“Blue Star Limited
Q2 & H1 FY25 Earnings Conference Call”

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

Moderator: Ladies and gentlemen, good morning and welcome to Blue Star Limited Q2 & H1 FY25 Earnings Conference Call.

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

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

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

B. Thiagarajan: Thank you. Good morning, ladies and gentlemen. It's my pleasure to join this call along with Mr. Nikhil Sohoni.

You have seen the results which were declared yesterday and with the revenue growth of over 20% and operating profit growth of around 22% and net profit increase of over 36%, it was an excellent quarter.

Mr. Nikhil Sohoni will provide the highlights of the Results, post which we will answer your questions.

There will be questions related to how the festival season was and specifically the month of October. All throughout, of course, the summer season, the Room Air Conditioners business has done exceptionally well. Some of you might have seen even the GFK Report that came out a couple of days ago. To disclose the specific figure, October being the Diwali month, the volume growth of Room Air Conditioners was around 30% and the revenue growth of around 28%. This is happening after a volume growth of over 53% in H1 for Room Air Conditioners and revenue growth of around 45%. In Q2 alone, the Room Air Conditioners grew 27% and the revenue growth of around 25%.

Now, the questions will come on Segment-II on why that growth is not reflecting? We will explain to you what are the reasons. Despite Room Air Conditioners growing by 27% in Q2 and revenue growing for Room Air Conditioners by 25%, still why the Segment-II revenue growth was lower? The GFK report, if you notice in Q2, the industry growth is reflected as the tertiary growth of 17%, Blue Star growth is reflected as 30%. In H1, the industry growth is reflected as 31% tertiary volume growth and 55% as the Blue Star's growth.

The market continues to do well in consumption. One major concern you might have seen in my media interviews as well over the past two, three weeks, while there is slowdown that is being reported in FMCG or automobile sector, fortunately, the Room Air Conditioners industry is doing well and we are doing well. Therefore, the question is when automobile has slowed down, FMCG has slowed down, even some other durables might have slowed down, why air conditioners alone is growing? The question I am not able to answer. Perhaps:

A) the temperature conditions or the way the people are getting used to air conditioning in other ways, whether it is a restaurant, a car, offices, markets, everywhere they are exposed to air conditioning. So, therefore, at home they may be needing the comfort of air conditioners too. B) The prices have remained stable. C) Huge consumer finance options are available that we continue to witness that more than 50% of the sale is happening through consumer finance. And most importantly, the power consumption has been coming down, thanks to the Energy Saving Scheme. So, we are happy that our industry is doing well, and I hope that it will continue. Having said that, these are uncertain times, we will keep a close watch on what is happening. Fortunately, it's a lean period. There will be one more spike between Christmas and New Year. Then we have to look at what's going to happen for the forthcoming summer season. So, the Room Air Conditioner industry continues to do well.

The Commercial Refrigeration part of it, is doing well except for the setback in water coolers which is a high margin product. From March 27th of 2024, BIS related changes in terms of specification that has disrupted the supply chain and there are difficulties that are being encountered, we will explain to you. Those are ephemeral in nature and there is nothing to worry about the overall growth prospects for Commercial Refrigeration.

Manufacturing, data center and some parts of commercial real estate are doing extremely well. Infrastructure projects, there was a slowdown in execution, it is coming back post the elections. The commercial air conditioning business continues to do well, which in our case is part of Segment-I, it is not part of Segment-II like other players, and it is doing extremely well, both in terms of order inflow, margins and the consumption across various sectors, including manufacturing, i shops, showrooms and boutiques.

The input costs are stable as of now, and the supply chain-related challenges continue. There is nothing new to report during the quarter and the preparations are on for the forthcoming summer season.

Overall, we are very optimistic about the Financial Year 2025 and I think it will be another landmark year. We are proceeding with our investments wherever we have committed in terms of R&D or digitalization or manufacturing capacity expansion.

One more general point that will come up in the international foray is the testing validation of various products meant for Europe, or the US is going on very well and we are able to deliver quite a bit of products for the refrigeration migrant program, for which the deadline is this calendar year. Now, post the elections, what will be the direction in US? How will the market pan out? We have to wait and watch.

Europe market continues to be slow and all of us are waiting, whether it is Blue Star or international players trying to export to Europe or European players, they are keeping their fingers crossed as to when the European market will open up for consuming the de-carbonization related products. But our pursuit of developing products for this market, getting new customers to gain trust in Indian manufacturer as against China and how we will be able to improve our own processes in terms of quality and the standards that are to be maintained post-delivery of the material. Those are progressing on as per the plan.

Overall, it has been a good year, and we look forward to closing the year in an exceptional manner. Of course, the same question which you or the financial media keep asking that, "Won't the slowdown of other industries catch up with us?" It is not. Let us hope that it will not catch up with us. Thank you. Over to you, Nikhil.

