Blue Star Limited

Q3 & Nine Months FY'22 Earnings Conference Call

February 3, 2022

MANAGEMENT: MR. NEERAJ BASUR – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Blue Star Limited's Q3 & Nine Months FY'22 Earnings Conference Call. We have with us today from the management, Mr. Neeraj Basur, Group Chief Financial Officer of Blue Star Limited. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur. Thank you. And over to you, sir.

Neeraj Basur: Thank you. Good morning, ladies, and gentlemen. This is Neeraj Basur. I will be providing you an overview of the results of Blue Star Limited for the quarter-ended December 2021. But before we start, I would like to wish all of you a Happy New Year and I hope you and your families are safe and this third wave of COVID did not impact anyone significantly.

I. Financial Highlights:

Across businesses, our focus on expanding distribution reach and efforts to consolidate our market share worked out well. Our product portfolio and service solutions continued to generate encouraging traction across all customer segments. During the quarter, the pandemic impact remained relatively benign and non-disruptive. Revival of business and economic activities enabled us to end the quarter on a strong note with all the business segments witnessing robust volume growth. The consolidated revenue from operations and revenue from each of the segments for the quarter surpassed revenue achieved in the pre-pandemic period. However, increase in commodity prices, cost of raw materials and ocean freight continued to exert pressure on gross margins.

Financial highlights for the quarter ended December 31, 2021, on a consolidated basis, are summarized below:

- Revenue from operations for Q3FY22 grew 34.0% to Rs 1506.22 cr as compared to Rs 1123.89 cr in Q3FY21.

- EBIDTA (excluding other income and finance income) for Q3FY22 was Rs 90.59 cr (EBITDA margin 6.0% of revenue) as compared to Rs 81.56 cr (EBITDA margin 7.3% of revenue) for Q3FY21. Impact of increase in commodity prices, raw materials and ocean freight and roll back of cuts in discretionary spends in FY21 led to lower EBITDA for Q3FY22.

- Profit before tax grew 41.4% to Rs 70.32 cr in Q3FY22 as compared to Rs 49.73 cr in Q3FY21.

- Tax expense for Q3FY22 was Rs 22.75 cr as compared to Rs 12.96 cr in Q3FY21.

- Net profit for Q3FY22 grew by 29.4% to Rs 47.57 cr as compared to Rs 36.77 cr in Q3FY21.

- Carried-forward order book as of December 31, 2021, grew by 4.5% to Rs 3301.33 cr as compared to Rs 3157.90 cr as on December 31, 2020.

- Capital Employed increased to Rs 1105.98 cr as on December 31, 2021, as compared to Rs 948.62 cr as on December 31, 2020. Planned advancement in the inventory levels was done to mitigate the increase in the procurement timelines of long lead raw materials and components, in order to meet demand for the upcoming season.

- Net borrowing as on December 31, 2021, increased marginally to Rs 165.11 cr (debt equity ratio of 0.18) as compared to a net borrowing of Rs 131.01 cr as of December 31, 2020 (debt equity ratio of 0.16) owing to the increase in inventory and investments in the expansion projects at Sri City and Wada.

II. Business Highlights for Q3 FY'22

Segment I: Electro-Mechanical Projects & Commercial Air Conditioning Systems

Segment I revenue grew 41.7% to Rs 829.85 cr in Q3FY22 as compared to Rs 585.49 cr in Q3FY21. Segment result was Rs 52.41 cr (6.3% of revenue) in Q3FY22 as against a profit of Rs 34.11 cr (5.8% of revenue) in Q3FY21.

Order inflow for the quarter grew by 34.0% to Rs 852.82 cr as compared to Rs 636.54 cr in Q3FY21.

1. Electro-Mechanical Projects business

Driven by capex commitments by the private sector, order inflows from the factories and light industrial sector continued to be encouraging. Inflow of orders from the infrastructure sector including MEP projects in water distribution picked up during the quarter. Enquiries and orders from the commercial buildings sector were also encouraging.

Carried-forward order book of the Electro-Mechanical Projects business was Rs 2311 cr as on December 31, 2021, as compared to Rs 2217 cr as on December 31, 2020, a growth of 4.2%.

