Blue Star

Operator: Ladies and gentlemen, good morning and welcome to the Blue Star Limited Q3 and nine-month FY26 earnings conference call. We have with us today from the management, Mr. B. Thiagarajan, Managing Director, Blue Star Limited, and Mr. Nikhil Sohoni, Group Chief Financial Officer, 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 star then zero on your touch-tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. B. Thiagarajan. Thank you and over to you, sir.

Management: Good morning, ladies and gentlemen. It is a pleasure and privilege to interact with you. You might have seen the press release yesterday after the board meeting. I had been indicating from November onwards that this quarter is also going to be a subdued one. If at all one can expect some revival in the room air conditioners growth, it would be with the energy label change that was scheduled on January 1, 2026. Therefore, you will see the results are almost the same as what I had indicated. There is a modest revenue growth and a flat or slight modest increase in the operating profits. Even the carried forward order books indicated a modest growth.

The highlight, while Nikhil will deal with it, the silver lining is that the room air conditioners seem to be returning to the growth path and building up to the Q4 onset of the summer season. The cost control measures that we had implemented seem to be resulting in managing the margins well. Otherwise, it is a quarter which one would like to forget and move forward to look at an excellent Q4. That is where we are. In other words, 2025 was a year where, after many years of significant quarter-on-quarter growth, we faced challenges. Having said all this, I believe that we are doing better than the industry peers. We would have shown higher margins and we would have gained market share modestly by some decimal points. We would like to now focus on Q4 and FY27. With that, I will hand it over to Nikhil for highlighting the details of Q3 and the nine months ended December 31, 2025 results. Over to Nikhil.

Management: Thank you, Mr. Thiagarajan. Good morning, ladies and gentlemen. Let me take you through the financial highlights for the third quarter. During Q3 FY26, the company recorded modest revenue growth despite subdued market conditions. The good news is that for the first time in this fiscal, the room air conditioner business has witnessed modest growth owing to the channel clearing up the inventory ahead of the energy level change deadline of January 2026. Financial highlights for the quarter ended December 31, 2025, on a consolidated basis are summarized as follows.

Revenue from operations for Q3 FY26 grew 4.2% to 2,925 crores as compared to 2,807 crores in Q3 FY25. EBITDA, excluding other income, for the third quarter FY26 improved to 221 crores with an EBITDA margin of 7.5%, as compared to 209 crores and an EBITDA margin of 7.5% in last year's Q3.

Management: PBT before share of profit or loss of JV and exceptional items was marginally lower at 165 crores in Q3 of FY26 as compared to 167 crores in Q3 of last year. Tax expense for the quarter was at 27 crores as compared to 47 crores in Q3 of last year. Pursuant to the notification of the labor codes, as required by ICAI guidance notes, the company has recognized an incremental impact of gratuity and leave encashment amounting to 56 crores on an estimated basis. This non-recurring item is shown as an exceptional item in the consolidated statement of profit and loss account for the quarter ended December 31, 2025. Consequently, the net profit was at 80.5 crores in Q3 of FY26 as compared to 132.5 crores in Q3 of FY25.

Carry forward order book as of December 31, 2025 grew by 1.3% to 6,898 crores as compared to 6,810 crores as of December 31, 2024. Carry forward order book as of March 31, 2025 stood at 6,263 crores. The capital employed as of December 31, 2025 increased to 3,551 crores as compared to 2,763 crores as of December 31, 2024. Net borrowings were at 352 crores as on December 31, 2025 as compared to our net cash position of 102 crores as of December 31, 2024.

Coming to business highlights for the third quarter, Segment 1: Electromechanical projects and commercial air conditioning. Segment 1 revenue grew 8.6% to 1,696 crores in Q3 of FY26 as compared to 1,562 crores in Q3 of FY25. Segment result was 115 crores, representing 6.8% of revenue in Q3 of FY26, as compared to 119 crores or 7.6% of revenue in Q3 of FY25. Order inflow for the quarter was lower by 16.5% compared to the previous quarter. The quarter order book was 1,459 crores in Q3 of FY26 as against 1,748 crores in Q3 of FY25.

