BLUE STAR

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May 9, 2024

BSE Limited 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**

Dear Sir/Madam,

Sub: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations') - Earnings Call Transcript for the Fourth Quarter and Financial Year ended March 31, 2024

In furtherance to our letter dated May 3, 2024, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of Financial Results for the Fourth Quarter and Financial Year ended March 31, 2024 and pursuant to Regulation 30(6) read with Part A of Schedule Ill of the Listing Regulations, we are enclosing herewith the Earnings Call Transcript of the said Earnings Call, for your information and records.

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

Kindly take the same on record.

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

RAJESH DIGAMBAR PARTE
Digitally signed by RAJESH DIGAMBAR PARTE
Date: 2024.05.09 14:29:29 +05'30'

BLUE STAR LIMITED

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

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“Blue Star Limited
Q4 & FY24 Earnings Conference Call”

May 03, 2024

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

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q4 & FY24 Earnings Conference Call.

We have with us today from the management Mr. B. Thiagarajan – Managing Director, Blue Star Limited and Mr. Nikhil Sohoni – Group Chief Financial Officer, Blue Star Limited.

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

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

B. Thiagarajan: Thank you. Good Morning, Ladies and Gentlemen. Welcome to join this Particular Briefing from Blue Star Limited for the Q4 FY24 Results and FY24 Consolidated Results.

You might have seen the results declared yesterday after the board meeting and we are happy to report that as in the past we have closed the financial year on a high note with an impressive performance in Q4 FY24.

As you may recall, the financial year began with huge expectations during the summer season of 2023, but then due to rains, it was the quarter that was impacted. But even in Q1, we exceeded or outperformed the market estimates. From then on Q2 and Q3, you have seen our results; it was an all-round performance both in our B2B businesses as well as B2C businesses.

During the financial year, our investments continued in manufacturing capacity expansion as well as in research and development and marketing and distribution. Of significant importance is our QIP fundraising, amounting to Rs.1,000 Cr for funding the growth.

We are happy to inform that the FY25 also has begun with a huge unprecedented demand in the room air conditioners category due to ongoing summer season.

I will hand it over to Nikhil for an Update on Q4 FY24 and FY24 Financial Performance and post that we will be happy to answer your queries. Thank you.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. Good Morning, Ladies and Gentlemen. This is Nikhil Sohoni and I will be providing you an overview of the results of Blue Star Limited for Quarter ended March 2024.

I. FINANCIAL HIGHLIGHTS FOR Q4FY24 and FY24

The Company ended FY24 on a high note with a revenue growth of 21.4 %, Operating profit growth of 34.9%, a record carried forward order book amounting to Rs 5,697.34 crores (FY23 Rs.5,073.27 crores) and a strong balance sheet. In an all-round performance, all businesses performed well gaining market share and the company improved operating margin by 70 bps (6.9% in FY24 vs 6.2% in FY 23)

The Company continues to invest for future growth with a focus on research & development, manufacturing, sales & distribution, digitalisation, talent development and capability building.

Quarter ended March 31, 2024

Financial highlights for the quarter ended March 31, 2024, on a consolidated basis, are summarized as follows:

- Revenue from operations for Q4FY24 grew 26.8% to Rs 3327.77 crores as compared to Rs 2623.83 crores in Q4FY23.
- EBIDTA (excluding other income) for Q4FY24 was Rs 241.90 crores (EBITDA margin 7.3% of revenue) as compared to Rs 179.17 crores (EBITDA margin 6.8% of revenue) in Q4FY23.
- PBT before exceptional items grew 46.4% to Rs 214.13 crores in Q4FY24 as compared to Rs 146.30 crores in Q4FY23.

Year Ended March 31, 2024

Financial highlights for the year ended March 31, 2024, on a consolidated basis, are summarized below:

- Revenue from operations for FY24 grew 21.4% to Rs 9685.36 crores as compared to Rs 7977.32 crores in FY23.
- EBIDTA (excluding other income) for FY24 improved to Rs 664.94 crores (EBITDA margin 6.9% of revenue) as compared to Rs 492.78 crores (EBITDA margin 6.2% of revenue) in FY23 recording a growth of 34.9% mainly due to the impact of scale.
- PBT before exceptional items grew 44.9% to Rs 557.16 crores in FY24 as compared to Rs 384.57 crores in FY23.
- Tax expense for FY24 was Rs 142.85 crores as compared to Rs 154.69 crores in FY23. The effective tax rate was 25.7% for FY24 as compared to 27.9% for FY23.
- Net profit for FY24 grew to Rs 414.31 crores (4.3% of Revenue) as compared to Rs 261.49 crores (3.3% of Revenue) (excluding the profit on sale of Thane land parcel of Rs. 139.24 crores net of tax) in FY23.
- In view of the record revenue and profits earned by the company, a dividend of Rs. 7 per share (Rs.6 per share in FY23, adjusted for bonus of 1:1) is recommended by the Board of Directors of the Company.
- Carried forward order book as of March 31, 2024, grew by 12.3% to Rs 5697.34 crores, as compared to Rs 5073.27 crores as of March 31, 2023.
- Capital Employed as of March 31, 2024, stood at Rs 2156.70 crores as compared to Rs 1542.25 crores as of March 31, 2023, primarily owing to capital investments.
- In Sept 23, company completed a successful fund raise of Rs 1000 crores through its maiden QIP issuance, which witnessed strong response from existing and new marquee

foreign portfolio investors, sovereign wealth funds and top domestic institutional investors.

