

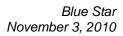
"Q2 FY11 Earnings Conference Call of Blue Star"

November 3, 2010





Moderators: Mr. Vir Advani, Executive Director, Blue Star





 $\label{eq:mr.disconditioning & Refrigeration Products Group,} \\ Blue \ Star \\$



Moderator:

Ladies and gentlemen good morning and welcome to the Q2 FY11 Earnings Conference Call of Blue Star. Joining us on the call today are Mr. Vir Advani, Executive Director and Mr. B. Thiagarajan, President, Air Conditioning & Refrigeration Products Group. As a reminder for the duration of this conference all participant 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. Should you need any assistance during this call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Vir Advani of Blue star. 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. B. Thiagarajan and we will be giving you an overview of the results for Blue Star Limited for the quarter ended September 30, 2010.

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

- We reported total operating income of Rs. 694.75 crore for the quarter ended September 30, 2010 as compared to Rs. 554.98 crore in Q2 of FY10.
- For the quarter gross margin declined from 26.3% to 22.2% due to higher input costs and change in the business mix.
- Operating profit (PBIDT excluding other income) for the quarter increased by 2% to Rs. 67.22 crore.
- Net profit was lower by 22% at 38.63 crore compared to 49.45 crore in Q2
 FY10 mainly because of lower gross margin and higher interest costs and taxes.



- Earnings per share for the quarter on a face value of Rs.2 stood at Rs. 4.29
 vis-à-vis Rs. 5.50 in the corresponding quarter of the previous year.
- Carry forward order book as on September 30, 2010 increased to Rs. 1,998 crore compared to Rs. 1,815 crore as of September 30, 2009 representing a growth of 10%.
- Order inflow during the quarter increased from Rs. 642 crore in Q2 FY10 to Rs. 715 crore representing an increase of 11%.

During the quarter, the company's via it's wholly owned subsidiary Blue star Electromechanical Limited completed the acquisition of the plumbing and firefighting businesses of D.S. Gupta Construction Private Limited, the largest independent plumbing and firefighting contracting company in India on a slump sale basis. The promoters of D.S. Gupta Construction will continue to manage the business for the foreseeable future. This move has fortified an important pillar in Blue Star's integrated mechanical electrical plumbing and firefighting or MEP contracting offerings for its commercial and residential real estate customers. With this acquisition not only will the company be in a position to aggressively pursue integrated MEP business but will also bid for standalone plumbing and firefighting contracting projects by cross-selling its services to its exiting air conditioning and electrical contracting customers.

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 69% of the total revenues of the quarter. This grew by 15% while segment results declined by 5%. The operating margin of this business in Q2 FY11 declined to 9.4% compared to 11.4% in Q2FY10 mainly due to increase in input cost.

In the Central Air conditioning business, the company saw good prospects from the healthcare, education, hospitality, power, steel and transportation



segments. Company also witnessed some revival in the IT and real estate segments. Blue star has won orders worth Rs. 130 crore for air conditioning and plumbing of the new integrated terminal building, i.e., terminal II of the new International Airport in Mumbai. Mumbai International Airport Private Limited or MIAL is currently implementing a master plan to build an integrated building with a vision and framework to modernize this Airport as one is the best Airports in the world. The work of the new integrated terminal building is being split into two phases while Blue Star was awarded the contract to air condition the south-west sphere valued at 15 crore a few months ago has won the contract to air condition the P2 process that is the main building valued at 93 crore in Q1 of FY11. In addition, DS Gupta Private Limited, the company that Blue Star has recently acquired has also been awarded the plumbing contracting works of the new integrated terminal building valued at Rs. 22 crore. Together all these contracts amount to the 130 crore. During Q2 FY11, Blue Star won a prestigious air conditioning order from AIIMS Hospital coming up at Bhubaneswar. It also won another order in the power sector from Adani Power for their 2 x 600 MW super thermal power plant being set up in Tiroda i.e., unit #4 and unit #5. It also won significant orders from L&T, DRDO, Hindustan Unilever, Indiabulls, ABB, and JSW Steel.

