

**BLUE STAR**  
**Conference Call**  
**August 01, 2007**

Moderator

Good afternoon ladies and gentlemen, I am Monali, the moderator for this conference. Welcome to the Blue Star conference call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to hand over to Mr. Vir Advani, Head Investor Relations, Blue Star. Thank you and over to you sir.

Vir Advani

Thank you Monali. Good afternoon ladies and gentlemen. This is Vir Advani and I am accompanied by my colleague Mr. Thiagarajan, Executive Vice President, in charge of after sale service at Blue Star. We will be giving an overview of the results for Blue Star Limited for the quarter ended June 30<sup>th</sup> 2007. After this we will open up the floor for the questions, so please hold on till then.

The following are the financial highlights of the Company; we have reported a total income of Rs. 462.32 crores for the quarter ended June 30<sup>th</sup> 2007 representing 48% growth over the corresponding quarter in the previous year. Net sales for the quarter at Rs. 462.25 crores was also up by 48% over Q1 of FY07. Operating profit i.e. EBITDA excluding other income for the quarter stood at Rs. 37.9 crores which was up by 140% as compared to EBITDA of Rs. 15.8 crores in Q1 of FY07. The operating margin improved substantially during the quarter to 8.2% as against 5.1% in the same period last year. Better management of cost of input materials, capacity utilization of manufacturing plants and more importantly the rise in scale resulted in improved margins. In addition to this rupee appreciation contributed to lower import cost. Other income for the quarter was Rs. 7 lakhs against Rs. 49 lakhs in Q1 of FY07. Net profit for the quarter was Rs. 22.32 crores up 3 fold over net profit of Rs. 7.3 crores for Q1 of FY07.

Order inflow for the quarter was Rs. 687 crores representing a 52% increase over Rs. 453 crores in the same period last year. As a result the carry forward order book as on June 30<sup>th</sup> 2007 stood at a healthy Rs. 984 crores compared to the order book of Rs. 688 crores as on June 30<sup>th</sup> 2006, this represents a 43% increase over the last year.

These are the highlights on a macro level. I will now spend some time on each of our lines of business and give you post financial as well as operating highlights for the quarter.

The first line of business central and packaged air conditioning continued to contribute significantly to the overall growth of the Company; this division grew by 49% during the quarter to Rs. 277 crores and represented 60% of the overall business. The operating profit grew 60% to Rs. 28.1 crores during the quarter. The operating margin improved from 9.4% to 10.1% for the period. The domestic IT, ITeS, retail, supermarket, telecom, and healthcare sectors fueled the demand for central air conditioning during the quarter. Some significant orders include Medicity in Gurgaon, DLF in Gurgaon, Infosys, Reliance communications, Empress City mall in Nagpur, Cosmos mall in Siliguri, Microsoft Secunderabad, Sun City Jaipur, Cap Gemini

Mumbai, HDFC Chubb in Mumbai, and Vishal Retail and Aditya Birla Retail; the two new retail customers.

Being an integrated manufacturer, system designer, contractor, and after sales service provider, we continue to benefit from the current construction boom. We intend to continue our investments in product development and manufacturing as in the case of screw chillers and VRF systems, while enhancing our capabilities in the area of project management and contracting. In fact we are the first to manufacture VRF air conditioning systems in India which are highly energy efficient and have the flexibility of individual controls. Although still relatively small our telecom business unit that addresses the air conditioning needs of telecom shelters is growing at a dramatic pace with billings growing at over 100% for the quarter and bookings at even a greater rate. The outlook for this business in the next 2 years is very positive.

Our second line of business, cooling products, performed exceedingly well in the quarter. This business grew 42% over Q1 of FY07. The majority of growth in this segment was a result of substantial room air conditioner volume growth over Q1 of the last year. Within this product segment split air conditioners witnessed the highest growth. More importantly operating profit grew by nearly 75% to Rs. 16.5 crores in the same period with operating margins improving significantly from 8.4% to 10.4% for the period. Margins have improved as a result of multiple factors; firstly volume growth has led to economies of scale, secondly all room air conditioner production flowed through our Himachal plant in this quarter. The duty reductions and appreciating rupee helped reduce our import cost and finally, with split air conditioners growing faster than window unit sales, the product mix improved. All these benefits however were partially offset by rising raw material cost especially copper and steel. The net result however was of course much higher operating margin than the prior period.

The Company has its comprehensive range of split air conditioners such as hiper split, verticool, mega splits, and cassettes apart from the traditional high wall splits to meet every conceivable requirement of the customer. This wide range catering to different needs has enabled the Company to become a formidable player in the corporate and commercial segment in room air conditioners.

The second part of cooling products business which is the refrigeration business also did well. The demand for cold chain equipment continues to be on the rise and Blue Star is in a strong position to leverage on the impending boom in the segment. The Company offers equipment right from pack houses at the farm end to supermarket refrigerating equipment for retail outlets. With its expertise in back end cold storage and its tie up with ISA in Italy for aesthetically appealing supermarket display equipment; the Company is confident of being a leading player in the sunrise supermarket segment. During the quarter, the Company booked refrigeration display cabinet orders from two new supermarket chains those are Aditya Birla Group retail chain and Vishal Megamart. The other refrigeration products also performed well with the volumes of bottle water dispensers, and chest coolers doubling and ice cube machines recording a volume growth of 50% compared to the corresponding quarter last year.

The third line of business, which is professional electronics and industrial systems also continued to perform well. While revenues grew by a solid 90% over the corresponding period last year, operating profit grew 386% to Rs. 4.9 crores. The buoyant metallurgical industry was one of the main contributors to this growth. As we had mentioned in the past, given the lumpy nature of the business as well as the broad based product offering, quarter-to-quarter profit comparisons are not indicative metrics. However, the Company continues to have a positive outlook on this business for this financial year.

