"Blue Star Limited Q3 FY11 Results Conference Call"

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MODERATORS: **MR. VIR ADVANI – EXECUTIVE DIRECTOR, BLUE STAR LIMITED**
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Moderator Ladies and gentlemen good day and welcome to the Blue Star Limited Q3 FY11 Results Conference Call. We have with us on the call today Mr. Vir Advani, Executive Director and Mr. B. Thiagarajan, President, Air Conditioning & Refrigeration Products Group, Blue Star Limited. As a reminder for the duration of this conference all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. If you should need assistance during the conference, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Vir Advani, Executive Director, Blue Star Limited. Thank you and over to you sir.

Vir Advani: Thank you. Good morning, ladies and gentlemen. This is Vir Advani. I have with me Mr. Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter ended 31st December, 2010.

The following are the financial highlights of the company for the quarter:

We reported total operating income of Rs. 606.83 crore for the quarter ended December 31, 2010 as compared to Rs. 586.19 crore in Q3 of last year, a marginal increase of 4%. For the quarter gross margin was maintained at 23.5% compared to 23.4% in the same period last year. Operating profit, (PBIDT excluding other income) for the quarter declined by 18% to Rs. 47.28 crore. This was mainly on account of lower than expected revenues and higher operating expenses. Further, Q3FY10 had a write-back of incentive provision pertaining to FY09 amounting to Rs. 4.56 crore. More information on these will be provided in the segment reviews. Financial expenses stood at Rs. 7.91 crore versus Rs. 2.27 crore in Q3 of FY10 on account of working capital increase and higher interest rates as well as funding related to the D.S. Gupta acquisition. Net profit was lower by 47% at 22.36 crore compared to 42.34 crore in the same period last year. Q3 FY10 had an exceptional earning of Rs. 8.73 crore while there was no exceptional item in Q3 of this year. Earnings per share for the quarter on a face value of Rs.2 stood at Rs. 2.49 versus Rs. 4.71 in the corresponding quarter of the previous year. Carry forward order book as on December 31, 2010 increased to Rs. 2,073 crore compared to Rs. 1,890 crore as of December 31, 2009, representing a growth of 10%. Order inflow during the quarter increased marginally from Rs. 660 crore in Q3 FY10 to Rs. 682 crore in the current year quarter. I will now spend some time on each of our lines of business and give you both financial as well as operating highlights for the quarter.

The Electromechanical Projects and packaged Air-conditioning business accounted for 72% of total revenue in the quarter. This declined by 5%. Segment results declined by 41%. The operating margin of this business in Q3 FY11 declined to 6.7% compared to 10.8% same quarter last year.

As you may recall we have been predicting an improvement in the commercial real estate market in H2 of this year. However, after slight pick up in August since September, order finalizations have been delayed, infrastructure projects are moving slower than anticipated, the telecom industry has not returned to capital spending and the IT sector recovery seems to be delayed by another two quarters. As a result, the expected booking growth of 15% to 20% in H2 has not materialized in this quarter.

On the billing front, we had consciously decided to be cautious about aggressive project completion in light of the debtor position not improving. Billing was marginally lower than the same period last year.

Finally, we had taken certain capability building and productivity improvement investment decisions at the beginning of the year for this business. These costs are largely related to manpower, consultants and modernizing our work practices. These programs will have a long-term impact even while we are bearing these higher costs in the current period. This has resulted in operating cost being higher than last year. As a result of lower billing and the operating cost in the business as well as the additional operating expenses described above, operating profit has been negatively impacted in the quarter. Going forward, we are seeing some recovery in the retail sector. Further, recruitment figures of IT companies is encouraging and we expect several metro rail projects to get finalized in the coming six months.

Now, going little deeper, in the central air-conditioning business, the company continue to witness good prospect from the healthcare and power segments in addition to a moderate revival in the IT segment.

During Q3 FY11, Blue Star won two prestigious orders in the power sector from Indu Projects for their 500 MW thermal power plant being set up for Chhatisgarh Power Generation Company and from Reliance Infrastructure for 200-300 MW captive units at MIDC Butibori for Vidarbha Industries Power Limited. These in addition to the significant orders won in the power sector in the previous year have enabled the company to gain a dominant position in the fast growing and robust power sector segment. I just clarify this is all for air-conditioning and ventilation work.

