

November 2, 2021

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

Dear Sir/Madam,

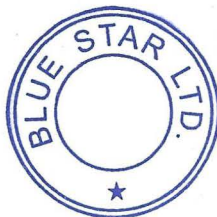
Sub: Earnings Call Transcript – Q2 and H1 of FY22

With reference to our letter dated October 14, 2021, and pursuant to Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith the Earnings Call Transcript pertaining to Q2 and H1 of FY22 Financial Results of the Company.

The aforesaid information is also being made available on the website of the Company at www.bluestarindia.com

Kindly take the same on record.

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



Rajesh Parte
Company Secretary & Compliance Officer

Encl: a/a



Blue Star Limited
Q2& H1FY22 Earnings Conference Call”

October 29, 2021

MANAGEMENT: MR. NEERAJ BASUR – GROUP CHIEF FINANCIAL OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Blue Star Limited Q2 & H1 FY22 Earnings Conference Call. We have with us today from the management Mr. Neeraj Basur, Group Chief Financial Officer of Blue Star Limited.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. Neeraj Basur. Thank you. And over to you, sir.

Neeraj Basur: Good morning, ladies and gentlemen. This is Neeraj Basur. First of all, I hope you and your families are healthy and are safe.

Today I will be providing you an overview of the results of BlueStar Limited for the quarter and half year ended September 30th, 2021.

I. Financial Highlights:

The quarter commenced on a strong note with extended summer in the northern parts of the country. There was healthy demand and robust volume growth for room air conditioners and refrigeration products compared to Q2FY21 with the ebbing of the second wave of the pandemic and the consequent easing of restrictions and improvement in consumer sentiment. Commercial, manufacturing and other institutional segments also revived. Most importantly, the collections were healthy resulting in substantial reduction in borrowings. However, escalation in commodity prices, logistics costs and INR depreciation resulted in margin pressure.

Financial highlights for the quarter ended September 30, 2021, on a consolidated basis, are summarized below:

-Revenue from operations for Q2FY22 grew 37.4% to Rs. 1239.75 crore as compared to Rs. 902.12 crore in Q2FY21.

-EBIDTA (excluding other income and finance income) for Q2FY22 was Rs 70.70 cr (EBITDA margin 5.7% of revenue) as compared to Rs 55.08 cr (EBITDA margin 6.1% of revenue) in Q2FY21 due to the impact of increase in the input cost coupled with the roll-back of cuts in discretionary spends.

-Profit before tax grew 107.9% to Rs 47.44 cr in Q2FY22 as compared to Rs 22.82 cr in Q2FY21.

-Tax expense for Q2FY22 was Rs 15.99 cr as compared to Rs 7.42 cr in Q2FY21. Effective tax rate for Q2FY22 was 33.9% as against 33.0% for Q2FY21.

-Net profit for Q2FY22 grew by 104.2% to Rs 31.45 cr as compared to Rs 15.40 cr in Q2FY21.

-Carried-forward order book as of September 30, 2021, grew by 5.5% to Rs 3185.91 cr as compared to Rs 3019.57 cr as on September 30, 2020.

-Capital Employed reduced to Rs 938.14 cr as on September 30, 2021, as compared to Rs 1124.27 cr as on September 30, 2020, on account of continued focus on working capital efficiencies.

-Prudent working capital management enabled us to end the quarter with a net borrowing of Rs 44.34 cr (debt equity ratio of 0.05) as compared to a net borrowing of Rs 344.06 cr as of September 30, 2020 (debt equity ratio of 0.44).

II. Business highlights for Q2FY22.

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

Segment I revenue grew 33.8% to Rs 723.40 cr in Q2FY22 as compared to Rs 540.83 cr in Q2FY21. Segment result was Rs 46.54 cr (6.4% of revenue) in Q2FY22 as against a profit of Rs 34.41 cr (6.4% of revenue) in Q2FY21.

Order inflow for the quarter grew by 3.5% to Rs 709.13 cr as compared to Rs 684.91 cr in Q2FY21.