- In June 23, company had issued Bonus shares in the ratio of 1:1, i.e., one bonus equity shares of Rs. 2/- each for every fully paid-up equity share of Rs. 2/- each
- On the back of strong operating cash flows, coupled with QIP inflows the Company reported a net cash position of Rs 455.93 crores as of March 31, 2024 as compared to a net borrowing of Rs 208.41 crores (debt equity ratio of 0.16 on a net basis) as of March 31, 2023.

II. BUSINESS HIGHLIGHTS FOR Q4FY24

Segment I: Electro-Mechanical Projects & Commercial Air Conditioning Systems

Segment I revenue grew 20.3% to Rs 1506.83 crores in Q4FY24, as compared to Rs 1252.62 crores in Q4FY23. Segment result was Rs 112.53 crores (7.5% of revenue) in Q4FY24 as compared to Rs 99.21 crores (7.9% of revenue) in Q4FY23.

Segment revenue for the year grew 17.4% to Rs 4715.46 crores as compared to Rs 4015.63 crores in FY23. Segment result was Rs 341.09 crores (7.2% of revenue) in FY24 compared to Rs 276.78 crores (6.9% of revenue) in FY23.
Order inflow for the quarter reduced by 7.8% to Rs 1226.77 crores as compared to Rs 1329.90 crores in Q4FY23 on account of delay in finalisation of orders.

1. Electro-Mechanical Projects business

Driven by strong demand from manufacturing, data centers and infrastructure segments, this business continues to do well with improved margins and healthy order book. The demand from commercial buildings and real estate sectors are yet to take-off. We continue to be focused on prudent project management and healthy cashflows.
During the year quite a few major orders were received from Factories, Data Centers and Infrastructure segment and the carried forward order book of the business stood at Rs 4343.83 crores as on March 31, 2024, as compared to Rs 3892.86 crores as on March 31, 2023, a growth of 11.6%.

2. Commercial Air Conditioning Systems

The revenue growth was majorly driven by its product portfolio and channel expansion. The growth is driven by demand from industrial, healthcare, hospitality, retail, educational institutions and data centers.
The launch of VRF Lite has enabled the Company to address the premium residential segment. The enquiries and demand for newly launched Centrifugal Chiller remains strong.
We continued to maintain our No.1 position in Conventional and Inverter Ducted Air Conditioning Systems as well as Scroll Chillers and strong second position in VRFs and Screw Chillers.

3. **International Business**

Due to global disturbances, international business, which is at a nascent stage, saw a subdued performance. We are focused on products exports and hence we are investing in R&D to expand our product portfolio. Our subsidiaries in US and Europe are engaging with customers and we expect the business to pick up traction soon.

Segment II: Unitary Products

Segment II revenue grew 34.8% to Rs 1708.88 crores in Q4FY24 as compared to Rs 1267.72 crores in Q4FY23. Segment results improved to Rs 141.43 crores (8.3% of revenue) in Q4FY24 as compared to Rs 106.95 crores (8.4% of revenue) in Q4FY23.

Revenue for the year grew by 26.6% to Rs 4592.20 crores in FY24 as compared to Rs 3626.93 crores in FY23. Consequently, segment results improved to Rs 360.31 crores (7.8% of revenue) in FY24 as compared to Rs 282.31 crores (7.8% of revenue) in FY23.

1. **Cooling and Purification Products business**

Momentum gained during festive season in Q3FY24 was further bolstered by a stellar performance in Q4FY24. The exceptionally strong demand in the southern region and product diversification especially with a range of Affordable Room ACs helped us surpass the milestone of 1 million units. Our market share during the year improved and is estimated to be at 13.75% compared to 13.50% in FY23.
The launch of new inverter split air conditioners under flagship models like "Heavy-Duty ACs" and "Super Energy-Efficient ACs, aided a substantial revenue growth.
It is anticipated that with the enhanced product range and prevailing hot summer weather conditions the growth momentum will continue in the Q1FY25.

