



"Blue Star India Limited Q3FY14 Earnings Conference Call"

January 27, 2014



MANAGEMENT: **MR. VIR ADVANI, PRESIDENT – ELECTRO MECHANICAL PROJECTS
GROUP & EXECUTIVE DIRECTOR**

**MR. B THIAGARAJAN – PRESIDENT, AIR-CONDITIONING &
REFRIGERATION PRODUCTS GROUP & EXECUTIVE DIRECTOR**

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Moderator

Ladies and gentlemen good day and welcome to the Blue Star Limited Q3-FY2014 Earnings Conference Call. We have with us today Mr. Vir Advani-President – Electro-mechanical Projects Group and Executive Director and Mr. B Thiagarajan – President, Air Conditioning and Refrigeration Products Group and Executive Director. 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 any assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vir Advani. Thank you and over to you sir.

Vir Advani

Good Morning, ladies and gentlemen, this is Vir Advani. I have with me Mr B Thiagarajan who has logged in from Chennai on the telephone and we will be giving you an overview of the results for Blue Star Limited for the quarter ended December 31, 2013.

The following are the financial highlights of the Company for the quarter (Q3FY14)

- The company reported Total Operating Income of Rs 545.90 crores for the quarter ended December 31, 2013, as compared to Rs 598.80 crores in Q3FY13.
- The Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter reduced to Rs 14.89 crores from Rs 25.43 crores in the same period last year.
- The Financial Expenses for the quarter decreased to Rs 12.60 crores from Rs 13.72 crores in Q3FY13.
- Consequently, the Net Profit declined to Rs 2.81 crores during the quarter from Rs 5.37 crores in Q3FY13.
- The Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 0.31 vis-à-vis Rs 0.60 in the corresponding quarter of the previous year.

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- The Carry Forward Order Book as on December 31, 2013 increased to Rs 1737 crores compared to Rs 1628 crores as at December 31, 2012.

I will now go through the general outlook of each segment that we are operating in for Q3FY14, followed by specifics of our performance in each of these segments:

General Outlook for the Segments:

Segment I

The macro environment continues to be challenging with no big investments being declared in the commercial real estate market. The pre-election impasse coupled with high inflation and high interest rates is affecting demand. While the market has seen improvement in new inquiry generation, order finalization continues to be inordinately delayed. There has been some improvement in demand from the Hotel, Hospital, Commercial complexes and Industrial Segments.

At an aggregate level, the Central plant and Ducted market continues to be stagnant in line with the general slowdown in demand.

Segment II

The quarter Q3FY14 saw flat sales for the room air-conditioner industry. One important reason for this is the new Energy Label changeover that came into effect from January 1, 2014. Owing to more stringent table requirements, the new product line is priced higher than the existing one leading to a contraction in demand. In addition there has been lower consumer spending across all consumer durable categories owing to high inflation.

The demand in the Commercial Refrigeration business is stable. The major segments contributing to the business were ice cream, dairy, and frozen food.

In Cold storage products, the segments of Pharma, Fast Food & Restaurants and Ice cream continue to fetch good business opportunities. In addition, there has been a good demand in the food processing segment as well.

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Segment III

The demand for hi-technology imported equipment continues to be impacted by the appreciation of the dollar. The quarter Q3FY14 saw some inquiry generation in the Steel, Avionics and Healthcare segments. In Industrial Projects we are seeing demand in revamp and retro-fits rather than brown field or green field expansion. We hope to see some positive movement in demand in the coming quarters.

Our Performance for Q3FY14:

Segment I

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 64% of the total revenues in the quarter, declined substantially by 12%, while segment results registered a decline of 21% to Rs 18.11 crores. This drop was mainly due to lower billing volume. The company continued its philosophy of just-in-time material delivery to project sites that are moving slow. Unfortunately, even recently booked projects are facing inordinate delays, leading to an overall billing drop in the segment.

The margin of 5.2% in Segment 1 for Q3FY14, is marginally lower than the operating margin in Q2FY14. However it still continues to be higher than what we expect for the full year FY14 on account of unexpected delays in closing some older low-margin projects in the quarter.

