"The Blue Star India Limited Q2-FY13 Earnings Conference Call"

October 23, 2012

MANAGEMENT: **MR VIR S ADVANI – PRESIDENT, ELECTRO MECHANICAL PROJECTS GROUP & EXECUTIVE DIRECTOR.**
MR B THIAGARAJAN – PRESIDENT, AIRCONDITIONING & REFRIGERATION PRODUCTS GROUP.

Moderator Ladies and gentlemen good day and welcome to the Q2 FY2013 Earnings Conference Call of Blue Star India Ltd. We have with us today Mr Vir Advani – President, Electro Mechanical Projects Groups and Executive Director and Mr B Thiagarajan – President Air Conditioning and Refrigeration Product Group. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing * followed by 0 on your touchtone telephone. I would now like to hand over the conference to Mr Vir Advani, thank you and over to you sir.

Vir Advani Good morning ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter ended September 30, 2012.

The following are the financial highlights of the Company for the quarter

- Total Operating Income stood at Rs 578.60 crores for the quarter ended September 30, 2012, as compared to Rs 599.19 crores in Q2FY12, representing a decrease of 3%.
- Operating Profit (PBIDT excluding Other Income) for the quarter increased 152% to Rs 20.15 crores from Rs 8.02 crores in Q2FY12.
- Financial Expenses for the quarter decreased significantly to Rs 11.20 crores from Rs 30.56 crores in Q2FY12.
- Provision for taxation for the quarter is nil as compared to reversal of Rs 3.17 crores during the same period last year. Although the Company is required to make a provision for MAT, due to the set-off of the carried forward business loss of the

previous year, there is no taxable income for the year and hence no provision is required for tax.

- Consequently, Net Profit grew to Rs. 7.27 crores in Q2FY13 from a loss of Rs 20.80 crores in Q2FY12.

- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 0.81 vis-à-vis a negative of Rs 2.31 in the corresponding quarter of the previous year.

- The Carry Forward Order Book as on September 30, 2012 reduced to Rs 1679 crores compared to Rs 2162 crores as at September 30, 2011. This is primarily due to de-booking Rs 200 crores on account of dormant and non-moving projects. In addition, the order book has de-grown on account of the general slowdown in the market, coupled with the company's decision to focus on profitable and higher quality business.

Financial Performance for the half-year ended September 30, 2012

- For the half-year ended September 30, 2012, the Company reported a Total Operating Income of Rs 1310.02 crores, as compared to Rs 1303.22 crores over the same period in the previous year, a flat growth of 0.5%.

- Operating Profit (PBIDT excluding Other Income) increased by 50.37% from Rs. 35.70 crores to Rs 53.68 crores.

- There was a Net Profit of Rs 27.81 crores in the half-year period as compared to a Net Loss of Rs 11.02 crores in the corresponding period last year.

I will now spend some time on each of our lines of business and give you both financial as well as operating highlights for the *quarter*.

Segment I

The Electro Mechanical Projects and Packaged Airconditioning business accounting for 65% of the total revenues in the quarter, decreased by 2% to Rs 375.87 crores. Segment results grew to Rs 26.42 crores compared to a loss of Rs.3.41 crores in FY12. The Operating Margin of this business in Q2FY13 increased to 7.03% compared to -0.89% in Q2FY12.

The Segment Operating Margin of 7.03% is on account of a greater focus in executing better margin air-conditioning projects, higher volumes in our central airconditioning equipment business, higher realizations in our after sales service business and normal impact of mark-to-market changes in planned costs and revenues. However, the margin for the quarter is not indicative of year-end margins due to an ever deteriorating external environment causing delays in project execution and consequently margins.

The Capital Employed in the business as at end September 2012 was Rs 423 crores, significantly lower than the Rs 637 crores at end of September 2011 and marginally higher than Rs 406 crores at the end of June 2012. The increase over Q1FY13 is primarily on account of difficulty in billing jobs faster and thereby collecting cash quickly, selectively paying down vendors and business associates, and the tight liquidity in the market. With low advances and creditors needing to be paid out quickly, it is becoming increasingly challenging to improve the capital employed levels. Our endeavour however is to bring down the FY13 year end Capital employed to the March 2012 level of Rs. 350 crores.