2. **Commercial Refrigeration business**

The commercial refrigeration business witnessed excellent traction in the quarter with strong demand witnessed from OEM’s, hospitals, offices and educational institutions.
Increase in outside-the-home consumption remains one of the major drivers of business growth especially in the perishable food sector. Blue Star became the 1st Indian company to receive India Design Mark for its 300-600 ltrs Deep Freezers & also got BIS Certification as well for Deep Freezers.
We continued to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue grew 8.3% to Rs 112.06 crores in Q4FY24 as compared to Rs 103.49 crores in Q4FY23. Segment result was Rs 13.57 crores (12.1% of revenue) in Q4FY24 as compared to Rs 19.83 crores (19.2% of revenue) in Q4FY23.
Segment revenue for the year grew by 12.8% to Rs 377.70 crores as compared to Rs 334.76 crores in FY23. Segment result was Rs 51.50 crores (13.6% of revenue) in FY24 as compared to Rs 50.50 crores (15.1% of revenue) in FY23.

The market for the non-destructive testing business has grown due to Make-in-India related capacity expansion as well as the introduction of higher quality standards and specifications in various industries. The healthcare business is benefiting from the expansion of the country's semi-rural healthcare infrastructure and increased investments. The data security business continues to face challenges as customers move from on-premises IT infrastructure to the cloud.

III. BUSINESS OUTLOOK

Robust demand across businesses and geographies, buoyant festive seasons, new product launches and hotter weather conditions enabled us to end the year on a high note with healthy revenue growth and margin profile. We continue to invest in expansion of our distribution network, enhance R&D and manufacturing capabilities to strengthen our brand recognition in the market. The Company continues to be acknowledged by the Government of India for adopting greener technologies that are ahead of its curve leading to sustainable growth.

In FY 25, Company will continue its focus on maintaining/improving margins, prudent cash management, effective talent management. Given the weather forecast projecting a robust summer ahead, with our new and resilient product portfolio and focus on aforementioned key levers, we are optimistic about the business prospects for Q1FY25 in particular and FY25 in general.

With that, ladies and gentlemen, I am done with the opening remarks. I would like to now pass it back to the moderator, who will open the floor to questions. 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.

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

Bhoomika Nair: We've seen a very strong quarter with 35% growth and for the year we've seen a 27% growth for the UCPL segment. Here, how would have the RAC segment grown and the commercial refrigeration business would have grown, can you please split that for us?

B. Thiagarajan: I think I am participating in the call for now 20 years. I think the problem is this. I can empathize with the investors with regard to this requirement of the break up there. So, what all business are there? To recap, there is Room Air Conditioners, very negligible volume of Water Purifiers, Air Purifiers, Air Coolers, then you have got Commercial Refrigeration products which are Water Coolers, Deep Freezers and Cold Room. Now, it becomes a selective disclosure and hence we cannot give split. So, I am really not able to solve this problem. Now, another answer, if we decide to restate the complete thing, then it will make sense. If I were you, I will be going by what is my market share in Room Air Conditioners and what is the room air conditioner market size, that is the only way you will be able to understand that. I don't want to get into a selective disclosure. So, you have to bear with us for this. Internally also we keep discussing this, that whether at some point of a time we should go ahead and break that up. See, in our internal MIS and other things, there are constraints we have, because the factories serve multiple businesses, there is the brand related and there are common dealers and this has been the concept. Originally, we conceived it on that basis. There is an EPC part of it and Packaged Air Conditioning which are Commercial Air Conditioning where both are taken together . As we grow, both the businesses are growing and whether at some point of a time we will give a break up, we'll see. Just go by room air conditioners, our market share, that will then guide you that what portion of that is room air conditioners, what portion is commercial refrigeration. Profitability wise, you need not worry. Both enjoy same kind of profitability

Bhoomika Nair: As you mentioned that we're seeing a very strong summer and a very strong demand, what is your estimate that the industry will see a growth in Q1 FY25 and potentially in the year as a whole? And secondly, with the recent increase in raw material prices, have we taken any price hikes either in Q4 or in Q1 so far?

B. Thiagarajan: Fortunately, because the demand is good, prices are holding. Between Q4 and Q1, there has not been any price increase. We launched the new products from January and we had announced the prices and seems that the same is holding on. So, there is no change in that. I don't think in the market also you are seeing any kind of massive price disruption. Whether we are increasing the prices, because the demand is huge and there are shortages in pockets, I don't think so. Because that has not been the principle Blue star has been operating just because there is huge demand and shortage we should go ahead and increase prices, that's not happening.

Now, coming to market projections, so from January, February onwards, I have been saying the market can grow anywhere between 20% to 25%, and we want to grow between 25% to 30%, that was my outlook. Now, going back even in March, that is what we thought till March third week, suddenly in March fourth week there was a huge surge in demand from the dealers and this despite the fact that there is ongoing election season due to which in the past we had seen both in 2019 as well as 2014 that we could not anticipate that kind of demand. The March-to-March alone, my estimate is the market would have grown, or the primary sales would have grown by around 40%. Now, in April, I may be wrong, as I do not have the full picture, my estimate is the market would have, say, for primary sales of April alone grown between 65% to 75%. And if you take the secondary sales because March last week, enough material was there, I think anywhere between 70% to 90% growth would have been there in secondary, tertiary sales in the month of April.

