



Blue Star Annual Earnings Conference Call

May 18, 2010

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SPECIAL PROJECTS, BLUE STAR LTD**
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Moderator Good morning and welcome to the Blue Star Annual Earnings Conference Call. Joining us on the call today are Mr. Advani – President Corporate Affairs and Special Projects and Mr. B. Thiagarajan – President Air Conditioning and Refrigeration Products Group. As a reminder for the duration of this presentation all participant lines will be in the listen-only mode. Please note that this conference is being recorded. After the presentation there will be an opportunity to ask questions. Should anyone need assistance during the conference call they may signal an operator by pressing * and then 0 on their touchtone phone. At this time I would like to hand the proceedings over to Mr. Vir Advani of Blue Star. Thank you and over to you sir.

Vir Advani Good morning ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter for the quarter and year ended March 31, 2010.

The following are the financial highlights for the Company for the year

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Operating Income of Rs 2549.43 crore for the year ended March 31, 2010, compared to Rs 2519.43 crore earned last year.
- Gross margin for the year increased marginally from 25.1% to 25.5%.
- Operating profit (PBIDT excluding Other Income) for the year at Rs 274.70 crore grew 6% over PBDIT of Rs 259.61 crore earned in FY09. Operating Margin increased marginally to 10.9% in FY10 from 10.4% in FY09.
- Other operating income for the year was Rs 24.46 crore (Rs 16.80 crore last year).
- Financial expenses for the year decreased from Rs 17.25 crore in FY09 to Rs 8.45 crore in FY10, a substantial reduction of 51%, due to lower interest costs and tight control on borrowings.
- The tax expense increased by 12%, from Rs 57.93 crore in FY09 to Rs 65.13 crore in FY10.
- Profit Before Tax (excluding exceptional items) grew 10% to Rs 262.66 crore.



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- Net Profit at Rs 211.49 crore registered an increase of 17% over last year.
- Earnings per share for FY10 (Face value of Rs 2.00) stood at Rs 23.52 vis-à-vis Rs 20.04 in the previous year.
- Carry Forward Order Book as on March 31, 2010 grew to Rs 1733 crore compared to the order book of Rs 1339 crore as at March 31, 2009, registering a healthy growth of 29%.
- The Board of Directors have recommended a 400% dividend of Rs. 8.00 per share (Face value of Rs 2.00), as compared to 350% declared last year.

The financial highlights for the *quarter* are as follows:

- Total Operating Income at Rs 874.73 crore registered a growth of 23% over the same period last year.
- For the quarter, Gross margin declined from 27.0% to 24.6%.
- Operating profit for the quarter at Rs 91.80 crore increased by 9% compared to PBDIT of Rs 84.06 crore earned in Q4FY09. Operating Margin declined to 10.7% in Q4FY10 from 12.0% in Q4FY09, mainly due to the business slowdown in the electro mechanical projects and packaged airconditioning systems segment.
- Owing to tight control of employee and operating costs as well as lower interest expenses, Profit Before Tax (excluding exceptional items) at Rs 103.01 crore registered growth of 18% for the quarter.
- Net Profit at Rs 78.54 crore also grew 18% during the quarter.
- The earnings per share for Q4FY10 (Face value of Rs 2.00) stood at Rs 8.73 vis-à-vis Rs 7.42 in Q4FY09.
- Order inflow for Q4FY10 was Rs 704 crore representing a 43% increase over the order inflow of Rs 491 crore in Q4FY09.

I will now spend some time on each of our lines of business and give you both financial as well as operating highlights for the *quarter*.

The Electro Mechanical Projects and Packaged Airconditioning Systems business registered a 25% increase in the quarter, compared to the same period in the previous year. Segment results were, however, flat due to competitive pricing pressures in lieu of the overall business slowdown. The Operating Margin of this business decreased in Q4FY10 to 12.9% compared to 15.8% in Q4FY09. In the central air-conditioning business during the quarter, the Company saw good prospects from the healthcare, power, education, steel and hospitality segments. It won two prestigious HVAC orders in the power sector - an order from Adani Power Maharashtra Ltd for their 3 x 660 MW super critical thermal power plant coming up in



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Gondia, and an order from Essar Power for its two upcoming power plants in MP and Gujarat. In packaged/ducted air-conditioning and small chillers, growth came from industrial, manufacturing and infrastructure segments. Business from the IT/ITES segment, however, continued to be muted. Blue Star's Precision Control Packaged Airconditioners (PCPAs) performed well driven by the rapid expansion of data centres in the country. The Company also continued to sustain its dominant position in the telecom segment with its customized array of telepac airconditioners especially designed for the telecom industry. During the quarter, the Company introduced a new range of Emergency Free Cooling telepacs and Battery Coolers which were designed as operating cost saving solutions through joint innovation programmes with customers. The electrical projects business, during the quarter, received impressive stand-alone orders from TCS, Secunderabad; Main Mall, Pune; Mahindra Satyam, Secunderabad; Nokia Siemens, Bangalore; Amazon, Secunderabad and Bangalore Metro. In addition, it won the electrical module of several MEP orders including Inorbit Mall, Bangalore; Wipro, Chennai and Eternal Hospital, Jaipur.