In the electromechanical projects business, inquiry momentum from buildings, data centers, and factories was encouraging, but a few large order finalizations were deferred to the next quarter. Hospitals and malls have witnessed strong growth potential, including in tier 3 cities, supporting a favorable medium-term outlook. Commercial office demand remains healthy in select pockets, while data center and factory segments continue to see stable and robust inquiry traction. We continue to remain selective about new order bookings as we focus on effective capital deployment. Since the infrastructure projects' profitability is lower than commercial buildings, factories, and data center verticals, as we approach the closure of these projects, the segment margin gets impacted. The carried forward order book of the electromechanical projects business was at 4,777 crores as on December 31, 2025 as compared to 5,146 crores as of December 31, 2024, a negative growth of 7.2%.

The commercial air conditioning systems business saw healthy order bookings this quarter, supported by strong demand. While the revenue during this quarter was subdued as some product deliveries were shifted to the next quarter, the strong order book gives us confidence in future prospects. Regarding the international business, given that tariff-related uncertainties persist, future prospects for the US business are highly dependent upon the outcome of the India-US trade deal. Despite this headwind, our foray into the US and Europe is progressing well. On account of the change in the business mix, Segment 1 margins were lower at 6.8% of revenue in Q3 of FY26 versus 7.6% in Q3 of FY25.

Segment 2: Unitary products. Revenue was flat at 1,154 crores in the current quarter as compared to 1,164 crores in Q3 of last year. Segment result was 98 crores, which was 8.5% of revenue in Q3 of FY26, as compared to 95 crores or 8.1% of revenue in Q3 of last year. In room air conditioners, as anticipated, the energy label change with effect from January 1, 2026 helped in the reduction of inventory and we witnessed a revival of growth. The company would have gained market share slightly during this quarter. Cost reduction initiatives undertaken since Q1 of FY26 have contributed to the improved margins. The production of the new range of products as per the new energy level norms has begun and the company is preparing for the summer season 2026. We have taken short-term and long-term measures to achieve supply chain resilience. The depreciation of the INR and rising commodity prices will compel us to revise prices upwards in Q4 of FY26. The dealer network expansion is progressing as per plan.

As far as the commercial refrigeration business goes, contrary to expectations that it would rebound during the festival season, the market remained muted. Consequently, all product lines other than storage water coolers degrew. The anticipation is that demand will revive only during the summer season. Due to a focus on cost optimization and overall cost management, segment margins improved to 8.5% in Q3 of FY26. Our data security solutions maintained steady performance.

Regarding the business outlook, while three quarters of this financial year have been challenging, the signs of market revival are encouraging. The company expects Q4 FY26 to be a strong quarter for room air conditioners, commercial air conditioning, and refrigeration products. In the electromechanical projects business, demand from factories and the data center vertical continues to be healthy. In anticipation of robust growth in FY27, the company is focused on expanding distribution reach and continues to invest in R&D;, manufacturing, and digitalization while persisting with cost optimization measures. 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 for questions.

Operator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Our first question comes from the line of Natasha Jain from Philip Capital. Please go ahead.

Natasha Jain - Philip Capital: Thank you for the opportunity and congratulations team on a good quality set of numbers. Three quick questions. First, your UCP top line is flattish, the high-margin commercial business is muted, and yet you have posted margin improvement. Can you call out the kind of cost rationalization that you have done this quarter?

Management: Thank you, Natasha. As you are aware, this question will keep coming. It is a blended revenue of sales pertaining to room air conditioners and commercial refrigeration. As far as revenue is concerned, commercial refrigeration seems to be a problem. It is basically because FMCG-related demand has not come back at all. The ice cream, QSR, and other segments will have to go into expansion mode. We thought with the substantial reduction in GST for food and processed food products, there should be huge demand growth; at least we have not seen that part reviving yet. Room air conditioners is the one that has helped us get growth in revenue.