1. Electro-Mechanical Projects business

Overall pace of execution of projects and order finalizations improved as compared to the previous quarter. Order inflows from the factories and light industrial sector continued to be encouraging and are expected to offer significant opportunities in the coming months. The inflow of orders from the commercial buildings and infrastructure sectors is beginning to pick up.

We will continue to focus on opportunities in the infrastructure sector such as metro railways, electrical substations and water distribution and sectors such as factories, data centers and warehousing which are expected to throw up good opportunities in the medium term.

Carried-forward order book of the Electro-Mechanical Projects business was Rs 2240 cr as on September 30, 2021, as compared to Rs 2070 cr as on September 30, 2020, a growth of 8.2%.

Major orders received during the quarter were from L&W Construction Pvt Ltd (Hyderabad), Embassy Realty and Max Square Limited.

2. Commercial Air Conditioning Systems

Continued traction in the healthcare, pharma, industrial and government customer segments coupled with early signs of recovery in key segments, namely, retail, IT, and educational institutions enabled a good growth for the commercial air conditioning business during the quarter.

We continued to maintain our number 1 position in Ducted Air Conditioning, 2nd position in VRF and 3rd in Chiller product categories.

Major orders bagged in Q2FY22 were from Late Meenatai Thackrey Covid Hospital NMMC, Bharatiya Reserve Bank Note Mudra (Mysore), NTPC Ramagundam, Reliance Retail, ONGC, Ankaleshwar and ISRO (Sriharikota).

3. International Business

The faster recovery in the Middle East markets enabled strong growth in revenue during the quarter. Demand for both air conditioning and refrigeration solutions improved across SAARC and the Middle East markets.

The ongoing Dubai Expo 2020, the just concluded IPL and the upcoming T20 cricket world cup offered good opportunities during the quarter in the UAE.

The projects business in Qatar continued to do well with a pick-up in order inflows and execution of projects. The operations at the joint venture at Malaysia continued to be impacted during the quarter due to lockdown restrictions imposed there on resurgence of COVID-19.

We continue to explore new markets for business opportunities and expanded our exports business to Tanzania.

Segment II: Unitary Products

Segment II revenue grew 42.7% to Rs 454.71 cr in Q2FY22 as compared to Rs 318.65 cr in Q2FY21. Segment result was Rs 23.26 cr (5.1% of revenue) in Q2FY22 as compared to Rs 11.73 cr (3.7% of revenue) in Q2FY21.

1. Cooling and Purification Products business

Despite extended monsoon, our revenue grew 35% over Q2FY21 in line with the market. We maintained a market share of 13%.

Upgradation of residences and the revival in the light commercial sector are driving the demand. As in the past, tier 3, 4 and 5 markets constitute more than 60% of our revenue. Our re-jigged product portfolio for addressing the belly of the market is helping us to compete effectively.

We have further consolidated our position in the e-com space. Dealer network expansion in Northern India is on track.

We have applied for PLI benefit for sheet metal components and heat exchangers. Blue Star Climatech Limited, the wholly owned subsidiary has commenced construction of the new factory for room air conditioners at Sri City and the same is expected to be commissioned by October 2022.

Due to the unprecedented increase in the commodity prices and logistics costs, we have implemented price increase of 3% effective September 1, 2021.

2. Commercial Refrigeration business

Pick up in consumption in the commercial food segments coupled with continued traction for the medical and supermarket refrigeration equipment enabled a growth in revenue for the commercial refrigeration business during the quarter.

Additionally, demand for storage water coolers and bottled water dispensers have also picked up due to the partial opening of educational institutions and commercial establishments.

During the quarter, we launched new variants in storage water coolers and angular glass top freezers which offer better product visibility and merchandising.

We continue to maintain our leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms.

The new Deep Freezer plant at Wada shall commence commercial production from January 2022.

Major orders were bagged from Reliance Retail, ITC Fortune hotels, SRL Ltd., Omega Systems and Zydus Cadila.