In conclusion, management remains confident about the future of all its businesses while economies of scale and operating efficiencies will continue to support higher margins. The volatility in raw material prices continues to be a concern in the medium term, however, as our success is closely pegged to the growth in commercial construction with domestic and FDI investment in real estate increasing Blue Star expects this momentum to continue. With that ladies and gentlemen, I would like to hand it back to the moderator who can start to take questions that will be addressed by either Mr. Thiagarajan or me given the questions, so with that thank you very much.

Moderator

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press \*1 on your telephone keypad. On pressing \*1 participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking questions. To ask a question please press \*1 now. First in line we have Ms. Dipika from Falcon Wealth Advisors.

Dipika

Hello, hi, this is Dipika, I would want to ask you the capacity for each of your product line and the average sales price and the cost price if you can give it to me?

Thiagarajan

Yes, just a minute. Your question is the capacity of the manufacturing units?

Dipika

Right.

Thiagarajan

See in today's context, first of all the capacities have got low relevance from the statutory point of view, because we are not in a licensing era.

Dipika

I just wanted from statutory point of view.

Thiagarajan

Okay now secondly is...

Dipika

The financial performance point of view.

Thiagarajan

Yes if you have a highly flexible manufacturing system, different factories manufacture different kind of products like for example our Thane manufacturing unit manufactures air handling units, chillers, process chillers, etc. In the same way, Dadra unit manufactures telecom shelters,

package units, floor mounted split etc., Himachal manufacturing unit manufactures predominantly room air conditioners that is window and split air conditioners and they will start manufacturing fan coil units also. For you, the real way of looking at the capacity will be something like 1.50 lakh units of air conditioners can be manufactured in Himachal, something like 3 lakh units can be manufactured in Dadra. As far as Thane is concerned it is very difficult to quantify in any respect so probably a rupee value may be appropriate but then again it depends on what product mix you have.

Dipika

Yes sir, sir you can give me that?

Thiagarajan

Probably maximum of something like Rs. 200 crores can be manufactured by Thane manufacturing unit.

Dipika

It manufactures what?

Thiagarajan

It manufactures air handlers, it manufactures reciprocating chillers, it manufactures screw chillers, it manufactures process chillers. A wide variety of equipment in real terms. Actually from your point of view, the real way is to look at number of units. Himachal is the only factory, where one can look at number of units since it manufactures window and split air conditioners.

Dipika

Fine, you can give me that, number of units in each plant.

Thiagarajan

1.50 lakh units on a single shift basis.

Dipika

Okay and you have single shift only?

Thiagarajan

In the summer season we may have 2 to 3 shifts, in which case we can go up to 2.50 lakh units as well.

Dipika

Okay, what about the rest of the locations?

Thiagarajan

I explained to you. I am not able to get what you are trying to arrive at. What is our manufacturing capacity? In terms of whether we have full capacity, whether we have expanded capacity? What is the context of the question then I can probably relate to you.

Dipika

Yeah, let me tell you I want to arrive at your revenue model?

Thiagarajan

Revenue Model...okay. We are a manufacturer, we are a contractor, we are a service provider. Our revenue is not related to our manufacturing. In other words we manufacture only 40% of our turnover, so you cannot arrive at a conclusion that only manufacturing contributes to our revenue.

Dipika

Okay and the rest is?

Thiagarajan

We may be doing project work which is a central air conditioning business,

Dipika

So how do I arrive at your revenue model?

Vir Advani

I am sorry you know this is a quarterly conference call. I suggest you write to us separately on this question because we like to limit the questions here to the quarter.

Dipika

Alright, no problem any expansion plans you have?

Thiagarajan

We are setting up a manufacturing facility at Wada in Maharashtra which should come into production in the fourth quarter, the construction is on.

Dipika

Okay production in fourth quarter .The effect would come in the next year then?

Thiagarajan

Probably very little in Q4. We will witness the effect only in the next financial year.

Dipika

Okay, fine, thank you.

Moderator

Thank you very much ma'am. Next in line we have Mr. Nishit from ABN Amro.

Nishit

Hello.

Thiagarajan

Yes, hi Nishit.

Nishit

Hi, good afternoon sir. Congratulations on good set of numbers.

Vir Advani

Thank you.

Nishit

Sir my question is, looking at your second segment the cooling products; margins have increased by 380 basis points to be very precise. Sir, what do you think looking at these going forward; will this stabilize at these levels?

Vir Advani

We are still working through that, like I mentioned to you there are about 4 or 5 points that helped in the margin improvement, but then it was offset by raw material pricing, which is where there is a little bit of uncertainty. So if I just repeat for the sake of everyone's benefit and then we can let you know what our take is. We first talked about volume growth which lead to economies of scale, that is an important point and we expect it would continue to the extent that Q2 and Q3 are slower quarters than Q1 in that business; you see a reduction but that is every year as you see it is a seasonal business. But looking forward we see volumes increasing on a year-to-year basis, to that extent it should continue. Secondly, we talked about how everything is now flowing through Himachal which was not being done last year, and therefore the benefits of which is now received in this quarter. And obviously going forward we will continue receiving those benefits as well as the volumes increase, so those benefits should stay with us.

The third one we talked about is duty reductions and the rupee. Duty reductions again are permanent; there is a significant amount of import element to these products and therefore those duties has been reduced and they will stay. The rupee is not in our control, we understand that it will stay at these levels, if it does then obviously that benefit stays with us to some degree. It will however, we believe will offset by increase in import prices that means the Chinese and Thai and other or even the US from where we buy we expect they will probably come back with price increases much like we are doing because of the raw material pressures that everyone faces around the world so to that extent this rupee and the duty reductions will probably be offset with pricing from the vendors. We have not seen it yet; but we should expect.

