"Blue Start Limited Q2FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Blue Start Limited Q2FY17 Earnings Conference Call. 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur – CFO. Thank you and over to you, Sir.

Neeraj Basur: Thank you very much. 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 September 30th, 2016. Last year we completed implementation of a fairly complex set of corporate restructuring transactions involving the merger of Blue Start 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 IndAS, and also to give effect to restructuring, we had to restate our previous year's numbers as well. Therefore, our Q2 reported performance this year is not comparable with previous year's numbers. We would provide you necessary details wherever relevant to enable a meaningful analysis of our quarterly performance.

Now coming on to the results. The financial highlights of Company for quarter two financial year 2017 on a consolidated basis is what I will first cover. Firstly, total operating income for quarter two financial year 2017 was Rs. 897.82 crores as compared with Rs 776.73 crores in quarter two financial year 2016. This excluded Blue Star Infotech's operating income of Rs. 70.36 crores. And this represents a growth of 16% year-on-year. PBITDA for quarter two financial year 2017 was Rs. 40.51 crores as compared with Rs. 35.34 crores in quarter two financial year 2016. Excluding Blue Star Infotech's PBITDA of Rs. 8.9 crores, this is a growth of 15%. Profit before tax before exceptional items was Rs. 26.64 crores in quarter two financial year 2017 as compared to Rs. 15.78 crores in quarter two financial year 2016, excluding Blue Star Infotech's PBT of Rs. 4.81 crores. This was a growth of 69%.

Our tax expense for quarter two financial year 2017 was Rs. 7.34 crores as compared to Rs. 1.03 crores in quarter two financial year 2016. Our annualized effective tax rate for FY17 is expected to be around 23.8% compared with 23.4% in FY16. The exceptional items in quarter two financial year 2016 relate to expenses of Rs. 15.8 crores towards cost of voluntary retirement scheme in one of our plant and other expenses relating to the closure of this factory. There were no exceptional items in quarter two financial year 2017.

Consequently, our consolidated net profit for the current quarter increased to Rs. 19.54 crores from Rs. 5.26 crores in Q2 FY16. Order inflow during Q2 FY17 increased by 8% to Rs. 887 crores from Rs. 826 crores over the same period last year on a standalone basis. Carried forward order book as of September 30th, 2016, increased by 15% to Rs. 1840 crores compared to Rs. 1604 crores as at September 30th, 2015, on a standalone basis.

Net borrowings for Blue Star on a standalone basis increased to Rs. 263 crores as of September 30th, 2016, from Rs. 243 crores as of March 31, 2016. Net borrowing for our 100% subsidiary Blue Star Engineering and Electronics Limited reduced to Rs. 56 crores as of September 30th, 2016, from Rs. 60 crores as of March 31, 2016.

Consolidated capital employed increased to Rs. 705.18 crores as on September 30, 2016, from Rs. 630.42 crores as on March 31, 2016, in line with business volume growth.

Now, I will take you through segment wise performance and results for Q2 FY17 on a consolidated basis. First I will cover segment one which is electrochemical projects and packaged air-conditioning systems.

Segment-I:

Revenue increased to Rs. 559.88 crore in Q2 FY17 from Rs 491.55 crores in Q2 FY'16, a growth of 13.9%. The segment generated profits of Rs. Rs. 30.27 crores which is 5.41% of segment revenue. In Q2 FY17 compared with Rs. 29.71 crores which is 6.04% of segment revenue in Q2 FY16. In the Electromechanical projects business, order inflow in Q2 FY17 saw a modest growth at Rs. 595 crores compared with Rs. 570 crores during the same period last year. Market witnessed some growth largely propelled by government funded infrastructure projects, while private investments continued to remain subdued. We expect more government funded metro projects in Mumbai, Jaipur, Kolkata and few other cities to take shape over the next 12 to 18 months. Additional investment in the healthcare and educational institutions by the central government are also expected.

In the private sector market, developer driven IT and ITES offices is gaining some traction, though slowly. Project execution progress remained slow as customers phase out their requirements based on available capital, thereby deferring overall project completions. This has impacted our revenue growth targets. Cash flows continue to remain a challenge, especially with civil contractors. Contrary to our earlier expectations, both in terms of new order finalization as well as execution speed, the market has not yet fully revived.