Overall the economic environment continues to be sluggish with delays in project finalizations across all sectors. The Company has witnessed a shrinkage in order inflow by a significant percentage. This is primarily due to reduced finalizations as well as choosing to consciously stay away from low margin jobs in segments like Hotels and Residential projects.

There is however some positive movement in enquiry flow lately in segments like IT/ITeS, Industrial, Commercial complexes and Infrastructure which constitute around 70% of our H1FY13 order inflow. During the quarter, Blue Star won prestigious orders in the above segments namely, HCL Technologies Ltd - Chennai, Infosys Technologies Ltd. - Trivandrum & Hyderabad, Wipro Limited - Pune & Noida, TBEA Ltd - Karjan, Bokaro Mall - Bokaro, The Universal Mall - Yamunanagar, Jalsa Mall - Jaipur, Oberoi Commerz - Mumbai etc.

In Packaged/Ducted Air-conditioning and Chillers, there was good demand in this quarter from segments such as Industrial, Offices, Marriage/Banquet halls, Light commercial and Retail. The Company has witnessed steady flow of enquiries for both Ducted Systems and VRFs in these segments. Some of the important projects executed by Blue Star in Q2 FY13 were TBEA - Baroda, Adani Port Terminal - Gujarat, Ankit Metals - Bankura, Brand 6 - Hyderabad, SRM Hospitals - Chennai, Yes Bank - Mumbai.

The Company always had a market leadership position in the packaged air-conditioning and ducted systems markets. Our new VRF product introduction has improved its salience in the market and the Company is confident to deliver good growth in this segment despite stiff competition from multi-nationals.

The newly created Chiller Sales division has also shown good growth by expanding through an exclusive channel network. It witnessed good demand from the Industrial, Hospitality, Health, Educational , IT / ITeS and Retail sectors. Some of the prestigious orders won in the above segments are Jindal Steel Works - Bellary, Firmenich Auromatic - Mumbai, South India Shopping Mall - Hyderabad, Adlabs - Khapoli, Om Savitri Jindal Hospital - Hissar, IOCL - Mumbai, Ennore Tank Terminal - Ennore, Ivy Hospital - Hoshiarpur.

The Company is confident of building a leadership position by focusing on providing a good range of products and solutions and also by engaging consultants and customers.

Segment II

In the Cooling Products segment, revenue registered a modest increase of 7% in the quarter, while segment results declined by 7% to Rs 7.91 crores. Operating Margin of 4.69% in this quarter, is lower than the 5.39% in Q2FY12. This is on account of the exchange rate impact on our imported commercial refrigeration products as well as losses in our installation accessories sales business.

As a part of the after sales service operations, we have been importing and selling installation accessories such as Copper. Due to the high exchange rate fluctuations and our inability to carry inventory beyond a certain period, we had to liquidate stocks resulting in a loss and thus impacting our margins. Going forward we wish to not focus on this segment as its not attractive any more due to volatile market conditions.

On the market side, the Room Airconditioner market grew marginally at 5% by value terms and de-grew by 5% in volume terms in Q2FY13 over Last year. The Company however had shown a growth of 15% in value in Q2FY13 over last year and was flat in volumes for the same period.

The demand in the commercial refrigeration business is robust with demand for Water Coolers coming from Educational Institutions, Industry and Government segments while Freezers witnessed a good demand from the Ice Cream and Dairy segments. In Cold storage products, we witnessed good demand in segments such as Banana ripening, Pharma and Fastfood. In this quarter, the Company booked prestigious orders from Cafe Coffee Day, DB Schenkar (Logistics), Syngene Pharma, Cipla, Mylan Pharma , CP Hatcheries etc.

The Capital Employed in this segment reduced from Rs 270 crores as on September 30, 2011 to Rs 238 crores as on September 30, 2012. However it was higher than Q1FY13 levels of Rs. 217 crores. This increase is due to the late delivery of imported finished goods and components on account of the milder summer. As a result, deliveries were delayed from Q1FY13 to Q2FY13.

