"Blue Star Limited Q4 and FY17 Earnings Conference Call"

May 11, 2017

MANAGEMENT: **MR. NEERAJ BASUR – CHIEF FINANCIAL OFFICER, BLUE STAR LIMITED**

Moderator: Ladies and Gentlemen, good day and welcome to the Blue Star Limited Q4 and FY17 Earnings Conference Call. We have with us today from the management, Mr. Neeraj Basur – CFO, Blue Star Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone 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: Good evening ladies and gentlemen, this is Neeraj Basur and I will be providing you an overview of the results for Blue Star Limited for the quarter and year ended March 31, 2017.

You will recall that last year, we had completed implementation of a complex set of corporate restructuring transactions involving the merger of Blue Star Infotech with Blue Star Limited and separately had also merged two of our wholly owned subsidiaries. Consequently, the previous year's numbers have been restated to give effect to the restructuring. Therefore, our Q4 reported performance this year is not comparable with the previous year's numbers. We would provide you necessary details, wherever relevant, to enable a meaningful analysis of our quarterly performance.

As a key highlight, we would like to mention that we witnessed growth in revenue and profits across all our segments in FY'17.

Following are the financial highlights of the Company for the year ended March 31, 2017 on a consolidated basis:

- Total Operating Income for the year ended March 31, 2017 was Rs 4424.72 Cr as compared to Rs 3624.66 Cr in FY'16 (excluding BSIL's Operating Income of Rs 205.09 Cr), a growth of 22%.

- PBIDTA for FY'17 was Rs 256.99 Cr as compared to Rs 213.44 Cr in FY'16 (excluding BSIL's PBIDTA of Rs 31.16 Cr), a growth of 20%.

- Profit before Tax (before exceptional items) was Rs 158.63 Cr in FY'17 as compared to Rs 118.55 Cr in FY'16 (excluding BSIL's PBT of Rs 25.81 Cr), a growth of 34%.

- Tax expense for FY'17 was Rs 36.67 Cr as compared to Rs 27.70 Cr in FY'16. Effective tax rate for FY'17 was 23% as compared to 21% for FY'16

- There were no Exceptional Items in FY'17 as compared to net exceptional expense of Rs 11.89 Cr in FY'16.

- Consequently, consolidated net profit for the current year increased to Rs 118.63 Cr from Rs 103.65 Cr in FY’16.

- Carry-forward order book as at March 31, 2017 increased by 19% to Rs 1941 Cr as compared to Rs 1628 Cr as at March 31, 2016.

- Blue Star’s standalone net borrowings decreased to Rs 71 Cr as on March 31, 2017 from Rs 243 Cr as on March 31, 2016

- Net borrowings for our 100% subsidiary, Blue Star Engineering & Electronics Limited reduced to Rs 46 Cr as on March 31, 2017 from Rs 59 Cr as on March 31, 2016.

- Consolidated capital employed increased to Rs 758 Cr as on March 31, 2017 from Rs 631 Cr as on March 31, 2016 in line with business volume growth.

BUSINESS HIGHLIGHTS FOR FY’17

Segment I: Electro-Mechanical Projects & Packaged Air Conditioning Systems

Segment I revenue increased to Rs 2233.68 Cr in FY’17 from Rs 1876.01 Cr in FY’16, growth of 19%. Segment results grew to Rs 93.77 Cr (4.20%) in FY’17 from Rs 78.12 Cr (4.16%) in FY’16. Order inflow in FY’17 was Rs 2444 Cr as compared to Rs 1985 Cr in FY’16, growth of 23%.

1. Electro-Mechanical Projects business

Overall, the market witnessed modest growth in FY’17 driven mostly by government investments in some large infrastructure projects. However, corporate and Industrial segment investments remained subdued during the year. The buildings segment catering to offices, IT / ITeS sector and health care projects performed better than other categories.

Order bookings picked up pace in the last quarter after a sluggish growth phase during the first three quarters. Growth in billing during FY’17 is ascribed to execution of higher carried forward order book in select sub segments. Margins however remained under pressure especially in large projects due to execution delays, inflation impact and increase in labour cost.

Cash flows witnessed an improvement towards end of the year. The strategy to focus selectively on profitable and commercially viable projects has started to deliver result in this business. Blue Star continued to maintain its dominant leadership position in the electrical mechanical space in India.

