Q1 2012 Earnings Call - Blue Star Dt-2 Aug'11

Operator

Ladies and gentlemen, good day and welcome to the Blue Star Limited Q1 FY12 Earnings Conference Call. As a reminder, for the duration of this conference, all participant 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. 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 S. Advani, President, Electro Mechanical Projects Group and Executive Director

Hi, thank you very much. Good morning ladies and gentlemen, 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 ended June 30, 2011.

The following are the financial highlights of the company for the quarter which was Q1 FY12. We reported a total operating income of Rs. 704.68 crores for the quarter ended June 30, 2011, as compared to Rs. 664.83 crores in Q1 FY11, representing an increase of 6%. For the quarter, gross margin declined from 23.6% to 21.6% due to higher costs pertaining to labor and raw materials and change in business mix. Operating profit, that's PBIDT excluding other income for the quarter declined by 55% to Rs. 27.59 crores, operating margin decreased to 3.7% compared to 8.5% in Q1 FY11.

In addition to the increase in direct costs, which I'll explain in more detail shortly, this is on account of higher general operating expenses, on account of higher R&D expenditure, advertizing spend and higher interest costs, on account of acquisition funding and strategic stocking of inventory for the products business.
Net profit was lower by 74% at Rs. 9.79 crores compared to Rs. 37.15 crores in Q1 FY11. Earnings per share for the quarter on a face value of Rs. 2, stood at Rs. 1.09, vis-à-vis Rs. 4.13 in the corresponding quarter of the previous year. The carry forward order book as on June 30, 2011 increased to Rs. 2,099 crores compared to Rs. 1,976 crores as at June 30, 2010 representing a growth of 6%. Order inflow during the quarter decreased from Rs. 925 crores in Q1 FY11 to Rs. 851 crores in Q1 FY12.

I'll 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 Electro Mechanical Projects and Packaged Airconditioning business accounting for 49% of the total revenues in the quarter, declined 9%, while segment results fell sharply to a loss of Rs. 8.87 crores as compared to a profit of Rs. 33.57 crores during Q1 FY11.

The operating margin of this business is, in Q1 FY12 was negative 2.6% compared to 9% in Q1 FY11. To put this in context, after showing signs of revival in the middle of last year, the overall investment climate has significantly deteriorated in the last six to nine months, something we have been indicating for the last two quarters.

The market continues to be sluggish in terms of new orders and project execution time lines continue to be prolonged. Our focus in the last six months has been on managing the capital employed in the business and one of the outcomes is a lower revenue in the quarter. In addition, we have been focused on advancing projects that have been long delayed and prolonged beyond a reasonable period.

A number of projects, about 10 to 12 were either significantly advanced or short closed in the quarter. Given the age of these projects, cost variation between the estimated costs and actual costs on these projects were quite significant on account of the significant commodity price increases in the last two years, we have had to provide for these cost overruns in this quarter, thus pulling down the operating margins in this segment.

The major variations between estimates and actuals are broadly in the following categories and segments of projects, the first is, in building electrical projects which were part of the erstwhile Naseer Electricals, which we acquired in 2008. The second is in infrastructure projects which are long duration and have a high lump sum, fixed price portion and the third are projects in the residential and commercial projects where builders and general contractors are involved.

The current quarter was also impacted by lower margins on running jobs. The Projects business is expected to continue to face margin pressure for the coming four to six quarters. Given the fixed price nature of projects there maybe cost overruns as well as some short closures in builder promoted real estate projects as developers scale down the size and scope of projects already underway.

Further, in our endeavor to diversify our project portfolio beyond commercial real estate, our overall order book has undergone a change in the last 24 months. This project portfolio changed the fixed price nature of contracts and the expected high levels of commodity prices, particularly copper and steel, will have an ongoing impact on our margins as we progressively execute this order book.

As a management team, we are taking a number of actions to control the impact of this potential margin erosion. These include, maintaining our continued focus on managing the capital employed in this business by focusing on receivables and advancing and closing old jobs, being very selected and focused in terms of our order acceptance criteria, including improving the terms of payment and other commercial terms on new projects. Aggressively approaching clients for escalations and variation claims especially on long delayed projects and pursuing a number of options to optimize operating costs and improve productivity through modern work practices.

As stated earlier we will be tempering revenue growth through this year as we work on reducing the capital employed in the business.

On the market side, inspite of sluggish commercial real estate environment we continue to witness demand from the healthcare, education, hospitality and power segments. During the quarter, Blue Star won prestigious HVAC orders across the above segments, namely Reliance Samalkot power project, BHEL, Shree Singaji thermal power project in The Electrical Projects business as you know carters to the commercial building market, the residential market and the power sector, during the quarter we received impressive standalone electrical orders in the office segment. These included prestigious projects like IOCL Paradip, Citizen Hospital in Secunderabad and Prestige Towers in Bangalore.

In packaged ducted airconditioning and small chillers there was a good order inflow from the industrial, office and education segments. The company launched a new range of eco-friendly and energy efficient variable refrigerant flow or VRF airconditioning systems using inverter technology in February of 2011. And started getting orders across segments like office, IT, ITES and the industrial segment.

Some of the major orders in VRF for both digital scroll and inverter technologies are Goa State IDC, Embassy projects in Pune, SRP Oils in Calcutta and Persistent Software in Nagpur.

Moving on to segment two, the Cooling Product business comprises room air conditioners and refrigeration products and systems. Segment revenue registered a healthy increase of 30% in the quarter driven by room air conditioner sales. Segment results increased by 24%, the operating margin declined marginally from 14.1% to 13.5% in Q1 FY12. Despite a decline of around 6% in the room airconditioner market due to subdued consumer buying in this category. Our room airconditioner business registered a good growth in Q1 of FY12.