2. Commercial Air Conditioning Systems

Healthcare, pharma, industrial and government customer segments continued to offer encouraging opportunities while traditional customer segments such as builder, retail, IT and educational institutions witnessed increased pace of revival, enabling a growth for the commercial air conditioning business during the quarter.

We continued to maintain our number 1 position in Ducted Air Conditioning, 2nd position in VRF and moved up to 2nd position in Screw Chillers during the quarter.

Major orders bagged in Q3FY22 were from Avenue Supermarkets Ltd. (Pan India), BSR Builders LLP (Secunderabad), Olympia Cyber Space Pvt. Ltd. (Chennai) and JSW Steel Ltd. (Bellary).

3. International Business:

Stability in the business environment and a general pick-up in the economic activities in the Middle East markets enabled growth in revenue during the quarter. With the growth of QSRs in the region, demand for our refrigeration solutions improved during the period.

We also witnessed good traction for our products in the newly entered market of Tanzania.

The projects business in Qatar continued to do well. The operations at the joint venture at Malaysia continued to be impacted due to the restrictions on account of Covid.

We continue to explore new markets for business opportunities and focus on the expansion of the Blue Star product range and building brand awareness and brand visibility in different markets that we are present in.

Segment-II Unitary Products:

Segment II revenue grew 23.7% to Rs 609.68 cr in Q3FY22 as compared to Rs 492.97 cr in Q3FY21. Segment result was Rs 38.78 cr (6.4% of revenue) in Q3FY22 as compared to Rs 38.79 cr (7.9% of revenue) in Q3FY21. Continuous rise in input costs, disruptions in the international supply chain, increased supply lead time coupled with pressures on realizations owing to competitive pressures led to a drop in segment margins for the quarter.

1. Cooling and Purification Products business:

Despite lower than anticipated sales during the festival season, focus on expansion of distribution footprint enabled a 28% growth in revenue from our room air conditioner business during the quarter. We grew faster than the market and ended the quarter with a market share of 13.25% with robust growth in the month of December.

We further consolidated our position in e-commerce and modern trade with significant contribution from these channels to the overall revenue.

The construction of the new factory at Sri City is progressing as planned and is expected to be commissioned by October 2022. Our application for PLI benefits for sheet metal components and heat exchangers has been approved as envisaged.

2. Commercial Refrigeration business

Improvement in demand for modular cold rooms from the pharma, healthcare, e-commerce and food & beverages segment coupled with a revival in demand for kitchen refrigeration equipment with the opening up of hotels and restaurants enabled growth in revenue for the commercial refrigeration business during the quarter.

Additionally, availability of a wide selection of models in varying capacities enabled increased traction for Visi coolers during the period.

We continue to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue grew by 46.8% to Rs 66.69 cr in Q3FY22 as compared to Rs 45.43 cr in Q3FY21. Segment result was Rs 12.76 cr (19.1% of revenue) in Q3FY22 as compared with Rs 8.26 cr (18.2% of revenue) in Q3FY21.

Revenue for the quarter grew on the back of a few major orders executed in the data security solutions business and growth in revenue from the healthcare business. The Testing Machines business also continued to witness growth with a revival of investments in the manufacturing sector.

Major orders were bagged from JSW Steel Limited, ICICI Bank Limited, FIS Payment Solutions & Services and Reliance Industries Limited to name a few.

With the wide portfolio of products and solutions forming part of our offerings, the prospects for this business segment continue to be positive.

III. Business Outlook:

The disruption in the month of January 2022 due to the third wave of the pandemic was moderate and we expect the economic activities to once again gain momentum from the last week of February. We anticipate that the peak selling months commencing March will not be impacted. Our mass premium product portfolio in the room air conditioner business continues to resonate well with the distributors and customers. Prospects for the expanded range of commercial refrigeration products are encouraging. We continue to remain optimistic on the growth prospects in the projects business across the select customer segments focused by us. Increased capex investments by both the public and private sectors are expected to offer good prospects for the electro-mechanical projects business.

While the margins are likely to continue to remain impacted in the short term, we expect revenue growth to be robust. Prudent working capital management will continue to result in healthy cash flows and a strong balance sheet.

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

With that, we are open for questions.

