Transcript

Conference Call of Blue Star limited

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Presentation Session

Moderator: Good morning ladies and gentlemen. I am Shirley, moderator for this conference. Welcome to the conference call of Blue Star Limited. We have with us today, Mr. B. Thiagarajan, Executive Vice President of Blue Star Limited. At this moment, all participants are in listen-only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press * and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. B. Thiagarajan.

B. Thiagarajan: Good morning ladies and gentlemen, this is B Thiagarajan. I have with me Mr. Vir Advani and we will be giving you an overview of the results for Blue Star Limited for the quarter ended December 31, 2008.

The following are the financial highlights for the Company for the quarter

- We reported a Total Income of Rs 566.72 crore for the quarter ended December 31, 2008, representing 10% growth over the corresponding quarter in the previous year. Net sales for the quarter were also Rs 566.72 crore.

- For the quarter, Gross Margin declined from 25.7% to 21.5%, owing to a substantial increase in cost of imported raw materials due to the sharp depreciation of the rupee.

- Operating profit (PBDIT excluding Other Income) for the quarter at Rs 52.17 crore declined as compared to the Operating Profit of Rs 55.72 crore earned in Q3FY08. The Operating Margin decreased from 10.8% in Q3FY08 to 9.2% in Q3FY09, mainly due to the sharp increase in cost of sales.

- Net profit for the quarter was Rs 32.19 crore, declining by 9% over Net Profit of Rs 35.44 crore earned in Q3FY08.

- The Earnings per Share (face value of Rs 2.00) for the quarter was Rs 3.58 as against EPS of Rs 3.94 in Q3FY08.

- Carry Forward Order Book as on December 31, 2008 increased to Rs 1626 crore compared to Rs. 1072 crore as at December 31, 2007, representing an increase of 52%.

- Order Inflow during the quarter grew from Rs 556 crore in Q3FY08 to Rs 625 crore, an increase of 12%.

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 central airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems grew by 12% during the quarter. Segment results declined by 14% in the quarter compared to the corresponding quarter in the previous year. The Operating Margin of this business in Q3FY09 was 9.1% compared to 11.9% in Q3FY08, mainly due to sharp appreciation of the dollar resulting in an increase in imported raw material inputs.

In the central airconditioning business, while the liquidity crunch in the market place coupled with declining demand adversely affected certain segments such as retail and builders, the Company saw good prospects from the hospitality, healthcare and education segments. In addition, infrastructure segments such as airports, power plants and metro rail are unaffected by the economic downturn and project expansion plans are on track. The Company has noticed a delay in project expansion plans in the IT/ITES segment, perhaps due to the uncertainty on the impact that the US recession will have on the prospects of this segment. During the quarter, the Company booked a prestigious order from Fortis Hospital Group for their upcoming flagship hospital in Gurgaon. The project, valued at Rs.37 crore includes both HVAC and electrical works and is the largest combined M&E order booked by the Company after its foray into electrical contracting last year. Considering the liquidity crunch prevailing in the market, the Company has chosen to aggressively pursue business from the Govt of India which has been completely unaffected by the slowdown. This focus resulted in several orders from Govt agencies for the airconditioning of various stadiums coming up in New Delhi for the Commonwealth Games scheduled in 2010. In packaged/ducted airconditioning and small chillers, while the IT/ITES and organized retail segments have slowed down due to the economic downturn, the business witnessed continued demand from offices and hotels. The Company's eco-friendly range of VRF Systems launched in Q1FY09 continued to make deep inroads during the quarter. Blue Star is India's first and only manufacturer of VRF systems and has significant advantages over its foreign counterparts. The newly formed electrical projects business performed very well by cross-selling its services to existing HVAC customers and rolling out operations in other regions of the country. It booked a prestigious Rs 26 crore order from HCL Technologies, Chennai during the quarter.

The Cooling Products segment registered a decline of 5% in revenue. Segment results declined 23% during the quarter. The Operating Margin decreased from 12.9% in Q3FY08 to 10.4% in Q3FY09, due to the appreciation of the dollar coupled with decline in demand due to the economic slowdown. In Q2FY09, the Company had set up a new National Accounts Management Cell for the room airconditioners and refrigeration products business in order to provide a single point contact and enhance business amongst large nation-wide players. This move has paid rich dividends, with several national account customers placing significant orders.

The Professional Electronics and Industrial Systems business has an innovative business model of a system integrator and value added re-seller. During the quarter, this business registered a 31% growth in revenues. The topline of this business is predominantly commission income and domestic value addition since most of the equipment is sold to customers on a high-sea basis by its Principals. Segment results registered a growth of 19% during the quarter.

In conclusion, though the carry forward order book is extremely healthy, the liquidity crunch and economic downturn has led to delays in project execution adversely affecting the Company's topline. The Company has been selectively pursuing segments which offer profitable growth opportunities, keeping in mind the volatility of the market place. The Company also continues to focus on value engineering, managing working capital efficiently and controlling operating costs. Though the economic outlook appears to be uncertain over the next few quarters, we are confident that our tight controls and operational improvements will see us through this difficult period and improve our competitiveness for the future.

