and all the best.
Moderator	Thank you Mr. Zarbade. Our next question is from the line of **Aditya Khemani of HSBC Mutual Fund**, please go ahead.
Aditya Khemani	Sir, on our competency side, what are the product gaps or industry gaps we currently have and for example I think we were a bit weaker on the hotel side, so what gaps do we currently have?
Vir Advani	The first part of your question was product gap, the second one was I think industry, which question are you asking?
Aditya Khemani	Both Sir, in terms of product gaps, what do we have currently and what plans do we have over the next few years to bridge that gap?
Vir Advani	Okay, on the segment side there is no gap per se. Yes we were not active in the hotel segment. But that was more because when business was going well you tend to pick segments that pay better either high margins or better terms of payment and typically hotels were lower on both of those accounts and so we chose to take other businesses. Now, of course in the last 12 months since

business has been slower, obviously we have broadened the reach. We are now in the hotel segment quite actively no different than anyone else, we are in the government sector and like that across the board. So, on a sector perspective I would not say that there is any gap.

As far as product is concerned there are some gaps but nothing glaring. What we are trying to do is of course is to expand - like we said one of our key strategies for margin growth as well as differentiation in the market is to promote more Blue Star equipment as part of our project sale. So, to that extent we have a certain range of chillers and air handling units, we want to expand those both in terms of size as well as in terms of technology so to that extent there are some gaps as that kind of technology is not easy to grow in-house, but we have been working on it for 10 years and that has been part of our internal strategy. So I would expect…..

Aditya Khemani So, those are basically minor improvement which happens year-over-year, nothing kind of major gaps we have?

Vir Advani No, I will not say they are minor. They are quite major in the sense that if I were to hazard a guess, in the chillers market our current range probably only addresses about 60% of the market demand, I am not talking about volume, I am talking about diversity of equipment. So to that extent it is 40% of the market that is not open for us to participate in. To move, there is not an easy matter. It requires additional technology that we are trying to build. So, it is work-in progress. It will be a 3 to 5 year program that we are running right now on the central air conditioning side. On the packaged & room air conditioners, I will ask Thyag to maybe talk about it because he is running those businesses now.

B Thiagarajan See, in a manner of speaking, our product range is so wide that at some point we feel that we should rationalize some of them. But as the market grows, it is difficult to decide which one to pursue and which one to buy out and stop manufacturing. So, we are not constantly adding many products and ranges within those categories. One area that we need to work further is connected this VRF. The technology that we have is ‘Digital Scroll’. There is another technology called ‘Inverters’ and both can serve the application but there could be customer preferences between Inverter & Digital Scroll. We would like to be present in both, so we are doing a lot of work in VRF as a technology.

Aditya Khemani But for these technologies do we need to make an acquisition or we are pretty confident that we will do that in-house itself?

B Thiagarajan Well, acquisition may not be the route here. We may have to license the technology or we have to source some part of the equipment.

Aditya Khemani Sir, and you mentioned that your order inflow was 903 crore this quarter and that is the best ever order inflow over the last 10 quarters barring that 950 what came in last year same quarter, so that is pretty heartening to see actually. So, could you share more color as for example IT you mentioned that it has completely gone off, so is this trend sustainable or that will improve going forward on this side sir?

Vir Advani So, I will just clarify, I do not think it was the highest order inflow of 10 quarters, I am not sure. I have not looked back 10 quarters all my point is that…..

Aditya Khemani Sir last year same quarter was around 984 crore order.

Vir Advani 947, I think is what we did.

Aditya Khemani Yes, 947 was the highest ever and after that this is the highest ever quarter for you.

Vir Advani There you go, alright so you know more than I do, okay. So actually I was not commenting on the absolute volume. What is more important is the trend line. It is still too early to see because I am a little concerned. There were a couple of large projects that are part of this quarter. We have to see how Q2 does because I am not sure that this trend line has returned to sort of absolute growth. My best guess is maybe we are still two quarters or maybe three away from serious recovery.

