"Blue Star Limited Q4 FY'16 Earnings Conference Call"

May 31, 2016

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MR. NEERAJ BASUR - CHIEF FINANCIAL OFFICER, BLUE STAR LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Blue Star Limited Q4 FY16 Earnings Conference Call. We have with us today Mr. Vir Advani, Managing Director; Mr. B. Thiagarajan, Joint Managing Director and Mr. Neeraj Basur, Chief Financial Officer.

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

Vir Advani: Good afternoon ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan and Mr Neeraj Basur. We will be giving you an overview of the results for Blue Star Limited for the quarter and year ended March 31, 2016.

Before I get into the financial highlights, I would like to give you an update on the multiple rounds of strategic restructuring initiatives that the Blue Star Group has gone through over the last two years.

The primary driver behind these restructuring initiatives was to enable Blue Star to generate additional resources to support the next phase of growth of its core Air Conditioning business and related diversification opportunities. In addition, restructuring was also undertaken to consolidate asset ownership, simplify holding structure, address non-performing assets, monetize noncore assets and consequently strengthen the Balance Sheet position of the Company.

Accordingly, in FY'15, the Professional Electronics and Industrial Systems (PE&IS) business was transferred to Blue Star Engineering & Electronics (Blue Star E&E), a wholly owned subsidiary of the Company. Simultaneously, Blue Star Design and Engineering Ltd, another wholly owned subsidiary was merged with Blue Star E&E. Housing the PE&IS business into an independent legal entity is expected to provide strategic visibility and growth impetus to this business. Implementation of this round of restructuring has been completed and given effect to partly last year and also in the current year.

During FY'16, Blue Star Infotech Ltd (BSIL), an associate investee company, sold its IT business to monetize and generate substantial value for its shareholders. Having sold off the operating IT business, BSIL was left with a substantial cash corpus and a healthy lease rental bearing commercial office property. Separately, the Boards and Shareholders of BSIL and Blue Star approved a Scheme for merging BSIL and its residual Indian subsidiary (BSIBIA) with Blue Star to align Group resources. In Apr'16, the Honorable High Court of Bombay approved the Scheme for Amalgamating BSIL and BSIBIA with Blue Star, with Apr 1, 2015 as the appointed date. As a result of this amalgamation, the FY16 financial statements of Blue Star include nine months of BSIL's IT operations as well as the sale proceeds of the IT business.

The execution and implementation of the above mentioned multiple and rather complex rounds of restructuring have come to an end in May 2016.

Since the financials for both FY'15 and FY'16 embed accounting impact of disparate restructuring elements, the financial results for FY'16 are not comparable with FY'15 across many aspects on a plain reading. However, since the restructuring was driven by the primary strategic objective to consolidate and simplify asset and business investment ownership, the consolidated financial results for both the years present a better comparability for understanding and analyzing operating performance of the Company in FY'16. More

specifically, to get a clear understanding of the operating performance of the Company's businesses, one should look at the FY16 Annual Consolidated Segmental performance and its comparison to FY15.
Accordingly, we have restricted the analysis and highlights for FY16 to only the consolidated performance.

Following are the financial highlights of the Company for the year ended March 31, 2016 on a consolidated basis:

- Total Operating Income for the year ended March 31, 2016 was Rs 3770.11 crore as compared to Rs 3181.94 crore in FY15. Excluding BSIL's IT business, Total Operating Income was Rs. 3653.01 crore for FY16, representing a growth of 14.8% over FY15.

- Operating Profit (PBIDT excluding Exceptional Items and Other Non Operating Income) for the current year was Rs 216.16 crore as compared to Rs 167.27 crore in FY15. Excluding BSIL's IT business, Operating Profit (PBIDT excluding Exceptional Items and Other Non Operating Income) stood at Rs. 200.12 crore for FY16, representing a growth of 19.6% over FY15.

- Profit before Tax (excluding Exceptional Items) grew from Rs 84.09 crore in FY15 to Rs 129.79 crore in FY16. Excluding BSIL's IT business, PBT (excluding Exceptional Items) was at Rs. 115.31 crore for FY16, representing a growth of 37.1% over FY15.

- Exceptional Items for FY16 represented net expense of Rs. 1.30 crore as compared to Rs. 41.44 crore in FY15. Exceptional items in FY16 include a net gain on the sale of IT business of Rs. 46.09 crore, charges of Rs. 27.24 crore relating to cost updates for some large projects, expenses of Rs. 18.69 crore towards voluntary retirement scheme & other expenses on closure of a manufacturing facility and bonus expenses for earlier years pursuant to retrospective amendment in statute of Rs. 1.46 crore.

- During the quarter, the Company has reassessed its effective control and interest in Blue Star Qatar WLL and accordingly Rs. 6.92 crore has been recognised as prior period income in the consolidated results.

- Consequently, Consolidated Net Profit for the year increased by 100% from Rs 54.18 crore in FY15 to Rs 108.38 crore during the year.

- Order inflow during the year for BSL increased by 19% to Rs. 3652 crore from Rs 3063 crore in the previous year.