Now, second part, the peak in past had been May month I have a feeling that because there is a huge consumer finance and other facilities available, the people are going and buying ahead. So, it is quite likely that this time in April itself the market has peaked. I have a feeling May demand may be lower than April. It may be unrealistic to expect that there is again around 70% demand growth in May and then it will be repeated in June, July like that. Now, keeping all this in mind, whether 25% to 30% growth holds good ? I think it may be better than that when the summer eventually ends we can look at this. But equally, we are not believing at this moment that the growth can be summer-to-summer, it may be March to July this year, the last year is not comparable anyway, if you take the normal summer year, it will be a 50% growth, we are not yet believing that would happen. It will be better than 30% for the full summer season is our estimate. If you take Q1 alone, I think it can be 30% to 40% growth will be there is my view. We have to wait for May 15th to revisit that. Over the years, my experience is it starts off like that. You would have seen last year reports. There was a report by an industry association and some of the players that it is going to be 90% growth, market will double this summer, it didn't happen. So, broadly the summer has set in early, and people have advanced their purchases, it will keep coming down is my view as we go forward. But in April, primary sales itself, which is around 55% growth and secondary & tertiary sales, would have been anywhere between 70% to 90%, keeping in mind the material was there in the last week or delivered in the last week of March and there are shortages in quite a few pockets.

Bhoomika Nair: Given this scenario, do we expect margin profile to improve? This year also if we see the segment sales has been growing by about 27%, but our margins have pretty much held on at 7.8%. Do you think that this can possibly improve to 8.5%, 9% into FY25 given the strong demand that we see?

B. Thiagarajan: At this juncture, we have another 11 months to go. There will be many twists and turns, all will take place. The important events will be the Union Budget, important decisions will be made in terms of supply chain, what are the items that will be brought under QCO, like copper QCO was there, time was extended, there are CCD-related announcements which are expected. So, in a business there are many moving parts, all this will happen. But broadly, we are of the view that it can be around 8.5%. That is the thing that we are working with.

Moderator: The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Just on the profitability of the UCP segment, can you answer this first, for this quarter when you are growing at 34%, last quarter we grew 36%, our margins are like 7.1% and 8.3%. Even in absolute EBIT growth, you're matching your revenue growth. Can you first throw some light why this is happening because I mean there is no zero operational leverage in the business or we are trying to be more aggressive, which doesn't augur well when you yourself saying industry has a very good tailwind right now because of the summer season, can you just clarify why such low profitability?

B. Thiagarajan: Given the outlook that we had indicated, I don't think one should be unhappy. Where are you getting that? We had given an outlook, correct. So, where is that coming from?

Nitin Arora: Sir, for example, let's say even I don't think that when the outlook was given you would not be expecting that Q4 will be a 35% growth, right. So, my question is not related to what has been the outlook versus what is given, obviously, it's in your guidance range. But nobody knew in January that March and April would be such heat season and you yourself saying -

B. Thiagarajan: April has not come into picture, March alone has come into picture.

Nitin Arora: Exactly. Exactly. So, you're growing at 35%?

B. Thiagarajan: You are talking about Q4 to Q4 margin of Segment-II?

Nitin Arora: Yes, sir.

B. Thiagarajan: The Segment-II standalone margin for Q4 was 8.3%. You may ask compared with this for this huge revenue growth, but it is not. You have to note that huge advertising expenses has been there in Q4, right, because the IPL started, advertising campaign started. If the material is moving out to the primary channel, you have to support it with advertising. So, there is an advertising expense surge in that quarter. The right way to compare in a good summer year is, you have to look at Q1 margin and Q4 margin, and that gives a broad indication of how the full year will be. In FY24, Q1 is not a quarter to be accounted for segment-II because it was a washout summer season. In Q4, volume surge, equally we have incurred advertising expenses. It's not due to pricing or margin. It is the operating margin, the cost has come in.

Nitin Arora: Is ad expense optically very high deliberately in Q4 because that would be every Q4, right? So, is this Q4 was quite high?

B. Thiagarajan: Not necessary at all. Like for example. It depends on if you are going to be in IPL and substantial number of matches are happening in IPL and the package that you have got is that way, it can. And because of the elections, IPL number of matches and number of matches in which we were there would have been high. Advertising expense of this Q4 is very high.

Nikhil Sohoni: Again, you have to look at it that in Q3, it was 7.1%. So, it is 8.3% against 7.1% in Q3, which was also a good quarter.

