"Blue Star Limited
Q4 & FY25 Earnings Conference Call"

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MANAGEMENT: **MR. B. THIAGARAJAN – MANAGING DIRECTOR**
MR. NIKHIL SOHONI – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q4 & FY25 Earnings Conference Call.

We have with us today from the management Mr. B. Thiagarajan – Managing Director, Blue Star Limited; and Mr. Nikhil Sohoni – Group Chief Financial Officer, Blue Star Limited.

As a reminder, all participants' lines will be in listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*", then "0" on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. B. Thiagarajan. Thank you and over to you, sir.

B. Thiagarajan: Good morning, ladies, and gentlemen. It's a pleasure and privilege to address you this morning. I have with me Mr. Nikhil Sohoni, who is our Group Chief Financial Officer. Hope you have seen the results published yesterday after our Board Meeting, both for Q4 and the full Financial Year.

You might have noticed that the total income, that is the consolidated income, for Blue Star for the financial year ended 31 March, 2025, has crossed Rs. 12,000 cr. And it is another landmark for the company. The net profit before exceptional items had grown by 40% to Rs. 581 cr. The profit before exceptional item, again, grew by 38.6% to Rs. 72.42 cr.

This is consistent performance for the third year in succession, ever since the COVID recovery happened. It's an all-round performance. Except for the Commercial Refrigeration business, the performance of which was impacted due to regulatory changes which we had disclosed in Q1 itself. These are regulatory changes that continued, and the business has recovered, and it had been somewhat flat compared with last year in Q4. As we speak, that business is growing significantly from April onwards. In fact, March was the flat quarter, given that last March (March 24 quarter) was a very significant quarter for that business before the regulatory changes came into effect.

I will hand it over to Mr. Nikhil Sohoni for his opening remarks, but I am pre-empting a few things from the reactions, questions from many investors, financial press, my own wealth advisors or even neighbors and relatives, about our results compared with our competitors, whichever results have been published so far.

Now, the results, obviously, you all may be confused with what is going on in the industry. I will begin with the first part which is here and now, which is how is April going. From January, I have been saying, last year was a very significant summer season, with April more than 75% growth happening; and Q1, more than 59% growth happening. On the backdrop of it, this summer, how it will be? There has been a debate for a long time ever since weather forecasts have been available. We have been maintaining, it should be anywhere between 20% to 25%, we would be happy.

Now, April had not been a month, which delivered in line with that outlook. First problem was, in March itself, material was lifted in significant quantities, which resulted in, in my estimate, more than 4 million units in the market. In my view, it was anywhere between 1.5 million to 2 million more inventories than what should have been there. Then there were sporadic rains across the country, including Mumbai for the past few days. April, I understand, the industry would have degrown anywhere between 15% to 20%.

In our case, as I can disclose this since the Board Meeting is over, we would have grown by around 5%. Our own internal target was to grow by 25% to 30%, because if industry is growing between 20% to 25%, we wanted to grow by 25% to 30%.

Second concern will be with regard to Commercial Refrigeration, because it is forming part of the Segment-II. That business, as I had mentioned earlier, has grown significantly in April'25. It's more than 25% growth, whereas in the last quarter it was flat.

The third information, in the questions that will come up, the Energy Labelling Program in January 1, 2026, whether it is going to change or it is going to change in 2027 again, or is it also going to be in 2028. The discussions are on and they are in the advanced stages. Our anticipation is, there will be indeed a change in 2026, and the next change will be 2028, with higher parameters. So, as originally envisaged, 2026 change should happen; that is what the industry is prepared for.

Now, I also want to reiterate that Blue Star Segment-II Results, which I have been explaining for the past two quarters, does not include Commercial Air Conditioning and it does not include Commercial Air Conditioning. In our case, it includes the Room Air Conditioners, it includes the Commercial Refrigeration product. I had explained to you. Till such time we reclassify, what is the part of Room Air Conditioner, what is the part of Commercial Refrigeration; I am unable to disclose that to you. But I can tell you that Room Air Conditioner business has grown significantly. Commercial Refrigeration business has been flat. In the first half of the year, it had de-grown, in the last quarter it was flat.

Now, the only way I can indicate is that had it not been Commercial Refrigeration's de-growth, if it had been business as usual, our estimate is that our growth in revenue for FY25 would have been 500 basis points higher. The margin would have been higher by 50 basis points. Even to disclose this, we took the Board's permission, that this is how we will disclose. Now, it does not include the Commercial Air Conditioning or Commercial Air Conditioning Service, which will be close to more than Rs. 150 Cr kind of profit at any given point of time in any particular year; on the average I am talking about over the years. That is not part of the Segment-II at all, in our case. It is purely Room Air Conditioners and Commercial Refrigeration products.

Then the industry, this is the last point I wanted to make, had been undergoing many supply chain challenges. It is somewhat stable now, with the extensions that are given for the compressor imports. You might have read about an article about E-Waste Extended Producer Responsibility. The companies are filing suit against the government for increasing the rates. Now, Blue Star also has filed a petition. The question here is the revised rate when it came into effect, whether it was provided for or not provided for? There are companies which would have provided for; there are companies which would not have provided for.

Next part is, you would have read an article or many articles about copper duty, whether it is under FTA and whether localization has happened? The good news is, localization has happened. And we have signed an MOU with Hindalco for sourcing locally, a significant amount of material next year should be coming from within. Now, in the last financial year we would have imported copper. There had been again the question of whether the FTA-related disputes have been provided for or not? These are all business as usual; some companies would have provided for; some companies would have not provided for. But as far as Blue Star is concerned, what needs to be provided for has been provided for. In other words, for example, in the e-waste matter, we have provided for that additional money and if the court case goes in our favor, we will be writing it back. That's how life will go on.

