"Blue Star Limited Q4 FY09 Results Conference Call"

May 19, 2009

MODERATORS: **MR. B. THIAGARAJAN – EXECUTIVE VICE PRESIDENT, BLUE STAR LIMITED.**
MR. VIR ADVANI – EXECUTIVE VICE PRESIDENT, BLUE STAR LIMITED.

Moderator: Ladies and gentlemen good morning. This is, Rochelle, the Chorus Call Conference operator. Welcome to the Blue Star Q4 FY2009 results conference call. As a reminder for the duration of this presentation all participant lines are in a listen-only mode and the conference is being recorded. After the presentation there will be an opportunity for you to ask questions. Should anyone need assistance during this conference call they may signal an operator by pressing * and then 0 on their touchtone telephones. At this time I would like to hand the proceedings over to Mr. B Thiagarajan of Blue Star. Thank you and over to you Mr. Thiagarajan.

B. Thiagarajan: Thank you. Good morning ladies and gentlemen this is B. Thiagarajan and I will be giving you an overview of the results of Blue Star Ltd. for the quarter and year ended March 31st 2009. Mr. Vir Advani is also with me.

The following are the financial highlights for the Company for the *year*

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Operating Income of Rs 2569.09 crore for the year ended March 31, 2009, representing 15% growth over previous year. Net sales for the year at Rs 2568.86 crore were also up by 15% over FY08.

- Gross margin for the year decreased marginally from 24.3% to 24.1%.

- Operating profit (PBIDT excluding Other Income) for the year at Rs 272.48 crore grew 16% over PBDIT of Rs 234.49 crore earned in FY08. Operating Margin increased marginally to 10.6% in FY09 from 10.5% in FY08.

- Other operating income for the year was Rs 23 lakhs (Rs 7 lakhs last year).

- Interest costs for the year at Rs 13.55 crore increased by 79% over Rs 7.56 crore in FY08.

- The tax expense decreased significantly from Rs 67.93 crore to Rs 57.93 crore in the year mainly on account of taxation benefits from the Himachal and Wada factories.

- Due to tighter control on inventory and renegotiated back-to-back payment terms with vendors, despite the slowdown in collections, cash flow improved resulting in reduction in borrowings.

- Profit Before Tax (excluding exceptional items) grew 15% to Rs 238.22 crore.

- Net Profit at Rs 180.29 crore registered a marginal increase of 4% because last year included a non-recurring boost due to exceptional income of Rs 35.32 crore.

- The earnings per share for FY09 (Face value of Rs 2.00) stood at Rs 20.04 vis-à-vis Rs 19.36 in the previous year.

- Carry Forward Order Book as on March 31, 2009 stood at Rs. 1339 crore representing an 18% increase compared to the order book of Rs. 1135 crore as at March 31, 2008.

- The Board of Directors have recommended a 350% dividend of Rs. 7.00 per share (Face value of Rs 2.00).

The financial highlights for the *quarter* are as follows:

- Total operating income for the quarter ended March 31, 2009 at Rs 724.76 crore, grew by 2% over the corresponding quarter in the previous year. Net sales for the quarter at Rs 724.71 crore, was also up by 2% over the corresponding quarter of the previous year.

- For the quarter, Gross margin grew from 24.5% to 27.0%.

- Operating profit for the quarter at Rs 94.31 crore increased by 30% compared to PBDIT of Rs 72.46 crore earned in Q4FY08. Operating Margin increased significantly to 13.0% in Q4FY09 from 10.2% in Q4FY08. Softening of raw material prices and enhanced price realizations resulted in an increase in profitability.

- Owing to a tight control on employee and operating costs as well as lower interest costs, Profit Before Tax (excluding exceptional items) at Rs 87.54 crore registered a healthy growth of 35%.

- Net Profit at Rs 66.74 crore registered a marginal decline of 5% because last year included a non-recurring boost due to exceptional income of Rs 35.32 crore.

- The earnings per share for Q4FY09 (Face value of Rs 2.00) stood at Rs 7.42 vis-à-vis Rs 7.82 in Q4FY08.

- Order inflow for Q4FY09 was Rs 421 crore representing a 39% decrease over the order inflow of Rs 694 crore in Q4FY08.

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*. Owing to the softening of raw material prices, tight cost control measures and enhanced price realizations, all three segments recorded significant growth in profitability during the quarter.

The Operating Margin of the Electro Mechanical Projects and Packaged Airconditioning Systems sharply increased in Q4FY09 to 14.9% compared to 11.9% in Q4FY08, mainly due to enhanced price realizations and selectively pursuing segments which offer profitable growth opportunities. Further, decrease in commodity prices as well as stringent control on operating costs also contributed to enhanced margins. In the central airconditioning business, the Company continued to witness good prospects from infrastructure segments as well as from healthcare and hospitality. During the quarter, the Company booked a prestigious 21-crore integrated MEP order from Sea Valley Resorts for their upcoming 5-star hotel and entertainment Centre at Visakhapatnam. The Company also won a prestigious order to aircondition the integrated terminal building for domestic/international operations at Raipur Airport. The Company continued to aggressively pursue business from the Govt of India which has been less affected by the slowdown. This focus resulted in several orders from Govt, PPP and its agencies during the quarter. In packaged/ducted airconditioning and small chillers, while the IT/ITES and organized retail segments have slowed down due to the economic downturn, the business witnessed continued demand from offices and hotels. The newly formed electrical projects business performed impressively by cross-selling its services to existing HVAC customers and rolling out operations in other regions of the country. It booked a prestigious Rs 19 crore combined M&E order from Nokia Siemens, Bangalore where the electrical works is valued at Rs 12 crore.