Segment III: Professional Electronics and Industrial Systems

Segment III revenue grew by 44.5% to Rs 61.63 cr in Q2FY22 as compared to Rs 42.64 cr in Q2FY21. Segment result is lower at Rs 9.83 cr (16.0% of revenue) in Q2FY22 as compared with Rs 8.15 cr (19.1% of revenue) in Q2FY21 due to product mix.

Revenue for the quarter grew on the back of a few high value orders received in the data security solutions, non-destructive testing, and healthcare businesses. The data security solutions business continued to do well, led by the various digitization initiatives in the BFSI sector. The Testing Machines business is also witnessing growth with a revival of investments in the manufacturing sector.

Major orders were bagged from State Bank of India, Federal Bank, HDFC Bank, Bharat Electronics Limited and Jio Platforms Limited to name a few.

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

III. Business Outlook

With the business environment returning to near normalcy, and the upcoming festive season, the demand for our products and services is expected to be robust. We believe that with the acceleration of the vaccination drive, the impact of the third wave, if any, shall be minimal.

With the revenue reaching pre-covid level in the 2nd quarter, we expect the growth momentum to continue through Q3 and Q4 leading up to the next summer season. The pricing corrections will continue depending on the input costs and at the same time, product cost rationalization through value engineering and alternate designs as well as operating cost reduction will be undertaken to counter the margin pressure.

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

Moderator: The first question is from Bhoomika from DAM Capital.

Bhoomika: I want to understand the margin profile for both EMP and Cooling segments. Both have seen almost a new normal reversion given the lean period for cooling products and EMP back to the historical 6% to 6.5% kind of margin profile.

So, just wanted to understand with the kind of raw material increase for you UP, is the 3% price hike that you have taken in the month of September good enough to kind of come back to the 8% kind of normalized level of margin on an annual basis as we move ahead, or will the industry need to take further price hike. Also if you can talk about other players if they have also taken price hikes as well?

Neeraj Basur: Of course, there are headwinds around raw materials and other input costs increases, which all the players have been facing for the last few quarters, and particularly the last couple of quarters. As a consequence, we have taken multiple price increases across all the businesses since January this year. These price increases to a very large extent have helped us absorb the impact of the input price cost increases.

We have also substantially rolled back the discretionary cost cuts, which were introduced last year. So, the operating cost is now at a normalized level. The margins that we have reported are after absorbing the impact of the normal operating cost levels. The headwinds that we are

facing on input costs have been neutralized on account of the price increases and continued cost optimization.

As far as further price increases are concerned, we continue to watch the emerging trends on the input cost situation, and if needed, we will consider further price increases as may be appropriate. Our understanding is that most of the players have also taken and effected price increases. This is an evolving situation and we will consider further action as the situation warrants.

Bhoomika: Would it be fair to say that there would have been some low cost inventory, because there was inventory of the summer season, which was still there with us, this would have also helped a little bit in terms of the margin profile in the current quarter?

Neeraj Basur: Inventory didn't offer a very substantial buffer. Our Inventory levels at the end of Quarter 1 were a little higher than normal, but were much lower compared to the levels at the end of Q1FY21. The higher inventory that we were carrying at the end of Quarter 1 has been fully liquidated. Our inventory holding level is normal now. The advantage of lower cost inventory would have been there maybe for the first 45 days of the quarter.

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

Ravi Swaminathan: My first question is with respect to the project business. So, we had talked about good traction returning back in the infrastructure project like Airport, Metros, even Data Centers etc. So, can you quantify to us in terms of say either in terms of bid pipeline compared to say last year or say previous year, as to how that would have moved? Would it have seen a substantial increase? If you can give some clarity on that it would be great?

Neeraj Basur: We have an order book of around Rs. 2200 crores in the projects business as at end of September this year as compared to Rs. 2000 crores as at September 2020, and that's one data point.