Nikhil Sohoni: Thank you, Mr. Thiagarajan. So, good morning, ladies and gentlemen. This is Nikhil Sohoni, and I will be providing you an Overview of the Results of Blue Star Limited for Quarter ended September 2024.

I. FINANCIAL HIGHLIGHTS

This quarter, we sustained the momentum established in the first quarter. The strong performance across all key segments, supported by a robust order book, reflects growing demand for our diverse product portfolio. Continued focus on distribution footprint expansion, innovation and R&D, localization & backward integration in manufacturing and supply chain cost optimization has resulted in growth in revenue and profits.

Financial highlights for the quarter ended September 30, 2024, on a consolidated basis, are summarized as follows:

- Revenue from operations for Q2FY25 grew 20.4% to Rs 2,275.96 cr as compared to Rs 1,890.40 cr in Q2FY24.
- EBIDTA (excluding other income) for Q2FY25 improved to Rs 149.31 cr (EBITDA margin 6.6% of revenue) as compared to Rs 122.69 cr (EBITDA margin 6.5% of revenue) in Q2FY24.
- PBT grew 38.3% to Rs 131.39 cr in Q2FY25 as compared to Rs 94.99 cr in Q2FY24.
- Tax expense for Q2FY25 was Rs 35.04 cr as compared to Rs 24.26 cr in Q2FY24.
- Net profit grew 35.7% to Rs 96.06 cr in Q2FY25 as compared to Rs 70.77 cr in Q2FY24.
- Carried-forward order book as of September 30, 2024, grew by 9.8% to Rs 6,598.20 cr, as compared to Rs 6,008.52 cr as of September 30, 2023. Carried-forward order book as of March 31, 2024, stood at Rs 5,697.63 cr.
- The capital employed as of September 30, 2024, increased to Rs 2550.28 cr as compared to Rs 2069.62 cr as of September 30, 2023.We continue to invest in manufacturing capacity, Research & Development and Digitalization initiatives.
- Net cash position of Rs 185.26 cr as on September 30, 2024 as compared to a net cash position of Rs 285.85 cr as of September 30, 2023.

II. BUSINESS HIGHLIGHTS FOR Q2FY25

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

Segment I revenue grew 32.6% to Rs 1,428.42 cr in Q2FY25, as compared to Rs 1,077.21 cr in Q2FY24. Segment result was Rs 119.21 cr (8.3% of revenue) in Q2FY25 as compared to Rs 65.28 cr (6.1% of revenue) in Q2FY24.

Order inflow for the quarter was Rs 1,899.06 cr in Q2FY25 as compared to Rs 1,764.82 cr in Q2FY24.

1. **Electro-Mechanical Projects business**

   Manufacturing and data center segments continued to drive growth. The infrastructure projects execution is picking up momentum and we are also witnessing order finalizations from commercial real estate sector.

   Carried-forward order book of the Electro-Mechanical Projects business was at Rs 5,036.69 cr as on September 30, 2024, as compared to Rs 4609.37 cr as on September 30, 2023, a growth of 9.3%.

2. **Commercial Air Conditioning Systems**

   During the quarter, the focus was to accelerate deliveries and also improved the margins through the ongoing Total Cost Management (TCM) initiatives. The new product development initiatives are on track and given the growth opportunities in manufacturing, data center, commercial real estate, health care and education sector the prospects for this business are excellent.

3. **International Business**

   The development of new products in the areas of decarbonization and energy efficiency improvement for identified OEMs in Europe & North America are progressing well and the field trials for a few products have been completed successfully. There is a slowdown in Europe and the indications are that the demand will revive in 12-18 months. Certain shipments for the US market have commenced but the momentum is expected to pick up post the presidential elections. As we have explained in the past quarters, we would like to position ourselves as a manufacturer of innovative and reliable products for the respective markets and would give this business time for scaling.

Segment 1 margins saw an improvement in Q2FY25, rising to 8.3% of revenue, compared to 6.1% of revenue in Q2FY24. The improvement in margins is a result of the changing mix of business within the segment.

Segment II: Unitary Products

Segment II revenue grew 5.1% to Rs 767.00 cr in Q2FY25 as compared to Rs 729.49 cr in Q2FY24. Segment result was Rs 53.92 cr (7.0% of revenue) in Q2FY25 as compared to Rs 61.61 cr (8.4% of revenue) in Q2FY24

1. **Cooling and Purification Products business**

   This quarter has seen reasonable growth over the previous corresponding period in spite of this being a non-seasonal quarter.

   The demand for Room Air conditioners continued to be good and we maintained our market share at 13.75%. In anticipation of the forthcoming festival season, the dealers have begun stocking. As in the previous quarter, consumer finance related sales are significant and tier 3-4-5 markets continue to dominate.

   With the localization and scale benefits the margins continue to improve.

