"Blue Star Limited Q4 FY2018 Earnings Conference Call"

May 15, 2018

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

Moderator: Ladies and gentlemen good day and welcome to the Blue Star Limited Q4 FY2018 Earnings Conference Call. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur, Chief Financial Officer.

Neeraj Basur: Thank you. Good morning ladies and gentlemen. This is Neeraj Basur. I will be providing you an overview of the results for Blue Star Limited for the quarter and year ended March 31, 2018. First tell me talk you through the financial highlights for FY2018.

Prior to GST going live, revenue for previous periods included excise duty and other applicable input taxes. Revenue for FY2017 and Q1 of FY2018 in this update has been computed by adjusting excise duty and other applicable input tax from the revenue. There is no impact of this on the profit before tax and profit after tax figures.

Following our financial highlights of the company for the year ended March 31, 2018 on a comparable consolidated basis.

-Revenue from operations for FY18 was Rs 4643.3 Cr, as compared to Rs 4130.8 Cr in FY17, a growth of 12.4%.

-EBIDTA (excluding other income and finance income) for FY18 was Rs 276.3 Cr as compared to Rs 222.4 Cr in FY17, a growth of 24.2%. EBIDTA as a percentage of revenue improved to 6.0% in FY18 from 5.4% in FY17.

-PBT before exceptional items for FY18 was Rs 200.7 Cr as compared to Rs 158.6 Cr in FY17, growth of 29.9%. PBT as a percentage of revenue improved to 4.3% in FY18 from 3.8% in FY17.

-Tax expense for FY18 was Rs 54.6 Cr as compared to Rs 36.7 Cr in FY17. Increase in effective tax rate is due to general increase in taxable profits.

-Consequently, consolidated net profit for FY18 increased to Rs 149.2 Cr from Rs 123.1 Cr in FY17, a growth of 21.3%.

-Carry-forward order book as at Mar 31, 2018 increased by 19.8% to Rs 2093.8 Cr as compared to Rs 1747.9 Cr as at Mar 31, 2017.

-Consolidated net borrowings increased to Rs 289.8 Cr as on Mar 31, 2018 from Rs 119.6 Cr as on Mar 31, 2017, to fund business growth. Our debt to equity ratio was 0.3 as on Mar 31, 2018 as compared to 0.2 as on Mar 31, 2017.

-Consolidated capital employed increased to Rs 1122.6 Cr as on Mar 31, 2018 from Rs 877.9 Cr as on Mar 31, 2017 to support growth in revenue.

I will now talk about business highlights segment wise for FY2018.

First I will talk about segment one, electromechanical projects and packaged air conditioning systems. Segment I comparable revenue was Rs 2350.7 Cr in FY18 as against Rs 2143.4 Cr in FY17, a growth of 9.7%. The segment results grew to Rs 137.4 Cr (5.8%) in FY18 from Rs 90.7 Cr (4.2%) in FY17. Order inflow in FY18 was Rs 2491.0 Cr as compared to Rs 2294.2 Cr in FY17, a growth of 8.6%.

Overall for Electromechanical projects business, Market remained muted for most part of FY18 with investments in infrastructure largely driven by Government through various projects like metro and healthcare while private investments remained sluggish. Our sales prospects base remained challenged with a drop in the office segment. New order booking from heavy industrial & factory segments continued to be low. On the positive side, customer preference for single vendor for multi services is gradually on the rise. Select large value investments from Government and a few corporates continued to get awarded under super bundled route through general contractors.

While the pace of order bookings remained slow, revenue grew as billings from projects being executed in certain parts of the country gained momentum. Select Government projects including metro rail and healthcare also contributed to the growth in billing. Other segments that offered some stability on revenue flow were offices, IT / ITeS & educational institutions.

Profitability improved over last year driven by higher scale and better margin profile of certain key jobs. The strategy to focus selectively on profitable and healthier cash flow projects continues to contribute to segment results. Blue Star continues to invest in smart systems and technology in line with its value proposition of superior project delivery through intelligent engineering, modern execution practices and committed teams.

