"Blue Star Limited Q2 FY2014 Results Conference Call"

October 31, 2013

MANAGEMENT: **MR. VIR ADVANI – PRESIDENT, ELECTRO MECHANICAL PROJECTS GROUP & EXECUTIVE DIRECTOR, BLUE STAR LIMITED**
MR. B. THIAGARAJAN – PRESIDENT AIR CONDITIONING AND REFRIGERATION PRODUCTS GROUP & EXECUTIVE DIRECTOR.

Moderator Ladies and gentlemen good day and welcome to the Blue Star Q2 FY2014 Earnings Conference Call. We have with us today from Blue Star, Mr. Vir Advani – President Electromechanical Projects Group and Executive Director and Mr. B Thiagarajan – President Air conditioning and Refrigeration Products Group and Executive Director.

As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you need assistance during this conference, please signal an operator by pressing '*' followed by '0' on your touch tone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vir Advani. Thank you and over to you sir.

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 and half year ended September 30, 2013

The following are the financial highlights of the Company for the *quarter (Q2FY14)*

- The company reported Total Operating Income of Rs 584.98 crores for the quarter ended September 30, 2013, as compared to Rs 578.60 crores in Q2FY13.
- The Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter increased 12% to Rs 22.60 crores from Rs 20.15 crores in the same period last year.
- The Financial Expenses for the quarter increased by 14% to Rs 12.80 crores from Rs 11.20 crores in Q2FY13.

- Consequently, Net Profit grew marginally by 3% from Rs 7.27 crores in Q2FY13 to Rs 7.52 crores during the quarter.

- The Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 0.84 vis-à-vis Rs 0.81 in the corresponding quarter of the previous year.

- The Carry Forward Order Book as on September 30, 2013 increased marginally by 4% to Rs 1744 crores compared to Rs 1676 crores as at September 30, 2012.

Financial Performance for the half-year ended September 30, 2013 (H1FY14)

- For the half-year ended September 30, 2013, the Company reported Total Operating Income of Rs 1355.80 crores, as compared to Rs 1310.02 crores over the same period in the previous year, a marginal growth of 3%.

- The Operating Profit (PBIDT excluding Other Non Operating Income) increased by 14% from Rs 53.68 crores to Rs 61.02 crores.

- Net Profit grew 9% from Rs 27.81 crores to Rs 30.29 crores in H1 FY14.

I will now go through the general outlook of each segments that we are operating in for Q2FY14, followed by specifics of our performance in each of these segments:

General Outlook for the Segments:

Segment I

The external investment environment continues to be weak. Added to it is the pre-election impasse, higher inflation, high interest rates and volatile forex. The market has been sluggish in terms of new enquiry generation and order finalization. However, there has been some improvement in demand from the Hotel, Hospital, Industrial and Retail Segments.

At an aggregate level, the Central plant market continues to be flat, the ducted AC market has de-grown by around 5%. The only segment that has shown some growth this quarter as well is VRF, which has grown by 12%.

Segment II

The second quarter is usually a lean quarter for the room air-conditioner industry and Q2FY14 was no different. It witnessed a de-growth of around 5%. This de-growth, after a strong Q1, was due to an early monsoon in certain regions as well as the sudden spurt in dollar vis-a-vis rupee which forced companies to increase prices.

Going forward, however, with the festival season coming up and also the Energy Table changes getting affected from January 1,2014 the outlook for Q3 looks a little bit positive for volume growth.

The demand in the Commercial Refrigeration business is stable. While the Freezer market has grown around 15%, the Water cooler market was flat in Q2FY14. The major segments contributing to business were ice cream, dairy, and frozen food. The trends look to be similar in H2FY14 as well.

In Cold storage products, the traditional segments of Pharma, Fast Food & Restaurants, Ice cream, Banana ripening continue to fetch good business opportunities. In addition, we have also seen good demand in the Marine, Fruits & Vegetables and food processing segments.

