Blue Star

Operator: Ladies and gentlemen, good day and welcome to Blue Star Ltd. Q2 and H1 FY27 earnings conference call.

We have with us today from the management, Mr. B. Thiagarajan, Managing Director, Blue Star Ltd., and Mr. Nikhil Sohoni, Group Chief Financial Officer, Blue Star Ltd.

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

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

B. Thiagarajan – Managing Director: Thank you. Good morning, ladies and gentlemen. It is a pleasure interacting with you over this conference call. Thank you for joining.

You may have already read the results. Blue Star's Q2 FY27 consolidated revenue growth was around 21%, and operating profit grew by around 10.5%.

The broad picture is that revenue growth was robust across the segments, and room air conditioners specifically did extremely well on the back of the extended summer season and the beginning of festival-season stocking.

The margins continue to be under pressure. You may recall that after the Q1 results, I had expressed my own disappointment over the profits that we delivered. In fact, I had stated that these were not typical Blue Star results at all, and we were ashamed of delivering those kinds of numbers in Q1.

As we speak to you, I feel much more confident for the simple reason that Q2 turned out to be a period of consolidation, and a lot of initiatives were undertaken in order to get back to the margin levels, specifically in unitary cooling products. We had indicated that we were confident of getting back to at least 6.5%. A lot of work is happening, and I feel much more confident now that we will end the financial year. Of course, it is entirely now going to depend on two big windows. One is the real festival season from Diwali until the New Year. The other one is the pre-summer sales in February and March. This is what will determine the margins.

But we are in the right direction. That is what we can confirm to you. Specifically regarding room air conditioners, I am preempting this so that it should not be repeated in the questions.

My first request is that because this is selective disclosure, please do not ask questions about commercial refrigeration revenue value or EBIT value. We have not been reporting those figures. One day we may decide to report them. As of now, we are not reporting them.

What I can tell you is that room air conditioner growth for the industry as well as for Blue Star has been good. In Q2 on a standalone basis, industry growth would have been as high as 35-40%. We do not know the exact primary sales figure. Blue Star's primary growth is around 42%.

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We estimate industry growth for H1 to be around 30% in value terms, and Blue Star's growth is somewhere around 28-29%. In the process, we have held on to our market share. To recap, we had lost market share in the month of April in tertiary sales. We tried to pass on the price increase aggressively in April. It did not happen. We had to correct the customer offers. We had to correct the prices. In the process, we gained market share marginally from May onwards. In May, June, July, August, and September, we have been gaining the market share that we lost in the critical month of April.

But the margins had crashed, and they are beginning to pick up. As we move to Q3, the margin should improve further. In Q4, if the pre-summer sales are robust, we believe that we will be able to reach the target we gave for this year, of at least 6.5%. We will attempt that for Segment 2.

My estimate for the whole year is that there was a de-growth from FY25 to FY26 because it was a bad summer year. The FY27 season has been good. The extended summer season is continuing. Festival-season indications so far have been good. I think revenue growth for room air conditioners could be as high as 25%.

The next information I want to disclose is that commercial refrigeration, which was doing badly, is showing signs of revival. I think it will begin to grow from this quarter onwards, that is, from Q3 onwards.

Now there are only two concerns that we have. One is a poor monsoon, or a monsoon shortfall, leading to lower demand in Tier 3, 4, and 5 towns. That is one part of the problem. The second part of the problem that can impact demand is interest rates, which are going up. In the process, consumer finance and many other factors can lead to demand beginning to slow down. These are the two apprehensions that we have. But so far, it has been good. Demand is exceeding our expectations.

Fortunately, it is not an energy-label change year. We have decided to rejig our product portfolio. If I were to list 10 or 15 activities that are top priorities, the foremost one would be how to rejig the product portfolio in order to get back our margins in room air conditioners.

The second important part is that, while answering the questions, I will explain the electromechanical projects business. Order booking has been excellent. Revenue growth should pick up from Q3 onwards, primarily driven by the data center segment. The second segment that is doing well is factories. We are defocusing ourselves from the infrastructure segment. Buildings are yet to pick up in a big way.

This is the overall summary. Now I hand it over to Mr. Nikhil Sohoni for his remarks.

Nikhil Sohoni – Group CFO: Thank you, Mr. Thiagarajan. Good morning, ladies and gentlemen. I will give you a short overview of the results for the quarter ended September 2026. Since many of you would have already gone through the results, I will keep the briefing short.

In Q1 FY27, the extended summer season resulted in robust demand for room ACs and helped the company post strong revenue growth. However, margins were under pressure across the businesses due to continued escalation in material costs and our inability to fully pass on the same.

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In the meanwhile, various cost-optimization initiatives are beginning to show results.

The financial highlights for the quarter ended on a consolidated basis have already been summarized and uploaded. I will give you the two key figures that are not covered in the stock exchange releases or the results. One is the carried-forward order book as of September 30, 2026, which marginally grew to 7,229 crores as compared to 7,120 crores as of September 30, 2025. The carried-forward order book as of March 31, '26 stood at 6,923 crores.

