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February 6, 2024

BSE Limited	National Stock Exchange of India Ltd
Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001	Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051
BSE Scrip Code: 500067	**NSE Symbol: BLUESTARCO**

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations') - Earnings Call Transcript for the Third Quarter and Nine Months ended December 31, 2023

With reference to our letter dated January 12, 2024, and pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, we are enclosing herewith the Earnings Call Transcript pertaining to the Financial Results for the Third Quarter and Nine Months ended December 31, 2023, of the Company.

The aforesaid information is also being made available on the website of the Company at www.bluestarindia.com

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **Blue Star Limited**

RAJESH DIGAMBAR PARTE
Digitally signed by RAJESH DIGAMBAR PARTE
Date: 2024.02.06 11:20:41 +05'30'

BLUE STAR LIMITED

Rajesh Parte
Company Secretary & Compliance Officer
Encl: a/a

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"Blue Star Limited
Q3 & 9M FY24 Earnings Conference Call"

January 31, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q3 & 9M FY24 Earnings Conference Call. We have with us today from the management Mr. B. Thiagarajan – Managing Director, Blue Star Limited and Mr. Nikhil Sohoni – Group Chief Financial Officer, Blue Star Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. B. Thiagarajan. Thank you. And over to you, sir.

B. Thiagarajan: Thank you. Good morning, ladies and gentlemen. It's a pleasure and a privilege to talk to you today over this Earnings Call. I am in a car on highway. If the call gets disconnected, Nikhil will continue the conversation.

As you are already aware, we declared our Q3 Results yesterday. You might have noticed that we have posted Revenue growth of close to around 25% and Net Profit growth of around 72%. All businesses of Blue Star, whether it is B2B or B2C have done well. We have witnessed significant growth due to festive demand and perhaps the pent up demand that would have been there for the room air conditioners business. Tier-3, 4, 5 towns continue to do well and the businesses from light commercial as well as large infrastructure products continues to be good. The carryforward order book stood at a record Rs.6,038 Cr.

During the call, Nikhil will explain to you the highlights of various businesses, post that we will answer your questions.

We have also declared yesterday that Mr. Vir Advani will succeed Mr. Shailesh Haribhakti as Chairman of the Board w.e.f. April 1, 2024.

We have also inducted two independent directors; Mr. Vipin Sondhi and Mr. Murlidhar Gangadharan.

Over to you, Nikhil, for your opening remarks, post that I will come back for questions and answers. Thank you very much.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. So, good morning, ladies and gentlemen. This is Nikhil Sohoni, and I will provide you an Overview of the Results of Blue Star for Quarter-ended December 2023.

Financial Highlights:

There was a healthy demand for room air conditioners and refrigeration products during the festive season combined with growth in commercial air conditioning business and has resulted in a record growth revenue in Q3 FY24.

The company's focus on Total Cost Management initiatives, product portfolio optimization and scale benefits has resulted in significant growth in profits.

1) Financial highlights for the quarter-ended December 31, 2023, on a consolidated basis are summarized as follows:

- Revenue from operations for Q3 FY24 grew by 25% to Rs.2,241 Cr as compared to Rs. 1,794 Cr in the Q3 FY23.
- EBITDA excluding other income, for Q3 FY24, improved to Rs.155 Cr, which gives an EBITDA margin of 6.9% as compared to Rs.105 Cr in Q3 FY23 with an EBITDA margin of 5.8%. So, this improvement is due to scale and higher gross margins.
- PBT before exceptional items grew 67.9% to Rs.134 Cr in Q3 FY24 as compared to Rs.80 Cr in Q3 FY23.
- Tax expense for Q3 FY24 is at Rs.34 Cr as compared to Rs.21.6 Cr in Q3 FY23.
- Net profit grew 72% to healthy Rs.100 Cr in Q3 FY24 as compared to Rs.58 Cr in the Q3 FY23.
- EPS stood at Rs. 4.89 in Q3 FY24 as compared to Rs. 3.03 in Q3 FY23
- The carried- forward order book as of December 31, 2023 grew by 24% to Rs.6,038 Cr as compared to Rs.4,861 Cr as at December 31, 2022.
- As reported in the preceding quarters, the company continues to invest in expanding manufacturing capacity, accelerating R&D and digitalization as a part of its growth plan and profitability improvement programs. Consequently, the capital employed as of December 31, 2023 has increased to Rs.2,298 Cr compared to Rs.1,505 Cr as of December 31, 2022.
- Net cash position as on December 31, 2023 was Rs.157 Cr as compared to a net borrowing position of Rs.396 Cr, which was a debt-equity ratio of 0.36 as on December 31, 2022.

2) Business Highlights for Q3FY24

<u>Segment-I: Electromechanical Projects and Commercial Air Conditioning:</u>

The revenue grew by 17.9% to a healthy Rs.1,182 crores as compared to Rs.1,002 crores in the Q3 of last year. Even the segment results at Rs.96.6 crores in the current quarter, giving a margin of 8.2% as compared to Rs.71.6 crores, giving a margin of 7.1% in the Q3 of last year.

Order inflow for Q3 FY24 was at around Rs.1,260 crores as compared to Rs.1,680 crores in the Q3 FY23.

