

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Atul C Choksey

Pradeep Mallick

Minoo R Shroff

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

V V Inamdar
Executive Vice President

Satish Jamdar
Executive Vice President

Neeraj Seth
Executive Vice President

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

Avinash Pandit
Vice President - Packaged Airconditioning Division

H Rajaram
Vice President - Finance

S Sankaran
Vice President - Airconditioning Projects Division

N Sivasankaran
Vice President - Central Airconditioning Service Division

B Thiagarajan
Vice President - Corporate Affairs & Communications

COMPANY SECRETARY

K P T Kutty

BANKERS

The Hongkong & Shanghai Banking Corporation Ltd
State Bank of India
Oriental Bank of Commerce
ABN - AMRO Bank
BNP Paribas
Abu Dhabi Commercial Bank Ltd

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata
Fraser & Ross, Chennai
Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.
Telephone: 91-22-2592 3837
Fax: 91-22-2567 2693

REGISTERED OFFICE

Kasturi Buildings
Mohan T Advani Chowk
Jamshedji Tata Road
Mumbai 400 020.
Telephone: 91-22-5665 4000
Fax: 91-22-5665 4151
www.bluestarindia.com



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Letter from the Chairman



DEAR SHAREHOLDER,

It is heartening that after several years of slow revenue growth, Blue Star's Total Income last year showed renewed vigour and crossed the Rs.600 crore milestone. This was largely the result of our more competitive posture aided by a moderate improvement in the economic environment.

Significant Developments

With competitive pressures creating ever higher customer expectations while driving prices downwards, our core airconditioning and refrigeration business has clearly entered a different era. A new marketing approach is required. The old business model of direct selling to customers is too inefficient and unresponsive to meet more demanding customer needs. We have increasingly been replacing it with dealerised distribution for sales and after-sales service of small and medium-sized equipment. This approach also offers the additional advantage of being closer to customers in smaller towns. Today, only large central plants that are technically complex are handled by our own engineers; the rest are handled by our dealers supported by our marketing and technical experts.

Another major change that gained momentum last year was the record number of innovative new products designed by our product development team and efficiently manufactured at our three plants in Thane, Bharuch and Dadra. For all but the big chiller designs and special applications, we have become self-reliant; a far cry from the time, only a few years ago, when the Company was compelled to buy most of its product knowhow and customers had to be content with virtually the same old products year after year. Today, we can confidently claim that even against formidable multinational competition, our new product innovations are quite competitive.

One of the continuing success stories in Blue Star's business portfolio is the distribution and service of professional electronics and industrial equipment. Though it is a distinctly different business from our core AC&R activities, it is one that we have successfully handled since the '50s. However, in spite of the differences, there is a common thread running through Blue Star's business lines and that is technology and engineering manpower. Our electronics team is adept at harnessing new technology to meet emerging business opportunities. They have demonstrated a consistent ability to grow rapidly and produce enviable bottom line results.



A breakthrough on the human relations front last year was a fresh approach to the traditional relationship between the Company and its unions. Management made determined efforts to demonstrate that by working together we can power the future progress of the Company thereby providing greater benefits to all its stakeholders. There was an encouraging response to this initiative. This led to the signing of fresh settlements at Bharuch, Ahmedabad, Kolkata and Delhi as a result of the renewed mutual confidence in each other.

Financial Performance

The attached Annexure summarises Blue Star's financial results and key performance indicators. Virtually all the parameters improved over the previous year with the exception of the sharp decrease in Gross Margin and a moderate decline in Operating Margin. In spite of the squeeze on margins, profits were up with improvement in the profitability ratios – Return on Capital Employed and Return on Shareholders' Funds - helped by the lean Balance Sheet. On the whole, I am satisfied with the performance and the strong financial position of the Company.

Shareholder Value

Last year the Company had announced a share buyback as the best way of utilizing spare cash to enhance shareholder value. The year-long buyback closed on February 3, 2003, having been moderately successful in reducing the paid up capital by 11.5%. It is interesting and, in a way, gratifying to learn that even though the Company was willing to buy additional shares at the maximum announced price of Rs.75 per share, most shareholders were satisfied holding on to their shares.

Another measure of shareholder confidence is that since the first announcement of the buyback, the market price of our share has appreciated from an average price of Rs.36 in October 2001 to Rs.81 in March 2003 and is currently quoting in the Rs.105-110 range. This amounts to a tripling of the share price in 20 months.

Shareholders are clearly happy with Blue Star's performance and value proposition. I am confident that with low interest rates and favourable tax treatment for dividends, our high dividend payout policy based on sound financial performance will continue to offer the best shareholder value in the Company's 60th year and in years to come.

Mumbai : June 5, 2003.

ASHOK M ADVANI
Chairman & Chief Executive



Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs.in crores)

	2002-03	2001-02
Total Income	601.06	517.32
Growth over Previous Year	+ 16%	+ 1%
Operating Profit (PBDIT)	52.59	45.83
Profit Before Tax	40.18	27.33
Growth over Previous Year	+ 47%	+ 7%
Profit After Tax	31.04	27.45
Growth over Previous Year	+ 13%	+ 17%
Shareholders' Funds	115.52	111.41
Borrowings	12.05	12.09
Capital Employed	127.57	123.50
Operating Cash Flow	26.02	45.38

KEY RATIOS

	2002-03	2001-02
Gross Margin	23.5%	25.6%
Operating Margin	8.7%	8.9%
Return on Capital Employed	33.3%	26.7%
Return on Shareholders' Funds	26.9%	24.6%
Earnings Per Share (Rs.)	16.79	13.52
Dividend Per Share (Rs.)	9.00	6.50
Capital Turnover	4.71	4.19
Debt/Equity	0.10	0.11
Inventory Turnover	6.60	6.54
Receivables (Days Billings Outstanding)	62	64



Board of Directors



Ashok M Advani

Chairman & Chief Executive

Ashok M Advani is an MBA from the Harvard Graduate School of Business Administration, an Electrical Engineer from MIT, USA and a B Sc (Honours) from Mumbai University.

He joined Blue Star in 1969 and held a variety of senior positions in manufacturing and finance in the Company before he took over the Company's affairs as Chairman & Chief Executive in 1984. Ashok is also the Vice Chairman of Blue Star Infotech Limited.

He has been a member of the Local Advisory Board of The Chase Manhattan Bank and a past President of the Bombay Chamber of Commerce and Industry.

Suneel M Advani

President & Vice Chairman

Suneel M Advani is a double graduate in Electrical Engineering and Economics from MIT, USA. He also holds a degree in Law from Bombay University.

He joined Blue Star in 1969 as a Management Trainee and moved up steadily by holding responsible positions before he was elevated to the position of President and Vice Chairman in 1984. Suneel is also the Chairman of Blue Star Infotech Limited, Blue Star Infotech (UK) Limited, Blue Star Infotech Malaysia and Blue Star Infotech America, Inc., apart from being on the board of Arab Malaysian Blue Star Sdn Bhd.

Suneel is the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA) and is actively involved in CII and other trade associations.



T G S Babu

Executive Director

T G S Babu is an Engineering Graduate from IIT, Madras and has done his MBA from IIM, Ahmedabad. He has been working with Blue Star from 1977 in various positions, except for a four-year period when he worked with MRF Ltd as GM Sales.

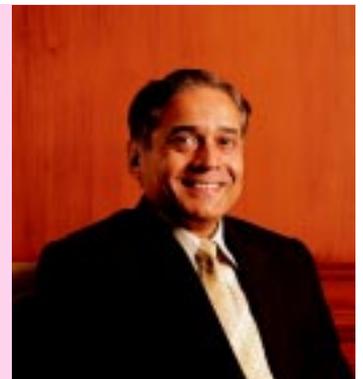
Prior to his current appointment, T G S Babu was Executive Vice President. Under his leadership, Blue Star's central airconditioning business has achieved a clear market leadership and continues to grow at a healthy rate.

Atul C Choksey

Director

Atul Choksey is a B.S. in Chemical Engineering from Illinois Institute of Technology, USA and is a leading industrialist. He joined the Board of Blue Star in 1996.

He is on the Board of several leading companies such as Apcolex Lattices, Ceat, Finolex Cables and Marico Industries amongst others. He is also on the Board of Cricket Club of India. Atul has been a past President of Bombay Chamber of Commerce and Industry and is associated with several industrial and social organizations.





Pradeep Mallick

Director

Pradeep Mallick is a B.Tech from IIT, Madras and Diploma holder in Business Management from UK. He is also a Chartered Engineer and Fellow of the Institution of Electrical Engineers, London. Before joining Wartsila India Limited as its Managing Director in 1988, he worked with several leading companies such as Crompton Greaves, Tata Exports and General Electric, to name a few. Currently, he is an advisor to Wartsila India Ltd. He joined the Board of Blue Star in January 2003.

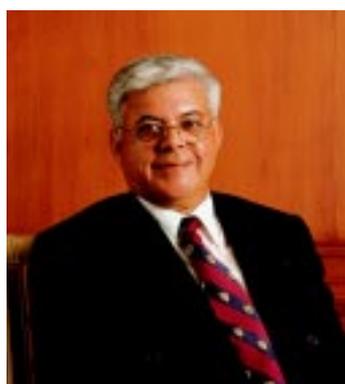
Pradeep is also on the Board of several other leading companies such as Schenectady – Beck India, Tata Telecom, and on the Indian Advisory Board of ING Bank. In addition, he is associated with several industrial associations such as Confederation of Indian Industry, Bombay Chamber of Commerce & Industry and social organizations like Population First and Dignity Foundation.

Minoo R Shroff

Director

Minoo Shroff is a Science Graduate and Fellow Member of Management Accountants and Cost and Works Accountants. A well known economist and financial expert, he has been an advisor to several leading industrial groups for over 30 years.

He joined the Board of Blue Star in 1982. In addition to Blue Star, he is also on the Board of leading companies like Raymond, Nicholas Piramal India, Nagarjuna Oil Corporation and Amzel Automotive to name a few. After holding responsible positions in several leading professional, industrial and cultural organizations, he is currently the Chairman of one of the largest public trusts – The Bombay Parsi Panchayat.



Gurdeep Singh

Director

Gurdeep Singh is a Chemical Engineering Graduate from IIT, Delhi. After his graduation, he joined Hindustan Lever Ltd as a Management Trainee. He held various responsible positions in the Company before he was expatriated to Brazil as Technical Director of Unilever Detergents business.

