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May 17, 2020

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

Dear Sir/Ma'am,

Sub: Earnings Call Transcript – Q4FY20 and FY20

With reference to our letter dated May 6, 2020, and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q4FY20 and FY20 Financial Results of the Company.
The aforesaid information is also being made available on the website of the Company www.bluestarindia.com
Thanking you,
Yours faithfully,

For **Blue Star Limited**

Vijay Devadiga
Company Secretary

BLUE STAR LIMITED

Encl: a/a

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Blue Star Limited

Q4 FY 20 & FY20 Earnings Conference Call

May 13, 2020

MANAGEMENT: **MR. B. THIAGARAJAN – MANAGING DIRECTOR**

MR. NEERAJ BASUR – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q4 & FY20 Earnings Conference Call. We have with us today from the management, Mr B. Thiagarajan - Managing Director and Mr. Neeraj Basur -- Group Chief Financial Officer. As a reminder, all participant 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 touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Neeraj Basur for opening remarks. Thank you and over to you, sir.

Neeraj Basur: Good morning ladies and gentlemen, this is Neeraj Basur. We also have on the call today, our Managing Director, Mr. B Thiagarajan. I will be providing you an overview of the results for Blue Star Limited for the quarter and the year ended March 2020.

I. Financial Highlights for FY20

A discussion of the last quarter's business performance and associated financial results needs to be contextualized around the unprecedented health and economic crisis triggered by the COVID-19 pandemic across the globe. The spread of this pandemic in China in January saw supply side disruptions and there were concerns with regard to availability of material during summer season. Consequently, all manufacturers including Blue Star accelerated shipments of raw materials and components in the second half of February. However, as the first signs of the pandemic emerged in India, from the second week of March primary as well as secondary sales specifically for room air conditioners slowed down. As the virus began to spread and a nationwide lockdown was enforced, execution of orders and consequently revenue generation from all other businesses also came to a halt in the second fortnight of March.

These events leading up to March compounded the magnitude of the problem for most Indian manufacturers and sellers in the AC&R segment. On the one side materials that were already ordered for faster delivery in February had begun to arrive in the Indian ports and on the other hand, the supply chain disruption in India coupled with the nationwide lockdown caused a steep decline in the billing for all the players including Blue Star. The resultant stress on cash flows was profound, requiring swift actions to rebuild adequate liquidity on the Company's Balance Sheet, so as to meet external obligations and commitments. In addition, the Company focused on ensuring the health, safety and well-being of its employees and their families while the lockdown continued. Most back end processes could function seamlessly with employees working from home. Investments earlier made in digitization of critical processes and the IT infrastructure support ensured that these processes could function with minimal disruption. Despite challenges, the Company continued to serve the needs of essential services such as healthcare, pharma, banking and financial institutions.

Overall, the Company has ensured business continuity within the permissible norms and regulations. SOPs have been prepared to ensure safe resumption of operations across our factories and offices as and when they are permitted to open. As on date, the Company's factories at Dadra and Wada as well as a few offices including Delhi, Kolkata and Bangalore are operational.

Now moving to the discussions on Q4FY20 performance, the Company's revenue from operations maintained impressive growth momentum till February 2020. Due to the significant demand and supply chain disruptions across India in the month of March, the Company fell short of revenue and profit across all segments to the tune of Rs 400 cr and Rs 70 cr respectively.

In the above background, the Company's revenue from operations registered a modest growth for the full year, FY20.