The cooling products business also performed well with high growth driven by split airconditioners, refrigeration products and cold chain equipment. Benefits of scale, higher price realizations due to differentiated products and tax benefits contributed to a substantial increase in margins from 10.5% in Q4FY08 to 14.0% in Q4FY09. The room airconditioner business performed well in the quarter with enhanced business from the healthcare, hotel, education and banking segments. Sales from the residential segment during the latter part of the quarter were also impressive. The refrigeration products business continued to witness orders for the premium refrigerated display cabinets from ISA. Chest freezer sales also grew with enhanced demand from ice-cream manufacturers. During the quarter, the Company won several prestigious orders for cold storages including UB Group, Taj Group of Hotels, Yum Restaurants (KFC), Bikanerwala, Papa John, Haldiram and Sun’n’Sand.

The professional electronics and industrial systems business continued to contribute significantly to the profitability of the Company. The professional electronics and industrial systems business grew significantly by 32% during Q4FY09, with segment results registering growth of 41%. During the quarter, all the individual SBUs performed well. The non-destructive testing machines business won prestigious orders from Modern Steel for ultrasonic bar testing systems and from Man Industries for ultrasonic spiral systems, apart from signing a rate contract with L&T for advanced ultrasonic phased array inspection and TOFD. The analytical instruments business received a prestigious order from IACS, Kolkata and the testing instruments business won a prestigious order for seven plant growth chambers from Punjab Agricultural University, Ludhiana, during the quarter.

In conclusion, despite a challenging year, the Company performed reasonably well, thanks to our initiatives in value engineering coupled with tight control on operating costs and efficient working capital management. While the economic outlook for the next few quarters is uncertain, the Management is confident that the Company's lean cost structure, healthy margins, good cash flow and solid balance sheet will see us through this difficult period and improve our prospects for the future.

With that ladies and gentlemen, I am done with my opening remark. I would like to now pass it back to the moderator, who will open up floor to questions. I have Mr. Vir Advani with me. Between the two of us, we will try and answer as many questions as we can. To the extent we are unable to, we will get back to you all as well. With that, we are open for questions. Thank You.

Moderator: Thank you, Mr. Thiagarajan. Ladies and gentlemen we will now begin the question and answer session. At this time participants who have questions may press * followed by 1 on their touchtone phone. If your question has been answered and you wish to withdraw a question from the queue please press * followed by 2. You are requested to use handsets while asking a question. Our first question is from the line of **Nirav Vasa of Gupta Equities**. Please go ahead.

Nirav Vasa: Sir, the order book of 1339 Crores that you have, would it be possible for you to quantify the orders that you have bagged from private and government orders?

B. Thiagarajan: Very difficult, I do not have the figures immediately. See, as I have been mentioning in each conference call, the situation as all of you know - the segment wise order inflow or billings is dynamically changing. For example, let us say an airport order comes through a builder, or there are some Metro projects which are PPP, public-private sector participation The Government and PPP put together constitute around 26%. Industrial constitutes 9%, 65% constitutes private sector and this is the broad breakup.

Nirav Vasa: Sir, of this existing order book what percentage of this order book would be covered through price variation clause or pass through clauses?

B. Thiagarajan: You can say roughly 70% of the orders at the moment maybe a fixed price.

Nirav Vasa: Sir, when you are negotiating for new contracts, are the customers ready to take the risk of volatility in raw material prices, considering as of now that the volatility in raw material front also has been reduced considerably?

B. Thiagarajan: I suppose the customers are also learning. Earlier we were caught unawares last year, in July/August, by a sharp increase in the raw material prices. Equally customers were surprised. Some customers granted price increase, some customers declined. Then no one thought that the raw material prices will come down sharply. Plus the stimulus package, as you know, got in the duty reductions. Again, the customers were caught unawares, we were also caught unawares. By and large I think we lost somewhere, we gained somewhere and that's how it is. If you ask us honestly whether we want a price variation today, we are not keen, the industry itself is not keen. As I mentioned, when the RAMA price variation formula was about to be implemented, the raw material prices started crashing. So the industry sensed that there is no point in having this price variation formula. When we revisited this subject,. most of the people in the industry felt it is not worth it. The customer is also very clear, that they don't want to go through any of these variations. We would prefer to be on a firm price contract after covering for the risk. Similarly, the customer also prefers that.

Nirav Vasa: Sir, in your opening remarks you repeated quite a number of times, that there has been an increase in price realizations.

B. Thiagarajan: Correct.

Nirav Vasa: Can you quantify any specific reasons for increase in price realizations?

B. Thiagarajan: See, basically if you recollect that in September-October, we started talking about the fact that we are approaching customers for a price increase. It all took some time, about 2-3 months for us to get a higher price. So, obviously the orders that we had booked in that quarter, i.e., the Q2 of last year or Q1 of last year when we went and got a price increase, have been getting executed at a reduced input cost. So obviously the margins will be up. But if you ask me today, the orders that we are bidding and closing should be at realistic prices because the commodity prices are low. So, therefore it was one particular period of 4-5 months when we were booking orders at a higher price or we were getting price increase for the old orders. All those got executed in a period which was a golden quarter which was Q4.

Nirav Vasa: So would it be logical to come to a conclusion that this price realization might not last for long?

Vir Advani: Yes, I think pricing is under pressure. It has been for the last few months. And obviously you can see the volumes; the order inflow of volumes has reduced, naturally the overall market has shrunk on account of delays. I will say shrunk from a temporary perspective. On account of that, you would imagine that comparative pressures would increase and therefore pricing would come down. So, we are seeing pricing pressures. Of course, we are trying to pass it to our vendors and suppliers; that will continue and that is how we manage the business. We cannot push the vendors and suppliers too hard but yet we need to get margins that we are aiming for. So obviously, there is a challenge operating in this market and that challenge will continue, in our best guess for another perhaps 3-6 months at least.

