

August 13, 2025

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 BSE Scrip Code: 500067	National Stock Exchange of India Ltd Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 NSE Symbol: BLUESTARCO
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Dear Sir/Madam,

Sub: Intimation under Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations') - Earnings Call Transcript for the First Quarter ended June 30, 2025

In furtherance to our letter dated August 7, 2025, whereby the Company had submitted the link to the audio/video recording of the Earnings Call held post announcement of Financial Results for the First Quarter ended June 30, 2025 and pursuant to Regulation 30(6) read with Part A of Schedule III of the Listing Regulations, we are enclosing herewith the Earnings Call Transcript of the said Earnings Call, for your information and records.

This intimation is also being made available on the website of the Company at www.bluestarindia.com

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **Blue Star Limited**



Rajesh Parte
Company Secretary & Compliance Officer
Encl: a/a

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“Blue Star Limited
Q1 FY26 Earnings Conference Call”

August 07, 2025



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

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q1 FY26 Earnings Conference Call.

We have with us today from the management Mr. B. Thiagarajan – Managing Director, Blue Star Limited; and Mr. Nikhil Sohoni – Group Chief Financial Officer, 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 an operator by pressing "*", then "0" on your touch tone telephone. 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.

You might have seen the results which we have published yesterday. So, I take it as what was a disappointing quarter that had ended. I do not know; I leave it to your judgment that it was better than what you expected or worse than what you expected.

As you are aware, we had commenced the financial year with the hope that the summer season will be an impressive one with 25% of growth during the season, 25% to 30% market will grow, and Blue Star also will grow. This is for Room Air Conditioners. But unfortunately, due to unseasonal rains, as I would have or Nikhil would have explained to you, during the course of the summer season, several times in the media or in one-on-one meetings or telephonic calls, it was a disappointing summer. So, I had also expressed that it is not a disaster. It is a disappointing one. But the long-term prospects for room air-conditioners business at a CAGR of 19% over the next five-year period should happen and we firmly believe in that. And this particular disappointing summer season obviously calls for some corrective actions so that we maintain profitability, we improve our efficiency, and we do not lose momentum in terms of research and development or market expansion or talent acquisition and other initiatives which are strong pillars for Blue Star.

Fortunately, Blue Star, as you are aware, is not only dependent on B2C businesses, it is also dependent on B2B businesses. And fortunately, that part of the business is doing well. In fact, order book for the B2B businesses is at all-time high and we continue to grow at double digits.

With that, I will hand it over to Nikhil for his remarks. Later on, we will answer your question. Thank you.

Nikhil Sohoni: Thank you, Mr. B. Thiagarajan. Good morning, ladies, and gentlemen. This is Nikhil Sohoni, and I will provide you an overview of the results of Blue Star Limited for quarter ended June '25.

Following an exceptional year of growth, FY26 started on a softer note, driven primarily by unseasonal rains across the country, which resulted in a muted demand primarily for Room Air Conditioning segment. Despite this headwind faced by Room AC business, the company has delivered robust revenue growth across other key businesses. Backed by healthy order book and

prospects of demand reviving during festive season, we are optimistic about the growth for full year.

Financial highlights for the Quarter-Ended June 30 on a consolidated basis are summarized as follows:

- Revenue from operations for Q1 FY26 grew by 4.1% to Rs. 2,982 cr as compared to Rs. 2,865 crores in Q1 FY25.
- EBITDA excluding other income for Q1 FY26 recorded at Rs. 199.99 cr and EBITDA margin of 6.7% as compared to Rs. 237.8 cr, which was EBITDA margin of 8.3% of the revenue in Q1 of last year.
- PBT before exceptional items dropped by 27.8% to Rs. 163.23 cr in Q1 FY26 as compared to Rs. 226.02 crores in Q1 FY25.
- Tax expenses for Q1 FY26 was Rs. 42.41 cr as compared to Rs. 57.26 cr in Q1 FY25.
- Net profit for Q1 FY26 de-grew to Rs. 120.82 crores as compared to Rs. 168.76 crores in Q1 FY25.
- Carried- forward order book as of June 30, 2025, grew by 12.5% to Rs. 6,843 cr as compared to Rs. 6,085 cr as of June 30, 2024. Carried- forward order book as of March 31, 2025, stood at Rs. 6,263 cr.
- The capital employed as of June 30, 2025 stood at Rs. 2,821 cr as compared to Rs. 1,738 crores as of June 30, 2024. We continue to invest in manufacturing capacity, research and development and digitalization.
- The company reported a net cash position of Rs. 370.9 cr as of June 30, 2025 as compared to the net cash position of Rs. 1,042.9 cr as of June 30, 2024.

II. BUSINESS HIGHLIGHTS FOR Q1 FY26

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

The Segment-I revenue grew by 35.9% to Rs. 1,412.5 cr in Q1 FY26 as compared to Rs. 1,038.9 cr in Q1 FY25. Segment result was Rs. 111.6 cr, which was 7.9% of revenue in the current quarter, as compared to Rs. 103 cr, that is 9.9% of revenue in Q1 of last year.

