

August 13, 2024

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

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, 2024**

In furtherance to our letter dated August 7, 2024, 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, 2024 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](http://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**



“Blue Star Limited  
Q1FY25 Earnings Conference Call”

**August 07, 2024**



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

**Moderator:** Ladies and Gentlemen, Good Afternoon and Welcome to Blue Star Limited Q1 FY25 Earnings Conference Call.

We have with us today from the Management, Mr. B Thiagarajan – Managing Director and Mr. Nikhil Sohoni – 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 the “\*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

**B Thiagarajan:** Thank you. Good afternoon, ladies, and gentlemen. It's a pleasure to address you today as a part of the Earnings Call. I have with me, Mr. Nikhil Sohoni, of course, he is joining from Singapore today.

You might have seen the Press Release as well as other Announcements shared with the stock exchanges, including the AGM Speech of my colleague, Mr. Vir Advani.

So, you might have seen that the Results are once again an excellent one this time, supported by very, very hot summer season. B2B as well as B2C businesses have done well. We have done well in terms of the balance sheet items as well. The order book has been good, and the margins have improved and of course today, Mr. Nikhil Sohoni will take you through the highlights for the Quarter Ended June 30, 2024. We will also share the outlook for the coming quarter.

From my side, we have interacted individually, collectively over the past six months. You have seen my television interviews and other interactions wherever it is available in the public domain.

The outlook is positive. As I had shared last time, it is a golden period for the Indian air-conditioning and refrigeration industry. We are the fastest growing market in the world and as far as room air-conditioners are concerned I think, and I continue to maintain that by 2045 we can overtake China in terms of market size.

The supply chain constraints continue in the same way. It is due to different reasons which you are all aware of, and the domestic supply chain has been improving steadily. There are three items which many of you keep asking. One is connected with copper, it's likely to improve in about six months' time. Till then we are imports-dependent. Compressors, we continue to source from domestic manufacturers as well as from international companies, and this should likely get resolved in say around 18-months. It's true for every player in the industry.

The third item is connected with the electronics and again domestic supply chain is improving. There is a transition that is happening on this front i.e., in other words, hybrid sourcing is being carried out.

The costs are coming down as of now and due to various measures: One is connected with the scale. Second is connected with the value engineering. The third is connected with the indigenization that is happening and finally the subdued global commodity prices also help.

But having said all this, right now, the geopolitical situation across the world and specifically the developments in the Middle East region calls for extreme caution. It's a matter of concern, things can dramatically change, but we continue to remain optimistic, and I suppose India will navigate through this crisis which is likely to be lasting for about six months of time. That's our understanding at the moment.

We continue to pursue our basic fundamentals. It is connected with growing faster than the market, building strong fundamentals by investing adequately in research and development, looking out for improvements in margins through multiple ways, including supply chain effectiveness and discipline in terms of capital allocation, whether it is capex or working capital management. In terms of booking, large orders for B2B businesses like projects, our focus will continue to look for the free cash flows and profitability rather than market share.

There is one important element I will highlight, anticipating it may be come up in the Q&A, so that we can address it in advance. Two important points: One is connected with the Segment-I margin. It is very high, basically because of the mix of our own manufactured products in packaged air-conditioning. So, as you are aware, it is the electromechanical projects and packaged air-conditioning and where we have VRF system chillers and packaged air-conditioners. There are significantly high value orders for equipment executed in the quarter. That's why the margin for this quarter for that segment is very high.

The second one I would like to pre-empt is that we maintain that the growth will be somewhere around 25% to 30% in the beginning of the quarter. It increased to 30% to 35%, but in real life we witnessed some 40% growth in March last week itself. We exceeded the expectations for the Q4 FY2024 results. And in Q1 April, the market grew by some 70%, again in May 70%, June only it came down to somewhere around 10% to 15%. So, there was chaos in managing the demand versus supply. At the end you know the figures. We have delivered much more than what we planned for. There have been questions as to what the revenue we would have lost because we had not planned for the demand which played out. I don't think one can ever plan for a 50%, 60% growth scenario. That would have been a futile exercise while keeping the supply chain flexible. So, 50% to 60% growth could be managed with great difficulty. Still if we would have had material, we would have sold. Our estimate is we would have done somewhere around Rs. 250 crores worth of revenue and perhaps Rs.20 to Rs.25 crores worth of incremental PBT we would have earned more, but that that's only for an academic interest. It was an unprecedented summer. I don't think that every now and then you can expect that kind of situation, especially this summer, is the one which is following a very disappointing summer season of 2023.

So, with that, I will hand it over to Mr. Nikhil Sohoni for his Opening Remarks. Thank you.

**Nikhil Sohoni:**

Thank you, Mr. Thiagarajan. Good afternoon, 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 2024.