The margins in the Segment 2 continue to be under pressure. The overall demand of Room Airconditioners is flat and with the input costs high and inflation and interest rates impacting the consumer spending, the outlook is not looking great for the industry. The Company however will maintain its focus on profitability, growth by selectively expanding the channel network in Tier 2/3/4 cities and in light commercial segments.

We believe that we have gained a good reputation in the market in this segment and will continue to invest in new product development, increasing distribution reach, productivity improvement, innovative marketing programs to grow the business further.

Segment III

In the Professional Electronics and Industrial Systems segment, revenues dropped significantly by 43%, while segment results declined 85% to Rs2.63 crores.

As you are aware, Segment III consist mainly of an Agency business and an Industrial Projects business apart from other businesses.

The Agency business was impacted by the strengthening of the dollar. In the case of government purchases, earlier sanctioned budgets have had to go through a new approval process. On the private sector side, a slow down in industrial capex impacted the commission income for the business.

The Industrial Projects business witnessed a slowdown due to demand in the Steel and Power sectors shrinking and the existing projects facing inordinate delays. With the fixed costs remaining intact and inflation pushing up material costs, the margins have got severely affected in this segment. The outlook for the Industrial Projects business looks unpredictable as it is closely linked to project approvals and decision making at the central government level. The Company however would continue to focus on growth and profitability in other segments and try to make up for the dip due to Industrial Projects to the extent possible.

Outlook

Despite returning to profitability in the last two quarters, the Company continues to cautiously monitor the external environment, given the volatile market conditions, high inflation, slow demand in Infrastructure, and uncertainity of implementation of the recent policy announcements.

Given these challenges, the Company continues to make concerted effort to book better quality business, improve operational efficiency and bottomline through value engineering and cost control and bring down capital employed to desired levels.

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

Moderator Thank you very much. We have the first question from the line of Renjith Sivaram from B&K Securities please go ahead.

Renjith Sivaram There was a recent announcement from the government regarding FDI in retail. So there was a lot of debate going on whether this will open up an opportunity in the cold storage business. Would like to know what kind of opportunity can Blue Star have because of these reform and in what time frame it can be fructified?

B. Thiagarajan We are perhaps the only company which offers a wide range of cold storage solutions. You know in fruits or vegetables or floriculture or meat or poultry we have the complete know how. We have been waiting for this opportunity. As far as this announcement is concerned, I think it will 18 to 24 months before the enquiry starts flowing in. They have to decide their footprints where these stores are going to be opened and from where they are going to procure the commodities, and where it will move eventually. So it is still on the drawing board and I am assuming here that the procedural clearances, currently it says that each state can decide who they are allowing and who they are not. If it is a cold chain, the national movement will be important. Where they are going to have the stores and from where are they going to procure? How they are going to move? How the restrictions like APMC procurement act are going to change? So in this context, our rough assessment is between 18 to 24 months it will translate in to real business. In the meanwhile, I do not think it is going to dramatically change anything in cold storages segment.

Renjith Sivaram And what kind of an opportunity size if you can help us in understanding?

B. Thiagarajan See the, I am talking on behalf of the industry rather than Blue Star. The investment should be to the tune of around Rs.25,000 crore over a five year periodbased on our experiences in Far East or China and other countries.

Renjith Sivaram Do you foresee any foreign competition in this or we will be able to garner a huge market share in this opportunity?

B. Thiagarajan Foreign players will be there. Right now we do have collaborations or we source equipment. We see more foreign players in the front end distribution and less in the back end cold chain infrastructure.

Renjith Sivaram So it is correct to understand that around 40 to 50% of this opportunity can be for domestic players?

B. Thiagarajan Anybody's guess, it depends on the competitiveness. For sure there is an opportunity for us. We have been waiting for this opportunity and we will indeed participate in this growth.

Renjith Sivaram And in terms of technology are we completely capable to cater to this demand?