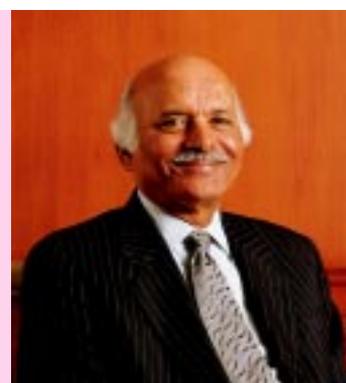
In 1998, Gurdeep returned to Hindustan Lever and is currently the Director – Human Resources, Corporate Affairs and Technology. He joined the Board of Blue Star in May 2003. He is also the Co-Chairman of Nepal Lever, and on the Board of Hindlevar Chemicals, Sivalik Cellulose and Levers Associated Trust.

Suresh N Talwar

Director

Suresh Talwar is a Commerce & Law Graduate. He is a solicitor and the Senior Partner of the Crawford Bayley & Company, and is also a legal counsel to various Indian companies, multinational corporations and Indian and foreign banks.

He joined the Board of Blue Star in 1986. In addition to Blue Star, he is also on the Board of several leading companies such as Merk, Cadbury India, Sandvik Asea, Esab India, Johnson & Johnson, Madura Coats, Uhde India and Wyeth Lederle amongst others.



Executive Committee



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



V V Inamdar
Executive Vice President



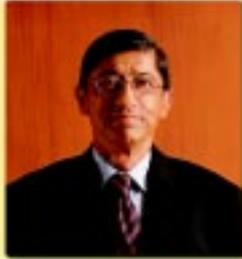
Satish Jamdar
Executive Vice President



Neeraj Seth
Executive Vice President



Corporate Management



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



V V Inamdar
Executive Vice President



Satish Jamdar
Executive Vice President



Neeraj Seth
Executive Vice President



Arun Khorana
Vice President
Electronics Division



Ranjit Majumdar
Vice President
Human Resources & Quality



Avinash Pandit
Vice President
Packaged Airconditioning Division



H Rajaram
Vice President - Finance



S Sankaran
Vice President
Airconditioning Projects Division



N Sivasankaran
Vice President
Central Airconditioning Service Division



B Thiagarajan
Vice President
Corporate Affairs & Communications



Directors' Report

The Directors are pleased to present their 55th Annual Report and the Audited Accounts for the year ended March 31, 2003.

HIGHLIGHTS OF 2002-03

- Total income grew by 16% and crossed the Rs.600 crore mark.
- Profit Before Tax recorded a sharp increase of 47% to reach Rs.40.18 crores while Profit After Tax climbed to Rs.31.04 crores from Rs.27.45 crores in the previous year.
- Borrowings were maintained at the same level despite higher revenues. Interest cost came down for the second year in succession by 60% resulting in a saving of Rs.3.34 crores.
- Earnings per share increased to Rs.16.79 as against Rs.13.52 last year while book value increased by 20% to Rs.64.22 per share.
- The Directors have proposed an equity dividend of 90% including a Special Diamond Jubilee dividend of 25%.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2002 - March 2003	April 2001 - March 2002
Total Income	601.06	517.32
Profit before interest, depreciation and taxation	52.59	45.83
Interest	2.25	5.59
Depreciation	10.16	12.91
Profit before tax	40.18	27.33
Provision for taxation	9.57	2.28
Add : Deferred Tax	0.43	0.31
Add : Prior years tax adjustment	—	2.09
Profit after tax	31.04	27.45
Add : Balance brought forward	11.30	14.85
- Transfer from Foreign Projects Reserve	0.39	0.55
- Excess Provisions for Proposed Dividend write back	0.37	—
Total available for appropriation	43.10	42.85
Less : General Reserve	8.00	19.00
- Proposed Dividend	16.19	12.55
- Corporate Dividend Tax	2.07	—
Balance carried forward	16.84	11.30



DIVIDEND

The Directors have proposed a dividend of Rs.6.50 plus a Special Diamond Jubilee dividend of Rs.2.50 making a total of Rs.9.00 per equity share as against Rs.6.50 paid in the previous year. The dividend will absorb Rs.18.26 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

The year 2002-03 showed a moderate improvement in the Indian economy. Even though the markets for the Company's products did grow, competitive pressures remained very strong. Price erosion was experienced in most of these markets.

The outcome for the Company was that Total Income showed a growth of 16%. But this was partly offset by the squeeze on gross margins. To counter this pressure there was an effective internal drive to control costs and expenses. Overall, profitability improved substantially.

FINANCIAL PERFORMANCE

While growth of Profit Before Tax by 47% was creditable, a new development was the partial withdrawal of income tax exemption after 5 years of operation of the Dadra Plant. The additional tax liability on this account was significant and only permitted a relatively moderate increase in Profit After Tax.

The Balance Sheet remained strong. Healthy internal cash accruals and close control of working capital kept borrowings at the same level as the previous year inspite of higher sales.

Total Income

(Rs.in crores)



Profit After Tax

(Rs.in crores)



Earnings Per Share & Dividend Per Share

(Rs.)



BUYBACK OF EQUITY SHARES

The buyback of equity shares that commenced in February 2002 closed on February 3, 2003. The Company bought back 23,35,606 equity shares at an average price of Rs.65.40 amounting to Rs.15.27 crores. The paid up capital after the buyback is Rs.17.99 crores.

EXPORT & FOREIGN EXCHANGE EARNINGS

Total foreign exchange earnings during the year remained at about the same level as the previous year. Income from export of goods increased by 42% during the year. Due to recessionary conditions and severe competition in international markets, project exports did not pick up. Several steps have been taken to improve export earnings.

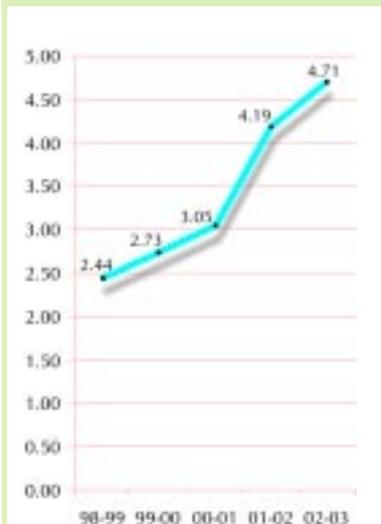
Total foreign exchange outflow was Rs.39.88 crores as compared to Rs.29.29 crores in the previous year.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors would like to inform the members that the Audited Accounts for the financial year ended March 31, 2003 are in full conformity with the requirement of the Companies Act, 1956. These financial results are audited by the statutory auditors M/s K.S. Aiyar & Company. The Directors further confirm that:

- 1) In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- 2) The accounting policies are consistently applied and reasonable, prudent judgement and estimates are made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits of the Company for that period.

Capital Turnover



Return on Shareholders' Funds



Return on Capital Employed



3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for providing and detecting fraud and other irregularities.

4) The Directors have prepared the Annual Accounts on a going concern basis.

DIRECTORS

Mr Uday Kotak and Mr G Ramchandani resigned from the Board during the year. Mr Pradeep Mallick and Mr Gurdeep Singh were appointed as additional directors and will seek re-election at the forthcoming Annual General Meeting of the Company. Mr Atul C Choksey and Mr Suresh N Talwar will retire from the Board by rotation. Due to personal commitments, Mr Choksey has expressed his desire to retire and therefore, does not seek re-election. Mr Talwar, being eligible, offers himself for re-election.

EMPLOYEES

The focus on employee development continued during the year with an average training period of 35 hours per employee to upgrade skills. During the year, an employee survey was carried out which helped the organization to identify areas that need to be addressed to enhance the employee satisfaction levels.

Long pending Charters of Demand were settled at Bharuch, Delhi, Ahmedabad and Kolkata resulting in higher employee motivation and improved productivity levels.

DISCLOSURE OF PARTICULARS

Information as per Section 217(1)(e) and 217(2A) of the Companies Act, 1956, read with the rules made thereunder relating to conservation of energy, technology absorption, foreign exchange earnings and outgo and particulars of employees respectively, are given in Annexures A and B forming part of this report. A Management Discussion and Analysis Report, as required under Clause 49 of the Listing Agreement is published separately in this Annual Report.

For and on behalf of the Board

Mumbai : May 23, 2003.

ASHOK M ADVANI
Chairman & Chief Executive



Annexure to Directors' Report - A

Information pursuant to Companies (Disclosure of particulars in the Report of the Board of Directors), Rules 1988.

CONSERVATION OF ENERGY

a) Energy conservation measures taken

Energy consumption in the Company's factories is not a major cost factor. The average power factor was maintained at 0.98. Thane factory initiated an energy conservation project called "Project Encon" in which all employees participated. There was a reduction of 8% in electricity bills at Thane inspite of a billing growth of 26%. Energy saving unit for cooling tower; modification and modern heat insulation for hot water generator and hot air generator were the other measures introduced at Thane factory. Use of fast curing powders and fast acting chemicals for powder coating; use of spot clinching machines and an auto-brazing line were some of the measures at Dadra factory. At Bharuch factory, opening up of internal walls for better natural lighting, introduction of timers and photo sensor units and CNC based fabrication process were among the measures taken for energy conservation.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy

Investment for energy conservation measures will be considered as and when feasible.

c) Impact of measures taken

There has been reduction in electrical and fuel consumption, improved power factor and saving in cost of production.

RESEARCH AND DEVELOPMENT

a) Specific areas in which R & D carried out by the Company

New product development, extension of existing product range, product design and process engineering.

There were several new products developed during the year. The Company introduced redesigned Air Handling Units (AHU) with added features. A major in-house project was undertaken for developing a range of deep freezers. The project included designing, building a prototype, testing and setting up the manufacturing facility for deep freezers.

The range of concealed split airconditioners with multiple indoor units was extended upto 7.5 tons. A significant technology breakthrough was the introduction of tandem scroll compressors for packaged airconditioners. These compressors save on power and cut down electricity costs substantially. The Company also introduced cassette airconditioners in capacities of 2, 3 and 4 tons.

To address telecom industry requirements, cooling solutions for telecom shelters were developed. The Company tied up with Eaton-Williams of UK, to manufacture precision control machines to meet the requirements of server rooms.

A major project was undertaken to develop split airconditioners for export to the Middle East. These airconditioners are designed to operate at ambient conditions upto 55°C. A new series of hi-wall split airconditioners was also introduced for the domestic market.