Nirav Vasa: Sir, can you throw some light on performance of Naseer Electricals?

B. Thiagarajan: Electrical Projects have performed significantly well. Of course, it is on a zero base. Naseer Electricals was a South based company and after we took over that company or the operations, we have been quoting and booking orders across the country. As of now they should be growing compared with that figure of more than 40% or so.

Nirav Vasa: 40% in terms of top-line?

B. Thiagarajan: Top-line.

Nirav Vasa: Can you give some idea about the margin …?

B. Thiagarajan: No we cannot, since it then becomes selective disclosure. But I can tell you that it is comparable to the central airconditioning business.

Nirav Vasa: Sir, any significant CAPEX plans for this year?

B. Thiagarajan: Not exactly except for the carry forward CAPEX. Actually you know that I have been saying that the CAPEX for last year should have been around 100 Crores, I think we could capitalize around 80 Crores, which means that there was a carry forward of around 20

Crores. In the coming year there will be a normal marginal CAPEX which is connected with R&D testing and other office equipments which maybe to the tune of around 30 Crores or something like that. So our guess is that it should be around 50 Crores if you take into account this carry forward CAPEX.

Nirav Vasa: And the funding for the same would be?

B. Thiagarajan: Internal, always we meet it from our internal generations of profits.

Nirav Vasa: Okay sir, thank you very much.

Moderator: Thank you Mr. Vasa. Our next question is from the line of **Kirti Dalvi of Enam AMC.** Please go ahead.

Kirti Dalvi: Yes, good morning sir and congratulations on good set of numbers. Just wanted to know, would it be possible to get order book breakup in terms of our segments like say IT, ITES, Infra, Retail and others?

B. Thiagarajan: I can indicate to you, to the earlier caller also I had said that, the government and the PPP is around 26%, industrial as I said is around 9% and private sector is 65%. Within that I can tell you big numbers are Metro Indian Railways is around 7%, Power is around 5%, as of now the Airport is 2% but one or two orders can swing this figure. Again, I repeat that for every quarter this figure is dramatically changing. The other PSUs are around 9%, Agriculture is 3%, Engineering industry is 6%, Electronics is 2%, Pharma is 1%, IT, ITES is 15%, Telecom is 5%, Malls and Retail is 7%, Offices, Banking and Insurance is 14%, Hotel is 5%, Healthcare is 5%, Education is 2%, Small Offices, Shops, Residential, Restaurants, Boutiques all put together is around 10%, FMCG is 2%. So this makes it 100% - it is a rough indication.

Kirti Dalvi: Okay and sir what is the policy for receiving the advances for the orders what we have booked?

B. Thiagarajan: **M**ost of this is applicable largely for segment I, since the other segments are basically cash and carry. In the first segment broadly there will be a 10% advance in most of the orders, immediately with the LOI and 10% against submission of the drawings and so at least 20% advance should be there.

Kirti Dalvi: Okay and sir just a question on our order inflows, you did mention that you received 421 Crores in Q4FY2009 am I right on that?

B. Thiagarajan: That is right.

Kirti Dalvi: And would it be possible to get Q4FY2008 figures for the same?

B. Thiagarajan: 650 Crores or so. Yeah see, the other one important thing, which will also benefit the other callers is about what we did in this quarter. Actually the order inflow figure that we are reporting in this quarter is not actually the exact figure, it is actually 100 Crores more than that, strictly speaking. However, we reviewed all the carry forward orders through a serious audit. Whichever customer was not executing for the next 12-18 months of a time, depending on the segment, we removed such orders from the order book. We also analyzed certain orders, where the customer has told us to hold on. So around 100 Crores of orders were removed. So actually, I reported net order inflow to adjust the opening order book and closing order book.

Kirti Dalvi: Okay. So this current order book of a 1,339 is net of all re-evaluations and calculations?

B. Thiagarajan: That is right.

Kirti Dalvi: Okay and sir…

B. Thiagarajan: And normally every year we don't do this though orders may be getting executed after 18 months. But this year we were very clear because it will give a realistic picture of what it is.

Kirti Dalvi: Okay. And sir would it be possible for the year as a whole to give the same picture?

B. Thiagarajan: Yes. I am telling you for the full year only. The carry forward order book what is reported, is after adjusting around 95 Crores of order which were deleted from the system or you can take it as it is order inflow minus 95.

Kirti Dalvi: Okay. So for the year as a whole, we have received around 2800 Crores order inflow. Am I right on that?

B. Thiagarajan: Yes.

Kirti Dalvi: And just wanted to know, apart from this would it be possible to get working capital details because in the last quarter we had several pressures on our inventory and debtors so has that pressure been eased?

Vir Advani: I think what has happened is that while collections continue to be a challenge, like Thyag had mentioned in his opening remarks, we have gone back and renegotiated certain vendor terms on a back to back basis. So we are of course taking advantage of that. So from that angle the working capital pressure has improved tremendously that is only one part of it. The other part of it, very significantly from working capital perspective is that we have tightened up inventories dramatically. So while we entered last year with a very heavy inventory because we were expecting a big summer, before the slowdown. We obviously had large inventory where we were carrying, and we then carried that inventory for much of the year because of the very slow off take in demand. We managed to clean up I think by about November and December. And then in Q4 we did dramatically better on inventory and of course going into Q1 as well. So, on account of that inventory and on account of the creditors, we have of course managed to do better on the working capital on an aggregate basis. But to be specific, the receivables continue to be an issue until the overall liquidity in the market improves which we are hoping will happen at a macro basis.

Kirti Dalvi: Would it be possible to get the number of days, just on a rough or aggregate basis?

Vir Advani: We do not have the DBO here with us, but my guess is that it will obviously be higher than last year, but not at a level that is alarming - it is just higher than last year.

Kirti Dalvi: Okay and any figures if you would have it for customer advances at the end of the year?

