"Blue Star Limited Q4 FY11 Results Conference Call"

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Moderator Ladies and gentleman good day and welcome to the Q4 FY11 and financial year 2010-2011 results conference call hosted by Blue Star Limited. As a reminder for the duration of this conference all participants' lines will be in the listen only-mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vir Advani, Executive Director at Blue Star Limited. Thank you and over to you sir.

Vir Advani Thank you very much. Good morning ladies and gentleman this is Vir Advani. I have with me Mr. Thiagarajan. And we will be giving you an overview of the results for Blue Star Limited for the quarter and year ended March 31, 2011.

The following are the financial highlights of the company for the year on a standalone basis:

We reported total operating income of Rs. 2888.57 crore for the year ended March 31, 2011, compared to Rs. 2537.23 crore earned last year, representing growth of 14%. Gross margin for the year decreased from 25.9% to 23.5% mainly due to increase in input costs such as copper and steel. Operating profit (PBIDT excluding other non-operating income) for the year at Rs. 278.33 crore, declined by 7% over PBIDT of Rs. 299.03 crore earned in FY10. Operating margin decreased to 9.6% in FY11 from 11.8% in FY10. This was mainly on account of lower than expected revenue and higher operating expenses.

Financial expenses for the year substantially increased to Rs. 24.39 crore as compared to Rs. 8.45 crore in FY10, on account of both working capital increase as well as funding related to the D S Gupta acquisition. Tax expense increased from Rs. 65.14 crore to Rs. 72 crore in FY11 translating to a tax rate of 31.7% in FY11 compared to 23.5% in FY10. This increase is mainly due to one of the factories coming out of a tax holiday during the year. Profit before tax excluding exceptional items, declined 14% to Rs. 226.57 crore. Net profit at Rs.155 crore declined by 27% as compared to Rs. 211.43 crore in FY10. FY10 had an exceptional earning of Rs. 13.97 crore while the exceptional income in FY11 was only Rs. 0.43 crore. Earning per share for FY11 on a face value of Rs. 2 stood at Rs. 17.23 versus Rs. 23.52 in the previous year.

The Electro Mechanical projects and Packaged Airconditioners business accounted for 65% of total revenues, grew a modest 4% during the year, while segment results declined by 18%. Billings and cash flow were adversely affected due to slow down in the completion of large projects. Cooling products revenue registered a healthy increase of 36% in the year driven by enhanced demand for room airconditioners and refrigeration products. However, Segment results grew only 12%, due to a significant rise in input costs. The Professional Electronics and Industrial Systems business continued to contribute to the profitability of the company. While the segment revenues grew 40%, segment results grew 20%.

Carry Forward Order Book as of March 31, 2011 grew to Rs. 1968 crore compared to the order book of Rs. 1699 crore as at March 31, 2010, registering a growth of 16%. The Board of Directors have recommended a 350% dividend of Rs. 7 per share on a face value of Rs2, as compared to 400% declared last year.

The following are the financial highlights of the company for the year on a consolidated basis:

On a consolidated basis, Total operating income stood at Rs. 3008.24 crore for the year. The consolidated financial results include the results of the Company's wholly owned subsidiary, Blue Star Electro Mechanical Limited, joint ventures namely, Blue Star M&E Engineering SDN BHD, Malaysia, Blue Star Qatar (WLL) and Blue Star Design & Engineering Limited and the share of profit in the associate company Blue Star Infotech Limited.

Gross margin for the year was 23.2%. Operating profit (PBIDT excluding other non operating income) for the year was Rs. 286.58 crore while operating margin was 9.5%. Profit Before Tax (excluding exceptional items) stood at Rs 230.70 crore while Net Profit was Rs 160.97 crore.

Here are the financial highlights for the quarter on a standalone basis:

Total Operating Income at Rs. 915.56 crore registered a growth of 6% over the same period last year. For the quarter, Gross margin declined from 26% to 24.5%. Operating profit for the quarter at Rs. 102.64 crore declined by 8% compared to PBIDT of Rs. 111.84 crore earned in Q4FY10. Operating margin declined to 11.2% in Q4FY11 from 13% in Q4FY10.

Profit Before Tax (excluding exceptional items) at Rs. 87.42 crore declined by 15% for the quarter. Tax expense for the quarter grew significantly to Rs. 30.58 crore from Rs. 24.47 crore in the same period last year, translating to a tax rate of 35% as compared to 23.8% during Q4FY10. Net profit at Rs. 56.85 crore declined 28% during the quarter.