With that ladies and gentlemen, I am done with my opening remark. I would like to now pass it back to the moderator, who will open up floor to questions. Between Vir 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 all as well. With that, we are open for questions.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been answered before your turn and you wish to withdraw your request, you may do so by pressing # key. Our first question comes from **Mr. H.R. Gala of Quest Investments**.

H.R. Gala: Hi Vir and Tyagi, this is Gala from Quest, good morning.

Vir Advani: Good morning.

B. Thiagarajan: Good morning.

H.R. Gala: Despite the challenging environment, I think you have really put a commendable performance. I think this is what was anticipated. Can you give us a broad idea about how do you see the next quarter and year after that FY2010, given the economic uncertainty?

B. Thiagarajan: As you might have noticed, the gap between the pending order book and the billings is widening, which implies that the customers are not in a great hurry to get the orders executed. Last year, what used to happen in a 9 months project was that people used to push and get it done in 6 months. While there are no cancellations, people are trying to postpone one phase of a building or one block or a certain part of the floors. Also, we are beginning to see the civil works getting delayed and the sites are not released for execution.

H.R. Gala: Okay.

B. Thiagarajan: Taking all this into consideration, I think Q4 of this financial year and Q1 of next financial year indeed will be very tough. We will be very happy, if we are able to push the billing at the current pace. So, it is definitely going to be a tough quarter ahead for sure. The revival will also be fast in quite a few segments, which we are seeing. For example, the telecom segment had a very difficult time in Q2 and Q3, but right now, the telecom players are planning to rollout many cell sites. Similarly, we are seeing segments like railways and defense, pushing ahead with some investments. So, the segments that are showing a revival or still willing to invest and push ahead are very limited compared to many segments, which are still waiting and watching.

H. R. Gala: Okay, so next year, do you think we can expect around 20% type of top line growth?

B. Thiagarajan: Very difficult to guess, but we want to, that is all I can tell you.

H. R. Gala: Okay, that is what we are aiming at?

B. Thiagarajan: Yes.

H. R. Gala: Okay, just a couple of observations on our finances, the interest has gone up to Rs.5 crore in this particular quarter, how much has been our total debt as of now, long-term and short-term, all put together?

B. Thiagarajan: We do not actually disclose such figures, but all that I can tell you is one thing you have to keep in mind - interest cost is not a very major component of our P&L, so we are not unduly worried about it. But I can tell you the borrowings, as on date - net borrowings will be something like Rs. 69 crore.

H. R. Gala: That's all?

B. Thiagarajan: That's all.

H. R. Gala: Okay, then how come the interest cost is so high at Rs.5 crore in this quarter?

B. Thiagarajan: The borrowings went up sharply in Q2 basically because of the dividend outflow plus also our CAPEX is substantially higher. As we have been projecting to you all throughout the past three quarters, we had gone ahead with certain investments and are not pulling back because we know that the economy will revive sometime during the course of next year, so the CAPEX is going to be somewhere in the order of around Rs.101 crore.

H. R. Gala: For the full year?

B. Thiagarajan: For the whole year, which is substantially higher than the previous year.

Vir Advani: Mr. Gala, this is Vir. What happened also is that during September, October, and November with the liquidity crunch, borrowings had increased for that period of time. What Thyag has just told you is what it stands as on December 31st. So, what had happened was that on account of larger than expected inventory, because of the slower revenues that we have shown as well as on receivables, clients not being able to pay in those few months, the borrowings had gone up and obviously at higher interest rates as we all know. Subsequently, we have been working on reducing the inventories; we have been collecting slightly better than what it was in September and October. It still needs to improve considerably but we are hoping by March-April customers will come back to paying, as they were last year. Even though the amounts may be small because the sales have slowed down, but we can see liquidities returning. So, there was a balloon in debt, which has now sort of eased off.

H. R. Gala: Okay, that's good. In fact, it is nice to see that you have rundown your inventories substantially by Rs.42 crore in this particular quarter.

Vir Advani: Yes, we have done both and the other thing that we try to do given the tough situation is we obviously, what Thyag mentioned, slowed down billing for that reason as well because otherwise we will be just showing inflated receivables, so that's what we have done.

H. R. Gala: Okay, just a last question from my side, we have seen that our other expenses have sequentially gone down, quarter after quarter. In first quarter, it was 47.9, then it came down to 37.3, and in this quarter, it is 25.8. So, can you tell us, which would be the major heads where savings have accrued?

B. Thiagarajan: It is all mainly discretionary expenses, basically advertising and sales promotion, expenses for strategic business development or something to do with long-term planning or market study. Also in employee expenses, we have put a hold on the new recruitments routine. Though it is not that we have completely stopped new recruitments - the recruitments are at much lower level and therefore the employee expenses are also lower. The incentive provisions will be lower basically because it is computed based on the growth. We know that the PBT growth or PAT growth is not going to be at that pace, so the incentive provision is lower. So, these are the heads, which brought down our costs and of course, there are other things like travel or communication, which all the companies talk about. Though, it is not very significant, we exercise caution all along.