Finally we talked about the product mix changing - that means going from split; more split units, less window units, that again we expect to stay because in the corporate and commercial segment, the major buying is in split units not so much in window units. So we expect that to continue, and hence most of the benefits are sustainable. The issue is around raw material pricing, copper is going through the roof once again. It had dipped for a little while but now has shot through the roof again. Steel is on an upswing so it becomes difficult to forecast whether this is sustainable or not. We do know that we will do better than last year and the year before that but whether we can maintain this Q1 type of level it is too early to say. We have got an additional benefit this quarter due to the excessive volume plus like I mentioned these couple of points so some of that will come out for the rest of the year. The year will be good, but we are unclear as to whether will be at this level. We will have to watch another couple of quarters and give you more feed back at that time.

Nishit

Okay sir did we start any of the cold chain part of the business in this quarter?

Vir Advani

That has been going on; it started like we talked about it in Q4 of last year. The bulk of the growth in refrigeration will come towards the second half of the year as the supermarkets firm up their capital investment plan. Certainly that business is growing .But not at the same rate as the room air conditioner business has grown in the quarter.

Thiagarajan

The weightage of the cold storage or a cold chain to the cooling products business is not very significant because in the first quarter, room air conditioners are very dominant.

Vir Advani

Because the refrigeration business is not as seasonal as the room air conditioner business.

Nishit

Okay sir can you give me the exact breakup of how much room air conditioners have grown and how much the cold chain part is grown?

Vir Advani

No unfortunately you know we reported a segment level for that reason, we don't actually go down to product level. On an annual basis, we let investors know what the mix is .We think you probably know that last year out of the total revenue of Rs. 372 crores for cooling products about Rs. 225 crores roughly was room air conditioners; and about a Rs. 150 crores roughly was the refrigeration equipment. Again we will let you know on an annual basis how that mix changes.

Nishit

Okay sir and coming to the third segment, the professional electronics is not comparable quarter-on-quarter and I do agree with that point. But sir this kind of results; can I please know from which part or which product you have seen this?

Vir Advani

Yes again, we do not talk at a product level what I can tell you is that you know that we have about 5 or 6 product lines that serve somewhere between 6 and 8 industry sectors. What is important is that the sector that contributed the most to the growth was the metallurgical sector that means steel and other metals which is where we do most of our industrial products supplies, plus test and measurement equipment, etc., so it is the industrial buyers that have contributed more to quarter one as compared to the service buyers- which is the hospitals and healthcare and people like that .So to that extent we have seen growth more on one end rather than the other, however, all our product lines are growing very fast.

Nishit

Okay sir thank you.

Vir Advani

Thank you.

Moderator

Thank you very much sir. Next in line we have Mr. H.R. Gala from Quest Investment.

H.R. Gala

Hi Vir and Thiagarajan congratulations for very good set of results.

Vir Advani

Thank you very much.

H.R. Gala

In line with our chairman's optimism that was shown at the last analyst meet. Just a couple of questions on your carry forward order book of Rs. 984 crore. Will it be possible for you to give us the breakup against these 3 SBUs, what kind of execution time cycle do we have?

Vir Advani

See roughly the carry forward order book makes sense only for central air conditioning business because in a cooling products business the orders come in and get executed within a month's time maximum except for the cold storages. Cold chain equipment I will indicate is roughly around something like 5% only .From the rest of it around 10% of the pending order book is in the electronic divisions, the balance everything is in central air conditioning.

H.R. Gala

Okay that is roughly 85%.

Thiagarajan



The lead time so as to say is somewhere around six months on an average.

H.R. Gala

Around 6 months.

Vir Advani

Correct.

H.R. Gala

Okay and how is the underlying profit margin in the pending order is it comparable to what we are currently earning?

Vir Advani

Yes that is why you have seen an improvement in gross margin in Q1, like the order book last year is now contributing here. In general so as to say, we see price holding and we see operating efficiencies between the two and therefore hold the gross margins.

H.R. Gala

Okay, a little while ago you did dwell upon 2 important aspects of your business ;one is the fiscal benefits that we are getting at the Himachal Pradesh ;and the second one is the rupee appreciation on the import of different products which I think is also relevant more for our professional electronics and industrial equipment; are we seeing a scenario whereby our customers are asking us to part with these benefits to some extent to them by reducing the end pricing or are we able to pocket the entire gain to our self?

Thiagarajan

Not exactly. Actually in professional electronics business because of the rupee appreciation we are a loser since we get our agency commission in foreign exchange. There a LC is opened by the customer and probably because of the depreciating dollar customers may import more and the business may grow - that is about all. This rupee appreciation indeed benefits all our product lines to the extent of the imported content. In central air conditioning we import something in our cold storages we import something, refrigeration products we import something and the as of now, since the demand is very high and the customers are actually desperate to get their projects competed or investment completed, we are not seeing a pressure on the prices.

H.R. Gala

Okay even for the products that are manufactured at HP?

Vir Advani

Not at all, there is no such pressure at all.

H.R. Gala

Okay very good, my another question pertains to setting up unit at Wada, what kind of total capital expenditure we will have in this fiscal?

Vir Advani

R. 60 crore.

H.R. Gala

60.

Vir Advani

Yes.

H.R. Gala

Okay and in future what kind of magnitude of capital expenditure we will have?

Thiagarajan

See this year is around Rs. 80 crores. I am unable to comment anything on the next year and probably, if this growth is maintained we may need same or slightly more investments in the next year as well. But I am unable to comment totally. As of this year we know for sure that we may end up spending close to around Rs. 80 crores.

