“Blue Star Limited Q1 FY 2017 Earnings Conference Call”

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Blue Star Limited Q1 FY 2017 Earnings Conference Call. We have with us today from the management, Mr. Vir Advani – Managing Director; and Mr. Neeraj Basur – Chief Financial Officer.

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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vir Advani. Thank you and over to you, sir.

Vir Advani: Good evening ladies and gentlemen, this is Vir Advani. I have Mr Neeraj Basur, our Chief Financial Officer, with me on this call today. Blue Star continues to grow rapidly and consequently the interface need of our investor community also continues to expand. Going forward, we intend to widen our investor interaction outreach initiatives and Neeraj has been inducted to take over the responsibility of Investor Relations for the company. Henceforth, Neeraj will lead the quarterly earnings call, while Thyag and I will continue to interact and meet you personally, once every six months, as we have been doing over the last few years.

I will now hand over the proceedings to Neeraj to take you through the opening remarks of this call. Neeraj and I will jointly take your questions at the end.

Neeraj Basur: Thank you Vir. Good evening ladies and gentlemen, this is Neeraj Basur and I will be providing you an overview of the results for Blue Star Limited for the quarter ended June 30, 2016.

Before I get into the details, I would like to highlight that we have switched over to reporting consolidated financial results from Q1 this year. In addition, we have fully migrated to IND AS financial reporting from the current quarter. Last year, we completed implementation of a complex set of corporate restructuring transactions involving the merger of Blue Star Infotech with Blue Star and separately also merged two of our wholly owned subsidiaries. Consequently, previous year's numbers have been restated, wherever required under IND AS and also to give effect to the restructuring. Therefore, our Q1 reported performance this year is not comparable with the previous year's numbers. We would provide you necessary details, wherever relevant, to enable a meaningful analysis of our quarterly performance.

Following are the financial highlights of the Company for the year ended June 30, 2016 on a consolidated basis:

Total Operating Income for the year ended June 30, 2016 was Rs. 1216.81 crores as compared to Rs 947.1 crore in Q1 FY'16 (excluding BSIL's operating income of Rs. 73.2 crore), representing a growth of 28.5% over last year.

PBIDTA for the current quarter was Rs. 76.49 crores as compared to Rs. 67.06 crores in Q1 FY'16 (excluding BSIL's PBIDTA of Rs. 8.19 crores), a growth of 14.07%.

Profit before Tax was Rs. 64.90 crores in Q1 FY'17 as compared to Rs. 49.38 crores in Q1 FY'16 (excluding BSIL's PBT of Rs. 10.00 crores), a growth of 31.42%.

Tax expense for Q1 FY'17 was Rs. 14.48 crore as compared to Rs. 22.23 crore in Q1 FY'16. Our income in the current quarter was subject to MAT at an effective rate of 21.03%.

Exceptional item in Q1 FY'16 relates to the recognition of Rs. 35.27 crore surplus on sale of Blue Star Infotech's IT business. There were no Exceptional Items in Q1 FY'17. Consequently, the consolidated net profit for the current quarter decreased to Rs. 51.39 crore from Rs 72.42 crore in Q1 FY16.

Order inflow in Blue Star stand-alone during Q1 FY'17 increased by 33% to Rs. 1373 crore from Rs 1034 crores over the same period last year.

Carry-forward Order Book for Blue Star stand-alone as at June 30, 2016 increased by 19% to Rs 1776 crores compared to Rs 1493 crores as at June 30, 2015.

Net borrowings for Blue Star stand-alone reduced from Rs. 243 crores as on March 31, 2016 to Rs. 225 crores as on June 30, 2016

Net borrowings for our 100% subsidiary, Blue Star Engineering & Electronics Limited reduced from Rs. 60 crore as on March 31, 2016 to Rs. 58 crore as on June 30, 2016

Consolidated capital employed increased to Rs. 665.83 crore as on June 30, 2016 from Rs. 612.62 crore as on March 31, 2016 in line with business volume growth.

Now I will take you through segment-wise performance and results for Q1 FY17 on a consolidated basis

Segment I revenue increased to Rs. 439.58 crore from Rs 351.70 crores in Q1 FY'16, registering a growth of 25%. Segment results however reduced to Rs. 5.44 crores (1.2%) in Q1 FY'17 from Rs. 8.15 crores (2.3%) in Q1 FY'16. While order inflow has been improving in the last two quarters, the pace of order execution has still not picked up, leading to delays in projects. As a consequence, we have stepped up our focus to exercise greater prudence on accruing project level cost and revenue in order to improve consistency of financial performance reporting for this segment, going forward. This conservative position has resulted in lower margins in the quarter. As the pace of execution picks up in the second half of the year, we will see an improvement in operating margins and the full year is expected to be better than FY16.

Order inflow in Q1 FY'17 grew by 35% over the same period last year in this segment. Carry-forward order book was Rs 1724 crores as at June 30, 2016 as compared to Rs. 1451 crores as at June 30, 2015, an increase of 19%. Some of the major orders won by Blue Star during Q1 FY'17 were Omkar, HCL technologies, Tata power, National Cancer Institute, GIFT City, India Bulls and Emami.