The entire range of reciprocating chillers was converted to operate with microprocessor-based controllers. This has helped the customer realize energy savings with sophisticated controls. A completely redesigned line of mortuary chambers was also introduced.

b) Benefits derived as a result of the above R&D

Energy efficient and environmentally friendly products have been made available in the Indian market. Microprocessor controls improve the life of the equipment and ensure reliable performance.

c) Future plan of action

Future plan involves strengthening of computer aided engineering systems, and upgrading the test facilities to



assure good quality products to the market. A separate R&D center is being established in Dadra, upgrading the existing test facilities to international standards. Reliability test laboratories are being set up.

d) Expenditure on R&D

	<i>(Rs.in lakhs)</i>	
	2002-03	2001-02
i) Capital	6.95	20.00
ii) Recurring	93.88	99.85
Total	100.83	119.85
iv) Total R&D expenditure as a percentage of total turnover	0.18%	0.24%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

a) Efforts made towards technology absorption, adaptation and innovation

New range of deep freezers with eco-friendly refrigerant (R134a) was developed during the year. Other technology absorption measures are progressing as per schedule. Indigenous sources for import substitution are also being developed where feasible. The Company has carried out import substitution for compressors used in ductable splits. Efforts also include adaptation of imported technology to Indian conditions. Where required, training is being imparted to the technical staff.

b) Benefits derived as a result of the above efforts

Availability of environment friendly airconditioning systems, increased product range, improved quality and product designs and cost reduction are amongst the benefits derived.

c) Information regarding imported technology

The following technologies were imported during the years mentioned in brackets : Air Handling Units (1997), Centrifugal Chillers using CFC-free R-123 as refrigerant (1998), Screw Chillers using CFC-free R-22 as refrigerant (1998), Panels and Door Sections (1998), Humidicoil in-store cooling units and Chiller Units (2000) and Precision Airconditioning Systems (2002).

Significant progress has been made in absorbing the technologies. Technology in respect of centrifugal and screw chillers and insulated panels and door sections has been absorbed.

MAJOR ITEMS OF FOREIGN EXCHANGE EARNINGS AND OUTGO

a) Activities relating to exports, initiatives taken to increase exports, developments of new export markets for products and services and export plans

Discussed in detail in the main report.

b) Total foreign exchange used and earned

	<i>(Rs.in lakhs)</i>	
	2002-03	2001-02
Total foreign exchange used	3987.84	2929.47
Total foreign exchange earned	2160.78	2120.31

For and on behalf of the Board

ASHOK M ADVANI
Chairman & Chief Executive

Mumbai : May 23, 2003.



Annexure to Directors' Report - B

INFORMATION UNDER SECTION 217(2A) OF THE COMPANIES ACT, 1956 READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE PERIOD APRIL 1, 2002 TO MARCH 31, 2003

Name	Age (Yrs)	Designation & nature of duties	Remuneration (Rupees)	Qualification	Experience (Yrs)	Date of Joining Blue Star	Details of Last Employment		
							Employer	Designation	Period
Employed for the whole of the year									
ADVANI A M	61	Chairman & Chief Executive	3702151	B.Sc., SB, MBA	37	1-Jul-69	RCA Inc., USA	Information Systems Project Specialist	1968-69
ADVANI S M	59	President & Vice Chairman	4267854	SB, SB, LL.B.	34	17-Mar-69	-	-	-
BABU T G S	49	Executive Director	3434710	B.Tech., MBA	27	1-Nov-95	MRF Ltd., Chennai	General Manager	1991-95

1. Remuneration for the purpose of this statement includes all expenses incurred by the Company in providing any benefit or amenity to the employee as per CLB's circular No. 23/76 dated 6.8.1976 which is independent of the perquisite valuation under the Income Tax Act, 1961.
2. The nature of employment in all cases is contractual.
3. Relatives of Directors: Mr Ashok M Advani and Mr Suneel M Advani are relatives.



Report of the Directors on Corporate Governance

COMPANY'S PHILOSOPHY ON CODE OF GOVERNANCE

The Corporate vision of Blue Star is to deliver a world class customer experience. In order to achieve this, the Company practices the best Corporate Governance envisaging the attainment of the highest level of transparency and accountability in all facets of its operations including its dealing with shareholders, employees, Government and other stakeholders. Blue Star believes that all its operations and actions must serve the ultimate goal of providing a world class experience and enhancing shareholder value. This is amply clear from its uninterrupted track record of profits and dividends.

BOARD OF DIRECTORS

The Board consists of eight members – three Wholetime Directors and five Non-Executive Directors. Out of eight Directors, six Directors are independent Directors. Mr Uday Kotak and Mr G Ramchandani, who were Directors of the Company, resigned from the Board with effect from October 31, 2002 and March 31, 2003 respectively. Mr Pradeep Mallick and Mr Gurdeep Singh joined the Board on January 29, 2003 and May 23, 2003 respectively.

BOARD MEETINGS

Five Board Meetings were held during the financial year 2002-03 i.e. on May 6, 2002; July 29, 2002; October 31, 2002; January 29, 2003 and March 27, 2003. The Company had its Annual General Meeting on July 29, 2002.

The particulars of Directors, their attendance and other Directorships, Memberships/Chairmanships of Committees for the financial year 2002-03 are given below:

Name	Category	Attendance		Particulars of other Directorships, Committee Memberships/Chairmanships		
		Board Mtg.	Last AGM	Directorship*	Committee Membership	Committee Chairmanship
Ashok M Advani	Promoter Executive	5	Yes	2	2	Nil
Suneel M Advani	- do -	5	Yes	1	1	Nil
T G S Babu	Non-Promoter Executive	5	Yes	Nil	Nil	Nil
Atul C Choksey	Non-Promoter Non-Executive	2	Yes	12	1	Nil
Uday S Kotak <i>(ceased to be a Director with effect from 31.10.2002)</i>	- do -	1	Yes	NA	NA	NA
Pradeep Mallick <i>(Joined the Board on 29.1.2003)</i>	- do -	1	No	4	4	1
G Ramchandani <i>(ceased to be a Director with effect from 31.3.2003)</i>	- do -	3	Yes	NA	NA	NA
M R Shroff	- do -	5	Yes	10	7	4
Suresh N Talwar	- do -	5	Yes	13	9	5

* Alternate Directorships, Directorship in Private Companies and Membership in Governing Councils, Chambers and other bodies not included.



AUDIT COMMITTEE

The Audit Committee consists of three independent Non-Executive Directors. The terms of reference of the Audit Committee are in line with the powers, duties and responsibilities stipulated in Clause 49 of the Listing Agreement. The members consist of Mr M R Shroff, Mr Suresh N Talwar, Mr G Ramchandani with Mr M R Shroff as the Chairman. The Committee met on May 6, 2002, November 29, 2002 and March 27, 2003. Mr G Ramchandani ceased to be a member of the Committee with effect from March 31, 2003 and Mr Pradeep Mallick joined the Committee with effect from May 23, 2003.

REMUNERATION POLICY

The remuneration of the Wholetime Directors and Non-Executive Directors is approved by the Board of Directors and the shareholders. The annual increment and commission for the Wholetime Directors and the commission to the Non-Executive Directors within the limits approved by the shareholders are determined by the Board of Directors. Hence, no separate remuneration committee has been constituted. The Wholetime Directors are paid by way of salary, perquisites and commission based on their agreements with the Company. Non-Executive Directors are paid by way of commission based on the net profits of the Company, partly by way of a fixed amount and partly based on the number of Meetings attended by them. In addition, they are paid sitting fees of Rs.2000/- and other out-of-pocket expenses for each Board Meeting attended by them. The details of amount paid/provided towards Directors' remuneration are as follows:

(Rs.in lakhs)

Name	Salary	Perquisites	Commission	Sitting Fees	Total
Ashok M Advani	12.60	7.43	15.75	-	35.78
Suneel M Advani	12.60	6.38	15.75	-	34.73
T G S Babu	8.89	8.93	11.11	-	28.93
Atul C Choksey	-	-	2.30	0.04	2.34
Uday Kotak	-	-	1.55	0.02	1.57
Pradeep Mallick	-	-	0.75	0.02	0.77
G Ramchandani	-	-	3.00	0.06	3.06
M R Shroff	-	-	4.40	0.10	4.50
Suresh N Talwar	-	-	4.40	0.10	4.50

Note: Commission shown above are amounts actually paid and hence differs from the provisions made as on March 31, 2003.

SHAREHOLDERS' GRIEVANCE COMMITTEE

A committee consisting of Mr Ashok M Advani, Mr Suneel M Advani and Mr G Ramchandani was constituted in January 2001 as Shareholders' Grievance Committee. Mr G Ramchandani, who was a Non-Executive Director, was the Chairman of the Committee. The Committee met on July 29, 2002 and January 29, 2003 and reviewed the status of shareholders' grievances. Mr G Ramchandani ceased to be a member of the Committee on March 31, 2003.

The Board has authorized Mr K P T Kutty, Company Secretary, to approve the transfer of shares and attend to other related matters and has been designated as the Compliance Officer.



During the year the Company's Registrars received 2041 letters of which 1840 letters were requests for various actions such as change of address, dividend mandate, nominations, etc., and 201 letters were complaints for non-receipt of share certificates, dividend, demat credit, etc. All requests/complaints were attended to promptly and resolved to the satisfaction of the shareholders. There were two valid transfers pending as on March 31, 2003 for 934 shares which were approved and sent to the transferees within the prescribed time.

GENERAL BODY MEETINGS

Financial Year	AGM/EGM	Date	Location of Meetings	Time
1999-2000	AGM	Aug 29, 2000	Jai Hind College Hall 'A' Road, Churchgate, Mumbai 400 020.	3.00 p.m.
2000-2001	AGM	July 30, 2001	" "	2.30 p.m.
2001-2002	AGM	July 29, 2002	" "	3.00 p.m.

No resolution is proposed to be passed by postal ballot at the forthcoming Annual General Meeting.

DISCLOSURES

a.) The details of transactions with related parties are given in Clause 10 of the Notes Forming Part of the Accounts (Other Notes). There were no transactions with related parties, which have potential conflict with the interests of the Company at large.

b) The Company has complied with the requirements of regulatory authorities on capital markets, and no penalties/ strictures have been imposed against it.

MEANS OF COMMUNICATIONS

The Company published its quarterly and half yearly results in the prescribed form within the prescribed time. The results were forthwith sent to the Stock Exchanges where shares are listed and the same was published in Economic Times and Maharashtra Times. The Financial Results were also displayed on the website of the Company www.bluestarindia.com. No presentations were made to institutional investors or analysts during the year. Management Discussion and Analysis forms part of the Annual Report.