Order inflow for Q4FY11 was 804 crore representing a 7% increase over the order inflow of RS. 750 crore in Q4FY10.

I will now spend some time on each of our lines of business and give you both financial as well as operating highlights for the quarter.

The segment revenues of the Electro Mechanical projects and Packaged Airconditioning business which is Segment 1 declined by 5% during the quarter while the segment results declined by 12%. The Operating margin of this business in Q4FY11 declined to 12% compared to 13% in Q4FY10. The sluggish commercial real estate sector coupled with delays in infrastructure projects affected the performance of this business during the quarter. Moreover, the telecom business continues to reel under margin pressures coupled with corruptions issues and has significantly cut back on expansion plans. Further recovery in IT and Retail segments has been much slower than anticipated. The Company continued to be cautious about aggressive project completion considering that there has been no improvement in the debtor position, which in turn resulted in lower billing during this quarter.

As mentioned to you in the last quarter, the Company has undertaken certain capability building and productivity improvement investment decisions largely related to manpower, consultants and modernizing our work practices. These programs will have a long term impact even while the company is bearing these higher costs in the current period. This has resulted in operating costs being higher than last year. Thus, as a result of lower billing and the fixed operating costs in the business as well as the additional operating expenses described above, operating profit has been negatively impacted in the quarter.

Going forward, the Company is witnessing good demand from the healthcare, education, hospitality, power, steel and transportation segments. During the quarter, Blue Star won two prestigious orders in the power sector - Adani Power in Kawai, Rajasthan for their 2x660 MW thermal power plant, and BHEL for a 2x500 MW coal-based thermal power station at NLC Tamil Nadu Power Limited (NTPL). It also won a prestigious integrated M&E order from the Salarpuria Group for their Novotel Hotel coming up in Kolkata. The company also received some noteworthy orders for hospital airconditioning through CPWD/PWD such as Traumatology Hospital, Shrinagar and Deep Chand Bandhu Hospital, New Delhi. In addition, significant repeat orders were booked from national account customers including Infosys, DLF and HCL.

The Electrical Projects business caters to both the commercial building market as well as the power sector. As in the case of the Central Airconditioning business, order inflow from the commercial building segment has been muted. However, the residential tower and power segments continued to show promise.

In Packaged/ Ducted Airconditioning and small chillers, there was good demand from commercial segments such as showrooms, commercial complexes, hotels & restaurants, banquet halls and hospitals. In Feb 2011, the Company announced the launch of a new range of eco-friendly and energy efficient Variable Refrigerant Flow (VRF) airconditioning systems using inverter technology. A VRF system is a sophisticated centralized airconditioning system that cools large multi zone spaces with varying heating and cooling needs through intelligent controls resulting in substantial power savings. Many modern establishments having multi zones such as sophisticated offices, hotels, premium residential properties and hospitals are opting for VRF systems. In VRF systems, there are two popular technologies based on the compressor, namely digital scroll and inverter. Blue Star has been offering VRF systems with digital scroll technology since 2008. Considering that the VRF systems segment is on a fast-growth path, the Company thought it prudent to launch VRF systems with inverter technology in addition to digital scrolls in order to address the entire universe of customers.

While the Company sustained its dominant position in the telecom segment with its customized array of telepac airconditioners, investments in telecom infrastructure continued to be adversely affected. Several setbacks in the telecom industry due to regulatory and political controversies are threatening the outlook for the passive infrastructure companies that are largely dependent on the new operator companies. The new operators had projected a rollout of 20,000 towers for FY11, but finally resulted in a roll-out of a mere 6,000 towers for the year. This has had a severe impact of the Company's telecom airconditioning business. However, the Company is well positioned to leverage on fresh growth opportunities when the tower roll-outs gain momentum.

In the Cooling Products segment which is Segment 2, revenues registered a healthy increase of 43% in the quarter, driven mainly by higher room air conditioner and refrigeration products sales. Segment results, however, increased by only 4%. As a result, the Operating Margin declined significantly from 14.8% in Q4FY10 to 10.8% in Q4FY11 mainly due to rise in input costs and taxes, including a 2% increase in CENVAT. The Company has effected price revisions in most of the product categories to arrest the erosions in margins.