During the quarter, the Company also won a prestigious integrated MEP order from the Godrej Group for their green building project coming up at Chandigarh. The Company also witnessed some good repeat orders from national account customers including Infosys, DLF, HCL, Volkswagen and Hindalco.

The Electrical Projects business caters to both the commercial building market as well as the power sector. As in the case of the central air-conditioning business, order inflow from commercial billing has been muted, however, the residential tower and power segments continue to show promise.

We won a significant order from Logic Housing Noida for residential housing project. In the Power sector, prestigious orders were won from Madhya Pradesh as well as OPTCL in Bhubaneswar. We also won a highway lighting order for a toll plaza in Uttar Pradesh.

In the Package/Ducted air conditioning and small chillers, segments which have contributed to growth included the office segment along with commercial segment such as retail showroom, hotels, restaurants, and marriage and function halls. There was also a good demand from the industrial manufacturing segment, However, demand from mid-size IT & ITES, the largest buyer of this part of our business is yet to recover. This coupled with input cost increases has resulted in the business underperforming in the quarter.

While the company sustained its dominant position in the telecom segment with its customized array of telepac air conditioners, the telecom infrastructure rollout continues to be adversely affected. The forecast with our rollout in FY11 were reduced from 50,000 to 20,000 and have been pruned down to a meager 10,000 size. This has had a severe impact on the business. Tower rollouts are expected to gain momentum sometime in the next financial year and the company is well-positioned to leverage on the opportunities that will emerge in the sector in the next fiscal. The outlook for this business during the last quarter of FY11 is not encouraging.

Moving on to the second segment, in the Cooling Products segment, revenues registered a healthy increase of 35% in the quarter driven mainly by higher room air conditioner sales. Segment results increased by 23%. The operating margin declined marginally from 8.7% in Q3FY10 to 7.9% in Q3FY11. Input costs continue to be a concern in this business. Our decision to raise prices in September 2010 was timely and has helped arrest the margin decline in this business.

In the Room Air conditioner business, growth was driven by sales from both the commercial segment as well as the residential segment. In January 2011, the Company has announced its foray into the residential segment with a wide range of room air-conditioners. Blue Star has been selling room air-conditioners mainly catering to the corporate and commercial segments. Over the last couple of years, the Company has witnessed a significant demand from the residential segment given the higher disposable income and growing middle-class. The Company has significantly altered its marketing mix to focus on the residential segment. On the product front, it has launched a new contemporary and stylish range of split airconditioners to appeal to home consumers. As regards to the distribution, the company is planning to offer this product through some reputed retail channels in select cities in addition to the current 700 sales and service dealers. It is also building up a strong installation and service franchise network to support the retailers.

In terms of advertising and brand communication, the company has plans to increase the advertising spend in the forthcoming summer season. The differentiated value proposition to the residential audience has been identified as “Get office like cooling at home” which leverages Blue Star’s expertise in cooling offices and communicates that one can get the very same expertise at home.

In the Refrigeration Product segment, storage, water coolers, chest freezers and coolers recorded substantial growth in the quarter while government institutions and the educational segment contributed to growth in water coolers, enhanced demand from ice cream and dairy segments resulted in growth of freezers and coolers.

Finally, in segment three, the Professional Electronics and Industrial Systems business, revenues grew by 29% while segment results registered a significant increase of 33%. During the quarter all the businesses in the segment performed well.

In the Non Destructive Testing business, significant orders were booked from oil country tabular, NTPC, Central Glass and Ceramic Research Institute and BHEL in Hyderabad. Based on its competitive advantage in analytical applications, design and metallurgical research, the analytical instruments business won an order from National Metallurgical Lab, Jamshedpur for Field Emission Electron Microscopes.

In the Data Communications business, significant orders were won for the government project of MPIC which is a multi-purpose identity card and for digital hand-held terminals for warehouse applications.

In conclusion, after two quarters of reasonable revenue growth, the Q3 slowed down is somewhat unexpected, largely due to sluggish progress in electromechanical projects and a slump in telecom air-conditioning. This has impacted profits and cash flow to some extent. However, management believes that decisions taken three months ago on bringing the capital employed under control and improving the quality of new orders booked are appropriate and we will yield the desired results in the medium-term.

Looking ahead to the main summer season, the picture looks better. Sales of airconditioners and refrigeration products have been healthy and continue to show robust growth prospects. The chief areas of concern in this business are rising input costs due to higher inflation of key raw materials which keep profit margins under pressure. We will continue to work on the same.