Financial highlights for the year ended March 31, 2020 on a consolidated basis, are summarized below:

- Revenue from operations for FY20 was Rs 5360.19 cr as compared to Rs 5234.84 cr in FY19, a growth of 2.4%.
- EBIDTA (excluding other income and finance income) for FY20 was Rs 282.78 cr as compared to Rs 346.54 cr in FY19.
- PBT before exceptional items was Rs 210.02 cr in FY20 as compared to Rs 248.46 cr in FY19.
- Tax expense for FY20 was Rs 65.32 cr as compared to Rs 41.99 cr in FY19. Effective tax rate in FY20 was 31.7% as against 16.7% in FY19 due to reversal of Deferred Tax Asset created in FY19, arising from higher profitability in Blue Star Engineering and Electronics.
- Net profit for FY20 was Rs 143.25 cr as compared to Rs 190.06 cr in FY19.
- Carry-forward order book as at March 31, 2020 was Rs 2946.59 cr as compared to Rs 2430.07 cr as at March 31, 2019, an increase of 21.3%.
- Tight management of inventories and receivables, coupled with reduced billing in the month of March resulted in the reduction of Capital Employed to Rs 951.13 cr as on March 31, 2020 from Rs 1121.50 cr as on March 31, 2019.
- Disruptions in the operating cash flow coupled with the requirement to meet external obligations in the month of March necessitated additional borrowings during the last few days of the year. However, on the back of tight working capital management earlier throughout the year, borrowings reduced to Rs 155.00 cr as on March 31, 2020 (debt equity ratio of 0.21) as compared to a net borrowing of Rs 243.60 cr as on March 31, 2019 (debt-equity ratio of 0.28).

II. Business Highlights for FY20

<u>**Segment I: Electro-Mechanical Projects & Commercial Air Conditioning Systems**</u>

Segment I revenue was Rs 660.39 cr in Q4FY20 as compared to Rs 842.31 cr in Q4FY19, a decline of 21.6%. Segment result was Rs 3.17 cr (0.5%) in Q4FY20 as against Rs 36.29 cr (4.3%) in Q4FY19. Shortfall of revenue in March led to a decline in segment profitability. In addition, taking into consideration the outlook for financial stress in the commercial real estate and infrastructure sectors, the Company has been prudent to make additional provisions for potential doubtful receivables.

In FY20, segment revenue was Rs 2826.67 cr as against Rs 2748.11 cr in FY19, a growth of 2.9%. Segment result was Rs 120.26 cr (4.3%) in FY20 compared to Rs 150.85 cr (5.5%) in FY19. Order inflow during the year was Rs 3104.67 cr as compared to Rs 2951.98 cr in FY19, a growth of 5.2%.

1. Electro-Mechanical Projects business

We continued to maintain our leadership position in the integrated Electro-Mechanical space in India. However, the lockdown situation significantly affected revenues and job closures in Q4FY20.

Order inflows which started slowing down in Q3FY20 due to the liquidity stress in the real estate and infrastructure sectors slowed down further in Q4FY20 due to the weak sentiments caused by the spread of the pandemic.

Post the lifting of the lock down, a detailed evaluation of each and every project would be carried out to ensure credit worthiness of customers, visibility of positive cash flows and margin generation on execution of various projects.

Carried forward order book of the Electro-Mechanical Projects business was Rs 2039 cr as on March 31, 2020 as compared to Rs 1716 cr as on March 31, 2019, an increase of 19%.

Segment-wise break-up of the carry forward order book of the Electro-Mechanical Projects business is as follows:

Application Segment	Share
Office (IT/Non IT)	30%
Metro Rail	15%
Hospitals	12%
Industrial	10%
Power Generation & Distribution	5%
Malls	3%
Others	25%

2. Commercial Air Conditioning Systems

Order booking and growth momentum in this business was also impacted in Q4FY20 due to the spread of pandemic.

We however continued to consolidate our market share and maintained leadership position in the Ducted Systems in Q4 FY20 and improved market share in Chillers and VRF categories.

The newly launched products such as the next generation Inverter Ducted, Water Cooled VRF, Air Cooled VFD Screw Chiller and Configured Oil Free Chiller gained good traction and market acceptance.

Key segments that contributed to revenue during the quarter were Government, Hospitals, Builders and Educational Institutions.

Major orders bagged in Q4FY20 were from Airport Authority of India (Chennai) and Avenue Super Market (Multiple locations).