This growth was mainly driven by the company's foray into the retail channel and widening the range of models. The company also had an enhanced visibility in mass media and extended its coverage through its dealer network.

The Refrigeration Products business continued to perform well with healthy growth in the water cooler business mainly from the educational institutions, manufacturing and offices. Some of the prestigious orders were that of BITS Pilani in Hyderabad, IIIT in Kadapa, Vizag Steel Plant, Infosys et cetera. The company also witnessed considerable growth in the chest cooler and freezer business driven by the ice-cream and dairy segments. A few notable orders are the Vijaykanth Dairy in Karnataka, Lazza Ice Creams in Kerala.

Further, bottle water dispensers continue to do well, due to enhanced demand from the residential segment, small offices and commercial establishments. For the cold chain the company has witnessed good order inflow in the pharma sector as well as the food processing sector, during the quarter major orders were booked from Monsanto in Bangalore, Haldiram's in Noida, Khyber Group in Gulmarg, and Indian Food Tech in Rudrapur.

The revenues of the Professional Electronics and Industrial Systems business, which is segment three, grew marginally by 3%, but segment results registered a substantial increase of 46%. All of the departments of the division have done well, the company has specifically done well in the industrial project segment with a major order booked from Rourkela Steel Plant. In conclusion, the Q1 financial results show a mixed bag of business opportunities.

On the one hand, the overall market sentiment with respect to the Electro Mechanical Projects business is down, as the investment climate has significantly deteriorated over the last one year. The company expects the coming quarters to continue to be challenging for the EMPG business. As market leaders we are committed to the business and are confident about its long term prospects.

We see the current situation as a natural extension of the delayed investment cycle and we are hopeful that the situation will correct and momentum will return in the business over the next six to eight quarters.

On the other hand, the Cooling Products and Professional Electronics and Industrial Systems businesses have performed well during the quarter and this trend is likely to continue. In the coming quarters, our prime focus continues to be to manage capital efficiency and improve the quality of the incoming business, while we navigate through our current order book.

With that ladies and gentlemen, I am done with my opening remarks. I would like to now pass it back to the moderator, who will open up floors to questions. Between Thiag 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 as soon as we can.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. [Operator Instructions]. The first question is from the line of Ruchi Vora from UBS. Please go ahead.

Ruchi Vora

Hi, good morning. Thank you for taking my question. My first question is related to segment one, I was wondering, how do we see costs panning out through the rest of the year and will this segment be profitable? That's my first question.

Second is, I just wanted some more details on the order book, in terms of, is it only related to segment one, and what is the exposure to different sectors like commercial real-estate, IT, infrastructure? And my third question is on the working capital, I would highly appreciate if you could share the working capital details with us.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Alright. Let me try and take this. So the answer to the first question. Our carry forward order book in our projects, in our contracting business as of April 1, 2011 was approximately 1800 crores including our subsidiary. We believe that there maybe cost overruns that may impact our carry forward margins by as much as 3 to 5%, part of which has been taken in the current quarter.

However, we will only know the position as we advance jobs in the order book over the next 12 to 18 months, because that's the average, that's the life of the order book we are carrying. So as stated earlier, this will be countered by a number of measures within the company as well as aggressive escalation in variation claims which will only get determined as we advance these projects, but as it stands today, there maybe as much as a 3 to 5% margin erosion on the carry forward order book. This carry forward order book erosion is only related to the Electro Mechanical Projects business and therefore segment one.

To answer -- the current year is difficult for us to answer right now, because like I mentioned this carry forward has anywhere between 14 and 18 months of life to be executed. On the one hand, we are trying to close and advance old jobs as quickly as we can, either with new terms or on old terms if we are unable to. But on the other hand, we are also slowing down delivery and execution on ongoing jobs because we want to manage the capital employed, and so it's difficult at this stage to see what the revenue will look like in the current quarter, but as we bill out this 1800 crores, there will be a margin impact.

Ruchi Vora

Right. Actually what I was more looking for is that if you look at the last eight quarter your average margin has been about 11%. Yeah.

Ruchi Vora

I just wanted your sense on what is the kind of sustainable margin that you see over the long-term? And secondly, over the medium-term, what is the kind of margin that you envisage? Because if you are doing a lot of provisioning also in the next few quarters, it would obviously impact your margins. So as a specific number in terms of what would be your internal target, would really help us.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. I am sorry, we don't have specific targets, but if you -- in the medium-term which is the life of this order book, if you correct by 3 to 5% that would be probably accurate and beyond that on a sustainable basis we intend to take the business back to its 11% level.

Ruchi Vora

Okay. And also on my question on the order book could you help us with the details on the order book as what is the exposure to commercial real estate?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I think it wouldn't have changed much over the last few quarters, we've been indicating that commercial real estate would be about 70 to 75% of the order book and that continues to be the case.

Ruchi Vora

So out of five, 2,100 crores what you have reported, 70 to 75% is related to commercial real estate. And this also includes the IT parks right?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, we include in commercial, we include -- I'd like to just remind everyone it's IT, ITES, retail, healthcare, hotels, office, multiplex, all of that.

Ruchi Vora

Okay. So, and how much would be the office segment?
Office today, I haven't looked at recently, I think it will be about 40, 45%.

Ruchi Vora

Okay. And just my last question on the unit three Cooling Product segment, I mean what is the kind of margins that we see on a sustainable basis? And what is the mix in our revenue between the AC, consumer durable business and the commercial refrigeration?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thiag, will you take that?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Yeah. The current level of margins should be sustainable. Actually there is lot of import content as well. With the rupee is strengthening, there is some advantage out there.

