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November 6, 2023

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

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations') - Earnings Call Transcript for the Second Quarter and Half Year ended September 30, 2023

With reference to our letter dated October 11, 2023, and pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, we are enclosing herewith the Earnings Call Transcript pertaining to the Financial Results for the Second Quarter and Half Year ended September 30, 2023, of the Company.

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

Kindly take the same on record.

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

RAJESH DIGAMBAR PARTE
Digitally signed by RAJESH DIGAMBAR PARTE
Date: 2023.11.06 18:10:24 +05'30'

BLUE STAR LIMITED

Rajesh Parte
Company Secretary & Compliance Officer
Encl: a/a

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"Blue Star Limited's
Q2 & H1 FY24 Earnings Conference Call"
October 31, 2023

MANAGEMENT: MR. B. THIAGARAJAN – MANAGING DIRECTOR
MR. NIKHIL SOHONI – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day, and welcome to Blue Star Limited's Q2 and H1FY24 Earnings Conference Call. We have with us today, from the management, Mr. B. Thiagarajan, Managing Director, Blue Star Limited; and Mr. Nikhil Sohoni, Group Chief Financial Officer, 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 call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. B. Thiagarajan. Thank you, and over to you, sir.

B. Thiagarajan: Thank you. Good morning, ladies and gentlemen. It's a pleasure interacting with you today. Also, I wish to convey the festival greetings to all of you and your family members. As you might have seen from the results announced yesterday, it was an excellent quarter for Blue Star with Revenue from Operations growing by around 19%, EBITDA, margin improving to 6.5% of revenue from 5.4% of revenue and PBT again growing significantly to INR 95.03 Cr that is 5% of the revenue. Today we will address your questions on the quarter that ended, as well as the outlook for the forthcoming quarters.

As you may be aware, during the quarter we also completed the QIP issue and we are on a different trajectory with regard to strengthening our balance sheet, devising our growth strategies and what we would like to deliver in the coming years. Before Nikhil interacts, gives you the update on the quarter and we begin to answer the questions, I would also like to state that the festival season has started off well. We had impressive sales during Onam and subsequently during the Puja as well.

As we are approaching the Diwali season, the demand from the market seems to be significantly higher than what it was last year. The order inflow from several segments, as far as B2B businesses are concerned, are also healthy and encouraging. We have moved past the issues pertaining to supply chain.

Our manufacturing capacity investments are on track, supply chain disruptions are behind us, and we continue to invest in capability building in terms of people and processes. I can share with you that barring certain unexpected or unintended consequences that may be arise due to global economic issues, we seem to be on track to end the financial year on a high note.

With that, I will hand it over to Mr. Nikhil Sohoni.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. Good morning, ladies and gentlemen. I'll provide you an overview of the results of Blue Star for the quarter ended September 2023.

Q2 FY24 has turned out to be an excellent quarter with demand for room air conditioners bouncing back and B2B businesses continuing to grow at a healthy pace. Moreover, margins improved across business segments, both owing to the continued thrust on Total Cost Management initiatives and stability in commodity prices and rates. Further, the company witnessed healthy order inflow and consequently ended the quarter on a record carried forward order book.

As you are aware, during the quarter, the company also successfully completed a fund raise of INR 1,000 Cr through our first ever QIP transaction. This has witnessed a strong response from existing and new marquee foreign portfolio investors, sovereign wealth funds and top domestic institutional investors.

1) Financial highlights for the quarter ended September 30, on a consolidated basis, are as follows:

- Revenue from operations for Q2FY24 grew 19.5% to INR1,890.40 Cr as compared to INR1,582.29 Cr in Q2FY23.
- EBITDA (excluding other income) for Q2FY24 improved to INR 122.69 Cr, which gives an EBITDA margin of 6.5% as compared to INR 85.59 Cr, which is an EBITDA margin of 5.4% in Q2FY23. This improvement was due to scale and higher gross margins.
- PBT before exceptional items grew 65.2% to INR 95.03 Cr in Q2FY24 as compared to INR 57.53 Cr in the Q2FY23.
- Tax expenses for Q2 FY 24 was INR 24.26 Cr as compared to INR 14.89 Cr in Q2FY23.
- Net profit for Q2FY24 grew to INR 70.77 Cr as compared to INR 42.64 crores in Q2FY23.
- EPS for Q2FY24 stands at INR 3.65 as compared to INR 2.21 in Q2FY23.
- The carried-forward order book as of September 30, 2023, grew by 44.4% to INR 6,008.52 Cr as compared to INR 4,162.05 Cr as of September 30, 2022.
- As already reported, the company continues to invest in expanding manufacturing capacity, accelerating its R&D investment as well as digitalization investment as a part of its growth plans and profitability improvement programs. Consequently, the capital employed as on 30th September 2023 increased to INR 2,069.62 Cr as compared to INR 1,441.16 Cr in September 30, 2022.
- The net cash position as of September 30, 2023, was INR 285.85 Cr as compared to a

net borrowing of INR 392.62 Cr, as of September 30, 2022.

