BLUE STAR

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February 4, 2021

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 **BSE Scrip Code: 500067**	**National Stock Exchange of India Limited** Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 **NSE Symbol: BLUESTARCO**

Dear Sir/Ma'am,

Sub: <u>Earnings Call Transcript – Q3FY21</u>

With reference to our letter dated January 7, 2021, and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q3FY21 Financial Results of the Company.

The aforesaid information is also being made available on the website of the Company at www.bluestarindia.com

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

Vijay Devadiga
Company Secretary

BLUE STAR LIMITED

Encl: a/a

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"Blue Star Limited Q3 & 9M FY 2021 Earnings Conference Call"

January 29, 2021

MANAGEMENT: MR. NEERAJ BASUR – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Blue Star Limited Q3 & 9M FY 2021 Earnings Conference Call. We have with us today from the management Mr. Neeraj Basur -- Group Chief Financial Officer of 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 '*' 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. I will be providing you an overview of the results for Blue Star Limited for the quarter ended December 2020.

I. Financial Highlights for Q3FY21

The Business continued to stage an encouraging recovery and has almost scaled up to last year's corresponding quarter's levels. Demand revival on the back of the festive season in Q2 and improved customer buying sentiment continued in Q3FY21, supported by a more stable business environment. Operating cash flows continued to remain robust, which further strengthened and consolidated the Company's fiscal health.

Financial highlights for the quarter ended December 31, 2020 on a consolidated basis, are summarized below:

-Revenue from operations for Q3FY21 recovered 90.9% to Rs 1123.89 cr as compared to Rs 1235.91 cr in Q3FY20

-EBIDTA (excluding other income and finance income) for Q3FY21 was Rs 81.56 cr as compared to Rs 57.03 cr in Q3FY20, driven by improved profitability across businesses coupled with cost rationalization measures

-PBT before exceptional items grew 46.9% to Rs 48.82 cr in Q3FY21 as compared to Rs 33.24 cr in Q3FY20

-Tax expense for Q3FY21 was Rs 12.96 cr as compared to Rs 11.97 cr in Q3FY20

-Net profit for Q3FY21 grew 87.6% to Rs 36.72 cr as compared to Rs 19.58 cr in Q3FY20

-Carried-forward order book as at December 31, 2020 was Rs 3157.90 cr as compared to Rs 2812.40 cr as on December 30, 2019, an increase of 12.3%

-Capital Employed reduced to Rs 948.62 cr as on December 31, 2020 as compared to Rs 1124.27 cr as on September 30, 2020 and Rs 1020.52 cr as on December 31, 2019, as a result of our continued focus on working capital efficiencies

-Consequently, net borrowings reduced by Rs 213.05 cr to Rs 131.01 cr (debt equity ratio of 0.16) in Q3FY21 as compared to Rs 344.06 cr as of September 20. Net borrowing was Rs 127.62 cr as on December 31, 2019 (debt equity ratio of 0.15).

II. Business Highlights for Q3FY2021

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

Segment I revenue recovered 77.2% to Rs 585.49 cr in Q3FY21 as compared to Rs 758.80 cr in Q3FY20. Segment result was Rs 34.11 cr (5.8%) in Q3FY21 as against Rs 39.0 cr (5.1%) in Q3FY20.
Order inflow during the quarter was Rs 636.54 cr as compared to Rs 550.49 cr in Q3FY20, an increase of 15.6%.

1. Electro-Mechanical Projects business
Order inflow during the quarter grew as compared to Q3FY20 with the receipt of a prestigious order in the factory sector. Slow-down continued in the Commercial building sector which is expected to take longer to recover.

We continued to moderate pace of execution, basis assessment of customer credit profile and operating cash flow visibility for the ongoing jobs. As a consequence, revenue has not recovered to last year's levels in this business.

We will continue to focus on the Infrastructure sector such as metro railways, electrical substations and water distribution, which are expected to offer immediate growth opportunities. Also, factories, data centers and warehousing sectors are expected to throw up good opportunities in the upcoming quarters.
Carried-forward order book of the Electro-Mechanical Projects business was Rs 2217 cr as on December 31, 2020 as compared to Rs 1941 cr as on December 31, 2019, a growth of 14.2%.

