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<b>BSE Ltd.</b> Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001  <b>BSE Scrip Code: 500067</b>	<b>National Stock Exchange of India Ltd.</b> Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051  <b>NSE Symbol : BLUESTARCO</b>
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August 16, 2019

Dear Sirs,

**Sub: Earning Call Transcript – Q1FY20**

With reference to our letter dated August 9, 2019, and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q1FY20 Financial Results of the Company.

The aforesaid information is also being made available on the website of the Company [www.bluestarindia.com](http://www.bluestarindia.com)

Thanking you,  
Yours faithfully,  
For **Blue Star Limited**



**Vijay Devadiga**  
Company Secretary



Encl: a/a

Z:\01\Blue Star Limited\2019-20\Stock Exchange Compliances\Regulation 30 - Information and Updates\Earnings Transcript\Q1\Letter to Exchanges Q1FY20



Blue Star Limited  
Q1 FY20 Earnings Conference Call

August 14, 2019



**MANAGEMENT: MR. NEERAJ BASUR: GROUP CHIEF FINANCIAL OFFICER**

**Moderator:** Good morning, ladies and gentlemen. Welcome to the Blue Star Limited Q1 FY20 Earnings Conference Call. We have with us today from the management Mr. Neeraj Basur, Group CFO. 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, 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. Neeraj Basur. Thank you and over to you Sir!

**Neeraj Basur:** Thank you. Good morning ladies and gentlemen. This is Neeraj Basur. I will be providing you an overview of the results of Blue Star Limited for the quarter and the year ended June 30, 2019.

Financial highlights for the company for the quarter ended June 30, 2019 on a consolidated basis are as follows:

-Revenue from operations for Q1FY20 was Rs 1575.45 cr, as compared to Rs 1507.83 cr in Q1FY19, a growth of 4.5%.

-EBIDTA (excluding other income and finance income) for Q1FY20 was Rs 114.85 cr as compared to Rs 136.66 cr in Q1FY19.

-PBT before exceptional items was Rs 107.96 cr in Q1FY20 as compared to Rs 111.83 cr in Q1FY19.

-Other Income (including finance income) for Q1FY20 was Rs 21.66 crores compared to Rs 3.34 crores in Q1FY19. Other income in Q1FY20 was higher on account of receipt of an industrial promotion subsidy for the manufacturing facility at Wada.

-Finance Cost for the quarter decreased to Rs 8.23 crores from Rs 12.10 crores in Q1FY19 due to effective management of working capital and consequently lower borrowings in Q1FY20.

-There was an exceptional income of Rs 15.18 cr in Q1FY19 on sale of a property. There was no such exceptional income in Q1FY20.

-Tax expense for Q1FY20 was Rs 32.52 cr as compared to Rs 32.50 cr in Q1FY19.

-Net profit for Q1FY20 was Rs 76.84 cr compared to Rs 91.58 cr in Q1FY19.

-Carry-forward order book as at June 30, 2019 was Rs 2841.10 cr as compared to Rs 2121.60 cr as at June 30, 2018, an increase of 33.9%.

-Effective Working Capital Management enabled a significant reduction in our Capital employed to Rs 949.20 cr as on June 30, 2019 from Rs 1301.29 cr as on June 30, 2018.

-Consequently, there was a net positive cash balance of Rs 0.74 cr as on June 30, 2019 compared to a net borrowing of Rs 403.48 cr as on June 30, 2018 (debt-equity ratio of 0.5 as on June 30, 2018).

Business highlights for Q1 FY2020.

Segment I: Electro-Mechanical Projects and Commercial Air Conditioning Systems: Segment I revenue was Rs 623.94 cr in Q1FY20 as compared to Rs 619.36 cr in Q1FY19, a modest growth of 0.7%. Segment result was Rs 33.53 cr (5.4%) in Q1FY20 as against Rs 39.70 cr (6.4%) in Q1FY19. Given the current liquidity situation in the market, our intention is to contain the capital employed. This has resulted in slower job execution in Q1FY20 despite a healthy order book. However, in certain segments job closures and cash flow are encouraging. Further, order inflow during the quarter was higher by 55% at Rs 966.90 cr as compared to an inflow of Rs 622.83 cr in Q1FY19.

#### 1. Electro-Mechanical Projects business

During the quarter, we won our largest Tunnel Ventilation System (TVS) and Environmental Control System (ECS) contract from Mumbai Metro Rail Corporation (MMRCL), valued at Rs 253 cr. Order inflows from factory and office spaces segments also grew at a steady pace during the period.