- The Carry-forward Order Book for BSL as on March 31, 2016 increased by 17% to Rs 1628 crore compared to Rs 1388 crore as at March 31, 2015.

- Borrowings (net of cash in hand) for BSL standalone entity reduced significantly from Rs. 296 crore as on March 31, 2015 to Rs. 243 crore as on March 31, 2016, due to reduction in borrowings and lower cost of financing. Adjusted for the interim dividend payout of Rs. 71 crore in Mar'16, comparable net borrowings as of Mar 31, 2016 were Rs. 172 crore.

- Borrowings (net of cash in hand) for BSEEL reduced from Rs. 67.39 crore as on March 31, 2015 to Rs. 58.74 crore as on March 31, 2016

- Net corpus from the sale of IT business was Rs. 158 crore, invested in Commercial Papers and Mutual Funds.

- Capital Employed increased to Rs. 973 crore as on March 31, 2016 from Rs. 808 crore as on March 31, 2015. If we exclude BSIL's IT business, the Capital Employed has reduced to Rs. 722 crore as on March 31, 2016 from Rs. 808 crore as on March 31, 2015.

Segment-wise results for FY16 on a consolidated basis

- The Electro-Mechanical Projects and Packaged Air Conditioning Systems business, accounting for 51% of the total revenues in the year, increased by 12%, while segment results registered an increase of 48% to Rs 79.90 crore, mainly owing to higher billings of projects with healthy margins and control on costs.

- As already announced, Blue Star has recently entered the water purifiers business. The Company has also extended its product range by introducing air purifiers, apart from air coolers. Consequently, Segment II is being renamed as Unitary Products. The revenue of this segment in the year increased by a healthy 18%, while Segment Results grew 15% to Rs 165.93 crore over the same period. A strong festive season coupled with an early onset of summer in most parts of the country contributed to the healthy growth.

- The Professional Electronics and Industrial Systems business has reported a dip of 13% to Rs 26.85 crore in its Segment Results, owing to changes in the business mix.

- The Segment titled “Others” contains results of IT business acquired by virtue of the Amalgamation and subsequently disposed off during the year.

Business Highlights for Consolidated Q4 FY’16 & FY16

Segment I (Electro-Mechanical Projects & Packaged Air Conditioning Systems)

The consolidated segment registered a revenue growth of 12% to Rs. 1907.72 in FY’16 from Rs 1703.56 crore in FY’15 and segment results improved by 48% to Rs. 79.90 crore in FY’16 from Rs. 53.95 crore in FY’15. Segment result improved to 4.2% in FY’16 from 3.2% in FY’15.

In the Electro-Mechanical Projects business, while order inflow improved, price realization on new projects has been under pressure. Billing remained sluggish and project execution remained slow as customers phased out their requirements based on available capital thereby deferring project completions. Some improvement was seen in cash inflow in new projects as customers committed to investments with prior readiness of funds thereby improving the capital employed position. However, the Company’s policy of linking project execution to cashflow continued through the year, which resulted in lower than expected Billing in spite of a healthy carry-forward order book.

A number of legacy projects were short closed in Q4FY16, as there were no signs of revival in these accounts. The associated losses have been absorbed in both the segment results as well as Exceptional Items in Q4FY16.

On a macro-economic level, there is an increase in investments in Government-related projects of the centre as well as the states, however private sector investments remained subdued. Business sentiments remained tepid as non-availability of capital funds continued to adversely affect expansions and investments. There has been a modest upswing in commercial space consumption in Delhi NCR, Bengaluru and Mumbai, though limited to a few developers and corporates of repute. Prospects from the industrial segment showed some improvement, especially in Telengana, Gujarat and Maharashtra.

Some of the major orders won by Blue Star during the Q4 FY’16 for projects were Delhi Metro, CPWD, IIT, JodhpurCentral University, Rajasthan, My Home, Hyderabad and Cancer Institute, Lucknow.

The segment-wise break-up of the carry forward order book of the electro mechanical projects business is as follows:

Application Segment	Share
Metro Rail	22%
Industrial	18%
Office(IT/Non IT)	14%
Mixed Use Development	11%
Power Generation & Distribution	11%
Hospitals	8%
Malls	8%
Others	8%

In the Central Plant Equipment business, the market continued to remain stagnant, similar to the projects space. However, Tier 2/3/4 markets showed signs of improvement during the quarter. The elections in Bihar, WB, Assam and Tamil Nadu adversely impacted enquiry inflow in these states. Segments such as Industrial, Hotels, Hospitals, Educational Institutions, Banks and Banquet Halls witnessed enhanced demand.

During the quarter, the VRF business recorded the fastest growth rate amongst all the categories as a result of its flexibility and energy efficiency. The Company has made deep inroads in the VRF segment with its latest offering, VRF IV Plus, which has met with a positive response in the market place. Blue Star VRF IV Plus is the country's first 'Made in India' 100% inverter VRF system which is 'Made for India' since it's well suited for the varying climatic conditions as well as voltage fluctuations faced across the country.

