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BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 BSE Scrip Code: 500067	National Stock Exchange of India Ltd. Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 NSE Symbol : BLUESTARCO
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November 15, 2018

Dear Sir,

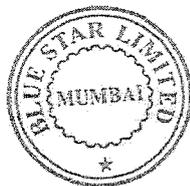
Sub: Earning Call Transcript - Q2 FY19

With reference to our letter dated October 26, 2018 and pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earning Call Transcript pertaining to Q2 FY19 Financial Results of the Company.

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

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


Vijay Devadiga
Company Secretary



Encl: a/a

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Blue Star Limited
Q2 FY2019 Earnings Conference Call

October 31, 2018



**MANAGEMENT: MR. NEERAJ BASUR - CHIEF FINANCIAL OFFICER –
BLUE STAR LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Blue Star Limited Q2 FY2019 Earnings Conference Call. We have with us today from the Management 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, please signal an operator by pressing '*' and then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur. Thank you and over to you, Sir!

Neeraj Basur: Thank you. Good morning, Ladies and gentlemen. This is Neeraj Basur. I will be providing you an overview of the results of Blue Star for the quarter ended September 2018.

First I will talk about the financial highlights for Q2 FY19

Effective April 1, 2018, the Company has adopted Ind AS 115 and accordingly, has realigned its revenue recognition policies appropriately. The accounting changes have been applied with retrospective effect to each of the prior reporting periods presented. The impact on revenue and profit was not material for the full year FY18.

Following are the financial highlights of the Company for the quarter ended Sep 30, 2018 on a consolidated basis:

-Revenue from operations for Q2 FY19 was Rs 1032.20 cr, as compared to Rs 849.82 cr in Q2 FY18, a growth of 21.5%.

-EBIDTA (excluding other income and finance income) for Q2 FY19 was Rs 58.07 cr as compared to Rs 48.93 cr in Q2 FY18, growth of 18.7%. EBIDTA (excluding other income and finance income) as a percentage of revenue was 5.6% in Q2 FY19 compared to 5.8% in Q2 FY18.

-PBT before exceptional items for Q2 FY19 was Rs 34.42 cr as compared to Rs 31.80 cr in Q2 FY18, growth of 8.2%. PBT before exceptional items as a percentage of revenue was 3.3% in Q2 FY19 compared to 3.7% in Q2 FY18.

-Tax expense for Q2 FY19 was Rs 7.84 cr (effective tax rate of 24.7%) as compared to Rs 9.48 cr in Q2 FY18 (effective tax rate of 29.8%).

-Consolidated net profit was Rs 19.55 cr for Q2 FY19 as compared to Rs 22.74 cr for Q2 FY18.

-Carry-forward order book as at Sep 30, 2018 was Rs 2216.60 cr as compared to Rs 2073.95 cr as at Sep 30, 2017.

-Consolidated capital employed increased to Rs 1267.87 cr as on Sep 30, 2018 from Rs 1042.16 cr as on Sep 30, 2017 to support increased working capital requirements.

-Consequently, consolidated net borrowings increased to Rs 469.22 cr as on Sep 30, 2018 from Rs 299.16 cr as on Sep 30, 2017. Our debt to equity ratio was 0.6 as on Sep 30, 2018 as compared to 0.4 as on Sep 30, 2017.

I will now talk about business highlights for Q2 FY19:

First, I will talk about Segment-I: Electromechanical Projects and Packaged Air-Conditioning Systems: Segment I revenue was Rs 630.97 cr in Q2 FY19 as against Rs 497.23 cr in Q2 FY18, a growth of 26.9%. The segment results grew to Rs 44.75 cr (7.1%) in Q2 FY19 from Rs 35.36 cr (7.1%) in Q2 FY18. Order inflow in Q2 FY19 was Rs 714.32 cr as compared to Rs 580.30 cr in Q2 FY18.

1. Electro-Mechanical Projects business: Overall market for this business continued to remain intensely competitive resulting in booking margin pressures. New order booking from heavy industrial & factory segments continued to be subdued. We however received enquiries from private sector, mainly office segment and from Government driven infrastructure projects. Order booking in Q2 FY19 witnessed a positive momentum as against a tepid Q1 FY19. We expect growth momentum in these segments to continue in FY19.

We maintained our leadership position in the electro mechanical space in India.

We achieved notable revenue growth in Q2 FY19 over Q2 FY18, which was contributed mainly by offices and healthcare segments. We continue to invest in smart systems and technology in line with our value proposition of superior project delivery through intelligent engineering, modern execution practices and committed teams.