In the Room Airconditioners business, the Company announced its foray into the residential segment, during the quarter. The company has significantly altered its marketing mix to focus on the residential segment. On the product front, it has launched a new contemporary and stylish range of split airconditioners to appeal to home consumers. As regards to the distribution, the Company has began offering these products through some reputed retail channels in select cities in addition to the current 700 sales-and-service dealers. The sales from these channels have been extremely encouraging. The Company is also building up a strong installation and service franchise network to support the retailers. In terms of advertising and brand communication, the Company increased its advertising spends with a new set of TV commercials supported by print ads, mainline dailies, hoardings and internet. The differentiated value proposition to the residential audience has been identified as 'Get office-like cooling at home' which leverages Blue Star's expertise in cooling offices and communicates that one can get the very same expertise at home.

In the Refrigeration Products segment, there was good demand for bottled water dispensers from the residential segment, commercial establishments and small offices. There was also significant demand for chest freezers and coolers from the ice cream and dairy segments. Educational institutes and industries also contributed to growth in the water cooler business. In the cold chain business, the Company won orders from Punjab Agro, Chandigarh for pack houses at 5 locations in Punjab; Alchemist, Chandigarh; APMC Anjar in Gujarat and Savla Food & Cold Storages in Mumbai.

Finally in Segment 3, the Professional Electronics and Industrial Systems business revenues grew by 13% during the quarter, while segment results registered a modest increase of 3%. As you are aware, quarterly results are not typically reflective of the performance of the segment and the outlook continues to be good. For the entire year, the segment revenues grew 40% while the segment results grew 20% on account of change in the business mix. In the Industrial Projects business, the Company won its first order for erection and fabrication of piping for a coal gasification plant at Jindal Steel & Power in Angul This order is strategically important as it will enable the Company to bid for projects in industrial segments beyond steel. The

Company also won a prestigious order from Bhilai Steel Plant for an oxygen evacuation system.

In conclusion, the general economic outlook for the Indian economy for FY12 indicates a slower rate of GDP growth than FY11. Inflation remains stubbornly high which will continue to squeeze margins. Rising interest rates and slow down in cash flow will also affect business growth. We are tackling these challenges by tough cost control measures and a focus on cash collections with control of working capital. Combined with market conditions and the above measures, top line growth will be muted and therefore FY12 will be a challenging year. However we continue to be confident about the long term prospects of each of our businesses and are continuing to make carefully calibrated investments in long term capability development initiatives including product development, construction excellence, automation, productivity improvement and manufacturing capacity.

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

Moderator Thank you very much sir. We will now begin the Question and Answer session. The next question is from the line of **Mayur Patel from Spark Capital**. Please go ahead.

Mayur Patel Sir, is it right to assume that the difference between consolidated and standalone is essentially D S Gupta?

Vir Advani Yes, it's BSEML which is the 100% subsidiary, correct.

Mayur Patel So can you give us some feel because only for part of this year D .S Gupta was part of Blue Star. So, what could be the potential range like? We have added 119 crore in a consolidated manner from D S Gupta, so had it been a full year what could be the kind of range**?**

Vir Advani Yes, I'll just clarify for the year what we have brought in here is about 80 crore of billing and about 5 crore of profit, that's for BSEML. The rest could be some of the other joint ventures and subsidiaries we have, that was for seven months of the year. Just to give a sense of the size of the business - on a full year basis FY11, the business had bookings of about 130 crore, billings of about 160 crore and we have carry forwarded 185 crore of business into FY12. So that's the size roughly of the business that we are looking at for the new year. We hope to increase booking to around 200 crore and billing should grow by about 20-25%.

Mayur Patel Also revenue would be 20-25% higher in FY12?

Vir Advani Yes, that's right. That is full year of last year.

Mayur Patel Which means, for 160 crore of FY11.

Vir Advani Yes.

Mayur Patel Okay. Sir, interest cost was slightly higher in this quarter. On the tax front would you like to explain because of one factory…..but going forward what would be the right range for us to assume, shall we take it as 32-33% or we have any Capex plan which would give some benefits.

Vir Advani Yes. The estimated tax rates for FY12 is 29%.

B. Thiagarajan Yes, we have some new production coming on line which will again have some tax benefits. We had some in Himachal, we are also taking up some other initiatives to bring down the tax rates to about 29%.

Mayur Patel So what is the capex estimate for FY12?

B. Thiagarajan Capex estimate for FY12 is about Rs 50 crore, we incurred about 22 crore in FY11.

Mayur Patel Sir, how big is the telecom business for us?

