"Blue Star Limited
Q1 FY '27 Earnings Conference Call"
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MANAGEMENT: **MR. B. THIAGARAJAN – MANAGING DIRECTOR – BLUE STAR LIMITED**
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Moderator: Ladies and gentlemen, good day and welcome to Blue Star Limited Q1 FY27 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 participant lines will be in the 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 star then zero on your touchtone 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: Thank you. Good morning, ladies and gentlemen. We are here to share with you the highlights of Q1 FY27 financial results, which were approved by our Board yesterday. Thank you for joining this call. Before I hand it over to Mr. Nikhil Sohoni, I wanted to point out a few things.

The first one is you might have seen the results, particularly the margins for segment II would have been disappointing to you. We will clarify the facts behind these numbers. Broadly, we have fallen short of the expectations, but the fundamentals are strong. We expect to bounce back in the next 9 months, you need not to worry, I will provide that outlook as well.

If you specifically look at the segment I, you would have seen that we have grown more than 15.1% in terms of revenue and the margins were down by around 112 basis points, primarily due to input costs on commodity prices, the exchange rate. That is the impact that's going to be further more in segment II as well.

In segment II, the revenue growth you will be seeing is around 13%, a significant drop in the EBIT margins by around 300 basis points from 5.8% in Q1FY26 to 2.9%. If you look at the Jan to June period for segment II, the EBIT margin has been more or less flat, that is 7.3% to around 7.1%, and the drop is not significant for the H1 part of it.

In terms of the market share some of you would have seen the GFK reports. In April, we lost around 50 basis points for Room Air Conditioners, in May we gained around 10 basis points and in June, we gained around 50 basis points. This is where the full story lies about the numbers.

We entered the financial year with the hope that we will be able to pass on the commodity price and other input cost increase to the consumers. The total impact that we wanted to pass on was around 13%, what we could pass on was only 5%. In April, the summer set in much later.

You will recall that it was around the April 20 in the May Investor Call itself, I had pointed out that it was a late summer. We hope that in the last week of April, when the summer season picks up, we will be able to manage our margins and pass on the entire cost increase, which didn't happen. We lost the market share, and that's why 50 basis points in tertiary sales was the erosion in terms of market share.

We embarked on corrections from the second half of May itself and we gained market share by10 basis points and in June additional 50 basis points. Q1 as a whole in the secondary tertiary sales our market share erosion is just 30 basis points, which is not significant.

Now we closed the year with around 14.25%,we will be marginally lower than 14% market share. This market share management has happened basically by maintaining the prices in line with what is prevailing in the market and incurring huge expenditure in terms of consumer schemes because we wanted the tertiary sales volume to go down because at some point of a time, primary sales will have to begin.

The segment II revenue growth, one may wonder, while GFK is reporting a decent growth, why the revenue growth is this. GFK is a secondary tertiary data, which more or less correlates with the primary sales data. The real problem is the Commercial Refrigeration business, which has degrown by around 15% and it is primarily due to deep freezers and the cold rooms, specifically the ice cream as well as the frozen food and the quick service business segment did not do well. On the whole, segment II revenue drop is appearing to be 13% because of commercial refrigeration.

The bottom line is as follows, that we took a hit in the operating margin in order to more or less maintain our market share, still the, the commodity prices are going up. Our expectation is that this should correct over the rest of the year because at some point of a time, we expect market prices also to go up.

Now the outlook, our estimate is that the revival will happen sometime end of August to September as the festival season begins. The corrections are going to happen significantly in Q3 as well as Q4 because we are taking several actions, including rejigging our product portfolio, that exercise has begun. As of now, we have a visibility to close the year with an operating margin of over 6.5% for segment II in financial year FY27. As far as segment I is concerned, the margin outlook remains the same, 6.5% to 7%.

Our big focus is to manage between the market share and the margins. In Q1, which is an aberration, we could manage the tertiary market share more or less at the same level as we were last year. We took a hit in the margin, now the focus will have to shift to rejigging the product portfolio. Otherwise, the fundamentals are strong, and we look forward to closing the year on a higher note.

The two significant things that have happened or silver linings are: Number one, our continued leadership position in the data center MEP projects segment. We have close to around RS.1,500 Crore of order inflow from this segment alone, taking the total pending order book or the carried forward order book as on 30th June 2026 to over RS.7,700 Crore. We expect the order inflow for the full financial year from data center MEP projects to be around Rs.3,000 Crore and in revenue terms, it should translate to close to around Rs 1,400 Crore.

As I had stated, the data center MEP projects will constitute close to 20% of our revenue at around RS.4,000 Crore coming from the data center MEP projects alone by FY29. So that segment is the one which is performing exceedingly well. The second highlight will be the net cash position. We have managed our working capital well. The inventories are under control and our debt position is very strong, and we are having a net cash position of Rs.900 Crore, more than Rs.500 Crore higher cash than last year last year, it was some Rs.371 Crore of cash. The carried forward order book is very healthy at Rs. 7,764 Crore, so the B2B part of the business should be doing well.