Some major orders won by Blue Star during Q4 FY'17 included Sans Infra, Amazon, IREO, Lodha Developers, Deloitte, Wipro, Alstom Locomotive

Carry-forward order book was Rs 1904 Cr as at March 31, 2017 as compared to Rs 1552 Cr as at March 31, 2016, an increase of 23%.

The segment-wise break-up of the carry forward order book of the Electro-Mechanical Projects business is as follows:

Application Segment	**Share**
Office (IT/Non IT)	31%
Metro Rail	14%
Industrial	10%
Power Generation & Distribution	8%
Hospitals	7%
Mixed Use Development	6%
Malls	5%
Others	18%

2. Central and Packaged Air Conditioning Systems business

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

During the quarter, VRF products sales grew faster than other products and the market since the energy efficiency and other unique features of this product resonated well with the customers. The chiller business also registered relatively faster growth. Blue Star continued to maintain a strong foothold as a market leader in the ducted systems category. Newly configured water cooled screw chillers introduced in the market during October 2016 have been accepted well by the market.

Major orders booked during the quarter were from Larsen & Tubro, Meenakshi Infrastructure, Akshaya Mall and Hubli High Court.

3. International Business

Blue Star continued its focus on expanding its product export business. The business witnessed healthy growth in FY'17. Healthy order inflow continued for water coolers, room air conditioners and other applied products such as VRF, AHU & chillers from various distributors and OEM customers. Distribution footprint was further expanded in

FY'17 through appointment of 11 new distributors and dealers taking Blue Star's presence to 19 markets internationally.

Blue Star continues its journey on strengthening its brand in select international markets. On the economic outlook, emerging markets of the Gulf Cooperation Council (GCC) countries and Africa are expected to remain under pressure. New geographies have been identified for expansion in FY'18.

Segment II: Unitary Products

This segment registered revenue growth of 27%, to Rs 1999.56 Cr in FY'17 from Rs 1579.68 Cr in FY'17. The segment results grew 26% to Rs 203.73 Cr (10.19 %) in FY'17 from Rs 162.07 Cr (10.26%) in FY'16. The results in Unitary Products segment include investment in our new product categories such as water purifiers, air purifiers and air coolers.

1. Room Air Conditioner business

During Q4, our room AC business grew by 17% against the estimated market growth of 10% during the same period. The room AC industry witnessed subdued growth in Q4 FY'17 after 3 quarters of robust growth. Sluggish secondary sales, higher opening stock levels, lower than normal temperatures in South India and the residual impact of demonetization impacted growth of room AC industry in Q4. Blue Star improved its market share. In FY'17 Blue Star's market share improved to 11.5% from 10.5% in FY'16 on the back of improved product penetration among the existing dealer / retailers coupled with better product range, aggressive sales promotion and widening of distribution footprint.

The Company continued to perform better in the high energy efficient products such as inverter ACs. With growing volumes in tier 3/4/5 markets, more customers prefer availing consumer finance schemes. In FY'17 close to 21% of the ACs were sold through consumer finance schemes.

2. Commercial Refrigeration business

The market for Commercial Refrigeration products revived in Q4 after a slow growth pace in Q3, primarily due to demonetisation effect. In line with the market trends, Blue Star experienced improved traction in business from its key accounts for deep freezers. The last quarter was also good for storage water coolers and bottle water dispensers on the back of healthy demand from educational institutions and offices. Cold chain business however continued to remain impacted due to demonetisation even in Q4 in Tier 2 and 3 cities across certain product categories.

Blue Star continued to strengthen its product offerings catering to the needs of constantly growing dairy, QSR, ice cream and frozen food segment. Blue Star continued to be a dominant player in the modular cold room business.

3. Water Purifier business

The Water Purifier business was formally launched in Q3 FY'17. Blue Star water purifiers are available in 80 towns with over 135 channel distributors including ecommerce channels and modern trade. Plans are on anvil to increase the distribution network further in FY'18.

Water purifier business is very service-intensive with a regular need of replacement of consumables such as the sediment, carbon as well as RO membrane filters. Considering that Blue Star is India's largest Air Conditioning & Refrigeration service provider, it believes that it can offer differentiated service in this business too and create new benchmarks in the industry. The Company has appointed several service franchises who are being supported by a team of trained engineers to lead the installation and service requests.