Segment III

The demand for hi-technology imported equipment has been impacted by the appreciation of the dollar. The automobile and Defense sector is showing some positive enquiry generation. In Industrial Projects we are seeing demand in revamp and retro-fits rather than brown field or green field expansion. We hope to see some positive movement in demand in the coming quarters.

Our Performance for Q2FY14:

Segment I

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 64% of the total revenues in the quarter, declined marginally by 1%, while segment results registered a decline of 24% to Rs 20.0 crores. This drop was mainly due to lower billing volume, higher input costs, and changes in planned revenue against planned costs in Q2FY14 as compared to Q2FY13.

The margin of 5.4% in Segment 1 for Q2FY14, is marginally lower than the operating margin in Q1FY14. However it still continues to be higher than what we expect for the full year FY14 on account of unexpected delays in closing some older low-margin projects in the quarter.

The Capital Employed in the business stood at Rs. 487 crores as of September 2013 rising from Rs 423 crores as at September 30, 2012. The increase over last year is primarily on account of increase in inventory levels in our equipment business and a drop in collections in the projects business as liquidity is getting tighter.

After several quarters of anemic order inflow, Q2FY14 was a strong quarter for order booking. While order finalization in general continues to be muted, we booked two large orders in the quarter that have been delayed for over six months. The first is a Delhi Metro Phase 3 Electrical & Mechanical project and the second is a mixed-use development for Oberoi Realty at Worli, Mumbai. Together, these account for close to Rs. 300 crs of order inflow in the quarter.

While positive movement in order inflow bodes well, the burden of a few large legacy jobs are still weighing heavy on us. The closure and settlement of these jobs is expected to happen by Q4FY14. The segment results in H2FY14 depend largely on the outcome of these legacy projects and our endeavour is to start FY15 with a healthy carry-forward order book.

Needless to say here, our strategy of being selective in booking orders while adhering to more stringent margin and commercial term guidelines continues.

For the Central AC products business, despite the overall sluggishness, we have witnessed some demand from the Industrial, Hospitals, Hotels, Retail and IT/ITeS sectors in this quarter.

Our Packaged AC business continues to be stable. We are growing by 5% in our Ducted business and significantly higher percentage in the VRF segment owing to a smaller base. In addition, we have been able to make inroads into some new National Account Customers. The top performing segments for the quarter were Industrial, Educational Institutions and Banks.

Some of the major orders won by Blue Star during the quarter in Segment 1 are

Electro-mechanical Projects: Oberoi Mixed-use project - Worli, Delhi Metro - New Delhi, Danfoss - Chennai, RMZ Ecoworld - Bengaluru, Apollo Hospitals - Vizag, Tex Valley - Erode, Centenary Mall - Jamshedpur, Adlabs - Khalapur, Noida One - Noida

Packaged AC Sytems: Koodangulam Atomic Power Plant - Chennai, Mall De - Goa, Dalmia Cements - Midnapore and Belgaum, etc.

Central AC Products: Vellammal Medical College - Madurai, Kalyani Tech Park - Bengaluru, Park Hotel - Khalapur, Metro Mall - Faridabad, Nightingale Hospital - Guwahati

Segment II

In the Cooling Products segment, revenue was flat in the quarter while segment results grew by 3% to Rs 8.15 crores over the same period last year. The segment contributed to 29% of the overall share of revenues in this quarter.

You may be aware that Q2 is usually lean for the Room airconditioners and Refrigeration business. While we had lean inventory levels, the advertising expenses were higher. Coupled to that, was the impact of the Rupee depreciation resulting in higher input costs and thereby a lower contribution of both the businesses.

Our Room air-conditioner business posted a growth of 6% in number terms in the Q2FY14 and we retained our market share gains as per Gfk-ORG survey (for the period Apr-Aug'13).