B. Thiagarajan: He's asking about the operating leverage and he is assuming that the cost will remain the same. The additional quantity is sold in March would have substantially improved the margin. In Q3, there was no advertising expenses, that comes in Q4 that is the problem this year especially.

Nitin Arora: Second question is on the export side, because I think we're doing a lot of R&D there as well. When do you start seeing ramp up of the export business and any targets in mind over the next two years, how big this can become?

B. Thiagarajan: I think it will be at least 18 months. We are executing some trial orders and then in US, Europe, there had been a slowdown. In our view it is good for us because it will gives us time to develop our products. And the US market is expected to pick up only in the coming year post the elections. I don't think before elections you will see US ramping up. We are not selling the regular Air Conditioning solutions, it is decarbonization energy efficiency, improvement-related products, and therefore the regulations and the brands there will have to ramp up. So, there are trial orders that are being executed, necessary approvals are being obtained and in 18 months it should ramp up. Whether we have internal target? We do have internal target because if we are investing, we should be having tight targets closely monitored by the board.

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

R Swaminathan: My question is with respect to the first segment. The order inflow kind of has seen a bit of decline over the past two quarters, and I think for the full year also it had been kind of slightly subdued compared to the last year. How the industry would have grown in FY24 over last year and how is it likely to grow, which are the sub-segments which are promising in terms of growth and why the softness for us, are we kind of a bit conservative in taking orders? You had mentioned that there were some kind of finalization delays which were there. Will we see a better lumpy kind of orders flowing in post-elections, if you can throw your thought process on this, will be great, sir.

B. Thiagarajan: Your questions are valid. We have been seeing a slowdown in some of the segments, basically the Commercial Building Segment, there has been delay, some of the infrastructure projects also, there is a delay and our understanding is that post-elections, it should pick up and there are enough tenders and the openings of the tender, negotiations and finalization of commercial terms, these are all getting delayed. The growth primarily is now driven by the manufacturing and data centers and so therefore those orders cannot compensate for large infrastructure projects. This is the first answer.

Second one is that, you are very clearly aware that we are not chasing the market share at all in this business. We are very clear that it should be free cash flows and how timely execution will take place to the extent possible. And industry, it will be the same. It's not that there is some new player to whom we are losing the orders, it's not so. And yes, it should revive some time in Q2. Again, our direction here is, there is no point in sitting on huge record carried forward order book, it doesn't help in any manner at all. In fact, it is dangerous to be having a huge order book because while you may have price escalations, you may not get everything out there and so we are now focusing on data center manufacturing that kind of projects, wait for the infra projects to get the order finalization cycle to begin, in the meanwhile, expediting the speed of execution and collection is important.

R Swaminathan: Is there a mix in terms of our advantage as of now like certain sub-segments like data center or manufacturing, do they carry better margins than the overall average, and because of that profitability, which is like 7% can go back to 10% which we used to do 10%, 11%, 12% and all, is there a possibility of that happening, keeping in mind the competitive dynamics?

B. Thiagarajan: So, three parts: #1 is, are the jobs of manufacturing, data center more profitable? It will be for the simple reason, they are fast-track execution projects and therefore it should be compared with infra projects which is 3-2.5-years like the metro railways or water, airports and all that, obviously the answer is, yes. And the second part is connected with the segments. See, at some point of time, we will do. We couldn't do this in this particular concall. We will try to give a break up of comparison of last year as well as this year key segments what has been, we will provide that in the subsequent quarter when we engage with you for the Q1 results, we will indicate that. The margins, I do not think it can be 10% at all. Even though there is significant amount of Packaged Air Conditioning where the VRF, Ducted, Chiller that part, the manufacturing and sales service part is part of segment-I. Even then I do not think so, because EPC business can only be a 4% to 5% EBITDA. It is pushed up because of the manufacturing and service elements that come in that segment. So, our outlook for this segment-I is 7-7.5%, segment-II is 8-8.5%, in a good summer year, it may be around 8.5%.

R Swaminathan: And growth for the first segment, how do you envisage that for the next two years?

B. Thiagarajan: At least this financial year, we are attempting to grow the revenue by 25%. Internally, that's what we are working towards. We don't know what will happen. That is the aspiration. I tell you that the segment-II, there is no problem, the growth should be in a good summer year, full year growth to exceed 20%. So, we should do better than that. Segment-I, there is enough order book and order inflows will come in. See, we are selective. That market size is huge and the number of projects are happening. So, it may not be difficult to do 20% growth even in segment-I.

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

Pulkit Patni: In line with what I think Nitin had asked earlier, we are seeing one of the largest players in the sector being extremely aggressive in terms of pricing, and that is something we've heard across the board. Is that something that is having a bearing on profitability? So, since volume numbers are so much better, we understand you're spending on advertisement. But, is that also an element which has kept the margins under check despite such strong volume growth, and as we look at the first quarter of this year, which again you are indicating is very, very strong in terms of volumes, could the margins for you and the broader industry be under check because of one player going very aggressive?