The Capital Employed in the business stood at Rs. 473 crores as of December 31, 2013 which was marginally less than Rs 477 crores as at December 31, 2012. The capital employed continued to be higher than our expectation due to drop in collections in the projects business as liquidity is getting tighter.

After a healthy growth in Q2FY14, order inflow in Q3FY14 is at the same level as Q3FY13. While order finalization in general continues to be muted, we booked orders specifically in the hospitality and commercial complex segments.

As stated last quarter, the closure and settlement of a few large legacy jobs is expected to happen by Q4FY14. As indicated earlier, the segment results in H2FY14 depend largely on the outcome of these legacy projects. We however wish to start FY15 with a healthy carry-forward order book.

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Needless to say here, our strategy of being selective in booking orders while adhering to more stringent margin and commercial term guidelines continues.

The Central AC products business was stagnant in Q3FY14 in line with the general slowdown in the construction activity and competitive intensity. We witnessed some demand from the Hospitals, Hotels, and Offices sectors in this quarter.

Our Packaged AC business continues to be stable. We are growing by 5% in our Ducted business and significantly higher percentage in the VRF segment owing to a smaller base. In addition, we have been able to carry out good business with our newly acquired National Account Customers. The top performing segments for the quarter were Industrial, Retail and Hospitals.

Some of the major orders won by Blue Star during the quarter in Segment 1 are:

Electro-mechanical Projects: Apollo Super Speciality Hospital-Navi Mumbai, Oberoi Commerz II - Mumbai, Gift City - Gandhinagar, JCB India - Jaipur, IISER- Mohali, Tech Mahindra - Hyderabad, RMZ Galleria - Bengaluru

Packaged AC Systems: Police Headquarters - Delhi, Income Tax Office - Mysore, Euro Star -Mumbai, etc.

Central AC Products: Codissia Complex - Coimbatore, Nem Care Hospital - Kolkata, Project Bhawan - Kolkata, Maharaja Regency hotel - Chandigarh, Venkateswara Medical College & Hospital - Pondicherry

Segment II

In the Cooling Products segment, revenue was flat in the quarter while segment results grew by 21% to Rs 4.58 crores over the same period last year. The segment contributed to 28% of the overall share of revenues in this quarter.

You may be aware that Q3 is usually lean for the Room airconditioners and Refrigeration business.

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Room air-conditioner sales by volume were flat over last year. The main reason for this was the new Energy Label changeover that was implemented in the industry on December 31, 2013. We had explained in the earlier quarter that as we had exhausted our old stocks in the summer, we were changing over with 100% compliance with a new, higher efficiency product line in December. Given the more stringent table requirements, the new product line is priced higher than the existing one, which in turn impacted our sales. This will be regularized in Q4FY14 as all brands complete the changeover and old stocks are exhausted in the market.

In Refrigeration products and systems, we grew moderately in this quarter. We witnessed demand from Quick Service Restaurants, Dairy and Frozen Food segments. The margins for this business continue to be under pressure owing to increasing competition, price challenges and the increasing share of low margin National Accounts business.

Going forward, the company will continue its efforts to consolidate its market share in both the Room AC and the commercial refrigeration business. We will also keep our focus on initiatives like channel expansion, increasing share in the light commercial segment. As we said earlier, we are targeting the Operating margins of around 8% - 8.5% at the end of Q4FY14.

The Capital Employed in Segment 2 decreased from Rs 216 crores as on December 31, 2012 to Rs 204 crores as on December 31, 2013. This is primarily due to a decrease in inventory levels and a decrease in receivables.

Segment III

In the Professional Electronics and Industrial Systems business, revenues decreased by 11%, while segment results registered a decline of 10% to Rs 8.61 crores.

This quarter the agency business witnessed a sharp decline owing to clients postponing their purchase cycle in line with the dollar exchange rates.

While the System Integration business showed improvement in the inquiry inflow, the orders were not getting finalized as expected and therefore revenues were flat.

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The Industrial Projects business also showed good inquiry levels. We however expect order finalization only after the election impasse is over.

Going forward we expect the business in this segment to improve.

As always, we recommend that Segment 3 should not be analyzed on quarterly basis. Our Q3FY14 results are encouraging compared to the previous year and we are on a path of recovery in this business.