Aditya Khemani Okay, so basically we need to see further whether it is sustainable or not?

Vir Advani Yes I do not want to sound negative. What I am saying that part of this order inflow for Q1 was actually delayed finalizations of Q4, so to that extent it maybe the second highest quarter in 10 quarters but I think Q4 was pretty bad quarter for order inflow. So, we are not exactly rejoicing right now.

Aditya Khemani Okay and so do you feel that we will be able to show some kind of positive growth on the top-line this year?

Vir Advani Are you referring to the company overall?

Aditya Khemani Yes.

Vir Advani Let me put it this way, we have the order book to execute/to meet that because we can see book and bill, we know what the order book is, so technically it can be done. It's just really about money coming back into clients' hands and then wanting to execute these projects and then reducing our debtors and then subsequently ramping up billing. So, we are still holding back execution, because you can see the debtors are still increasing. So, I am not so sure, if we are still aiming for some marginal growth but it is quite likely to be a flat year.

Aditya Khemani Okay, you mentioned inquiries comeback on especially the retail side plus education. Are these projects more at planning stage where construction has not started or these would be project basically where construction had started but stopped due to paucity of funds or whatever?

Vir Advani Mix of the two, actually not too many…..

Aditya Khemani Because in case of the first one, order inflow for us will still take around 3 to 6 months.

Vir Advani Yes, so basically what happened is that these are old projects in a sense that they have the same name and they are on the same piece of land. But besides that the whole thing is being redesigned - either downsized or the specification has been redone to a lower cost. So, if someone was planning 2 million square feet built up, he is now asking the consultant to redesign at 1 million. So, it's that kind of work going on so, it is still 6 months away before it comes into our order book & 9 months away before we start to bill it.

Aditya Khemani So, basically these are projects, where construction has not started at all?

Vir Advani Correct.

Aditya Khemani Okay thank you sir and all the best.

Moderator Thank you Mr. Khemani. Our next question is from the line of **Sandeep Somani of HSBC**, please go ahead.

Sandeep Somani Sir, I have one question regarding the volumes as far as room air conditioners is concerned. As you indicated there was a stock out sort of a situation, so does it mean that the volume growth has really not come as far as overall sector is concerned and if it is then what could be the approximate number of volume growth?

Vir Advani I think Thyag mentioned that if March, April, May would have seen about 10% growth or maybe even 15% for the industry, June-July is flat, so totally we will probably be around 10%.

Sandeep Somani Okay, thanks, thanks a lot sir.

Moderator Thank you Mr. Somani. Our next question is from the line of **Ankur Arora of ING Investment Management**, please go ahead.

Ankur Arora Hi, most of my questions have been answered, just a quick question on cooling products only. You said that margins are actually skewed for a couple of reasons. Without the stock out situation you could have been more choosy. On the Cenvat reduction which happened somewhere in December, the proportion of the benefit should have come in the last quarter itself not in this quarter alone. The benefit did not come in last quarter; we have seen the improvement only happened in this quarter onwards. And second thing is about the raw material only, especially what is the fall in the raw material price in this segment particularly over a period of time, if you can just quantify that for me?

B Thiagarajan As far as the first part of your question is concerned the full benefit of the Cenvat reduction indeed would have come in January, February, March itself and in split air conditioners roughly around 40% of the value is completely imported. We are more of a split air conditioner player than a window air conditioner player. This particular material is just-in-time kind of a thing; it is one-one and a half month of an inventory especially in the summer season. And the countervailing duty on that product would have been 6% lower than what was in the earlier part of the quarter, which is one part of the story. Compared to Q4 to Q1, the margin improvement is lesser than quarter-on-quarter basis because you would have seen the Q4 margin itself was high.

Ankur Arora Q4 margin I see to around 10.4% on EBIT side, correct me if I am wrong especially on that?

B Thiagarajan No, it would not have been that low, I will check. In the meanwhile coming back to the second part of your question, overall the import content, if you take even the compressor part of it, the raw material is 70%.

