Transcript

Conference Call of Blue Star limited

Event Date / Time : 15th May 2008, 11 AM IST

Event Duration : 1 hour 19 mins 48 secs

Presentation Session

Moderator: Good morning ladies and gentlemen. I'm Leela, moderator for this conference. Welcome to the conference call of Blue Star Limited. We have with us today Mr. Thiagarajan, Executive Vice President of Blue Star Limited. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Thiagarajan.

B. Thiagarajan: Good morning ladies and gentlemen, this is B. Thiagarajan and I will be giving you an overview of the results of Blue Star Limited for the quarter and year ended March 31 2008. Vir Advani, my colleague also will be joining in about 10 or 15 minutes time. The following are the financial highlights for the company for the year. We reported a total income of Rs.2270.09 crores for the year ended March 31 2008, representing 41% growth over previous year. Net sales for the year at Rs.2233.04 crores were up by 39% over FY07. Gross margin for the year increased from 22.4% to 24.3%. Operating profits, that is PBIDT, excluding other income for the year at Rs.234.49 crores, doubled as compared to PBDIT of Rs.116.92 crores year end FY07. Operating margin increased significantly to 10.5% in FY08 from 7.3% in FY07. Scale, higher price realizations, well controlled expenses and lower cost of sales contributed to rise in margins. Other income for the year was Rs.37.05 crores. The earlier year it was Rs.6.13 crore. The increase in other income was mainly on account of profit of sale of shares held in Rolastar Private Limited. Due to prudential financial management, interest cost for the year was significantly lower by 21% compared to FY07. However, the tax expense grew substantially from Rs.21.42 crores to Rs.67.92 crores in the year. In FY07 we could have a tax exemption on Dadra plant operations, and in FY08 though similar exemption was available for the Himachal plant, the quantum of the same was lower. As we scale up the operations of Himachal plant, the benefits will increase. There was also short provision for the previous year amounting to Rs.1.89 crores. It may be also noted that capital gains tax on profit of sale of shares in Rolastar Private Limited was around Rs.8 crores. These factors contributed to increase in tax incidence. Net profits for FY08 at Rs.174.09 crores surged by 145% over FY07. The earnings per share for FY08 for a face value of Rs.2 per share stood at Rs.19.36 versus Rs.7.91 in the previous year.

The Company has acquired the electrical contracting business of Naseer Electricals Private Limited under a business purchase agreement on a slump sale basis for a purchase consideration of Rs.4809.77 lakhs including Rs.500 lakhs held in Escrow account till the conditions stipulated in the agreement are fulfilled with effect from January 24, 2008. Accordingly the results for the quarter ended March 31 2008 includes the results of acquired business. Carry forward order book as on March 31, 2008 stood at Rs.1135 crores representing a 50% increase compared to the order book of Rs.755 crores as at March 31 2007. The carry forward order book includes Rs.93 crores order book of newly formed electrical projects division. That is on a like-to-like basis, the increase in carry forward order book compared to last year is 38%. The Board of Directors has recommended a final dividend of Rs.7 per share, where face value is Rs.2 inclusive of Rs.1 special dividend representing 350% compared to Rs.3 per share declared last year. The dividend payout to net profit ratio will work out to 42.3% compared to 43.4% last year.

The financial highlights of the quarter are as follows: total income for the quarter ended March 31 2008 at Rs.744.19 crores grew by 36% over the corresponding quarter in the previous year. Net sales for the quarter at Rs.708.14 crores was up by 30% over the corresponding quarter of the previous year. Operating profits for the quarter at Rs.72.45 crores increased by 63% compared to PBDIT of Rs.44.46 crores earned in Q4 of FY07. Operating margin increased to 10.2% in Q4 of FY08 from 8.2% in Q4 of FY07. Net profit for Q4 in FY08 stood at Rs.70.36 crores registering an increase of 107%.

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 large central airconditioning and packaged airconditioning business, accounting for 70% of total revenues continued to show healthy growth of 38% during FY08. Segment profits surged by 84% in the year compared to the previous year. Apart from infrastructure construction lead central airconditioning projects, Telecom Shelter airconditioning products and newly introduced Blue Star variable refrigerant flow systems also contributed to growth. The company booked several prestigious orders during Q4 of FY08 including orders from Hindustan Lever Mumbai, Weikfield Pune, Reliance Communications, Hyderabad, India Bulls, Mumbai, Infosys, Jaipur, NTPC, Barh, Trivandrum airport, Madurai airport, Nuclear Power Corporation, Chennai, amongst several others. Blue Star is India's first and only manufacturer of VRF systems and the Company has been steadily gaining market share in a segment where traditionally only imported brands existed. The quarter saw the company clinching the country's largest order for VRF Systems with its Digital Scroll technology for Central Secretariat Building South Block New Delhi for 2400 HP. Blue Star has recently launched an eco-friendly range of VRF Systems and the company is confident of increasing its market share significantly in this product category. The cooling product business also registered impressive growth, increasing 43% in the year. The growth was driven by increased sale of commercial split airconditioners as well as refrigeration products. Segment profit was up by 128% in the year; scale high by price realization due to differentiated products and Himachal plant's tax benefits contributed to a sharp increase in margins despite increase in raw material input cost.

In the room airconditioner segment focus remains on corporate, commercial and light commercial segments, where Blue Star's market share is now in double digits owing to its differentiated products for this segment. The market shift in preference for split airconditioners vis-à-vis plus the window airconditioners has provided a tremendous boost for this business. The quarter witnessed a 100% switchover of all split airconditioners to star rated energy efficient machines. Under a new Central Government legislation we expected to become operational from October 2008, it will become mandatory to energy label window and split airconditioners for EER, which is Energy Efficiency Ratio up to and including 3-ton capacity. Since Blue Star has been promoting the concept of energy efficiency for many years, it has decided to sell only star labelled split airconditioners from this summer onwards on a voluntary basis, even though the law has not come into force.

For the cold chain, Blue Star offers equipment right from pack houses at the farm end to the supermarket refrigeration equipment for retail outlets. During the quarter, the company won a prestigious order from AP Agro co-funded by APEDA for setting up mango pack houses at Tirupati and Nuziwid, the mango belts of Andhra Pradesh. This facility is the first of its kind in Andhra Pradesh and will facilitate export of mangoes to Japan. Blue Star also signed a rate contract with Domino's Pizza for supply of 80 modular cold rooms. The refrigerated display cabinets from ISA, Italy continue to do well with major orders from Taj Hotel, Trivandrum and Illy Coffee outlet at Bangalore airport during Q4 of FY08.