The Electrical Projects business caters to both the commercial building market as well as the power sector. During the quarter, the company received a significant electrical order in the power sector from Reliance Infrastructure valued at 55 crore for the open cast mines for the 6 x 660 MW Sasan Ultra-Mega Power Plant at Almora District in Madhya Pradesh. In addition, Reliance Infrastructure also awarded a switchyard order for its 1 x 300 MW Butibori Captive Thermal Power Plant in Nagpur, Maharashtra. Further the company won orders from A P Transco, Hyderabad and from National Institute of Technology, Rourkela. In commercial building, the company continues to win and execute several prestigious electrical projects in a standalone, MNE and MEP model.



In the Package/Ducted air conditioning and small chiller business, there was a good inflow of orders from educational institutions as well as in industrial segments. Blue Star's precision control packaged air conditioners (PCPA) performed well driven by the rapid expansion of data centers in the country. While the company sustained its dominant position in the telecom segment with its customized array of telepac air conditioners, the telecom infrastructure rollout in the country has been adversely affected and therefore our business from this sector has also been impacted. Tower rollouts are expected to commence only in Q1 of FY12 and therefore our outlook for this business for the current year is not very positive.

In the Cooling Products segment, revenues registered a healthy increase of 29% in the quarter driven mainly by higher room air conditioner and deep freezer sales. Segment results increased by only 2%. The operating margin declined from 14.5% in Q2 of FY10 to 11.5% in Q2 of FY11 due to significant escalation in input costs compared to the same period last year.

In the Room Air Conditioner business, growth was driven by sales from the commercial segment since demand from the residential segment is traditionally low in Q2 due to the monsoons in most parts of the country. Significant orders were booked especially from the educational segment.

The Refrigeration Product business continues to perform well with healthy growth in the deep freezer business driven by enhanced demand from the ice cream sector. A new range of specialty refrigeration products that include pastry display cabinets, serve-overs, reach-in freezers and coolers, under counters, and busy coolers were launched during the quarter. Growth in the water cooler segment was driven by increase in demand from the education segment.

The Professional Electronics and Industrial Systems business, revenues grew significantly by 100% driven by growth from the industrial projects business.



Segments results also registered an impressive increase of 63%. In the material testing business specifically the nondestructive testing business, the company won a significant order from Surya Global Steel Tubes against stiff competition from major international players. It also won strategic orders from India Seamless Tubes for online testing of seamless tubes and Indian Oil Corporation, Panipat for weld inspection in reactor vessels. The medical business had launched the Blue Star colour Doppler system a few months ago and significant orders were booked. The data communication business won an order for video surveillance of several police stations in Chandigarh.

In conclusion, the trend of positive revenue growth registered in the first quarter was sustained in this quarter as well; however, margins and profits continue to be adversely impacted. The management is taking steps to mitigate the rise in import material costs. Given a reasonable carry forward order book, the management is hopeful that better margins and continuing sales growth will result in better profitability in the second half of the year.

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

Moderator: Thank you very much sir. Ladies and gentlemen, we will now

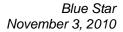
begin the question and answer session. The first question comes from line of Shaifali Doshi from KJMC Capital Market,

please go ahead.

Shaifali Doshi: I wanted to know the Mumbai terminal order, which you have

received for 130 crore. What will be the execution period for

the same?





Vir Advani: They have committed to opening this terminal by September

2011, so it is an elapse time for us of about 15 months.

Shaifali Doshi: Sir, could you share with us the order book of D.S. Gupta?

Vir Advani: The Rs 1998 crore carry forward is without D.S. Gupta. The D.S.

Gupta carry forward is close to 250 crore.

Shaifali Doshi: What is the contribution of D.S. Gupta in the revenues

reported for the quarter?

Vir Advani: As you know, we have subsidiary called Blue Star Electro

Mechanical Limited. We have not consolidated the subsidiary. We will be consolidating that subsidiary at year end. So until then all these numbers are without any plumbing and fire-

fighting figures of the acquired entity.

Shaifali Doshi: So, all these numbers are excluding D.S. Gupta?

Vir Advani: That is right. These are all standalone figures.

Shaifali Doshi: Okay. Sir, can you give us ballpark number, what would be

the sales of D.S. Gupta for FY11?

Vir Advani: As you know, we acquired it in mid-year, so the amount of

revenue that will get consolidated on Blue Star will

approximately be 100 crore.

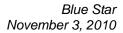
Shaifali Doshi: And the order book of D.S. Gupta, which you mentioned 250

crore what will be the execution period over there?

Vir Advani: That is very similar to ours. Our average period in the order

book is about 15 months now. I would imagine that theirs

would be between 14-18 months. There is some amount of





residential work in their order book, which tends to be slower moving. So we have not done a full analysis but my guess will be around 15 to 18 months.