Some major orders won by Blue Star during Q2 FY17 included Apollo Hospital, Piramal Agarstya, Embassy Tech Village, Flipkart, Delhi Metro Rail Corporation, GIFT, MMR and TCS, Minakshi IT Park and so on. Carry forward order book was Rs. 1794 crores as of September 30, 2016, as compared to Rs. 1554 crores as of September 30, 2015, an increase of 15%.

In the central plant equipment and VRF business, market continued to remain subdued, even though some early signs of recovery are visible in the light commercial segment since these are not long lead time projects. Segments such as small offices, shops, restaurants, educational institutions and clinics contributed to the growth in Q2.

Our packaged air-conditioning sales continued to grow faster than the market. New products like ducted inverters, packaged inverters and side discharge, VRF that were introduced in the last quarter are gaining good momentum and give us an edge in the market. We have also introduced a new configured series of screw chillers. Major orders received during this period were from Meenakshi Infrastructure, Saint-Gobain, ISRO, AAI, Panorama Television, Crown Hotels and Father Muller Educational Trust.

During Q2, our service business launched a mobile app to be used by our channel partners for preventive maintenance services. The number of chillers and VRFs being monitored remotely touched 300 at the end of quarter. Chillers and VRF are monitored centrally by a specialized team to provide predictive maintenance and enhance customer satisfaction.

On the international business side, Blue Star continued to focus on expansion of its product range through exports. During Q2 we signed ANR Integrated Solutions Company Limited for distribution of our unitary and applied products in Sudan. Blue Star continues its journey on brand building in select international market.

We participated in Hotel Asia Exhibition 2016 Maldives, one of the largest trade exhibition of its kind of Maldives. We also showcased our inverter VRF system, inverter room ACs and also live cold room. Over the next few months we plan to participate in a number of marketing events and exhibitions for brand awareness and brand building in the international market.

The Company also plans to setup a wholly owned subsidiary outside India to consolidate and further develop its international business operations in the next few months.

Now I will talk about Segment-II which is unitary products:

This segment registered revenue growth of 17%, from Rs. 248.14 crores in Q2 FY16 to Rs. 291.56 in Q2 FY17. The segment results also improved by 68% from Rs. 12.93 crores, which is 5.21% of revenue in Q2 FY16 to Rs. 21.75 crores which is 7.47% of the segment revenue in quarter two financial year 2017.

During the current quarter, our room AC business grew by 21% as compared with market growth rate of 11% during the same period. Though July and August witnessed near flat growth, the onset of the festival season in September helped the market to post healthy growth. Improved capacity utilization due to scale also helped us to improve our margins.

The Company continued to perform better in the high energy efficient products such as inverter ACs, while 14% of the air conditioners sold by the industry are inverter category, 18% of the total sales of the Company are inverter ACs. The growing volumes in Tier-III, Tier-IV, Tier-V markets, more and more customers are preferring consumer finance schemes. During the quarter, close to 30% of our ACs sold are through consumer finance schemes.

Major orders received by this business during the quarter were from Narayana Group of Educational Institutions, St. Joseph College Chennai, KKR Educational Institute Vijaywada and SBI Mumbai.

Our commercial refrigeration business continued to resist a healthy growth. While the sale of deep freezers to key account slowdown in the current quarter as the peak season had closed in June, sales picked up again from mid-August 2016 with the onset of festival season. The Company continues to expand its product portfolio and in Q2 FY17 the commercial kitchen refrigeration products and medical refrigeration products were also introduced.

Our water purifier business. Test marketing in select markets were completed as far as our water purifier business is concerned in quarter two FY17 so that the formal launch would happen in Q3 FY17. In the first phase, the Company plans to offer contemporary range of electric water purifiers. The products will initially be available in Mumbai, Delhi NCR, Bangalore, Secunderabad, Chennai, Pune, Ahmadabad, Nagpur and Chandigarh. The contribution would be subsequently ramped up in all states in the south, Maharashtra, Gujarat and Northern region by March 2017.

I will now cover Segment-III:

Professional electronics and industrial systems. Billing of the segment grew by 25% in Q2 FY17 as compared with same period last year. The growth in billing was driven by few large surveillance projects built during the current quarter. Segment results grew to Rs. 7.25 crores which was 15.6% of revenue in Q2 FY17 as compared with Rs. 6.53 crores which was 17.6% of the revenues during the same period last year.