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

Moderator Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Aditya Bhartia from CLSA. Please go ahead.

Aditya Bhartia Which are the particular sectors or segments wherein you are seeing execution being slow?

Vir Advani Progress is slow in our infrastructure business which is metro as well as power. There was a pick up in commercial real estate projects, i.e. standard, office buildings, both IT as well as non-IT. But those projects have again slowed down. Probably because builders are seeing a drop in demand at their end and therefore slowing down projects.

Aditya Bhartia What is the kind of execution period that you will be looking at for your order book now?

Vir Advani It has not changed too much. What we had said that it is around 14 months. There are two aspects. We have slowed down certain projects and work, as I mentioned to manage our capital employed situation, the debtor position. Also there are certain market segments that are pushing it from their end. So, I would guess that maybe it will get stretched by another month or 45 days. We have not done the calculation, but we can probably get back to you by the end of the year.

Aditya Bhartia How the pricing trends in the E&P business shaping up? Are you seeing bidding getting incrementally more aggressive?

Vir Advani We have talked about that in the last conference call. What we have decided is to raise our minimum margins that we accept business on as well as improve the terms of payment that we accept for projects. Both of those were implemented in October, that is on one side. On the other side, the market itself is continuing to be very aggressive on pricing. But we feel that after we had made the move it will be a few more months and then I think our competitors will follow. So we are expecting that pricing will not remain at such aggressive and very low levels for much longer.

Aditya Bhartia What will be your margin expectations be like given this kind of a pricing environment?

Vir Advani If you look at Q2 to Q3, you will see gross margins holding, we think that the same will hold in Q4 and we are expecting to keep that kind of margin levels into the next year.

Moderator Thank you. The next question is from Mansi Sajeja from SBI Mutual Fund. Please go ahead.

Mansi Sajeja Sir, I just wanted to know what is the gross and net debt position as on December 2010 and how much of it was added to the D.S. Gupta acquisition that you did in the first quarter?

Vir Advani We do not disclose debt positions on a quarterly basis. But what we have mentioned in our acquisition note to everyone is that we paid a total of 80 crores for that business and that will be funded largely by debt.

Moderator Thank you. The next question is from the line of Madhuchanda Dey from Kotak. Please go ahead.

Madhuchanda Dey My question is you had been mentioning in the previous call that this year things are not so good and the margin pressure was owing to the orders that you took in a period which was not very hospitable for assessment. But you expect things to change rapidly in FY12, you were getting this indication that FY12 should be a decent year in terms of order booking and general business momentum, but in the last three months we have seen quite a bit of macro headwinds developing, right, so can you give us your assessment of the situation and how do you see your business in this context?

Vir Advani What we had said is that pricing is under tremendous pressure in the projects business as input costs are going up. We needed to do something to address our margin concern. So as I said in the last call, starting October, we improved the margins. We have also changed terms of payment. So that has slowed down the order inflow a little bit. Like I mentioned earlier, we think that it will take a few months but our competitors will hopefully follow us and we expect at least order inflow will improve with better terms going to the next year. We have to see how that pans out. In the Projects business, capital employed continues to be a concern. We have tightened up on execution as well as in terms of payment of new jobs. You are seeing some of that impact in the revenue. But again, I think that will ease up because it is the first quarter having implemented it. We tend to be very aggressive when we do that and then customers come around, money starts to flow, projects start to move. So we are not forecasting that this type of situation will continue into the next year as far as revenue is concerned because the carry forward is still very healthy. Moving on to the Equipment, the concern there is not capital employed but it is margins. We have raised prices once, we may raise prices again. There is a little impact on the demand or revenue on account of that but it is not substantial. The raw material costs continue to increase. Copper, steel, usually drop in Q4. However, there is no turn back on that. I think its's higher in Q4 than they were in Q3. We are all watching that. I think the entire industry as well as the auto industry and various other industries are faced with the same problem. Having said that, at least in certain part of our Equipment business, demand is still quite strong. In room airconditioners and commercial refrigeration products, demand continues to be strong. In our Central Air-conditioning Equipment business demand has still not picked up because they are largely linked to the projects. So it is a mixed bag. Going forward into next year we are working very hard to maintain our margins at the current level. We are spending a little bit more on the operating level. Like I mentioned, in investments that we see that they are important for the long-term. We do not have any intention of cutting those investments on manpower, which will ride out the next few quarters.