Vir Advani: Also I do not have that with us. Can we get it for you; we will try and circulate that with the notes.

Kirti Dalvi: Okay. So the next question is on the tax rate, since we enjoy these tax benefits for our many facilities, would it be possible to continue with that same FY10 as well or you expect the tax rate to move up?

Vir Advani: So the tax rate this year if I am not mistaken was 24.3% much lower than last year's figure of 28%. I think in this coming year it should be closer to 26% or so. So it is definitely better than last year, but we expect it around to be 26% or so in the coming years.

Kirti Dalvi: Okay. And sir what is the debt because as on 31st December we had something like 69 Crores of debt. So you think that must be almost close to zero something because that could have been majorly related to our working capital?

Vir Advani: Yes it is down significantly.

B. Thiagarajan: The debtor days in number of days of sales, on that basis it has gone up by 20 days.

Kirti Dalvi: Okay.

B. Thiagarajan: Okay that answers your question. And you were asking about the borrowings right? I will give you those figures because many will have that question. Borrowings as on March 31st 2009 is 23.60 Crores. Previous year was 36.54 Crores. Cash and bank balance as on March 31st 2009 is 5.65 Crores - the earlier year it was 2.67 Crores.

Kirti Dalvi: Okay. And in the later part of the con-call if you can get the inventory and creditors details sir?

B. Thiagarajan: I can tell you that as well. The inventory went down by 66 Crores compared to previous year, the debtors went up by 159 Crores, creditors went up by 99 Crores which means what we started doing from January last week - renegotiated with the vendors and made it back to back. So, therefore, in the books the creditors will show up. In other words, the working capital is broadly under control because though the outstandings have gone up, inventories are down, creditors are up so obviously the working capital is under control and therefore the borrowings have dropped.

Kirti Dalvi: And sir, question on our order pipeline, if I am correct that we were bidding some public or joint venture sector project, 5-6 big projects were there. Any update on that sir?

Vir Advani: I am sorry, what do you mean by joint venture projects?

Kirti Dalvi: The public sector I am saying.

Vir Advani: Okay, public sector, you are talking about the large airports and metros and all?

Kirti Dalvi: Yes

Vir Advani: All of those got delayed. Those finalizations have not taken place either on us or any of our competitors. So what we had started bidding in about August-September last year, we had hoped to conclude them in the last financial year and those have now spilled into this financial year. The funding has come in place for these projects and we are told that they will be finalized in this quarter. Of course, we are in the middle of May and you know we do not have confirmation on anything yet. So although I am optimistic that finalization will take place in this quarter, I cannot guarantee that.

Kirti Dalvi: Sir what will be the quantum …approximate?

Vir Advani: Quantum of… you are asking the value of these large projects?

Kirti Dalvi: Yes sir.

Vir Advani: I think maybe there are 4-5 large projects, just estimating the value of that should be in the 400 Crore range.

Kirti Dalvi: Okay. And sir the final question, little bit on the macro level, we do see a little bit of offtake happening since Jan onwards, do you see our order inflows improving by the end of the year which will probably have segment like cooling products and professional electronics benefit significantly out of it. And that will drive our revenues going forward?

Vir Advani: The question is that do we expect order inflow to improve in FY10, is that what you are asking?

Kirti Dalvi: Yes.

Vir Advani: Yes, our feel of the market is that the first half is going to be tough. Fortunately, we have a good carry forward order book. Thyag told that you that we have cleaned up any of the projects that have been delayed beyond a certain point, because there is no point in carrying it in the book. So having done that, the carry forward order book is healthy. We expect billing to continue although at a slower pace than the last few years, but billing will continue. Order inflow I think will still be another couple of quarters before we see that what you are talking about as an uptake, because I think what is happening in the market is that there were large number of projects under design in FY09 and many of them came to a halt as you know in September or October 2009. Now I'm told that those projects are back in the pipeline from a design perspective. However, clients are asking their designers to reduce the size and the scope, and so therefore redesign these projects as it were. So the difference between 3 months and today is that today at least projects that were shelved are being brought back. However, the issue is that they are not at the same size and value as they were envisaged last year, which leads me to believe that in probably three months we will as a contractor and manufacturers start to see those inquiries coming to us to quote you know. And therefore I am expecting that order inflow will pickup. And then we feel in the second half I think once confidence is back then the project sizes will once again resume in size and we will be back on track. So that is you know how we are looking at it. So carry forward order book takes us right now, followed by redesigned smaller projects that are getting approval and funding, followed by return to the larger projects that we were starting to see in the last year.

Kirti Dalvi: 0 Okay. So this will be a consolidation year for us, FY10?

Vir Advani: Yes, that is the description.

Kirti Dalvi: It is probably say a similar kind of top-line for the FY10 and sustainability of the margins what we have achieved? Or you think that the margins will taper off a little bit?

Vir Advani: No, we do not know whether we will be able to sustain Q4 margins, but we think we should be able to sustain FY09 margins.

Kirti Dalvi: Okay, with a similar kind of growth rate for the top-line, sir?

Vir Advani: We are hoping so, although I mean do not forget that last year we had a tremendous Q1 and a good Q2 so we had that sort of entry, and entering the year we were doing well. This year we do not have that benefit like I told you, you know Q1, Q2 would be more muted. So, I am not able to say that we would maintain last year's growth rate because I do not have visibility into H2 which is where the growth will come. But what we are saying is that it is not going to be down from last year and margins should be maintained. So like you said it is a consolidation year.

Kirti Dalvi: Okay. Thanks a lot and wish you good luck sir.

Moderator: Thank you Ms. Dalvi. Our next question is from the line of **Nirmal Shah of Alchemy Shares**. Please go ahead.