The professional electronics and industrial systems business continued to contribute significantly to the profitability of the company. Although there was only marginal increase in revenue of 7% in Q4 of FY08 compared to Q4 of FY07, given the nature of business, quarterly performance is not a true indicator of the performance of the business. This can be seen in the full year FY08 segment revenue growth of 38% over FY07 with segment profit registering a growth of 50%.

In conclusion, the management of Blue Star remains confident about the future of the business. 2007-08 was, by far, the best year in Blue Star's 65-year-old history. We have achieved steadily, improving results over a number of years in a competitive market and this gives us confidence that Blue Star will sustain its momentum of high growth and profitability in the current year as well. With that ladies and gentlemen I am done with my opening remarks. I would like to now pass it back to the moderator who will open the floor to questions. Mr. Vir Advani has joined me now. Between the two of us 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 discussion. Thank you.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request you may do so by pressing # key.

Our first question comes from **Mr. Mehul Mehta of Standard Chartered Capital.**

Mehul Mehta: Good morning gentlemen.

Thiagarajan: Good morning.

Vir Advani: Good morning.

Mehul Mehta: This is in case of order inflows, can I have the figures, how has it grown during the year?

Thiagarajan: Order booking for the year or are you asking about the pending order book?

Mehul Mehta: The inflows, I am asking about during the year how has it moved?

Thiagarajan: The total order inflow growth for the year is around 39.6% compared to the previous year.

Mehul Mehta: And how is overseas order book moving, we had got in Q3 from Qatar orders, so how is that moving?

Thiagarajan: The growth figure will be obviously on a small base. To recap we are very selective in the international projects. We want to focus on profitability and the cash flows. We have an order from Qatar; we also have plans to enter Bahrain. In fact for Bahrain, we are forming a joint venture now; for Qatar we also have a joint venture already going. And all put together in the current year, it should be doing somewhere around Indian Rupees equivalent of Rs.50 crores or so. We do not have any major plans for international projects.

Mehul Mehta: Okay. In terms of CAPEX, what are you anticipating for next two years, what are you planning and what has it been during the year?

Thiagarajan: Yes, in the audited balance sheet that will get published, you will see a figure of something like Rs.97 crores - which is basically because of the balance sheet restructuring, where we are capitalizing Naseer acquisition, being intangible. So actual CAPEX on a like-to-like basis should be Rs.48 crores for the year ended March 2008. And we have a WIP of Rs.45 crores already, which will get capitalized this year. In addition, I think this year we will capitalize whatever we couldn't do last year, because last year we ideally thought we will do around 80 crores, which was not happening, it ended up in WIP, basically because in Wada due to heavy monsoon, there was a delay in commissioning of few other manufacturing lines. This year at least it should be including the carry forward, around Rs 120 crores.

Mehul Mehta: Okay, for FY09, it should be 120 crores.

Thiagarajan: Yes.

Mehul Mehta: And in terms of working capital how has it moved sir?

Thiagarajan: Very well. You can see from the interest costs, it is substantially lower.

Mehul Mehta: In terms of debtor days, kind of, if I can have numbers?

Thiagarajan: In terms of what? Debtor days…

Mehul Mehta: Debtor days and inventory.

Thiagarajan: No I do not have, it should get published soon.

Mehul Mehta: Okay thank you.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Ravindranath Nair of Reliance Money.**

Ravindranath Nair: Good morning sir. Actually I want to know this, 1135 crore order book, how much order you have included from Naseer Electricals?

Thiagarajan: Roughly around 90 crores, 93 to be precise.

Ravindranath Nair: Okay and you have not included any sales in the quarter from Naseer Electricals?

Thiagarajan: Very, very marginal, it is less than 10 crores of rupees for your information. January 24^{th} was the merger date actually. That is why we have not separately indicated it.

Ravindranath Nair: Okay, sir this tax incidence has gone up, you had mentioned it giving the reasons also. Do you see this tax incidence will remain in the same level for next year also?

Thiagarajan: I am unable to forecast that. We are working on that, see basically as we grow, as our profits surge, one can expect the tax incidence also will go up. And Himachal will commence production of products other than room airconditioners, a few other products, say for example, the water coolers, deep freezers, and probably some air handling units also. In that event, we will be able to go back to the tax rates of the previous year.

Ravindranath Nair: Okay. Sir, can you please give me some balance sheet numbers, what is the debt on books right now?

Thiagarajan: I will have to revert to you for that figure, it is roughly Rs.36 crores.

Ravindranath Nair: *Okay, 36 crores.* And what about the cash on the books?

Thiagarajan: I do not have it now; the balance sheet should get published soon. We are trying to put up along with the investor update, the balance sheet figures also.

Ravindranath Nair: Okay. So this Rs 1135 crores order is completely for the HVAC segment right?

Thiagarajan: Except for what we mentioned 93 crores is from Naseer Electricals.

Ravindranath Nair: Okay thank you very much.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Ravi Bhatia of Aviva Life Insurance.**

Ravi Bhatia: Good morning.

Thiagarajan: Good morning.

Ravi Bhatia: Sir, just wanted to check one thing, in terms of Naseer Electricals numbers, would be included in the airconditioning segment in terms of reporting?

Thiagarajan: That is right as of now.

Ravi Bhatia: Okay and sir is there any sort of cooling down or slow down you see in terms of new orders in this segment, particularly in this quarter?

Thiagarajan: This is somewhat surprising to us as well. If you see, let us take FY08 Q1 to Q2, Q2 to Q3, Q3 to Q4 in terms of order inflow as well as the billings there was a moderate slowdown, growth was not to the extent of 45% or something like that. And we have been monitoring this. Many of you have been asking this question, whether there is a slowdown, but what surprises us is that in the month of March as well as in the month of April, which just got concluded, we find huge amount of order inflows, and the enquiry inflow continues to be very healthy, the funnel is very healthy. If at all, small and medium IT and some small medium retail, there is a slowdown we are witnessing. But infrastructure projects and large IT projects, large retail continues to do well. Though the slowdown is being talked about across media and many forums, we are yet to see that. Probably six months later only, the HVAC industry may realize or will face I wouldn't know, but as of now, at least for next 3 to 4 months of time we are not seeing any slowdown at all. I am purely going by the order inflows in the past 60 days of time and the business plans, which the business divisions are sharing for the quarter, or the forecast for the factories, and so on. In fact, many of you when you meet us you keep asking this question, is there a slowdown. We are not seeing any. But equally I want to also caution, when the growth was happening, there was a lag that is when you were all witnessing , 50% to 60% growth in some other sectors, the HVAC industry took six months for it to realize. So probably it is so. In any case, we are not seeing that it will become 20% kind of growth definitely we are still confident that we will do a CAGR of 30% to 35%.

Ravi Bhatia: *I see.* And what was your order inflow in the quarter, Q4?