Blue Star maintained its leadership position in the electro mechanical space in India. Some major orders won during Q4FY18 included MPMMM Cancer Hospital by Tata Trusts at BHU Varanasi, CAPFIMS Hospital Delhi, Meenakshi IT Park Hyderabad, Amara Hospital at Tirupati, Wipro Pune, ITC Factory at Guwahati, MRF factory at Medak, Government

Medical College at Calicut, Government TD Medical College at Alleppey Kerala and Lalji Hospital at Gorakhpur.

Carry-forward order book of the Electro Mechanical Projects business was Rs 1472 Cr as at March 31, 2018 as compared to Rs 1300 Cr as at March 31, 2017, an increase of 13.3%.

The segment-wise break-up of the carry forward order book of the Electro-Mechanical Projects business is as follows: office which include IT and non-IT account for 35% share, metro rail accounts for 6% share, industrial 9%, power generation and distribution 2%, hospitals 16%, mixed-use development, malls 4% and remaining others account for 22% share.

Moving on to our Central and package air conditioning system business, The Overall commercial air conditioning market showed a positive growth in Q4FY18. All our product lines recorded satisfactory growth during this period. New product variants launched in Q2FY18 and Q3FY18 gained traction and the business grew at a faster pace than market growth. The newly introduced configured series air cooled chillers have gained good acceptance in the market. Key segments which contributed to the business in Q4FY18 included Government, retail, hotels, industrial and hospitals.

Major orders bagged in Q4FY18 were from JSW Steel Ltd, Global Tech Park Pvt Ltd, Walmart Pvt Ltd, Asian paints, Ashok Leyland, Kala Mandhir and Kalyan Silks.

I will now talk about our international business. We continued our focus on expanding its product export business. Strengthening of Rupee against the US dollar and increase in commodity prices impacted export billing in INR terms and consequently profit margins.

Our international business is currently present in twenty markets and we are currently focused on deepening the penetration in these markets. During FY18, we increased our international distribution footprint by tying up with reputed distributors.

We are incorporating a new subsidiary at mainland UAE to improve our competitive position in the mid-sized projects and services businesses through direct presence in the mainland UAE.

Our VRF system was approved and listed by Abu Dhabi Quality and Conformity Council (Abu Dhabi QCC) and room air conditioners were introduced with the eco-friendly R410A refrigerant in the Saudi Arabian market, complying with the SASO (Saudi Arabian Standards Organization) regulation standards.

We also actively participated in international exhibitions across the globe, to showcase our wide range of products, and provide our stakeholders and partners the perfect platform for interacting with the consumers.

On the economic outlook, emerging markets of the Gulf Cooperation Council (GCC) countries and Africa remained under pressure. The ongoing sanctions on Qatar by GCC countries have impacted both order inflow and cash flows.

We continue our journey to strengthen our brand in selected international markets. We have plans to selectively and profitably grow our international business and the overall business outlook remains positive.

Moving to segment two unitary products. Comparable revenue for this segment was Rs 2105.4 Cr in FY18 as against Rs 1796.2 Cr in FY17, a growth of 17.2%. The segment results grew to Rs 193.1 Cr (9.2%) in FY18 as compared with Rs 167.9 Cr (9.3%) in FY17. While the commodities remained costlier, price revisions helped maintain the margins in FY18.

Talking about our room air conditioner business. Distribution channel had built up additional inventory prior to the revised energy efficiency norms getting effective from 1st Jan 2018. This coupled with weak summer conditions in southern and western India impacted industry growth in Q4FY18. Room air-conditioner industry registered a modest growth of 15.2% against the anticipated growth of around 20.0% in Q4FY18. Our room air-conditioner business grew 19.3% in Q4FY18 over Q4FY17.

