Blue Star Limited

Q1 FY'23 Earnings Conference Call

August 05, 2022

MANAGEMENT: **MR. B. THIAGARAJAN – MANAGING DIRECTOR**
MR. NIKHIL SOHONI – GROUP CHIEF FINANCIAL OFFICER

,

Moderator: Ladies and gentlemen, good day, and welcome to the Blue Star Limited Q1 FY'23 Earnings Conference Call. We have with us today from the management, Mr. B. Thiagarajan – Managing Director and Mr. Nikhil Sohoni – Group Chief Financial Officer. As a reminder, all participant lines will be in the 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. B. Thiagarajan. Thank you and over to you, sir.

B. Thiagarajan: Thank you. Good evening, ladies and gentlemen, thank you for joining this call today. As you're aware, we had declared our Q1 FY23 Results yesterday. I thought that it is important for me to join this call as transition, as you may recall in May 2022 I joined the call along with Mr. Neeraj Basur, who had resigned at that point of time.

I am pleased to inform you that Mr. Nikhil Sohoni has joined us as Group Chief Financial Officer with the effect from July 1, 2022. He is on the call today and as you may be aware, he joined us from Mahindra & Mahindra. He has over three decades of professional experience. He began his career in 1992 after spending his initial years with AF Fergusson and Co and Geoffrey Manners & Company. After that he was with Mahindra and Mahindra Group from 1995. He has handled various roles there in a diverse career spanning over 27 years.

Nikhil had handled various facets of the finance and accounts function in Mahindra & Mahindra Limited. He was Chief Financial Officer of Mahindra Automotives Limited, he was Vice President of Group Finance for the company. In his last role before joining us, Nikhil was designated as Senior Vice President, Group Finance and Group Treasury, Mahindra & Mahindra Limited. He will be reading out the opening remarks and after that, we will be answering your questions jointly.

As you may have noticed, for the third straight quarter, we have delivered good results and it was backed by a very good summer season. The opening remark also will include the outlook. In the press release we had given our outlook as well. We remain optimistic for the financial year FY23. Though there are several headwinds with regard to the global recessional fears, inflationary fears, there are issues related to global supply chain disruptions etc. However, there are silver linings as well such as the softening of commodity prices and the low penetration rate in India for various air conditioning and refrigeration products. Most importantly, we enter the last part of the value chain in a large building. Air conditioning solution comes in post the construction of the building and even in home construction, this is one of the last few items that are equipped by the owners of the home.

In the event of a slowdown, it takes time to impact the air conditioning refrigeration industry and similarly when there is revival also it takes time to impact. Our assessment based on market developments and order finalization is very optimistic about the prospects for FY23, but we have to keep watching how the market is moving. With that, I will hand it over to Mr. Nikhil Sohoni for his opening remarks. Over to you Nikhil.

Nikhil Sohoni: Thank you, Mr. Thiagarajan, and good evening, ladies and gentlemen, this is Nikhil Sohoni and it gives me immense pleasure to interact with you for the first time. I'll provide you an overview of the results of Blue Star for the quarter ended June 2022.

1. Financial Highlights:

After two consecutive summers disrupted by the pandemic, this year witnessed normal summer without any restrictions. The growth momentum witnessed in Q4FY22 continued in Q1FY23 with business and economic activities back to complete normalcy. Consequently, demand for all our products and services surged as compared to Q1FY22 and also Q1FY20 which was the last comparable period. Coming on the back of the best Q4 in last couple of years for every business segment that we operate in, we are happy to inform that the performance was repeated for Q1 wherein we have outperformed in every business segment as compared to the Q1 of last 3 years.

Financial highlights for the quarter ended June 30, 2022, on a consolidated basis, are summarized below:

-Revenue from operations for Q1FY23 grew 87.3% to Rs 1970.32 cr as compared to Rs 1052.04 cr in Q1FY22.

-EBIDTA (excluding other income and finance income) for Q1FY23 was Rs 123.31 cr (EBITDA margin 6.3% of revenue) as compared to Rs 42.23 cr (EBITDA margin 4.0% of revenue) in Q1FY22. Despite continued pressures on gross margin and supply chain disruptions, revenue growth, price increases and consequent scale impact coupled with continued focus on costs enabled improvement in the overall EBITDA margin for the quarter.