We continued to maintain our leadership in the Electro Mechanical space in India. Some other major orders won during Q1FY20 are for MEP projects pertaining to Chennai Airport, India International Convention Centre (Dwarka), Embassy Group (Bangalore & Chennai), CEAT Ltd (Nagpur), DLF (Gurgaon & Secunderabad) and JSW Steel Ltd (Raigad).

Carried forward order book of the Electro Mechanical Projects business was Rs 2013 cr as on June 30, 2019 as compared to Rs 1447 cr as on June 30, 2018, an increase of 39%.

#### 2. Commercial air-conditioning systems

We continued to focus on developing our innovative product portfolio and rapid channel expansion. We also introduced new products in the market across all categories.

Key segments that contributed to billing in Q1FY20 were Industrial, Hospitals, Builders and Educational Institutions.

Major orders bagged in Q1FY20 were from JSW Steel Ltd (Bellary), National Thermal Power Corporation (Gurgaon), Director General of Naval Purchase (Visakhapatnam) and ISRO (Chennai).

### 3. International Business

We continued to focus on market consolidation and growth in the markets of Middle East, Africa and SAARC countries with revisions in the product standards and certifications, and through enhanced distribution reach. During the quarter, we witnessed steady order inflows in key markets, with adoption of eco-friendly refrigerants, as an option to the customers. Demand for Inverter Room Air conditioners also increased during the quarter.

Our international projects executed through the Joint Ventures at Qatar and Malaysia continued to do well.

We continue to invest in strengthening our brand in selected international markets. Though the demand in UAE appears to be slowing down, the enquiry pipeline related to EXPO 2020 projects is healthy. The overall business outlook remains positive.

### Segment II: Unitary Products.

Segment II revenue was Rs 906.89 cr in Q1FY20 as compared to Rs 830.76 cr in Q1FY19, a growth of 9.2%. Segment result was Rs 98.91 cr (10.9%) in Q1FY20 as compared to Rs 95.01 cr (11.4%) in Q1FY19.

#### 1. Room Air-conditioner business:

The summer was delayed, but in the short window it was intense across most parts of the country. Aided by this, the Room air-conditioners business achieved a growth of 25% compared to the market growth of 22% and improved our market share to 12.5% in Q1FY20 (Q1FY19 - 11.7%). However, the demand was for Fixed Speed 2 and 3-Star models rather than 5-Star Inverter models resulting in comparatively lower price realisation and therefore, margins. Moreover, due to the late onset of summer, unlike last year, advertising expenses peaked in Q1. We expanded the product portfolio and introduced new competitively priced inverter split AC models while retaining the premium features.

#### 2. Commercial Refrigeration business:

Our commercial refrigeration products had witnessed strong growth during the preceding two sequential quarters driven by growth in the processed foods, ice cream, e-tailing and dairy sectors. In fact, the business peaked in the month of March 2019. During the current

quarter, we focused on enhancement of our product portfolio in preparation for migration to the new age non-ozone depleting range of products. Accordingly, we prioritized liquidation of existing inventory and the current quarter's revenues were subdued and moderated. However, we continued with our leadership position during the quarter and bagged orders from some major Ice cream players like Amul, Havmore, Hatsun and Hangyo during the quarter. Our new product categories of Commercial Kitchen Refrigeration, Medical Refrigeration and Supermarket Refrigeration gained traction in the market. We are the market leaders in our major product categories such as of Deep Freezers, Storage water coolers and Cold rooms and expect the growth trajectory to pick up soon.

### 3. Water Purifier business:

The integration of Water Purifiers business with the Room Air conditioners business was completed and new range of products was launched for the forthcoming season. Both the businesses are complementary in nature in terms of seasonality. Further, the overall cost structure has come down due to the reorganization.

### Segment III: Professional Electronics and Industrial System:

Segment III revenue was Rs 44.62 cr in Q1FY20 as compared to Rs 57.71 cr in Q1FY19. Segment result was to Rs 4.42 cr (9.9%) in Q1FY20 as compared to Rs 8.28 cr (14.3%) in Q1FY19 due to lower billing in Q1FY20. The results are not comparable since there was a one-time revenue from supply of CT scanners to the Government of Uttar Pradesh in Q1FY19.