SHAREHOLDERS' INFORMATION

Annual General Meeting

Date	: July 23, 2003
Time	: 2.30 p.m.
Venue	: Jai Hind College Hall 23-24, Backbay Reclamation, 'A' Road, Churchgate, Mumbai 400 020.

Financial Calendar (Provisional)

Unaudited results for quarter ending June 30, 2003	: Last week of July 2003
Unaudited results for quarter ending Sept 30, 2003	: Last week of Oct 2003
Unaudited results for quarter ending Dec 31, 2003	: Last week of Jan 2004
Audited results for the year ending March 31, 2004	: May 2004
Date of Book Closure:	: Wednesday, July 9, 2003 to Wednesday, July 16, 2003
Dividend Payment Date	: July 25, 2003 onwards

Listing on Stock Exchanges

: The Stock Exchange, Mumbai
National Stock Exchange

Stock Code

: The Stock Exchange, Mumbai : 500067
National Stock Exchange : BLUESTARCO
NSDL/CDSL-ISIN-INE 472A01021

MARKET PRICE DATA

	The Stock Exchange, Mumbai		National Stock Exchange	
	High	Low	High	Low
2002				
April	65.00	58.05	70.00	55.00
May	71.00	62.00	72.95	62.05
June	74.90	66.00	78.30	66.80
July	73.45	65.60	75.00	65.40
August	69.10	67.00	69.00	66.05
September	69.00	65.00	69.45	64.00
October	68.50	65.00	68.65	65.20
November	72.00	66.75	72.00	67.50
December	76.15	63.00	76.25	68.05
2003				
January	78.40	73.00	77.70	73.50
February	82.80	67.40	82.00	71.10
March	84.70	77.50	83.50	77.00



PERFORMANCE – COMPARISON WITH BSE SENSEX



REGISTRAR & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 070.

SHARE TRANSFER SYSTEM

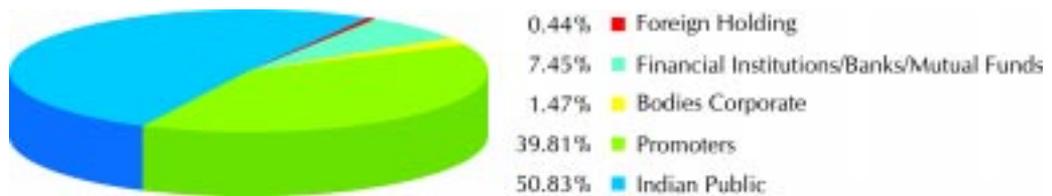
The Company's shares are traded in the Stock Exchanges in demat mode. These transfers are effected through NSDL & CDSL. Most of the transfer of shares take place in this form. Transfer of shares in the physical form is processed and approved weekly and the certificates are returned to the shareholders within 15 days from the date of receipt, subject to documents being valid and complete in all respects. The Board has authorized Mr K P T Kutty, Company Secretary, to approve the transfer of shares. As per the SEBI guidelines the Company has offered the transfer cum demat facility under which after the share transfer is effected, option letter is sent to the transferees indicating the details of shares transferred, and informing him that if he so desires, he may demat the shares by submitting the letter, along with the demat request form, to his Depository Participant. If he does not exercise his option within one month from the date of the offer letter, share certificates are despatched to him.

DISTRIBUTION OF SHAREHOLDING AS ON MARCH 31, 2003

No. of equity shares held	No. of Shareholders	Percentage of Shareholders	Total No. of shares held	Percentage of shares held
1 - 500	18618	84.63	2669313	14.84
501 - 1000	1863	8.47	1350706	7.51
1001 - 2000	921	4.18	1265368	7.04
2001 - 3000	262	1.19	639337	3.55
3001 - 4000	81	0.37	285178	1.58
4001 - 5000	61	0.28	272636	1.52
5001 - 10000	75	0.34	521240	2.90
10001 and above	119	0.54	10983443	61.06
TOTAL	22000	100.00	17987221	100.00



CATEGORIES OF SHAREHOLDERS AS ON MARCH 31, 2003



DEMATERIALISATION OF SHARES & LIQUIDITY

About 82% of the equity shares have been dematerialized by about 60% of the total shareholders as on March 31, 2003. The Company's shares can be traded only in dematerialized form as per SEBI notification. The Company has entered into an agreement with NSDL & CDSL whereby shareholders have the option to dematerialize their shares with either of the Depositories. About 51% of the equity shares are held by public and the shares are actively traded in BSE and NSE.

PLANT LOCATIONS

Blue Star Limited
 IInd Pokhran Road
 Majiwada
 Thane 400 601.

Blue Star Limited
 Plot Nos. 4 & 5
 GIDC Indl Estate
 Bharuch 392 015.

Blue Star Limited
 Survey No.265/2
 Demni Road
 U.T. of Dadra & Nagar Haveli.

ADDRESS FOR CORRESPONDENCE

Blue Star Limited
 Kasturi Buildings, 4th floor
 Mohan T. Advani Chowk
 Jamshedji Tata Road
 Mumbai 400 020.

Auditors' Certificate

The Board of Directors,
Blue Star Limited,
 Mumbai 400 020.

We have examined the compliance of conditions of Corporate Governance by Blue Star Limited for the financial year ended March 31, 2003, as stipulated in Clause 49 of the Listing Agreement of the said Company with the Stock Exchange(s).

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion and to the best of our information and according to the explanations given to us we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

As required by the Guidance Note issued by the Institute of Chartered Accountants of India, we have to state that as per the records maintained by the Company, there were no investors grievances remaining unattended/ pending for more than 30 days.

We further state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the management has conducted the affairs of the Company.

For K. S. AIYAR & CO.
 Chartered Accountants

Ramakrishna Prabhu
 Partner

Mumbai : May 23, 2003.



Management Discussion and Analysis

INTRODUCTION

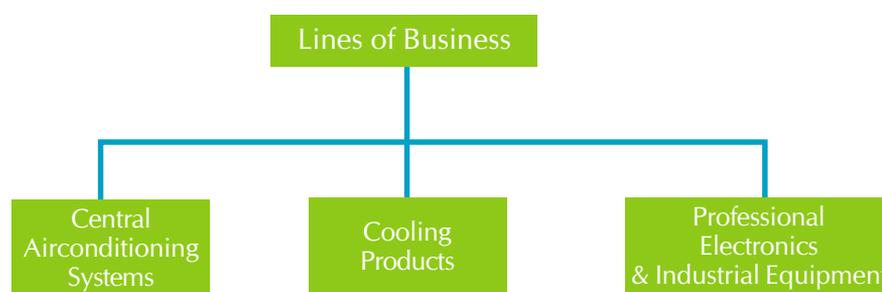
Blue Star is India's largest central airconditioning and commercial refrigeration company. It is recognized as an expert in the field of providing cooling solutions. Another significant area of business interest to Blue Star is import distribution and maintenance of professional electronic and industrial equipment and systems. These include turnkey engineered solutions in the areas of banking, telecom, healthcare, defense, manufacturing and R&D.

Blue Star, which was established in 1943, completes 60 years of operations this year. During its 60 years of existence, the Company has reinvented itself again and again in line with the market environment and owing to its expertise and ethical business practices has emerged as the company of choice for its customers, employees and business partners. It achieved leadership status in its chosen markets in the previous decade, and it continues to maintain and strengthen its leadership status, despite stiff global competition.

Currently, the Company is targeting aggressive growth in its core areas of airconditioning, commercial refrigeration and professional electronics. Consequently, the Company is implementing several strategic initiatives in the areas of product innovation, information technology, channel development and brand building.

BUSINESS SEGMENTS

Blue Star's focus is on the corporate and commercial sectors. These include institutional, industrial and government organizations as well as commercial establishments such as showrooms, restaurants, banks, hospitals, theatres, shopping malls and boutiques. In accordance with the nature of products and markets, business drivers, and competitive positioning, the lines of business of Blue Star can be segmented as follows:



CENTRAL AIRCONDITIONING SYSTEMS

This involves manufacturing, installation, commissioning and support of large central airconditioning plants, packaged airconditioners and ducted split airconditioners. This line of business also promotes after-sales service as a business, by offering several service products including retrofitting and revamping.

COOLING PRODUCTS

Blue Star offers a wide range of contemporary window and split airconditioners. The Company also manufactures and markets a comprehensive range of commercial refrigeration products and services that cater to the industrial, commercial and hospitality sectors. These include water coolers, bottled water dispensers, deep freezers, cold storages, visicoolers and ice cubers amongst others.



PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT

For nearly five decades, the Electronics Division has been the exclusive distributor in India for many internationally renowned manufacturers of hi-tech professional electronic equipment and services, as well as industrial products and systems.

FINANCIAL HIGHLIGHTS

Blue Star's financial performance for the year ended March 31, 2003 was perhaps the best in the industry. Total Income grew 16% to cross Rs.600 crores. While Profit Before Tax grew by a substantial 47%, Net Profit grew 13% to Rs.31.04 crores. The tax liability went up by Rs.9.27 crores largely because of the partial withdrawal of Income Tax exemption after five years of operation of the Dadra Plant.

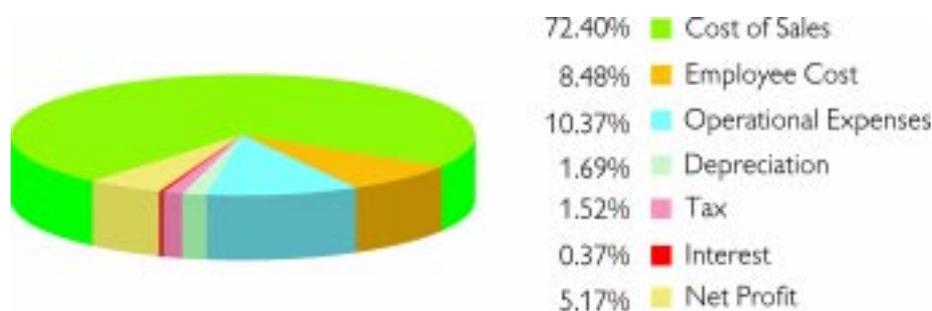
The financial year 2002-03 was characterized by severe competitive pressures leading to gross margin erosions. Despite that, the Net Profit grew mainly due to efficient use of resources. The Company carried out extensive value engineering in the factories and more effective procurement and outsourcing of non-critical activities.

Another major factor that contributed to the bottom line growth was the reduction in interest rates and particularly tight working capital management, both of which resulted in lowering interest costs by a dramatic 60% compared to the previous year. This resulted in a saving of Rs.3.34 crores.