H. R. Gala: That's right, anyway. Thank you very much and wish you all the best.

B. Thiagarajan: Thank You.

Moderator: Thank You, Sir. Our next question comes from **Mr. Nirmal Shah of Alchemy Shares.**

Nirmal Shah: Good afternoon sir.

B. Thiagarajan: Good afternoon.

Nirmal Shah: Sir, I wanted to know what were the average debtor days for the December quarter and what was in September quarter?

B. Thiagarajan: I do not have the debtor days figure, but all that I can broadly tell you is the inventories are coming under control, that is, we do exercise lot of caution in the inventories. And receivables compared to the previous quarter, have gone up by around Rs.165 crore. We continued to exercise caution there also, that, unless and until the previous month's bill is paid, we do not go ahead and bill anything to the customer. We regulate the deliveries in large projects.

Nirmal Shah: Sir, you mentioned about Rs.101 crore of CAPEX plans for FY2009.

B. Thiagarajan: As we visualize, that is the estimated projection, based on the work-in-progress or what we have already incurred.

Nirmal Shah: Sir, how is it going to be utilized, if you can throw some light on that?

B. Thiagarajan: See, Wada is one major head, which is going to be something like Rs.35 crore. In addition, we always incur routine R&D and other expenses, so normal CAPEX of around Rs.15 crore in all factories put together in all locations. The SAP ERP implementation will be another major head, it may be to the tune of around Rs.30 crore, it is still under implementation. Wada and SAP ERP implementation are the major heads.

Nirmal Shah: Okay, sir thanks a lot.

B. Thiagarajan: Thank You.

Moderator: Thank You, Sir. Our next question comes from **Mr. Shrinath Mithanthaya of Motilal Oswal.**

Shrinath Mithanthaya: Good morning. Last con-call we talked of some hedging mechanism that we were putting in place. Can we share something on that?

B. Thiagarajan: We are a net importer. Though I should not be disclosing this as this may become a standard question, I will still go ahead and tell you that the imports up to November this year is Rs.275 crore and this 8-month figure can come down, because any new product that is launched, we may be getting it in SKD/CKD conditions and then go on indigenizing it over a period of time. So, this figure is not an indicator -I want to make that very clear. The exports up to this period is roughly around Rs.100 crore, so you can see that in the 9-month period, Rs.175 crore is the net import. We expect that we are a net importer of roughly around Rs.175 crore to Rs.200 crore and our intention is actually to hedge 50% of this amount and not the entire Rs.175 crore. We will hedge something like Rs.80 crore. The gain or loss in the quarter began only in Q3, October onwards. In the quarter, there was a net gain and it is a very marginal, Rs. 5 lakhs, and we are still not very sure whether we will continue with this policy of hedging because it is a very highly volatile situation. Our focus now is on how to indigenize and reduce the dependence on foreign exchange. Whether we will continue to disclose, I am not able to say. We are experimenting. That's all I can tell you.

Shrinath Mithanthaya: Okay. The second one is on pricing and margins. We had taken a small price hike in the last quarter and subsequently commodity prices have also cooled off and we would have, I believe, drawn down on all our high cost inventory; so, gross margins for the third quarter is one of the lowest in the last several quarters. So, how do we see the growth and the operating margins in the next quarter and for the next year?

B. Thiagarajan: Always what happens is, we buy the material for 3-4 months depending on the category. So we would have consumed most of such raw material during Q3. Internally, we have seen, the gross margins for the month of December going up. This is one part. Two is, actually, the consumption or volumes that we put through have not been in line with our expectations, because of the slowdown, so therefore the gross margins came down. Our expectation is we will reverse back to our gross margins in Q4 hopefully based on the indications in December or what we are currently seeing. Yes, indeed we took up a price hike and the raw material prices have come down, though the dollar is impacting to an extent, we should be improving our gross margins substantially in Q4. This is what we expect.

Shrinath Mithanthaya: Substantially, could you put some number to that?

B. Thiagarajan: It is very difficult for me to give you an indication, but you can take it as the gross margin drop in Q3 is an aberration, that's all I can say to you.

Shrinath Mithanthaya: We were talking of getting into some form of a price variation agreement with our customers going forward based on some RAMA formula, any development from that?

B. Thiagarajan: I would not say it is very encouraging. We were trying to do it at a time when demand was high and the prices of steel, copper, and other commodities were skyrocketing. It was broadly accepted in principle, that we need a price variation formula. If you recollect people were at that point of time trying to tell that oil will become $200 a barrel and this situation is irreversible; that was the situation that was prevailing. But, in 3-4 months of a time, everything changed and everything crashed. In this situation, neither the customer nor the vendors are interested in pursuing anything called a price variation formula. Everybody is confused.