Now our results, to an extent, may not be comparable with others, because it is a pure operating income that is there, purely for the businesses that I told you in Segment-II. I thought I must clarify this because numerous questions will come later. Our limitation is related to bifurcating. And we, indeed, consider this and at some point of time it may happen. But as of now we are not able to.

The way you should be able to also figure out our Room Air Conditioners' performance, maybe from GFK. There, you would have seen or some of you would have seen, we have gained market share by 100 basis points. For three consecutive quarters, we have been leading in terms of the tertiary sales as well, in many markets.

So, with that, I hand it over to Mr. Nikhil Sohoni for his opening comments.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. Good morning, ladies, and gentlemen.

I will be providing you an overview of the Results of Blue Star for quarter-ended March '25.

FY25 on an overall basis has been an exceptionally good year, delivering a 23.6% revenue growth on the back of the strong performance of FY24. Profit before tax grew by 40.9%. EBITDA margin improved by 40 bps from 6.9% in FY24 to 7.3% in FY25.

Carried forward order book rose to the highest-ever level of Rs. 6,263 Cr as compared to Rs. 5,697 Cr in FY24. This reflects on the operational rigor and efficiency, and at the same time depicts an extremely good pipeline to support growth.

The company remains committed to its stated path of investments in research & development, manufacturing, sales & distribution, digitalization, talent development and capacity enhancement in order to strengthen its position in times to come.

Financial Highlights for Quarter ended 31st March 2025

- Revenue from operations for Q4 FY25 grew 20.8% to Rs. 4,018.96 Cr as compared to Rs. 3,327.77 Cr in Q4 FY24.
- EBITDA, excluding other income, for Q4 FY25 was Rs. 279.40 Cr, an EBITDA margin of 7.0% of the revenue, as compared to Rs. 241.90 Cr, an EBITDA margin of 7.3% of revenue in Q4 FY24.
- PBT before exceptional items grew 16.2% to Rs. 248.82 Cr, which is 6.2% of revenue in Q4 FY25, as compared to Rs. 214.13 Cr, which is 6.4% of revenue in Q4 FY24.

Year Ended March 31, 2025

Financial highlights for the year ended March 31, 2025, on a consolidated basis, are summarized below:

- Revenue from operations for FY25 grew 23.6% to Rs. 11,976.7 Cr as compared to Rs. 9,685.4 Cr in FY24.
- EBITDA, excluding other income, for FY25 improved to Rs. 875.9 Cr, an EBITDA margin of 7.3% of revenue, as compared to Rs. 664.9 Cr, an EBITDA margin of 6.9% of revenue in FY24, recording a growth of 31.7%, mainly due to impact of scale.
- PBT before exceptional items grew 38.6% to Rs. 772.4 Cr in FY25 as compared to Rs. 557.2 Cr in FY24.
- Tax expense for FY25 was Rs. 193.6 Cr as compared to Rs. 142.8 Cr in FY24. The effective tax rate was 24.7% for FY25 as compared to 25.6% for FY24.
- Net profit for FY24 grew to Rs. 591.2 Cr, which is 4.9% of revenue as compared to Rs. 414.3 Cr, which was 4.3% of revenue.
- In view of the record revenue and profits earned by the company, a dividend of Rs. 9 per share, previous year Rs. 7 per share, is recommended by the Board of Directors of the company.

- Carried forward order book as of March 31, '25, grew by 9.9% to Rs. 6,263.4 Cr as compared to Rs. 5,697.6 Cr as of March 31, '24.
- Capital employed as of March 31, 2025 increased to Rs. 2,427.3 Cr as compared to Rs. 2,156.7 Cr as of March 31, 2024. This was primarily owing to investment in fixed capital.
- The company reported a net cash position of Rs. 640.35 Cr as of March 31, 2025, as compared to a net cash position of Rs. 455.9 Cr as of March 31, 2024.

II. BUSINESS HIGHLIGHTS FOR Q4FY25

Segment-I: Electro-Mechanical Projects and Commercial Air Conditioning Systems:

The revenue grew 30.6% to Rs. 1,968.2 Cr in Q4 FY25 as compared to Rs. 1,506.8 Cr in Q4 FY24. The segment result was Rs. 149.9 Cr, which was 7.6% of revenue in Q4 FY25, as compared to Rs. 112.5 Cr, which was 7.5% of revenue in Q4 FY24.

Segment revenue for the year grew 27.2% to Rs. 5,998 Cr as compared to Rs. 4,715.5 Cr in FY24. Segment result was Rs. 490.9 Cr, which is 8.2% of revenue in FY25 compared to Rs. 341.1 Cr, which was 7.2% of revenue in FY24.

Order inflow for the quarter increased by 17.5% to Rs. 1,439.9 Cr compared to Rs. 1,225.1 Cr in Q4 FY24.

1. Electro-Mechanical Projects:

Continuing with the trend of the previous quarters, this quarter also witnessed strong order finalizations, primarily from factories and data center market segments. The commercial real estate and infrastructure market segments saw muted demand. The focus remains on faster execution of projects with healthy profitability and cash flows. The company is hopeful that growing data center investments and focus on manufacturing will result in fruitful opportunities in FY26. The carried forward order book of the business stood at Rs. 4,755 Cr as of March 31, 2025, as compared to Rs. 4,344 Cr as of March 31, 2024, a growth of 9.5%.

2. **Commercial Air Conditioning Systems:**

The Commercial Air Conditioning business delivered a good performance this quarter, by maintaining its market leadership and improving profitability. Growth was led by resilient demand from Healthcare, Hospitality and Education sectors. While the Industrial and BFSI sectors remained muted, the Government orders showed signs of revival during this quarter.

3. International Business:

In FY25, we have developed products for 3 OEMs in the US and Europe and after completion of field trials of the products, commercial shipments have begun. While volatile global trade policies have led to the slowdown, the enquiry levels are higher in anticipation of an India-US trade deal and supply chain de-risking by these OEMs. We expect more clarity to emerge in H2 FY26.