Outlook

The dull external business environment continues to dampen capital investment decisions as well as commercial construction, resulting in adverse impact on the profitability of the Company. However, over the 9-month period of the current financial year, the Company has managed to maintain its overall performance due to prudent financial management, cost control measures and enhanced distribution reach, and will work towards sustaining this performance in the last quarter of the financial year.

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

Moderator Participants we will now begin the question and answer session. We have the first question from the line of CA Narayan from Kotak. Please go ahead.

CA Narayan Is there any upward revision in the cost component during this quarter?

Vir Advani Our gross margin has improved by about 1.7%. Actually our gross margin is higher than it has been for the last three quarters primarily due to business mix. What has happened in this quarter is that our projects business revenue was lower than same period last year, which is also reflected in the total revenue. As you know the projects business on an aggregate basis will have a lower gross margin than

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the products business or the service business. So from that point of view the revenue mix has changed and so to that extent the material cost is actually lower than what it has been in the last several quarters. Having said that, there has been significant cost increase in all our businesses because all our businesses are buyers of commodities. We have been talking about over the last few quarters that we have been passing part of that to the customers in the form of price increases which is reflected now in the higher gross margin. But obviously it comes with volumes coming down.

CA Narayan Can you give us the breakup of your order book in terms of margins? Is it vastly different from what was there in the last quarter?

Vir Advani No. In our last call we had mentioned that we have about Rs.350 crores of low margin business and we are trying to bill as much as that we could in the current year. We had a little bit of success. That Rs.350 crores has come down to under Rs. 300 crores. It is around Rs. 275 crores or so but there is no material difference. I'm hoping that in Q4 we are able to push a lot more. We will have a better idea in February-March on how successful we will be in doing that.

CA Narayan And you also mentioned that in your existing or the new order you have witnessed some kind of erosion because of inordinate delays?

Vir Advani I will clarify that there is no erosion in the margins of the new jobs. There is slow down in billing. So basically the problem is the following: we have projections of doing X amount of billing in the project business. That X amount was broken up into old business and new business. What has ended up happening is that while in the old business we continue to struggle to close, which we have been talking about. Now we have seen that in the new business revenue is getting impacted because even these new projects customers are going slow. So as I have been saying that while there will be delays in the new

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projects we have been trying to protect ourselves through price increases, rates renegotiation etc. So I'm expecting that margin should hold. However, it is the revenue that is not converting and that in turn is leading to low operating margins because our fixed cost continues to be at existing levels.

- CA Narayan** As of December, what is the level of borrowings?
- Vir Advani** Borrowing is at Rs.466 crores as against Rs. 471 crores same period last year.
- Moderator** We have the next question from the line of Ranjeet Shivram from Batlivala & Karani Securities. Please go ahead.
- Ranjeet Shivram** For the full-year FY14, how much of growth are we expecting in the cooling products business?
- B Thiagarajan** It will be anywhere between 10% to 15%.
- Ranjeet Shivram** There was some thought process like because of change in tables there could be some amount of pre-buying. So have we witnessed such kind of phenomenon in the markets?
- B Thiagarajan** No. We were stocked out by the month in August itself. As you all know that we had a great summer and we didn't have any stocks. It is quite probable that our competitors who carry the inventory would have benefited from pre-buys.
- Ranjeet Shivram** So overall in the market there is a possibility of some pre-buying?
- B Thiagarajan** There is the unfortunate development in the sense that somewhere close to around 200,000 air-conditioners would have been left out as on 1st of January in the sense what pertains to the old Energy label. As per the regulation, the dealers are expected to return the material to

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the manufacturers or alternatively get it relabeled. Whether it is happening or not is the question mark, it is quite likely that in the marketplace the old air-conditioners are still getting sold. So we have requested bureau of energy efficiency to educate the consumers that the air-conditioners sold prior to Jan 2014 by the manufacturers or the retailers are necessarily to be relabeled. So this is an unfortunate thing which we have got and this is the first time it is happening with regard to the retailer and change over. So it is illegal but it is likely to affect the January sales as well.

Ranjeet Shivram In the other income, was there any FOREX gains?