B. Thiagarajan Completely in the back end, in the front end we are partially able to meet.

Renjith Sivaram And shall we go for any tie up for that.

B. Thiagarajan We keep doing in most of the areas as and when it is needed. Earlier if you recall five years ago when the retail was opening up or appeared to be opening up, we tied up with a party called ISA in Italy. We have different types of collaborations. One is the agency type of relationship, other is technology, third is sourcing and selling and the forth is system integration. All that I am saying is, it is going to benefit Blue Star in a big way and we are geared for that., We are driving this change and we look forward for this happening as early as possible.

Renjith Sivaram Okay, that was helpful Sir. In the project business, I would like to understand what kind of pricing pressure are you seeing? Can we maintain this kind of margins? Are we going to compromise on margins to get more orders?

Vir Advani We are maintaining our strategy which is to compromise on volume but not on margins. Having decided to do that, I think we are making good progress on that front. However, if the market shrinks further then we will have to re-look at that.

Moderator We have the next question from the line of Chetan Vora from Alfa Accurate Advisors, please go ahead.

Chetan Vora Just wanted to understand what was the order inflow for the quarter?

Vir Advani I will come back to you. I will make sure I answer that question; I am just going to pull up that info.

Chetan Vora Are we witnessing any stress on particular segment or because we are saying that the order book has declined by Rs.200 crore odd something on sequential business as well?

Vir Advani I will just clarify, actually from last year to this year there is about Rs.400 odd crore reduction in the carry forward. Roughly Rs.200 crore of that is on the account of de-booking. We review our order book twice a year now as per new policy, once at the end of the year and once at the half year. So in between the year end review of March 12 and the half year review of September 12 we have de-booked about 200 crore of non-moving projects as well as the projects where we have proactively decided to exit because they are not favorable from a commercial point of view.

Chetan Vora But we have to pay the penalty for that?

Vir Advani No, absolutely not. So that is one side of Rs 200 crore. The other Rs 200 crore is essentially representative of the reduction or the slow down in order inflow or both on account of market slowing down as well as our own decision to stay away from certain segments. I mentioned in the review that we are staying away from the residential market and going slow on the hotel segment as far as the MEP projects are concerned. We have not seen much finalization in the infrastructure segment. There was some movement in power but that has also slowed down now. We are waiting for metro business to get finalized. Nothing in airports as well. So it is still a very tough market. There are some bright spots in IT, ITES and industrial. These are two segments now which are showing some promise but overall the market is down.

To answer your earlier question, the current year order inflow for the quarter was Rs.620 crore against Rs.667 crore during the same period last year.

Chetan Vora Are we giving guidance on the order backlog, what would be order book as of March 30th?

Vir Advani No, we are not. All I can say is that we are expecting order inflow in H2 to be better than H1 because there are some large infrastructure projects that we expect will get finalized in H2.

Chetan Vora Of the total backlog what would be the on the account of the variable are the fixed price and the cost pass through sir?

B. Thiagarajan Predominantly fixed.

Vir Advani Like we have been saying about 90% of our contracts are fixed price, only some government projects have a price variation clause built in but the bulk of them i.e. 85% to 90% of our contracts are fixed price.

Chetan Vora The EBITDA margin we are looking at, where we would like to operate at?

Vir Advani No, we will not give any guidance on that.

Moderator Thank you. We have the next question from the line of Ananth Narayan from Kotak Mahindra Bank. Please go ahead.

Ananth Narayan Can you tell us which are the major segments contributing to the order book?

Vir Advani Segment you mean the market segments or our business segments?

Ananth Narayan No, in terms of market segments how much is the Real Estate, how much is the Infra?

Vir Advani Out of the total order book, 30% of it will be Infra, another 35% odd should be real estate related and then the remaining will be between industrial, government and small light commercials.

Ananth Narayan And sir what will be the borrowing levels as on September?

Vir Advani Our borrowing as on September 30, 2012, was Rs. 418 crore which is up from Rs. 343 crore on March 12, 2012 but is down from Rs. 620 crore one year ago.