Nirmal Shah: Good Afternoon, sir. I just wanted to get a sense on a competitive scenario especially when the orders are drying up, how is it impacting the competition in general and in particular to us?

B. Thiagarajan: You are all better equipped to analyze this; from our point of view we are seeing definitely from February some kind of positive sentiments. The inquiry inflow is still healthy and we see number of people coming forward to seriously go ahead with the projects. And though, in IT & Retail I am not seeing any kind of immediate expansion plans, because in IT it is directly proportionate to the number of people recruited. For each person recruited, 75 square feet of airconditioned space will be required, that is not there. And Retail, you know the real story what is happening. However, the revival actually has been in Telecom where for sure expansions are continuing. And quite a few infrastructure projects, healthcare projects, education, power. There are a lot of inquiries and actually, internally there is a lot of pressure to quote for all these jobs. Suddenly we have got in to a situation of massive number of inquiries at least and I see with the current market sentiment and the new government taking over, I suppose it should come back. Not to say that it will all grow at 35-40% kind of a stuff, definitely not. Going by the lowest segment viz residential segment, now there is a shortage of material in the marketplace. Every one of us did not plan for huge inventory build up, which normally we do in March, for the summer season. We did not do so because we thought the market would not be growing - but we are seeing roughly around 15% to 20% growth in the residential segment and there is a shortage of material. And shops, showrooms, boutiques, restaurants are coming back. There are people who are investing there because that is an important segment for us in the packaged airconditioning area, which is still part of segment one. Cold storages, there is no slowdown at all. I mentioned to you on power and telecom it continues to happen, hospital projects are on. The deep freezers demand has gone up, basically driven by the ice-cream consumption. So this is the overall scenario. Net-net, I think it will still be a very challenging year in terms of keeping up marginal growth that is what we think.

Nirmal Shah: Okay. And sir was there any forex gain in the 4th Quarter?

B. Thiagarajan: Forex gain, actually I think there was some kind of a loss, loss of around 5 Crores.

Nirmal Shah: Okay. And sir in the order book breakup you mentioned IT and IT enabled sector is now 15% of the order book?

B. Thiagarajan: Yes, but I have to clarify, this loss of 5 Crores, if we have to see what was the loss the previous year, due to certain other reasons that is 3 Crores. This loss or gain, I am not trying to tell you by hedging, I am actually telling you that if I am to compute, what would have been the gain or loss of our imports and exports net on that basis.

Nirmal Shah: Okay. Sir, in the order book breakup you mentioned IT and ITES is around 15% of the order book and the same quarter last year probably that sector used to constitute close to 25% to 30% of the order book, so do you see that this 15% would be stabilized or you foresee ITs contribution coming below 10% in your total order book?

B. Thiagarajan: Can go below, for the simple reason as I mentioned that if some big orders get finalized, the share will go below. IT and ITES will go down, that is what I see, compensated by the other infra and other segments.

Nirmal Shah: Okay thanks a lot.

Moderator: Thank you Mr. Shah. Our next question is from the line of **Srinath M. of Motilal Oswal Securities Ltd.** Please go ahead.

Srinath M: Good morning, everybody. I request you to repeat the order breakdown into various sectors?

B. Thiagarajan: Yes, I will read out to you. What I had taken out in April will be true for March or true for May I suppose, this dramatically changes every quarter depending on one or two orders, and this is our pie. If it is 100, Government and PPP is 26%, Industrial is 9%, Private is 65%, and I can tell you that the big items there, in Government

Metro Indian Railways is 7%, Power is 5%, Public Sector undertakings are 9% like ONGC etc. Airport is 2%, Agriculture is 3%, in the Industrial Engineering Industry is 6%, Electronics hardware is 2%, Pharma is 1%, for us, okay. And in private, IT and ITES is 15%, Offices, Banks, Insurance is 14%, Telecom is 5%, Malls & Big Retails is 7% and Hotel is 5%, Healthcare is 5%, Education is 2%, Small Offices, Shops, Boutiques and Restaurants, Residential is 10%, FMCG is 2%, that is 65, so total is 100%

Srinath M: Yes, thank you. My second question was we have a balance stake in Rolastar pending for sale this year?

B. Thiagarajan: Correct.

Srinath M: Is it likely to happen or what is the agreement there?

B. Thiagarajan: Now as per the original agreement, the balance stakes are linked to certain financial performance. And there is a deadline of September, but as of my assessment - I would not know the figures from my finance and audit - I have a feeling that we may not achieve the earnout. We have to progress and see, because it is all based on a monthly profit to be generated. And also connected with what are the earnings to the buyer in exchange terms. So we are as of now, not able to comment anything on that at all.

Srinath M: No the arithmetic will be finalized later but the deal will happen is that for sure, that it will happen this year?

B. Thiagarajan: Yes, as per the original agreement we have to pass within September, that is the deadline.

Srinath M: Okay, that was one question. The other one is that, this is the first quarter in several quarters that we are seeing a year-on-year decline in order inflow, that is a 39% lower order inflow?

B. Thiagarajan: Yes, but as I told you add 100 Crores into that, which we removed from the books.

Srinath M: No, I am talking of just the order inflow now we do not need to adjust for that, I suppose?

B. Thiagarajan: Yes, you have to, because what I have reported as a pending order book, we have reported after taking out 100. So actually order inflow is 95 Crores more than the order inflow which you are calculating, back calculating right.

Srinath M: Okay.

B. Thiagarajan: Correct.

Vir Advani: Srinath because 100 Crores of adjustment is from prior quarters booking as you would understand right.

Srinath M: But, I thought that should not come into the order inflow, that will come in the order book, but will it come into the order inflow as well?

B. Thiagarajan: Yes, see let us say I had 200 Crores of pending order, for argument sake in end December. I have 500 Crores of pending order in March. The difference minus the billing, somebody will take it as an inflow. We have deleted this; I could have reported the pending order as 1400 Crores instead of 1300.