Some major orders won during Q2 FY19 included Mumbai Metro Line 3 Depot, Amrita Hospital at Faridabad, Deloitte at Hyderabad, Brookefield Candor Space at NCR, Mynta Warehouse at NCR, Manyata Front Parcel at Bangalore, India Bulls Finance Center at Mumbai and Oracle office through Sattva at Bangalore.

We won the prestigious award “MEP contractor for the Year - 2018” from Construction week India in Sep 18.

Carry-forward order book of the Electro Mechanical Projects business was Rs 1511.69 cr as at Sep 30, 2018 as compared to Rs 1478.44 cr as at Sep 30, 2017.

2. Central and Packaged Air Conditioning Systems business: In Q2 FY19, Central and Packaged Air Conditioning Systems business registered a growth of 23.5% while the market grew at 11.5%. We continued to grow at a rapid pace backed by channel expansion, an innovative product portfolio and focus on growing segments. This is the sixth consecutive quarter where we have gained market share and thus we are the number three player in both VRF and Chiller product segments.

Key segments that contributed to the business in Q2 FY19 are government, retail, hotels, industrial and hospitals.

Major orders bagged in Q2 FY19 were from Embassy, JSW Steel Limited, IOCL, NTPC-Nabinagar, Lodha – MTM Club House, Wonder Cement, Shree Cement, and University of Kota. We will be launching a new range of Scroll Chillers in the coming months to consolidate our market leadership position in this category.

3. International Business: As far as global products business is concerned, we continue to expand our presence in 19 countries in Middle East, Africa, SAARC and ASEAN and several new products for these markets have been introduced successfully.

Our brand building initiatives through product launches, technical seminars and Press meets are yielding results. We are planning to establish a state-of-the-art exclusive showroom in Dubai in Q3 FY19, to display the complete range of our latest energy efficient products.

During Q2 FY19, we have also received various certifications like The Saudi Standards, Metrology and Quality Org. (SASO), Certificate of Conformity (CoC) from Intertek, G Mark certification and IECEE CB Scheme certification from recognized authorities.

As far as international projects business is concerned, the same are executed through Joint Ventures in Malaysia, Qatar and Oman. While the outlook for Malaysia and Qatar operations are promising with inflow of good orders, healthy order book and encouraging cash flows, Oman operations are facing headwinds due to cost overruns owing to delays in execution and completion in a couple of projects. While actions have been initiated for expeditious closure of these projects and settlement of cost escalation claims with the customer and the Joint Venture partner, the consolidated results for the current quarter is impacted by Rs 5.10 cr.

I will now talk about Segment II: Unitary Products: Revenue for this segment grew to Rs 343.06 cr in Q2 FY19 as against Rs 315.09 cr in Q2 FY18. The segment results decreased to Rs 8.20 cr (2.4%) in Q2 FY19 as compared with Rs 16.22 cr (5.1%) in Q2 FY18. Margins erosion is ephemeral in nature and it is due to sluggish market conditions caused by unfavorable weather conditions resulting in higher inventory and consequently pricing pressures. Apart from dilution of gross margin, warehousing costs also impacted the segment results.

1. Room Air Conditioner business: Weak demand from the southern states coupled with floods in Kerala at the start of the festive season led to a lower growth in Q2 FY19. Market grew by 8.3% while we continued to grow faster than market to end the quarter with a growth of 14.0% and improved our market share to 12.30%.

Major orders received in Q2 FY19 were from IIMT- Meerut, Shri Satya Sai Education Trust - Surat, Reliance Infra - Gurgaon, Karnataka Bank - Chandigarh, Indian Railways, Hetero Drugs - Hyderabad, Cadilla Pharma, Amity University - Delhi NCR, Godrej Properties - Gurgaon, Vatika Builders - Gurgaon, and Raymond Limited.

The festival season this year is a long one and we expect to liquidate the excess inventory during this period. This will help in reducing the warehousing as well as financing costs. Several mitigation measures have been undertaken in order to overcome the impact due to rupee depreciation and the hike in import duty.