Shaifali Doshi: Another thing, which I wanted to know, what was the CapEx

for the quarter?

Vir Advani: Approximately 6 crore of CapEx in the quarter & for FY11,

approved CapEx is 21 crore.

Shaifali Doshi: Can you just give us the breakup of the order book of D S

Gupta in terms of industry?

Vir Advani: We do not have that, but very broadly about 70% is in the

commercial market and about 30% is in residential. We will

have similar margins at an operating level to segment 1.

Shaifali Doshi: Sir, any guidance for FY11 in terms of margins?

Vir Advani: Well, there is no guidance. In the second half, we are

expecting the revenue growth to continue the momentum. So it should be more than 20% growth on the top line for the full year. At an operating profit level, we have obviously seen erosion as you can see. We are anticipating reaching last

year's level at an operating profit line and we are trying to do

better than that.

Moderator: Thank you. The next question comes from the line of Sanjiv

Zarbade from Kotak Securities, please go ahead.

Sanjiv Zarbade: Sir, my first question is on the other operating income, which

has increased from 4.8 Million to 129.8 Million?



Vir Advani:

We had mentioned in the Q1 results that our auditors have advised that we change our policy on both write-offs and write-backs. Traditionally, we have done it on an annual basis and so in Q4 we take care of all write-offs as well as any provisions etc., creditors we write back at the end of the year. We have now gone to a quarterly adjustment, so therefore it is not really like to like.

Sanjiv Zarbade:

Sir, the increase in traded goods is it because of the third segment i.e., industrial segment?

B. Thiagarajan:

Basically it is in all segments. Actually in the first segment, there are quite a few high-sea sales like chillers etc., what we source from outside. In the second segment, there are actually certain water coolers; certain deep freezers that get traded. Third segment by nature almost 50% of that business happens on a high sea basis.

Sanjiv Zarbade:

Sir, lastly on a broad sense if you could give me some idea about how the commercial air-conditioner market is shaping up and how the margin picture can improve in the next year and not in the coming quarters. Do you see the margins bottoming out somewhere in the year?

Vir Advani:

Our position is that we have taken corrective action on the margins, obviously from two sides, one is from the pricing point of view and the other is from a cost point of view. So, we have the raw materials cost. Just to give you an idea of the extent of it, copper, steel, and aluminum are the three main raw materials. For the same period as last year, copper is up 23%, steel is up 10%, and aluminum is up 15%. Now, we have no idea where these numbers are going up or down, you guys



will know better than us. Assuming that this type of raw material prices hold, we have already increased prices across all our product lines effective October 1, 2010, the benefit of which will come in November-December onwards. We have gone back to significant product development initiatives in terms of cutting material cost in our products. We have an internal plan between those two initiatives to try and improve the gross margins of the equipment business between 2% and 3% and that will flow obviously down. So, we feel that moving into Q4 and certainly into the first half of next year we will see an improvement of gross margin and therefore of our operating margin. That is as far as the equipment business is concerned.

Our contracting business is different because it runs on a different cycle. There are orders booked in FY10 that are being executed and billed right now. Given the situation of last year, several of these projects were booked at very tight pricing in margin and that has to be billed out. So, we will bill that out and in the meanwhile, we have issued new policy on minimum margins and minimum terms of payment on all projects that we accept in the company going forward from October 1, 2010. So, the new orders that come into the order book from November onwards will have better terms of payment and margins, but of course that will translate into gross margin improvement much later. By and large as Management we feel that it should have hit the bottom as far as the margin pressure is concerned and things should improve from here.





Sanjiv Zarbade:

Sir, we have seen a lot of electrical orders as you announced. So, herein the profitability is compared with the normal contracting business or is it significantly different?

Vir Advani:

As we have been mentioning earlier, in the building sector electrical work there are similar margins, similar capital employed as our traditional air-conditioning business. So that has been established now because we have been doing it for three years. The margins and capital employed of our power sector electrical work, we are still to take a position on because as you know we started booking business only at the beginning of this year, execution has started, but we have still not completed and handed over a single power sector job. We expect to do that either at the end of Q4 or beginning of Q1. This will be the first couple of jobs that we fully deliver. I think therefore only by June of next year we will have a much better sense of the returns in that business. As of now, out of the total order book, the power sector electrical carry forward is less than 100 crore. So, we are really in trial phase or experiment phase right now in that business.