The industry grew at a modest 11.1% in FY18 compared to the 20.0% growth in FY17. In comparison, we grew at 15.2% and improved our market share to 11.5% in FY18. The growth was driven by new market expansions, higher business from Government segment and higher wallet share from modern retail trade.

We continued to perform better in energy efficient products such as 5 star and inverter air-conditioners.

Major orders won in Q4FY18 were from Narayana Group of Institutions, Gujarat Tourism, Thakur International School, Arvind Mills, IDMC and Sri Chaitanya Group of Institutions. Top performing segments were residential and light commercial.

We expect competition to intensify in the inverter air-conditioner segment with some competitors resorting to reducing / maintaining prices despite increase in input costs.

Coming to commercial refrigeration business. Our commercial refrigeration business continued to grow well. With varying capacities in the existing product categories like deep freezers, water coolers, bottled water dispensers, our commercial refrigeration division continued to maintain a strong foothold in the market. Medical refrigeration witnessed good growth with new tender orders. Modular cold room business scaled up with market expansion in dairy, ice cream, pharma & QSR segment. Storage water coolers experienced modest growth with orders from institutions and offices.

Overall the commercial refrigeration business scaled up well in FY18 with high momentum over the industry growth in all the product categories.

Blue Star's water purifier business continued to make deep inroads during FY18. After having penetrated over 100 towns and increasing our product availability to 2000 outlets, the business is focusing on enhancing the productivity of the channels and has engaged over 400 star water consultants (in store demonstrators) who are available at retail outlets to highlight the superior features of Blue Star's water purifier range. These personnel also carry out activations and other field marketing activities for brand awareness and lead generation.

Having gained market acceptance, the product range is being expanded to cover all the price points and customer segments. We now offer a comprehensive range of 27 models (including colour variants).

During the quarter, our water purifiers were awarded as the 'Best Domestic RO+UV water purifiers' in the country in the Water Digest Awards 2018. This is the second time in a row that we have won this award. Introduced in 2006, these prestigious awards are supported by UNESCO and the Ministry of Water Resources in India. Blue Star emerged winner after clearing a rigorous evaluation process by an eminent jury comprising members from UNESCO, TERI, IIT Delhi, WASH Institute and NEERI amongst others.

Our segment II results were impacted by around 150 bps for the current financial year, due to investment in this product category primarily in marketing, brand building and R &D.

We would continue to operate through the company managed contract manufacturing model and would not be setting up our own manufacturing facility. We would continue to focus on electrically operated water purifiers. We have also launched a range of commercial RO+UF as well as commercial UV water purifiers which are being targeted at our water cooler customers as well as offices, restaurants, clinics, and other commercial establishments. We target to achieve a market share of 10% by FY21 which combined with potential service revenue would help us break even in that year.

Coming to Segment three, professional electronics and industrial systems. Segment III revenue degrew by 2.1% in FY18 to Rs 187.2 Cr from Rs 191.2 Cr in FY17. Segment results de-grew to Rs 19.6 Cr (10.5%) in FY18 as compared with Rs 32.5 Cr (17.0%) in FY17. The revenue drop (and consequently the result) is ephemeral in nature due to sluggish market conditions, but the fundamentals and prospects are stronger.

Industrial Systems was impacted by lower demand coupled with lower realization due to sluggish market conditions. Professional Electronics on the other hand grew on increased orders in the Data Security Systems and Healthcare businesses.

We are setting up new lines of businesses under this segment to explore opportunities to rejig and renew the product portfolio in order to improve profitability.

Data Security business performed well on the back of digitization initiatives of the financial sector. Growth potential of Indian digital payment sector and rising focus of enterprises on data security create a huge opportunity for this business. Expected growth in healthcare market also offers good opportunity to grow this business. This segment showed partial revival of demand in Q4FY18.

