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“Blue Star Limited Q2 FY-15 Earnings Conference Call”

**October 29, 2014**

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**Moderators: Mr. Vir Advani – Executive Director & President - Electro Mechanical Projects Business, Blue Star Limited**

**Mr. B. Thiagarajan – Executive Director & President – Air Conditioning & Refrigeration Products Business, Blue Star Limited**

**Moderator:** Ladies and gentlemen, good day and welcome to the Blue Star Q2 FY15 earnings conference call. We have with us on the call today Mr. Vir Advani – Executive Director & President, Electro Mechanical Projects Business and Mr. B. Thiagarajan – Executive Director & President, Air-conditioning & Refrigeration Products Business. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this 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. Vir Advani. Thank you and over to you Mr. Advani.

**Vir Advani:** Good afternoon 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, 2014.

**The following are the financial highlights of the Company for the *quarter (Q2FY15)***

* The Company reported Total Operating Income of Rs 637.97 crores for the quarter ended September 30, 2014, as compared to Rs 584.98 crores in Q2FY14, representing a growth of 9%.
* Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter declined to Rs 20.61 crores from Rs 25.76 crores in the same period last year largely due to an increase in unallocable expenses including marketing, business development and other investments for growth as well as higher provisioning for doubtful debts. Consequently, the Operating Margin declined from 4.4% to 3.2%.
* Other Income for the quarter grew from Rs 2.91 crores to Rs 8.16 crores due to write-back of provisions related to operations.
* Financial Expenses for the quarter declined by 17% to Rs 10.57 crores from Rs 12.80 crores over the same period last year mainly due to a reduction in net borrowings from Rs 406 crores as on September 30, 2013 to Rs 370 crores as on September 30, 2014 coupled with lower borrowing costs.
* Consequently, Net Profit grew by 20% from Rs 7.52 crores in Q2FY14 to Rs 9.05 crores during the quarter.
* Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 1.01 vis-à-vis Rs 0.84 in the corresponding quarter of the previous year.
* Order inflow witnessed a decline of 37% from Rs 889 crores to Rs 558 crores over the same period last year. The Company had won two large value orders in Q2FY14 totaling to about Rs 300 crores. However, during this quarter, there were no large value orders booked.
* Carry Forward Order Book as on September 30, 2014 declined by 14% to Rs 1492 crores compared to Rs 1744 crores as at September 30, 2013.
* The total Capital Employed of the Company stood at Rs 968 crores on September 30, 2014 as compared to Rs 942 crores on September 30, 2013.

#### Segment-wise results for Q2FY15

* The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 62% of the total revenues in the quarter, increased marginally by 3%, while segment results registered a decline of 5% to Rs 19.74 crores, mainly due to higher input costs.
* The revenue of Cooling Products during the quarter increased by 21%, while segment results grew an impressive 74% to Rs 14.17 crores over the same period. Though Q2 is typically a lean season for this line of business, an extended summer coupled with stable foreign exchange and commodity prices resulted in enhanced profitability.
* The Professional Electronics and Industrial Systems business revenues increased by 25%, while segment results registered a growth of 16% to Rs 8.76 crores due to enhanced demand.

**The following are the financial highlights of the Company for the *half year* ended September 30, 2014 (H1FY15)**

* For the half-year ended September 30, 2014, the Company reported Total Operating Income of Rs 1483.45 crores, as compared to Rs 1355.80 crores over the same period in the previous year, a growth of 9%.
* Operating Profit (PBIDT excluding Other Non Operating Income) increased by 14% from Rs 64.38 crores to Rs 73.69 crores.
* Net Profit grew 32% from Rs 30.29 crores to Rs 40.06 crores in H1FY15.

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 (Electro Mechanical Projects & Packaged Airconditioning Systems)**

During Q2FY15, the market was sluggish and most of the order finalizations were delayed. While there is a possibility of an imminent revival in the segment, the commercial construction segment still remains muted. Segments such as integrated commercial complexes, power and utility, hospital and healthcare and banks/offices witnessed some demand during the review period.