2. **Commercial Refrigeration business**

   Due to regulatory changes pertaining to BIS and Quality Control Order (QCO), production and sale of water coolers saw major disruption. Further, in transitioning to the new standards, while attempting to manage the inventory of old components, the margin for water coolers declined.

There was a delay in ramping up the production of the new range of state-of- the art glass top deep freezers which resulted in lower revenue growth.

To sum up, it was an excellent quarter for RAC in terms of revenue and profitability growth. However, a muted growth for commercial refrigeration products pulled down revenue growth and profitability in segment 2.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue de-grew by 3.8% to Rs 80.54 cr in Q2FY25 as compared to Rs 83.70 cr in Q2FY24. Segment result was Rs 5.17 cr (6.4% of revenue) in Q2FY25 as compared to Rs 12.23 cr (14.6% of revenue) in Q2FY24.

This business is largely dependent on the import of hi-tech capital equipment. The demand was expected to revive post Union elections, but supply chain restrictions and uncertainties have resulted in long delays in finalization and execution of orders. We expect the growth to revive only in Q4 FY25.

III. BUSINESS OUTLOOK

The prospects for Room AC, Electro-Mechanical Projects and Commercial Air Conditioning business are excellent. The Commercial Refrigeration business suffered in Q1 and Q2 of FY25 due to regulatory changes, but the prospects continue to be good. We are persisting with investments in R&D, Manufacturing and Digitalization and our TCM initiatives continue to pay dividends. We expect FY25 to be another landmark year. Our growth focused mindset supported with prudent financial management ensures a stable foundation for our short-term and long-term ambitions.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Natasha Jain from Nirmal Bang Securities Private Limited. Please go ahead.

Natasha Jain: My first question is on the UCP segment. Firstly, if you could give us some sense as to what is the split between RAC and non-RAC? The reason why I ask is, you have stated in your press release that your margin decline of 140 basis points was predominantly led by Commercial Refrigeration. So, that's the background I am asking this split. And a related question here is while I understand that there has been regulatory changes and delay in ramp up of some of our products, is there also some kind of slowdown that you're seeing because we've been hearing this commentary for Commercial Refrigeration for a couple of quarters now and even from peers. So, if you could just throw a little detailed color as to what segment within this is driving growth and where are we possibly seeing some slowdown and a medium-term growth outlook?

B. Thiagarajan: Thank you. So, I will try and explain. We are also internally trying to discuss and even on the board we are discussing how to go ahead and classify the segment.

First of all, the segment classification has Electro-Mechanical projects and Commercial Air Conditioning, Unitary Products, and professional equipment and industrial solutions, this has continued for many years. Since some of you may be new to this in case of Blue Star:

Segment-I has got Electro-Mechanical projects which is EPC contracting business. It has got Commercial Air Conditioning which we are of systems or chillers or package air conditioners which are a own manufactured equipment, it is more like a Room Air Conditioner only, we manufacture those, we compete with the same players in the market and it has got the related income of service as well., It has contracting business, MEP, it has got commercial air conditioning, manufacturing, marketing, commercial air conditioning service. That's what Segment-I contains

Segment-II contains Room Air Conditioners & Commercial Refrigeration products, and it has got related service obligations that we need to do. There is a international part of it, which is you are aware that we are not into the residential part. in Middle East it is not a business in which you will be able to compete because China is there, for India to export Room Air Conditioners or Commercial Refrigeration products is difficult, there could be years where some specific customer of ours ask in the Middle East, we would have delivered which incidentally is the case last year. Now, the International Business, which has just come in, it is B2B in nature. So, it is part of Segment-I. Anything we are talking about products that are being developed or expenses incurred for US or Europe goes into Segment-I. Now, the question here is the Room Air Conditioner versus Commercial Air Conditioning which has been a repeated question because the Room Air Conditioner is a star product which is growing. In fact, Commercial Refrigeration also grows at the same rate, but relatively it is a smaller market size. That is the problem. Commercial Refrigeration, we have a larger market share. So, to put in perspective let us say Room Air Conditioner market size is around Rs.25,000 Cr to 28,000 Cr, the Commercial Refrigeration market is Rs.4,000 Cr, and our market share in Commercial Refrigeration is 30%, in Room Air Conditioner market, our market share is 13.75% to 14% at this point of time. The question that is asked is that whether we can segregate and give. Selectively, we cannot give. There is another thing that is happening. Some of our peers have Commercial Air Conditioning and Commercial Air Conditioning-Related service also clubbed under Unitary Product segment. Now, if I were to do that, actually my EBIT itself can go up by Rs.200 Cr.

Now, the question is that whether we should be reporting Room Air Conditioner separately, Commercial Refrigeration products separately and commercial air conditioning products separately. That's a debate internally we are having. But the question is that, as I have been saying that I keep raising this in many forums that multinationals who are my competitors, I won't be able to get any information whatsoever, whereas they will be able to get every information that is disclosed by us. Now there is no uniform standard for removing or dissecting and providing any information. Now, that is a debate internally we have got, how best we can provide the information to investors. We believe in transparency. I have absolutely no problem in giving you every information without being accused of selective disclosure to one set of people alone.