2) Business Highlights for Q2FY24

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

Segment I, revenue grew by 12.1% to INR 1,077.21 Cr as compared to INR 961.22 Cr in Q2FY23. Segment result was INR 65.28 Cr, that is 6.1% of revenue in Q2FY24 as compared to INR 60.72 Cr that is 6.3% of revenue in Q2FY23.

Order inflow for the quarter was INR 1,764.80 Cr as compared to INR 1,197.95 Cr in Q2FY23.

1. Electro-Mechanical Projects business:

While the slowdown and delay in order finalization in the commercial buildings sector continued during the quarter, enquiries and orders finalizations from the factories, data centre, railway electrification, water MEP, metro railway sectors and health care sectors remained buoyant. The company continues to be focused on profitable and healthy cash flow projects.

Carried- forward order book of the Electro-mechanical Project business was at INR 4,609.37 Cr as on September 30, 2023, as compared to INR 3,053.83 Cr as on September 30, 2022, which was a growth of around 50.9%.

2. Commercial Air-Conditioning Systems:

The Commercial Air Conditioning business continued to witness traction from the industrial, health care and retail sectors.

Additionally, demand for 3 and 4 cities also continued to increase significantly with major orders from these towns in light commercial segment.

We continued to maintain our number 1 position in Ducted Air Conditioning Systems as well as Scroll Chillers and second position in VRFs and Screw chillers.

3. International Business:

We observed growth across all segments with increasing demand for our products in the international markets. We witnessed strong demand for our VRF systems with increasing adoption of this technology and rising demand from developers seeking value-oriented brands.

The pace of enquiries and order inflows at Qatar started to pick up with a few major orders received during the quarter.

We are also in the process of developing advanced products and solutions for North America and Europe.

Segment-II, Unitary Products:

Segment II revenue grew 38% to INR 729.49 Cr in Q2FY24 as compared to INR 528.69 Cr in Q2FY23. Segment results grew to INR 61.61 Cr, which is 8.4% of revenue in Q2FY24 as compared to INR 32.40 Cr at 6.1% of the revenue in Q2FY23. This was aided by both scale as well as improved gross margin.

1. **Cooling and Purification Products business:**

While the second quarter has traditionally not been a strong quarter for Room air conditioners, aided by latent demand arising out of muted summer, the industry this year is estimated to have grown at 30% over Q2FY23 and the company registered a growth of 39%.

Our market share for H1 is estimated at 13.5%.

2. **Commercial Refrigeration business:**

With growing investments in segments such as food retail, HORECA, hospitality, dairy, ice cream, processed foods and food delivery on the back of rising consumer demand, we witnessed volume growth across major product categories such as deep freezers and visi coolers. We also witnessed robust demand for storage water coolers from the institutional segments.

Additionally, demand for cold storages from the warehousing, processed foods, pharma and HORECA segments remained strong during the quarter.

We also launched our new range of deep freezers compliant with the recently launched BEE star rating program.

We continue to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms.

Segment-III: Professional Electronics and Industrial Systems:

The segment revenue was at INR 83.70 Cr in Q2FY24 as compared to INR 92.38 Cr in Q2FY23. Segment result was at INR 12.23 Cr in Q2FY24 as compared to INR 13.80 Cr in Q2FY23.

The steady rise in corporate capex across segments continued to drive overall demand for this segment. The non-destructive testing business continued to witness traction on the back of manufacturing investments. Increasing investments in health care by both public and private sectors continued to drive growth for health care business. However, a slowdown in data security business partially impacted revenue growth for the quarter.

3) Business outlook:

The early indications are that the demand for room air conditioners and commercial refrigeration products during the forthcoming festival season will be good. With a healthy order book and steady inflow of enquiries, B2B businesses are expected to maintain the growth momentum.

We remain optimistic about the prospects for the remaining quarters and committed to creating long-term value for our stakeholders.

With that, ladies and gentlemen, I'm done with the opening remarks. I would like to now pass it on back to the moderator, and we'll open the floor for questions. We'll try to answer as many questions as we can. And to the extent we are unable to, we'll get back to you via email. Open for questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Lavina Quadros from Jefferies. Please go ahead.