During Q4FY18, large orders were received from Medical and Health Services (Govt of Uttar Pradesh), Gandhi Medical College & Hamidia Hospital, Asian Paints Ltd., MasterCard Technology Pvt. Ltd., Reliance Industries Ltd., First Data India Pvt. Ltd., Paytm Payments Bank Ltd., Bharat Electronics Ltd., RMG Alloy Steel Ltd., IRCLASS Systems & Solutions Pvt. Ltd. and CSIR National Aerospace Laboratories.

Our business outlook: While growth prospects from construction and real estate sectors may continue to remain challenged, prospects from infrastructure sector such as development of airports and metro rail projects could open up opportunities for the electro mechanical projects business. Unitary products segment is expected to continue the growth momentum and Professional Electronics & Industrial segment is expected to see revival in FY19. The Company will continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few Years in order to capitalize on the imminent growth opportunities.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: My first question is pertaining to the unitary products segment where we mentioned the growth in room A/Cs was 19% for Blue Star. Could you break this up in to how much has been due to volume growth, how much was pricing led and how much was due to improvement in the sales mix because of inverter A/Cs?

Neeraj Basur: This growth is entirely value based. We have been tracking the growth in value terms for the market as well as ourselves.

Sandeep Tulsiyan: My second question is on the margin impact of the water purifier. As you mentioned, it was 150 basis point in FY18. What could be the probable impact of this segment in FY19 margin for unitary product segment?

Neeraj Basur: For FY19, we expect water purifier to have 150 basis point impact on the segment revenue and like I mentioned earlier in my comments, we expect this category to breakeven by FY21.

Sandeep Tulsiyan: What is your perspective on the room A/C segment growth, both for the industry as well as Blue Star for FY19?

Neeraj Basur: The expectation on the entire segment has been positive mainly for two reasons. The overall penetration rates continue to be low at around 5% and FY18 was a fairly disrupted year because of GST rollout, which impacted the overall sales performance in Q1 and Q2. The summer season has not started in line with our expectations. Traditionally months of April and May are good, but this year, unseasonal rains and the weather conditions that are prevailing in many parts of the country have created a situation where the overall sales so far has not really picked up the kind of momentum we are used to. However, having said that, we believe that this will be made up once the weather settles down. For FY19, we expect market should continue to grow in a range-bound manner around 15% to 20% and we will continue to aspire to grow faster than the market even in the current year.

Moderator: The next question is from the line of Rahul Murkya from Jefferies.

Rahul Murkya: How much was the market growth as well as Blue Star's growth in the room A/C business in Q4FY18?

Neeraj Basur: In Q4FY18, the overall room A/C market grew by around 15.2% and Blue Star growth rate was 19.3%.

Rahul Murkya: What would be our market share in Q4FY18?

Neeraj Basur: We ended Q4FY18 with 11.5% market share.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: You expect the market to grow by about 15% to 20% in FY19. In FY18 the market grew by 11%. Currently the weather especially in the northern part of the country is very volatile.

Market growth is also somewhat sluggish. So where is the mismatch? Is the Q1 or let us say the market till date has not declined and that is where the guidance still remains higher than the FY2018 or you think that the next season, in the Q4FY19 would be much better?

Neeraj Basur: There are two or three factors here. Firstly the weather pattern which has developed recently may not last for too long and we still have a period of 40 to 45 days still to go as far as the Northern India is concerned before the monsoon really sets in. The second point also relates to the fact that last year in Q1, the sales had started to plateau out or actually they were flat after about 15 days of May because of GST rollout that happened from July 1, 2017. Therefore actually the second half of Q1 last year was quite muted and we think this may help the market and all the existing players to catch up with the overall quarterly sales. Of course the second half of the year, which is Q3 and Q4 is a bit too far off. Our fundamental premise of having this view of 15% to 20% market growth is primarily arising from the current penetration levels. So irrespective of the overall weather patterns, we think that the market may have a tendency to bounce back towards the later part of the year.

Nitin Arora: You mentioned that the company will target to achieve around 10% market share by FY21 in the water purifier business. Can you share some more insights on this?

