

Blue Star ROC will be an industry benchmark, says MD B Thiagarajan

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“We have lost two consecutive summers and so the commercial refrigeration business or room air conditioner business took a hit but we decided to go ahead with the [expansion plans](#) because the outlook is good for both these segments. In the room air conditioner business, the penetration is below 7%. For the next five years, it will reach more than 15% and may even touch 20%, says [B Thiagarajan](#), MD, [Blue Star](#).”

Despite a seasonally weak quarter, you have managed to report a strong set of numbers vis-a-vis your peers. What aided the growth for you?

The festival season was somewhat muted but we had got our product portfolio right. The margin pressure led to price increases during last year. Then we felt that the commodity prices are not going to come down and we need to redesign our product portfolio. Therefore the product portfolio has been redesigned. Second, our distribution penetration in the northern region was not to the extent that we would have liked and that part has been corrected. So these are two primary reasons for us to improve our market share. We improved our market share from around 13% to 13.25% and that has given us the growth which exceeded the market expectations. I think Q4 will also be good.

Has the current raw material price inflation been passed on to the consumers or are there some more price hikes that you will have to undertake?

We had increased the prices thrice. We did it in April. We did it again in July. We did it again in October but we still could not protect our margins. There was margin erosion close to around 1.5%. Going forward, we will raise prices if the commodity prices go up further. We will take a call only in April or May. We will watch how the summer season is going to pan out.

Your gross margins have remained under a little bit of pressure. What is the outlook on overall gross margins going forward and what is the position when it comes to your net debt?

First, the debt front, we are doing extremely well. Our net borrowing is only at around Rs 165 crore and there is absolutely no concern there at all. Even in the electromechanical project segment, we are doing extremely well and we are selective in accepting the orders and we are executing the orders well.

The cash flows are maintained in a healthy manner and so that is not the issue. There are capital expenses that we are incurring. In Wada, a deep freezer plant is getting commissioned in March or April and we are also investing in Sri City for a new room air conditioner plant under PLI. Taking into account these capital expenses, our cash flow will be healthy.

Our ROC will be an industry benchmark. There is absolutely no doubt or concern on that front. So coming to the margin outlook, we had indicated that for Q4, that is between January 2022 and March 2022. The segment one margins should be for the quarter. It should be around 5.5% to 6% and segment two margin for Q4 alone will be improving to 7% for the full year. The summer season of last year was lost and therefore the full year margin should be 6% to 6.25%. This is the indication that has been given to the analysts and fund managers as well in the investors concall. We continue to maintain that.

How do you see the growth of your projects business and what can we expect on that front?

The order book as of December 31 stood at Rs 3,301 crore and again it was higher than what it was a year ago. On December 31, 2021-20, it was only Rs 3157 crore. So, one can imagine that growth is happening there. We had felt that the office segment will not be taking off, but to our surprise, the demand has come back from that segment also.

Office consumption is going up but the big driver is manufacturing-related electromechanical products. We are executing quite a few orders and factories. As a segment, it is giving us a lot of growth and the outlook is extremely good in the coming year. The next one is infrastructure products – whether it is metro or railway or airports or water related MEP projects – big orders are expected to be finalised,

The [Union Budget](#) has also opened up these sectors as well, driven by PLI manufacturing, infrastructure investment for airports, metro railways and so on. The prospects for the electromechanical project segment is also extremely good.

Going forward what happens to your capacities? Are you looking to expand more or is it too soon to venture into that?

B Thiagarajan: We are expanding even during the pandemic year. We have lost two consecutive summers and so the commercial refrigeration business or room air conditioner business took a hit but even then, we decided to go ahead with the expansion plans because the outlook is good for both these segments. In the room air conditioner business, the penetration is below 7%. For the next five years, it will continue to grow more than 15% and may even touch 20%, going by what is happening in the market place and lifestyle of the residential consumers. Therefore, we decided to invest in a plant in Sri City. In phase one, we will be looking at around 4 lakh units and that plant will get commissioned sometime in October or November 2022.

In deep freezers, we have almost reached full capacity in our Ahmadabad plant and we are setting up a new 2.5-lakh unit plant. We are awaiting for some final approvals. It should get commissioned by March-April. Capacity-wise we are taken care of and it adequately meets our needs for the next three years.

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