During the quarter, large orders were received from the Indian Air Force, Uttar Pradesh Rajikya Nirman Nigam, Tamil Nadu Agricultural University Coimbatore, Spiral Co., Welspun Corp and Bajaj Auto Pune.

In conclusion:

The residential and light commercial segment demonstrated healthy growth and are expected to continue the growth trend with enhanced spending by consumers. The electromechanical business environment continued to remain sluggish, but we still expect it to revive by the end of Q4 FY17. 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.

We are currently evaluating the guidelines and emerging updates on GST in terms of transition preparations. We are in a high state readiness to migrate to the new tax regime as and when the new law gets enacted. However, an impact assessment will be taken up once the regulations, rules and related clarifications are released by the government.

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. I will try and answer as many questions as I can. To the extent if I am unable to, we will get back to you via email. With that, we are now open for questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session. We take the first question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: Sir, one of the questions that I want to ask was regarding this recent step by the government on demonetization. Could you just highlight what is the kind of impact that you expect to see as a result of this and if you could also highlight how the channel works in terms of cash receipts and payments?

Neeraj Basur: So, first and foremost, it is too new phenomena for us to give you an exact assessment. However, having said that, we do expect some impact in Q3. 75% of room AC consumers are first time buyers who buy against a very genuine need. We do not expect that genuine need or that requirement to go away. Equally at the same time, 30% of our sales in the room AC segments are through consumer financing and we do not expect that to get disturbed either because those channels are fairly well established.

Now to your specific question on cash sales in Q1 and Q2, 30% of the sales are made by the dealers and not by us. The sales made by the dealers are against cash. In Tier-III, Tier-IV and Tier-V cities, around 50% of sales are through cash. The dealers accept the cash payment to deliver goods only in cases where they are not taking a cheque. However, the dealers are also capable of accepting cheque payments. The reality is many customers do not have credit cards or they cannot swipe debit cards and it may not be correct to assume that all cash purchase underlying the channel are through a genuine source or some other source. So, the way we are looking at it is that the channel will settle down or should settle down over a period of time. We also expect the consumers will get used to the new payment environment and new payment mechanisms towards the end of third quarter or early fourth quarter. However, like I said, it is too early to predict the impact as of now. And equally the impact this might have on real-estate and commercial construction sector, we are not able to predict it at this stage.

Having said that, it is possible there could be some slowdown. And if that slowdown happens this could impact results in our Segment-II. Equally, the positive aspect of this move, if the inflation and interest rates would drop, investments could accelerate which could favorably impact Segment-I and the Segment-II results for us.

Just to sum up this question for you, I guess we are saying that it is probable that there could be some slowdown for us in Q3, but we do expect things to settle down in the next month or 45 days or so. After which in Q4 things should pickup, but again in Q4 we need to remember that GST rollout is expected to happen. The exact impact of which and transition impact of that is still not clear. So I guess we will handle and we will manage the situation and environment as we go along.

Pulkit Patni: So Sir, just to double check. As of now we have not seen the need of adjusting the channel in terms of inventory just because of this Q3 impact or we will probably have to react to it depending on the outcomes over the next few days?

Neeraj Basur: So, Pulkit, like I said it is too early for us to take any immediate knee-jerk decision. We will first allow the transition of this new demonetized situation to settle down which will take next couple of weeks or so. I guess we will assess the ground reality and if we need to make any shifts or adjustments, we will do on that basis.

Moderator: Thank you. We have the next question from the line of Renjith Sivaram from Antique Stock Broking. Please go ahead.

Renjith Sivaram: Sir, in the room AC segment, if you can help us with the current market share and how the market share has moved compared to last year?

Neeraj Basur: As far as our room AC Segment is concerned, our market share was 12% in second quarter and 10.7% for the whole of the first half of last year. As compared to last year, our market share improved by about 70 basis points. In terms of our growth, we maintain 10% better than market growth rate trend.

Renjith Sivaram: Initially we had shared that the market to grow by 20% and we will be growing by 30% this year. Given this situation now, are we changing our guidance for the financial year, in terms of our unitary cooling products?

Neeraj Basur: We are not changing any of our expectations right now. Like I said, even if there is some temporary impact, we do expect to catch up our quarter four, subject to uncertainty of GST in quarter four. So if you look at H1 FY17, the market growth has been in line with what we expected, about 11% to 12% and our growth was in line with what we expected. Whenever this entire external situation settles down, we expect the market to remain more or less on the same growth lines as of now. But like I said, we will access and review this position over the next few weeks. And if there is any insight that we gather, probably we will come back and share.