During the quarter, this segment registered a drop in margins from 5.4% in Q2FY14 to 5.0% in the current quarter on account of lower billings due to which margins continue to be under pressure. Segment margins are significantly higher than the 1.6% reported in Q1FY15 on account of delays in closure of specific legacy jobs. The negative impact related to these jobs will be accounted for in H2FY15 along with the closure of the jobs. The Capital Employed in this segment decreased significantly from Rs 532 crores as on September 30, 2013 to Rs 485 crores as on September 30, 2014.

The order inflow in Q2FY15 for this segment declined 54% from Rs 684 crores to Rs 316 crores compared to the same period last year. The Company had booked large value orders from Oasis Realty and Delhi Metro Rail Corporation in Q2FY14 totaling to about Rs 300 crores. However, no such large value orders were booked in Q2FY15. The carry-forward order book for this segment stood at Rs 1410 crores as at September 30, 2014.

In the electro mechanical projects business, hospitals, heavy industrial and banks/offices segments mainly contributed to the orders booked. The segment-wise funnel of enquiries is as follows:

|  |  |
| --- | --- |
| **Application Segment** | **Share (%)** |
| Integrated Commercial Complexes (Office+Hotel+Mall+Multiplex) | 15% |
| Power & Utility | 13% |
| Hospitals & Healthcare | 12% |
| Banks/Offices | 10% |
| MRTS(Metro Rail) | 10% |
| Commercial Malls& Multiplexes | 10% |
| Hospitality | 10% |
| Others | 20% |

On the central airconditioning equipment front, demand was sluggish, further affecting the segment profitability. While the ducted systems market continued to be muted during the quarter, VRF systems grew by about 15%. Blue Star offers both - the digital scroll and inverter-based systems in the VRF segment. The recently introduced new products such as free match inverters and hot water generators have met with an encouraging response in the market place specifically amongst hotels, hospitals and educational institutes.

**Segment II (Cooling Products)**

The room airconditioners industry performed well growing 25% during the quarter in value terms. The residential segment as well as the light commercial segments drove growth. However, the demand from the institutional segment continued to be sluggish. Inconsistent monsoons helped the sales in some markets while adversely impacting a few other markets.

During the quarter, the Cooling Products segment registered a sharp increase in margins from 4.8% to 6.9% mainly due to stable foreign exchange and commodity prices. The Capital Employed increased from Rs 174 crores as on September 30, 2013 to Rs 192 crores as on September 30, 2014 mainly on account of higher inventory.

The room airconditioners business of the Company did remarkably well during the quarter registering a healthy growth of 35% in value over the same period in the previous year thereby increasing its market share. Enhanced distribution reach and superior brand perception contributed to growth. Consumers perceive Blue Star as an expert and specialist in airconditioning and this differentiator has enabled the Company to perform better than the industry over the last few years.

As regards to the commercial refrigeration products business, the water cooler segment grew marginally with enhanced demand from the educational and manufacturing segments. The chest freezer business performed well due to an extended summer and inconsistent monsoons. The market in metros and Tier 2 cities is showing a preference for glass top freezers since impulse purchase in ice cream and frozen foods is on the rise. The modular cold room business also grew well, driven by the Quick Service Restaurants (QSR) segment. Several leading QSR players have aggressive expansion plans in Tier 3 and 4 markets and this product category is likely to witness enhanced demand in the near future.

**Segment III (Professional Electronics and Industrial Systems)**

Owing to the formation of a stable Government and the steady foreign exchange rate, capital investments in the automobiles, refineries, healthcare and banking segments have been on the rise. However, demand from Government-related sectors continues to be sluggish.

During the quarter, the segment registered a decline in margins from 25.5% to 23.8% over the same period last year due to change in business mix. Typically, quarterly performance is not a good indicator for this segment and its overall prospects continue to be good. The Capital Employed as at September 30, 2014 declined to Rs 26 crores as compared to Rs 33 crores as on September 30, 2013.