Madhuchanda Dey Do you see the investment climate generally improving or deteriorating or remaining at the same level?

Vir Advani Like I said, we had expected H2 investment climate to improve not only in IT but across the board. After showing some upside in August-September even into October, there has been a precipitous fall in November-December moving into Jan as far as I am concerned. Enquiries and orders getting finalized has slowed down and I think that is on account of macro trends . So there is a clear slowdown from that point of view. Having said that like I mentioned there are certain projects that have been in the funnel for long time, those need to get cleared, because they have now been pushed beyond reasonable limits of time .We are excepting finalizations to happen in Q4 as well as in Q1, but there is a clear change in the sentiment in the market.

Moderator Thank you. The next question is from the line of Chirag Setalvad from HDFC Mutual Fund. Please go ahead.

Chirag Setalvad One was you mentioned your gross margins have sustained this quarter compared to the second quarter, but operating margins have come under pressure, so if you could comment a little bit on that in terms of whether this was, how much of this is or to what extent did the delay in orders or postponement in orders impact you and if you could possibly quantify that or other factors that you mentioned employee cost, so the impact on operating margins was the first question? And the second was looking forward to next year what kind of growth that you expect in EMP?

Vir Advani For the quarter, the bulk of the operating margin erosion is on account of lower revenue. We should have done an additional Rs 100 crores of revenue in projects which did not happen. We slowed down things in November-December ourselves. Plus some customers slowed down as well on their end. So, that resulted in the bulk of the drop in operating margin. Having said that we have had some additional cost come in at the operating line. We were making investments in people, in technology, in consultants, in work practices which are from outside the country we are implementing here. These initially are more expensive but then they start to yield results in the long-term. It is nothing very large, but there is an additional cost there. There is a fine line you have to draw between your debtor position and your billing position. We took some decisions this quarter that have squeezed the revenue. But as I said earlier, once you settle down with your clients and as you tend to move ahead, revenue will grow again. It is not like that order book is not going to move. So, we think that starting Q4 itself will be largely in line with last year, which means that from a top line basis we see roughly what we did last year. Gross margins will stay at around 23.5%, which is where we are this quarter and therefore the operating margin will improve almost immediately.

Going to next year, I think that we are seeing growth in revenue from Electromechanical projects Two things; one is of course that the Electrical and Plumbing businesses will grow faster than the air-conditioning business because of the market share that we have, lower compared to air-conditioning, and there is this carry forward order book that we are taking into the new year. So I think that next year for the electromechanical projects business one should see at least 15% growth. Order inflow is a bit uncertain right now because last two months sentiment has changed quite a bit.

Chirag Setalvad Just a follow-up on this, as you mentioned that 100 crores was partly a conscious decision by the company, partly by customers, you mentioned the fourth quarter will be flat, would you not think that because of the delay in the third to fourth quarter would get a benefit of that, some of these orders would get completed in the fourth quarter?

Vir Advani As you know, we have 500 to 600 projects running, not all of them get billed out in a quarter, not all of them have movement in a quarter, so we would have taken certain steps on some projects this quarter we will continue to do that next quarter and the quarter after. What I am saying is that over the next few quarters, there will be new projects that we will be slowing down or customers may slow down, so that is why we are not expecting a very large growth in Q4.

Moderator Thank you. The next question is from the line of Rahul Baijal from Voyager Capital. Please go ahead.

Rahul Baijal In terms of the change in the external environment that you mentioned, I would like to know that whether it is more linked to the commercial real estate sector or is it do you think it is more broad-based in terms of decision making getting postponed?

Vir Advani We are still seeing hotels, hospitals and retail booking going ahead. I do not think there has been any change in the last three months. In metro rail, there is a slowdown in billing which is an infrastructure project for us. But bookings I think they will move now as there are three or four large metros that have been delayed for a year and those finalizations will happen between March and June. Also we had predicted an improvement in the IT sector in H2 itself. That has not happened. There is very selective buying going on by the top three or four IT companies and beyond that there is really nothing happening. So that affects us in multiple businesses. So there is a delay there. And then change in sentiment will be in the commercial real estate market. There are three types of situations in it. In commercial real estate, I can see that after August-September a number of customers coming forward to want to finalize in October-December, those finalizations are just getting pushed.