B. Thiagarajan It used to be around 170 crore with the top-line. And that was the peak it reached.

Mayur Patel Okay, fine. Thank you

Moderator Thank you. The next question is from the line of **Kirti Dalvi of Enam AMC**. Please go ahead.

Kirti Dalvi There has been substantial improvement in margins in both the segments, Unitary cooling as well as Central Airconditioning. So is there anything that we have realized in terms of value growth, higher proportions of our revenues or significant order bookings which have completed in Q4 or we have taken any kind of significant price rise, what has impacted for this sequential improvement in margins?

Vir Advani As you know, the sequential margins for Segment 1 can't change dramatically on account of order inflow or anything as I explained to you in Q3. We have a fixed cost in business in terms of manpower etc. So as I had explained to you, in Q3 we had choked billings and so we were running below capacity. Traditionally in Q4, the business volume is high. However, you will see that the revenue growth in Segment 1 is not that good and in fact we continued into Q4 to be very cautious about what we are billing, what equipment we are delivering. So what we initiated in Q3 continues in Q4. Its simply because Q4 is traditionally a much larger quarter and was again this year, you are seeing that benefit in the margin yes, but there is no structural change in the business from Q3 to Q4.

That was on Segment 1. On Segment 2, what we will see is again similar. Q3 for Segment 2 is our lowest quarter in the year and purely on account of that is you can see Q4 margins for Segment 2 are much lower than Q4 margins of FY10 - that is on account of tremendous increase in copper and steel that we have seen in the quarter that was quite significant. You can see about 14.8% dropping to 10.8%. Again this Q3 to Q4 sequential growth for both Segments 1 & 2, would be purely on account of volume and not on account of structural change.

Kirti Dalvi So we haven't taken any price rise in our production?

Vir Advani We increased prices in certain products in February and in April, but not lot of that would have kicked in Q4.

Kirti Dalvi Okay. And in terms of our working capital, you mentioned about the projects that slowed down a bit. Do we see any pickup in our execution or billing happening going forward and probably our cash flows would be better in this year?

Vir Advani For Segment 1, it is about cash flow control and management which turns into working capital control. We are not looking at billing growth right now, there is a tradeoff we are doing because we know that there is a minimum billing that's required to cover our costs but we are also taking action on the cost side. So, our direction is to control working capital, improve the cash flow in the business and secondarily look at billing. So, our carry forward continuous to be quite high, we will be cautious even in Q1 about what we bill. We had kicked in some new requirements for order inflow as we needed better terms and better margins. We have already activated the same, so there has been some correction in the order inflow growth rate as well. But we are doing it consciously and we want to run the business this way. So I think FY12 will be a very muted for Segment 1.

Kirti Dalvi We mentioned that we have an order book of almost 185 crore from D S Gupta, is it the part of the Rs 1,968 cr total order book?

Vir Advani No, actually that's the standalone order book.

Kirti Dalvi And sir how much was the order inflow in FY11, standalone?

Vir Advani Rs 3125.7 crore

Kirti Dalvi Okay. And sir we will be able to sustain our margin in this year, probably because we have the base impact of last year where all your commodity prices were pretty high and little bit easing we are already seeing, do we see this margin improving or going forward in FY12?

Vir Advani Actually we are not seeing an improvement in cost, there was some improvement in copper, marginal of few hundred dollars but steel is up 20% since January. Aluminum is up since January. Component suppliers are increasing prices from April, so of course we have taken action on the price front, we are working on product development initiatives to bring down design cost but I don't see input cost easing off anytime soon. So with that pressure controlling, margins are going to be the main challenge here for the equipment business. So we are frankly watching it month to month a lot of it now. Oil, you have also seen what's happened, so we have to keep watching the input cost. What we did is we strategically increased our inventory towards the end of the year, February and March as you can see from our balance sheet. That was done with a purpose of being able to carry forward inventory at a lower cost than what we would manufacture in Q1. So those are the types of things we have done to control the impact but unless input costs start turning downward other than copper, the year is going to be a challenging year for margins.

Kirti Dalvi Thank you very much sir.

Moderator Thank you. The next question is from the line of **Shefali Doshi from KJMC Capital Market**. Please go ahead.

Shefali Doshi What is the order bidding pipeline as of now for infrastructure projects such as Airport and Metro?