Thiagarajan: Q4 order inflow was close to 1,100 crores or so in Naseer Electricals.

Ravi Bhatia: Okay. You had mentioned about Delhi Metro orders, a large amount you were expecting to flow through in this quarter, as in April, the current quarter and also you were expecting big orders from Delhi the Commonwealth Games and all. So what how is that panning out?

Thiagarajan: The National Capital Region as a whole is one of the largest markets. In fact there, we are not witnessing any slowdown at all. For the Metro Railway, there are several packages, which are getting opened including a package, which is supposed to be finalized next week. And these are limited tenders where only few vendors are pre qualified and so we should be doing well this year as well there. And second segment, which we bid there is on hotels. There are quite a few big hotels coming up there.

Vir Advani: The other thing is that most of the Commonwealth Games will be done with VRF, rather than with central plants, and with our Blue Star VRFs fully launched in the market, including the new 410A refrigerant versions, including heat pump versions as well, we are very confident of capturing a large market share of the Commonwealth Games, although those tenders will only come up by the middle of this year.

Ravi Bhatia: Okay, thank you.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Shivani of Techno Shares.**

Shivani: Hello, good morning sir.

Thiagarajan: Good morning.

Shivani: Sir you are already facing certain input cost pressures, now there is news, after this Chinese earthquake, the base metals are going to shoot up further. Won't it put a pressure now on our margins, I mean, margin sustenance would be an issue this year?

Vir Advani: You are right. There is margin pressure expected in the sense that we have all seen the cost of steel and copper and other raw materials shooting up. What we are doing is a few things, we believe that we will be able to maintain our gross margin for the coming year and we anticipate doing that through continued effort on better procurement on volume and scale, and other means by which we would be able to control the gross margins. Obviously a big piece of that gross margin controls will also come from price increases. The industry is already talking about increasing prices, we as you know, are the highest priced in all the segments that we dominate. We will be taking action, we have already started in certain product lines and we will be taking action between May, June, and July in other product lines to increase prices. So between the price increase as well as the purchasing and other benefits that we will get, we are fairly confident of maintaining gross margins. As far as operating margins are concerned, you know that the model is built around scalability and we expect that we should see some improvement in the operating margins on account of the operating efficiency. The employee costs are increasing very rapidly, there's no doubt about that. However, on the flip side, we are able to control our interest costs far better, and you can see that. There is also, we might see some increased depreciation, but again that should be controllable. The net-net we anticipate that we should be better off as far as margins are concerned, although obviously this year was quite a watershed year, you saw operating margins improving quite dramatically. I don't think we are promising that kind of incremental improvement next year, but there will be a marginal improvement at the operating line, and that is what we plan to be doing. So overall it is up, but we expect to be able to manage it.

Shivani: Sir, do we have contracts tied up for the supply of this raw materials, aluminium, and copper? And normally what would be the period if we have the contracts in place?

Vir Advani: Are you asking whether we have contracts with steel and aluminium and copper…?

Shivani: Right sir.

Vir Advani: No, typically we buy in cycles of three months and in today's world, rate contract means nothing, you can't get a rate contract from any supplier, no matter who you are. So we are pretty much moving from quarter to quarter. It is a seller's market now.

Nilesh: Sir, this is Nilesh here. Sir, you mentioned that you have an order book of Rs 90 crores through Naseer Electricals. This is in the MEP Segment?

Thiagarajan: This is pure building electrification contracts.

Nilesh: Okay. What kind of margins we get in this kind of contracts?

Thiagarajan: So far our experience, what we anticipate in future also is that the nature of that business is not much different from central airconditioning; except that, in central airconditioning, roughly around 40% of the equipment we manufacture ourselves, where probably we have a manufacturing value-addition. So in typical airconditioning contract business, where there is no own equipment involved, and the building electrification contract there is no significant difference in margins. So probably what you are trying to arrive at is, whether electrification contracting business will affect the margins of the central airconditioning segment what we have been achieving. What we expect is, it is likely to improve in future, because with the demand growing, we are being very selective, and the scale is benefiting us, and we find as the execution is becoming sophisticated, the margins are improving. That is what we anticipate.

Nilesh: But currently it would be in the region of what, single digits, 7-8%?

Thiagarajan: In a typical central airconditioning contract where our own equipment is not involved, it is roughly in the order of around 15% gross margins.

Nilesh: Okay thank you sir.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Nirmal Shah of Alchemy.**

Nirmal Shah: Good morning sir.

Thiagarajan: Good morning Nirmal.

Nirmal Shah: Sir, just wanted your composition of the order book sector-wise, if you can give?

Thiagarajan: I do not have it readily, but what is assumed fairly is, in cooling products or professional electronics, there is no pending order book, basically it is all executed in the same month, at best in the subsequent month. Any pending order book, 90% you can assume it will be in central airconditioning.

Nirmal Shah: Sir, within central airconditioning I want that, like, how much would be retail, or IT, or that's what I want.

Thiagarajan: No, not exactly. I can try and make an analysis and share with you some time. But as such we don't publish that data. But we can share with you, some time we will see.

Nirmal Shah: Okay, and second question was the last year, there was some role of currency appreciation in margin improvement, so just wanted to check how much proportion of margin improvement came from that and since the rupee has started depreciating, so how rupee is helping in improving to some extent our margins? Will it have a negative impact this year?

Thiagarajan: Actually it is not that simple. There were actually 8 to 9 different things were contributing to margin, and not one single activity. 1) The very first one is the product mix itself underwent a dramatic change last year. We expect it to undergo a change this year as well for good. 2) There was a custom duty reduction, 3) there was an excise duty reduction 4) we realigned our manufacturing, in the sense that certain products moved from one factory to the other, and we were trying to build scale. Say for example, polyurethane foam panels, which we use in telecom moved from one factory to another, so that it can improve its profitability, air handlers moved somewhere else, like that. 5) There is the fifth thing which is value engineering. We continue to do that and there is a massive exercise that is going on in doing some value engineering. So like that I can list around 8 to 9 activities which all contributed last year. On the contrary, even last year, in Q4, or Q3 end, we saw metal prices increase happening, and we saw the rupee depreciation that is ceasing to exist. So there are certain factors, which are aiding us to improve the margin, there are certain factors which bring down the margin. So net-net it is indeed true that the current commodity price increase will affect the margin adversely, but equally we have, as Mr. Vir Advani mentioned, several measures internally to counter that. It means we are not at the moment anticipating any erosion of margin. But at the same time, if you ask whether our track record of improving the margins by, you know, a percentage point or couple of percentage points, we are not able to comment on that. But we do not foresee any erosion of margin at the moment.