Order inflow for the quarter was Rs. 1,963 cr in Q1 FY26, as compared to Rs. 1,466 cr in Q1 FY25.

Coming to individual businesses within this segment:

1. Electro-Mechanical Projects:

We experienced strong order bookings in the projects business during the quarter, driven primarily by continued demand from factory, data center and healthcare market segments, indicating sustained interest and healthy pipeline for upcoming quarters.

Inflow of inquiries and tenders in railway electrification and metro railway sectors remain subdued and we continue to maintain selective approach to infra projects.

Carried- forward order book for Electro-Mechanical Projects business was at Rs. 5,080 cr as on June 30, 2025 as compared to Rs. 4,557 cr as on 30th June 2024.

2. Commercial Air Conditioning Systems:

During the quarter, Blue Star's Commercial Air Conditioning business delivered robust growth in line with the overall market trends, reflecting sustained demand and strong execution. All key product categories like Ducted systems, VRF and Chillers registered healthy growth during the quarter.

Key demand contributors included the Manufacturing and Education sectors driven by infrastructure expansion and increased investment in climate control solutions. However, demand from Government and Public sector remained muted due to low capital expenditure and commercial retail demand was also relatively modest.

3. International Business:

The international business is also part of this segment, where we continue to pursue our international foray and are steadily progressing in the U.S. markets. The engagement with European customers is also underway with discussions at various stages of finalization. Uncertainty due to geo-political factors, including the U.S. trade negotiations, may act as a short-term impediment. We are also focused on strengthening our presence in Middle East and African markets.

Segment-I margins at 7.9% for Q1 FY26 versus 9.9% in Q1 of last year. The quarterly margins are influenced by projects and product mix and hence may not be comparable with the previous periods.

Segment-II: Unitary Products:

Segment-II revenue de-grew by 13.3% to Rs. 1,499.4 cr in Q1 FY26 as compared to Rs. 1,729.5 cr in Q1 FY25. Segment result was Rs. 87.5 cr, which was 5.8% of revenue in Q1 FY26 as compared to Rs. 158 cr in Q1 FY25 which was 9.1% of revenue.

Individual Businesses within this segment:

1. Cooling and Purification Products business:

This quarter presented unexpected headwinds due to the early onset of monsoon across India, making this an unusually soft summer season. However, as in the past, we have done marginally better than industry and we estimate that our market share has slightly improved above 14%. While the near-term environment remains challenging, we remain confident in the underlying strength of the category and are strategically positioned and focused on navigating this phase effectively as we look ahead to a stronger demand revival during the upcoming festive season.

We continue to invest in expanding our distribution footprints across the country. We remain confident in our outlook for the rest of the year and expect to close FY26 with reasonable growth.

2. Commercial Refrigeration:

Commercial Refrigeration business witnessed strong growth in Q1 FY26 as we are now on a firmer footing. The regulatory challenges we faced in Storage Water coolers category last year have been resolved. Growth in this quarter was primarily driven by strong demand from processed food and pharmaceutical segments, reflecting a positive turnaround in key end-user industries.

In Q1 FY26, this segment reported a margin of 5.8% as compared to 9.1% of Q1 FY25. Margins for the current quarter were impacted by a sharp decline in Room Air Conditioning business. With the lower volumes, the operating leverage benefits witnessed in Q1 FY25 could not be replicated in this quarter, thus resulting in the drop in margins.

Segment-III: Professional Electronics and Industrial Systems

The segment revenue de-grew by 27.3% to Rs. 70.4 cr in Q1 FY26 as compared to Rs. 96.9 cr in Q1 FY25. Segment result was Rs. 7.7 cr, which was 10.8% of revenue in the current quarter, as compared to Rs. 9.6 crores, which was 9.9% of revenue in Q1 of last year.

The segment faced a decline in revenue driven by continued challenges in Med Tech and Data Security businesses. The Med Tech business has been impacted by regulatory uncertainty with the government temporarily stopping the import of refurbished medical devices. However, Industrial Solutions business is experiencing steady growth supported by manufacturing and testing demand.

Segment margins at 10.8% for Q1 FY26 versus 9.9% in Q1 of last year. The improvement was majorly due to favorable change in product and service mix.

III. BUSINESS OUTLOOK

While the first quarter of FY26 was impacted due to poor Room Air Conditioner sales owing to unseasonal rains during the summer season, it is expected that the demand will revive during the festive season. Further, our strong portfolio of B2B products and solutions comprising of Electro-Mechanical Projects, Commercial Air Conditioning and Commercial Refrigeration should help us partly offset the shortfall during the rest of the financial year.

Aligned with our long-term vision for growth and innovation, we remain committed to strategic investments in manufacturing, R&D, and digitalization, while ensuring sustainable value creation for our stakeholders.

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

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Aniruddha Joshi from ICICI Securities. Please proceed.