We stepped into FY25 on a strong note with an outstanding Business Performance in first quarter and a healthy carried forward order book to be executed in coming quarters. Robust demand for our diversified product portfolio across segments and focused cost management helped us achieve impressive revenue and profit growth during this quarter.

**I) Financial Highlights for the Quarter Ended June 30, 2024, on a consolidated basis are summarized as follows:**

- Revenue from operations for Q1 FY25 grew by 28.7% to Rs. 2,865.37 Cr as compared to Rs.2,226 Cr in Q1 of last year
- EBITDA excluding other income for Q1 FY25 improved to Rs.237.83 Cr, an EBITDA margin of 8.3% of revenue as compared to Rs.145 Cr, an EBITDA margin of 6.5% of revenue in Q1 FY24
- PBT before exceptional items grew 98.9% to Rs.226.02 Cr in Q1 FY25 as compared to Rs.113.61 Cr in Q1 FY24
- Tax expense for Q1 FY25 was Rs.57.26 Cr as compared to Rs.30.24 Cr in Q1 FY24
- Net profit for Q1 FY25 grew to Rs.168.76 Cr as compared to Rs.83.37 Cr in Q1 FY24
- Carried forward order book as of June 30, 2024, grew by 13.5% to Rs.6,084.69 Cr as compared to Rs.5,359.05 Cr as of June 30, 2023. Carried forward order book as of March 31, 2024 stood at Rs.5,697.63 Cr
- The capital employed as of June 30, 2024, increased to Rs.1,737.88 Cr as compared to Rs.1,700 Cr as of June 30, 2023. We continue to invest in manufacturing capacity, research and development and digitalization initiatives
- Strong operating performance aided the net cash position of Rs.1,042.87 Cr as on June 30, 2024, as compared to a net borrowing of Rs.283.46 Cr. The debt-equity ratio of 0.20 on a net basis as on June 30, 2023

**II) Business Highlights for Q1 FY25**

**Segment-I, Electromechanical Projects and Commercial Air-Conditioning Systems:**

Segment-I revenue grew 9.5% to Rs.1,038.99 Cr in Q1 FY25 as compared to Rs.949.12 Cr in Q1 FY24. Segment result was Rs.103.03 Cr, which was 9.9% of revenue in Q1 FY25 as compared to Rs.66.62 Cr, which was 7% of revenue in Q1 FY24

Order inflow for the quarter was Rs.1,466.03 Cr in Q1 FY25 as compared to Rs. 1,224.64 Cr in Q1 FY24

**1. Electromechanical Projects Business:**

Despite limited traction in commercial building sector, we experienced robust bookings from the factories and data center sectors majorly driven by ongoing government efforts to encourage

manufacturing investments through PLI initiatives. We also witnessed an uptick in enquiries from healthcare and retail sectors. Additionally, inflow of enquiries and tenders in railway electrification sector remained buoyant throughout the quarter, while there was a slowdown in finalization of orders in the power and metro rail sectors.

Carried- forward order book of Electromechanical Projects business was at Rs.4,557.29 Cr as of June 30, 2024, as compared to Rs.4,038.14 crores as of June 30, 2023, a growth of 12.9%.

## **2. Commercial Air-Conditioning Systems:**

Demand for government sector was subdued; however, the increasing demand from education, manufacturing, and retail sectors more than compensated, driving revenue growth during the quarter.

Price revisions and prudent cost management helped us improve the margin. Demand for Tier-3 and Tier-4 cities remain strong with significant orders primarily driven by ducted systems and VRF chillers.

We successfully retained our top position in Conventional and Inverter Ducted Air-Conditioning systems and ranked amongst the top three players in Scroll Chillers, VRF and Screw Chillers.

This quarter, we expanded the product range with the commercial launch of state-of-the-art chillers for data center application and Brine chillers. With these new product lines, we are confident of penetrating new market segments.

Due to the higher mix from Commercial air-conditioners, especially with good margin products, Segment-I margins significantly improved in Q1 FY25 versus Q1 FY24.

## **3. International Business:**

Demand in Middle East and Africa remain subdued during the quarter. Overall, for our international business, we are focusing on products. Accordingly, we continue to invest in R&D to expand the product portfolio. Our subsidiaries in US and Europe are engaging with customers and we expect the business to pick up traction soon.

### **Segment-II, Unitary Products:**

The revenue grew by 44.3% to Rs.1,729.52 Cr in Q1 FY25 as compared to Rs.1,198.45 Cr in Q1 FY24.

Segment result was Rs.158.03 crores which was 9.1% of revenue in Q1 FY25 as compared to Rs.89.34 crores, which was 7.5% of revenue in Q1 FY24.

**1. Cooling and Purification Products Business:**

This quarter has experienced exceptionally strong growth for room ACs with seasonal demand receiving an additional boost from unusually high temperatures. The demand exceeded our inventory plans and the company successfully made most of the demand to higher production.