Ananth Narayan Just one last question about the subsidiary. Could you throw in some broad numbers?

Vir Advani As I mentioned during the last call, it is moving in line with our projects business. Essentially billing is roughly at last year's level. The margins are under tremendous pressure because of the mark-to-market corrections we are making. We had reported a year end loss last year in the business which we expect will continue in the current year as well, probably at the same level. So we are running at roughly last year's level until we bill out the old carry forward which we had inherited as part of the acquisition. We expect next year to be profitable because the new orders that we are booking since last September have been at higher margins.

Ananth Narayan So you will see it being at the same level around Rs. 400 crore year end?

Vir Advani We expect it to come down. What he had mentioned is that we are aiming to bring down our capital employed down to year end levels of last year which implies essentially about a Rs. 75 crore reduction over the current situation .

Ananth Narayan So that is around Rs. 350 crore?

Vir Advani So we will expect the borrowing to go down to about Rs. 350 crore.

Moderator Thank you. We have the next question from the line of Nitin Bhasin from Ambit Capital, please go ahead.

Nitin Bhasin Vir, you said a while back that you are not finding the projects business exciting. If I look at the comments otherwise in the call you said H2 would be a better. You have taken about Rs. 600 crore as inflows, your margins for this quarter were about 7% in the PBIT levels and you will be closing in some infra orders. Do you think you have a lot more to see changes or these are not the right changes in the right direction?

Vir Advani Clearly things are improving. Segment-1 is a combination of our projects business as well as our central air-conditioning business. And the improvements while they are quite impressive in the projects business on a like-to-like basis, this year looks substantially better than last year, but on an absolute basis the projects business continues to be under major stress. Reason being that site margins are under pressure. So order booking margins are under pressure, site execution margins are under pressure and we have a sitting cost that we are finding it difficult to cover. So from that point of view on a standalone basis one was to look at the project business today, it is not that exciting obviously compared to last year because we had a very challenging year last year it is certainly improving.

Nitin Bhasin So the 7% PBIT margin, is it like one off or do you think this is like the new stable from here you have to build on or it has further to go down?

Vir Advani No. Just to clarify, for Segment-1 we don't expect operating margins to be higher than 4% to 5%. H2 is going to be challenging from a margin point of view although the order inflow will improve. So what we are going through right now is a cycle where H2 you will see an order inflow improvement and margin pressure. How we close the order book this year is obviously going to give us some clarity on next year. So as of now we continue to be optimistic that we should end this current financial year with an order inflow at the same level as last year although for the first half we are way behind.

Nitin Bhasin You are expecting that kind of a number?

Vir Advani So we are expecting a catch up in H2.

Nitin Bhasin Traditionally 2H has been always on much weaker inflow period for you compared to 1H.

Vir Advani Yes, you are right except that this is actually based on large orders that we expect to get finalized in H2, so it is kind of specific for this year.

Nitin Bhasin What segments would those be?

Vir Advani I mentioned it is primarily infrastructure.

Nitin Bhasin And what about the cost reduction in this segment because you were supposed to take a cost reduction in terms of staff employees?

Vir Advani Yes. So what we manage to do is we have reduced the headcount in this business by about 10%. It is not further because our billing continues to be strong and obviously to bill you need manpower. What I had indicated is that if the order inflow does not improve then we will have to take further correction in our cost. As of now we are comfortable because we have reduced our interest costs. As you can see there is one big element there. We have reduced our manpower absolute numbers. Even though the employee cost is up, that is more on account of increments given to them but over and above that we are also now providing for incentives for this year which we did not for last year. I am not expecting any drastic change in the operating costs in H2. I think the H1 cost will carry forward. We will take a call in December, January about what we want to do for next year once we see the order inflow in Q3.

Nitin Bhasin The second one is on your product business. In the product business two observations;one was your EBITDA margin was significantly down and your top-line did not grow. One I understand that the market is not growing. But do you think your margins can recover from here on with the season pick up in January or how do one look at it in the next upcoming season?