Moderator:

Thank you. The next question comes from the line of Chirag Setalvad from HDFC Mutual Fund.

Chirag Setalvad: Just a quick question on taxes; your tax rate in the last two quarters has gone to about 30%-31%. I was wondering what kind of tax rate you are expecting for the full year?

Vir Advani:

We expect the same 30% for the year. This is largely on account because of our Himachal plant has come off 100% tax holiday; that is down to 30% tax holiday now and that will continue. We have some plans for next year to try and bring



down that 30% by a little bit, but one should expect 28%-30% type of tax rate for the coming couple of years.

Moderator:

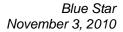
Thank you. The next question is from the line of Munzal Shah from ICICI Prudential AMC, please go ahead.

Munzal Shah:

I just wanted to know the debt, we have got a reasonable increase in debt, one reason is on account of acquisition of Gupta and working capitals, so going forward what are the plans on the working capital side and debt reduction?

Vir Advani:

Broadly the increase in the borrowings is largely on two accounts like you mentioned, about 100 crore related to the acquisition and about 118 crore related to operations. The 118 crore related to operations is largely related to segment 1, which is our project business. There are three main reasons for this increase; one is poorer terms of payment on paper itself, which has relatively little impact. The biggest problem of course is collections. So, regardless of what terms of payment show on paper even the adverse terms of payment are not being followed by customers. So the debtors and therefore collection of those is what has not improved yet. We also have a larger WIP on account of slower moving jobs, which are infrastructure, hospitals, hotels, which by nature are longer lead times, So there is very little we can do about that and that is acceptable to us because it is part of our business. The main effort right now is on collections. I had mentioned at the beginning of the year that we should see an improvement in collections by October. We have not seen that improvement, but I think internally we have turned up our effort and we are starting to see some improvement in the market, so we are confident that by Q4 we will be able to improve our position





on collections, and therefore this borrowing should come under control. So there is of course a growth in overall business revenue and therefore one should imagine capital employed going up, but not by this factor. So, I think you will see a significant improvement in the coming three to four months.

Munzal Shah:

Secondly, since you mentioned that there have been delays in getting the money, could you tell us, which in which sector you are seeing these delays?

Vir Advani:

Honestly, it is everywhere. One has to look at the current year as well as over 365 days. Essentially, last year's billed projects and the current year billed projects are as we know mainly airport, metros, hotels, hospitals primarily and it is pretty much across the board. There are some even older debtors related to some real estate companies, but it is more on these segments that I mentioned.

Munzal Shah:

Okay, we have been very conservative in writing off our debtors and last year it was around 16 crore of bad debts. Do you think that going forward this amount could increase significantly just on the basis of our conservative policy?

Vir Advani:

No, actually we have a fairly aggressive policy in-house. On equipment business, we have a cut-off and on projects we have a little more leeway, but there is a firm date over which we are required to write off. So, actually it is a fairly good policy and that number being only 16 crore is in spite of that policy, so we are not seeing any major write-offs that we are going to have to deal with either in this year or next year on account of this large debtor position.



Munzal Shah: Sir, can I get the six months' number on the bad debts?

Vir Advani: Six months' number is 5 crore.

Moderator: Thank you. The next question comes from the line of Pritesh

Chedda from Emkay Global.

Pritesh Chedda: First on the business segment 2, you said that the margins were

down on account of the higher input cost and mix changes. Have you taken any price increases post that and what could be a longer term indicative margin in that business segment considering that it is pretty volatile in terms of from quarter-to-

quarter?

Vir Advani: There are two reasons for segment 2 margins coming under

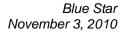
pressure and then I will ask Thiagarajan to comment on the outlook. One I had mentioned to you already the raw material price increase. The other one is the 2% cenvat rollback by the government, and that has had about 1.5%

impact to our margin vis-à-vis last year.

B. Thiagarajan: Yes, obviously this will have to be passed on to the consumers.

The effective cost have increased from September for some products and from October for certain products we have increased the prices. But you know it works in the system, it takes a couple of months for it to get effected because the dealer will have the old stocks etc., so the price increases is in the order of around 3%. Therefore, we should be in a position to get back to last year margin levels by the year-end definitely, but even in Q3 you will see significant improvement. Most importantly, the strengthening of the rupee benefits this

business because the compressors and quite a few other





components are imported, so on the input raw material costs also we are likely to get benefitted.