The singular focus in the next 6 months to 9 months will be improving the margins for the room air conditioners specifically. We are certain that we will hold on to the market share. That's not the issue, the issue is we have to rejig the product portfolio and even as the competition intensifies, how we will close the year with a margin of over 6.5%. Ideally, we would like to be 7% to 7.5%, which I do not have the view as of now.

We will wait for the war to end and how the exchange rate, how the commodity prices are going to move. On the whole, I mentioned to ET Now this morning, it's a four test match series. The first match is lost, and there are three more matches, which you have to bounce back and win, and I'm certain we will win.

With that, I hand over to Nikhil. Thank you.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. Good morning, ladies and gentlemen. This is Nikhil Sohoni, and I will be providing you an overview of the results of Blue Star Limited for the quarter ended June 2026. Since many of you would have gone through the results, I'll keep this brief so that we get more time for Q&A session.

Coming to financial highlights. As we had indicated previously, Q1 FY27 was a challenging quarter with many headwinds, including unprecedented escalation in commodity prices, depreciation of rupee, delayed onset of summer season and a huge inventory pile up of room ACs in the trade.

While the revenue growth for the quarter was 13%, the margins were impacted. A key positive was the strong inflow of data center MEP project orders, reflecting the sustained momentum in this high-growth segment.

The financial highlights for the Q1 FY27 on a consolidated basis are summarized as follows.

Revenue, as you've already seen, revenue from operations of Q1 FY27 have grown by 13.3% to Rs.3,378 Crore as compared to Rs.2,982 Crore in Q1 FY26 and the PBT before exceptional items dropped by 23.7% to Rs.125.6 Crore as compared to Rs.164.6 Crore in Q1 FY26 .

The carry forward order book as on June 30, 2026, grew by 13.5% to Rs.7,764 Crore as compared to RS.6,843 Crore as on June 30, 2025. Carry forward order book as on March 31 stood at RS.6,923 Crore. The quarter ended with a strong net cash position of RS.900 Crore as on June 30, 2026, as compared to a net cash position of RS.371 Crore as on June 30, 2025. The improvement was driven by release of working capital during the quarter.

Coming to segment-wise highlights. Segment I, that is Electro-Mechanical Projects and Commercial Air Conditioning. The order inflow for the quarter was strong at Rs.2,435 Crore in Q1 FY27 to Rs.1,963 Crore in Q1 FY26, a growth of 24%. Within this, Electro-Mechanical Projects business, we recorded strong order bookings in the projects business during this quarter, driven primarily by data centers.

While in the other market segments like commercial office, factories, infrastructure, order inflow remained sluggish as cost escalations due to West Asia crisis led to deferment of order finalizations. Given the escalation of the input material cost, we continue to exercise caution in this business. We are also in the process of accelerating the closure of large infrastructure projects.

Coming to Commercial Air Conditioning Systems. During the quarter, this business reported growth on back of reasonable demand from industrial, retail and health care segments. All key product categories like ducted, VRF and chillers registered growth during the quarter. From the inquiries and order inflow, growth prospects for the rest of the year appear reasonably good. However, escalating commodity prices and a depreciating currency will continue to put pressure on margins in this business.

International business- Our international business witnessed good growth in Q1 FY27 despite of supply chain and logistics disruptions. With product approvals in place for a few customers, we are looking to scale this business to generate additional export revenue of USD100 million per annum from FY28. While the demand is good, the future prospects of U.S. business is largely dependent on U.S. trade tariffs.

Overall Segment 1 revenue grew 15.1% to Rs.1,625 Crore in Q1FY27 as compared to Rs.1,412 Crore in Q1 of FY26. And the segment result was RS.111 Crore, which was 6.8% of revenue as compared to Rs.112 Crore, which was 7.9% of revenue in Q1 of FY26. The margin for this segment is influenced by the projects and product mix, and hence, it may vary quarter-to-quarter.

Coming to Segment II, that is Unitary Products. For cooling products, the quarter began with a delayed onset of summer season, there was a pressure to liquidate the inventory pile up with the trade. As far as primary sales are concerned, we are attempting to pass on at least part of the cost escalation impact, but market operating prices remained low. You may recall, we had deferred certain discretionary costs, which were incurred during last quarter.

In short summer window with investments in advertising, trade schemes and consumer finance offers, while we succeeded in good performance in tertiary sales, we could not succeed in achieving desirable primary sales volume growth. All of this impacted our margins. If we normalize the timing impact of discretionary cost, our margins for this segment from Jan '26 to June '26 stands at 7%. Going forward, with continued escalation in input costs and weakness in Indian rupee, we expect margins to be under pressure. Our endeavor will be to further tweak the product portfolio with a basket of competitive entry-level products to accelerate revenue growth and improve profitability.

Coming to Commercial Refrigeration business. The commercial refrigeration business witnessed degrowth during the current quarter as demand for deep freezers from ice cream OEMs was muted. We expect the demand to pick up during the festive season. Even though we maintained the market share, the degrowth was to the extent of around 15% in deep freezers itself.