Moderator: The first question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: Just dwelling more on the room AC side, you said that Blue Star grew by 28%. Is it possible to help us how much the market grew by because your opening remarks said that the festival demand was not that great as per the anticipation? We were listening to Vir as well on TV and he also said a 25% growth in the quarter for the industry, whereas other companies are reporting a decline by the same amount in volumes. So if you can help us understand what really happened in the quarter with respect to the market and yours? Second, if the demand is so strong and you are increasing market share, why not Blue Star has gone ahead and took a price hike and get the margins up?

Neeraj Basur: Market growth in this quarter, as we understand is around 25%. By and large the market has performed reasonably well and in that context, our growth of been 28% enabled us to consolidate the market share. While the festival demand wasn't as expected, sales during November and December was encouraging leading to a good performance for the quarter on an overall basis.

To your question on price hikes, you would recall that we were amongst the few players who implemented three price hikes in 2021 and the last price increase was implemented by us in the month of September. We needed to calibrate our overall operating prices for us not to become an outlier and in addition there are competitive pressures all the time. So we didn't consider it appropriate to implement any further price increase. There are continuing commodity price pressures which have not abated even in Q3, therefore, impacting margins and the impact of price increase has not fully mitigated the margin pressures. With the third wave not as severe as the earlier two waves, we are quite hopeful that the competitive pressures could start easing in Q4 and the margin profile starting Q4 should be better. At this stage, we have not considered any further price increase in Q4.

Nitin Arora: Second question was the products which you launched in the mass segment. There was almost two times the COVID wave and we were trying to test the product in the market, but I think both impacted both the ways. Now, when you have launched this time, is it more of primary growth which has come in the number? Can you throw some light, how are the secondary sales has responded to this particular category which we are not across the market?

Neeraj Basur: We consistently consider the growth in value terms and for the primary market. Our experience with the new mass premium portfolio in the room AC segment has been quite encouraging. This product range is helping us to expand our outreach in terms of target customer segments and the distribution footprint as well. This portfolio is resonating well with the end customers and also the dealers and distributors. However, so far we've not had a full financial year run with the new portfolio since its launch. We are hopeful of realizing the full impact of this portfolio in Q4 and Q1 next year.

Moderator: Next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: My question is more on the industry outlook. When you look at there is bit of sluggishness in the consumer demand. However, if you look at last two years, industry has lost significant portion of volumes in terms of secondary off-take during peak summer period. So how do you look at the overall demand environment?

Neeraj Basur: The overall outlook for room ACs continues to be encouraging because unlike other consumer durable categories air conditioning requirements at home have only increased with the hybrid and work from home working environments across a number of Indian cities. When the pandemic started, the demand driven by the impact of lockdowns was more in larger towns and cities, but over the last two years, demand from tier-II and III towns and cities across the country has also seen good tractions. Room air conditioner is an important category that every household wants to focus upon as schools have been functioning on an online mode and increasing number of people working from home for an extended period of time,.

In the last two years, the full potential of the demand to get converted into actual sales has been disrupted as we had situations where modern trade got impacted or the shops and markets were not permitted to sell. It has happened twice in the first quarter of a financial year in succession though the extent of disruption was lower in FY'22 as compared to FY'21. This had caused uncertainty in the minds of people about stepping out to go and buy. That is the reason the share of e-Commerce has increased in this category over the last two years. Our premise is that the demand will continue to remain robust. It is the disruptiveness in the environment, which impacted the full potential to be realized. The only factor that remains to be seen now is the summer intensity. With the expectation that the summer this year should start setting in somewhere towards the beginning of March, we are optimistic about a normal summer selling season in Q4FY22 and Q1FY23. We of course assume that there won't be a fourth wave disrupting us in April as we have just been through one wave in January and even if there is a new variant that emerges in the next five or six months we may still have a normal summer selling season. This gives us this element of optimism in terms of the Q4 prospects as well.

Manoj Gori: We are sitting on a favorable base at the industry level and also there is a lot of pent-up demand plus the outlook continues to remain robust. So during next year, what is the growth that you estimate for the industry and how Blue Star should pan out given that South markets are relatively weaker as compared to other geographies over the last two years? So how do you see yourself placed for the upcoming summer and how do you see the industry growing next year?