Some of the major orders won by Blue Star during the Q4 FY'16 for Central AC, VRF and Packaged Air Conditioning products were Ginger Infrastructure, Nagpur, Delhi Public School, Gandhidam, Care Hospital, Raipur, Premier Inn, Chennai and Kalyan Jewellers.

The carry-forward order book stood at Rs 1550 crore as at March 31, 2016 as compared to Rs 1340 crore as at March 31, 2015, an increase of 16%.

<u>Segment II (Unitary Products)</u>

The consolidated segment registered a revenue growth of 18% to Rs. 1576.31 in FY'16 from Rs 1331.72 crore in FY'15 and segment results improved by 15% to Rs. 165.93 crore in FY'16 from Rs. 144.79 crore in FY'15. Segment result stood at to 10.5% in FY'16 from 10.9% in FY'15.

During the quarter, higher than usual temperatures in Q4 with an onset of early summer in most places, helped the Room AC industry post a healthy growth of 20%. However, the average selling price across the industry fell by about 3% owing to some brands offering cheaper options, forcing most players to reduce their prices.

The Room AC business of the Company, during the quarter, continued to perform faster than the market growing at 22%. There is a rising preference for inverter ACs and this category now accounts for about 15% of the sales of the industry. The trend of the Company performing better in energy efficient products continued with inverter ACs comprising 20% of its sales. Also, the 0% Finance options by the NBFCs and Credit Card EMIs by the banks reached a sizable 30% of the secondary sales values. In the commercial segment, major orders won during the quarter were from Narayana Group of Educational Institutions and Velammal Group of Institutions.

In the Commercial Refrigeration Products business, sales of chest freezers and coolers grew modestly. Growth in demand from key accounts of ice cream, dairy and the frozen food segments helped drive this growth. The market continued to witness an increased demand for display freezers. Sales of bottled water dispensers grew well as the Company engaged with more retailers. Storage Water Coolers also grew with enhanced demand from the educational, Government and manufacturing segments. In the Cold Chain business, segments such as pharmaceuticals and ice cream contributed significantly with several leading players investing in cold rooms at their warehouses across the country and at their distribution points. The quick service restaurants segment witnessed mixed results with some multi-national chains undergoing restructuring of their business models for India. In this difficult scenario, Blue Star has still managed the major share of business from this segment with food chains such as Jubilant, Burger King, Carls Jr, TGIF, Hardcastle, Sbarro, Lite Bite, Nando's and Au Bon Pain showing their confidence in Blue Star.

The Company has announced that it is planning to enter the water purifier business later this year. The Company will initially offer residential water purifiers and will gradually enhance its range to cover commercial water purification systems as well. Blue Star has been evaluating entering new product categories in order to leverage its brand equity and distribution strength. It has been in the water cooler business for nearly seven decades and is also amongst the largest suppliers of normal, hot and cold bottled water dispensers in the country. Since Blue Star has a strong connect with water, it believes that launching water purifiers would help it leverage this association. The business is also very service-intensive with a regular need of replacement of consumables. Considering that Blue Star is India's largest AC&R service provider, it believes that it can offer differentiated service in this business too and create new benchmarks in the industry. Blue Star plans to launch a comprehensive range of residential water purifiers towards the latter part of the year.

Segment III (Professional Electronics and Industrial Systems)

In this segment, Billing grew by 15.2%, this was due to a change in business mix with a larger quantum of business being done through the import and rupee sale route. On a like-to-like basis, the segment faced a decrease in overall demand due to the appreciation of the dollar coupled with lower capex spends in the minerals, metals, oil and gas segments. As a result, the segment results de-grew by 12.5% in the financial year.

During the quarter, the data communications business won orders from MasterCard, Axis Bank, Common Wealth Bank and cEdge. This quarter also saw traction in the new initiative of National Payment Corporation of India viz Unified Payment Interface for Mobile Banking. This initiative will give an opportunity to the business to address all the banks for host security modules for this purpose. The destructive and non-destructive testing business also performed well with orders from State Seed Testing Laboratory, Government of Odisha; BARC Mumbai; and Hospet Steel, amongst several others.

Service Business

Blue Star continues to be the largest after-sales airconditioning and commercial refrigeration service provider in the country, and has sustained its reputed position in the market place as a superior value-added service provider. During the quarter, the Company began remote monitoring of chillers at its central command centre with about 100 chillers connected initially. The main purpose of this initiative is to predict chiller failure, improve response time and reduce downtime for customers apart from improving its own productivity. A mobile app for service technicians for breakdown calls was also launched. It also appointed close to 100 ESAs (expert service associates) in Tier 4/5 cities to be ready for handling the retail installation and calls in the summer season.

International Business

The International Business Group comprises Global Projects and Global Product Sales. The Global Projects business manages the joint ventures of the Company in Qatar, Malaysia as well as Oman, the latter being added during the year. During the year, Blue Star acquired a 51% stake in Oman Electro Mechanical Contracting Co LLC (OEMC), a 100% step subsidiary of W J Towell & Co LLC, to form a joint venture entity called Blue Star Oman Electro-Mechanical Company LLC (Blue Star Oman). All three JV's performed well during the year. The Global Product Sales business continued to do well, offering a range of Unitary Products, Applied Systems and Refrigeration systems in the Middle East and SAARC Region. As part of its growth strategy, the Company strengthened its presence in the Middle East with the appointment of new distributors and entered three countries in Africa and its first ASEAN country in FY16.