Additionally, Other Income was Rs.19.06 crores including an income of Rs.8.53 crores on account of divestment of Yokogawa Blue Star shares. Yokogawa Blue Star enjoys a good reputation in the field of industrial automation. Yokogawa Electric Corporation had expressed an interest in increasing its holding in Yokogawa Blue Star almost three years ago. Since the Company did not find any synergy between airconditioning and industrial automation, it decided to divest its equity in Yokogawa Blue Star. Recent negotiations with Yokogawa successfully concluded in an agreement, which was approved by the respective Boards of the two Companies. The Company has had an excellent partnership with Yokogawa Electric Corporation for 16 years and the Management is confident that both Blue Star and Yokogawa will benefit from the transaction, and grow in their core businesses in the coming years.

On the whole, productive use of resources and good tax planning resulted in improved profitability. Return on average capital employed (ROCE) improved to 33.3% from 26.7%, while the Return on Shareholders' Funds increased to 26.9% from 24.6% in the corresponding period of the previous year.

How every rupee earned was spent



INDUSTRY STRUCTURE AND DEVELOPMENTS

McKinsey & Company recently conducted a study on behalf of the Refrigeration and Airconditioners Manufacturers' Association (RAMA) to examine the refrigeration and airconditioning sector in India. RAMA is the apex forum of industry leaders and representatives of major manufacturers in the refrigeration and airconditioning industry in India, and represents about 80% of the Industry. RAMA is affiliated to the Confederation of Indian Industries (CII) and plays an active role in working with the Government of India on airconditioning and refrigeration related issues and takes initiatives to stimulate growth of the industry. Blue Star is one of the most active members of RAMA and has extended its support to several initiatives of RAMA.

The main objective of the McKinsey study was to evaluate the potential for growth of the industry, understand the barriers to growth, identify the levers for unlocking the growth potential, and suggest initiatives that industry players can undertake to accelerate growth in this sector.

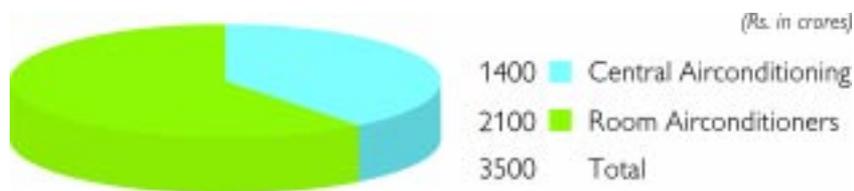
The findings of the study are encouraging. Although the growth of the airconditioning and commercial refrigeration industry in the recent past has been modest, it has huge potential for accelerated growth. It recommends that although increase in per capita GDP and rationalization of high indirect taxes will increase growth, industry players need to proactively take some initiatives to drive growth. These initiatives include dramatically reducing the initial cost as well as running costs of airconditioning and refrigeration products, increasing relevance of these product categories and expanding scope by aggressively pursuing opportunities in services and exports.

McKinsey estimates that implementing of these initiatives can substantially increase the market size of airconditioning and commercial refrigeration industry to Rs.15,000 crores in 2007 from the current Rs.4,500 crores.

AIRCONDITIONING

The commercial airconditioning industry in India has been growing at a compounded annual growth rate (CAGR) of around 14% over the last five years, whilst the household airconditioner market is growing at a CAGR of around 25%. The market size for airconditioning in India is estimated to be around Rs.3,500 crores. Of this, the market for central airconditioning, including packaged and ducted airconditioning systems, is estimated to be around Rs.1,400 crores, whilst the market for window and split airconditioners comprises the balance Rs.2,100 crores.

Market size of Airconditioning in India



Despite the slowdown in the industrial sector, the airconditioning market has been growing, mainly driven by the commercial segment such as retail, software, healthcare, hospitality, entertainment, telecom, banking and other service sectors. Apart from this, increasing demand from the residential as well as the SOHO (Small Office Home Office) segment has fuelled the growth of the industry.



Factors like global warming, pollution, humidity and the need to have better indoor air quality have moved the airconditioning industry from the bracket of luxury to comfort and necessity. This vital industry warrants focused attention from the Government to be able to harness the huge potential of the domestic market and to exploit the vast opportunities available in export markets. Although excise duty on airconditioners was reduced from 32% to 24% in the recent budget, the reduction in abatement levels from 40% to 35% has partially offset the reduction in excise. The industry is passing through severe price pressures and the Government needs to play a key role in achieving higher penetration levels for airconditioning in the country.

COMMERCIAL REFRIGERATION

The market for commercial refrigeration equipment and systems is estimated to be around Rs.865 crores. The commercial refrigeration segment includes a wide range of products such as cold storages, water coolers, bottled water dispensers, deep freezers, viscoolers and ice cubers. More than 80% of the commercial refrigeration market is driven by the food and processed food sectors. Since these sectors are at an early stage of development and likely to expand, the commercial refrigeration market is poised for growth. The commercial refrigeration industry is characterized by a significant presence of the unorganized sector, which offers inferior, low energy efficiency technologies. Blue Star is perhaps the only powerful, national brand which manufactures and markets such a wide range of commercial refrigeration equipment in India.

Although India is one of the largest producers of fruits, vegetables and milk, more than 30% of the horticultural and agricultural produce is wasted due to inadequate integrated cold chain facilities resulting in post-harvest losses to the tune of Rs.50,000 crores. A Cold Chain is a system which provides a series of facilities for maintaining ideal storage conditions for perishables from the point of origin to the point of consumption. The cold chain contains many critical links such as handling and packaging of farm produce, post harvest storage, transportation, and storage in retail outlets until it reaches the end consumer. Lack of refrigeration facilities in any part of the chain will hamper preservation of the produce and result in losses.

The Government is taking initiatives to develop cold chain infrastructure in the country to cut down storage losses. The Prime Minister's Council of Trade and Industry has also made several recommendations to improve the cold chain facilities. Further, CII and RAMA are actively working with the Government on several fronts to enhance the cold chain infrastructure, which will result in a steep rise in demand for commercial refrigeration products.

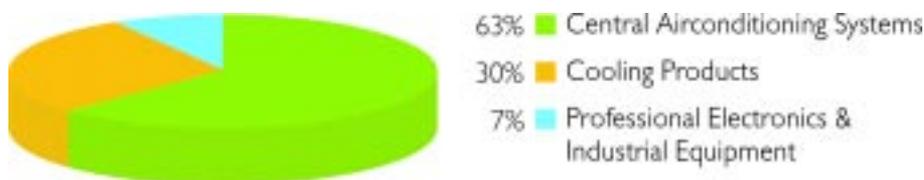
Over the last few years, certain segments such as branded dairy products, ice-creams, soft drinks, bottled mineral water, seafood and processed meat have grown sharply. This has led to increased demand of commercial refrigeration products. Further, hotels, restaurants and national fast food chains are coming up in large numbers. Moreover, the retail industry is undergoing a revolution with the emergence of supermarkets and shopping malls across the country. With these encouraging developments, the sustained, overall average growth rate of the commercial refrigeration market is expected to be in excess of 25%.



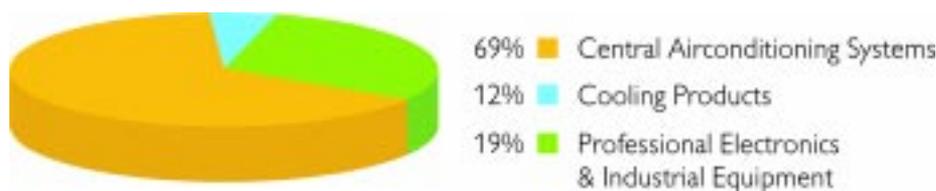
SEGMENT-WISE ANALYSIS

The revenue break-up as well as results break-up in terms of business segments was as follows:

Segment-wise Revenue break-up



Segment-wise Results break-up



CENTRAL AIRCONDITIONING SYSTEMS

Blue Star continues to be the undisputed market leader in this segment with a market share of 28%. This line of business contributed nearly 63% of the Company’s Total Segment Revenue.

The Company manufactures a wide range of chillers including centrifugal, screw, reciprocating and scroll. The Company adds value by providing a turnkey customized cooling solution after understanding the dynamics and special requirements of each customer’s business, and providing the optimal solution. Owing to its expertise and experience in this field, the Company enjoys preferred vendor status in several fast-growing segments such as shopping malls, multiplexes, the software industry and healthcare, with a share of over 50% in these.

Blue Star has pioneered several state-of-the-art products and technologies, which specifically address energy efficiency and power savings. During the year under review, the Company launched the revolutionary tandem scroll compressors, which cut down electricity costs drastically.

Apart from chillers, Blue Star’s packaged airconditioning range includes floor and ceiling mounted packaged airconditioners as well as ducted split airconditioners. These incorporate reciprocating as well as scroll compressors with options of air-cooled or water-cooled models. Thus, in ducted systems, Blue Star provides the widest possible range, and meets every conceivable requirement of customers.

In the period under review, the Company introduced precision control airconditioners to address the requirements of the telecom industry in collaboration with Eaton Williams, UK. The Company also launched a remote airconditioning facility management system that can control upto 64 ducted/package airconditioners, at one’s fingertips. A master control software loaded on any PC can be hooked onto individual controllers of each packaged AC, and upto 64 packaged ACs can be controlled with this master software. This system can precisely set the temperature individually for all the 64 airconditioners and be programmed for an entire year, eliminating



the need for an operator on a day-to-day basis, and can even be password-protected to avoid unauthorized access, making life much easier for a facilities/ administration manager.

During the review period, the Company also launched a new range of contemporary and aesthetically appealing cassette airconditioning systems. These systems blend beautifully with stylish interiors. Apart from elegant looks, these systems are also extremely silent and save on electricity bills. Cassette airconditioning systems are the ideal choice where ducting is not practical, due to structural constraints such as low cross beams and low ceilings. A new range of concealed split airconditioners was also launched in the review period. These airconditioners are extremely low in height as well as low in noise levels. The cassette airconditioning systems and concealed split airconditioners launched by the Company have been well received in the market place.

In order to expand the distribution reach, dealers have been appointed in several cities to procure chillers, air handling units and fan coil units manufactured by Blue Star for executing airconditioning projects for their customers.

The Company received several prestigious orders during the year. These include a Rs.22 crore order from Nuclear Power Corporation of India Ltd for their atomic power plants at Rawatbhata near Kota and Kaiga near Karwar. Another significant order was from Business Park of Mauritius Limited for airconditioning Mauritius's new IT facility. This order, valued at Rs.13 crores involves airconditioning a total built up area of over 40,000 sq m, and was awarded to Blue Star against stiff global competition from several multinational companies across the world.