The testing machines business received several significant orders during the quarter, mainly for X-ray inspection systems. In the healthcare systems business, the refurbished CT scan business performed well. The Company also received Type Approval (TA) for two models of CT scanners from Atomic Energy Regulatory Board. This will help the Company to enhance its footprint in the CT scanners segment as TAs are now mandatory requirements. The data communication business received several orders for transaction security during the quarter. The test and measurement instruments business also witnessed a good inflow of orders from space and aviation segments.

**Exports**

Spurred by a number of megaprojects in the pipeline and the ramping up of social infrastructure spend, UAE’s construction market is witnessing aggressive growth. Buildings comprise almost 60% of the total projects in the construction industry, followed by infrastructure, oil & gas and power. The region’s construction business, to which the HVAC sector is irrevocably tied, is expected to see 9% average annual growth till 2016. As regards to the SAARC and ASEAN regions, countries such as Nepal, Bangladesh, Vietnam & Myanmar are expected to grow with enhanced FDI. While the hospitality segment is driving growth in Maldives, Nepal & Sri Lanka; manufacturing and power sectors are witnessing growth in Bangladesh; and seafood coupled with manufacturing is driving growth in Vietnam and Sri Lanka.

In Q2FY15, the Product Exports business of Blue Star has registered healthy growth. During the quarter, the Company received good inflow of orders in room airconditioners, water coolers, ducted systems and refrigeration products from OEM accounts and various distributors in UAE, Oman, Qatar, Yemen and Kuwait. It also received significant orders from Nepal and Sri Lanka.

In conclusion, the electro mechanical projects business continues to be adversely affected as the closure of specific legacy orders in its last phase is taking longer than expected. Further, the commercial construction industry is yet to revive. However, considering the imminent improvement in the economic climate, this business is likely to improve in the long term. The cooling products business is expected to drive growth considering that Blue Star enjoys a strong brand perception in a low penetrated market thereby offering significant potential. The Company will continue its pursuit of prudent fiscal management in order to sustain this performance for the balance half of the year.

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 Sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.

**Renjith Sivaram**: Just in terms of this unallocable expense, can you just quantify some of this? In terms of provision, how much was it?

**Vir Advani:** As I mentioned, it is sales and marketing expenses and then some provisioning. The incremental provisioning in Q2 was Rs 2 crore.

**Renjith Sivaram**: How much as a percentage of sales is our ad expenditure?

**B. Thiagarajan:** It is around 2% on an annual basis.

**Renjith Sivaram**: What is our market share and did we gain any market share in room Air-conditioning?

**B. Thiagarajan:** Now when I say market share, it is for the retail as well as commercial segments as we are not only a retail player but also a commercial player. Our market share during H1 FY15 was 8.5%. It was 8% during the corresponding period last year.

**Renjith Sivaram**: In terms of growth, will we exceed our expectation for full year?

**B. Thiagarajan:** In H1FY15, the market growth was 20% and we grew by 30%. As mentioned in the past, we will grow better than the market. All I can say is that we will grow in excess of 20% during FY15.

**Renjith Sivaram**: In terms of Segment I, what is our growth and margin guidance for the full year FY15?

**Vir Advani:** We have been saying that the revenue will be flat and the operating margin for Segment I will be around 4%.

**Moderator**: Thank you. The next question is from the line of Ruchi Vora from UBS. Please go ahead.

**Ruchi Vora**: My first question is on Segment I. Vir, just wanted to understand what is your current sense or outlook for FY16, in terms of the order book growth and revenue growth? Also, how does our margin trajectory look like over the next two years?