Renjith Sivaram: And Sir, how about VRF? How much is the growth in the VRF segment and what kind of markets shares do we have there?

Neeraj Basur: VRF market grew by around 12% in this quarter and our growth was also pretty much in line. We grew in fact a little bit better than that. Overall, Blue Star's market share in VRF ranges from 12% to 13%.

Renjith Sivaram: And is ducted seeing a de-growth?

Neeraj Basur: Ducted is not seeing a good growth, ducted is more or less constant where it was.

Renjith Sivaram: And Sir, in this order intake, were there any metro projects, any bulky projects which was booked?

Neeraj Basur: No, in this current quarter there was no metro project. I talked about few other projects which were largely the hospitals and some retail space.

Renjith Sivaram: So overall we expect this order intake run rate to continue for the next couple of quarters also, looking into the situation? And when do you expect the major metro projects to be finalized?

Neeraj Basur: We expect the overall growth in the order book to continue at the same rate as we have been doing so far. We expect the metro projects to take shape over the next six to nine months or about a year

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

Anupam Gupta: The first question which I have is on GST. If I understand correctly, will the excise duty and income tax benefits which you have paid for manufacturing go away and you will get some scheme of refund from the state government directly if GST is implemented?

Neeraj Basur: So, is your question in the context of the Jammu?

Anupam Gupta: Yes, Jammu and the AP facility.

Neeraj Basur: AP facility will be planned later. So again, we are also awaiting clarifications on the exact rules on how the CGST or central excise equivalent benefit will flow to us. But Yes, our assumption at this stage is that this will be through a refund mechanism.

Anupam Gupta: But there should not be any loss of benefit just because of the change over, I believe whatever benefits you were assuming would that still happen?

Neeraj Basur: So Anupam, firstly we need to wait for exact clarity on which class would we fall into and then we need to wait for clarity on how the entire subsidy scheme is articulated for the state of Jammu & Kashmir. So it will be fair to wait and then probably we will quantify the exact impact.

Anupam Gupta: The second thing is on GST again. So let's say if in coming April, how do you plan to manage the transition? Would you need to liquidate your entire existing inventory, because normally you build up inventory by the end of fourth quarter?

Neeraj Basur: There is frankly not clarity on the transition position at all at this point in time. So, that is the reason I was making this comment that in quarter four we will need to brace ourselves for a GST transition as well. My sense is, we need to just wait for how the entire transfer credit mechanism into 1st April flows from sold-unsold stock whether with us or whether with the dealers, because there will be a number of scenarios which will need to be taken into account: stock that we have paid excise for, is unsold, in our factory or warehouse, there will be stock which we have sold to the dealer but is unsold with them, how does that gets taken care of and then stock in transit to the extent. So, I guess again we will need to wait for some specific and there is lot of representations being made for the industry bodies etc on how this can be smooth and as seamless as possible. Whether there will be any leakage or whether it will be absolutely clear, we do not know and we will have to just wait for a little while longer to see what exactly these regulations say.

Anupam Gupta: Just a last question, if I look at your cooling product numbers, your standalone revenue growth is 19% and your consolidated growth is 17.5%. So what is the difference between standalone and consolidated which is resulting in a lower growth? Is it because of exports or what part is sitting there?

Neeraj Basur: The reason for the same is that we have some inter-company revenue which gets eliminated and as a result of that elimination in revenue recognition is different in the consolidated accounts.

Moderator: Thank you. We have the next question from the line of Nitin Arora from Aviva Life. Please go ahead.

Nitin Arora: Sir, you explained to us this cash issue with respect to sales in the consumer finance part and stuff like that. I understand that it is difficult for you to give the visibility on this part. But generally what is a plan for an AC company if these things comes in and hurts you? Because Q3 definitely, as you highlighted, is going to be impactful and Q4 also can be impactful. I am just trying to understand that what generally a company can do because normally a product like us sales through channel financing and cash, so the buying power still remains with the end consumer. So generally wanted to know what a company can do in order to offset it?