On the other hand, customers are trying to say, bring down your prices since everything has crashed. They never came forward to give you a price increase so very easily, they did so after 3 months of bargaining and they are on that.

Third and most important thing is the number of enquiries or orders getting finalized is dwindling as we progress. So, the competitive forces will not make vendors persist with something like a price variation. So it is not happening to the extent we would have preferred. I think, the timing is not right. It will take a while for that formula to settle down.

Shrinath Mithanthaya: Okay, one last question on order book. What is the execution timeframe of the order book now and any change in that?

B. Thiagarajan: Going by one quarter, my rough guess is that what used to be something like 8-9 months of time, would have elongated to 12 months time. We have to wait and watch what is going to happen. If it is an infrastructure project, always the time taken is more, but today I do not think it is due to infrastructure alone. I think the money is being regulated, people are not willing to complete the projects barring some New Delhi Commonwealth-related projects. So, I do not think only infrastructure is the reason. Money is the reason. People are waiting and watching. Even if somebody has got money, he is not really pushing hard to go ahead and do. I think it will be 12 months time this kind of an order book getting executed.

Shrinath Mithanthaya: Okay, any major change in the composition of the order book in terms of, are you seeing a clear shift in favor of infrastructure in the order book?

Vir Advani: Shrinath, what’s happening is that IT/ITES is obviously practically halved the percentage of the order book. That has been replaced by two segments, one is infrastructure, which is Airports and Metros and the other one is hospitals. These two have sort of doubled as a percentage of the total and more or less taken up what halved there. In addition to that, surprisingly hotels continue to be strong in spite of it being a commercial application and we have seen some uptake for us in pharma. You know, we are not very strong in pharma, but our pharma business seems to be increasing probably because there is still some buying going on. So that’s roughly what is going on and going into next year, we expect this Q3 drop off in IT/ITES, to return up to a more reasonable level, because we are seeing customers coming back to buy. So, what used to be 40% has dropped to 20%, we expect it to go back up to somewhere between 25-30% on a steady-state basis next year.

Shrinath Mithanthaya: Mainly in the IT SEZs that you are looking at?

Vir Advani: Yes, these would be captive SEZs, and not those mega ones, we are talking about. Also, the top ten are still buying.

Shrinath Mithanthaya: Even in terms of the order inflow, this is one of the lowest growth that we have seen in the past several quarters. Any early signs for the next quarter, as to whether there is a change in the order inflow?

Vir Advani: We feel that order inflow will slow. We are a lag to civil construction, as you know. The civil construction came to a standstill about six months ago. So, we are seeing some of that slowdown now. I think in Q4… there is only one aberration there. We have half a dozen very large projects that are out to bid, so that can skew or that can put an aberration on what is actually happening. So obviously logic said that there would be certain large projects that would go through regardless of what is going on because they are infrastructure related, so those will compensate for the drop off. But having said that, if you exclude those large jobs, we expect the order inflow to slow in Q4 as well, may be even going to Q1. But like I said as a company, we are hoping to compensate for that general slowdown with these 2 or 3 larger projects that we are hoping to win in the next 3 to 4 months.

Shrinath Mithanthaya: One final question is any proactive strategy from the company's point of view to narrow the gap between order inflow executions or we are still at the mercy of externality?

Vir Advani: No, in fact we are doing the reverse, which is we have no intention of narrowing that because we don't want to bill ahead of what customers are able to pay. So in fact, we have been very very conservative. You can actually sort of ask the reverse question, shouldn't you be more aggressive? Our answer is, no, we do not want to be. Like I said, we are seeing money coming back into the market, so customers are now starting to pay our receivables, which is a good sign. Should the receivables come back to where they were prior to June is when we will crank up the delivery, but as of now we have not reached that level, so we are not comfortable doing that. So, like I said, we are hopeful in March/April that will happen, lets see now. Having said that there is a counter to that. We might be ready to ramp up by March/April from our perspective, from a financial perspective, but there is always that risk that projects may get canceled, delayed from the client's side. So that we still haven't seen, no one is canceling yet, but who knows, we will see what happens. But as of now, we are hoping that we will be able to increase the billing by March/April.

Shrinath Mithanthaya: Does the order booking imply some advances from the customers?

B. Thiagarajan: Yes.

Vir Advani: Yes, we do not book on LOI and things like that. Our average advance is, I think, 16% or 17%.

Shrinath Mithanthaya: Of the order value?

Vir Advani: Of the order value and we have set in place from November, minimum advances acceptable, minimum terms of payment acceptable, otherwise, we are refusing business, so that is what we have done.

Shrinath Mithanthaya: Okay, thanks a lot.

Vir Advani: Thanks.

Moderator: Thank you sir, our next question comes from **Mr. Mahesh Bendre of HSBC.**

Mahesh Bendre: Good morning sir.