Now, I can tell you this much that go by the GFK data which is published. In Q2, the growth of the industry is 17%, Blue Star growth is 30%. H1 Room Air Conditioner growth of the industry is 31% in volume terms and the 55% is Blue Star growth, which is the real thing that has happened in the marketplace.

Now, Blue Star's room AC growth of Q2 is 27%, revenue growth is 25% and in H1 Blue Star's Room AC growth in volume terms is 53%, revenue growth is 45%. This information is available in multiple forms through GFK or otherwise you will know.

Now, you have to bear with me. We are internally debating. We will take a decision at some point of a time about the disclosure. I am not committing anything though. It has to be considered by the audit committee as well as the board to be saying how we are going to report. Now, whether products all to be together or it is Commercial Refrigeration separately in Segment-II alone, we will also keep in mind how the competitors are reporting and what constraints I have got in terms of disclosing the figures. That's where I am leaving it now.

Come to what is the real issue in Commercial Refrigeration? As I told you, you will be able to relate to this that some Rs.28,000 Cr is the market size of Room Air Conditioner where we enjoy 13.75% market share, close to 30% market share we enjoy in the Rs.4,000 Cr market. That is one data point you have got. And now in that particular Commercial Refrigeration products, I have got numerous products; there are cold rooms, deep freezers and freezing equipment and then there are water coolers. Water coolers continue to be a very profitable part of the business. Deep freezer too is a profitable part of the business.

Now, on March '27, there was a regulatory change that came in as a part of non-tariff barrier. Unless your facilities are approved by BIS, you will not be able to dispatch the products from a particular date. So, what obviously you will do? You have gone ahead and produced the products. I am being transparent to the extent possible and disclosing, I don't know who will ask me what question. So, when you had the inventory, obviously, you are passing it away to the dealers at that particular point of time because you won't be able to because this order came in all of a sudden. Okay? So, therefore the tertiary sale would have been taken care for water coolers during the summer season with what was delivered by us. There is no problem. The government at that point of a time had said that the standards are going to be changed, and consultations were on, these standards are related to outlet temperature of the water cooler. Therefore, you had certain raw material with which you have to complete the production, which is as per old specification. There are new specifications as per which you are supposed to produce new water coolers. In this transition, there are two things that are happening. #1, there is a revenue loss because tertiary sale enough material was available with the dealers. The second part is we are using the old material to go ahead and exhaust it and selling a product, where the cost will become high at the price at which it was prevailing, so the margins have shrunk. There is a third problem is the new products are to be manufactured quickly. So, this is a momentary problem. That is the real set back in the water cooler industry.

Now, come to the deep freezers. That regulation came in January itself. Now, we decided that this particular product will have to be fully manufactured, and we decided we will expand the range even up to 200 liters, 100 liters and there is a massive program of indigenization that is going on. Indian market is used to Chinese prices. And when you make in India, it is going to be expensive. There is absolutely no doubt. For any product that's what will happen. We took a call that we will make everything in India only, we are not going to depend on China and in the manufacturing and getting the margins improved, it is taking time. This is about all. Fundamentally, the market is growing, driven by consumption of ice cream and other frozen products driven by pharmaceutical industry, driven by what we call it as HoReCa, which is the hotel, restaurant, fast food, etc., These are the sectors which are driving. It is also driven by the retail sector. So, there is no problem with regard to the growth. There is not going to be any problem that is going to be there going forward from end of Q3 to Q4. In this transition, the growth of Room Air Conditioners is not matched by this business. That's all the issue is. The last part of it, I mentioned to you that Room Air Conditioners are not exported by us anywhere, except when there is anything specific like requirement for a labor camp which one of our B2B customers asking for. In the figures of Q2 last year, there was an export to the Middle East of Room Air Conditioner, which is not there this year. Therefore, despite Room Air Conditioner revenue growing by 25%, segment growth is only 5%. This I am disclosing it to you as it is correlated with the GFK findings itself of our growing 30%. In fact, I think in Q2 we have grown much more than many competitors as per GFK report in the tertiary sales, that is the correlation, because in summer we exhausted our stock, we couldn't bill in June itself, so I am disclosing that figure to you. So, overall, there is nothing to worry.

Now, come to this part of it, some competitor is having Commercial Air Conditioning part of the unitary products. How do I compare? Simple. Segment-I and Segment -II of ours and other competitors you see Blue Star's growth as well as Blue Star margin is a industry benchmark and I have done that and I can tell you that figure if you were to add Segment-I and Segment-II together of ours, because commercial air conditioning service in our case is part of Electro-Mechanical project segment, not part of unitary segment. The revenue growth for Q2 will be 22%, H1 will be 26%, EBIT growth for Q2 will be 36%, H1 will be 54% and total EBIT for H1 will be 8.7%, Q2 will be 7.9%. So, 7.9% and 8.7% are industry benchmark. I don't think anybody have reported that figure.