So consequent to the above, the Segment II revenue grew by 12.8% to Rs.1,689.3 Crore in Q1 FY27 as compared to RS.1,499 Crore in Q1 FY26. And the segment result was Rs.50 Crore, that is 2.9% of revenue in Q1 FY27 as compared to Rs.87 Crore, which was 5.8% of revenue in Q1 FY26.

Coming to Segment III, that is Professional Electronics and Industrial Systems. The revenue degrew by 9.7% to Rs.63.6 Crore in Q1 FY27 as compared to Rs.70.4 Crore in Q1 FY26. And the segment result was Rs.9.5 Crore, which was 15.1% of revenue in Q1 FY27 as compared to Rs.7.6 Crore, which is 10.8% of revenue in Q1 FY26. The segment revenue declined mainly due to continued challenges in MedTech business.

Finally, coming to business outlook. Overall, in FY27, the Electro-Mechanical Projects business will benefit from strong inflow of orders from data center MEP projects. Commodity prices and exchange rates continue to be highly volatile, and our endeavour will be to balance volume growth and margins prudently in our products business.

While the fundamentals of Blue Star and the medium-term outlook for the HVAC&R industry continue to be strong in view of the West Asia conflict and market uncertainties, we remain cautious about the outlook for this financial year.

So, we will now request for questions from the participants.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Manoj Gori with Equirus Capital. Please go ahead.

Manoj Gori: Thank you for the opportunity Sir, my question first on the RAC to revive margins in the Unitary Products segment and especially for room AC, one, we highlighted about the product rejig. Can you also highlight what would be the other thing that they would be and, in Q1, what was the impact of this deferred cost? Because Q4 obviously looked optically higher and Q1 is optically looking far weaker. So adjusted for that, what would have been your Q1 margins? What are the other initiatives that we are taking to revive our margins for unitary products for rest of FY27?

My second question on MEP business, so here we have been very positive even in the press release and even in the opening remarks. So, earlier we were talking about 8% to 10% kind of revenue guidance for from for his business for the entire FY27. Are we looking to upgrade our guidance on MEP business? Yes, those are my two questions.

B. Thiagarajan: There is no deferred cost from Q4 at all because you mentioned something like what is the deferred cost. The margin that we declared in Q4 is the right margin. Now it was a double-digit margin, if you recollect, okay? and there is no deferred cost into Q1 it is an actual cost that was incurred in Q4.

How it has to be understood is that when you do the material accounting, it is on a rolling basis. So you will have an inventory of some old material also being there and as you move into the season, there will be a fresh material that will be coming in.

The price increase that is to be passed on has not been passed on fully, that is the first part of it. There is a second part, April last week summer has set in, we wait for in May, whether the market situation changes.

Unfortunately, it did not change because many of our competitors had material, and they were maintaining lower prices. In the process, having understood that we lost a 50 basis point market share in April, what we should be doing. We should be doing that, look, it is important in the business to be not losing the market share to what extent you can go ahead and do.

Our immediate thing is that our tertiary sales should be improved through consumer finance and other schemes so that the dealers are able to liquidate, so we incurred those costs. The in-shop demonstrators, advertising, field marketing and the consumer finance.these costs came in May and June in a significant manner, which resulted in our bouncing back with a 10 basis point market share in tertiary sales. Again, in June, I think we performed exceedingly well in the industry with a 50 basis point gain market share.

Suddenly in June, the summer ends after the first week because the consumer sentiments also changed the moment the petroleum prices started going up so the margin that is declared is not due to any deferred costs and all, it's an actual margin that is what has taken place.

Hopefully, old inventory across industry is getting exhausted, the market operating prices one hopes will go up and the second part is, fortunately it is a lean season. The second quarter is not a quarter, it will pick up from Onam season, Ganpati onwards towards the festival season. That is the place where we have to look at what we can do in taking out the cost out of the products very quickly that is the second part of the exercise.

So the third part of the exercise is by Q4, we should have rejigged our product portfolio. There are numerous opportunities that, we have demonstrated it again and again. That's why I'm saying that you may see a slight improvement in Q2, Q3 should be much better and Q4 would be a defining period.

Our calculation with the cost saving opportunities that we have got and our view of the market. I'm saying that 6.5% for full year may not be a challenge and we have to look at 7% to 7.5%. That's what I've been saying that this business should operate at.

We are the industry benchmark for ROCE. That part of it is not an issue at all that we continue to do well there, even in terms of working capital we have seen. The real challenge is the market operating prices in the industry vis-a-vis what cost and what market share goals we have got, that's how you have to understand it.

Commercial refrigeration products could have helped in terms of the revenue growth, the margin profile, there is not significantly different. Only in the cold rooms it will be different. In the deep freezer is again a unitary cooling product. Unfortunately, that has been doing badly at the industry itself. One hopes in the festival season that also revised because for a long period, it cannot be muted.