Nirmal Shah: Okay. And sir, you mentioned 120 crore CAPEX for 2009, so will it include the….

Thiagarajan: See, including the…

Nirmal Shah: 45 crores.

Thiagarajan: But what I anticipate, you know, in fact yesterday only we had a discussion internally, again something will become work-in-progress.

Nirmal Shah: Okay-Okay

Thiagarajan: So, it will be definitely in the order of at least, anything between 80 to 100. Our intention is to invest quickly and capitalize.

Nirmal Shah: Okay. And sir last question, how big is the opportunity in this variable refrigerant flow system that you mentioned?

Thiagarajan: Very huge, in the sense that, to tell you the truth, variable refrigerant flow system can typically be installed even in a central airconditioning application. It was basically a Japanese phenomenon followed by Korean and Far East and this product will be used for large spaces and it can be even installed for a 2000 ton application, which was typically a central plant chilled water application. And therefore, one has to see the sole central airconditioning market, barring big airport and infrastructural projects and IT Parks, this will be used. So it is a very big thing to happen.

Nirmal Shah: Okay, thank you sir.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Ashish Poddar of Almondz Global.**

Ashish Poddar: Good morning sir.

Thiagarajan: Good morning.

Ashish Poddar: I have three sets of questions, one, I want to know the status of your Wada plant, which was expected to commission in April?

Thiagarajan: Yes, it has been commissioned in April, the production of telepacs, which is the telecom shelter airconditioning have commenced there already. That is actually the phase 1. It commenced in the month of March.

Ashish Poddar: So this year what kind of utilization you are looking from this company?

Thiagarajan: I think in FY09, that factory should produce minimum of Rs.200 crores and a maximum of Rs.300 crores; in terms of billing figures I am saying.

Ashish Poddar: Okay. My second question is, in your total revenue, how much has come from export and how much is domestic, for the quarter and for the full year?

Thiagarajan: For the whole year itself it is negligible, so quarter will be insignificant. Roughly around 100 crores of our turnover is from exports. So honestly I don't think you should do a great analysis out of that.

Ashish Poddar: So, it is completely the domestic revenue, which you are talking.

Thiagarajan: Barring 100 crores, which may this year go up to 150 in FY09.

Ashish Poddar: Okay. Now the third question related to the competition from MNC players, we have seen a number of MNCs including Daikin, here, coming into Indian markets, so what kind of competitive scenario you are looking for?

Thiagarajan: MNCs have been there all along, in the sense that they enter the products which they can easily get into, for example, window and split airconditioners. For 10 years it is MNCs and it is dominated by MNCs, and then if you see the packaged or ducted airconditioning or variable refrigerant flow systems, Daikin has been here in the country for more than five years actually, we are not witnessing them as a competition today. And in central airconditioning equipment if you see, we have Trane, Carrier, Johnson Controls, and McQuay, operating in this country along with one or two other small multinational players. So Blue Star has been in the business and maintained the leadership despite these MNCs being there. Our understanding is when they deal with invisible customers, in the sense the product is mass manufactured, and it is standard in nature, distributed across the country, they are indeed competitive. When there is the solution offering, it is design engineering, contracting, after sales service, obviously we do well. This is our understanding. So we do not foresee a major problem. In the variable refrigerant flow, the technology that we adopt is different from that of Daikin. We use a technology called Digital Scroll, and we are the first Indian manufacturer to offer this. Of course, Samsung and LG also have similar systems developed in Korea and they may introduce it here. But this is turnkey design engineering and it is not sold through a distributor or a dealer where you can sell it as a product and be done with it.

Ashish Poddar: Okay. My specific question is related to the orders coming from the airport, which are the huge-huge orders. So do you think that Blue Star, our company is able to execute those kinds of orders on their own basis, or do we have to go for another JV or end up with big players…?

Thiagarajan: Not necessarily. The airports, there are basically two types, one is large airport like Bombay or Delhi, where the equipment is typically unbundled and the contracting will take place, and as of now, there are 11 airports where we are executing the jobs. Like Varanasi, Jaipur, Trivandrum, Mangalore, Amritsar, Ahmedabad, Nagpur, Madurai, Khajuraho, Dehradun, Pune and we are likely to get four more airports. These orders are from various builders, Lanco, Simplex, CCL or Unity, or IDEB, or Yera Constructions like that. So in these orders again, if you see the chiller or air handler may be unbundled and we are interested in the turnkey contracting. The equipment that we may compete and we may secure the order or we may not, it doesn't matter to us. And we have been competing in all these places, no problem.

Ashish Poddar: Okay, thanks for answering my questions. Thank you very much.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Ms. Kirti Dalvi of Enam AMC.**

Kirti Dalvi: Hello.

Thiagarajan: Yes, good morning.

Kirti Dalvi: Good morning sir. The question is on your revenue of your central airconditioning system, it has grown to 29.5% in this Q4FY08, versus the growth of almost 43% in nine months FY08. So are we seeing any kind of slowdown or something, or any project got delayed, or any postponement of the projects?

Thiagarajan: We did see in Q4 a slowdown in terms of order inflow or even execution, but significantly the month of March and April we see a huge surge in order inflow as well as billing. So we are unable to say whether there is a slowdown, definitely you are right, in Q4 there was a slowdown. It is basically from small and medium IT and retail.

Kirti Dalvi: Okay, so small and medium IT projects got some deferment of the revenue, which will appear in your Q1FY09?

Thiagarajan: Probably not, I think, small medium IT, they have cut down the expansion plans, so it may not be immediately reviving, that is our understanding, whereas many big IT players continue to expand and they move to large SEZ projects and we continue to witness order inflow or enquiry inflow from them. If you recollect, in the Q3 earnings update we had indicated that these large number of enquiries from infrastructure projects which take a longer time to materialize, so in Q1 or Q2 it is likely to be, in absolute terms we will witness a growth, but may not be from IT, it may be from infrastructure segment.

Kirti Dalvi: So, would it be that this 1135-crore order book we have it, will have a longer execution cycle henceforth, I mean, going forward in the next year, FY10 also?

Thiagarajan: Not in this order, this order book what we are carrying forward, no, but in Q1 we will review and tell you that whether there is a significant change. This order book does not have any long gestation projects like; let us say, Metro Railway or huge SEZ, not at all. We will see in Q1, let us say we end up in some huge infrastructure project which is likely to impact, we will, we are monitoring that consciously.

Kirti Dalvi: Okay sir, and sir, on your PBIT margins in cooling products, if I say your Q308 figures and Q4FY08 figures for PBIT margins in cooling products, there is a sharp fall of

240 bps, so are you seeing any impact of raw material prices going up in that?