3. International Business

Our international business continues to focus on the Middle East, Africa and SAARC countries and grow steadily. Our brand building initiatives through seminars and exhibitions in Middle East, SARRC and Africa enabled us to gain good traction in the market.

Our Joint venture in Qatar that executes MEP projects continued to do well. However, order inflow and pace of execution were impacted in Malaysia due to challenging economic conditions.

We continued to invest in strengthening our brand in select international markets.

Segment II: Unitary Products

Segment II revenue was Rs 596.28 cr in Q4FY20 as compared to Rs 703.63 cr in Q4FY19, a decline of 15.3%. Segment result was Rs 43.75 cr (7.3%) in Q4FY20 as compared to Rs 73.32 cr (10.4%) in Q4FY19. As explained earlier, segment results were impacted due to the loss of sales in the month of March, which is a key month in the peak selling season.

Revenue grew to Rs 2300.61 cr in FY20 as against Rs 2268.97 cr in FY19, a growth of 1.4%.The segment result was Rs 162.27 cr (7.1%) in FY20 as compared with Rs 185.92 cr (8.2%) in FY19. Segment II results were lower due to higher spend on advertising and sales promotion and lower sales in the month of March.

1. Room Air Conditioner business

After a good start to the quarter with volumes picking up in February due to the early onset of summer, our revenue de-grew in Q4 FY20 over Q4 FY19 in line with the market de-growth due to the supply chain and demand disruptions through the month of March.

Our market share grew marginally to 12.5% in FY20 as compared to 12.3% in FY19.

Given the fact that we are strong in tier-3, 4 and 5 markets which are comparatively less impacted by COVID-19, we expect to gain momentum from Q2FY21 onwards. Further, e-commerce sales also will accelerate. The delivery and installation infrastructure with adequate safety norms are in place.

2. Commercial Refrigeration business

This business performed well over most of FY20 aided by the growth in the ice-cream, processed foods, healthcare and hospitality sectors before getting impacted adversely in Q4Y20.

We continued to maintain leadership position and grew well in the Deep Freezers and the Water Coolers businesses and gained market share in Bottled Water Dispensers. Our new lines of business namely, Commercial Kitchen, Medical Refrigeration and Supermarket Refrigeration also gained good traction.

Major orders bagged in Q4FY20 were from Reliance Retail, Amul, Vadilal, Dinshaw, Top & Town and Hatsun Agro Products Limited.

Healthcare, pharma and processed food segments offer attractive growth potential for this business.

3. Water Purifier business

We continue to stay focused on establishing our brand as a trusted one in the category, with well-engineered and the reliable products including the ones that offer alkaline water for boosting immunity, backed by superior service. We have established ourselves as one of the leading brands in the e–commerce channels, and expect this business to be e-commerce driven in the near future. Segment II results were impacted by around 80 bps due to investment in water purifiers category primarily in marketing, brand building and R&D. These initiatives coupled with comprehensive product range across price points helped to achieve market share of 2%.

Given the growing concerns on health and immunity, the demand for water purifiers is set to grow and we have set ourselves a market share target of 4% in FY21. The business is poised to break even next year.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue was Rs 42.69 cr in Q4FY20 as compared to Rs 49.90 cr in Q4FY19. Segment result was Rs 7.50 cr (17.6%) in Q4FY20 as compared to Rs 16.08 cr (32.2%) in Q4FY19.

In FY20, segment revenue was Rs 232.91 cr as against Rs 217.76 cr in FY19, a growth of 7.0%. The segment result grew to Rs 54.34 cr (23.3%) in FY20 as compared with Rs 43.78 cr (20.1%) in FY19.

We expect the Indian digital payment sector to grow further in the current scenario and create more opportunities for Data security business, in the short term. Further, a probable increase in

Government funding towards Healthcare systems is also expected to create opportunities for the Healthcare business. However, due to potential cut backs in capex of Government and private sectors, some of the segments such as Testing Equipments may potentially face challenges in FY21.