**Vir Advani:** The current year is not going as per the plan because we were hopeful of closing lots of legacy projects in H1 which did not happen. That is why you see Q2 margins being higher than what we had projected. We do expect to push a lot of that in H2 and as we said at the beginning of this year that we will take some business decisions on job closures. So I think in H2, we will take that impact and maybe this year while we are still saying 4%, the margins may further drop a bit on account of those legacy jobs.

As far as order inflow is concerned, H2 is looking a lot healthier than H1 and a lot better than H2 of last year. So we are hoping to enter next year with a carry-forward that is significantly higher than what we had entered with this year. Hence we expect revenue to start growing again from next year and this year will be another flat year overall. Next year, we foresee 10%-15% revenue growth and we expect operating margin climbing back upwards. Whatever legacy jobs we are not able to close in H2, some of it may spill into Q1 or Q2 of next year. So that may drag it down on an overall FY16 but otherwise we expect to be back on track, to get back to 8% plus operating margin for Segment I. It is still little early for the year. Lot of it depends on how we are able to close these legacy jobs and how we are able to negotiate some open items with some clients. But the biggest concern right now is that money has still not started to flow into the system. The old projects are moving fast, but all legacy jobs are not closing. New order inflow is slow and even the jobs that we are booking now are moving slowly. Billing has become another issue for us. So you can see that the poor performance is both on account of poor closure of legacy jobs as well as even the existing business running much slower than what we had projected. The overheads are increasing and though we did a massive cut in the second half of last year, even that massive cut is not adequate for these billing levels. Now given that the environment has improved substantially and the outlook is significantly positive, at least in terms of enquiries, we are hesitant to cut the cost base any further now. So that cost base is really hurting us and we further expect the order inflow to improve. So probably in another quarter we will have much better clarity on business for the next year. But on the positive side, jobs have started to get finalized. Some old jobs are restarting. We are seeing a little bit of money movement and therefore projects starting. So I will say that definitely green shoots are there.

**Ruchi Vora**: That is encouraging. My second question is on your Cooling Products segment. Margins have been quite bumpy over the last 8-10 quarters. Just wanted to understand what the level of sustainable margins we should be building in for this particular segment. Also can you clarify on the tax rate?

**B. Thiagarajan:** You mentioned bumpy margins but it is actually seasonal because Q1 and Q4 margins are better than Q2 and Q3. But compared with the previous year, it has been improving this particular year because of stable exchange rate, lower commodity prices and 2% CENVAT benefit. So this is the situation today. Now going forward, we expect sustainable margins between 9.5 and 10 on an annualized basis.

**Ruchi Vora**: And tax rate?

**Vir Advani**: On tax rate in the current year, we will be under MAT partially. Next year onwards, we expect to get back to normal tax after a MAT credit adjustment.

**Moderator**: Thank you. The next question is from the line of Sonal Minhas from Saif Partners. Please go ahead.

**Sonal Minhas**: I have two questions. The first one is with regard to the decision to not merge the subsidiaries as was planned earlier. Just wanted to understand what exactly the reason is? My second question is with regard to the quantum of the slow moving orders as of now?

**Vir Advani:** The business rationale to merge the three entities still holds. In July 2014, there were some changes that came about largely related to tax and other regulations which make the manner of the merger that we were contemplating to not to be tax effective. Hence we decided to pull out after evaluation. So we are now looking at an alternative means. May be in the next 3-4 months, we may have an alternate solution.

Second question you asked was on legacy business. It continues to be where it was. We have about Rs 125 crore of legacy order book across some 80-85 jobs. We had very little success in Q2 in closing the same. As mentioned earlier during the call, we are struggling to close to them because of various reasons. Again like I mentioned, I think we will take some hard decisions in H2 because carrying these things forward is actually pulling down the recovery of the rest of the business as we see a lot of resource and energy getting diverted towards pushing these jobs to closure. So we will take a call in Q4 and will see what best can be on these jobs.

**Sonal Minhas**: Got it. Just a last question. I see your capital employed for the MEP business coming down by around 50-odd crore. What is the reason for this? Did you collect some money from creditors or were the vendor payments elongated?

