"Blue Star Limited Q4 & FY14 Earnings Conference Call"

June 05, 2014

MANAGEMENT:	MR. VIR ADVANI – EXECUTIVE DIRECTOR & PRESIDENT, ELECTRO-MECHANICAL PROJECTS BUSINESS
	MR. B. THIAGARAJAN – EXECUTIVE DIRECTOR & PRESIDENT, AIR CONDITION & REFRIGERATION PRODUCTS BUSINESS

Moderator Ladies and gentlemen good day and welcome to the Q4 & FY14 Earnings Conference call of Blue Star Limited. We have with us on the call today Mr. Vir Advani – Executive Director & President – Electro-Mechanical Projects Business and Mr. B. Thiagarajan – Executive Director & President – Air Condition & Refrigeration Products Business. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call please signal an operator by pressing '*' then '0' on your Touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vir Advani. Thank you and over to you, Sir.

Vir Advani Good morning ladies and gentlemen this Vir Advani. I have with me Mr. B. Thiagarajan and we will be giving you an overview of the results of Blue Star Limited for the quarter and year ended March 31, 2014.

The following are the financial highlights of the Company for the *year on a standalone basis*

- The Company reported a Total Operating Income of Rs 2770.38 crores for the year ended March 31, 2014, compared to Rs 2767.06 crores earned last year.
- The Operating Profit (PBIDT excluding Other Income) for the year increased by 7% to Rs 105.72 crores from Rs 98.82 crores in the previous year.
- The Other income increased 49% to 54.51 crores from Rs 36.53 crores, mainly on account of interest on IT Refund and Dividends from subsidiaries.
- The Financial Expenses for the year were about the same as last year at Rs 49.64 crores as compared to Rs 49.86 crores in FY13.
- The Borrowings (Net of cash in hand) went up from Rs. 361.7 crores as on March 31, 2013 to Rs. 383.6 crores as on March 31, 2014.

- Consequently, Net Profit grew 47% to Rs 75.90 crores as compared to a Net Profit of Rs 51.73 crores last year.
- The Earnings per share for the year (Face value of Rs 2.00) stood at Rs 8.44 vis-à-vis Rs 5.75 in the previous year.
- The Carry Forward Order Book as on March 31, 2014 increased by 5% to Rs 1478 crores compared to the order book of Rs 1412 crores as at March 31, 2013.

The following are the financial highlights of the Company for the *year on a consolidated basis*

- On a consolidated basis, the Total Operating Income stood at Rs 2914.88 crores for the year ended March 31, 2014 as compared to Rs 2924.01 crores in FY13. The consolidated financial results include the results of the Company's wholly owned subsidiary Blue Star Electro Mechanical Limited and Blue Star Design & Engineering Limited, joint ventures namely, Blue Star M& E Engineering SDN BHD, Malaysia and Blue Star Qatar (WLL) and the share of profit in the associate company Blue Star Infotech Limited.
- The Operating Profit (PBIDT excluding Other Non-Operating Income) for the year was Rs 105.26 crores as compared to Rs 90.40 crores in FY13.
- The Net Profit for the year grew 98% to Rs 77.54 crores as compared to Rs 39.07 crores registered last year.

Here are the financial highlights for the quarter Q4FY14 on a standalone basis

- The Total Operating Income at Rs 868.68 crores increased by 1% over the same period last year.
- The Operating Profit (PBIDT excluding Other Income) for the quarter increased by 50% to Rs 29.80 crores as compared to Rs 19.92 crores in Q4FY13.
- The Net Profit for the quarter increased by 131% to Rs 42.79 crores as compared to Rs 18.55 crores registered during the same period last year.

Other significant matters in Q4FY15:

As you are aware, integrated MEP projects in the Electro Mechanical Projects business is gaining momentum with about 25% of the overall projects now being bundled. The Company has been consciously moving towards addressing this opportunity and has taken several initiatives to strengthen its offerings in the integrated MEP space.