Ankur Arora That is okay, but how much of the reduction in the raw material cost over period of time, I mean absolute side, how much the prices have fallen by?

B Thiagarajan It should have fallen by around 7.5- 8%, over the Q1 of the previous year.

Ankur Arora Well, in the beginning you said about the SAP implementation impacting us for around 15 days, I mean it was just bit hard to understand that and can you just explain it a bit better. Essentially what you are saying is that because of implementation you could not bill anything on the first 15 days of the month. Am I correct in my understanding in that?

B Thiagarajan Yes before that I will clarify this first. See, operating margin of Q4-FY09 that is January 2009 to March 2009 that period was 14% and operating margins now is 17 odd, so you can see that increase is lesser than quarter-on-quarter increase. Okay, & what was your question on the 15 days….?

Ankur Arora Yes the SAP implementation impacted your billing for 15 days; can you explain that part a bit better?

B Thiagarajan See, when we implement SAP company-wide including the manufacturing units, you need to have a blackout period of around 7 days of time or so. He had the option to either keep it closed between 24th to 31st of March or in April, because you migrate the completed audited balance sheet numbers into inventory, debtors, etc. So, we chose from 1st April-7th April to have a blackout period but it got extended by 3 more days of our time. So, practically between 1st of April to 10th of April, there was no production in the factory. We were only auditing the inventory or work-in progress, loading in the new system, getting it audited and certified by the auditors. As Vir had mentioned the entire industry was not expecting any huge growth in the summer month. Normally in January, February, and March people produce and keep it as an inventory. After last year's fiasco we all decided not to do anything and meet as the market opens up. If we would have produced, probably in hindsight we feel we could have sold more numbers in the month of April and May, but what I gather is many brands had undergone the same problem.

Ankur Arora Okay, so eventually having lesser inventory than required probably?

B Thiagarajan Yes.

Ankur Arora Thank you, thanks a lot.

Moderator Thank you Mr. Arora. Our next question is from the line of **Bhavna Jagwani of HDFC Securities**, please go ahead.

Bhavna Jagwani I just wanted to know the split in the order book between private orders and government orders?

B Thiagarajan See, in last conference call we have given you a breakup of government, public sector, public-private partnership, etc., and that ratio would not have changed at all, roughly it remains the same.

Bhavna Jagwani Right, even the segmental ratios remain the same.

B Thiagarajan Yes, if you refer to the last conference call, the same thing should be applicable. It should probably change in the coming quarter is what we feel.

Bhavna Jagwani Okay and that will go more towards the government side?

B Thiagarajan I think private will be opening up.

Vir Advani Yes, I think so too.

B Thiagarajan There are private hotels, retailers opening up at least in the smaller segments, so we feel in the coming quarter it should move towards private.

Bhavna Jagwani Right okay. Now with our debtors increasing, is our debt situation changing in anyway because we had drastically brought down our debt last year in the last quarter and now are we seeing some sort of increase on that front.

B Thiagarajan See our borrowings have gone up slightly. It is not significant. Probably in the coming quarter it might because we will have a dividend payout as well. But on the whole we are not too much worried about the cash flow part of it because our profit generation continues to be good.

Bhavna Jagwani Right and as far as fixed price orders are concerned it is still about 70% of our order book?

Vir Advani Yes nothing would have changed there.

Bhavna Jagwani Right but now for example if we book certain orders between January and March, when raw material prices were much lower than they are right now because most raw materials have gone up by at least 30%, how do we foresee our margins for the rest of the year?