Neeraj Basur: See, Nitin, as I had mentioned, these are important statistics to be kept in mind. 75% of our consumers are first time buyers and they are buying on a genuine need. It is not that they have some illegitimate source of cash to invest that they go and buy an AC that is a pretty high number. So for them to channelize the purchasing transaction, either through cash or through credit card or credit mechanism, it is something which will take a little while to settle down. That is why we are not yet concluding anything or we are not coming to any assessment at this point in time. While this entire currency shift is going on, of course, there could be some impact which is quite likely. And that is why when we said that by the time quarter three comes there could be same time, by the same time since we are talking about genuine new buyers who are fairly large in proportion. It should settle down that is our expectation, not requiring us to undertake a major shift in any of our distribution strategy. But like I said, I want to qualify this by saying that we need to just wait for a little while longer to understand exactly what the market reaction will be, more from a distributor and the end user and consumer's point of view.

Nitin Arora: Alright Sir. This question has been asked by a previous speaker, just few clarifications on that. Sir, let's assume a date when the GST gets enrolled, let's say March 31st next year. How does the inventory work for you then? So is it December end we are going to completely come with a new inventory or it is going to happen out because generally we do it at Q4, regarding the inventory part.

Neeraj Basur: So, I do not think we will come up with a new inventory end of December just because of GST. We are not dislodging or disturbing any of our next season's plans. That will go on in line with our overall plans for next summer season in terms of product range, product mix, etc and we will pretty much be on track with that. Now, the limited point is that these cut out or transfer out after assuming 31st March, 1st April or last week of March - first week of April is where some of this transition impact would happen or could happen. Now, we will need to just wait for some more clarity on transition provision as to how the stock which has already been produced by us by 31st March which has already been taxed and stock which has been sold by us but unsold by the distributor which has also been taxed, how does that tax outflow gets resold from the unsold stock. I guess that is the part we need to understand better and then frame our logistic family around it probably in the month of March or fortnight of March, first fortnight of April, that is how we are going about it. But it is unlikely that we will change our entire sales strategy because of this GST transition.

Nitin Arora: We understand that because of demonetization Q3 is going to be impacted. Do you see a chance where all the AC companies start discounting their products very heavily in order to retain, not market share but the sales?

Neeraj Basur: We have maintained our view in the past as well. As an organization we would want to maintain the margins, we want to grow. When it comes to choice between growth, market share and margins we would focus more on measures which do not erode our margins. We have that clear focus.

Nitin Arora: How do we stand with regards to our strategy to gain market share in the North?

Neeraj Basur: Again, it is not just North. Our overall focus is consistent expansion of channel across various touch points. We have the network and also the product portfolio. So, across these three or a combination of these three, including North is how we are planning to grow.

Moderator: Thank you. We have the next question from the line of Hiren Dasani from Goldman Sachs. Please go ahead.

Hiren Dasani: Sir, just one question. In a normal quarter where the festive season is there, when I say normal quarter I mean when there is no disruption like demonetization. How much of the retail sales typically happen in the festive days? Is it 70% - 80% or on the lower side?

Neeraj Basur: I don't think I have this kind of data point. Our experience is that quarter three tends to be the festival quarter typically. In build up to the festival season typically, last month of the previous quarter witnesses some uptake. Similar to that previous experience, this year also we did see some good movement in sales in the month of September, because October was a festival month. But frankly, we have not done this cut around whether in that month how much uptake happens because of the festivals.

Hiren Dasani: The point I was trying to make here is that, for you, right from your point of sale sale to your distributors and the channel, the whole demonetization move has happened after the festive season is over, right?

Neeraj Basur: Yes.

Hiren Dasani: Would it be fair to assume that bulk of the retail sale in this quarter would have anyway been done in the festive season?

Neeraj Basur: The festival month is over and to that extent the additional boost that we would normally get every year has mostly been realized. The month of November and December generally tend to be normal.

Hiren Dasani: Have you disclosed what kind of growth you have seen in the festive season this year?

Neeraj Basur: No, not yet, we have not spoken about that.

Moderator: Thank you We have the next question from the line of Pavan Parakh from HDFC Securities. Please go ahead.

Pavan Parakh: Sir, I wanted to understand your current tax structure at various key facilities and what percentage would be imports? Also what are the import duties here?

Neeraj Basur: So you want the current tax structure for…?

Pavan Parakh: Indirect tax structure, excise and VAT.

Neeraj Basur: Are you talking about room air conditioning products?

Pavan Parakh: Yes Sir.