1. <u>Electro-Mechanical Projects Business:</u>

While the slowdown and delay in order finalizations, the commercial building sector continues, enquiries and order inflows from factory and data centers continue to remain healthy. There has been a slowdown in tender inflows in infrastructure sector. However, execution of the existing projects continued at a healthy pace. The company continues to be focused on profitability and healthy cash flow projects.

The Carried-forward order book of the Electro-Mechanical Projects business was at Rs.4,648 Cr as of December 31, 2023 as compared to Rs.3,685 Cr as at December 31, 2022.

2. Commercial Air Conditioning Systems:

The industrial, healthcare, education and retail sectors continue to fuel growth in addition to a significant increase in demand from Tier-3 and 4 cities. The company continues to make significant investment in R&D and upgrade its product portfolio.

During this quarter, the company launched its new range of state-of-the-art indigenously manufactured Centrifugal Chillers. The first batch of chillers equipped with Variable Frequency Drives was delivered and commissioned for Tata Electronics for its manufacturing facility in Krishnagiri.

We continue to be the market leaders in Ducted Air Conditioning Systems and Scroll Chillers and remain No. 2 in VRF and Screw Chillers Category.

3. International Business:

With our mission to expand our international footprint, apart from driving growth in the Middle East and Africa markets, we are in the process of developing, testing and getting approval for our commercial air conditioning products for Europe and North America markets. We are in the right direction and will continue to make investments in R&D and manufacturing in order to become a significant player offering high energy efficient and sustainable products for the international markets, both for heating as well as cooling.

During the quarter, the company commissioned the Ashok M. Advani Innovation Center in Bhiwandi, which houses many first-of-its-kind testing facility for Indian and international product range, including VRFs.

Segment-II: Unitary Products

The revenue grew by healthy 35.5% to Rs.955 Cr in Q3 FY24 as compared to Rs.705 Cr in Q3 FY23. Segment results were at Rs.67.9 Cr which is 7.1% of revenue in Q3 FY24 as compared to Rs.51.8 Cr, which was 7.4% of revenue in Q3 FY23.

1. **Cooling and Purification Products business**

Aided by good festive season, we witnessed a strong growth in Room AC business. Even though summer season 2023 was a disappointing one, with the strong demand in Q2 and Q3, the revenue shortfall has been substantially made up.

Stable raw material prices, exchange rates and introduction of new entry level products helped us to substantially maintain the margins in Q3.

Our market share for Q3 FY24 is estimated at 13.75%.

2. **Commercial Refrigeration Business:**

Driven by strong demand for deep freezers and modular cold rooms, our commercial refrigeration business witnessed significant growth. As in the case of room air conditioners, stable commodity prices and exchange rates help us maintain the margins. The Total Cost Management initiatives helped improve the margin profile.

The new energy labelled deep freezers manufactured by the company, have secured high degree of preference in the market. A new manufacturing line for small capacity deep freezers ranging from 60 to 200 litres has been commissioned and the products are expected to be launched in the Q4 FY24.

The growing investments in warehousing and logistics sector as well as the processed food segment is driving the growth for our modular cold rooms. We continued to maintain market leadership in Deep freezers, Storage Water Coolers and Modular Cold Rooms.

Segment-III: Professional Electronics and Industrial Systems

The revenue grew by 20.1% to Rs.103 Cr in Q3 FY24 as compared to Rs.86 Cr in Q3 FY23. The segment result was at Rs.15 Cr, which gives a margin of 14.7% in Q3 FY24 as compared to Rs.11 Cr, which was a 12.7% margin in Q3 FY23.

The Non-Destructive Testing business continued to gain traction with significant orders received during the quarter. The Healthcare business is benefiting from the expansion of the country's healthcare infrastructure and the rise in private and public investments. With the data security solutions moving to Cloud, the demand continues to be muted.

III. Business Outlook:

We expect to deliver strong performance with the continued execution of healthy carried forward order book in the B2B business. Low penetration coupled with increased demand from Tier 3 and 4 cities will continue to support growth in the products business.

We shall continue to focus on strengthening our product portfolio and grow both locally and globally. While the conflict in the Middle East region and Red Sea is a matter of concern, we expect to end the financial year on a high note.

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

Moderator: We will now begin with the question-and-answer session. The first question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, on this EMP, we've seen a very strong margin expansion driven by focus on profitability aspect of it. Do you think that these margins i.e.around 8% odd are now the new normal a and that's what we should look at going ahead?

B. Thiagarajan: Segment-I comprises of mechanical projects as well as packaged air conditioning and related customer service operations. So, it may not be appropriate to infer the margin outlook every quarter. The more appropriate guide would be the full year margins. In this particular quarter the packaged air conditioner segment, which is ducted systems and VRF performed well. It is based on the production and the orders that are being executed for that particular category. In some other quarter, we may have a relatively higher share of projects than the packaged air conditioning. So, quarter wise, maybe a difficult thing to arrive at, but our guidance for segment I is between 7% to 7.5% operating margin.

