Blue Star Limited

Transcript of the proceedings at the Conference of Fund Managers and Analysts to discuss the FY23 performance

Venue: Four Seasons Hotel, Worli, Mumbai 400018

Time: 11 am to 1 pm

Mr B Thiagarajan:

Good morning, ladies and gentlemen. I have pleasure in extending a warm welcome to you for this conference.

Before I proceed further, I have pleasure in introducing Mr Vir Advani. Many of you know him. He's the Vice Chairman and Managing Director and Mr Nikhil Sohoni who is the Group CFO.

I also have senior colleagues from Blue Star from various functions - they will introduce themselves.

To begin with, Mr P Venkat Rao.

Mr P V Rao:

Good morning. I'm P V Rao - President and COO, heading the B2B business group - Electro Mechanical Projects and Air Conditioning Solutions Group as it is called. It has three lines of businesses - the Projects business, the Commercial Air Conditioners Sales business, and the After Sales Service business. So this is a consolidation of three lines of business. And I'm with Blue Star for the last 34 years. Nice meeting all of you. Thank you.

Mr B Thiagarajan:

Thank you. Mr Shashi Arora...

Mr Shashi Arora:

Hi, good morning to all of you. I am Shashi Arora. I am President and Chief Operating Officer for CPAG - Cooling and Purification Appliances Group. We have the Room AC business housed in CPAG. And I've been with Blue Star for over a year now. Thank you.

Mr B Thiagarajan:

Mr Wilson Jebaraj...

Mr Wilson Jebaraj

Good morning, I'm Wilson. I handle the Electro Mechanical Projects and Customer Service Group. I've been with Blue Star for the last 25 years.

Mr B Thiagarajan:

Thank you, Wilson. Mr Srinivas Reddy...

Mr Srinivas Reddy:

Good morning, my name is Srinivas Reddy. I'm responsible for the Commercial Refrigeration Business. I've been with Blue Star for the last 25 years. Thank you.

Mr B Thiagarajan:

Mr V S Ashok...

Mr V S Ashok:

Good morning everyone, my name is Ashok. I'm the Chief Human Resource Officer. I've been with this company for 31 years. Thank you.

Mr B Thiagarajan:

Mr D V Kasbekar...

Mr D V Kasbekar:

Good morning, ladies and gentlemen. My name is D V Kasbekar. I am CEO of the wholly owned subsidiary, Blue Star Climatech. I am heading the manufacturing function of unitary products. I've been with Blue Star for about the last 25 years. Thank you so much.

Mr B Thiagarajan:

All of you know Mr Sivakumar, who is now going to take charge of a different role...

Mr Sivakumar:

Good morning, I'm Sivakumar - I have met all of you personally. I am the CFO of the wholly owned subsidiary, Blue Star Climatech Limited. And I am with Blue Star for twelve years. Thank you.

Mr B Thiagarajan:

And Mr Dipankar De...

Mr Dipankar De:

Good morning everyone. My name is Dipankar De. I head the Corporate Planning function at Blue Star. I have been here for the last four years. Thank you.

Mr B Thiagarajan:

Thank you Dipankar.

We have quite a few other colleagues including Ms Priya who heads the Marketing function.

We last met in 2018 - that was in St. Regis - that time we were celebrating our Platinum Jubilee. We are in our 80th year of operations and on September 27, 2023, we will complete 80 years. We continue to be the oldest air conditioning and refrigeration company in India.

First of all, I would like to thank you. In these interactions, Vir or Nikhil or myself, we continue to learn from you because you are the eyes and ears of the market. As much as you ask us the questions after each interaction, we also benefit from what are the issues that you have in mind or what we should look at. So thank you for that.

It's a pleasure interacting with you here again in person at a conference after five years - otherwise, we have been meeting at quarterly intervals. And we are also particularly pleased that we are meeting you after delivering exceptional results in the financial year FY23 as well as Q4 FY23.

The format of this will be... There is a first part which Nikhil will present about the financials for the quarter and the full year. We are not going to have a separate investor call for that - that is one part of the presentation.

And followed by Vir's presentation on the corporate strategy. And post that we will answer your questions. Questions will be answered by Vir, Nikhil, me, or any of our colleagues who are present here.

In case we are not able to answer the questions, Sivakumar is going to make a note of that, and we will respond to you within 48 hours. So that's the first part of it.

You have seen the audited financial results that were published. This is the sixth consecutive quarter where we have delivered the numbers or exceeded the expectations. In fact, we have exceeded our own expectations in all the quarters. The questions can be related to that and the benefit of this meeting will be the long term picture as well.

But from last night, or yesterday afternoon itself, there had been many calls to me or to others about the unseasonal rains in the North, and what is going to happen in April. I thought that it's better to address that part once and for all because so many of you are interested in that.

Before that, I also want to point out that that we have been transparent all along. In fact, if there is going to be a price increase, in all probability it would have been Blue Star that would have announced that there is going to be. If there is a margin pressure, we have announced it. If there is a drop in sales, we had gone ahead and said so ahead of the industry. So we want to maintain that tradition of being transparent.

At the same time, we will not be able to be selective in disclosures. Just as the meeting commenced, we have uploaded the presentations which are going to be made to the stock exchanges itself. That is what we believe in.

Now, in that context we may not be able to give you - that within Segment Two - Unitary Products, what is commercial refrigeration? Or within the first segment, how much is product, how much is projects? So you have to understand this particular problem or the dilemma we face. It's not that we don't want to, but it is important for us to be also clear on the regulatory requirements.

The second is connected with what information is available to the competition or not available to the competition. In fact, you are aware, we were the first ones to go ahead and publish the integrated report in the industry. BRSR, we will be doing it - numerous amount of data is going to be getting disclosed, but in a multinational environment, that data is not available for my competition, whereas my competition will get it.

And some of you, a couple of you - I don't know whether you are present here or not - had asked about our major competitor in India. They have the commercial air conditioning products and the service in the unitary or cooling product segment added. In our case, we have not done so - Segment 1 includes the commercial air conditioning products, Segment 1 includes the service. Now, that part to be added to unitary products - it can boost the profits or the EBIT substantially.

Now a couple of the inquiries are - can you tell us how much has to be removed from my competitor, or how much has to be added to my result? Again, it becomes selective. The companies have their own rationale of doing it. We believe Segment 2 is connected with the products, and we will deal with that. I don't want to bring in commercial air conditioning service revenue, or commercial air conditioning product revenue into that segment. We may decide to change that at some point in the future and that is fine. The thing is, that kind of disclosure becomes selective - if we do it, we will do it for everyone and make it clear that this is what we have done. Because Blue Star as a corporation believes that we have to be fair, we have to be compliant, and we have to be transparent - we should never misguide you.

Now coming to Room Air Conditioners... It was in December, actually, I was discussing with Sashi. It was the 16th of December when we were preparing for the summer season, and he was to make a presentation to our board on the 31st of December. We were planning for the inauguration of the manufacturing facility at Sri City, what is stocking and the campaign, what is the advertising money. That particular day, I told them something tells me there will be rains during summer, specifically April. Subsequent to that, there were three interviews of ET Now, CNBC - I had clearly stated that there may be IMD forecasts that there will be rains. So the fact of the matter is that there are unseasonal rains, which is not in our control.

But I had stated, and this is the Company's view as well, that because of many reasons, the full year market growth should be around 20%. That is our estimate - forget the summer, forget the festival season. By looking at a 15-year period of what has happened in the market - in an energy label change year, in a year in which rains are there, in an El Nino year, or whatever it is - our estimate is the market for the year will grow by at least 20%. Second point - within Blue Star, we have figured out that the peak of summer - what used to be in May last week, it moved to May middle, at some point of time May, it started peaking in April last week… And in an interview in February, I had stated that my belief this year is that it is going to peak in March last week, which is what so far it is.

Now the summer season, how we calculate in Blue Star is because the dealers end up stocking for April in March itself. We believe that the growth should be at least 20% during the period of January to June. It can be even 25%, because there is now a prediction that May 7 or May 8 onwards temperature is going to shoot up in Delhi and the summer will last till June 15. Our broad direction is if you take the period January to June, I think the market will grow at least 20%. If market is growing by 20%, we should grow more than the market in order to gain the market share. That's what we have done for the past 11 years. If you take the period January to March we have grown by 22%.

There was a question this morning whether that is from commercial refrigeration or that is from room air conditioners. Again, broadly, all businesses have grown. In fact, commercial refrigeration last year had some hiccups in summer, and therefore the growth has come from room air conditioners. If in three months 22% growth is there, it should be a growth of similar nature is our understanding - that is what we are aiming for. We can't worry every day whether it rained or this week it rained - our supply chain is planned in that manner.

Connected question - whether there are inventory pile ups... It is not so because West, East, South are doing extremely well. Within Blue Star, whether we are monitoring everyday sales... It is not so, because we are very clear that there will be some markets which will not grow, some markets there will be rain, some markets, some model will not be there, some other market that will be there. And I'm again quoting this, that this is like T20 cricket, and every day the picture can change. We have learned to play that game, and we believe that we can play it well.

Now, as we have stated again and again, I should have a product which is competitive, I should have a distribution network which is robust, I should have the brand salience, and we should work hard, and we still believe irrespective of rain in north, we should do well.

And can things go dramatically wrong? It can. We don't know that. But going by our track record we will figure it out. So this is the broad answer to that question. Because only less than ten days ago there was an interview with regard to shortage of material, whether we are going to face shortages. And within three days that whether stocks are piling up. And last night it rained and there is a weather forecast summer will be harsh in May and June. It's impossible to react to any of this.