Segment III: Professional Electronics and Industrial Systems

Billing of this segment grew by 13% in FY'17 to Rs 191.47 Cr from Rs 168.97 Cr in FY'16. Growth in billing was driven by the few large surveillance projects billed during the year. Segment result grew to Rs 32.48 Cr (16.96%) in FY'17 as compared with Rs 30.35 Cr (17.96%) during the same period last year. The margin in this segment was maintained in line with last year inspite of pressure due to increased competition and changes in service and product mix.

The strategy was further refined during the year for improving sales and profitability across various divisions in the business and various initiatives in this regards are underway. During the quarter, large orders were received from Telegana Medical Corporation, ICICI Bank, Axis Bank, Space Application Centre, Sundaram Fasteners, Mahavir Die castings and Dahlman filtration systems.

BUSINESS OUTLOOK

While the electro-mechanical projects business continues to be adversely affected due to the slowdown in commercial construction, Government-funded infrastructure projects have been witnessing some growth resulting in some traction in this segment. The unitary products business has been performing impressively driven by the Company's strong brand equity and enhanced distribution footprint. Given the early onset of summer and the forecast of a normal monsoon coupled with addition of new product lines such as water purifiers and air purifiers, the prospects of this business look promising. Overall, the Company is confident of sustaining its growth momentum in FY18 as well.

The Company intends to continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few quarters in order to capitalize on the imminent growth opportunities.

The Company is currently evaluating guidelines and updates on GST in terms of transition preparation. We are in a state of high readiness to migrate to the new tax regime as and when the new law gets enacted.

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. 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. Ladies and Gentlemen, we will now begin the question and answer session. We will take the first question from the line of Nitin Arora from Aviva Life Insurance. Please go ahead.

Nitin Arora: My first question is related to the market growth in the room AC segment versus Blue Star, can give us the data for Q4 and FY17? Also can you provide a similar number for VRF?

Neeraj Basur: As far as the room AC segment is concerned, in Q4 the market grew by around 10% and Blue Star grew by around 17%. For the full year, our own estimate is that the market has grown by about 20% and Blue Star has grown by 32% for room ACs. In the VRF space as far as Q4 is concerned, we have grown by close to 43% and the full year market growth rate is around 15%, so that is the overall market and us.

Nitin Arora: My second question is related to the margins in the UCP segment. We did not see any impact on the UCP margins for this quarter despite the fact that there was noise about one of your competitor exiting and the pricing coming under pressure. Is it that the inventory which we ordered last time was still there in the system and hence the impact could be seen in the coming quarters? How should we read that? Another question is that how should we read your brand building exercise now which ended this year on the unallocable numbers of Rs. 137 crores? Can you highlight how should we build in the growth on that and what kind of expenses can we look at from the brand building side?

Neeraj Basur: Let me first talk about the margin in UCP segment, we witnessed that there are two aspects to it. One is on the pricing side; the other is on the cost side. The commodity prices have witnessed an upward swing since last five to six months. You are correct to some extent that since our procurement and purchases for Q4FY17 started ahead of time or do start well ahead of time sometime in September and October hence there was some cushion available in the commodity prices. However, as we get into Q1FY18, we are witnessing the impact of increase in commodity prices on a gradual basis. If you remember in Q3FY17, we did mention that we do not expect commodity price increase to impact us so much in Q4FY17 which is why you do not see the margins getting impacted that much on the commodity pricing side. As far as the sales prices are concerned, there has been some pressure on the selling prices because of increased competitive intensity. As far as our own position is concerned, you are aware that we have maintained a steady position on our pricing as we have tried to make them differentiated based on quality and service parameters, so while we have also been impacted but not to that extent on the selling price side. However, the commodity prices in Q4FY17 have remained kind of stable, going forward, we expect this to put some pressure on the margins.

Coming to your question on the brand spends, again if you recall last year when we had announced the divestment of Blue Star Infotech business and as a consequence we generated a corpus from that sale. One of our stated intent of utilizing that corpus was indeed to spend more and invest more on our brand. You can already see part of that in these results because we genuinely felt that we had been under spending on our brand building. We have corrected that to some extent in FY17. Going forward, we intend to continue to invest on the brand even in FY18, so you can expect to see some growth in that particular category of spend in FY18 also.

Moderator: Thank you. We take the next question from the line of Ranjith Shivram from Antique Stock Broking. Please go ahead.

Ranjith Shivram: Last quarter we had an additional investment under UCP of approximately Rs. 10 crores, what was that amount for 4Q?

Neeraj Basur: Are you referring to the spend on our water purifier business?

Ranjith Shivram: Yes.