For Refrigeration products and systems, the demand has typically come from Ice cream, Dairy and Frozen Food segments. The margins for this business continue to be under pressure owing to increasing competition, price challenges and the company's re-entry into National Accounts business where margins are comparatively lower.

Going forward, the company will continue its efforts to increase market share in both the Room AC and the commercial refrigeration business. We will also keep our focus on initiatives like channel expansion, increasing share in the light commercial segment. We are confident that Operating margins at the year end will hold at last year levels of around 8% - 8.5%.

The Capital Employed in Segment 2 decreased from Rs 237 crores as on September 30, 2012 to Rs 173 crores as on September 30, 2013. This is primarily due to a decrease in inventory levels and a decrease in receivables.

Segment III

In the Professional Electronics and Industrial Systems business, revenues increased by 25%, while segment results registered a significant growth of 216% to Rs 8.32 crores.

As you are aware, Segment III consists mainly of three components namely a) Agency business, b) System Integration business and c) Industrial Projects business.

The agency business continues to be under pressure due to the appreciation of the rupee. Our clients need to reset their budgets at these dollar levels and so the purchase cycle is likely delayed by up to 6 months.

The System Integration business is showing some signs of recovery with order inflow improving in the light industrial segment. This is however limited to very specific projects and so competition is expected to be fierce.

On a positive note, after having struggled for the last six quarters, the Industry Projects business has bottomed out and is recovering, albeit slowly. We expect H2 to be stronger for the business as legacy projects have been cleaned up and order inflow has resumed as we have re-directed our efforts to revamp and retrofit projects targeting energy efficiency improvement in the metallurgical sector.

As always, we recommend that Segment 3 should not be analyzed on quarterly basis. Our Q2FY14 results are encouraging compared to the previous year and we are on a path of recovery in this business.

Outlook

The company continued its profitable growth in the second quarter through efforts on driving margins, implementing prudent booking guidelines specifically in Segment 1, and by focusing on profitable market segments, entering new markets and geographies through wider distribution and by implementing effective cost control initiatives in segment 2.

While the electro mechanical projects business will continue to be under pressure in H2FY14 due to the challenging and uncertain business environment, the cooling products business is likely to face challenging times owing to the appreciation of the dollar. However, the company intends to continue its focus on channel expansion and other initiatives related to cost control and prudent financial management in order to sustain this performance for the rest 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 me and Thyag, we will try and answer as many questions as we can. To the extent we're unable to, we will get back to you via e-mail. With that, we are open for questions.

Moderator Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Ananth Narayan from Kotak. Please go ahead.

Ananth Narayan Just a couple of questions, in this order book of Rs.1,744 crores, could you give us a breakup of Segments?

Vir Advani We release segment wise data once in a year, usually post our annual results. However to give you a brief idea, 70% of the carry forward is in the commercial market which is primarily office buildings followed by hospitals and IT, about 15% to 18% would be in infrastructure and some in residential.

Ananth Narayan In terms of margins, where do we stand? In terms of the legacy orders and the orders which have reasonably higher margins.

Vir Advani At the end of the year, we had mentioned that we have about Rs. 350 crores of low margins-no margin business. Unfortunately, that number continues to be roughly there and has come down marginally. The intention was to bring it down to zero during this year. That's what I mentioned in my opening remarks that we are finding it difficult to close these projects but we are still hopeful of closing them in H2. Some of them may spill into the next year but the aim is to clean it all in this current year and to have a clean order book going forward. Like I had mentioned before, these projects are now dependent on the client taking over, handing over and settling claims etc. So that is why it is taking longer than expected.

Ananth Narayan And the balance would be about 5%-7% EBITDA margins?

Vir Advani Yes. The site margins for the rest would be between 10% to 12% and operating margins at 5% level.

Ananth Narayan Last question is on the borrowing which seems to have gone up to around Rs. 420 crores. Any reasons and where do we see it at the year end?