So, the bottom line is we still believe the market for room air conditioners for FY24 should grow by 20%. Our goal is to grow faster than that. And if you take the summer season, which we calculated January to June, we still believe that the growth will be more than 20%.

Now the last part of it. There is also an Investors, Fund Managers, Analysts Feedback Survey which we will commission from next week or day after tomorrow it is - and we will welcome your feedback on which areas we can improve, what you think we should do better. Please give us your feedback.

With that, I invite Mr Nikhil Sohoni to make a presentation on the Q4 and FY23 full results.

Mr Nikhil Sohoni:

Thank you Mr Thiagarajan, and good morning ladies and gentlemen.

So let me start with the safe harbour statement. This is because we will be talking about the numbers in the past as well as certain future looking statements.

Coming to the results... They say resilience is an attribute of people which is required to succeed in business and life. And I'm sure this goes well as well for the businesses also. If I was to start the presentation with a name, I would have called it Firing Back.

If you see the results for FY23, the results have been good will be an understatement. It has been excellent results and one can see that the revenue growth has been 32% and it has added almost 1900 crores to what was the last year's base. Same way for the quarter it was around 16% growth. What is important is not only the growth but the value creation by way of making it a profitable growth. And that has happened because the operating margins you can see are clearly up by 50 basis points. So it has gone up from 6.3% to 6.8% for the quarter and from 5.7% to 6.2% for the year. Again, if you look at the trend for the last year while it was 5.7% and ended with 6.3%, this year it was average of 6.2% and ended with 6.8%. So that speaks well as far as the direction is concerned.

Of course, one important thing also is that yesterday, the board has declared the dividend of Rs 12 per share and they have also declared bonus of 1:1. Post bonus, which is approved after the approval of the shareholders, the dividend will stand restated at Rs 6 per share.

Coming to profitability... If you see the PBT - and we have this time an exceptional item, so we are seeing PBT before exceptional item - the growth is again... the same 50 basis point which you saw in EBITDA is translated right up to the PBT and probably it has gone up to around 70 basis point when it comes to PBT stage. So thus it is carried forward all through and the benefit which has come to the operating margins and not been lost when you come to the PBT stage.

During the last quarter we have changed the method of depreciation from WDV to straight line method. That was required because we have invested in capacities and when you invest in capacities you are required to give a relook to the consumption pattern. So having done that, what has happened is we have in fact been in sync with the industry now and we are more comparable to others also. Having said that, at a PAT stage, if you see the benefit you will see a return of 5% which will be including exceptional income. During the quarter we have sold a land parcel at Thane which has given a profit of around 170 crores - net of tax around 139 crores - and if you exclude that, the margin is around 3.3%, which is again a 50 basis point improvement over what it was last year.

When we are investing in growth what is most important is the cash flow and how we are financing it. This slide probably will bring out quite well how the growth has been financed. So last year was the year in which if you see the investment in capacities was quite substantial having invested around Rs 353 crores. At the same time, because of increase in scale, the working capital requirement also went up. So combined, it was more than Rs 500 crores of requirement. However, all of that could be managed with just Rs 100 crores of incremental debt. The company of course had a very strong starting cash position and also ended with a good cash position but the cash accruals for the year were also very strong at Rs 400 crores - and this is without taking into account the exceptional income of land sale which gave another Rs 179 crores, or Rs 139 crores net of tax. So that said the cash flow has been very robust and therefore we are prepared to finance in growth in the right way it should be, without over leveraging.

Coming to business highlights, this has been the year when all the segments have given an exceptional performance.

Starting with the Segment 1, which is Electro Mechanical Projects and Commercial Air Conditioning - you can see that clearly the growth for the quarter has been 10% and for the year has been around 25% in revenue terms. This was because of the government investment in infrastructure, the good uptick which was there in private capex which all of us are aware of. In commercial air conditioning there has been a product portfolio expansion, and at the same time, there is also a good demand from Tier 2, 3, 4 towns. So all of that has helped the increase in revenues. Again the profitability if you see in terms of segment margins, there is a directional improvement. Last year we have reported 6.1% average whereas this year it is 6.9% average for the year. So that shows that the margins for the business are also improving and that is possible because of cost management, because of scale and also because of a good profile of the customers projects which we are handling.

Coming to Segment 2, again a very good growth - 22% for the quarter and 39% if you look at it on an annual basis. This was possible because of the rejigged product portfolio which we had. We also came into the affordable segment and of course that also translates into a good margin with average of last year being 6% and average for the current year being 7.8%. So it is almost 140 basis point improvement in this segment in terms of margins. This includes commercial refrigeration and for that business also we are seeing a very good traction and a good demand going forward.

Coming to the last segment, that is PE&IS or Professional Electronics & Industrial Systems - a small segment but a very niche market. The growth in the revenue has been quite good at around 33% to 35% on an annual basis. The margins over here have been slightly impacted - it's still good in double digits but it's been slightly impacted because of the investments which the segment has done for business development and for the future.

So overall, if you see all the three segments have reported a very good revenue for the year, the company, the margins have shown quite a good improvement as well as traction, and this sets a good ground for us going forward. So if you look at the business outlook, what I would like to cover is that we are ending FY23 on a very high note and a very strong note. At the same time, we will continue to focus on investing in research and development, we will continue to invest in channel, we will continue to invest in manufacturing footprint, and of course we will continue to focus on cost - because that is what has helped us maintain and improve the margins and that is what will drive the future as we go along. Thank you.

Mr Vir Advani:

Great - thank you, Nikhil - I think they got a good overview of the year. Of course there'll be many questions that I'm sure will come up. I will now take you through our strategy. We do a three year rolling strategy in Blue Star. We started doing this, I think about six years ago. I think when we started we weren't doing such a good job of it - we were making three year plans but never meeting them. I think that's improved over the last few years and I'm happy to say that at least the last two financial years we met whatever goals we had set ourselves if we wound back three years.

So what I'm showing you today is a limited glimpse but I hope it conveys the direction. This is an extract of a presentation we made to our board of directors in March of 2023. So it's less than two months old, so it's very fresh. Of course, there's a lot more behind it, but I'll give you a sense of where we're going. So with that I'll jump in.

You would have seen last year's performance that Nikhil took you through. This is just a five-year snapshot of what has happened. Of course, you know that we had two years of COVID especially in the summer for Blue Star. That's why you see the dip there. But I'm happy to see that in spite of the two years of COVID, all positive CAGR and even of course, you see a very high number of PAT of Rs 401 crores in FY23, but without Thane it's still Rs 261 crores. So good recovery on that front as well.

So I think the direction that we set ourselves going forward is to improve this CAGR significantly. We're assuming COVID is behind us. There's no such surprise looking ahead. So I'd say next three years, all this CAGR is looking at north of 20% on top line and bottom line.

Return on capital, another very important measure for Blue Star. We are a low margin business, as you know, and therefore return on capital is something that we track very, very carefully. You'll see steady improvement in ROCE. Return on equity as well, even without Thane is about 20.3%. So we believe that we're doing a good job on managing our capital and deploying it well.

As far as quantum of capital is concerned, you can see a net debt level which is very comfortable. This is, of course, after the significant capital investments that we have started to make in FY22 and FY23. These investments will continue in FY24 and FY25 at least. And so we will be looking at our net debt levels fairly carefully as we go forward, but committed to delivering ROCE north of 30% and an ROE of 20%.

If I just wind back, many of you know the company, so I don't need to go back to 1943. Thiag mentioned we're in our 80th year, very proud of this journey, very proud of this heritage. So I'll force you to look at a few of these milestones... If I go back, I think 1972 was really the start of what we call our Projects business that we have today. Very important milestone for the company, when we got into large air conditioning projects, which you know then we moved into MEP projects in 2008-9.

Manufacturing commitment actually started way back in 1985. Small investment - I'd say the first significant investment in manufacturing that the company made was in 1997 with setting up our Dadra plant - that was our first modern manufacturing factory. Himachal Pradesh was the next big one in 2007. We then opened Wada around 2010-11. And then all the way until 2021-22, there was very limited capital investment in new factories. We were, of course, upgrading and expanding existing factories. But 2022 is the year which is another milestone for manufacturing, when we have set up both our modern room air conditioner plant in Sri City, Andhra Pradesh, as well as our ultra automated deep freezer plant in Wada. I think you will see as if we are to meet five years from now, our journey, if I show you, will have significantly more capex in manufacturing as we go forward.

Other highlights of this is of course our entry into the UAE market and into the Middle East in 2017 with forming Blue Star International. And you may have read in 2022-23, we established subsidiaries in the US and in Europe. So another theme that you'll see going forward for Blue Star is an internationalisation of the business. So if I wind back, 1985 is Projects, 1997 is Manufacturing, and 2017 will be our Internationalisation plan.

This is extremely important for us. It's all over our website and all that - you may have even seen it every now and then, but this is what drives Blue Star. This is what runs us, this is how we deliver what we do. We have a vision which is to dream, to strive, to care, and above all, to be the best in everything that we do. I want to tell you that... So there's no number there, there's no Rs 10,000 crore, Rs 20,000 crore, thousand crores of PBT. These are not numbers. This is a direction. It is about setting a growth mindset in the organisation. And I'm proud to tell you that all our close to 3000 employees will be able to tell you this vision, will be able to tell you our credo without referring to any PPT or any document. And that's how we run the company.