With the wide portfolio of products and solutions forming part of our offerings, the prospects for this business segment is positive.

III. BUSINESS OUTLOOK

A normalcy is gradually being restored, the Company is focused on commencement of order execution and revenue generation across all segments with liquidity management as the key priority. The spread of the pandemic and continuation of the stringent nationwide lockdown in India in the months of April and May has taken place during the peak selling season for Segment II. The Company is tracking Green, Orange and Non-containment Zones in various geographies to prioritize sales. The Company is in the process of renegotiating the prices of input raw materials and components and also credit terms with its vendors. As far as Segment I is concerned, the work is in progress to identify projects which are ready for restart, reassessment of credit profiles of the customers, timelines and remobilization of construction manpower. At the same time, several cost cutting initiatives are being undertaken. It is too early to provide any guidance on the full financial impact arising out of the pandemic on the operations of the Company.

We will take necessary steps to provide adequate liquidity support to all our businesses as they recover from the current disruption. Accordingly, fund raising plans for the short, medium and long term are being strategized to ensure adequate availability of capital and liquidity across all durations. As in the past, the Company will endeavor to sustain this phase in a prudent, balanced and agile manner and emerge stronger once the crisis gets over to resume on the growth and expansion trajectory.

With that ladies and gentlemen, I am done with the opening remarks. I would like to now pass it back to moderator, who will open up floor to questions. Mr Thiagarajan and I 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: Thank you very much. We will now begin the question-and-answer session. The first question from the line of Bhoomika Nair from IDFC. Please go ahead.

Bhoomika Nair: What is the kind of inventory that we are seeing in the Room AC segment given that there was some built of inventory in anticipation of the supply disruption from China and how long do you anticipate that it will take to kind of liquidate that? My second question is on Purifiers where you spoke about the revenues to kind of expand from 2%. So really what are we looking that can possibly drive such a sharp uptick? I missed the market share number for us. If you can just clarify on that?

B. Thiagarajan: Good morning. It is wonderful to be on this call. I think I am participating in the quarterly investor call after around four years. At an industry level, inventory with the manufacturers and dealers put together should be 75 days and that is our estimate based on the information available. As far as Blue Star is concerned, we have close to around 60 days of combined inventory. That is the total of the inventory with the dealers, at our warehouses and the factories. The normal level should have been around 30 to 45 days. The second reason for current inventory levels is that while we were chasing the vendors at china for materials and components, they could not deliver adequately leading to a production interruption in March itself. Therefore, fortunately the industry is coping with just 75 days of inventory and in the case of Blue Star it is around 60 days. Though we have the permissions, we have not commenced production yet. Out of 6,000 outlets which Blue Star serves, around 2,900 stores are already operational. we have marginally improved the market share to 12.5% in FY20 even though we were impacted in the month of March. We are tracking sales progress on a daily basis based on green, orange, red zones, as to the number of shops operational, , which warehouse would be serving the shops that are operational, how many in-shop demonstrators are deployed and the daily sales. We continue to maintain the market share in the outlets that are currently operational..

Bhoomika Nair: You said around 2,900 to 3,000 of outlets have opened, how quickly do you think the balance will open and when do we start touching almost normalization of activity in terms of sales across these outlets? Also you said that in Electro-Mechanical Projects business about 10% percent of sites have opened, by when do you expect that most of these sites should be operational?

B. Thiagarajan: It depends on the measures that would be in place during lockdown 4.0. Our view is that they may allow the shops to open with restricted operating hours. We have also suggested to the authorities to introduce a system of e-tokens to enable customers to get a specific time to visit the showrooms for their purchases. The E-commerce channel is not yet operational for non-essential goods as we believe that the government wants to provide a level-playing field for both on-line and the physical retail channels. The virus may not go away soon and there could possibly be further lockdowns.. Though the shops may be opened, the consumers will try to avoid going out unless and until it is absolutely essential. In that context, we are developing apps for dealers that would enable them to have virtual in-shop demonstrators. This will facilitate the consumers to get the same experience as inside a showroom visit and place their order. In a manner of speaking, this would lead to convergence between the eCommerce and the brick-and-mortar stores.