Neeraj Basur: In the pre-pandemic normal growth period, the growth CAGR used to be in the range of 15% to 18% and in a good year, even going up to 20-25%. Once we are out of these disruptions, the overall market should get back to 15% to 18% CAGR. Our stated position remains consistent and we would like this to scale up our current market share of 13.25% to 15% and how much of that we achieve in FY23 will certainly be an area of focus for us. Our endeavor will be to grow faster than the market in FY23.

Moderator: The next question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: My first question is in terms of visibility of growth in the project business. What kind of growth can we see in the project business? Where are the large orders come from like metros, rail, data centers, etc. if you can give your view on the same?

Neeraj Basur: In the project business, we had adopted a slightly different approach for the last two years where we focused on select customer segments where the overall credibility and credit profile of the customer is good and the growth prospects are encouraging. We have been focusing a lot more on industrial, factories, e-Commerce, warehouses, data centers in addition to the infra sector.

The enabling factors such as PLI-driven investments by the private sector and the CAPEX commitment by the government on the infra sector should augur well for this segment. We see no reason why a growth of 12% to 15% should not be possible at least in FY23 and as some of these projects gain more traction, the growth rate should get sustained for at least the next couple of years. We indeed seem to be getting into a new CAPEX cycle, the early signals of which started in FY22 and with more normalization of economic and business environment and with less disruption because of pandemic, this should become more visible. We are quite optimistic on the growth prospects of segment-I.

Ravi Swaminathan: My second question is with respect to margins. There are two parts in this. One is your commentary on the steady state margins in both the EMP and the cooling product segments. In cooling products, keeping in mind the mix, there is mass premium, input costs increase, operating leverage, all, if you can comment on that and also on the unallocable expense, it is now hovering at Rs.20 crores per quarter and last year it was on the lower side. So what is the steady state unallocable expense that we need to look at over the next one to two years?

Neeraj Basur: The unallocable expenses for us largely comprises of salaries and related expenses of the corporate management teams and we do not keep any other major cost unallocated. In FY21, we had taken fairly incisive salary cuts, ranging from 35% to 50% which have now been rolled back. Our steady state quarterly unallocable expenses are in the range of Rs 20 cr – 25cr which translates to around 1.5% to 1.7% of the overall revenues which is in a healthy ballpark range benchmarked with the peers. That's not an area of concern.

On the segment margins, I will restrict my commentary today to Q4FY22, because we are yet to work out our entire pricing and overall operating plans for FY23. We will cover that in May when we meet again. We continue to experience healthy traction in the overall sales in both the segments. There is a little easing of commodity prices the benefit of which may be realized beyond Q4FY22. The real determinant of effective realization would be the tapering of competitive pressure and once the demand momentum picks up, realizations will be better for all the players. That should get us to a margin profile of about 7% or so in segment-II in Q4. Segment-I has been pretty stable in the range of 5.5% to 6% the determinants being the size of the jobs that get concluded and closed. In Segment-III, 18% to 20% has been a consistent view and there are quarters where it has been a little lower, but it should track around 18% to 20% in Q4. These are our expectations of Q4 and that would be a good starting point for us to enter FY23.

Moderator: The next question is from the line of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: My first question is pertaining to the summer season demand, harping on that point again. If we look at the normalized number that Blue Star did two summers back was close to Rs 1,600 cr, went down to as low as Rs 800 cr in the following summer and came back to Rs 1,200 cr last year and if we were to peg this year summer demand also that Rs.1,600 crores number in terms of what will be the pricing increase you'd have taken over that period, what is the kind of volume growth that you can see for this summer season keeping that in mind and how this number would be split between RAC as well as your commercial businesses, if you can give some color on that?