Neeraj Basur: We target to achieve a 10% market share in the water purifier category by FY21. We ended FY18 with around 1% market share, which was effectively our first year in that business. We feel quite confident that with our enhanced range of products along with growing distribution channels that we have setup in that product category, we think we should be able to grow to a level of around 10% market share in three years' time.

Nitin Arora: We have seen that the EBIT margin of cooling products settled at around 8.8% in FY2018. How should we look at the margins going forward? Also, what is the capital employed in the water purifier business?

Neeraj Basur: When you look at it on a reported basis, you will find 8% margin profile. However, last year had excise duty in the revenue and on a more normalized basis, our segment two EBIT are 9.3% last year as compared to 9.2% this year, after absorbing the water purifier impact. Like I have already indicated, next year again we expect 150 basis points impact because of water purifier. Other than that, we have been maintaining our segment two margins will remain in the range of 9% to 9.5% before absorbing water purifier business impact.

Capital employed for water purifiers is not a very large investment at this point in time. As I had also mentioned, we have taken up a contract manufactured, but company managed route. Therefore, we have not invested any significant capital or fixed capital in that context for water purifiers. Though we own the product and designs, we are taking the services of multiple contract manufactures and hence it is only the limited investment and inventory that we have to take care of.

Moderator: The next question is from the line of Mayur Patel from DSP BlackRock. .

Mayur Patel: You mentioned a 7.4% revenue growth in cooling products. What is the growth in the different parts of this segment, i.e. room A/C and others?

Neeraj Basur: You need to look at the growth more in terms of comparable basis. So comparable growth was 19% in Q4 and 17% for the full year. This is so because pre-GST FY17 numbers had excise duty and other taxes. So that is the overall growth that we have recorded in segment two.

Mayur Patel: The adjustment of GST is almost 12%?

Neeraj Basur: Right because last year, the excise duty was there on all four quarters. This year excise duty was there only in one quarter.

Mayur Patel: That means like-to-like comparison is 19% growth adjusted for the GST?

Neeraj Basur: Yes 19% as compared to 17% for last year.

Mayur Patel: Can you give segment wise growth numbers room air conditioning and VRF?

Neeraj Basur: As far as room A/C business is concerned, the industry grew at around 15.2% whereas we have grown by 19%. In the VRF business, the market has grown by around 11% in the full year, while we registered a growth of around 23% for the comparable period.

Mayur Patel: Coming to the water purifier business, you said that it will breakeven by FY21, which is still 4 years from now. Is this a realistic guidance or this is more conservative guidance because four years looks a very long period? Is there a possibility that if the market feedback is good, breakeven can be much earlier?

Neeraj Basur: It is quite realistic for the simple reason that this category needs consistent and focused investment in marketing and branding initiatives, which is quite a bit of spend in order to build momentum and scale and spread the overall product awareness in the market. So that continues while the scale grows up. For us to hit a critical scale at a breakeven, we think it is quite realistic for us to expect another three years timeframe and by that time of course we are also talking of around 10% market share, Overall we feel it is realistic estimate on our part.

Mayur Patel: In the last five to six quarters despite the core markets on the project business not picking up in a big way, the company has managed to show very good growth in order inflows. But we are yet to see some decent traction on the execution side. Any thoughts on when can we see pick up on the execution side?

Neeraj Basur: Yes, so the order book looks good but because in the last year after the GST rollout happened there was an element of execution slowdown. Actually, Q1 of the last year for this segment was very good because in anticipation of GST, quite a few customers wanted us to accelerate the pace of execution and their own pace of execution had also accelerated. After that there has been a slowdown because most customers have taken sometime to realign themselves in line with the GST structure. Hence Q2 and Q3 were not so great. GST was one reason contributing to the slow pace of execution and growth. The other reason is still the sluggish nature of the overall market conditions coupled with the fact that financing issues for some of the customers and the banking sector still not fully out of its own set of challenges continues to contribute to some extent to the slow pace of growth. Now our expectation is that FY19 should be better particularly on some of the government projects, which continue to give a healthy push to the overall order book as well as execution.