**Vir Advani:** The payment cycle of our vendors has actually improved. It is slightly better collection and management of cash flow but again like I said, I do not think there is anything great to talk about because it is less than our target. You can see our debt level. Debt level is about Rs 370 crore for the quarter. If we were on plan, we should have been at about 325 or so. And you should have probably seen an additional 50-crore improvement in the capital employed in Segment I because most of the problem is there. So we are not on track, but some improvement.

**Moderator:** Thank you. Next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal**: With regards to your Segment I, you mentioned that the second half looks quite healthy in terms of the pipeline. Which segments are looking healthy? And if I am right, you have to bill somewhere close to Rs 800 crore sort of number to open the year with an order book of around 1,500 crore. So does it look possible?

**Vir Advani:** H2 billing will be based only on carry forward as it stands today. So the business today is limited to book and bill. A lot of this is done with the carry forward plus some book and bill in some of the other smaller businesses we have. The main point is the order inflow in H2. In my opening remarks I mentioned that we have a fairly healthy enquiry base. Just to put in context, the enquiry base and the firm enquiries has increased about 15% since the opening of the financial year. So it is quite a substantial increase in firm enquiries. The bulk of them are in integrated commercial complexes. So this is the new word for multi-use development. We have offices, hotels, malls and multiplexes all together. Power sector, in spite of all the problems, the enquiry levels continues to be at about 13%. 12% of our enquiry base is from hospitals and then the rest is banks, metro, commercial and hotels. So that is where the enquiries are coming from. Now we expect H2 order finalization will be substantially higher than H1 and that appears to be on track to happen. So that is what we will be watching quite carefully. Whether we book business or not, I think order finalization is important because it will be the first metric towards improving market.

**Madan Gopal**: How is the order enquiry compared to same period last year? You said from the beginning of the year, it has grown by 15%, but how is it looking now?

**Vir Advani:** I do not have that number in front of me, but it will be at least 25%.

**Moderator:** Thank you. Next question is from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.

**Tanuj Mukhija**: Sir, can you provide some view on the packaged AC business? I believe Blue Star is the market leader and VRF has increased the competition intensity. So what has been the growth in packaged AC in first half and margin trajectory versus last year?

**B. Thiagarajan:** So for the packaged air-conditioning segment, different people use different connotations. Like somebody includes chiller, somebody includes VRF, somebody includes ducted systems which are conventional direct cooling machines. The ducted system is the largest even today, though it can be replaced by VRF depending on the market conditions. When the commercial construction grows, packaged air-conditioning and conventional will also grow. At this point of time, if you take H1, the market growth of VRF was larger than the conventional systems. Conventional systems grew by 2% and we grew by 6%. The market for VRF systems grew by 15% and we grew in line with the market. In terms of market share, our market share remained the same at around 8% in VRF. In ducted systems, it improved by 1.5% which is from 30% it grew to 31.5%. In VRF systems, the number of players are large. Practically every room air conditioner player will be in VRF. We have 12-15 players there and obviously our market share is lower compared to that of ducted systems because we have not yet launched certain models. We will be launching a new range in the next 2-3 months of time or perhaps post summer. The field trials are on. So in totality in packaged air-conditioning, we will maintain our leadership. There is no problem.

**Tanuj Mukhija**: And Sir on the margin trajectory?

**B. Thiagarajan:** It has improved. I would say by 2.5% or so, but then if I go into individual, it becomes selective disclosure. But the thing is in all the product categories because of the commodity prices and exchange rate, the margins are much better.

**Tanuj Mukhija**: Sir in the room AC segment, you have continuously gained market share over the peers. So how many distributors or dealers have you added in the last 6 months and what is your plan for the next 18 months?