As another step towards achieving this objective, the Board of Directors of Blue Star Limited has approved the integration of the company and its subsidiaries, namely, Blue Star Design Engineering Ltd (BSDEL) and Blue Star Electro-Mechanical Ltd (BSEML), through a scheme of amalgamation (the scheme) as per the provisions of Sec 391 and Sec 394 of the Companies Act 1956. The Appointed Date of the amalgamation is October 1, 2014 and the scheme is subject to necessary approval of shareholders, creditors, stock exchange, statutory authorities and the Hon'ble High Court of Bombay.

BSDEL is engaged in the business of engineering and CAD support services and property rental business, whilst BSEML executes Plumbing and Fire-fighting projects. By integrating these related businesses with its Air-conditioning and Electrical contracting businesses, the Company will now be in a position to offer a comprehensive MEP service offering to its clients. The above amalgamation is expected to ensure business synergies and increased operational efficiency through synergistic integration of technical, operational, financial and other expertise resulting in reduction of administrative and other overhead expenses which will keep the business of the amalgamated company competitive in the long run thereby enhancing value creation for the company, its shareholders, lenders and employees.

For clarity, we would like to specifically state the following:

The equity shareholding of both the subsidiaries, namely BSDEL and BSEML, is held 100% by Blue Star Ltd. The proposed scheme of amalgamation will therefore not result in any change in the composition of equity shareholding of Blue Star Ltd.

The amalgamation will result in enhancement of the Net Worth of Blue Star Limited and its true reflection in the financial statements.

The amalgamation will lead to a simplification in the group structure resulting in reduction in regulatory compliances and improved governance structure.

Based on an independent valuation of companies, the equity share swap ratio is set at 15:4 i.e. 15 equity shares of BSEML for every 4 equity shares of BSL. The detailed scheme document is expected to be submitted to the Stock Exchanges shortly.

I will now go through the Market Overview of each segments that we are operating in for Q4FY14, followed by specifics of our performance in each of these segments:

Market Overview for Q4FY14:

Segment I

The macro environment continued to be challenging in Q4 with no big investments being declared in the commercial real estate market. The high inflation, high interest and pre-elections impasse has affected the demand. While inquiry level remained moderate, order finalization has been very slow. There was however some improvement in demand in the IT/ITeS, Hospitality, Retail, Commercial Real Estate, Office , and Industrial Segments.

At an aggregate level, the Central plant and Ducted market continued to be stagnant in line with the general slowdown in demand.

Segment II

The Room AC Industry witnessed a negative growth of 13% in Secondary Sales during the period Jan 2014 to March 2014, as per the report of Gfk Neilsen'. The Industry estimates show a flat growth in Primary Sales. The reasons are attributed to a) BEE Table change , b) Delay in onset of summer in most parts of India and c) Overall economic scenario with high inflation and tight liquidity in the market.

The demand in the Commercial Refrigeration business was stable. However, the competition in the market has intensified with many unorganized players operating in the market, resulting in pressure on pricing and margins.

In Cold storage products, the segments of Pharma, Fast Food & Restaurants and Ice cream continued to fetch good business opportunities. In addition, there has been a good demand in the food processing segment as well.

Segment III

The demand for hi-technology imported equipment continued to be impacted by muted capital investment across industries. The quarter saw positive demand in the sectors of some inquiry generation in the Avionics, Healthcare and Scientific Laboratory segments.

In Industrial Projects, there has been demand in revamp and retro-fits rather than brown field or green field expansion.

Our Performance for Q4FY14:

Segment I

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 52% of the total revenues in Q4FY14, declined by 6% to Rs. 453 crores from Rs. 480 crores in Q4FY13, while segment results decreased by 16% to Rs 8.89 crores.

The Operating Margin of this business (standalone) in Q4FY14 decreased to 2.0% compared to 2.2% in Q4FY13 . The FY14 margins at 4.4% however remained flat as compared to FY13.