Some metro rail and airports announcements were made last year and some of these projects should start kicking in now, but of course the execution will take some more time. So overall while FY18 was not so great in terms of the pace and overall order flow, we think FY19 should be certainly better than FY18, though the market may not still register double digit growth and in that context since we are having a reasonably encouraging order book, we feel that will help us continue to build momentum in FY19.

Mayur Patel: Any guidance you are giving on the revenue growth in the project business?

Neeraj Basur: There is no specific guidance per se because the market itself is yet to really start gathering stream. We have been growing in the range of 8% to 10% and we think we will want to continue to do that.

Moderator: The next question is from the line of Charanjit Singh from B&K Securities.

Charanjit Singh: Can you highlight the pricing action for the company as well as for the industry for room A/C segment in Q4FY18 and with the rise in the raw material prices do you see price hikes coming in the industry or still the prices would remain under pressure in Q1FY19?

Neeraj Basur: Pricing continues to be a concern and a challenge while most players took some pricing corrections beginning of Q4 last year. The overall intensity of competitiveness on pricing front remains a challenge for us. So what has been happening is that there are players who have been aggressively positioning some of the five star and three star products in a price band. Since Blue Star products have been enjoying some premium over the market prevailing rates, we continue to do that and do not foresee in the immediate future or at least in the next few months any possibility of our prices going up any further. We have to also look at how we balance out our margins and the mix of how much incentivization one can do as far as dealers are concerned keeping in mind the commodity prices, which continue to be reasonably hard and also the fact that there is inventory in the system. All these factors will definitely put pressure on pricing. Whatever inventory is there was procured sometime back before the commodity price has really made that impact and to that extent we think for Q1FY19 we will not need to take any immediate call on further price corrections.

Charanjit Singh: If we look at the unitary cooling product you talked about the medicinal refrigeration and kitchen refrigeration along with some commercial applications. How large is that category for us? How do we see that market growing within this and what will be the margin profile for that segment?

Neeraj Basur: I will broadly talk about the market position or market values or market size. So kitchen refrigeration is in the range of around Rs.350 Cr and healthcare refrigeration is also in the range around Rs.300 Cr. As of now, these are not very large markets. They are just evolving because with the advent of more QSR chains and organized restaurants, kitchen refrigeration will grow and healthcare refrigeration is also finding a little bit more resonance with the customers like specialized labs, hospitals and pharmacy chains. We will continue to develop new product sales and continue to get to around 4% to 5% of the market in the near to mid term.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Just wanted to understand your thoughts on how has the consumer behaviour pattern had changed following rating changes from January. Would it be possible to comment on how the mix had changed in favour of five star and inverter category for both industry as well as Blue Star?

Neeraj Basur: In FY19 we think inverters would reach around 40% of the overall market share, this was around 25% in FY18. That is more because of the fact that with the newer set of products, which are available now, it makes more sense for the consumer to go for inverters than a fixed speed three star. So to that extent we think the market will continue to move in that direction. As far as Blue Star is concerned we have been in line or slightly ahead of the market in terms of overall share of inverters and we think that we should be in the range of around 40% to 45% in FY19. As far as consumer behaviour is concerned it is yet to fully show up because in Q4, distributors and dealers were still having inventory of the prelabeling change SKUs, which will now get liquidated fully. We do not think there is any significant shift in the consumer behavior because after a point a consumer settles down with the available set of product options. We think in the next couple of quarters there will be acceptance of the new five star and the new inverter category, which will cause this entire share of market to go to around 40%.

Shrinidhi Karlekar: It seems that the inverter category has been a highly competitive industry and domestic players have been putting in an aggressive price on that. Is it due to fact that the market has not grown faster than the way it has anticipated and due to that the intensity is so high and it should correct six months down the line or that is something here to say for long?