So there's a growth mindset which is part of the vision. And then equally important is our credo, which is I am Blue Star and I take pride in delivering a world class customer experience. I'll tell you this, that this is as important as a growth mindset because we're very clear that unless there is ownership at an individual level, and all our 3000 employees, our extended organisation of 30,000 people, our dealers and distributors and technicians and everyone, when you add it all up, I think it may be 60-65,000 people. It is our goal, and at least we try to ensure that a large number of these people understand what the credo is, which is taking personal responsibility of delivering a world class customer experience to our main stakeholder. So that's our credo.

We also have a Blue Star Way, which are eleven guiding principles, again, that we follow. I think that one, none of us will be able to rattle off what those eleven are, but rather than rattling off what they are, I can assure you that over 90% of the organisation will be living the Blue Star Way. That's just in our DNA - this is how we work, this is what we stand for. And I think collectively, these three very powerful tools are leveraged by us as a senior management team to ensure that we deliver year after year to or exceed the expectations of all our stakeholders.

I think as far as governance is concerned, I'm proud to say that I don't need to spend too much time on this because Blue Star stands for governance. And I think you're aware about this and you're clear about this. That's why you're here, that's why you invest in us.

So with that background, I'll spend a few minutes on our way ahead, how we see the next few years. So our strategic direction is we have it in three buckets, as it were. We have a growth objective, we have a profitability objective, and we have an excellence objective. So there are three objectives. That's the framework of our strategic direction. The first one is growing faster than the market. You hear my colleague Thiag talking about it all the time. That's what we stand for in each line of business that we have.

So the first thing is to build scale. I think that's a repeating thing that you'll also hear in Blue Star is building scale. So we want to build scale by participating in all the growth opportunities that the air conditioning and refrigeration industry have for us in India. So I talk about India first. So whether it is the middle class, whether it is MSME, whether it is the light commercial segment, whether it is Tier 3, 4, 5, 6, 7 markets - these are all areas that we are keen to be present in and capitalise on. How do we do that? So we have an air conditioning business, as you know, right from a window unit up to a large centrifugal chiller. While we do end up spending a lot of time on room air conditioners and we talk a little bit too much about that, I think what has emerged in Blue Star is that there's a common theme for all our product categories that we look at when we plan.

So the first is to launch affordable products. So we have high technology products, we have premium products that has been traditionally Blue Star's strength. Over the last three or four years. Really, in COVID and post COVID, we have developed and we've been working hard to develop a capability to also bring affordable products. And this is not just in a three star mini split, right? That's not the only thing - we do this in chillers, we do this in VRF, we do this in ducted, we do this in deep freezers, we do it in cold rooms. And that's how we want to grow. So we will always see Blue Star having high technology products and affordable products, even side by side as we go forward. That's one important way that we can address the entire market.

The second one, again, that cuts across all our product businesses is distribution reach. We know where we are strong, we know where we're weak, and we're working on improving that. Again, this is not just a room air conditioner story. It applies to our commercial air conditioning business, commercial refrigeration business as well.

And finally is the Blue Star brand and making it salient. And again, I'll say it needs to be salient in HSM markets, in Tier 3, 4, 5 markets, not just for room air conditioners, but even for a centrifugal chiller. Because if you believe in India's growth, and if you believe that the growth of India is going to be outside its metros, then you need to build a brand in all your product categories that is relevant to the whole of Bharat, to the whole of India. So that's what we're doing in air conditioning.

In refrigeration, in addition to these affordable products, distribution and the brand, specifically we're looking at two strategies. One is for our deep freezer business, which is a very important business of ours, we want to build scale and we want to widen the range. We are the leader - we think that we can increase our market share much more. We believe that the future of this business is going to be huge because food, food security, food availability, and the per capita income of this country is growing. So if we fast forward ten years from now, we are very confident that this is going to be a large market and we want to dominate it. So that's a big focus for us. The other thing is, in that context, is to add adjacent products. So it's not just about cold rooms and deep freezers. We're building capability and products in retail, in healthcare, in kitchen - these are all new and emerging segments for that business.

And thirdly, as part of building scale is our MEP business. I will say this, that I think we're consistent about this for at least the last seven or eight years. While the order book has grown tremendously in the last year, and we're obviously all excited about it, we continue to focus on profitable growth. Cash flow is the only metric that matters in this business for us. We've been fortunate that we've been able to select projects that meet our cash flow requirements, that meet our profitability requirements, and yet we've been able to deliver the added order book. And it is not the reverse, right? So we're not the type of company that will go and build an order book and then figure out how to make it profitable. That's not Blue Star. We're doing it the other way around.

So in that context, I think we've talked about this in many calls. We are purposely and strategically diversifying the order book away from commercial buildings. So commercial buildings for us are IT parks, hotels, hospitals, retail malls, et cetera. We are purposely going after different segments - infrastructure, data centres, factories. And it is a conscious decision. And again, when I say infrastructure, that's a very broad statement - so we go drill down into railway electrification or into metros, or into water. And what we're doing is we're ensuring that we build a portfolio of projects. So when we reach a maximum limit of what we are comfortable with in a segment, we stop accepting any more business there, and then we look at other segments. So it is a strategy that we have been executing over the last few years, and we will continue to do this as we go forward. Regardless of the segment that we operate in, we are the contractor of choice, and we stand for superior project delivery. We won the MEP Contractor of the Year for seven years in a row in this country, and that's what we continue to do. And very frankly, even if you are a PSU customer who we believe doesn't value quality or doesn't value superior project delivery, we still deliver it. And we believe that whether it is a public sector unit or it is a central government project or it is a developer or it is a manufacturer, everyone in India is looking for superior project delivery, which in our mind is on time and on cost. And that's what we stand for.

Other than our India business, we have, as I mentioned, an ambition to grow into a globally important air conditioning and refrigeration company. This is an important point because we have evaluated in the past, and we have decided not to become a white goods player in India. Many questions come to us on that. We are very clear - we want to be a globally significant air conditioning and refrigeration player. And when we want to be globally significant, we need to be operating outside just India - we realise we need to be operating out beyond even the Middle East. So you saw an entry into the Middle East in 2017 - that business is up to about $100 million in size. You're now seeing subsidiaries being set up in the US and Europe - that will grow into a $100 million business in the near future. That's the direction that we're going in.

We feel, and this is long term, so I don't want to talk about a three year objective or something, but over a 10-15-20 year period, you will see a Blue Star, which is globally present significantly in multiple geographies. Now, it is not what the majority of our competitors are doing in terms of a strategy. We know that, we understand that. There is risk associated with this plan - we understand that as well. There may be a question - there aren't that many successful manufacturing companies from India who have been able to build a successful global business - that is also true. But we believe we can. And we believe we can because we have R&D capability, and we have innovation capability, and we have products that are relevant for those markets - especially in a new world which requires energy efficiency, which requires decarbonisation, which is looking for better solutions than what exists today. So Blue Star stands out in the world, and I say this in the world, as one of the companies that innovates in air conditioning and refrigeration technology. So it will be foolish for us not to go out to these markets and compete. So that's our plan.

And lastly, we have a subsidiary, Blue Star Engineering and Electronics. I know it doesn't quite fit into the entire portfolio, but it is a very important part of our plan. It is a small but highly profitable business. We believe we can scale it. It's about Rs 330 crores in revenue today - we believe that it should cross Rs 1000 crores in revenue in the near future. We believe it will deliver at least Rs 100 crores of profit to the group, and therefore we stay committed to it.

So across these businesses - India, International and E&E - we're fairly confident of growing faster than the market, addressing all the opportunities that exist in AC&R.

Moving on to profitability, I will say this very frankly, profitability is our number one strategic objective. I started by saying we're a low margin business, but that is what we are today. It doesn't mean that's what we want to be in the future. If we measure ourselves against global competitors, our operating margins are lower. I know India is a price sensitive market, no doubt. But there's still opportunity to improve profitability. Nikhil talked about it, maybe in the questions you will have something and we'll address that.

But what we're focused on... One is driving scale. Scale has an objective of operating leverage, right? So operating margin will improve - you saw that in last year as well. In spite of all the challenges we've had in raw material, we've been able to improve EBITDA margin by about half percent. And in FY24 we'll drive another half percent improvement. So it's a journey - so scale will contribute. But beyond scale, we have a very structured total cost management program that runs in the company across all our verticals. Of course, we're doing it sequentially - we can't handle everything at one time. So you will see gross margin improvement in multiple businesses going forward. It's done in a very structured way and we are expecting that to contribute significantly to our profitability targets.

I talked about product innovation - extremely important part of this whole game. So we innovate not just for market access and new markets. We also innovate for profitability improvement. It's built into our R&D, into our supply chain. And we are hoping to leverage that further.

Lastly is indigenisation and backward integration - I think you're more familiar with this. In room air conditioners, in deep freezers, but even in commercial air conditioning - you will see, and I mentioned to you, you'll see a lot more manufacturing capacity being built, plus you will see a lot more backward integration going forward.

On excellence, I say that out of everything, it is our people that make the most difference. Now, everyone says that it's part of management jargon to say that. Honestly, in Blue Star there's nothing more true than this. And again, I think you look at the last six quarters of outperformance - it is because of our people. There's actually nothing else we've done very differently from anyone else. So people are extremely important. We are today and we will always be, and I say we will always be the preferred employer in our industry. And that's very important if we are to build talent, build capability, build scale. So we of course have programs that run in the company for succession planning, talent management, all of that.

We did a survey recently, I think many companies do this Great Place To Work employee survey. It's about a trust index, it's about really gauging how engaged your employees are to your organisation. And we just completed in... we ran it in Jan, Feb of 2023, so this is very recent data. We got a score of 81, which is better than the 69 we got in '16 and better than the 75 we got in '19. I won't go into the details of how this score is created - I think you have to look at the direction. You will see a highly engaged organisation - I know many of you do channel checks, you go out in the market. I think if you do that today, you'll probably get even better response than you did a year ago. And that's a fact, and that's the momentum that we built up as far as our people are concerned.