Bhoomika Nair: Coming to the Unitary Products segment, we've seen a very strong growth that has been ahead of the industry. If you can just talk about what the industry saw growth in the current quarter and how are you looking at the upcoming season and what are you hearing from the trade in terms of inventory stocking, etc.? Another question is related to that would be the margin profile. This quarter, there has been a little small blip in terms of margins. Anything to read towards that, and should we be trending towards that 8.5% margin that we had earlier guided for?

B. Thiagarajan: First, I'll answer the margin, then go back to the other parts of your question. The margin for this financial year would be impacted due to the summer washout. Our guidance for the annualized margin would be 8% to 8.5% for Segment-II. In a year when the summer is not strong, the festival season tends to do well. People decided to postpone the purchases in summer and buy at an opportune moment later in the year. As the industry tries to pick up post the lost summer, the prices tend to fall in the later part of the year due to the inventory buildup. We have seen that on number of occasions. The overall economy was good, the sentiments were good, it is good for the industry that after a major hit in the summer season, the demand picked up during these months. The demand continues to be good even today. I had mentioned long ago at the end of Q1 itself, whatever happens given the lower penetration in this Room Air Conditioner segment, the industry should witness at least 10% to 15% growth. Blue Star aims to do better than the market. Our target is to do 20%. March will be a very significant month. This particular year is not an energy label change. We are witnessing another trend in the market which in the last conference call also we had said, that more than 50% of the sale is happening through consumer finance scheme which means there is an element of consumerism. Next thing is connected with the Tier 3, 4, and 5 markets. Even though monsoon was not all that great, we continue to witness good demand from Tier 3, 4, and 5 markets as well. The important element is, in the past, the dealers would not like to miss the summer season sale as they will end up stocking. They will be worried the companies will not be able to deliver certain models. There will be advanced bookings and they will go ahead and stock. I think that system has undergone a transformation. They are managing their working capital well. They are looking at the total domestic manufacturing capacity, and their stocking has become monthly based on the demand. And therefore if you ask me, are they beginning to stock for the summer? No. Are they hoping that the season will be good? Yes, that is because the festival season demand has been good, and the winter has not been strong in many parts of the country. So, they think that there will be good sales. So, they are optimistic about it.

We had discussed last year also that the peak selling season which used to be May-middle advanced to May 1st week and more like April is the peak for this particular category. And if the summer is going to set in very early, March could be the peak, In that case, April may not be the peak. On weather, nobody will be in a position to bet. But the overall outlook is that this category will continue to grow. There could be some summer season mishap or there could be some other elements like elections are going to happen and so on and so forth. But I can share with you, the estimates show that India is the fastest growing market for air conditioning and refrigeration. For the Room Air Conditioner demand, market size is projected to be around 50 million by 2040. It may cross 10 million this year. Then you can estimate what is in store for the industry in the future.

Bhoomika Nair: Obviously, given the strong growth projection that is there, is there any easing of the competitive intensity between brands in terms of lower discounting and schemes, etc., being offered or dealer margins coming down?

B. Thiagarajan: The competition will be intense just because everyone would like to tap the growth opportunity and consolidate their position and improve their market share. That's how the consumer durables industry operates.

Moderator: We take the next question from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

Pulkit Patni: I will just extend what you said. One is that November, December obviously was much warmer than usual and the benefit we could see in your numbers. But on the contrary, it seems January is much colder than usual. Is that something you think that will have a bearing on Q4 in terms of demand? The second part of the same question is, you mentioned 50% of the sale happens through consumer financing and clearly all the consumer finance companies that have reported results, their commentary seems to suggest that they are pulling back in terms of lending to the sector in general. So, don't you think there is a reason for demand to be actually much more muted at least in the near term based on these two trends? Maybe just continuing this, how's the inventory in the channel? We understand that there's also been quite a lot of push of inventory into the channel in this quarter. If you could just comment on that as well?

B. Thiagarajan: We monitor weather across the country. And while it is true January is colder but only in some parts of the country. So, we expect the demand for January to be the same as last year. I don't think there is a de-growth in that particular segment. And the new models which are meant for the season will get launched from now on, many brands will be launched in January, February, March. In a consumer durable business, whenever there is a new launch, there is a customer pull. As on date we are not seeing any demand growth slowdown. Equally, I am aware of the fact that there are small appliances where there is stress, in FMCG. If you ask me whether room air conditioners will catch up with that, that doesn't seem to be the case based on the market. The demand continues to be good. Whether it has the potential to slow down, well always, there is a potential for it to slow down.