In our estimate, in the month of May, we would have lost an opportunity to meet the market demand despite 50% higher production. We estimate that our market share continues to remain at 13.75%.

Margins for the quarter improved due to volume growth, while which enhanced operating leverage. Q1 FY25 was exceptional, and we remain optimistic about our growth outlook for the entire year.

**2. Commercial Refrigeration Business:**

The market for commercial refrigeration, namely, Deep freezers, Water coolers and Modular Cold rooms continued to grow at CAGR of 15%.

BIS-related regulatory changes for Water Coolers announced in the last week of March 2024 impacted the sale of Water Coolers in Q1 FY25. Though the production and sales have normalized in Q2 FY25, substantial reduction in sale of Water Coolers resulted in lower-than-expected revenue growth and profitability in Q1 FY25.

Company maintains its leadership in key categories like Deep Freezers, Storage Water Coolers and Modular Cold Rooms.

The outlook for the Commercial Refrigeration market is strong and we expect to accelerate our growth in coming quarters.

**Segment-III: Professional Electronics and Industrial Systems:**

The revenue grew 23.5% to Rs.96.86 Cr in Q1 FY25 as compared to Rs.78.43 Cr in Q1 FY24. Segment result was Rs. 9.6 Cr, which is 9.9% of revenue in Q1 FY25 as compared to Rs.10.49 Cr that was 13.4% of revenue in Q1 FY24.

While most of the product categories are performing well, supply chain disruptions and cost overruns in MedTech business impacted on the segment margins.

**III) Business Outlook:**

The year has begun on a positive note with robust demand for our product portfolio and the outlook for the remainder of the year continues to be favorable. We anticipate sustained growth driven by ongoing market trends and launch of new products. We are pleased to announce that

our order books remain robust, indicative of sustained confidence and trust placed in us by our esteemed customers and partners.

As a part of our commitment to long-term growth and innovation, we will continue to invest in manufacturing, Research and Development and Digitalization. These investments will position us to capitalize on future opportunities and enhance our competitive edge. We continue to remain focused on maintaining a prudent approach to balance sheet management.

To conclude, we are optimistic about the business prospects for the rest of the year.

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

**Moderator:** We will now begin the question-and-answer session. The first question is from the line of Bhoomika Nair from DAM Capital. Please go ahead.

**Bhoomika Nair:** My first question is on the EMP segment where you said that the mix was kind of skewed towards commercial product segment, which kind of helped the margin profile. Can you just give a color on how the mix kind of changed? From what I understand earlier, it used to be 70% project, 30% product. What was the kind of skew during the quarter? And you were looking at margins earlier at say 7-7.5%. Does this quarter change the outlook? And a sub-question to the project segment or the EMP segment is also on data centers. What kind of revenues on an annualized basis are we generating from this segment and if some color can be thrown in terms of what is the addressable Datacenter outlook for us in terms of per MW capex, what could be a replaceable project size that we could potentially get?

**B Thiagarajan:** Thank you. First of all, I am not sure where you got 70:30 as a figure. Officially, our position is very clear that we are not going to be selectively disclosing any of the products within a particular segment at all. The same question can come within unitary products, what is refrigeration, what is room air-conditioners. I have been a very strong advocate. I have taken it up with SEBI forums and I have said this in many CII forums, whether it is integrated report, annual report, or quarterly disclosures, there is no level-playing field at all because we compete in a multinational environment where my information is readily available to the international competitors. At the same time, I do not have any information on my competitors at all. So, I have been firmly advocating that at least the ROC filing should be asking for similar disclosures. Otherwise, listed companies are at a disadvantage. Second, we respect that there has to be a level-playing field in terms of disclosures to all the stakeholders. So, this position is very clear, whether it is QIP investors or retail investors, the information that is put out is same for all.

Coming back to this 70:30 or anything in that segment, you know very well, the projects is something which happens based on a particular order being executed, particular site being available, how the progress is taking place. A big order that is booked, nothing may move for