The cooling products business comprises room airconditioners and refrigeration products and systems. The revenue of the Cooling Products segment increased 16% in this quarter compared to the same period last year. The segment results registered an increase of 25%. Lower raw material input costs contributed to an increase in operating margins from 14.3% in Q4FY09 to 15.4% in Q4FY10. During the quarter, the Company launched a new range of energy labeled (star-rated) room airconditioners. These airconditioners are available in a wide range of 2, 3 & 5 star ratings and in multiple capacities. The Bureau of Energy Efficiency (Ministry of Power, Govt of India) has made 'Energy labeling' (star-rating) mandatory with effect from January 7, 2010. Considering the tremendous power savings that star-rated machines offer, Blue Star has been promoting star-rated products for nearly two years now and is one of the few companies who have taken a lead in this area. With the legislation finally getting implemented, Blue Star has spruced up its product portfolio and has launched a comprehensive range of star-rated window and wall mounted split airconditioners to meet a wide range of requirements. Owing to the onset of early summer in the West and South, there was enhanced demand for room airconditioners from the residential segment. In the refrigeration products business, there was heavy demand from the ice cream segment during the quarter. The business also witnessed enhanced demand for water coolers from manufacturing and educational institutions and for bottled water dispensers for the residential segment. For the cold chain, Blue Star offers equipment right from the farm to the fork. The Union Budget has accorded Project Import status to cold storage projects which translates into a reduction in customs duty to 5% and service tax exemption. This benefit is likely to enhance the demand for cold chain equipment in the country. During the quarter, Rajasthan State Agriculture Marketing Board placed an Rs 8 crore order on Blue Star for storage of fruits and vegetables at three locations. The scope involves civil, structural, electrical and refrigeration. In addition, Gujarat Agro placed an order valued at Rs 9 crore for potato storage.

The Professional Electronics and Industrial Systems business continued to contribute significantly to the profitability of the Company. The business registered a 16%



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increase in revenues. The topline of this business is predominantly commission income and domestic value addition since most of the equipment is sold to customers on a high-sea basis by its Principals. Segment results recorded a significant increase of 85% during the quarter.

In conclusion, In spite of dull business conditions that led to a slow start last year, Blue Star's quarterly profits continued to grow due to effective cost control and favourable input costs. Q4 performance showed a positive sales trend with the year ending on an encouraging note. The worst of the slowdown seems to be behind us and the Company is confident of better business prospects in the new financial year

With that ladies and gentlemen, I am done with my opening remark. I would like to now pass it back to the moderator, who will open up floor to questions. Between Thyag and me, we will try and answer as many questions as we can. To the extent we are unable to, we will get back to you all as well. With that, we are open for questions.

Moderator Thank you. Ladies and gentlemen we will now begin a question and answer session. The first question is from the line of Mayur Patel from Spark Capital, please go ahead.

Mayur Patel Couple of questions, first one is on growth in the projects business, we have seen around 24% growth. Just a small inquiry, is there any one-off settlement or claim booked in this quarter?

Vir Advani One-off settlement in terms of?

Mayur Patel sometimes contracting company get some variant claims for delay from the client side, some additional

Vir Advani No, no, but having said that you do know that we close the maximum number of projects in the fourth quarter but that is true every year so it is pretty much like to like.

Mayur Patel Okay. And sir can you repeat the order inflow number for this quarter?

Vir Advani The order inflow number for this quarter is 704 crores as against 491 last year same quarter.



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- Mayur Patel** Okay. In Q3 our backlog was around 1890 crores, Doesn't the current 613 crores revenues in current quarter for project business give around Rs 450 crores of order inflow for this quarter if I am not wrong.
- Vir Advani** Why would you take only, what did you say 613?
- B Thiagarajan** Are you taking only the electro mechanical segment?
- Vir Advani** No order inflow will be for all is not it? Okay, so out of this 700 crores how much would be the first segment order inflow. Traditionally we have not been breaking up on that, so this is for the whole company. But the fact is that order inflow is for all the three segments of business. Order backlog is also for all the three segments, but generally analysts interpret that order backlog will be predominantly be from the first segment, say 90% will be for the first segment backlog. That is all the explanation.
- Mayur Patel** Okay, fine sir. Can you just touch up on the nature of this 20 crores other operating income?
- Vir Advani** Other operating income is generally in terms of the commissions received. Say, for example, we may be the Indian agent for something or even in electro mechanical projects, for the chiller, we may be receiving certain orders as Indian Agents Commissions. That is what other operating income. And in certain cases it may be, also some provision returned back that kind of stuff.
- Mayur Patel** Okay sir. Can you give a breakup of how much would be commission or how much would be some write-back of provision?
- Vir Advani** We do not have it here. At some point of a time I can give it to you.