Their break-up I will not be able to disclose. You all will get it once the GST numbers get published. The margin improvement is basically our own decision not to get into discounting in order to improve the numbers. First of all, you are aware that January 1 was an energy label change. Inventory pressure was there for all brands, and as I indicated in the Q2 result, our inventory situation was much lower. We stopped producing the old products so that we would not be saddled with inventory. If you are saddled with inventory, you will be heavily discounting to get rid of the stock before the deadline. For the benefit of others, a five-star would have become a four-star, and a four-star would have become a three-star. Since three-star is the highest selling SKU, we would have been in trouble if we produced inventory in anticipation of market demand. We took that decision much earlier to slow down production and move towards the new energy label products.

The second part is connected with the variable costs connected with the room air conditioner business. We have been moderating these since May 2025, and those are resulting in improved margins. Regarding what will happen in Q4, I think in January there would have been enough inventory which brands would have pushed into the channel. I do not see January being a great month; it should pick up in February. It all depends on how the summer season begins.

In the meanwhile, three things have happened. First, due to GST, there would have been a 10% reduction to the consumer. Second, the energy label change would have pushed up prices by at least 5-7% for Blue Star products. Third, you have commodity prices and the exchange rate. All this together means the net price to the consumer will be much higher. GST reduction is available, but the energy label change, commodity prices, and exchange rates will result in an estimated 10% net increase to the consumers. Consumers might have believed there would be a 10% reduction compared to last year because of GST, but that is not the case. We will need much more discipline going forward in Q4 and the summer season. We have to watch how the demand is, which is dependent entirely on the summer season, and how pricing in the marketplace evolves from February onwards.

The good news is demand seems to have revived, and there will be pent-up demand. Our intention is to maintain these margin levels in Q4 as well. The industry is bearing several costs: consumer finance, which accounts for 40% of sales and continues to grow; e-waste liability, which is an increasing burden; five to ten-year warranties; and in-shop demonstrators. Moving meaningfully means running the business to deliver an ROCE, and I think an 8.5% margin is the bare minimum one should look for. In a great summer year, one should try to do 9.5%.

Natasha Jain - Philip Capital: This is extremely helpful. Just one clarification. You mentioned that 10% will be the net increase to consumers after incorporating the GST discount?

Management: Approximately. It can vary because you consume old raw material while buying new. The volatility in commodity prices and exchange rates is very high. Building up to the summer season, consumption will depend on that, but I think a net increase in the region of 10% is inevitable.

Natasha Jain - Philip Capital: Understood. One last question. If calendar year 2026 is also bad in terms of summer, how does Blue Star navigate those challenges? What are the other growth levers?

Management: History shows that two consecutive bad summers generally do not happen. Given that category penetration is very low, it should be much better than last year. People will not postpone forever. Our market size is nowhere comparable to China yet. Regarding "weather-proofing" Blue Star, we look at B2B businesses like commercial air conditioning, which is not as seasonally dependent. Electromechanical projects in sectors like buildings, factories, and data centers should not be as affected.

We also look at how much expenditure we can keep variable. For advertising, we often commit in mid-March for the cricket matches, but if the summer is washed out, we cannot recover that. So we are looking at managing variable expenses better. Third, localization is happening in a significant manner for finished goods and components, letting us manage inventory better. The 2025 summer washout was managed far better than the 2023 one because our inventory did not last as long. Even if the summer is bad, the demand will not be that bad because we will be comparing against a weak previous year.

Operator: The next question comes from the line of Rahul Agarwal from Ekagai Asset. Please go ahead.

Rahul Agarwal – Ekagai Asset: Hi. Good morning. Just a clarification on the previous question. The 8–10% net hike is adjusted for the GST cut, right?

Management: Yes. The government is clear that any reduction or increase should be passed on to the consumer to maintain margins. GST reduction was completely passed on, but the energy label change, commodity prices, and exchange rates are pushing prices up.

Rahul Agarwal – Ekagai Asset: Understood. Regarding Segment 1, specifically commercial air conditioning and projects, we typically discuss a 15% CAGR, but you have done better than 20% growth recently. How should we model medium-term growth here over a two to three-year timeframe?