**B. Thiagarajan:** I do not think the market share improvement is only due to the expansion of the dealers or so. Actually at this juncture, our focus for the next 6 months is going to be improving the dealer productivity. We have more than 2,000 outlets and how each outlet will sell more is the focus. Actually appointing a dealer is a very simple job. I am not saying it is insignificant, but it is not a very difficult thing for a brand like us. But how each dealer will deliver in his counter which will help us in gaining substantial market share is the question. So therefore you should not be tracking number of dealers at all. It will not lead you anywhere.

**Tanuj Mukhija**: Sir you mentioned that the market share is 8.5% based on GFK data for retail plus commercial segment.

**B. Thiagarajan:** No, retail is based on GFK. Commercial is the industry estimate.

**Tanuj Mukhija**: Sir in the room AC segment, I think your margins would be higher than about 10% in FY15 whereas your guidance was about 9.5-10%. So why do you believe that these margins in room AC in FY15 are not sustainable?

**B. Thiagarajan:** I am only saying it depends on the product mix. It is also dependent on the demand. If the demand is much higher than what we can or what the industry can supply, you can sustain the prices.

**Tanuj Mukhija:** Sir you have repeatedly mentioned that the commercial real estate demand had picked up in Bangalore. So how do you see commercial real estate across India right now?

**Vir Advani:** We had mentioned in last quarter that Bangalore is looking positive. Bangalore continues to have order finalizations. I think NCR has become a little worse since the last time we spoke. There is not much improvement in West. Things do not change dramatically in three months. So I do not think there is any substantial difference from what we said last time. But NCR, I think there is some further slowdown before things pickup.

**Moderator:** Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

**Sanjeev Zarbade**: Sir, my question is on the Professional Electronics division wherein the margins have increased to almost 24%. Although we should not track on a quarterly basis, but are these margins sustainable? Around 20%-24%?

**Vir Advani:** For FY15, we are looking at margins around 20%. We had some highly profitable orders in this quarter and hence almost 24% margins.

**Moderator:** Thank you. The next question is from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

**Gaurav Sanghvi**: My question is on third segment. You mentioned that 20% is the sustainable margin. Are we witnessing off take in some major segments? The second question is for the second segment – Cooling Products. As you mentioned that extended summer is one of the reasons for higher growth, but are we seeing a more positive customer sentiment or penetration levels moving up?

**Vir Advani:** So in Segment III, what I mentioned is that we have seen a pickup in the industrial demand and healthcare but we are not seeing any pickup in PSU, defense, etc. We are not sure when that will happen. We are hoping that will be in H2. Atleast on the positive side, industrial investment has restarted. Hence H2 should be much better than H1.

**B. Thiagarajan:** Answering your question on segment II,sentiments have been improving for quite some time. Specifically in tier 3, 4, 5 markets, it has been very high. During the festival season also, we witnessed good sentiment. Hence this should continue and it should improve further.

**Gaurav Sanghvi**: Sir my question is more on the ground that are we seeing this business decoupling from the seasonality effect. Will the penetration level move up if the disposable income moves up or do we continue to see first and last quarter to be lumpy quarters?

**B. Thiagarajan:** I have been getting this question from mediafor quite some time. Over the past 30 years, this has been analyzed. Still the skew will be there. It is not a washout kind of a stuff during the winter months or non-summer months. There is some kind of a sale. Still 40% of the sale happens between April and July and around 30% happens in the last quarter. So therefore I do not think this seasonality is going to go away.

**Gaurav Sanghvi**: And Sir my last question is on the first segment. The incremental orders which we are getting, what is our guidance on the margin? Whether the margin has improved or has the market remained competitive?

**Vir Advani:** Nothing has changed in the last six to eight months. Competitive intensity continues to be quite severe and you can see our order inflows have not been very high on that account as we are not compromising on margins and other terms because of which the volumes are low. But we are happy with the quality of business that we are taking in. The billing volume is low on account of booking being low and booking is low on account of limited amount of good quality business. We expect it to change or we hope it will change in the market in H2, especially in Q4. So hopefully we will see increase in order inflows but as far as market share is concerned, we have been kind of consistent with the last three or four quarters.