The quarter ended with a net cash position of 289 crores as of September 30, 2026, as compared to net borrowings of 417 crores as of September 30, 2025. This improvement was on account of better management of working capital and lower working-capital levels.

Coming to the business highlights, Segment 1, that is, electromechanical projects and commercial air-conditioning systems, recorded revenue growth of 16.3% to 1,936 crores in the current quarter as compared to 1,664 crores in Q2 of last year. In electromechanical projects, during the quarter, order inflows were mainly from data centers, while inquiry inflows were also good from factories. We expect significant growth in order inflows in the coming months. Growth in buildings during this quarter was sluggish as the execution of a few projects experienced delays.

Coming to commercial air-conditioning systems, the commercial air-conditioning business recorded strong revenue growth this quarter, driven by robust demand across the healthcare, education, and industrial segments. On the international business front, with growing acceptance of our heat-pump solutions in the US market, supplies continued despite a challenging supply-chain and logistics environment. We are pursuing the development and testing of products and solutions for a few more OEMs in the US and Europe. We expect this business to accelerate once tariff-related uncertainties are resolved.

The segment result was Rs. 133 crores, which was 6.9% of revenue in Q2 FY27, as compared to Rs. 147 crores, which was 8.8% of revenue in Q2 FY26. The margins, as mentioned, were impacted primarily due to material-cost escalations.

Coming to Segment 2, which is unitary products, revenue grew 29.4% to Rs. 898 crores in Q2 FY27 as compared to Rs. 694 crores in Q2 FY26. In the cooling and purification products business, the delayed monsoon and extended summer supported the room AC business with strong demand. While we have been increasing prices periodically, only a portion of the material-cost escalations could be passed on. In the process, margins continue to be under pressure. The company has embarked on a program to rejig the product portfolio with differentiated and cost-optimized SKUs in order to improve margins.

In the commercial refrigeration business, we are beginning to see a revival in demand. Here again, the inability to pass on the entire material-cost escalation has kept margins under pressure. Thus, the segment result was lower at Rs. 21 crores, which was 2.3% of revenue, as compared to Rs. 43 crores, which was 6.2% of revenue in Q2 FY26.

Coming to the last segment, which is professional electronics and industrial systems, revenue grew by 51% to 97 crores in Q2 FY27 as compared to Rs. 64 crores in Q2 FY26. The segment result was 23 crores, which is 23.7% of revenue in Q2 FY27, as compared to Rs. 6.2 crores, which is 9.6% of

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revenue in Q2 FY26. During this quarter, the company sold its medtech business for a total consideration of 35.6 crores. The transaction was completed on August 31, 2026. Since the company is no longer required to render warranty obligations for the medtech business, the provisions pertaining to the same have been written back, which resulted in improved profitability.

Management: The industrial solutions business continued its strong growth momentum, and security and data-security solutions continued with steady performance.

Coming to the business outlook, we continue to witness robust demand for room ACs during the festive season, and many more orders for data-center MEP projects are expected to be finalized in the coming months. There is a revival of demand for commercial air-conditioning and refrigeration products. The monsoon shortfall, the consequent drop in farm income, and interest-rate hikes can have a potential impact on demand. On the other hand, the conclusion of US trade deals and a possible resolution of the West Asia crisis can be tailwinds. While we remain optimistic about the revenue-growth momentum {? next to FY '27 ?}, our thrust will be on improving margins through price revisions and product-cost optimization.

With that, I open up for questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone 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. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

Participants, you may press star and one to ask a question.

The first question is from the line of Manoj Gori from Equirus Capital. Please go ahead.

Manoj Gori – Equirus Capital: Thank you for the opportunity, sir. When we talk about 6.5% guidance, it translates to around 8% plus UCP, or unitary products, margin during the second half, based on the price hike taken in October and the product rejig. With the current raw-material prices, we are confident that we should be able to deliver an 8% plus margin in unitary products, which would obviously also be aided by operating leverage, given RAC sales and commercial refrigeration picking up. That is my first question.

Management: That is due to many things. First of all, I concede that it is a tough task, but it is a task that has to be accomplished. First of all, it used to be a double-digit margin prior to COVID, then 9%, then 8%, and then suddenly it crashed. In our case, the average may be marginally higher. I am not able to comment on what the whole industry will be in the coming year.

So, we decided, based on the best of our ability, that we need to maintain the right market share and, at the same time, deliver the margin. We concluded that 6.5% is a task that we should undertake. That is where we are.

Now, as you rightly pointed out, the price increase has to be passed on and the product portfolio has to be rejigged. This will mean value engineering, removing certain unwanted features, and using alternate components. It will also mean evaluating whether a certain entry-level product should be

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entirely outsourced.