Vir Advani

Yes I am sorry, it was Rs. 35 crores at Wada and we are saying Rs. 60 to Rs. 80 crores the total capex of the Company.

H.R. Gala

Okay Rs. 35 crore will be at Wada.

Thiagarajan

35 is at Wada.

H.R. Gala

Okay and total will be between 60 to 80?

Vir Advani

Yes.

H.R. Gala

Okay fine so that will include Rs. 35 crore of Wada?

Vir Advani

That is included yes.

H.R. Gala

Okay, my last question pertains to how do you see the pressure on our working capital? Like last March we saw our debtors days increasing to 80 days, has the situation come back to normal now?

Vir Advani

No, it has not, so we have got a long-term plan that we talked about. Over the last 2 years the debtors' days have stayed around 80 days or so. We have been trying to pull them down. From what we saw it was feasible at about 70 days. It is still not coming down. I do not have in front of me right now the debtors' days for the quarter .I will get back to you with this.

H.R. Gala

No problem.

Thiagarajan

So the good news is the borrowings are lower, basically because of the profit generated for the quarter and also the advances because of the huge order inflow. As Vir rightly mentioned the debtor situation is more or less remains the same. But our interest cost is under control as the borrowings being maintained, are lower.

H.R. Gala

Okay, around Rs. 89 crore been our gross debt as on March 2007?

Vir Advani

Correct, correct.

H.R. Gala

Around same?

Vir Advani

Around the same.

H.R. Gala

Okay and how much advances was it Rs. 81 crore as on March 31?

Vir Advani

Actually I do not know the exact advance figure I can probably get back to you.

H.R. Gala

No problem, do you see any major issue going ahead in this year or next or next 1 or 2 years?

Vir Advani

Issues like what you mean?

H.R. Gala

I mean as you know, we have really chalked out very aggressive growth plans .And we are also witnessing a really good growth .Do you see any macro factors which could probably derail our growth plans? Do you visualize any slow down of investment because of rising interest rates and things like that?

Vir Advani

Well from our perspective you know, we get about a 6 month visibility into the market because typically our order book is for 6 to 8 months. You have seen Q1 order inflow being 50 odd percent higher than the prior year.

H.R. Gala

Yes absolutely.

Vir Advani

Apparently, where we stand today we are not seeing it .Now having said that, we are a sub contractor to the civil construction industry. A better view I think would come from the builders and from the developers as our growth is linked to them. But you know in the industries that we are serving right now we have not seen any slow down but that is not to say that you know there may not be some risk; the IT industry for example is going through a tough time.

H.R. Gala

Yes, yes, absolutely.

Vir Advani

It is a big part of our business so we still have not seen investments reduced, but we will obviously keep eyes open.

H.R. Gala

Okay fine, wish you all the best Vir. Thank you very much.

Vir Advani

Alright.

Moderator

Thank you very much sir. Next in line we have Mr. Agarwal from Sundaram BNP.

Agarwal

Hello sir good afternoon.

Vir Advani

Good afternoon.

Agarwal

Congratulations on the good set of numbers sir.

Vir Advani

Thank you.

Agarwal

Sir I have couple of questions. Firstly internationally, we are seeing that the bigger projects are being more often on a turn key basis, wherein a single contractor takes the job of the entire mechanical, electrical, and plumbing and the air conditioning forms just part of that. In India we see this trend catching up. With Blue Star present only in the HVAC segment and given the fact it is a sub contractor, what is the strategy of Blue Star in tackling this?

Vir Advani

In Q3 of last year we set up an electrical business as well. In the country right now like you correctly said, some business is getting packaged into mechanical, electrical, and plumbing separately. I would guess only 10 to 15% of the market is bundled, as we call it. In other parts of the world it would be much higher. Since the bulk of the business is still broken up, there is no near term risk that we see. Having said that, on a long term basis, we expect that the bundled jobs should increase. We are not so sure that one will go up to the levels that exist in other parts of the world, but even so, it should increase from the current 10 to 15%. In anticipation of that, we set up an electrical business in Q3 of last year and that business is quoting electrical jobs in conjunction with our HVAC jobs. We are targeting order bookings this year to be somewhere in the range of Rs. 60 to 80 crores, billings will obviously be lower. However in the first year I think we are doing okay. We are restricting it to the South for now; we will roll it out as we go forward. We have started participating. Customers are trying to talk to us about bundling and we will take a look at it, but for that we believe for the next 2 to 3 years this is not going to be a very significant trend. As you probably know, there are very few qualified contractors in the market today. Practically, no one has a product line like we do, so we do not foresee getting sort of side lined on this basis. Clearly, we think 4 to 5 years time, we will become an important part and so we have already started working on that.

Agarwal

Sure, sir this Rs. 60 and 80 crore that you are expecting in the electrical side, have we already got any bundled offers so far?

Vir Advani

Yes, we have.

Thiagarajan

We have been quoting and we probably have roughly around Rs. 4 crores worth of pending orders as of June.

Agarwal

How much sir?

Vir Advani

Around Rs. 4 crores worth of pending orders as of June.

Agarwal

Okay, okay.

Thiagarajan

Some other orders have also come in.

Vir Advani

Yes, so we already started billings, but clearly this year being the first year it is about bookings.

Agarwal

Another question I have is on the cold chain. You talked about the farm side and the retail side. On the transportation side, do you have any products for the refrigerated trucks and for the transportation segment?