Vir Advani The enquiry levels in April-May in the market are down than in December and I think it is on account of continued uncertainty on scams as well as the interest rate hike is a setback. So enquiry levels are generally not very high, they continue to be decent in hotels, hospitals, on the large projects and smaller enquiries continue in shops, showrooms, restaurants, small retail. But not much movement is seen in large infrastructure which is airport & metros, large retail, large office complexes, commercial complexes. The only infra piece for us that is moving is the power sector for both airconditioning as well as electrical projects. There is also some movement in the steel sector as well.

Shefali Doshi Can you quantify some amount, as to what is the order bidding pipeline?

Vir Advani No, I won't be able to, but I don't think that would really help you because even off-the-cuff, it will be more than 2,500 crore but when is the conversion of that 2,500 crore is anyone's guess. So it's difficult, it really means nothing right now frankly.

Shefali Doshi Okay, can you share some of the projects where you had bidded and you had not won the contracts?

Vir Advani Chennai Metro is the large project we lost in Q4. Other than that, nothing large occurs to me that we have lost.

Shefali Doshi The Kolkata and Chennai Airport you had not bidded?

Vir Advani If you are asking, Chennai and Kolkata Airports, they went in the prior year not in FY11. Those were FY10 finalizations.

Shefali Doshi Okay, Sir. Besides the domestic players like you and your competitors, who are the other international players who are bidding for these projects?

Vir Advani So far there are none, there are 4-5 MEP contractors like us. We haven't seen anyone new enter the market in the last couple of years.

Shefali Doshi Can you name some of your competitors who are bidding for these projects?

Vir Advani Yes, it is Voltas, ETA and Sterling & Wilson.

Shefali Doshi Okay, thanks.

Moderator Thank you. The next question is from the line of **Nirmal Shah from Alchemy Capital**. Please go ahead.

Nirmal Shah If you can just share your outlook for FY12 for your Segment 2?

B Thiagarajan Segment 2 comprises room airconditioners, refrigeration products like water coolers, deep freezers and cold storages and the service & the export business associated with that. The residential segment is doing extremely well. Though they are doing extremely well for us, the market has not grown as expected. In April actually it de-grew by around 23%. People expect in May the growth will be month-on-month around 23% or so. But I think we will grow in excess of 20%. The deep freezers & water coolers continue to do well because it is a small base and the penetration levels are lower. Cold storages, we have a long way to go but we continue to grow by around 30% or so. So these product segments or market segments will not have any problem whatsoever in the immediate short term.

Nirmal Shah We entered into room airconditioning market on a residential side in probably fourth quarter of FY12. From FY12 then what kind of growth we can do, since it would also include your foray into residential side as well?

B Thiagarajan See whatever is the market growth, over that I expect around 20% growth. Right now the market growth is almost zero for April and May put together till date. So we will still maintain 20% growth. In other words 20% additional business is coming from the retail foray

Nirmal Shah Okay, thanks a lot sir.

Moderator The next question is from the line of **Disha Shah from Anvil Stock broking**. Please go ahead.

Disha Shah Can I know the size of the AC market?

B. Thiagarajan Yes, the central and packaged airconditioning, the market size is estimated as 6,100 crore and room airconditioner is estimated as 7,000 crore.

Disha Shah What is your market share in central & packaged and room airconditioners?

B. Thiagarajan In the central airconditioning which is part of segment I, our market share is estimated to be around 24%. In packaged airconditioning excluding VRFs (Variable Refrigerant Flow system), I will estimate our market share to be 28%. In VRF systems, I will estimate our market share last year as around 7.5%. In room airconditioners, it will be less that 5% last year.

Disha Shah And at what rate do you expect the AC market to grow?

B. Thiagarajan Different segments will grow in different rates. We expect central airconditioning to be flat. Packaged airconditioning we expect it to grow by around 15%. Room airconditioners will depend on the summer season and festival season, but still we hope the market to grow by around 20%. That is the hope of the industry. But April-May is flat.

Disha Shah Sir, can you share the market share of your competitors.

B. Thiagarajan No, these are published reports you should refer to them.

Disha Shah Yes, thank you.

Moderator Thank you. The next question is from the line of **Pranav Gokhale from Religare AMC.** Please go ahead.

Pranav Gokhale Sir, the question is on VRF. How big is the market currently and what do we expect the market to be like and since there could be more buying as it is more customized, do we expect similar margins on that business?