Aniruddha Joshi: Sir, in case of UCP business, if you can indicate the revenue growth rates in RAC, air cooler, and even commercial refrigeration separately, it will be great. Then secondly, what is the inventory as of either 30th June or even 31st July, if you can indicate on that. Thirdly, what are the initiatives that the company has done to clear the excess inventory, means either free installations or additional trade discounts or consumer discounts? Or what are the additional initiatives the company has done. Lastly, now the new norms will come into picture from 1st of January. So, whether the company will be able to exhaust all the trade inventory by that time? Or how should we read the situation panning out? That's it for my side.

B. Thiagarajan: Thank you. Unfortunately, I think you are new to the call. This has been clarified several times. Unitary Cooling Products is the segment classification, and anything further break up there will be selective disclosure. So, we will not be able to indicate product category wise information.

All that I can say is that, that particular segment comprises Room Air Conditioners and Commercial Refrigeration products such as water coolers, deep freezer, or cold chain equipment. It does not include, like our competitors, some of the competitors have the service business of central or package air conditioning that is not in that particular segment. It is purely products.

Now, unfortunately, this has been going on for some point of time. If we have to reclassify, we have to look at the industry, how they report, and then we have to. Then it involves re-grouping, etc. The fact of the matter is, in this particular quarter, what is impacted is Room Air Conditioners. Now, Room Air Conditioners' market size is around 6x of the commercial refrigeration market. Then you can make a guess what it is. In our case also, it will be the same. Whatever share there, same share here. So, therefore, the question is unfortunately not answerable.

Second part, inventory is not an issue at all. This also I had clarified in many television interviews or one-on-one interactions. Nikhil or Swati also would have clarified that the moment the market was not picking up, all it takes is two weeks to correct the manufacturing.

Now, those days, some three years ago, it used to be China imports. So, what you have committed, it will be in high seas and you will be saddled with the inventory till the end of the festival season. Now, normally in a system, 30 to 45 days of inventory will be there, always. Now, it is not just in, just out. In addition to that, we will excess the inventory, if that is the terminology, it is a one month of sale. That is all the excess inventory Blue Star has got. Inventory is not an issue at all. That one month inventory will be sold off. And there is the correction in not billing began in April first week itself. So, therefore, with the dealers, there is nothing need to be done to be giving additional discounts or whatever it is. Whatever is the market operating prices and the schemes existing, that is going on. The real issue is when the demand will pick up. So, to you and to the other participants, I would request that inventory is not an issue. It is just 30 days more inventory is there. That will move away.

The real question is that whether the festival season will be good. It begins with, in Tamil Nadu it is called Aadi (festival in Tamil Nadu) like that. There is Independence Day sale. There are some early indications it will be good. But really, we have to see in a volatile trade situation across the globe and in India, what all will happen, we do not know. We wish and pray that the festival season is as good as last year.

Your last question was connected with the, what was the last question?

New norms. We are all well prepared. See, usually what happens is in anticipation of the energy label change, many people end up buying in Q3 itself because a new 5 star will be costlier than the existing 5 star. So, there are a lot of people who end up buying. So, it is a question of production planning, the new products, as well as the old products, how we will do in Q3. Anyway, from 1st January, you have to make the new label. This energy label change happens in consultation with industry. We all know what is the new norm, and we all know which date it is coming into effect. So, therefore, research and development, supply chain issues are already over. So, there is absolutely no concern about that.

Aniruddha Joshi:

Just last one question. You had indicated earlier that Blue Star is also looking for a JV partner for compressor manufacturing. While we have got one-year additional window, but any update on this JV?

B. Thiagarajan:

I have not stated. No, I have not stated as we are looking for a JV partner. I will, again, this question should not come up later in the call. Blue Star is not manufacturing compressors today. It is a question of scale. We know that within a couple of years, we will reach 2.5 million kind of quantity. Therefore, we should look at compressors.

Now there is and the QCO extensions may happen, may not happen. There are manufacturers in India who are planning to expand. So, we will keep monitoring both. What are the import restrictions? What are the manufacturing capacity expansion that is happening here within India? We have kept all the options open. Procuring from Indian manufacturers, as and when they expand. Two, keeping our ears and eyes open. If we have to manufacture, we will go ahead and manufacture. Three, if few Indian manufacturers have come together to make compressors, we are open to that idea.

Right now, our supply chain is secured for about 12 months' time, in the sense that till end of next summer season we are covered. So, we will keep reviewing it. And compressor supply chain resilience is no longer bothering us because we have kept multiple options.

Moderator:

The next question is from the line of Shivkumar Prajapati from Ambit Investment Advisors. Please proceed.

Shivkumar Prajapati:

So, my first question is, the other peers have also reported their numbers. And for the UCP segment, the numbers are drastically down, 34% and 50% for two players, while we managed just about 13% to 14% of decline. I just want to understand what did we do right. And you have also

highlighted that we have gained some market share. So, would you be able to quote some figures as I think in Q4, we ended it around 14%? And what would be the current market share?

B. Thiagarajan: This is your second question, or you have some other questions?

Shivkumar Prajapati: Sorry, this is my first question.

B. Thiagarajan: Well, second question also you complete. I will answer both together. What is your second question?

Shivkumar Prajapati: So, second question is basically on the inventory with the dealers and distributors. So, post the BEE norms, would we be sharing some burden with these players or will we be helping them?