2. Commercial Air Conditioning Systems

In Q3FY21, our Commercial Air Conditioning business recovered well due to healthy traction in the healthcare, pharma, industrial and government sectors apart from commercial construction in tier 3 and 4 towns. Sectors such as offices, marriage halls, auditoriums, hotels and restaurants in tier 1 and 2 cities are likely to revive only in H2 of FY22. While we are maintaining our number 1 position in Ducted Air Conditioning, we are placed number 2 in VRF and number 3 in Chillers product categories. It is pertinent to note that we are the single largest Indian player

in Commercial Air Conditioning business. With the Atmanirbhar Bharat program gaining momentum, this business will be another important growth driver for the Company.
Major orders bagged in Q3FY21 were from Avenue Supermart (All India), Food & Drug Laboratory (Baroda), Prime Hospital (Roorke), ISRO Mahendragiri (Bangalore) and Larsen & Toubro Ltd (Bangalore).

3. International Business

Improved demand for cooling products in the Middle East markets enabled recovery for our International Business during the quarter. Enquires in other markets such as SAARC, ASEAN and Africa improved during the quarter as well.

The upcoming "Expo 2021" to be held in Dubai around mid-2021 is expected to offer good opportunities in the construction sector.

We witnessed revival of order booking at our joint ventures in Qatar & Malaysia.
We continue to focus on the expansion of the Blue Star product range and building brand awareness and brand visibility in different markets that we are present in.

Segment II: Unitary Products

Segment II revenue was Rs 492.97 cr in Q3FY21 as compared to Rs 420.23 cr in Q3FY20, a recovery of 117.3%. Segment result was Rs 38.79 cr (7.9%) in Q3FY21 as compared to Rs 7.95 cr (1.8%) in Q3FY20. Revenue growth and cost rationalization measures enabled us to achieve improved profitability in Q3FY21 vis a vis Q3FY20.

1. Cooling and Purification Products business

Increase in demand owing to the festive season, improved share of billing from the e-commerce channel and general business sentiment improvement enabled growth in revenue for the Room Air Conditioner business in Q3FY21 as compared to Q3FY20. The Room Air Conditioner market grew by 25%. We grew by 32% and achieved market share of 13% in Q3FY21.

Under the Atmanirbhar Bharat program the Government of India has announced Production Linked Incentive (PLI) scheme for Air Conditioners and components. The incentive is payable on incremental sales based on the investment similar to the scheme applicable to mobile phones. While Rs 3000 cr has been set aside for finished goods and Rs 2000 cr for components, the detailed rules pertaining to Air Conditioners and components are expected to be notified soon. The Company intends to participate in the scheme. As already disclosed, the Company is in possession of 20 acres of land in Sri City apart from potential expansion opportunities at its Himachal Pradesh establishments.

Commodity prices including steel, copper and ABS plastics and ocean freight are on the rise and therefore the Company has announced a price increase between 4% to 6% with effect from January 1, 2021.

Other products such as Water Purifiers, Air Purifiers and Air Coolers are performing well in line with the plans and we continue to gain market share. Our Water Purifiers are E-com led products and is on course to break even this fiscal.

2. Commercial Refrigeration business

Our Commercial Refrigeration business witnessed good traction for most of the product categories during the quarter. Demand for cold rooms and refrigeration equipment increased as a result of investments in the vaccination cold chain. In addition, healthy growth in the supermarket refrigeration and kitchen equipment categories enabled us to recover to Q3FY20 levels.

The Company is the market leader in healthcare, pharma and pharmaceutical sectors and it offers Cold Rooms, Deep Freezers, Medical Freezers, Ice Lined Refrigerators and Vaccine Transporters. Further, it has know-how, products and solutions for storage of vaccines from -2o C to -80o C. The Company has been receiving orders from Government and private sector players investing in the augmentation of cold chain for vaccine inoculation program.

Major orders were bagged in Q3FY21 from SK Logistics, Metropolis and Riveraa Labs, Keimed and CMC, Vellore.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue was Rs 45.43 cr in Q3FY21 as compared to Rs 56.88 cr in Q3FY20. Segment result was Rs 8.26 cr (18.2%) in Q3FY21 as compared to Rs 17.99 cr (31.6%) in Q3FY20 Revenue and profitability were higher in Q3FY20 on account of a high margin order in the data security business.