Our focus is on customized and automated solutions across industries, with wider range of applications. Revenue from the Non-Destructive Testing Systems business improved from multiple high-value orders. The Data Security business performed well on the back of digitization initiatives of the financial sector. Growth potential of the Indian digital payment sector and rising focus of enterprises on data security create a huge opportunity for Data security business, which we are hopeful will pan out in the subsequent quarters. Spending in the healthcare sector was muted, however post-elections we expect growth in orders from both public and private buyers.

During the quarter, large orders were received from Jindal Saw Limited, Tata Steel Limited, Orange Business Services India, Vedanta Limited, Wheels India Limited, HDFC Bank Limited, Bhabha Atomic Research Centre and MasterCard Technology Private Limited.

**III. Business Outlook:**

The macro-economic conditions are weak and there are visible symptoms of slow-down in demand. Moreover, the demand for most of the product categories was for low-end products. Having said that, order inflow from select segments continue to be healthy and our pending order book is strong.

We will stay focused on driving revenue growth and profitability with a close watch on margins and capital employed.

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

With that, we are open for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Aditya Bhartia from Investec Capital. Please go ahead.

**Aditya Bhartia:** Good morning Sir. You spoke about subsidy received on Wada facility. I am just wondering if that forms part of segmental profits as well for the UCP segment?

**Neeraj Basur:** Wada subsidy is included in the other income of Rs 22 cr. The amount that we have received till date is around Rs 14 cr and that relates to largely segment I. Around 60% of the subsidy amount relates to segment I and the balance 40% to segment II.

**Aditya Bhartia:** That would be a part of the segmental profits that we have reported?

**Neeraj Basur:** That is correct.

**Aditya Bhartia:** I was trying to understand a bit more on the room AC growth that we have seen this quarter. I mean, our understanding was that the industry has grown at a pace of 25% to 30% and within that if I understood correctly you kind of referred about volume growth for Blue Star being around 25%. Is my understanding correct?

**Neeraj Basur:** I was referring to value growth; we always mention value growth.

**Aditya Bhartia:** That was value growth. Does that mean that commercial refrigeration business for the company has actually shrunk very, very sharply this quarter and given that we have new offerings in kitchen and medical, what has really contributed to that?

**Neeraj Basur:** This question will be there on the minds of other participants also. Therefore, let me address it upfront and for the benefit of everyone. As far as the room AC business is concerned, the summer started somewhat late. Normally the summer season starts around early March. This year the summer started actually well into April but when it started, it was quite intense and it was reasonably strong across various parts of the country which is in line with what we normally experience in Q1. Therefore, we also benefited with the intense spell of summer this year. Our assessment is that the primary market has grown by around 22% and our growth has been 25%. We have been able to reap the benefits of the summer season opportunity, adequately.

For most parts of last year and Q4 we were having inventory as one of a key challenge area. We had addressed the inventory issues by Q4 end, but we wanted to ensure that we should exit Q1 with fairly optimized inventory levels. As you would have seen, the overall capital employed for Segment II has shrunk quite significantly which has helped us wipe our borrowings out. The margin profile tended to be somewhat lower because the demand was not as much for high end products it was more for 2 and 3-Star rated fixed speed products where the margin tends to be lower than the higher end products.

We have had a fairly good run with our commercial products over now sequential three or four quarters starting Q1 last year. We did very well with commercial products sales in Q4 last year especially in the month of March and to some extent there was a cooling down effect of that in Q1 this year. We wanted to migrate majority of our product portfolio to a eco-friendlier, non-ozone depleting based refrigerants and therefore, before we ended Q1 for commercial products, we wanted to significantly liquidate the inventory of our old products before we started migrating to our new set of products. A combination of these reasons has resulted in an overall reduction in the growth for commercial products in Q1 to the tune of around 28% to 30% as compared to Q1 last year. However, as explained, our Room AC business made up for that de-growth giving us the blended growth of 9%. We are pretty much on track and in our usual trajectory of growth as far as room ACs are concerned. The added advantage which we will now have is because of the thin inventory base we will get into Q2, Q3, and Q4 on the normal business growth trajectory and our outlook for the market for the full year and our own growth prospects for the full year remains optimistic and quite encouraging.

**Aditya Bhartia:** That is helpful Sir. Thanks for the detailed response to that.

**Moderator:** Thank you. We will take our next question from the line of Renjith Shivram of ICICI Securities. Please go ahead.