Natasha Jain: Just one last question in terms of commercial export order, at least we had shipped some quantities to US. So, how's the feedback been there and have we on boarded more clients?

B. Thiagarajan: We are working currently with one client who have taken some products. If you Google, you will understand there's a refrigerant migration deadline set by US and the old refrigerant there was a deadline that was set and before the deadline the shipments have taken place so that customer is happy. The question is there were more quantities asked for, but only that much we can do in order to meet those deadlines. The other customer is in the process of validating the product. In three to four months' time, we should know where we stand. But equally this also I will answer, because I am again repeating, whatever I can state because we have nothing to hide. The whole Trump administration, how they will view. It's a clear thing of 'Make in America', not even 'Make in Mexico' and how the industry there will proceed with. I can tell you that there are Chinese players, Japanese players, Korean players and compared to them we are very small. What is going to happen? We do not know. Because we are developing products for others, we have asked this question as well. What we should do? How we should proceed. I suppose in the next two to three weeks some clarity should emerge with regard to this.

Moderator: The next question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

Bhoomika Nair: Sir, you mentioned about the water cooler aspect of the new government BIS terms kind of impacting the quarter. Is it possible to get some idea of how much of a decline we saw and when do we see things stabilizing out here in terms of growth coming back? And question #2 is on the projects business. So, we've seen a very strong growth profile, margin improvement, etc., You did mention about data centers being one of the segments, which is also helping in terms of the segment performance. Since it's something new that we're doing over the last couple of years, if you can talk about what exactly we do there and what percentage of the data center CAPEX do we cater to so that we can try to understand how large this business can become for us over the period of years?

B. Thiagarajan: So, I explained about the Commercial Refrigeration business. There is nothing to worry. It is a transition with regard to the technical changes. It's a C class thing according to me. You will be able to very easily figure this out, right. I am saying our Room Air Conditioner revenue growth is 25% and you have the Segment-II growth and I am saying two reasons -- one is Commercial Refrigeration impacted, two is a significant number of exports to Middle East of Room Air Conditioners was there, which is not there this year. So, don't worry about it. It's a one quarter issue and it is not to be worried about even in next quarter. So, there is nothing to worry.

Bhoomika Nair: So, things will normalize into the next quarter, which is Q3 onwards it will reflect the -?

B. Thiagarajan: Even in October, it has normalized. There's nothing to worry at all. So, the Segment-I is driven basically by Commercial Air Conditioning products and that is what is driving its huge profitability growth and revenue growth. The projects business continues to be growing at the same rate only. There is nothing dramatic that has happened except that manufacturing and data centers are products which are safe to execute. We hold a leadership position. It is all fast-track products compared with commercial buildings which used to drag on or infra projects which used to drag on. Otherwise, Segment-I continued good performance is due to the commercial air conditioning products and service being part of that segment, which I again explained, in somebody else's case it is part of Segment-II, and you are seeing much larger growth there, here you are seeing Segment-I has the growth. That is why combined Segment-I and Segment-II and read out the figure. This whole thing is confusing you. I am sorry for this, but I am not able to help.

Bhoomika Nair: Sir, just on data center, can you elaborate what exactly and what percentage of the data center CAPEX we do?

B. Thiagarajan: In data centers, we do complete MEP work. Civil is very limited. They may ask you to take related civil work also. It is ducting, piping, insulation, electrical, plumbing that is the part we do. And there is a cooling part of it and we do produce chillers meant for data center, and it's not the entire equipment connected with data center that we do and we are in a manner of speaking an important system integrator there. Our significant amount of business so far has been in offering solutions as a MEP contractor for most of the leading data center service providers.

Moderator: The next question is from the line of Sonali Salgaonkar from Jefferies India. Please go ahead.

Sonali Salgaonkar: My first question is and please help us understand. As per the GFK data that you have quoted, we have outgrown and outpaced the industry by a very large margin perceivably in H1. And even so, we have retained our RAC markets at about 13.75. So, can you just help us understand the dynamics? And also, you quoted October '24 volume and revenue numbers. So, could you please repeat those again?

B. Thiagarajan: October volume growth is 30% and revenue growth is 28%. Come to the market share why it is not happening? It was in Q1 we had planned only for 25% growth. With 25% growth, we could have done 30%, but we managed to do more than 50% growth. Still, we lost sales in May as well as June. I think we would have grown lesser than the industry is my assessment. We are one of the leading players in Room Air Conditioners meant for B2B part of it, institutions like ATM or a small office, etc., but that part of it is not generally captured by GFK. GFK captures only the retail sales, it is based on retail audit. Now, during the election period, there had been a slowdown in the B2B part of the sales and generally in summer season, that particular part of it will not grow there, it compensates during the off-season period. So, our assessment is that it should be somewhere around 13.75% only, though our own teams say, it is 14%, but we took a call, it should be 13.75% only because of Q1. It is important for me to disclose that also our original goal in FY25 we will reach 15% market share. I don't think we are going to reach that this year. If we close with 14%, we will be happy.