-Profit before tax grew to Rs 100.69 cr in Q1FY23 as compared to Rs 19.23 cr in Q1FY22.

-Tax expense for Q1FY23 was Rs 26.34 cr as compared to Rs 6.52 cr in Q1FY22.

-Net profit for Q1FY23 grew to Rs 74.35 cr as compared to Rs 12.71 cr in Q1FY22.

-Carried-forward order book as of June 30, 2022, grew by 23.8% to Rs 3901.48 cr, compared to Rs 3152.30 cr as on June 30, 2021.

-Capital employed as June 30, 2022 marginally increased to Rs 1018.38 cr as compared to Rs 969.83 cr as on June 30, 2021, owing to capital investments for the capacity expansion projects at Wada and Sri City.

-Higher cash from operations coupled with continued focus on working capital management enabled us to end the quarter with a net cash balance of Rs 81.03 cr as compared to a net borrowing of Rs 68.47 cr on June 30, 2021 (debt equity ratio of 0.08 on a net basis).

-We had raised Rs 350 cr through issue of Unsecured Non-Convertible Debentures (NCD) in June 2020 in order to strengthen our Balance Sheet with a repayment tenor of 3 years with a call option to repay 50% of the NCD in May 2022. Given our current strong cash position even after funding our capacity expansion plans, we redeemed NCDs to the tune of Rs 175 cr in June 2022.

-We will continue to stay focused on healthy cash flows and mitigating the impact of cost escalations.

II. Business Highlights for Q1FY23

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

Segment I revenue grew 57.0% to Rs 793.43 cr in Q1FY23, as compared to Rs 505.24 cr in Q1FY22. Segment result was Rs 45.17 cr (5.7% of revenue) in Q1FY23 as against a profit of Rs 20.03 cr (4.0% of revenue) in Q1FY22.

Order inflow for the quarter more than doubled to Rs 1365.90 cr as compared to Rs 650.78 cr in Q1FY22.

1. Electro-Mechanical Projects business

With the onset of construction and capex cycle, order inflows from commercial building, factories, data center and infrastructure such as metro railway, water distribution and power distribution sectors picked up.

We received a couple of major orders from the Bangalore Metro Rail Corporation worth Rs 390 cr.

Carried-forward order book of the Electro-Mechanical Projects business was at record Rs 2777.45 cr as on June 30, 2022, as compared to Rs 2232.13 cr as on June 30, 2021, a growth of 24.4%.

2. Commercial Air Conditioning Systems

A healthy flow of opportunities across all the segments that we operate in coupled with the revival of demand from the retail, manufacturing, healthcare, and entertainment segments enabled growth for the commercial air conditioning business during the quarter.

We have gained market share in all product categories and continued to maintain our number 1 position in Conventional and Inverter Ducted Air Conditioning Systems as well as Scroll Chillers and second position in the VRFs and Screw Chillers.

Some of the major orders received during the quarter were from Reliance Industries (Jamnagar), L&T – Railway Freight Corridor (Prayagraj, UP), Laxmi Diamond (Surat), etc. to name a few.

3. International Business

The economic activities in the GCC region continues to be good in the backdrop of higher oil prices. Consequently, we witnessed healthy growth in inflow of enquiries.

The newly entered markets of Nigeria, Bangladesh and Nepal have also responded well to the launch of our new and improved applied range of products.

We have also commenced export of our deep freezers to the Middle East.

Order inflow grew by 9% and revenue grew by 38% as compared to Q1FY22.

The projects business in Qatar continued to do well. The operations of the joint venture at Malaysia continued to be impacted owing to competitive pressures in the region.

We will continue to 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 122.5% to Rs 1124.21 cr in Q1FY23 as compared to Rs 505.37 cr in Q1FY22. Segment result was Rs 91.13 cr (8.1% of revenue) in Q1FY23 as compared to Rs 21.77 cr (4.3% of revenue) in Q1FY22. Margins for the segment improved owing to the impact of scale coupled with price increases undertaken to partially counter the impact of increase in input costs.

1. Cooling and Purification Products business

We witnessed strong demand for our room air conditioners, thus enabling a 163% growth in revenue from the business during the quarter compared with Q1FY22. We surpassed sales achieved in the Q1 of pre-covid years with our new range of affordable mass-premium products being very well received by the market. We further strengthened our position as one of the preferred brands with first time buyers in Tier 3, 4 and 5 markets.