Ruchi Vora

Okay.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

And what is your second question?

Ruchi Vora

Sir my second question is on the revenue break up between the consumer durables business on the AC side and the commercial refrigeration?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

You can say, they are round 60-40, 60 is air conditioners, 40 is commercial refrigeration.

Ruchi Vora

Okay. So sir I was actually wondering is that, what is -- I mean what has made us grow faster than the market? Could you please elaborate on what have we done in terms of the distribution channel?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group Ruchi Vora

Okay.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thank you.

Ruchi Vora

Thank you.

Operator

Thank you. [Operator Instructions]. The next question is from the line of Ankit Babel from PINC Research. Please go ahead.

Ankit Babel

Hello?

Operator

Mr. Babel. Please go ahead.

Ankit Babel

Yes sir. My first question is that you...

Operator

Mr. Babel I'm sorry to interrupt, can you switch to your handset please there's a lot of disturbance on your line.

Ankit Babel

Yeah, one second. Yeah. Now I am audible?

Operator

Please go ahead.

Ankit Babel

Yeah. Sir my first question is that you've already sighted that on your current order book you will have -- you are facing pressure on margins, now what about the new orders which you would bagging in say next couple of quarters, the same 6 to 7% kind of margins should be -- we should assume or they should assume a 10-11% kind of margins?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No. I am sorry, can you get off your speaker phone please. Yeah. Now just to clarify, we've made it clear that starting two quarters...

Operator

Sir I am sorry to interrupt the participant has got disconnected sir. Do you still want to go ahead?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

That's fine. I'll answer for everyone I'm sure, they are asking questions.

Operator

Okay. Thank you.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

So for everyone's information, we've been talking for the last two quarters about improving the quality of order inflow. I will say that while we have been facing pressure on the carry forward, I am happy to note that even though the order inflow has slowed as we mentioned even in Q1, the quality of the orders that are flowing in now are definitely superior to the last year and even over the last few quarters.

Primarily on both in terms of margins because we have seen for the last two to three quarters at least, both copper and steel being range bound and therefore estimates are more easily, we can estimate far more clearly, that's one. But more importantly, we've been pushing on far better terms of payment as well as other commercial term, which is one of the main reasons for the adverse capital employed position in the company right now.

So the combination of the two, the better margins as well as the better terms of payment is why we are optimistic that as we clear out this carry forward, we are replacing it with a higher quality business that will take us back to where we have been for the last two or three years. Thank you.

Can we go back to questions, please?

Operator Analyst

See, this is in response to the comment that you had made about the margins being inferior for this quarter and you -indeed for the next couple of quarters. And you also said that the quality of customers has gone down that is the reason why the capital employed has increased, ballooned et cetera. Now I want to know, what really happened? Was it because of higher fixed price contracts? Did you not anticipate the rise in commodity prices? Was it now built into your pricing mechanism? What exactly went wrong?

And when you say quality of customers has now improved. Does it mean that Blue Star went for higher revenue growth compromising on the quality of the customers? What exactly happened? Can you please explain that to us?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, so there is two parts to your question. One is a historical question and one is in the quarter. So when we say quality of customers, I don't mean the names of the customers, I mean it's the type of projects that we have taken on. I think in the last three years one has seen a dramatic change from fast moving private sector jobs to slower moving both builder promoted jobs as well as infra, general contractor jobs, so that's what I meant by quality of customer really, it's actually quality of project.

That's the nature of the projects that have been finalized over the last two years, whether it's hotels or it's hospitals, it's airports, metros, all of that. All of these projects come with longer gestation times, they come with -- they are all fixed price as you may know the bulk of our order book is a fixed price order book.

Many of these projects have been -- so what happened in Q1 specifically you are asking is that as I mentioned for the last six months now, we've been trying to -- we've been focused on capital employed reduction. One of the ways you attack capital employed is you try and close, either short flows or close old jobs that are stalled, not moving. These are jobs that have been with us for over three years, so you'd imagine that they have been costed at a time when copper was at 3 and $4,000. Today it's at 9 and 10,000.

So similarly with steel that's 35 to 40, it's now much higher. So when you have fixed price projects of long gestation like this that have not been moving because either the customer doesn't want to progress them or that there is other issues, unless you force closure, you have to leave them open which is what we were doing.

However we've now -- it's taken us probably as much as four or five months to push some of these, which is what we were able to do. So while obviously we've had to take the losses in the quarter, we've also managed to clean up some of the older jobs.

Having said that, also in the quarter I made a point to note is that even on running jobs, so by running job I am referring to jobs that have been booked in the last 12 to 18 months, not necessarily three and four years ago. Even on running jobs, we've had pressure on margins because what we had anticipated to be the input cost on steel, copper, other finished goods et cetera, we are finding it difficult to get that pricing in the market and yet we need to progress these jobs.

And so the combination of the two, one is 10 to 12 jobs specifically which are old as well as some running jobs has led to the lower margins in the current quarter. And looking forward it's very difficult to estimate or this is not guidance or anything, but what I am strongly -- what we feel is that as we execute this order book, there is a possibility of a 3 to 5% erosion, of course we are doing everything internally to counter that, that's one.

Secondly, we are going back to customers very aggressively to see how we can restructure these fixed price contracts that's the second. And also there is a chance that if commodity prices do ease off there, we need more than stabilizing, Our approach to this is that as we -- our commitment is that we will continue to advance projects at the correct pace that customers are willing to take delivery, are willing to pay, we will continue to advance if customers are holding our capital then we will obviously have to hold these projects in the order book which is why it's difficult at this stage to give everyone an idea of quarter-to-quarter what the impact maybe.