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Mayur Patel Sure, fine. Sir quickly our next question, margins have expanded sequentially very sharply, especially in the project business from 10% in Q3 to 12.9% in Q4. Besides these input prices having upward trend so what would be the main driver for this margin expansion?

Vir Advani Well there are a couple of things. One there is business mix. We have air conditioning projects business, a electrical projects business, a plumbing projects business. We also have packaged air conditioning, ducted systems. So there are multiple businesses. In Q4, my guess is that the revenue contribution of the contracting types of businesses as against the product businesses would have been higher because we closed a lot more jobs in Q4. So there is a mixed difference, plus I think beyond that is the way we look at margins. Rather that quarter to quarter we look at them on a full year basis as a little bit more representative. So beyond that there is nothing exceptional in the results that would have led to this change from quarter to quarter.

B Thiagarajan Year after year in Q4 you will see a huge hike in the margins.

Mayur Patel Okay. Sir, are these levels sustainable going forward?

Vir Advani No, I think our overall outlook margins for the coming year is that our margins are under pressure because a lot of the business that was booked in the last year was booked at price levels which are quite competitive because the market itself had shrunk by about 25%. So, now those projects and things are flowing in the business though the revenue now. Coupled with that, there is of course increase in raw material prices. So we do expect some pressure, but there is volume growth. We are hoping that most of that pressure is compensated by volume growth because of our buying. So I think it is realistic to say that we would maintain margins in FY11 at relatively same levels as



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FY10 on an annual basis. I would not look at Q4 as a trend. I would say that for the overall what the margins look like and if have not mistaken segment 1 it goes around 12% for the year we expect to maintain it to that level for the year.

Mayur Patel

Okay fine sir. In the balance sheet we see that around received 86 crores of order current assets have come this time. So can you just give us some flavor on what exactly the other current assets are?

Vir Advani

We think around 86 crores is showing as previous year figure. I will answer your question in this call. Just give me a little time to check with our CFO if you just logged on we can try and answer that question.

Mayur Patel

Sure sir. Any guidance for growth going forward sir?

Vir Advani

No, we do not give guidance. So I guess what they are saying is that you can see from our carry-forward order book it is up about 30%. We expect to build obviously as a step back. We have talked about a changing order book which had gone from high velocity projects which were IT Retail. That is now moving into a new type of order book which is more heavily skewed on infrastructure, slower moving projects like hospitals, hotels, things like that as well as now some power related projects etc. So there was about a year in which that transition led to order book increase but not translating to revenue recognition. Now that year has passed. What has happened is that that order book is now regularized, you have started seeing some revenue flowing. So we are expecting growth to resume for the New Year I think across most businesses. There is still general correction in the market but, its slowly lifting. I think our electrical and plumbing projects businesses are much stronger so we hope to get a larger market share. On the flipside, our telecom business will be under pressure. You are reading all the



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news between 2G and 3G and the margins of the Telco is shrinking etc. So we should expect some pressure on our telecom business as a result. But having said that some of these other segments that we are doing are a lot more in our growing.

Mayur Patel This current order backlog, can be executed over what period, can you share some rough idea?

Vir Advani Yes, I think we have done our latest calculation of that but my guess is it has crossed 12 months. Maybe it is around 13-14 months now.

Moderator Thank you Mr. Patel. The next question is from the line of Nishit Master from ING Investment Managers, please go ahead.

Nishit Master My question is on the cooling products division. We have seen a gradual strategy change in terms of focusing on the retail channel to sell specially our air conditioners. Do we see some kind of margin pressures because of this strategy, because there will be an additional cost on distribution and selling expenses?

Vir Advani I will just clarify, we are not selling through any retail channel. So there is a distinction. There is a residential market and then there is a retail channel. You are right there that the traditional approach to the residential market is through the retail channel. We continue to stay out of the retail channel by and large, as our main market is corporate light commercial for our room air conditioners. There is of course - in smaller towns - good affinity with residential buying because residential buyers in these markets do prefer to buy from dealers rather than through retailers because it is to some degree a first time purchase. So in those kinds of areas we find our model works quite well for the residential market. But just to clarify we are not selling through the retail channel. And therefore do not expect any margin erosion on that count.



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Nishit Master Okay. So the other part is also on the same segment, now we have seen margins move up year on year for cooling products, though the raw material prices have also seen an increase. So is this attributed to us moving towards a star-rated kind of products which would fetch higher value and therefore higher margins or it is because of some raw material inventory of lower cost which we were carrying?