Manoj Gori: Sure, sir. and lastly, on the MEP business on the revenue side.

B. Thiagarajan: I had indicated the CAGR for the room air conditioners as a category for the industry, over a 5-year period, 18% is looking good. I had also stated commercial air conditioner of the MEP projects in terms of CAGR, you should look at only 8% to 10% kind of growth. It is not a sector which is going to grow.

But what has significantly changed is the data center segment, where there is a huge rush to block the capacities of the vendors, that many data center operators are blocking our capacity. Can you take this order? Can you sign a 3-year contract that is all is happening.

At the same time, you would understand there is an infra projects business that we have. We have a building vertical and our principle is very clear that I cannot for a data center segment, go ahead and expand my team exponentially. I am investing in manpower, but also significant amount of my manpower and my resources are getting diverted from infra and building sector.

Probably, the growth what we indicated as 8% to 10% may go up to 12% for a couple of years. This financial year, you can take that our order inflow will be Rs.3,000 Crore, and our revenue will be Rs.1,350 Crore from segment alone.

This is likely to become an order inflow of around Rs.4,500 Crore next year and around Rs.2,100 Crore of revenue next year. This segment can accelerate the growth, but this is limited to this particular segment. We think that there will be a cycle.

There is a huge rush, and it will be a dip and again it will be coming back. So it is not on a steady state. There is in room air condition because of the penetration, you can say, over an 5-year period, 18% CAGR is possible

Manoj Gori: Sure, sir. Thank you and wish you all the best.

B. Thiagarajan: Thank you.

Moderator: Next question comes from the line of Natasha Jain with Phillip Capital. Please go ahead.

Natasha Jain: Thank you for the opportunity. Sir, 3 questions. One, in terms of the import costs, especially in quarter 2, given that we'll now be importing compressors, heavy lifting that and 40% of the BOM cost we import. Additionally, copper sequentially is also up 9%, which we have not taken or the industry has not taken the entire price hike.

So on that note, and given that volumes are already tepid, do you think that margins will look more blown out of proportion on the negative side in quarter 2? And therefore, 6.5%, which you just guided on the segment II EBIT, do you think that could also see further tapering going into the year?

Second question, sir, is on the trade scheme. So could you call out specifically what these schemes were? And just want to know if it was more a direct discounting or not? And was it competition that took so much of discounting that we had to follow through? Because usually, Blue Star is a company do not engage in such kind of discounting.

Going forward, how difficult will it be to roll back these discounts and then sell without all this? On the data center MEP work. Is this more a margin accretive business or this is more of a top line story? Yes, that's all.

B. Thiagarajan: I'll answer the last one first. The data center business is not a top-line alone, out of the MEP project verticals, if you take buildings or the infra projects like Metro Rail or electrical water, compared with that, the data center segment is attractive for the simple reason these are 8-month to 12-months commissioning projects, it doesn't last 3-4 years.

The second thing is, the payment terms are very favourable. Third is, there are enough price escalation provisions on the metal prices, specifically, and on electrical items, so we are we are very happy with the MEP projects. The execution pressure will be high, and we are leaders there today, basically because we deliver these projects well.

Therefore, we are we I may not say that we are being given a premium or something like that, but we are the preferred contractors, it is compared with other segments, it is very attractive, so it is not a top-line story alone, it is a highly profitable business with good cash flows.

We will be also investing there in modernizing the execution, improving our efficiency, and it requires specialized professionals, we are investing in human resources as well, so that is the first part of it. Come to the room air conditioners, your question is a combination of strategic as well as current operational issues. You are right, the Blue Star would like to be in that high-end premium segment. For us, the profitability has been more important than the market share.

Our behavior would have been like that had it not been for the unprecedented increase in the input costs, and our behavior would have been different if it is not the year after a bad summer year, okay? We started with Q4 was a stellar performance, you are aware of it, more than, it is close to 10.4% operating margin that we delivered, and we ended the year with a market share gain, despite being a bad summer year.

We felt that this strategy is going to work in the month of April, it didn't work and suddenly in one month alone with around 50 basis points, the inputs we had from the trade was that, "Look, you are going on increasing the prices and we are not able to lift, we are not able to sell." So, the immediate decision was that I have to help the dealers sell, and that was through the promotions, and specifically the consumer finance.

This consumer finance cost had significantly gone up, but it paid off, and we saw in the 15 days in May when we took that decision, our reversing the whole trend and gaining 10 basis points market share. In June, even though the summer ended, we ended up gaining around 50 basis points market share.

It is about managing tactically , we were very sure 6 months nothing will change if we don't act now, let us do that. All along the hope was that at some point of time, this war is going to end, or it happens, then it suddenly starts, but it is lingering. I do not foresee in Q2 anything dramatically going to change in terms of the cost structure, input costs are going to be higher only.

What I am expecting is the market operating prices should be better than what it is. It's not going to be dramatically different, but it will be better than what prevailed in Q1, because I am estimating that the old inventory that was there would have got liquidated.