2. Commercial Refrigeration business: During Q2 FY19, Commercial Refrigeration business registered a growth of 22.4% while the market grew at 16.6%. We continued to improve our market share across all product categories, specifically from Deep Freezers and Modular Cold Rooms (MCRs). Expansion of e-tailers and portals such as Big Basket, Swiggy and Zomato along with aggressive expansion plans from Quick Service Restaurants such as Jubliant, Hardcastle etc. has resulted in increased demand for MCRs. In addition, dairy, ice cream and food processing segments are also witnessing high growth. New lines of business, namely, medical refrigeration and Kitchen refrigeration have taken roots with steady inflow of orders and good customer acceptance in the market. Another adjacency is retail refrigeration and with the expansion plans of large as well as medium format modern retail, the outlook is promising. With Blue Star being the largest player in the Commercial Refrigeration segment with wide range of products serving vast number of consumers, this business is expected to accelerate in the coming years and will be a major growth driver.

3. Water Purifier business: Our water purifier business grew impressively over the quarter and our revenues in H1 FY19 almost equaled that of the entire previous year representing a good growth. We have sold around 35,000 units in H1FY19. The product range is now

complete and we offer a comprehensive range of 35 models across 10 series (including colour variants). The range includes value for money products for price conscious consumers as well as specific exclusive models only for the ecommerce channel (Amazon, Flipkart, Paytm and Tata CliQ).

During Q2 FY19, we made significant investments in brand building. Along with release of new our TV commercial, we conducted many press conferences across major markets to highlight our offerings in water purifier category as well as to promote Immuno Boost Technology models.

We are now present in 2300 touch-points across 150 towns and cities. Service revenue has started flowing in for this business category.

We expect various marketing initiatives, tie ups with online portals as well as aggressive print and outdoor campaigns to support us to in the upcoming festive season.

Talking about Segment III: Professional Electronics and Industrial Systems: Segment III revenue was Rs 58.17 cr in Q2 FY19 as against Rs 37.50 cr in Q2 FY18. The segment results grew to Rs 12.56 cr (21.6%) in Q2 FY19 as compared with Rs 2.79 cr (7.4%) in Q2 FY18 due to higher margins in Data Security solutions business as well as the Healthcare business.

Revenue of Data Security solutions and Non-Destructive Testing (NDT) business improved from multiple big ticket orders.

Growth potential of the Indian digital payment sector and rising focus on enterprises on data security create a huge opportunity for this business. Expected growth in the healthcare market also offers good opportunity to grow this business. With the depreciation of rupee, the market for refurbished MR and CT systems is expected to grow further.

We have added niche products to widen our reach in material testing market and increase our market share.

Major orders bagged in Q2 FY19 were Rockman Industries Limited, Air Force Station Kanpur, Maharashtra Seamless Limited, Jindal Stainless (Hisar) Limited, JK Tyre & Industries Ltd, Mangalore Refinery and Petrochemicals, etc.

On business outlook, increased enquiries from metro and airport segments and pick up in the private office segment offer good prospects for the electro mechanical projects business. We expect demand for room air conditioner business to partly revive during the latter half

of the festive season in Q3 FY19. Commercial Refrigeration business is poised to maintain growth. Water Purifiers business continues to scale up in line with our expectations. We also expect to maintain the pace of revenue growth in the Professional Electronics & Industrial segment in upcoming months. Our focus is to maintain the growth momentum in revenue, release cash through liquidation of inventory and persist with product portfolio changes in order to improve the margins.

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

With that, we are open for questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Especially, the project execution has been better than expectation. Given this kind of execution in the project segment, what kind of growth can we assume for the business? Will it taper down going forward or do you see a sustainable kind of a double-digit growth for the full year. I know this 20% cannot be repeated but can this be around 15% to 20% for the full year?

Neeraj Basur: Order booking in Q2 was encouraging for this segment. In the last six months or so the pace of order execution at the customer end has also started to improve. Our expectation is that for the next couple of quarters this momentum will remain, our expectations of the full years' growth will be reasonable in the range of 10% to 12%.

Renjith Sivaram: When I look into the balance sheet, total outstanding dues to creditors has come down from around Rs 1400 cr to Rs 1000 cr. The receivables and other things are at normal levels. So is this the one which has impacted overall increase in borrowing?

Neeraj Basur: The increase in working capital is largely because of inventory that was procured or manufactured way back in Q4 last year and Q1 this year. We were having unsold inventory as of end of Q1 due to slack season, which is now getting liquidated between Q2 and Q3. Creditors and suppliers had to be paid off and that is why there is a reduction in creditors and that also explains broadly the increase in borrowings.

Ranjith Sivaram: But the inventory number actually has come down from Rs 998 cr to Rs 724 cr.

Neeraj Basur: It should have been probably lower by another Rs 200 cr end of September.