Thiagarajan: I am unable to comprehend your question, you are saying…

Kirti Dalvi: If you see your Q4FY08 cooling product EBIT margins is 10.5%, and if I see your December '07, that is Q3FY08 EBIT margins for cooling products stands at 12.9%.

Thiagarajan: See, there could be two, three reasons, as I mentioned earlier, one is, there was rupee depreciation and the raw material prices, these two could be affecting it.

Kirti Dalvi: Okay, but considering these two scenarios are against on our side, do you see the same kind of margin compression or sustainable margins at this level around?

Thiagarajan: Mr. Vir Advani can add, he is closely involved in this exercise, one significant change that has happened with effect from March is the energy labeled airconditioners, we are completely differentiated, in the sense that we are intentionally selling high value differentiated airconditioners only in the market place, non labeled we are not in. This is likely to, and anyways the summer demands are very high and we are maintaining our prices too. As you can appreciate, effecting a price increase in the market place is faster in cooling products as compared to central airconditioning, where there is a long gestation enquiries and order finalizations. Industry forum itself has announced that they would all increase the prices because they can't end up bearing this price increase, so we feel there won't be any deterioration of margins, unless Mr. Vir Advani wants to add.

Vir Advani: I am just looking at the numbers, you said for nine months the margin was 12.9%?

Kirti Dalvi: No, for Q308, sorry, only for Q308 I am talking.

Vir Advani: No, I don't think you should look at quarter, if you look at the nine months, it was 11%…

Kirti Dalvi: Absolutely sir, but, I mean, this is not a business one should look at it on a yearly basis or one should look at it on a quarter-on-quarter basis, probably your professional electronics business, we see it on a yearly basis, so I just thought if there is any extraordinary things which is happening in this particular segment, just wanted to check on that, that's it?

Vir Advani: No, you know, what happens is that you do have to look at it as these are products that you change prices on another thing, so I won't look at a single quarter. I don't think anyhow maintain that we expect double digit margins in this business and even going forward for next year around this 10 ½% - 11% is very doable.

Kirti Dalvi: It's doable, right sir?

Vir Advani: Yes.

Kirti Dalvi: And sir, we have read about an article saying that Blue Star is putting up facility in Uttarakhand for refrigeration, am I right on that?

Thiagarajan: No, indeed we are exploring the possibility of setting up a facility, nothing has been firmed up as of now, we are indeed studying the feasibility of setting up a facility out there.

Kirti Dalvi: But, would it be for refrigeration?

Thiagarajan: No, not exactly, it may be for a few products, it could be for air handlers, which we transport from one end to the other, so it is quite likely that we utilize that. It could be for telecom shelters, which is again a huge transportation cost that affects our margins. We will let you know which location finally we settle on.

Kirti Dalvi: Okay and similar on that line, is it that we are setting up any EOU unit at Wada?

Thiagarajan: We continue to explore that, there is a thought on EOU to be set up. Basically, not for our exports alone, but there are many jobs which gives us the export benefits, so we are studying it, that is also in the same project of where to locate, what kind of factory, whether it should be a large one or a hub, we are still studying, nothing is frozen yet.

Kirti Dalvi: And sir again the similar question on your Middle East, you are putting up any assembly units or are there any plans that have firmed up on that grounds?

Thiagarajan: Not at all.

Kirti Dalvi: So, we are not looking at that side at all?

Thiagarajan: No, we export central airconditioning or certain products, including water coolers, but we do not have any plans as of now to get into manufacturing or assembly there.

Kirti Dalvi: Okay and sir, the last question is, we had spoken in the last con-call about the NCR opportunity for Commonwealth Games, which is around 5,000 odd crores and where Blue Star is targeting 30%, so we are still firm on that thing, 30% opportunity for us?

Vir Advani: Absolutely, there is no reason for that to have changed in a quarter because that spend hasn't yet started, it will only start…

Kirti Dalvi: Yes and when you are expecting the tenders to come?

Vir Advani: I am sorry?

Kirti Dalvi: When you are expecting the tenders to come for that particular thing?

Vir Advani: This year, by Q2 and Q3 of this year they will start to come in.

Kirti Dalvi: Q2FY09

***Vir Advani*:** Yes

Kirti Dalvi: Okay sir, thanks a lot

.

Vir Advani: Thank you.

Moderator: Our next question comes from **Mr. Siddharth of UTI Mutual Fund.**

Siddharth: Hello, sir.

Thiagarajan: Yes, good morning.

Siddharth: Good morning, congratulations for good numbers.

Thiagarajan: Thank you.

Siddharth: Sir, your order book of that 1100 crore, is there any price escalation clause, just wanted to understand, means, how you will take care of rise in metal prices, sir?

Thiagarajan: See, the central airconditioning jobs, very few of them only allow for a price increase or the extra claim or escalation claim, but nevertheless we do provide for contingency in all our jobs and it becomes difficult, in both cases, when the price falls also we enjoy the benefit and we don't go and pass it on to the customer, when the prices go up also we don't succeed in all cases, but our analysis shows that it may not deteriorate our margins despite price increase that has happened in steel, but at the same time, whether it will help us to improve the margins, we are not able to say that confidently. Otherwise we would have confidently said, that we expect another couple of percentage point increase in margins we will show in that segment. It is not likely to take place that is what is our initial feeling.

Siddharth: Okay and second question, about Naseer Electricals you said about less than 10 crore sales for fourth quarter, hello?

Thiagarajan: For the last quarter, from January 24^{th} till March 31^{st}.

Siddharth: Can you quantify the rough numbers for FY08 for Naseer Electricals?

Thiagarajan: FY08, I am saying roughly around 10 crores of billing would have taken place.

Siddharth: For Naseer Electricals, like say, 100 crore approximately for FY07, for Naseer, how much it would…

Thiagarajan: No, it is not relevant, you know, because we acquired the Company businesses as a going concern, right, that time the pending order book was roughly around 100 crores and so, 10 crore of billing took place, so I am not able to get it, it may not be relevant at all, that what was their number earlier.

Siddharth: Sir, and this 93 crore order for this electrification projects?

Thiagarajan: You are asking about electrical order worth 93 crores?

Siddharth: Yes

Thiagarajan: These are pure electrification contracts for commercial places, like IT parks or malls or buildings.

Siddharth: Okay, so execution period is like complimentary for your current business?

Thiagarajan: Yes, it is more or less the same, if at all it will be one month more than or couple of months at best more than the central airconditioning.

Siddharth: So, around four, five months or…

Thiagarajan: No, typically in central airconditioning it takes between six to eight, in electrical it may be eight to ten.

Siddharth: Okay, thank you sir.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. H. R. Gala of Quest Investment.**

H. R. Gala: Hello, congratulations for good set of numbers, Vir and Thiagy.

Thiagarajan: Thank you, Mr. Gala.