Vir Advani: I think his point is you could have reported a higher order inflow and said that you reversed a 100.

B. Thiagarajan: We could have, but we did not want to confuse. My theory is actually every quarter you will ask how many you cancelled and you many you took. We do not want to get into that.

Srinath M: Yes. And the other thing is that ….

Vir Advani: But, Srinath your point is valid that order inflow is down over the last year.

Srinath M: Yes that is fine, so there are two ways of looking at it, one is the absolute, in value terms it is down, but may be in real terms it is not as down as it shows in value terms because I am assuming that the raw material prices would also be lower, I mean in tonnage terms maybe we are not 39% down year-on-year, would that be a correct assessment?

Vir Advani: Oh you are saying because the pricing is lower therefore…?

Srinath M: Yes.

Vir Advani: You think volume may not be as down as the rupee value…..

Srinath M: Yes, so in real terms it would not be as down as in nominal terms?

B. Thiagarajan: You are right. In a manner of speaking we can give this excuse to our board or something like that …

Srinath M: No, but I think on an analyst perspective that is how we should look at?

Vir Advani: I agree with you, you are right because pricing like I mentioned earlier in the call, has been under pressure and so, for every ton that we sell obviously the realization is lower, but input cost is also lower which is why the margins are protected, but in absolute volume of work to be done, you are right it may not be as down as it seems.

Srinath M: And one final question is, is that true that we were consciously avoiding the retail segment, but of late we have been noticing a lot of hoarding ads of Blue Star splits and room airconditioners. So is there any change of strategies so far as the room airconditioners are concerned? Are we now looking at the individual home segment as well?

B. Thiagarajan: Yes, I must compliment you for the observation. There is no change in our strategy; we will continue to be focused on corporate and commercial segments only. And whichever residential segment is approaching us we serve them. When we concluded our marketing and communications strategy, we normally do it in January/February, at that point of a time; we were assessing which are the segments which will respond. Obviously we felt the residential segment continues to be not hit so much by the slowdown, because you might have read that LCD televisions, high end refrigerators, microwave ovens etc. showed high growth in the new year sale season etc. Therefore, we wanted to bring in some kind of skew in our advertising in such a manner that the advertising will be appealing to a residential segment as well. And our distribution strategy, our pricing, our products continue to address corporate commercial segments only. And this is all. So, for communication indeed, we brought in a husband and wife or a boyfriend and a girlfriend for this purpose. We wanted it to be somewhat equally appealing to the residential segment as well.

Srinath M: Yes, but again going by past impressions with the company A) Our product is over engineered for the residential segment, hence it is over priced, but more importantly may be we do not have the servicing network to be able to service that. So can there be a negative impact on the brand because of our positioning, I mean targeting the residential segment, but then being unable to back it up with a full fledged service delivery.

B. Thiagarajan: No, both the observations are incorrect, for a simple reason, I do not think our product is over engineered, i.e., amongst energy-labeled product of all manufacturers, I would say there is a very little differentiation in terms of I would say the product technical features. Second on the service network, I think undoubtedly Blue Star has the largest service network. In fact are the largest airconditioning and refrigeration service provider both in terms of service delivery, number of calls handled, number of parts handled, the number of outlets that are available, number of calls logged plus the service revenue even. So we are by far the largest compared to anybody else in the entire industry.

Srinath M: Even for the room airconditioner segment?

B. Thiagarajan: 100%.

Srinath M: Okay, thanks a lot. I might come back if I have any further questions.

Moderator: Thank you Mr. Srinath. Our next question is from the line of **Nainesh Rajani of Tata Mutual Fund**. Please go ahead.

Nainesh Rajani: Good evening sir, just one question I wanted to ask was that you did mention that there is a certain kind of slowdown as far IT, ITES and Retail and you did mention that you are getting orders from other sectors, just wanted to understand till the time there is a revival in these three sectors, do you think you will see the order inflow from other sectors especially the industrial that you mentioned would be contributing. Do you think that the order inflow from the other sectors would be able to compensate for lack of order inflow in retail and IT?

B. Thiagarajan: Vir will answer in detail, but before that, we were doing an internal analysis - strictly speaking before 1990s, IT and ITES was not a very major segment at all, after 1995 IT, ITES started growing.

Nainesh Rajani: So but our base is also increased so you know the large ticket size orders have been coming only from IT and ITES so …?

B. Thiagarajan: Fair enough, that is true. And second is that, as we keep progressing, last year retail was boosting it up, retail was some point of a time showing more growth than IT, and there were quarters where retail was a big boom, malls everywhere, but again the overall market size has been growing and the segments were getting altered. But right now my take is that there are enough segments which are available, which will more than adequately compensate IT and ITES sector. We will apprise you what is happening in the marketplace.

Nainesh Rajani: Right.

Vir Advani: Yes, I think that what Thyag said is right, I think that as an overall market I think that definitely we can compensate for the loss of business in IT and Retail. What we are also saying is that IT and Retail we expect will come back - it is not as though this is the end of it. So yes it is muted, yes it is growing slower, but just remember that we are the market leader in both those segments which means that even today we are the preferred vendors there. So, even though volume of business may have dropped dramatically, customers who are spending will come to the best player, because they are being cautious about how they spend their money. So, one is we expect to do better in these segments as a share, so that is something that continues to happen. You know also in the tough times like this old customers tend to stick with old vendors. So you know Infosys and HCL and the whole list of both IT and Retailers as they come back to start spending, they will, I feel that they will first come to us. So we will see the first signs of the uptake when it does come for the industry. The other side of it is like Thyag mentioned, is that airconditioning applications are very wide, it is changing all the time. Today we have large number of inquiries, for example, from the automotive sector which is surprising since it has not been in the past but today, as more OEMs move more production to India. Earlier they were doing assembly and in assembly you do not need airconditioning. Even if you start doing end-to-end manufacturing and production there are all kinds of applications that come in for airconditioning. I think we have talked about a lot on the power sector or the Metros - right now there is Delhi Metro going on, next bid is being opened is Bangalore as we speak. Chennai is on the anvil, Kolkata is to be done. So, you know all of that is underway. So, we can very clearly see going forward that this lack of demand in these couple of segments will be compensated.