Lavina Quadros: Congrats on a good set of numbers. I just wanted to understand the INR 1,000 Cr that you have raised in the QIP. Could you just outline your investment capex plans for the next 3 to 4 years? And in which areas would you be spending? If you can give a broad sense as well, that would be great.

B. Thiagarajan: Nikhil will be answering.

Nikhil Sohoni Over the next 2 years, that is FY24 and FY25, we expect the overall manufacturing investments to be in the range of around INR 650 Cr in various segments that we are invested in. We are building capacities. There is Sri City Phase 2, which we are investing in. We are increasing the manufacturing capacity from 600,000 to 1.2 million units. We are also investing in sub-300 litre deep freezers, and other new products which we will be launching.

We will also be investing in research and development both in terms of building labs as well as in terms of product development. Besides, there are also investments happening on the digitalization front, and incremental working capital is always going to be there as we scale up. This spend will be happening over a period of 2 years.

Lavina Quadros: Okay. And just on the sub 300-litre deep freezer market, Daikin is the number one player there. Are you all number two? Just to understand the market share dynamics a little bit?

B. Thiagarajan: In room air-conditioner?

Lavina Quadros: No, in deep freezers. Commercial refrigeration?

B. Thiagarajan: I will first give a background on this. Number one is, deep freezer is typically used for any frozen product, but that usage is expanding beyond ice cream. That is the growth driver. Like ready to fry stuff, etc. gets stored there.

Second is, typically deep freezers are in the 400 and 500 litre capacity range. And 300 litre capacity has been coming into play in the past four – five years. That quantity has become significant. What is actually happening is that with the expansion of ice cream consumption into smaller markets, you have smaller capacity deep freezers market size growing, like 150 litre, 250 litre, so on and so forth.

This category in my view will continue to grow at a CAGR in excess of 20%. And also, out of that, the lower capacity deep freezer demand will be significantly growing. Third is, compared with the hard top, the glass top deep freezer consumption is beginning to grow in a much faster way.

For the deep freezers which were getting imported from China, the tariff as well as non-tariff barriers like the QCO, will make that business model unviable for many small manufacturers or the dealers who depended on imports., Thus, in the process, domestic deep freezer market promises good growth potential. We will continue to invest in expanding our manufacturing footprint as far as deep freezer manufacturing is concerned.

Practically, we will be in a position to manufacture any type of deep freezer and of any capacity. Currently, we should be enjoying a market share of close to 28% in this segment and we will continue to improve that market share.

Lavina Quadros: Thank you, sir. Lastly, just on the China imports, how much approximately of the market was it earlier?

B. Thiagarajan: My guess is till last year, 50% of the deep freezers consumed in India would have been imported from China. Many people, like even an ice cream chain, may end up directly importing. There were many local players who were importing and branding it. Blue Star itself imported less than 250 litre capacity from China only.

Lavina Quadros: Understood, sir. Thank you.

Moderator: Thank you. The next question is from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Sir, thanks for taking my question and congrats on a good set of numbers. My first question is with respect to the room AC market. You had mentioned that we would have grown at 39% in this quarter. Your sense on what can be the market growth for FY24 for the entire room AC market? And how much more potential for market share gain is there for you over the next couple of years in the room

AC space?

B. Thiagarajan: Since it was a lost summer season overall the growth will be less than what was originally projected. If you recollect, we all felt that the market should grow by at least 20% and Blue Star should grow by 25%. I had maintained after the summer that still by end of the year, we will end up with a market growth. It will not be a de-growth. My estimate is that the market should grow by at least 10% and we should grow by 15% as compared with the market. That's the estimate. There is a possibility that the market can even register 15% growth. The entire thing will depend on how the climate conditions are in February'24 and March'24. It depends on the onset of summer season.

Ravi Swaminathan: Okay. And the non-room AC business also, you had talked about deep freezers. As an entire sub-segment, non-room AC business, can it grow at a faster pace than room AC driven by deep freezers and other products?

B. Thiagarajan: It has always been growing, but the weightage of that is very small. You are talking about a product category like room air conditioner, which is INR 20,000 Cr market, compared with around INR 2,500 Cr market for deep freezers. Deep Freezer market has been growing much faster than room AC, but it will never be able to catch up with the room AC market size.

Ravi Swaminathan: Good. And say in terms of profitability front also, there has been a jump in the gross profits. That's because of the mix improving or commodity prices going up, operating leverage at EBITDA level. Your thoughts on that?