B Thiagarajan You are referring to Q4 of that year. Cooling products comprises room air conditioner and refrigeration products such as deep freezers, water cooler and cold storage equipment. On one hand the product mix indeed will affect but we had a very bad Q3 because of the product mix issue and it has recovered in Q4. In fact if you recollect we had crossed 12% operating margin in that business. We had dropped to 9.1 which was bad so compared to 10.7 is looking healthy. So it is with an impact it should further go up in my opinion that is what we would desire.

Nishit Master Sir my last question is on Naseer. What would be the order backlog for Naseer Electricals?

Vir Advani We do not track that separately and now we have merged it into Blue Star. So, we simply have our electrical projects business now which is a nation wide business and it is difficult to break that out because it is a combination of standalone electrical orders as well as MEP orders which get bundled as one. But very broadly my guess is that carry forward would have reached to us about 300 plus crores.

Nishit Master Okay. So but this was not the case at the last year numbers, right. So last year order backlog would not include Naseer's backlog?



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Vir Advani No, because this was acquired in January 2008, so it would definitely have. But of course the business is growing much faster than the rest of our business.

Moderator Thank you. The next question is from the line of Pritesh Chedda from Emkay Global, please go ahead.

Pritesh Chedda On the electromechanical side there is some change in stance. Versus for the first three quarters, the remarks were a bit cautious. Against that we share a strong outlook incrementally. Could you tell us at ground level what has changed? Second in the electromechanical business what is the contribution today of the MEP part and in the order flows for this year, now what is MEP or electrical and plumbing component in the order flows that we have received?

Vir Advani To start with, ground reality is things are marginally better. They are not lot better; jobs are slowly coming back into the market. They are limping back I would call it. I think what is happening you are seeing the financials which obviously are showing growth. The reason for that I think is a lag time when the face of this order book changes. I had told the earlier questioner the same thing which is we move from high velocity projects to slower velocity projects. That catch-up is now complete. So that increase in order book has to now translate into revenue. So we are seeing a simple translation happening which does not necessarily to say that the market has bounced back and is roaring back. Frankly our own assessment is that the commercial market will continue to be under pressure for at least till the end of the year. However, having said that, on the ground for Blue Star things are little different because our electrical business is now much stronger than it was last year. Our plumbing business is now well over a year old, so that is a lot stronger for customers who are accepting us as a strong



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plumbing contractor as well. So as I have explained in the past, in a project we used to address Rs. 200 of the project, today we are addressing close to Rs. 500 of the project. So that naturally increases our ability to grow the business. That is what is really happening, which is why you are seeing business growing. So obviously that was a planned thing, it is not something that has just happened but actually on the ground I would say that the projects are still very slow.

Pritesh Chedda Okay. Some of the earlier comments on few of the projects we are witnessing some delayed execution. Have those niggling issues been sorted out or you are still seeing those?

Vir Advani No, I do not think there is any dramatic change in any of that. It is all driven by client demand; IT, commercial and retail space. There is some noise about retail space improving, which is a good sign but IT and typical commercial office space, there really is not any recovery. So I would not say that any of those projects are moving any faster than they were.

Pritesh Chedda Okay, electrical and plumbing today as a percentage of FY10 order flows and backlog, what it should be?

Vir Advani Like I mentioned the earlier it is all clubbed. We run it as one business so it is difficult to breakout.

Pritesh Chedda This particular piece which is electrical and plumbing in the overall electromechanical scheme of Blue Star the component keeps on increasing as a percentage.

Vir Advani Yes, because we have a 30% market share in air conditioning. Our market share in electrical and plumbing would be a fraction of that. There is a lot of fragmentation in the market. There is a lot of consolidation to be done. We are not the only ones consolidating. Some of our competitors who are trying to



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do the same. But in spite of all of that I think each of us is growing our market share in these new areas. So logically you should see it increasing as a percentage.

Pritesh Chedda Okay, these orders are they the similar margins of the electromechanical component or are they completely different if you take an electrical thing?

Vir Advani The electrical business is now more or less the same. Plumbing because it is still new is lower. First couple of years of a new business you tend to have lower margins simply because your overheads are much higher. Once you cross the particular critical maths, then you spread that management and operating cost over a larger base. So I think this last year we achieved that in electrical. We are still a year and half only on plumbing.

Pritesh Chedda Okay. In next three years what would be the market share that your industry and Blue Star in particular, have been taking in the electrical and plumbing component?

Vir Advani Industry I do not know. But we hope to take our electrical and plumbing market shares up to at least 20 plus percent simply because we presume that about 60 to 70% of contracts will be bundled MEP in three years. And if that has to happen then that automatically translates into a certain market share on electrical and plumbing. I think it has continued to be lower than air conditioning for us because obviously we have a six decade track record but it will catch up quite dramatically as MEP thing unfolds.