Vir Advani In Q2FY14, our borrowing has gone up to Rs.417 crore from Rs.355 crore in Q1. The increase is primarily to fund the capital employed for segment 1. Two issues there, one is inventory levels in our equipment businesses has gone up and the other is that with receivables in our projects business has become very tight, liquidity wise. In fact you will notice that it is linked actually to our revenue. Our revenue has actually slowed down in Segment-1; we are holding back billing and material delivery because of the rising capital employed. So we continue to follow that process. Obviously the focus is to bring down this capital employed, which is essentially project wise, you have to go out and close projects. Only then we will be funding other projects. I think the last three months has been very bad because of the dollar movement as many corporate customers completely shut down payments until they sorted out their own issues in FOREX. We should see some improvement in Q3 if dollar stabilizes at the current level of Rs.62.

Ananth Narayan So we will be the target of around Rs.300 crores at the year-end borrowings?

Vir Advani We should be at Rs.350 crores.

Moderator The next question is from the line of Pritesh Chedda from Emkay Global. Please go ahead.

Pritesh Chedda I couldn't actually understand what you said on the margin in Segment-1, that they are not going to be higher than the company level margins. If you could read that statement?

Vir Advani What I said was that we have been indicating that operating margin in Segment-1 are expected to be in the range of 4% range for the year because it is still cleaning up of a backlog. But with margins of 5.9% in Q1and 5.4% in Q2, I was just implying that H2 margins for Segment-1 will be lower than H1.

Pritesh Chedda Now this is despite the fact that you have Rs.300 crores backlog of legacy orders and the orders that you have won during last four quarters, which will be in execution in H2, have a site level margins there are 11%. So if you could just reconcile that?

Vir Advani What is essentially happening is that now our order book is refilling. However the execution of the newer orders is much slower than we would want, that is one issue. The bigger issue is that we have not been able to bill much of Rs.300 crores low margin, no margin business in H1. Hopefully we will bill in H2 because the intention is to clean it out. So the more we bill that orders the lower the aggregate margins for the segment will be. The intent is to clean out the order book so that we have a much better FY15.

Pritesh Chedda How old are these orders? Are they in excess of couple of years now in the system?

Vir Advani Yes, way more than two years.

Pritesh Chedda So there is always an upside risk that if these don't come into closure in second half then the margins will be on higher side?

Vir Advani Yes. But actually that doesn't help us because that problem doesn't go away. Hence we have to address it in H2FY14 otherwise we will be carrying it forward into FY15 which we want to avoid.

Pritesh Chedda My second question is with respect to inflows. In last two-three quarters we have seen a fairly decent inflow. The systemic activity and some data that we are tracking tend to show fairly good amount of tenders in the system. Do you think that the H2 inflow should most likely be as strong as what it is in H1 or the momentum might continue throughout the year in terms of the orders that you receive?

Vir Advani We are very clearly seeing that H2 will be lower than H1 in terms of order inflow. The reason is simply that these orders have come-in in H1 and are actually the last year orders that got pushed into this year. In case of large tenders, we are not seeing many of them being finalized during current year. So H2 is going to be smaller value, regular business that comes in and there I am not seeing the deal flow and closure being on tract. In fact I am worried that moving into Q4, as we get close to the elections, whether they will just completely postpone those decisions till election results are out. So for now, at least we are happy with the H1 order inflow and the order book we have right now leaving aside the old jobs. So we are focused on executing it because part of the problem is that some of the best projects that we have booked in the last one year are not moving at even half the pace they should be. So the concern right now has moved to execution, billing and completion of jobs.

Pritesh Chedda You said that my inflows in H2 will be weaker than H1 and it should be only be around the base inflows on regular jobs. I'm just putting a number here. Can it be quantified up to Rs.500 crores vis-à-vis the Rs.800 crores and the 900 crores figure which you talked about?

Vir Advani I suppose you are right.