B. Thiagarajan: Multiple things. Number one is the scale itself helps. Number two is connected with the cost management program, both in terms of product design and product portfolio re-alignment. The third thing is connected with this quarter in particular having lower advertising spend. You may say that advertising would have been lower last year also, but if you look at the industry as a whole, advertising spends are coming down, you might have noticed that for the category itself. It is scale, and in our case also product portfolio changes which includes redesigning and repositioning the products, which improves the gross margin.

The third is the operating costs are kept low, specifically advertising expenses. But equally consumer finance related costs, which is part of the gross margin, has gone up significantly and it will continue to go up for the reason that more than 45% of the sales are happening through consumer finance in case of room air conditioner.

Moderator: Thank you. The next question is from the line of Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Thanks a lot for the opportunity. My question is on the profit margin on your construction side of the business. That is MEP. If you can just tell us, what are the levers available to you and what kind of sustainable margin can one look at in that particular segment, considering that the order growth is so strong?

B. Thiagarajan: The guidance is 6.5%. We keep saying that do not look at one particular quarter margin for that business, for the simple reason that it may be a particular project getting executed or a set of projects getting executed in one quarter compared with certain other projects getting closed in different quarters.

The second thing is that segment one comprises electromechanical projects within which there are buildings, there is infra, there are factories and there are data centers and each one of them comes with a different margin profile. There is a second segment which is package air conditioning, which is VRF and ducted systems which also is part of this segment. The third is associated service business within that. Now, we do believe that at a steady state we may be able to deliver 6.5% margin in that. Anything above 6.5% is dependent on a particular quarter and what is happening. It could be a project which is getting closed, or it could be the mix of the packaged air conditioning orders which are being executed.

The good news is that for our own manufactured packaged air conditioning and VRF, we are in a quarter where the commodity prices are stable, exchange rates are stable, and we have carried out our design optimization and other improvements and benefited from scale itself. This is benefiting. And the service business is a steady one.

The levers that we have got are - stay focused on quality of the project orders and free cash flows. That is the secret to improving the margin scale. In package air conditioning or VRF, we should continue to invest in R&D and continue to look at design optimization initiatives and scale itself, will help us to improve the margins. Therefore, our guidance remains 6.5% to 7% and we are confident that we will maintain our market leadership. We will continue to grow faster than the market and we will keep you updated if there is a huge shift that is going to happen in terms of margin, I mean upwards.

And again, I would like to reiterate that as far as the project business is concerned, we are not chasing market share, we are chasing profitability and cash flows. And we will scale depending on the opportunities that are available, which as of today is in factories, data center and infra projects.

Sanjaya Satapathy: Thanks a lot, sir. Will you also be using part of your fundraising etc., to reduce balance debt considerably or that is not something which we are looking at right now?

Nikhil Sohoni: Yes, on an immediate basis, the money will go for debt repayments. What it does is that it gives us the capacity to raise monies going forward when we actually do the spends. Keeping money idle would definitely not be a good financial proposition and therefore it will in the short term go to repay the debt. But the ultimate end use is what we already defined, that is, manufacturing, R&D and digitalization, and by repaying debt we are creating capacity for that.

Sanjaya Satapathy: Thanks a lot, sir.

Moderator: Thank you. The next question is from the line of Dhanan Bagrodia from ASK. Please go ahead.

Dhanan Bagrodia: Sir, congratulations on a fantastic set of results. This is on your 8.4% UCP margin in an unseasonal quarter, is this something now steady state which will be there going ahead? And what have we done differently this quarter to get these margins in UCP business?

B. Thiagarajan: I am not very sure that I will be able to commit to this steady state. But you are aware of the background. We felt that this business can give 9% to 9.5% margin. That one was pre-COVID target and we all felt it was achievable and we ourselves have delivered in some quarters. And in the recent past, I have been saying, it more looks like an 8.5% to 9% EBIT margin business. That I have been categorically stating even in television interviews.

Basically, because the competition is increasing, and given the seasonality factor, one will be in a position to assume that 9% to 9.5% is not going to be feasible. That is the background. For this particular quarter, it is due to a) significant growth in the revenue. In this business, the elasticity with regard to scale is very high because you are monitoring the operating cost constantly.

Second is, we do have the repositioned products, which in line with our strategy. We were a premium player; we became affordable premium and now we have introduced affordable range. The product repositioning is helping.

Third, we have been saying, when Blue Star Climatech commences production, we will be able to provide certain margin improvement. And that is what is happening because Sri City is now operational. At least 30% of the quantity of air conditioners sold are coming from Sri City, which Blue Star sources from Blue Star Climatech Limited. And guidance, we think we will be somewhere between 8% to 8.5%.