Pritesh Chedda Last question. What is the growth in central packaged air conditioning market for FY10, room air conditioners and commercial refrigeration because these are three data points



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which will be giving the annual report? What would the Industry growth be?

Vir Advani

I have a feeling market would have shrunk for the first month, central and packaged air conditioning at least by around 10 to 15%. We do not have the right estimates as of now. And room air conditioners on the other hand would have grown. Grown by about, because predominantly it happened in February-March it might have grown even by 20% driven by the residential demand for the year that ended.

Pritesh Chedda

And the commercial refrigeration?

Vir Advani

For a commercial refrigeration right from deep freezers to large cold storages should have grown by 25%.

Moderator

Thank you. The next question is from the line of Nirmal Shah from Alchemy, please go ahead.

Nirmal Shah

Can you define the scope of work in Adani Power and Essar power, what you had mentioned in the initial remarks? And second, my question was related to diversification. You were looking to diversifying into power and steel sector much more aggressively so what is the status as of now on those two fronts?

Vir Advani

For Adani and Essar it is traditional work of ours today, airconditioning and ventilation in the power plant. So nothing new there, it is along the line to what we do for NTPC or for Reliance Infrastructure, etc.

As far as power sector and steel sector goes we are rightly moving there. We have identified these two as areas that we want to grow in. We have made some progress in both probably more in the steel sector. We have very healthy carry forward in that sector and this new year I think investments are moving forward both in private as well as in PSUs and steel. We

are doing utility piping related work there, mechanical work there essentially. We are looking at growing that business quite aggressively within the current year. As far as the power sector goes, we are very much focused on substations and the transmission distribution side of the business. We are also exploring packages in electrical barrels of plants because there seem to be opportunities there. Last year, was a business development year. We were not expecting to peel anything significant. We closed the year with modest bookings that will get built in the New Year. In the power sector, you have to overcome issues around qualification so we are just getting to that point, I think within the next three to six months we will have addressed that. So I think this current FY will also go by probably with some reasonably good bookings but very limited billing, probably the year after that you would start seeing the power sector contributing more significantly. But in the current year the steel sector should contribute well over 100 crores to our business.

- Nirmal Shah** Okay. And sir can you give a CAPEX figure any plans for further CAPEX for FY11?
- Vir Advani** CAPEX for FY11 is 18 crores for FY10. FY11 should be somewhere around 30 crores.
- Nirmal Shah** Okay. Thanks a lot sir.
- Moderator** Thank you. The next question is from the line of Sanjay Satpathy from DSP Merrill Lynch, please go ahead.
- Sanjay Satpathy** My first question is to understand how the competition is in your central air conditioning business. You said that your market share is stable at 30%. Do you expect it to remain at around that level and the other thing is that in terms of technology we are hearing from the room air conditioner side some of the inverter



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split acs and all those things from international competitors. How is your company and the Indian companies gearing up for such challenges?

Vir Advani

Sure I will take the first part Thiag will take room air conditioner part

I think we are quite well placed, like we continue to invest in our product line both on central plant equipment as well as in our packaged/ducted units. I think the fact is all our product businesses have pretty much only had multinational competition from the beginning. There have only been two domestic players of any size in this market, Voltas and us forever. So all our competition has always been multinational. I think the big change is that several multinationals are now looking to set up manufacturing facilities in India which is something new compared to a few years ago - so to that extent it is a new environment. But having said that, on the central ducted systems where our main focus is, we continue to invest quite heavily on R&D. That is one of our major investments for the last year as well as the year going ahead. So we are quite confident of being able to address some of these new challenges. You have heard about inverter technology - what you are talking about is coming in both VRF as well as in room airconditioners. Thiag may be able to give you an update.

B Thiagarajan

As Vir mentioned, we have been facing competition from multinationals, so is in case of VRFs, inverters & large packaged air conditioners. Till recently, we were the only manufacturer in India to produce a digital scroll based VRF. More than 70% of the market share in equipment products being bought today is by Chinese manufacturers such as Media & Gree. India is a huge country with different climatic conditions. That is what we



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have been facing in VRFs, for example, given the high fluctuation of both temperature and humidity conditions across. As of now we do not see that to be huge challenge at all. The market is evolving and we have been evolving. So in the high end products, for example in VRF we are second or third largest player basically because we are able to sell, address those segments which a multinational manufacturer may not be able to. Their model is to sell the equipment and somebody else to integrate whereas customer prefers total system integration.

Nirmal Shah

As far as the plan for international business is concerned, do you have any update to share?

B Thiagarajan

I do not think anything significantly changed in the past one year or so. We have been selective in addressing international products, since we have active growth plans within the country. The MEP, product & refrigeration business are growing. So we continue to be selective. We do not have any aggressive plans for international project business. We are not selling our standard products in the international market, only differentiated products where margins are protected. In products such as air handlers or water coolers, we have again not been aggressive player in the international market at all. There is no change. I do not think in FY11 anything is going to change.