Pritesh Chedda Last question, I just want to reconcile what you told in Segment-2. You mentioned that the air-conditioner market declined by

5% and the room air-conditioner business for you grew by 5%. The segment revenue there is flat and your commentary on the other businesses of commercial, cold storage, etc. didn't point out that anomaly that those businesses actually declined in the quarter. So if you could just reconcile, I didn't understand?

B Thiagarajan For the period of April to September room air-conditioner market grew by around 11% and Blue Star's growth in it was around 22%.

I am now moving to the refrigeration product business which has also grown. Your question is with regard to why it is looking flat in Q2. The first reason is that Q2 generally has lesser growth than Q1, even in room air-conditioner or refrigeration products. Second reason is our exit from installation accessories business as it was loss making one.

Pritesh Chedda If you could just tell us what is the CAPEX that you are looking for FY14 and 15?

Vir Advani FY14 CAPEX is Rs.25-30 crores and FY15 should be marginally higher than that.

Moderator The next question is from the line of Sonal Minhas from SAIF Partners. Please go ahead.

Sonal Minhas Just have two questions. The first is on the Delhi Metro. Wanted to understand, that there was another Delhi project three to six months back which you had decided not to bid for as you wanted to allocate capital for cooling product business because you thought that the returns there are much higher. The electrical and the plumbing being the non-core of the business, would you believe that the margins here would be much better than what you saw in the other business which you left out 3 to 6 months back?

Vir Advani We had stepped away from that the project, which was 2.5x the size of current project which we have. That decision made sense because the current order, though not big, has significantly better terms as compared to that.

Sonal Minhas Next thing I wanted to understand was on the debtor. What is the collection cycle of the old orders which are two-year-old? If not wrong, it is 720 days. But what is the debtors cycle for the new projects which you are executing. Could you just explain that?

Vir Advani For our running projects, typically the debtors cycle will be about 90-100 days and creditors cycle will be about 50-60 days. From a cash flow point no point of view, it would be far better here because our terms in the new projects are better than the old ones. From a cash flow point of view, our objective is actually to be cash neutral in the projects that we are executing now. However it does tend to be a bit of a challenge given the liquidity issues in the market. So we kind of set up a limit where we say that we don't want the cash flow to exceed a certain percentage of the overall value of the projects and this is how we are controlling the cash flow.

Sonal Minhas So at the company level if the debtors are around 120 days, which basically means that the orders with the bad margins are essentially weighing down the numbers on the debtors as a whole and that is why the number is looking that much higher?

Vir Advani Correct.

Sonal Minhas Last question, just a hypothetical one. If Rs.350 crores of the order were to be written off today from the balance sheet, I would presume that they would not have any impact on P&L because that is already been effective in the P&L. Is that right?

Vir Advani No, that is not true. So one is we have the balance sheet side, which is obviously stuffed. The second is our obligations in terms of bank guarantees, liquidity damages and settlements with customers because these are old projects and we have dues and not debtors necessarily but escalation claims, etc., pending with them. So there will be an impact on P&L. In fact this is the reason why we continue and are struggling to close them to minimize the damage. But there is always a possibility that settlements do not go in our favor etc. So actually walking away from these project is not an option.

Sonal Minhas If we look at the balance sheet, short-term loans and advances is the only item which has gone up while the receivables and other current assets are pretty much down during the half year as compared to the closing in March. So just wanted to understand that, what is that head?

Vir Advani This will be payables to suppliers, advances essentially and our revenue in excess of billing.

Moderator The next question is from the line of Sourabh Arya from Bajaj Alliance. Please go ahead.

Sourabh Arya My question pertains to unitary cooling segment. During last couple of months we have seen in news that lot of MNCs are planning their manufacturing plant in India. Do we have an idea about what kind of plants are those, are those assembly plants or they are manufacturing complete ACs in India? With the rupee depreciating, we have seen price of ACs increasing and subsequently in January also, there are energy norms which are expected to change, which will increase the pricing further. So are we and other players, who are importing from China or other location, placed in this particular Segment?