B. Thiagarajan: Good morning Mahesh.

Mahesh Bendre: Yes, sir, despite adverse business environment, it seems that we have booked our orders of around Rs.5.5 billions for electromechanical and packaged air conditioner division, which is roughly around 40% increase YOY. Sir, we are saying that there is slowdown and again we are booking a huge amount of order, I am not able to understand this?

B. Thiagarajan: Mr. Mahesh, actually in the electromechanical project segment, the exact order inflow figure till December is Rs.1828 crore as against Rs.1359 crore in the corresponding quarter previous year and in segment 2, it is Rs.427 crore as against Rs.363 crore last year. Segment 3 is Rs.119 crore as against 111 crore. So, you will see a significant increase is in segment 1 and if we want to plot it month after month, we see internally that the rate of order inflow is slowing down. That is basically because we are last in the value chain that is about all. Because these projects would have come up and the air conditioning is something, they have to complete to put it to commercial use. The construction came to a halt or standstill in July 2008, very clearly. So going forward, I think that an order inflow rate will be much lower, but it should be compensated by certain other segments - predominantly public sector or public-private joint ventures. You will not be able to extrapolate it and say order inflow will continue to be so.

Mahesh Bendre: Sir, apart from HCL and Fortis, can we name few other orders that we bagged in last quarter?

B. Thiagarajan: In the investor update, we are going to provide you, which should be out today, like I can read out for your benefit a few like, Agilent Technologies, Manesar; Central Drug Research Institute, Lucknow; Siri Fort Stadium, Talkatora Stadium, Chhatrasal Stadium, Moser Baer, Jawaharlal Nehru Bhavan, DLF Phase 5, Siemens Bokaro, Apollo hospital, Cognizant Technologies, Nokia, Siemens, Novartis Healthcare, Bank of Baroda. So, this is the flavor of it, which should be available in the investor update that should be released this afternoon. So, you are seeing large IT or you are seeing healthcare or you are predominantly seeing Common-Wealth related government projects. That is the flavor.

Mahesh Bendre: Yes, great sir. Sir, another thing is cooling products division has shown a decline in revenue for first time after many quarters. I mean, what is the outlook for the industry and company over next 6 to 9 months?

B. Thiagarajan: See, we have been in touch with the other industry players and what they are seeing it is mix actually. They are seeing some products like LCD have indeed shown an increase - from predominantly residential segments and the revival of that has got a very short lead time. It is not something like construction, where it takes 9 months for it to revive. So, there is hope among them. Most of them have liquidated their inventories that they are carrying. The added incentive is basically the CENVAT reduction of 4% that is available till March. They think, the summer sales should be good and it will not be disastrous, in the sense that they are seeing at least last year level of volume should be there, it will never be a negative growth. Plus in the air conditioners segment per se if you have to takeout a figure of number of households, which have got a four wheeler, which have a television, which have a microwave oven, which have a refrigerator, not having AC is a very significant population. So, the penetration gap is high. But having said that, we are not strictly speaking a residential player, though in summer close to around 50% to 60% of our sales happen from residential segment. So hopefully, the summer season should not be showing a negative growth. While at this point of time, the industry is not able to say that there will be growth over previous year, they are not agreeing on a negative growth situation.

Mahesh Bendre: Okay. Sir, another thing is regarding the capital employed, in electromechanical business it has gone up by 29% compared to sales growth of 12%. Do you think this will hamper cash generation? Cash generation will not be that much high this year for Blue Star compared to last year?

B. Thiagarajan: As we mentioned a little while ago that both on the inventory and debtor, the situation has been improving. Specifically if you look at the electronics segment it is connected with the final closure and final billing of one major order they are executing. It is a turnkey project involving, a very major project execution, so that is not a reflection of it is going to be. The cash generation may be lower because of the profit that is generated.

Mahesh Bendre: Yes, but working capital will be higher this time.

Vir Advani: Yes, it will be higher, but we are hoping that by the end of Q4, it will come more under control. In any case, at the end of Q4, working capital does tend to be high because all the additional billing is done in March. March is always our best month, so in spite of that, we are expecting the values to come down. Currently, it is inordinately high and we are trying to bring it down.

Mahesh Bendre: Okay great. Thank you, sir.

B. Thiagarajan: Thanks.

Moderator: Thank you sir. Our next question comes from **Mr. Abhinav Khandelwal of Systematix Shares.**

Abhinav Khandelwal: Yes. Sir, most of the questions have been answered, just one or two questions. Sir, what about the cash as on date on books?

Vir Advani: We don't keep much cash on the books, practically nothing.

Abhinav Khandelwal: Okay and sir, in terms of your 1600 odd crore of order book, can you just give a ball park number on the segment wise, which segment it is catering how much?

B. Thiagarajan: Okay, segment 1 will be always carry forward order book dominant; segment 1 will be close to around Rs.1500 crore out of that.

Abhinav Khandelwal: Okay sir, out of that 1500, how much is IT and how much is real estate, infrastructure, hospital how much, in that terms?