Analyst

Okay. That's fair enough. But the other question is your -- is it, is fixed price contracts in projects like -- is that the norm for the industry, it seems unusual that in a volatile price environment, Blue Star opts for fixed price contracts with customers?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. So this has been a very old tradition. It's I think probably 60 years it's been fixed price, all, whether airconditioning or electrical, plumbing, firefighting, all services contracts tend to be fixed price, there are obviously exceptions. There are certain government contracts like NTPC contracts and some other CPWD every now and then does give you price variation clause. Some electrical contracts again with the public sector utilities will give you a -what's known is as an EMA price variation clause.

But again, these are all price variations based on a fixed price. Whereas the bulk of, almost all private sector jobs will be fixed price, firm price.

Analyst

It continues to be like that for the foreseeable future at least?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yes, definitely. I have explained this in the past, but again for the -- everyone on the call, I'll re-explain it. There are two words that are important here, one is, fixed price, and the other is, lump sum. We -- the bulk of our contracts are fixed price but variable quantities and they are not lump sum contracts, okay. What that means is that as we execute the project, we have an opportunity to invoice a client for additional quantities that we install of any materials, but we are not able to charge-in for a variation in price or in inflation.

So that's known as a fixed price variable item contract whereas a more aggressive contract would be a lump sum, where you not take the risk of the price, but you also the take the risk of the quantity. So we are in a position where we don't have the quantity risk, but we have the price risk.

Analyst

Okay, okay.
Okay, thank you.

Analyst

Am I permitted to ask one more question or is it -- should I wait for another turn?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Could you please come back after...

Analyst

Okay, okay. Thank you.

Operator

Thank you. The next question is from the line of Ashi Anand from Kotak. Please go ahead.

Ashi Anand

Yeah, good afternoon to the management. Just wanted to understand in terms of competitive intensity on the Electro Mechanical business, we've been speaking to certain players. So there are certain civil contractors who've expressed a desire to actually become a full fledged EPC contractor, and therefore also take on HVAC jobs. I think there's been some talk of players like either Carrier or Fedders Lloyd, trying to get a little more aggressive in this particular market.

How are you seeing competition in this space? And if you could just kind of elaborate on the entry barriers which should actually help us maintain our market shares?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Sure. Yeah, so we have, you pointed out two types of potential players. One is civil contractors that want to take on the MEP package as well, and you also mentioned some equipment suppliers who may want to move into the contracting space.

So I'll take the first one, which is the more serious consideration, I am not -- I don't think we are too concerned with the equipment manufacturers because that's a very different business. And from whatever we know of them, while they just want to -- they will do it if they have to for the sake of an equipment sale, but they are not trying to build up business around that.

So leaving those guys aside, on the civil side, there are a few examples of players who are trying. The only successful player as far as we know is L&T, L&T has a full fledged airconditioning contracting business. However having said that, as you may know we are executing the airconditioning, plumbing, firefighting work for L&T at Mile, and at about So they have a certain -- I am not sure what their internal policy is. But I think they execute small projects in-house, but when it comes to larger, more complex projects they do come to MEP specialized contractors like us.

Other than L&T, I have heard of about three or four civil contractors trying to build this business, they have not had much success from what I know, it's a very different field to civil. One of the major differences is that there is a lot of equipment that we buy as part of our contracts, whereas the civil contract tends to be bricks and sand and then a lot of labor.

Also the terms of payment are very different, in civil you have -- because of the material content on the MEP side. So while it's not impossible for anyone to build, I'll be quite frank, and it's not rocket science but our own understanding is that looking around the world, because you always keep looking outside the country for cues, whether it's the Middle East or Far East or Europe, very few, if any, civil contractors will have an in-house MEP operation. At most, what will happen is at a group level a large civil company will also own a MEP standalone operation and they will have a special arrangement between them. But they will be very much standalone operation because the nature of the business is very different.

So if one looks outside the country then I am not sure whether the Indian civil contractors will be able to build this up, I know some of them are trying. But for the time being, we continue to see the same competition which is Voltas, ETA and Sterling Wilson as our prime competitors, there are smaller competitors coming into the market but they tend to be restricted to very small projects.

Ashi Anand

Great. Just the other question was with relation to -- we were looking as a company of moving from being a pure HVAC company towards being a more full fledged MEP kind of a player. So if could you just kind of, where exactly are we in terms of that transformation.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. We are, we're I'd say about half way there. We have -- we've integrated our Electrical business fairly well into our operation, all India. Our plumbing, firefighting business we acquired in October-November of last year, it's still very much a work in progress. It will be probably by the end of this year that we are able to integrate it more extensively, but more than internally I think it's more an external environment thing. We are seeing even today only about 25% of contracts are getting bundled as MEP in the country.

We would have expected that by now, it's about three years into this move, it would been up to about 40 or 50% of projects. But I think that the downturn in the market has set back some of this progress. So I think that as that 25% moves closer to 50, you'll see a lot more integration both internally as well as in the market. So, but we are internally about halfway there.

Ashi Anand

Okay. Thanks a lot.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director Operator

Thank you. The next question is from the line of Aman Gupta from Goldman Sachs. Please go ahead.

Analyst

Hi sir, just a couple of questions. One on the unitary cooling product side, the capital employed has gone up significantly, would that be a function of scaling up of the business or there is some inventory build-up which was also there which we need to reduce over a period of time?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

It is due to inventory build-up, the whole industry was expecting that the market will grow by around 30%.