As far as our project sites are concerned, around 10% have restarted and discussions are on for some other sites as well. We are not in a great hurry to remobilize our sites since our focus will be on liquidity and collections.. We will remobilize and commence work at the sites only after we are convinced of the customer's ability to pay. We are doing credit risk assessments of all our customers. We will give priority to the customers who have the ability to pay. The exodus of migrant labors will also post a challenge to remobilization. We also will exercise all precautions because in a project site, not only the Blue Star employees and contractors, but also many other vendors will be working.

We believe commercial refrigeration is a line that offers a great opportunity for Blue Star at this point of time as it serves food delivery as well as the healthcare and the pharma sectors.. Our factory that manufactures cold rooms and cold storages for the pharma-related refrigeration products was re-opened and continued to function even during the lockdown period.

Moderator: The next question is from the line of Ravi Swaminathan from Spark Capital.

Ravi Swaminathan: Just wanted to know what was the kind of growth that we had seen in Jan and Feb in room air-conditioners, that is just before COVID lockdown? Also what is the kind of industry decline that do you expect in FY'21 for Room Air-conditioners?

B. Thiagarajan: The primary sales grew by around 10% in January. In February there was a growth of around 19%. All the manufacturers including Blue Star did exceedingly well because the indications were that there will be a shortage of material in April and May due to interruption in supply of components from China. We had also indicated that there will be a 5% price increase due to the hike in customs duty and ocean freight and the air-lifting of certain critical components. Due to this there was increased off-take from the dealers. As far as FY21 is concerned, the drop will be anywhere between 30% and 50% in the summer season as there is very little window that is left. There have been intermittent rains in Kerala and Tamil Nadu and the night temperatures are not that unbearable yet. Even in Mumbai or Delhi the temperatures have not shot up as they should have due to lower vehicular pollution. Taking these factors into account, I foresee a 30% to 50% drop. For the full year, it is difficult to assess at this point of time. If the stimulus package from the Government translates into a lot of money in the hands of the people and the economy is back on stream and the virus does not come back, there is a reasonable possibility that the market may be flat over last year level Going by the 2018 experience, where we de-grew by 15% in the peak season but made up later in the year to grow at 10% for the year, there is a possibility it will be made up. It is however difficult to guess at this juncture.

Ravi Swaminathan: In terms of the projects business, so basically when you talk to customers, is there a sense that some of them might cancel orders which are there, how is that, you told you are evaluating projects and you are going to execute only for the ones where payment can be got. So is there a chance of portion of order books getting canceled or something of that sort or is it still wait and watch?

B. Thiagarajan: We have a diverse portfolio of customers as mentioned in the opening remarks.. The customers in the hotel or mall segment may postpone but not cancel their projects. Some of them are likely to use this opportunity to convert the development into a hospital with the necessary changes in the layout. Our scope of the job is the last one in a building. Civil work would have been completed, occupants would have been already signed for the lease and we come at the fag end of it. Most of the construction cost would have been incurred excluding the interiors.. There could be some postponements. We are not chasing market share in that segment and our focus would be on profits and cash flow, even if it impacts revenue to an extent

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund.

Nitin Arora: My first question is when we look at your cooling product segment, good amount of sales are from the commercial part of it. Just wanted your thoughts from the end market where you supply to the ice cream segment, commercial, real estate, which segment do you think will slow down significantly amongst all – do you see a change here? Also, do you see any chance where commercial products whether the demand really coming from pharma or from any other segment which are there? On the second part, on the EPC, how much provisions have been created because of the expected credit loss in this quarter? Do you think that would be large suffice enough in terms of movement of ECL when you do provisions for the next year, is that large enough or you think further ECL can get up depending on the payment of the customers?