These are the actions that we will be undertaking. Most importantly, sales are important, and therefore demand will have to hold. A significant amount of this revenue will come from Q4, and that too in the month of March. We are looking at the weather patterns, and this is how it is. It is doable. It is not going to be easy. That is the summary. To your next question?

Manoj Gori – Equirus Capital: Secondly, as you rightly highlighted about demand, somewhere in the second half also we are expecting around 20–25% volume growth. Is that understanding correct?

Management: Correct. We are again comparing with last year when we talk about growth. Last year, we had a lot of hiccups. The very first one was a poor summer. Then we had a blackout period for GST from August 15 to September 22; practically nothing was sold. Even in September, it took another 1 week to 10 days for the GST system to be updated within the company for actual billing to take place. Then there was an energy-label change and a price-increase attempt by various players. This is how the old inventory and new inventory issues continued. On the whole, it was a de-growth year compared with FY25.

So, we are now comparing with FY26. I have a feeling that revenue growth of 25% for the full year will definitely be possible because at least 5% should come from the price increase. So far, we are all struggling to pass on the price increase, but eventually it will be passed on, at least 5%. So, we are talking about volume growth of 20%. Ideally, 25–30% should also be possible if the summer sets in faster.

Operator: Thank you very much. Manoj, I request you to come back for a follow-up question.

I request all participants to kindly limit themselves to two questions per participant and rejoin for a follow-up.

The next question is from the line of Natashaa Jain from PhillipCapital. Please go ahead.

Natashaa Jain – PhillipCapital: Thanks for the opportunity. My first question is again on the UCP segment. I apologize for repeating the margin point. From an external point of view, what I have usually seen is that closer to the season, a lot of schemes need to be passed on to the trade, especially when they are stocking up for the next summer season. Coupled with the fact that there is already inflationary pressure, there could first of all be a risk of down-trading to a cheaper brand. Again, even on the commercial refrigeration side, you have mentioned that there could be a possible dent in rural demand. Commercial refrigeration could probably be more impacted than AC refrigeration. Having said both of these, despite this, are you maintaining the 6.5% guidance?

Management: Yes. Do not worry about the schemes. It is much more complicated. What it means is, what is your average price realization? Schemes are running nowadays almost throughout the year. They are only repackaged for a season, a particular channel, or a particular platform. That is all.

The question is that there are multiple costs involved: advertising, in-shop promotion, consumer-finance schemes, free-installation offers, extended warranties, and so on and so forth.

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Average price realization is what has to be looked at. Right now, there is a raw-material price increase that keeps going up. You are not seeing any softening, and the question is how much can be passed on. Again, you have to compete in the market. Different players have different pricing policies. So, I am not particularly worried about schemes being passed on in a summer season or a festival season. That is not relevant here. What needs to be managed is the ability to pass on the price increase or the ability to take costs out of your own product.

The second part is that Q2 growth of 35-40% should not lead to the conclusion that, because it is already growing, it should continue growing at that pace. Why is it tapering off? I am saying it could taper off. That is why the caution is being given.

Therefore, I am again repeating that we are working towards a 6.5% margin for the full year, which is a tough task, and a lot of work needs to be done. Demand growth of at least 25% for the full year will have to be there, and we are working towards that.

Natashaa Jain – PhillipCapital: Are you seeing any discipline in terms of incumbents not reducing prices? That was a challenge in Q1. Is there any discipline on that front?

Management: Which one? I could not follow your question.

Natashaa Jain – PhillipCapital: What we understood was that the peer set, especially the market leaders, kept discounting in the trade much more than perhaps Blue Star or mid-tier or higher-tier brands, because of which everybody had to take a price cut. Is there also a disciplined approach to pricing from the peer set?

Management: We do not expect that at all because there will be competition. The factory capacity and production capacity in the country today, including all the OEMs put together, are much more than the demand. It will be 1.7 to 2 times the demand if they want to produce; this is what will be available.

This is the fastest-growing market segment within consumer durables. There will be competition and aggression. We do not anticipate discipline or anything of that kind. You have to assume that there will be competition, and you have to compete.

There will be aggressive competition, and everybody will be interested in improving their market share. Everybody will equally be interested in protecting their margin. I would not anticipate anything at all. We need to fight it out in the marketplace, which we have done in the past, and we will do so again.

Operator: Thank you very much. Natashaa, I request you to come back for a follow-up question.

The next question is from the line of Sameer Gupta from IIFL Capital Services. Please go ahead.

Sameer Gupta – IIFL Capital Services: Good morning, everyone. Thanks for taking my question. I have recently started looking at the company, so please forgive me if some of the questions are very basic. I see depreciation going up 57% on a year-on-year basis and also 40% versus what it was in Q4. When I look at the capex reported in the cash-flow statement, it is around 130 crores in the first half. Even if I look at the past 12 months, my estimate is around 330 crores. So, I do not

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understand why depreciation is going up so sharply, and I believe this is a major line item that is also resulting in the margin contraction within cooling products, because overall gross margin for the company, if I look at it, is down just 100 basis points. Why is depreciation going up?