Vir Advani Yes, so what we had said is on the cooling product side we expect the margins to drop. On the project side of business, we still except to do better than what you saw in Q1 only because there were some specific things that happened in this quarter. So on an aggregate basis I think there is a lag. So probably towards the end of the year or beginning of next year, this raw material price increase will begin to affect billing margins because there would be fair amount of projects that were booked earlier at higher cost, so even though raw material has gone up by about 10%, we have not seen 30% anywhere, most of these projects would have been booked when costs were significantly higher than even this increase. But you know this is like a rolling sort of situation where at any given time we have 500 active projects at least and if I include the smaller though we do not need to refer to them as projects, but if I do, it is going to over 1000 and each at a different stage of its life. I think I have mentioned in the last analyst call or maybe with some individuals is that you have to look at the same period of last year when Q4 and Q1 - 12-15 months ago in that period - raw material prices really shot up, I mean at that time they went up by 50% and what not. Our operating margins were under pressure but they came down by 1%-1.5%, it was not as low as 50% drop. It is like a weighted-average situation, where projects are at such different stages at the point you booked it to where you are right now, there is a big variation. So, I think that our margins on an aggregate basis for the current year should hold compared to last year. We are first trying to do better but I do not know whether we will succeed, purely because while cost is under control, price realization is down quite substantially. And I think price realization will get worse before it gets better because as months proceed and there is not enough business in the market, everyone gets more desperate, so prices continue to drop. So, I would not be surprised if prices drop another 10% or 15% in the coming 3 to 6 months before I think we will see a bottom and then as new projects are on the drawing board right now, come back for re-tendering. I think at that point, prices will start to increase for two reasons. One is of course raw material cost would have gone up by then. And secondly, I think vendors/players would be less desperate. So we are going to go through some kind of U-curve or trough or whatever you call it before we come out of it.

Bhavna Jagwani Okay, I get that thanks and that will be all.

Moderator Thank you Ms. Jagwani. Our next question is from the line of **Aparna Shankar of SBI Mutual Fund**, please go ahead.

Aparna Shankar Yes good morning sir, I just wanted to have what kind of work are we doing in the airport segment and what kind of outlook you have on the segment?

Vir Advani Currently, we are only doing airconditioning work. We are not doing any electrical or plumbing work in any airport. We are doing about 15-16 airports if I am not mistaken. These are the small regional airports. We, as you know, lost the two large ones Chennai and Kolkata that were recently finalized on price. So what has happened really since January to now, the whole airport modernization program has slowed down, that’s one part of infrastructure that has clearly slowed down for two reasons. Airport Authority, while it is very cash rich, is not generating enough revenues. Outside Delhi, Kolkata, Chennai, their general philosophy has been that any modernization has to be funded by revenue and to the extent that airlines are not paying their dues, traffic is down, and cost is out of control, all of that taken together airport authority has slowed down on the modernization plan. However, let me clarify whatever had been tendered and awarded up to December 2008 is going as a planned, so whatever we have booked, whatever is in the order book is proceeding on original schedules. However, we had expected another 6 airports to be finalized between January and now, not including Chennai and Kolkata, which have not happened and are being delayed. However, Airport Authority says that they are now coming back and they will be issued, etc., so I think by the time everything is done we would have lost about 9 months or so in the whole airport modernization plan.

Aparna Shankar Okay, so in your view still the momentum of this modernization of airports has not caught up and maybe it will take 3 or 6 more months for airports authority to actually start working on that or have they already started working and then maybe……?

Vir Advani No, I think it is about 3 to 6 months out before Goa, Pune; those are the two other big ones left and then some of the smaller ones, so I think we are still 6 months away.

Aparna Shankar Okay thanks a lot that is all from my side.

Moderator Thank you Ms. Shankar. Ladies and gentlemen due to time-constraints that was the last question, I would now like to hand the conference over to Mr. Advani for closing comments.

Vir Advani Thank you very much everyone for attending our conference call as I mentioned, I hope we have answered all your questions. If there are any other questions that remain unanswered please contact us through Adfactors or on email and we will be happy to get back to you, thanks again, bye.

Moderator Thank you Mr. Advani, thank you Mr. Thiagarajan. Ladies and gentlemen on behalf of Blue Star that concludes this conference call. Thank you for joining us on the Chorus Call Conferencing Service and you may now disconnect your lines. Thank you.