Vir Advani Yes, so our outlook for the year is what we have been indicating. We expect Segment-2 to end the year down about 1% over the last year. Q2 was down specifically on account of what I will call unrelated businesses because we had some losses in a small business of ours which I explained and which we will not be carrying forward. So the pressure in the margins in Q2 was of course onetime thing. The other is we did have a margin erosion in our commercial refrigeration product, so actually our room air-conditioner business continues to hold. So our outlook for H2 is that we will do better, we will end the year at about 8% is what we are expecting in spite of the volume pressure and margin pressure and pricing pressure out in the market.

Nitin Bhasin So what went wrong in commercial refrigeration here?

Vir Advani It was purely foreign exchange. There has been a gap in the rates at which we bought and which we were able to realize in the market. We were able to manage in room air-conditioners but not in the commercial refrigeration product side.

Nitin Bhasin And within this are you selling chillers in this segment in this quarter or is it chiller product sales is part of the Segment-1?

Vir Advani Chiller sales is part of Segment-1 as part of central air-conditioning products and so that is one of the businesses I mentioned has done very well in the first half.

Moderator Thank you. We have the next question from the line of Pritesh from Emkay Global, please go ahead.

Pritesh One in the 7% margin Segment-1 for the quarter, is there any write-back of provisions which we want to highlight? The second question is about the professional electronic segment-if you can give some color on margins and the visibility in the segment? And my last question is what happened in the quarter with respect to some addition in debt on a Q-o-Q basis?

Vir Advani In Segment-1 there is no major provisions for write-back. What we have managed to do is to take the planned cost as per mark-to-market,planned revenue changes we made last year versus this year. This year is obviously substantially lower because we addressed a lot of those issues last year. However, I did point out to all that frankly you will not see much improvement in the margins next two quarters simply because it is also possible in this quarter the jobs that we closed may have been at relatively lower margin. So it purely depends. Like I had mentioned, we are advancing projects as they close, we book profit or loss and so it is becoming difficult to plan that. So, we are just saying that, for the year we expect Segment-1 margin to be about 4% to 5%, point number one.

Second you asked is on professional electronics what the outlook for that business is. I mentioned in my opening remarks that we are having a tough time. Forecasting the agency business which is roughly two-third of that business for the first half was down as I had mentioned because of the foreign exchange movement and because of the delays in finalizations is tough. Now that the exchange rate has reversed, we expect H2 to be better than H1 for the agency business. On the flip side, the industrial projects business which is one-third of that segment and we will continue to see this erosion because steel projects and power projects are just not moving for Central Government reasons. I would say it is a wait and watch for us. Unfortunately I think the outlook for the entire segment is not positive for the year and we will be down from last year. We still don't have full clarity on how much will be. At the end of Q3, we will have a better idea of how the year will end. That is the second question.

The third question was on the debt level moving up from Rs. 300 crore and odd to Rs. 400 crore. That is essentially on account of drop in collections. We have been struggling with collections in the first half. Collection has become a challenge. On the flip side, we have taken a decision to pay out our creditors a little faster. So we are not talking about the pay out as much as we were, it is a kind of an operating decision that we have taken because as you can see the billing is holding in the company and in order to get that level of billing you need to pay out a little better. So we have taken a decision to do that. In H2 our aim is to reverse that trend. So it will be a combination of collections improving coupled with no longer needing to pay out faster than we collect.The combination of the two should allow us to take the debt levels back to March 2012 levels.

Pritesh So could you just clarify the Segment-3 comments which you gave are more to do with fixed cost and currency being unfavorable rather than a structural change in the margins in those businesses?

Vir Advani Yes there is no structural change in the business, it is like I said two third of the business is down about 10-15% on the account of foreign exchange in H1 but the bulk of the negative is on account of the cost overruns and selling cost in the project business. It is very similar to the Segment-1 in approach. Of course it has hit much later because the industrial market got hit this year. My own assessment is that the industrial recovery will be faster than the commercial Real Estate recovery and so we are still positive about that business going into next year but this year is going to be very painful.

Pritesh Okay lastly I just want to check when you said de-booked Rs.200 crore, what kind of projects were these, these were projects where no work had happened?