Vir Advani

No, we do not and we do not intend to. The reason is that it is a different business all together. It is more of an OEM business in the sense that you work through the truck manufacturers. It is similar to the reason why Blue Star is not in automotive air conditioning. Our theory is that it is the same technology. For the business model that is completely different, being a supplier to an OEM requires different set of skills. Transport refrigeration is currently being handled, I think, by two multinationals - one is Carrier and the other is in the Ingersoll Rand. These are two players in the world that are significant. These are standalone units that get plugged into a truck and therefore in that context, it is not really a Blue Star product. It is not something that is engineered, it is not something that is designed, so that is not our skill in any case. So we would rather leave that to the multinationals in conjunction with the truck manufactures and focus on whatever is on land, closer to the farm and closer to the supermarket.

Agarwal

Okay, sir another question on the product side and this may not be directly related to the quarter. What I wanted to understand is you know most of the air conditioning manufacturers do not have coil manufacturing capacity in-house, despite coils forming a substantial part of the

entire AC.? So why is that? What is the thinking behind it? Though it forms a substantial part of the AC. And to OEMs, the vendors would supply the coils and make reasonable margins on that?

Vir Advani

Yes I am not sure why that is, because Blue Star makes all its own coils .So you probably have to check with equipment manufacturers who do not do that.

Agarwal

Okay.

Vir Advani

We manufacture all our coils in house.

Agarwal

Okay sir, any outlook on the project exports and the product exports? How we are and what growth or what traction are we seeing over there?

Vir Advani

Yes the product exports continue to grow, we have talked about 60 to 80% growth in that business and we are on track to that. We are introducing a wider range of products into the Middle East as well, that is going well. The issue you know on the international projects front is on how it is an interest of ours and not ambition of ours, to have Middle East business. We set up a joint venture in Qatar about 4 or 5 months ago and are already quoting on jobs and it's work in progress. This year we are not projecting any significant international projects growth again. We are going to target order bookings for the year, given that it is first year we will be starting but nothing substantial for this year. Probably it will start to contribute next year. Our positioning of the Company here is that we are in the central air conditioning business - very focused on the domestic market. We had taken a look at being more aggressive in the international central air conditioning market, but we took a choice between focussing there and focussing on the domestic refrigeration business. Given our competitive advantage in refrigeration, we chose to dedicate management, time, investment and effort into refrigeration followed by international business.

Agarwal

Okay.

Vir Advani

So that is going to be the way forward for the near term.

Agarwal

Okay.

Vir Advani

Once the domestic refrigeration market becomes clearer and what the opportunities are at that time we will relook at this, but as of now we feel that we have a very strong chance of being a leader in that business; just as we are in central air conditioning commanding a 30% plus market share and we see the industry dramatically growing in the next 5 years and therefore investing our time and effort. It seemed a higher ROI as compared to the international projects business.

Agarwal

Sure sir one last question in cold chain. What would be the approximate proportion of imported equipment and parts currently in the cold chain?

Thiagarajan

If you are talking the front end equipment it will be close to 75% as on date, because we are yet to indigenize. If it is the back end - which is where we are very strong - there the imported content should be around 25%, because we import only the compressors and all the rest of the equipment is manufactured by us.

Agarwal

Okay, sir on the front end how do we plan to indigenize further on this or how do we plan to take this forward from 75% currently?

Thiagarajan

We will. That market is still evolving and I think it will be at least a couple of years before something big takes place there.

Agarwal

Okay sir how big would be this cold chain market in India currently? Any approximate numbers on that .What will be the value of the market annually?

Thiagarajan

Different people look at it differently. It all depends on from the farm end to the pack houses, transportation; you know the intermediate warehouses, city warehouses, front end there is ammonia, neon all put together, all kinds of figures are there. If you go to our website there is a specific presentation as a part of the analyst meet presentation. There is a separate section on cold chain and lot of data is there.

Agarwal

Sure sir, thank you and all the very best.

Vir Advani

Thank you.

Moderator



Thank you very much sir. Next in line we have Mr. Naini Sujani from Tata Mutual Fund.

Naini Sujani

Good afternoon sir, I have got couple of questions - you mentioned about the retail orders from two new retail outlets .Can you quantify those orders, also if you can give me the order of DLF that you received in this quarter?

Vir Advani

From whom I am sorry?

Naini Sujani

DLF and the two retail orders - one was Aditya Birla. I think you got an order this particular quarter and you got another order from another retail outlet. Can you just quantify that order please?

Vir Advani

No, actually our clients do not generally allow us to reveal exact figures. Our policy is when we win large orders and get approvals from them, only then we would let you know. As for those two retailers, orders were for basically refrigerated display cases. These new retail chains are still in the nascent stage in the sense that Aditya Birla still does not have triple digit supermarkets yet, so you can imagine that these are small entries. What is more important is actually the fact that with these two additions, our breadth in that market is increasing.

Naini Sujani

Alright.

Vir Advani

It is our intention like we have always said; in this year refrigeration will not be a significant contributor to the growth of the Company. We are still in, what we call a marketing phase which is really engaging with the supermarket chains, trying to understand how they want to build it out, we consult with them and render our expertise to let them know the best way forward because this is significant capex for them and they are very heavily focussed on getting the store up and running. They need the cash registers to start running so that is really all they are going to be focussed on in this year and therefore for us right now is more important is to engage with them in such a way to get into the supermarket and then we will worry about that bigger capex in the next year . The fact that now we are supplying these two new retailers' means that we will now be involved in their back end plans on a go forward basis just as we are with Reliance retail right now.

Naini Sujani

Alright, my second question would be related to margins you mentioned. The margins increased on account of certain benefits due to rupee appreciation wherein you had imported certain material. Was that impact completely offset by increase in raw material cost or your margins are

higher mainly on account of certain benefits that you mentioned wherein rupee appreciation was one of them?