In conclusion, the residential and light commercial segments showed healthy growth and is expected to continue the growth trend with enhanced spends by consumers. The electro-mechanical business environment continued to remain sluggish while some markets and segments showed signs of improvement; the environment is expected to improve and is expected to benefit electro mechanical project business. The Company intends to continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few quarters in order to capitalize on the imminent growth opportunities.

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

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from Renjith Sivaram from Antique Stock Broking. Please go ahead.

Renjith Sivaram: Sir, looking at the overall performance of the room AC industry, is there any disparity in between the northern and the southern markets? You mentioned that in the northern markets the growth will be in the first quarter, and in the south the summer it is ahead, did you see some sort of a trend resembling this in your sales of room AC? We also had plans to increase our market share in north so, could you throw some light like how successful were we in our venture for increasing our market share in the northern markets?

B Thiagarajan: You are right, the summer season sets in faster in the Southern region beginning from Kerala. During the month of March, we witnessed a lot of intake in the Southern market. Northern region, summer has set only in the second week of May, but in north it continues till around June and July first week. Every year you witness that. The second part, we have said that while our all India market share is somewhere around 10.5%, northern region alone would have been somewhere around 6.5%. We had plans last year to penetrate the market by changing the product mix. For example, quite a few of the markets have window air conditioners, so we went ahead persistently with window air conditioners in this market. For this particular year, we have gone a step ahead and introduced more than 24 window air conditioner models for the North Indian market and have gone ahead with vernacular advertising. We have opened offices in places like Ghaziabad, Lucknow etc. I would think in FY'17, we should be crossing around 8-8.5% market share in the Northern belt. We are on track as far as that particular plan is concerned.

Renjith Sivaram: Ok. Sir, can you throw some light on how many legacy orders have been closed and how many are pending? This will be my last question.

Vir Advani: We short closed our entire legacy projects even though they are not completed; we went ahead and provided for them. Now with this Q4 clean up we are done.

Renjith Sivaram: So there would not be any further provisioning regarding legacy, we are completely done with all?

Vir Advani: Yes, correct.

Moderator: Thank you. We will take the next question from Sujeet Jain from Yes Securities. Please go ahead.

Sujeet Jain: I wanted to ask you about the surplus on sale of IT business. There is a gain of Rs. 77 crore in the exceptional item in standalone accounts and Rs. 46 crore in consolidated accounts. How does one reconcile that?

Neeraj Basur: When you look at our standalone accounts, you see a gain of Rs. 77.4 crore on the sale of IT business which Blue Star has now acquired by virtue of amalgamation. Blue Star always owned 29% stake in this company and our carrying cost in the standalone books was close to Rs. 3 crore. However, being an associate entity over the last 20 years or so, we had this investment. Our carry cost in the consolidated books for this investment was Rs. 34 crore. When we recomputed the profit, capital on sale for our consolidated accounts got reduced by Rs. 34 crore which is our carrying cost in the consolidated books. This is virtue of accounting under AS-21.

Sujeet Jain: Understood. In terms of the order book, you gave the Segment-I order book. Could you give the overall order book number in terms of inflows for both the quarter and for the full year? Can you give both order inflows and order book?

Vir Advani: The carry forward order book at the end of March 2016 was Rs. 1,628 crore, up from Rs. 1,388 crore a year ago, that is an increase of 17%. I will pull that out the data for Q1 and answer that question in a few minutes.

Sujeet Jain: Can you take one more question, in terms of the balance sheet. We have now calculated capital suspense accounts, what is the expected dilution in Blue Star when we issue shares for Blue Star Infotech Limited shareholders.

Neeraj Basur: Expected dilution in Blue Star will be 6% and this is based on the share swap which was worked out last year when the merger was announced.

Moderator: Thank you. We will take the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: Given that all the legacy orders are behind, what is the margin profile of the orders which are coming? Over the past three years to four years, it has been around 3% to 4% post execution.

Vir Advani: The new orders coming in continue to be at site margins of around 10% as far as the EBIT level is concerned, which is leaving aside the legacy. The running projects we have always said that they should close around that 6% range, but they are not because of the pace of execution. We have a sitting infrastructure for execution of these projects. We are unable to bill these new projects at the base that we want. So, while the margins are intact and in fact are improving during execution some of that is getting taken away at the EBIT because of the lack of volume. Going forward, we see some issues around that. The positives are that we now do not have legacy order in order book, our order book is 17% higher than it was a year ago and if I am not mistaken it is the highest it has been in may be the last five years or so. Thus, we have a healthy carry forward which is positive. Our capital employed is under control in this business, which is another positive. However, to control the capital employed it comes at a cost of lower billing because we are no longer willing to continue to execute unless the cash flows is at least neutral if not positive. We saw some pick-up in cash flows in the market in Q1 and Q2 last year but then the banks started announcing their NPAs starting October. I think, most of the banks had stopped corporate lending for some time. They have restarted it very slowly. So, until the banks re-open their lending we will not see cash flows improvement in EMP segment. Once there is cash flow improvement in EMP, you will not see revenue growing at that pace it should be linked to the order book, with high order book you should be able to build more next year. We are a little cautious about the amount of billing we can do in the coming year as we think that it is a prudent way and because of that while the site margins will hold and the EBIT margin will not be at the levels that we wanted it to be which is the +6%. I am hopeful that if we do a reasonably good job, next year’s segment results should be at about the 5% range and not at the (+6%) which is where we would want it to be in a steady state.