Segment-I margins overall at 7.6% for Q4 FY25 versus 7.5% in Q4 FY24, and the margin for FY25 is at 8.2% as against 7.2% in FY24. As this segment comprises both projects and product business, the mix of which influences the margins.

Segment-II: Unitary Products:

Revenue grew 14.7% to Rs. 1,960.2 Cr in Q4 of FY25 as compared to Rs. 1,708.9 Cr in Q4 FY24. It is to be noted that this growth has to be seen in connection with Q4 FY24 growth, which was 34.8%. Segment results improved to Rs. 164.5 Cr, 8.4% of revenue in Q4 FY25, as compared to Rs. 141.4 Cr, that is 8.3% of revenue in Q4 FY24.

Similarly, the revenue for the year grew by 22.4% to Rs. 5,621.1 Cr in FY25, as compared to Rs. 4,592.2 Cr in FY24. Consequently, segment results improved to Rs. 471.2 Cr, which was 8.4% of revenue in FY25, as compared to Rs. 360.3 Cr, which was 7.8% of revenue in FY24. FY25 was a landmark year for Room AC business, with sales volume crossing 1.53 million units.

1. **Cooling and Purification Products**

The Room AC business recorded strong growth during this quarter, driven by the upcoming summer season and rising demand in Tier-3, 4, and 5 markets. FY25 witnessed a very strong demand growth, and the overall performance of this business has been exceptional. Our market share now stands close to 14%.

To capitalize on demand momentum, we have introduced a comprehensive new range of Room ACs during this quarter, including a flagship premium lineup catering to every consumer segment across all price points.

We continue to strengthen our presence across various distribution channels through targeted promotions and in-shop demonstrators, while expanding distribution, especially in Northern India. With 2,100+ service centers, 150+ vehicles, and its ‘Gold Standard service’, we continue to focus on reliable nationwide after-sales support.

2. **Commercial Refrigeration:**

The Commercial Refrigeration business was impacted due to regulatory changes in H1 FY25 as well as supply chain constraints. Further, the slowdown in FMCG sector impacted the dairy and the frozen products, including ice creams, which resulted in lower demand for deep freezers.

In Q4 FY25, the demand has revived and the business has recovered. With the revival of demand from ice creams, frozen food, and growth of quick commerce delivery platforms, the outlook for this business is encouraging.

In Q4 FY25, this segment reported a margin of 8.4%, which is marginally better than 8.3% in Q4 FY24. The margin for FY25 has improved to 8.4% from 7.8% in FY24, aided by strong revenue growth in Room AC business, leading to a benefit from economies of scale.

Segment-III: Professional Electronics and Industrial Systems:

The revenue de-grew 19.2% to Rs. 90.6 Cr in Q4 FY25, as compared to Rs. 112.1 Cr in Q4 FY24. Segment result was Rs. 8.8 Cr, which is 9.7% of revenue in Q4 FY25, as compared to Rs. 13.6 Cr, which was 12.1% of revenue in Q4 FY24.

Segment revenue for the year de-grew by 7.7% to Rs. 348.6 Cr, as compared to Rs. 377.7 Cr in FY24. Segment result was Rs. 29.7 Cr, which was 8.5% of revenue in FY '25, as compared to Rs. 51.5 Cr, which was 13.6% of revenue in FY24.

The MedTech business is facing headwinds from regulatory developments and the same has resulted in the loss of revenue and profitability for this business. Industrial Solutions business is showing momentum, but it is not compensating for lost opportunities.

III. Business Outlook:

For the third consecutive year, the company delivered exceptional financial results with the total income crossing Rs. 12,000 Cr and profit before tax crossing Rs. 750 Cr. The weather forecasts have predicted a strong summer, and we are hopeful that the momentum for the Room AC business will pick up in May and June 2025; even though, the growth in the month of April 2025 was not in line with expectations.

The hurdles faced by Commercial Refrigeration business are behind us. The strong order book of Segment-I and the growing demand from manufacturing and data center market segments will contribute to growth. The proposed India-US trade deal should help us to scale our international business. Overall, we are optimistic about the prospects for FY26. Of course, we have to keep a close watch on geopolitical developments, potential volatility in commodity prices and supply chain disruptions.

With that, ladies, and gentlemen, I am done with the Opening Remarks. I would now like to pass it back to the moderator, who will open the floor to questions. We will try and answer as many questions as we can. To the extent we are unable to, we will get back to you via e-mail. With that, we are open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Natasha Jain from Phillip Capital. Please, go ahead.

Natasha Jain: Thank you for the opportunity. Sir, first of all, the detailed commentary was helpful. My first question is on RAC. Now that you have mentioned and all your peers have also given out numbers, the top-line growth was strong, could be because of channel filling and the start of this quarter has been slightly tepid, and May has any which ways, seen continuous rains in North of India. Given that all of our major players have backward integrated, are now sitting with massive capacities, and the season has kind of at least started with slight disappointment, and you said that the BEE rating is due just probably seven, eight months down the line, does that mean that for the remaining part of the year there will be pressure, both in terms of volume, because inventory will be high in the channel and then, therefore, there could not be any pricing advantage?

B. Thiagarajan: So, if you are in this business, you should always be on a watch on that, look if it is going to be not that good summer, what one needs to do? That's what one will look at it, isn't it? That you won't be in the business. When there is the risk, this will already be there. It's almost like a cricket team, if that season is going to be raining, playing in Australia, England, they will know very clearly, they are trained to do that. If you ask me, before 2021 there was a serious problem because you are ordering for the material, many SKUs coming from China or Far East, you will not be able to do anything because you have already opened the LC, they started shipping it and the inventory pressure will be huge.