Vir Advani No, the other income is largely on account of provisions for write back, not required any more. The total FOREX loss for us till date for nine months has been Rs. 19.7 crores and for the quarter it was Rs. 8.8 crores

Ranjeet Shivram In terms of provisions for write back, how much of that?

Vir Advani It is about Rs. 12 crores or so and then there is a small amount of FOREX loss that offset part of that.

Ranjeet Shivram On margin perspective, how do you see the project business heading? We have legacy project. If you take that out after execution in FY15-16, what number are we are looking at in terms of margins for this projects?

Vir Advani We have been booking business at between 11% and 13% site margin which appear to be holding as of now. There are operating costs associated with that below the line. So we feel that once we have cleaned out the backlog we should be looking at an operating margins in the range of 5% to 6% for the projects business.

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- Moderator** We have the next question from the line of Nirav Vasa from Motilal Oswal. Please go ahead.
- Nirav Vasa** My question pertains to your air-conditioner business. Would it be possible for you to help me with the quantum of price hike which was taken post the revision in energy rating and what is the impact on volume on for industry as well as for Blue Star?
- B Thiagarajan** On the average around 5% price increase over the previous energy label. With regards to impact on volumes, it is very difficult to answer. The simple reason is that the changeover happened as on 1 January 2014 and now the trade is left out with the old stock. There is a confusion that is going on in the market place. Suppose a five-star air-conditioners sold prior to December in the retail outlet is still remaining as five-star, though the retailer is expected to get it relabeled as four-star. Same way three star should be relabeled as two star. Instead what they are trying to do, I'm being told, is that they are still calling the five-star as five-star. So in the confusion I'm unable to pass on any judgment but the industry is looking forward to in the value terms a growth of around 15% this year which means in volume terms it is around 10%. In the calendar year 2015, the industry expects the market will grow at least by 15% in rupee terms.
- Nirav Vasa** My second question pertains to your manpower cost. As we had discussed in the last interaction, you have rationalized the manpower and the impact of the same is visible in the third quarter as well. So by what time do you expect your manpower cost to slide down QoQ basis and what would be the typical manpower cost to sales ratio that you are targeting?
- Vir Advani** As each business requires a different ratio, we won't be able to comment at an aggregate level. But what we are looking at is that we have brought down the absolute manpower. But this is all

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management staff not including FTs etc. We have brought down it to 150 people as against the peak level of 185. You can begin to see the employee costs coming down; this is in spite of 9% salary hike that we gave in July. So next year again I think the plan is to go for a salary hike, which we will need to do in line with the market and bring down the employee cost from FY14 levels.

Moderator We have the next question from the line of Ruchi Vora from UBS please go ahead.

Ruchi Vora My first question is on the project business. Just wanted to get some color from you based on our current order book, is it fair to assume that your revenues are likely to stay flat for FY15? And secondly based on the current execution how do we expect the EBIT margins to progress over the next few quarters and in FY15?

Vir Advani We have not gone into planning for next year. However for Segment I, it appears that revenue will be flat, it may be plus couple of percentage points but nothing significant. On the operating profit, we continue to say this current year we will end at about 4% as against 5% which we have been ending at. The adjustments that we take in Q4, as we close on those larger older jobs, will be affecting it on aggregate. If we are able to close those jobs in Q4 we should open next year with a relatively clean order book. We will still have to carry forward some of the Rs.275 crores of old orders or so in the next year but hopefully limited amount. So with that, the operating margins next year should improve to about 6.5% or so and then we should see ourselves trending back to 8% to 8.5% in say the following years. So this current year we are 4% and next year we will aim at 6.5%

Ruchi Vora And in the Segment II, wanted to get some color on sustainable margins for FY15 and FY16. How do we expect that to trend? Because

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if you see the last two quarters, our margins have been fairly on the lower side.

B Thiagarajan The margins are lower in the past two quarters or I would even say that is not in line with what it should be for the whole year, I think we will be able to manage between 8% to 8.5% margins on an annualized basis for FY14 and FY15. There is a possibility that we will reach 9% but much depends on the volume that we will reach. So there is nothing to worry there, all the actions are in place and we should get there.

Ruchi Vora There is some pressure in the Commercial Refrigeration business in terms of margins. So I was really wondering that are there any risk to those assumptions and what would they be for the next year?