Ravi Swaminathan: And revenue growth could possibly be at 10%-12% given the order book growth at 17%?

Vir Advani: So that is where I am hesitating to answer since we are only in May right now and June 1 is around the corner. But I am still a little cautious on the billing because genuinely cash flows have not improved in the last few months. Of course we had a great collection in March which is evident from our capital employed but again March is a one-time event. On an ongoing basis, in April cash flows continue to be tight so I think our billing in Segment-I will now be very much linked to the bank NPA and release of corporate lending. We are comfortable with order inflow in FY'17. We do want to give some positive outflow and our enquiry base is good. We are confident of growing the order inflow further in FY'17. The only question mark we have right now is on the billing and of course the other element that one has to keep at the top of their mind is raw material costs. Now that the raw material input cost is hardening, we have to be careful about booking margins and execution margins. These are the two things we will be watching carefully, billing link to cash flows and the hardening of commodities.

Ravi Swaminathan: Ok. In terms of large orders, have we started seeing enquiries for metros, etc.?

Vir Advani: We booked Rs. 150 crore metro order in Q4 which is part of our order book, in reference to Delhi metro. Lucknow metro is now under bidding. We are expecting bids for some tenders from Jaipur metro and for Ahmedabad metro little later this year. Delhi metro next phase will only be out in FY'18. Out of all the infrastructure segments in the market, I would say that metro is the most advance from an equity point of view. But still some distance before finalizations come.

Ravi Swaminathan: Ok. In terms of cooling products, how many distributors do we have at the end of the year and what is the plan to increase it in the northern markets?

B. Thiagarajan: We have again and again mentioned that the number of dealers does not matter at all. In fact, I can appoint 100 dealers every month. Across India we have got 3,740 dealers as of March, 2016. Now, two reasons why I am saying number of dealers does not matter is, it is not a competitive advantage for any company. Number two, how many units sold per outlet is the most important measure and this is not the forum in which I would like to discuss that. Third, E-commerce as the distribution platform is growing very fast. In the festival season, we saw 5% and I think by FY'18, more than 25% will move to E-commerce. So in this context, this is not the criteria for any measurement or any conclusion.

Ravi Swaminathan: Also Sir**,** almost two months are over in the first quarter. Can you highlight as to how the demand has been for us during the months of April and May?

B. Thiagarajan: April was exceedingly good. In May, Eastern parts like Orissa, West Bengal witnessed rainfall along with Tamil Nadu and Andhra Pradesh coast. Western part had not been very hot, specifically speaking about Bombay and Gujarat. You would not call it a heat wave condition. North started picking up in the month of May. I think the market would have grown by more than 50% in April and somewhere close to 20%-25% in the month of May. June is likely to be again around 25% or so.

Moderator: Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade: It is regarding the utilization of cash that we have and the repayment of our borrowings, could you just highlight that?

Vir Advani: We ended the year with borrowings of Rs. 243 crore. That is after we paid out an interim dividend of Rs. 71 crore. The borrowing has come down compared to Rs. 296 crore as on March 31, 2015. And if you net out the interim dividend, it comes down to Rs. 172 crore. The other thing to know is that the corpus which we had received from the sale of the IT business, which is Rs. 158 crore in cash, has been put into commercial paper and mutual fund with a near-term maturity. It is not being netted off against this number. It will come to mature in the next two to three months and as they mature we will use that money to pay down this debt. We intend to grow the business this year and for that there will always be some more working capital requirement. The other important place where this money is being deployed is into the new manufacturing facilities that we are building. We have explained that there is total outlay of about Rs. 215 crore that we expect to make over the next 24 months or so. We will start that leg of investment now. We have already completed land allotment in Jammu in Sri City. We have paid in advance, so those land acquisitions will be completed in the first-half of current year and we will start construction in Jammu soon after that. We will have to incur CAPEX there, other than the normal working capital increase related to the growth of the business.

Sanjeev Zarbade: So will we incur around Rs. 60 crore to Rs. 70 crore of CAPEX in current fiscal?

Vir Advani: Yes, I think a little higher than that.

Sanjeev Zarbade: Sir, my next question is regarding the order intake which you indicated is Rs. 3,652 crore for the fiscal?