The other one is innovation and R&D - you would have seen a news article went out a few months ago saying that one of our promoters, our chairman emeritus, Mr. Ashok M Advani, has given a grant of 100 crores to the company with nothing in exchange, no equity, no obligation. It is a no obligation gift given to the company with the objective of strengthening our R&D and innovation. Firstly, I'm a promoter, so therefore it's odd for me to say this, but I'm going to say this because it's a fact. I haven't heard of any other promoter in this country who believes in his company so much to have given money to the company and ask for nothing in return. That's the commitment and conviction that our promoters have to this company and have R&D in this company, more importantly. He's too intelligent a man to have given 100 crores to be put behind something that is not going to give us all returns, right? That's the kind of belief that he has and we have in our innovation and product development. So you will see a lot more innovative products from the company.

Financially, I think you consider us to be a conservative company. You consider us to be an intelligent company when it comes to capital allocation. I know there have been some questions to us in the past about are you really correctly allocating your capital, you have some risky low margin business, do you want to put it there, et cetera. So we take those inputs constantly from you, from other stakeholders - but we've made a plan that we believe has an optimal capital allocation, will be value creation, and that we will follow the financial discipline that we have been for the last decade at least that I've been around. We have an opportunity to improve working capital, no doubt. We've gone through two or three years of very high inventory because of supply chain challenges - those are easing off. So we will see some improvement on working capital. But on the flip side, you'll see a step change in capital investment and therefore we'll have to be prudent about how we allocate this capital and we will be.

Lastly, digital, very important part of our plan. Of course, one is on the cybersecurity front, we did have something come up in the end of Jan, early Feb that we communicated on. We were able to contain that situation extremely well. We're very proud of our IT team for having brought back operations almost immediately. But we continue to invest in protecting the company from cyber threats - so that's one.

But really, the money is going to digitalising all our customer facing operations. Because we see there's a tremendous opportunity to reach our customers directly and to enhance engagement with them, to improve the overall service, delivery experience, all of that. So a lot of money going there. We have a large analytics program running - data analytics program, because you do know that we have products that we can cross sell to our customers. We also are fortunate, unlike other durables, where customers buy more than one of our products - they buy a first air conditioner and a second, and a third and a fourth. So there's tremendous opportunity in analytics.

Finally, our manufacturing plants are extremely modern, not just from machinery and manufacturing process, but from IoT and a digital perspective. And we extract tremendous benefit from that. So you will continue to see big investment on the digital front.

Lastly, on ESG... It's a buzzword. I think you will agree that on governance, we don't need to speak much. We stand for what we do and we'll continue to do that. On the social front, we have a very important CSR program that runs. We have selected certain areas of skilling and health. These are areas that are relevant to us and important to us. So we continue to spend on that and we will continue to do so. In the company, we have a very important objective of gender diversity. We have 9% of our employees are women. We have a near term target, we have a long term target, and we stay committed to that. So that's our social strategy. As far as the environment is concerned, it's a little different, right? We're an air conditioner company, refrigeration company. So technically, we're not good for the environment. But our environmental strategy is in that context. What we've committed to do is to stay ahead of the curve as far as technology is concerned - drive energy efficiency, drive improvement in ozone depletion, drive improvement in global warming potential of our products. And I'm proud to say that we stand neck to neck with the best in the world. So that continues to be our investment on the environmental side. Other than that, we have taken up a net zero mission in the company. I don't have a date to tell you by when we will be net zero, but we have initiated investment on that front, we have initiated work on that front. We will in due course declare a date - I don't have that right now. So that's what we're doing on the environmental front.

So with that, this is my last slide - then we open it up for Q&A. I'll just repeat pretty much what I've said for the last 20 minutes. We continue to be guided by our vision, Credo and the Blue Star Way. It's non-negotiable. We will be a globally competitive AC&R player. I want to make it clear we're not going into washing machines and refrigerators and all of that - it's not for us to do. Profitability improvement is the most important strategic objective for the company and you will see year on year improvement in profitability. We are committed to that and we will drive that. We will continue to have differentiated products that meet the large mass of the market. So differentiated means both in technology and in price points and in cost base - all of that we will work on. We are significantly increasing our commitment to R&D and manufacturing. Again, we may have been asset light, low capital employed in the past. That's not the future - we are investing. We will continue to attract and retain the best talent, I told you, in the industry and perhaps beyond. And really we stand for strengthening our balance sheet and giving returns to our shareholders and our stakeholders that they hold us accountable for. We will continue to stay focused on sustainability - it’s very important to us given what our products do to the environment. So that is, in a nutshell, what Blue Star is going to do over the next few years.

So with that, I close with, we have our tagline, which is built on trust. That is what we stand for and I hope that it comes across in all our interactions today and in the future.

Mr B Thiagarajan:

Thank you Vir, thank you Nikhil.

We now open it up for questions. There are volunteers with the mics. These proceedings are being recorded, so if you can just say your name and firm from which you're representing...

Q&A 1:

Hi. This is Atul Mehra from Motilal Oswal Asset Management. Firstly, congratulations to the entire management team for the very good performance. A couple of questions…

One is on the room AC business - while the performance has been very good so far, given how the competitive environment is, how do you forecast, like you mentioned about the three year strategy plan. So in an environment where the industry gets even more competitive versus what it is today, how would you try to balance growth and profitability? And what are your market share aspirations from a three year perspective as you build the three year strategy plan?

Mr B Thiagarajan:

Thank you. The market size today - it's a year in which it crossed 8 million units. We expect this market will continue to grow, the penetration will improve. Our estimate of penetration is somewhere between 7-8%. This financial year, that is FY24, we expect it to cross 10 million units in terms of numbers. The market according to me, according to Shashi Arora's estimate, and the industry estimate as a whole, within three years it has the potential to double. It can become 20 million units, for multiple reasons.

And our own market share goal is 15% by FY25. And we estimate our market share, both the residential segment and institutional segment put together, should be today around 13.5%. In volume terms we will be marginally higher than 10%, in value terms we will be at 13.5%. We crossed eight lakh units, next year our plan is to cross that magic number of 1 million units.

Coming to competition, it will be intense for multiple reasons. I talked about this subject in a number of interviews. This is one category which is growing compared with other white goods or consumer electronic products. We have, on the top of it, manufacturing capacity or the indigenisation, that is localisation, that is taking place, and the PLI scheme... manufacturing capacity is also doubling.

Third, the power consumption has substantially come down thanks to the energy labelling program. So therefore this product is no longer seen as there is a recurring cost. If you look at 15 years ago when AC categories talked about as... look, it is not the initial cost, it is a running cost... but from 2000 to now, it is consuming only 20% of the electricity that it consumed. Of course there is inflation in the electricity bills, as is the case in other categories, but it is no longer seen as the running cost is a deterrent.

Next is the room air conditioners are not just one per home - there will be multiple. And we are beginning to see - so far more than 90% was first time buyers - you are beginning to see the second air conditioner being bought.

Last point is connected with the finance that is being utilised. The consumers are... our Indian market is becoming a consuming economy where people are trying to use their credit cards or consumer finance scheme. Last year we have touched 40% of the sales coming through the consumer finance scheme. And our estimate is it will be touching 45-50% this year.

Everything put together, the last point which again I had talked about in the past, what is going to happen is that PLI money which will be coming in will eventually be translating into people using it to improve their sales because X-axis is the investment threshold, Y-axis is the incremental sale. The PLI will not be paid for production, it will be paid for selling more. So on one end you have localised it, so that gives you some benefit. Second part is you are building scale and third part is my own estimate or the company's view is this money also will be making the product cheaper. It will get diluted in the market.

So, like it had happened in many other categories, we think the golden period for air conditioners is around. Everybody will try to utilise their capacity - therefore, competition will be intense. We can't shy away from that. So what we explained as our strategy that differentiated product, expansion of the distribution footprint, the brand salience, specifically making our brand relevant for markets where you are weak - in our case it is the Hindi speaking markets. In our case it is to build our brand for the new generation consumers. So you are seeing that already happening.

Q&A 1:

Thank you very much. So, just one other question on the R&D part. The grant obviously is a great gesture by the promoters. If you could give some context - in the absence of this grant, are the things like would we have continued to do R&D the way we would have done? And because of this grant, is there something that we will do which we would not have otherwise?

And similarly, just one connected question more on the finance side with R&D is all this will be it will not make any impact on the P&L, right? Because you've received the money without any consideration in terms of quid pro quo. So the expensing of this R&D will not have any P&L impact, right?

Mr B Thiagarajan:

I will answer one part. If I miss anything, Vir will step in. So, first of all, if you are talking about room air conditioners, okay, so there is a room air conditioner, there are commercial air conditioning, commercial refrigeration. This figure I have disclosed, so you can very well note down if you want, the R&D expenses for the room air conditioners - FY23 was Rs 26 crores and we are planning to invest Rs 30 crores in FY24.

And advertising expenses for the above the line, below the line put together was Rs 61 crores in FY23, and we are planning to spend Rs 73 crores - that you're seeing with IPL, we have started. So that is the investment that we have planned.

Now, distribution network, we were at 8000 touch points - we are moving to 10,000 touch points this year.