six months of the time, in 7<sup>th</sup> or 8<sup>th</sup> month suddenly the billing will come in. There could be jobs which are going on smoothly, and suddenly some three months the billings may not happen. So, even within the Company i.e., within Blue Star, one will not be able to say what is the equipment part of it and/or what is the projects part of it. Equipment again will be based on, say VRF or a packaged air conditioner, it is dependent on the site availability and the customer just lift the equipment because it is not stored in the site, nor it is a product where it is billed to the dealers, and it is getting consumed. And most of this equipment are also cleared after the drawings are approved. Under the circumstances in one quarter, it may be 20:80 and in another quarter, it can be 80:20, in another quarter it can be 90:10. All that we are saying is when you see a huge margin, the skew could be where the products are higher. For the simple reason, certain products fetch higher margin. Same way, within projects itself, there are certain projects which would have been booked or resulted in a higher margin, certain projects we are just making some 6% or say 5% margin. That's the real story. It is extremely difficult even within Blue Star to be passing a judgment on quarter-to-quarter performance. Our interest is to smoothen out and have consistent execution, but it is entirely not in our hands at all. So, therefore, we are unable to disclose anything more than what we already do on the margin front. The reason I am saying this is for your benefit. Somebody should not end up projecting that this business has the potential to deliver 10%-plus EBIT margins. Then I am doing injustice to your estimates. The outlook remains very clear. The outlook somewhere could be 7.5% to 8% as far as segment I is concerned. In the best interest of transparency, we would like to clarify that the margins are due to certain highly profitable orders equipment executed. This is the first part of it. Same way here, I am completing the Segment-II outlook. We have been saying it is somewhere around 8% and now since the summer season has been good. Barring that the rest of the period goes through there are no major disruptions due to geopolitical situation, we are saying it could be 8.5% to 9% instead of 8% to 8.5%. So, 7.5% to 8% for Segment-I, 8.5% to 9% for Segment-II is the outlook we are communicating.

Now coming to data center part of it, the segment is growing, there is absolutely no doubt about it. Right now, everyone is investing. According to the information we have, it is driven due to artificial intelligence-related expansions that are happening and there is a huge demand for data centers and all are expanding their capacity. Now, equally the fact is that there are growing concerns about the carbon footprint related to data centers. Therefore, what are the alternate solutions? We are conscious of this as well. Close to in a year, we think that Rs. 1,000 Cr to 1,500 Cr worth of orders can be booked. It is in the order of around Rs. 1,000 Cr now. It can go up to 1,500 Cr. This business I keep believing it is something like Telepack some point of the time we used to be a player in that. Mobile cellular towers, wherever it was coming up for the batteries as well as the switches, there were specialty equipment, and it was a growing segment at some point of time. Close to around 6-7 years it is a niche business, it was growing, and the profitability was high. The tower companies all have reported their growth. We believe in the next 2-3 years' time there will be a huge requirement for equipment like chillers as well as electromechanical projects where we do, including the civil work which are highly profitable, will grow. I would reckon that Rs. 1,000-1,500 Cr of revenue is possible in the coming years for at least three years. I do not think a dramatic change in the technology could be there. And you might have seen even yesterday there was an article with regard to AWS Accenture reporting

that one could exploit cloud solutions in order to bring down the carbon footprint. From where we are watching that right now, we are augmenting capacity in order to execute. In the electromechanical project segment as Nikhil mentioned that the growth is driven today by manufacturing, data center, and educational institutions. Building segment is showing some kind of revival. During the last six months infrastructure orders, there was some kind of slowdown. I suppose it is due to the elections and the new government getting formed, things would have been delayed, but now those orders are also getting finalized. And we believe we will further build on the results we delivered last year for the Segment-I. This is where we are.

**Bhoomika Nair:**

Sir, just on Rs.1,000 Cr, what is the FY24 revenues from data centers?

**B Thiagarajan:**

It will become selective, right? This is where the problem is that I should not be doing injustice to a regulation. If I, do it, I will notify to the stock exchange and do. I am not doing it because I am peeved by the fact that it is not a level-playing field. Room air-conditioners for example the information of Voltas, Blue Star, Havells will be available, Amber will be available in different degrees but then I don't have the other competitors. So, this solution will have to be found where we disclose every information. You look at our annual report. To the extent possible we have disclosed everything. The fact is that whether I am having a level playing field with my competitors, two, I am disclosing the same information to all the stakeholders.

**Moderator:**

The next question is from the line of Natasha Jain from Nirmal Bang. Please go ahead.

**Natasha Jain:**

So, just one follow-up in terms of the Segment-I commentary that you just made. In the last concall, you said that manufacturing on data center in orders cannot compensate for the large infra projects that we could not get. So, now that elections are over, are we seeing any pickup in the infra-related orders or is there still delay happening in terms of finalization?

**B Thiagarajan:**

The tenders are being floated. Order finalizations will be coming up in the next 2-3 months. So, one can expect doesn't mean that Blue Star should or will bag the order, but the market has opened up and we should be successful I suppose in the same ratio as what we have been in the past in terms of share from a particular segment.

**Natasha Jain:**

So, are we in line in terms of maintaining our 25% top line guidance in Segment-I?

**B Thiagarajan:**

What is the guidance you are saying?

**Natasha Jain:**

I think last quarter you've given a guidance at approximately 25% is a top line growth that Segment-I is expected to see in FY25. So, are we on track in terms of delivering that guidance?