The second part, i.e. consumer finance is connected with the regulation of the RBI. As of now, they have not pulled back. If they are going to pull back, it will be a level playing field. It is not only meant for Blue Star. But equally I am seeing another fact that there is interest by many NBFCs to grow their market share in this consumer finance space. So, there is intense competition which will mean players like us will have to negotiate and get the best out of them whomsoever wants to participate. Now, the third part of it is connected with the inventory. There is always a push factor, if you are not pushing, somebody else is going to push. That's how the sales teams operate in this sector. But the dealers have become smarter; dealers are managing their working capital exceedingly well. This is a big transformation. Unless and until there is an attractive discount for a limited period or someone will have to buy in order to be eligible for an incentive scheme. But overall, across the country the dealers have, or the distribution channels have learned to manage their working capital well. I am taking more time in the initial questions so that these fundamental factors are not repeated again and again. We now have multiple channels such as the modern retail, regional retail, e-commerce, distributors and a single outlet player. Significant share of sale is happening through the modern retail, regional retail, e-commerce. So if you look at that, that part of it will be more than 50%. So, these players are very organized and professionally managed and tracking store-by-store what is the inventory level. So therefore, the industry pushing it and the demand not going to be there in the subsequent months is incorrect. It is more or less that will give an indication of whether the secondary movement is happening or not. So, therefore, summary is, as of now the industry is doing well, Blue Star is doing well. For summer, the outlook is good, and the penetration levels are lower, and we think that the demand will continue to be good. And even if it is not going to be, which I keep telling often, the long-term direction is this industry is in its golden phase. What happened in China is happening here. It is the fastest growing market. It will become the largest market by 2050 in terms of market size. That's where we are moving. And all other policy planning, whether it is energy, sustainability, e-waste, everything is built around this particular expectation.

Moderator: The next question is from the line of Ankur Sharma from HDFC Life. Please go ahead.

Ankur Sharma: I have two questions. One was, as you said, the industry launches new models before the upcoming summer season, so, do you think we would be looking at any kind of price hikes to be taken with that or do you believe that given where RM prices are in the correction that we've seen or maybe because competition is really intense as well, there may not be any price hikes which could come through? Second, I was just trying to understand your market share gains a little better, clearly, we've outperformed the industry for quite some time consistently over the last couple of quarters. So, if you could help us with your region wise market share, where have you taken the most share, what have you done differently, that would be very helpful?

B. Thiagarajan: I will answer market share part first. It is 13.75%. We continue to do well in South, West and East. In North, we have got the scope to improve. And we do not have yet the data on market wise or region wise what will be our share. All that I can tell you is, if the all India average is 13.75%, it will be 200 basis points lower in the northern region. Now, we do have store wise information that is competitive which I will not be able to share. We know the outlet wise what is the size and what our share in that counter is. That data is available however I will not be able to share the same because it is a competitive information.

Now, the question on price increase, price is dependent on the competition I have a market share goal. I have an operating margin goal. I have to play around with this. Now, I foresee that the prices are remaining stable. It can drop if there is going to be demand slowdown like it has happened in small appliances or FMCG, some parts, it can happen, but it will be known on perhaps February second half onwards you will begin to see what is going to happen. The new models are being launched basically to fill the gaps where at a particular price point, at a particular margin, you are not able to compete with your key competitors. The truth is that more than 90% are first-time buyers and that are entry level products, are preferred by them. Three star continues to be the dominating product category. Five star is only around 25%. Now, there are clear emerging demands for heavy duty machines in markets such as Punjab, North India. And you do have products which are smaller in size like 1 ton. I am seeing a trend where the demand for 1ton model is expanding. That maybe because the second or third AC for a home, that purchase is beginning to happen. The pricing obviously is going to be based on these factors like do I have a heavy duty product, do I have a competing 1 ton product, do I have a product which I have fully localized? You're seeing still in places like Sri City the factory is being inaugurated. People are localizing. All these will impact the cost and therefore the pricing and PLI scheme claims will have to be made and people will now keep an eye on the PLI, which means they have to show a growth over the previous year. This is the summary of it. As of now, the pricing seems to be stable. Y'u have to watch February-end, March what is going to happen. Margins are being improved by us by various things as Nikhil had explained.

Ankur Sharma: Just a follow up on the market share. Actually, my question also was what's driving our outperformance versus the industry, clearly, that was my bigger question?

B. Thiagarajan: We are continuing to deliver highly reliable products which are world-class while we have also entered the affordable segment. Even within affordable segment, I would like to believe that our products are superior in terms of quality and reliability and performance. Second factor is the Blue Star brand. And the third is the aftermarket investments that we are doing.

Moderator: The next question is from Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan: My first question is with respect to the first segment, the project business. If you can throw some light on how the outlook is in terms of ordering for some of the sub-segments there like infra, industrial, commercial, real estate, etc., that will be great?

B. Thiagarajan: We are witnessing a slowdown in the Commercial buildings in terms of order finalization. And in infrastructure segment, we would expect the focus to be on the pace of execution. With the elections around the corner, many projects are being accelerated for execution, and therefore, one can expect new projects will wait for finalization till July or August. We take it as a good sign for the simple reason, the record order book, this is a comfort to predict what it will be. But at some point, of the time, I think this slowdown in inflow of Electro-Mechanical project orders is good for us. We can focus on execution, focus on tight working capital management, and then prepare for picking up the orders. I anticipate right now there is slowdown in one sector, I think a few other sectors also will slow down. What will keep growing is manufacturing and data centers, that investments will continue to happen.

Ravi Swaminathan: Do you see some large ticket orders in the pipeline, sir across any of these sectors, so which can change the inflow say in FY25 or '26?

B. Thiagarajan: There are many tenders that are there like Chennai Metro and all that. But I'm not very sure that a number of them will get finalized before June or July.