The Capital Employed in the business was Rs. 410 crores as on March 31, 2014 which was a marginal increase from Rs. 401 crores as on March 31, 2013. It however decreased significantly compared to the Dec 31, 2013 levels at Rs. 473 crores. The decrease in this quarter was primarily on account of decrease in inventory levels in our equipment business, improvement in collections and completion of certain old projects leading to better cash realization.

The Order inflow in FY14 has witnessed a moderate growth of 11% from Rs. 1472 crores to Rs. 1582 crores in the segment.. This was primarily due to the finalization of certain large value contracts in the first half of the year. In fact the second half, and more specifically Q4FY14 saw very little order intake activity as all companies were awaiting the election results and thereby some favorable policy announcements from the new Government.

Our carry forward order book for the Segment 1 stands at Rs 1341 crores as on March 31, 2014. While builder /developer led Offices and Commercial segments account for 50% of the order book, Infrastructure and Industrial contributed 32% and roughly 18% is comprised of the Hotel and Hospital projects.

We had expected FY14 Operating Margins to be at roughly FY13 levels. This was predicted on the need to close a certain number of low or zero margin legacy projects, while increasing the billing volume of new higher margin business. Due to the ongoing liquidity crunch in the market and the uncertainty of a stable government, we were only partially successful in closing legacy projects. Even new, higher margin projects moved extremely slowly. As a result, the overall volume of the projects business shrunk in FY14, leading to a muted operating margin for the year.

While we expect the legacy jobs to remain till H1FY15 and thereby affect margins to some extent, we are hopeful with the economic environment getting better and projects starting to be executed a bit faster, the FY15 year end margins will improve over current levels.

For the Central AC products despite the overall sluggishness, we have witnessed demand from the Hotels, Hospitals, Educational, and Offices sectors in this quarter.

Our Packaged AC business continues to be stable. We hold a leadership position in the ducted systems business and are gradually improving our market share in VRF systems. The market is becoming highly competitive . However, with a good channel expansion in Tier 2,3,4 markets, a robust after sales support, new investments in new technology and category products, the company is focused to maintain its leadership position in this business.

Some of the major orders won by Blue Star during the quarter in Segment 1 are

Electro-mechanical Projects: Karle Infra - Bengaluru, Tata Elxsi - Thiruvananthapuram, IISER - Mohali, Delhi Heart Institute - Bhatinda, JCB - Jaipur, Maruti Suzuki - Jaipur and West End Mall - Pune

Packaged AC Sytems: Moser Baer - New Delhi, BHU - Varnasi, Visakhapatnam Steel Plant, Mahavir Sanskar Dham Trust - Surat, Siddhi Vinayak Cements - Rajasthan, Xavier Institute of Management - Bhubaneswar

Central AC Products: Taj Krishna Hotel – Secunderabad; ABL More – Bangalore; Vellamal Medical College – Madhurai; HAL – Bangalore; Divis Lab – Secunderabad; OPAL – Dhahej; RRCAT – Pune; Ashoka University – Chandigarh; Mahindra & Mahindra – Pune; Optimus

Generic – Secunderabad; Hotel Amber Palace – Bhopal; and Nemcare Hospial – Guwahati.

Product Exports

As stated in earlier quarters, the Company has been taking efforts on enhancing its product exports. Currently the main focus of product exports is on the Middle East, North Africa and SAARC markets. The airconditioning market in the Middle East is doing well due to the revival in commercial construction and return of private investments. Growing consumer awareness on energy conservation, environmental concerns and indoor air quality is expected to drive the market. The Company is also making steady progress in developing the market in North Africa and is in discussions with possible distributors mainly from South Sudan, Tanzania, Nigeria, Kenya and Ghana. In addition, the Company is also making inroads in SAARC countries and tied up with distributors in Sri Lanka, Bangladesh, Nepal, Vietnam, Maldives and Bhutan.