B Thiagarajan The problem in refrigeration business is with regards to the price realization that we get in deep freezers, it is impacted by that. Two is in cold storage projects business which we use to operate and there are certain poor margins projects which are getting closed. But in the longer term there is nothing to worry. Our focus is going to be water coolers, deep freezers and modular cold storage equipment business.

Ruchi Vora My last question is on the tax rate. How do we expect the tax rate to be in FY15? Also what is the sense on the working capital? Especially on the receivable side, do we expect it to come off in FY15 given that it will be done with most of the legacy orders?

Vir Advani In FY15, we will have MAT rate.

Ruchi Vora How long will we be at the MAT rate?

Vir Advani From FY16 we will start returning to normal levels. And you asked about the capital employed. The capital employed will begin to come down in Q4 itself as these legacy jobs are closed. We should be aiming

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to bring down the capital employed by at least Rs. 100 crores next year, may be by the middle of the next year. We will have to set ourselves a new bench mark. Right now we are operating at too higher levels. Also, as we start generating profits next year, it will also help us in bringing it down.

Ruchi Vora

If I were to look at your balance sheet over the last five years, what I see is that your receivable days are probably flat, between 90-100 days. But it is your inventory days which have actually gone up from 30 to almost 65 days. I do understand that it is the function of market, etc., but any scope for further cut in receivable days? Probably to come back to 80 to 85.

Vir Advani

I think it will depend on the liquidity situation. We are also expecting that by second half of next year at least even if business does not pick up, at least our liquidity should ease off. It will take another 6 to 9 months for demand to come back, which is fine. But at least money will begin to flow and will help in running the existing business. So I think we are definitely looking at tightening our receivables and also as we choke billing, we are pretty much doing just-in-time delivery across the board. So when you're doing that also your receivable days over a period of time will also begin to improve because you are just delivering exactly what the customer needs at that point. So the whole efficiency will start kicking in. So, one is Rs. 100 crores just coming off by closing up old and dues being collected and then there is an efficiency angle that kicks in, how much more can you bring it down by. So I think we will be comfortable if we could bring down the capital employed for the company including the room air-conditioner growth Rs. 150 crores or so. This is other than of course CAPEX which is a different subject altogether.

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- B Thiagarajan** This is also the function of revenue in excess of billing. So if you are talking about a five-year period, strictly speaking this is revenue which is recognized but actually payment is not due. There is a significant component of that.
- Vir Advani** That will also begin to come as we close the jobs. So that is the whole action and we should be able to pull out Rs.150 crores.
- Ruchi Vora** And CAPEX would be Rs. 50 crores like?
- Vir Advani** As of now that is what is planned in FY15. It is maintenance CAPEX largely with some small exceptional items. We are planning for a larger investment in FY15 for our room air-conditioner business. It is little premature now to discuss that.
- Moderator** We have the next question from the line of Fatima Pacha from ICICI Prudential. Please go ahead.
- Fatima Pacha** My question which is quite similar to the earlier participant on the AC business. Firstly just wanted to understand, room AC is a smaller part of your entire Segment II. So would you say that margin would be higher than this 8-8.5 or you think it will be similar or lower?
- B Thiagarajan** It will be similar.
- Fatima Pacha** Just wanted to understand that with the currency depreciation being quite sharp in the last two years ,you and your competition has actually seen too much of margin erosion. So what should one conclude from this? The price hike is pretty much equal to the import currency hike?
- B Thiagarajan** There are two reasons for this. First is the price hike number and second being the indigenous effort across the industry.

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- Fatima Pacha** How much would it be say in FY12 versus say now in FY14?
- B Thiagarajan** I think the import in rupee terms on a like-for-like basis would have reduced by around 10% at least.
- Fatima Pacha** Is that also the reason why we do not need that much hike?
- B Thiagarajan** No, see there are two-three things simultaneously happening. 1) It is to do with the exchange rate increase. 2) The energy label is pushing up the material cost. Actually each energy label change increases the material cost by around 7.5% at least. So these are the two important reasons. 3) Of course there were players who were in the excise free zones moving into the excise-able locations. So all combinations put together, this is the thing and the cost is coming down on the other side because of the indigenization effort. Number two is the scale itself will also bring down the cost.
- Fatima Pacha** We are seeing a lot of Japanese entry into this segment because of their currency being more favorable than the Chinese. Are you are seeing them bit more competitive now suddenly?
- B Thiagarajan** There are only three Japanese players in the market.
- Fatima Pacha** In the last one year they have made significant forays. Like Panasonic, I think it has got 10% market share.
- B Thiagarajan** True, all countries are there that way. Koreans have also expanded and there are Chinese investments here. Chinese have started setting up their base here. The market is not getting impacted because of Japanese players but there is highly competitive environment.
- Fatima Pacha** But that 8.5% margin and practically if I see your capital employed is insignificant. So it is like decent (+20%) ROC you think?