Sonali Salgaonkar: Sir, my second question is regarding this Commercial Refrigeration, and we understand that these are interim hiccups. From when do you expect to start seeing the improvement in this vertical? And secondly, do we retain our FY25 guidance that we cited in Q1 earnings call of about 20%, 25% top line growth and 8.5% to 9% operating margin?

B. Thiagarajan: The Commercial Refrigeration part is already resolved. From October onwards there shouldn't be any problem, and we continue to maintain; the top line growth of 25% to 30% in Room Air Conditioners or the unitary products as a whole and margin guideline remains. There is no change in that at all.

Moderator: The next question is from the line of Praveen Sahay from Prabhudas Lilladher Private Limited. Please go ahead.

Praveen Sahay: My question is related to the RAC industry, because you had given the numbers for GFK as well as of yours. The growth has been very strong. Industry growth for the first half has been around 31%, you grew by around 45% in volume, even in October 30%. So, how is the channel inventory at this juncture? And usually, we see in the end of Q3, there is some start of the inventory filling for the summers. So, how has been and do you expect this kind of a growth to continue in the coming quarters as well?

B. Thiagarajan: So, first is GFK. GFK is the tertiary sales figures what is really picked up by the customer, which is what should determine your market share or a growth. It's not I dump it on a dealer. In our case Q1 we exhausted the material. We couldn't sale more, otherwise, we would have improved our market share. So, what has happened is predominantly sold by us during the quarter only. Now, the dealers have become a much more process-oriented. So, first of all, more than 50% of the sale are happening through organized power or modern retailers like Croma, Vijay Sales and Jio, so on and so forth and the regional retailers with Satya, Bajaj, etc., They all have a robust system of what the counters are selling, what are their inventory levels, how they have to schedule the inventories. It is the same like e-commerce that you cannot dump the stock there. The question is price may be negotiated on a quantity, but the material will move in this manner where you will be able to dump a stock in a quarter, could be distributors who are handling so many people and you would have seen our capital employed figure and it is managed extremely well and we do not believe in fact we discourage dumping material on anyone at all. Earlier days, it was China imported one, more than 50% of the material, but today it is all manufactured, and if it is Sri City, all the southern states, whether it is Telangana, Andhra Pradesh, Tamil Nadu, Kerala, Karnataka, Puducherry, it's are all overnight deliveries. Right now, my assessment is there are no huge inventories lying and I do not think in future such a situation will arise. The dealers are very clear about this, that I negotiate a rate for a particular quantity, but I lift it according to what I need and the old days have gone. This is my assessment. When I talk to the dealers, they are very clear. They are monitoring hour-to-hour what is their sale and the inventory across their stores. Bottom line is there is no inventory pressure.

Praveen Sahay: Second question is related to your gross margin. For the quarter, there is a good improvement in the gross margin as overall financials, so if you can highlight what lead to that improvement?

Nikhil Sohoni: When you look at the gross margin, it will be inclusive of all businesses. And as we have reflected some time back, both Room Air Conditioner, commercial air conditioning and service, all will be part of this, in addition to of course the projects business and our Commercial Refrigeration business. So, that on a quarter-on-quarter basis, if you see last year, while it was around 24.8%, this year we have reported at around 26.5%. So, there is an improvement in that margin. This is in line with the margin improvements which you are seeing in EBIT and also which is reflected in the Segment-I as well as whatever improvement would have happened in RAC to a certain extent.

Praveen Sahay: So, is that a product mix or some realization benefits here?

Nikhil Sohoni: It is product mix as well as some amount of material cost also. There is a continuous re-engineering which anyway goes on, which also contributes to it.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity Investments. Please go ahead.

Akshen Thakkar: A couple of questions and then just a suggestion at the end. Both the questions are on margins only. So, if I look at Segment-I, first half margins have been very strong. You had called out some one-offs last quarter, but this quarter seems to be more recurring now. First half margins are at 9% and in the last call you have spoken about margin at the 7.5% to 8% band. Even if I were to assume full year margins at 8%, we are only looking at 7%, 7.5% in the second half. So, any reason to revisit the margin guidance in Segment-I? The second question is around the unitary product business. I guess the math which is not clear like I get your reluctance to call out how large is Commercial Refrigeration, cooler business and fully support you on that. But just to make it a little easy to understand, if you could help us quantify what is the export order in Q2 last year because that would have been gone to zero completely, right. So, it just helps us make sense because if Room AC is 70%, 75% of sales and that's grown at 25% for overall segment to go 5%, I don't know if the Commercial Refrigeration business has declined, which I don't think it might have to such an extent to get to 5%. So, wanted to get a sense of how large the export number was last year?