Neeraj Basur: We think the growth is here to stay for a longer period for a very simple reason. If you look at the macro picture of the overall AC penetration in India versus any other country that will clearly give you data points, which will be suggestive of the fact that there is a lot more absorption that the market can take, coupled with the fact that most of the growth which is happening in smaller towns, tier2, tier3, tier4 towns, which are still unexplored in terms of the overall sales potential. Thirdly there is a replacement cycle to this product, so probably over a period of every six to seven years the installed base comes up for replacement, so that also fuels and funnels the growth. Keeping into mind all these factors ,our expectation is the market will have a fair amount of growth potential and we should be able to go along with that.

Shrinidhi Karlekar: What are your thoughts on the competitive intensity? Do you think it is something that is prevailing now that is consistent for a longer period or it could be just a matter of time when we see a stronger growth in volumes and accordingly the competition intensity goes down?

Neeraj Basur: Competitive intensity is quite high, but it is nothing new. If you see in this category for last three to five years there are a couple of players who have demonstrated a disruptive strategy using price point as a lever; however, in our experience it has not yielded any long term gains or results for any specific players. While yes in the short-term it does cause increased pressures and competitive intensity goes up, we think we will be able to respond to the current set of competitive pressures also, as appropriate.

Moderator: The next question is from the line of Rahul Ranade from Goldman Sachs Asset Management.

Rahul Ranade: Has the Q4FY18 absorbed the up-stocking due of the energy efficiency norms change that happened in the December quarter or do we see it is spilling over into the next quarter?

Neeraj Basur: Our understanding is it has got substantially sold out in Q4 and we do not think there is any significant pipeline. There could be a few SKUs here and there, but significantly it has been absorbed and sold out.

Moderator: The next question is from the line of Varun Aggarwal from BOI AXA**.**

Varun Aggarwal: What is the company's market share in North India and what is your strategy going to gain more market share in North India?

Neeraj Basur: Traditionally, Blue Star has not been a strong player in North. Going by the historical trends we have had the larger share of our market from south, followed by west and then north and then east. That proportion does not change significantly, south continues to be the largest market for us. The change, which we have been able to implement in the last few years, is that now north and west are almost equal for us. We think that over the period of next few quarters our penetration in north will increase because we are looking at expanding our distribution base along with some sales schemes and sales initiatives.

Varun Aggarwal: You said execution cycles in the MEP segment are getting shorter. Does it mean going forward the overall margins in that segment should be inching towards 6%?

Neeraj Basur: For segment one, we had some good results as far as FY18 is concerned. We closed the year with 5.8% margin. We have been maintaining 4.5% to 5% margins range in this segment. We had few jobs which got closed in FY18 that were more profitable than the average, so obviously that has contributed positively. We think that this is a sustainable level and do not see it inching back to 6%.

Moderator: The next question is from the line of Shekhar Jain from Angel Broking.

Shekhar Jain: Do you have a volume number for the room A/C segment for the market as well as for the company?

Neeraj Basur: We prefer to track sales values over the volumes as that has given us a more consistent reporting base.

Shekhar Jain: Can you give me order book of EMP segment?

Neeraj Basur: Carry forward order book of Electro Mechanical Projects business was Rs 1472 Cr as at 31 March 2018 as compared to Rs 1300 Cr as at 31 March 2017.

Shekhar Jain: What is the break up between domestic and international orders in the same?

Neeraj Basur: This is fully domestic.

Shekhar Jain: You do not have any exposure in the international market?

Neeraj Basur: We do have, but there are very small projects that we do in Qatar, Malaysia and Oman but the order book that we report is for our domestic business.

Moderator: The next question is from the line of Vinod Chari from Dolat Capital.

Vinod Chari: At the beginning you mentioned that room A/C market have grown at 15 % and the company have grown at 19%. But the revenue growth in Q4FY18 is 7%. Is the entire 12% difference due to the indirect taxes or there is some pricing action that you have taken in the quarter?

Neeraj Basur: It is entirely because of the indirect taxes.