Segment II

In the Cooling Products segment, the revenue registered an increase of 16% in Q4FY14 to Rs. 355 crores over Q4FY13, while the segment results increased by 28% to Rs 39.71 crores.

The operating margins for Q4FY14 was 11.2% which is more than 10.1% in Q4FY13. The margins however witnessed a small increase for the whole year at 8.8% in FY14 vis-a-vis 8.3% in FY13.

The primary reasons for the improved performance in RAC business was a favorable climate, good distribution across Tier 3, 4 and 5 cities, and higher mix of in-house manufactured products .

As stated earlier, the Company is working towards enhancing its market share through initiatives like channel expansion and focus on the light commercial segment. It would also focus on margin improvement through cost optimization, right manufacturing mix, and effective channel reach.

For Refrigeration products and systems the demand has typically come from Ice cream and dairy segments, Hotels and restaurants, Institutions, Industrial and Office segments.

The Capital Employed in Segment 2 increased slightly from Rs 219 crores as on March 31, 2013 to Rs 251 crores as on March 31, 2014. This is primarily due to increase in inventory levels for summer season sales.

Segment III

In the Professional Electronics and Industrial Systems, the business revenues reduced by 14% in Q4FY14 to Rs. 60.43 crores as compared to Rs. 70.38 crores in Q4FY13, while the segment results decreased by 9% to Rs. 9.53 crores as against Rs. 10.47 crores in Q4FY13. The operating margins were higher at 15.8% in Q4FY14 as compared to 14.9% in Q4FY13.

As stated earlier, restricted Government spending /Capex, low investments in Private sector, tight liquidity and forex impact have affected our various business lines namely a) Agency Business, b) Industrial Projects and c) System Integration business.

We however are seeing improvement in demand and therefore FY15 is expected to be a better year for this business.

Outlook

With the formation of a stable Government, the Company is hopeful of a revival in the investment climate of the country. Enhanced capital investments, recovery in the commercial construction segment as well as higher employment will benefit the electro mechanical projects and packaged airconditioning segment. While fit-out projects as well as the light commercial segment are likely to drive growth in FY15, in larger projects, the time lag between order inflow and execution may take a few quarters to translate into enhanced performance in this business.

The cooling products business continues to perform well with the trend of consumers preferring specialists to generalists and a superior perception about the Company's products and services mainly due to its airconditioning pedigree. This business has been growing faster than the market, and considering the low penetration levels in the country, this segment offers significant potential for the Company in the long-term.

As regards to the professional electronics and industrial systems business, the outlook is positive since the strengthening of the Rupee and improvement in the economic environment is likely to result in an increase in demand for capital goods.

With that ladies and gentlemen, I am done with my opening remarks. I would like to now pass it back to the moderator, who will open up 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 via e-mail. With that, we are open for questions.

Moderator Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Anand Narayan from Kotak. Please go ahead.

Anand Narayan Sir, if you can just give up the breakup of the margins of your current order book? I presume about Rs. 300 crores were low margin orders which were supposed to be executed by last year.

Vir Advani During the start of the last quarter, we had about Rs. 300 crores of low and no margin orders. Now it is in the range of about Rs. 175 crores.

Anand Narayan And the balance orders will be at what margin?

Vir Advani Our new orders are back to normal margins, they have a site margin of 11%-12%.

Anand Narayan So that should improve your PBIT margins in FY15? Will that be in the range of about 6%-7%?

Vir Advani As we still have some legacy to address, we are looking to raise that to around 6%-6.5% from current 4.4%.

Anand Narayan And Sir, my next question is on borrowings. I think initially we had decided that the borrowings will be somewhere in the range of about Rs. 360-400 crores. So how do we plan to reduce the same from present levels of Rs. 430 crores odd?