Vir Advani In most of the projects, work had not started. So, these are projects were announced and awarded to us and then there was no movement typically for 12 months. So we de-booked those and also selectively paid back the amount. We have proactively gone back to the customer and returned contracts as I have been mentioning, where we found the terms are not favorable or the outlook is not positive

Pritesh But no risk on receivable on any of that project or?

Vir Advani On de-booking there is nothing related to write-offs. It is purely actually business.

Moderator We have the next question from the line of Sonal Minhas from the SAIF Partners, please go ahead.

Sonal Minhas The question is on the de-bookings which you just explained to Pritesh. Just wanted to understand out of the Rs.1600 crore of order book that is pending, how much do you see in terms of the order book where you have to go back again to the customers and probably ask the same question? If you've done the analysis for that or that is still a pending exercise that your end?

Vir Advani This is a result of two rounds. We did one round at the year end which was reflected in the Q1 numbers. I don't think we got into that subject in Q1 in much detail like we are right now in terms of explaining. The de-booking is actually spread over Q1 and Q2.The second is our half yearly review which we just finished in September and we have accounted for in Q2 itself. With that we have completed review of the entire order book and if you look at the mathematics we are left with about Rs.1700 crore. So to that extent it gives us a little more confidence and so I don't think we are expecting a further round of this kind. I think now we will review it again at the end of the financial year and see where we stand.

Sonal Minhas And the company actually took write-offs in respect to cost estimations and certain projects not going ahead the way there were planned last year. Even the P&L impact corresponding for this particular financial year I probably couldn't understand that bit as you were explaining earlier.

Vir Advani What I tried to explain is that we had reviewed the carry forward order book during the last financial year. We had looked at margins, we had taken margin impact as required on old jobs. We have now started from this year fairly rigorous and regular reviews of the order book which we do once a quarter on an all India basis. And whatever is the positive or negative impact on the account of those reviews, get accounted for in the quarter. So I am just making the point that the negative erosion that we had to take last year was substantially higher than the negative erosion that we have to take this year. There are still negative erosions in margin that we do come across but this is more due to ongoing projects, and there are also positives. So now it is a regular project business and so there will be positives and negatives every quarter. Net erosion is still negative even in the current year, but the quantum is significantly lower and we did not sort of control, so that's what I was referring to.

Sonal Minhas It's a last question for Mr Thiagarajan which is on the cooling product business. We are talking about the installation accessories actually contributing to losses for this particular period and you have stopped the business. On the second hand the commercial refrigeration business having a hidden margins because of FOREX. With these exceptions out do we see the business back to around 8 to 10% margins? Is that what typically the business should be earning the way we have been conservative on growth and on the margins?

B. Thiagarajan You are absolutely right. They have been indicating that from around 9% around 1.5% margin erosion should be there by the year end. We maintain that actually. See these inflation, accessories i.e. basically the copper pipes and the insulation which in Q3 will have some impact as well. But going forward we will recover, we should end the year with around 1.5% erosion from last year 2011, that's what we forecast.

Moderator Thank you. We have the next question from the line of Amber Singhania from Quant Capitals, please go ahead.

Amber Singhania I wanted the breakup of the order book in terms of margins. We know couple of projects are there at very low margin and some are at a normal margin. Could you just give us the breakup of those projects as such broad numbers?

Vir Advani There is a certain amount of 0 margin business, there is a certain amount of 4 to 5% margin business and then there is a clean 12% margin business. I don't think there is a change much over Q1. I think the 0% margin business is coming down quarter-on-quarter and we hope to completely wipe it out by year end. We may be sort of heading in that direction but haven't looked at the order book cleanly from that point of view for this quarter. As the order inflow is much lower than expected, the 12% business coming in is not coming in at the rate we wanted. The aggregate order book margin as I mentioned is around 7% I don't think there will be a tremendous difference from last quarter. I think that about half the order book now is clean 12% margin and other half would be a mix of 0 and 5, that's roughly where we are.