Analyst

Right.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

In the process, our ambition also was that we will grow above 40%. And the summer was short and the market actually de-grew, that is the reason. And over the next three to four months that inventory should get liquidated.

Analyst

Sure. The other question is on the project side, you had indicated some sort of stalled projects as well which you are trying to close out now. Can you highlight? Is there any kind of a city concentration or a segment concentration, retail, malls et cetera which you can highlight, any color on that?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

On these old jobs that I was referring to?

Analyst

Yes.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I have talked about three types, there are three distinct types there. One is, we have small number of inherited electrical jobs from our acquisition of 2008. These are commercial, electrical projects in Bangalore and Hyderabad, that's one.
And the third one that I referred to is, we also have a small number of residential projects, these are residential towers where we are doing electrical plumbing, firefighting, there again we've had some cost overruns and need to book some of those losses.

Analyst

Okay, thanks a lot.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thank you.

Operator

Thank you. The next question is from the line of Kirti Dalvi from ENAM Asset Management. Please go ahead.

Kirti Dalvi

Good morning sir, few questions from my side. Could you throw light on your consol numbers, because I think these are standalone numbers?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Kirti we don't consolidate on a quarterly basis, we'll be giving a consolidated at the end of the year. Because that's I think the practice we are following right now.

Kirti Dalvi

But sir if you could throw just on a profitability front. Is it, I mean higher than what we are reporting on a standalone numbers?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yes.

Kirti Dalvi

Okay. Sir second question, though you gave a fair bit of light on your segment one results and the outlook going forward. Could you just elaborate these coming orders probably say next couple of quarters, will be of the similar

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. So the new orders are very definitely coming in at higher margins, they are coming in -- I would like to say, they are not yet coming in at sort of three years ago level, but clearly at least about two years ago. So it's definitely better than the last 12 months.

Kirti Dalvi

Okay. And you said six to eight quarters of pain, that means probably FY12 and probably first half of FY13 we can see this kind of pain in the segment one?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah I agree with you.

Kirti Dalvi

Okay. And sir our debt level has gone up from whatever we ended the year as of 31st March.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, we ended at 418 crores.

Kirti Dalvi

444 on a consol basis sir.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Correct, I am talking standalone. Yeah that consolidate would not have changed. So 418 standalone has gone up to 496 in June 30, 2011.

Kirti Dalvi

Okay. And consol would be more or less similar, 496, 497 crore.
It'll be 496 plus whatever was that difference, about 20 odd.

Kirti Dalvi

Okay. And this interest cost, average interest cost would have also moved because of that?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, you are seeing for the quarter we had about 7.5 crore of interest, right. Just to clarify 2.5 crores of that is on account of our acquisition funding, the other five is on account of operations.

Kirti Dalvi

Okay. And sir in our annual report, we are mentioning couple of -- two things which I -- if you could throw light on that, entry into the highway lighting, I mean which segment are we talking about in this?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I am sorry. Highway lighting. Do you know where...

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

This is -- what is your question Kirti? It is a electrical lighting contract.

Kirti Dalvi

Is it? I mean is it the first thing, we never got it -- something like that in the past?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

No, it is only highlighted in the -- MD&A you are reading isn't it?

Kirti Dalvi

Yeah.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Like we had been mentioning about certain rural electrification projects.
Okay.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Like that it is another kind of project that's about all. It is a EPC.

Kirti Dalvi

We have already got this kind of order in FY11 sir?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Yeah, we have done rural electrification, it is in Eastern region actually.

Kirti Dalvi

Okay. In the current order book there is nothing like that?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

It is, we will continue to do such kind of jobs, though our focus as of now is as Vir mentioned, as long as the job is giving us the required margin. It is upwards of 11%. Two, it is not, it is a fully funded project which will get closed between 12 to 18 months of time. And the customer profile is not the three, he mentioned. So we will go ahead and do.

Kirti Dalvi

Okay. And sir you were also mentioning in your annual report this Himachal Pradesh plant getting commissioned by FY12. So we'll see the full capacity, I mean which -- for what segment this plant would be? And what kind of capacity it has currently?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

It is clearly for segment two, this factory is supposed to be catering to.

Kirti Dalvi

Room AC sir.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

As well as Refrigeration Products.

Kirti Dalvi B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Our intention is to -- in FY12 more or less reach the full capacity.

Kirti Dalvi

Okay, okay. So FY13 onwards we'll see the full capacity utilization.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Yes.

Kirti Dalvi

Okay, okay. And last question sir, any particular CapEx we are incurring this year?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

We had mentioned that we will incur around 50 crores of CapEx.

Kirti Dalvi

Okay. And there is no cut in the ad spent on our room AC or other products.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Yeah. The Q1 is biggest advertising season, of course again in February-March will be there. Q1 is a clear indicator that we have enhanced the advertising spend.

Kirti Dalvi

So this trend will -- there is no cut which we are seeing it probably going forward?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

Not as of now.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No, so but just -- so what Thiag is clarifying is that we spend most in Q1 and Q4. So you can't -- so Q1 spend won't continue in Q2 and Q3.
Sure.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Obviously. But in Q4 we'll be re-looking at our ad spend based on the market and what we need to do. So that's a still a while away.

Kirti Dalvi

And sir average tax rate for the current year, because I think you must be getting some benefits out of R&D spend, and probably other Himachal Pradesh plant benefit.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, so we're getting benefits from both. So we expect the tax rate to drop to around 25%.

Kirti Dalvi

For the year as a whole?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

For the year as a whole.

Kirti Dalvi

Okay. Thank you very much and wish you good luck sir.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thank you.

Operator

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

Shefali Doshi Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

The one I told you, 2099 is standalone.