**Renjith Shivram:** Just a follow up on the previous question. What we want to understand is that our cooling products have grown only 9% while one of our competitors had shown 45% growth. So you



have mentioned that your room ACs has grown by 25%. So, then what would have been the de growth in other segments so that the overall growth is only 9%, if you can help us understand the math?

**Neeraj Basur:**

The 45% that you are referring is the growth experience for secondary Room AC sales. The 25% growth that I spoke about is the growth in our primary sales. Our secondary sales will also be significantly higher than 25%. We know that through our channel checks and the kind of sales that has happened at the stores. The blended growth of 9% that you see in segment II comprises of around 25% growth in room ACs. About 70% of our Segment II revenue are from Room ACs and the remaining 30% is from our commercial range of products and others smaller product categories that we have.

The remaining 30% is where I had explained earlier, that we are switching over to a fairly different and superior product portfolio on our commercial range of products and on the back of a significant growth we had delivered last year, on a larger base this year quarter-on-quarter there is close to 30% de-growth. It was planned by us and intended that way because we wanted to make sure that by the time the commercial products get into the next selling season which starts close to end of Q3, beginning Q4, we should be able to capitalize on our market leadership further. We needed to have one quarter of transitioning as far as commercial products are concerned. Our focus on liquidity and inventory across the room ACs and commercial products also ensured that we are taking judicious calls in order to facilitate that product portfolio transition. That is broadly the explanation for a blended 9% growth.

**Renjith Shivram:**

What is the kind of market growth we are factoring for FY20 given last year also second quarter was very bad given the very weak Onam from Kerala, so now the Onam sales seems to be good because there has not been the kind of water logging which we had seen last year. So for the full year what kind of growth of the room ACs you are looking at?

**Neeraj Basur:**

Unfortunately for the second year in a row there have been floods in Kerala, of course the intensity of flooding is relatively lower as compared to what happened last year. How the Onam will play out still remains to be seen but we are optimistic about the festival season both in Q2 and Q3 this year as compared to Q2 and Q3 of last year. Our own assessment on Room ACs is that the year has started off very well and given the market growth of 20% plus in Q1, and for the full year the market should be able to log anywhere between 12% to 15% growth. We want to reach close to 13% plus market share from the 12.5% share now and have to grow faster than the market and that is exactly what we are targeting and planning for the remaining three quarters. We are optimistic that we should be able to meet those aspirations.

**Renjith Shivram:** What is the percentage of inverters in the current portfolio, because you told that 2-Star and 3-Star have sold more, so does that mean that inverter proportion has come down?

**Neeraj Basur:** As far as Q1 is concerned, the market share of inverters sales was around 60%. In our case we sold more of 2-and 3-Star fixed speed machines and our inverter share dipped a little bit to 52%. Our fixed speed share of sale was higher at 48% as compared to market share of fixed speed sale share of 40%.

**Moderator:** Thank you. Our next question is from the line of Nitin Arora of Axis Mutual Fund. Please go ahead.

**Nitin Arora:** Just one question on the margin, when we are assuming 40% of Wada subsidy is in the segmental EBIT of cooling products, so the margins turn out to be about 9.9% for that segment, and similar way the 3.6% for EMP.

**Neeraj Basur:** If you eliminate the one time Wada subsidy benefit, it will be around 10.5% for segment II and close to 4% for segment I.

**Nitin Arora:** So, just wanted your outlook in the sense on the margins because the way you guided us for in the previous analyst meet that there was a little down trading in terms of ACs that you sold in this season? I am saying the way you have guided us earlier also that there was a down trading in terms of ACs being sold in case of inverters, more of 2-3-Stars, we also saw your competitors selling more of windows rather than the inverters in this season, which led to the growth there, what is your outlook on margins? Do you think it is sustainable here or you think given that you started a very strong note in Q1, it seems like that we are going to increase it from here or rather sustain it. Just wanted your views on that?

**Neeraj Basur:** As far as the full year margin profile or margin expectation is concerned, I will use the expression, our expectation, at this point in time because the external environment is fairly volatile and we are maintaining a margin expectation of anywhere between 9.5% to 10% for Segment II for the full year. Water Purifiers which sits in our segment II is on a reducing trajectory of cost burn. That will start helping us now starting FY20 though we are still a few quarters away from water purifier business breaking even, but relative to last year where we had 160-basis points impact on our margins because of water purifier scale up, that impact is going to get reduced and that will start showing up on the margins and therefore we are expecting this 9.5% to 10% as the full year blended margin. **Nitin Arora:**

Just a follow up on the cooling products, so the commercials we saw a decline, I understand because the way you were growing in that market, I am asking very short-term, near term question, is that the bifurcation is going to remain same for the next one or two

quarters if the commercial is going to go down because of this transition which you have taken?