- Renjith Sivaram:** What will be the normalized margins in the UCP segment because we always had this investment factor?
- Neeraj Basur:** We maintain our margins expectation to be around 9% to 9.5% for the full year.
- Moderator:** Thank you. Our next question is from the line of Kunal Sheth from B&K Securities.
- Kunal Sheth:** My question was pertaining to the room A/C segment. You mentioned that the margin pressure was because of two factors, one was because of warehousing cost and secondly because of some pricing pressure. Is this pricing pressure specific to Blue Star, because we wanted to clear inventory or this was an industry wide phenomenon?
- Neeraj Basur:** It is industry wide, as all the players had higher than expected or desired level of inventory end of quarter one and you will appreciate that until inventory levels get restored back into the normalized levels it is quite difficult to get into a price correction mode. Therefore, this is because of the industry phenomenon and nothing specific to Blue Star. Once the inventory gets liquidated substantially we expect warehousing space to get released and that cost also to fall to our expected levels.
- Kunal Sheth:** What was the level of price correction that you and the market had taken to clear this inventory?
- Neeraj Basur:** We have taken price increase during the last quarter because in the meantime, rupee has also depreciated, and there was a customs duty circular, which came on 27th of September. So to counter that, we have taken, in early in Q3, around 5% price increase. However, liquidation of excess inventory that is still going on has to be supported by incentives and some trade discounts.
- Kunal Sheth:** Okay. So basically, it is related to the channel discounting, and the retail prices has not moved up or down?
- Neeraj Basur:** Not much. We would ideally have wanted to move it up a little bit. However because of inventory levels in the industry, we have not been able to do that so far.
- Kunal Sheth:** Okay. But in Q3, that has happened, there is a very 5% hike in that?
- Neeraj Basur:** The 5% hike had to be taken because of the customs duty increase and INR depreciation
- Kunal Sheth:** What part of our A/Cs was funded through financing? Do you see any issues pertaining to that because what we are seeing is some liquidity issues with NBFCs? Do you see that impacting the festive demand, if at all?
- Neeraj Basur:** Around 40% of the sale, which is similar to where we were last year, 35% to 40% is the range at which we see the consumer finance sales happening at the stores. We have not really seen any fallout of the NBFC liquidity issue on this part. Our understanding is that the NBFCs who are financing consumer products are not as much impacted. So as far as last few months are concerned, we have not really seen any issue on that at all.

- Moderator:** We will take the next question from the line of Rahul Murkya from Jefferies.
- Rahul Murkya:** Firstly, please correct me if I am wrong, you mentioned your Room A/C sales for Blue Star was 14% and for industry, it was 8.5%?
- Neeraj Basur:** That is the growth rate
- Rahul Murkya:** On the refrigeration, our growth was more than 14%?
- Neeraj Basur:** Yes.
- Rahul Murkya:** So if we considered this, then why the revenues for the unitary segment are has grown only by 9% for the quarter?
- Neeraj Basur:** The number that I talked about is a mix of all these 3 categories. So our overall growth is a mix of Room A/Cs, the commercial products and the Water Purifier business as well. The overall growth that you see is also in the context of what has happened in the current quarter in terms of the overall mix that we are talking about here.
- Rahul Murkya:** So, we have grown in Room A/C, we have grown in commercial. But overall, our growth has not come to that level. And I believe, the Room A/C and commercial will be the major component for this segment?
- Neeraj Basur:** The growth of 14% that we talked about was the growth in the Room A/Cs whereas the 9% growth on the revenue accounted terms. When we talk about the market share and market growth, we are considering all the dispatches we have made until the end of the month to make it comparable with market data, whereas when we account for revenue under Ind AS 115, we only look at what has been delivered to and received by the dealers. That explains the variation.
- Rahul Murkya:** What would be the revenue growth for Room A/C and MEP segment for the year?
- Neeraj Basur:** In the room A/C segment, we expect market to come back to 5% growth for the year, and we expect to maintain 10% to 12% growth. For MEP, we expect around 10% to 12% growth.
- Moderator:** Thank you. Our next question is from the line of Nitin Arora from Axis Mutual Fund.
- Nitin Arora:** On 14% growth in the Room A/C, how much is the volume growth here?
- Neeraj Basur:** Volume would not have grown much, because volumes are yet to take off. Growth is mainly due to the pricing and realization mix
- Nitin Arora:** At one end when you talk about the pricing pressure, year-on-year, you still are up 14% assuming a 0% volume growth. Is it just the mix change at the lower end, let us say, the

splits you have taken a price decline versus the inverter. Is that the mix change, which is eventually apart from the discount, which has impacted the pricing pressure?