Management: One thing is that I do not think it is related only to cooling. In fact, it is not much related to cooling. We have multiple segments. As you know, we have Segment 1 as well as Segment 2.

The reasons for the depreciation include depreciation as well as amortization. Whatever product-development expenses are there, which get capitalized and are to be amortized depending on the life of that asset, have to be amortized. We have incurred a lot of R&D expenses for international and other businesses, which will also get amortized.

At the same time, the company has also been taking new space and warehouses, and a new office was also taken. Lease accounting also goes through depreciation and amortization because of the applicable lease-accounting standard. The cost of new offices and new warehouses also goes through that line item. It is more a matter of representation; instead of being included in other expenses, it comes in the depreciation line. All of that contributes to it.

Sameer Gupta – IIFL Capital Services: Understood, sir. That is very helpful. My second question is whether you could give some color on the quantum of price hike taken in the RAC segment. I think you said 42% is the primary growth for Q2. What would be the quantum of pricing in this 42%?

Management: In Q2, there was nothing. We announced it in September. It will really take effect only from October.

Sameer Gupta – IIFL Capital Services: But on a year-on-year basis, you would still be benefiting from some price increases, given the BEE rating changes and some price hikes already taken in March?

Management: That really depends on when we are starting the journey. If you are beginning from January, the total cost increase would have been 18%. In other words, in order to manage the cost, you may have to go ahead and pass on something like an 18% price increase. But if, with this 5% that we are announcing, you take into account what was done prior to March and what was done during the season, all of that put together, there is still a gap of around 5%. An average price increase of 13% would have happened. But I am talking about 18% from January, and there is still a 5% gap.

Sameer Gupta – IIFL Capital Services: Do you plan to bridge this in the coming [overlap]

Management: No, including October, it has not been matched yet.

Sameer Gupta – IIFL Capital Services: The cost is only going up further.

Management: Once the October price increase goes through, there will still be a 5% gap. Then the issue is that input costs are still going up. They have not stopped yet.

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Sameer Gupta – IIFL Capital Services: Understood, sir. That is very helpful. I will come back in the queue. Thanks, and best festive wishes. Thank you.

Management: Thank you.

Operator: Thank you, Samir. The next question is from the line of Rahul Agarwal from InCred Asset Management. Please go ahead.

Rahul Agarwal – InCred Asset Management: Hi, sir. Very good afternoon. Thank you for the opportunity. I have two questions. I wanted to revisit the entire construction-contract business. My sense was that earlier we had discussed data-center orders and revenue numbers for FY27, FY28, and FY29. We had also discussed that we were defocusing on infrastructure, and hence that number would go down. My sense is that last year's annual report talks about 3,300 crores of construction-contract segment revenue, and the order book at that point was 4,600 crores, which is now 5,000 crores. Could you help us understand FY27, FY28, and FY29, to whatever extent you can, and how we should look at the overall construction-contract revenue?

Management: First of all, you have to understand that there are broadly four distinct segments, but we look at them as three segments in Blue Star. One is buildings, or commercial buildings, such as malls and hospitals. Then you have infrastructure projects, which could include railway electrification, substations, water projects, and a whole range of infrastructure projects. It also includes metro railways.

The third one is data centers and factories. Factories include solar, semiconductors, and EV batteries, which require some amount of air conditioning and a lot of electromechanical work.

Over the years, the different segments have offered opportunities, and different segments have also created different kinds of problems. In different segments, we have struggled. We have had cost overruns and have not been able to deliver as expected.

Overall, we came to the conclusion that, in the electromechanical projects business, we are not chasing any market share. We will look at margins and free cash flows, and that is all we will do. It has to be profitable. Growth at different points in time is driven by different segments.

As we had explained last year itself, and as we have been explaining this year, there are cost overruns and delays in infrastructure projects, and therefore margin pressure continues there. Therefore, we will defocus from the infrastructure segment.

We need resources for data-center projects and factories. Primarily, growth is driven by the data-center segment. That is how you will have to understand it.

The growth of the data-center segment is unprecedented. We estimate that this year perhaps around 10,000 to 12,500 crores worth of orders may get finalized. We have indicated that we are already close to 2,000 crores worth of orders, and we will do another 2,000 crores. The order booking may be 4,000 crores. By 2030, we have indicated that order booking may be 8,000 crores, based on the projects that have been announced and those that are likely to come up. This translates into revenue of 2,000 crores now, going up to 4,000 crores in 3 years' time.

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In this context, we have also stated that probably by FY30, or Blue Star's 2029-30 financial year, a conservative figure for Blue Star's revenue is 20,000 crores, with 4,000 crores coming from the data-center segment alone.

If you are asking about the revenue figure for all electromechanical projects by FY29-30, it could be something like 6,000 to 7,000 crores. That is an indication that I can give.