Thanks to Make in India, majority of us have already started producing in-house. It is a question of raw material and what you have planned and how that is being imported or locally sourced month-after-month. So, I do not see inventory as a problem. It is something very quickly will be corrected. So, if you recollect, our memory is short, including many Blue Starites, the whole bad summer was in FY24. It is only one-year it changed. In FY24, if you look at it, as far as Blue Star is concerned, it started exactly like that. IMD forecast, March is becoming very hot and people started buying.

It peaked in quite a few locations in March. April 15, suddenly it stopped. And the Q1 growth in FY24 for us in Room Air Conditioner volume terms was just 2%.

However, the year ended, Financial Year '24, ended with 20% growth and in fact, the Q3 itself showed 25% growth, the festival season part of it. Whereas, if you look at FY19, FY20 was COVID-impacted year; one year prior to that was a very bad summer year. It was a huge preparation, and Q1 was minus 10%. Q2, however, showed 14% growth because in July, North India did well, and some parts of the Madhya Pradesh, etc. And Q3 was a flat quarter. Q4 was again some single-digits. Full year was a flat year. So, I am giving you two comparisons. Now, we are again talking about a year on a base which was very, very high.

I am of the view that energy label change will not be an issue at all, for the simple reason, the production of those products would not have commenced and raw materials would have been ordered only for the summer season, finished good inventory when we will, in case the summer fails, I am still hopeful something will happen in May and June, because the weather forecast says from 12th onwards it is going to be tough summer. Whether this year again 20% growth will be for full year? You have to wait and see. But I am not seeing it as a crisis, because we are seasoned players in this, and it will be a disappointment if rain continues throughout the summer. Thank you.

Natasha Jain: Thank you, sir. That was helpful. Just one last question. In terms of Commercial AC, I understand that VRF technology is the fastest growing, and you have indigenously developed your own technology. Now what I have understood from the industry is, this technology needs to continuously go through R&D in order to be with the updated technology. So, here, because we have already made this technology probably a year before, are we going to see huge R&D spends on this? And therefore, can margins be impacted? Thank you.

B. Thiagarajan: See, not only Commercial Air Conditioning, in fact, even Room Air Conditioning requires technologies for multiple reasons. So, number one is connected with, you had the gap vis-a-vis competition, you will end up making. Centrifugal chillers, for example, it was not in our portfolio, we have invested in that, we are growing, and we will keep developing that. So, there is a product portfolio gap.

There is a second type of R&D expenses where you want to become competitive. You launch a product, it is functioning very well, but you want to make it very cost effective, improve the margin. Which means you will try out alternate vendors for many components. That is a second type of R&D.

There is a third thing which is actually energy label change or a refrigerant change in order to improve the sustainability, it will go on.

Fourth is the developing technologies in digital or AI. In order to improve the performance, in order to improve the reliability, in order to improve the energy efficiency itself, so you incorporate those technologies. Now, with all these, it is not only current year, you keep a five years road map and you start developing that, investing in that. So, clear guideline is that whether it is room air conditioner or a deep freezer or it is a commercial air conditioning system, 1.5% to 2% of our revenue will be invested in R&D. It will keep on happening. And as you can imagine that we are not a global company, some global headquarters is going to develop a technology and give it to us. Whatever we have achieved, if we are able to compete with multinationals or if our products are comparable to multinationals, thanks to our efforts in R&D.

The last point is connected with the backward integration or vertical integration, whenever that needs to be done. So, in make versus buy, in competent ecosystem it's not only regulatory. In order to improve the margins from time-to-time, we will take such decisions. So, our investments in R&D will continue to happen at around 1.5% to 2% of the revenue. Thank you.

Natasha Jain: Thank you, sir.

Moderator: Thank you. The next question is from the line of Naushad from Aditya Birla Sun Life. Please, go ahead.

Naushad Chaudhary: Thanks for the opportunity and highly appreciate the detailed explanation and almost everything, all queries have been resolved. Just one, on the EPR side, if at all it is possible, if you can quantify how much we have taken a provision last year, either in absolute term or as a percentage of revenue? And what was the expected increase on that base for which we are fighting?

B. Thiagarajan: The exact figure Nikhil will be able to tell. What happened was, the recycling was at some Rs. 9 per kg, it got increased to somewhere around Rs. 23 a kg, that is the issue. Now what is EPR? 10 years ago, whatever number of air conditioners I sold, equivalent material there will have to be recycled. And in India, generally getting this material back is a problem. One air conditioner becoming old that is shifted to another bedroom, and it is bought by somebody, and even if you pay Rs. 4,500, Rs. 5,000, it does not happen. So, you are supposed to be going to the recycler, give the material that you have collected; apart from that, you also buy the certificates for recycling. That rate tripling is the issue. So you assume approximately some Rs. 10 Cr what it was, it will become Rs. 30 Cr. That's the type of formula. As far as Blue Star exact figure, do not worry, it is in the order of Rs. 10 Cr, which will go up to Rs. 30 Cr in the coming year. Last year, midway through it came in, so the differential has been provided for.

Naushad Chaudhary: And this Rs. 9 per kg to Rs. 23 per kg is for retrospective or for the fresh material?

B. Thiagarajan: Fresh material, whenever it came into, the middle of last year it came into effect, which is what you are reading in the newspaper as being contested.

Naushad Chaudhary: Okay, sir. Thank you so much. All the best.

B. Thiagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Rahul Agarwal from Ikigai Asset. Please, go ahead.

Rahul Agarwal: Hi, sir. Good afternoon and thank you for the opportunity. Sir, you alluded to some outlook on how do you see RAC ahead? Just wanted to understand similarly, because last two years most of the revenue for Segment-I and Segment-II has grown like 20% on an average. Going forward, obviously, the industry outlook looks great but I think these numbers are, I think, very good. So just in terms of sustainability, if you could help us qualitatively understand outlook for Commercial AC, Commercial Ref and Projects also, going into next year, it will really help? That's the first question.

And secondly, similarly on margins. I think if you could just highlight what could be additional levers from where we are at current levels on both Segment-I and Segment-II. Do we see margin expansion further? And is that more organic or is it going to be more effort-driven? Those are my two questions, sir. Thank you.