Neeraj Basur: Yes, that is right. What is selling now in larger numbers are inverters, which is around 40% of the volumes and in addition to that, there are five star machines which have higher realization. So it is the sale of higher end machines that are leading to growth in revenue relative to volumes.

Nitin Arora: When you talk about the price hike to which you have taken because of the custom duty, this is at the distributor end, right?

Neeraj Basur: Yes.

Nitin Arora: Given the margin profile, which we have taken in this quarter, is it possible to quantify what kind of EBIT margin we could look from the UCP segment for this year and next year?

Neeraj Basur: UCP margin this year is expected to be in the range of 9% to 9.5%. This is after factoring in whatever margin compression we faced in quarter 1 and quarter 2. For the next year, we will take a view in Q4.

Nitin Arora: Can you quantify the Water Purifier revenue for first half FY2019?

Neeraj Basur: It was around Rs.35 cr.

Nitin Arora: In terms of the capex employed if can you elaborate how far we have this with respect to our capex with the new plant. Capital employed almost there at Rs.500 cr. So the new money will pump in now in Water Purifier from there?

Neeraj Basur: There is hardly any capex needed for our Water Purifiers business. The capex that we talk about relates to our Wada plant expansion that is yet to happen. So whatever capex that you see on the balance sheet is relating to our existing plants, which is more of a maintenance capex.

Nitin Arora: So how much would be the capex in FY 2019 and 2020 you are talking about as of now?

Neeraj Basur: In addition to a normal capex of a Rs 100 odd cr, we may incur around Rs.50-60 cr on Wada expansion this year.

Moderator: We will take our next question from the line of Abhineet Anand from SBICAP Securities.

Abhineet Anand: You mentioned about some of the orders in the JV in Oman, which faced some headwinds and we have around Rs.5 crore of loss and you did mention that there is some cost overruns there. Can you first elaborate how big this International Business within Segment I, and how big is the problem that you are mentioning?

- Neeraj Basur:** We have three joint ventures. Qatar is a subsidiary for all consolidation purposes because we have 95% economic interest there. The other two ventures, Oman and Malaysia are joint ventures from an accounting point of view. The overall exposure is not really high. On average, these two joint ventures have orders worth around Rs.100 cr to Rs.125 cr. The comment that I made on Oman relates to some of their jobs, which they have been executing for the last 3 years, and which have incurred certain delays at the execution stage and hence some cost overruns. We have been accounting for our proportionate share of loss on those jobs for the last few quarters and this quarter, like I said, it is about Rs.5 cr. These jobs are fast end of the closure. In addition to the cost overruns, we also have certain claims on the customer, which are yet to be negotiated. They are in the process of getting finalized and we expect in the next one or two quarters, these jobs should get closed out. Barring these jobs, there is not much significant exposure in these markets.
- Abhineet Anand:** So you do not expect any major loss in the books in the next two quarters?
- Neeraj Basur:** These jobs are yet to be completed. We will not be able to quantify the final values as yet. There is some closure yet to happen, which we will take up in the next one or two quarters.
- Abhineet Anand:** The borrowing looks elevated as of now. So what is your year-end target in terms of where you want to end the borrowing?
- Neeraj Basur:** The year-end borrowing will look better because now as we start liquidating the inventory that was built up over the last two quarters, that will help us reduce the overall borrowing levels and we expect by Q4, we should have consolidated borrowings in the range of Rs.250 cr to Rs.300 cr.
- Abhineet Anand:** What could the tax rate for full year going forward in FY2019 and FY2020?
- Neeraj Basur:** I can only talk about 2019. It was about 25% in Q2. Full year tax rate should be in the range of 27% or 28%.
- Moderator:** Our next question is from the line of Ankur Sharma from Motilal Oswal.
- Ankur Sharma:** Where are the inventory levels in the room A/Cs segment right now versus normalized levels? I would assume they continue to be elevated. By when do you think the inventory levels would be back to normal? We are seeing warm temperatures in the west, so I assume that will be helping to liquidate inventory?
- Neeraj Basur:** The inventory was largely created in Q1 and it is carrying on since then. Then there are some fresh procurements at the industry level, which continue to happen. We think the inventory in the market should be in the range of 7 lakh to 8 lakh units, which in Q3 should substantially get reduced to normalized levels by the time we end the festival season, which is roughly this year spread across October and November. So we think by Q3 end, the inventory should get normalized substantially and then Q4 should start on a clear note.
- Ankur Sharma:** Secondly, when you spoke of this 5% price hike, which you have taken, will this kind of cover the increase in RM and the custom duty increases? Or do you believe there could be another set of price hikes, which you may need to take going into Q4 i.e. before the summer season?