Rahul Baijal But you know, contrary to at least in the IT companies, whose results have come out and whom we talk to, they seem to still project robust environment for hiring and even their tone on what they are getting from their clients abroad seems to have improved. So I am little surprised as to how they seem to have kind of slowed down in terms of what their plans in India were?

Vir Advani No, so I will just clarify. They have announced plans to increase headcount which is obviously the first starting point & a good sign. The issue is in many of these markets there is already an overhang of real estate, one. Second, they themselves had a number of SEZs that they had slowed down. So that is why we are saying that next year things will be better because if they are announcing 150,000 additional headcount and needs to be recruited, that does translate into projects for us in the next year.

Rahul Baijal And lastly, you mentioned that there could have been about 100 crores miss in terms of billing in the quarter linked to some sort of a client link slow down and plus conscious slowdown from your side. Is it possible to quantify how much came from what, 50-50 or can you give us some flavor on that?

Vir Advani It is tough. I do not really know, but yeah, 50-50 sounds like a good number, I do not have any basis for that right now.

Moderator Thank you. The next question is from the line of Mayur Patel from Spark Capital. Please go ahead.

Mayur Patel Just on D. S. Gupta, what is the outlook for FY11?

Vir Advani We had mentioned that we had a carry forward order book that we inherited of about Rs 250 crores. So that order book is being executed now. We are about four months into taking over the operation and the business is getting integrated successfully. Order inflow there continues to be strong. So we feel quite optimistic about the plumbing business next year. I think we should be projecting about 25% growth next year.

Mayur Patel Any possibility of our effective tax rate coming down, maybe any plans for new CapEx in tax shelters or something like that?

Vir Advani No, there is no plan. We are doing some small capacity expansion in a couple of places where we need to. But that is not going to change the tax rate dramatically.

Mayur Patel Our debt levels are almost similar to around 344 crore which was reported last quarter and interest costs have increased both because of the increase in debt levels and the rising interest cost. Going forward, as an analyst what should we expect in terms of debt levels either coming down or what is the company's plan on this?

Vir Advani We are working on the capital employed. So to that extent, if we are able to improve the debtor position, you will see some improvement on the debt level. However, on the flip side, we still expect business to grow next year. So what I would probably say is that we will keep this level of debt on a higher revenue base. If the revenue base does not come in, then the debt levels would be lower because we will certainly tie other capital employed issue a little better.

Mayur Patel Is it right that normally in Q4, we have some annual incentives or bonus given out to employees? I am just looking at the employee cost from a quarterly perspective.

Vir Advani No, there is nothing in Q4 that is exceptional or one-time from an employee cost perspective.

Moderator Thank you. The next question is from the line of Nirav Vasa from SBI Caps Securities. Please go ahead.

Nirav Vasa My question pertains to the pledge of shares that you have. Would it be possible for you to give some details as to why the shares are pledged and with whom are we pledged?

Vir Advani I do not know. I will get back to everyone on that. I am not aware of that. Let me look into it and get back to you.

Nirav Vasa Would it be possible for you to share with us the order backlog that you have in D.S. Gupta as of now? Last quarter it was 250 crores, this quarter, any addition in that?

Vir Advani Without having looked at the numbers in detail I think that order inflow to billing would have been about one to one, which means that the carryforward will be around 250 crores.

Nirav Vasa Can you throw some light on the operations of Naseer Electricals please?

Vir Advani Nasser Electricals is our Electrical projects business. The business is doing rather well. For the year, between the commercial sector and the power sector, bookings will be above 20%, billing will be above 25%.

Nirav Vasa Are you considering any new price hike before the start of full-fledged summer season in the cooling business? Any broad range in terms as to what would be the price hike in percentage terms?

B. Thiagarajan It is not like-to-like for the simple reason that the product portfolio is completely changing from February end. The second reason is the Union

Budget. We would not know the implication of that. And roughly the prices are expected to go up by 2-2.5% in the industry.

Nirav Vasa This price hike would be post-budget or pre-budget?

B. Thiagarajan Post-budget.

Moderator Thank you. The next question is from the line of Pritesh Chheda from Emkay Global. Please go ahead.

Pritesh Chheda On your initial outlook side, you said the billing largely in the commercial side of the business was weaker and because of which the numbers were impacted. If you could just give a broad idea in terms of what is the mix in the order backlog currently, the mix of the order backlog which would help us project the type of future billing?