B. Thiagarajan: So, thank you. The Room Air Conditioner business is growing, is poised to grow in the coming years and there may be a good year of significant growth beyond 20%, 25%, another year, it may be a flat year, if it is going to be a washout summer, both can happen. But all taken into account, between now and 2030, the CAGR estimate is 19%. It was an

Ernst & Young report, CII National Committee on Consumer Durables and the Electronics did that. That research it is widely accepted by many stakeholders, and even for many government representation, we continue to use that. And in fact, Air Conditioner will be the fastest-growing category within that Consumer Durables and Electronics at 19% CAGR, market is expected to more than double.

Now, the Commercial Air Conditioning product is connected with infrastructure development, whether it is a core infrastructure or a social infrastructure, where the product goes, shops, showrooms, boutiques, hotels, hospitals, data centers and the manufacturing, educational institution, etc. Our estimate is that it should grow at a CAGR of somewhere between 12% to 12.5%. That is our estimate.

Now, Electro-Mechanical Projects is a big canvas. It's a question of where you want to compete, what kind of risk appetite that you have in terms of cost overruns or the time overruns? So compared with what we are doing, and many number of projects we can get into, our principle has been that do the project selectively where your cash flows are secured and profitability is reasonable. It does not bring down the average profitability of the company as a whole. That has been the approach. So, I am not really worried about the market growth as far as the Electro-Mechanical Project segment is concerned.

Commercial Refrigeration is a fragmented one. It may be a water cooler, it may be a deep freezer, it may be a cold chain-related cold room, and it can be a ripening chamber. And many, many sectors, pharma, quick commerce or the QSR segments and warehouses, a number of customers keep buying. It has a potential to grow at 30%, because India is underpenetrated. So, the growth potential there is very high. And it is yet to reach a room air conditioner kind of a scenario. Room air conditioner struggled like that for many years till 2020-'21. Then post that it is showing signs of growth.

I expect at some point of the time, there are signs now. There is no doubt that the demand is coming back in many sectors, driven by the modernization of the traditional Kirana stores itself. As you have seen Tier-3, 4, 5 towns, every Kirana store wants to sell ice cream or want to sell cold beverages, so the visi cooler, deep freezer market is growing, processed frozen food consumption is growing and healthcare sector is getting modernized. Therefore, if you look at it, the QSR players keep on announcing more and more number of stores, restaurants getting opened even on the highways. Quick commerce is a last year phenomenon, 10% of the total market now is the requirement from the quick commerce segment for delivery related cold rooms or deep freezers. So, this is the overall scenario.

Margins, ; my view is that to dramatically grow the margin in this particular period, 2025 to 2030, is to be looked at in the context of many investments that have to be made, that when you are trying to penetrate the market in Tier-3, 4, 5 towns, you have to make investments in brand and brand promotions related.

Next, you are all complying with newer and newer regulations, like the Extended Producer Responsibility, there's a cost that comes to that. Next, in-shop demonstrators, when you are expanding your network to 15,000 from 10,000, that additional 5,000 will be coming with some cost like in-shop demonstrators. Consumer finance-related cost, it is 40% of the sale coming from consumer finance, that is the cost that comes to you.

So, therefore, there is a phase that you go through, keep on making investments. So, therefore, you make investments for the scale. Let us imagine, the industry was only 8 million in FY24, and FY25 it crossed 10 million, it may cross 15 million in FY26. Blue Star itself, from 8 lakh to 11 lakh to 15.75 lakh kind of volume we have grown. It will require investments in digitalization, etc. So, in this particular period it is going to be a tough journey, and the competition will be intense, to improve the margins dramatically, because you are making simultaneously many investments that are needed.

The guidance for FY26, unless and until something dramatically changes remain, for Segment-I, 7.5%; and Segment-II, 8.5%. And we will attempt to take it to 9%, and that will be with a great difficulty, I think. And if the summer is not going to be that great, that 8.5% to 9% will be very difficult.

Rahul Agarwal: Thanks. And we should assume that whatever growth rates you mentioned on all segments, we should be gaining market share? That is just a follow-up, yes.

B. Thiagarajan: That's very clear, that we want to grow faster than the market. And we were not happy with Room Air Conditioner in Q1. Despite a great summer, we were stocked out at some point of time last year, and we did not gain market share in that summer. But if you look at it in Q3, Q4, we have done better, and that 100-basis point market share gain happened in the later part. Now our goal, we have stated that we would like to see that 15% market share quickly and so on, and distribution, branding, everything will be happening that way. Thank you.

Rahul Agarwal: Thank you so much, sir. All the best.

Moderator: Thank you. The next question is from the line of Dhruv Jain from Ambit Capital. Please, go ahead.

Dhruv Jain: Thank you so much for the opportunity, sir. My first question is on the MEP business. So, I know that you cater to various segments and do a lot of things there. But just wanted to understand that which segments particularly would be higher than median margins and which would be lower than median margins that you reported? Some color there would be very helpful.

B. Thiagarajan: See, generally, the projects in which the equipment content is higher will, obviously, have a higher margin. The projects in which it's all 12 to 18 months kind of completion will have higher margin. Projects in which you have price variation clause that is built in, will have higher margin. But broadly what we have seen is that manufacturing, data center, these kinds of projects have more than average margin, for the simple reason, they have got a completion period certain, and their revenue is suffering, these projects will happen. Infrastructure projects like metro railway or railway electrification, substations and all, six months to one-year it can get delayed. Thank you.

Dhruv Jain: I get the point, sir. And sir, the second question is on exports. So, I know that you have embarked upon an export initiative program, but just wanted to understand where are you in that journey from an SKU approval perspective? And if you could just share some thoughts there? Thank you.