**Neeraj Basur:** We needed one quarter for our product transition there, as I explained earlier, and we did not want to disturb this product portfolio in Q4. We have been doing well and did not want to take any decisions which upset the entire selling momentum and that is why when in March 2019 we peaked as far as commercial products are concerned, we decided it is time to make this switch. We have already started to sell the new range of products. The commercial products also have a seasonality wherein Q2 typically the sales tend to taper down because the ice-cream manufacturers and the beverage suppliers would want to buy in summer and that gives us this window of opportunity to fully restock the markets with the new range of products. We will now use Q2 and Q3 to do that so that by the time Q3 sales momentum starts to pick up we should be back on the growth trajectory on commercial products as well. The split between the room ACs and the other products will remain in the 70:30 range for the full year.

**Nitin Arora:** Sir lastly on this unallocable, which has increased to Rs.175 cr from a negative to a positive Rs.175 cr is there some classification got changed from a cooling product coming down to unallocable, can you just explain that?

**Neeraj Basur:** As far as Reg 33 disclosure is concerned, borrowings need to be classified as unallocable liabilities. We had net borrowings of Rs.404 cr as of June 2018, net borrowings of Rs.250 cr as of March 31, 2019, which were getting grouped as part of unallocated liabilities. That is why the net capital employed is minus Rs 191.2 cr as of June 30, 2018 and minus Rs 80 cr as of March 2019. Since the borrowings have got paid off as on June 2019, and we are in a cash positive position as of June 2019, that explains the reason for the swing, primarily due to classification requirements. The net unallocated assets that you see now are primarily corporate assets such as our offices, our R&D assets and so on, which have always been there so there is no change as far as corporate assets values are concerned. It is really the swing in our borrowing performance, which has caused that line balance to swing. The true operating improvement is what you will see in the unitary products capital employed line, where we had Rs.505 cr of net capital employed as of June 2018, Rs.468 cr as of March 2019, which is now down to Rs.229 cr and hence provided us an ability to pay off the borrowing

**Nitin Arora:** Got it. Thank you very much. All the best. Thank you.

**Moderator:** Thank you. We will take our next question from the line of Nirav Vasa from Anand Rathi. Please go ahead.

**Nirav Vasa:** I have two questions pertaining to the UCP segment. First if you can just help me understand what is the kind of price hikes that we intend to undertake for the forthcoming season and second is what would be outlook for the tenders for procurement of room air conditioners from EESL in this year based on your understanding?

**Neeraj Basur:** We are unlikely to take a price hike for the remaining season. All of us are returning into a normal growth trajectory from a fairly lean three to four quarters and the competitive intensity is pretty high. While we have grown, few of our competitors have also done very well. Then there are also a few competitors who have de-grown and who might not have done that well and to that extent there is continued price competitiveness. We had taken price increases in Q3/Q4 last year, which we have carried through in Q1 this year. We are aware there are few other players who have actually might have taken some price cuts, but we are comfortable with the current levels of pricing. We will be 6% to 8% higher than our nearest competitors in line with what we have always been. We will have to wait till Q3 end to see how the market is going to evolve in Q4 because Q4 is when really everyone might take a view on what kind of pricing they want to have.

There was a second round of tendering on EESL, which we evaluated quite closely and we are still not comfortable with the commercial terms and conditions and the margin profile is extremely low and unviable from our perspective. We are aware that one of our close competitors has won an award of around 50000 units but unless it becomes commercially viable we would not be pursuing that. Based on our learnings from the first round of tendering, which happened 18 months ago or almost two years ago where there were several challenges both in terms of fulfillment, price realization and collections, we had decided to participate only if it is commercially viable. We may participate going forward depending on economic and commercial viability of the tender.

**Moderator:** Thank you. We will take our next question from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

**Naveen Trivedi:** One thing on the market growth, which we talked about is around 22% while Nielsen was saying that market has grown by around 36% last quarter. So why is there such a big difference between these two numbers?