Now Blue Star, in my view… in a way, the multinationals do have their global R&D supporting them. In our case, we have international collaborations and we will be the largest setup in terms of R&D - we continue to spend. Now, your question is connected with how this incremental money will be utilised. Normally, what happens in R&D? You are doing R&D for 18-month period, 24-month period, three-year period, and depending on the product portfolio that is required, we will prioritize the projects.

This money, to begin with, is going to help us to advance quite a bit of the projects which would have happened in FY25 or 26 - we can fast track that. That is the first part of it. So that your existing resources can actually focus on quite a few other things which we talked about. We have to make the products competitive. We have to focus on the TCM initially, because you have a goal to improve the market share in a country where it is price sensitive and there is intense competition. So there is a strategic R&D effort to go ahead and ensure that you are ready for the future. So that is where this money will be utilised. Anything else you want to add?

Mr Vir Advani:

I'll just add to that. Just to be clear, again, Mr Advani has given it with the clear instruction that this will only be for additional R&D work. Additional work that we had not already planned, and the additional work has a further criterion that it must contribute to either a brand new product category for the company, or must contribute to a high efficiency objective or must lead to decarbonisation of our product.

So there are both technical as well as financial criteria that he has self-imposed on the company. Otherwise it's his own tax paid money he's given as a gift to the company. So he could have easily just given it and left it at that. But he's obviously taken a deep interest in ensuring that the money is utilised correctly for additional benefits to the company - it is not a gift to subsidise the existing R&D expense of the company that is anyway planned.

That's one clarification. The other is as far as the P&L is concerned, this will be P&L neutral. It will neither add to the P&L of the company nor will it reduce our cost in any way. So any plans that we have made, this is not accretive or dilutive to the financial plan.

Mr B Thiagarajan:

And by the way, I think last night somebody called me. The profits have gone up, so they are trying to figure out whether anything else have come in. So Mr Ashok Advani's grant is not the reason for profit going up. In no year it will go up, and in FY23 results, there is nothing there.

Yes, please...

Q&A 2:

Hi sir - my name is Dhananjay Bagrodia from ESK. Just a couple of questions I wanted to ask you. Let's say by end of FY25 across our segments, what would capacities be looking like? What capacities would we be seeing by end of FY25 and how much would capex be for those?

Mr B Thiagarajan:

Nikhil, do you want to take that up?

Mr Nikhil Sohoni:

So on an annual basis, we'll be having a capex of around Rs 250 to Rs 300 crores. So that is what we expect to have consistently for the next two years. And the capacities of course will be... what we are going to do is the capacities will be built in a modular manner. So the overall spend will be in line with whatever is the requirement at the moment at Sri City we are expecting to go from 300,000 to 600,000 and similarly on the other plants also we'll see the need and then we'll invest in the capex.

Q&A 2:

So roughly what would be effective capacity by FY25 for each for RAC and ...?

Mr B Thiagarajan:

So I'll answer the room air conditioners part. We manufacture six lakh units in the Himachal plant - so both the plants produced six lakh units and that we believe is the maximum capacity - some 2-3% more it may produce. Sri City is designed for 1.2 million units, and what Nikhil explained was what is commissioned or commercial production by January is three lakh units. So it is in modules of three-three-three - three will become six, six will become nine, nine will become twelve. Next year, I mentioned to you our goal is to for example we want to do 1 million units. Six lakh will come from Himachal plants, three lakh is going to come from Sri City, one lakh is outsourced products which is predominantly window air conditioners. That is the breakup.

Now, you know, in FY25 I will need 20% more. Therefore we will commence that part of it - here again the building is done, it is the lines that are to be done. So it is all planned and modular, and we believe by FY25 we will need that additional capacity.

Q&A 2:

Secondly on your HVAC strategy in North America and Europe - anything you could shed light on that?

Mr Vir Advani:

So it's a little early - we just set up the subsidiaries there. We've got a sales team on the ground. Products are being designed and developed for those markets. These are essentially commercial air conditioning products for the B2B market, not consumer products. So I think it's still early.

FY24 also will be relatively... we will get some business off the ground. So zero business done in FY23, some business will start in FY24. I think we'll have a better idea by the end of this year to share with you outlook for those geographies.

As far as the Middle East is concerned, I mentioned to you that we've reached about $100 million in business. To be clear, our strategy in the Middle East and Africa is product export. That is product designed and developed in India, manufactured here and then sold through dealers, distributors in these countries. We have a small projects presence in Qatar, not big and not planned to be scaled up. It's a niche business we have there. So even going forward, as we grow this $100 million business in the Middle East, it'll be all product related exports that we'll be doing.

Q&A 2:

And sir last question, if I could squeeze in. We've always been speaking about the industry consolidating number of players. But what we've been seeing now is that number of players actually has been increasing as the more fringe players have started coming in, maybe retailers and stuff. Would you see that trend continue, the industry fragmenting three years later? Or would you see a lot of these smaller players keep reducing?

Mr B Thiagarajan:

I do not think any new player has come in. Somebody is becoming active some year and that's about all. In a category that is going to grow, and I told you it is going to double - I do not foresee anybody else new coming in.

Q&A 2:

Like Croma, Flipkart have also started producing...

Mr B Thiagarajan:

Private labelling across the country, across the globe - it is not a big thing at all. It'll be there - so it will all add to the growth. So real significant players, I think 5-6 will continue to be there. And automobile, look at it, how many players are there? This is a category which is going to double. And on the lighter side, I keep pointing out how so many fund managers and how many analyst firms, how many brokers are there?

Q&A 2:

True, true. Thank you.

Q&A 3:

Thanks for the opportunity. Nikunj Mehta from HSBC MF. I have three questions.

So first, on the room AC side. So when we look at how the industry is kind of shaping up, a lot of manufacturing is now going to happen in-house - across peers for us as well. So purely from a cost structure perspective, if I go five years back when a lot of things were getting imported and getting assembled and sold in India, how will be the ones with the PLI benefit? How will the cost structure change for the industry per se? And for us, that's question number one.

And second question is we speak a lot on the product differentiation part, but when we see the market right, so the players who have become aggressive, it's purely more on the price points that the people are playing. So when we talk about the product differentiation, where exactly are we positioning ourselves versus the competition? So these are two questions on the room AC side.

Mr B Thiagarajan:

So the first part is till FY19, the estimate is close to around 60% of the air conditioners were getting imported in some form or other. Somebody was importing the IDU part, somebody was fully importing. The reason being China is the cheapest producer of this product category because their domestic market is estimated at 18 million and you got their exports all added together, they will cross 110 million. And India, you are seeing 8 million it has crossed next year is expected to cross 10 million. So it is a huge difference. They are a very competitive producer that was available and rightly the manufacturers, the players in India, imported and sold.

Government identified a few categories - their formula at that point of time was whenever the threshold of Rs 10,000 crore or more import is happening in a particular category, because they can track it, they have to do something. You know that there is leather, shoes, furniture, and air conditioners got included in that.

And at that point of time, there were two things that were happening. There was one connected with Phased Manufacturing Program or PMP, where the duties will keep going up. Second part was connected with the PLI scheme. I will give you PLI and therefore you can start producing in India. Shashi can step in and add... At that point of time there is a free trade agreement with some countries in the Far East through which the product can come in at zero duty. So you are increasing for the components. You are saying PLI will come, but what happens? Zero duty products can come in, so therefore they can't go back on FTA. But they introduced a rule that any product that is coming with the refrigerant filled will not be allowed. So therefore you don't have any other choice - you have to get an IDU or a ODU. In the FTA, IDU/ODU had a full duty - it is not under zero duty. So therefore they blocked that import or made the imports costlier.

Now today, if you compare, there are two, three problems. One is there is a duty that has gone up. Two, you cannot get the air conditioner readymade - you have to take it to your factory. You will import and take it to a factory and redo that. The third is the ocean freight has gone up. If you benchmark against December 2019, it is almost 300% more. And Chinese prices are no longer cheaper - Chinese price also has gone up. Then government introduced the non-tariff barrier, which is a quality control order, where unless and until the BIS goes and inspects that factory or their component vendors' factory, they won't. So there is in a manner of speaking, you will never be able to survive by importing. It is a level playing field.

Now, unfortunately, India cannot avoid importing components - inner grooved copper wire, copper tubes - it has to be imported. India, there is one manufacturer trying to do that under PLI. Compressors - one manufacturer has come in and it should step up - you have to depend on them. Chips, anyway, it has to be imported.

So in this particular context, whether India can be as competitive as China? No. Whether Blue Star has a disadvantage against competitors? I don't think so. We have figured out what we need to do. All that I have to worry is whether there is a level playing field or not. I am not having anybody who is importing and selling, I'm not worried that it will never be competitive. I hope that answers your question. Shashi, if you want to add anything...

Q&A 3:

That's helpful. And second was on the product differentiation part - with the competition, I mean, resorting only to the pricing front. So, how are we looking at it?

Mr B Thiagarajan:

I am of the view that we can... Shashi will tell you, there are under five buckets, products, differentiated offerings are there. He will tell you just now, but the direction is very clear that I should have a product for all price points, point number one. Point number two, I should have a product meant for all expectations in the market. Okay. Price is going to be a factor - in this product, large demand is from first time buyers, large demand is from Tier 3, 4, 5 towns. Quite a few factors are now - energy labelling determines the energy efficiency, you can't differentiate. Ozone depletion or the global warming norms are fixed - you can't differentiate on that. Very little room is there. Our direction is every price point have a product, don't ignore any channel, including ecommerce. Go ahead and serve the customers according to their expectations, which he will explain to you.