Vir Advani: I would take this opportunity to answer the earlier question as well. The carry forward order book as on 31 March, 2016 is Rs. 1,628 crore and it is up from Rs. 1,388 crore last year. The order inflow for the full year is Rs. 3,652 crore as against Rs. 3,063 crore last year. Both the numbers are at company level. For Q4 standalone, for the company order inflow was Rs. 1,123 crore as compared to Rs. 1,056 crore Q4 standalone last year. For Segment-I, the carry forward as on March 31, 2016 is Rs. 1,550 crore as compared to Rs. 1,340 crore one year ago. As far as inflow in Q4 is concerned, it was Rs. 178 crore in Segment-I as compared to Rs. 555 crore in Q4 Segment-I last year. Of course, we will put all these numbers up in our report in case you did not pick-up all those. But you had question on it so go ahead.

Sanjeev Zarbade: Yes, in the first three quarters we were getting an order intake of around Rs. 437 crore, Rs. 500 odd crore and then Rs. 431 crore. Suddenly, an order intake of around Rs. 1,120 in the fourth quarter. Are we consolidating some other segments also in the order intake that we are releasing now?

Vir Advani: Yes, I will just clarify that for the company it is the Segment-I order inflow and order book that you need to be worried about. Of course they come in and they leave in the same quarter. Q4 will always be high because of the consumer and cooling products business volume being high. So the number for you to actually watch is I think Rs. 578 crore order inflow in Q4 in Segment-I that would compare to your Rs. 400 crore odd that you saw. So it is not a doubling of the order book order inflow. Having said that, the order book is up over last year and we are expecting that to further improve in FY'17.

Moderator: Thank you. Next question is from the line of Charanjit Singh from B&K Securities. Please go ahead.

Charanjit Singh: Sir in the beginning you had mentioned about introducing a couple of window ACs for the Northern market. Can you highlight what has been the price point of launch of these ACs and also how is the pricing environment in the market right now?

B. Thiagarajan: Very stable. If you consider low, medium and premium, we have been in the premium category and amongst the three players or four players who are there, whenever the demand is very high, which was from the month of March itself; the prices have been very stable. There has not been any kind of undercutting or any such thing. At least this time, because there would have been certain stocks out in certain markets, I do not think there was price increase or there was no unfair practice of jacking up the prices or so. The window air conditioners what we have launched is not the cheapest one. In the premium category itself, we were much higher than any of the other players and with the lowest price point we would have been around 25% higher year-on-year. That has been corrected completely with this launch when we released the new range in the month of January.

Charanjit Singh: If we understand from the other competitor’s commentary, a lot of manufacturers were cut off with the sudden spurt in the demand.

B. Thiagarajan: Right.

Charanjit Singh: We understand there was lot of inventory in the system. So how has Blue Star managed it during these months of April and May? Did we have enough inventory and how is it looking?

B. Thiagarajan: Very few models were not available in few markets but fortunately we had 130 SKUs in our portfolio this summer. Last year, there was something like 85. So we went ahead and launched 130 SKUs, number one. Number two is something like inverter ACs, we had some 32 models of inverter, therefore even if one particular model was not there something closer to that was available. Hence there was no issue, we phased and as luck would have it everyone thought this heat wave condition will continue indefinitely it was not the case because it started raining in South and East coast. Therefore, those markets did not face any kind of heat. If heat wave would have continued by May 2016, all would have stopped out but it did not happen.

Charanjit Singh: One last question from my side on the MEP segment. If you can just highlight that commentary on the market as well as your own order inflow for the MEP market in FY'17?

Vir Advani: Yes, in FY'16, the MEP market was flat. We grew the order book & order inflow as you can see. We did increase our market share. We are expecting to continue that into FY'17. We have repositioned ourselves with the new value proposition in the market which is gaining traction. We have also reorganized ourselves into a fully integrated MEP organization as against being standalone air conditioning, electrical puming, etc a year ago. Internal reorganization, better positioning in the market and of course our improving financial health is making us win better than our competition. The normal challenges continue as I have mentioned. The real estate bill, while it has been passed, we are yet to see any benefit from that. We are hoping that those benefits come in the second-half. There is a pick-up in government projects, more to do with buildings less to do with infrastructure with the exception of Delhi metro which continues to spend. So what I will say is that I am not expecting the market to grow in FY'17. What we are really seeing is the FY’15; FY'16; FY'17 market for MEP will be more or less flat. We have grown faster in 2016 and we will grow faster in the market in FY'17. That is our outlook right now.

Moderator: Thank you. The next question is from the line of Harish Bihani from Kotak Institutional Equities. Please go ahead.

Harish Bihani: Sir, my question is on the MEP segment. Last year you had shared the order pipeline which was to be awarded in fiscal year 2017 of Rs. 3,250 crore and had given the segments. If you can give us something similar for fiscal year 2017?

Vir Advani: We will pull that out and put it into the Investor Update.

Harish Bihani: Yes, that will be very helpful.

Vir Advani: As far as our own order book is concerned, in descending order of shares, 22% is metro rail industrial projects is 18%, offices is 14%, mix use developments is 11%, power generation and distribution but this is more power distribution really is 11%, hospital is 8%, malls 8% and I think remaining is all other which is something around 8%.