Amber Singhania Okay and if I am not wrong most of the order book is from the Segment-1 almost more than 80-90%.

Vir Advani Yes about 90%.

Amber Singhania So actually when I was calculating your order inflow and trying to superimpose the same with the revenues and closing order book of the last quarter, I am getting the mismatch of roughly Rs. 250 to 300 crore Could you just help me out with that? We had the Q1 closing order book of Rs.1850 crore and we executed roughly around Rs.375 crore this quarter. And we have also written-off Rs.200 crore of the order as such. So when I compare that with the inflow of Rs.620 crore, I am getting a different figure on the inflow side of the Rs,300 odd crore, so could you just help me out with that?

Vir Advani But why would you not take the total revenue for the quarter?

Amber Singhania Because I believe like majority of you're… almost 80-90% is from the… ..?

Vir Advani May be you haven't understood, please understand order inflow if for the full company regardless of the segment, the carry forward order book is about 90% in Segment-1 because Segment-2 and 3 order inflow is usually executed in the same quarter. So to do your mathematics you have to look at the carry forward on June 30th you have to add the inflow of Rs.620 crore, you have to minus the total billing for the quarter for some 600, and then you have to apply the de-booking and whatever I spoke about and then you will get the number that you are looking for.

Amber Singhania Okay fine and just one question on the interest part. Despite our debt level going up Q-on-Q we have seen an interest rate reduction. So that was primarily on account of refinancing or something like that?

Vir Advani I will clarify our finance cost is down substantially for the quarter as well as for the first half of the year. For the quarter, the finance cost is down from Rs.30.6 crore to Rs.11.2 crore, that's swing of about Rs.19.5 crore. About Rs.16.5 crore of this is foreign exchange drop and about Rs.3 crore is on the account of interest cost reduction. So one is the FOREX benefit we got and then there is a smaller amount which is the absolute interest cost coming down for the quarter.

Amber Singhania Fine and any guidance you would like to give about that metro project when is this expected to open?

Vir Advani No, we are talking about the finalization in Q4 but it may spill into Q1, frankly we don't know tenders are being issued, so we will have to see how the progress goes, so we will keep you informed.

Moderator We have the last question from the line of Mahesh Bendre from Quantum Securities, please go ahead.

Mahesh Bendre Sir purely from a business outlook point of view. Last two years have been tough for industry and company as well. Based on your enquiry floors on your own understanding of the market, do you think the worst is behind us for the company like us or do you think that the situation in the market still is uncertain?

Vir Advani The answer is yes to both. The worst is behind us and the market is very uncertain. What I mentioned is that we expect H2 order inflow to be better than H1. However, we expect margins to be under pressure in H2. For company at least, the balance sheet is in much better shape in this year than last year and within manageable control. The issue of order inflow continues to be even in H2. Our concern is that improvement will not be substantial. Margin management is something that we will have to do proactively. We are working on various fronts in new product development, cost reduction, etc. so that will continue. I think the main focus right now is inflow of business which is uncertain right now.

Mahesh Bendre Sure. Sir the last question is regarding the FY14. Do you think that there is a possibility of substantial improvement in the company's performance next year in terms of sales and margin or that will be gradual or may be stable?

Vir Advani So our sense is that from an operating profit point of view next year should be better than this year. The big question is from a revenue and volume point of view. Because unless H2 order inflow improves substantially, it is going to be very difficult for us to get our billing next year. So that's where the challenge is. Because there is the sitting cost on the company and we have to cover it and to get enough order inflow in H2 is a question.But from a profitability point of view I think that if we do what we are supposed to in H2 or for what we plan to do in order inflow the things don't look very wrong, then next year may not be a great top-line year, but it will certainly be a better profitability year.

Moderator Thank you I would now like to hand the floor back to Mr Vir Advani for closing comments, over to you sir.

Vir Advani Thank you very much everyone, if there are any questions that we have not answered, please send us in e-mail otherwise we will be speaking to you at the end of Q3 again.

Moderator Thank you sir. Ladies and gentlemen on behalf of Blue Star India Limited that concludes this conference call.