The other data point is our order inflow for the quarter, was about Rs. 700 crores as compared to Rs. 680 crores last year. The market is still coming out of the lockdown disruptions specifically impacting some of our customers. Our greater focus is on light industrial sector, on infrastructure such as Metro Rail, Electric Substations, Factories, Data Centers, Warehousing, and Healthcare. These are the customer segments which we find the traction is reviving quite encouragingly.

We are still looking at the traditional customer segments, such as commercial real estate and privately funded infrastructure projects a bit carefully, because that's where the overall impact of COVID was higher.

The order book looks healthy and the traction is normal in the context of the scale of disruption that we have all been through. Going forward, we will continue to remain optimistic in terms

of adding new customers, as the economy continues to revive further, which will help this particular category continue to register good growth.

Ravi Swaminathan: Second derivative question is, so will the orders from the infrastructure projects like Metro, Airport and Data Center, will it be enough to compensate or more than compensate for the softness in the commercial real estate space.

Neeraj Basur: We have seen that trend in the last few quarters. In the light industrial sector, we have seen revival of private CAPEX in the manufacturing sector driven by the PLI and the focus on Make in India initiatives. That's a good development. The focus on government infrastructure also continues. Projects for privatization of Airports, Metro Rail, etc. continue to get tendered reasonably frequently and the expansion of the digital footprint, which got accelerated in the last two years, has resulted in increased demand of data centers. The expansion of E-commerce is driving demand for additional Warehousing space. All these are good customer segments for us to consider, in terms of our own expansion and growth opportunities. And that's what we have been focusing on.

Ravi Swaminathan: My second question is with respect to the Cooling Products business. Past six to nine months, what would have been the absolute price increase that we would have taken, would it be in the 10% to 12% range and the kind of revenue run-rate that we are doing currently for the full year for air coolers, air purifier and water purifiers? If you can also talk about the profitability of these individual products or products to an extent that would be great.

Neeraj Basur: We have taken price increases since January this year and the increase till date ranges from 12% to 14%. We have taken it in three to four installments in both the room ACs and the commercial refrigeration products. The price increases were necessitated to partially offset the impact of the input cost headwinds.

As far as the profitability is concerned, we expect to come back to our desired profitability margin profile between 8% to 9% by Q4. Profitability for the financial year as a whole will continue to be impacted due to Q1 of this year. The margin profile in this segment will start looking better and more encouraging by the time we get to Q4.

Ravi Swaminathan: The air cooler, air purifier, water purifier, sorry I missed the run rate, revenue run rate at which we are going now?

Neeraj Basur: We normally update you about the segment as a whole and do not necessarily drill down into various product categories.

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

Nitin Arora: Just one question from my side on the kind of spends we are doing in the North market for the UCP segment, and the kind of hirings and things we are making there, can you tell us, when we saw these movement in the North market, in your latest results, how has been the response of a consumer to our products, especially in the new ranges, what we have launched? If we can

throw some light, how the channel is responding and taking stocking up your new product range, especially in the North market?

Neeraj Basur:

It's been quite encouraging and we have been working on the Northern markets for over a couple of years now. It has been a mix of initiatives such as expansion of the channel and better engagement and deeper connect with the channel partners.

Another initiative is to compliment this with the mass premium product portfolio which we launched to address the belly of the market in terms of competitive price points as well as the quality perspective. The combined impact of these initiatives has been encouraging.

North and South now contribute equally at around 35% each of our all India sales followed by West and East. Till about a few back North used to be relatively lower than South and the West regions. The overall efforts that we have undertaken to supplement and grow our Northern markets is beginning to show good results and is paying off.

Nitin Arora:

I was asking this question, because when we launched in previous season, which got bad because of the COVID, quite different category of products coming into North and then the COVID came. So, this season, you feel that, some market share movement needle can happen for us, in the North market this time?

Neeraj Basur:

Our product portfolio is not crafted for any specific region and is uniformly offered across all the regions. There is no product portfolio level differentiation needed as the portfolio itself is quite comprehensive. It caters to the requirements of most customer segments. A combination of expanding the channel reach as well as getting the product portfolio to become more attractive for a larger number of customers is helping us not just in North but also in West and South.