B. Thiagarajan: That question I have already answered. It is only excess inventory of 30 days is there. The label change is a long time away. So, it is not an issue at all. So, inventory is not an issue. And I request all participants, please take note of, as far as Blue Star is concerned, it has got 30 more days of inventory.

And all that one had to look for is that when the growth will take place and so that I maintain that still full year this industry has got an opportunity to end the year with 10% to 15% growth. That is what will happen whenever there is a summer season which is not good. So, one has to watch for, if at all there should be anxiety, how well the economy will progress, how well the festival season will progress. So, inventory is not an issue.

Coming back to your first question that is connected with the market share of 14%, it would have moved up, in my view, to 14.2% or something like that. Why we should have done well? We have been gaining market share. That has been our history. Every year we have, even during the COVID period, we have gained market share. And we started with the momentum. Our goal was to end the year with 14.5% market share. So, this is happening with multiple initiatives. Number one is having products at every price point, and expanding our distribution footprint in Tier 3, 4, 5 cities, specifically in northern region and places where our market share was lower than all India average, improving it. It is all because of that.

Moderator: The next question is from the line of Natasha Jain from Phillip Capital. Please proceed.

Natasha Jain: My first question is on the channel expansion that you have mentioned. Because we have got market share gains primarily because of that, I just want to understand if you could call out what is your footprint in South versus non-South. And what is the scope to expand here further? How much are we non-indexed in the rest of India? And therefore, what can be the growth opportunity just by channel expansion? That is my first question.

My second question is, if you could throw some light in terms of how different geographies are doing? How is South doing? Is it any better than it was before? Because South disappointed the most and Blue Star is indexed to South versus probably north, how is it doing? You are lower indexed there. Therefore, on that account. And lastly, in terms of exports, while I understand U.S.

the tariff uncertainties, but in non-U.S. markets, what is the scope there? And are these high-margin businesses? If yes, what kind of scale-up can we expect and by which year? That's it, sir.

B. Thiagarajan:

So, the first is, the market share gain is not just due to distribution footprint expansion alone. It is having products at all price points that India is a vast country. Different types of consumers are there. There are entry-level products that are consumed. Heavy-duty air-conditioners are consumed somewhere. Someone is asking for Wi-Fi-enabled, AI-enabled air-conditioners. Someone is asking for sophisticated controlled air. Someone is asking for purification and health-related features. So, you have to have a product portfolio at the right prices. That is the first part of it.

Distribution footprint, it is not by sheer numbers it will be happening. You can go and say, my distribution has become now 20,000 channels or 25,000 channels. That is not the point. Blue Star understands in every town what is the market size. In that, each of the counters, what is the potential of that counter? In that, what is my current share? And therefore, what I have to do?

Even in Chennai, I may be having more than 20% market share. But I should be looking at, in a particular counter, whether I am getting 20% or not. All India market share may be 14. There are markets in which we will have 7% or 8%. There are markets in which we will have 10%. So, each of these markets, we internally call it as a surgical strike, go ahead, and work there in order to take the market share higher.

So, a sheer number of expanding the distribution footprint will not get the market share at all. For a simple reason, a dealer will agree to be your dealer and display a product because you are actually compensating for the space that you occupied, an in-shop demonstrator you will be deploying. And that alone is not going to help. It will help, but that alone will not help. So, that is the answer to that.

Now, coming to the geographical thing, we have not thought about when Kerala failed, we thought in Tamil Nadu, Andhra Pradesh will be. That was not picking up. Then I thought it is going to be picking up in West and then North. All over, the same thing happened. So, according to us, the de-growth is common across the country by coincidence.

The last part of your question is connected with the international. First of all, our exports, the international footprint itself is low. And we are on a program to improve our international footprint on two conditions. One is, it will not bring down our ROCE. Two, it will not bring down our profitability.

Our approach has been, we will not enter there in Blue Star brand name. We will be making for other players there, established players there. We have acquired around three customers across the United States and Europe. Now, the tariff uncertainty has been there. Today it has got aggravated. But the question is, all along there has been a doubt what will happen to the tariff. Both the sellers, like us and the buyers, they have been very careful in arriving at what needs to be done.

Now, our dependence on exports, total, all exports put together is 2% of our revenue. If you take United States, it is 1% of our revenue. So, it is not going to be impacting our operations in either

manner and what can happen is, we had got our products approved and we are in the process of getting our products approved for other players. We are, you know, in the international market, we have to be doubly sure that product has to be performing well, complying with all their international standards. And it is new to us, every market. And therefore, we have been going slow, and we were about to ramp up. That may get delayed. That's about all. So, it is not going to impact the financials in any manner.

Our decision is please wait and watch what happens because what happened today may change later. We do not know at all. So, we are focusing on working with our customers to keep developing the products and figure out what is the best way they would like to source. That is where we are.

Moderator: The next question is from the line of Akshen Thakkar from Fidelity. Please proceed.