Mr Shashi Arora:

So, to your first question, to note is that PLI is not on finished goods, it's on components. To that extent, there are a lot of players who are jumping into component manufacturing in India. So therefore, as the ecosystem develops within India, we will also gain from it as components get locally available. And therefore, by some expectation, slightly more competitive in cost compared to when they were being imported. So, that's the first part.

The second part is that if you go back a couple of years ago, we were largely playing in the premium segment. Today, and it was covered in the presentation as well, we are now playing in the belly of the market. We are playing in the affordable segment. And we are ensuring that any product segmentation that happens in room AC - whether heavy duty, whether smart ACs, whether price competitive ACs - we are there in the full range. So, starting from windows to all three star, five star, going up all the way to two, two and a half tons, we ensure that we are there in all segments and therefore maintain product competitiveness and price competitiveness.

Q&A 3:

Sure. That's helpful. Thank you.

Q&A 4:

Hello, sir. This is Ravi from Avendus Spark. Congrats on a good set of numbers.

My first question is with respect to the split in the cooling products business between room air conditioners and the other products, what is the ratio over there? And in terms of... my second question is with respect to the profitability of both the Projects business and the Cooling Products business - how much more levers are there for the profitability to improve?

Mr B Thiagarajan:

See, first of all, Vir mentioned that scale is an important lever. So you have to keep growing faster than the market. Number one. So you asked about the projects business also, I think. How the profitability will improve, Venkat will answer - what we are doing in terms of the portfolio wise, how we are spreading in order to improve the profitability. In products, under the Total Cost Management program, we are very clear that the products are to be designed in terms of design for value. And if there is somebody who can create a product at X Rupees, Blue Star should be able to also produce at X Rupees. This capability was not there with us three or four years ago. Over the period, now we are confident. If on this earth if somebody can produce a product at a particular price, we will figure out a way, design the product and deliver that. That's where we are.

Now, specifically, I know this is leading to room air conditioners again. If it is connected with room air conditioners, the Sri City plant of Blue Star Climatech itself gives us some edge in terms of inbound as well as outbound logistics. Earlier the components were coming into Mumbai and Nhava Sheva port, and all the way it was going to Himachal. Sri City can get from any of the ports - Ennore Port or the Krishnapatnam Port or the Chennai Port. The outbound you know, southern region will constitute over 45% of the All India sales. We can reach any of the markets - whether it is Kerala, Karnataka, Tamil Nadu, or Telangana, Andhra Pradesh, Pondicherry - within 24 hours. Earlier we have to transport all the way - one is the transportation cost from Himachal, next is the inventory holding period. So that gives us, apart from design for value, as the scale goes up, you get the procurement and Shashi mentioned the local component system is evolving and again for them to earn the PLI they have to sell more. So obviously there is competition out there. So this is the broad thing.

Venkat, do you want to add in terms of projects?

Mr P V Rao:

On the projects business we have a slightly different strategy. We used to be predominantly a commercial buildings MEP player till about 4-5 years back. So the first lever is to basically build a diversified projects portfolio. So that's what we have done in the last 4-5 years.

Today the commercial buildings portfolio is about roughly one third, which used to be about 80%. And we now have significant presence in the factories and data centres which are really emerging. And we choose carefully the projects in terms of due diligence, in terms of better cash flows, and also the fast-track projects, et cetera. And we are also a significant player in the infrastructure projects. So this is the first part.

The other thing is, important lever is, better contracts management. So we have strengthened there - we ran a program internally, we call it as Business Process Restructuring Program. Internally we named it as Project Tiger Woods and we have strengthened our commercial controls and the contracts management.

Third important lever is the procurement effectiveness. The scale also gives us the procurement to … better procurement player in the market. So that gives us some more leverage. So this is how we are able to... we are hopeful that the profitability will further improve going forward.

Mr B Thiagarajan:

Again, in commercial refrigeration, the market for lower capacities are going up - because it is an ice cream and frozen food driven market. As the players want to grow their market share - ice cream manufacturers - the retailers are coming up in smaller towns. and these are not 500, 400 deep freezers - it is 300 and below.

There again, profitability improvement and what we are intend to do, Srinivas Reddy will explain to you.

Mr Srinivas Reddy:

We made the first leg of investment to manufacture indigenised capacities above 300 litres. We are now investing, in sub-300 litres as Mr. Thiagarajan explained. We expect this particular line to go online in the next six to seven months, and we expect the demand to boom for this category in the next decade to come in.

Mr B Thiagarajan:

Thank you. Some of the products recently launched are displayed outside, I would request you to have a look at that as well.

Q&A 4:

Swati Jhunjunwala from BoB Capital. So, first question is on the internationalisation. As we increase our exposure to the international market, our working capital cycle is expected to increase, right? So how do we expect to tackle that?

And a second question is on the RAC. So one of the competitors recently mentioned that many of the players in this market have been giving discounts during the April period and they are banking on when these discounts eventually do come, like they evacuate. After that, they will increase their market share again. So, what are your thoughts on that? These are the two questions.

Mr B Thiagarajan:

The second part I will answer. First part Vir will...

Mr Vir Advani:

So on the internationalisation, you asked whether working capital will go up. So this is a product export business. Of course there will be credit terms that will be given, but these are all LC backed transactions. So yes, there is some credit terms there, but equally, we will have back to back understanding with our vendors on the payable side as well. So, while there'll be some increase in working capital, I don't think the Capital turns in that business are going to be significantly different from our segment one capital turns, for example. This will not be a cash business like room air conditioners, but I would say they'll be in line with segment one turns, the product side of it. So I won't worry about that.

The investment in that business is more in R&D, in labs, in infrastructure to design and build products for those markets, and of course in manufacturing capacity, because already we're seeing increase in India business that we've talked about. So this will be additional capital investment that we have to take into account for these markets. So that is what we built into the plan.

Mr B Thiagarajan:

The second part is connected with discounts, right? Can you repeat that? Second part is connected with discounts.

Q&A 4:

So the second part is related to the RAC market. So the competitors have mentioned that many of the players have given a lot of discounts during the April period. And they have said that when this settles down and when everybody come back to the higher prices is when they expect to increase the market share back. So what are your thoughts on that?

Mr B Thiagarajan:

They will keep giving discounts. Throughout the year, all of them give discounts. So there is nothing you can do about it - we don't have any control. The question is that we should be able to compete, correct? And your question is that how will we improve the margin as well as market share. Broadly?

It is indeed a tough game. There is no doubt about it at all. But we are very clear that our market share goal is modest. The market will grow - there is no doubt about it that you need not suspect at all. You can suspect whether we will become 15% - we have to demonstrate to you we will become. And we are very clear that our guidelines had remained for many years, if you look at it - we will do 9-9.5%. We have moderated it down from I think the H2 call onwards. We had said that it should be 8-8.5%. So that difference what you are saying, some point of a time, and I had stated this that we have to manage this because the capacity is coming up and the competition will be intense. And I indicated to you eventually the PLI money is not going to get added to the bottom line. It will get diluted. But the end benefit will be good because the scale and the capacity that you have created, your localisation that has happened. So that's the reason we are not committing to you that it will be 9.5% to 10% operating margin. Still we will go keeping in mind the competition.

And there will be seasons like this - for example in Delhi, some brand can get desperate to go ahead and reduce the prices. But Blue Star doesn't play that game at all. We are very clear, and if you ask me at the end of it whether I have to choose one market share and the profitability, we will choose profitability if we have to. But we are confident like it has happened in the past. From 2011 this has been the doubt will we succeed? Will we succeed? When inverter came the same question inverter has come will you? And now PLI scheme has come will you? This competitor has come... It is good that they are there. And on the whole, I think the ecosystem is going to dramatically change. And if we keep this kind of scale and growth and you have a say in the market and we are a distinctly preferred brand there in quite a few markets.

Q&A 5:

Meanwhile, if I can go ahead?

Mr B Thiagarajan:

Please go ahead. I think there are multiple - so you, then here this gentleman... So you go ahead.

Q&A 5:

Bhumika from DAM Capital. So, just wanted to talk about the projects business. We've seen a very significant order intake in this year. How are you seeing that moving ahead? And if I see the exit margins, they've actually jumped up quite a bit, almost around close to an 8% kind of a margin. Traditionally we've hovered around a 4-5% kind of a margin profile. So can this perhaps now start moving up to a 6, 7, 8% kind of a margin profile? Or you think this is more of a quarterly aberration?

Mr B Thiagarajan:

Mr. Venkat Rao will add... First of all, when you see the Segment 1, there is a project part of it and there is a products part of it. And at this juncture, it is the products as well as the projects - both are doing well and the proportion of the products had significantly gone up. And Venkat can explain to you how he sees margins moving forward.

Mr P V Rao:

On the projects part, I'll explain. With the diversified project portfolio we are able to build in the last 4-5 years, at a gross margin level, we are able to improve close to about two and a half percent. So that is translating to at least a couple of percentage at the EBITDA level. So, moving forward, the last question, which I explained with the levers which we are addressing the projects business, we are hopeful that at a gross margin level, perhaps we will be able to move it up by about another one to one and a half percent. So to that extent, EBITDA also will improve. That's about the projects business.

Q&A 6:

Sorry, just one question on the international business, I know we spoke about it. We are looking to focus a lot more on international markets in the longer term. Here, will we be looking at branding and creating our own distribution, brand, et cetera, in the international markets? Or will we be actually looking at white labelling? That's it from my side.

Mr Vir Advani:

We're just defining our strategy in these new markets. In the Middle East, you know, it is building the brand. In North America and Europe, we're in the process of designing and developing products. There, commercial air conditioning is B2B, where we are prioritizing our work. As we go through this year, we'll figure out the most sensible way to enter each of these markets. We may have multiple sort of marketing strategies to do so.