Pritesh Chedda: Okay. Second question with respect to division 1, we have

booked the entire power related electrical business in

segment 1 is that true?

Vir Advani: Yes.

Pritesh Chedda: Second, after having the H1 number in place and knowing

the order inflow for the first half, what could be an indicative revenue booking range for FY11 in that particular division and

also the order inflow possibly for that division?

Vir Advani: Revenue has been growing at about 15%-17% and we

anticipate that to continue through the end of the year. That

is one. Our order inflow has been up about 10%-12%, however

we are still cautious. I do not think it is going to improve

dramatically beyond that till that year end. Our concern right

now in segment one is order inflow because you can see

billing is happening faster than order inflow and in the first half

we had some large infrastructure jobs getting finalized which helped the order inflow. So we had the order inflow and in the

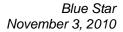
second half there does not seem to be any significant large

infrastructure jobs being finalized.

Pritesh Chedda: What is the MEP component in the incremental ordering that

we get since the last two quarters?

Vir Advani: It has been roughly about 35%-40%.





Pritesh Chedda: On D.S. Gupta, if you could tell us FY10 number in terms of

revenue, EBITDA and PAT and when we said 100 crore that is a

half-a-year's consolidation of revenue for FY11?

Vir Advani: Yes, we will consolidate from September 1. For about seven

months of the year, it will be Rs 100 crore. On an annualized basis I think it is about 160-170 crore compared to last year

wherein they did about 115-120, so they have had about 20%-25% growth in revenue and the margins like I said are in line

with our segment one margins, which is about 10%-11%.

Pritesh Chedda: What is the capital employed in that business?

Vir Advani: I don't have that figure right now, but it would be again in line

with segment one, it is facing the similar issues as our segment one where our capital employed has ballooned, debtors are

around 100 days - that kind of level.

Pritesh Chedda: Since it is a slump sale, if you could straightway tell the net

margins in that business, what were they last year?

Vir Advani: Net margin, I think is about 7%, if I remember correctly. I think

operating margin was around 10%-11%,

Moderator: Thank you. The next question comes from the line of Manish

Jain from Axis Holding, please go ahead.

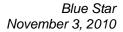
Manish Jain: Essentially I just wanted to understand what is our USP in the

NDT and video surveillance business and what is the outlook

for both?

Vir Advani: I preface this by telling you that these are not very large

businesses. The order of magnitude on nondestructive testing





business at an operating profit level would be contributing 3-4 crore. So, this is not significant at all. In our non-destructive testing business, what we do is we import certain components, which are essentially the actual imaging part of the solution. So whether it is radiography or x-ray or anything else, and then we build the entire structure around that as well as the material handling system attached to that. So our job is to actually fabricate and integrate a solution. Our customers are largely steel companies as well as defense organization. The outlook is quite attractive and we do not have any significant competition locally. It is a growing business but like I said the contribution is relatively small.

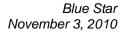
Our video surveillance is even smaller. It is essentially providing outdoor video surveillance. This is outdoor wireless backbone video surveillance, which are used in oil and gas pipelines. If the pipeline is running across the country, you want to remotely monitor any naxal attack or any other type of attack on a pipeline; you do that through this solution that we implement. We do similar implementations for the Delhi police and tea estates in the North-East where there are issues related to security. So it is a security solution again where our buyers are either private enterprise, defense organizations because we are looking at deploying these solutions up at Pakistan border as well. So these are types of applications that we do, but again very niche and relatively small contribution.

Moderator:

Thank you. The next question comes from the line of Mayur Patel from Spark Capital.

Mayur Patel:

In terms of the Mumbai Airport, do we expect any further potential of order inflows from that pocket?





Vir Advani:

For the current phase there is no more work because all the focus is on getting the new terminal up and running by September 2011. Beyond that of course you would know that there are two major opportunities, one is the Navi Mumbai Airport itself. The other more near term opportunity is that once the new integrated terminal is up in Mumbai, they will be tearing down existing terminals and on that plot of land there will be a fair amount of commercial development that will be owned by MIAL. So we hope that if we do a good job for them on this job than we should be a preferred vendor on all their commercial build out that they do going forward.

Mayur Patel:

Can you touch upon the scope of work in the Reliance since the order is a 55 crore order, which has been awarded?