Neeraj Basur: Our FY23 plans are still in the making. We have consciously delayed our planning exercise as we wanted to be clear on the impact of the third wave. That exercise will be carried out slightly later and that's where probably we can give you some more color on how the entire summer season which starts in March and then rolls over to Q1 next year will play out in terms of demand, pricing, etc. Whatever price increases Blue Star had to introduce and absorb have already been done over three rounds in FY22. Once the other players also calibrate their prices to absorb increase in input costs, there will be a much better realization profile across the board. That along with our optimistic view about a good selling opportunity starting February end-March beginning should definitely get translated into a better margin realization in Q4 which should be around 7% for us in Segment-II. We will get back to you on FY23 margin expectations later. We also need to keep in mind there is a table change that's going to happen from July'22. Though it is not happening in the first quarter, it does change the blended pricing profile and that resets a lot of variables in the market as well. Therefore we will be able to give you some more clarity later.

Sandeep Tulsiyan: What will be the cumulative pricing piece over last two years if we were to compare?

Neeraj Basur: In the last calendar year 2021, which is one quarter of FY 20 and then this financial year, we have taken around 15% of price increase in three installments.

Sandeep Tulsiyan: If you can elaborate on your comment regarding the expansion of distribution reach. So, in the previous call, you had highlighted that North as a region has become bigger, of course, because due to muted demand due to monsoons in South also, but they were contributing equally and totally, were about 70% of your sales. If you can give some more color and expand your comment on this distribution reach expansion, what do you exactly imply by this, and how has been the regional contribution moved in the current quarter?

Neeraj Basur: That strategy continues to play well. The number of stores that we are now serving touched 7,500-plus in Q3. This has gone up by 15%- 20% over the comparable period last year and the activity level in these stores is healthy. We expect to touch close to 8,000 stores by the time we exit the current financial year. The Northern region continues to track well, and is now measuring up quite nicely as far as the overall share of businesses concerned. Northern and southern regions are almost at an equitable level in terms of overall contribution to sales, followed a notch level below by western region. Northern region has indeed caught up for us in the last I would say a couple of years now.

Moderator: The next question is from the line of Anupam Gupta from IIFL Capital.

Anupam Gupta: First question is on the margin for the products business, where you said that pricing action by competitors will be big determinant. So what sort of inventory levels do you see in the channel both for you as for competitors which is driving the higher competitive pressure which you see?

Neeraj Basur: Our checks suggest that by the end of December, inventory levels across the top few players are pretty normalized. The inventory level with the channel is pretty normal in the context of a normal Q4. Our inventory levels started to normalize in Q2 itself, and we were comfortable with our closing inventory levels as of September. Capital employed in segment-II is higher as we have consciously built-up raw material and component inventory in order to counter or mitigate the impact of the lead times which are still unstable as far as international supply chain is concerned. We didn't want to run the risk of any production disruption in Q4 or Q1 next year. That's a conscious choice and will get normalized by Q1 next year. To summarize, finished goods inventory levels at end of December were not out of range to cause a pricing pressure.

Anupam Gupta: Would it be right to assume that given that everyone has this raw material pricing pressures and now that inventory are normal, the price hike should be pretty quick or will the weak demand impact that?

Neeraj Basur: Transmission of price hikes is where all these variables play out there are pressures on account of inventory levels and some players wanting to be more aggressive on pricing. In the quarters where demand starts to grow rapidly due to a good summer season combined with the pent-up demand, most players will tend to normalize the pricing transmission quite rapidly. Therefore even without taking any further price increases at least in the next three months, there's no reason why the effectively realizations should not see normalization in Q4 with good traction on the demand side.

Anupam Gupta: On the projects side, you have for the last two quarters given a very healthy margin and going by your commentary that both pace of execution as well as order finalization are very healthy, should we not see these margins continue and why is your guidance lower than 6%, if execution is strong and order intake is strong, ideally, you should be able to give a slightly better margin trajectory there going ahead?

Neeraj Basur: Projects segment is a very tightly costed category. In this category we need to follow a balanced approach between the type of projects, quality of orders, pricing, management of exposures, potential delays, customers' ability to honor their obligations and the cash flows. It is not going to be an easy situation to balance all of these and a steady increase in margins over a period of time. The reason for the steadiness in our margin profile is the balance that we endeavor to maintain between these variables or some of them. Our experience is that this approach of a balance between these variables will be a healthy ROCE as well, because when you see the ROCE profile of the segment, it looks quite encouraging in addition to the segment margin.