**Neeraj Basur:** It depends on a key factor - are you looking at a secondary growth or primary growth. Secondary growth is indeed higher. The secondary growth, which is the end sale at the store level will be higher. This number of 22% that we are quoting is for the primary growth. In Q4 there was a significant stock buildup by all the players into the stores in the market. A lot of that has got liquidated and at the store level in Q1 and therefore, there will indeed be this of 35% to 40% to 45%, secondary sales, is high. We do not track secondary because our focus is always on primary. The other difference will be around the institutional sales, and some of these published reports will not be able to factor in the impact of institutional

sales, so it does not give a complete picture. That is the reason when we talk about market, market share and market growth, we are looking at primary because that is a more reliable way of measuring what has happened in the season in the market.

**Naveen Trivedi:** When you give a 12% to 15% growth guidance for this year that is the volume terms or in the value terms?

**Neeraj Basur:** It is value and is for primary sales.

**Naveen Trivedi:** Lastly, you talked about this year the price hike is unlikely, but just want to check is there any scope for tactical promotions control because we have seen the customs duty has also increased? Just wanted to know is there any chance where we can control those side of our expenses so that you can like EBIT margin even will be healthy in the coming quarters?

**Neeraj Basur:** When I said price increases may not happen immediately, I was referring to Q2 and Q3. Q4 pricing will get determined somewhere around December this year. To your question on customs duty on IDU the customs duty has increased from 10% to 20%. Blue Star has been focusing now for the last almost two years of in-housing the production of IDUs. We started that last year and this year that number will start growing for us. So, the impact of IDU customs duty increase will start getting mitigated partly for us due to manufacture of our own IDUs though not fully this year. That complete in-housing will happen probably over the next eight quarters or so, so there is part mitigation. At an opportune time, we will need to assess what kind of price increases may be necessitated to defray the customs duty increase, which we will do in our context. Of course players who are heavily dependent on full CBU import may have that challenge of price increases, but we will reassess somewhere in Q3 and then take these calls. For now, the impact is not significant because we have liquidated pretty much the inventory, which was built up when the customs duty was still 10% on IDUs, so we do not expect too much of significant EBITDA impact as far as this factor is concerned.

**Moderator:** Thank you. Our next question is from the line of Srinidhi Karlekar from HSBC. Please go ahead.

**Srinidhi Karlekar:** I want to understand the sensitivity of room AC product to USD-INR deprecation, so hypothetically on a portfolio basis I want to understand if say INR depreciates by 10% what sort of price hike is needed to ensure similar kind of level of profits per unit of air conditioner?

**Neeraj Basur:** We have an import content of about 40% to 50% in our overall material consumption that we have for our manufactured products. We follow a very active hedging practice and a policy as far as currency risk management is concerned so as soon as an exposure is

incurred we factor in cost of hedging in our standard cost. Thus, to a very large extent we are able to manage the volatility. If the Rupee is going to move from the levels of 70 to 71 or 72 since we are following an active hedging approach any purchases that are made in the intervening period are pretty much kept hedged so that the impact does not trickle down on the margins, but clearly as of now the good thing is that for the last five quarters or four quarters the Rupee has been relatively stable as compared to what it was last year when the depreciation was indeed very, very sharp at 14% between April and October. If that kind of a depreciation happens then for sure a price change is necessitated, which we did into Q3, last year. We generally do not take a pricing revision decision very frequently on account of the INR and USD exchange rate changes because we are keeping ourselves sufficiently hedged for the intervening period so to that extent you will not see a very volatile price impact due to the currency.

**Srinidhi Karlekar:** Just a follow up, you said 40% to 50% is import content right, but there are a lot of administration cost and then there is nonvariable cost so effectively say for 10% depreciation effectively the product prices need to hike by maybe say 3% to 4% is that ballpark right understanding?

**Neeraj Basur:** That is a little bit of a hypothetical. We do not expect the Rupee to depreciate 10% each year.

**Srinidhi Karlekar:** I understand. We also do not expect. We just want to understand the risk part of it.

**Neeraj Basur:** When rupee indeed depreciated by 14% in the first half of FY19, we ended up taking a 3% to 5% price increase, so pretty much all this boils down to is what is the appetite to absorb the intervening impact in the currency changes. We normally do not expect the rupee to be volatile by more than 2% to 3% a year. When we do our pricing we take an assumption that Rupee will keep depreciating to the extent of about 3% a year. Anything significantly more than that we have no choice, but to come back and do a repricing else the margins will get compressed.

**Moderator:** Thank you. We will take our next question from the line of Pankaj Bobade from Axis Capital. Please go ahead.