Vir Advani

So what I mentioned was that there were 4 or 5.

Naini Sujani

You mentioned those 4 or 5 reasons. What I want to know is that was rupee appreciation such a huge factor in the margins improvement or was it offset by other factors and this is a margin that at the normal business operations of the Company has achieved in this quarter?

Vir Advani

No, rupee appreciation was only one of those 4 or 5. I would say that, it is certainly not a significant contributor. Our view is that, the scale is a single largest contributor to it. So rupee appreciation is there, it is one of those 4 or 5 factors, but not significant.

Naini Sujani

So these margins are basically business margins that you have been able to achieve this quarter?

Vir Advani

Correct. Having said that, the raw material cost impact was quite significant. Therefore to that extent, the margins have improved but not to the extent that those 4 or 5 points would have contributed.

Naini Sujani

Alright, alright, perfect that is all I wanted to know, thanks a lot.

Vir Advani

Yes.

Moderator

Thank you very much sir. Next in line we have Mr. Vipul from ICICI Prudential.

Vipul

Good afternoon sir, will it be possible for us to share what is your market share in room air conditioner business and how that has moved over last couple of quarters?

Vir Advani

In the room air conditioners business, we are a relatively small player. What we do is we focus only on the commercial and corporate part of the market. The larger percentage of the market is

residential, which we do not focus on. However, if you look at the overall market in India which includes residential, commercial, corporate etc., probably we will be about 5 to 6%.

Vipul

You would consciously stay away from this retail part of the market?

Vir Advani

Yes. Absolutely we have no interest, no intention of going there because we have not figured out at how to make money in that market. I mean, you need to be a white goods manufacturer with a wide variety of products and you need to over invest in advertising and promotion besides carrying 4 or 5 different product segments in white goods - you can afford that type of investment to get the returns. So as long as we have a company focussed on air conditioning it will be hard for us to compete that.

Vipul

I appreciate, secondly earlier you mentioned that manufacturing of our own production is about 40% of our revenue and rest is I think what I understand is, bought out an EPC .Is it fair to assume this or is there some different proportion to this?

Vir Advani

I think Thiagarajan gave a very round number so you know in professional electronics it is zero

Vipul

Okay.

Vir Advani

Because it is all import distribution.

Thiagarajan

Room air conditioning around .....

Vipul

Sorry, sorry, I did not get the number.

Vir Advani

In room air conditioners we manufacture everything that we sell. In central air conditioning the manufactured content or the equipment content is only about 50%, so I think on a Global Blue Star revenue basis Thiagarajan is probably close to the number, it could be plus minus ;may be a 50% and not 40%, but it is pretty close.

Vipul

Although you might have given this number earlier but what was our segmental breakup of revenue between the 3 segments?

Vir Advani

Segment revenue breakup for quarter was - 60% from central and packaged air conditioning systems which was Rs. 277 crores. 34% was cooling products, which is at Rs. 158 crores and 6% was professional electronics which was Rs. 27 crores, you will have this information on our website later this week may be tomorrow or day after as part of an investor update.

Vipul

Right. Apart from this segment, I think cooling products is the one where Q1 is supposed to be the strongest?

Vir Advani

That's right.

Vipul

And the other two pieces of business are not open to any seasonality as such?

Vir Advani

Professional electronics is not seasonal - it is lumpy. Not seasonal that means that we can never tell which quarter is going to be large and which quarter is going to be small. What is important is that lumpy is not even so you cannot multiply Rs. 27 crores x 4 and say that is equal to the business. Unlike professional electronics central air conditioning is not seasonal from an obvious or practical perspective. Invariably what happens is bulk of revenue and profit comes in Q4 for the Company, as much as half of what we earn in the year would come in Q4. And that is more to do with buying cycle, because we work with commercial and corporates which has to do with year ending. We cannot explain it very well but that is how it is.

Vipul

Our order book will be in the same portion of the revenue?

Vir Advani

No I think Thiagarajan has already answered that. About 80% of the order book would be central air conditioning, about 10% is professional electronics and about 10% would be cooling products.

Vipul

About our JV with ISA, what is our holding in the JV?

Vir Advani

It is not a joint venture at all. It is just an import-distribution relationship. What that means is that we jointly market, we jointly sell, and once the order is booked they shift product from their factories and other parts of the world. It is import distribution and of course the service after.

Vipul

Do we get the revenue or we book the entire revenue in our books or there is some commission which is booked?

Vir Advani

We buy. We buy and sell.

Vipul

Okay, okay.

Vir Advani

So it will be included in the revenue.

Vipul

Okay.

Vir Advani

Thank you.

Vipul

Right sir, thanks a lot.

Vir Advani

Thanks.

Moderator

Thank you very much sir. Next in line we have Ms. Kirthi Dalli from Enam AMC.

Kirthi Dalli

Yes, good afternoon sir.

Vir Advani

Good afternoon.

Kirthi Dalli

Congratulation on good set of numbers, couple of questions .could you share details of the exports in the current quarter?

Vir Advani

How much is exports in the current year, we do not actually publish that so I am sorry I am unable to tell you that.

Kirthi Dalli

Fair enough sir .could you give the cash position as of now?

Vir Advani

The cash balance sheet information. I will make sure I publish that on our website. We do not talk about the balance sheet on a quarterly basis but I will get you that information.

Kirthi Dalli

Okay fine sir, the next question is considering the kind of order book we have right now say Rs. 984 crores which gives us a visibility for almost next 6 to 8 months. In first quarter also we have delivered almost 48% top line growth. Do we see that for the entire year we are going to be better off compared to last year almost at least 40 to 45% growth for the whole year as such? Hello.