We grew in line with the market and maintained a market share of 13.25%.

2. Commercial Refrigeration business

The commercial refrigeration business witnessed increased traction across all product categories with strong demand from the ice cream, processed food and pharma segments coupled with growth in demand for our supermarket refrigeration products from the retail segment.

We continued to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms. We also launched a new range of visi coolers with a wide capacity range to suit different customer needs.

We received large orders during the quarter from players like Reliance Retail and Macleod Pharma and from several individual mushroom cultivation proprietors.

Our new manufacturing facility at Wada commenced commercial production during the quarter with a new series of indigenously designed and manufactured hardtop and glass top deep freezers ready to be launched in the markets.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue grew by 27.2% to Rs 52.68 cr in Q1FY23 as compared to Rs 41.43 cr in Q1FY22. Segment result was Rs 5.89 cr (11.2% of revenue) in Q1FY23 as compared to Rs 5.56 cr (13.4% of revenue) in Q1FY22 owing to delay in execution of certain high value orders due to shortage of semiconductors.

With the increase in corporate capex, we witnessed growth in demand across all the segments that we operate in. Order inflows from the Healthcare, BFSI, Industrial and a few Government sectors enabled growth in revenue for the quarter. Revenue from the Data Security Solutions business also continued to contribute to our revenue growth. Demand for the Non-Destructive Testing business also gained momentum during the quarter.

Major orders were bagged from HDFC Bank, Reliance Jio, Axis Bank, Grasim Industries and IDBI Bank Limited to name a few.

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

III. Business Outlook

While the enquiries and order inflows continue to be good for our products and services, there will be headwinds due to inflationary pressures, weakening of Indian Rupee and global recessionary concerns. Given the poor penetration in room air conditioners and the commencement of capex and construction cycles, we are optimistic about the prospects for the rest of the year. Further, the softening of commodity prices and the on-going TCM program will help us to improve the margins.

With that, ladies and gentlemen, I'm done with the opening remarks. I would like to now pass it back to the moderator who will open the floor to questions. We'll try and answer as many questions as we can. To the extent we are unable to, we'll get back to you via email. With that we are open for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhoomika Nair from DAM Capital.

Bhoomika Nair: Can you talk a little bit about UCPL in terms of what was the volume value growth, any price hikes taken during the quarter because unlike the rest of the peers, we have seen an improvement in margins on a Q-o-Q basis. And if you can also talk about within the segment, how much is RAC and what is the contribution of the other segments like commercial air conditioning?

B. Thiagarajan: UCP as a segment title is used by one of our competitors. For us, it is unitary products. We had increased the prices in the first week of April and maintain our position to review the prices again in August. Commodity prices had gone up and we have optimized the product mix from January onwards to address the belly of the market through the affordable premium range of products.

We are also pursuing a total cost management program in order to optimize the costs. We have a long way to go for the net margin improvement. Compared to the net margins earned prior to the pandemic or the beginning of FY20 it had deteriorated, primarily due to the commodity prices. Our goal will be to further improve the margins, while at the same time keeping a close watch on the current inventory level, outlook for the festival season and the movement in commodity prices. While we are happy that to an extent we are able to improve the margins, we still have a long way to go in order to get back to the reasonable margin levels. There would be also operating leverage with increased scale.

The last part of your question is connected with whether we can disclose what is the room air conditioners and the other products within Segment-II, unfortunately it will become a selective disclosure and so, therefore we don't want to get into that. We do have a commercial refrigeration business as part of Segment-II. In terms of margin profile, commercial refrigeration and room air conditioners will be almost identical. We have maintained our market share and there is no product mix change within Segment-II.

Bhoomika Nair: Yes, sir that clearly helps. Sir from the BEE rating which is gone effective from 1st of July, what is the kind of cost increase and further incremental price hike that we will need to take purely from a BEE rating perspective?

B. Thiagarajan: We have not increased the prices. As we were all aware that from 1st July the BEE rating will change we had launched future ready models. A five star rated AC would have remained five star even after the energy label change. There is no reason to increase the price because, three star may become two star, five star may become three star, that's all will happen in the energy label change. However, the new five-star conforming to new energy level standards would be costlier depending on the brand. The thumb rule is that each label change would improve energy efficiency by 10% and will result in a cost increase of around 7%. Price is a factor determined by the market.