**B Thiagarajan:**

We have been saying some 20% to 25% that's how it has been going by the history. See, the ratio of a particular segment will also depend on the other segment, right, the room air-conditioners and commercial refrigeration products all have grown significantly due to summer.

**Natasha Jain:** My second question is in terms of the update. We shipped out trial orders for commercial AC in the European and northern market. So, what's the update there, what is the feedback, have we got, any initial feeders on that, which would be helpful?

**B Thiagarajan:** We have been successfully testing, validating the products and I think we have made good progress in terms of meeting the technical specifications. So, that has been our direction to the team that our product should be world-class quality. We should be able to compete with the best of the best in the world. That's what we did in VRF or room air-conditioners or chillers. The second part is connected with the cost part of it. You are competing in the international market. There we were earlier sourcing from China and it is there where we will have a challenge. It will not happen easily. Our direction is as follows: First, to get the quality and technology right and have a product differentiation or a unique selling feature, then it is going to come to the cost because somebody will be negotiating with you stating that this is the cost that I got from China. We have to be working on that path. That journey will take 3-4 months. In the meanwhile, you are aware European market is down and the United States is also slowing down. And I think these markets are at varied positions United States, they say will revive post the elections, and Europe we really don't know. But that suits us in a manner of speaking in the sense we need to build on our competitiveness, build our manufacturing capacity expansion which Nikhil talked about because you have to meet the growing demand of domestic market as well. So, the bottom line is we have quite a few products in heating, water or air approved by a few OEMs, and the products are now world-class. And the second part of it is connected with the cost part of it, we are working. And third part is we have to expand the portfolio because each OEM as we approach the differentiation will have to be there. That is a journey. And as we had maintained, its 2-3 years journey once it is built, it should be a well-oiled machine.

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

**Akshen:** Sir, just on the AC segment, you mentioned that there was a demand/supply mismatch. Towards the end of the quarter if you could give us some color on how the channel inventory was? Question two was given the kind of demand/supply mismatch that we've seen, could you just talk to the pricing action that the industry would have taken? And question three was is there any changes in the norms in the AC division that we typically keep seeing in a few years that is expected this year and how do you think that impacts?

**B Thiagarajan:** First one is that I think everyone would have planned, that's what we hear in the industry forums, that broad agreement was this summer could be harsh, some 25% to 30%, I suppose all players subscribe to weather forecast as well. But it came as a surprise and you would have read many newspaper articles that there is pressure in terms of delivery and next is, it is not only delivery, once you have the material you have to have it processed. And then in this extreme summer conditions there was also pressure due to service complaints because at 50 degrees plus - 45 degree plus temperature. Further, certain models may even get derated as per the specification, So, it is not only a supply pressure, it is the installation service pressure as well. Now, the industry rose to the occasion in order to produce more and mobilize all kind of supply chains and then go ahead and deliver. My estimate is that industry also would have grown anywhere

between 50% to 60% depending on the region, depending on the brand, that's what we estimate. I do not think the channel would have had inventory beyond one month, which is a normal norm, I do not think it would have been more than that at all, because even in June, July, the material was planned hand to mouth. That's how it is, because quite a few critical components are still imported, that's what we hear from the channels as well.

Now, are there any mitigation measures? The only solution could be the local supply chain developing. Thanks to the PLI Scheme, the supply chain today, after having planned 25%, 50% plus industry growth is thanks to the supply chain that has been developed locally. And other than that, I am not very sure at all because look, it could be other way around as well that you plan for 25% and the market is flat or its de-growth, that is also possible. So, the question here is it is beyond that 25%, 30% is a gambling. I don't think, given the cost of capital, one should be producing every year expecting some 50% growth. I do not think that is the right thing to do. Instead, the industry will prepare for scale up or scale down by planning their supply chain. Look, two-three years ago, the sub-assemblies were coming from China. The quantities would have been blocked in December itself. Then January, February, March this all would have arrived or will be on High Seas. And that is the time the story used to be Rs.1,000 Cr of inventory of the industry lying, 700 Cr lying, so on and so forth. Last year, when the summer failed, we didn't hear much of the noise. And this year, again on the upside, there was shortage, but it was managed well to cope up to even 55%. So, that's what the industry will do. Now, it is futile to be keeping inventory. It is not only the capital is blocked. In desperation, prices will come down. So, once the prices come down to take it up is a very difficult task. I would have in my career gone through that at least 15-years in my 40-plus year career of trying to go through this painful period of liquidating inventory post summer season due to a failed summer season. Now, regulatory changes, it is connected with the energy label change which is due on 1st of January 2026 and therefore the industry will prepare for that new energy label change. And the refrigeration-related, there is enough time, and it is to move from low GWT refrigerant or global warming potential refrigerant to ultra-low or near zero. That is their time till 2035. Having said that, the industry has been working on a) old air conditioners, which are non-rated or rated 10-years ago, whether there could be a program in order to replace them. There are discussions going on there through certain regulatory guidelines it can happen. b) The industry has been asking for is the higher energy efficiency products, from 28% GST slab to be moved down to 12% may happen, may not happen, but there is a green credit scheme which I have been asking whether a five-star air-conditioner, some green credit should be given and so that the consumer benefits which was done in Japan or China at some point of time. There are bilateral agencies, including the World Bank looking at certain programs, you might have read that again in the newspapers connected with supply chain resilience to be built within India. There is research and development you are aware of that, Rs. 1 lakh Cr set aside for that so that we are able to innovate and come out with the technologies that is the other piece that is working. And most importantly the UNEP program as a part of COP28, how to make cooling devices affordable while making it sustainable. People should have access, and they should consume. So, the industry is fully aligned. There are interactions and numerous things happening there. But regulatory wise as far as Blue Star is concerned or preparing for the future, we are ahead of the