Dhanan Bagrodia: Okay. Fantastic. And secondly, sir, regarding our capex, how much would be the total capex we can expect for this year and next year? After now, with this new capex, this may be a follow up to that. How are we thinking about using our capacities now for exports? Because now we have had some time. Any thoughts on those?

B Thiagarajan: Nikhil will answer. If you are asking specifically about the room air conditioners, you are asking Blue Star as a whole?

Dhanan Bagrodia: Sir, I'm asking for exports now. Will we be using our additional capacities now, to even export? And any thoughts on how we plan to go about that when we enter new regions and new countries?

B Thiagarajan: Okay. Your earlier question was related with room air conditioners. This question is on the Blue Star as a whole. First point I want to clarify is, our international footprint expansion program is not through room air conditioners in this phase at all. The very first phase of our expansion is connected with commercial air conditioning systems and solutions, which are basically the larger air conditioning systems. We will one day be exporting room air conditioners. But today, it is not our intent for the simple reason, China is a very large player in the global market. I do not think we will be able to, succeed there at this point of time. You have to build the scale; you have to build your reputation to become that.

But our clients are connected with the commercial air conditioning systems. And in that, again, each country has got its own design standards. Energy efficiency is different, voltage frequency is different. Thus, we are attempting to foray in Europe and North America. We have certain leads. We are in the process of developing, prototyping, and testing our products. And again, we are not planning to sell using our own Blue Star brand. We are going to be making it for international brands. That is the direction. Our existing capacity will be used for design and manufacturing. We are expanding the capacity as the market grows for domestic as well as international markets.

Dhanan Bagrodia: Okay, perfect. And sir, what will be the capex number for this year and next year?

Nikhil Sohoni: The total capex, including maintenance and everything, will be in the region of INR 650 Cr over two years.

Dhanan Bagrodia: Okay, perfect. Thank you so much. Thank you.

Moderator: Thank you. The next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: Yes. Thank you. First of all, congratulations, sir, on the impressive strategy. I have a first question. In the cooling segment, sir, what is the share of room AC revenues in the first half?

B Thiagarajan: What is the revenue of?

Amit Mahawar: Room ACs in the UCP?

B Thiagarajan: We don't disclose that. It becomes selective disclosure.

Amit Mahawar: Okay, fair point, sir. Second question is on, we are moving from 6 lakhs to 1.2 million. Broadly, 12%, 13% of next two years, three-year annual recurring market demand can be our capacity share. It also implies, we keep the outsourcing also high. So broadly, on a medium-term basis, can you help us understand how much probably will be, met by capacity and what is going to be the outsourcing strategy? Because at 1.2 million capacity, right, which in Sri City 2 will come at 13.5% market share in the first half, which you've mentioned, on a two years, three year basis.

B Thiagarajan: You can make an assumption, roughly around 10% is getting outsourced, which is basically window air conditioners. And also, certain models like vertical air conditioning systems The market size is small. It is not worthwhile to manufacture these products. That will be getting outsourced. You can assume that 90% of the air conditioners sold by Blue Star will be made by Blue Star in its own factories. Either Blue Star or Blue Star Climatech should be manufacturing that. Rest should get outsourced.

Amit Mahawar: Fair point. Very helpful. And I can assume ex of compressors, the entire bill of material is covered by Blue Star?

B Thiagarajan: No. There are a few other items which may be made outside also. Like for example, there may be motors which we buy from outside. There are certain electronic components with our IP. We may get it fabricated outside. It is our own manufactured with whatever needs to be outsourced. Obviously, we do not manufacture compressors as of now.

Amit Mahawar: Fair point, sir.

B Thiagarajan: There will be many other components which will be. It is not everything is made in-house.

Amit Mahawar: Fair point. Thank you very much. And thank you for great color as you always provide. Thank you, sir.

Moderator: Thank you. The next question is from the line of Swati Jhunjhunwala from BOB. Please go ahead.

Swati Jhunjhunwala: Thank you for taking my question, sir. Sir, I have two questions on the UCP side. First, could you give us some color on the volume growth for the quarter? And second, you are saying that industry has grown at 30%, but few of the players have reported an amount of around sub 20% growth. So, any idea or any color you can provide on, who are the major players who gained share during the quarter?