Shefali Doshi

Okay.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I mentioned earlier that the subsidiary has a carry forward of about 225 or 250.

Shefali Doshi

That is in addition to this order book?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

In addition, and just to clarify I had mentioned it on my call that we have a contracting projects carry forward of 1800 crores that's consolidated, including our subsidiary.

Shefali Doshi

So sir this 225 crores pertains to Naseer Electricals as well as D.S. Gupta both?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No. Naseer is a division of the company, it's actually now called our Electric Projects division. So that's part of the standalone, this is only Blue Star Electro Mechanical which is our plumbing, firefighting business.

Shefali Doshi

Okay. And sir coming to the fixed assets to order book proportion. What will be the percentage of order book containing fixed orders?
Fixed price contracts, you mean?

Shefali Doshi

Yeah. Fixed price contacts?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Pretty much, I hazard and say 85, 90%.

Shefali Doshi

Sir initially, historically, if I am not wrong, it used to be in the range of 60 and 40. I mean fixed price contracts or...

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

What is the 40 in your -- I am not sure.

Shefali Doshi

I mean variable price contracts.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No, I'd repeated for the earlier gentleman; fixed price and variable item are actually two different subjects. So all are -this 80, 98% of our contracts are fixed price variable item. Okay.

Shefali Doshi

Yeah. Sir I got that point. I am just talking that historically, I mean in the past if say two years before, was is this the same ratio or it used to be in the range of 60-40 and it has increased substantial to 85% recently?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No, no. So the difference is between the 85 and the -- 15% are where we have price variation clauses.
Okay.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Okay. So that shares of price variation clauses as a percentage, I don't think that would have changed too much.

Shefali Doshi

Okay.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

In fact if anything, it would have gone up a little bit, because in the last 2-2.5 years we've been taking a little more government projects as well as our electrical business has been quoting a lot more to public sector which is typically where you get the price variation.

Shefali Doshi

Okay. And what I would like to know is yeah, in case of increasing raw material prices, if you have to take a hit on your margins in case of fixed price contracts. Does it mean that in case if the raw material prices go down you will benefited by that? I mean it will be a improvement for the margins for you?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, absolutely. Which is why I said that while we may have an impact of 3-5% between there are three or fours things you do. One is, you obviously go back to clients and you try and renegotiate the terms. Second is, you ask for price escalation specifically. Third is you ask for variation orders because of scope enhancement. And the fourth is, you can also expect that some, if there is some commodity price reduction or if any vendors pass on any benefits to you then that comes to your margins when you execute the project.

Shefali Doshi

Okay. Okay, thank you sir, I am done. And all the best.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thank you.
Thank you. The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.

Nitin Bhasin

Hi, good afternoon. I was looking at the quarterly numbers, if you look at this quarter numbers your project business has actually dropped to less than half of our entire revenues for this quarter. So do you think this could be the shape of the revenues profile of the company for the next couple of years wherein you've given thrust to your Products business?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

No, well, let me put it this way, it is 50%, so two reasons for that. One is that our Product business grew quite well, I think you saw about 25% growth, coupled with -- we took some decisions on our Projects business which we've been taking for the last two or three quarters now to slowdown revenue which basically means to slowdown execution on running jobs because of the capital employed.

So my sense is that, this carry forward we have needs to be executed. This is not full of projects that are going to be canceled. This carry forward has to be executed. So to that extent, once we get the capital employed under control, you'll again see revenue growing at the rate it has been for the last few years. So I would still expect that segment one would continue to be around 65% of the overall pipe...

Nitin Bhasin

So that is materially even lower than -- if you let's say 2011 out, prior to that you were possibly at 70-74% something like that?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I think around 70 maybe.

Nitin Bhasin

Yeah.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

But yeah, our room airconditioner business is growing very fast and so to that extent that's the one business that will grow a little faster than segment one, and therefore it'll eat into that mix, but it won't become 50-50 as far we can see as of now. You know but...

Nitin Bhasin Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

FY13. Yeah I suppose 65-35 would be, yes.

Nitin Bhasin

Okay. If I was going -- I was actually going through your annual report last year, last year's annual report. If you look at your central airconditioning plant, there is a revenue that you give in the sales contract, that was just growing at 6%, after growing only 4% the year before that. So can you just shed some light on the central airconditioning plant sales contract? Why is this business growing so slow at about 4 or 6% only? And where do you think, you can grow to? That's one.

And similar related to this is the other part of the business again is the others works contract, which grew at about 11%, but your central airconditioning plant grew only at 6%, so this dichotomy.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

So the segment one basically comprises, airconditioning projects number one, which is what you call as central airconditioning projects. There is a Packaged Airconditioning business there which is basically a equipment business. And it caters to medium sized spaces airconditioning, there is a VRF systems which also is part of Packaged Airconditioning, again medium size projects as well as equipment business. But the Packaged and VRF are the equipment dominant business.

There is a fourth category which is Electrical Projects, fifth category is Plumbing Projects, okay. As of now, plumbing you take it as it is in the books of the subsidiary, it is not consolidated here.

Nitin Bhasin

Okay.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

So the electrical as well as central airconditioning, Packaged Airconditioning and VRF systems. For your understanding, what you need to know, which are the markets that are growing, that is basically your question.

See definitely, central airconditioning projects market has shrunk and it may continue market had shrunk and it may continue to shrunk in FY13 also, it is basically IT, ITES, shop, showrooms, boutiques as well as infrastructure projects.

Nitin Bhasin

Okay.

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

The problem is the larger space airconditioning, I do not think there are many projects that are in the pipeline. See whatever has to happen, it's all happened like whether it is Bombay Airport or Chennai Metro or Bangalore Metro, all these things are -- projects are on.