The Company also secured landmark orders from Indian Immunologicals Limited, Delhi Metro Rail Corporation for airconditioning three underground stations of Delhi Metro System, and a Rs.23 crore order from Moser Baer India Limited for airconditioning their CD-ROM Manufacturing facility.

Other significant orders received include a Rs.11 crore order from Cognizant Technologies in Chennai; Rs.7 crore order from Apollo Gleneagles Hospital in Kolkata; Rs.5 crore order from SAP India in Bangalore; Rs.5 crore order from Metropolitan Multiplex in Gurgaon; Rs.4.75 crore order from DLF City Centre in Gurgaon; Rs.4.50 crore order from Pathways World School in Gurgaon; Rs.4 crore order from HSBC for their software development park at Pune; Rs.4 crore order from ICICI Prudential in Mumbai; Rs.3.3 crore order from MTNL in Mumbai and Rs.2.75 crore order from EDS in Mumbai, apart from orders from Hutchison Max, Wipro, HP, Dell Computers, Dr Reddy's Laboratories and Convergys.

COOLING PRODUCTS

This line of business mainly includes window and split airconditioners apart from commercial refrigeration products and systems such as deep freezers, water coolers, bottled water dispensers, cold storages, ice cubers and visicoolers. This segment recorded a revenue of Rs.176.23 crores, an increase of 20% compared to previous year's revenue. Over the last few years the Company has established leadership in commercial refrigeration products. Blue Star has also become a respected window and split airconditioner brand amongst the corporate and commercial buyers. The performance of some of the major products in this category, during the review period was as follows:

Room Airconditioners

Blue Star sold around 14,000 window airconditioners and 7,500 split airconditioners in 2002-03. While the growth of window airconditioners was flat, split airconditioners grew by 25% over the last year. The market was characterized by substantial price erosions to the extent of around 15-20%.



The Company focused on sales force management, better market coverage and training and development of the field force including those of dealers. The Company targeted the fast-growing banking, telecom and educational institutions which helped the sales of split airconditioners increase by 25%.

On the product front, the Company thought it would be prudent to rationalize the entire range of window airconditioners and keep it corporate and commercial focused. The split airconditioners offering saw the introduction of a contemporary range both in corded and cordless versions, which has been very well accepted in the market.

In the near future, the Company plans to strengthen its dealer distribution network to effectively target the corporate and commercial segment.

Water Coolers & Bottled Water Dispensers

The traditional storage-type water cooler market declined, mainly due to reduced institutional buying and preference for bottled water dispensers in the Small Office Home Office (SOHO) segment. Nevertheless, Blue Star recorded a modest growth of 6% in the water cooler segment, mainly due to its strategy of enhancing product utility and usage through product re-engineering.

Blue Star launched a whole new range of eco-friendly water coolers during the review period with enhanced cooling capacities. It also launched a 10-litre triangular water cooler, which is ideal for the SOHO segment.

Blue Star continues to explore and expand on the encouraging response from the OEM and export markets. The Company has identified exports as a major growth area for water coolers in the future.

With consumers becoming increasingly health conscious, the mineral water dispenser segment has opened up new opportunities for Blue Star. Network penetration helped the Company record a 10% growth in this segment. Although this product category is extremely price conscious, Blue Star's thrust on adding value by enhancing product quality and after-sales service is likely to record higher growth rates in the future.

Deep Freezers

Blue Star sold over 13,000 deep freezers during the review period. The ice-cream industry continued to be a primary growth driver for the market. The Company saw a lot of demand for deep freezers in up-country locations.

The trend of decreasing inclination of the customers towards power-inefficient and poorly finished, small-scale, locally-assembled freezers continued this year as well. Customers showed a clear preference for the high quality, energy efficient and aesthetically attractive deep freezers offered by Blue Star.

The Company has been marketing deep freezers imported from Vestfrost, Denmark. The Company has now started manufacture of deep freezers in its plant at Bharuch. These deep freezers are designed to be more tropicalised than the ones imported from Vestfrost. The Company has already sent a first lot of indigenously manufactured machines into the market for field-testing. The commercial launch is expected to take place in June 2003.

Cold Storages

During the review period, the cold storage market for freon-based systems grew at 20%, to Rs.90 crores. Blue Star has more than 35% market share. The formation of Agri-Export zones by APEDA and Food Parks by Ministry of Food Processing is expected to fuel the growth of the cold storage industry in the next few years at a rate of about 25-30% per annum. Blue Star did well in the horticulture, fast food, ice-cream and pharma segments to maintain its leadership position.



Some Prestigious Installations



Forum, Kolkata



Pizza Hut, Gurgaon



Orchid Towers, Chennai



Perishable Cargo Handling Centre,
International Airport, Mumbai



Lanson Toyota, Chennai





Metropolitan Shopping Mall, Gurgaon



Home Saaz, New Delhi



Vcustomer, New Delhi



General Motors Showroom, New Delhi



Fresh Plus, Manesar

The Company received and executed two prestigious orders from UPSIDC valued at Rs.3.4 crores, for building mango packhouses at Lucknow and Saharanpur in Uttar Pradesh under Agri-Export Zone Schemes. These projects were executed on a turnkey basis including civil, electrical, cold storages, pre-coolers and the grading packing line.

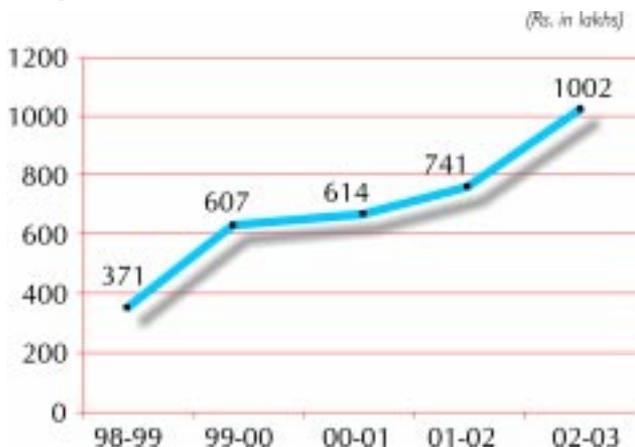
Blue Star also bagged and executed the first integrated Controlled Atmosphere project from Fresh Plus at Manesar. The project was executed in collaboration with International Controlled Atmosphere (ICA) of UK.

The year saw the successful commissioning of India’s largest state-of-the-art perishable cargo handling centre at the International Airport in Mumbai for APEDA built to international standards. Blue Star is now ideally placed to bag and execute many more of such projects.

PROFESSIONAL ELECTRONICS AND INDUSTRIAL EQUIPMENT

The Electronics Division of Blue Star, for nearly five decades, has been consistently providing its customers

Segment Result of Electronics Division



with a wide range of products, systems and value-added services in the field of professional electronics and industrial equipment. The Company is a dominant player and has carved out a niche for itself in most of the segments it operates in this field. The strength of this line of business is the intellectual capital of its employees who keep abreast of the constant global changes in the world of technology, and upgrade their knowledge and skills to constantly innovate and add value to customers.

This Division provides turnkey engineered solutions built around high value and high technology contemporary products sourced from leading global players in their respective fields of business. These

include manufacturers such as Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Metso Automation and Outokumpu from Finland, ITT and Perkin Elmer Life Sciences from USA, R/D Tech from Canada, to name a few.

During the year under review, the Division contributed significantly to the overall performance of the Company with a year-on-year segment result increase of 35%. In fact, the contribution from the Electronics business has grown significantly over the last four years at a CAGR of 28%. Further, this growth has come with minimal capital and manpower employed. While the headcount of the business was only 184 people, the capital employed was just around Rs.9 crores during the review period.

The Division has the following lines of business, and all of them contributed significantly to its overall growth. These include:

- Material Testing Equipment and Systems
- Data Communication Products and Systems
- Test and Measuring Instruments
- Analytical Instruments
- Industrial Products and Systems
- Medical Diagnostic Equipment



Each line of business is a respected player in its field of operations. During the year in review, the Electronics Division has identified additional synergistic products and value added services to add on to their existing product portfolio. The Company is confident that the Electronics Division will continue its growth and profitability.

Material Testing Equipment and Systems

In addition to offering standard products and systems, the Division has developed turnkey product capability for customised systems and services. The Division secured significant orders for automated material inspection systems with complex material handling capability and X-Ray shielded rooms that were designed and developed locally.

During the review period, the Division broadened its product range and services in the areas of weld inspections in cross-country pipelines, composite material testing and inspection of heat exchanger tubes. The market response to this custom-designed project offering is very encouraging, and the Division is confident of significant business in these areas in the coming year.

The Division continues to dominate the market of destructive testing products.

Data Communication Products and Services

The Division is primarily involved in providing solutions in the areas of data and transaction security, networking, RF data communication and ISDN back up solutions. It represents well-renowned manufacturers including Thales e-Security, UK; Juniper Networks, USA; Sitara, USA; LXE, USA and Patapso, UK.

The Division continues to dominate the market for security products for authentication and verification of PIN (Personal Identification Number) in the banking and financial sectors. Over 40 banks in India rely on Blue Star's engineered solutions to provide security in all credit/debit card transactions. Kotak Mahindra Bank is the latest addition to its list of users. The Division secured good orders for upgradation of security level to 3-DES encryption from several banks.

The National Informatics Centre placed an order for digital signature systems for their mailing system. The Division expects this business to grow with Central and State Government Departments adopting digital signatures in their systems.

The Division bid for several projects in wireless RF Data Communication for on-line data management in ports and warehouses. Many business enquiries in this area were generated during the year and some of these are in an advanced stage of finalization.

Test and Measuring Instruments

In the field of test and measuring instruments, the Company represents world-renowned manufacturers including Aeroflex-IFR, USA; Navtel, Canada; Promax, Spain and NEC-Sanei, Japan offering a wide range of spectrum analyzers, signal generators, protocol analyzers and microwave test equipment amongst others.

During the year, the Division booked a major order from Hindustan Aeronautics Limited (HAL), Kanpur valued at US\$ 310,000 for the supply of avionics test equipment. The Division also secured a prestigious protocol analyzer order for ATM switch testing from Intel Corporation, Bangalore. With new upcoming projects based on MPLS and VoIP, the Company envisages good potential in protocol analyzers.

During the year, the Division added new products to be used by cable operators for CATV testing solutions. These products will help the Company address a new market with the introduction of Conditional Access Systems (CAS). A modest beginning has already been made with a few small orders and the order inflow is likely to improve in coming months.