You have to also keep in mind, because of the energy label change, the trade bought excess material of the old energy label material and continued till April with that material, because only manufacturers cannot build, the trade can keep stocking that and selling that product. I am expecting the market operating prices to go up.

Our side, we are trying to see that how we can make certain products more competitive. As you can imagine, this will take time, it's not overnight, you have to do the testing, etcetera an alternate component or some product we were developing, we were waiting for 6 more months to launch it, we are expediting that. All these actions have to take place or beginning to take place from now on, and Q3, if the festival season is doing well, we should be improving the margin further.

We are determined; we will get back to our conventional margins in Q4. These are our plans, the entire thing depends also on the West Asia crisis, exchange rate, then you have got how the competition is going to behave.

My outlook, I had said that once upon a time it was a 12% margin industry and it came down to 9.5% to 10%, it came down to 8% to 8.5%, off late I have been saying it is going to be 7.5% to 8%, and I'm only hoping that, it should go back to 7.5% to 8%.

It will be unfortunate if this growing industry also settles down to some 6.5% industry basis, combined all put together. I don't think it will happen because the opportunities are plenty, and I think because of the energy label changes, because of the regulatory changes, because of Make in India, this should change.

One more thing you have to remember is the PLI schemes, the people are at their peak and it will be coming to an end. This Rs.4,000 Crore of PLI is going to anyway get diluted, because PLI is not based on the production, it is based on an incremental sale. So, over the base year of 2022, if whomsoever is going to sell more, they are going to get more incentive, it is a SLI, not really a PLI, though it is called a PLI. So, you have to be conscious of that fact as well, that money is also getting diluted into the pricing.

Bottom line, how confident I am that we will reach 6.5%? I am certain we will. Unless something completely untoward happens, a full-blown war in the Middle East and the global economy collapses. Otherwise, 6.5% should be possible, there are enough levers we have already identified.

Whether it will be 7% or 7.5%, we are unable to state. Whether Blue Star will maintain its market share, that is the decision now, because of 1 year of unprecedented commodity price escalation and market not able to pass on, whether we should slide back in our market share, May 2nd week we made up our mind that we should not allow the market share to deteriorate, this period will be over at some point of time.

Natasha Jain: Thank you, sir.

Moderator: Thank you. Next question comes from the line of Saumil Mehta with Kotak MF. Please go ahead.

Saumil Mehta: Yes, thanks for the opportunity. Two questions from my side. First, in terms of commercial ref where you told that there was a degrowth because of deep freezers and ice cream, was it got to do with the industry-wide demand destruction, or was it specific market share loss because of higher competitive intensity or pricing?

B. Thiagarajan: We have held on to our market share, there is absolutely no problem. Unlike, room air conditioners where you have a GFK data, we do not have, we have to go by industry data that is available, that business is through predominantly through the OEMs.

I don't think there is a residential market of significant size. We know which are the rate contracts whether it is Amul or Mother Dairy or Havmor, so many ice cream brands what they are lifting from there. This is a, this is not a market share loss, the industry has not grown, and that's why we are hopeful at some point of time it has to revive.

Saumil Mehta: Sure. And in terms of the MEP division, where incremental ordering from data center is going up, now you mentioned that the terms of trade are better and obviously, it comes at a slightly better margin, I believe. So, if not now, from a structurally 2 or 3-years perspective, is it fair to assume that the Unit 1 division can see margins in north of 8%-8.5% on a structural basis with far better ROCE because of a better payment terms?

B. Thiagarajan: Certainly, as we move towards that peak, golden period of data center-dominated MEP segment, the margin should go up.

Saumil Mehta: Sure. My last question, sir, in terms of the revenue growth for the UCP, broadly if you can split, or not the exact number, but what was the volume growth and value growth for the for the current quarter?

B. Thiagarajan: In terms of how the market would have, the primary basically comes from the industry estimates. You have multiple points of checking that how it is, and you do get the data from large retailers like Croma, Vijay Sales, and Reliance Jio. My estimate is in Q1, room air conditioners market in volume terms grew by 21% is my estimate, and Blue Star grew by 18%.

Saumil Mehta: Blue Star 18%?

B. Thiagarajan: Yes, in volume terms. In revenue terms, the market grew by, I'm talking only about the Q1 period, my estimate is it grew by 25%, and Blue Star grew by 21%. These are all on the primary sales basis, because your market share is based on primary, right? So, though the GFK talks about the tertiary.

You are seeing the revenue growth as 13% because commercial refrigeration has pulled it down. This data will correlate with what GFK tertiary is saying as well, but if you look at July, August, September, this should play out in this manner, that we do have the lag between the industry and ours.

In secondary sales, Blue Star lost a market share of 30 bps compared with March or compared with FY26, which is 0.3% drop in tertiary sales. In the primary sales, because of that April huge dip, Blue Star lost 0.65% or 65 bps. This is the data.