B Thiagarajan: I will not do that. The important thing is that, when we say our growth, it is over last year. Thus, how I performed last year determines this year's growth apart from this year's performance itself. But the question is compared with the market growth, whether we have grown faster? Yes, that's what we understand. Our internal estimates reveal that we have grown faster than the market in terms of the volumes. And the market growth is 30% and we have grown by some 39%.

Swati Jhunjhunwala: Okay. And can you just give any idea on the volume growth for the quarter for the UCP business?

B Thiagarajan: Volume growth only I am saying. Revenue and volume today you can assume are one and the same. Because for the simple reason, when there is a distinct change in the pricing or the product portfolio, I think both will be one and the same as far as this quarter is concerned. There was no steep jump in terms of prices. There was no energy labeling that was taking place in this particular quarter. So, volume growth or revenue growth should be more or less the same.

Swati Jhunjhunwala: All right. Okay. Thank you so much.

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

Anupam Gupta: Yes. Good morning, sir. So, you talked about deep freezers growing faster than RAC. But let's say, if you look at the product business as a whole, so the non-RAC portion, now that you are doing expansion there as well and you are targeting exports as well, over the medium term, how do you see the non-RAC portion of the product business growing in terms of revenues for you? And would it also make any major difference to the margins versus RAC business?

B Thiagarajan: No. What you have to look at is in Blue Star's total portfolio, what is the room AC business? I have estimated it should be in the range of around 30%. One-third of our business should be coming from room air conditioners.

Anupam Gupta: Okay. And then the non-RAC, so let's say when you say the…

B Thiagarajan: There is a projects business and in the long term that may become around 15% of our portfolio, 15% to 20%. The rest of it comes from commercial air conditioning or commercial air conditioning service or both domestic and international.

Anupam Gupta: No, sir. What I was referring to was more of the commercial refrigeration business. So, within the product business itself, you have the RAC and the commercial refrigeration…

B Thiagarajan: You are indirectly asking within segment two, how much is commercial refrigeration?

Anupam Gupta: No, I am not asking that, sir. I am simply asking, what rate at which it will, in your view, for you given the expansion which you are doing, what rate at which it will…

B Thiagarajan: No, you can very easily assume. Next five-year period, 25% CAGR will definitely happen in the commercial refrigeration business. It is a very small base.

Anupam Gupta: Okay.

B Thiagarajan: And so far that growth was also coming from unorganized sector, which will dramatically change for the simple reason, no longer Chinese import is possible. So, it should be a high growth business for organized players who have their own manufacturing set up.

Anupam Gupta: Okay. And as you are expanding, is the competition also expanding capacities to cater to this now that the Chinese imports are not happening?

B Thiagarajan: Obviously. Anywhere where growth is there competition will always be there. And when the market becomes significant, even multinationals will start coming in. Already you have seen many small players being taken over by international players. And so that's part and parcel of the game. And it will be a good sign, right, if others are coming in.

Anupam Gupta: Yes, sure, sir. The second question is for Mr. Sohoni. If you look at this quarter, the capital employed in the product business was significantly higher. I understand unallocated portion was also higher because you have raised the fund. But why did the capital employed in product business go up very sharply, Q-on-Q?

Nikhil Sohoni: The investments which are happening in Sri City Phase 2 plus the sub 300 litre, all of that investments are happening in the current year. So, to that extent, the capital employed will go up. Also working capital, itself is high in this quarter as we start building up for the season.

Anupam Gupta: Okay, so it's already reflecting in the second quarter, is what you're saying?

Nikhil Sohoni: Yes. It's there in the balance sheet. The capital employed will have whatever is the fixed assets, capitalization, CWIP etc. Even capital work in progress is part of capital employed.

Anupam Gupta: Fine. That's all from my side, sir. Thank you.

Moderator: Thank you. The next question is from the line of Shrinidhi from HSBC. Please go ahead.

Shrinidhi Karlekar: Yes, hi. Thank you for the opportunity and congratulations on a great set of numbers. Sir, a couple of questions I have on the electromechanical projects and commercial AC segment. Sir, the product business that the company has within this segment, the VRFs and chillers, may I know what percentage of this business, product business, comes from the project order that the company takes or are largely both these businesses independent?

B Thiagarajan: No. I am sorry. I wish I'm able to disclose that, but the segments were defined in a particular manner, and we have been maintaining that. There is absolutely no reason for us not to disclose that, other than the regulatory reasons. The real issue is that I am a listed company, and my competitors are multinationals. Look at our disclosures, look at our integrated report and the BRSR, all kinds of information that we disclose and unfortunately, we won't be able to have access to any of this information as the competition may not be listed. So, my multinational competitors get access to enormous amount of information.