Ravi Swaminathan: How do you think about the competitive landscape here compared to say 10 years back or something of that thought especially in large orders, do you see that stable or probably ease a bit?

B. Thiagarajan: It's a mad competition. There are always players who will offer lower prices and much attractive terms. There are many players. It's not that it's a comfortable competitive landscape. These are tenders, you have to compete, and you have to be the lowest. Only in private sector manufacturing or data center, somebody is going to be providing a premium, if you can demonstrate that you deserve that. Otherwise it's the intense competition.

Moderator: The next question is from the line of Abhishek Shah from Ambit Capital. Please go ahead.

Abhishek Shah: So, a couple of quick questions. One was on the order book. You mentioned that we have a 6,000-odd Cr order book currently. So, what is the expected timeline for execution? And secondly, what would be the current utilization? And any CAPEX plan you have going forward?

B. Thiagarajan: The execution you can take it as around 24 months, specifically the Electro-Mechanical projects one. This order book will include the Unitary Products also. But, predominantly, close to around Rs 4,500 Cr of orders should take around 24 months of execution time. On the other part, Nikhil will answer.

Nikhil Sohoni: So coming to capital spend, see, we will be continuing to invest as we have said, when we raised the QIP also. The spends will be going towards manufacturing, R&D, digitalization. So, all of these investments are on track , and as we grow these investments will also be happening on a continuous basis. Current year, we expect the spend is in the region of around Rs.350 Cr as of now in the nine months. And one good part is that all our manufacturing investments are modular, which means that as we see the demand go up, we can kind of continue investing in that capital expenditure. Same way, the product development is going to be the focus area and we will invest in product diversification and develop products both for international geography as well as for the domestic markets over here, We will also be investing in digitalization. So CAPEX is a given. You can take an annual CAPEX in the region of around anywhere between Rs.250 to 300 Cr going up to Rs.350 Cr at times. But that kind of capital expenditure will happen in the company now at least over next two to three years.

Abhishek Shah: On your current utilization?

Nikhil Sohoni: Utilization of the QIP?

Abhishek Shah: No, just in terms of your current capacity, what levels you have and how much?

Nikhil Sohoni: In terms of manufacturing capacity?, I will say that probably we should be running at around 80% at least in Sri City and in HP we will be running at almost full capacity because of the demand. So, the capacities are running full because the demand that you are seeing and revenue growth into which it is getting translated is all result of that.

B. Thiagarajan: To further substantiate the Room Air Conditioners part, this year, we want to close with 1 million units and around 600,000 will be coming from Himachal, and some 3,50,000 to 4,00,000 we should produce, I'm not talking about the sale, because you may be producing for the subsequent month as well. So, what Nikhil mentioned as modular is this supposed to be growing at 3-3-3 in four phases. Himachal is at its full capacity. More than 600,000 it cannot produce.

Moderator: The next question is from Natasha Jain from Nirmal Bang. Please go ahead.

Natasha Jain: My first question is on the Commercial Refrigeration side. So, while we have done our channel check, we found out the present counter for your refrigeration product was sold out. So, just want to understand what's the current capacity there, how are we ramping up the capacity, and when can we expect better rollout or faster rollout in terms of the Commercial Refrigeration product?

B. Thiagarajan: First of all, the Commercial Refrigeration products are not sold through channels in large quantities. They are meant for very niche residential purchases. The products we distribute through the distribution channel are bottled water dispensers and deep freezers of smaller capacity. There are other commercial refrigeration offerings such as modular cold rooms, deep freezers of all capacities starting from 60 litres to 500 litres capacity. Majority of the deep freezers gets sold through the OEMs, such as Amul or Mother Dairy or Arun Ice Cream.. The smaller capacity deep freezers 60 litres to 200 litres that earlier was not manufactured by Blue Star, was getting sourced and sold in the market. There is a non-tariff barrier called QCO, and that import, and selling has been now banned. Anticipating this, we had gone ahead and set up another line for that in our Wada deep freezer facility. The trial productions and the field trials are going on now. So we will be in a position to deliver locally manufactured 60 litres to 200 litres deep freezers from April onwards. Therefore, sales through distribution channels is not a significant part of our Commercial Refrigeration business. It is in the showrooms for some residential customers who may want to pick up for storing meat, etc., But a 60 litre freezer capacity, many refrigerators also offer. There are refrigerators with even 100, 150 litre freezer capacity if they want to have. Now, our priority obviously will be the OEMs who are buying thousands of numbers. This is the background behind your channel check.

Natasha Jain: My second and last question is regarding the EMPS order book. So since many quarters now, we've been sighting that moving away from the Commercial Building segment because there we've seen maximum delays. So, when can we expect this segment to be hive it off completely or we'll still have exposure there? And going forward, what are the segments which will drive our order book?