H. R. Gala: I have just now two questions left because most of the questions have already been answered, one is can you tell us what is the reason for substantial increase in the increase, decrease in stock YOY by 85 crore?

Thiagarajan: Yes, it is basically because you know, last year, April-May we were stocked out in the cooling product segment and there was a conscious decision to build up stocks for this particular part of the business and we substantially increased our throughput in window split airconditioners to pile up stocks, this is one reason. Two is, obviously with the metal prices sky rocketing, all factories were gearing themselves up too, so these were the two reasons.

H. R. Gala: Okay and how much of inventory would have come from Naseer, because you would have taken the entire balance sheet as on 31st March 2008, so that also could have probably impacted as increase in the whatever, WIP or finished goods?

Thiagarajan: Not exactly, compared with our operation, anyway, Naseer is a small operation, it is something like annualized basis, 100 crore size it was, so it is not much. Somebody else before you asked a question actually, what was the balance sheet figures, I can tell you, for the benefit of you and others, the borrowings as on 31st March was 36.50 crores, total capital employed was 303.60 crores as against the previous year figure of roughly 302.02 and the operating cash flow was 133.78 as against 60.12 crores.

H. R. Gala: Yes, okay my second question pertains to, if you see the other expenditure, total other expenses has been 153 crore for the year, so if we divide by four, on an average it should have been around 38 crores, but in this particular quarter, other expenditure has gone up to 58 crores, so what could be the reason for that?

Thiagarajan: Probably, I do not have the clear answer, one I know, I can verify and come back to you, we did have the, under the expenditure head you are talking about, right?

H. R. Gala: Yes, other expenditure.

Thiagarajan: Yes, the write off, the bad debts, bad inventories, one time basis we wanted to take up actually, because it was a good year and probably 5-6 crores more would have come in on account of that in that corner.

H. R. Gala: 5 to 6 crores.

Thiagarajan: 5 to 6 crores, because that some old debts, disputed cases, etc, we wanted to introduce a policy that, look we have an opportunity here to clean up the balance sheet…

Vir Advani: Incidentally we have a new internal policy, not required externally, we have an internal policy that we have to write off any debts over a particular time period, so we are being very cautious with our write offs, so to that extent, like Thiag said about 6 crores of incremental write off has been taken into account this year, just purely by implementing the policy.

H. R. Gala: Yes, prudent accounting policy.

Vir Advani: Yes, and we intend to keep that going for the next several years. You might see some write backs coming because these are, given the nature of our business, these are very-very cautious, so we might have some write backs in the future, but going forward this is the first year we are implementing this.

H. R. Gala: Fine, my last question is, how much was the service revenue during FY2008 out of 2233 crores?

Thiagarajan: We do not unfortunately disclose it, it becomes selective, you can assume that roughly around 12-15% of our revenue comes from service, of our company's turnover 12-15% comes from service operations.

H. R. Gala: Okay, do you expect that contribution to go up from 12% to 15% as our installed base keep on increasing phenomenally?

Thiagarajan: Not exactly, to tell you the truth, what happens is, in a construction boom, the contracting businesses booms and one will witness a huge growth in the central airconditioning segment. In the cooling products, because we are not a big player out there, but we continue to grow in excess of 40% there in that segment. In service, what happens is, it is an annual maintenance contract, it is one big pie, to that pie one keeps on adding. Let us say 300 crores, on that if you get some additional revenue, it is a recurring revenue high margin, but in terms of a percentage growth, it won't be, because the other businesses are growing in an exponential way.

H. R. Gala: Yes that is true, but now what my question is…

Thiagarajan: So, service will not be out beating the others, they may be equivalent to others, that's about all. See, in percentage terms, till the construction boom lasts, it won't be that service as a percentage of the company's income will be growing, it may stay put in that same figure.

H. R. Gala: Okay, my last question is, some time back in reply to a question, you said that in the fourth quarter, did we have the order inflow of more than 1000 crore?

Thiagarajan: Yes, it is roughly, including Naseer, it should be, if you exclude Naseer on a like-to-like basis, if I recollect, it is something like 855 or something.

H. R. Gala: And to that we add 93 crores.

Thiagarajan: Yes, order inflow, but the question is that, when you say a pending order, it is different from the order inflow, right.

H. R. Gala: No, I am talking about inflow of orders, somebody had asked the question, how much was it in Q4 and you gave roughly 1000 crores.

Thiagarajan: In our investor update, we will try to give you for Q4 alone what was the inflow, we will try to, but if I recollect, it is somewhere around 855. Basically in the month of March there were huge order inflows.

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

Thiagarajan: Thank you.

Moderator: Our next question comes from **Ms. Sneha of Angel Broking.**

Sneha: Hello, good morning, sir. I am sorry I seem to have missed like a major portion of your con-call, but can you just clarify one thing for me, sir, why in your cooling products have your margins improved so drastically YOY is it on the cost side or is it because of the pricing increase that we have taken.

Thiagarajan: We clarified this, so it is close to around 9 or 10 reasons, one, it starts with the dollar depreciation, because we import the compressors, the two is, custom duty reduction was there, three, there was a excise duty reduction, four, Himachal plant started producing fully in an integrated manner and there was no price erosion in the market space during the year, because there was shortage in April-May last year. We continued to maintain the prices then and also if you are talking about the operating margins, the scale effect of the operations came into picture. So, there are many reasons, not one single reason for it to, and any way this is the level it should have been.

Sneha: Okay, sir in the pricing outlook for both your segments, central and cooling products, you think it would be stable going ahead?

Thiagarajan: The pricing, in the sense, the customers what they have to pay or price realization, you are talking about?

Sneha: The customers, what they have to pay.

Thiagarajan: See, the prices are going up actually. In cooling products, the price increase has been affected because the raw materials, everything has gone up, so we can't sustain these prices actually and central airconditioning also, new jobs are being booked at a higher price, obviously.

Sneha: So sir, what would be your price escalation that would happen over a period of a year?

Thiagarajan: It depends on the contract, but by and large if a project is a six months to eight months kind of a project, it will be firm price. The project which is beyond one year, there may be a price escalation clause.

Sneha: Okay sir, thank you so much.

Moderator: Our next question comes from **Mr. Sandeep Tulsian of B&K Securities.**

Sandeep Tulsian: Good morning, sir.

Thiagarajan: Good morning.

Sandeep Tulsian: Sir, working with your numbers, for the fourth quarter we do not consider the stake sale in Rolastar Private Limited, so the numbers for PAT comes to around 4 million 35 crores that is 435 millions, that is removing the amount received for Rolastar and also the tax effect, which shows only about a 30% growth in PAT, sir, going forward what do you expect the growth in PAT, I mean, do you expect it to be low as it was in this quarter?