We are aware of the high cost of building a brand in some of these markets. So we'll be selective about where we build the brand and where we partner with others. So little early, I think by the end of this year we'll be a little bit more clear and we'd be happy to share more as we go forward.

Mr B Thiagarajan:

There was a question before the conference commenced with regard to whether the room AC capacity expansion is for the international market. As of now, it is not so. We do not have any plans to get into export of room air conditioners to Europe or US immediately at all. The priority, as we mentioned, is for the commercial air conditioning products.

Q&A 7:

Hello, sir. Thank you for the opportunity and congratulations on a great set of numbers. I am Lovish Soien from Dalmus Capital. I have just a couple of questions.

So you had mentioned about backward integration at your Sri City plant. So I wanted to understand what is the current level of backward integration today and how is it expected to go forward? What are the components that you are producing in house and what are the components you are getting from outside?

So, that is one and also we have heard from some places that there is a labour problem at the Sri City region, due to which some of your competitors and other manufacturers are not able to get labour properly for their operations. So what is your experience regarding that and how do you plan to expand your facilities as you increase capacity? Thank you.

Mr B Thiagarajan:

the very first thing is connected with finished goods - what we are outsourcing. Other than window air conditioners, we do not outsource anything at all. And the second part is, in terms of indoor units, it's very few SKUs which we are at present dependent like cassette air conditioners IDU, which you see, which also in the next six months we should have launched it. This will be the last season where we will depend on. So I'm telling you what we are dependent on. Rest of it all we are doing ourselves.

And as far as compressors are concerned, we do not have any plans to manufacture compressors. The Indian ecosystem is improving there, and that is a prudent way to do that as well, because that particular part you cannot manufacture at that cost at all. And as far as drives, which is the other major component, is concerned, we had done our own exercise. We hold the IP and are getting it manufactured through others. That's what is important, because they are manufacturing huge number of electronics and therefore they can make it. IP is ours, so the drives design we have developed and we will get it manufactured outside.

Otherwise, raw materials only we import. Everything else is in house there. In other words, the complete sheet metal and powder coating assembly is inside. Now you can ask the last part whether we are doing injection moulding. Injection moulding, again, our calculation shows mould we own, but we get it manufactured or moulded by the moulders. That is the most cost effective way. Otherwise, it is a completely integrated plant.

Q&A 7:

So the second question was regarding labour problems that we have heard at Sri City.

Mr B Thiagarajan:

Okay, so any of the locations in India, first time when you are manufacturing this problem will be there. Sri City ... so far, if you look at north was the hub, right - it was Noida or the NCR region that had the room air conditioning manufacturing facility. And when we went to Himachal, we created that ecosystem of workers, training them. So we are the first one to commission the factory there - during the course of the years, others will come in and therefore you have to recruit people and train. So there is no shortage of labour. Whether trained workers are readily available, this is a question.

And when Sri City is becoming a hub, a major hub, because Sri City's combined capacity will be larger than what is available in Delhi. So there will be this effort that has to go on. Especially when you are getting started, you rush for. Now, labour problem - when you say labour problem means it is union - there is no such trouble. It is shortage of manpower for room air conditioner manufacturing. It is expected one should have planned for that, and we have so far done it.

Kasbekar, you want to add whether you have any problems? He is Blue Star Climatech’s CEO.

Mr D V Kasbekar:

As on date, we have not experienced any labour trouble or shortage of labour. In fact, I want to tell you that more than 50% of our labour is gender diversity - female operators are working and abundant supply of labour is there. The issue is how do we train them and uplift their skills quickly. So we have a training school wherein we expose the operators to the required skills and uplift their skills. That's the issue. I don't see any labour shortage or union trouble there in Sri City, as such. We have not faced that kind of issue. I hope I have answered your question.

Mr Vir Advani:

Thiag, I'll just come in. I understood someone asked a question about whether working capital related to the international business is going to be a concern. Now, Nikhil explained to me what the doubt may be. So I'll clarify.

We don't hold any inventory in the field. It is all sold to a dealer or distributor and it is picked up from the Indian port. So we neither hold inventory in the factory or in any warehouse or in India or any warehouse overseas. So what that means is that it's a standard receivable. It's an LC, but obviously there's a period given - it could be 30 days, 45 days, 60 days. So it is to that limited extent that working capital will go up. But there's no build-up of inventory in our books of any kind anywhere either in India or overseas. I think that clarifies it.

Q&A 7:

Just on the distribution channel. So the modern retailers like all the Vijay Sales, Reliance Digital, Aditya Vision, Bajaj Electronics - so they are getting bigger in terms of the franchises. So over the next 3-4 years, how do you see the distribution channel evolving?

I mean these modern retailers, will they have a higher bargaining power in placing the brands and second on the ecommerce channel, how do you see that transitioning over the next 3-4 years and what is the strategy for that?

Mr B Thiagarajan:

Our understanding is as follows. Unlike many other countries, here everything is going to coexist. You will have the normal standalone retail chains, there are regional retail chains, and there are modern retailers or the power retailers all India. And there are distributors distributing like it extensively happens in the north and there is going to be ecommerce, and soon you will have ONDC as another game changing channel.

All of them have to compete with each other. I don't think you will be able to determine - and this is the dilemma of the modern retailers as well - that how they will grow, how the others will grow. Equally, you are finding the distributors are being, in a manner of speaking, taken over by larger ecommerce platforms in the sense that the sub-dealers, the ecommerce channels are able to serve directly. So this is going to be an evolving thing.

That is why I mentioned earlier, our strategy is very clear that we would like to maintain our share across all the channels. Each one has got some plus point, each one has got some minus point. But coming specifically to the modern retail and their behaviour is more or less like - by behaviour, I mean the purchasing behaviour - is more or less like ecommerce. Because they are buying large quantity and they will pay you upfront - there is no problem in terms of collections or something like that. Their bargaining power is high and it is a play of what product portfolio you have got, what brand salience you are able to create and the pull, and then the channel’s own preference and the relationship.

And again, out of all the product categories of ours, this is the one which is with high seasonality as well. Next one will be the refrigeration product. So season to season it changes. If you ask us to guess what can happen, the modern retail plus ecommerce put together can be 60% of the total market in three years' time. Very likely because there is also both in... Shashi can correct me - he has seen quite a few new regional chains emerging because they are acquiring. Even in a place like Varanasi the smaller dealers are acquired to form. And we have seen in south a different model that for purchasing alone they come as a consortium that also we are seeing. It is going to be evolving. ONDC, we have to wait and watch what is going to happen there.

And ecommerce alone, if you look at it in FY23 they had de-grown. FY22 they had grown and it is somewhere around 15% of the total sales is happening there. FY24 we believe that it could be 20% and it can go up to 25% in 2-3 years' time. And again they have to wait what is going to happen in the ONDC world.

The gentleman there...

Q&A 8:

Hi sir, this is Girish. You partly answered the question. I wanted to understand for Room AC growth across channels, how that is coming through. You said ecommerce is degrowing. The rest - modern retail and general trade, how they would have done in FY23.

Mr Shashi Arora:

So the question is largely in some senses related to the earlier question. So two parts here. One is that India is a country, like Mr. Thiagrajan very well expressed, where all channels will continue to coexist. So we don't see modern retail or regional retail or ecom or distributor or indeed sales and service dealers SSD channel becoming overdominant. So as long as none of these channels become overdominant, and as long as we are not over dependent on any particular channel, I think we'll maintain both growth and profitability. So that is the way we operate. For example, SSD channel is a very strong channel for us and therefore we continue to play to each channel strength such that it works in our favour from a growth and a profitability perspective.

Q&A 9:

Hello. Thank you sir. I'm Yash Varma. So my question is on the MEP part. What are the steps that we have in place within the organisation which make sure that the cash flow profile, the cash flow focus which was mentioned in the PPT will not be compromised for the sake of order inflow growth or revenue growth?

Also, if you can list us with, let's say if any metrics do you have in mind, qualitative or quantitative, that minimum threshold margin or RoC which we have in place when we are bidding, and typically what are the qualities of the project where Blue Star will never participate?

Mr B Thiagarajan:

That will be a highly... last line will be a very highly classified information. I can't tell you in this sector I won't pick up the order, or anything like that.

So the direction is very clear - that (a) we want to go faster than the market, build scale which Vir had mentioned. The second, our guidelines remain the same as we had given on 31st January in the sense that 8 to 8.5% operating margin we will aim in room air conditioners or the unitary product segment. And in projects we are saying... we used to be saying something like 6 to 6.5%. 6.5% to 7% is the goal that we have got - some quarter it may be 7.5, some quarter you saw it as 8%. But I think that is what we will aim in terms of the margin. Now, you have seen the ROCE, which is talked about. This is the ROCE direction and that's how we will move forward.

Q&A 9:

Sure. Thank you.

Q&A 10:

Just one follow up. In terms of a strategic choice, you are very clear that white goods is something we will not enter. So can you walk us through your thought process of why? Because you have a distribution, you have a brand and the opportunity is there.

So why the strategic choice of not looking at white goods? And is it like for now, or maybe we will never enter? Maybe three year down the line or five year down the line. Thanks.

Mr B Thiagarajan:

Our employees also ask the same question. So the question is you have to make a choice. Look, already you're all asking what capital will be required and so you need money for everything. And now if we get into refrigerators, 90% of the questions will be on refrigerators now, like room air conditioners, now it is happening.