Nirmal Shah

Over the year we have seen Blue Star kind of expanding its service offerings and like you are adding this professional electronics etc. and also expanding into electrical. From hereon what kind of additional services are being planned by Blue Star to kind of achieve our industry average growth rate?

Vir Advani

I think the industry in which we are operating is undergoing change. So if you look at our contracting businesses you rightly pointed out it is moved from air conditioning contracting



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standalone to MEP contracting. Similarly now, rather than just being focused on commercial real estate as a sector we are now looking at industrial segments more actively. We are looking at power and steel and some other segments. On the contracting business and the product business, we are looking to expand the product range both in terms of width which means that just increasing the actual number of models that we launch as well as in terms of technology. VRF is one such example. So, we will continue to expand the product range,. However in the air conditioning and refrigeration market I think we will continue to be focused on the commercial customers - that is our focus area. In service I think there is another migration - just like you now have projects that are getting bundled as MEP, naturally you will also see maintenance of buildings being bundled as MEP which means that customers will be looking for a single vendor to support all their engineering services, air conditioning, electrical, plumbing, elevators etc. all in the building. So we continue to expand our service business into all the areas that we are installing. So you will see the service business undergo some amount of change in the coming few years. And of course I think that is a direction that we are taking. So we want to be involved right at the time of design of the building where we get to in as many products and equipment as possible, install as many engineering systems in a building as possible and then once you are operating as we take it over and maintain it for you for the life of the building and obviously get in involved at retrofits revamps upgrades through the life of the building. So that is the direction that the company is taking.

Moderator

Thank you. The next question is from the line of Sanjeev Zarbade from Kotak PCG, please go ahead.

Sanjeev Zarbade

Just wanted to understand we are basically clocking around 600 to 700 crores of order intake on a quarterly basically last



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three quarter. So what is the timeframe where we can see it going to around 900 crores order intake?

Vir Advani

I think that order inflow continues to be very difficult. So I think it will be at least another few quarters - may be 2-3 quarters before one can see that kind of quantum jump. Yes, I would say we are a year away from things returning to where we would like it to be. My best sense is that in FY11 you will see fairly healthy revenue because billing would go through. The projects that we booked in the past are being executed but you will see order inflow continuing to be a challenge because of the new projects, while they are coming back onto the ground they are moving quite slowly. So I see another year.

Sanjeev Zarbade

Okay. Sir, basically what we had seen in the execution cycle which had started coming down till FY08 and there was a more demand for earlier delivery and from thereon the execution cycle has again elongated. So do you think FY10 was the peak year and from hereon the execution cycle of projection is coming down gradually?

Vir Advani

No, for Blue Star I do not think they will because the average project size is increasing quite dramatically and also the mix of business is now much more spreaded. 50 plus percent of our business was IT and Retail which is by nature high velocity whereas even if you want to build a hospital to get it about running you cannot physically do that in that less than 24 months no matter where you are in the world. So because of the nature of the projects, I think this slow pace of execution will continue for sometime

Sanjeev Zarbade

Okay sir in third quarter we said that debtors were slightly higher.

Vir Advani

No, not really. We had reasonable corrections in the last quarter but it is still a very tough situation on debtors. I have already told



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some people as in a couple of calls ago that I think the lead indicator for us right now is debtors because 40% of our business is repeat business which means that clients when they want to start a new project will have to pay us for the previous project. So we are hoping that we are another few months away from debtors starting to be cleared. That means that new projects are coming on. So ideally we are few months away from that.

Moderator Thank you. The next question is from the line of Sandeep Somani from HSBC Securities, please go ahead.

Sandeep Somani The order intake which you indicated as 704 crores during the quarter, does this mean that part of the orders have been executed in the current year itself which you collected?

Vir Advani Yes order inflow is just that simply because the orders that come in, some of that is obviously billed because all businesses comes in to the order book regardless it is billed in four hours or it is billed for two years. So naturally there will be a booking bill that will be past that number.

Sandeep Somani Sir my second question is you indicated that star-rated ACs now to be sold , which has been mandating from January 2010, does this mean that the top two-three market share companies will gain more market share and thereby grow room air conditioners much higher than what peers are doing? Is that a possibility?

B Thiagarajan No, not at all because star-rating program is a program which had been announced 2-3 years ago in a phased manner. So it has become mandatory legislatively and anybody selling will have to confirm to that energy efficiency. In fact, the claims of this is a more energy efficient air conditioner than the other - that has gone. In fact the differentiation has come down. It is now basically on the looks or the price or the brand image. So



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the marketing landscape has changed it to that extent. It will not mean somebody who is high end will gain market share or not. The marketing landscape is now different. It is basically the real marketing mix, which will make players succeed or lose. Energy labeling is not differentiated, in fact it is wiped out the differentiation.