Nitin Arora:

Would you like to change any guidance on the EBIT margin of the UP segment, I remember, correct me, if I am wrong, 6% to 6.5% was our whole year guidance there. Would you like to change given the kinds of pricing increase has happened or you will still wait one more quarter to look more of a stability and how it really pans out?

Neeraj Basur:

We are still not over with the pandemic. While the worst seems to be over, the pandemic has not gone away and the input cost headwinds are still pretty strong. We continue to take several actions in order to manage and respond to these challenges. We hope for a very normal full financial year FY23. We are looking to exit FY22 on a positive note with a greater degree of normalization, both internal as well as external.

Moderator:

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

Bhavin Vithlani:

The first question is on the Unitary Cooling, so 43% growth, if you could help us break that between what could be for the room air-conditioner and the commercial refs? The reason I am asking is a couple of quarters ago, you mentioned that there could be a near term bump up because of special refrigeration for the vaccination.

Neeraj Basur: The Room ACs as well as the Commercial Refrigeration products are doing equally well. In terms of growth it will be slightly better in the Commercial Refrigeration space. I had mentioned about a growth of 35% in the cooling and purification products over Q2FY2. The refrigeration products have done a little better than the room AC products. Directionally, they are both demonstrating good and quite encouraging growth opportunities.

As far as the Commercial Refrigeration products are concerned, the vaccination driven demand which started last year worked well in the last financial year and part of this financial year as well. Now that the vaccination program is maturing effectively across the country, we don't think that will continue to funnel any significant opportunity going forward as the infrastructure that needed to be created in terms of cold rooms and vaccination equipment has been created.

We however continue to see encouraging opportunities for the commercial refrigeration products in the supermarket, medical, healthcare and pharma sectors. As the educational institutions begin to open up, the traditional sectors for the refrigeration products will also start getting normalized.

Overall, it's a very balanced situation in the UP segment, and directionally the opportunities will continue to be equally encouraging for both room air-conditioners and Commercial Refrigeration products.

Bhavin Vithlani: If you could just help us on the Sri City expansion, what's going to be the phase wise capacity because we talk about a considerable expansion in terms of our install base? A related question is, are we also targeting exports market and if you could also just highlight about the efforts taken towards building the export market?

Neeraj Basur: Sri City expansion has just got started. We just broke ground a few weeks ago. The project is expected to get commissioned by October, 2022. It will be a phased rollout and we will start augmenting our room AC manufacturing capacities there, to begin with. We will inform you over a period of time about the installed capacities that would come up. Since it's a greenfield project, we will look at significantly expanding our capacities beyond what we already have in the Himachal plants.

Over a period of time, once we have catered to our domestic requirements, we will also consider exporting from this plant. As of now, most of our exports are focused on the central air-conditioning products and related solutions. There is a market for room air-conditioning products exports as well. However, our priority will be first the domestic market as far as the room AC products are concerned. This will mostly be visible in FY24, because by the time this plant goes live, it will be the fag end of FY23.

Moderator: The next question is from the line of Anupam Gupta from IIFL Capital.

Anupam Gupta: Your capital employed in the Unitary Product segment is pretty high. Is this in preparation for the raw material thing? Does it cover the disruption which you are seeing in the freight movements for the second half?

Neeraj Basur: The increase in the Capital Employed in Segment 2 is on account of a couple of factors. As you are aware, a new plant for expanding our deep freezer manufacturing capacity is getting commissioned in the next couple of months in Wada. We have incurred capital expenditure, for that capacity enhancement, which is getting reflected as part of a Segment 2, capital employed.

We have also accelerated procurement of some items of inventory because of the inordinate increase in lead times as well as disruptions that continue especially of imported components. We have stocked up some components in anticipation of production requirements for Q3 and Q4.

The capital expenditure that is getting incurred on the Sri City project also gets rolled up to the capital employed of segment 2.