Harish Bihani: Second question, what was the AC volume growth in fiscal year 2016 and also the value growth? Then for fiscal year 2017, any volume growth targets that you have in mind for the industry and for the company? And also a related question is any excise duty benefit or any other tax benefit that is expiring fiscal year 2017 or fiscal year 2018 and the likely tax rate for the next two years?

B. Thiagarajan: So you are taking about the CENVAT, right?

Harish Bihani: Yes.

B. Thiagarajan: In Himachal Pradesh there are two plants, one manufactures room air conditioners and the other manufactures the commercial room air conditioners as well as water coolers. Now, the Himachal Pradesh I, by June 2015, CENVAT existence was exhausted and our plan to set up a facility in Jammu is connected with that because we will avail ten more years of CENVAT exemption. The Himachal Pradesh II had only an income tax benefit and the facilities will continue as usual. From Himachal Pradesh I, some of the products will move to Jammu as and when it is commissioned. That is the plan.

Harish Bihani: Ok, is there any ballpark number for any impact on the margins or the tax rate for the company in the next two years?

B. Thiagarajan: So we will deal with the tax rate separately because it is a complex issue which Mr. Neeraj Basur will clarify to you. As far as the margin is concerned, it is to do with the pricing. It has nothing to do with CENVAT. CENVAT is one of the items which can give you a cost benefit. Now, as you have seen from June, we did not have another factory which is excise exempted. It is purely a function of what is the market pricing by the competition. What is our market share growth and how the market is growing?

Harish Bihani: Ok.

B. Thiagarajan: So I will not be attributing anything connected with the margin to the excise duty exemption at all.

Harish Bihani: Ok, Sir, volume growth for this particular year, value growth and volume growth for next year for industry and the company?

B. Thiagarajan: So in a year when the energy label change is not there, by large you can add value growth and volume growth. Both are one and the same so it is not necessary for you to track both, unless and until there is significant change in the market where more and more people are beginning to buy the inverter. Compared with the previous year, I am not witnessing major change. There is change but still inverter cost is coming down because as the volume goes up inverter pricing will also lower because the cost will be lower. So, if your question is what do I anticipate of FY'17 growth with respect to the room air conditioners, we had began, by saying the market should grow by at least 15% and our goal is to grow by 25%. I now believe now the market may grow by 20% on a full year basis and we should grow by 30%. So amongst the analyst and fund managers, with March-April registering more than 50%-60% kind of a growth whether the full year will also see the same kind of growth, which I have been cautioning. I have seen in my career 80% growth happening in the month of April. It will never be sustained over a period of time at all. I think the reasonable thing to believe is around 20% growth for the full year and Blue Star should grow by 30.

Harish Bihani: Sure Sir. Related question would be obviously competition has been there and will always remain. But have the Japanese become more aggressive in the market? So the problem for us is not only on the volume part but also how do you look at the comparative intensity part better. Not immediately, not for the one year for the next two years to three years, how is the outlook like? What we understand is that Japanese have become more aggressive and the prices have dropped. Also they are expanding their distribution reach in the E-commerce market. So any comments on that.

B. Thiagarajan: Yes, first of all, the problem is for the players in the market not for analyst. Who is who of the industry has been there. I would say this industry more or less has not matured for the past five years. Every Japanese and Korean company is here and we have learnt to compete with them. The fact of the matter is there are two Indian companies which are doing exceedingly well and it is a testimony to that. In terms of profitability, it is the Indian companies who earn much more profit than the other players that are. You can check ROC filings and take out the profit figures of the multinational. The third part is in terms of distribution. I think the competitive advantage lies with Indian players. They are tackling an invisible customer through relationship and specifically in the Tier-II, Tier-IV, Tier-V markets Blue Star and Voltas have built very strong dealer network. We also have our after sales service back up. Therefore we are no longer worried about multinationals at all. At the same time I am of the opinion that Indian companies are doing exceeding well because of the multinationals. I think we did a lot of catching up with technology, modernizing our practices and very-very importantly way back in 90's - 80's analyst and fund managers were not there at that point of time. 80% of the time was use to be spend in collecting money from the dealers. It used to be like an electromechanical business and room air conditioner business in terms of creditors and write-offs. The multinational changed that scenario with cash and carry or the cash discount and other terms. Therefore there is nothing to worry as far as this business is concerned but it is highly competitive business. As I have said, it is like playing T-20 Cricket. It can change overnight and you have to watch out for the regulatory changes, market operating prices, you have to plan and forecast the inventory which we are doing reasonably well.

Harish Bihani: Sir, can you clarify on the tax rate for the next two years?

Neeraj Basur: Yes, Harish on our question on effective tax rate for FY'17, we expect our tax rate to be closer to the MAT level because we still have some amount of MAT credit available with us which we will use. We have not yet done our projections for effective tax rate for FY'18.

Harish Bihani: Sir, just to clarify the effective cash tax rate could be higher but since we have MAT credit entitlement it is lower?

Neeraj Basur: The effective tax rate from an expense point of view is likely to be closer to MAT.