As we begin to execute data-center projects, we will increasingly defocus from the infrastructure segment. These projects require resources, are time-bound, and require specialized skills. Therefore, we have no alternative. Why would I take a railway-electrification project somewhere when they are full-fledged EPC contracting companies? We do have interests in products, manufacturing, service, and EPC. This is the reason.

Rahul Agarwal – InCred Asset Management: Understood, sir. To get this right, the current 5,000-crore order book includes about 2,000 crores from data centers, and this 2,000 crores of data-center top line in FY27 will move to 4,000 crores in 3 years. Is that correct?

Management: Correct.

Rahul Agarwal – InCred Asset Management: Understood, sir. Lastly, on CAC and commercial refrigeration, just the growth rates for the first half and the full-year outlook, whatever our best estimate is right now in percentage terms, would be really helpful.

Management: The breakup within Segment 2 is not provided by us.

Rahul Agarwal – InCred Asset Management: Sir, I do not need the breakup. I just need the percentage growth.

Management: Expected growth? Expected growth.

Rahul Agarwal – InCred Asset Management: Yes, just on the percentage front.

Management: Commercial refrigeration is an amalgamation of multiple products. There are water-storage water coolers, bottled-water dispensers, chest freezers, visi coolers, and modular cold rooms. It is highly fragmented. Broadly, it has been a de-growth business, and it continues to be a de-growth business compared with the past. It is primarily driven by deep freezers and cold-chain equipment. The FMCG sector has not been doing well, and therefore expansions are not happening.

We benefit when ice-cream brands, frozen-food businesses, or fast-food chains continue expanding, new dealers are appointed, and new deep freezers are bought by the OEMs. That is the primary driver.

The second driver was quick commerce. If you take FY25, quick commerce came into place and suddenly these dark stores bought equipment in large numbers. Compared with that, there is now a slowdown in FMCG, and quick-commerce infrastructure had come in and has slowed down. Another cycle has to happen; therefore, the business is yet to revive.

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I mentioned in my opening remarks that we are seeing signs of revival because we are receiving inquiries from OEMs for the festive season through the summer season, and they may end up buying. This year, I will be very happy if commercial refrigeration grows by around 10% in H2.

The CAGR for this business should be much higher. India's penetration is very low, and the business has potential. When room air conditioners are projected to grow at an 18% CAGR, commercial refrigeration should actually grow at 25%. For some reason, that is not happening. It is a puzzle or mystery why it is not happening. It is not that we are losing market share.

To add to this, as I mentioned, room air conditioners require a price increase of around 18% because of input-material costs. Commercial refrigeration uses much more steel and much more plastic. Cold rooms also have a lot of metal content and petroleum-based products. The required price increase there is around 24-25%. That is also a cause for demand not growing.

Another factor in commercial refrigeration is that until 2022, you could import from China, and that route is no longer available. Indian-manufactured products are indeed more expensive than what customers could buy directly from China.

This is where we are, but the signs are good. This is the next big growth opportunity for Blue Star. Apart from room air conditioners, in the projects business it is data centers, and in products it will be commercial refrigeration. Commercial refrigeration offers huge potential in India, but it is looking like a never-ending story. That is the problem.

But we are seeing signs of revival, and we are holding on to our market share or market leadership. We expect only single-digit growth this year from that business.

Rahul Agarwal – InCred Asset Management: Understood, sir. Thank you very much, and festive greetings to everybody at Blue Star. Thank you.

Management: Thank you.

Operator: Thank you very much. The next question is from the line of Ravi Swaminathan from Avendus Spark. Please go ahead.

Ravi Swaminathan – Avendus Spark: Hi, sir. Thanks for taking my question. My question is with respect to the project business. What is the contribution of the infrastructure business to the project business, either in terms of revenue or order book? How much drag is it having in terms of profitability? Secondly, in terms of the data-center business in projects, is the profitability of that particular business well above the overall segment-profitability average, or is it closer to that?

Management: First of all, Segment 1 has, as you are aware, packaged air conditioners such as VRF systems, chillers, and ducted systems, as well as the EPC part of the business. The margin guideline for that segment continues to be 7-7.5%.

If that business were only data centers, with nothing else, it would probably be 10-12%. We are yet to enter the execution cycle in a big way because order booking has only happened in the first half. But that is not the case. You have the equipment business there, and you have other projects as well. That is the indication.

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Therefore, our guideline for Segment 1 continues to be 7–7.5%. Many analysts have asked whether, as the data-center portion of that segment keeps growing, the margin will move beyond 7.5%. Yes, it can move to 8.5%. But right now, execution is beginning, and we are yet to fully experience what will happen.

The good news is that these are all 8- to 9-month-duration projects. That is the first good news. They come with excellent payment terms, so cash flow is not an issue. The prices of a few items are based on a base rate, so price escalations may be available in case input costs go up.