The market for electro mechanical projects grew by around 13% on the back of an increase in overall consumption. Government funded infrastructure projects picked up pace. However, the private sector investment climate remained subdued and there has been no visible increase in capital spending or commitments. Top performing segments included government funded projects such as metro rail, education and health care. There was marginal growth in sectors such as IT / ITeS, commercial office space and also in the power sector.

Although, the current pace of project execution remains slow, there are expectations around project execution gaining momentum and faster pace over the next few quarters.

In the central plant equipment business, the market continued to remain sluggish similar to the projects space. However, Delhi NCR, Mumbai and Bengaluru markets showed some signs of improvement during the quarter. Demand in segments such as educational institutions, healthcare and hospitality improved, while progress in the commercial space, IT/ITeS segments continued to be muted.

During the quarter, VRF business recorded fastest growth rate amongst all the categories as a result of its energy efficiency and unique features. The chiller business also registered faster growth. The company launched 3 new products during Q1 FY'17, which are, inverter ducted systems, VRF IV S (side discharge VRF system) and VRF Sprint (pre-piped VRF system). The response of the market to these products has been quite encouraging.

Major orders received during this period by this business were from HCL technologies, HDFC Bank, Kiran Gems, Wipro GE, Aurobindo Pharma, Axis Bank, and Udaipur Cement Works.

Blue Star continues to be the largest after-sales airconditioning and commercial refrigeration service provider in the country and has sustained its reputed position in the market place as a superior value-added service provider. Customer satisfaction levels remained high despite high call volume and early onset of summer. The new call desk which operates 24x7 could manage high call volume of 3 lacs call this summer. Most of the major corporate renewed their AMC contracts.

The International Business Group comprises global projects and global product sales. The global projects business includes our joint ventures in Qatar, Malaysia and Oman.

During the quarter, Blue Star signed up with A F Technology, whichis a part of Al Futtaim Engineering, a leading conglomerate in UAE for the distribution of VRF systems, AHUs, FCUs and Chillers..

Blue Star has also entered the ASEAN region, with a distribution tie up with AA Techno Corporation in Vietnam as a distributor for room air conditioners and applied system products.

The Company has also introduced room air conditioners with eco friendly refrigerant R410A and anti-corrosive green fin technology for the Maldives market resulting in a market share of 12% in that country.

The domestic economy in Oman is experiencing its share of downturns in the construction sector as a consequence of current oil prices driven economic stagnancy. New projects tendering has shrunk. Our JV in Oman has succeeded in winning its first large order with Sandan Integrated Business and Industrial City, Halban, near Muscat.

In the following months, Blue Star plans to participate in multiple major trade shows such as Climate Abu Dhabi, IHE exhibition, Big 5 Show Dubai, Hotel Asia, The Big Show Oman as part of a strategy to create brand awareness in the international markets.

I will now talk about Segment II results, the consolidated segment registered revenue growth of 34%, from Rs 553.77 crores in Q1 FY'16 to Rs. 742.45 in Q1 FY'17. The segment results also improved by 31% from Rs. 78.39 crores (14.2%) in Q1 FY'16 to Rs. 102.44 crores (13.2%) in Q1 FY'17.

During the current quarter, our room ac business witnessed healthy growth rate of 38% supported by early onset of summers coupled with better product range and aggressive sales promotion. The business continued to perform better than the market, which registered a growth rate of 27% during the same period.

There is a rising preference for energy efficient models and in line with industry trend, the share of 5 Star and Inverter Split ACs combined has gone up. During the quarter, A 'free installation' scheme was announced, which was a big success and boosted retail sales. In NCR, a special campaign of "same day installation" was run during summer and more than 90% installations were done on the same day.

In the Commercial Refrigeration business, storage water cooler business witnessed fairly good growth due to increased off takes by educational institutions.

In the freezer category, the growth was slightly lower than the previous ended quarter. This is mainly due to overwhelming sales during the last quarter wherein all major requirements for the summer season were met by the key customers and their expansion on retail front was not aggressive enough. However Blue Star has introduced few new models in the glass top deep freezer category as there is an increasing demand for more stylish looks and premium finished models.

The cold room business registered a growth of 40% in terms of value as compared to the last year quarter, whereas the market grew by 10% in this segment.

Earlier this year, Blue Star had announced that it is planning to enter the water purifier business. The product range for this new foray has been finalized and the Company is planning to launch its products in select markets in Q3FY17. It is also in the process of setting up its distribution as well as its service network. The Company will initially offer residential water purifiers in multiple price points and will gradually enhance its range to cover commercial water purification systems as well.

With respect to recently launched Air cooler product line, 3 new models were launched in April 2016. The product offering would initially start with North and West and be expanded later on to other regions.