Vir Advani So net of cash our borrowings stands at Rs. 384 crores. We were looking to bring it down by Rs. 100 crores but were unable to do the same. However, we are fairly optimistic that in FY15 we will be in a position to do so.

Anand Narayan What is the hedging strategy right now?

Vir Advani We are hedged about 50% right now. During the year it ranged between 50% and as high as a 100%.

Moderator Thank you. Next question is from the line of Sonal Minhas from SAIF Partners. Please go ahead.

Sonal Minhas Just a quick question on the way you report your segmental financials correct me if I am wrong. I think most of the companies actually reward their capital employed as a sum of the equity and the debt of the books and how we see your numbers is that the capital employed adds up to roughly the equity value of the business or the net worth of the company. Is that something which is the conscious call because normally the capital employed is the sum total of both that is helps understands the business to the extent it is the way it should be?

Vir Advani Let me do this. I will get back to you or let me send out actually a formal note to all investors on how we actually report our capital employed. It may give you reflection. I would not be able to answer it on the phone right now but I will make sure we get back to everyone on this subject.

Sonal Minhas Yes, that is the clarification I need on this one. nothing else actually.

Vir Advani So what you are looking for, just to clarify, you want to know the capital employed segment wise at aggregate level rather than just at the equity level?

Sonal Minhas I will just repeat the question. The typical capital employed by any company is done as the sum total of both the equity and the debt on the books on the liability side and the assets on the other side. Now if I add this as per your numbers this adds up to only the equity value of the business, the net worth of the business. So it is not actually return on capital employed in a true sense. One part of the capital is not reflected in this numbers?

Vir Advani We will get back to everyone on this.

Moderator Thank you. Next question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.

Renjith Sivaram Sir, can you please give the order intake for this quarter and the full year?

Vir Advani The order inflow in the Segment-1 for the year was Rs. 1,582 crores as compared to Rs. 1,472 crores in FY13. Now, I also mentioned that Q4 was not such a great quarter for order inflow. During the quarter, order inflow was Rs. 235 crores down from Rs. 314 crores a year ago. So while the year was higher, Q4 was lower. We are expecting that to reverse this year.

Renjith Sivaram And Sir, reason behind the increase in other income?

Vir Advani The other income has increased to Rs. 54.51 crores on the back of exceptional items and income tax refunds and the interest related to those. The other reason for increase is that we had dividends paid out from two subsidiaries of us, which were exceptional or larger than the prior year. That dividend was essentially on one time sale of a property in a subsidiary.

Renjith Sivaram Sir, if you can quantify that?

Vir Advani The increase in dividend is about Rs. 9 crores; the increase in interest on IT refund is about Rs. 5 crores. So the total differential there is about Rs. 15 crores which more or less explains the big jump.

Renjith Sivaram So sir, any write backs in terms of provisions?

Vir Advani There is not much change in provision for write back. Whatever we have been doing annually for the last several years, it was more or less in line with that change.

Renjith Sivaram In terms of tax next year, will we see coming back to the normal levels of taxation or is there something for next year also?

Vir Advani We will stay at MAT in FY15 as well.

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

Madan Gopal Sir, first on MEP business. Last time when we met, you were confident of delivering growth of around 15% this year. The order book has increased by just 3% YoY. So still that growth looks possible?

Vir Advani I would like to clarify couple of things. In Q4 the inflow was lower than expected. But that will not dramatically impact the billing for this year. This is because we will not able to bill the carry forward that we opened within FY14 faster because of the liquidity problem. With the new government we are expecting at least the carry forward order book should be executed faster. And so by indicating a growth in revenue in Segment-1 in FY15 we are not even returning to normal levels of order execution but certainly better than last year.

Madan Gopal My second question is on the AC business. In the room AC business, did we witness a decline in volume or there was a growth?

B Thiagarajan There was growth in volume as far as Blue Star is concerned.

Madan Gopal What about the market?

B Thiagarajan There was a marginal growth in volumes.