On the other side, you need to deploy sophisticated workmen and sophisticated supervisors. We will have to prefabricate quite a bit of the work, not at the site. Fabrication will be limited, and you need a workshop-like facility. A number of other processes are stringent. Therefore, [trails off]

Management: If there are some costs and we are paying for them, net-net the margin should be higher. We will be able to give you an indication only when execution is at its peak, which we believe will be in Q4. You will have some kind of indication then. Right now, we are maintaining 7–7.5%.

There are also questions about whether Segment 1 margin can be double-digit if there is so much demand from data centers. Again, there are packaged air conditioners in that particular segment, and we are not seeing a double-digit margin from them because they are similar to room air conditioners. They belong to the same kind of manufacturing processes and use input materials such as compressors, coils, steel, and copper.

We have said that we are not yet able to determine whether it can achieve that. But if you are saying that I have only a data-center segment, it may have a 10–11% EBIT margin, which is not the case here.

Ravi Swaminathan – Avendus Spark: Understood. With respect to the infrastructure segment, what would be its contribution to overall revenue? If there is any drag, how much is it, and how long will it last?

Management: That particular infrastructure segment has represented different portions of our order book at different times. A job that is booked could be an order of 450 crores, 500 crores, or 600 crores, so it varies from year to year. My rough guess, which I have to verify, is that today around 20% of our billings may be coming from that particular segment, which is shrinking. We are no longer booking any major orders from there.

Ravi Swaminathan – Avendus Spark: Thank you very much. May I request to come back for a follow-up question?

Operator: The next question is from the line of Akshay {? Gatani ?} from UBS Group. Please go ahead.

Akshay {? Gatani ?} – UBS Group: Hi, sir. Thanks for the opportunity. Recently, you mentioned that you are developing basic low-cost products in RAC using alternative components and will outsource some entry-level products. How should we think about the impact of these initiatives on product quality? Does this mean that you can meaningfully reduce price points without

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compromising quality? Is the objective also to narrow the price gap versus the brands that are currently low-priced?

Management: No. Cost take-out will not come at the cost of quality. That is not the principle at all. The terminology VA/VE, or value analysis and value engineering, means that it has to deliver performance in terms of cooling performance and energy-efficiency performance.

Blue Star is known for certain quality standards and durability. If people are buying our product, it is because of those qualities. The next part is, as you are aware, that it comes with a 10-year warranty. In a consumer market, you cannot afford to sell a poor-quality product. It will impact you in any case.

The challenge is how you ensure that you deliver quality, cooling performance, and energy performance at a lower price. That is why it is a difficult exercise.

Cost take-out means that you may remove an unwanted feature. Second, there is a component ecosystem, and there again, more capacity is available. At one point in time, there were not many vendors; now there are many vendors. So, it is your ability to partner with them and determine how much you can reduce the price.

The auto industry is the right example, and it mastered this over the years. It institutionalized the practice of continuously reducing costs. Everything falls within its framework called TCM, which used to be known as total cost management and is now called total competitiveness management. That is what we are working on. You need not worry about the quality parameter.

Akshay {? Gatani ?} - UBS Group: Understood, sir. My second question is on unallocable expenses. If you look at the last two quarters, the ratio to sales is coming down, possibly reflecting lower employee cost as a percentage of sales. Could you help us understand what is driving lower unallocable expenses? Is this a permanently lower ratio, or is it normalized? Also, following on the earlier question on depreciation, is this quarter's depreciation run-rate a normalized depreciation run-rate?

Management {? Nikhil ?}: You can say that this quarter's run-rate can be taken as a normalized run-rate. I do not see any additional properties or anything else coming on board. This should be a normalized run-rate. If anything does arise, we will call it out separately.

Having said that, on the unallocable-expense front, it comprises both expenses and income. One small part of the reduction in expenses will also be due to the higher income component. It is similar to how you have seen that we have moved from a borrowing position last year to a cash position this year. Some income from surplus funds, if it is on the higher side, gets netted off against unallocable expenses for that particular period.

Having said that, unallocable expenses are also showing a downward trend, mainly because of cost management and control, and because we continue to improve the allocation that can be done. That is why we bring unallocable expenses down, because we do not want allocable and unallocable expenses to be on the higher side. That is working in favor of the business.

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Both the focus on controlling unallocable expenses and the improvement on the income side help reduce the levels from what they were earlier.

Akshay {? Gatani ?} – UBS Group: Understood, sir. Thank you.

Operator: Thank you. The next question is from the line of Umang Mehta from Kotak Securities. Please go ahead.

Umang Mehta – Kotak Securities: Hi, sir. Thanks for the opportunity. My first question was on the MEP business. Last quarter, we raised our guidance from 8–10% to 12%, and today you gave a number for 2030, which, if I heard correctly, was around 6,000 crores. That implies a materially higher CAGR than your earlier guidance. Are you actually raising the guidance for the MEP business in terms of growth?