Neeraj Basur: We spent an equivalent amount close to Rs. 10 crores in Q4 as well. For the full year we have spent close to Rs. 30 crores, on setting up the launch and then stabilizing our water purifier business in FY17.

Ranjith Shivram: Will a similar amount be spent for next year also?

Neeraj Basur: We are still making our plans for next year and have not really quantified that absolutely in rupee value terms. I understand you are looking at the segment to margins. Broadly you can for your understanding assume 100 to 150 basis points, the impact on the margins will be in that range which will arise from the continued investment and focus on stabilizing and growing the water purifier business. It is just not water purifier; it will include water purifier, air purifier and air coolers as well.

Ranjith Shivram: Any pick up in terms of sales in that segment if you can throw some color on that?

Neeraj Basur: You are aware that we launched this business towards the second part of Q3FY17. After that, largely we have been establishing our distribution footprint and setting up a service infrastructure. We have now established our presence in around 85 cities and also have around 135 distribution points for this particular product. It is early days and it is also a seasonal business. As we get closer to the monsoon, we will start experiencing the first real season of sales for this particular business and probably once we go through couple of cycles of learning what product preferences do the customers have etc., we will be able to give you deeper insights on how this business is growing. So this will now be the first real season as we get into Q1FY18 this year.

Ranjith Shivram: Sir, there was this very high unallocable expenditure in the fourth quarter of Rs. 49 crores, was there any one off in that?

Neeraj Basur: I just explained in response to the previous caller's question, as you are aware in our case unallocated expenses includes the brand spending that we do which is common across all our product and segments. We have not been allocating that and since we have been consciously spending more on the brand creation and brand building specially Q4FY17 as you will appreciate is a quarter where the brand related spends are on the highest ebb, so indeed we did have that in Q4. In addition to that, we also have spent more on technology this year which is also not allocated. So our technology spends, our brand spends and then couple of smaller one offs like we have done some major renovation in one of our offices is the reason why we have this kind of increase.

Ranjith Shivram: For the full year, the unallocable expenditure has been 133 crores, will this continue to grow for the next year or you will see this stabilizing at these levels?

Neeraj Basur: There will be two reasons why it will grow, one the corporate management team and office expenses which we club here will continue to grow in the normal scale of inflation whereas we do intend or expect to step up our brand spend, our technology spend, so to the extent of the later two elements, you may expect some increases in FY18 as well.

Ranjith Shivram: Sir, tax rate FY18 and 19?

Neeraj Basur: FY19, we have not estimated yet, FY18 just to give you a sense, we should be closer to 30%. In the range of 27 to 30.

Moderator: Thank you. The next question is from the line of Tanuj Mukhija from Bank of America. Please go ahead.

Tanuj Mukhija: Mr. Vir Advani had mentioned in his last interview that he expects about 20 to 25% growth in the summer season for the industry and 30% for Blue Star, within that can you please suggest what could be the growth for the inverter AC over the next three months and perhaps for the next three years?

Neeraj Basur: Tanuj, firstly I do not think I have the answer to that question because what we have mentioned yesterday in media interaction is for this particular season. He said that industry should grow about 20% and Blue Star should do about 30% which is where we are headed, but within that how much will be inverter and non-inverter, I do not think we have gone to that extent. Broadly, to give you a sense how we have been doing on our inverter sales, I can cover that part. While the overall industry is concerned in Q4, the overall share of inverters was around 15%, which has improved from roughly around 11-12% which used to be the case one year ago. For Blue Star, our overall share of inverter has increased to around 17% in Q4FY17, which is up from 15%. There is the increase, now you may want to extrapolate some of this increase from an overall directional trend point of view. Inverters should continue to scale up faster than non-inverters, that will be a correct assumption to take, but exactly what will be the inverter growth or something, I am afraid we will not have it at this point in time.

Tanuj Mukhija: Sir, just on a personal experience I have seen that most of your TV advertisements are focusing on inverter ACs, just want to check are you offering any special discount schemes for pushing inverter AC sales?

Neeraj Basur: Tanuj, Blue Star has consistently focused on inverter and high energy-efficient products that has been our strong sales pitch now for almost four to five years, but that does not suggest that we are not offering other products. We do offer non-inverters, six-speed products etc, but at the same time, we are not specifically carving out any specific sales teams only for inverters. In the normal course what you would expect us to do in terms of our sales incentivization plans, holds true for all our product categories.