Madan Gopal Is there some sort of improvement in our market share this year?

B Thiagarajan We have been improving our market share every year for the past three years. But not to the extent we desired. As you may recall, our goal was to reach 9% market share last year but it has remained at 7% plus some 0.5%. So every year we outperform the market in terms of the topline growth as well as the bottomline growth.

Moderator Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda Just recalling on some of the old projects, we had to review the receivables and the balance sheet and closure of the project. So what is the status there? And now since the old backlog is down to Rs. 175 crores, is there anything that needs to be done with it?

Vir Advani So we have brought down the carry forward of legacy orders to about Rs. 175 crores. It has dropped to below 100 projects that need to be closed. There will be some impact on margins, like we have seen over the last few years, but obviously the quantum of it has reduced. And so therefore that is why we are indicating that in FY15 Segment-1 operating margin will be in the range of 6%-6.5%. We expect to return to normal in FY16.

Pritesh Chheda And the balance sheet receivables, have we looked at it? Any need to worry there?

Vir Advani We have done significant provisioning in FY14 on old outstanding, which has been addressed. In case of legacy projects, until we close them and collect the money, there is some amount of risk. But that is again factored into our plan for FY15. So closure of the jobs will lead to some of this which we have forecast.

Pritesh Chheda So what will be your assessment on the HVAC market growth for FY15 and FY16? And MEP market growth for FY15 and FY16?

Vir Advani In FY15, the MEP growth will be flat. FY14 saw very large amount of metro business getting finalized which is not the case in FY15. FY15 will see some recovery in the commercial real estate market. FY16 of course we have great hopes of the segment growing much more rapidly because we expect the business from commercial real estate as well as metro & airport to increase. On room air-conditioner may be Thyag can give you an idea of FY15 and FY16.

B Thiagarajan I will address cooling products as a whole. As far as room air-conditioners are concerned, the summer had been erratic. Some parts did extremely well while some didn't. In some parts there is a hope that June may be better. But the overall economic conditions are likely to revive, that is where everyone is in agreement. Given that, I am confident that at least 15% growth in the room air-conditioners topline will be possible. Plus the prices are becoming stable with the exchange rate becoming attractive. So therefore, we hope as we have been saying, that we will grow 5% more than the market.

As far as refrigeration products are concerned, it is primarily driven today by the growth of deep-freezers in ice cream and other frozen food segments that are growing significantly. In the sense you can witness a growth of at least 20%. We expect to grow in line with the market. The cold storage is growing at the rate of 20% because the market size is very small. So on the whole, even when the economy was down we could grow. I think FY15 will be a good year for cooling products and we are well prepared to participate in that growth and perhaps outperform the market.

Pritesh Chheda Just clarify you said 15% for room air-conditioners in FY15?

B Thiagarajan Yes.

Pritesh Chheda In this 15%, will it be correct to assume the volume growth of 7-8%?

B Thiagarajan The prices have been stable since past few months. I am not assuming reduction in price now. As the summer was not great last year, we may see a drop in the prices. But saying that, as we don't expect regulatory changes during this and next financial year, we do not foresee any kind of a change. As we all know that there was a cenvat reduction that was granted and we had prepared our inventory for summer which is expiring in July. I suspect the government will roll it back and that should result in 2% reduction. Plus the exchange rate is very attractive. So there are chances that the prices may drop. But I am not assuming that. Hence on a like-to-like basis, 15% growth should be there.

Pritesh Chheda If the currency appreciation comes down, will that impact our unitary cooling segment?

B Thiagarajan Even in Segment-1 there are imports. In India no compressor is manufactured. The copper is imported; some controls are imported. Therefore you will have impact on that. It is not only for us, it is for everyone.

Pritesh Chheda And let us assume that the currency now stays where it is. When should you start seeing the benefits flowing based on the inventory management or contracts that we have?