Management: Are you talking about the data-center part of MEP?

Umang Mehta – Kotak Securities: The MEP business. You mentioned a 6,000-crore number for FY30, correct? That implies a high-teen revenue CAGR for the business, because your guidance last quarter was around 12%. Are we increasing the guidance?

Management: I do not know where the 12% came from; I do not recollect it. I am repeating again that Segment 1 has the commercial-air-conditioning products business as well as the projects business. Within the projects business, there are multiple verticals.

Right now, our focus is on the data-center business, and data centers and factories are the segments driving growth. Within Segment 1, the significant growth is coming from there.

We have stated that there is an order-book possibility of around 3,000 crores, and that it will grow to 6,000 crores in 3 years. Billing will be only 2,000 crores, which will grow to 4,000 crores. That is the figure. I am not able to connect it to 12%.

Umang Mehta – Kotak Securities: Understood, sir. Thank you very much. My second question is for Nikhil, sir. In the cash-flow statement, there is a 77-crore provision write-back, and I understand that 12–13 crores pertains to the third segment in this quarter. What does the remaining amount represent?

Management: Which cash flow? Give me 1 minute; let me come back to you.

Umang Mehta – Kotak Securities: There is a 77-crore provision write-back.

Management: Okay. [pause] [off-mic discussion]

Management {? Nikhil ?}: The one item I can recollect is that there would be a certain amount of warranties and other items that are written back in the normal course of business. Then there are other items such as incentives that are also written back when they are no longer required. Most of these adjustments come in Q2 for incentives and warranties provided for in earlier years, because they get settled by the end of Q1.

Management: This happens every year.

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Management {? Nikhil ?}: This happens every year. That could be one item included in the amount.

Umang Mehta – Kotak Securities: Understood, sir. Thank you very much, and all the best.

Management: Sure.

Operator: Thank you. The next question is from the line of Praveen Sahay from PL Capital. Please go ahead.

Praveen Sahay – PL Capital: Thank you for the opportunity. Could you give us the quantum of revenue contributed by the MedTech business, which was carved out from engineering and electronics, in the past years?

Management: It will not—it will be an exceptional item, right?

Praveen Sahay – PL Capital: MedTech.

Management {? Nikhil ?}: It will not be an exceptional item; it is an exceptional item if you see whatever the item was. I will just tell you the revenue from that business. 1 minute. [pause]

Operator: Praveen, do you have any follow-up question?

Praveen Sahay – PL Capital: Yes. The next question is related to capex. What is the full-year capex guidance?

Management {? Nikhil ?}: For the full year, we are guiding for capex of around 2,300 crores at the maximum.

Management: This capex will largely include certain R&D expenditure on products, as well as a certain amount of digital expenditure that we have been incurring.

Praveen Sahay – PL Capital: Fine. On the revenue front of MedTech, did you get...

Management {? Nikhil ?}: Just 1 second. Give me 1 minute.

Praveen Sahay – PL Capital: Yes.

Operator: Thank you.

Management {? Nikhil ?}: Meanwhile, you can take the next question. I will tell you in 1 second.

Operator: Sure. The next question is from the line of Rabindra Nath Nayak from Nirmal Bang. Please go ahead.

Management: Please go ahead.

Operator: Rabindra, can you please unmute your line and proceed with your question?

Rabindra Nath Nayak – Nirmal Bang: Hello? Am I audible?

Management: Yes, go ahead. You are audible.

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Rabindra Nath Nayak – Nirmal Bang: Thank you for the opportunity, sir. I have one question regarding the US. We have a very limited presence and probably, from next year onwards, we will be supplying heat pumps to the US market. Regarding the data-center opportunity that we are currently evaluating in the domestic market, are we evaluating any opportunity in the Middle East and the US market for data centers, or is that not on the radar? Thank you very much, sir.

Management: First of all, we now supply heat pumps to the US market in a limited way. What we clarified is that we have approved products, a couple of customers, and the business has taken off well. If you recollect, in the annual report itself we said that it has the potential to bring in USD 100 million of additional revenue. That part remains intact.

Now coming to the data-center part, there is an MEP or EPC part of the data center, which involves putting together the system. It is a contracting business involving the procurement of certain items. There is a second part comprising chillers, which are conventional chillers modified for data-center applications. There is a third part involving advanced liquid cooling, which represents future technologies. We have clarified that we do have the chiller, and there are many players again. As you will be aware, the chiller [trails off]

Management: The US market is the largest. There are US multinationals present there with whom we compete. In the US, it is not possible to go and sell a chiller. It is their turf, and it is a market from which those technologies emerge. Therefore, we cannot.

As of now, we do not have liquid-cooling technology even for the Indian market. We are looking at multiple discussions, and at some point we will share information with you when we have an arrangement.