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

Ravi Swaminathan: We have seen very good inflows in the EMP business that is electromechanical projects business. So, excluding the Bangalore order and Metro order also we have seen good traction, if you can throw some light on as to are there further large orders which are there in the pipeline. So, you can give a broad outlook as to which are the large contracts which are there? Apart from the large orders, which are the sectors which are showing traction and within the order book, how much is our exposure now towards industrial, commercial real estate, residential real estate, infrastructure, if you can give a broad breakup?

B. Thiagarajan: To set the context on the customer segments, there is a developer related buildings business that is driven by office consumption. There is a construction cycle on driven by infra projects that are social infrastructure projects where Blue Star has MEP offerings. Core infrastructure such as construction of highways is not going to directly result in MEP order for Blue Star. Broadly, infrastructure can be categorized into core infrastructure and social infrastructure. Social infrastructure comprises airports, Metro railway, healthcare etc. which are segments which result in MEP order for Blue star. In addition, the manufacturing CAPEX cycle has returned and a lot of manufacturing related investments are taking place in new manufacturing units that has a lot of MEP work to be executed. Then there is data center related expansion, data center consumes a lot of MEP work, so these are the broad segments.

Order inflow is a function of inquiry build up, RFQs in the pipeline, so on and so forth. There is quite a bit of Metro Railway tenders which are yet to be finalized, there are water related MEP projects which are to do with water distribution in rural areas or tier three, four towns and getting executed by various state governments. There are enquiries for airports that will have to be constructed. We were of the view that with the onset of the pandemic, the developer related buildings business will not grow because office space consumption itself was a question. However, we noticed increase in office consumption that is driven mainly by IT, ITES, as that sector is growing. As far as the margin profile is concerned, it should be around 6% which we have been consistently delivering. Our cash flow and the balance sheet are healthy and we would continue to focus on them. These are important for us rather than market share in that particular business which is highly scalable, but we would like to do it in a steady manner t and in that context the other focus has been to earn a reasonable operating margin with a healthy cash flow.

The segment also includes the commercial air conditioning equipment which we manufacture where we enjoy a good leadership position. In that business, the focus would continue to be on product related innovation and keeping ourselves technologically advanced. Tier three, four, five towns are beginning to grow and offer opportunities for that business in sectors such as shops, showroom, boutiques and restaurants.

Ravi Swaminathan: Got it sir and the 6% margins that you were talking about, given the fact that compared to say, a decade ago where there was intense competition at that point of time now, we are seeing many players are not looking at this particular category, correct me if I'm wrong. Can there be a upside risk for this, can this be 8% or 10% over a two, three-year period?

B. Thiagarajan: There are still competitors in each of the segments. In building there are set of competitors, in Metro railway there are set of competitors, in water there are set of competitors. EPC business has its complexities and associated risks such as time and cost overruns. There a possibility this margin will move to 7%, but we are not willing to commit it at this point of time because of what the industry and we had gone through. It is very important to ensure that we are able to deliver superior value. Customers are not going to be giving a premium unless we demonstrate the difference in terms of superior value. Therefore, there is a possibility margin can improve but we are not committing anything at this point of time. In the short term 6% margin is sustainable with a healthy cash flow.

Moderator: Thank you. The next question is from the line of Naval Seth from Emkay Global. Please go ahead.

Naval Seth: I have two questions. First is on the demand perspective on unitary product segments. So, last time, you had stated that demand was moving in a very strong lane and you were expecting close to around 30% growth in the summer season and eventually 25% for the full year for industry. So, given the current season has gone now, would you like to change that number upward downwards and secondly, you had again given the current guidance on EBIT margin in the last communication, at that point in time commodity was still in a bull run. So, would you again like to revise that upwards on your margin guidance as commodities have cooled off significantly now?

B. Thiagarajan: We had always maintained that the industry should grow by around 25% and we will grow by around 30%. There was good demand in March and April and there were reports of a possible 60% to 70% growth leading to shortages etc. Even at that point of time we had maintained that that the growth could be between 25% to 30% and Blue Star will grow ahead of the market as our goal has been to grow faster than the market and gain market share.