B Thiagarajan With the fluctuation in exchange rate, it makes sense to manufacture here or add value more here, which is point number one. The point number two, we are largest manufacturer in India than many other companies. Having said this, room air conditioners per say, there are a lot of items which are imported. For instance, the compressor is not manufactured till now in India, the plastics by and large are imported, the indoor units which you are seeing, the copper is imported, in some cases the refrigerant gas and in some cases inverter. The average import content in a room air-conditioner will be roughly around 60%.

Sourabh Arya In those articles there was comments like those guys would be manufacturing even compresses here?

B Thiagarajan And coming to that, there is a plant of Hitachi, first time in India manufacturing rotary compressors. LG and Samsung do not manufacture compressors here. With more and more manufacturing, you will begin to see as the volumes go up and that is the direction in which it is moving.

Now coming to your other part of the question, whether prices will go up with change in energy efficiency norms? Post that, what is five-star today will become a four-star in January 2014. What you're going to buy as a five star in January is equivalent to six star today. Therefore you are paying a higher price but in real life it is not.

Sourabh Arya Which category is growing at the highest rate?

B Thiagarajan Three star continue to sell maximum, more than 50%.

Sourabh Arya If I were to sum up right now, all the players are at nearly equal footage and all are doing assembly only. Hence there is no real threat.

B Thiagarajan Some people do much more value addition than Blue Star.

Moderator The next question is from the line of Renjith Sivaram from B&K Securities. Please go ahead.

Renjith Sivaram During the Q4FY13 conference call, we had mentioned that around Rs. 50 crores of zero margin and Rs. 300 crores of sub-5% margin jobs are pending and these are expected to execute in 1H FY14.

Vir Advani Yes. We had mentioned that we have Rs.350 crores of zero and low margin business. It has come down marginally to Rs.300 crores during HI. We would like to push through a lot of this during H2 which will probably impact the H2 margins for the Segment-1.

Renjith Sivaram In our interest cost, is there any FOREX element?

Vir Advani Foreign-exchange cost for Q2 was Rs. 4.6 crores which is up from Rs. 3.1 crores in Q2FY13.

Renjith Sivaram So this Rs. 4.6 crores is an addition to the interest cost?

Vir Advani Yes.

Renjith Sivaram Generally in the Segment-2 there has been a reduction in margin. How do you see the full-year margins for Segments-2 and 3?

Vir Advani Frankly we have not projected that, so there will be slightly better than the last year.

Moderator The next question is from the line of Vikas Shardra from N T Asset. Please go ahead.

Vikas Shardra I have two questions. One is that the Segment-1. What percentage of products that you sell would be manufactured v/s bought out? And secondly, on this income from services which is around 8%-10% of your revenue, which is much stickier in nature, what kind of margins do you make?

Vir Advani In Segment-1 we have two businesses, project and equipment business. In our equipment business, central air-conditioning equipment product is 100% manufactured and sold by us. As far as our projects business is concerned, it is much harder to answer because our project business is now an MEP business. So out of the air conditioning, electrical, plumbing and fire-fighting, we only manufacture air-conditioning equipment. So in the air-conditioning project which we execute, 50% of the projects would have Blue Star equipment in it and for the other

50% we will be buying out competitors equipment based on specifications of the tenders.

Vikas Shardra The second question, on the services.

Vir Advani So we do not disclose service as a separate business. What we have indicated in the past is that it is about 15% of our overall revenue of the company and is obviously more profitable than our sales and manufacturing organization but it is blended into these margins that you see across Segment-1 and Segment-2.

Moderator Question is from the line of Tarun Makhija from Ambit Capital. Please go ahead.

Tarun Makhija My question pertains to the Segment-1. Your margins have been quite stable in the last two quarters. Would it be fair to say that the margins have been stable due to a change in revenue mix, wherein the share of projects business has gone down?