B. Thiagarajan We are the first domestic manufacturers of VRF systems. Nobody else manufactures VRFs in India and we compete with multinationals. It is a state-of-the-art product. So we compete with brands like Daikin, Toshiba, Carrier, Sanyo, etc. Now obviously, this is a product which is somewhat a standard airconditioning system like a split AC rather than an engineered central plant. So obviously when multinationals want to come in the country, they bring in that product and pitch it against central airconditioning plants. So, large residential towers or certain hotels, hospitals are all getting equipped with this. The market for that had grown last year by around 25%. We, as an Indian manufacturer, obviously had to go slow in introducing this product and compete with them. But the good news is we have quite a few landmark installations and we continue to expand those offerings. So, right now we are not a big player in that but we will continue to grow there, basically because our reach amongst consultants, architects or our customer-based repeat purchases is huge. And the market size is around 450 crores today, with Blue Star enjoying around 7.5% market share.

Pranav Gokhale Okay and likely, you have seen this technology evolved in Japan, you have seen this evolve more in Europe than US and maybe you have seen this evolve more in US in the last three years. What has been the change or a transformation from the normal system to VRF systems? Has there been any new projects which have significantly moved to the VRF systems?

B. Thiagarajan Yes, very significantly. Specifically, we are witnessing this in North India as a geography compared to other regions. Also, residential towers, hospitals and hotels are moving towards VRF very fast.

Pranav Gokhale Okay. So the second question is on the first business segment actually in terms of outlook. I had actually spoken to you a couple of times earlier during the course of the year, you had highlighted that you have seen IT pick up somewhere in the October-November phase and you were looking at that sector reviving. Has it not really materially actually happened and not translated in terms of order book or has Blue Star lost out on in terms of market share in that space?

B. Thiagarajan See we are also like you, all guided by what the industry is saying. So we track IT/ITeS industry in terms of the employment or recruitment and the office space acquired by them. As you may recall in Q1-Q2 of last year, the IT companies came out with very optimistic statements about recruitments reviving, office space being occupied. I do not think that has really happened. That is our assessment. We are talking about IT/ITeS growing by 25%, which means 25% of additional office space should get created. Indeed in IT there are quite a few facilities coming in. That will only help us to match last year IT/ITeS business that we did. For us to show a growth there has to be a quantum jump in terms of recruitment which is not happening in our assessment.

Pranav Gokhale Okay what is the current share to IT/ITeS related business out of the total business?

B. Thiagarajan Our guess is, we should be the market leader in IT/ITeS sector holding more than 40% share.

Pranav Gokhale Okay. So we have maintained market share. It's the market itself which is not growing?

B. Thiagarajan Yes there is absolutely no doubt about it. We have maintained market share. Whatever additional recruitments are happening in a few large IT firms, they are utilizing the existing space. There are still vacant spaces available in the country, which were already partially airconditioned. That is the other phenomenon that is taking place. But nevertheless when the growth revives, we should be the beneficiary of that.

Pranav Gokhale IT, out of our total business, how much will it be. Are you giving your share of the total IT space? Out of your total turnover how much could IT/ITeS be now?

B. Thiagarajan See in segment I there is IT, in segment II also some amount of IT is there. Both in Central, Packaged, and Room Airconditioning as well as Service business put together, we should have done close to 450 crore of business from this sector.

Pranav Gokhale Sir, on the Room Airconditioning, do you expect higher advertising and sales promotion expenditure to actually come in this year from what you normally spend?

B. Thiagarajan Yes, Q1 is the season time normally advertising takes place. So we are indeed investing more as you might have seen in the press releases.

Pranav Gokhale Okay. Could that number be double in the current year may be from what we have done last year.

B. Thiagarajan On Q1 basis may be, I wouldn't know about the full year. We also monitor how the market is. If the market is growing, we will continue to invest. In Q1 indeed it will be double.

Pranav Gokhale Okay thank you sir.

Moderator Thank you. The next question is from the line of **Dewan Patel from Avendus Capital**. Please go ahead.

Dewan Patel I had a quick question on the Room Airconditioning market. You mentioned in the month of April it de-grew and then it bounced back in the month of April….

B. Thiagarajan In the month of May it bounced back.

Dewan Patel Is this solely explained by cooler temperatures or is there also some impact of financing cost going up or is that something which will be felt only subsequently?