Akshen Thakkar: Congratulations on seeing through a relatively tough quarter. My question was around the Electro-Mechanical Project business. You have seen four quarters of 30% plus growth in this business. I mean, obviously the base is stiff. But could you give us some color on what kind of growth you are expecting in this business in the coming quarters or maybe for the full year?

Then on the Unitary Product business, I think the comment on TV this morning by Vir was that we are still gunning for double-digit growth. That would imply sort of close to mid-teen growth for the rest of the year. Is that something which is an aspiration, a target, or a guidance?

B. Thiagarajan: I will come into the second part of it. The thing is that if you plot all the years where the summer has failed, summer sales have not been good, eventually the industry ends up growing at least 10%. And so that is going by the past record. It is not necessary; it will repeat now. But, you know, it is a question of pent-up demand. It is not that they don't want the AC. They wanted the AC. Summer was not harsh. They postponed it. Remember this. I mentioned this last investor call as well, that May, June, or July are very important months for the consumers in terms of schooling, vacation. They do have additional burden. So, if they can shift that expenditure, that is fine and they come back during the festival season.

This particular year, there is energy label change. So, therefore, just before the energy label changes, huge purchases take place. So, therefore, there is an expectation going by the past data that growth can be 10%. That's why I mentioned to the earlier question also. Eventually we should look at how the festival season plays out and aims to close anywhere between 10% to 15% growth. That is what it is.

Now, Electro-Mechanical Projects, that particular segment has got the EPC business of contracting. It serves many segments. It is infrastructure projects, data center projects, manufacturing units or factories, buildings, hotels, hospitals, so on and so forth. It also has the packaged air conditioning equipment, like VRF, chillers so on and so forth.

In a particular quarter, it all depends on the closure of a job or somebody is ready to lift the equipment if it is packaged air conditioning. So, the B2B part of the business is doing good. And

at the same time, it is also cyclical. That is why I keep mentioning in our case, we are not entirely dependent on Room Air Conditioner. There is something else to it.

Now, your question is that can we assume this kind of growth full financial year? That is not the guidance. The thing is that we would like to grow somewhere around 15%. That's about it. And we have always said that the margin should be 7 to 7.5%. For the benefit of other participants, I am clarifying that also here. So, Unitary Cooling Products, the growth should be 10% to 15%. That is the aspiration going by the past record of the industry. For margin, our aspiration is 8% to 8.5%. But in a summer impacted year, it may be tougher. It may be 7% to 8%. It all depends on how the festival season is and the last quarter is going to be.

As far as Segment-I is concerned, 15% growth is possible and 7% to 7.5% margin we will be able to maintain. And the situation is highly volatile. It is not the U.S. tariff is not connected with the exports alone. There will be other implications arising. For example, the exchange rate, and other industries which are dependent on, therefore, the consumer sentiment.

So, it is going to be an important period and it could be a volatile period as well. And we have to watch out and pray that the festival season goes on and Indian economy maintains its momentum.

Moderator: The next question is from the line of Ravi Swaminathan from Avendus Spark. Please proceed.

Ravi Swaminathan: My first question, once again, on the first segment, with respect to what is the, if you can give the order book breakup of the key categories like commercial real estate, residential real estate, retail, data center, infra. And if you can give some commentary on each of these sub-categories, which is doing relatively well, which is doing average.

B. Thiagarajan: Ravi, I will answer this question. The thing is that I do not have the data and the second part is, basically, we have, first of all, understand this. Why that is important? How fast the project will get closed? How healthy is that order book? That is what you are trying to assess.

First of all, I am assuring you that we are not interested in any unhealthy order. If it is a commercial real estate versus infrastructure projects or data center, what orders we book and carry according to us is a healthy order with good cash flows and decent margin. That is why we are not going ahead and building the order book or fighting for a market share. Okay?

Now, broadly, the buildings, factories, and the infrastructure are equally divided. And in a particular quarter, the manufacturing may go up. In a particular quarter, the building, because the orders are not being finalized based on Blue Star's strategy. Orders get finalized in the manner in which the consumers want. And therefore, you can assume always it is one-third, one-third, one-third. And that is what we would like it to be as a part of our risk mitigation itself.

Second question of yours?

Ravi Swaminathan: My follow-up on this is, I mean, are we adding new products into this Project segment category, like equipping ourselves for advanced projects in categories like data centers, et cetera? This is

leading to this kind of growth vis-à-vis other competitors who are not going that fast in the Project business.

B. Thiagarajan:

I won't underestimate any competition at all. All our competent players, everybody wants to grow. So, all should be doing the right things to build their own competitiveness.

As far as Blue Star is concerned, you are talking about Segment-I, I suppose, because the equipment addition means it has to come from the commercial air conditioning systems or what used to be called as the packaged air conditioning. Yes, there are specific chillers meant for data center application. There are chillers meant for brine application. Product portfolio expansion is driving the growth and we continue to focus on that.

Now, in even VRF, there are next generation VRF are getting developed. And if you are pointing towards specific data center, like liquid cooling, we are working on that as well. But the question is that as and when the market will be there for a particular product, our intention is to be ready with a particular product. And that is why compared with others, see, in case of multinational, their R&D happens internationally.