For Segment III, billing de-grew by 16% in Q1 FY'17 compared with Q1 FY'16 due to a change in the business mix and general market slowdown. On a like-to-like basis, the segment experienced a decrease in overall demand due to a moratorium in capex spending in the banking sector as well as lower capex spends in the minerals, metals, oil and gas segments. As a result, the segment results also de-grew by 38% during Q1 FY'17. We expect spending revival in the banking sector and also in the capital goods and therefore growth in this segment is expected to catch up over next 3 quarters. We remain confident that Segment III results will be better than FY16 on a full year basis.

During the quarter, large orders were received from HLL Lifecare, Trivandrum and Intas Pharma, Ahmedabad and data communications business won a surveillance order from Uttar Pradesh Rajkiya Nirman Nigam (UPRNN), Lucknow. The destructive and non-destructive testing business also performed well with several new large orders in the quarter.

In conclusion, the residential and light commercial segments demonstrated healthy growth and are expected to continue the growth trend with enhanced spends by consumers. The electro-mechanical business environment continued to remain sluggish, but exhibits positive traction since some markets and segments showed signs of turnaround and improvement. The economic environment is expected to improve and is expected to benefit electro mechanical project business. The Company intends to continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few quarters in order to capitalize on the imminent growth opportunities.

Blue Star has evaluated the GST transition requirements based on current knowledge of the likely legislative changes. We are in a state of high readiness to migrate to the new tax regime as and when the law gets enacted.

Ladies and gentlemen, I am done with my opening remarks. I would like to now pass it back to the moderator, who will open up the floor to questions. Vir and I will try and answer as many questions as we can. To the extent we are unable to, we would get back to you via e-mail.

With that, we are open for questions.

Moderator: Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: My first question is on the VRF business, what growth rates have you seen there? You said that the industry was sluggish and still you got good growth. What is the kind of competition we face, even Daikin is trying to enter into this business in a big way that is one. Secondly, your view on the benefits of GST and how would it impact the industry as large part of volumes in the industry are imported today. How would the structure of the industry change with that?

Neeraj Basur: All right, thanks Abhishek. As far as VRF segment is concerned it was a good quarter for us, we grew by around 25% and our understanding is that the market would have grown between 10% to 15%. In our case as I mentioned earlier, we have launched new products which have got good resonance with the customer segments that we are targeting and as a consequence we achieved that kind of growth. Would you just mind repeating your second question again?

Abhishek Puri: Second part of the question was that how is the competition here? Because even Daikin is entering it in a big way and even Hitachi mentioned they have they have outperformed the industry growth, I think most of the players are saying that they have outperformed the industry, so we are just trying to understand as to how this industry is working right now and if the market is sluggish how is everyone growing at such a fast pace?

Vir Advani: Sure, I will just step in this is, Vir here, I think what everyone is saying is along the lines of what we are saying which is that the VRF segment within the central air conditioning market is what is outperforming the rest of the market so, chilled water systems are growing slower, ducted systems are growing slower whereas the VRF segment is growing much faster. If you look at the market, central air conditioning market would have grown in low single-digits and the VRF market has grown about 10% to 15%. Therefore I think there are a couple of players like us who have done better than the market growth. I think you are referring to those couple of players when you are saying that everyone is seeing growth.

Abhishek Puri: Right, that makes sense. My second part of question was on GST. How would you benefit and how is the industry structure going to change given that there is large amount of imports in AC business per se?

Neeraj Basur: Yes, as far as our GST impact is concerned, we need to await the final structure of what gets passed by the parliament in terms of the components, rates etc. we have done a high level study of potential impact of GST on our various businesses. We need to get some more visibility of the transition provisions in the law, particularly, the impact of excise duty which gets paid around March, how will that get treated is something we need to wait and watch before we really formalize and access our overall impact. In terms of the overall sense that we have, we do not expect too much of an impact at this stage on the Segment II as we are speaking.

Abhishek Puri: Okay. If I can sneak in one more question that will be my last one, despite good growth in the cooling products business for you that is 34% revenue growth why is the EBITDA growth only 30%, are there any one off expenses? A couple of other players that have reported revenue growth have reported improvement in the overall margins so, are there any additional promotional expenses which have impacted the results.

Neeraj Basur: Abhishek, if you recall in quarter one last year we had the benefit of excise duty in our HP I Plant which we do not have this year so, part of what you see as a slight dip in the margin percentage is on account of that. There is no exceptional or any extra expense that we have incurred, it is largely because we are now completely out of that excise benefit in HP I.

Moderator: Thank you. The next question is from the line of Ranjit Sivaram from Antique Stock Broking. Please go ahead.

Ranjit Sivaram: When we look at Electro-Mechanical Projects, in your commentary you mentioned that the company has stepped up its focus to access project level cost and revenue. Can you throw some more clarity into this because last quarter I think we have written off most of our provisions regarding our legacy projects so, what is this that has impacted the margins despite having a very good growth in the EMP segment? Can you just explain, what has changed in terms of the accounting there?