B. Thiagarajan: Despite all the challenges, there will be pockets where there would be opportunities to grow. We are constantly on the lookout for such opportunities. Healthcare and pharma are segments which have been doing well and are expected to continue to do well. Manufacturing expansion will come back due to pent up demand. FMCG sector is on the verge of expanding capacities and I do not think they will postpone their plans. If the stimulus package to be rolled out by the Government is going to be helping in any of these ways, money goes to the poor and lower class in terms of income and there will be an economic activities. If it is going to MSME, they will start investing in their business and they would not sink. Agriculture continues to do well. Even this year the harvest should be good. Rural economy will be flourishing as it is the urban cities that have been worst affected by the pandemic. We have close to 55% of sales coming from tier 3-4-5 towns and we will continue to strengthen our presence in those towns. We need to realign operations to focus directly on these towns instead of the traditional hierarchy of all India, regions and branches.

The categorization of towns into zoning like green, orange, red or containment has forced us to think that way. We have to get directly into those towns where activity can happen and this will be the method for foreseeable future. Even if the vaccine comes, the pandemic may not go away. India's vaccination program roll out could take about 24-months from the time it is cleared for India. Therefore, we must learn to live with this and grow. E-commerce and many of the brick-and-mortar dealers will also enable contactless selling as mentioned earlier. We are seeing great demand coming from smaller towns and most of the orders that we are executing for even commercial air-conditioning systems like package air-conditioning are from these towns. In terms of geography, it is tier 3-4-5 towns and in terms of segments, it will be healthcare, banking, financial institutions and expansion of FMCG, expansion of other manufacturing including MSME. In terms of priorities it will be commercial refrigeration and room air-conditioners. Even in big cities, there are enquiries every day, which we unfortunately are not in a position to deliver yet. Further, for the work from home customers, there will be products such as air-conditioners with in-built air purifiers.

Water purifier demand will also go up as the focus shifts to hygiene and immunity. The penetration in any case was lower which in itself should propel the growth. Consumer finance has not been affected at all. We expect the proportion of sales through consumer finance mode to improve from 45% to 55% by the end of this financial year. In view of the wage cuts across sectors, more and more people are likely to opt for consumer finance schemes with zero percent interest.

Nitin Arora: What is the ECL provision?

B. Thiagarajan: The concept of expected credit loss is based on our historical collections track record. For Q4FY20, we prudently provided for an additional amount of around Rs.15 crores.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund.

Bhavin Vithlani: The question is last year you had mentioned about 30% of the revenues of Unitary Products was Commercial, Refrigeration and of the Projects Division, 30% was Commercial Air-Conditioning. So if you can give us an update for this year? Secondly, do you actually see a need to support your channel and if that was to be the case, are you building in a buffer of increased working capital requirement in the shorter term?

B. Thiagarajan: The first part is that that ratio might have gone up last year. For the commercial air-conditioning, it would have gone up by around 10% as compared with the previous year because clearly the focus was on shop, showroom, boutiques and small value projects and also in tier 3-4-5 towns and we significantly gained market share in VRF systems as well as Chillers. In VRF, we are actually number two now and in Chillers; we are a close number three. These product categories have been doing extremely well. The ratio would have changed in Unitary Segment because of a sharper decline in room air-conditioners in the month of March. As far as the funding is concerned, Neeraj can explain what are our plans.