The Indian companies need not to bear that R&D expenses. In case of Blue Star, you have seen that significant amount of investments are taking place there. Close to around 1.5% of our revenue is in R&D. That is what is making us grow. We will continue to do that.

Moderator:

The next question is from the line of Achal Lohade from Nuvama Institutional Equities. Please proceed.

Achal Lohade:

Sorry, if I am asking a repetitive question, sir. Sir, if you could help us with the volume decline for the industry for the quarter, just a broad sense, what kind of decline is it? Because the range we keep on hearing is a fairly large number, but just your sense on the same. And we, in terms of the margin, we have seen for the UCP segment, 330 basis point margin contraction. You know, at the gross level, have we been able to maintain or if there is a contraction even at the gross margin level? And if you could also help us in terms of A&P spend in that segment, how much has been the reduction or if it is same or increased?

B. Thiagarajan:

Second part, Nikhil will answer. As far as the first part is concerned, our understanding is, from various reports. There are institutional sales as well. My guess is that the industry de-growth would have been around 30%. Again, it is not degrowth over last year. It is something that one should look at it at all. As analysts, you all will look at it because that is important for you. We look at it from the point of view of 3 years CAGR. See, summer of 2023 was a bad summer. Summer of '24 was a 57% growth summer. And now there is a decline. So, the question is if you take a CAGR, it continues to grow.

There is a second thing we look at within Blue Star is January to June, how it looks like rather than April to June. For the simple reason, April purchases got preponed to March itself. So, if you look at it like that, the degrowth will be in single digit.

Now, why that is important? While the market should do whatever it is doing, for us, it is connected with the strategic direction. It is connected with the investments that we have to make and the competitiveness that we have to build.

In other words, we will not sit with a long face and worry about one quarter is washed out, what to do? I do understand from stock market point of view. So, here, we are very clear that whether the industry is growing. So, therefore, if you look at 3 years' CAGR, still it has grown. If you look at January to June, the de-growth is single digit. That is all I worry about. But what I hear is there is a 30% de-growth in the industry. And so, in a period like this, frightening numbers, it is better to ignore.

And the second part, Nikhil can answer.

Nikhil Sohoni:

So, as far as margins go, if you would have heard my commentary also, it was mentioned that when the volumes drop, definitely there is some amount of operating leverage benefits that you normally get will not be getting it in the current quarter. That said, last year's Quarter 1 was an exceptional quarter. So, definitely the economies of scale benefit were there. And hence, you are going to witness the contraction in the margins the moment the volumes have come down.

In addition to that, the mix between various components within this segment will also have a role to play. So, it is not, of course, at a gross margin level will be a function of how the material costs have moved, which all of us are aware of. You know, the movements in copper, aluminum and what are the inventories available So, that is not going to impact it in a major way. Definitely most of this kind of comes from the play of volumes. So, that is as far as the overall margins go.

Coming specifically to your question on what are the ad spends and all, that again kind of at the moment we see the volumes kind of de-growing. There is some amount of control which definitely comes on these spends. So, they will not be to the extent they were done last year. And accordingly, some contraction in those spends will also happen.

So, there are certain unique expenses which also come every year, which are industrial-level expenses. We are aware of costs like e-waste, etc. also come. So, they will have a play on the margins. So, this margin drop which you are saying is a combination of all of this. So, it is not a gross margin impact. It is more an impact which comes because economies of scale and certain unique expenses which come every year.

Achal Lohade:

Just a clarification, sir, on the first answer. Sir, again, I am sticking to the first quarter at this point in time, April to June quarter. You said industry declined 30% Y-o-Y. And we have said our market share is marginally higher. Does that mean that our volume decline is also in the similar fashion or slightly lower than that or it is substantially lower than that?

B. Thiagarajan:

I mentioned the market share went up by 0.2%, which means our decline is lower than the industry.

Achal Lohade:

Yes, no, sir, the math is if...

Moderator:

Sorry to interrupt you.

Achal Lohade: I will fall back in the queue, ma'am.

Moderator: The next question is from the line of Keyur Pandya from ICICI Prudential Life Insurance. Please proceed.

Keyur Pandya: Sir, first question is on the overall growth for the room AC for the Financial Year '26. So, the hope is on the festive season. Now, currently, I mean, in the August, say, in South, Kerala or Onam-related demand, are you seeing any early signs of demand revival or for the time being, it is just a hope and you would focus on more of September, October for the growth revival? That is the first question.

B. Thiagarajan: I mentioned it starts much earlier. It is something as Aadi (festival in Tamil Nadu) sales starts, and then there is the Independence Day sales is being done, and then the Onam will come. The early indications are it is good. But we do not know because the situation is changing every day. We have to wait and watch. So, therefore, that full year should be a double-digit growth is an expectation.

Keyur Pandya: Just, I mean, the context was that, sir, because there will be some pre-buying before this December deadline, which is just a timing difference because someone buys in December and may not buy in Jan.

And second point is that Q4 base was also higher because a lot of pre-stocking has happened in Q4 FY25. So, in that backdrop, we will have a high base of Quarter 4 this year. So, this 10% looks reasonably high. And that was the reason I asked this question.