Neeraj Basur: Yes, nothing has changed in accounting; essentially what has happed is that last three quarters is that we have had relatively good order inflow and that order inflow continued in Q1. I think segment I order inflow was up some 30 odd percent. The margins that we are booking are also reasonably good, what we are however seeing is continuing delay in execution. I have been complaining about that for the last two to three quarters now. Every six months we keep saying that things would improve in the next six months but the unfortunate reality is that it is really not improving at the pace that we want because of which we are anticipating delays in the newer projects booked, we are anticipating delays out of prudence and caution and just being a little more careful about appropriation of margin against these delayed projects. We have of course got clauses in there to protect us but never the less we feel that until the pace improves we should be a little more cautions on margin recognition and as we close the projects we will close them at the right margin. The other input for you is that looking forward in to the rest of the year, we will be seeing an improvement on quarterly basis, so every standalone quarter should have a higher margin then Q1 and for the full year we see Segment I margins coming in higher than last year. We have better visibility on the year ahead but we just took some certain calls on margin appropriation going forward and therefore you may see revenue growing a little faster than the margin. For the full year the margin percentage will be better than last year, I hope that address that.

Ranjit Sivaram: Is it that we have done some kind of provisioning for some of the projects which are not closed? Are we expecting some delays and cost overrun and hence before closing of the projects we are prudently providing…

Neeraj Basur: Yes, you are right, this how we do cost updates on a regular basis on running projects, we have decided keeping in mind that execution is not improving the pace and have decided to take those provisions much ahead as compared to when we would usually take them, we usually wait till 70% to 80% of the execution is complete, when we have better clarity on completion dates is when we will do some of this. Here we have taken that well ahead out of prudence.

Ranjit Sivaram: But there is no legacy related orders sitting in our order book.

Neeraj Basur: No, what I had mentioned is that we have cleaned out all of those in the last quarter s we do not have any of that coming in this quarter or for this year for that matter.

Ranjit Sivaram: And for the full year what will be the growth that we will be looking for Segment I?

Neeraj Basur: It looks as though it may not be as strong as Q1 but we have been talking about a 20% growth in segment I.

Ranjit Sivaram: Okay. So that is maintained.

Neeraj Basur: Yes.

Moderator: Thank you. The next question is from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel: So, just had one question, it is slightly not related to this quarter but like Vir and Thiagarajan both are now Joint MD's and in the strategy piece in your annual report, I had a very small query like there was one point mentioned that, the brand would be extend into newer areas including some B2B, is it possible to share with us that what kind of B2B opportunities would be pursued using the Blue Star brand?

Vir Advani: No, unfortunately we are evaluating a few ideas right now; I think we had mentioned that we want to extend the brand both into B2C opportunities as well as B2B. The first B2C opportunity that we have that has already moved on is water purifiers, I think you are aware that we will be doing a soft launch in Q2 and full launch in Q3. We are evaluating a couple more B2C opportunities in the current year and for us B2B really means in our PE&IS we are evaluating a couple of new areas around renewable and also we are looking at something in Segment I especially around our service business, whether there is a bigger portfolio that we can take to our installed base. We have a very large installed base the largest in the country probably by a factor of 2x with whom we are doing a limited set of business we want to expand that portfolio, so we have some ideas, we are working on that right now and it is a little early to discuss but we should be able to share some progress we make towards the end of the year.

Mayur Patel: Sure. Just one more thing on this margins in the EMP business, you mentioned that you guys have recognized the revenues conservatively, only to the extent of the cost and eventually the margins would be better than FY'16, around 4% to 5% is the margin band we should assume which is there for the current order book, is it fair to say that?

Vir Advani: Yes, I think so.

Mayur Patel: Okay. You mentioned 20% growth for segment I. Segment II is there any change in guidance given the strong performance in Q1?

Vir Advani: Yes, we opened the year saying that we will grow 10% faster than the market and at that time we had assumed that the market will grow at 15% and we will grow at 25%. What has happened in Q1 is the market has grown at 27% and we have grown at 38%. We are in line with that 10% faster growth. Now for the full year of course the monsoon came on time which is good it is a good monsoon, we are fairly optimistic that the festival season is going to be strong for the category. We feel that we will maintain our position and we will do 10% faster than the market, probably the market is going to end up growing somewhere between 20%-25% by the time year ends, so that is probably where we will end up.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: Just wanted to understand what would be your market share in inverter and the five start model or at least for the inverter if you can give?

Vir Advani: You are talking about the room ac, right?

Madan Gopal: Yes.

Vir Advani: I am sorry, I do not have that for you today, will share it with you separately.

Madan Gopal: Also what would have been the growth in inverter segment if you could share that too?

Vir Advani: Yes, inverters grew faster than the overall category. There was a strong growth for room ac's at 27%. Inverts grew faster so, the migration that began last year of high efficiency product selling more, has continued. We are very well on track on that front. As far as Blue Star is concerned about 20% of our sales were inverter. I do not have for you what inverter is as a percentage of the overall market which we will share with you later.

Madan Gopal: Okay. In the Annual Report you have talked about launching the VRF IV product. Can you highlight in what way it is different as compared to the current offering in VRF?