Anupam Gupta: My second question is relating to the project business. So, the way I see it, your commentary there is really optimistic in the sense you are talking about healthy traction across segments and you have also seen recoveries in your receivables, as well as your margin are up this quarter. So, should we read like, let's say in the next couple of years the growth can pick up meaningfully and you can maintain these sort of margins here with the current working capital cycle or is it optimistic to read it that way?

Neeraj Basur: A combination of the growth coupled with the margin profile we can expect to achieve for the segment, taken together with the cash flows are the three elements that triangulate the overall balance of growth and profitability for Segment 1.

We have balanced it out notwithstanding the disruptions and the uncertainties that continue to prevail. The way we have been able to execute this balance for the last few years is helping us. The reopening of the market and the traditional customer segments which were subdued for the last five quarters should give us a little bit of additional positive push in terms of the opportunities and the landscape. The order book is healthy and encouraging and we feel that as long as we continue to stay focused sharply on execution excellence as well as the fundamentals, we are optimistic about the prospects from Segment 1.

Moderator: Thank you. The next question is from the line of Aadesh Mehta from Motilal Oswal AMC.

Aadesh Mehta: How do we visualize your opportunity in data centers? Would you have some sense on what kind of order book would we benefit per Megawatt of CAPEX in data center.

Neeraj Basur: There are two sets of factors which are playing out. First and foremost, because of regulatory reasons, the need to house and host data within India has increased substantially. There is a

requirement arising from data confidentiality and security concerns and there is a regulatory push across several sectors which need to house their customer database in India, to do this.

The second reason is more connected with the way digitization and digital footprint across sectors and business processes have increased on account of the pandemic related imperatives. A combination of these requirements is creating opportunities in the data centers sector. A MEP project for data centers involves specialized experience and knowledge because a data center which will physically house the computing hardware, servers etc. will need specialized air-conditioning and electrical work. That's where our experience and past track record or the pre-qualifications we have plays a good role.

I may not be able to give you a specific number, but the overall funnel of discussions in this space looks good. We give a high level breakup of our order book as part of the update for Q4 into various customer categories in our Segment 1. We will review this at that time and consider giving breakup for this line. At this point in time, it looks healthy and encouraging and our existing experience in this space is helping us.

Aadesh Mehta: How do you see the demand environment right now, especially on the consumer side?

Neeraj Basur: The demand, even in Q2 was good. I would say because notwithstanding the unseasonal rains and the unpredictable weather pattern, we saw good demand momentum specifically at the beginning of the quarter, partly since Quarter 1 was impacted and there could have been some spillover impact.

As we step into Q3 which is a festival season, we see no reason why the consumer sentiment will not be positive, as the customers are witnessing increased level of normalcy around them. We did experience some of this in Q3FY21 as well. We remain quite hopeful that the customer sentiment on the demand side should remain positive.

Moderator: Thank you. The next question is from the line of Anupam Gupta from IIFL Capital.

Anupam Gupta: What should be the tax rate FY22 onwards and what would be the CAPEX which one should assume for this year and next year?

Neeraj Basur: We expect to migrate to the lower 115BAA tax rate of 22% plus surcharge next year, but the effective tax rate could be somewhat higher, in the range of 28% to 30%.

The normal CAPEX of close to about Rs. 100 crores will continue because that's something we continue to incur in our existing plans. In addition to that the CAPEX in our Sri City project will get firmed up by Q4 for FY23. We will share more details on that in Q4.

Anupam Gupta: FY22 tax rate should be full tax rate?

Neeraj Basur: It is likely to be at the same level as that of H1.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I would now like to hand the conference over to Mr. Neeraj Basur for closing comments.

Neeraj Basur: Thank you very much, ladies and gentlemen. With this we conclude this quarter's earning call. We offer you Seasons Greeting and wishing everyone the best of health and stay safe. Do feel free to revert to us in case any of your questions were not fully answered. We will be happy to provide you additional details by email or in-person. Thank you very much and good bye.