B. Thiagarajan: Q3 of last year was not a stocking season. Q4 is a stocking season. So, therefore, when energy label change is there, it should be much higher than last year Q3. That is the first part of it.

Now, there are two ways of looking at it. We can imagine a situation of everything is going to be bad. I do not know how that will help. The question is that the past record shows if there is a summer season which is disappointing, full year, again, it will not be a 25%, 30% growth. It will end up at least with a 10% growth. That is one part of the track record.

The second part is, whenever there is an energy label change that particular quarter peaks, actually. And that is the history and the record that is available. Now, there is, on the other hand, huge volatility in the market. Lot of things are happening globally and in India. So, we can assume that, look, things will be fine or you can assume things will be a disaster.

So, as far as Blue Star is concerned, we will be prepared for both of it. But our interest is not a quarter. Definitely not. That is why we are there for 82 years and beyond, right? We have to go through and a number of times we would have gone through this kind of period. Fortunately, we are a B2B and B2C company. And going by your argument, if everything is going to be bad, fine, you have to face it. But as of now, we won't plan for everything is going to be bad. As far as festival season is concerned, the question is, there are dealers who have inventory. There are dealers who are beginning to buy. Or there are the tertiary movement we are seeing much faster in many counters. So, that is an indication.

- Keyur Pandya:** Inventory or one month above normal inventory?
- Nikhil Sohoni:** That's right.
- B. Thiagarajan:** Yes, in our case.
- Keyur Pandya:** So, it is total one month inventory or one month above normal?
- B. Thiagarajan:** One month above normal.
- Keyur Pandya:** Understood. And sir, last one question that is on your Commercial Refrigeration side. We are seeing deceleration in store counts for quick commerce business. Are we seeing any impact on, say, growth in terms of growth deceleration from that segment? Not degrowth, but growth deceleration.
- B. Thiagarajan:** Quick commerce is about 10% of the business. So, there is pharmaceutical. There is food and beverages retailing, and there are quick service restaurants. There are farm and related logistics providers. There is ice cream. Like that there are so many segments there. Quick commerce is one. And there are many segments which continue to do well. In any case, the penetration of that segment, that sector, is very low. And I won't be worried about one particular segment decelerating. If you see, it is a bonus.
- Keyur Pandya:** Thanks for elaborate answers.
- Moderator:** The next question is from the line of Devesh Advani from Reliance General Insurance. Please proceed.
- Devesh Advani:** Actually, you said that for the full year, you are expecting revenues to grow at 10 to 15 odd percent. So, how about specifically for unitary products in terms of revenues growth you are expecting for full year? And how about profitability growth for the whole year?
- B. Thiagarajan:** I have not talked about full-year revenue at all. So, the discussion of about 10% to 15% is Room Air Conditioner business has the potential to grow, even though it is a disappointing summer. That is the expectation. That is all the 10% to 15% figure is that.
- Devesh Advani:** And as far as earnings is concerned, bottom line is concerned, what is the expectation for the whole year?
- Nikhil Sohoni:** See, we don't give again a breakup within the segment. For Segment-II, we have been guiding that you should go by around 8% margin. And this year, of course, there will be a Quarter 1 impact. So, you can look at it at around 7% to 8%.
- Anupam Goswami:** Sir, just a little clarification. When you say two months of or one month of above normal inventory, that is basically an average inventory throughout the year and hence that indicates in the monsoon period or Q2, it will take more than two months to receive it?

B. Thiagarajan: No, what I am saying is that ideally, I should have had some inventory. And today around, going by the monsoon sales only, so 30 days of more inventory is there. See, there is always inventory in the pipeline—whether in our factory, our warehouses, or in the field. If you put it all together, it will amount to around 45 days of stock, consistently. And because we also have a factory in Himachal Pradesh, which is a smaller market, it has to move to other places. And against that, we may have 75 days of inventory, so which is 30 days more. That 30-day figure is based on monsoon sale period. If it is a peak season, that 30-day will be a 10-day sale, right?

Anupam Goswami: And when do you see this picking up and after BEE norms, if there is slight growth or market picks up, do we again see a quarter flow slow because of a pre-buy?

B. Thiagarajan: Again, I am telling you, the thing is festival season is the one the pickup happens. The 30-day inventory is not a big thing at all. You have to look at that when the market will revive in terms of faster movements. And it will be from Onam season or Independence Day sales onwards; you will start getting the indications. Festival season peaks during Diwali and subsequently against New Year. It is a long way off. So, energy label plus the festival season. People who postpone buying in the summer season that is what should result in the growth. These are all expectations; I am telling you. Honestly, we will not be sitting and worrying what, you know, I should not be, at least Blue Star is not imagining the worst and then preparing for. It is not going to help in any manner. We have adequate risk mitigation mechanism.

So, if a sale is not happening, you have to manage the inventory, you have to cut down the production, you have to defer the discretionary expenses. You will. And you will be very careful in expenses such as advertising and marketing ahead of the festival season. You will watch really what is required in that market and you will end up doing. So, those cost levers will be applied.