B. Thiagarajan: For a particular quarter or a particular season, the answer may be something different. Like for example, in a huge summer season, there are shortages, pricing may not be an issue at all for anybody. Now, this has to be taken strategically given the fact that India is a market with huge potential, India is the fastest growing market, India's penetration levels will more than double in the next three years to four years and by 2045 or '47, India has the potential to overtake China. In that backdrop, for the Room Air Conditioners business you can plot what is the demand growth, how the competitive landscape is likely to pan out, what is the manufacturing capacity already existing in underinvestment, what will be created, what are the supply chain constraints, what are the competitive things and the gaps. If you keep that in mind and going by certain other information that is available from other durables, like what happened in refrigerators or washing machines for example, or two wheelers, automobile, you can easily conclude that the demand growth is given, you need not worry about it at all. There may be a bad summer in between. That's fair enough. Demand will continue to grow. Secondly, the growth is driven by aspirational middle-class. The cost structure is impacted by a few other things which is not applicable for other categories, like for example, once in two years, the energy labeling upgrade, the refrigerant related regulations that are supposed to come in, the highly seasonal nature of the product, therefore, the inventory that you have to hold or the manufacturing capacity utilization throughout the year, extention of obligation for the e-waste, consumer finance at its peak like 55% of the sales happening through consumer finance. If you keep all those elements and advertising, that is needed for occupying the share of mind and after knowing which are the markets that are beginning to grow in a big way like Tier-3, 4, 5, I am of the opinion that it is a market with 8.5% operating margin. I do not think it is a 10.5%, 11% operating margin market at all and keeping in mind all the durable broad margins they are making.

Now, one may say extensive backward integration is happening but then you have to make again R&D investments and many other things, learning curve, etc., where before you are able to improve, but then in a growing market, the competition will also be interested in growing their market share. And I do not see anybody being shaken out and thrown because in every country, the players are there, it is known. In that backdrop, it is 8.5, if you are lucky it can go to 9 at some point of a time. I do not think 9 is possible is my view. In that context, somebody is pricing lower in one particular year, somebody is gaining market share, somebody is losing market share, we are indifferent to that. We will go ahead and tactically price in some markets, but we are very clear that profitably you have to grow the business and we know it will eventually settle down. If we are to be getting into the game of, that I will drop the prices to gain the market share,one - or two quarters, it may happen, but it does not yield result. Historically, I'm not seeing any evidence when somebody has dropped the prices. You can change the game through your product or technology. And lastly, I don't think we have that culture at all. Our direction is very clear. We know what the potential revenue is possible in this market, what is the margin possible, within that set our goals.

Pulkit Patni: My second question is, we have for a long time waited for that J-curve in India's AC demand, if you look at the last 10-12 years, despite some good, some bad summers as an industry, we've grown at that early 12%, 13% kind of rate. Do you think we are at that stage where we are either already hit or hitting that J-curve, where that growth rate could be much faster, I mean, I'm saying keeping in consideration the strong real estate demand we are seeing, the low penetration, I mean, are you of the view this is still an industry that will grow between 12% to 14% on a normalized basis or we could see a five year period where we could grow faster?

B. Thiagarajan: Much, much higher is my view. It is going to explode in the next five years.

Pulkit Patni: And why is that?

B. Thiagarajan: It will explode. It is exactly like in China what happened post 2005 and it will be a very high growth market for this category.

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

Dhruv: So, I have a question on the VRF segment. So, we have seen that a lot of premium housing projects have been seeing good traction there. So, if the trend of VRF being installed, something that you are seeing or something that we've also seen in the developed markets, and how should we think about this category growth in the next four or five years? And also if you could just talk a little bit about the competitive dynamics there?

B. Thiagarajan: So, where the VRF comes into play? VRF comes into play for a very high energy efficiency in a commercial establishment. First of all, let us understand it. In India, residential segment is far bigger than the commercial segment, unlike certain other markets where the commercial segment can be much, much larger. Now, the calculations will show, keeping in mind the energy labeling program and the energy efficiencies that we have achieved, if you are looking at a three bedroom apartment, a five-star inverter installed in three bed rooms, will have the potential to deliver more energy efficiency than a VRF. If you have to look at the cost, because that market size is huge and therefore the price levels that are operating, again, room air conditioners, five-star, 1.5-ton installed, in this particular example of a three bedroom plus hall, that will pay back faster. If you have to look at the ease of operation, in an Indian home, I think all bedrooms, hall are not occupied and it is limited usage in the halls or the dining area, or the living room. Again, we are not seeing any kind of a great advantage. I'm going purely by the calculations of payback, given that it is a developing market and it is driven by aspirational middle class, it will not make a commercial sense yet in the residential space, because of the price levels at which five star, 1.5-ton air conditioners are available. But having said that, there are customers who need sophistication and who are looking for different kind of solutions and these maybe even larger homes beyond three-bedroom, four bedroom, VRF is an application. So, this is about the residential part of it. And the commercial part of it, definitely VRF provides far superior benefits in terms of energy savings, given that if they are all 18-hours, 24-hours, 20-hours application. And most importantly, compared with the central air conditioning, the installation lead time is very, very fast, there is no ducting installation, so many other things take place, generally, VRF installation can be done very, very faster and therefore VRF will continue to grow but not necessarily like a room air conditioner. In India, the market size will be far lower as compared with residential application.