**Pankaj Bobade:** I have a couple of questions. First thing, you mentioned that you have 12.5% market share so what is the total size of the industry and how do you see this industry panning out in the next three to four years? Secondly, Q1 and Q4 being the peak season just wanted to understand if you have analyzed how is the demand breakup from rural side, urban side and have we seen increasing penetration in rural side given that the purchasing power is increasing and thirdly how much of our sales are produced in house and how much of that outsourced?

- Neeraj Basur:** Our sense is that the market size is anywhere in the range of Rs.11,000 cr to Rs.12,000 cr.
- Pankaj Bobade:** I wanted to ask the volume number?
- Neeraj Basur:** Annual volumes should be in the range of 55 lakhs to 60 lakhs units translating into the Rs 12000 cr of market size value. Most of this demand is from Tier 2, 3, 4 or Tier 5, so it is not strictly rural, but definitely upcoming cities, towns, which are coming up on consumption. We see an uptake of demand. The penetration levels are reasonably good as far as metros are concerned. So we expect the same trends to continue because the overall penetration continues to be in the range of 5% as per our own assessment. As far as our own manufactured versus trading is concerned, we manufacture close to 60% of what we sell and remaining 40% comprises of what we procure from contract manufacturers within India, what we buy out as fully built CBUs which are imported, so it is a mix of both, but broadly our own manufactured to trade has remained 40% and once our IDU manufacturing starts to increase further, this 60% will become close to 65% or 70% over the next six to eight quarters. We are slowly ramping up our own manufacture base, but at the same time keeping options open of procuring from within India through OEM contract manufacturers limiting or restricting the need to import as much as feasible as far as fully built products are concerned.
- Moderator:** Thank you. Our next question is from the line of Prashant Kutty from Sundaram Mutual Fund. Please go ahead.
- Prashant Kutty:** In terms of the projects business you said that the Wada subsidiary, the margin will be something like 4%, if you look at the trajectory for the projects business for the last three quarters has been coming off a bit. I think when you started the year 2019 you did about 6%, 7% and even 5.5% was clocked. Anything you would like to probably call out specifically over here as to why the margins are probably returning to be under pressure despite the ordering activities being reasonably good?
- Neeraj Basur:** Let me explain what has happened in Segment one. we are all aware of the ongoing liquidity pressures and stress, which a number of industry sectors are facing. As far as our projects business is concerned quite a few of our non-government customers do get impacted by the ongoing volatile liquidity and current banking and NBFC related stress. So we have been cautious. While we are aware that it is a temporary situation and probably in the next one or two quarters things will ease out, the money supply will improve, credit flow will improve and customers will be able to pay up faster. Our entire project execution and hence billing was consciously tapered down to make sure whatever we bill, we are also able to collect. As a consequence, we have decided to have our balance sheet strength take precedence over P&L as far as this quarter is concerned. Structurally nothing wrong. We got one big order as well, so it is quite healthy as far as our pending orders are concerned. It

is only that we are taking a conscious call to align or realign the pace of execution with the ongoing current external market realities, sine we do not want a situation where we accelerate growth or we keep executing at a pace where the customers are unable to pay up, which would only cause a collectable stress and associated pressures after few quarters we have always had those one off quarters where few better profit making jobs got closed and hence in that quarter we have reported 6% plus margins. but there will be quarters where the margins will fall up to 4% or so. Our annual visibility at this stage for Segment one is that we should get back to 5% to 5.5% margin profile for the full year notwithstanding the current liquidity pressures, but with the caveat that should the external market turn further volatile or if the pressures only increase we will definitely take a very cautious view on the scale and pace of how fast we should be executing and we do not want our balance sheet to come under stress, in fact probably we will be amongst few companies, which have turned completely debt free in this market and we do not want to give up on that balance sheet position of strength. We firmly believe that in this current external market, having a stronger balance sheet is in the right direction, so in that context we will continue with this approach. We want to and continue to grow, but at the same time we will be watching what is going on with our customers very, very carefully. Hopefully by end of this calendar year things will settle down and then we will come back on this trajectory of 5% to 5.5%.

**Prashant Kutty:** The only intent was just to know whether new orders probably getting booked at lower margins or so?

**Neeraj Basur:** That is not the reason. The order pipeline is healthy and the value is quite encouraging, so it is only a question of aligning or calibrating the scale and speed of execution which we are carefully doing at this point in time.