curve, and we are closely involved in this policy formulation exercise and we are up to date on that, there is nothing to worry.

- Akshen:** Just to clarify on the pricing, has industry taken a pricing post the season this year?
- B Thiagarajan:** Yes, w.e.f. June 1 itself, we increased, I don't know about the others, we increased the price to the tune of around 3%. In the television interviews I have clarified, it's not because demand is high, therefore we are increasing the price, it is basically the input costs have gone up and you are aware of the commodities which went up and also the ocean freight.
- Akshen:** On your point on channel inventory where I was trying to come from is that there was clearly higher demand in June which the industry couldn't meet. So, it could seem logically that there is a mismatch in primary and secondary sales numbers. So, through the year, if demand remains healthy, is there a chance that you could see restocking back at dealer levels which could lead to your sales being higher than the secondary uptick?
- B Thiagarajan:** You look at FMCG, there is a demand struggle that is going on. And on the room air-conditioners, specifically, the penetration levels are lower, it is the urban heat effect the way the homes are constructed, you need air-conditioners, and it is available at affordable prices, what is there about Rs.35,000 or so. And it is happening through consumer finance and more than 55% of the sale is happening through consumer finance. Therefore, people are going ahead and buying. So, one hopes that the demand continues and equally there could be a pessimistic view. Whenever there had been a very strong summer season, festival season cannot be that great. Last year, if you see post the summer season, we all said, there is a pent-up demand. The question is that I would be happy that CAGR of 15% is maintained. That's what one should look at in the long term. And one should be flexible about that if the growth is high, I am able to step in. If the growth is lower, I am able to regulate. That's how we will go about. Otherwise, I just do not know how the consumers will behave.
- Moderator:** The next question is from the line of Sonali Salgaonkar from Jefferies. Please go ahead.
- Sonali Salgaonkar:** So, my first question is now beyond the summer season, how you foresee the underlying demand trends especially in Q2 and Q3. Apart from the restocking of channels, but the basic consumer discretionary behavior, are you seeing an uptick in that?
- B Thiagarajan:** Going by what is happening in the channels for this category is concerned, the demand continues to be good. See, at the end of the day, it's not the dealer, right, the dealer is an intermediary. So, the consumer sentiments matter, I can be proven wrong, but the demand is going to be good in Q2, Q3, Q4. And I would have said that the industry will grow for the full year between 20% to 25%. I think it could be even 25% to 30% this year and we have to watch what is going to happen in terms of other events like for example, the oil price, if there is somebody list crisis, simple oil thing can derail for three months' time the demand outlook. The good news is that summer season has gone on well. So, you can relax, it is not a huge pressure, relax in the sense you need

not have anxiety. Again, the demand will come back. Next big quarter will be for this category, Q4. To answer your questions, the sentiments are good as far as this category is concerned.

**Sonali Salgaonkar:** Sir, my second question would be any light you would like to throw on your focus on exports, probably target for FY25? And also, I missed the initial remarks on overall order book. If you could repeat those figures as well.

**B Thiagarajan:** You asked about the export. I think it is muted. I do not think in US anything is going to happen there. The enquiries are qualifying. As I told you, we are taking baby steps there. Europe again it is the same. So, it is only the Middle East. And I do not think it is going to be a needle mover as far as Blue Star is concerned in this particular year. So, our exports revenue will remain the same like last year with a marginal growth of some 7% or 6%. That's all going to happen is our view at this juncture.

**Nikhil Sohoni:** Carried- forward order book as on June 30 is Rs. 6,084.69 Cr as compared to Rs. 5,359.05 Cr for June 30, 2023. Order inflow for Segment 1 for this quarter is Rs. 1,466.03 Cr, which as compared to last time was Rs. 1,224.64 Cr.