Sandeep Somani Okay. Sir, as far as Blue Star is concerned how are you positioning yourself into room air conditioning? Traditionally you have been commercial or for that matter corporate air conditioning core business sort of an area. How are you testing yourself as sort of room air conditioning retail sort of the business?

B Thiagarajan In the same manner but there is a minor correction in the statement. We do not have a residential focus by being present in the retail outlets or the appliances channels. Our channel is the air conditioning sales and service dealers or in some cases sales only. So we continue to focus on that. In summer months the residential buyer also will buy or it may be a residential tower who buy the air conditioners. And this focus does not change at all.

Moderator Thank you. The next question is from the line of Kirti Dalvi from Enam Asset Management, please go ahead.

Kirti Dalvi Was there any FOREX gain in this quarter as well as in the year?

Vir Advani Yes. I do not have the quarter figure. This year is 4 crores as against loss of 5 crores.

Kirti Dalvi Sir in this quarter, there was an increase in stock in trade of almost 24.6 crores. Could you just clarify on that? Was there additional inventory which we kept with us?

B Thiagarajan That is right. It is primarily cooling products and refrigeration



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Kirti Dalvi

Sir third thing you did mention that the margins will be maintained that's our endeavor in FY11 but to a certain extent we do get benefits from currency appreciations. I mean that has been the trend for Blue Star in many years. So do you see that we have factored in that upward biasness in our margins when we are saying it that the margins will be maintained?

Vir Advani

No, I doubt we have done that. We are not that advanced. We think that frankly what happened is there is a huge change in the business mix overall, going forward as well as there is a contracting business, there is a product business, there is service business, there is electronics business and that mix continues to change depending on where we are in this buying cycle and customers coming forward. So it is a little difficult for us to, and having said that each of these businesses the margins are quite different. So we have a challenge of how we forecast the business mix and how that impacts the margin. So we are more looking at that. Now what we are saying is that even if the lower margin businesses grow at a faster rate as compared to the higher margin businesses because that seems to be the trend as of now, given the buying that is going on in the market, in spite of that we will endeavor to maintain corporate margins at a certain level through volume growth, through buying. There will be some hedging probably there as well so through all of those initiatives we will try and offset the natural margin erosion that will come out just through the business mix as well as through what we know is in the order book that needs to be executed. I do know that, this is definitely a broad statement and it is not particularly scientific but that is how we are looking at the margins.

Kirti Dalvi

And sir at the beginning of FY10 we did mention that this would be more of a consolidation period. We have declared much better results and Q4 is actually setting as a trend of 20% plus



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growth. Do you think that we will be able to track this kind of growth in FY11 as well as FY12?

Vir Advani

We think that last year was not that good. I am glad you too think so. We obviously want to do much better. It has been our last 5-year track record. So this miserable top line being flat and we had some bottom line improvements. But like you have seen there is a lot of other income, some exchange gains and all sorts of things. But you cannot do much to squeeze out any more cost of the system. We clearly need growth to resume. So Q4 is a good indicator. It is because of this carry-forward order book that we are feeling a little more confident about revenue in the New Year. But two areas of caution. One is that the margins will be under pressure in the coming years given the nature of business sides when it flows through the order book given the time at which some of these orders were booked. And the other issue is that order inflow will still take a couple of quarters to pick up. And so for us these two factors is what we focused it on, now revenue is less of an issue frankly

Kirti Dalvi

So sir in H2 FY11 you think the order pick up should happen, then our FY12 will be much better than FY11?

Vir Advani

Yes, we hope so, yes.

Kirti Dalvi

Sir in the last quarter, in the conference call we did mention that the production mix including products was higher towards cold storage products.

B Thiagarajan

Yes but in Q4 it is room air conditioners, our own manufactured products.

Kirti Dalvi

So going forward you see that trend to be continuing?

B Thiagarajan

Yes, because the room air conditioner business seems to be growing in a healthy manner, faster than cold storages.



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- Kirti Dalvi** Okay and our packaged air conditioning business which, correct me if I am wrong, account for almost 25% of our central air conditioning?
- Vir Advani** Percentage will be something like 35 now because the electro mechanical project continues to grow in a big way.
- Kirti Dalvi** Okay. So how is that business doing?
- B Thiagarajan** Last year like central air conditioning, it was a flat year. So as of now there are certain segments which have opened up such as data centers. Also shops, showrooms and boutiques which we call it as light commercial that has opened up. Education institutions are doing extremely well. Certain infrastructure projects also comprise air conditioning. Such as small control rooms etc. meant for railways or power plants. So it is in the last quarter that there has been a recovery, though I would not say that it is going to come back in a big way in the coming year.
- Vir Advani** Yes, I do not think that too. Packaged air conditioning, ducted systems, central air conditioning are all going to be under pressure for the remaining part of the year.
- Kirti Dalvi** Okay. What is the employee strength currently?
- Vir Advani** 2600, 2610 or something.
- Kirti Dalvi** Okay because if I am not wrong, our staff cost was partially down because there was some reduction in the employees for whatever reasons. Do you think that going forward given the order book we have it we will ramp up our employees?
- Vir Advani** Yes I think we are looking to add some people selectively in certain businesses which we are already doing.