The demand started slowing down from May onwards. May was lower than April, June was lower than May. Over the past few years, the peak period is changing. At some point of time June used to be the peak month of demand for the industry then it moved to June third week, June middle, June first week then May became the peak month. Of late demand is peaking in March and April and that will be the trend as people tend to buy when the temperatures are shooting up and they are not going to wait for the end of the summer to buy. In this year there was also another fear that the prices will go up and therefore dealers and customers may have purchased ahead of the usual time. In the interim, there were also reports that the demand has completely slowed down. There was an interest rate hike somewhere around May or June and therefore the consumer finance scheme costs would have gone up, the petrol prices also went up which could have impacted customer sentiments.

At Blue Star, we had always planned ahead to secure the supply chain. We looked at January to June for planning. January to June 2019 was the last real summer season and compared to that we grew by 39% for the period January to June 2022 and we estimate that the market for the same period should have grown by 30%, it is not Blue Star has outperformed the market by a huge margin.

As far as the margin improvement is concerned, we don't think it will improve in Q2 for the simple reason the commodities that are meant for Q2 would have come already in the pipeline. Another important factor to be borne in mind is when the commodity prices went up, our margin was not impacted immediately it took time because we had inventory of raw material procured earlier. Similarly, the raw materials procured at higher prices will be in inventory for some more time. Positive impact on margin should be visible sometime from September onwards.

Moderator: Thank you. The next question is from the line of Harsh Shah from Jeffries.

Harsh Shah: I just wanted to know the absolute order flow for 1Q?

Nikhil Sohoni: For first quarter the order flow for segment one is Rs 1366 crores and within that for EMP it is around Rs 746 crores.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: The question is on the commercial refrigeration segment. Could you help us with what has been the growth in the industry in the current quarter and the indigenization efforts that you have undertaken with commencement of the products? What is the impact that had on the margins, I'm sure because depreciation would have come in the immediately but the utilization comes with a lag. These are my questions.

B. Thiagarajan: Growth in the commercial refrigeration would have been in the order of around 10% to 11%. The general expectation is that the business should grow at a CAGR of 15% or more. However, there is a lag here. For instance, ice cream is a very important segment for the summer season and therefore, the ice cream manufacturer placed these deep freezers in Q4 itself they won't wait for the summer season to buy the freezers. Similarly buying for the wedding and the festival seasons happens much ahead. There would be demand build up from September and October onwards for the deep freezer segment. There had been a decline in the demand for storage water coolers as in the offices, factories and public places the employees or the public are not encouraged to consume from the water cooler. Storage water coolers generally grow at around 7% to 8% and we didn't see that kind of growth. In our case, there have been multiple things that have been happening. Firstly, in room air conditioner there is a good demand and hence we kick started construction of the Sri City plant which should get commissioned by October, November this year in about three, four months' time. In the Himachal Pradesh plant too, we are undertaking expansion in order to meet demand for the ongoing this season that ended and in the process, we shifted water coolers manufacturing from Himachal Pradesh to the Wada plant.

In the process of this shifting we fell short of revenue by around Rs 10 crores to Rs 15 crores, but that is a onetime impact. We are indigenizing manufacture of deep freezes of 300 liter and sub-300 liter capacities. This factory was commissioned in April post trial production between February and March. There would have been the impact of depreciation from April onwards.

Now production 300 liter capacity deep freezers being stepped up. Production of 400-500 liter capacity deep freezers is in full swing. We have also commenced manufacture of glass top deep freezers that were earlier imported. Margin has improved in that business from May onwards. The trend of margin improvement is likely to continue because of indigenization and visible from post the sale of imported inventories that we hold.

Moderator: Thank you. The next question is from the line of Sandeep Tulsiyan from JM Financial. Please go ahead.

Sandeep Tulsiyan: I had two questions. So, firstly from the overall margin perspective just want to get your thoughts, what we've seen in the past cycles that our AC industry has been able to pass through pricing industry effectively be it raw material inflation or be it currency depreciation, but in the current season we are seeing that it is becoming a challenge to come through and also subsequently a lot of large players are also setting up capacities in South India. So, how should we look at the entire industry structure? Are we structurally headed towards slightly lower margins, are the path peak margins or say early double digits behind or do you think margins should resume this is more of a temporary phenomenon, more want to know your thoughts from a two to five-year perspective?