Dhruv: I had a question on commercial refrigeration. I think in your opening remarks you mentioned that segment has done very well. So, just wanted to understand till when do we have the import substitution tailwind, the BIS-related table that we saw. Have the import substantially dropped or do you think that next two or three years we'll continue to grow at a very healthy pace?

B. Thiagarajan: I think that's fully stopped, in the sense that there is a QCO regime and in that QCO regime, to go and get approval and that those QCO approvals are of limited validity period. So, practically you have to be doing it here. There are only very few categories which are all less than 25 crores market size. It may be some wine cooler and some esoteric applications, or it may be connected with some healthcare-related refrigeration product specialty. Otherwise, the entire deep freezer segment has moved to localization. There may be players who are getting some sub-assemblies and trying to put together something. That maybe an inefficient way of doing that is our view. It is like room air conditioners where you are importing some specialty air conditioners from outside. Here again, that's what is happening. It is fully stopped.

Moderator: The next question is from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami: So, my first question is on the overall strategy wise, where do you think Blue Star market share is and how do you gain market share from here, let's say from the Korean players, is there a strategy to look and expand market share in that premium segment?

B. Thiagarajan: First part is that I suppose you are looking at room air conditioners. The second part is you are looking at the category as a whole. It's not premium alone. I do not have, within premium, what is our market share. I do not have that part of it within room air conditioners, but the thing is in room air conditioners, our estimate is that it's 13.75%, it may be slightly higher than that, but it is what it is, and we believe we gained market share even in FY24 and going forward, we had stated that we would like to reach a market share of around 15% in FY25. So, the clock has begun and let us see. Gaining market share has been one of the important goals and every year from 2011, we have gained market share. So, let us see.

Anupam Goswami: So, our strategy is to gain market share in the premium segment or more in the affordable segment?

B. Thiagarajan: I am talking about the full category. The growth is driven only by affordable segment. Premium segment is growing but if you have to gain market share, you have to address the bottom of the pyramid, it's all 65% sale is from tier 3, 4, 5 markets.

Anupam Goswami: Lastly, do we face any competition from Daikin, they being producing more affordable ACs now, do we face any threat from them?

B. Thiagarajan: No, you face competition from everyone, including Daikin. I won't use the word, "Threat." Competition is supposed to be there in a growing market. We face competition from everyone.

Moderator: The next question is from the line of Sanjaya Satapathy from Ampersand. Please go ahead.

Sanjaya Satapathy: Sir, my question is that can you just give us a flavor of the space that the Company is taking to improve the qualitative aspect of its products, because whenever I'm going and checking out in places like Amazon and other places, I kind of see a mixed signal in terms of quality of the Company's product?

B. Thiagarajan: I'm not sure by going to Amazon, how will you understand the quality you may be talking about, whether the product is an entry level product, is premium, product is next generation. I am not sure you will be able to judge whether the product quality is good or wrong. If you have come across, please let me know. It is impossible to be assessing that. Now, on the other hand, if there are some customers who have posted about the delivery or something rather than the customer rating, we do monitor and when you are crossing some 1.1 million of air conditioners, there will be complaints, but it is negligible. So, we are very clear that the products will have to be of world-class quality and reliability, these are strong pillars forming part of our business operations. If you come across, please let us know. To the extent, today, hour-to-hour what is the installations that are pending, in the summer season whether we are able to install within one day, the time is getting extended because of huge demand or unprecedented demand, and during summer season, the number of calls may be also high. This is monitored round the clock hour-to-hour. I get a report on the pending installations, pending calls and which location. So, if there are, I would request you to let us know. But, on the other hand, by going to Amazon, you saw an entry level product. You use the word mixed signals. Is there a product comparison? It depends on a particular day strategy out there or what I am pushing some particular model in that strategy that could be. But on the whole, I do not think we are reasonably sure because even the thirdparties have been engaged to certify that. Our products will never be second to anyone at all that we make sure.

Sanjaya Satapathy: Just the additional thing that I just wanted to hear your views that when Blue Star came into this unitary product, it kind of gave a clear message that you are getting office kind of comfort at home and now that you are getting into more and more entry product. But overall as a brand, are you really going to be positioned more of a premium brand and aspirational brand or you're getting mass product where like you'll be catering to almost everything?