B Thiagarajan In the past two months whatever orders we have placed, assuming there is a 90 days lead time for the delivery and as you know we are following a policy of 50% hedging, the benefits are beginning to flow in. But the question whether we will be compelled to revise the prices will depend on the market conditions. As of now nobody is dropping the prices. Though there have been reports of prices being dropped during the past 15 days in Delhi and the North Indian market.

Moderator The next question is from the line of Nirav Vasa from Motilal Oswal. Please go ahead.

Nirav Vasa My query pertains to your projects division. Sir, recently some of the big names from Middle East have started entering the India, especially in MEP and HVAC business. Are we seeing any irrational competition due to this?

Vir Advani Irrational competition has been existence for a while. I do not think we need multinationals to do that as we already have our own local players. I think that there have been a couple of entries during the last year, more on the civil side and in some ways related to MEP. So we may see more competition during FY15. On the flip side Middle East especially the UAE is picking up again. What I have seen is that a couple of companies that came in about 18 months ago, are now focusing back to their main regions, Dubai and Abu Dhabi. We are obviously very conscious about new competition and our stated approach is that, we protect our existing clients quite fearlessly and furiously. We have been doing that for last two years and we will continue to do so. Obviously, new competition may come in, but hoping that if the market begins to open up, it should not impact pricing dramatically.

Nirav Vasa But if I just feel to stretch this question a bit and correlate a few facts. You had stated that you would be going with a standard margin, at a decent site margin so that you do not make any losses and MNCs must have given some irrational price quotations to some of your very long and existing customers. How are you able to tackle this situation?

Vir Advani That is now operations and how we handle the business going forward. Of course that does happen. Customers also do their due diligence. If they see irrational pricing they know that there is a risk, and that the contract would not get completed. So I think in today's market, the customers in many ways are more intelligent about costs than the contractors are. Vendors may actually go with something that they believe is executable. But having said that, there are other clients who would like to take advantage of this special pricing, hold the contractor to it, etc. So there is a mix of what is happening. But again, as we have been saying that, we are focused on decent margin business with good commercial terms. If that comes at the cost of growing, so be it because we need to execute profitable business rather than just growing the order book. What we are expecting is that from Q4 onwards when enquiry levels begin to increase, I think we will get even more selective about the type of business that we book and execute. So I think that we should be able to maintain our margins going forward.

Moderator The next question is from the line of Nitin Bhasin from Ambit. Please go ahead.

Nitin Bhasin My question is on Room AC business. We continuously hear that you are gaining market share, the leading player is gaining market share. Then who is vacating space in our country? Is it the Koreans or is it the Japanese? Who are you gaining market share from?

B Thiagarajan Good question. All of us subscribe to what is known as the GfK Retail audit report. That is based on primary sales as well as the secondary sales. This is an authentic data that is available. However, this does not include the corporate and commercial segment. It includes window air-conditioners as well as split air-conditioners. When the press reports appear or when some marketing communication happens, I believe everyone has got the data. Given that the interpretation is based on whether window air-conditioners is included or not included, whether it is primary sales or secondary sales, whether it is based on the exclusive showrooms or it is based on the exclusive and multi brand retail outlets or it is based on whether one is talking about the residential segment or it is residential plus commercial segment. Now it is unfair to name the parties who might have lost the market share but the question is that there have been many fringe players or first time players who had to come in and have gone out.

And there are many white goods manufacturers who participate in this business on the season only. They are not the serious players post the season. Some of the names that you can see in the audit are basically white good players who are largely present in washing machines or refrigerators. There are many brands which operate in the country like this. The top six-seven players are always known and figures reported are based on the GfK data.

Nitin Bhasin Sir, something related to the reported numbers. If you look at your segment results of the cooling products, which is about 3971 lakhs or 397 million, am I right to say that a lot of the other income which you have reported in your financials is part of the cooling products?

B Thiagarajan No, it is not.