B. Thiagarajan: The margin will improve in the second half, in our estimate by around 200 basis points if the commodity price is softening continues. In the peak season quarter, it could be around 10% and for the year around 9% EBIT margin. To the question as to whether this business can become a 14% or 15% operating margin, we do not think so. A 12% EBIT business could be feasible for the room AC business.

The manufacturing capacity of finished goods is doubling. Market will double provided the products are made more and more affordable which means the margin profile is not going to change and the manufacturers are going to redesign the products and build scale. Scale gives an advantage and therefore market also grows it has happened in many categories and therefore the doubling of capacity is justified. There is also a PLI scheme, there is an x axis which is the investment, y axis is the incremental sales over FY21 period. PLI is based on the incremental sales over FY21 at 6%, 4% etc. and is not based on my investment. Therefore, a manufacturer who has invested in a PLI eligible facility has to grow his revenue.

Eventually the PLI money may get diluted in prices and therefore the market will grow. The market growth gives the advantage of the operating leverage. In addition, a component ecosystem has also developed and the component manufacturers will have to earn the PLI by increasing their revenue which implies they have to match the prices that are available globally or locally and in the process the industry will benefit. Another connected element is the the logistics cost such as container, shipping and ocean freight, that have increased four to five times. There could be savings on that as well going forward. As far as the Blue Star is concerned, you around 45% of our sales is from the southern part of the country and we had around 10 days of inventory of the finished goods coming all the way from Himachal in addition to the 10 days inventory under transit. The raw material for Himachal comes to Nhava Sheva port and travels all the way to Kala Amb in Himachal Pradesh.

In the Sri City plant the incoming raw material will be through Krishnapatnam port or Ennore port and the finished goods can move to all the states- Telangana, Andhra Pradesh, Puducherry, Tamil Nadu, Karnataka overnight. Therefore, there would be an operating costs leverage on account of these. Considering all these, our belief is that operating margin in the range of 8% to 10% is sustainable in spite of competition. We will continue to be transparent on price increase, margin pressures etc.

Sandeep Tulsiyan: Understood. Thank you so much, it's very elaborate with a good perspective. Second question, was from your product mix, which you typically share over the quarter, how this mass premium range is growing within your portfolio, where is it now, where do you expect it to go forward? Also from an e-commerce penetration perspective you were on a journey where you were behind the industry, the kinds of penetration rates they had on the e-commerce platform, how that has changed in the current summer season and what do you see going forward in these two spaces?

B. Thiagarajan: Up to a market share of 12% market one can operate with premium products highly differentiated. However, if the goal is to become a 15% market share player, the belly of the market is to be addressed. This is very true in every category that people consume in the country, right from airline to consumer durables or automobiles. Therefore, we will be focusing more on affordable premium products so that we are able to compete in the belly of the market with functionally superior, reliable and durable products that come with good after sale service from a trusted brand.

We no longer think e-commerce is a competitive advantage or it is a big lever one should be using because it is something that is available for a MSME player in a tier three town to a big brand. It's a marketplace, in which everyone would be present and continue to market. Our view is e-commerce does not provide for differentiation for a brand. It is basically around price as a very important lever other than convenience if offers. Therefore, there would be more increased price competition than differentiation. The channels such as modern trade and the power retailers can influence your market share if you are not present in those large chain of stores. We no longer believe that e-commerce is something very special. You have a product to offer at a particular price point and you will be present there.

Equally true is the fact that very large country like India with many rural markets, 65% of the sale coming from tier three, four, five towns, 95% of the buyers are first time, 45% of the buyers are consumer financed. This requires presence of small dealers. In states such as Uttar Pradesh or Punjab, Haryana we need a product at an affordable price point. Despite the advent of e-commerce, we need a product at a particular price point to cater to the demand of the people and then we become a relevant brand to them. Therefore, e-commerce or social media is an additional medium or channel to reach the customers apart from newspaper or media advertisement and that's how view it. We will have same share as the industry share. The only difference is that in e-commerce it can change in one season, let us say there is a sale that is happening one particular brand can go and offer the lowest prices it will simply shift in that quarter. If it is a particular brand which is discounting their e-commerce has the power to influence buyers to go ahead and buy and there will be a market share change in that particular season. Blue Star's goal is to offer products which do not impact the long term brand personality of Blue Star. Under no circumstances even if our market share shrinks, we will not compromise that at all, our product has to confirm to certain standards, it is a value principle of Blue Star. More importantly, we need to have shareholder value enhancement and returns. Therefore, we would rather be focused on a margin of 8% to 10% than declaring that I am a 20% market shareholder. We have to grow scale and identify and operate in those markets. If we have to compete on price we will rather go ahead and reengineer the product in such a manner without compromising all other things mentioned. So, so far it has worked well and we continue to invest in research and development, in terms of marketing brand building and work on other operating cost leverage.