Neeraj Basur: As far as the excise duties are concerned, you are aware that excise gets levied on the assessable value which is after the remission. That roughly is about 35%. After factoring in that 35% of excisable, 12.5% is the excise duty cost and after we factor in that remission it comes to around 8% odd. Then on an average, depending on which state you are talking about, the average VAT works out to 14% - 14.5%. Then there are various states where local octroi, etc is also applicable. That is how it adds up to some 23% to 24% overall.

Pavan Parakh: And on the import side, what would be that content and what are the duties there?

Neeraj Basur: The content is in terms of the import of components. It is an input cost for us and we get an input credit on CBT.

Pavan Parakh: And basic custom duty would be 5%?

Neeraj Basur: Yes, that is 5%. Since it is a raw material component for us, in terms of the overall cost structure it already gets factored in.

Pavan Parakh: And CBT would be what percentage, it is same as excise, right?

Neeraj Basur: CBT is same, 12.5%.

Moderator: Thank you. We have the next question from the line of Renjith Sivaram from Antique Stock. Please go ahead.

Renjith Sivaram: Sir, sorry to harp upon this, there has been a lot of discussion whether ACs will be put in the 28% bucket in the GST category, if that is the case then because of that there can be an increase in our MRP. Will there be pre-buying because of that and can see a good ramp up in Q4? I think post that demand will be muted, is the understanding right?

Neeraj Basur: Ranjit, I guess the previous question from Pawan was also on similar lines. We do not have the calculation yet but assuming it is going to be 28%, we will probably see a 2% to 3% price impact for the end consumer. Now, if that happens, whether there will be an uptake in quarter four and some impact on quarter one next year, entirely possible. But also like I said in the earlier response, the transition provisions are not clear yet, we will need to wait for all the clarity for us to understand the potential impact in quarter four and quarter one. Short answer to your question is, if it is 28% then probably 2% to 3% net impact is what we at this stage expect.

Renjith Sivaram: And when is the next table change planned for ACs?

Neeraj Basur: It will be in 2018 January.

Renjith Sivaram: Sir wanted to know about the margins in EMP segment, last quarter we mentioned that there is a change in the margin recognition, is that the reason the margins in EMP segment have not improved as per the expectation? Will Q4 be a quarter where we can see a huge improvement in the EMP segment margins?

Neeraj Basur: If you see on a year-to-date basis, we are more or less in line with where we were last year as far as the segment margins are concerned. Last quarter we said that for the full year we expect the margins to settle down at the levels of 5.5% to 6%. There is an improvement in the quarter which is visible in terms of net margins.

Renjith Sivaram: Sir, you mentioned that in Q4 or when the projects complete is when you will take the full benefit of the margin improvement as you want to give adequate provisioning for delays. In that sense, is it right in our understanding that Q4 is the quarter when most of the projects get completed? Will we see an improvement in margins because of this closure of projects and will most of the provisioning get back?

Neeraj Basur: I want to clarify that, it is not that most of our projects close in quarter four, projects continue to close every quarter. In quarter two some projects have come to an end or would have come to an end. We follow the consistent practice of completing the accounting of the margins in the quarter in which the projects close. We do not feel that quarter four would be anything different from quarter two. The point that I am trying to make here is that the consistency of this recognition is now established quite well.

Renjith Sivaram: will it possible for you to give the breakup of the current order book in terms of the segment?

Neeraj Basur: Ranjit, we generally share this breakup in the last quarter and we will stay consistent with that practice. I guess that is what we have been maintaining consistently.

Renjith Sivaram: Okay, Sir. Thank you.

Renjith Sivaram: Just on that, is it like we are supplying something to our subsidiaries and it gets accounted as inventory in that subsidiary, is it something similar to that?

Neeraj Basur: If you remember we have a division which is now a part of our 100% subsidiary. These are revenue transactions between them and Blue Star. Not a very large number, just about one crores or two crores every quarter, something like that.

Moderator: Thank you. We have the next question from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad: Sir, I missed two data points, one was on the cash component you had mentioned numbers, if you could repeat those?

Neeraj Basur: This is in relation with which data point Chirag?

Chirag Setalvad: You had mentioned the percentage sales by cash by dealers, if you could just repeat those numbers.