There are no big new projects that are on the anvil. There is hotel orders we're getting finalized but I am not seeing in the coming years anything big boom further happening there. Retail, unless and until FDI in retail comes and people start investing, it is going to be a while. So if you are talking specifically about FY13, airconditioning projects overall market size maybe stagnant.

Nitin Bhasin

Okay. And along side there are two small segments called Spares & Components and Income from Services. Is the Income from Services very much related to your central airconditioning plant sales, where you see plant sales rising and your AMC revenues growing along side?

B. Thiagarajan, President, Airconditioning & Refrigeration Products Group

There is a small correction, the service revenue comes from airconditioning projects as well as Packaged Airconditioning. As of now the Packaged Airconditioning service revenue is growing significantly, it is growing at the rate of 30% or so.

Nitin Bhasin

Okay.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

In central airconditioning there is a time lag basically between the order execution and the service revenue start kicking it. So therefore, the service revenue should grow in that particular business though. The conversions there maybe a limitation because as large infrastructure projects, they get either unbundled or tendered out. It is not necessary as a captive customer they should come to us, whereas IT, ITES, healthcare, these AMCs will come. In case of segments like hotel or industrial or power, they maintain themselves so it is not AMC friendly. So between central and packaged our service revenue growth will be from packaged.

Nitin Bhasin

From Packaged business okay. Sir in the beginning there was a question by one of the participants, he was asking about the competitive intensity increasing with couple of people coming into the business, one is the civil guys and one is these product guys. We've been ordering in certain tenders of HVAC whether it is AIMS and others, is the civil companies like Simplex and the others, they are all bidding for these kind of jobs hoping to get these turnkey solutions.

So do you think from here on, increasingly even if you were not participating as a primary bidder, your clientele would be becoming, we're moving away from a direct client to a general contractor as a client?
Yeah, maybe. So that trend has been on for a couple of years now, I talked about this in a couple of calls. So AIMS is an example where they went for a bundle, and then if you want to participate you have to work with a general contractor which is obviously from the preference from a capital employed point of view. But having said that, the airport authority has reversed that and now has gone back to issuing airconditioning outside the civil scope, metros have gone back and changed from under the general contractor to direct, power that NTPC, BHEL, all of them continue to keep it outside.

So in fact AIMS is turning out to be an exception here. But we don't know which way the market will move, but from what we can see from these large government spenders, they are still preferring to keep it outside the scope of civil.

Nitin Bhasin

Prefer to keep it out of civil, is it -- because what we see is most of the civil guys are always bidding on wafer thin margins and their working capital cycles are always very poor. That's why impact your business also if the general contractor is not performing in the best manner.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. Absolutely.

Nitin Bhasin

Okay. Sir thanks a lot for your answers.

Operator

Thank you. The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.

Sanjeev Zarbade

Yeah. Sir I thank you for taking my question. It was regarding the electronics business sir, basically, typically of course the industrial slowdown would have actually slowed down the business. But how is the outlook from this segment because the margins in this segment are typically much better than the other business?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. So we have -- I will answer the outlook in two ways. We have two parts of the business; one is an electronics business and the other is an industrial systems business.

The electronics business as you know caters to institutional sales including whether it's healthcare or it is labs et cetera. There -- while there isn't any major slowdown demand, we are not seeing a huge growth in that business, it's a fairly mature business for us, it's growing in single digits.
The industrial systems side of the business which is pumps, valves, industrial projects, disruptive, non-disruptive testing machines et

cetera, which cater to automotive, steel, power, cement, all of that. We are still seeing a fair amount of opportunity and growth there now. We are watching it, because obviously that whole part of the business will be linked to industrial CapEx. And industrial CapEx as we all know is under pressure, I have a feeling that because we are in very niche and very specialized areas in these large buying segments, we are still able to drive growth, but as we -as this business grows and it becomes more mainstream which is part of what we are trying to do, we will fall into the regular industrial CapEx cycle and then things may get impacted.

For the time being, for the next two to three quarters we have seen fairly robust growth, in the current portfolio of what we sell, but I don't know going into FY13 how the outlook is going to be, if the trend in industrial CapEx continues at the current rate.

Sanjeev Zarbade

Okay, yeah, because sir in the previous year, actually run rate in the second, third and fourth quarter in this segment was around 65, 60 crores. So before that till FY10 we were in this segment at around 35, 40 crores order levels on a quarterly basis. So from here on can we revert back to the 60 crore odd kind of a run rate or...?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, so like we mentioned this business looking at it on a quarterly basis is very difficult, but on an annualized basis, we are still expecting some growth in FY12, which you can assume. Again like I said going into FY13 we will have a carry forward order book there. But I am not sure about new order inflow as we move toward the end of this year and into the new year, because clearly cement, steel, power, are getting affected by the overall economic situation.

Sanjeev Zarbade

Right. Thank you sir, and all the best.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Thank you.

Operator

Thank you. The next question is from the line of Ankit Babel from PINC Research. Please go ahead.

Ankit Babel

Yeah sir, Ankit here.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director Ankit Babel

Sir see, since most of your contracts are on fixed price nature, we would also be subcontracting a part of our contract to our subcontractors, so don't we -- when we subcontract do we do it on a fixed price nature or it's on a variable price nature? When we subcontract a part of our contract to our subcontractor?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. So I will just clarify, unlike civil contract where a large percentage of the contract value is labor, which is variable in nature, in our contracts, in MEP contracts the bulk of the cost is in equipment and material. And equipment and material is obviously negotiated purchased from multinational as well as domestic suppliers.