So we did debate, we debated a couple of years ago in an extensive research. Dipankar is the person who led that exercise, along with our CFO and other presidents. We did evaluate refrigerators, we evaluated washing machines, we evaluated small appliances, because many small appliances companies are generating hell a lot of cash and you are all part of it.

Many of you are here that when we entered water purifiers, you all asked the question why are we entering now? It happens at the board level also that if you don't enter, you're asking why you're not entering. If you enter, why did you enter? So that's the whole problem. Now, after evaluating the Blue Star's financial goals, like we should get above 30% ROCE and we should improve our profitability. We want to manage our balance sheet well, keep the borrowings under control.

In this particular context, we came to the conclusion it is desirable for Blue Star to build global leadership in air conditioning and refrigeration, rather than getting into growing our categories in India. Very clear direction. Now, when you are saying refrigeration, why not get into refrigerators, was the last part of that discussion. It is only an addition. So we said no, the penetration levels and the different type of competencies that are required, and the capex that will be required - we said what makes sense for Blue Star is to go ahead and build our leadership across the globe. That's the direction.

And to begin with again, we decided that it will be through commercial air conditioning products, not through projects, not through room air conditioners. Room air conditioners, we will look at it after we have succeeded because we do have enviable IP. If you look at the VRF, we have the capability, and inverter drives - we have built the global competence in that particular category. So it gives us the confidence that we have high degree of success. Still it is a work in progress in that strategy, rather than getting into the ever-tempting refrigerator and washing machine business.

And you know there the brand building, most importantly, it is not room air conditioner salience will get me that - I have to again invest as a leader, which we learned in water purifiers that people didn't buy Blue Star water purifiers readily or even the dealers - you have to invest money to promote that.

Mr Vir Advani:

So Thiag, just to add on... What he said, one is about choice - so we had to make a choice. We could leverage the distribution we had in room air conditioners or we could leverage the technology we had in commercial air conditioning. These are the two standout capabilities that the organization has.

We evaluated therefore leverage distribution into other categories versus leveraging technology for other markets. And we felt that... and we had to choose. We couldn't do both because we have a resource constraint both financial and non-financial where we don't want to try and do both and fail. In our own analysis, the leveraging the technology for global markets seemed to be more attractive than the other one. It's not to say that the other one is bad or whatever, but for Blue Star we thought that there was a higher return on incremental invested capital going down this path as against the other path.

So that's why we did it. It was a financial decision and we'll see whether we are right or wrong. But we think we're on the right path. Because we've done this, will we never do something else? The answer is absolutely not. We're only 80 years old, we'll be here for another 80 years. So certainly we will keep exploring things in the future. So we don't have a timeline that we're saying for the next three years we won't do something or something. It's not like that. We continue to scan the market for opportunities and if at some point we feel that our distribution strength needs to be leveraged with other products, we will revisit that plan.

Q&A 11:

This is Nikunj Gala from Sundaram Mutual Fund. I have one question to the CFO.

The unallocable expenses last year were approximately Rs 90 crores which has increased to Rs 170+ crores. So what are the major line items here to understand the nature of the expenses better here and if you can help us, which are the items where increase was higher than the earlier year?

Mr Nikhil Sohoni:

What you have to look at is this is probably the first full year of operation after last few years getting dented every quarter. Last year there was one quarter in which there was a dent because of COVID. So this year was the full first year of operations, which means that everything, including travel, transport, freight, everything comes back to the normal level.

At the unallocated level, what happens is that there are common expenses which are there in terms of common staff and everything for which the increments also happen. So all of that has taken place. There have been conferences which we do at a company level which also started last year. So all of that has resulted in the expenses coming back to where they were earlier. So to that extent, unallocated expenses have gone up.

Q&A 11:

If you look at even the pre-COVID time, it was hovering in the range of Rs 90 crores which has increased.

Mr Nikhil Sohoni:

You have to see the scale also. The scale has gone up, the total employees in the company has also gone up. So to that extent, the staffing which is required at the corporate level will also go up. So the unallocable expenses are basically at a group level which are required to support the group.

Q&A 11:

But any breakdown you can help us with, out of Rs 170 crores, how much would be the corporate overhead versus any other line item which you have included here? Or whether the ANP at a group level is a part of that? Or it's allocated to each and every…

Mr Nikhil Sohoni:

Costs allocable to every business to the extent possible identified are all - like for example, advertising, it is debited fully to the businesses. And freight or forwarding or anything, it is purely corporate expenses. And if it is a company, why the exercise that has been taken? For example, some consultant was engaged for some program that may be in the... there again, we break our head to distribute to the extent possible.

Q&A 11:

Sure. Thank you.

Q&A 12:

Hi, sir. This is Ashish Jain from Macquarie. Sir, you spoke about 20% revenue CAGR at the company level in the next, say, two to three years. Can you break it down by business for each segment, especially given for room AC, you also spoke about the volumes doubling for the industry. So can you just break that 20% CAGR number into various segments for yourself?

Mr B Thiagarajan:

I think it will happen equally. So it will be very difficult for us to figure that out. Because if you look at B2C business, it is dependent on the market growth. And if you are looking at the projects business, it is based on the pending order book that you are seeing. And commercial refrigeration business continues to grow - that is one business which is on a small base in the country as a market and it will continue to grow. Very difficult to break up - this is going to grow by this much, this is going to grow by this much.

Q&A 12:

Okay, thanks.

Q&A 13:

Good afternoon, this is Ashwani. I wanted to know what kind of effort you are making on the after sales service both on the commercial side and on the room AC side and how is it differentiated versus how critical it is for your success.

Mr B Thiagarajan:

Wilson, do you want to answer that? That's the Gold Standard effort.

Mr Wilson Jebaraj:

Yeah. We have within the company a policy which is Gold Standard Customer Service. So we invest in training our people, our technicians, our channel partners to ensure that there is a seamless delivery which we maintain. Like how it was shared, the credo is taken across right up to the technician level which then enables us to differentiate between us and others. So that's one of the things that we do consciously.

We also have channel partners that we develop to meet the needs of the service delivery as far as the commercial refrigeration goes. So apart from our own sales and service dealers, we have channel partners to take care of that as well.

Mr B Thiagarajan:

So to add to that, one of the programs that we have undertaken is to be the benchmark for service as far as the room air conditioners is concerned. Which will mean... By the way, we have invested adequately in the digital enterprise initiatives in service. And we are looking at how it can be taken to the very next level.

And in commercial refrigeration we have been continuously innovating in terms of how to delight the customer. Say for example, it is a quick service restaurant or it is going to be a retail store. If a cold room is going to fail, there are mobile refrigerator vans which will quickly shift that frozen food. By the time in 8 hours we repair, this can be shifted back. On the whole, we believe we are doing well in terms of service, but there is huge room for improvement as well to position ourselves as the best. That's our mission.

Q&A 13:

And second, sir, you said in your conversation earlier that 90% of the buyers are first time buyers in room AC. So in this basically with so many brands there and the pricing competition is also very significant, what is the real customer loyalty?

I mean the first time buyer, see, if it is a replacement buyer, it is very likely that he may consider buying the brand which he has bought first time. In case of the first time buyer, what is the most critical attribute for him to choose, I'm just asking, Blue Star versus others. What's the most critical thing?

Mr B Thiagarajan:

It's a great question. We are right now on an analytics program. One of the things that we are looking at is also analysing this. The dipstick sample shows that more than 95% of the buyers of Blue Star end up buying Blue Star if he is buying the second one. Now, we do not have data for the referrals how much it is happening. So that is something which we are applying our mind.

The competition one, how that is happening, the real input that is available to us is from some of the dealers. But most importantly, very recently we could get this information from the ecommerce channels, because there it is completely known and it is an authentic information that is available. Now, I do not think - from these two data, the dipstick that we have done from the ecommerce players data - there is very high level of loyalty. And whether it is significantly different from other brands, I don't think so. Because the comparison, we compare with the top three brands in that, so I don't think there was in that limited data. But your question is valid, relevant - it is also one of the subjects that we are trying to figure that out through the analytics program.

Q&A 13:

Further on the after sales service, how big is this business and what's your market share there? I mean, are you able to service a significant part of population which is there of Blue Star products? Or do you still have room to increase market share there?

Mr B Thiagarajan:

So, if you're talking about service as business, there are multiple activities that are taking place there. One in the room air conditioners or the commercial refrigeration products - there is no annual maintenance contract there - it is a warranty. And again here the warranty on compressor is five years, ten years. Warranty on the inverter is ten years. So therefore there it is a repair service as the main service revenue. And spare parts will be the second service revenue stream.

In commercial air conditioning - which are chillers or VRFs, or the package air conditioning or even in cold rooms - there will be annual maintenance contract, there will be repair service, there will be spare parts and there will be other value added services like for example energy management or the air management, water management, so on and so forth.

Now, as I told you, because of the limited disclosure, or because of the reason that I don't have the competition information, why I should disclose what is my service revenue... we are not able to disclose this, unfortunately. You have to forgive us. But to the specific question, whether there is scope for improving the service revenue, yes. It can be higher by 20% compared with what we are.

The areas are connected with certain segments in Tier 3, 4, 5 towns. Not coming into annual maintenance contract is one. Two is the spare parts reach and making it available to the technicians and the end customers. So there is a 20% scope that is available there and that is part of the mission which Mr Wilson Jebaraj is driving.

Q&A 13:

Thank you. Wish you the very best.

Mr B Thiagarajan:

Thank you for coming over. Thank you for your interest in Blue Star. So if some of the questions are not answered, you can email that to Mr. Sivakumar and we will be happy to respond to you. And as I mentioned, the products are displayed there. You can have a look at them.

Please do join us for lunch. Thank you.