B. Thiagarajan: Yes. So, the situation remains the same that we have three customers and we have got products approved for them. These are in the decarbonization area, and they have started lifting the material. As one would like to scale, you know from January what is happening, and the complete uncertain situation prevails. Therefore, we have to wait and see. And there are a huge number of inquiries that are flowing in and a record number of people are now asking for samples, etc. But it may not straight away translate into orders because I think all of them are trying to secure their supply chain.

So, as we speak, we have wait and watch whether US-India deal, when it will happen? US-China deal they are talking about, what will happen? And whether US or Europe, whether they will get into inflation? Or whether they will be into recession? A number of questions are being asked. So, to that extent it is a disappointment. There is uncertainty in the whole international exports landscape.

In the meanwhile, we are speeding up to give the samples, understand the specifications for numerous inquiries that are coming in because their problem is if China does not open up and whether India is, they will evaluate. It will move on for another one year, I suppose.

Moderator: Thank you. The next question is from the line of Aniruddha Joshi from ICICI Securities. Please, go ahead.

Aniruddha Joshi: Yes, thanks for the opportunity. Sir, one question. Now, in your career you would have seen such weather-related issues, like early monsoon or late summer multiple times. So just wanted to understand from the experience that whether these things really impact in the medium-term or not? Secondly, are these things in a way helpful, because I guess the smaller / unorganized players would be getting relatively more impacted compared to players such as Blue Star. So, do we end up gaining market share in such periods? That is question number one

Secondly, in case of Commercial Refrigeration, if you indicate about the market size and the market position of Blue Star, let's say, the market share roughly three years ago what it was, what is currently and the shares of other players also? Yes, that's it from my side. Thank you.

B. Thiagarajan: Yes, the last part of your question is Commercial Refrigeration?

Aniruddha Joshi: Correct.

B. Thiagarajan: Okay. Now, many times it has happened that, see, the first thing is, it is seasonal product that sets the tone. And the corrections were not happening. As I explained earlier, we have seen in FY24, when the summer failed in 2023 the recovery happened significantly. So, the situation is different from what it was in the past. But having said that, for that particular year, instead of growing by 25%, the industry can grow by just 10%. That is a possibility.

The weather is becoming unpredictable, no one would think that in Mumbai this kind of rain would happen in the month of May. Now, equally is the fact that it can suddenly become hot, unbearable temperature can happen. So, whether it will impact medium-term or long-term? I do not think so. It depends on the company. Like, for example, will you postpone expansion of your network? Will you postpone recruiting people or initiating new R&D projects? We do not believe in that at all. We continue to invest; some discretionary expenses one may defer It can create pain for the employees associated, because the variable pay or sales incentive will be linked to the sales growth. So, there is a pain they will undergo, indeed. There is no doubt about it.

Now, in one particular year, you earned a significant amount because it was an unexpected bumper sale and, in another year, you are losing it. So, we have seen this again and again happening. I have not come across fortunately, two summers consecutively disappointing in my 45 years of career. So, therefore, I am of the view even May, June should bounce back is my view, let us see. I can be entirely wrong. But the good news now, as I have told you is, you can quickly correct the supply chain. You asked me a question whether the smaller players will be impacted? I do not think so. They are now matured players. We handhold each other if you mean the vendors or the OEM suppliers and we should be doing better. I can put it another way, 10 years ago it used to be a huge tension and mourning and disappointment and all that. It is not, it's part of the game, it will happen. Thank you.

Aniruddha Joshi: Okay. Sure, sir. And on the Commercial Refrigeration part?

B. Thiagarajan: Yes, Commercial Refrigeration, if you take deep freezers, which are chest freezers, many types, whether it is glass top, hard top, and the water cooler, or the negative temperature storage, all these put together, we will be having close to 31% market share there. We would like to maintain, if possible, improve. But that market is significantly growing.

Second part is modular cold rooms, which are walk-in coolers we call it, which goes in very large numbers to restaurants, pharma industry, logistics, warehouses, etc. And there, again, we hold 32% market share. Water cooler is a small part, we have been leaders there, there is nothing to worry. So, market leadership is not an issue there. The issue is connected with the market to open up, it is opening up.

Last year was a disappointment for a different reason altogether, which you are all aware, the many regulatory changes connected with import. Most importantly, we all imported from China many commercial refrigeration equipment. When you indigenize, it will not be as price competitive as China was able to deliver. The customers are used to Chinese pricing. So, therefore, even though you are trying hard, the question that comes up is, when the margin will go up? So, this is the issue, the customer got used to a Chinese price for many decades. You suddenly stop importing. When you make locally, it is going to take time for you to improve the competitiveness. That's where it is. Thank you.

Aniruddha Joshi: Thank you. Thank you, sir.

Moderator: The next question is from the line of Anupam Gupta from IIFL Capital. Please, go ahead.

Anupam Gupta: Yes. Thanks for the opportunity, sir. Sir, the question is on the RAC business, primarily RAC and Commercial Refrigeration if you can talk about. Basically, where are you in terms of backward integration at, let's say, at the end of FY25 in terms of in-house, third-party, and imported sort of sourcing? And over the next two, three years, how do you see it changing incrementally? Also, because there is pressure from the government to indigenize, as we saw in case of compressors very recently. So, if you can just give a color here?

B. Thiagarajan: So, there are a few items which we should deal with. The number one is connected with the compressor. Second item is the motor. Third item is the copper tubes. Fourth item is electronics. Fifth item is refrigerant. All of them are critical items from the supply chain point of view and constitutes a significant part of the cost that goes into air conditioner.

Refrigerant, we will not be manufacturing at all. We are working with the manufacturers in order to ensure that adequate capacity is available. As the refrigerant phase down begins by 2028, we should not be ending up paying huge price due to shortage. I do not mind saying this, there have been press articles there. The industry should work together to help create more capacity for R32 refrigerants. I do not think that it is going to be a challenge per se.