**Moderator:** Thank you. The next question is from the line of Ankit Fitkariwala from Jefferies. Please go ahead.

**Ankit Fitkariwala:** My question is regarding the room AC segment. Basically just wanted to know whether do you see a trend that foreign players are losing market share and domestic players are gaining?

**B. Thiagarajan:** I do not see that trend at all, in the sense there are Indian brands who are gaining and there are multinationals who are gaining.

**Ankit Fitkariwala:** And just one last thing Sir. This market share that you gave that 8.5%, this is retail plus commercial?

**B. Thiagarajan:** That is right.

**Ankit Fitkariwala:** Do you have data for them separately in terms of market share if possible.

**B. Thiagarajan:** For residential, 1% point lower. Commercial will be higher.

**Moderator:** The next question is from the line of Rabindra Nayak from SBI Caps Securities. Please go ahead.

**Rabindra Nayak:** Sir there is an increase in the unallocable expenditure in the segment reporting and also there is an increase in the other expenditure in the profit and loss account. So can you attribute whether this is related to the other anyway?

**Vir Advani:** There is some overlap obviously between the two. For example, advertising expenses appears in both places. But obviously it is not the same. Like I said there are some sales promotion related expenses, there is an increase in the business whereas advertising and some provisioning, etc., is outside the business and unallocable. So there is some of that overlap, but it is not all of it.

**Rabindra Nayak:** And Sir the other expenditure has increased. Is it largely due to the higher sales and distribution expenditure this quarter?

**Vir Advani:** It is not sales and distribution, it is sales and marketing and business development related. So advertising, business development and marketing expenses and also some amount of provisioning.

**Rabindra Nayak:** Sir, depreciation is down on a quarter-to-quarter basis. Also, are you contemplating finalizing some CAPEX for the southern region?

**B. Thiagarajan:** It is due to a different accounting treatment. In the first quarter, a change happened and you remember that the actual true life of the assets, in that manner we provided for and provisioning was done. In the second quarter, it has got corrected in a different manner. On annualized basis, it should get adjusted.

As far as the South plant is concerned, we are rethinking on the whole proposal for a different reason. Number one is whether Seemandhra or any kind of a location will come out with some kind of a benefit and second is whether we can improve the capacity utilization in some factory of ours only. So we said that we will wait and watch. But yes, indeed some point of time, we will need factory in South.

**Rabindra Nayak:** What kind of debt level are we looking at?

**B. Thiagarajan:** It should come down compared to what it was in March 2014. Our internal goal is about 350 crore.

**Rabindra Nayak:** Currently it is 370 crore, you mentioned that.

**Vir Advani:** Yes.

**Moderator:** Thank you. Ladies and gentlemen, due to paucity of time, we will be taking the last question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

**Ravi Swaminathan:** Sir this is on Segment I. Earlier on the call you had mentioned the enquiry pipeline has gone up by 15%, can you quantify the pipeline?

**Vir Advani:** I think if not mistaken, it is about Rs 3,000 crore.

**Ravi Swaminathan:** My second question is basically what is the volume growth in room air-conditioner business for the first half as a whole?

**B. Thiagarajan:** First half, the market growth in value was 20%. Volume growth was somewhere around 12.5%.

**Ravi Swaminathan:** For us is 12.5%?

**B. Thiagarajan:** For us in number terms, it will be around 20% and rupee terms 30%.

**Moderator:** Thank you. I now hand the conference over to Mr. Advani for his closing comments.

**Vir Advani:** Thank you very much everyone for attending our call. We will have our next call at the end of Q3. So look forward to talking to you again. If any questions have not been yet answered, please mail us and we will get back to you. Thanks a lot.

**Moderator:** Thank you very much members of the management. Ladies and gentlemen on behalf of Blue Star that concludes this conference call. Thank you for joining us and you may now disconnect your lines.