Vir Advani: Tough, I will give rough figures, IT/ITES would be around 20%-22%, infrastructure would be around the same, there is something called offices which is very broad based, little unclear, it could be about 15, retail would be about 15, and hospitals may be around 7%-8%.

Abhinav Khandelwal: Okay, sir, out of the Rs.100 crore as CAPEX that we are talking about, in Q3 how much we had spent?

Vir Advani: You mean, YTD.

Abhinav Khandelwal: Yes.

B. Thiagarajan: In the CAPEX?

Abhinav Khandelwal: Yes.

B. Thiagarajan: See CAPEX December 08 is Rs.51 crore. Last year was Rs.22 crore.

Abhinav Khandelwal: Okay sir.

B. Thiagarajan: Thank You.

Moderator: Thank you sir. Our next question comes from **Mr. Amit Ganatra of Religare AMC.**

Amit Ganatra: Hello.

B. Thiagarajan: Yes, good morning.

Amit Ganatra: Yes good morning sir, your tax rate has been coming down consistently from last 3-4 quarters, so when should it stabilize and what is the reason?

B. Thiagarajan: So, it is for the benefit of you and others. If you trace a plot quarter-on-quarter the tax rates, it sharply went up. We were in the range of something like 24%-25%, it went up significantly to 28% in March 2008. At that point in time, we had clarified that the manner in which we are taking the concessions in Dadra or computing the taxable part of it in Dadra and Himachal Pradesh, there was a query and a dispute, which we had to provide for. To broadly tell you, though I am not the expert in this, it was connected with the corporate and other expenses and to what extent you will avail a set-off in the case of Dadra and Himachal Pradesh. Like you have, for example, advertising expenses. So this query had come in and as a good corporate citizen, we went ahead and made provisions, but subsequently our view has been upheld by the tribunal. In other words, the additional provision that we made is not necessary. So, therefore, that got corrected in this particular quarter because we got this ruling a couple of months ago. Therefore, it has come down to something like 25%. So, this year, end March you can probably say what is cumulative Q3 FY09 will be most probably for FY09.

Amit Ganatra: No, I did not get, what would be cumulatively?

B. Thiagarajan: The tax rate cumulative FY09 is somewhere around 25% as against 28%, which was FY08. So it has come down substantially, and will be in the region of around 25% only for FY09.

Amit Ganatra: Also can you brief us on the demand outlook on this professional electronics and industrials systems segemnt, because their contribution to EBIT is now considerably high, 18% from this particular segment?

B. Thiagarajan: Two things here, one is that you cannot see their business quarter-on-quarter because it serves a wide variety of industries predominantly capital goods. So, quarterly result is not a reflection of the annual results. Two, their business will be directly related to overall economic growth or the GDP growth of the country. So, if you ask me to forsee, this particular industry will not be bad, but still the overall economic activity is slowing down. You are seeing the GDP growth rates being revised downwards every quarter, so we will be very cautious in seeing their growth of that business as well.

Amit Ganatra: Okay. You also mentioned that you are waiting for some very large projects. These are what, infrastructure related kind of projects?

Vir Advani: Yes, all of them that we are talking about right now are infrastructure.

Amit Ganatra: So, do you expect that you will make similar ROCE in these projects, as you were making in the other projects?

Vir Advani: I am sorry, if you could repeat the question.

Amit Ganatra: In terms of return on capital, do you expect that these projects will also end up making similar return on capital to what you were making in other projects that you are doing currently or in the past?

Vir Advani: Yes, we found that in the infrastructure segment except for the longer execution time, the margins are typically better than private jobs. Obviously, there is greater risk in larger jobs, but assuming we are able to manage the execution risk, the return on capital on the projects should be better.

Amit Ganatra: Okay, and just to reconfirm this thing that under the cooling products, 50% to 60% of the sales were actually from residential?

B. Thiagarajan: In the summer season, yes.

Amit Ganatra: In the summer season, but normally what is the…?

B. Thiagarajan: It will be around 20% or something like that for the full year.

Amit Ganatra: What is the other aspect?

B. Thiagarajan: We normally serve the commercial segment like shops, showrooms, boutiques, small offices, etc.

Amit Ganatra: No, what is the rest of the cooling products sale?

B. Thiagarajan: Yes, other than room air conditioners, there are deep freezers, there are water coolers, and there are cold storages.

Amit Ganatra: So, in that, how is the demand outlook?

B. Thiagarajan: Cold storages business is looking up basically because these are all state government, central government funded projects. So, that continues to grow at around 30%.

Amit Ganatra: Okay.

B. Thiagarajan: The deep freezer business has also grown by 30%... our understanding is that the small retail segments, which are called the kirana stores, are still modernizing i.e, while the big retail or malls have slowed down in buying, the so called kirana stores are in a manner of speaking upgrading themselves. So, the demand for deep freezers has gone up. The deep freezer as well as cold storages business has shown a growth of around 30%, but that is on a small base.

Amit Ganatra: Okay. So, these three basically constitute - the residential AC, cold storage, and deep freezers.