- Neeraj Basur:** This will cover, because around 65% to 70% of what we sell is manufactured by us within India. So we are not really importing a substantial part of fully built units. That is where the most of the customs duty impact has happened from 10% to 20%. In our case that is a smaller proportion. Secondly, the overall impact on compressors is also not very significant when you quantify it from 7.5% to 10%. So we think this 5% price increase should be sufficient to absorb that impact and of course also, impact of depreciated rupee from April levels.
- Ankur Sharma:** Just to clarify again. So this increase in custom duties is only completely built, not on the indoor and the outdoor separately. Is that correct?
- Neeraj Basur:** No, indoor units are not covered
- Moderator:** Our next question comes from the line of Aditya Bhartia from Investec.
- Aditya Bhartia:** Neeraj, this quarter, we have seen PE and IS segment benefiting from the large CT scanner order. Just wanted to understand what proportion of order has been executed by now? What is the unexecuted portion? How should we be looking at the segment going forward?
- Neeraj Basur:** About 50% of that has been executed already. The other 50% we expect to get executed in the next two quarters. In addition to the one large order that we have been executing, this segment has seen some good traction from other lines of businesses as well, such as data security solutions and non-destructive testing solutions. As we have been talking, for the last, four to five quarters, there is a bit of a transformation going on in this business. It is now showing early signs of good performance. And that is why you see the overall margin also coming back to the 20% range.
- Aditya Bhartia:** Do you think this 20%-odd margin number is sustainable?
- Neeraj Basur:** It should be sustainable in this business.
- Aditya Bhartia:** The other question that I wanted to ask is on the pricing side in Unitary Products business. You mentioned that we had not really taken any price decline this quarter and we already had handful inventory which was there at the beginning of the quarter. Despite that, we are seeing gross margin compression also happening in the segment. So what has that been on account of?
- Neeraj Basur:** Other than pricing, there is an increase in inventory holding cost. The warehousing cost has gone up as a result. In addition to that, we are also having the additional scheme that we have run on trade discounts, dealer incentives and so on. So it is a combination of all these factors.
- Aditya Bhartia:** When we speak about pricing being similar to that of last year, we actually speak about printed pricing and over and above that, we give discount and trade scheme, which essentially brings down the effect of pricing?
- Neeraj Basur:** That impacts the gross margin.

- Moderator:** We will take our next question from the line of Charanjit Singh from DSP Mutual Fund.
- Charanjit Singh:** Can you give us some more regional color in the A/C segment. How are things panning out from a distribution channel network and from a competition perspective?
- Neeraj Basur:** We are now in a zone where north and west are almost equal. South this year has not yielded that kind of growth, which we are used to. So this year, you can probably take these three regions to be almost at the same level. East, of course, is lower as compared to other three regions.
- Charanjit Singh:** How has the scale-up progressed in Water Purifiers Business? Is it in line to what we were expecting or it is going slow. What have been the hiccups until now? If you can give more color on that versus your expectation?
- Neeraj Basur:** Yes, it is pretty much in line with our plan. We expect overall Rs.80 crore to Rs.90 crore of billing to happen for the full year. We are moving in that trajectory until the first half year. We have two more quarters to go. We therefore are excited for the scale-up here. Our product portfolio is complete. It is quite comprehensive. And we have also expanded our distribution footprint to more than 2000 stores across 130 cities. So overall, we are quite satisfied with the current ramp-up, and we think that it will grow in line with our overall long-term plans.
- Charanjit Singh:** Overall we are seeing the headwinds from Oman. But overall, how are the things in the other geographies where you would be present? How should we see the Middle East scenario emerging?
- Neeraj Basur:** Middle East, overall from a product export point of view is also a bit muted. You are aware that there are still parts of Middle East and GCC region, which are not completely growing in line with their historical growth rates. Now with crude stabilizing back to \$70s and \$80s, we hope that these markets will start pushing for higher growth. In addition, in Dubai there is an Expo 2020 and a lot of investments planned by the local government in UAE there. There is a FIFA World Cup in Qatar in two years' time. So we think these will become enablers or triggers, which will keep the overall growth momentum fueled and we are consolidating our footprint; we are consolidating our presence, expanding dealership, distributorship, on a reasonably aggressive basis.
- Moderator:** Our next question is from the line of Madan Gopal from Sundaram Mutual Fund.
- Madan Gopal:** My question is on the inventory market. How has this market grown compared to overall Room A/C market? What is the market share here?
- Neeraj Basur:** In H1 last year, market share of inverters was around 20% of the overall split A/Cs sold, which has now gone up to 40% as far as market is concerned. We have been pretty much in line. Last year we were at 19%. We are now at 43%. It is pretty substantial increase considering that the market some 3 years ago was 15% at the most.
- Madan Gopal:** The difference between the price increase and the revenue that you mentioned almost like 9%? It has to do with the inventory mix helping us?