Nitin Bhasin One more question pertaining to the AC manufacturing capacities coming up in India. Do you think after the rupee stabilizing at 58-60, we should see most of these importers moving towards manufacturing in India?

B Thiagarajan Even if you manufacture in India, the import content will be in excess of 70%. Hence we will not see any hardcore manufacturing. The exchange rate fluctuation will not affect the decision of setting up the plant. Also, in any case your manufacturing decision is to be taken keeping a five year to ten year timeframe.

Nitin Bhasin On the EMP business, you said that possibly this year we will not see any metro orders but there will be some commercial orders. If you could just help us understand, how commercial market behaves? Because we have read in media that Delhi still has about 25% vacancy rate; Mumbai still has about 20% plus vacancy rate. How will your commercial real estate market absorption change? What are the drivers which can get this consumed very fast?

Vir Advani Obviously it is not going to be fast. We are actually not looking at abstracting that kind of information. Our information is based on the enquiry levels of various projects that were added in to the enquiry base in FY14 but never got finalized. We started to have discussions with those customers during last six to eight weeks on their plans now. There is clearly a change in the sentiments of our customers in markets say like Bangalore, where there is a marked change in outlook and we are very positive that we will see commercial real estate orders being finalized, may be Q3 onwards. In NCR there is an oversupply. But having said that, there are significant projects in Noida and Greater Noida. Mumbai actually has been very quiet for the last 15 to 18 months. We are aware of the projects that have been kept on hold. But we have started to see the city's top four to five builders reengaging with us on some of their projects. So I am seeing a big change in the sentiment. Obviously orders are not getting finalized yet. I feel it will be Q3 or Q4 before we begin to see that happening.

The metro thing is a reality unless there is a tender in the market, very unlikely that anything will get finalized in this year. So other than Kolkata metro, there is absolutely nothing in the market today.

Nitin Bhasin Let us say, if about 5 or 10 million square meters or square feet was to come up for projects over the next six months to nine months, what kind of order size can one think off for your HVAC business?

Vir Advani The thumb rule is Rs. 200 for a square foot. So you can do the mathematics.

Moderator Thank you. The next question is from the line of Neha Majithia from Microsec Capital. Please go ahead.

Neha Majithia I just now need some clarifications. What was the order book which got executed in the fourth quarter and how much of the new orders were booked in the quarter?

Vir Advani We booked Rs. 235 crores worth of orders in Segment-1 during the quarter and executed orders worth Rs. 453 crores. At the end of Q4 the carry forward order book is Rs. 1,341 crores.

Neha Majithia What will be the average margin for your legacy orders? Which now stands at Rs.175 crores.

Vir Advani While there is no negative margin in them but there may be some negatives associated with closing the in the form of outstanding, etc. So for all practical purposes you can say that there is negative margin related to these jobs. Just to clarify, they would not reflect in the gross margins but will reflect in the operating margins.

Moderator The next question is from the line of Abhishek Ghosh from IDFC. Please go ahead.

Abhishek Ghosh Just couple of questions in terms of the operating margin. What sort of margins do we expect to settle down as far as the cooling product segment is concerned going forward for FY15-16?

B Thiagarajan We foresee it between 9% and 9.5%. However depending on how the exchange rates moves and how the market reacts, this estimate can change.

Abhishek Ghosh What about the MEP segment? What kind of margins do we expect for FY15-16 considering that we have low margin Rs. 175 crores order book?

Vir Advani We say about 6% to 6.5%.

Moderator Thank you. Ladies and gentlemen, due to paucity of time that was the last question. I now hand the conference over to Mr. Vir Advani for his closing comments.

Vir Advani Thank you very much everyone. Thanks for logging in to this call. We will be next holding our call after Q1 results. If there are any questions that you will have that we have not been able to answer please send us an email we will get back to you. Thanks very much and all the best.

Moderator Thank you very much members of the management. Ladies and gentlemen, on behalf of Blue Star Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.