B. Thiagarajan: So, I appreciate your question. There is no reluctance. It is about the difficulty of being selective disclosure. That's about all. The second is that, see, my competition reports with commercial air conditioning and unitary product segment. Then I don't have access to that figure, perhaps you have the access. Okay? That's the problem. But I have nothing to hide. I am telling you, Room Air Conditioners revenue growth in Q2 is 25%, Volume growth is 27%. Okay? Now, I have also stated that the Commercial Refrigeration has not grown, and it is just coming back. Okay? You may assume that it is flat or it has slightly negatively grown, but there is a clear Room Air Conditioners billing that happened to the international market and we are not in that business, it will be unless specifically somebody asks for, there is a labor camp, there is a villa being constructed like that, it was there last year Q2. That's about all.

Overall, it is coming as 5% growth and that's about all. So, there is no reluctance here. I have told you the market size of the Commercial Refrigeration is Rs.4,000 Cr, enjoy 30% market share and the Rs.28,000 Cr plus is Room Air Conditioner market. I am also stating that we are internally trying to figure it out because in every call this question is coming, what is Unitary products segment split? There is a record that is set that Room Air Conditioner and Commercial Air Conditioning can be combined elsewhere. Then the question will come what is Commercial Air Conditioning split. Now, come to the margin question of yours. I am stating very clearly, Segment-I margin is good because of the equipment part of it. The Commercial Air Conditioning equipment that is there that is doing extremely well like Room Air Conditioner. That's about all. Now, also in projects, let us say for example, project weightage is lower there, your margin will be very high and overall guidance is not changing; it should be 7% to 7.5% only should be the margin for Segment-I and 8.5% should be the margin for Segment-II. We are not changing that guidance at all. In a particular quarter, it is looking very high.

Akshen Thakkar: Lastly, just a suggestion. I think over a period of time if you could engage with investors itself, right, to just to get disclosures to a level where it makes us easier for us to -

B. Thiagarajan: I am even proposing the industry together also should meet, I keep telling even the SEBI also. I need the segment reporting even though ROC filing will be there of Daikin or LG or anyone multinational operating here. You take competitors who are in consumer durables. Let's say, are we getting the figure of air conditioners alone there? And all we are getting commercial air conditioning and residential air conditioning separated, it is not. I keep asking in number of forums. See, one day a standard may have to be set that this is how the companies will report. I do understand your difficulty, I am fully with you in this and we as a board also is asking that look, we have nothing to hide in this as long as it is a level playing field of disclosures. Look, there is a competitor who is including Commercial Air Conditioning and related service into unitary products and here unitary products I am including Commercial Refrigeration alone. Now, there are consumer durable players who are reporting as one segment, then air conditioners out of that have to be given. Now, should I be saying, look, forget about others, I alone should disclose? That is what we are internally debating and I am for it. The question is that as investors you should know what every segment is. But the problem in the conference call is unless I have changed it everywhere, unless I have restated last year, unless the board has taken on record, unless it is the beginning of year, I won't be able to give some loose disclosures.

Moderator: The next question is from the line of Rahul Agarwal from IKIGAI Asset Management. Please go ahead.

Rahul Agarwal: Just one question is on balance sheet and cash flow. Looks like we've invested about Rs.300 Cr on the working capital in the first half, which has resulted into almost nearly operating cash flow for the period. What has led to this -- is it purely because the higher EMP sales, which is basically projects plus commercial basis which has led to higher working capital and where do you expect this to stabilize by March '25?

B. Thiagarajan: Nikhil Sohoni will explain to you . Actually, we are investing in the components meant for the rest of the year and the summer season, because you are aware there are supply chain disruption and there are many non-tariff barriers that are being brought by some manufacturers there, their approvals will be expiring and that is the reason. Anything else?

Nikhil Sohoni: So, that is the primary reason as far as working capital goes. This is particularly with respect to components to ensure sustained supply chain, some stocking is what is required so that is the only thing.

Rahul Agarwal: The next question was on capacity and CAPEX, if you just explain in terms of new product pipeline, what should we expect from Blue Star over the next 6 to 12 months and I am not asking for specific products, what I wanted to know was overall on a 3-4 segment basis what is the company investing money for and what's the budget like?

B Thiagarajan: We keep the product launches schedule. In the commercial air conditioning space, we completed the product launch and that is not to do with the season which is part of Segment-I. There are data center chillers. There are certain process application chillers including brine chillers and the centrifugal chillers we have taken to the next range and in other words commercial air conditioning, we are a comprehensive player. We are there in their system, we are in screw chillers, we are in scroll chillers, we are in process chillers, and we are in centrifugal chillers. We have introduced some data center chillers. We are expanding that range of data center chillers. That is the planned road map. In the Room Air Conditioner segment, it is not energy label change here. What is the direction? The direction is we should have products at every price point, and that is the reason why we are growing.