Copper tubes, inner grooved copper tubes were getting imported from FTA countries like Vietnam predominantly. There are issues related with the Certificate of Origin, whether the copper is mined within ASEAN countries in order to avoid or pay a full duty. There have been clarifications from the Ministry in March. If that is so, there is a cost that gets added. Whether there is domestic capacity that is available, that was initiated two, three years ago, good news is that domestic capacity commissioning has taken place. As I mentioned in the opening remark, with Hindalco we were the first one to sign the MOU for sourcing. There are two other players as well who will be making copper tubes here, including Adani and MedTube. And so therefore, it may be expensive than what the industry was getting because of the reasons I told you, but there is no supply chain problem there.

The third item is the electronics, and significant number of EMS players are available. Our policy has been clear that we will invest in R&D for developing our IP, but get the PCBs or electronics assembled outside. Because that enough capacity is there, that is not a value-adding job, the money comes from IP. So, we are not going to be setting up a PCB assembly unit in-house and all; there are enough players. That is the model even multinationals follow. That is where we are. We are no longer worried about it, but we are speeding up our efforts to develop the IPs.

The next item is motor. See, because of the automobile and other industries, BLDC motor ecosystem has developed completely. And their quality standards have improved and there is no problem anymore. So even if restrictions come in, it plays in a much bigger way. Even multinationals who were prevented from exporting to India, they have set up a manufacturing facility here. So, there is no problem with that.

Now the question is compressor that is one big item. There are multinationals who have their technology, and they are setting up their own facility, they are in the process of scaling. There are compressor manufacturers, there are two Chinese compressor manufacturers, GMCC and Highly. GMCC is part of the Midea Group. They are telling us that they are expanding their manufacturing capacity within India. There are also the players who are trying to get the components and assemble in-house. There are a number of players who are attempting to do that.

As far as Blue Star is concerned, we have kept all our options open, that we will continue to source from the players from whom we had been sourcing. We have assured the players who will have excess capacity, because when we set up, they are setting up a larger capacity than they would consume. Therefore, we are in discussions with them. We are testing their compressors. In principle, we have agreed to source, if they will be giving.

The third option of getting the components in CKD form like another model that is being proposed, that set up an assembly line, we have no problem with that at all. It's a low-cost investment.

Last item, as in 2030, if you have to look back, you are leaders in air conditioning and your volumes have reached 5 million plus kind of. In this situation, why you shouldn't be making compressor can come? Therefore, we are looking at how to design a compressor, what it takes? And we are in the primary school there. But the program is very much on, and this is where we are.

So, the bottom-line is, see there are supply chain challenges. There are mitigation measures. Now, the mitigation measures have to come with two important conditions. Number one, the quality standards. Actually three; quality standards, continuous supply, third is the cost. On all angles, we believe, at least for FY26, we are fully secured, till the end of summer 2026 we are fully secured. Nothing to worry. Thank you.

Anupam Gupta: Okay. And will it be right to assume, so let's say, if we look out at FY27-'28, except compressor, everything would be India-based to a very large extent?

B. Thiagarajan: Yes, yes, yes. I think even by FY27.

Anupam Gupta: Okay. I understand. That's all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please, go ahead.

Aditya Bhartia: Hi, sir. This is Aditya Bhartia from Investec. Sir, my first question is on something that you mentioned in your opening comments that in April we have seen 15% to 20% decline for the industry sales. Just wanted to understand, was it the primary sales that you were speaking about or secondary sales? Because in case, we are speaking about secondary sales, then is it fair to assume that primary sales would have fallen by even a sharper percentage, given that the inventory in the system was fairly high?

B. Thiagarajan: No. I mean, at this point of time, we will have visibility only to the primary sale. And secondary sale visibility, to some extent, we will have, because of the information coming from the stores. The thing is, our understanding, based on whatever data that we have got, indeed, the opening inventory was higher than what it should be, because there will be a compressor shortage, ACs will not be available, the dealers ended up stocking. I do not know the market data; we have to wait and see for the GFK report whenever it is published for the month of April. In our case, primary sales as well as secondary sales are up by a marginal 5%. We would have expected it to be 30% and it is 25% lower than what we thought. We have not de-grown compared with last April. For your information, last April, we were 79% higher than the previous April.

Aditya Bhartia: Understood, understood. And given, sir, that this year industry has been operating with higher-than-usual inventory for compressors, given all the shortages that we were kind of hearing about, what implication can a weak summer have on the compressor scenario?

B. Thiagarajan: Yes, one-month ago I answered a question, what happens if summer happens, compressor shortage will be there? Now I am answering in other case It is good in my view, in the sense that you need not go and pay a higher price. See, today the world is highly volatile, right? We do not even know what will be the exchange rate and what will be the ocean freight rate? Now you see that the effects of this will start following. The Logistic sector will be impacted and there will be seaports which are closed and that's what will happen. And yes, compressor inventory of three or four months more you have, it is good.

Aditya Bhartia: Understood, sir. That's helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Sonali Salgaonkar from Jefferies India. Please, go ahead.

Sonali Salgaonkar: Sir, my question is on pricing actions. In your media interviews earlier towards the start of this year, you did mention that you will be evaluating price hikes. Sir, my first question is, have you taken any price hikes in Q4? And with this scenario of sort of this muted demand, do you think it will impact the industry's ability to take pricing actions despite supply chain disruption?

B. Thiagarajan: First, see the principle. The principle is that if there is a raw material cost increase or cost increase due to exchange rates, that is passed on to the consumer, accelerating for two or three months. And therefore, the implemented price increase with effect from 1st January, it coincided with the release of new models. Again, in April, first week, we have increased the prices. That is the input cost which t has gone up.

Now when the demand comes down, so what happens is that you end up introducing some schemes. We are not there yet. In other words, there is no desperation. If the demand itself is not there and you are taking some 2%, 3% price lower for the sake of getting volumes, we will rather manage the inventory than trying to play with the prices. But there could be some schemes in order to keep your market share.