B. Thiagarajan: Not residential AC, room AC.

Amit Ganatra: Yes, sorry. Room AC, cold storage, and deep freezers, these three constitute the majority of these cooling products.

B. Thiagarajan: Water coolers as well.

Amit Ganatra: Okay and last question is that these order book breakup that you have given for the current year, is it possible to give a similar breakup for last year just to understand what is change that has happened in terms of order book constitution?

B. Thiagarajan: In the carry forward order book last year, so segment 1 was Rs.920 crore, this year segment 1 is Rs.1486 crore. I am talking about the carry forward order book as on 31st December. Last year, segment 2 was Rs.78 crore, now it is Rs.53 crore. Segment 3 last year was Rs.74 crore, and this year it is Rs.87 crore.

Amit Ganatra: What I was trying to understand was that in segment 1 itself what is the breakup? You provided a breakup for the current as of now, which was like IT/ITES?

Vir Advani: Yes, now I understand, I think, I will give you rough estimates, it is tough too. We do not know have that data right now, but roughly it was 40% IT, 20% retail, may be 25% retail and then they will be in offices at about 15% or 20%. So, that were being the bulk, those three will be in the bulk, together would be what, 80% of the order book. That I mentioned as now being replaced by 20% IT, 20% infrastructure, 15% offices, 15% retail, and 10% hospitals.

Amit Ganatra: Okay, so hospital and infra is basically adding to the order book and tend to compensate for the drop in IT.

Vir Advani: In IT and in retail.

Amit Ganatra: Okay. Thanks a lot.

Vir Advani: Yes.

Moderator: Thank you sir. Our next question comes from **Harshal Patil of Dolat Capital.**

Harshal Patil: Hello. Sir, this is Harshal here from Dolat Capital. Most of my questions are answered. Sir, just one question. Sir, in the previous con-call, that is, for Q2 FY09, this was with regard to the billing, you had said that we follow a internal ratio, that is, total capital employed to the billing for which the internal target was 7.5. So, sir, how does it work right now and how would it go ahead sir?

B. Thiagarajan: More or less we are in that bandwidth. Ideally, we would have tried to improve it. The sentiment that was there or the spirit with which the year started in April was that it should move even up to 8, but due to the current slowdown it is not, but still we maybe within that particular bracket. The only concern in capital employed will be that at the current situation, debtors are higher than last year. But the debtors are coming under control. So, I do not think with regard to the capital employed, we will have a problem.

Harshal Patil: Okay sir, another thing is, with regards to the CAPEX, we had commissioned the first phase of Wada plant in April and second phase we are targeted commencing by FY10 right sir?

B. Thiagarajan: Yes, correct.

Harshal Patil: So, sir how is the status? How is it progressing? Would we be commissioning that by FY10 or would there be a deferment to that?

B. Thiagarajan: No, in phase 1, the total money to be spent was around Rs.35 crore. But even before spending Rs.35 crore, we commenced the production last year itself and we will be at that Rs.35 crore of investment by March. We will review whether phase 2 of that is to be taken up or not, only later in the middle of next year or so.

Harshal Patil: Okay sir. Sir, just one more question. Now that summers are approaching, is the company planning to make some new launches as far as the room AC is concerned?

B. Thiagarajan: Nothing very significant to say, you are talking about some breakthrough products or something like that….,nothing, every year, we keep changing some models and we are tweaking, there is nothing new.

Harshal Patil: Okay sir and just wanted to know sir, how is the VRF system going on?

B. Thiagarajan: Doing very well. We have been improving our market shares very rapidly and significantly and the product is being widely accepted. We have given you some more details in the investor update, which should get released this afternoon.

Harshal Patil: Okay sir, this is from my side.

Moderator: Thank you sir. Our next question comes from **Mr. Munjal Shah of ICICI Prudential.**

Munjal Shah: Hello. Good afternoon sir, just wanted to know the numbers of Rohini Electricals in this quarter?

B. Thiagarajan: No, Rohini is unfortunately or fortunately with Voltas.

Munjal Shah: Sorry, the other one, Naseer Electricals.

B. Thiagarajan: Yes. Naseer Electricals was a Bangalore-Hyderabad based operation when we had acquired and I think the integration has happened faster than we expected and it has been a very smooth transition. Our intention was to grow that business in that region as well as take it all-India.

Munjal Shah: No, my question was basically, what was the revenue contribution from Naseer Electricals in this quarter?

B. Thiagarajan: We do not disclose. I have been maintaining that they will grow over their last year's figure by at least 35%, indeed they will grow this year. It was Rs.100 crore Company.

Munjal Shah: Basically if I remember well in this quarter, you have included Naseer Electricals?

B. Thiagarajan: Every quarter it has been included.

Munjal Shah: So, YOY also you have included?

Vir Advani: No, what do you mean? Every quarter in this year it has been included.

Munjal Shah: So, basically our central air conditioning systems growth was 12% YOY and last year's, if you take Q3 FY08, the central air-conditioning systems did not include Naseer numbers.