Nainesh Rajani: Right. Sir this 1339 Crores of order book that we have within what period it is supposed to be executed?

Vir Advani: We had gone through a bit of rollercoaster. At one time, we had seen 9 months, then it dropped to as low as 6-7 months in the IT boom, today we are saying it is probably back to 9-12 months. Yes so it was a little longer when we had kept that 100 Crores hanging around and we removed that so you know …

B. Thiagarajan: Except for that, right now this particular quarter, I get a sense that it is accelerated from 12 especially since NCR region related infra orders are all on a fast track now. So I suppose it should be more towards 9 rather than 12.

Nainesh Rajani: Okay and what is your order pipeline sir as far as your segment I is concerned, the central AC, what are the orders that you think at the run rate of 300 to 400 Crores of orders inflow in each quarter? Do you see that possible coming in next couple of quarters till actual, real orders from the other sectors actually start coming in?

B. Thiagarajan: We are hoping so, actually it should be accelerating. That's what we are hoping.

Nainesh Rajani: If that is the case then is there a good possibility that your top-line growth of approximately Rs.1700 or Rs.1800 Crores in the central airconditioning business would probably remain flat if not decline or maybe, I am not saying it would increase, but at least remain flat and not decline to a large extent as we would have expected maybe a couple of months ago, is that a fair assumption to make?

B. Thiagarajan: I do not think it is a fair assumption, I have a feeling you are talking about next financial year, right?

Nainesh Rajani: That is right, sir.

B. Thiagarajan: Next financial year one assumption is right, it will not decrease, for sure. The other assumption is we hope that probably if there is a potential possibility to increase by 10% at least …

Nainesh Rajani: And other divisions, there isn't much impact as far as the slowdown is concerned or the economic environment is concerned, so they would probably continue to grow at the same 12% to 18% growth rate that is also…?

B. Thiagarajan: Except the cooling products last year showed a …..

Nainesh Rajani: Showed a 42% growth.

B. Thiagarajan: Yes it had. I have a feeling that in the second half of the year, it can revert to an accelerated growth, if the economy continues positively.

The last segment will more or less follow the first segment, because it is addressing various types of industry.

Nainesh Rajani: It would be related to your first segment you said, right?

B. Thiagarajan: More or less, it is related to the overall economic growth - if the economy grows by 5%, the last segment should grow by around 10%. If the economy grows by 8% it can grow by 30%, because it is driven by manufacturing, it is driven by varied segments like banking, or for that matter healthcare. So we have always seen a correlation - if the GDP is above 8 that segment will grow beyond 30%.

Nainesh Rajani: Actually that is all from my end. Thanks a lot and all the very best, sir.

Moderator: Thank you, Mr. Rajani. Our next question is from the line of **Pranav Ghokhle of Religare AMC**. Please go ahead.

Pranav Ghokhle: Yes, good morning sir. Just a couple of questions, I am sorry if the question is asked earlier. This cooling product margins in the 4th Quarter, the EBIT which you reported about 14% and yield for full year about 12.4%, will you please help us in regards what is the traction which is driving the incremental margins?

B. Thiagarajan: For the quarter you are asking?

Pranav Ghokhle: Yes for the cooling products, it has gone up from 10.5%....I am talking of EBIT margins were reported margins as per your segmental?

B. Thiagarajan: See first of all I think the input cost substantially came down. The stimulus package offered as much as 6% percent reduction in duty which means the counter veiling duty or the imported raw material that we use basically the plastics for the indoor unit as well as the compressor; the reduction would have been direct saving. Two, you are comparing actually with the previous year, right when you are talking about it?

Pranav Ghokhle: Yes.

B. Thiagarajan: Copper, steel everything came down, even refrigerant prices came under control - so this is one set of reasons. The second set of reasons is that we had in anticipation of the increase in prices went ahead and increased the prices. And so obviously our margin in that particular quarter shows tremendous improvement. So, sometime ago someone asked a question of how that going forward will be. I As we move forward I do not think that kind of a margin will be possible.

Moderator: Thank you Mr. Ghokhle. Our next question is from the line of **Aditya Khemani of HSBC Mutual Fund**. Please go ahead.

Aditya Khemani: Good Afternoon, sir. The incremental order flows are they happening on fixed price or are they variable price contracts?

Vir Advani: These are largely fixed price contracts.

Aditya Khemani: But, sir like now with the commodity prices, copper and steel prices going up, is not there a risk of margins on these contracts being sharply lower by virtue of these commodity price movement or we hedge that?

Vir Advani: No, we do not hedge that, that is a risk. Last year you would have seen commodity prices go up, commodity prices come down, so obviously that has positive and negative impacts on our margins. We do whatever we can from a timing perspective to try and ensure that we do the best on that, but actually there is no very effective way of hedging that. So it is an inherent risk in the business.

Though we try and price it in, but there are very few contracts, largely government contracts will have escalation clauses, linked to commodity indexes and labor rates. But practically all private contracts will not have that. We are seeing input costs sort of not hardening but at least no longer as soft as they were, but of course we are pricing that, we are costing that in now. So if you heard our comment earlier we said that we do not expect Q4 margins to hold, but we expect the annual margins to hold.

Aditya Khemani: But sir then, suppose commodity prices again moves up 10-15-20% from here on, then will it be fair to assume our margins could fall to as sharply as 3-4% versus 9-10% what we earn.