Management: FY26 has been muted due to order finalization delays and liquidity issues. We are extremely cautious about infrastructure projects because they are low margin and long duration. Commercial air conditioning in segments like retail and showrooms has not seen great growth in FY26, but there are signs it will return in FY27. Looking at it today, I would model a CAGR of 8–10% and revise it after the first six months of the next fiscal.

Rahul Agarwal – Ekagai Asset: Sir, the nine-month growth rate for Segment 1 is almost 20%.

Management: Correct, that was from the pending order book, but I will estimate a slowdown for the next six months because order inflow has not been strong.

Rahul Agarwal – Ekagai Asset: Got it. And for commercial refrigeration, what is the medium-term CAGR for that segment?

Management: The category is expected to grow at a CAGR of 12–15% given the growth in processed food, dairy, and pharma. FY26 was a bad year for this as well, but 12–15% is good for modeling. For room air conditioners, despite the failing summer, I would still model 18–20%.

Operator: Our next question comes from the line of Aniruddh Joshi from ICICI Securities. Please go ahead.

Aniruddh Joshi – ICICI Securities: You indicated demand drivers are returning for UCP. Could you elaborate on which regions or product profiles are driving this? Are you seeing growth in metros or tier 3 and 4 cities, and is it premium or value-for-money products?

Management: All regions have done well. Tier 3, 4, and 5 cities will continue to drive growth because penetration is lower there, though it depends on agricultural income. These geographies constitute close to 70% of the market. This is reflected in the entry-level products and consumer finance schemes. The Indian market is driven by an aspirational middle class that is highly price-sensitive and looks for value-for-money products.

Aniruddh Joshi - ICICI Securities: Mr. Mohit Sood has been appointed as Executive Director of the UCP segment. What are the five-year KRAs for him from the board?

Management: Annual KRAs are set by the NRC and approved by the board. Broadly, our goal is to grow faster than the market and gain market share. We want to reach a 15% market share; we are currently around 14%. Second, that growth has to be profitable, maintaining an EBIT margin of about 8.5%. Our ROCE goal is typically between 25-30%. Other KRAs include keeping the brand relevant to new consumers, providing a world-class customer experience, and staying ahead of the curve on sustainability initiatives like energy labeling and carbon footprint.

Aniruddh Joshi - ICICI Securities: Regarding compressors, from July 1, the industry will have to manufacture them in India. How prepared is Blue Star?

Management: It is about whether there is an enough component ecosystem available for us to source from. Since 2023, I have said we need a certain scale to consider in-house manufacturing, but our supply chain resilience program has us well-secured with domestic manufacturing capacities coming up from multiple players.

Operator: Our next question comes from the line of Sonali S from Jefferies India. Please go ahead.

Sonali S - Jefferies India: Could you quantify the inventory situation for air conditioners now compared to the start of October?

Management: For the industry, my estimate is around 8-10 weeks of inventory. For Blue Star, it is lower, likely 5-6 weeks. There has been a substantial reduction since October. A 2-4 week inventory level is normal. We are at about 2-3 weeks of additional inventory, but it is manageable. From January onwards, we typically build inventory for the summer. In March or April, we are even comfortable with 12 weeks of inventory if we expect a strong summer. Since the system has changed and we have local manufacturing, we are less dependent on Chinese imports of finished goods.

Sonali S - Jefferies India: Regarding the 10% price hike, can you bifurcate that between energy efficiency hikes and rising input costs?

Management: It varies by product. In our portfolio, some new energy labels added 5%, others 7-8%. Ballpark, I would say 7% is due to the energy label change and another 8-10% is due to commodities and exchange rates, offset by the 10% reduction in GST. The net increase is around 10%. We have to pass judgment and increase prices for at least a three-month period. We will be looking at this price increase soon as current inventory liquidates.

Operator: Next question comes from the line of Keyur Pandya from ICICI Prudential AMC. Please go ahead.

Keyur Pandya – ICICI Prudential AMC: You mentioned an 8.5% margin for UCP. Is that an aspiration or achievable in Q4 and FY27?