Vir Advani Yes and no. You are right that the project business revenue has come down for the reasons I mentioned. The capital employed has gone up and therefore it is difficult to bill and deliver. The other equally important reason I had mentioned was that because we are unable to close the old legacy projects at the rate we need to, to that extent the revenue being recognized in our projects business in the first two quarters is more the newer business as compared to the older business during the same period last year.

Tarun Makhija If you look at your expenditure, it has increased steadily in the last two or three quarters along with improvement in Segment-1 margins. So can we break up this expenditure into Segment 1, 2 or 3?

Vir Advani No, if we could then we would have allocated it.

Tarun Makhija What was the volume growth and value growth of your room A/C business in this quarter?

B Thiagarajan I have it for the period between April to September, 11% is the market growth and Blue Star's growth is 22%.

Tarun Makhija In terms of volumes?

B Thiagarajan In terms of volume, the growth will be slightly higher at 27.5%.

Moderator The next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad Could you tell us the tax rate expected for this year and next year?

Vir Advani In the current year, it will be at MAT. For the next year unfortunately we have not worked out the details but it will be partially MAT and partially regular.

Moderator The next question is from the line of Sandeep Tulsiyan from JM Financials. Please go ahead.

Sandeep Tulsiyan What percentage of our total room air-conditioner business is window A/Cs as of now? And post price increase in January, what we understand is that the price differential between a window A/C and a split AC would narrow down. So will there be any cannibalization of sales? As in people would like to upgrade from a window A/C to a split A/C.

B Thiagarajan I will answer this in two parts. Number one is irrespective of the energy efficiency change which is going to happen, steadily year-after- year the share of window air conditioner has been coming down. It is basically by the usage attitude of the consumer itself. Point number two is that, in the forthcoming change, norms for the window air conditioner and the split air conditioner are not getting changed in the same level. The window air conditioner escaped the change last time. In other words 2010 to 2012, split alone changed and the window air conditioner didn't. Now labels for both are changing which means the EER or the energy efficiency ratio of the window air conditioner is kept at a much lower level than the split air conditioner. Therefore I do not see a dramatic change in the consumption pattern of window air conditioner. Already we're beginning to see that window air conditioners are being procured in certain markets which are specifically New Delhi, Punjab and Uttar Pradesh as a new product, in many other markets it is serving as a replacement only. So to answer your question, we do not see any abnormal drop in window air conditioner. It will be as it is happening every year and it will keep declining.

Sandeep Tulsiyan What would be the split between the two in our sales mix, what will be the mix for Blue Star?

B Thiagarajan In our case it is 75:25., 75% in split, 25% is window.

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

Sanjeev Zarbade Wanted to know, what is the order intake figure for this quarter.

Vir Advani Order inflow in Q2 was Rs. 890 crores.

Sanjeev Zarbade And in this quarter, definitely couple of large orders has helped us to build the order backlog. So do you see a similar kind of orders coming in the second half?

Vir Advani No, actually there are no large projects that we are working on finalizing in H2 unfortunately. There are mid-size projects of course as usual. But as I had mentioned earlier, I am finding that as the months pass by, H2 is becoming harder to finalize contracts. I think people are getting concerned about the elections. So probably we would have about two or three more good months of order inflow and then I think it will start to dry up. I'm not seeing any large value tenders right now getting opened or finalized.

Sanjeev Zarbade Will advertising expenses decline sequentially?

B Thiagarajan Yes. In the sense that out of our total advertising expenses in a year, 75% happens in H1 and in H2 it will be very negligible. That is one of the reasons you see the operating margins going up for the standalone quarters.

Moderator Mr. Advani, would you like to have any closing comments.

Vir Advani Thank you everyone for being on the call. If there are any questions that we have been unable to answer, please do send us an e-mail and we'll make sure that we get back to you. Happy Diwali to everyone and talk to you after the New Year. Thank you.

Moderator On the half of Blue Star Limited that concludes the conference. Thank you for joining us, you may now disconnect your lines.