Vir Advani:

This is for Sasan UMPP, there is an attached mine. We are doing the entire electrical power distribution package for the mine. It involves everything from transformers to equipment as well as installation and it covers the entire mine.

Mayur Patel:

So, we would buy components like transformers and other things required in a substation or things like that?

Vir Advani:

It is a turnkey electrical EPC contract.

Mayur Patel:

Okay. We expect similar kind of project margins, around 10% kind of margins in these projects?

Vir Advani:

Yes, what I mentioned earlier we do expect the margins to be of that magnitude, the question is the capital employed because these projects tend to suck up more capital than



normal but really we will only know how the returns look once we have completed and handed over these jobs.

Mayur Patel:

On the working capital you already elaborated on the way forward, just want to see like say Rs 44 crore of debt after Rs 100 crore would be related to acquisition. Can you give us some range, something by March, what kind of debt level we can expect?

Vir Advani:

What will happen is that by Q4, revenue will be between 20% and 25% up. February-March as you know are also our largest months historically and we expect the same to continue. So we have a feeling that the year-end borrowing level will be the same but obviously on a much larger base and obviously collections will be improving but in spite of that, I think these debt levels will hold.

Moderator:

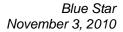
Thank you. The next question comes from the line of Nirmal Shah from Alchemy.

Nirmal Shah:

In your initial remark you mentioned some revival happening in IT and ITES so can you give your outlook for FY12?

Vir Advani:

We are seeing large companies have plans to grow their infrastructure between one-and-a-half to two times over the next five years. So after roughly two to two-and-a-half years of no build out, there is at least on paper plans of doubling existing capacity obviously, over a five-year period. So this year has more or less gone by with more discussion and interaction around what they are planning. We think by Q1 some of those projects will actually be bid out for us to move into. So I think from my point of view IT revival for our business





will be in say Q2 of the next financial year. Recruitments are up as you know; however, they are selling existing empty space right now. So therefore by Q2 we expect our business to increase in IT. On a five-year basis we are very optimistic about the IT and ITES business for the company.

Nirmal Shah:

During good times IT sector used to contribute close to 30% of our incremental order inflow, so do you see that possibility coming in FY12 itself or do you think we are still a little bit ahead?

Vir Advani:

No, I think in FY11 we will be lucky if it even reaches 10%, I think it is probably lower, so I think FY12 may be around 20% or so, so there is a catchup because our other businesses are also starting go grow, so I think may be by FY13 you will see it settling at about 25%.

Nirmal Shah:

Sir, my second question is regarding your other current assets. In this balance sheet there is almost 70% increase in your current assets from Rs 218 to 372 crore, so can you just give a reason for that?

B. Thiagarajan:

This is basically the revenue we had, under AS7 revenue recognition happens based on the cost incurred in the job and as the revenue is recognized the billing might not have taken place because the payment terms may not be due or the certification would not have been happening, so the difference between revenue recognized and the bills raised that will be the difference reported as the other aspect there. For your understanding you should treat it as debtor only.

Nirmal Shah:

Sir, can you expect this to be normal cycle going ahead?



B. Thiagarajan:

That depends, if it is an IT, ITES kind of a segment the job execution cycle is six months and it will come down. As long as the job execution cycle is going to be 10 months or infra projects or metro rail projects, power projects it will likely be like this only.

Moderator:

Thank you. The next question is from the line of Madhuchanda Dey from Kotak

Madhuchanda Dey: My question pertains to your margin, you just mentioned that you expect margins to improve by the end of the year I am not very clear on the reasons that you are ascribing to the same?

Vir Advani:

What I had mentioned about segment one is that it is an order book driven business. We have orders in the book and certain margins there need to be billed out and only new orders that we bring into the order book effective October 1 will be on better terms of payment and better margins. So I made a point that the margin improvement will come in the equipment business but the contracting business the margin improvement will not be substantial, it will be billed out.

Madhuchanda Dey: It is very heartening to hear that the new orders that you are expecting to book from October are likely to fetch you better margin. Is it an early indication of competition weaning or the ordering environment turning distinctly better?

Vir Advani:

The reason why we waited till October to do it is that it is not a very exciting order inflow market. I already told you our major issue is order inflow. But as a company we have taken a position that even if order inflow does not improve we still



want to be picky and choosy about the business we execute. So we may actually forgo some order inflow. So it is not as though the market has turned so buoyant that we can, decide to do. We are frankly doing it in spite of a difficult market. So you may see order inflow being impacted but on the flip side you will see better margins as we bill it out.