B. Thiagarajan: So there is absolutely no plan to hive it off, it is operating as a wholly owned subsidiary with its own board and a specific focus. We know it is a niche business, and it is critically important for Blue Star for the simple reason, first thing is, we have built capability in certain specific areas like industrial testing or data security or medical electronics in diagnostics space. Second, it is a business with no capital employed there. It is a very limited capital employed and it generates a lot of cash. Sentimentally, it is important for us, this business has been with us for more than six decades and it has always made money and the talent that we have built over the years is very remarkable, and many multinationals who are there in the country today, came through that business, whether it is Honeywell, Johnson & Johnson, HP, all those people were represented by this business in India. Then where the market was larger, they went ahead, our own professionals have gone there. So, we maintain the relationship with those companies as well. So, this business will continue to grow, and I think the thrust area is connected with the medical diagnostics. That is the area which will drive the growth. Second area is an emerging segment which is warehousing automation. We have some unique skills there and that is connected with the electronics and digital and we expect that also to drive. So, these are the two areas we will look at it going forward in a significant way.

Natasha Jain: Just one question to Nikhil, sir. So can you just explain the proportion of unallocated portion in the segment capital employed, because that seems to be very high for the past three quarters, so, where exactly is this going into?

Nikhil Sohoni: With the QIP funds coming in, some amount of investments both in mutual funds and fixed deposits have gone up. So, that is definitely going to be there. that's one area I think which you have to keep in mind which will cause the capital employed to go up.

Moderator: Next question is from Swati Jhunjhunwala from BOB Capital. Please go ahead.

Swati Jhunjhunwala: My first question is in the UCP segment. Is the entire source volume-led or is there a price deviation as well?

B. Thiagarajan: Can you repeat the question?

Swati Jhunjhunwala: Entire growth of 35% that we've reported, is it entirely volume-led?

B. Thiagarajan: That's right, of all the products there including refrigeration products.

Swati Jhunjhunwala: Secondly, in anticipation of the strong summer, do we expect capacity to be a constraint given that we're already running at 80, 90 sort of capacity utilization?

B. Thiagarajan: No, it is not a concern at all. We have full capacity to take care of the next year's demand. It's relatively a simple manufacturing estimate in that product category, right? So, all models are known and what numbers will come, it is modular in nature, and one more thing that we do not manufacture window air conditioners rather we source. So, everything is intact for next financial year. Even the subsequent financial year, we know what capacity is needed and Sri City, as I mentioned is modular, it will expand.

Moderator: The next question is from Anupam Gupta from IIFL Securities. Please go ahead.

Anupam Gupta: Firstly, is on the RAC and the Commercial Refrigeration business. For the next, let's say, two, three years, what sort of product gaps do you still see and where you will invest incrementally for the domestic market?

B. Thiagarajan: In terms of manufacturing?

Anupam Gupta: Yes, in terms of the product portfolio, as you have expanded your portfolio, you have covered a lot of gaps already, but incrementally?

B. Thiagarajan: In room air conditioners, the energy label change will be due in January 2025. So therefore, the positioning of the products will completely change. There are two, three things which drive the product portfolio change; one is the regulatory which is connected with the energy labeling; and the second thing is that, when you have intense competition, you need to keep on innovating. And you will begin to see what we had launched six years, seven years ago, which did not have demand, all that will start coming back at this point of time, the time is right like a WiFi enabled air conditioners, that market size will significantly grow. The third is connected with component ecosystem. When component is locally made and available, you have to redesign the product because that manufacturer may be offering different types and in different specification you have to optimize the machine. As Nikhil mentioned, the R&D investments are very important to be there in the market and to be competitive. And in deep freezers, as I mentioned to you, many capacities and the curved glass top, these were all earlier not a significant market. Today, it will become very significant. Water coolers are becoming a very large market in India. So, you have enough and more to be done in terms of product portfolio, it's a dynamic thing.

Anupam Gupta: In your opening remarks, there was a comment on the product exports which you're doing right now to Middle East. But let's say if we look at all the medium term for five, six years when you're able to break into the larger market, how large do you think your exports can be for the commercial air conditioning side of business?

B. Thiagarajan: First of all, in international geographies like US and Europe we are not going to be selling in our brand, we are going to design and make for others, that's what we are attempting to do. And for these markets, the products are to be designed for that country's regulation, energy efficiency or safety or refrigerants. So, we are currently in the process of developing the products, prototyping and getting the approval and acceptance. has All these have to fall in place with the launch of the customer for whom we are going to be making. Now, if you ask me what is our aspiration, it is to do in a three-year timeframe; we want to do USD 500 million of business in the international market. But it is only a beginning, we have a long way to go. I think when we have clarity, let's say we have secured a significant base there, we will be able to tell how the trajectory is going to be. The market is large, opportunities are huge, but we are just at the beginning.

Moderator: The next question is from the line of Shrinidhi from HSBC. Please go ahead.

Shrinidhi: A couple of questions from my end. Sir, have you seen Room AC industry getting consolidated in top five players through calendar year 2023?

B. Thiagarajan: I think it is already, my view. Compared with many other categories, if you take the top six players, they have close to 70% market share whether there will be only these players in future could be a question. We have seen in these categories in India specifically, many hang around with 4% -5% market share also. And we may even see private labels coming up at some point of time. It is the fastest growing market. It has the potential to become the largest market in the world. In 2040, 50 million seems to be possible. In that event, it is going to be many players.

Shrinidhi: Just on this, I wanted some color on the margin divergence versus traditional generated channel versus the future channel wherein you include multiformat retailer, regional retailer and e-commerce. So, would it be possible to give some color on the margin divergence at the EBIT level?