B. Thiagarajan: In 2015 itself, we moved out of that office like cooling, for the simple reason. In tier-3, 4, 5 markets office itself may not exist, right, they won't be able to relate to office like cooling. We had migrated to a different value proposition that it is a fast-cooling AC. We were only in premium; we went to affordable premium and now we are in premium, affordable premium and affordable. And if you have to grow, you have to be in all the three segments. So, we are there in all.

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

Natasha Jain: I have two questions. First question is, I understand that Blue Star gave 80 months comprehensive warranty from 1st of March, I think until 30th April, and that has significantly contributed to your Q4 volumes. Now, 80 months is close to almost an entire replacement cycle for an RAC. So, I want to understand what kind of warranty cost should we be looking at as a result of this? And any kind of mathematical conversion you can broadly say in terms of one unit of RAC sold entail to what percentage of ASP as a probable warranty cost down the line?

B. Thiagarajan: I don't pay attention to this particular subject at all for the simple reason, this is a one-time for the 80th year. So, all this goes on in the market, some stabilizer-free, the installation-free, so on and so forth. But the Company has to cost for this. This is connected with Blue Star completing 80 years on September 27, 2023. Connected with that, when we launched the new product, there was a huge demand and there are two demands; one is there a 80th year edition. If it is a 75th year, there was a platinum jubilee edition. If it is a century, there will be a special edition century, there is no edition product, but whether you will be able to make some consumer offer. So, as a part of that their way like for example pay Rs.80 and take over air conditioner or 80 installment you will be able to get it or it is a 80-month warranty like that. It is a one-time offer which is over already. But as far as the warranty cost policy is concerned, it is based on the past data what is the number of units that were sold and what has been in the field as a population, and within that, what is the cost incurred, based on that calculation for the future sales, provisions are made, this could be the potential warranty expenses and this is continuously monitored by the auditor. It is also kept in mind what the industry is doing. Now, whether our sales went up because of this, I do not think so. There was a general demand. It is a one-time offer.

Natasha Jain: So, what I understand is specifically on the MT channel side, now MT wants to stock more of non-seasonal brands and when I say non-seasonal I mean brands like LG, Samsung, Haier and Havells who have presence across white goods category, and they sell throughout the year. Now, while our strategies to be an HVAC-focused player, do you think such a changing trend can impact a seasonal brand like us and how do you read this in the medium to long term?

B. Thiagarajan: No, compared with any other player, I think we are less seasonal to direction because we are in B2B space and we are a strong B2B player. See, our pedigree is B2B, right? Our share of market in institutional will exceed 30% and whether it is an office, whether it is a restaurant, whether it is a shop, whether it is a boutique, whether it is an airport, whether it is an ATM, we are present every day. The specific question of room air conditioners has a summer skew which is common for all companies.

Moderator: The next question from the line of the Dhananjay from ASK Group. Please go ahead.

Dhananjay: Just a quick on the UCP part which was non-RAC. How do we see that in let's say the next three to five years in terms of growth? Would that be something even larger than RAC in growth wise, or how would that be?

B. Thiagarajan: The commercial refrigeration in a developed country can be as large as room air conditioner market, first point.

Dhananjay: Market size or market volume?

B. Thiagarajan: Market size, because it is driven by the volume, right. The question is in a developed country, the commercial refrigeration market size can be as high as the room air conditioner. Today, the room air conditioner market size maybe around 24,000 crores or so. But whereas today in India that market is only some 5,000 crores for commercial refrigeration. The second part is, it is highly fragmented, it can be a water cooler, it can be a deep freezer, it can be a dispenser, it can be an ice cuber, or it can be a cold room, it can be a ripening chamber. And there are multiple categories here, so therefore it can be different. It is dependent on the individual consumption level like US consumes lot of ice in everything, so the ice cuber is a very huge market globally, like that. The third insight is that India's population is very huge. Indian homes are smaller in size and therefore room air conditioner market will continue to grow, that we are only at 7%-8% penetration level, it will continue to grow and in India, the frozen food consumption, process food consumption is negligible. And locally, quite a few vegetables and fruits are available, and in the process the commercial refrigeration penetration will take a longer time. Because the base is smaller, it will continue to grow anywhere between 20% to 25% every year.

Dhananjay: So, that growth will also be as strong as what is larger than what we have. And would we ever look at maybe acquiring other players to grow our market share, these segments who have a foothold from before?

B. Thiagarajan: I do not think so. That is we don't need that at this moment. We are well placed.

Moderator: Ladies and gentlemen, as that was the last question for the day, I would now like to hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: So, 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 are not fully answered and we'll be happy to provide you additional details by e-mail or in-person. Thank you.

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

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