Moderator: The next question is from the line of Chinmay Gandre from Future Generali.

Chinmay Gandre: The unitary product business for the full year has grown by 17%. Within that, what would have been the growth of room A/Cs?

Neeraj Basur: Room A/C business has grown by 15.2% in FY18 as compared to market growth of around 11%.

Moderator: The next question is from the line of Aditya Deshpande from Vallum Capital.

Aditya Deshpande: Is it possible to quantify the impact of sanctions on Qatar and how it impacted our operation?

Neeraj Basur: Sanctions on Qatar by the GCC region have not impacted us much in terms of the relationship between India and Qatar because bilateral relations continue to be quite strong. However, we do sell some of our products in Qatar. That part has not got impacted because of the bilateral country relation. Within Qatar we have been very selective in terms of which orders we pick and which orders we commit to. We have kept a very tight watch on the overall order book and also on the cash flow. We have been making sure that the overall exposure of our joint venture company remains closely tracked. To that extent we are comfortably placed. We are good with the current order book and that is getting executed and that is getting realized. We think that over a period of time this geopolitical situation will normalize and the trade relation of Qatar with GCC countries will get sorted out and there will be more business to do.

Moderator: The next question is from the line of Abhishek Roy from Stewart & Mackertich.

Abhishek Roy: Can you give a broad breakup of the input prices that increased during Q4FY18 in the room A/C segment?

Neeraj Basur: There has not been any significant increase in the input prices in Q4FY18 because if you recall bulk of commodity prices had increased in Q2, Q3 and we have taken pricing correction actions in beginning of Q4. That is why the margin profile has been pretty stable because of the price correction actions. We will be good with that because the inventory that we are carrying was procured some two quarters ago. We will again take a costing and a pricing review and decide what we want to do Q2FY19 onwards.

Abhishek Roy: So was there any price increase that you have taken for Q3 and Q4?

Neeraj Basur: We took price increases in Q4FY18 not in Q3FY18 and it ranges from 2% to 4% depending on different SKUs.

Abhishek Roy: What is the market size of water purifier and who is the market leader as of now with how much market share?

Neeraj Basur: Water purifier market comprises of product variants, which are nonelectrical and electrical. We have consciously chosen to play only in the electrical variant market, otherwise the overall market size is larger. The electrical market is around Rs.3200 Cr as of now. This market is growing in the range of 15% to 18% every year. The top three players in this category are Eureka Forbes, Kent and Hindustan Unilever. Amongst the three, they will be having some 65% market share.

Moderator: The next question is from the line of Amber Singhania from Asian Market Securities.

Amber Singhania: You mentioned that you have pile up inventory of raw material to help or to sale through the cost increase. So the entire capital employed increase in the room A/C segment is primarily because of that or do we also have the pile up of goods inventory, which has been stacked with the dealers and might have impact in Q1 sales?

Neeraj Basur: We expected Q1FY18 to be much better and weather predictions were quite favorable. That is the reason we have consciously decided to build that stock which will get liquidated now over Q1FY19 and not as much raw material.

Amber Singhania: We are seeing a lot of climate disruptions especially in the northern part of the country, which might impact the demand. Do we see any risk on our inventory pile up to get liquidated in this quarter?

Neeraj Basur: The season is yet to fully play out. There is still over a month of pre-monsoon time period left in northern India and if this weather pattern reverses even for two or three weeks in a row then that could immediately result in a very quick revival of demand. In the worst case scenario if the whole quarter does not play out the way typically Q1 plays out, our estimate is we should be left with inventory which would not be more than 30 to 45 days.

Amber Singhania: Can you share some numbers on the cooler volumes this year and how do we see it panning out going forward?

Neeraj Basur: The cooler market size is about Rs.1800 Cr. FY18 was practically the first year for us and we ended up with little below 1% market share. We are looking at this market very closely and we want to get to a 4% to 5% market share over the next two to three years in this category.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Neeraj Basur for closing comments.

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

.