**Moderator:** The next question is from the line of Sanjay from Ampersand Capital. Please go ahead.

**Sanjay:** Sir, just two questions. One is that you have so much of cash in your book after the QIP that you had done last year. So, can you just tell us like how have you changed your capex plan and how much it is for this year as well as next?

**Nikhil Sohoni:** We have not changed our capex plan; everything is in line with what was planned. So, the capex plan for the current year, we should be spending in the region of around Rs.450 Cr is the expectation. And if you look at it over a period of two to three years, it could be in the region of Rs. 750 to 800 Cr at least. So, that's the kind of capex, which was there earlier also which we had indicated, and we stick to that plan. Of course, anything comes up in between, we will have to see at that point in time. The QIP monies were taken for a particular purpose, and they have been used for that mix of both manufacturing, R&D as well as digitalization, and of course, the growing working capital needs, all of that which have played out. Probably the cash position which you are seeing is also because of the exceptional Q1, which has led to very high collections because of which you are seeing some extra cash which was not probably anticipated, but of course that helps us making cash available for further growth if required, but there are no changes in the plans.

**Sanjay:** And second question is that, I mean, I am sure you would have already explained, but the non-unitary cooling part didn't really grow much. That is the concern of the project part in this Q1 and order book at the same time is up around 20% higher. So, should we expect a bit of acceleration in the rest of the businesses during the remaining part of the year?

**B Thiagarajan:** Yes, it should be. We had indicated that whenever there is an election year, the order finalization execution gets postponed, that's about it, there's nothing to worry, everything is returning back.

**Sanjay:** Should we be a little cautious about the margin expectation in the future period or we should be getting into a bit of a better margin trajectory overall, primarily because the backward integration and everything seems much better now than -?

**B Thiagarajan:** It depends on the segment, and I had cautioned that don't go by Segment-I margin. If it happens at 10, it is a bonus. Our estimate is it is 7.5% to 8% only and Segment-II 8.5% to 9% we are saying, and this is as we see it today.

**Moderator:** The next question is from the line of Pankaj Tibrewal from IKIGAI Asset Managers. Please go ahead.

**Pankaj Tibrewal:** My question was two-fold. One, your aspirations for going global for the last couple of years. What is the progress right now on the US and the European market, where are we on that path?

**B Thiagarajan:** See, first of all, we are not directly entering with our brand, at least as of now. We are very clear that we have the technology that is needed, IP that is needed in the decarbonization area, variable frequency drives or variable refrigerant flow systems, and the heat pumps including low temperature one for heating air-to-air or air-to-water. That is the profile. These two markets are expected to move in that direction because they are heating homes or heating water with conventional technologies of gas or electricity directly. So, therefore the opportunity that is mapped is huge for entire global players, but the pace in which the adaptation will take place. Many countries had announced some kind of subsidy for pushing the homes and commercial establishment to move, some countries have not announced, some countries deferred certain plans. Now, on the whole, you might have seen by the international players, the US earning calls or Japanese earning calls that the US and Europe markets for heating, ventilation, air-conditioning, and refrigeration is somewhat muted, and, in some cases, it is even degrowth. That is what is being reported.

In our case, I had explained that a), we have to understand the requirements; b), since it is not my own product, I have to make a product for OEM. I have to ensure I am developing a product which fits with this product portfolio which means it is custom developed for that particular customer, how he is positioned in respective markets. The third thing is I have to meet the quality standards that are global in nature. We are happy to report that with a few OEMs and with the few SKUs we started, we have completed the journey, we are able to design, we are able to develop, test and deliver prototypes, which are of global quality. That is the direction to the team. The second part is connected with how you will become globally competitive. In this case, global means Chinese prices. I should be interested in a margin and with that margin I should be able to match the prices which will be a one-year kind of a journey in order to get there. It is not easy for a new product to be competing with China in that scale to be coming to because somebody in China plus one means he is not going to pay you some premium and buy, he will be eventually interested in your matching the price, that is the other part of it. The third is connected with when the demand will revive. So, in our case we are in a manner of speaking, I am making a statement it's a blessing in disguise, the market is taking time to revive. So, when it is revives, I am ready with the prices and the products. So, it is a baby step, and it is fine with us because Indian market

is growing, I am expanding my R&D capacity, I am expanding my manufacturing footprint and it still fits well with the strategy, I am not desperate. Now, if you ask me sometime, in the middle of next year, our intention is, even our board asks that what will be our export revenue in about three years' time. I think we will be in a better position and deliberately and very firmly Vir and I keep saying this that get the fundamentals right before trying to project a number because if you look at China, it is not China went and marketed their products anywhere in the world at all, people were rushing to China to source. Our desire is that we have a product, we have the technology, we have the capability. People should ask us, look, can you make it for me? That's a dream. There is a journey to go through that. Till then this small export revenue is fine with us.