The next part is that you would have also noticed that that we have been introducing somewhere around 75 SKUs every season at this juncture. Going by the last summer season there, the extreme summer conditions call for heavy duty air conditioners. So, if it is not designed for those conditions, it will not be able to deliver the required cooling during the summer season. This was one of the customer experiences issues during this summer season. In fact, quite a few customers ended up asking, a car is running, or a 2-wheeler is running at the temperature, why air conditioner alone at the high temperature is not delivering that kind of cooling when they need that cooling, and which means it is redesigning the equipment and launching certain heavy-duty model many more that is on the anvil. The AI-enabled, Wi-Fi-enabled machines are being asked for by young generation or certain customers and we are introducing that as well. The product launches are scheduled in February, and we will be announcing that. In Commercial Refrigeration I told you that we have just completed that water cooler redesign, and we will be launching a few more models there and we will be going ahead and launching a new range of deep freezers for certain applications also. These are the plans going forward.

Rahul Agarwal: And the budget is about Rs.300 Cr to 400 Cr a year, right?

Nikhil Sohoni: On capital expenditure.

B Thiagarajan: On CAPEX.

Nikhil Sohoni: CAPEX and product development both put them together.

Rahul Agarwal: And working capital you explained the reason that we should see a normalcy by March '25 balance sheet, is that correct?

B Thiagarajan: I think so, that is what is the plan. I will be much more transparent here. See, there are few components which are all in India supply chain is supposed to develop the compressors, copper tubes and electronics. Somewhere it is the capacity constrained locally, somewhere it is the quality constrained because Indian manufacturers will make it for the first time. Somewhere it is connected with the cost because you are replacing China. Somewhere the Chinese players who have invested here are not able to expand, they are waiting for some clearance or visa, so on and so forth. Things are changing dramatically. It is improving. In the meanwhile, we do not want a situation there where you will be falling short of components because in value terms, it may not be significant but complete manufacturing line may be starved of a particular component. And the second part is that since Sri City has become one important hub, Sri City and Chennai, a vendor ecosystem that is developing there and that development approval are taking time also. So, the full capacity may not be coming from there as well. So, we are taking that also into consideration for a huge growth which is CAGR of 20% till 2030 the projection. Next year it may be 25% to 30% growth. This kind of higher inventory should be till the end of summer is my view. I don't think very smooth supply chain is going to happen so very fast because of the reason I explained.

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

Dhruv Jain: In the earlier part of the call, you were mentioning about, how's the market size of Commercial Refrigeration and low market share, I just wanted to understand the same for the commercial AC part. What's the market size like and how are you thinking about growth in your own market share in this vertical given there are more opportunities like data centers emerging in this vertical.

B Thiagarajan: My estimate is anywhere between Rs. 5,000 Cr to Rs. 6,000 Cr because more and more applications are coming in even in process chillers. Data Center again is an evolving thing. Multiple types of cooling are being deployed. As the as the industry grows, many innovative solutions will be happening from the chip manufacturers onwards, to server manufacturers. There are multiple technologies which are very complex advanced one. As of now you can take it as something like Rs. 6000 Cr as the market size of commercial air conditioning. We may be addressing mostly around Rs. 4500 Cr of the market, and our market share should be around 20% there.

Dhruv Jain: How should we think about growth in this vertical, and you also mentioned that this vertical is also seeing growth because of summer, etc. But from a structural three year or five-year point of view, how should we skew on growth for you in this vertical?

B Thiagarajan: It will be driven again by the construction sector. What are the segments that it serves? It is the large infra, social as well as the public infrastructure like airports, metro, railway and hotels, hospitals, which require large chillers. Shop showroom, boutiques will consume the VRF systems or the package air conditioning systems. My assessment is that easily that should also grow by 15% to 20% every year.

Dhruv Jain: Just one question. We don't give out disclosure with respect to order book, but if I recall correctly about five years back, I think commercial buildings used to be a very large part of your MEP order book. I just wanted to understand what's the diversification of orders like in that vertical from at least in the case where there is an opportunity point of view.

B Thiagarajan: We will attempt to give you that. We don't have any problem in disclosing the Electro-Mechanical projects part of it, infrastructure, commercial buildings, factories and data centers, how those orders are distributed, we will try to give it to you, perhaps in the next call or something like that. Right now, the commercial buildings should be only 20% and the infrastructure should be around 35%. The factories and data centers are a significant part of our focus. The market may not be that, but the market will be very large in buildings, market will be very large in this one. But our success rate or our focus and where we want to play so there is a skew towards factories and data centers.

Moderator: Thank you. Ladies and gentlemen, we will take this as a last question. I would now like to hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: Thank you very much, ladies and gentlemen. With this, we conclude this Quarter's Earning Call. Do feel free to revert to us, in case any of your queries were not fully answered and we will be happy to provide you with additional details by e-mail or in person. Thank you.

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