B. Thiagarajan: I think everything is converging for the simple reason, see, we used to think e-commerce is the most price-conscious market and you have to be highly competitive; it will have therefore lower price realization. So, e-commerce and modern trade is not much different at all. Now, thanks to the e-commerce, what price you are selling is known to every retailer across the country, every customer across the country. So, I am not seeing one channel giving you more profit than other channel. What you may have to look at is, how efficiently you are servicing that channel so that your operating margin is higher. Not the gross margin per se. Let us say, a modern retail who is buying 100,000 units from you which you are able to take care of and service him efficiently with the team of two people versus that 100,000 comes from 4,000 outlets and you need battalion of people. So, therefore in terms of price realization, there is a convergence because everything is known to everybody today. And most importantly, in the retail outlets, the people who are there as in-shop demonstrators are company deployed people. So, these brands will come to know what price the other fellow is selling in some other thing. So, there is a complete information network that is available in every market.

Shrinidhi: According to your assessment, how much percentage of AC demand would be coming from the first time buyer?

B. Thiagarajan: My estimate is 90%. See, 50% is consumer finance which are first-time buyer definitely. The thing is that there is no authentic data. Perhaps the industry can come together and do, I do not know. But in a dipstick study, it is very clear; 9 out of 10 buyers are first-time buyers, and it is reflected in the entry level products selling more.

Moderator: The next question is from Aniruddha Joshi from ICICI Securities. Please go ahead.

Aniruddha Joshi: We had indicated a plan to reach 10,000 outlets for UCP segment. Now, we are at the end of January 2024. So, can you indicate the progress done so far, and also the plan if you want to indicate for FY25? Second question is EMP segment did extremely well. If we look at the history in FY06 to FY09 period, but post that, almost six to seven years, FY09 to FY15, we had reported low single digits. So, do you see similar structure building now that we are nearing the top and in one or two segments you also highlighted proactively that there might be some slowdown in order closures. So need your expert views on what happened in that period and how different we are in the current ongoing cycle?

B. Thiagarajan: Can you repeat your first question?

Aniruddha Joshi: So the outlet reach we had indicated?

B. Thiagarajan: The second question is connected with the slowdown.

Aniruddha Joshi: Second question is on EMP segment.

B. Thiagarajan: I think it is irrelevant in how many channels you are there. I had explained in a number of calls or in one-on-one meetings. It was an old terminology, how many outlets we are present, how many outlets you are going to expand, and the companies also keep telling the figure, our own sales guys also keep telling the figure. According to me, it is completely irrelevant. You have to look at what is the potential of a counter, in that counter what is your market share and how you will maximize, and number of counters are becoming increasingly irrelevant. so that's the first part. Second part is the consolidation of modern and the regional retail, it is a big phenomenon, you will watch as India grows, more than 70% of the market will be controlled by these players, like a Vasanth & Company in South, Satya or Croma or Jio or Vijay Sales, they are very big players. So, this consolidation when you do, the number of outlets you need not worry at all because they know how many outlets they are going to expand and how they will reach. That is the second reason why I'm saying, number of outlets are irrelevant. Now, the distributors So, a distributor is a sales point to you. A distributor will have 300, 400 kind of places to sell. Now, how this counting around to be saying, that in our own internal review, if somebody is telling me 15,000 outlets, I do not pay attention at all, this is my philosophy. Now, if you earn 10,000, that would have been already achieved, it depends on how many sub-dealers you had and how many counters he had. So, my request is you should not pay attention to this at all about number of outlets in future. Now, one more thing that is going to happen is the ONDC which is going to come. You watch in about 18 months' time, everybody can sell through ONDC and it will be served, that is going to change the phase of distribution itself. Now you may be aware of another model. Another model is that sub-dealer outlets which the distributors were managing, big players are trying to serve them like for example, Jio will be able to serve a sub-dealer in Varanasi, for example. He has to punch an order; no distributor need to stock and deliver to him. So this part I'm not worried at all. We will be already in 10,000, it may become 12,000, these are all irrelevant. And within that particular one, what is my share that is how we have to measure and move forward, that's what we do.

EMP segment, yes, the slowdown signals are there in some segments other than factories and data centers. And we feel it is good basically because we can focus on execution and we can push up whatever we can do because carried-forward order book record has no meaning, it has to convert into revenue and receivables have to be realised There is no point in sitting on an advance or no point in sitting on inventory or work-in progress.

Moderator: We take the next question from the line of Dhananjai Bagrodia from ASK. Please go ahead.

Dhananjai Bagrodia: Now with this new policy coming around for solar generation, which would require households to, let's say, solar rooftop, the greatest impact on that would be actually coming from consumer durable players like ACs which would be specially players like Blue Star. I just want to understand we've always positioned ourselves as a mass premium brand. Would we ever look at maybe in certain select pockets look at the volume game and maybe reduce our prices and go completely mass because in those places they'll always look at operation cost and running cost vis-à-vis brand as such. Is that something we would look at?