Vir Advani: First of all what number did you say was the PAT without Rolastar?

Sandeep Tulsian: Without Rolastar and also removing the tax effect, that is the long term capital gain tax, it was 435 millions, so sir that would be only about 30% growth?

Vir Advani: Over what.

Sandeep Tulsian: Sir, over the last

Vir Advani: No, over which period.

Sandeep Tulsian: Sir, over third quarter '07.

Vir Advani: Why would you look…

Sandeep Tulsian: Third quarter '07, sir

Vir Advani: No, we are in '08 right now, what is third quarter '07 have to do with anything.

Sandeep Tulsian: Sir, YOY figure I am talking about.

Vir Advani: Which quarter of last year?

Sandeep Tulsian: Hello.

Vir Advani: Yes, please be clear which number you are talking about.

Sandeep Tulsian: Sir, just give me a moment. Sir, over fourth quarter '07.

Vir Advani: Yes, which is how much?

Sandeep Tulsian: Sir, 340 million.

Vir Advani: But you have to remove the other income from there as well, right?

Sandeep Tulsian: Sir, the other income component was not as significant, sir.

Vir Advani: You should remove it, right?

Sandeep Tulsian: Yes sir, then it would be around 300 millions.

Vir Advani: Correct, so how much is the growth then, 43%.

Sandeep Tulsian: Yes.

Vir Advani: Yes, so now we got the right number, now what you are asking?

Sandeep Tulsian: Sir, going forward, what do you expect in the other incomes, I mean, do you expect such dips, because apart from the stake sale it was only about 7 million?

Vir Advani: What is your question, though?

Sandeep Tulsian: Sir, I have basically two issues right now. Sir, going forward what do you expect your other income, because in this quarter it was significantly low and also, going forward what do you expect the PAT to grow at which rate?

Vir Advani: The other income was very low in the last year, is that what you are saying?

Sandeep Tulsian: Sir, in this quarter, sir.

Vir Advani: This quarter the other income is very high, right, it was 36 crores.

Sandeep Tulsian: Sir, apart from the stake sale, I am talking about, it's only 7 millions.

Vir Advani: Okay, so there is no need to project other income out in any case, we only look at our operations, right. So, as far as our net profit growth is concerned, you will see that there was much higher tax incidence in this quarter. If you look at our PBT on formal operations that means not including other incomes they rose up quarter-on-quarter and so we continue to believe that while the top line will grow at a CAGR of 30- 35%, the bottom line will grow much faster than that. So, it will be shown, even if you look at the quarter you will see that, so that's typically the operating model that we are looking into the future, but I am not able to give you a percentage growth of PAT.

Sandeep Tulsian: Alright and sir, in the fourth segment, that's the central airconditioning segment, is it possible for you to give a breakup of the central airconditioning, the project business and the packaged AC business?

Thiagarajan: See, no it becomes very difficult because in packaged airconditioners itself there are projects and today what happens is even 800 tonnes, 1000 tonnes jobs are executed by packaged ACs, but if you are to roughly pass a judgement of what is our own manufactured equipment, it could be roughly 40% of that.

Sandeep Tulsian: Alright and sir lastly, I would like to know what is the average order book execution period, is it just six to seven months or is there a change in that?

Thiagarajan: Six to eight months as of now

Sandeep Tulsian: Eight months?

Thiagarajan: Eight months and on quarter-on-quarter we will keep verifying that, it is six to eight months.

Sandeep Tulsian: Alright, so that's about it, sir, thank you very much.

Moderator: Our next question comes from **Mr. Rohan Gala of Iden Advisory.**

Rohan Gala: Good afternoon, sir.

Thiagarajan: Good afternoon.

Rohan Gala: Yes, sir can you just give me the breakup for the cooling products in terms of refrigeration and ACs?

Thiagarajan: No, every quarter many of you keep asking, actually internally also we do not track that at all, because it is the same dealer, it is a product and it is not some huge thing to be tracked. If you track water coolers, then there is a problem of bottled water dispenser, you have deep freezer, in deep freezer there is a chest freezer and ordinary freezer and there is a bottle cooler, there is a beer cooler and hundreds of stuff and all are 20 lakh, 30 lakh, we get frustrated internally.

Rohan Gala: No, I just wanted to just two segments, like ACs and refrigeration, so you can just give me that?

Thiagarajan: I think it is 60% will be roughly airconditioners, 40% will be refrigeration products, if that is the classification you are looking for.

Rohan Gala: Yes, because last year it was like 150 for refrigeration and 223 for the ACs, so this year…

Thiagarajan: The room airconditioners business is growing faster than refrigeration products and the cold chain equipment. That is the reason, so this is the ratio. If you see in Q1 it will have a much larger skew because of room airconditioners sale surging.

Rohan Gala: Okay, so basically it is a 60:40 ratio, refrigeration will be 40 and ACs will be 60.

Thiagarajan: Yes

Rohan Gala: Okay, thank you sir.

Thiagarajan: Thank you.

Moderator: Our next question comes from **Mr. Shalab Agarwal of Sundaram BNP Paribas.**

Shalab Agarwal: Good afternoon, sir.

Vir Advani: Good afternoon.

Shalab Agarwal: Sir, just wanted to check, after the acquisition of Naseer Electricals, what is the kind of prequalification that the company gets like getting the expertise on the electrical side?

Thiagarajan: Very favourably, in the sense that, as a going concern we acquired and we amalgamated and the Naseer credentials are exemplary, in the sense that they held close to 50% market share in Bangalore market. They have executed very large projects, in fact they have executed as many large projects as Blue Star has, like 30 crore, 40 crore kind of orders, so we have not been facing any difficulty in getting ourselves pre qualified, many of our customers have been looking forward to our getting into electrification business.

Shalab Agarwal: Okay, but sir, what I also wanted to know is, before acquisition, were there any contracts where you missed out because you didn't have that kind of a capability and now the company as a whole will be able to bid in those contracts?

Thiagarajan: We have not been disqualified, but we have not been very active, in the sense that, why we will qualify ourselves when we do not have the required infrastructure or the back offices, design estimation skills. We were not aggressively bidding for some large electrification projects that is the truth. So, there was no instance of our getting disqualified.

Shalab Agarwal: Okay, but now the company going forward will bid on a MEP basis or we will keep bidding separately for electrification projects as well?