Madhuchanda Dey: You have cornered orders to the tune of 700 odd crore in this quarter as against 900 odd crore in the last quarter so we are at about 1600 crore kind of order inflow in the first half. What is your take on the second half given this trajectory and given your assessment as you pointed about IT etc? What are the pockets, which are still lacking and in context of that where do you see the order inflow in FY12?

Vir Advani:

One clarification, order inflow decreasing from Q1 to Q2 is normally a historical event. Our order inflow is attributable to all our businesses .So our order inflow in Q1 is much larger because equipment business and room air-conditioner business sort of peaks in Q1. It is not a trend of inflow dropping or something. But the main point is that order inflow has grown 10% over last year. What I mentioned to you is that in spite of us raising our price bars and our terms of payment for our projects business we still expect the order book to be up about 10% by the end of the year. If we do not do that we can probably grow the order book to a magnitude of 15%, 18%, 20% but we are choosing to forgo that incremental order book in exchange for higher margin.

B. Thiagarajan:

Moreover telecom as a segment, around 150-.175 crore will be a lower order inflow. We do not see that reviving in this current year.



Madhuchanda Dey: We are kind of getting indication that commercial real

estate is doing better and as you said IT is also after a long time are in some kind of an expansion mode should this two fall in place in a much better way than it was in FY11, what

kind of trajectory can we expect in FY12?

Vir Advani: We are feeling quite bullish about FY12 for two reasons. One is

we are finally seeing clear indication like commercial real

estate rentals are improving, IT recruitment is improving. So

those indications help us in faster turn around and higher

margin business. That is a very good indication. So we feel that $% \left(x\right) =\left(x\right) +\left(x\right) +\left$

in FY12 recovery will come and these segments will improve.

On top of that we have been nurturing other businesses like

our infra business, power business, industrial project business,

those will continue to grow up from what we can see. So we

are expecting FY12 to be a sum of the two and this will help

the overall margins, the capital employed, and of course the

growth of that segment.

Moderator: Thank you. The next question comes from the line of Kirti Dalvi

from Enam AMC, please go ahead.

Kirti Dalvi: Could you give us the breakup of other operating income

because you said there was some write back if I am not

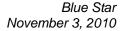
wrong?

Vir Advani: Out of Rs12.98 crore other income, Rs 11 crore is write backs

and remaining would be scraps etc. Rs 17.99 crore, which is

the half year period, write backs would be to the tune of Rs.15

crore.





Kirti Dalvi:

Sir, in your opening comments you did mention that there was change in the business mix. Could you elaborate in terms of whether it was the order book mix or the project mix that has changed or anything else apart from that?

Vir Advani:

What has changed is, one is of course the telecom business, that tends to be a high margin business, which frankly for the first six months has been in very bad shape. As you know, there is no tower build out that has happened in the last six months. The other one is I think that the projects business whether air conditioning standalone, electrical, plumbing, firefighting standalone or integrated, has been growing in revenue faster than some of the equipment business and you know that the projects business by nature is lower margin but higher capital returns. So that has also contributed a little bit. But I mean the important thing is what I had mentioned earlier. I said the bulk of the margin erosion is on account of raw material and the cenvat, Product mix I would not imagine is more than 0.5% type of impact.

Kirti Dalvi:

Sir was there any kind of forex gain in a first half of this quarter?

Vir Advani:

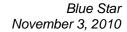
We ended break-even for the half, we are hedging, we are net-net or very close to zero, it is where we are as of the first half.

Kirti Dalvi:

Okay. Sir, on purchase of trade goods could you elaborate that Rs.28 odd crore has gone up to almost Rs.76 crore in this quarter?

B. Thiagarajan:

Yes it depends on the particular type of order, what it involves
- like it may be a sourced product for a chiller or it could be a





particular type of water cooler or a deep freezer. In all segments there could be goods, which are imported and traded.

Moderator: Thank you. Ladies and gentlemen, that was the last question I

would now like to hand the floor over to the management for

closing comments.

Vir Advani: Thank you very much, thank you for attending our Q2

conference call, we look forward to talking to you at the end

of Q3. If there are any questions that we have not answered

on this call please e-mail us and we will try and get back to

you as soon as possible. Thank you very much.