Vir Advani: Yes, the VRF IV plus which we launched last year in July/August of 2015 has done very well. I think I mentioned that the order inflow is up about 25% for that category for us in the quarter. The VRF IV plus is the next generation VRF, it is build for India, designed for India. There are about six to seven unique features about the product that differentiate it from competition, we claim to have the highest operating efficiency out of the competing set of products, we also have the widest range of product with the size of VRF also going up quite high. There are some technical features as well that differentiate it. Most importantly it is designed for Indian ambient because most VRF around the world that are imported or made in India by our competitors are designed for much more tempered climate and are tested under less than 35 degrees. We say that our VRF works at the same performance level as our competitors at about

8 to 9 degrees higher ambient as compare to them. So we should be able to deliver you higher efficiency at Indian operating conditions. That is the value proposition of the product, it is being received very well by the market and we are quite optimistic about growing the business faster than our competitor.

Madan Gopal: Okay. I know that you have shared it in the past but can you give some idea on what will be VRF as a percentage of total market right now or what our market share would be?

Vir Advani: Yes, the VRF I suppose will be about Rs. 1,300 crores - Rs. 1,400 crores, it is relatively small right now but as I had mentioned, it is growing much faster than the rest of the central air conditioning product category. That is where we are right now.

Madan Gopal: So market share?

Vir Advani: I think it is about 12%.

Moderator: Thank you. The next question is from the line of Sujit Jain from Yes Securities. Please go ahead.

Sujit Jain: Sir, what would have been the volume increase in the room ac industry and what would have been the volume increase for us? As well as our value share in Northern markets?

Neeraj Basur: As far as volume growth is concerned it is not going to be materially different from what Vir just shared with you, the market has grown by around 27%-28% in value as well as volume terms. For Blue Star the growth has been around 38%. There is not much of a difference.

Vir Advani: There was no table change this time, the product category or the product line ups have been relatively similar. We have not seen a big shift in volume and value this time.

Sujit Jain: And our share in Northern markets which we guided that eventually in two years - three years will increase from 6%-6.5% to 8%?

Vir Advani: Yes, so actually we did not make too much progress in this last summer in the North. What happened is that because the demand was so strong overall we were stocked out for part of the summer and so most of our stocks went to our other key markets. While we made some progress on strengthening distribution in the North, I do not think the needle has moved substantially yet. We do need to attack that but we will get to it probably in the second-half of this year.

Sujit Jain: And our market share as on the first quarter of FY'17?

Neerraj Basur: Overall market share for Blue Star is 10.6%.

Sujit Jain: Okay. One last question is on the provisioning for delays in AMP segment, do we mean that eventually as projects go for closure we might get some of this back?

Vir Advani: Yes, absolutely what we are saying is that even during the year we will see an improvement but overall on an ongoing basis we will see some improvement. Having closed out legacy jobs, having looked at our order book fresh, looking at the market and looking at the strong order inflow on good margins we are just wanting to be a little more cautious than we were last time five years ago and so we will continue this cautious approach. It is not some change in accounting standard or anything it is a similar approach but this is more cautious. Therefore, as jobs close we may see an upward movement in margin which is probably a more prudent way to run the business.

Moderator: Thank you. The next question is from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi: Sir, the first question is on the overall profitability, if we look at the segmental number in spite of registering a very healthy growth in the 1st Segment and 2nd Segment; we have seen some decline in the margin. Can you help us to understand for both these segment what has impacted the margin?

Vir Advani: I am sorry; I think maybe you have logged in late. I have answered four questions on this, I do not want to waste everyone's time and repeat it again, and you can just read the response that will be helpful, please.

Gaurav Sanghvi: Okay. The second question is related to the unallocable expense if one looks at unallocable expenses it is around 34% of the total segmental EBIT, can you help us to understand it better?

Neeraj Basur: Nothing has changed as far as classification of unallocable expenses are concerned, we have been explaining consistently in the past that these are largely corporate expenses and central expenses that we need to incur and the increase that you see is a general inflationary increase quarter-on-quarter over last year.

Gaurav Sanghvi: Okay. Last question is on the overall room ac market; you mentioned on the call that there was timely arrival of monsoon, how is the overall inventory level in the channel? Are we seeing some filling of inventory in the channel because of the monsoon or is it at normal?

Neeraj Basur: What has happened is that we have just explained it short while ago the sales was quite strong in the month of April and May however post May end the monsoon started resulting in some drop in the demand, as far as June end position is concerned indeed there is some inventory in the market which is lying unsold. From a Blue Star perspective, we have this at a very manageable level and we are quite confident that over quarter two and particularly towards the commencement of the festival season this inventory will get liquidated.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My question is can you give the break up between North, South, East and West in terms of the room ac's what would be our share? You told North would be around 8.5% what will be the rest?

Neeraj Basur: Sorry, we do not have this number available and we do this kind of classification once a year and probably will be able to share it with you towards the year end.

Ravi Swaminathan: Sure sir, no problem. I wanted to know your strategy to get into the North market, a lot of players are very strong in that market especially players like Voltas and Hitachi. From what we understand, that they are either pricing their products low or introducing new models at lower prices. What would be our strategy in terms of both increase in distribution reach and introduction of new product in the North market?