Neeraj Basur: This is just an estimate; we do not have exact data. Our own sense or estimate is about 30% of the end sale by a distributor in Tier-I and Tier-II towns will be through cash. Tier-III, Tier-IV, Tier-V could be about 50%.

Chirag Setalvad: Sorry, I also missed the growth numbers in room ACs for yourself and for the industry?

Neeraj Basur: We have grown by 21%, market grew by 11%.

Moderator: Thank you. We have the next question from the line of Abhineet Anand from SBI Cap Securities. Please go ahead.

Abhineet Anand: What is the margin guidance for EMP segment that we are holding presently for F17

Neeraj Basur: Net margins in the Segment-I, we expect it to be in the range of 5% to 6% for the full financial year.

Abhineet Anand: That is PBIT, right?

Neeraj Basur: Yes.

Abhineet Anand: And in terms of tax rate for 2017 and 2018, what is the number one could look for?

Neeraj Basur: For FY17 I just shared our financial year projection which was about 23%, we are almost around that. We have not yet formed FY18 projection.

Abhineet Anand: Last bit on this other income, for the last two quarters it is slightly higher and the reasons have been mentioned as interest, dividend income and also interest on the tax refunds. Can you throw some light on what is the breakup in terms of, say for H1 if you can give that, it will be better because…

Neeraj Basur: Most of it is a one-off.

Abhineet Anand: In H1 we have around Rs. 20 crores of other income, how much is interest on the tax income? I assume it should be one-off?

Neeraj Basur: We will share those numbers separately with you, but like we have mentioned, most of this is interest on income tax refunds. In quarter one; we were having with us the investment corpus which was transferred to Blue Star on sale of or merger of Blue Star Infotech. We had some investment income for a brief period of time. It is a mix of three or four things; we will separately share that with everyone along with the breakup.

Abhineet Anand: Broadly 50% of that would be recurring?

Neeraj Basur: I would say not more than 20% will be recurring.

Abhineet Anand: So out of Rs. 20 crores you are saying Rs. four crores would be recurring?

Neeraj Basur: Rs. five crores to Rs. six crores might be recurring per quarter.

Abhineet Anand: For each quarter you are saying?

Neeraj Basur: Yes.

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

Anupam Gupta: On the cash thing again, do you expect some increase in the working capital because you may need to support your channel partners till the overall cash cycle stabilizes?

Neeraj Basur: Anupam, like I submitted a short while ago, we are just on day three of this entire transition, it is too early for us to make any comment either way. We do not know how the market forces will stabilize and play out. Directionally, there could be some impact in Q3 which we do not know yet, but we expect that to settle down by Q4.

Anupam Gupta: Second thing on EESL, have you seen any movement on EESL procurement of ACs in the last couple of quarters?

Neeraj Basur: Well, we have not seen much movement there. As far as the EESL status is concerned, we have not participated in any tender yet because the commercial conditions which were communicated were not so favorable and the process of payment realization was fairly complex. Having said that, we are now engaging quite actively with EESL as well, we are trying to work with them to make it less complex and more attractive for clients such as ourselves. There is an industry association which is also working with EESL and driving these discussions with them. We are waiting and watching from the sidelines, that is how I would summarize it.

Moderator: Thank you. We have the next question from the line of Abhineet Anand from SBI Cap Securities. Please go ahead.

Abhineet Anand: What is the CAPEX till date in this year and what is the plan for the full year?

Neeraj Basur: This year in all we have spent around Rs. 50 crores CAPEX which includes the cost of land that we have acquired for two new manufacturing plants.

Abhineet Anand: And these two are going to be commissioned over the next 12 to 18 months?

Neeraj Basur: Not both of them, we plan to setup the Jammu facility first, only when the commissioning of the Jammu facility gets over; is when we intend to start working on our Andhra Pradesh manufacturing facility.

Abhineet Anand: So for 2017 and 2018 what would be the CAPEX, a broad number?

Neeraj Basur: That we have not yet finalized.

Abhineet Anand: But the two plants will incur how much of capital cost?

Neeraj Basur: We have already shared that, our expectation is about Rs. 220 crores of spend between the two plants. We have not spent much yet, barring the cost of land as I mentioned.

Moderator: Thank you. That was our last question, I now hand the conference over to the management for their closing comments.

Neeraj Basur: Thank you very much, Ladies and Gentlemen. With this, we conclude this quarter's earnings call. Do 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 details by email 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. You may now disconnect your lines.