**Prashant Kutty:** Second question is on the room AC side of the business, just a clarification in fact you said that 9.5% is the mark, this is including the water purifier business?

**Neeraj Basur:** It is including water purifier. We always talk segment level margins.

**Moderator:** Thank you. Our next question is from the line of Ajinkya Bhatt from Macquarie. Please go ahead.

**Ajinkya Bhatt:** I had one question with respect to the commercial products part of your UCP segment you mentioned that you have liquidated the inventory of your old products and have started selling the new range of products, so can you elaborate, are you charging any price premium to this new range of products, how will be the outlook for volumes as well as margins because of this new range?



- Neeraj Basur:** There is not too much of a price change as far as the entire product portfolio pricing, in fact it is a little bit of additional value and kind of differentiators we want to position. This category has pleasantly surprised us with encouraging response and growth in the last one year. While traditionally we have been selling a lot of these products through our OEM customers and through the more organized dealers it is the retail trade format where these products are getting positioned now. We have rejigged the entire product portfolio to add more products to our entire portfolio, which meet the needs of probably a smaller kirana store format also. We have also undertaken product portfolio rejig because we wanted to make sure that our products use eco- friendly refrigerants but are also lower on power consumption. That was the differentiated value to our customers and you will also be aware that we do have quite a few unorganized players in this market and for us to stay differentiated and stay ahead in the game we decided to undergo product portfolio changes. We have taken a call not to tamper too much with pricing, we will make some minor adjustments on a blended basis, but we will try and do it in a manner where we stay price competitive yet product comprehensive as far as our offerings are concerned.
- Ajinkya Bhatt:** Have our competitors also moved to these ozone friendly refrigerant as far as commercial cooling and chilling products are concerned, is that why you may not actually be able to charge a premium for the value that you are offering to the customers or is it a conscious decision on the company's part in order to may be grow year penetration in the market or to grow the market in the smaller kirana stores and such establishments?
- Neeraj Basur:** We are market leaders and we are leading the market here as far as these technological advancements are concerned, but we are sure competitors will follow. We want to maintain the lead position.
- Moderator:** Thank you. Our next question is from the line of Jayakanth Kasthuri from Way2Wealth. Please go ahead.
- Jayakanth Kasthuri:** In terms of your UCP segment you said that the advertising spend was high, can you quantify number in comparison advertising spend to sales for this quarter and Q1 FY2019?
- Neeraj Basur:** The context is that we had grown from a poor summer led offtake so we had taken a conscious call last year in Q1 last year to clamp down on all discretionary spending and advertising tends to be a key item on the list, so we clamped down on advertising spend last year. Another factor which we need to keep in mind is usually in Q4 the advertising spends starts and spills into Q1 of next year. Whereas this year the summers started towards middle and end of March and went on to be stronger in April and May, so a lot of advertising has flown into Q1 this year relative to last year, the delta value will be approximately around Rs 18 cr.

- Moderator:** Thank you. Our next question is a followup from the line of Ranjit Shivram of ICICI Securities. Please go ahead.
- Ranjit Shivram:** We also have good order book, so in that sense the project you are very conscious on the liquidity front, but given this order book what kind of growth we can expect from the project segment for this year?
- Neeraj Basur:** Let me clarify this remark in the comments I made about being cautious is in the context of private sector order. Our order book also comprises of orders from government companies directly from government, for example Mumbai metro will not be in that category, so on a blended basis we will continue to execute orders based on which customer category we are looking at. Our own sense is that we should be able to achieve a 12% plus kind of growth rate as far as the entire segment is concerned, but again the caveat and the caution being that the external market we are sensitive and we do not see ourselves being aggressive in terms of taking those risky calls of executing where the customer is unable to pay. So it is a wait and watch or watch and then execute kind of approach. Still we expect around 12% odd because of the mix of order book that we have.
- Ranjit Shivram:** With around 5% to 6% margin range?
- Neeraj Basur:** I had indicated 5% to 5.5%, which is a more realistic aspiration to have. It is not a guidance, so I keep remaining everyone we just give our aspirational views.
- Ranjit Shivram:** Sir any indication regarding table change because I think this January would not be possible, but do we expect any table change in the next year?
- Neeraj Basur:** Table change is happening from January 21, 2021, so nothing is going to happen in 2020.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Mr. Basur for closing comments. Over to you Sir!
- Neeraj Basur:** Thank you very much ladies and gentlemen. With this we conclude this quarter's earning 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 e-mail.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Blue Star Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.