Saumil Mehta: Sure, sir. Thank you so much and all the best for subsequent quarters.

B. Thiagarajan: Thank you.

Moderator: Thank you. Next question comes from the line of Praveen Sahay with Prabhudas Lilladher. Please go ahead.

Praveen Sahay: Yes. So, thank you, sir, for opportunity and detailed explanation about the result. My question is related to commercial AC, because there the growth in the Q1 has been good and you are expecting a good growth there as well, while there is a some contraction in the margin. So, what kind of a growth you had seen in the Q1 and way forward how much you are expecting from the commercial AC space?

B. Thiagarajan: Commercial AC space, is driven by today the manufacturing or industrial sector, which is doing well, data center chillers market is growing, while we have a 30% market share in data center MEP projects, and our market share will be 10% to 12% in data center chillers, because we compete with larger four or five multinational players and there the market share is not 30%.

If you look at manufacturing, if you look at the other sector which had driven growth is the healthcare sector, the other sector which is also doing well is the education sector. There are a few other sectors which are not doing well, but this quarter, we are seeing them reviving as well, most importantly, the retail and the education sectors. These should be coming back. The outlook will be that around 10% growth is easily possible in commercial air conditioning, and 15% I am not able to predict now.

Praveen Sahay: Right, sir. How much of the capex you have done in the Q1, and for the next 9 months, how much is planned?

Nikhil Sohoni: In Q1, the capex has been in the region of around Rs.60 Crore to Rs.70 Crore. And annually, if you see, our capex, when I say capex, it includes capex, it includes R&D intangibles spends, if any, on product development as well as, you know, any digital spends that we do, overall, the growth-related spend should be in the region of around Rs.300 Crore to Rs.350 Crore if everything goes as per plan.

Praveen Sahay: Thank you, sir. All the best.

Nikhil Sohoni: Thank you.

Moderator: Thank you. Next question comes from the line of Sonali Salgaonkar with Jefferies. Please go ahead.

Sonali Salgaonkar: Sir, thank you for the opportunity. Sir, my first question is on channel inventory levels currently in the industry or with Blue Star. Is it normalized, and if yes, at what level is it?

B. Thiagarajan: I don't think it is in alarming level, but it has not normalized. The anticipation was the summer will continue beyond June into July, that was the expectation. But June itself, after 10th it suddenly collapsed the demand. Therefore, the channels carry some more inventory, but I don't think it is an alarming level at all. The key question to be asked is that, , when the channel will start buying the new inventory for the forth coming festival season, I think in Kerala, it'll start just before Onam, rest of it during the Ganesh Chaturthi period onwards. This this month is going to be a lull. That's how it will be.

Sonali Salgaonkar: Sir, so by normalized, should we assume a 45 to 50 days reasonable level right now?

B. Thiagarajan: There is a lot of confusion with regard to the, when you say, there are the brands who hold the stocks in the field in their warehouses, then the trade have already bought it and they are selling it during the month. If you put together, my estimate is it will be 60 days should be normal and if you take the trade alone, 45 days should be normal. But what happened in Q1 or what happened in Q4 of last year is a different phenomenon altogether, that energy label has changed, you buy that material, so carry excess inventory in the hope of summer. Then the summer gets delayed, then chaotic pricing in order to liquidate, then the brands say that I am going to increase the prices, and therefore the trade starts buying before it goes up in the hope of summer.

Then the summer is a curtailed summer, but I wouldn't still complain, I think the volume growth of around 25% happened. This is also a function of what is the total manufacturing capacity today, it is almost double of the market size. They wouldn't have produced double, but that is the capacity available thanks to the PLI scheme and the and the competition entering this particular space, there is excess capacity available.

All consumer durable industry go through one particular phase, and that's what we are in. If the commodity prices wouldn't have gone up in this manner, or exchange rate would have been reasonably under control, if the summer season would have been good, the pain will not be there. This is a perfect storm of multiple things happening.

Sonali Salgaonkar: Understood, Sir. Second question on price hikes. You did mention that you attempted to pass on a part of the cost search, but you had to keep the prices largely in tandem with the marketplace prices, so about 5% hike is what was in net-net effected in Q1. In your view, how much price hike should be required to recoup our lost margins from hereon?

B. Thiagarajan: I strictly speaking, even in the month of May, 8% more was needed. Yesterday, the copper has touched record price, I don't know today what it is. The rupee is still volatile, and the petroleum-based products prices will keep going up. Ideally you pass on additional 8%, but that is not going to be available, it all depends on how the market is going to behave. So, you have to go ahead and reduce the cost. There is no other go. I don't think market will be accepting it.

Sonali Salgaonkar: Understood, sir. Very clear and who does it faster will be the beneficiary. Got it, sir. Very clear and all the best to the team.

B. Thiagarajan: Thank you.

Moderator: Thank you. Next question comes from the line of Aditya Bhartia with Investec. Please go ahead.