Neeraj Basur: We are quite mindful of the fact that some of our channel partners will indeed need support. We are first making sure that our own balance sheet is sufficiently funded and as a strategy we are taking a slightly longer-dated view on our borrowings for two reasons – One, opportunistically there is a possibility of raising some long-term loans through the LTRO liquidity which RBI has made available to the commercial banks for lending to Corporates. The cost of such funding for a company like ours is likely to be quite competitive compared to even short duration commercial papers or short duration bank loans. We are doing this as we want to make sure that our balance sheet is sufficiently funded for the next two to three years. We do not anticipate our debt-equity to go beyond our usual trend of below 0.5. We want to use this as an opportunity to make our balance sheet stronger, stable and more resilient to withstand further volatile phases, if any, should they be encountered by us. For some quarters, you will see gross borrowings as well as surplus cash on our balance sheet like this quarter-end where we closed with a cash of Rs.200 crores. We intend to maintain a level of liquidity so as to remain sufficiently funded. Once the inventory gets sold, we expect the operating cash flow position to regain further ground and as you would have seen from our March results, working capital management remains high on our priority and we want to make sure that our balance sheet remains strong in these unprecedented and uncertain times. In the next 60 days we expect to complete our financing restructuring so that we can only focus on operations. You would hear in an airplane that first you pull your own oxygen mask before you try and help others, so this is what we are doing at the moment. First, we are making sure that we have sufficient liquidity and oxygen for our own business. Once we are done with that, then we will move to start supporting our channel partners as well as our suppliers and vendors.

In the last week of March when the going was extremely difficult, we made sure that all our MSME suppliers got paid before 31st March. That was a very conscious choice. Going ahead we will work closely with our bankers to put in place a channel financing arrangement for our channel partners and distributors. We will also put in place similar financing arrangements for our suppliers and vendors because we are very mindful of the fact that the entire ecosystem that we operate in needs to be kept healthy for growth revival. It has to be a very participative and an inclusive solution and we are mindful of that. It will take some time as a lot of this is still evolving. We want to ring-fence our balance sheet first. That is why very prudently we have made some provisions just to make sure that the quality and realisability of our assets is ensured at all times. We also want to make sure that we maintain a healthy asset/liability matching profile on our balance sheet. The P&L growth will follow and we are clear about that. Once we are strengthen the entire ecosystem, the overall situation will normalize faster for us as a business.

Bhavin Vithlani: You mentioned that the inventory of 60 days given that bulk of the summer is now behind. What would be in terms of day sales or percentage of the balance part of the fiscal?

B. Thiagarajan: There would never be a situation of zero inventory. Ideally around 30 days of inventory is required to be held. It is not that post-summer the sales become zero. The rest of the year accounts of 60% of the sales. Assuming that normalcy will progressively improve, inventory is not an issue at this juncture. It is the ability to meet the demand when it picks up that is important.. As explained earlier, it would have gone completely out of hand with around 90 to 120 days inventory if China components would have arrived on time or March closure had not happened. Therefore, it is not necessary to worry about the inventory in the field at this point of time.

Of course, this will have some bearing on liquidity and margins as we would have passed on additional costs to the consumers by the way of price increase that may not be feasible now. There is also another way of looking at it. Post this inventory arriving, the exchange rate also has gone up. If we were to manufacture the inventory now held in July, August, we would be actually incurring more cost. A possibility of a hike in customs duty to manage the economic stimulus cannot be ruled out. In summary, our focus would be to liquidate inventory at the earliest opportunity and convert that into cash.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: You touched upon that Blue Star's 65% of unitary cooling exposure is to tier 3 -4-5 cities. I just want to know how does it compare to the overall industry? The second question is on the consumer financing penetration. So you touched upon a number something around 45%. Was it like exit Q4 rate or it was a full year FY'20 rate?

B. Thiagarajan: The 45% sales through consumer finance happens during the summer season and in the festival season. On an average, it should be around 40% last year and there have been sharp changes year on year and it could substantially go up in the coming year. We are stronger than our peers in tier 3 -4-5 towns basically because we have our dedicated sales and service dealers who enjoy extraordinary amount of equity within those towns like Rajahmundry, Belgaum, Trichy, Madurai, Karnal, Indore etc. There are certain exclusive dealers who do extremely well in these markets. They have been with us for a long time. In these markets we will be number one in quite a few places, number two in quite a few places, number three in many places while at an all India level, we may be between number five and six. Therefore, we have been strong in those towns not only for room air-conditioners but also for water coolers and deep freezers. Even though some of the players have other categories such as brown goods or white goods or consumer electronics products, we do better than them in those towns.