We feel that this consistent performance of 5.5% to 6% should continue. You will see quarters where it will be more than 6% also. But that will be sort of contingent upon certain large projects or projects with slightly healthier margins getting closed out and so on. We feel it's a more realistic view of where this segment can go. We are happy with the healthy growth rate and a steady margin of 6% and equally encouraging ROCE earned by this segment following this approach.

Moderator: Next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: Could you help us with an update on our expansion projects, what is the kind of timeline and the capacities that we're looking at?

Neeraj Basur: There are two projects in progress. In the next three months, we will commission our second deep freezer manufacturing plant in Wada. This CAPEX was underway for the last year and a half, in between we had little bit slowed down because of the pandemic, but now it's on track to be commissioned very soon. The objective of setting this plant up in Wada was to substitute import of a few SKUs. This would help us indigenize and reduce import dependence and will have its own rub off effect on the other downstream elements as well.

The second project that's under construction is the plant at Sri City which should get commissioned by Q3 of this financial year in the quarter October to December. To begin with, we are going to set up the third room air conditioner manufacturing facility there. It is for this plant that we had applied for and got the PLI benefit. The rollout will happen in phases and we will keep augmenting the capacity of this plant to align and calibrate with the capacities in our two Himachal plants so that all the three plants put together help us significantly increase the own manufactured base. There were certain imports of finished products which got reduced because of changes in the BCD structure over the last two years and we've been also buying from certain outsourced contract manufacturers. While we will continue with that arrangement for a select SKUs to be bought locally, it's a fulfillment mix change from a combination of imports and ODM manufacturer to our own manufacture. Traditionally, we had maintained a 50% to 60% own manufactured proportion. After the Sri City plant is commissioned, a combination of these three plants should take us to around 70% or even 75% over the next couple of years. We are well on our way to execute that plan as envisaged.

Bhavin Vithlani: Just a follow up on the freezers. What is the total CAPEX incurred so far and what is the volumetric expansion on the capacity that will be from the current levels?

Neeraj Basur: The overall CAPEX we've spent in this plant over the last two years is around Rs.100 cr. No further CAPEX in this deep freezer plant is expected in in FY23. Whatever needed to happen will conclude by FY'22. The commercial refrigeration product is a subset of our segment-II and contributes well as far as the overall segment growth is concerned. To fulfill our aspiration to grow higher than the market, growth of commercial refrigeration products would also be important. The immediate objective is import substitution and in addition this capacity will help us scale up faster once this plant is fully operationalized by FY23.

Bhavin Vithlani: Just a housekeeping question on the unitary product segment, if you could just help us with the mix with RAC and non-RAC for the current nine months and the previous nine months.

Neeraj Basur: Traditionally, around 60% was RAC and 40% was the basket of non-RAC products. As the RAC growth has been a bit subdued over the last two years, the mid would now be around 65%-35% between the RAC and the non-RAC products.

Moderator: The next question is from the line of Nirav Vasa from Anand Rathi.

Nirav Vasa: This is pertaining to the price hikes. What am I able to understand is that price hike is going to be a function of volume offtake? So, just wanted to understand if the season goes well, what is the kind of price hikes that can happen across Q4 and Q1 to pass on the cost?

Neeraj Basur: We are not expecting any further price hike in Q4. As far is Q1 is concerned, we have not yet finalized the plan. We will have clarity by March as we need to factor not just summer season offtake but also the impact of the table changes which will take effect from July. In Q4, we are not anticipating any further price increases from our perspective. We however expect other players who were not able to take sufficient price increases in the last three quarters to catch up on the price increases at some stage once the demand increases. It will be a good opportunity for the entire market to become calibrated on the level of pricing and it will have a favorable impact on at least the mitigating effect on the commodity prices impacting everyone.

Nirav Vasa: My second question pertains to the ad spends that we will be looking for the peak summer season. Is the number for that finalized?

Neeraj Basur: No, not yet. It's a bit too early. We haven't made our plans yet for FY'3. As in the past, we usually calibrate that fairly quickly with the ongoing market conditions and market opportunity. We will have better clarity in the month of March and April.

Moderator: The next question is from the line of Sujit Jain from ASK Investment Managers.

Sujit Jain: Since you said your price hike probably was not matched by some of the other players. Does that mean that your value growth is definitely higher, but volume growth could be similar to what industry would have done in Q3?