Aditya Bhartia: Hi, good afternoon, sir. Given that we had increased prices only in line with the industry at around 5%, then what do you think led to the market share loss? That's my first question. And a related question is that when we speak about product rejig, what does this necessarily entail?

And are we confident that the entire exercise should be done by third quarter and during the festive season and fourth quarter, we can benefit out of it? Thank you, sir.

B. Thiagarajan: The first part is that, I don't think there were many brands had increased it even by 5%. The prices were, the products at older prices were available even in the month of June and some of you had done the channel check, they were asking me this question, "There are many products which are manufactured in January, February are on the shelves even in June."

Despite being a good summer, so that means products have been manufactured, see, the people who strategically bought the commodities, knowing that it is going up, it is probable, and they were, see in if there are enough OEMs in the market, you are aware of it that they can operate with 3.5% to 4% margin, and you had many others, other than the regular players getting into this with the OEM-manufactured products.

It is not that even that 5% was passed on by the other brands. We had many brands who had not even increased it by 5%. The second part is that Blue Star's own thing could have been that, had we known, we would have reengineered the products, but the new energy label when we launched the products, we were very clear that we will have products at all price points. We will have the new energy label products, we will have premium products as well. But what should have been different in retrospective is that all that it is needed is the lowest cost entry-level products, predominantly, 90% has to be that. That is the thing. Now, your question is whether in 6 months it can be done? it can be done, there is no problem.

There are quite a few levers have to be used, the alternate makes of the components, some portfolio we may have to outsource, in certain other cases, the products will have to be redesigned. And fortunately, we have multiple designs like for example, Sri City has certain products, and our Himachal factory produces a different design. We have already plans to cut down some of the models and replace it with cost competitive models.

What will not change is, we are very clear in terms of brand positioning, it has to be durable products, it has to be highly reliable products, it should be differentiated. Within that element, we have to compete on price as well.

It is not that we will go down the path of cheap products, which is not the idea at all, but we have enough levers. That's why I'm saying you in Q2 may not be any change. By the way, the earlier person had asked the question, will it get into negative territory? I don't think so.

We know for sure, the improvement opportunities within Q2 in the lean quarter will be very limited. Some operating costs can be controlled because we don't have a pressure of a secondary sales movement at this point of time and Q3, Q4, we are confident.

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

Moderator: Thank you. Next question comes from the line of Rahul Agarwal with IKIGAI Asset. Please go ahead.

Rahul Agarwal: Hi, good afternoon everybody on the call. Sir, just one question on exports. I'm excited to read the statement of additional USD100 million of opportunity in fiscal '28 itself, largely coming from U.S. Just wanted to understand, like what is the current export run rate for the full year? Like you can talk about the last year.

Then FY27, you already spoke about good growth in 1Q. How do you look at the current year? And then fiscal '28, is U.S. only going to be contributing to this growth? Because Middle East we will obviously recover, we are assuming that. And then over and upwards of that, how do you see the opportunity in Europe? In a lot more media, you're taking quite a bit of mindshare there. Can we do anything over there?

B. Thiagarajan: Nikhil will take out from the annual report, the U.S. revenue is listed there. He will read it out for you from the balance sheet itself. That's a disclosed figure anyway. Now the statement that we are making is and consistent with what I've been saying, there are 3 distinct markets. There is our traditional Middle East, Africa market, which is muted for obvious reasons, that we have to wait for this crisis to be over. In any case, it was a very small market for us.

It is not a highly profitable market. The most profitable market for air conditioning industry is North America, that is the most profitable market for any brand and then comes Europe. The 2 products that we are pursuing are air-to-air heat pump, air-to-water heat pump. And these are to replace the conventional heating systems out there. And the boiler-based heating.

U.S. is beginning to move in the direction that too with the new refrigerants and we were also very clear we won't directly enter in our brand, which is an expensive proposition, profitable opportunity is manufacturing products for other brands there under a CDM route.

OEM is original equipment manufacturing. ODM is original design and manufacturing. CDM is custom, design and manufacturing, which means your brand in U.S. has decided that I won't introduce these, these models , these features, and you custom design for them, and you manufacture and export. This process takes a long time, With a couple of customers, we have progressed.

Our shipments are taking place. Trial order has completed 2 seasons of summer and winter now, it is on the verge of scaling. There, this complication over the past 12 months of which tariff, there is a derivative tariff, there is suddenly 100% free trade agreement is hanging. Despite that, we have done that revenue figure, Nikhil will give you, and as we continue, the shipments are beginning to take place, all are waiting for when this trade-related issues will get resolved, that's where US is.

It is not scaling now, only for that reason, otherwise they are, the customers are desperate to get this product, it is a huge success there. Come to Europe, in Europe, it is not new construction, new construction is very limited, it is supposed to be replacement or retrofit into the existing homes.

Europe behaves in a completely different manner, they all expect subsidy from the government. The governments at some point of time introduced a subsidy and they withdrew that, Germany was the first one to do, and the consumer question is that, "Look, you are trying to de-risk the Chinese gas issue, you want to become green, and then the government should support," that is the position of the consumer.