B. Thiagarajan: Very clearly, we want to grow. We have stated our first step is to get to market share of 15% by FY25 and we are at 13.75%, we have a huge hill to climb, and we also have intense competition happening. Now, every opportunity is welcome, and we keep looking at how to make the air conditioner more and more affordable. So the answer is yes, we will look at every opportunity.

Dhananjai Bagrodia: The growth in those numbers could be even higher than what we estimate. So as long as we're willing to reduce prices, then we'll definitely get our market share objectives which what we think of.

Moderator: The next question is from the line of Lokesh Manik from Vallum Capital. Please go ahead.

Lokesh Manik: Just a couple on the bookkeeping side. In the EMP segment if you can just share the breakup between exports and domestic in your order book? And in the UCP side, the breakup between RAC and non-RAC for this quarter and YoY, that would be great?

B. Thiagarajan: So the second part is a selective disclosure. It becomes difficult for us to say how much is Refrigeration and how much is Room Air Conditioners. Now, on the first part, the export is negligible. We don't focus in Electro-Mechanical projects for the export markets at all for the projects part of it. In terms of products, as I told you, these are all some trial orders and small orders and whatever we export to the Middle East region. So, therefore you can imagine the pending order book is largely domestic.

Lokesh Manik: On the trend that you mentioned, where you will see consolidation in the retail segment more towards the modern retail front, would this reduce your bargaining power and would it have an impact on your margins, you would have a higher bargaining power with standalone outlets versus modern retail?

B. Thiagarajan: The question is you have to compete. The options are plenty. The market is growing, and every player would like to. All that I can tell you is that we are very happy that it is the golden period for this particular category, both B2C as well as B2B and both Air Conditioning as well as the Refrigeration. The second is, we are also happy that there are capable competitors who are multinationals. So, therefore they are going to be producing products which are superior, and it is better to compete with them rather than those old days of assembly, cheap products, etc., then you will not be able to compete with them at all. It is possible for us to compete with the multinationals. The third is that there is a country specific regulation, let's say, energy efficiency, for our ambient conditions, the seasonal energy efficiency ratio. It is not somebody who can suddenly bring a product from abroad and launch it. They have to redesign the product that makes it a level playing field. And the imports are now you can say it is highly regulated, therefore, the supply chain related competition is healthy. Consumer finance, it is a level playing field. So you have to compete, but you are competing in a very healthy environment, therefore we are happy about that.

Lokesh Manik: My question is actually between general trade and modern retail. So how would your bargaining power go?

B. Thiagarajan: All are having equal bargaining power. The question is that in the modern trade, all the big brands are going to maximize their share and he has got the power to be ordering 10,000 units or 20,000 units, he is going to be asking you for a particular deal which you have to compete and offer. In a small retail, he has got a share. I told you, counter wise we have to look at how my share will be maximum. He has got his own bargaining power. But if your question is intended to about which is more profitable, I'm telling you all are having same price realization today because everybody knows at what price you are delivering to somebody else. The difference could be what is your operating margin because your cost of servicing a particular channel may be lower per unit when it is modern retail. The simple answer is if I have to compete with a player-A, it is one and the same whether it is here or there. Bargaining power is one and the same.

Moderator: The next question is from the line of IS Rana from Sundaram. Please go ahead.

IS Rana: My question is around the Blue Star's position in the cold room market segment and what are the strategies employed to enhance the presence in the market? And also, what is the approach dealing with unorganized sectors in the cold room, unitary and commercial segment, particularly in terms of maintaining comparative margins, so if you could elaborate on this?

B. Thiagarajan: We are perhaps the only player who has got the end-to-end solution, in the sense, there is a cooling unit in outdoor, there is a cooling unit for inside the cold room, and there are panels that are required for constructing a cold room. So, we call that business within Blue Star as modular cold room business. We are the player who supply everything together. So, in unorganized case what happens is, he buys panel from somebody, outdoor unit from somebody, indoor unit from somebody controls from somebody. So, the Blue Star value proposition is I give you everything together on a turnkey basis. Our dealers are trying to install it.

IS Rana: What is the focus going forward, are you going to increase your investments in this cold room segment given the demand and requirement in the country is going up?

B. Thiagarajan: It will be a very huge market in the coming years driven by basically the retail driven by food processing, driven by consumption of processed foods, driven by pharma and healthcare. Now, our next step there is highly energy efficient inverter-based system. Because they all work 24/7 and energy guzzlers. So, we will be one of the players having highest energy efficiency. That is the way we are moving forward.

IS Rana: With regards to the demand for deep freezers and modular cold rooms, how is it going and what is your focus going forward?

B. Thiagarajan: It is at least 25% CAGR.

IS Rana: For both, right, I mean, deep freezers and modular?

B. Thiagarajan: Yes, there again when the market grows, competition will come. Today, you see the number of players being lower. When the market grows, there will be many more people coming in there also.

Moderator: Ladies and gentlemen, we'll take that as the last question. I now hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: So, thank you very much, ladies and gentlemen. With this, we will conclude the quarter earning call. Do feel free to revert to us in case any of your questions were not fully answered or if we are not able to take your question, we'll be happy to provide you with the additional details by e-mail or in-person. Thank you.

Moderator: On behalf of Blue Star Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.