There is a smaller percentage of labor that we do subcontract. So really it doesn't come down to begin able to pass on any fixed price part of the contract down, it is purely a negotiated purchase of various equipment and materials. So to that extent our ability to push that risk down is limited, what we are able to do as a contractor in this field and given the nature of equipment and the materials that we buy, we are able to push down the terms of payment pressure as well the linking the inflow and outflow that's the extent of what you can do as an

MEP contractor. You can't actually pass on the price risk.

Ankit Babel

Okay. Because I was just wondering since 90% of our contracts are on fixed price nature and this volatility will continue to infinity, so means how are we going to -- reduce the volatility into our business going forward, because if commodity -- just because of commodity prices there is so huge variation in our margins and profitability. So at the time of planning, at the timing of bidding for the contract what kind of contingencies we already built-in? And to that extent, we are safe as far as the rise in commodity prices are concerned. So how we manage actually the whole contract?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, that's a -- I mean there is a very long answer to that question. But the short answer is that you have to do your estimation correctly and we have internal guidelines that we issue to give guidance to our teams on what kind of contingencies and what percentage and how large a contingency to take based on the nature of the contract, the duration of the contract and the nature of the customer.

Where things have obviously gone wrong in this carry forward is that we have underestimated the durations and the gestation period of these projects, we did not anticipate that projects that should have taken 12 months are now taking 24 months.

Ankit Babel

Okay.
Due to the external environment. It's not an internal ability or execution capability problem, it's a market, and when we decided six months ago that capital employed is more important than pushing the progress on projects, there is obviously a natural impact on while the revenue slows and on a P&L basis you begin to see a shrinkage in margin, really what's happening is that the lapse time of that project is increasing, and to that extent you are holding that risk on that project for a longer time. So it's a fine balance between pushing it out too far as well as executing quickly and then getting stuck with a large capital employed.

So I think going forward what we've -- we're doing for the last six months and we continue to do, and so we're getting a lot more cautious about our planning. We are estimating in delays based on the city, based on the particular project, we're actually starting to look at market data to try and understand that if it is a hospital project in South Mumbai, then what is the demand for that project in South Mumbai.

And therefore what can one expect to be the lapse time for that project, and then we cost accordingly. So that's a type of insight we are trying to drill down to, to try and improve the quality of booking. But given the understanding we have of the market, we are fairly confident that we should be able to do a better job of estimating all of this as we go forward.

But to that -- and of course while we do all of that, there's always an ongoing effort to try and introduce price variation clauses into all our contracts. We are succeeding one-by-one on the electrical front, where price variation tends to be a more accepted practice. We are struggling in the airconditioning and the plumbing, firefighting space where it has not historically been a norm, but we are hoping to be able to move that along as the coming quarters pass.

Ankit Babel

Sir that's where I was coming in from like, whether your execution cycle which was originally 12 months and if that has now increased to 24 months and where you don't have any control, in that case why can't we go to the client and ask for the variation, because it's from their side that the projects have been slowing down, and not because of your side. So why -- what are the chances that out of 100 say 80% of the claims would be accepted by the client or 70% would be accepted. So what is that range?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah. So that's what we are on right now is actually going after all of this based on delayed projects going back to customers and in many cases if a delayed project has been dormant for some time and is restarting, we insist that we will not start unless we get price revisions for example. So there are ways and means that we are employing. I think what I am trying to do on this call is give you a sense of, if the market continues at its current rate of cost, and we are unable to bring back some of this margin from our customers through all of these efforts, then there is a potential of possible impact of 3 to 5 %, but I am -- I continue to be hopeful that we will be able to recover at least a part of this.

Ankit Babel

Okay. So this is the worst case which you are anticipating?
Yes.

Ankit Babel

Okay, sir my last question is, you have always remained a low debt company, but last year your debt level on a consolidated basis was around 445 crores. And also considering pressure on your working capital which you have been mentioning that you are facing problems on receivables and all. What could be your debt level at the end of the year approximately sir?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

We -- I don't think we have anticipated bringing down the debt levels too dramatically, we are -- it's -- a lot of it has to do with it. So one is there is an inventory build-up in these numbers in Q1 which will obviously get liquidated.

Over and above that as we force closed and short closed projects, old projects and move them out of the order book, we are expecting to be able to bring down that capital employed by, if we do a good job by about 25%. So, but that's an internal target if we are able to pull down capital employed by 25%, obviously debt levels come down by that amount. But we have to, there is a lot work to be done before we get there.

Ankit Babel

So you are expecting this 445 crores to come down? Which is -- as of now which is 500 crores.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah.

Ankit Babel

So this should come down say by, below 400 also, this is what you are targeting internally?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

We are internally targeting that, whether we are successful is what we got to watch.

Ankit Babel

And what would be the average cost of the debt sir? What rate of interest we are paying?
Average cost, I think is about is about 6 to 7%.

Ankit Babel

So it's a domestic or international borrowing because in domestic 6 to 7% is too income cheap.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Yeah, it's a mix of both.

Ankit Babel

So approximately sir could you give the breakup?

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

I don't have that, but I am sure I'll be able to send it to you, I'll ask someone to send it to you.

Ankit Babel

Okay, fine. Thank you so much.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Okay. Thank you.

Ankit Babel

Thank you.

Operator

Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to the management for closing comments. Please go ahead sir.

Vir S. Advani, President, Electro Mechanical Projects Group and Executive Director

Operator

Thank you gentlemen of the management. Ladies and gentlemen on behalf of Blue Star Limited that concludes this conference call. Thank you for joining us and you may now disconnect your lines.