Analytical Instruments

In the field of Analytical Instruments, Blue Star continues to do well in electron microscopy product lines for biological and industrial applications.

The Division had a major success in entering the fast growth market for biotechnology and life sciences research products representing world-renowned Perkin Elmer Life Sciences of the USA. Perkin Elmer offers a comprehensive range of products for R&D laboratories. With large investments expected in these areas, the Division has invested substantially in manpower resources and training.

Industrial Products

Blue Star has been engaged in marketing high technology process instruments such as special-purpose valves, engineered pumps and compression systems for mega projects. Over the last few years, investments in grass-root projects in core sectors like refinery, petrochemical, agro chemical, pulp and paper has been on the decline.

Despite market constraints, the Division has done well in industrial products by changing focus to specialised fields such as automatic bagging plants, industrial filtration plants, pumping solutions for transportation of fly ash and air-operated pumps. Significant orders were booked in these areas. Five fully automatic bagging lines with palletizer were installed at IPCL, Nagothane. A fly ash disposal system order was received from Budge Budge Thermal Power Plant. It was also a good year for the industrial filters business. The Company supplied a pre-owned refurbished filter to Atul Products. The entire refurbishing project was carried out with in-house expertise.

Medical Diagnostic Equipment

The Division has done well with the sales of MRI and CT Scanners, particularly with pre-owned machines sourced from different parts of the world. The turnkey responsibility for imports, offloading of magnets, transportation to site, room shielding and installation is now carried out with in-house expertise. In the past, the Division used to outsource some of these jobs to foreign specialists.

During the year, the Division made a beginning in the area of IT-related products to address the emerging market in digital imaging.

MANUFACTURING FACILITIES

Blue Star's three modern manufacturing plants are integrated with an ERP system, which ensures operational efficiency. The plants make extensive use of IT to enhance productivity and product development capabilities.

Blue Star uses sophisticated 3D modelling software called Pro-Engineer for all its new product development and value engineering. The extensive product testing facilities enable high quality of products to be manufactured at these plants at extremely competitive costs.

Dadra Plant

Blue Star's state-of-the-art automated plant at Dadra is regarded by industry experts as the best manufacturing facility in the country for airconditioning products. The plant completed five successful years of operation during the review period. The product range manufactured by this plant includes packaged airconditioners, ducted split airconditioners, mini split airconditioners, window airconditioners, vertical air handling units and fan coil units. The plant is also an OEM supplier to other companies to sell under their brand names in the domestic and export markets.



During the review period, the plant continued its outstanding work in value engineering and improving procurement processes. Productivity also improved substantially with enhanced output from the assembly lines and emphasis on training of operators. Overall output was 39,000 units translating to airconditioning equipment of over 97,000 tons capacity during the review period. Over the last five years, the tonnage of airconditioning equipment manufactured at the plant has grown at a CAGR of over 38%. The plant also received several orders from European markets.

Another important highlight was outstanding contributions by workmen under the plant's continuous improvement (Kaizen) programme. More than 500 Kaizens have been implemented ever since the scheme was launched.

Major products launched during the year were packaged airconditioners with tandem scroll compressors, cassette airconditioning systems, a new range of hi-wall split airconditioners and precision control packaged airconditioners in collaboration with Eaton Williams, UK. The Dadra plant was awarded the ISO 9001 certification a couple of years back, and this has now been upgraded to the 2000 version. CE certification has been obtained for export to Europe.

Thane Plant

The plant manufactures a wide range of chillers – reciprocating, scroll and screw for central airconditioning applications. It also manufactures PUF panels and refrigeration units for prefabricated cold storages and mortuary chambers.

During the year there was a focus on cost reduction and various measures were taken to control expenses. These efforts paid dividends as operating expenses decreased by 9%. The plant was also awarded ISO 9001 certification.

During the review period the plant recorded 26% growth in billings. All products saw an upsurge in volumes. While scroll and reciprocating chillers recorded a volume growth of 50% and 35% respectively, coils registered a growth of 65%.

Improvement in productivity was brought about by:

- Effective use of manufacturing engineering in key areas to cut down wasteful activities
- Introduction of low-cost automation to improve productivity
- Upgradation of material handling equipment across the plant

Kaizen and 5 'S' schemes were introduced with keen participation by workmen.

Bharuch Plant

During the year under review, re-layouts of the assembly lines were carried out and some new processes initiated. A wide range of water coolers for local and export markets are manufactured at the Bharuch Plant. The plant also manufactures both single skin and double skin air handling units for central airconditioning systems in horizontal, vertical and ceiling suspended types. It started manufacture of air handling units about five years back in collaboration with Climatrol, Italy.

The plant recorded 46% growth mainly due to doubling of production of air handling units. The export of water coolers recorded a growth of 66%, while the increase for domestic water coolers was around 10%.

The plant also initiated the manufacturing of deep freezers. These freezers are designed to suit Indian conditions and can withstand ambient temperatures of upto 54°C. Moreover, the performance of these freezers are better than that of imported machines in terms of hold time and power consumption. The first lot of indigenously manufactured deep freezers was sent to the field for testing. The commercial launch of these products is expected to take place in June 2003.



Research & Development

With global competition and margins under pressure, value engineering and reduction of material cost has been one of the focus areas for R&D. The Company was successful in optimizing designs and using alternative materials, which helped reduce material cost substantially.

During the period under review, another focus area of the Company was on expanding the product range.

The Company introduced redesigned Air Handling Units (AHU) with added features. These AHUs are more compact than the earlier model. At the Bharuch plant, a major in-house project was undertaken for developing a range of deep freezers. The project included designing, building a prototype, testing and setting up the manufacturing facility for deep freezers.

At the Dadra plant, the range of concealed split airconditioners with multiple indoor units was extended upto 7.5 tons, to address the light commercial market. A significant technology breakthrough was the introduction of tandem scroll compressors for packaged airconditioners. These compressors save on power and cut down electricity costs substantially. The Dadra plant also introduced cassette airconditioners in capacities of 2, 3 and 4 tons. Cassette AC systems offer power savings and extremely low noise levels.

To address telecom industry requirements, cooling solutions for telecom shelters were developed. The Company tied up with Eaton-Williams of UK, to manufacture precision control machines to meet the requirements of server rooms.

A major project was undertaken to develop split airconditioners for export to the Middle East. These airconditioners are designed to operate at ambient conditions upto 55°C. A new series of hi-wall split airconditioners was also introduced for the domestic market.

At the Thane plant the entire range of reciprocating chillers was converted to operate with microprocessor-based controllers. This has helped the customer realize energy savings with sophisticated controls. A completely redesigned line of mortuary chambers was also introduced.

AIRCONDITIONING AND REFRIGERATION SERVICE

After Corporate restructuring was carried out in 2001, the airconditioning and refrigeration service business of the Company was segregated into three easily identifiable operations:

- a) Central Plant Service catering to large airconditioning systems, which were mainly designed, engineered and installed directly by Blue Star.
- b) Packaged Airconditioners Service catering to ducted splits and packaged airconditioners, mostly through the dealer network.
- c) Refrigeration and Airconditioning Products Service providing services to products such as room airconditioners, split airconditioners, water coolers, deep freezers and cold storages. This service is provided through a network of dealers and service associates.

As part of its after-sales service offerings Blue Star provides regular preventive maintenance and life-cycle enhancement services. This not only enhances the life of the equipment but helps customers cut costs through power savings. Recognizing this, more and more customers are entering into comprehensive service and maintenance contracts with Blue Star. Apart from maintenance, the Company also offers revamping and retrofitting in order to help customers upgrade, augment or replace their airconditioning systems.

Training and manpower development has been a key thrust area for the Service operations. Apart from setting up state-of-the-art training schools at Chennai, Mumbai and Delhi; the Company has drawn up elaborate training modules for its employees as well as business associates. A detailed training calendar is set at the beginning of the year and experts from the Company and outside conduct these programmes.



Other initiatives include revamping the Service operations' infrastructure with modern telephone equipment and lines added at all locations, and creating the position of Customer Care Officer (CCO) whose primary responsibility is to receive customer calls related to post sales support and to see these through to the satisfaction of the caller. With proper induction, training and monitoring, this team of CCOs today enables customers to get prompt action from the Company and has considerably helped in improving customer satisfaction levels.

Since the Company's customers work beyond normal business hours, the Company offers extended hours of operation for all its service centres. Today Blue Star's customers can call any time from 9 am to 9 pm on every day of the year. Customers have given the Company's extended hours service a resounding vote of confidence.

The Company has a well-organized and managed National Parts Centre (NPC) in Mumbai with subsidiary stocking points, modern procurement methods, contemporary communication systems and state-of-the-art IT infrastructure.

NPC has dramatically shortened the supply of original spare parts to customers and dealers. This 4,000 sq ft centre located near Mumbai accepts indents online from any of the Blue Star offices, and ensures delivery by the fastest available mode. NPC is linked to the other warehouses spread across the country and continuously monitors the stock status of frequently used spares. The web-enabled supply chain management system ensures that stocks are replenished in a timely manner based on consumption trends.

The Company carried out customer surveys for each line of business to assess customer satisfaction levels. The feedback has been encouraging. Satisfaction levels have increased over the previous year, and the Company shall endeavour to further enhance these levels in the coming years.

SUPPLY CHAIN MANAGEMENT

As part of its supply chain management initiatives, the Company restructured its warehousing, distribution and procurement systems during the review period. The Company's supply chain management system now covers four areas namely local procurement, spare parts management, logistics and international trade.

The local procurement cell maintains a data bank of vendors, apart from qualifying new vendors and looking for new technologies, whilst the international trade cell scouts for imported items, required for project execution or for manufacturing. The logistics of the Company is entirely outsourced to professional logistics service providers who have the advantage of a larger network of warehouses and more efficient inventory management.

FINANCIAL PERFORMANCE

The analysis for the 12-month period ended March 31, 2003 in comparison with the corresponding figures for the 12-month period ended March 31, 2002 are as follows:

1. Income

Total Income increased by 16% from Rs.517.32 crores to Rs.601.06 crores. Despite severe competitive pressures, the Company increased its revenue of sales, work bills, service and commission to Rs.581.99 crores, an increase of Rs.77.82 crores over the previous year. Other income rose from Rs.13.14 crores to Rs.19.06 crores mainly due to an income of Rs.8.53 crores generated from sale of the Company's investment in Yokogawa Blue Star Ltd.

2. Cost of Sales, Work bills and Services

The Cost of Sales, Work bills and Services during the year stood at Rs.435.15 crores. This represents 72.3% of the Total Income, marginally higher than the corresponding figure of the previous year.