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- Kirti Dalvi** We did mention that the new areas which we are targeting - one of them was plumbing if I am not wrong. Any breakthrough in that?
- Vir Advani** No, no nothing yet, I have told you we still are working is on that.
- Kirti Dalvi** Okay and what is your tax rate for 2011 sir?
- Vir Advani** FY11 it would be the same as FY10.
- Kirti Dalvi** Okay, so there is no benefit which has been withdrawn for us in this FY11?
- Vir Advani** No..
- Moderator** Sure. Ladies and gentlemen due to time constraints we will take one last question from the line of Rahul Mehta from Lucky Securities, please go ahead.
- Rahul Mehta** Sir my question is you did say that there has been a change in debtors; it is from IT retail to more of industrial infrastructure related project, if you could just take us through the project execution cycle on the power side and what kind of opportunity over the next 2-3 years you foresee on that segment?
- Vir Advani** There is something called MEP in commercial buildings which is IT, retail all of that traditional stuff. Those types of projects have migrated to MEP. Then there's MEP in hospitals and hotels. So that is one migration which leads to project execution cycles going up from say six months to say nine months. The next migration is from this old fast paced work to something we call infrastructure projects. Infrastructure projects for us are airports, metros, power plants that kind of stuff. But again MEP work in that, the traditional work that we have been doing. So it is similar type of work, it is just in a completely different



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application. There from six months going to nine months it will now go to say 15 months and as per the project execution timeline doubles at least.

Rahul Mehta

At the same time the ticket size also increases?

Vir Advani

The ticket size increases but the execution cycle is not increasing on account of the value going up, it is increasing on account of the overall building. An airport takes 24-36 months to build. So there is nothing you can do about it. So what I mean is that you can do a 10-crore IT Park and you can do a 40-crore IT Park roughly in the same amount of time because the building comes up that fast. But an airport or metro takes two years to build. So that is the third..... the first migration is to hospitals, hotels, next one is for infrastructure project with still traditional building. The third migration is something we are attempting now which is not really reflected much in the order book but hopefully going forward it will be which is projects in the industrial space. Power sector, oil and gas, steel, other metallurgy etc, - either mechanical packages or electrical packages or a combination of the two. There the execution cycle will be sort of minimum 12 months and will migrate more towards 24 months. Again, because it takes so much time to build a steel plant for example. So we are talking about range one and half times to four times increase in the execution cycle depending on the type of project that we are bidding for.

Rahul Mehta

And the opportunity specially in metro projects, in airports and in power plants where we do a lot of air conditioning, so if could just take us through a broader picture I mean what kind of addressable market do you see over the next two-three years?

Vir Advani

That is a tough one. We frankly do not have a clue right now because all the projects that are being announced and many of them if an ad goes out then it becomes quite formidable and

quite exciting. I do not know from a market size perspective. If it is a Rs. 100 today apparently in three years if one believes everything one dreams in it should be about Rs. 300 in three years but as it stands right now and like I said projects are moving quite slowly, new projects coming into the market are taking time. So it is very tough to say. What we are trying to do is through a combination of increasing the number of services that we execute which is this whole air conditioning and electrical plumbing, firefighting, etc. is one angle we are taking. The other angle we are taking is we are trying to increase the number of sectors in which we operate. So you can see that what is x addressable market when one goes across both those axis it should be at least 4x in terms of addressable markets. Now it comes down to our ability to sort of execute business across this whole matrix which is what we are working on. So that is a work in progress. So I would sort of hold another 6 to 9 months before we comment on sort of 5-year outlook.

Rahul Mehta

Are you seeing increasingly number of foreign players entering the segments that we specialize in, in terms of just to get some sense on the competition?

Vir Advani

Only where we have an equipment business in which competition from multinational is very severe and that competition we expect to increase every year. On the contracting side we have not seen any multinational competition enter anytime recently. If they may, we have no idea but as of now they do not seem to be because contracting tends to be a little local in nature, whereas equipment tends to be global in nature. So that is the difference between the two.

Moderator

Thank you. I would now like to hand the floor back to Mr. Advani for closing comments. Please go ahead sir.



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Vir Advani Thank you very much for joining us today. Thanks for taking the time. If you have any further questions, you can send us an email and we will be happy to respond to you and we will talk to you in few months from now. Thank you very much.

Moderator Thank you Mr. Advani and Mr. Thiagarajan. Ladies and gentlemen on behalf of Blue Star that concludes this conference call.