Vir Advani: Yes, so two angles – one is product portfolio and the other is the distribution. On the distribution side we have already started work as I think part of it is our product portfolio. This year has been very strong which is certainly attracting the distribution channel to relook at Blue Star in the North. We have already made progress on that front. I think, I mentioned earlier because demand was so strong and we were stocked out, we diverted our volume more to our key markets we did not actually push them aggressively into the North. We have seen this festival season how things are going and whether we are well-equipped to handle that demand. We will of course relook at the volume growth in the North. As far as the product portfolio is concerned I think two things one is that our window ac portfolio has improved along with the distribution reach and I think we should be able to achieve our short-term goals in the North by the end of this year. Beyond that of course you know we are building a factory in the North which will also help logistics cost as well as reaching the market. This will of course come in line by towards the end of next calendar year so; we may see this market share growth plan happen in more than one stage.

Ravi Swaminathan: Okay. In terms of air coolers and water purifiers what kind of revenues did we do this quarter and what is our long-term target say for two years to three years' horizon, what is our revenue target from these products?

Vir Advani: On water purifiers we have not yet started selling any products. We are doing a soft launch in September and then a full launch in the market in Q3. We are well-prepared for that. We have the distribution in place and the product portfolio is being built so we will start selling full-fledge in Q3. As far as air coolers is concerned we have made modest beginning this year nothing significant because you may know the air cooler market actually starts earlier than the air conditioner market, so to that extent we missed the bulk of the season. Now our products are available in the market, we are aiming to have a 12% to 15% market share by 2019. The market size you may know is about Rs. 2,000 crores organized as of today growing at a faster pace as well. We will be ready for this upcoming season for air coolers; we will be fully-prepared with a broader wider product range and distribution in place as well. I think towards the end of this year is when we can probably discuss volumes and how we have performed.

Ravi Swaminathan: Sure. A couple of book keeping questions, can you give the breakup of other income this time, it looks slightly high?

Neeraj Basur: Yes, This year we have got some income tax refund and then we also had the, if you recall as part of our restructuring we acquired an office property from Blue Star Infotech. The rental income from that property is included there.

Ravi Swaminathan: Okay. Breakup if you can give?

Neeraj Basur: We will share that separately with you.

Ravi Swaminathan: Okay. CAPEX and plans and the tax rates that we need to assume for this year and next year?

Neeraj Basur: I have already shared the tax rate for quarter one which is the MAT 21.07% we expect the full year to be around in the same range from 20% to 22% but will be on MAT. As far as the CAPEX plan is concerned in addition to the normal maintenance CAPEX of Rs. 40 crores to Rs. 50 crores that we will any way incur there will be some capital expenditure on the two new manufacturing locations that are being currently set up.

Ravi Swaminathan: Okay. How much will that be over the next two years at least?

Neeraj Basur: Well we have not worked out the next two years' plant yet in that granularity. Currently, we are just finishing up acquisition of land for both of these locations and then towards the end of the year some CAPEX commitments will start. We are in the process of refining some of those plans.

Moderator: Thank you, sir. The next question is from the line of Ankur Sharma from Motilal Oswal Securities. Please go ahead.

Ankur Sharma: My question was on the room air conditioner segment, if you could comment a little bit on the competitive scenario here because we keep on hearing about players like Lloyd, Daikin and now even Micromax getting quite aggressive in the room air con space. What are you seeing here and how do you see this going into the coming quarters?

Vir Advani: Sure, so clearly competitive pressures are increasing. As the category grows we will see more and more competition as well as fiercer competition so that is to be expected. Having said that, I think in spite of it, I guess it was a very strong quarter for most players at least the few that you have mentioned. There have been some losers as well. What we can see there has been some concentration of market share amongst the larger seven - eight players. Whereas you leave that top seven - eight and then you go to the next 12 or 15 however many brands there are, that separation of market share has clearly been established top eight versus the rest and the top eight appear to be adding more market share then the others which is one reason because we often get asked that whichever companies analyst are speaking to us saying that their room ac sales have been strong and faster than the market. Everyone is faster than the market, how can the market growth be so low. Today we are saying 27% and 38% I am sure everyone is saying the same thing so, this is one answer to this mystery of how everyone is growing faster than the market. You have mentioned either core air conditioning brands in the list or certain players who are taking a price position, these are the two types of examples you have listed. We watch both of these categories carefully and differently. The core technology players obviously is a bigger concern to ourselves compared to the price players because as a company you may know we are a technology player not a price player. Within the technology providers which are largely multinationals and of course the top couple of companies who are also very much there amongst these players we did not see any irrational pricing in the season and that is encouraging. I think a part of the reason of course is that it was a hot summer, so pricing has been rational. Costs have been very much under control because we did not see any major movement in the dollar over the last few months, and we have not seen commodities moving too much. So with a little bit of stability in the input cost and no irrational pricing by similar company such as ours who are positioned with technology I think it is a reasonably good market scenario. On the other category who are the price players we have seen some very fierce price cutting and positioning which again we do not tend to compete as much in that segment and therefore we have less visibility into the outcome of that who has made money and who has grown, etc. We intend to keep this strategy which seems to be working for us at least. With this monsoon also being good from whatever we can see I think we will be sticking to this strategy for the rest of the year and of course into next year, I think if this continues then the next real milestone for the industry is the table change that comes 18 months from now, a lot of preparation will happen between now and then. A lot of repositioning will happen in line with those changes that will come and then we will see who are the winners and who are the losers after that table changes out and the dust settles so, that is how we are looking at it as of now.