Vir Advani

Yes, yes, I am there.

Kirthi Dalli

Because you said that we would do better compared to last year. Last year we delivered almost 36 to 37% top line growth and if say first quarter is a bit of an indicative... I will not say it gives us the full picture on the next 3 quarters, but on a ballpark figure?

Vir Advani

I know it is difficult to say what we will maintain. What we have talked about is that we are confident of delivering 30% growth on an aggregate basis. Do keep in mind that Q1 is lumpy because of cooling products; professional electronics although has shown 90% growth is not comparable which means it is important to understand that comparing a last year first quarter and this year is not justified. You cannot do that. We said that professional electronics should grow between 20 and 25% that is what we expect. The order book is obviously healthy, central air conditioning is obviously doing well. That is where the bulk of the revenue as well as the order book growth are; so to that extent we are well positioned this year. However we are linked to the economy and so we have to keep an eye on whatever is going on. We will remain committed to doing 30%.

Kirthi Dalli

Our central AC segment will do better off in Q4 much better than Q1?

Vir Advani

If you run the numbers and go back 5 years and look quarter-to-quarter that will tell you that will be true .Q4 is always the biggest quarter and more than revenue it is usually the biggest profit quarter.

Kirthi Dalli

Something on your margins. If I see Q1 FY07 your EBITDA margins were 5.1%.

Vir Advani

Yes.

Kirthi Dalli

If I see our 2007 EBITDA margin will be something around 7.3%. I mean whatever you have delivered in Q1 on a year on a whole you have done better off on EBITDA margins so in Q1 FY08, we did almost 8.2% EBITDA margins?

Vir Advani

Yes.

Kirthi Dalli

So our margins will not rise perhaps 200 to 300 basis points, but will definitely rise from here on?

Vir Advani

From here on meaning rise over what?

Kirthi Dalli

Over Q1 FY08?

Vir Advani

You are saying that going forward will be a higher?

Kirthi Dalli

Yes.

Vir Advani

Why do you say that - just to understand?

Kirthi Dalli

I mean looking at your results schedule.

Vir Advani

Yes.

Kirthi Dalli

Q1 FY07 delivered 5.1% EBITDA margins.

Vir Advani

Yes.

Kirthi Dalli

FY07 as a whole.

Vir Advani

Yes.

Kirthi Dalli

You got 7.3% EBITDA margin.

Vir Advani

Okay I understand what you are saying.

Kirthi Dalli

Yes.

Vir Advani

Just keep in mind as this quarter had very high contribution from professional electronics which is typically a high margin business. Also our cooling products business has improved its margins. We should expect better annual margins this year, but we are cautious around the point of raw material pricing. Copper for example has suddenly shot through the roof and when I mean shot through the roof, I think it is up by double digit percent. In today's world it becomes very, very difficult for us to figure out where and how we are going to end up. What we have focussed on is obviously doing better than last year. If on an annual basis we did 7.1 last year, we have committed to investors that we will improve margins by at least a 100 basis points every year therefore for the next 3 years in order for us to go to double digits, we should be able to maintain at least Q1 basis and hopefully do better.

Kirthi Dalli

one more thing do you like to share our vision of the Company sales 3 years or 5 years down the line considering the kind of boom in the economy .What kind of goals or visions for next 3 to 5 years where we see our Company going hence forth?



Vir Advani

3 to 5 year time frame will be dominated by 2 major trends; one is the growth in central air conditioning coupled with somewhere in the 4 or 5<sup>th</sup> year more and more bundling of electrical and plumbing work, we see growth coming out of some new parts of the economy that are still young right now. For example the airport ramp up is going to be quite significant in the next 5 years. Similarly the SEZ policies once they get firmed up we see a very exciting opportunity given, that they will move towards district cooling and other technologies.

Kirthi Dalli

Do we see something like the Rs. 4,000 crore Company and by when?

Vir Advani

I am sorry; I am unable to tell you. We will have to probably wait for our Chairman to give you that.

Kirthi Dalli

Okay and last question ....are we bidding for any airport projects?

Vir Advani

We continue to and we won a couple of airport projects.

Thiagarajan

We have. We are executing in Nagpur, Chandigarh, Amritsar, Ahmedabad

Kirthi Dalli

Okay Delhi airport?

Thiagarajan

Ahmedabad airport we are executing.

Kirthi Dalli

And Delhi airport sir? Are we putting the bid out for something?

Thiagarajan

We are not.

Kirthi Dalli

We are not putting the bid or what?

Thiagarajan

No that order is currently executed by Larsen & Toubro, if I am not mistaken.

Kirthi Dalli

Yes but probably the AC part I mean the central air conditioning projects?

Thiagarajan

That is done by Larsen & Toubro Limited along with some vendors. We were not a successful bidder there.

Kirthi Dalli

Okay fine thank you very much.

Moderator

Thank you very much sir. Next in line we have Mr. Bharat from Quest Investment.

Bharat

Good afternoon sir and congratulation for good set of numbers.

Vir Advani

Thank you.

Bharat

Sir, with relevance to earlier question in line with international trade practices as more and more LSTK business develops. How do you see the business margins there because that indicates more work that might be sub contracted to other party, which we have to undertake under the LSTK. In that scenario what kind of investment we need to make and what will be the profitability of this value addition that we will be doing?

Thiagarajan

I am sorry I am not able to follow your terminology LSTK you mean the EPC contracts \_\_\_\_\_.

Bharat

Yes.

Vir Advani

LSTK stands for what incidentally? LSTK you mentioned what is that?

Bharat

Yes.

Vir Advani

I am not able to follow.

Bharat

Hello this is Lump Sum Turnkey Project.