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- B Thiagarajan** No at some stage it will be always like that for most of the manufacturers. If you take the leader in the field, that company also will have the same thing. But when you are needed to invest in a manufacturing facility, which will happen once in three or four years for everyone who is growing, that figure will be pulled down when the interest and depreciation comes into effect.
- Fatima Pacha** The last question on the window AC part. With the new efficiency norms, do you think the window AC cannot have a five-star anymore because there is not much?
- B Thiagarajan** You can have. But the material cost will be so high that price will be equal into almost split air-conditioners. So it can serve replacement market to an extent. There is a competitor of ours who is trying to introduce a five-star window air-conditioner.
- Fatima Pacha** But theoretically what is the maximum that one can go now in a window AC assuming economics?
- B Thiagarajan** I think it is a three star. But anything more than it does not make any sense at all as it is a dying product. At the best three years. Post that it will go away.
- Fatima Pacha** There is one more efficiency change next year in January?
- B Thiagarajan** Not next year. In January 2016, window air-conditioners alone see the change because it is lagging behind split by two years. In split air-conditioners, there won't be any change. But there are negotiations on with Bureau of Energy Efficiency who wants to introduce another table. But we are resisting the same as we already ahead of the global norms. We are saying that in 2016 it is enough if they can knock out two star air-conditioners completely. In other words, ban the usage of

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two star which will help them to improve the energy efficiency further rather than introducing a table per se.

Moderator We have the next question from the line of Mayur Patel from DSP BlackRock. Please go ahead.

Mayur Patel On FX, say if INR goes to Rs. 65 or Rs. 66 levels, how are you placed? You import 70% of your Segment II requirements and in Segment I also I presume there will be some imports. Are you completely shielded or to what extent you get impact in a depreciating INR situation?

Vir Advani Our FOREX cost includes our hedging costs as well as the loss on FOREX. For the quarter, it was Rs. 8.8 crores and for the year till date is Rs. 19.7 crores, which is a sizeable cost. That is there largely because we are hedging quite substantially. I think we are now 75% to 78% hedged. It is just a combination of hedging and managing your pricing linked to the input cost because with import being so high, and as Thiag mentioned, it is very active action in the company to indigenize more and more and thereby offset some of this. But until we manage to do that, because there is CAPEX associated with that, this kind of cost is being built in to our selling price.

Mayur Patel This is fair and it is there for all the industry players. Just wanted to understand, given your 78% hedging, is it fair to assume that to this extent you are safe? Your margins are safe against further depreciation of rupee?

Vir Advani Correct. So right now we are hedged a little higher. We are airing on the side of caution because couple of years ago we were caught unaware and therefore had to take a huge hit. So in general we are trying to be around 80% level. We will continue that until things stabilize or at least have a better outlook on the dollar.

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- Mayur Patel** That means that if the currency appreciates there would be one small lag where you would not benefit for some time?
- Vir Advani** Currently we are in the lag situation because we are hedged substantially at 63.
- Mayur Patel** But on the other side you would benefit. You would remain protected to 75% to 80%?
- Vir Advani** Absolutely.
- Mayur Patel** On the capital employed, you are saying that you're trying to keep it constrained and things like that and on the other side we are also trying to indigenize more. What I understand is that indigenization will require putting more capacity in India. So if I take, say 3 to 5 years' view, you have given some fair bit of understanding on the margin trajectory and you are doing a bit of employee cost cut. So where from this capital employed reduction you are talking about? Which pocket? If you can give some detail or any idea about what is the plan to reduce the capital employed?
- Vir Advani** What we are focused on is reducing the working capital. The working capital is tied up in our project businesses, across all our segments, which is where the receivables and the revenue in excess of billing are tied up. That is what needs to be released. So this is money due to us from our customers which will bring the capital employed and that will offset the capital investments which we plan to make in the product business. So what we're talking about is maintenance CAPEX of between Rs. 30 crores to Rs.50 crores which we need on an ongoing basis. We have spent about Rs. 35 crores in this current financial year. We have plans of spending may be an equivalent amount or slightly higher next year. But these are not substantial investments. I think we need to plan for substantial capital investment which will come in late