- Neeraj Basur:** The overall growth that we are talked about as far as room A/Cs, is a 14% growth, which includes all the billing that we have done until the end of the month, which is till September 30, whereas under Ind AS 115, not all of that billing is recognized as revenue, because only what gets delivered to the end customer is considered. So that is why you see this variation between 9% and 14%, which we will better explain from next time.
- Madan Gopal:** Even between 9% and the 5% price increase, the 4% has to do with the mix? That has to do mostly with the quarter two?
- Neeraj Basur:** Mostly the increase we have taken from October, not in Q2.
- Moderator:** Our next question is from the line of Amber Singhania from Asian Markets Securities.
- Amber Singhania:** In case of Room A/C segment, last year, we had the entire festival season panning out in Q2. But at this time, it is panning into Q2, Q3 and maybe last year, we had a good Onam sale this time, it was impacted because of the Kerala floods as such. And also we have a huge inventory of dealers during the Q2 at the end of Q1. Despite that, we have clocked around 14% growth in this segment. So definitely, somewhere we have gained significantly higher. If you could just give some more color on that, where exactly we are gaining what factors are contributing this kind of growth despite all the adversities?
- Neeraj Basur:** Inverter A/Cs continue to be our flagship category for many years. So for us, ever since the rating label changes happened in January this year, we could transition onto the new products quite smoothly. That is one reason that we have also grown more than market. Market share of inverters in the overall sales is anywhere up to 40% and 43% of our overall proportion comes from inverters. Apart from that, we are also doing reasonably well on the fixed speed three star, because there is a significant part of the market, which still asks for fixed speed products. So that is the second reason. Third reason I can share with you is the increase in our overall distribution footprint. We were tracking at around 2400, 2500 distribution points till about 6 to 9 months ago. Now we have accelerated that to around 3000 in the last 3 or 4 months. So there has been a very conscious attempt to expand footprint in a deliberate manner, to partly mitigate this seasonal impact, which we have had. Increased distribution will serve us for a longer term in any case. We have also been consciously spreading ourselves into areas and regions where we were historically not very strong. So it is a combination of all these factors.
- Amber Singhania:** Secondly, within the inverter segment, if you can just help us understand where do we stand in terms of the market share and who would be the top players there? What would be our ranking within the inverter sales?
- Neeraj Basur:** Unfortunately, there is not much credible data available on sub-segment within the overall splits. My sense is, if you look at the top four, five players, you will get the answer and that market is shared between the top four, five players on inverters.
- Amber Singhania:** Out of the total revenues, 43% is coming from inverters for Blue Star?
- Neeraj Basur:** Yes.

- Amber Singhania:** Lastly to understand better, if you could help me with the volume growth of the industry and for Blue Star?
- Neeraj Basur:** On volume growth, we are almost flat. Whatever increase we have had is due to a change of mix. We have industry value growth numbers, which are roughly 8% for Q2
- Amber Singhania:** But volume must have been degrowth?
- Neeraj Basur:** Yes, so we can revert to you once we get these numbers.
- Moderator:** We take the next question from the line of Vinod Chari from Dolat Capital.
- Vinod Chari:** What I wanted to understand is how has the current festive season panned out? We are hearing a lot of media about consumer confidence being low and discretionary products like autos not doing well. So is it that also rubbing off on durables, particularly the A/C market?
- Neeraj Basur:** The current festive season is in line with what we have expected so far. There is still more to go, because next month is Diwali and then followed by the Christmas and the year-end starts. So it is slightly longer period and we are still maintaining our optimistic position on Q3. If you remember between November and December last year, the festival season came out reasonably well. So we are quite hopeful this year also will be good.
- Vinod Chari:** So qualitatively, would you say this festive season would be similar to last year or better than last year?
- Neeraj Basur:** We think it will be similar because last year, most of the festivals happened in Q2. This year, these are in Q3.
- Vinod Chari:** I am not looking at a quarter-to-quarter-wise. I am just looking at the festive season of this year versus the festive season of last year?
- Neeraj Basur:** Yes, it should be same. So I guess, it is the question around this entire consumer sentiment through the finance options, like I clarified on an earlier question, we have not seen any slowdown in terms of NBFCs not willing to finance the consumers especially in our category. So there, we have not really seen any trends or any signal where the sales are getting impacted or something like that.
- Moderator:** We will take our next question from the line of Bhoomika Nair of IDFC.
- Bhoomika Nair:** You spoke about that we offer discounts in the current quarter to reduce inventory. Just wanted to check if the rest of the peers are also taking such steps to reducing inventory?
- Neeraj Basur:** Yes, That is our understanding.