3. Employee Remuneration and Benefits

Employee remuneration and benefits for the year under review reduced by 6.4% to Rs.50.99 crores. This represents 8.5% of the Total Income compared with 10.5% of the previous year, a significant drop of 2%.

4. Operating and General Expenses

Operating and general expenses grew sharply by 21% in the review period. This increase is attributable to a rise in lease rentals and advertising and publicity expenses. Operating and general expenses stood at Rs.62.33 crores, representing 10.4% of the Total Income compared to a corresponding figure of 9.9% in the previous year.

5. Interest

There was a dramatic decrease in interest costs during the year under review. The interest cost stood at Rs.2.25 crores representing a reduction of 60% compared to the previous year's figure of Rs.5.59 crores. This sharp decrease was on account of declining interest rates and tight working capital management.

6. Depreciation

Depreciation charge for the year under review was lower than the previous year. The depreciation charge stood at Rs.10.15 crores compared to Rs.12.91 crores in the previous year. This decrease was due to balance sheet restructuring.

7. Taxation

Provision for taxation increased substantially from Rs.2.28 crores to Rs.9.57 crores. This significant rise was due to partial withdrawal of Income Tax exemption (from 100% to 30%) after five years of operation of the Dadra Plant.

8. Net Profit

Net profit increased to Rs.31.04 crores compared to Rs.27.45 crores in the previous year. Profit before Tax stood at Rs.40.18 crores, a significant rise of 47% from previous year's figure. The increase in Profit before Tax is creditable, considering that severe competitive pressures led to gross margin erosions during the review period. The Company took vigorous steps to cut material costs, control operating expenses and improve capital utilization for enhanced profitability.

However, the substantial rise in provision for taxation due to partial withdrawal of IT exemption from Dadra Plant resulted in a lower Net Profit rise of 13%.

INTERNAL CONTROL SYSTEMS AND THEIR ADEQUACY

In any industry, the processes and internal control systems play a critical role in the health of the Company. Blue Star has robust internal processes as well as clearly defined roles and responsibilities at all levels. Frequent internal audits ensure compliance with these processes. Rigorous business planning as well as expense, capital and manpower budgeting processes ensure that progress is monitored against targets, and control is exercised on all major expenses, so that actual spending is in accordance with the budgets. The mature, timely and accurate management information systems are regarded as the best in the industry.



HUMAN RESOURCES

Over the last decade, the focus of human resources has been on improving productivity through rationalization of manpower while substantially improving the quality of people.

The Management of Blue Star takes pride in the fact that the technical and business knowledge it has acquired over 60 years as an organization in the field of airconditioning and refrigeration is perhaps the richest in the country, and is invaluable. The headcount of the Company stood at 1808 as on March 31, 2003.

Over the last few years, training and development inputs for the employees at all levels have increased substantially. The average training man-hours during the review period was 35 hours per employee. Training inputs include technical training and soft skills training which help employees attain the Corporate Vision — “To deliver a world-class customer experience.” Training has also been designed and conducted to improve managerial competencies. Young executives taking up managerial responsibilities are put through structured management development programmes to help them discharge their responsibilities better.

During the review period, an elaborate and comprehensive Employee Satisfaction Survey was carried out through an external agency. The findings of the survey were used to devise and modify HR policies to meet the changing expectations of the employees.

The industrial relations scenario has improved substantially resulting in higher level of productivity on the shop floor. During the review period, the Company signed a landmark settlement with the workmen at Bharuch. The Company has now settled pending contracts with workmen at most locations.

A number of welfare measures were introduced. These include annual medical health check ups for all employees over 40 years of age, medical insurance coverage for dependent parents of employees, scholarships for employees’ children from the Blue Star Education Trust, assistance for emergency medical expenses from the Blue Star Sahayata Foundation, career guidance counseling for employees’ children, and club activities such as picnics and social functions. Involvement of families of the employees has also been brought about through annual get-togethers and other team-building programmes.

INFORMATION TECHNOLOGY

Blue Star, over the last few years, has made substantial investments in IT and communication infrastructure, as well as in advanced state-of-the-art software. The Company believes that ‘old economy’ companies should embrace the opportunities offered by the developments in IT in order to improve customer relations management, operational efficiency and product development.

One important initiative in IT for the year 2002-03 was the implementation of an ERP package from BaaN across the country. BaaN is a leader in the field of ERP and is being used in more than 120 organizations in India. This project will cover all business divisions of the Company, and will provide a centralized integrated solution for the Company.

In a complex organization like Blue Star, many business processes have a tendency to get fractured on multiple frontiers like divisions, departments and locations. This, quite often, gives the look and feel of many mini Blue Stars within a large organization. ERP will provide the Company with a platform that will seamlessly integrate all its businesses across all the locations and therefore create an integrated virtual organization.

Since BaaN is a leading ERP package, it contains best business practices drawn from several Fortune 500 companies. By implementing BaaN, the Company is in a position to embrace these world-class business practices.

The BaaN server is being located at a central site, with all the other locations being connected to this server



over a wide area network. The Company has also provided in the network design for extending connectivity to its partners namely dealers, franchisees and suppliers, once the system stabilizes.

The project consists of two phases, viz, the design phase and the rollout phase. The design phase is expected to be completed in this financial year. A team of 30 people is implementing the Manthan project. A total of 17 people have been drawn from the business to work full time on this project, whereas 13 people comprise the technical team. A Steering Committee has also been formed to oversee the work done by this group and ratify/validate all the business processes as they are being mapped into BaaN. The Company will spend approximately Rs.10 crores on this project over a period of three years.

The Company also plans to launch its intranet, called 'Infovine', in the next financial year. This initiative will facilitate knowledge sharing amongst Blue Star employees, who are currently geographically dispersed. The employees will be constantly updated on the latest happenings and this platform will help in enhancing customer relationship management, collaboration between employees, as well as increase productivity.

BRAND EQUITY

The Company embarked on a brand equity building programme around four years ago, recognizing that although it enjoyed strong brand recall with the corporate and institutional segments, amongst individuals and small businessmen its visibility was low. The Company has made substantial investments in marketing and advertising since then to strengthen its brand equity, particularly in the latter segment of the market. These investments have gone a long way in building the Corporate Brand, and have substantially increased visibility for the brand. Blue Star is now a well-recognized name amongst its target group of corporate and commercial customers, including small businessmen and self-employed professionals.

To enhance brand equity and recognition, the Company has invested not only in mass media channels of print and television, but also in direct marketing and field marketing which involves creating leaflets and literature, participation in exhibitions and events and relationship programmes amongst others. Since Blue Star is not a consumer durables player, in order to effectively target its core audience of corporate and commercial customers, including small businessmen and self-employed professionals, the Company has arrived at an optimum media mix with the value proposition of "Cooling Solutions to help your business do better".

With the onset of summer 2003, Blue Star has unleashed its advertising campaign across the country. This includes some new television commercials as well as a consumer promotion scheme called "The 60 x 60 x 60 Offer" to celebrate the Company's 60th anniversary.

Riding on the value proposition of "Cooling Solutions to help your business do better", a new Cassette Split AC television commercial has been created to increase awareness about the Company's recently launched Cassette ACs. Also, a commercial on the Company's hi-wall split airconditioner has been created. "The 60 x 60 x 60 Offer" scheme entitles every customer who buys a Blue Star window airconditioner, split airconditioner, water cooler or deep freezer within the scheme period to win 60 weekly prizes and 60 bumper prizes in a slogan-based contest.

Apart from the advertising campaign, the Company is also making significant investments in field marketing. These include participation in trade exhibitions, IDEAC (Interior Designers, Architects and Consultants) Relationship Management and PR through the Press. The Company recently conducted many central airconditioning expositions where customers and IDEACs were invited to look at Blue Star's latest range of products. Apart from that, the Company participated in the country's biggest airconditioning and refrigeration exhibition called REFRICON 2003 held at Pragati Maidan, New Delhi in February 2003.

These field activities are critical and go a long way in complementing mass media campaigns and strengthening brand equity.

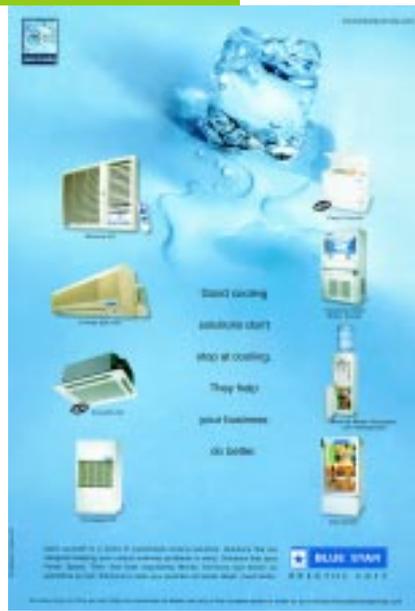


Brand Equity

Central Airconditioning Product Exposition and Technical Seminar



Print Advertisement



REFRICON 2003 Exhibition



Brand Equity

Furniture Store TV Commercial



The 60 x 60 x 60 Offer

The 60 x 60 x 60 Offer

In our 60th year, Win 60 bumper prizes. Plus 60 prizes a week.

Win a Scorpio, Bajaj Pulsars, Compaq laptops, Onida home theatres and more.

Buy any Blue Star Window AC, Split AC, Water Cooler or Deep Freezer to get eligible in 'The 60 x 60 x 60 Offer' and win really cool prizes. Bumper prizes include 1 Scorpio, 3 Bajaj Pulsars, 3 Compaq Presario Notebooks, 4 Compaq Presario Multimedia PCs, 10 Onida Home Theatres, 20 Kodak EasyShare Digital Cameras and 20 Nikon Manuals. There are also prizes to be won every week. Win 60 prizes a week. The 60 x 60 x 60 Offer. This offer is open only for 60 days. For more details on the contest visit our toll free number: 800-333-8000.

BLUE STAR
BREATHE EASY

Toy Shop TV Commercial



OUTLOOK

Blue Star celebrates the completion of 60 years of business in the financial year 2003-04. This significant milestone comes at a time, when the Company has performed remarkably well in a dynamic and highly competitive business environment.

It continues to enjoy a leadership position in most of the segments it operates in. Its solid credentials as a dependable, quality-conscious vendor with exemplary project management skills, coupled with its strong brand equity, provide a definite competitive advantage.

The rich experience that the Company has gained over six decades of operations make it well positioned to reap the benefits of the huge growth opportunities available in airconditioning, commercial refrigeration and professional electronics in years to come.