Tanuj Mukhija: Can you give an outlook for the MEP segment, is there now a shift more towards integrated orders versus piecemeal orders and a bit on the competition intensity?

Neeraj Basur: Our MEP market overall, let me talk a little bit about what has happened in FY17. Broadly, if we look at the three or four categories that we play in, in the building segment, we did see some positive traction in Q4FY17 and overall performance of the building segment was relatively better than other categories. We did see some enhanced action on the part of some large developers, corporate, specifically in the IT/ITES space, some hotels and some hospitals. The next segment that we focus on is factories, the small, medium and large factories where investments have not been on expected lines and neither have we seen much CAPEX announcement by corporates. As far as the infrastructure sector is concerned, which is mostly government, or government-funded Metro, power generation, healthcare and education projects, this is one segment which has been growing quite steadily. Here is where Blue Star has also created adequate capability and experience particularly in the Metro segment for executing large jobs. The heavy industry segment power and steel is quite sluggish at this point in time, so it has been a bit of a mixed bag as far as MEP is concerned, to your question, yes, as far as our own focus is concerned, we are indeed wanting to create more and more of an integrated offering which cover the mechanical, the electrical and the plumbing service offerings. That works quite well and that is where Blue Star is in a position to present itself as a differentiated player as well. Going forward whether this will be the trend, it will be in line with different segments, so for example in the building segment there is an opportunity to present integrated MEP service offering whereas the infrastructure segment probably will be individual services in that context Outlook going forward for each of these segments is we hope that going forward private sector CAPEX picks up because that is one sector or one segment which has really not done well for quite a while and once that happens, we believe that Blue Star is going to be positioned reasonably well to be able to offer integrated set of services to many more customers.

Tanuj Mukhija: Sir, a bit on the competition intensity and the margin outlook for this segment?

Neeraj Basur: Competition continues to be intense. There is no let down on competition, yes, we also see is a bit of a shift from regional players to more organized players that has been our bit of experience on MEP and that is going to be helpful for all the large organized players. However, please also keep in mind when you talk about outlook, GST and its impact on this particular business segment is yet to be fully understood, not just by us also by our customers, so how will that play out after say four-five months we will need to closely monitor and watch, and then respond appropriately.

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

Madan Gopal: Sir, first on you spoke about the commodity price impact and the challenge that can come for Q1FY18. Given the higher growth in the market right now do you think there can be some bit of price increase that can cushion us?

Neeraj Basur: Are you referring to room AC?

Madan Gopal: Yes, room AC business.

Neeraj Basur: Madan, the possibility of price adjustment, increase or decrease is frankly going to be quite market driven at this point in time. The good thing is that the summer season has started off on a good note. Frankly as of now, there would be a bit of a stocking situation with almost all players. So in that context whether any quick price adjustment is unlikely because everyone would want to rather stay focused on the entire Q1FY18 sales and growth plans. However, if commodity price increase continues to be a sustained phenomenon that is when one can safely presume that some bit of price revisiting might become a necessity, but not at this point in time.

Madan Gopal: Second, you gave some numbers on the mix of inverter to us. I am trying to do some rough numbers, is it possible that the inverter would have doubled for us in terms of volume?

Neeraj Basur: Between last year and this year?

Madan Gopal: Yes.

Neeraj Basur: Not doubled, but yes close to doubled.

Madan Gopal: While you were explaining on the unallocable expenditure of Rs. 133 crores, you mentioned that there was a renovation expenditure this year, what was the amount for the renovation expenditure? Also that number should not be coming through next year, right?

Neeraj Basur: Yes. That was not a very significant number, Madan, and that was for one of our offices in Mumbai, but since that does not get allocated, I made that mention.

Madan Gopal: Is it possible to tell what the commercial refrigeration percentage mix was or give us a close number if possible?

Neeraj Basur: Let me talk about that since you have raised the question. You are aware that when we talk about commercial products, we talk about our storage water coolers, we talk about our bottled water dispensers, our deep freezers and the cold room products. Across all these four products we have done reasonably well and our water cooler business grew by close to 28% as against market growth of some 10 to 12%. Our bottle water dispenser business also grew reasonably well by about 15% whereas we understand the market in this particular segment would have grown by around 10%. The deep freezer would have grown for us by around 30% whereas market grew by around 12-15% in this particular category and here we are indeed witnessing some good demand for Blue Star deep freezers. We have been increasing our distribution footprint as well, particularly in the glass top freezer category. The demand in our cold room business was not that great in

Q4FY17. First three quarters were better for this business, however, here again in the model of cold room products, we have a market share of close to 30%, so overall commercial products had a good run in FY17. As I mentioned in my opening remarks this is probably after very long while that we have had a year where across all the segments, all the categories of our businesses have increased their market share and have resisted good growth.