Vir Advani The reality is that more than 80% of our carry forward is in the commercial market, out of that maybe about 30% is hotels, hospitals, which are moving. The other 50% of that 80% would be IT, office buildings, etc., where there is a slowdown. The remaining 20% out of 100% would be infra projects. So the infrastructure side is not an issue of capital employed or us slowing down, it is more that these large projects are getting slowed down at a macro level. So I would say that maybe 70% out of the order book is theoretically impacted by either us slowing things down or we are trying to slowing things down. But again, I want to be clear that the slowdown in the quarter is not something that we are projecting for the next 12 months. There will be an ease up in the revenue flow. We are carrying an order book and we know we can execute it. It is just about getting clear with our debtor position with our customers and then moving forward. So I think you will see improvement as we get into the next financial year.

Pritesh Chheda Is there a chance for any doubtful receivables or doubtful projects which could later on come in for provisions in any of these orders that you are executing at this juncture?

Vir Advani No, I do not think so. We are providing now on a quarterly basis, as you know there is a change in accounting policy. So we review our debtor position now on a quarterly basis and then take some decision. So, vis-à-vis last year there is nothing dramatically different and one does not expect it to. And by taking these commercial decisions that we are about slowing down projects, part of the reason is that we do not want to bill out and then have to write-off. So we are just making sure that we bill at an appropriate base.

Pritesh Chheda On the gross margin side, for the first three quarters there is absolutely no impact on the gross margin. So is the inventory management policy where current prices would impact your growth margins in the forthcoming quarter or should we read it differently?

Vir Advani It's a little difficult to look at a company level gross margin. There is a business mix impact on the gross margins as well as the raw material. At the end of the year there is no dramatic change in business mix in FY11 or FY10. So what we are saying is that the input costs have been rising every quarter. They are largely impacting the equipment business of ours, the product business which is between segment one and two. We took a price hike decision in September to offset some of the input cost increase that we would have otherwise seen in Q3 which would have reduced gross margin but it has not because of the price increase. You heard Thyag few minutes ago about what we are going to see what the union budget does and then take a further decision. But like you know copper and steel are now at their highest and there doesn't appear to be a cooling off of them. I think now the prognosis is that it will continue for sometime longer. So we have to pass on part of that to our customers. I don't think the industry can actually bear that whole cost. So what we are saying is that we are going to do is our best to maintain gross margins at the current level even into next year in spite of the input. That's on the equipment business. In the projects business as you know we don't have input cost protection. So there is going to be some impact. But because for these projects we are buying out finished goods, we are able to negotiate better. We have better options for sourcing. So procurement has obviously become a very critical component of that business, much more than last year and we will be spending even more time and effort on that going forward. So the endeavor is to maintain the margins in next year. Its going to be tough given the input costs issue and that's partially why I had mentioned that we have taken some decisions to invest and spend money which is now being reflected in our operating costs going up. But some of these investments are related to these subjects like procurement & R&D. R&D investments have increased quite dramatic for us which will hopefully lead to better value engineering and reduce in cost of products. So all the investments we are making currently, we don't want to stop making them and so there is temporary impact on the Company's performance, but we hope that they will yield these kind of results going forward.

Pritesh Chheda Okay, what is the extent of price increase that we have taken so far and considering the current material prices and current raw material inventory if we do not take a price increase further means the gross margins get impacted in forthcoming quarters in such a scene?

Vir Advani Yes.

Pritesh Chheda Okay and what is the total price increase that we have taken at a blended level if you can give an idea is it?

B. Thiagarajan Yes, product to product it will vary it will be around 2.8%.

Pritesh Chheda Could you share your outlook for FY11, as to what kind of order inflow would you exit at in the EMP business and what kind of backlog will you close at in the EMP business?

Vir Advani FY11 the order backlog will be roughly where it is right now because we are expecting billing and booking to be little better in Q4. So we should enter the new year with this level of order which is around 2100 or so.

Pritesh Chheda Okay, and you expect the billing also to pick up in Q4 versus Q3?

Vir Advani Yes. That always happens but versus Q4 of last year there probably will not be growth.

Moderator The next question is from the line of Aditya Khimani from HSBC Mutual Fund, please go ahead

Aditya Khimani Sir you mentioned that this quarter order inflows was 682 crores, could you say quantify what was the total bids we participated in this quarter?