B. Thiagarajan: Correct, electrical numbers.

Munjal Shah: Yes, so I just wanted to know how much of this 12% growth has been contributed by Naseer.

Vir Advani: Again, like we have told you, it is now our electrical projects division, which is just a part of Segment 1. So what Thyag has told you is that the Rs 100 crore operation has grown at over 35%, so you can do that maths on that basis.

B. Thiagarajan: In the year-end, they would have grown by more than 35% cumulatively.

Munjal Shah: Okay fair enough. I guess that very well actually gives a broad idea of what could be the growth of central air-conditioning?

B. Thiagarajan: Yes, you will appreciate that while any amount of breakup can be given, it becomes a disclosure. Then the next question will be around segment 2 results and how it has contributed to split air-conditioners. So we broadly agreed on a particular segment and that is the reason, but otherwise I can tell you…....

Munjal Shah: Fair enough, it gives a broad indication.

B. Thiagarajan: Yes, thank you.

Munjal Shah: And just I missed actually what is the pending order book as of date?

B. Thiagarajan: Pending order book as on December 31, 2008 is Rs.1626 crore.

Munjal Shah: 1626 crore. Right?

B. Thiagarajan: That's Right.

Munjal Shah: Of which Rs.625 crore was received this quarter?

B. Thiagarajan: 625 crore….no, I am talking about the pending order book, carry forward order book as on December.

Munjal Shah: You have mentioned some order book of Rs.556 crore in Q3 08 and Rs.625 crore in Q3 09?

B. Thiagarajan: Order inflow during the year, yes correct, fair enough. Yes, yes, in the press release it is there, the order inflow during….

Munjal Shah: Yes, so Rs.1625 crore, out of that Rs.625 crore, we have received in this quarter, right?

B. Thiagarajan: You can draw a conclusion that out of the 1626 probably 625 is there, I would not be able to tell you.

Munjal Shah: Obviously, you would have executed something, but that could be the…

B. Thiagarajan: Yes fair enough, probably.

Munjal Shah: Thank you sir thanks.

Moderator: Thank you sir.

B. Thiagarajan: One more question we will take.

Moderator: Sure sir. Our last question for the day comes from **Mr. Krudent Chedda of Value Quest Research.**

Krudent Chedda: Sir, congrats on good set of numbers.

B. Thiagarajan: Thank you.

Krudent Chedda: Sir, this pending order book is executable over what period of time?

B. Thiagarajan: We use to be saying that it is roughly around 8 months of time, but in the current slowdown, it may be 12 months.

Krudent Chedda: Sir, your operating margins have dipped in this quarter, so going forward could we expect any improvement because raw material prices have come down?

B. Thiagarajan: We expect Q4 operating margins to be much better.

Krudent Chedda: Around again 11% to 12%, can we expect that?

B. Thiagarajan: Yes, that is what we are trying to aim for, but we would not know. The symptoms are it will be definitely far better than Q3.

Krudent Chedda: Sir, your tax rate for FY09 full year would be 25% and for FY10 it would be same or any changes?

B. Thiagarajan: I would not be able to forsee that.

Vir Advani: It probably won't be as low because one of our factories is no longer under tax benefit from next year, so it probably will not be as low as 25%, but we have not yet computed the total impact on that factory coming out of benefit, so we probably only have that done by Q1.

Krudent Chedda: Sir, your which facility would not be under tax benefit?

B. Thiagarajan: Today, we have Dadra & Himachal Pradesh; Dadra will go out of the benefit completely, so we need to re-compute that.

Krudent Chedda: Sir, are you seeing any cancellations or delays by the customers?

Vir Advani: No, we are not seeing any cancellations yet; we have not seen any re-negotiation yet unless it is prior to or only up to

LOI. No firm confirmed orders have been re-negotiated yet; we will see what happens in Q4.

Krudent Chedda: Sir, are the prices going to come down of ACs in the next quarter because the raw material prices all have come down… so?

Vir Advani: Probably not, I am talking on the industry because the dollar has gone the other way and as far as room air conditioners are concerned, a significant amount of the room air conditioner is imported. There are also a number of brands in the country today where the entire machine is imported. So even though raw material prices have come down, I am not sure how much pricing will come down.

Krudent Chedda: Okay, thanks a lot sir.

Vir Advani: Thank you.

B. Thiagarajan: Yes, thank you.

Moderator: Now, I will hand over the floor to Mr. B. Thiagarajan for closing comments.

B. Thiagarajan: Thank you very much for your interest. The economic conditions are indeed uncertain and we, as I mentioned, have been selectively pursuing segments, which offer profitable growth opportunities. Our focus has been to maintain good cash flow followed by margins and followed by growth. So, we overall expect Q4 to be far better than Q3. Thank you very much if you have any other questions, you can e-mail me or e-mail Sudhir Shetty of Adfactors. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, this concludes your conference for the today. Thank for your participation and for using Door Sabha's Conference Call Service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:
1.This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.