Moderator: Thank you. The next question is from the line of Gopal Nawandhar from SBI Life. Please go ahead.

Gopal Nawandhar: It's heartening to see the margin improvement in such a challenging environment where rest of the peers are losing margins. Can you give some more color on this what is helping us in terms of improvement, whether it is mix, which is helping what is that because rest of the large players even the number three, number four, are losing money with the same scale which we have? We have introduced more product in the mass category which is like very competitive. So, what all has helped Blue Star in terms of improving margins, year-on-year and sequentially also?

B. Thiagarajan: We won't be able to comment on the other players, they are all very competent and eminent players and they have to be respected. We will not be commenting about a particular quarter results of a particular brand or something like that. As far as Blue Star is concerned, as stated earlier in several press releases or at the product launch in January, in the last investor call, we have to address the belly of the market, and if we want to address the belly of the market, we need to go ahead and ensure that the products are redesigned. We were operating in the premium segment and should we try to sell and penetrate the market with the positioning, we were likely to lose money eroding the margins. We therefore, had to re-design the products and if our goal is that we want our products to be reliable, compete globally and benchmark globally in terms of the features and performance, we need to be ensuring that we invest adequately in R&D. We had also anticipated that there will be commodity price hike and there will be some kind of impact. We had also stated that commodity prices are likely to soften. A big difference is that the industry advertising expenses, as a percentage of industry revenue is coming down. That is an operating cost advantage all the industry players are gaining including Blue Star. As a percentage of the revenue advertising expenses will be lower. A key factor to watch out for is he correlation between share of the expenses and share of market.

We're not seeing any more, full page advertisements running in summer. In IPL a few brands including Blue Star advertised, but the television space is not bombarded with this. At the end of the day, there is a margin improvement and I mentioned earlier we are not fully happy with the improvement, we have still a long way to go which could be visible from Q3 onwards.

Gopal Navandher: Can you just quantify in the last year the revenues from the water purifier business and the drag because of that business?

B. Thiagarajan: We are still a very small player in water purifiers. We had stated that in FY19 and FY18 that the impact of water purifier business on margin is around 1.5%. Further we had also said in FY21 itself that it is no longer impacting the segment margins. It is not a drain anymore. We have invested and we have achieved some kind of market share. We are not aggressively going and pursuing there to grow exponentially. The reason being, we're seeing some kind of industry structures changing in terms of water purifier business. Some players have got out, some players are not highly active and at this juncture we are happy with what we are doing. Water purifier business is not impacting in any manner the segment margin from FY20 onwards.

Moderator: We will take the next question from the line of Amit Agrawal from Burman Capital Management. Please go ahead.

Amit Agrawal: Sir in earlier part of the call you mentioned a 30% growth in from the first of calendar year '19 to now for the industry and 39% for the Blue Star. So, was that value growth or the volume growth?

B. Thiagarajan: It is the volume growth and the value growth will be some 3% to 4% lower. The industry growth of 30%, is our estimate. It is unlikely that the industry would have grown by 20% and we grew by 39%.

Amit Agrawal: Got it and sir would you have similar number for 1Q for financial year?

B. Thiagarajan: Q1 results are already published and our growth in Segment-II is available there.

Amit Agrawal: But just from the AC perspective for the industry and for us?

B. Thiagarajan: We would not like to deal with bifurcating Segment-II. There are questions around selective disclosure, but we disclose whatever we think is genuinely to be disclosed. In terms of the margin profile, it is not distinctly different between room AC and the commercial refrigeration business and both the products have grown it's our tandem, it is homogeneous that way.

Moderator: Thank you. Ladies and gentleman that was the last question for today. I would now like to hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: Thank you very much, ladies and gentleman 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 answered. We'll be happy to provide you with additional details by email or in person. Thank you.

B. Thiagarajan: Thank you, thanks a lot.

Moderator: Thank you sir. Ladies and gentlemen on behalf of Blue Star Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.