Opportunities from the BFSI sector for the Data Security Solutions business, increased order inflow from the healthcare sector, a pick-up in orders from the industrial sector for material testing and a growth in orders from the essential services of the government sector drove revenue during the quarter.

With the wide portfolio of products and solutions forming part of our offerings, the prospects for this business segment are positive.

Business Outlook

The revival of revenue which started in Q2FY21 with the festival season continued in Q3FY21. In the Electro-Mechanical projects business, we continue to prioritize our project execution based on assessment of customer credit profile and operating cash flow visibility. We are witnessing huge investments in manufacturing sector consequent to the domestic demand growth and localization under the Atmanirbhar Bharat program. As a significant MEP player for manufacturing sector, we expect attractive opportunities in the near term. We expect the growth momentum in the Room Air conditioners and Commercial Refrigeration businesses to continue in the coming quarters. Digitization and Healthcare initiatives continue to offer good prospects for the Professional Electronics and Industrial Systems segment.

We will continue to focus on improving margins and prudent management of operating costs and working capital in order to improve the financial performance going forward.

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

With that, we are open for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: My first question is with respect to the growth in the cooling products and room air conditioners businesses, which is 17% and 30% respectively. Have we seen a pre-buy effect from dealers which had led to the strong growth? Or basically the secondary sales also had been as robust? Given the fact that pre-buy might have been done due to price hike?

Neeraj Basur: Usually Q3 does witness pre-buying activity in anticipation of the summer season that starts in Q4. Therefore, some dealers do stock up their overall inventory levels. In addition, dealers and distributors were also made aware about the impending price increase in Q4 due to the increase in input costs. It is a combination of these factors and the positive business sentiment in general and an encouraging festival season.

Ravi Swaminathan: Got it, sir and this 4%-5% price increase that you had taken, is it sufficient to maintain margins in the cooling products business at 7.5%-8%? Or is there further price hike needed to kind of maintain that margin?

Neeraj Basur: The revision of 4% to 5% that has been made effective 1st January is from a Q4 perspective.. We will continuously review the trends in the commodity prices over the next couple of months and take a view on Q1FY22 pricing towards the middle or end of March.

Ravi Swaminathan: With respect to the employee costs and other costs, it has continued to see a significant decline year-on-year. Is there any chance of employee costs normalizing fourth quarter onwards? Other costs have also seen 30% year-on-year decline, is it because of reduced ad spends or is there any other cost which has been produced?

Neeraj Basur: We had embarked on a cost optimization exercise which was made effective from April itself, much before the impact of the pandemic was fully understood. We were able to implement quite a few measures in Q1 itself, the impact of those is flowing through into Q2, Q3 also and will flow in Q4 as well.

Coming specifically to your point on employee cost, we are continuously monitoring the market trends and are also looking at our own business recovery. We may review employee in Q4 to evaluate what kind of roll-back measures can be considered given that the business recovery is looking quite optimistic. While some of the other cost elements such as freight, warehousing, rent etc. are variable in nature, we have also effected some structural correction the impact will continue to flow in Q4. However, as we scale back to our normal levels, part of that will get course corrected in line with the normal scale.

Ravi Swaminathan: My final question is with respect to PLI scheme. Two parts are there with respect to this question. One is that our Segment-I, have we seen a significant ramp-up in terms of order inquiries because of the PLI scheme from other sectors like pharma, electronics etc., where PLIs have already been announced? My second question is our own PLI, so how much out of the Rs. 6,200-odd crores incentives being given, so how much is it likely to be allocated for the AC business? Are there any broad contours that have been available because it has been allocated for both AC and the LED lightings, right?

Neeraj Basur: As of now, there is indicative clarity for the AC sector. Rs. 3,000 crores has been set aside for room air-conditioners, and Rs. 2,000 crores for the components. We will need to wait for the rules on the PLI implementation to be notified by the government and we do intend to participate in the incentive plan as and when the same gets notified.

Ravi Swaminathan: Okay. So Rs. 5,000 crores is for the AC industry itself, is my understanding right?

Neeraj Basur: That’s correct.

Moderator: Thank you. Next question is from the line of Ankur from HDFC Life. Please go ahead.