Vir Advani

We have been executing turnkey contracts only. The air conditioning which probably will become electromechanical in 4 to 5 years time, we do not see the margins coming down at all because even today we are doing only contracting. It is not significantly different. I mean talking about 3 to 4 years time, all the margins will move, one cannot comment at all. But what you have to keep in mind is that there is a construction boom and there are huge contracting opportunities for projects. I have a feeling all companies which are engaged in this will continue to perform well, I do not see their margins dropping at all; because today it is very difficult to get the project executed as there are limited resources within the country.

Bharat

Sir my second question as you mentioned, as on today there are very few players in this business and acknowledging the kind of construction boom, do you see new entrants coming into this field? Do you see them making inroads into this business?

Thiagarajan

As of now, not exactly because this is specialized field, number one. Number two, there are huge entry barriers. Today in India despite the growth it is not in line with any other model. You cannot draw a parallel to any model that is existing even in Middle East or Far East. We do not have building codes; we do not have much of automation or modernization in the said practices, so it does not fit any multinational player. The other factor would be, globally the contracting firms are local which is restricted to one town or two. So we do not see, at least now. I would not know after 4 or 5 years what will happen.

Bharat

Okay, okay, thank you.

Vir Advani

Thank you.

Vir Advani

I would like to take one last question and then wrap up the call please.

Moderator

Sure sir. The last question comes from Mr. Mehta of Dolat Capital.

Mehta

Hello.

Vir Advani

Yes.

Mehta

Good afternoon Mr. Advani and Mr. Thiagarajan.

Vir Advani

Good afternoon.

Mehta

Congrats on great set of numbers.

Vir Advani

Thank you.

Mehta

Basically I want to check on is every ticket of project. Are you experiencing traction in that?

Vir Advani

You mean increasing?

Mehta

I meant average size of project which you are executing. Are you experiencing YOY growth over there? What kind of growth are you experiencing?

Thiagarajan

We see that we move up every quarter but it is not significant. From last quarter to this quarter our average project size can be said is between Rs. 5 to 6 crores of rupees in central air conditioning.

Mehta

Rs. 5 to 6 crores and what was it earlier? Is it a significant improvement?

Vir Advani

That is not. I am talking about central air conditioning projects rather than the segment. In Central air conditioning segment report we include even the package air conditioners that you would have seen this quarter. The package air conditioners order value could be as low as Rs. 40 lakhs.

Mehta

Why I am asking is whether this increase in average order ticket size is contributing to say expansion in margins?

Vir Advani

No actually, not. We have not seen any significant move. Of course you know people have started talking about larger job values more around the airports and things like that .But I have a feeling that only will kick in the next two years. As of now we continue to execute more of a traditional work like malls and multiplexes and IT operations and hospitals and things where size of deployment has not increased significantly, but as that mix of business changes perhaps you see it moving up .It should move up.

Mehta

In terms of say about shrinkage in execution cycle. Is that happening ?What kind of execution cycle you have in terms of projects taken and what you use to have say year back?

Vir Advani

I think probably what has happened is we stabilize around 6 to 7 months. My feeling is that because the average job size has crept up, it is a not a dramatic change .But obviously moving up probably the net effect as of now is that the average life in the order book has been the same as last year and we are doing slightly larger jobs, so to that extent one offsets the other. But I do not think it is feasible to expect it to come down to 3 months or 4 months, because our jobs require certain amount of time to execute. At that time, we were talking about average order book life coming down from 12 months to 7 months because 12 months was over inflated. I think when we came down to 6 to 7 months which is more realistic in line with what it should be.

Mehta

So 12 months you are saying couple of years back or it was like can you say last year?

Vir Advani

It is about 3 years ago.

Mehta

3 years ago, 12 months.

Vir Advani

Now 3 years it has been coming down and last year it was about 7 months. This year it is probably around 6 to 7 months. It is now no longer significant item as it used to be.

Mehta

Sir I mean in terms of Blue Star design and engineering, is there any significant ramp up happening out there how is that doing?

Vir Advani

We focus on engineering design for international buildings. We have about 100 engineers working there right now. There are plans to grow that further. It is on track to grow at about 15% a year, but beyond that you know it still continues to be very small in the overall scheme of things.

Mehta

Sir last year I think, couple of quarters we are getting power project air conditioning sort of thing. How is that doing? I mean what is the product mix of yours, in terms of order book size. Is that contributing significantly?

Vir Advani

No not yet, we had talked about power, telecom subjects like that starting to contribute in this year. The order book does have some amount of business from there. But still traditional comfort air conditioning is significant.

Mehta

Last one from my side is about employee cost you have provided something like 375 lakhs towards , I mean you have provided for one time and so if I take that out then like operating margin is at 9% is that correct assessment?

Vir Advani

Yes you can interpret it. It is going to be the incentive part of it, which is going to be recurring.

Mehta

Right but that will be over a year kind of thing like so if I look at like in this quarter?

Vir Advani

From this quarter onwards we decided to provide for every quarter.

Mehta

Every quarter you will be providing.

Vir Advani

Right.

Mehta

Thank you.

Vir Advani

Thank you, alright thank you.

Moderator

Thank you very much sir. At this moment I would like to hand over the floor back to Mr. Vir Advani for final remarks.

Vir Advani

Thank you. Well thank you everyone, thank you for attending our quarterly conference call. We will get this information up on our website at [www.bluestarindia.com](http://www.bluestarindia.com) shortly probably by the end of this week. If you have any more questions you can route it to us or to **Adfactors** and we will help you accordingly and look forward to talking to you in the next quarter. Thanks again, bye, bye.

Moderator

Ladies and gentlemen, thank you for choosing WebEx conferencing service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.

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