Management: Our Q3 margin is already above 8%. For Q4 FY26 and for FY27, 8.5% is the target. If the summer is extremely good, it could go to 9%. A price hike is not optional; in a category with 8–8.5% margins, you cannot absorb high commodity or exchange rate increases. Also, the wage code related cost is a permanent burden that impacts conversion and service costs. It must be passed on.

Keyur Pandya – ICICI Prudential AMC: For Segment 1, if growth is in the single digits, will that impact margins?

Management: I do not think there is a reason to worry. In commercial AC, prices will increase. In electromechanical projects, we need price escalations for higher labor costs due to the wage code. About one-third of our revenue comes from infrastructure projects, and several are nearing closure. As these projects hand over, costs can go up, which is why Q3 margins were lower. That trend might continue for two to three quarters, but I do not see a concern for huge corrections overall. Modeling a 7% margin for FY27 is reasonable.

Operator: Next question comes from the line of Anupam Goswami from SUD Life. Please go ahead.

Anupam Goswami – SUD Life: Yes, yes. I will tell you. Then no, no, no.

Operator: We will move to the next participant. Renu Beri from IIFL Capital.

Renu Beri – IIFL Capital: How are we working on new product development or JV tie-ups for the data center market, specifically chillers and HVAC solutions?

Management: We are a very large player in chillers, so we do not need external collaboration for those. However, for liquid cooling or cooling distribution units (CDUs), we are exploring multiple tie-ups across geographies under non-disclosure agreements. Many products are in advanced stages, likely 12 months from commercial readiness. In the EPC part of data centers and semiconductor space, we are already market leaders.

Operator: Our next question comes from the line of Deepak from Unify Capital. Please go ahead.

Deepak – Unify Capital: On the EMP segment, can you explain why margins tend to come down closer to project closure?

Management: It includes electromechanical projects and commercial air conditioning. The B2B business has been muted for a long time due to GST and liquidity issues. Infrastructure is the lowest-profit segment within that, and many projects take 3–5 years. As we expedite closure and handover, cost overruns can occur, which impacts the overall margin. However, January has begun well with inquiries coming for finalization. In January alone, we have close to 400 crores worth of orders, which is a record month. It seems to have bottomed out.

Deepak – Unify Capital: The margins in unitary products are good. What are the primary drivers for sustaining them?

Management: We were clear about not forcing ourselves into inventory pressure, so we were not desperate to liquidate stocks at lower prices. Second, we implemented variable cost measures meticulously since April, such as reducing marketing spends and quantity-based sales incentives. It is a continuous process of controlling input costs.

Operator: Our next question comes from the line of Naushad Sri from Aditya Birla Mutual Fund. Please go ahead.

Naushad Sri – Aditya Birla Mutual Fund: If EMP is slowing and commercial AC is growing faster, should we expect margin improvement in FY27?

Management: It is not becoming zero; we are still projecting 8-10% growth for the whole segment. Factories and data centers are good-margin projects. While infrastructure projects nearing closure will weigh on the margin, the overall margin in FY27 should be better than FY26. Our guideline for Q4 is 6.5-7% for Segment 1 and 8.5% for Segment 2.

Naushad Sri – Aditya Birla Mutual Fund: What about exports?

Management: FTAs have been signed but haven't translated into significant business yet. The heat pump market in Europe is slow, and the US has trade barriers. We are focusing on R&D; and manufacturing to become globally competitive so people will come to India to shop, as they did with China. Our export footprint is currently small, but in three years, I think 15% of our revenue should come from exports.

Operator: We will take the last question from Manoj Goel from Equis Capital.

Manoj Goel – Equis Capital: Is the 8-10% growth range for the entire EMP business and commercial air conditioning?

Management: Yes, for the electromechanical project business in its entirety and commercial air conditioning.

Operator: ladies and gentlemen, this concludes this quarter's earnings call. Do feel free to revert to us in case any of your questions were not fully answered and we will be happy to provide additional details. On behalf of Blue Star Limited, that concludes this conference.