Moderator: Thank you. The next question is from the line of Milan Desai from Angel Broking. Please go ahead.

Milan Desai: Sir, you had mentioned that for Segment-I, we had done some provisioning for the legacy orders, both at the segment results level as well as the exceptional item level. Clearly margins have dipped, so what portion was charged off towards the segment result for Segment-I?

Vir Advani: In the Q4 standalone, I think that is what you are talking about, we charged off about Rs. 25 crore towards legacy projects in the results. Over and above that, not related to the legacy projects or to the projects business but related to shutting down two of our factories, we wrote-off old inventory and some other non-performing assets. That was an additional amount there. We took advantage of the other income coming in from the sale of the IT business to do the other NPA clean up that we had. It is a combination of these two that we have taken care of in the standalone results in Segment-I.

Milan Desai: And Sir, anything on depreciation? Why jump from Rs. 9 odd crore to Rs. 19 crore?

Neeraj Basur: The increase in depreciation that you have seen on our results now, we need to bear in mind these are the merged financials of Blue Star Infotech and Blue Star. Depreciation includes about Rs. 9 crore of depreciation which we have to account from Blue Star Infotech and the remaining increase of close to Rs. 6 crore is on the account of the additional capital expenditure Blue Star has incurred through the year.

Milan Desai: My last question would be for cooling unitary products. The two units that we are setting up, I understand they will have a capacity of about 7.4 lakh units and we are sitting at about 3.75. Is it correct?

B. Thiagarajan: Correct, it is fully expanded. The full capacity it can do will be the area of the land. What we are going to do is we will consider all the three phases put together which will be that much because when you are going to avail the CENVAT benefit till 2026 and for that you need to build the capacity in order to avail that.

Milan Desai: Once it is completely done, how much would the phase I add about. Any idea?

B. Thiagarajan: As of now, this not only for you but for the benefit of the others, our original plan was to acquire the land in Jammu and go ahead with the construction in order to commission that factory by May 2017. As you may recall, for some three-four months the government was not there and now that the government has come in the allocation is being made and the approvals are taking place on that front. We had kept our options open with regard to the Sri City part of it. For Sri City, the logic was not the CENVAT benefit but since 50% of the sale is taking place in South, in terms of logistics, warehousing it will be prudent to manufacture Southern region requirements from there. We also kept in mind in case Jammu is getting inordinately delayed, we will go with the Sri City. As of now, I think Sri City will wait till 2018 and we will go ahead with Jammu. We are trying to fast track the processes simultaneously and hopefully commission it in the middle of 2017. In the phase I, it should add somewhere around 1.5 lakh numbers. And the plan is also to do the backward integration in order to reduce the import content.

Moderator: Thank you. The next question is from the line of Sujeet Jain from Yes Securities. Please go ahead.

Sujeet Jain: Sir, just to reconcile the numbers in terms of the understanding BSIL the PE&IS business. In BSIL, for the quarter Rs. 36 crore of revenue and some Rs. 3.7 crore of segment result. Is the understanding correct? I am looking at consol less standalone for the Segment-III.

Vir Advani: Consolidated is Rs. 2,685 crore and standalone is Rs. 1,329 crore, right. So that difference is in BSIL for the full year.

Sujeet Jain: Yes, from full year I have reduced the nine moth numbers and arrived at the three month numbers of console and minus the standalone numbers for the segment III, is that understanding correct?

Vir Advani: Yes.

Sujeet Jain: Ok. And in terms of the unallocated capital employed the difference between the console and the standalone is basically the standalone being at Rs. 350 crore and the console being at Rs. 98 crore.

Vir Advani: Yes, this is the carrying cost of investment in Blue Star E&E that we hold which gets eliminated when we consolidate the results.

Sujeet Jain: Ok. What explains the large unallocated expenditure every quarter in the segmental results?

Vir Advani: So these are basically are overheads and depreciation etc that is about Rs. 100 crore for the year, is what you are referring to, correct?

Sujeet Jain: Does the advertisement and the marketing expenditure go into this?

B. Thiagarajan: No, it is not the advertising but anything to do with the market development or the corporate strategy related expenses will go. Say for example, we want to enter into water purifier business or we want to develop a strategy for air purifier that kind will go.

Sujeet Jain: You mean an expenditure of close to about Rs. 100 crore for market development of new segments?

B. Thiagarajan: Not Rs. 100 crore I do not know where you are.

Sujeet Jain: Sir, I am saying all the corporate overheads we have, the entire support infrastructure that we have including the entire depreciation of Rs. 28 crore is there.

Sujeet Jain: Advertising and sales commercial expenditure which is I presume is typically only for unitary products, most of it would not go into this?

B. Thiagarajan: It will not go into this. Like the general IT infra will go into that.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Vir Advani for closing comments.

Vir Advani: Thank you very much, everyone for attending the call. If there were any questions that were left un-answered, please e-mail us and we will get back to you, failing which we will speak to you after the quarter one results later this year. Thank you. Bye-bye.

Moderator: Thank you members of the management team. Ladies and gentlemen, on behalf of Blue Star Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.