If that information is available in a fair manner across all and there is a level playing field I am sure more transparency can be expected.

You look at the BRSR, how much of information we have disclosed. Not even 10% of that will be available for unlisted competition. Even the registrar of company's disclosure will be one lump with limited transparency Therefore, for now you have to do with what we can in best interest.

Shrinidhi Karlekar: Actually, sir, I am not sure, I framed my question rightly. I wanted to know, is the projects order you take that drives your product business or these are mutually exclusive business? That’s what I wanted to know. Not the mix of product that…

B Thiagarajan: Absolutely an important question. Some 10 years ago, the projects business would bring in around 40% of the product business, that is commercial air conditioning products like chillers, for example, or any units like that. But increasingly, there is no correlation whatsoever. It is not even 2% that you get out of it.

If you ask me service, yes, there may be 20% service business which may come because you are exhibiting a large project and not because your equipment is there, but it opens up the larger maintenance of a particular facility and you may be in a better place to grab that order. And to disclose to you further regarding large projects and the unbundled equipment. Let’s say, there is a big airport that is coming. He will go ahead and tender out chiller separately, which I may be a bidder I may be still supplying the chiller to that project, but it is not due to projects order. Project base is a separate package altogether.

Shrinidhi Karlekar: Right. No, I understand, sir. And sir, last, I want on the project part of this segment. How often does the contract Blue Star takes have a direct contract with the end customer who is investing and how often it is with some master contractor who is between you and its main company which is investing?

B. Thiagarajan: Roughly around one third comes from what you call as general contractors.

Shrinidhi Karlekar: Okay. And lastly, sir, on the product business within that, how is the enquiry pipeline looking like?

B. Thiagarajan: Good, except for the building. 'By building, I mean an office complex or mall. I think office spaces are largely unutilized. Post the pandemic, they are getting utilized, and there is a delay.

Number two, we can imagine in the bigger cities, there is no space for any more complexes to come. So, we will have to see where it will develop. For example, it could be like Gurugram came up at some point of time and Noida came at some point of time. Now I think it is Delhi, Agra and maybe even huge development, you will see in Mumbai. It was a textile mill, which released that kind of real estate. I suppose, it will be the new Mumbai Airport, related development hotels complexes that should be rising in that vicinity. It should come back. Today, the buildings segment is not looking good.

Shrinidhi Karlekar: Thank you for answering my question, and all the very best.

Moderator: Thank you. The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: Congratulations on a good set of numbers. Sir, my first question is a follow-up on the last participant's question. While I understand that we've been moving away from the commercial building sector, sir, this quarter growth is kind of a deceleration because our historical average has been approximately 30%.

So I just want to know that this decline in the growth rate is any other factor contributing to this? Or are we seeing any stress? If you can throw some light on the quality of the order book as well as the geographical spread in terms of where we're booking the orders?

B. Thiagarajan: In the projects business you are asking?

Natasha Jain: Yes, sir.

B. Thiagarajan: But you are saying the growth has decelerated?

Natasha Jain: Sir, I have historically seen that you at least post the 30% growth because second and third quarter, you tend to do more order bookings. This year, it's slightly tepid at 12%. So just wanting to understand what has led to a slowdown in this growth?

B. Thiagarajan: We are not seeing a slowdown. I don't know how you are concluding. And if you recollect in the last conference call, I had explained this as well because there was almost similar question, I think it was from Ravi Swaminathan, I think that time I had explained, Point number one, Blue Star will be interested in booking high-quality orders, which should have strong cash flow and profitability. This is number one.

Number two is the orders that are finalized have different speeds. There are some orders which will get finalized this quarter and some orders may not. In the project business, you should not be looking at a particular quarter to be concluding about a trend, definitely not. Because, when lump orders will come in, that is INR 400 Cr, INR 300 Cr orders, it can completely switch.

Third is when you are saying quarter over last year quarter, it is dependent on what happened in the previous quarter. What has to be really looked at? Internally, how we look at it? What is the carry forward order book, that is the historical information that is available. What do we look at it? We look at trailing four quarters, what is the order inflow, trailing four quarters, what is the order inflow in the previous year. That is the other way of comparing it. So going by all of this, I am not with the figures that are available, feeling that something has slowed down at all. If at all we know from our market insights, orders from the building sector finalizations are not taking place. So, Nikhil, what is the order?

Nikhil Sohoni: Yes. When I gave the analysis, our order inflow for segment one, we said was INR 1,765 Cr as compared to INR 1,198 Cr in Q2 of last year, which is a 47% growth. Therefore, I was a little surprised when you say it was not there., The growth was 47%. And if you're comparing it with what happened in last September, even the base is going up. That is also what we have to understand.