Thiagarajan: See, MEP per se is virtual thing, in the sense that, what happens is, let us take a building, where the airconditioning tender or enquiry is quoted and electrification enquiry is quoted and we bid for both and we or any of our competitors who are into this business will tell the customer, finalize it in a combined manner, and it makes sense for them to do so and obviously order finalization takes place. In 80% of the cases, there may be two different contracts, finalized together on one vendor. There are other projects where the enquiry itself is floated as a MEP together. Typically a large infrastructure project of SEZ or IT park or probably even an airport, but today if you take Delhi airport or Bombay airport, the packages seem to be different, in the sense, electrical is one package, plumbing one package and airconditioning another package. In totality what is happening is the customers are beginning to finalize it on the same vendor, because the vendors also will be offering certain concessions or better prices or better value proposition.

Vir Advani: Where size may concern, our go to market strategy is clear - to pick up standalone electrical business as well, we don't have any prerequisites that unless we get the HVAC work, we won't do the electrical, so they are very much running in parallel.

Shalab Agarwal: Okay and also just wanted to check on the VRFs that you have launched, how is it different from the conventional things that you were doing, does it save electricity for the consumer or how does it work?

Thiagarajan: I am not able to get, which product you are talking about?

Shalab Agarwal: Variable Refrigerant Flow System, sir.

Thiagarajan: Yes, you will be seeing one commercial; it is running in CNBC currently, it will run in IPL, it will run in news channels. The value proposition is it is an intelligent airconditioning system, it understands when to cool, where to cool, even whether to cool. In a central airconditioning system, there is one chiller and the chilled water goes to air handler and then the cold air is carried through the duct. You can imagine like a split airconditioner installed in various cabins or halls and if a person comes inside the hall, it cools, otherwise it switches off, it is so very flexible, it is an intelligent airconditioning system. VRF is that it is so very intelligent, it knows where to cool and when to cool and obviously the electricity saving could be as high as 35%.

Shalab Agarwal: Okay, and sir in this all the electronics are also done in-house or how does it happen or is it you have partners with the likes of Honeywell to get that kind of a…

Thiagarajan: Hardware we import, it is not Honeywell, there are many guys like Emerson and many people are there, programming is done by us and the digital scroll is from Emerson, which we adapted in India to manufacture this for the first time.

Shalab Agarwal: Okay, so we have already gotten orders on VRF system?

Thiagarajan: Plenty, probably we are the number two player already.

Shalab Agarwal: Okay and sir, the last question is on the CAPEX, which you mentioned of around 100-120 crores, which are the areas where we are looking to spend this?

Thiagarajan: Of course it is Wada, that figure of 100 crores should be including the carry forward that we have in Wada plant.

Shalab Agarwal: Which is 45 crores.

Thiagarajan: And plus we have to expand our Himachal as well as Baruch and Dadra facility. Most importantly there is an ERP implementation, we are going to implement SAP, these are the areas.

Shalab Agarwal: Okay, thank you, sir and all the very best to you.

Thiagarajan: Thank you. We will take one more question or couple of questions.

Moderator: Sure sir. Our next question comes from Mr. **Tushar Jain of ING Investment Management.**

Tushar Jain: Hello, sir. Sir, I just was looking at your capital employed numbers and wanted to understand this number of –79 crores, if you could just throw some light what's that about?

Thiagarajan: Which figure?

Tushar Jain: The unallocated net assets and liabilities, it says –79 vis-à-vis 10.7 for last year.

Thiagarajan: So, honestly don't over analyze that particular figure, it is to do with balance sheet restructuring, that Naseer, etc, which I myself tried to understand it, I failed to, but what you have to understand is, the total capital employed is 303.60 as against 302.02 of previous year.

Tushar Jain: Okay and sir the increase in the capital employed in the central airconditioning system would also be because of Naseer, which has got into it?

Thiagarajan: Yes, to an extent, but also their business has been growing, isn't it, you have to see the capital employed to the turnover ratio.

Tushar Jain: Sure, okay, thank you sir.

Thiagarajan: In fact we are very happy about the capital employed, in the sense that the borrowings and the interest cost is much lower.

Tushar Jain: Sure sir, that's commendable that keeping your capital employed at similar levels, you have shown much better performance that improves, so your profitability has grown substantially. So, that's why I just wanted to understand what the 79 crores was about.

Thiagarajan: Thank you.

Tushar Jain: Thanks a lot, sir.

Thiagarajan: One more question we can take.

Moderator: Last question comes from **Mr. Abhijit of ABN Amro.**

Abhijit: Good afternoon, sir.

Thiagarajan: Good afternoon.

Abhijit: Sir, just wanted a clarification on your service revenue, you mentioned a 12-15% of turnover, right?

Thiagarajan: 12-15%, yes.

Abhijit: So, is it 12-15% only on your project revenues or the entire company revenue?

Thiagarajan: Entire company revenue.

Abhijit: Alright and does it include only your annual maintenance contracts or is there anything else?

Thiagarajan: We do annual maintenance contract, we sell spare parts, we carry out upgrades, retrofits, we carry out energy management, we carry out air management, we carry out water management, we carry out LEED green building certification and documentation business, plenty. It is anything and everything to do with airconditioning and refrigeration.

Abhijit: Alright and sir, how much of…

Thiagarajan: Predominantly it will be annual maintenance contract, in the sense you can assume roughly 50% of the service revenue comes from annual maintenance contracts.

Abhijit: Alright, so which is similar to what used to be two years ago or has it grown?

Thiagarajan: Annual maintenance contract has remained the same because both are growing, right; it is not one business alone grows.

Abhijit: Alright and in terms of, lets say the overall service income, what would you say is the trend, like for the last two years?

Thiagarajan: Slowly you will ask us to publish a balance sheet on service alone. Service revenue continues to grow because 60% to 70% of our customers, depending on the segment stay with us through the life time, so obviously as we grow our projects business, or the cold chain business, or the refrigeration business or packaged airconditioning or VRF, we expect the service revenue to continue to grow, that's what will happen.

Abhijit: Alright and can you throw in some light in terms of, no your competition typically used to be the unorganized sector, right, as far as your AMC is concerned, so have you taken away some market share or are you getting to…

Thiagarajan: What you are saying is true in case we are a room air-conditioner company. In central airconditioning, the respective manufacturers will be pursuing their business, so of course there is very little amount of unorganized in this.

Abhijit: Alright.

Thiagarajan: Thank you.

Abhijit: Thank you, sir.

Thiagarajan: Thank you ladies and gentlemen, but we are indeed grateful to you for showing interest in Blue Star and I am confident that we will continue to do well. If you have any questions or any other clarification you need, you may e-mail me or Mr. Sudhir Shetty of Ad-Factors or Mr. Vir Advani, thank you.

Vir Advani: Thank you.

Moderator: Ladies and gentlemen this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note: 1. This document has been edited to improve readability.