Vir Advani: No, it did not happen the last time. Commodity prices ended up 30-40% right, if you remember, you would have seen margin erosion of 1-1.5% in spite of copper going to 8000-9000 and steel going to 55,000 etc. You did not see margins dropping to 3- 4%.

Aditya Khemani: But, in those cases did you renegotiate the prices with the customer or on the same price you had bid earlier your margins were lower by 150 basis point?

Vir Advani: No, we were trying to renegotiate wherever customers were giving us escalation and kind enough, we took it, but by and large they did not, you know because contractually it is a fixed price contract.

Aditya Khemani: Okay sir. Again sir, I think as you mentioned in the commentary 2-3 quarters back, we were trying to move in, the entire industry was trying to move to a variable price contract, because in lieu of increasing raw material prices. But now we say that we might not move into that kind of system. Don’t you think for the longer term interest of the industry, it is better to move into a price variation clause to remove the raw material volatility which happens?

B. Thiagarajan: I suppose it will evolve. It is for the first time during the past four quarters in the past 20 years that we are seeing an unprecedented thing of this kind of volatility. Our desire within the industry association is to move towards something like EEMA which is what the Electrical Manufacturers follow - it is called EEMA price variation clause which is accepted even by the Government. Industry players were all very enthusiastic, we wanted to implement it when the raw material prices had shot up. But then, when it all started crashing everybody backed out of it. So that is the problem, so we will pursue this, your suggestion is well taken.

Aditya Khemani: Okay sir and sir just last question sir, you said there are 5-6 large contracts which might get finalized this quarter, it could be Chennai Airport and other airports sir, are the RFQ stage over for these sir?

Vir Advani: Yes, those were over six months ago, that is not the issue it is just about delays in finalization of these main contracts.

Aditya Khemani: And are these privately funded projects because of which these projects are getting delayed or these are government contracts?

Vir Advani: No, the airports are all government contracts, Airport Authority. And yes they are government contracts.

Aditya Khemani: Okay and sir what is the likely competition we are about to face in these, sir?

Vir Advani: It is all the same names that you know; it is the same set of 2-3 vendors.

Aditya Khemani: Is ETA there in all the contracts?

Vir Advani: I am sure they are. I would imagine them to be.

Aditya Khemani: Okay sir, thank you sir.

Moderator: Thank you Mr. Khemani. Our next question is from the line of **Akshay Shah of Quest Investment Advisors**, please go ahead.

Akshay Shah: Good Afternoon, Sir. Congratulations for good set of numbers**.**

B. Thiagarajan: Thank You.

Akshay Shah: I just have two questions, one is that our material cost as a percentage to sales, here in the 4th Quarter it has declined to about almost 73%, I think probably with the softening of the commodity prices, do you think for the whole year of this FY10 it will be at this level or it should be at overall at FY09 overall level of about 76%?

B. Thiagarajan: If you want me to bet, I will bet on your second part that is overall year rather than the 4th Quarter.

Akshay Shah: Okay, because of this little bit of firming of the prices of late now.

B. Thiagarajan: Yes and also the price will come under pressure, due to competition.

Akshay Shah: Okay, and sir why in this other expenses for the first 3 quarters it has been showing a declining trend and then in the 4th Quarter it has shot up from 26 Crores in Q3 to 53 Crores. And as a percentage sales also it has increased, why? Is it always there or it is some special one time item or some ….

B. Thiagarajan: No, there is no special item at all, this will depend on certain payments getting booked like the commission to the dealers.

Akshay Shah: No, I am talking about other expenses sir.

B. Thiagarajan: That is right.

Akshay Shah: Yes.

B. Thiagarajan: Yes, there the commissions to the dealer, incentive to the dealers, such kind of expenses. I am sure I can analyze this to ascertain what changed that picture and for sure, I know there is no exceptional item there.

Akshay Shah: Okay so that means as a percentage to sales it will always be much higher than the first 3 quarters than in the 4th Quarter?

B. Thiagarajan: Yes.

Akshay Shah: And in absolute terms also.

B. Thiagarajan: That is right.

Akshay Shah: So, for overall last year it was 6.40 so it should be in that range only?

B. Thiagarajan: Year end figure should be the guiding factor, for all ratios, I think if you are trying to look at the outlook, the year end figure what you have got here maybe a good guidance.

Akshay Shah: Okay. And sir is it that before some last quarter conference call or earlier that you have told that we are curtailing our business development expenses. So, that we have curtailed or is it included in these 53 crores in the 4th Quarter it has gone up, is it so?

B. Thiagarajan: No, there is no exceptional item here in this 4th Quarter at all.

Akshay Shah: I agree on that. But some business development expenses which generally you incur in the 4th Quarter or you incur evenly throughout the year?

B. Thiagarajan: Even if it is so, one of the reasons could be that, because last March we would have commenced some advertising compared to this

March but the expense will be again 1 or 2 Crores in that particular month, it would not be very significant.

Akshay Shah: Okay thank you.

Moderator: Thank you Mr. Shah. Ladies and gentleman due to time constraints the last question is from the line of **Mitul Mehta of Lucky Securities,** please go ahead.

Mitul Mehta: Yes sir, my questions have been answered, thank you very much.

Moderator: Thank you Mr. Mehta. I would now like to hand the conference over to Mr. B. Thiagarajan for closing comments, please go ahead sir.

B. Thiagarajan: Thank you very much for your interest, if you have any other questions you may mail me or you can call me over phone, thank you.

Moderator: Thank you, Mr. B. Thiagarajan, thank you, Mr. Advani. Ladies and gentlemen on behalf of Blue Star that concludes this morning's conference call. Thank you for joining us on the Chorus call conferencing service and you may now disconnect your lines. Thank you.