But the preparation will be for simple reasons. In five years, this category should be more than double. That nobody is going to stop. So long-term investments will continue to take place. And any other thing is whether we were aware last week that these U.S. decisions would impact India in this manner. I am again saying it is not exports. The exchange rate may be impacted. Many other sectors in India will be impacted, which will impact Blue Star, because we are also dependent on B2B. But all these are part and parcel of the game. Our aim is simple, that I should build my competencies for the future. I should keep delivering good performance, better than the industry quarter after quarter. And that is all we can do, right?

Otherwise, I don't have any way to guarantee to you, festival season will be good or there will be a double-digit growth. I can go by only past data. And a number of things that are happening are not due to the industry or due to Blue Star. It will keep happening, whether it is summer or tariff or a war or a number of other things.

Anupam Goswami: Sir, any pricing discount going on in the industry and in Blue Star?

B. Thiagarajan: When we have only just one-month inventory, there is no reason for us to cut the prices. Normal schemes, whatever is the market operating prices, that will go on. Again, gross margin is not the issue. The growth has to happen.

Moderator: The next question is from the line of Aditya Bhartia from Investec. Please proceed.

Aditya Bhartia: Sir, while we have seen a decline versus last year, but if I look at versus Q1 two years back, which is Q1 FY24, there is still a growth in the UCP vertical. In that context, margins falling quite sharply versus, let's say, the margins that we recorded in Q1 FY24, looks a bit surprising. The other way in which I am also kind of considering is that overall volumes or overall revenues this quarter was still higher than off-peak season of Q2 or Q3 last year. But margins have come off quite sharply from there. So, is there some element of some other expenses being involved or some gross margin erosion as well?

Nikhil Sohoni: Yes, so see here, when you look at the margins two years back, one has to factor in that over the two years, there has been an increase in volume. So, there will be an increase in some amount of fixed cost also because the cost comprises of fixed, semi-variable and variable. So, it is not that only variable costs will be the part of the cost composition. And that is going to definitely impact when you are looking at what period two years back was there. The volume increase over the last two years and the fixed cost increase over the last two years, along with the inflation increase, is going to impact the margins to some extent.

So, as I also said, there are certain new expenses or expenses which are impacting like e-waste and all. So, they will also impact the margins. So, all of these costs are unique for that period and you cannot be relating it to comparing it with what was the cost two years back.

Aditya Bhartia: And versus second and third quarter of last year also, there is a decline in margins. I mean, second and third quarter are, of course, off-peak seasons and therefore volumes tend to be lower. So, should we be kind of comparing those?

B. Thiagarajan: The question is that, you know, in summer season of this year, you are anticipating a 25% to 30% growth. So, you invest in many things like advertising and huge number of in-shop promotions and in-shop demonstrators. That is what happens. So, you are preparing for a huge season, and you are employing additional people for installation and service.

Now, then April, when it is disappointing, what you think is that the forecast was, May will be the heat wave. So, therefore, you carry on to look at May. And then you say that from May 15th, you hear it will pick up. So, therefore, a quick correction.

Also, you will not be recruiting somebody in the field and you will ask them to go immediately. There are notice periods that are involved, etc. So, therefore, a cost that is committed when the season abruptly fails, like a summer rain, it always ends up in erosion of margin.

In Q2, Q3, you will be cautious of those corrections. That is why I mentioned to you. You wouldn't end up advertising thinking that this festival season is going to be good. You will be watching and watching, and stage by stage you will be doing.

So, therefore, if your question is related to whether there will be a margin dip compared with last year in Q2 and Q3, according to us, it should not be. In Q2, probably one month impact should be there for the simple reason July of last year was again a very peak month. So, July of this year,

still the de-growth continues. So, therefore, some part, that is one-third of Q2 may be a problem. Q3 should not be a problem. Ideally, the margins should be managed during those quarters.

Nikhil Sohoni:

Yes, so that answers a large part of it. And in addition to that, when you look at, say, Quarter 2 and Quarter 3, again, as you yourself said, are the lean quarters, where you know that there are certain expenses which are anyway controlled, since it is a lean quarter, whereas this quarter was not expected to be lean. So, you have a different level of in-shop demonstrator expenses who are there, all of those who are kind of deployed for that season.

Now, those cannot be pulled off just whenever you want. So, that is a certain amount of period which is already committed to them. Those expenses will stay in that quarter. So, these are the unique one-quarter expenses which are there for that season which you will have to live with. Those are the kind of expenses which will result in impacting the margins more than which may not be incurred in Quarter 2 or Quarter 3.

Aditya Bhartia:

Fair point. That is a very, very fair answer. Just one clarification, sir.

Moderator:

Sorry to interrupt, Mr. Aditya. May we request you to join the queue again?

Aditya Bhartia:

Sure, thanks.

Moderator:

Thank you. Due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Nikhil Sohoni for closing comments. Over to you, sir.

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 questions were not fully answered. And we will be happy to provide you additional details by email or in person. Thank you.

Moderator:

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

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