B. Thiagarajan I don't think we can yet pass a judgment with regards to spend levels coming down due to interest at all. Probably, it can happen in the second half of this year. But the temperatures have been a phenomena because we see a clear correlation year-after-year. Like two weeks of rain will suddenly make the sales drop in North or in Hyderabad. So in April, Delhi has not witnessed summer at all. So it was pretty bad, whereas West did extremely well. But in the month of May, North and East did extremely well. South has revived, but I'm seeing West slowing down. So it has to do with the temperature at this point of the time.

Dewan Patel Sir how was the growth in the month of March, if you would have that number offhand.

B. Thiagarajan The industry grew by around 30% in March.

Dewan Patel Okay right. Thank you so much.

Moderator The next question is from the line of **Shivans Kulhari from RBS**. Please go ahead.

Shivans Kulhari Yes, what are the guidance regarding the EPS projections and like various other projections that the management would like to give for the coming three years.

Vir Advani I'm sorry we don't give guidance.

Shivans Kulhari Okay. Apart from that one thing like we have seen that the Electro Mechanical Projects and Packaged Airconditioning systems segments has suffered consistent depreciation in terms of segment results during the entire financial year, so are we expecting a kind of shift in the company's outlook from the majority of the revenue coming from that stream from some other stream or the company is still going to persist with that as its majority operation division?

Vir Advani Yes I think that we will continue with it. We are confident about the business. We like the business and we want to stay in for the long term considering we are the market leader there. We are going through a certain cycle in the market that we have to ride out, we have a large carry forward that we have to bill out and so there is going to be some pain for the short term that is something we can't avoid. However, like I mentioned in the last conference call as well we have taken various steps, one is on our carry forward. We have been careful about how we bill it out because we want to make sure that we are controlling our working capital and running our projects. We are being far more careful about type of business that we accept and take into the order book. We have tightened up our requirements for new order inflow and we are working quite hard on operating efficiency and productivity improvement in the business because we believe there is a lot of value to be extracted in by changing the way we execute this business. So fair amount of activity on that, I think that we will begin to see the benefits of all these moves towards the end of this year as we go into the next year. So this year will be challenging for the business.

Shivans Kulhari One more thing Sir, there was a guidance given in Quarter 3 by the management about improvement in commercial real estate market which was expected in the second half of the year, but I don't think that has taken place. Does that alter the strategy of the company?

Vir Advani So we have seen a pick up in enquiry levels in the second half of last year between September and November. Those enquiries, some of them converted to business but a lot of them did not. Like I just mentioned earlier, the enquiry levels in March, April, and May are actually lower than January-February. So I think we had some kind of double dip may be in the commercial market. So, we still have not seen a pick up in demand. Having said that, we have a few things that will continue to do well which will help the business overall. One is, we have entered the plumbing business and we expect that to grow. The other is, we have a growing electrical business both in power and industrial as well in commercial. While commercial will be a little challenging, I think in power and industrial, electrical work continues to be available for us to quote on. On the equipment side, I mentioned that we have further expanded our portfolio in the VRF product range and therefore that's going to help. And finally our entry into the retail channel for residential airconditioning is also going to help. Also we have a big move into Tier-2, Tier-3 and Tier-4 towns in the country for our equipment, because we have a dedicated channel approach to our business. We are able to expand the business in the direction we want in a captive manner and we are seeing a lot of demand pick up in Tier-2, Tier-3 and so we will see some benefit of those moves. So these are the few things we are doing to counter the sluggishness in the core commercial market.

Shivans Kulhari The IT industry being one of the major clients and awfully you have seen sluggishness in the demand from that side, so can it be attributed towards the fact that a lot of mid sized IT companies are moving towards cloud computing as an option towards managing their software and hardware needs and hence the need of infrastructure reduces and hence the cooling needs reduce. So can that also be a cause for the slowdown?

Vir Advani Our business opportunity is in cooling on the comfort side as per the office space that they occupy. So is to do with sheer increase in man power and over these last 3 years, as IT companies have tried to cut costs, they are reducing their per headcount square footage also. So, if 3 years ago a software engineer got a 100 square feet to occupy, is now getting 50 square feet. So, even it if was 10-15% annual increase in headcount, you are not seeing a commensurate increase in office space.

And, on the other hand there is the data centre market. There of course we have equipment that we sell. In fact we see cloud computing and other technology movements to be beneficial to that business because it actually creates large data centers and we are a large player in the data centre market. But as a percentage of our business it is still a fractional business.

Shivans Kulhari Okay thanks a lot.

Moderator Thank you. The next question is from the line of **Abhir Pandit from Parag Parekh Financial Services**. Please go ahead.