Vir Advani Oh, I am sorry we don't track that but I think that we would have probably participated somewhere around Rs 2000 crore.

Aditya Khimani How much would have market shrunk this quarter? Have we lost market share or how has the market come down? Broadly do you track market share?

Vir Advani Yes, absolutely we do. We do so on an annual basis. So far we have sustained our market share. We are not giving up market share anywhere, I don't think in any equipment or project business. We have increased our market share in a couple of new businesses of ours. So from a market position point of view we remain confident.

Aditya Khimani Like the mix of 80% commercial and 20% infra, how did the operating margin and the working capitals cycle differ in both?

Vir Advani The margins are like-to-like. I would say that there is probably about 15% higher capital employed relative one to the other. ROCE basis infra would be lower than commercial.

Aditya Khimani But how would you expect this mix to change over the next three four years. I mean would we be more proactive in increasing the share of the infrastructure in the total book?

Vir Advani So we are looking at new options in infrastructure. What we have said is that infra, power, residential these are all new sectors for us as compared to commercial. We hope that these three new sectors and industrial together should constitute about 40% of our order book in about three years from now.

Moderator Thank you the next question is from the line of Munjhal from Enam Securities, please go ahead

Munjhal There has been lot of talks on cold storage side. Recently there was some article with regard to subsidy. Now will it happen at a faster pace?

B. Thiagarajan The cold storage industry is growing at about 35%. It is both from horticultural side as well as pharmaceutical and food processing industries. But the base is very small. It is estimated at around 900 crore. We continue to be the market leader. The story is that this 900 crore market should grow to around 10,000 crore in about five years' time. That five years continues to get shifted as no major investment from private sectors is taking place. The investment is driven either by government or in the case of pharmaceutical and food processing industry by the private sector. The fruits and vegetables are the major drivers. So we believe that only when modern retail takes off, large investments will take place and the market will explode. Probably the market size would be higher than even the airconditioning market one day. Having said that the subsidy level is to the extent of around 40%, in some cases it even exceeds that, basically to attract private sector investors. But the investment is very poor except in case of certain commodities say for example apples and bananas which are large consumed fruits and the value addition that it gives can compensate for the cold storage cost. Other than that we do not see any major things happening in fruits and vegetables. But we serve not only fruits and vegetables but also pharma, ice creams, poultry, floriculture, sericulture, aquaculture etc. And as the market grows we keep growing at around 30%.

Munjhal So is it true that banks are offering some subsidized loans also?

B. Thiagarajan Plenty are there. Strictly speaking you can get hundreds of subsidised financial packages but whether the returns will be there is a question mark.

Munjhal Any new competition that you have witnessed in this cold storage segment?

B. Thiagarajan All of them are waiting for the FDI in retail to happen. Once it happens they all will come in. But our positioning is completely different. We are a turn-key solution provider we are not an equipment manufacturer and marketer alone. We manufacture some equipment that is used in a turnkey project. Whereas the multinationals chains, which will come in, will be for the store front equipment.

Munjhal We had some tie up with some Italian company right for this?

B. Thiagarajan Yes, we did, we do have many tie ups and we will operate that as an agency business, but that is not our focus. Our focus is the backend cold storage infrastructure.

Moderator Thank you. The last question is from the line of Kirti Dalvi from Enam AMC please go ahead

Kirti Dalvi There is some purchase of traded goods of almost 45 odd crores in this quarter that pertains primarily to which segment?

B. Thiagarajan It primarily deals with segment-2 cooling products and very little of segment-1.

Kirti Dalvi You did mention that probably Q4 numbers would be similar that of last year but do you see the margins also to the extent of similar levels what we achieved in our Q4 FY10?

B. Thiagarajan Operating margins should be more or less like last year.

Kirti Dalvi On cooling products, we are seeing a robust growth in this year in the first five months as well as in Q3. Do you think this demand would be sustainable going forward as well?

B. Thiagarajan Yes, as of now it looks so it will continue to be there for quite some time.

Kirti Dalvi And think we are spending and entering into the residential segment probably given our ad spends and other costs related to that. Do you think we would be able to achieve the margins what we achieved in the past?

B. Thiagarajan The margin will not be under pressure if we are able to manage around 50% growth. The scale gives you certain cost reductions as well so it should be more or less balanced. We do not see any problem in operating margins in that segment.

Moderator Thank you.

Vir Advani Thank you very much every one.