**Pankaj Tibrewal:**

The second question is on the MEP project. While the tailwind is very strong, the old memories keep haunting us as old-time investors like this was the segment which gave us trouble. What are the checks and balances we are making in place that the same thing is not repeated again in this segment where project overruns and other things which are part and part of this business? And how much capital allocation can we expect on this business because it's been gradually going up now and the old hat kind of keep me reminding about that risk.

**B Thiagarajan:**

A very good question, intelligent question, pertinent question. This is the question whether it is Vir or myself or board keep asking ourselves and therefore the specific mandate to Nikhil for example and his team is to closely monitor this on a monthly basis and we are aware of this, because we have gone through and endured that problem of what can happen. So, there is an enterprise risk management framework that ERM committee and the sub-committees within that are spending adequate time in order to understand. So, the first it starts with the direction. Direction is not market share and quickly grow. That's not in the DNA of Blue Star. If you are an old-time investor, you will understand that. And between market share and returns, we are very clear about returns. Between profits and balance sheet, we are very clear that the balance sheet should be strong. Between short term and long term, we are very clear, long term is the important thing. If you ask anybody in Blue Star, the PBT percentage with ROCE, everyone will say ROCE is important. Between ROCE and ROE, we will say ROE is important. So, that principles are very clear and it is in our DNA.

Now, we know what all can go wrong. There is time delay, escalation claims are there or not there. When to stop a job, when we will not go ahead and place orders for the equipment in a particular project. If there is a delay, whether time extensions are available and whether we are contractually compliant there. And while booking the order, every major order, is put through a due diligence completely. And the margin considerations, the payment terms considerations and the working capital that will be going in that is measured in fact it is almost on a quarterly basis Nikhil, Vir, and myself we review this particular business very closely. So, I can assure at least the orders that we have in hand and what capital is being allocated there, to the best of our knowledge, there is no shock that can happen.

**Moderator:**

Ladies and gentlemen, this will be the last question for today. It is from the line of Kirti Dalvi from Enam Asset Management. Please go ahead.



**Kirti Dalvi:** Just two questions. First is on the cash part. If I see on March year-end, net cash was roughly around Rs.456 Cr, which has gone up significantly. So, congratulations for the thing. But I just wanted to know, this doesn't include our dividend payout for the last year and where do we see the year-end cash because even if I do the cash flow calculation seems to be a significant generation, which has happened. So, assuming Rs. 450-odd Cr CAPEX guidance, what you have given for the year as a whole, in Q1, we wouldn't have incurred much capex as well? And second, sir, is on the professional electronics. I mean this is the third segment of ours. The margins have seen a little severe impact. So, if you could throw a little bit more light on the margins in that particular?

**B Thiagarajan:** So, I will answer the second part, first part Nikhil will be in a better position to explain to you on the cash position. It was a muted quarter. That particular business is dependent on the capex cycle as well and we ourselves are a little bit disappointed, but fundamentally, there is nothing wrong there, it should revive. There are supply chain disruptions there in terms of getting the required equipment and completing the delivery. The order inflow there was like the Segment-I, there were certain delays, but it has revived, there is nothing to worry there, but it is not a great quarter for that particular segment.

**Kirti Dalvi:** The sustainable margins will remain in the same zone because if I see the segment so over a period of time from the highs of 20-plus, we are trending to roughly around 13% to 14%-odd. So, these are the sustainable margins one should consider going forward?

**B Thiagarajan:** No, our intention is to maintain the same margin as last year.

**Nikhil Sohoni:** So, on the cash position, see, what you are seeing is, over the March levels, this cash has gone up substantially, as you are aware, it was an exceptional quarter in terms of room air-conditioners and the working capital has got completely released. So, due to better collections and release of working capital it has got converted into cash. Of course, as you now again build up the inventory, the cash is going to get used up because as come Q4, you need to have stocks in position, inventory in position. So, we expect that by year-end probably we should be back to around Rs.350 to 400 Cr cash position, and of course the regular working capital CP borrowings if we do some regular borrowing, that's it. So, this is not a sustainable cash level, Rs. 1,000 Cr, plus the capex expenditure also was only around Rs. 30 to 35 Cr in this quarter. Large part of the capex is planned to happen around Q2 to Q4. So, that will also use up some amount of cash.

**Kirti Dalvi:** The treasury income, what we have seen in this particular quarter, one can't extrapolate the same, right?

**Nikhil Sohoni:** That's what I am saying. You cannot extrapolate that treasury income because the cash collections were exceptional in Q1, and as you build up inventory, as you spend on capex, it will go on coming down.

So, I will just put the ending remarks. So, 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 of any of your questions



*Blue Star Limited*  
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were not fully answered and we'll be happy to provide you additional details by e-mail or in person. Thank you.

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

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