Ankur: We are just trying to understand the impact, if any, of this import ban on CBUs with refrigerant, which came in a couple of months back. In your view, has this led to any market share gains by some of the leading top five-six players, at the expense of these fringe brands, the smaller guys? Or do you think they have managed to kind of circumvent that by you tying up with contract manufacturers or setting up gas cooling capacities in India?

Neeraj Basur: It is difficult to assess as of now as to whether this ban has impacted midsize or smaller players significantly as there was old inventory that was still getting liquidated in Q3. The real implications of this on various players who were more dependent on CBU import will get better visibility in either Q4 or Q1 of next year, which is when the inventory levels are likely to normalize.

Ankur: Again on the PLI scheme. I guess, given that we already have enough domestic capacity for AC services versus the kind of demand we have, I am assuming we would be, not just we but the industry would be looking at exports, therefore to kind of meet those targets. So anything you can share, because we already do export from India to various markets, so anything you want to share, how competitive would we be once we get these incentive versus, say, some of these Chinese players and which would be the markets that potentially could be targeted, therefore?

Neeraj Basur: The impact of the PLI scheme, taking some guidance from how it has been designed for the mobile phone, is likely to play out over a period of five years. The entire additional capacity is not going to get created in the first year itself and there is a five year timeframe over which capacities will come up. The organic growth in the Indian domestic market, considering the challenges of FY 2021, should also give some encouraging base effect, for the next few years, assuming there is no other extraneous external factor which impacts growth.

On the export potential, we have presence mainly in the GCC region and also in the ASEAN and SAARC region. This will give us an opportunity to deepen our presence in some of those markets. Of course, there will be competition from other players, whether it is the Korean or the Chinese or the Japanese players who are already present in these markets. . For us over the next few quarters capacity in our Himachal plant, where we manufacture room ACs, is likely reach its peak. We had on our plans, much before the PLI scheme was envisaged, to set up another plant in Sri City. The scheme fits in well in terms of our own expansion aspirations. So overall, we feel it's a quite a good opportunity to explore.

Moderator: The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Shivaram: Congrats on good set of numbers, especially in the room AC segment. Good to see growth coming back. So can you share what is the sustainability of this? Is this probably due to a bunch of demand which was there in the last two quarters which finally the saw it or we see this trend continuing, therefore any sense on this?

Neeraj Basur: We think the growth is sustainable. The fundamental drivers of growth such as penetration levels, replacement cycle are intact. The market actually has weathered the tough and the rough times. We are hopeful and optimistic that the worst is behind as far as India is concerned and if that is true, and we are not likely to go through any further significant disruptions in the next three to six months, we are quite optimistic that growth patterns or trends that we saw in Q3 should continue in Q4. If the summer season starts on time, as it usually does sometime towards the beginning of March and continues till May, June, we should be back on track as far as the usual growth trajectories are concerned

Renjith Shivaram: What is the outlook regarding that water cooler segment which was actually eating into the margins of the RAC, have that finally turned around?

Neeraj Basur: I think you are referring to water purifiers, is that correct?

Renjith Shivaram: Yes, water purifiers, correct.

Neeraj Basur: We mentioned this in the last quarter's earnings call as well. Yes. Our water purifier business for full financial year 2021 will breakeven and it's not going to dilute the margins of Segment-II anymore.

Moderator: Next question is from the line of Bhoomika from DAM Capital. Please go ahead.

Bhoomika: I wanted to just expand a little bit on this PLI. As you saw in the mobile scheme, there were certain licenses given out too few MNCs and few domestic players. So is there any clarity on how, because the AC market is much larger relative to in terms of number of players versus mobiles in India. How this license will be given out or will it be given out to everybody in terms of the incentive, etc.?

Neeraj Basur: We are also awaiting, more clarity on the nitty-gritties and specificity of the scheme. We expect that there would be consideration of past track record and it's unlikely that a new player can just apply and get a license. There would also be conditionality around the minimum investments that will be expected over a period of time and then the incremental sales growth or revenue growth of scale growth that will be expected as a consequence of that. These are some broad structural constructs that we are getting to understand. We are taking guidance from the earlier PLI schemes as well. We however need to wait for the rules to get notified to get a clearer picture.