Moderator: Thank you. The next question is from the line of Varun Agrawal from BOI AXA Mutual Fund. Please go ahead.

Varun Agrawal: Just wanted to understand in terms of South India versus North India, particularly about our UCP business, if you can elaborate more on room AC, how is the growth, was there a significant difference in growth in South India versus North India?

Neeraj Basur: Yes, Varun, again this has not changed. Our overall market penetration tends to be and continues to be higher and better in South India followed by West, North and then East, so that differentiation continues even in Q4.

Varun Agrawal: I was asking this as there was drought situation in Tamil Nadu and couple of states in South India, has that impacted us or is it more like a regular business there?

Neeraj Basur: So far we do not see any significant impact of that phenomenon. Q4FY17 as you are aware started off on a slightly slow note because the month of January did have some residual impact of demonetization. That was uniquely experienced across all the regions, and then the sales began to pick up somewhere between middle of February and then through the month of March. So far we have not really witnessed any significant impact of that weather pattern which is currently going on in Tamil Nadu.

Varun Agrawal: Second question is that I just wanted to understand the competition intensity for room AC business particularly between Metro versus Tier-2, 3, 4 cities. Is there significant difference between the competition intensity?

Neeraj Basur: Not really, our growth has actually happened much faster in Tier-2, 3, 4 cities and not as much in metros and when you look at the top six or seven players, whether in the metros cities or in Tier-2, 3, 4 cities you will see the same set of names. It may by region vary a little bit but by and large those top five-six names are consistently present in metros as well as Tier-2, 3, 4 cities.

Varun Agrawal: Just a clarification on the earlier comment you made on the 100 bps impact due to spend on water purifier and air purifier business, so was that impact on the whole UCP segment or particularly about the water purifier or air purifier segment?

Neeraj Basur: To clarify, we will continue to invest in this particular new product expansion and the impact will be on the UCP segment as a whole.

Varun Agrawal: 100 bps impact, okay, thanks for that review. One last question, the MEP has reported very good growth numbers and very good margin. Have we seen improvement in the execution or the overall delays have reduced or what has changed actually?

Neeraj Basur: On the MEP space, as I covered the order booking has improved. However, in the select segments or sub segments, we grew by around 20% and market would have grown by about 12-15%. Now what has definitely improved in the last four to five months are the two things, firstly execution of infra projects and execution of projects in the building segment which are pushed by the large builders which is IT/ITES kind of jobs, this has helped us bill faster and also what we have experienced in the last three months was improved cash flows for this particular business. There is a little bit of turnaround situation as far as the cash flow performance is concerned, which has also helped us in managing the capital investment for this particular business for the full year, but again I would say these are early days. We do hope and expect this trend continues, notwithstanding the fact that we all will go through the GST transition and that is one impact no one really knows about as of now.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: Just one clarification on the commercial refrigeration product wise numbers that you shared, which is cooler 28%, dispenser 15% are these for Q4FY17 or full year?

Neeraj Basur: These are for Q4.

Amber Singhania: Can you share the same for the full year?

Neeraj Basur: For the full year as far as our storage water cooler is concerned, we grew by around 23%, as far as our bottled water dispenser are concerned, we grew about by 23-24% and our freezers also grew by about 23%. Across all the three major products, for the full year we grew about 23-24%.

Amber Singhania: How much we have sold in air cooler?

Neeraj Basur: Air cooler is not a very significant amount at this point in time, we will be getting deeper into this product in FY18. It is not a very significant amount we have roughly sold about 10-12 crores in FY17.

Amber Singhania: Can you give status of the CAPEX, how much we have done, what is the status of the plants and what are the expected timeline?