Ankur Sharma: And just a second question again on the room air con piece, when we have met over the past few quarters you were talking about in-sourcing of components and in-house manufacturing being a critical piece going forward. I was trying to understand is, given the industry structure the way it works is that your condenser, your compressors, the indoor unit pretty much gets outsourced. So is Blue Star very different in the way we intent to kind of manufacture air cons especially with the new units that we are proposing to start. Are we looking at more in sourcing going forward with these two new manufacturing units?

Vir Advani: Sure. One clarification these two units will be built sequentially and are being built together and the second one is being added for logistics benefit rather than capacity, however having said that we are applying the same approach to both plants which is that it continues to be an assembly heavy operation, I do not think that it is changing dramatically. As a company we tend to assemble much more than competitors do. Competitors tend to import more than we do. We prefer to assemble more than others that is one difference, it is not a great difference but it is a somewhat of a difference. The other thing you asked was about our in-sourcing of sub-assemblies and components, the answer is yes, we do see some value in sourcing certain amount of bought outs that even we are buying out today. We are just finalizing plans on what all that can be and should. It will not be fundamental components which are say compressors or motor because that is a specialized area we prefer to partner with technology specialist on that front especially because technology is changing quite rapidly. We will see probably much more in-sourcing of sub-assemblies and even perhaps indoor units, etc., in the new plants.

Moderator: Thank you. The next question is from the line of Girisha Saraf from Ambit Capital. Please go ahead.

Girisha Saraf: Could you please throw some light on why the employee cost has decreased on the consolidated basis?

Neeraj Basur: Girisha as I mentioned in the beginning our last year's numbers are inclusive of Blue Star Infotech's operating results.

Girisha Saraf: So is that the only reason?

Neeraj Basur: Yes, that is the only reason, the Rs. 103 crores on a consolidated basis that you see is a fair chunk of that or some chunk of that is actually BSIL's operating expenses including employee cost which needs to be eliminated and I have given in the opening remakes the net impact of all of that as far as our top-line is concerned there is a Rs. 73 crores impact and as far as the operating profits are concerned it includes Rs. 10 crores of Blue Star Infotech's profits.

Girisha Saraf: Okay, thanks. So has there been some sort of employee cut or anything over the last few years?

Vir Advani: No, we keep optimizing our cost and that continues so to some extent. We had done some reduction in our project business and our service business but nothing substantial.

Moderator: Thank you. The next question is from the line of Rajendra Mishra from IDFC Mutual Fund. Please go ahead.

Rajendra Mishra: Just wanted an update on the metro part of the orders if you can share what is happening around the bidding of some of these metros and also if you can share the order book mix on the EMP side?

Vir Advani: On order book mix I think we had shared it in the last call, if you can just refer to that call note it would still be relevant. We do not really do this quarterly because it is too complex. Nothing substantial has frankly changed since then, you can assume that is where it stands. You are asking the metro market overall. I think there is progress on all fronts we will be bidding out and finalizing Jaipur metro in the current year. The Delhi metro next phase has got approval by the government so tenders should start coming out in about 15 months to 18 months from now. That will be a massive project. Lucknow metro the bidding is on so, that again will get finalized in the current year and then there are some smaller ones like Ahmedabad metro, etc., which are also going to be bid. I think out of all the infra segments, metro is where there is most progress and most action, much more then airports, much more than power, etc. We are fairly well-covered in that market because most customers are ex-Delhi metro and we have deep and long relationship with Delhi metro so wherever these engineering heads go we tend to get invited to participate. I am not sure about the funnel right now but it is substantially higher than it was a year ago and as compared I think two years ago there was absolutely no business around. I think this year, the current year FY'17 and FY'18 we should see adequate amount of order finalization in metros.

Rajendra Mishra: Okay. Typically what is the ticket size of these, I am sure these would vary from metro to metro but typically what is the range of ticket size?

Vir Advani: You have underground metro and you have over-ground metro and we do as you may know, we do stations. We do not do that actual line. Station will vary depending on where it is and all of that but for example in Delhi on average station the MEP work in underground station will be approximately say Rs. 40 odd crores and the MEP work in an over-ground station in Delhi would be approximately say Rs. 5 crores to may be Rs. 7 crores per station and then obviously it gets bid out in lots of stations. Typically we see metro customers trying to bundle somewhere between a Rs. 100 crores to Rs. 200 crores of work into each package, they pick and choose number of stations and scope so that they can have multiple contractors working simultaneously at various points in the project with order values ranging from 100 to 200 to 250, that is typically how it has been bid out.