In terms of market size, our estimate is that the EPC part today is around 12,000 crores. The chiller part may be around 2,000 crores at maximum. Liquid-cooling CDUs today account for around 500 crores, according to our estimate.

In the Indian market itself, we are the largest in the largest part of the market, which is EPC, and we are doing well there. Regarding chillers, I have stated in the previous call also that our market share will normally be 15%.

Out of that 2,000 crores, the CDU and liquid-cooling market, which is 500 crores today, can become 3,000 crores or more in 3 years' time. We are not a player in that at all.

Therefore, what I can sell in the US is EPC contracting, which is not a viable thing for us to do. We are not focused on international projects. Therefore, on the whole, we are not addressing anything in the US data-center segment today.

Going forward, whether we will be able to manufacture for other important markets, including the US one day, the answer is yes. But we are not there yet. We will definitely not be able to make chillers there.

Let us say I have an arrangement for making CDUs, where somebody gives us the technology, or it is a joint venture for the Indian market as well as the international market. That option is open. But we do not have anything to state today. Thank you.

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Rabindra Nath Nayak – Nirmal Bang: Understood.

Management: Regarding the previous question on {? Mextech ?}, the revenue was 41 crores in FY26.

Operator: Thank you very much. The next question is from the line of Achal Lohade from Nuvama Institutional Equities. Please go ahead.

Achal Lohade – Nuvama Institutional Equities: Good afternoon, sir. Thank you for the opportunity. I just wanted a quick clarification regarding the 5% price hike from October 1 that you mentioned. Has that been absorbed by the channel, or is there still a push-and-pull situation?

Management: It has not yet been absorbed. You have to see that normally billings take place, but the dealers' orders for this month would already have come in. I do not have the data from the past 4-5 days on whether it has been absorbed. The general indication is that all brands have increased prices, and they should be absorbed.

On the other hand, it is very likely that the way the trade behaves is that, if a price increase is coming, dealers would have bought enough quantities in September. The Q2 growth indicates that they advanced their purchases. You will know the real effect of the price increase perhaps in the last 3-4 days of the month and in November. That is what you have to see.

The moment prices are going to increase, dealers will go ahead and buy ahead.

Achal Lohade – Nuvama Institutional Equities: Understood. My second clarification is with respect to the 6.5% margin you mentioned for the full year FY27. How should we think about FY28, assuming steady-state raw-material prices? Are we maintaining 7.5%, or is there room for further upside?

Management: We all pray that it is possible. This question has been asked in different ways by different people: commodity prices and your inability to pass them on have resulted in margins crashing; will margins recover once commodity prices stabilize? One hopes so. But I will not be able to give guidance at all.

The real indication will come from the summer of 2027. It will provide the indication. The factors are how market demand holds, how competition plays out, and how product innovations take place.

Compared with many other markets, 7.5% is not a great figure. Given that we are no longer trading but manufacturing, that a lot of capex has been invested, and that R&D work is happening here, the industry is entitled to that kind of margin. In fact, it should aspire to a 10% margin.

But we compete in an open market. I think it should be possible, but there is no guidance at the moment. Our immediate task is to get to 6.5%.

Achal Lohade – Nuvama Institutional Equities: Understood. Just a follow-up regarding the entry-level products that you said would be more outsourced and the product rejig that you are undertaking. Is the margin guidance factoring in that mix? What kind of mix should one expect in the next season from the entry-level products?

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Management: We are currently evaluating that. We have manufactured most of our products ourselves. Only around 15% used to be outsourced.

We are internally challenging whether a particular SKU can be bought from a vendor at a particular price and whether our own manufacturing can match that cost. These internal challenges continue. The manufacturing group does not want to outsource the product. It says, "I will make it and meet the cost. You will still make this kind of margin." Those discussions are ongoing.

My rough indication is that the quantum of outsourced products is going to increase. It can go up to even 30%, from the current level of somewhere around 15%.

Achal Lohade – Nuvama Institutional Equities: Understood. This is very helpful, sir. I wish you all the best. Thank you.

Operator: Thank you. The next question is from the line of Vineet Prasad from Investec India. Vineet, you are requested to unmute your line and proceed with your question.

Vineet Prasad – Investec India: I have just one question. When you spoke about 18% raw-material inflation from the beginning of January, does that include the recent inflation, or is the number only up to Q2? Could we see further inflation given how commodity prices have moved over the last month or so?

Management: I am taking it as of date, up to October.

Vineet Prasad – Investec India: Understood, sir. The other questions have been answered. Thank you very much, sir.

Management: Yes.

Operator: Thank you very much. Ladies and gentlemen, we will take that as the last question. I will now hand the conference over to Mr. Nikhil Sohoni for closing comments.

Nikhil Sohoni: Thank you very much, ladies and gentlemen. With this, we conclude the call. Please feel free to reach out to us in case any of your questions were not fully answered, and we will be happy to provide you with the necessary details. Thank you.

Operator: Thank you very much. On behalf of Blue Star Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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