Now, there the market is now limited to the extent of only the consumers who can afford and go ahead and do, therefore our OEMs are not growing. For me to grow, my OEMs should see a boom in that market, and they believe that once this crisis is over, there should be growth, for a long time it cannot be muted like that.

In both US and Europe, we are seen as China Plus One. Whether China can supply them the product? They can very well supply. There are two issues, the China tariff is higher, and the geopolitical issues and they would like to de-risk and have one more country supplying. From India, we are better placed for the simple reason, our multinational competitors are directly in there, so the other American players will not buy from them, they have to buy from us, preferably if we do well.

Food news, the learning curve is over, these products are perfected, these products are working. We hope this this tariff thing cannot linger for a long time, and we should be growing. This is the full story about international business.

Nikhil Sohoni: Yes, coming to, in case if you wanted to know the export numbers, in the current year, the rupee has moved, so taking an average, you can put it at around USD80 million to USD85 million in the current FY26, the reported year, last year. And year before that, it would have been in the region of around USD55 million to USD60 million. So, around last year growth will be around 40% in exports.

Rahul Agarwal: USD100 million is going to be additional revenue over and upwards of this in FY28?

Nikhil Sohoni: Yes, additional over FY26 and by FY28.

Rahul Agarwal: Right, so about USD200 million, about USD180 million, USD190 million, right?

Nikhil Sohoni: Correct.

Rahul Agarwal: Got it, sir. Thank you so much for the detailed answer and all the best.

B. Thiagarajan: Thank you.

Moderator: Thank you. Next question comes from the line of Nirransh Jain with BNP Paribas. Please go ahead.

Nirransh Jain: Hello.

Moderator: Mr. Jain, please go ahead. Thank you.

Nirransh Jain: Yes. Sir, just one clarification on the price hikes, so in the last quarter, you had said that we have taken roughly 5% increase on the account of BEErating, and another 8% on the commodity inflation. Now, when we are looking at this quarter numbers, our price action seems to be somewhere close to 3% to 4%. So, this gap is largely on the account of discounting and is that true? and if that is true, then how are we looking at the price like the ASP increase for us for the next three quarters?

B. Thiagarajan: No, your understanding is only partially right. The 5 plus 8 that is13 is supposed to be passed on, we could succeed in passing on only around 5, some models 3, some models 4, some models 5. We failed or it was not possible for us to pass on the rest at all. This is in terms of the gross margin. Then you have got the operating costs that are there, what happens is when you are pushing the tertiary sale, you are going to be incurring costs in consumer finance and other costs, in-shop promotions, advertising. So, the combined effect is resulting in a margin erosion, this what it is. So balance 8 is not passed on.

Nirransh Jain: Sure, sir. And going ahead, at least for the balance FY27, how are we looking at this pass-on? Or is it contingent, purely contingent on demand as of now?

B. Thiagarajan: I mentioned that, the month of July-August is not a big one, the September it should pick up, and only when sale is there you can adjust the margin.? If there is a very small quantities are sold, that margin is not going to impact your quarter margin. I see only a marginal improvement happening in Q2.

Q3 will be, assuming the festival season does well, it should be doing well. Q4 should be doing well because by then we will be ready with many new other cost saving in the product or the cost take-out from the products, or a new portfolio, a mix of what we may outsource and what we will make ourselves.

I had stated that I am able to disclose that 6.5% is possible full year. Our aspiration is 7.5%. So, 7% or 7.5% we have to wait and see how we progress each quarter. That's where we are.

Nirransh Jain: Do you think structurally, like not for this year, but structurally the aspiration of 8% to 8.5% that has now come down to somewhere between 7% to 7.5%?

B. Thiagarajan: No, again, I had clarified this earlier in much earlier. The question is it used to be a 12% thing, it came down to 10, we said that it'll be 9.5% to 10%, the industry, then I had stated 8% to 8.5%, then for the last 6 months I've been saying with the capacity that has increased, and intense competition, and the entry-level buyers driving the growth, it more looks like 7.5% to 8%.

I stated today that, the unfortunate part will be if it is to drop to 6.5% industry. I don't think it will happen given that the 18% growth CAGR is going to take place. It will be a disaster if it drops to 6.5%. This industry at this stage going by what all has happened in television or washing machines or refrigerator, I think it will hold on to 7% to 7.5%.

This is not a period to judge that, this period is one energy label change and erratic commodity price and exchange rate, you will not be able to get the answer. I think if this crisis goes, some stable period FY27 may determine that, I still believe that it'll be a 7.5% operating margin industry.

Nirransh Jain: Thank you.

Moderator: Ladies and gentlemen, due to time constraints, we have reached the end of question-and-answer session. I now hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: Yes, thank you very much, ladies and gentlemen, with this, we conclude this quarter's conference call. If you have any further questions, please feel free to reach out to us. Thank you once again and have a good day ahead.

Moderator: Thank you. On behalf of Blue Star Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.