B. Thiagarajan: But in any case, you have to look at pending order book or carried forward order book, whether it is growing or staying at that level, then it is a good indicator.

Nikhil Sohoni: And carried forward order book, we told is at INR 4,600 Cr, against INR 3,053 Cr of last year, which is a 51% growth.

Natasha Jain: Understood, sir. I think that helps a lot. Sir, my next question is on the RAC business. It's more of a macro-related question. The channel checks indicate that premiumization has been happening in the RAC segment. We found out that Daikin has come out with more affordable category products. So, over the medium term, do you think that this could pose a challenge in terms of customers shifting to more of premium brands? And I basically want to know what our footing in the premium placement category is?

B. Thiagarajan: I will clarify, but I wish to explain affordable product is not premium. Affordable means opposite of premium.

Natasha Jain: No, I meant that Daikin was not in the affordable category, but from the premium it is come to mid-premium segment by cutting prices or even rolling out products, which are not that expensive. So broadly in a comparison basis?

B. Thiagarajan: We are reading news articles. There are luxury car sale going up or the premium products are being consumed, the large-size televisions are being consumed. It is true, but it is not the mass of the market at all. India's market, category after category, whether it is the FMCG or garments or consumer durables, and automobiles, biggest market is in the affordable segment.

And the growth is coming from aspirational middle-class, growth is coming from Tier 3, 4, 5 towns. And therefore, for a brand to build market share beyond this particular percentage, it has to come from affordable segment. And Blue Star was a player, with a premium product until it was around 10%, 11% market share. We understood that from there to move further, we have to bring in affordable premium. Then we moved to affordable. Therefore, we do have affordable, affordable premium and premium. And the premium products constitute less than 10% of our total sales today. You take anyone, it will be the same. You take airlines category who is number one? You take automobile, who is number one? You take washing machine, who is number one? You take refrigerators who is number one?

You will find a common denominator. They are players serving the bottom of the pyramid. By design, by intent, by strategy, we announced that we have repositioned our product so that without sacrificing my margin, I will be in the position to deliver products for every price point. And that is one of the reasons for our being able to maintain growth and improve profitability.

And it is not for air conditioning alone. You look at any category. You have to become a player who can serve the bottom of the pyramid and the growth in India will come from the aspirational middle-class Tier 3, 4, 5 towns if it is B2C. If it is B2B, it is the MSME startups. And if it is geography, it is very clearly smaller towns. I'm not saying in bigger towns there is no sale, but that is not where growth is coming from. The growth is actually happening elsewhere. Most importantly, things like e-commerce in any category, whether it is food consumption, movie ticket, travel or consumer durable or books or groceries, the fact is you are being driven towards low cost and the technology is also integrating that habit. And it is not a cheap product delivered, you have to have the brand you have to have the ability to develop a product at that cost to be competing at that price point which all of us will do. And the long-term implication is, all players who are capable of doing that will survive. And the fact of the matter is even if you take the energy label, five Star remains only 25%, 26%, It's all three-star, two star which is majorly consumed.

Natasha Jain: Understood. Sir, that is again very helpful. Sir, just last, one last question. Again, this is more on the longer-term prospect. Sir, one of the listed player in the market leader in RAC is now planning to scale up or rather venture into the commercial AC portfolio. Sir, given that you are very favorably placed in that segment over the longer term, how do you see the landscape changing in terms of commercial AC and the competitive intensity there? Thank you.

B. Thiagarajan: India's penetration levels are lower. And it is the fastest-growing market in the world. It is going to be the fastest-growing market for many decades to come. So obviously, many players will be coming in. Many existing players will become aggressive. And we have to fight. We have to grow in this environment.

And we have done so for many years. Blue Star's real growth started when our Indian AC industry growth started when LG, Samsung came into this country. And Blue Star's own growth started when the VRF got introduced, we had to compete with the multinationals like Daikin. So, for a company to reinvent itself and move forward, competition is important. So, competition will intensify. I have no doubt about it at all.

Natasha Jain: Understood, sir. Sir, thank you so much and all the very best.

B. Thiagarajan: Thank you.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: Thank you very much, ladies and gentlemen. With this, we conclude this quarter's earnings call. Do feel free to revert to us in case any of your questions were not fully answered and we'll be happy to provide you the additional details either by e-mail or in person. Thank you.

Moderator: Thank you very much. On behalf of Blue Star Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, you may connect your lines.