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'15 and early '16. So if this plan pans out correctly, hopefully our borrowing will come down but we will also convert receivables into capital investment which is the direction where we want to be move.

Mayur Patel

Any lead indicators that you can touch on for the project business? Anything you would like to share with us? How you are seeing one year down the lane? Any improvements, any green shoots say reduction in the commercial office space, supply across India or anything else?

Vir Advani

As of now, we do not see any kind of trend. There are many plans in FY16 in infra sector. So we are quite hopeful of capitalizing on that. There is a high-rise, more than 65 stories, market which is opening. We are seeing a fair number of projects in Mumbai, first time in Noida and Gurgaon. As of now, nothing is planned in South. I think these projects will perhaps come up in the late 2015 or early 2016. Then there are small pockets of industrial investment which are continuing, not steel, oil and gas petrochemical but light industry CAPEX is continuing. So if you leave out automotive, we are still seeing some investment in food processing, farm equipment, etc. Some of this does throw up opportunities.

Moderator

We have the next question from the line of Tanuj Mukhija from Ambit Capital. Please go ahead.

Tanuj Mukhija

Being a superior product, is VRF taking away the market share from packaged AC?

B Thiagarajan

It takes away the market share from all the products. VRF can replace a chiller, packaged unit, room AC as well. It is a product category which is growing very fast.

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- Tanuj Mukhija** Can you give us some guidance on your size of VRF business and the competition in that particular segment?
- B Thiagarajan** I can give you only a broad idea. The market size of VRF air-conditioners today will be in the range of around Rs. 800-900 crores. It is almost like a Packaged air-conditioner market. Our market share will be somewhere around 10% and there are as many as 12 players in the VRF market.
- Tanuj Mukhija** Is VRF you said it is a product or is a part of the project?
- B Thiagarajan** Within room air-conditioner it is called as inverter. It is not called VRF and that is sold like a product. In room air-conditioner, as a percentage of the total application, around 3% of the room AC is sold are inverters.
- Tanuj Mukhija** My last question is, can you give us a broad guidance of your market share in the Q3FY14? Did you gain or lose market share?
- B Thiagarajan** In room AC, we have been steadily gaining market share. We are one of the three brands in India which has gained market share in the past nine months. Our share will be around 7% or so.
- Moderator** We will take the last question from the line of Neha Majithia from Microsec Capital Ltd. Please go ahead.
- Neha Majithia** During the last conference call, you had mentioned that you get around 15% revenue contributions from the service business. So what is the company's expectation in the foreseeable future? Will this contribution increase or decrease?
- Vir Advani** The service business is doing particularly well. I would probably say that it is the best performing business in the current year. It is largely because customers are delaying new investments and instead looking

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at a retrofit, upgrade, maintenance, etc. I think it is 10% to 12% growth in the top line, faster growth in the bottom line because there is efficiency there. We are quite optimistic that next year we should also have double-digit growth. Of course it is a small base as a percentage of the total company. We continue to invest quite substantially there both in people as well as in technology and we hope to extract further efficiency in that business and improve the operating margins further.

Moderator I now like to hand the floor to Mr. Vir Advani for closing comments. Thank you and over to you sir.

Vir Advani Thank you very much everyone for attending our call. We will now speak after our financial results for the year is announced. Looking forward to that and meanwhile if there are any thing unanswered or any questions you are not able to adequately address please send us an e-mail and we will make sure that we get back to you in the next few weeks. Thanks again.

Moderator Ladies and gentlemen on behalf of Blue Star India Ltd that concludes this conference call. Thank you for joining us. You may now disconnect your lines.