Abhir Pandit In the last call you had said that there is opportunity in the cold chain sector with huge requirements as well, however, there hasn't been much spending. So I just wanted to know what do you think will be the figure for those spending in the cold chain sector?

B. Thiagarajan See this is for quite some time. The need for an integrated cold chain is felt in the country. And the market indeed is growing, driven by ice cream, processed foods, dairy and pharma. There is nothing to complain about the market growth and our growth. It is growing by around 30%, but it is on a base of less than Rs 2000 crore. Strictly speaking, for a country of this size, the market size for cold storages should be around Rs 10,000 cores. It should be larger than even airconditioning at some point of time. Basically, FDI and Retail could be a trigger because fruits and vegetables should get sold through that. Secondly, processed food consumption should go up. Thirdly, the problem is that it is a fragmented subject- State Governments handle agriculture and horticulture. Central government is only a policy making body. So, the distribution today is through what is known as the APMC Act which compels the farmer to sell only in the mandis and you cannot sell it to end users except in few states like Bihar and partially in Tamil Nadu. Now, the mandis are not modernized. The mandis have to get into a terminal market or an integrated cold chain infrastructure system. There are quite a few working groups with the planning commission, with the Minister of Agriculture, CII and it is moving very slowly. Honestly, it is going to be a long haul because cold chain infrastructure requires capital investment and that is not going to flow in unless and until, the government allows FDI in cold chain infrastructure. Anybody who wants to invest, wants FDI in retail. So it is dependent on that at this point of time. I estimate it will happen in the country in about 5 years' time is what I feel. Though we felt couple of years ago that it is going to happen in 3 years' time, but don't think it will. I think it will be by around 2015 or so to happen.

Abhir Pandit Hope so, Sir. And, what are the requirements you look at when you book new orders, especially in Segment 1. So in the sense do you look at client profile and his track record or basically payment or what?

B. Thiagarajan We have a well laid out policy for large value tenders. And for that matter even dealers & distributor. There is a credit assessment system. Now when it is a large value tender, let us say, it is 50 crore and above, it is approved by the Committee of Directors where the CFO is also involved through a formal procedure. So you assess actually how secured is the project in terms of financial closure and how secured it is in terms of time lines, will it happen within the time frame specified by the customer or not and the competition margins at which we will close and most importantly in project business just the cash flows. And in certain cases, if it is above 100 crore, we even engage outside agencies to do a due diligence of the entire project. But the fact of the matter is at this point of time one can go wrong with all assessments because customers can specifically default in terms of payments or projects can get delayed. Like we thought that the Commonwealth Games will get closed by the time the Games are inaugurated, but the projects around it are still going on. So you can still go wrong at this point of time. But case-by-case as days go, we learn our lessons and correct ourselves.

Abhir Pandit Thank you very much sir.

Moderator Thank you. The next question is from the line of **Shweta Prabhu from Anand Rathi**. Please go ahead.

Shweta Prabhu I just want the total Order Book for the year and the breakup for the 3 segments?

Vir Advani The carry forward Order Book as of 1st of April 2011, is 1968 core. We do not give break-ups. However, it is 1715 for segment I. Segment II and segment III has got no great carry forward because it will be booked and billed right in the same month.

Shweta Prabhu And the contribution to the total revenue from the three segments, you said segment I almost contribute 65%. Segment II would be contributing around 20% or so?

Vir Advani Rs 788 crore in Segment 2 and Rs 207 crore in Segment 3. You will see that from our segment results.

Shweta Prabhu And, would be your interest cost increase in FY11 be mainly due to the funding of DS Gupta?

Vir Advani Capital Employed has gone up by 350 crore. 100 crore on account of the acquisition and roughly equal amount on account of debtors and strategic pile up of inventory going into the season.

Shweta Prabhu Okay, so the total debt as of now would be around?

Vir Advani About 400 crore.

Shweta Prabhu And capex for FY12 is around 50 crore, right?

Vir Advani Yes.

Shweta Prabhu So you already spent 22 crore in FY11?

Vir Advani Yes FY11 was 22 crore and it will go up to 50 crore in FY12.

Shweta Prabhu Okay sir. Thank you sir.

Moderator	I would now like to hand the floor over to Mr. Vir Advani for closing comments.
Vir Advani	Thank you very much everyone. If there were unanswered questions, do send us an email and we will be sure to revert to you. Thanks very much and speak to you in 3 months.