Neeraj Basur: In FY17 overall CAPEX that we have incurred is about Rs. 100 crores, this is just to give you a context that includes a spend of about Rs. 30 crores on land that we acquired in Jammu and Sri City, these are two cities where if you recall we had told you that we want to invest for future expansion. This was done strategically with one location in North India which was Jammu and another one in South India which could help us logistically to cater to the South India market, so we went ahead and acquired these two parcels of land. That was Rs. 30 crores, and remaining Rs. 70 odd crores included regular running maintenance CAPEX for our existing factories and also like I explained earlier, we have spent money on technology that was the overall breakup, of course we also spent on R&D this year. As far as our current outlook on Jammu is concerned, we think that clarity and clarification will come post GST whether Jammu will continue to enjoy some incentives equivalent to the current exemption. So we want to be very sure, that what will be the structure, modalities and overall outcome on that part before we go ahead with our commitment on further CAPEX. So as of now we have just put that decision on temporary hold because in the meantime, this GST rollout is also happening, we will wait and watch for couple of months. Sri City will follow, in terms of our prioritization we want to first take an investment decision for Jammu followed by Sri City. It will be a sequential decision and once we have clarity on Jammu then a decision on Sri City will be taken up.

Amber Singhania: What is your outlook for the overall room AC growth for FY18 as a whole?

Neeraj Basur: Well, at this point in time, again the GST impact is one impact which no one knows. That will to whatever extent come and impact the room AC business, having said that since the summer season has started off on a good note and fortuitously since the peak season for room AC business starts by June and by the time GST goes live, hopefully, the impact on this business category should be fairly limited or restricted. Keeping all the factors in mind and the good early season, our own sense is that market growth will be at least 15% or around 15% seems to be a reality.

Amber Singhania: Will we grow 10% higher than that?

Neeraj Basur: Well, we aspire to do higher than market, probably somewhere in the range of 20-22% is what we would endeavour to grow.

Moderator: Thank you. The next question is from the line of Harsh Dhanuka from Ncubate Capital Market. Please go ahead.

Harsh Dhanuka: Sir, my query was a follow up on the commercial segment where you have spoken about the growth rate of the commercial water purifier, water cooler and water dispensers. So wanted to understand, one is where do you see the growth coming from, what would be the key segments for these two particularly the storage water cooler and water dispensers and how do you see the growth pace for the next year?

Neeraj Basur: As far as storage water coolers are concerned we largely see institutional purchasing like educational institutions and commercial institutions, that is where most of the volumes are coming from, same is the case for water dispensers. As far as the freezers are concerned, we have some good off-take coming to us from the QSR operators, restaurants, ice cream manufacturers and so on. This is part of the organized retail where we have some good traction for some new models of deep freezers that we have introduced lately. The suppliers of frozen food business operators and dairy operators is where the deep freezer business is growing.

Harsh Dhanuka: What would be our market share in this storage water cooler segment?

Neeraj Basur: As far as storage water cooler segment is concerned it will be around 12%.

Harsh Dhanuka: What is the expected growth in the next year for us?

Neeraj Basur: We except commercial products to also continue to grow in the range of mid-to-high teens.

Harsh Dhanuka: In terms of kind of residential water purifier piece, this was as you mentioned first year, for the next monsoon in FY18 how do you see the distribution footprint and the market share growing?

Neeraj Basur: This will be effectively the first full year of our business, so we are not yet looking at market share. As for distribution we really want to spread up to 100 cities spreading ourselves to the main regions across the country, so that is one part. The other part is on the service franchisee network which we want to build fairly quickly and then from there on we will take initiatives to step on the sales growth.

Harsh Dhanuka: What would be the number that we did last year?

Neeraj Basur: We closed the year with around 85, we are present in 85 cities across 135 distribution touch points.

Harsh Dhanuka: In terms of sales?

Neeraj Basur: Well we have not separately carved out the sales for water purifiers for public disclosure.

Moderator: Thank you. The next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.

Abhishek Puri: Most of the questions have been answered, just wanted to understand since you are stronger in the southern region and you mentioned in the commentary that it was sluggish in South India, have you gained market share in other regions? And a follow up on that. Is there any factor that could drive higher growth in any of the other regions in FY18 that you would want to highlight?

Neeraj Basur: Abhishek, we have stated in the past that we definitely want to do better in the northern region market because we have identified that as one of our weak spots. We wanted to improve there, lot of efforts have gone in the last one year to strengthen that. Broadly, we have gained some 100-150 basis points in the northern region in FY17, so the traction of some of those initiatives now seem to be showing some early results, but having said that like I said short while ago, the overall distribution of our market share continues to be most dominant in South followed by West, North and then East.

Abhishek Puri: In terms of window ACs and split ACs, how is the market shaped up now and if you can give us some idea?