- Bhoomika Nair:** Has everybody kind of taken a similar 5% hike, how does it vary? Also how is the pricing moving between fixed & inverters? Where are the discounts larger? If you can give some qualitative sense on that?
- Neeraj Basur:** Right now, the discounts are mainly related to the older inventory. In reality, the new product portfolio, which actually, our sense is, will get released in Q4. So that should give you a better sense in Q4 as to where is the pricing parity of the market. So until such time, different players will have different levels of inventory. So it would be difficult to generalize whether everyone is taking a uniformed approach. However, what we definitely see is there are no overly aggressive attempts by any player to discount heavily. So that tells us that the overall levels of inventory are within the comfort levels for our various players and once this level comes out further, which we think in the next couple of months should happen; we think Q4 is where better clarity will emerge.
- Bhoomika Nair:** But price hikes are similar across all players?
- Neeraj Basur:** Not yet clear. Our sense is that there will be price hikes across the board. It may not necessarily be in the same range.
- Moderator:** We will take our last question from the line of Abhishek Puri from Deutsche Bank.
- Abhishek Puri:** On the inventory levels that you said of about 7 lakh to 8 lakh units. Last year, same quarter, the sales was roughly around 6 lakh units and this is on a base where November, December, we have seen huge inventory being pushed into the channels before the rating tables had change. So just wanted to understand, are you optimistic about that growth in Q3 given this background? Secondly, since we are working on the old inventory, the margins will remain subdued for the current quarter?
- Neeraj Basur:** Last year, if you remember because of GST, there was very little offtake by the dealers well until November. So the push that you saw last year was largely in the month of December and some part of it was in anticipation on the rating table changes. This year, because we do not have a corresponding GST situation, we think October, November should be normal. Then when you adjust for the normal growth quarter-on-quarter, which anyway, should happen, we feel optimistic that in Q3, we should see some reasonable growth. Again, whether it will be good double digits or good single digit, it remains to be seen. Overall, based on this expectation the market should come back on a 5% kind of growth trajectory.
- Abhishek Puri:** My second question is on the pricing that you talked about. 5% price increase adequately covers the raw material price increases, INR depreciation as well as the increase in import duty. You mentioned that this is only for compressors. Indoor unit still has not seen the import duty increase from 10% to 20%?
- Neeraj Basur:** Correct, indoor units are not part overall import duty increase. So, largely it will be compressors, which is on an overall computed basis, largely for Q4 is not a really big number. Then, of course, we have to take care of INR depreciation impact, also. So we feel confident that at least, in our case, this 5% should suffice.

- Abhishek Puri:** Apparently, industry players actually told us that this indoor unit is a part of the same HS score, Chapter 84, 8415, where the duties have increased from 10% to 20%. So I have not seen the notification yet. But this is confirmed that indoor unit duties will remain at 10%?
- Neeraj Basur:** So if the indoor unit is imported as a CBU along with associated outdoor unit, it gets covered in the same chapter code 84. However, if indoor unit is imported, independent of the outdoor unit is being manufactured in India then it is imported as a component of air conditioning equipment, which is the different chapter code.
- Abhishek Puri:** In your case, indoor unit is separate and we only do indoor unit imports, whereas Outdoor unit is 100% made here?
- Neeraj Basur:** Not 100%, but substantially made by us or through contract manufacturers in India. In our case we do matching up indoor units as a component of the outdoor units. So we substantially manufacture outdoor units. We believe that, that should not be a big concern.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Basur for closing comments. Over to you, Sir!
- Neeraj Basur:** Thank you very much, Ladies and Gentlemen. With this, we conclude this quarter's earning call. Do feel free to revert to us in case any of your questions were not fully answered and we will be happy to provide you additional details by email or in person.
- Moderator:** Thank you very much. On behalf of Blue Star Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.