Neeraj Basur: Our own sense is industry has grown by around 25% and we have grown 28%, and a part of will be the impact of price increase.

Sujit Jain: I checked your commentary for Q3 last year as well where you talked about 13% market share and 13.2% market share for Q3 FY'22 as well in volume terms probably. If you can also tell about nine months volume for the industry and for you in terms of growth rates?

Neeraj Basur: We always talk about the growth and market share in value terms on primary sales because volumes are a bit inconsistent to track and explain. Our market share has grown from 13% to 13.25% over the last one year. We have been conscious not to grow our market share just for the purpose of market share expansion. If one wants to be aggressive on the market share that would impact margins as well. Since this beginning of the pandemic, we've tried to be realistic as well as reasonably aggressive on holding on to the market levels, such that once the market normalizes, that gives us much better clarity on the overall strategy to further augmenting this market share. It is again partly by design and choice that we are just holding on to the market share at this level for now.

Sujit Jain: If you can just share the nine months value growth for you versus the industry like you said for Q3? Next question is on capital employed, the entire increase is because of the higher inventory you've chosen, right, and no CAPEX has come into this so far?

Neeraj Basur: It's a combination of both these. A short while ago I mentioned about CAPEX that we have mostly finished in our Wada plant for deep freezers. That also sits under Segment-II. It's thus a combination of inventory for the room AC and the capital expenditure for the deep freezer expansion.

Sujit Jain: Wada would have added Rs.130 cr right?

Neeraj Basur: Wada would have added about Rs.100 cr, there's also the routine CAPEX in the other plants. To answer your question on year-to-date nine months market versus us, we have grown by around 36% for the first nine months and market growth rate was around 33% - 34%.

Moderator: The next question is a follow up from the line of Sandeep Tulsiyan from JM Financial.

Sandeep Tulsiyan: I had a couple of follow up questions. One was on the eCommerce share of sales, which you had mentioned that Blue Star was tracking a bit lower than the industry, about 13%- 14% of your sales came through eCommerce. So if you can just give an update, and what is the outlook going forward on this side? What is the current share of sales from us?

Neeraj Basur: For Q3, overall market was around 10% and we were around 8%. For Q2, the overall share was higher for market as well as for us. On a year-to-date basis, the market is tracking at around 18%, and we'll are 14% to 15%.

Sandeep Tulsiyan: On an annual basis it is 14 % to 15%?

Neeraj Basur: Yes as I mentioned about nine months. We don't expect the proportion to significantly change in Q4.

Sandeep Tulsiyan: Second question was regarding these tax breaks that is given under Section 115BAB, that is at 15% for new manufacturing unit that can commence production till March 2024 now. So for the new investment that we'll be doing under PLI, will that unit have this lower tax rate?

Neeraj Basur: Correct, it will have a lower tax rate. The extension of one year was announced only day before yesterday. We are on track to go live with the commercial production in FY23 itself much before March '23, which was the original date for the lower tax rate.

Sandeep Tulsiyan: So how should we look at your tax rates going forward because it's still tracking higher tax rate in the current quarter significantly higher at 33%?

Neeraj Basur: That's the normal tax rate, because till last year, we had 80IC benefits in our Himachal plants, and the 10-year holiday got expired and then the profitability was lower till Q3 and you will see a full annualized tax rate of around 31% last year as well because Q3 profitability has improved, and we are at 32%- 33% right now. We will be sharing the likely blended tax rate for FY23 once we finalise the plan for that year. That should reduce because of a combination of Blue Star's shift to the 25% tax regime from FY23. The full impact of the lower tax rate 115BAB will not be available in FY23 for the new plant because it will be FY'4 when IT will be fully operational. We'll give you an outlook probably in May.

Moderator: As there are no further questions, I now hand the conference over to Mr. Neeraj Basur for closing comments. Over to you, sir.

Neeraj Basur: Thank you very much, ladies and gentlemen. With this we conclude this quarter's earnings call. Do feel free to revert to us in case any of your questions were not fully addressed and we will be happy to provide you additional details by e-mail or in person. So with that, wish you all the best and stay safe.