So, what it will mean? It will mean, how the industry as a whole is going to operate? The desperation has to happen industry-wide. Then some player will drop the price and that's what will happen. But we are not yet there as of now. It can change only later because the general belief is that the news you would have read, May 12th onwards, the sky is supposed to clear up, the temperatures are to peak. Anyway, the industry is not operating with some 25% margin to be taking this decision. We are talking about an industry, some 8% to 9% margin industry it is. And if there is a cost and it has to be, you have to manage the inventory well, which means you have to regulate the incoming material and the production in line with what you need for the summer.

Sonali Salgaonkar: So, sir, what has been the quantum of price increases that you took in April and also what is the cumulative amount YTD?

B. Thiagarajan: . There was 3% to 4% taken in January, 4% to 5% from April 1.

Sonali Salgaonkar: And that has not impacted the demand so far in your view, the price increase?

B. Thiagarajan: Q4, we did exceptionally well. It did not impact at all, but it is not that it resulted in margin improvement because the input costs had gone up at that point of time. Now, we have increased it by 5% and in any case, the first month went with some 5% growth only and we have to wait and watch. So, 3% to 4% and 4% to 5%.

Sonali Salgaonkar: Understood. That's all from my side, sir. Thank you.

B. Thiagarajan: Thank you.

Moderator: The next question is from line of Achal Lohade from Nuvama Institutional Equities. Please, go ahead.

Achal Lohade: Yes. Good afternoon, sir. Thank you for the opportunity. Sorry, if I am harping on the same question. Sir, I wanted to just quickly get your sense in terms of the April, May, and June, what would be the mix in terms of the primary sales for the industry? Would that be like 40-40, 20-20 or any proportion if you could highlight, just a mix?

B. Thiagarajan: No, I couldn't follow. The mix of primary --

Achal Lohade: Yes, primary sales perspective, how large will be April, May, and June individually, if you would have any proportion?

B. Thiagarajan: No, it has been erratically changing. All that I can tell you is April, May, and June together, if you look back many years, it will be some-45% of the total sale happening.

Achal Lohade: Okay, understood.

B. Thiagarajan: Yes, see, what we have seen is some four, five days of heat in any particular week, immediately it peaks. So hidden in your question is what is lost in April, whether it will come back in May or June? If that is the thing, no one knows. I would also pay heed to the fact that how the sentiments also change in the market. There are border tensions that are there, and I keep telling, it is not the US trade war is impacting the stock market alone or the company exports; the stock market or the US trade war-related issues or the immigration issues. The entire South India, there are numerous people who are dependent on that. The IT-related jobs, new jobs or people who wanted to migrate, people who wanted to study there. So, sentiments also have dramatically changed, and as it keeps changing.

So, put together all, nobody knows and I should not pretend so much growth will happen. All that I can say is we thought going by what was the forecast, etc. 20% to 25% growth should happen. Blue Star should grow 25% to 30%. As we sit and see now with a muted April, I would down it to say 10% to 15% growth, and if extremely lucky, it will be 20% growth, because one-month has gone, another seven days have gone.

Achal Lohade: Understood. And just a second question, in terms of the South mix for the industry as a whole and for us, would it be possible to get some sense?

B. Thiagarajan: And my guess is that it will be roughly 30%.

Achal Lohade: And for us, sir, would it be similar or little higher?

B. Thiagarajan: In our case, it will be higher, close to around 40% of our sale will be coming from South, because we hold more than 20% market share in quite a few markets there.

Achal Lohade: Right. And that has seen a 25%, 30% drop, right, in April?

B. Thiagarajan: No. Our 5% growth is thanks to those locations also.

Achal Lohade: No, for the industry, sir? Sorry, that that is my last question. For the industry, was that a drop as much?

B. Thiagarajan: I do not know reason why it dropped, all that I know is, that I hear, that anywhere between 15% to 20% all India dropped. Given that summer sets in early in Kerala and Tamil Nadu, it is likely South India contributed more, because North can come back in summer until July.

Achal Lohade: Understood. This is very helpful, sir. Thank you so much and wish you all the best.

B. Thiagarajan: Thank you.

Moderator: Thank you. The next question is from the line of Arshia Khosla from Nirmal Bang. Please, go ahead. Sir, the current participant has been disconnected.

B. Thiagarajan: We can take one more question.

Moderator: Yes, sir. The next question is from the line of Keshav, an individual investor. Please, go ahead. As there is no response, we will move on to the next question. It's from the line of Shiv Kumar Prajapati from Ambit. Please, go ahead.

Shiv Kumar Prajapati: Yes. Hi, sir. Thanks for having my question. So, my question is more on the data center front. So, we are seeing that data center is about to boom in the coming years. So, I want to understand the liquid cooling opportunities available for us, like, so, I just want more clarity, are we present in this segment or are we planning to foray into this segment? And what would be the opportunity size and margin profile?

B. Thiagarajan: See, number one, we are a leading player with a huge market share in the MEP related to data center, which are mechanical, electrical, plumbing, putting together the data center-related equipment, other than the server part of it. So, in MEP, we are present in a big way and will be a preferred vendor as well. Now, if you look at the equipment that goes into, we are a manufacturer of chillers, we make a few types of chillers meant for data center applications as well, and we are expanding that range. Now, liquid cooling has not penetrated in India much, and we do not have that, but we are in talks with many players abroad for getting that technology.

Shiv Kumar Prajapati: Okay. Okay, got it, sir. Thanks, and best of luck.

B. Thiagarajan: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today's conference call. I would now like to hand the conference over to Mr. Nikhil for closing comments.

Nikhil Sohoni: Yes. Thank you very much, ladies and gentlemen. With this, we conclude the quarter's earnings call. Do feel free to revert to us in case your questions were not fully answered. We will be happy to provide you additional details by e-mail or in-person. Thank you.