Bhoomika: You mentioned about pre-buy in the current quarter, so has there been any inventory built up by the channel? As we move ahead we saw a fairly decent jump in terms of margins in the current quarter on back of lower fixed cost, ad spend and some operating leverage playing out. How sustainable is this and what kind of margin profile can we look at as we move into FY 2022?

Neeraj Basur: Pre-buying by the channel is a usual phenomenon in Q3. Our sense is that the inventory levels are back on track across the industry as well as the channel. Inventory level which was a bit of a concern in Q2 is no longer a concern . There are pressures on margin profile in terms of significant increases in commodity price and ocean freight. We expect the margins to be sustainable in Q4 due to scale impact, the operating leverage impact, and the cost rationalization measures undertaken by us. As mentioned this in our last earnings call, we were quite optimistic then that we should start looking at getting to around 100% of Q3 levels of last year by December. As far as Q4 is concerned, there would also be a base effect since March 2020 was impacted due to the pandemic. Therefore, we feel that the growth and margins should be sustainable for Q4 as well as Q1 of FY 2022.

Moderator: Next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: What would be the overall stocking with us with regards to components? Because there have been few players across industries that have been talking about non-availability of containers, which could have a material impact on components or maybe IDUs or ODUs. Can you throw some light on that?

Neeraj Basur: As far as IDUs are concerned, we manufactured almost 100% in-house in the current financial year. Until last year, we used to import IDUs and have become fully self-sufficient this year. The context is of ocean freight increase is of non-availability of containers and the consequent increase in cost.. As the challenge around non-availability of containers started in October, we had pro-actively taken care of our buying requirements to some extent in Q3 itself to ensure availability of the critical components. As far as our Q4 consumption is concerned, we don't have a problem and that has already been taken care of.

Manoj Gori: Also about the Q1, we are covered? Or we would be covered?

Neeraj Basur: Those orders are already placed and we should be getting those components by February. Therefore, we don't see a challenge regarding availability of components for Q1 of FY22. The container availability issue was due to the pandemic-lead disruption in the international supply chain and we are hopeful that by March and April that should also start normalizing We don't see any risk or concern to our production plans on account of non-availability of components.

Manoj Gori: If you look at, FY 2020 normally we say like market would be somewhere around 7 million units for room ACs. Now, obviously, during the current financial year, we would have lost some volumes at an industry level. So how do you do your internal analysis and the expectations on the market size which could pan out for you or for the industry as a whole during FY 2022?

Neeraj Basur: That's a good question. We can't look at FY 2021 because that's a completely distorted base. We would go back to FY 2020 levels as that's a more normalized market situation and if there was no pandemic, Q1 of FY21 15% to 18% growth. A little bit of catch up of over FY 2020 levels is what we have to look at. An aspect that is still a little unclear is whether there will be some unfulfilled demand from Q1 of FY21 that would get fulfilled in Q1 of FY22. In Q3, the market has grown by around 25% which in itself is encouraging because there is a little bit of catch up of these supplies and if that continues into Q4 and Q1, we see no reason why FY22 should not see encouraging growth for the year as a whole.

Manoj Gori: Lastly on EMP business, so obviously now we have been focusing on order executions largely based on your client's credit profile. But in this case, if you delay a lot when it comes to execution, is there any risk that we might lose an order? Because even a client would be waiting for a certain period of time. Can you throw some light at what is the nature of these orders and what are the risks, if any, from base of client orders?

Neeraj Basur: The caveat that we talk about in terms of being watchful applies mainly to few customer categories which may be still stressed because of the current financial situation. It's not across the board. We also have customers in other sectors in the manufacturing, which we are absolutely fine continuing with. There are also government and infrastructure orders that are on track. We feel it is prudent to be more watchful around customers in the stressed sectors. We haven't seen any order cancellations so far. These customers also understand that for us to continue our work and move ahead with the project, they need to close the financial gaps.

. The revival of 77% in Segment 1 could have been higherif we wanted to be more aggressive with some of these customer order fulfillment. We would like to strike a between growth and operating cash flows and that's the reason when we were able to generate close to Rs. 200 crores of operating cash flows in Q3 alone, which has allowed our borrowings to come down to Rs. 130 crores. It's a balanced and a careful approach, which we will continue for some more time till there is greater comfort and clarity in terms of the overall credit worthiness of some customers.