Neeraj Basur: Broadly our understanding is that we have splits to windows ratio of about 18:20 that is the overall split or overall distribution, this is for us. We do not have the exact distribution split for the market. We have maintained this 18:20 ratio consistently now for last three to four years and we expect this to remain in the same region going ahead as well.

Abhishek Puri: My last question is on the excise duty that you report. It is about 1.8% of sales, I am considering only the unitary cooling products business for excise duty, it may or may not be right, you may correct me on that, this seems to be lower than the other peers which are paying between 7-8% excise duty, is there any impact that we see post GST and is that the reason why we are moving incremental production to Jammu?

Neeraj Basur: Even for us, it is not 1.8%. It will effectively be 12.5% around the rated value, so it will come to that same 7-8%. We will need to give you the data separately. I do not think immediately I will have an answer that how this 1.8% got calculated…

Abhishek Puri: Looking at the full year result, 370 million is what you have disclosed as the excised duty and I am dividing this by the UCP sales?

Neeraj Basur: Probably, we need to clarify that separately to you because there are two more components. We purchase and we trade some part of our sales, which is fully imported and then we sell that, it will not be exposed to excise duty and to some extent we have some components even within the existing UCP sales which are not manufactured by us, so to that extent also while it will have the overall revenue, but it will not have the excise component, so that is the reason I explained that if you do an absolute calculation, you may arrive at a lower number, the effective excise duty applicable to us also is in the range of 7.5-8%.

Abhishek Puri: There is no change expected around GST for any of the benefits that we have right now?

Neeraj Basur: We do not have any benefit as of now, the last set of benefits we had were in our Himachal plant, which completely exhausted in 2015.

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

Anupam Gupta: The first question is on the project business. You have seen a 23% increase in the order book and in the last two-three months you have seen an improvement in the execution and cash flows as well, so can FY18 see a healthy 20% plus growth for the project business?

Neeraj Basur: Anupam, like I said earlier a lot depends on the turnaround in the corporate and private sector CAPEX because that is where as I explained our own competence or our own focus on being an integrated MEP service provider becomes most useful. We have been waiting for a long while now for the industry to start announcing some CAPEX investments for that segment to turnaround. We think subject to that of course the segments which are doing well are infra, government projects and metro projects and some developer driven IT/ITES kind of building projects, in that space which is what we are calling select sub segments of choice, we expect to grow but at the same time it would not be a very easy situation to continue to grow unless all the sub segments fire up across the entire MEP or HVAC space and then just to reiterate, the impact of GST on this entire sector particularly the customers of MEP projects is something which I guess people are getting their head around or trying to get their heads around it now. This could be one unknown challenge at this point in time, but just to get a sense we are expecting growth in the range of 12-15%. Of course, once GST goes live, we will come back to you again.

Anupam Gupta: In terms of margins, will you be in the same range of 4-5% or can it be a bit higher if execution improves?

Neeraj Basur: At this point in time, we do not have a visibility of margin expansion happening significantly. we are already at 4.2% probably this will go up to 4.5% to 5% with further expansion and growth but for the margin to really kick up anything beyond that we really need some more traction on order booking and billing. We also need to bear in mind that commodity prices are firming up which was quite favorable last year, so one of the reasons we have done reasonably well on the margins in this segment is also because we had favorable commodity prices which are reversing and firming up. Now how that will impact us in the next six months is something which we need to watch out for, therefore, overall we could expect margins to be 4.5% to 5% for this segment.

Anupam Gupta: One last thing on the UCP part, if I look at FY17 and adjust the Rs.30 crores which you have invested in the new products, your margin is going to be around 11.7% approximately. If I keep assuming there is no significant contribution from these in the sales and incrementally there would be a 100-150 basis point impact in FY18 because of the continued spend, is it incremental on top of this or does this margin look sustainable?

Neeraj Basur: That will not be incremental, the impact of 100-150 basis points would be on next year's UCP business revenue so to say.

Anupam Gupta: Basically, what you mean to say is that if margins this year adjusted for the spend were 11.7%, whatever be the view on that 11.7% we will have to adjust for 150 basis points further for the spend on these new products?

Neeraj Basur: That is correct.

Moderator: Thank you. Ladies and Gentlemen, due to time constraints, that was the last question. I would now like to hand the conference over to the management for their closing comments.

Neeraj Basur: Thank you very much. Ladies and Gentlemen, with this we conclude this quarter's and financial year 17 earnings call. Do feel free to revert to us in case any of your questions were not fully answered and we will be happy to provide you additional details by email or in person. Thank you very much.