Rajendra Mishra: Okay, very helpful. Are we there also in Mumbai metro because quite a few lines are being bided out or have been bided out?

Vir Advani: I think the civil tenders have just been awarded finally, I think the electrical is with the civil contractors whereas the mechanical is to be bid out yet. We will be bidding on the mechanical part of which we expect tenders to come out in may be six months to nine months from now and then we will bid. Orders should be finalized in FY'18.

Rajendra Mishra: Okay. One last thing on this metro, is there any concept, who are we competing with mostly and is there a concept of market share or it is just case to case basis?

Vir Advani: Yes, I do not know if you can do market share so I think it would be tender to tender thing, these are typically prequalified vendors. There are some civil players who come in say an L&T or someone. Then there are the MEP contracts like Voltas, Sterling, and ourselves. Sometimes you have multinational JVs that end up bidding. Depending on the project at hand we do see two to three international JVs coming into the bid on a case-to-case basis.

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

Anupam Gupta: Just have a question on the Professional Electronics and Industrial Systems business. We continue to see weakness in this quarter both in terms of revenue as well as for margins. In terms of the full year you indicated it will be better than the last year but can you put some numbers to it like in terms of revenue what can be the revenue growth for FY'17 and margins also?

Vir Advani: Yes, so on the PE&IS business after long time we saw some pick-up in the industrial side because last year was very poor for the industrial side of the business even though there is not a full recovery, there is some little bit of pickup as some small amount of Brown field investment restarts. I am not sure we can give any real guidance on this business right now because it is all linked to CAPEX recovery of the steel, oil and gas, petrochem, heavy industry in general that is one side of it, the other side of it is we have banking and healthcare. So, healthcare is stable, we have of course a lot of space research, etc., related which is stable. The banking part which is fairly large part of the business because of banks absorbing their NPAs and taking care of their balance sheet and P&L there has been very limited CAPEX spending but eventually they need to spend because these are technology companies and you cannot stay away from investment in technology in a bank for more than six months to eight months because technology does get old at that pace. I hope that the banking sector starts to buy again from Q4. I do not know about the heavy industrial side yet. Having said all of that I think because last year was so poor we are confident of exceeding last year's performance but frankly internally we are not satisfied with that because that was not very great performance. What I can say is that it is not due to any internal issues or anything like that it is very much linked to the market. We also incidentally hired a new CEO for the business, that gentleman joined about two and half months ago. He is also settling down. He has got a new fresh set of plans for the business so that also should give it an impetus. As of now, best I can say is that we will do better than last year I am not able to say how much better and how quickly that turnaround will come.

Moderator: Thank you. The next question is from the line of Charanjeet Singh from B&K Securities. Please go ahead.

Charanjeet Singh: Sir, if you can help us understand the inverter ac market how has the trend been in this quarter and do we see any kind of cost rationalization initiatives that we can take in ac because that is the segment in which EESL is targeting and there would be disruption in that segment specifically for us inverter ac's contribute larger proportion.

Vir Advani: An earlier caller had asked me this question I told you that I did not have the answer to that which is what the percentage of inverter ac's to overall ac's is. We would provide the details separately. As far as the EESL initiatives are concerned, of course we welcome this entire initiative by the government. We have not participated in these tender's so far due to unfavorable commercial conditions and a complicated process of receipt of payment. We are; however, in touch with EESL and trying to make it less complicated as well as to make it attractive for technology brands such as ourselves. We also have our industry association, that is driving this discussion with them. It is still a little early as far as we are concerned. We have however been informed by EESL that they are in the process of putting together a tender for (+1) lakh units and that will be out later this year but again we will have to see what are the terms and conditions of such a tender before we decide whether or not we will be interested but that was not the main part of your question. You were asking a broader subject of Inverters. As far as cost reductions are concerned frankly it is a chicken and egg problem. With increase in volume we will see an improvement in cost. Cost improvement is not going to happen without volume growth because the drive manufacturers and compressor manufacturers are looking for that volume commitment before there able to bring down the per unit cost. As far as Blue Star is concerned, we had a very strong quarter for our inverter line up. We have the largest inverter line up, most number of SKUs and we did remarkably well so we are happy with the progress we have made.

Charanjeet Singh: Sir in our earlier meeting you had mentioned about seeding new business. Is there any plan in terms of what we are going to zero in on, apart from this air coolers and water purifier, do we see any other segments which we can cater to?

Vir Advani: Yes, I know it is still early right now I think another caller had asked us. We are just starting our three-year plan. We have strategic objective to diversity the product portfolio solution beyond air conditioning. Still early, probably towards the end of this year we will be able to share some more feedback.

Moderator: Thank you. Ladies and gentlemen, due to time constraint that was our last question. I would now like to hand the floor over to Mr. Vir Advani for closing comments.

Neeraj Basur: Well, thank you very much, ladies and gentlemen. With this we conclude this quarter's earnings call. Feel free to revert to us in case any of your questions were not fully answered and we will be happy to provide you additional detail by e-mail or in person. Thank you very much.

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.