Manoj Gori: So if I understand, in the opening remarks you did highlight that we would be on growth trajectory for EMP business from the fourth quarter onwards?

Neeraj Basur: Our Commercial Air-Conditioning business is doing well. Commercial Air-Conditioning business also has certain customer categories such as auditoriums, marriage halls, educational institutions that are not fully operational yet. Our expectation is that if schools and colleges were to start reopening in Q4 or for a part of Q4, that business should see good traction. When the environment starts to normalize and as the vaccination program grows, these residual sectors will also start normalizing. We are not in a hurry and as mentioned earlier, we are trying to balance growth and cash flows very consciously, because the triangulation of growth, cash flows and profits is critical, it can't be one at the cost of another. In the next couple of quarters as the situation normalizes across most customer segments, the impact of this tactical position would be visible on the balance sheet.

Moderator: The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: My first question is pertaining to the kind of order inflows that we can expect in our commercial air-conditioning segment. So, just wanted to get some idea, because of this COVID related air-conditioning requirement which has increased for storage of vaccines, would it be possible for you to give some kind of opportunity size and how long can this opportunity be?

Neeraj Basur: When you are talking about commercial air-conditioners, I presume you are talking about the Commercial Refrigeration Products business?

Nirav Vasa: Yes.

Neeraj Basur: Our Commercial Refrigeration Products business is part of Segment-II. That business is catering to the vaccine supply chain in two ways. Firstly, we manufacture and commission cold rooms. These are rooms where the vaccine cartons are being stored, waiting to be supplied to the end vaccination points. We have been in that category for a long time and we have enjoyed good customer relationships with all major pharma companies. . Other range of products relate to medical refrigeration equipment. We have the entire range of products that can be deployed to store vaccines. We also supply Ice Line refrigerators which are also used for storage and transportation of vaccines.

As far as the product and solution availability is concerned, we are well equipped. In Phase 1, the vaccination is limited to the frontline and healthcare workers and it's being carried out by the government themselves. Even Phase 2, which will involve the next two crore people will also be under the same structure, and probably even phase three.

As far as the cold chain vaccination equipment and the entire infrastructure is concerned, to the extent we had some state governments who needed to beef up their cold chain infrastructure, that has already happened, and we have participated wherever those opportunities existed in Q3 and Q2. The next wave of opportunities will arise when the government decides to privatize the vaccination program, when the private hospitals and private sector pharma companies will be permitted to directly engage in the vaccination supply chain. Out estimate is that overall at a market level, this may generate approximately Rs 150- 200 crores of incremental opportunity over a period of time, and we being one of the major players will stand to benefit as and when those orders get placed. We don't expect that there will be one major order or a string of big orders that would get finalized in one particular quarter. The vaccination program is likely to be there for some time and therefore can expect the cold room chains and the commercial refrigeration business to continue to do well in that context.

Nirav Vasa: Thank you very much for the detailed explanation. My second question pertains to the advertisement and the promotion spends that we intend to do for the forthcoming season. So we have already hired one brand ambassador, do we intend to continue with that brand ambassador and have heavy marketing expenses or what can we read on it?

Neeraj Basur: We are yet to frame our marketing plan. We normally do that in Q4.. We have been prudent in terms of the marketing spend. It is a discretionary line and it had to be rationalized. We will firm up our next year's plans in a month from now and by the time we have our Q4 earnings call, we will have answers to these questions.

Moderator: Next question is from the line of Apoorva Bahadur from Jeffries. Please go ahead.

Apoorva Bahadur: Continuing on the vaccine part. So could you share how much revenue was booked in this quarter on that opportunity and how much like on an annual basis do you see that opportunity to be going ahead?

Neeraj Basur: We are a regular supplier to hospitals and pharma companies and vaccine manufacturers. There is an uplift because of the current phase of vaccination when state governments had to beef up their vaccine storage and transportation capacity. It's not something we are projecting out for future as a big or a very major additional line of revenue and as mentioned earlier, it will get spread out over many quarters. It won't have a major impact in one or two quarters. Moreover, the same equipments are also used for other pharma or vaccine storage requirements and therefore, it's difficult to attribute revenue from these products and solutions to only Covid vaccines.