Shrinidhi Karlekar: You did mention some of the reasons like why input goods cost have gone up such as freight rates and some duty. There has been sharp hike on commodities as well. Just wondering, is a large part of the. Increase due to freight rate and custom duties is getting offset by the benign commodity cost?

B. Thiagarajan: We plan our supply chain from November, December onwards so the drop would not impact us. . Commodity prices are beginning to go up again. Whenever the oil prices drop, INR appreciates which hasn't been the case now. It is indeed a strange situation and has to stabilize. We may see some kind of a stability around September or so because the whole world has to get started, then only the picture would be clearer. As of now, it does not matter to us because we are not into procurement cycle for these products or ramping a production. We will deal with them in July, August.

Moderator: Thank you. The next question is from the line of Prashant Kutty from Sundaram Mutual Fund.

Prashant Kutty: Are we expecting any down trading to happen? We are hearing across many categories down trading are happening. So are we probably expecting markdown happening somewhere in the fixed speed, split AC or window AC part or inverters and to that extent how are we positioned?

B. Thiagarajan: It is very early to take a view on that.. We began the year with a very clear understanding. India's economy was doing very well the unemployment rate was high and with not much of relief in the union budget, we thought the demand for lower end products will be higher across product categories. We had stated in our product launch related press releases and interviews at that point of time that the focus would be on the affordable premium range. Most of the products introduced this year were affordable range. It did not compromise on quite a few features, but it was affordable. There are three at the bottom, there are three in the middle, and there are three in the top, that is how it is. We were very clear that we do not want to become a low cost product player. But the gap was substantially reduced and these products were between Rs.500 to Rs.700 higher than the other three brands which are at the lower end. These affordable premium products protected our margin, but also made the price attractive for the consumer. The share of these products could go up to 75%. We continue to maintain the market share in the sales that have happened in the last 15 days which means we are able to compete effectively. We are also getting quite a few enquiries for portable air-conditioners. Normally in the bedroom only the first time buyer would have had an air-conditioner. If they are working from the dining room or if they are working from the other bedroom, because they have to work from home, this may be the need. Other than that I am not able to see a clear trend. We have to wait for some time to assess.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Markets Securities.

Amber Singhania: Just a continuation of the previous question. Out of this 3,000 stores which we have opened, how are we seeing the sales given some states have advised not to use AC in the malls. Also, malls may take longer time. So are we working on expanding our presence to single store? Second what is your outlook on the margin given that price increase will be difficult to take and write-offs are coming up in this business? Also, what are your margin expectation in these segments?

B. Thiagarajan: It may not be permitted immediately in the malls. We are working with the Government to allow select stores dealing in groceries and household essentials such as Nature's Basket to start operating in the malls The exact number is very difficult to guess, but going by the trend of sales in the past 10-days, the stores will be recording 50% of their sales across all brands. There is a substantial drop in the footfall of customers. We hence mentioned that is why sales in Q1 can be anywhere between 30% to 50% lower compared to the previous year.

Moderator: Thank you. The next question is from the line of Abhijeet Anand from SBI CAP Securities..

Abhijeet Anand: Can you quantify the provisions make in Segment 1?

B. Thiagarajan: As mentioned earlier, it is Rs.15 crores.

Neeraj Basur: This is an estimated additional credit loss we have assessed for now and we have taken a provision based on that.

Abhijeet Anand: Secondly, you said that on the water purifier, impact on margin is around 80 bps for the year, right?

B. Thiagarajan: Yes.

Moderator: Thank you. I now hand the conference over to Mr. Neeraj Basur for closing comments.

Neeraj Basur: 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.