Apoorva Bahadur: Secondly on this PLI scheme. So you said like Rs. 3,000 crores have been set aside for finished goods, and Rs. 2,000 crores on components. So wanted to understand, on what level of the value chain will our investment be or are we focusing to invest? For example, I mean, do we intend to get into compressor manufacturing as well or will it be like only assembly side or complete end-to-end value chain including the component? How do you see this opportunity playing out for Blue Star?

Neeraj Basur: Augmentation of our finished goods production capacity is certainly required as we will run out of capacity in our Himachal plant at some point in time. This also gives us a good opportunity to focus on backward integration beyond what we have already done. .For instance, in-house manufacturing of IDUs was one step towards backward integration. We are going to actively look at electronics and our own drives designed for the inverter ACs. We are yet to draw up final plans. Specifically on compressors, we are not likely to get into that space, because compressor manufacturing requires investment as well as economics of very different scale and order. So other than compressors, probably we will be examining most of the components for a potential backward integration opportunity.

Moderator: The next question is from the line of Rahul from Haitong Securities. Please go ahead.

Rahul: In the AC business, we have seen very strong growth this quarter. Could you comment what would be your market share right now? Also along with this, if you could highlight the sales that your company is doing from the e-commerce channels? I think you had mentioned earlier sometime that it was 12%. So just wanted to understand how that number has moved?

Neeraj Basur: As far as our market share in the room AC business is concerned, we are at 13% at end of Q3FY21, up from 12.2% at the same time last year. As far as share of e-commerce in the total sales is concerned, we are now at close to 6%. Our estimate is that the share of e-commerce for the industry is at around 9%. We have stepped up our overall e-commerce penetration.

Rahul: My second question is on capital employed. I think in your opening remarks you did indicate that capital employed has increased. But when you actually see both the segments, important segments, your cooling segment, and project business, both have actually reduced, both on a year-on-year basis and sequentially. Obviously, the unallocable has increased. So, could you comment on this aspect and if you could also indicate, if the trade terms have improved, given that we have seen significant improvement in the capital employed in both the segments, specifically in the project business how that is moving? .

Neeraj Basur: Just to clarify, I had mentioned a reduction in our capital employed compared to September and December of last year.

Rahul: How things have moved in terms of credit terms, and specific comment on the project business receivables, etc.

Neeraj Basur: The credit terms, as far as our products businesses are concerned is normal. It is a cash and carry business and on an average our debtor days don't exceed eight to 10 days. We do not need to support the distributors with any additional credit period. On the projects business, we are watchful on the credit profile of customers to ensure that we are taking a measured credit risk exposure on some of those customers. We are comfortable on the overall operating cash flow situation and that's what is reflected in our net borrowing reduction as well. Maintaining the debt equity at or below 0.2 level is something we will consciously focus on and ensure that the health of the balance sheet and cash flows is kept equally high on everyone's radar internally.

Moderator: Your next question is from the line of Anupam Gupta from IIFL Capital. Please go ahead.

Anupam Gupta: So first question is on the RAC business where you said that industry has grown at 25% and you have grown at 32%, whereas the primary sales which you have reported here has grown at 17% or in that range. So, is the overall inventory normal or you will say that you still have a leeway significantly in terms of, let's say, fourth quarter can still absorb a lot of up-stocking by the dealers because of this faster growth which has happened in first quarter?

Neeraj Basur: Our own inventory even at end of Q2 was almost normalized barring few SKUs. We are comfortable on our own as well as the channel inventory levels as at end of December. Our understanding is, at least the top five, six players and the channel inventory on an overall basis is back to normal.

Anupam Gupta: Actually, I was referring to it the other way. Because the end market has grown faster than what your primary sales has grown. So what I was referring to is that is there a significantly more up-stocking which can happen is what I was checking.

Neeraj Basur: The stocking levels are in line with what they would typically be towards the end of Q3 every year. There is nothing unusual.

Anupam Gupta: Secondly, continuing on the product margin, so let's say this year obviously you had first quarter impact which has flowed through and then you have seen a significant jump in third quarter. But let's say, if you go to the next year versus your earlier commentary that the stable margin for this business is around 9% to 10%. Is that number you are still targeting, or has it changed in the current scenario?

Neeraj Basur: We will take one quarter at a time. We are focusing on exiting FY21 on a strong note. We will have better clarity on FY22 when we come back in May.

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