

Blue Star Limited

Q1 FY09 Earnings Update

August 01, 2008

FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported a Total Income of Rs 632.54 crore for the quarter ended June 30, 2008, representing 37% growth over the corresponding quarter in the previous year. Net sales for the quarter at Rs 630.89 crore were up by 36% over Q1FY08.
- For the quarter, Gross margin grew from 22.3% to 24.2%.
- Operating profit (PBDIT excluding Other Income) for the quarter at Rs 57.04 crore was up by 50% as compared to the Operating Profit of Rs 37.92 crore earned in Q1FY08. The Operating Margin increased to 9.0% in Q1FY09 compared to 8.2% in Q1FY08. Scale, higher price realization, lower cost of sales and well controlled expenses contributed to margin improvement.
- In accordance with the Accounting Standard AS-15 (Revised 2005) on Employee Benefits issued by the ICAI, the Company has re-assessed its liability towards certain employee benefits covered by the Standard. The liability on such reassessment as at June 30, 2008 is estimated at Rs. 7.46 crore. The same has been included in the Employees' cost of the quarter ended June 30, 2008. Without this expense, the Operating Margin is 10.2%.
- Other income for the quarter was Rs 165 lakh (Rs 7 lakh in Q1FY08) mainly on account of dividend from associate company, Blue Star M&E Engineering, Malaysia.
- Net profit for the quarter was Rs 36.41 crore, up 63% over Net Profit of Rs 22.32 crore for Q1FY08.
- The Earnings per Share (face value of Rs 2.00) for the quarter was Rs 4.05 as against EPS of Rs 2.48 in Q1FY08.
- Carry Forward Order Book as on June 30, 2008 increased to Rs 1410 crore compared to Rs. 984 crore as at June 30, 2007, representing an increase of 43%.
- Order Inflow during the quarter grew from Rs 687 crore in Q1FY08 to Rs 949 crore, an increase of 38%.

Segment-wise results

- The central airconditioning, packaged airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems grew by a healthy 37% during the quarter. Segment results increased by 53% in the quarter compared to the corresponding quarter in the previous year. Apart from infrastructure-led central airconditioning projects, variable refrigerant flow systems also contributed to growth.
- The Cooling Products segment also registered good growth of 36% driven by sales of the newly launched star-rated split airconditioners as well as commercial refrigeration products. Segment results grew by 68% during the quarter.
- Professional Electronics and Industrial Systems continued to perform well owing to its innovative business model of a system integrator and value added re-seller. Revenues grew by 30% during the quarter, with segment results registering growth of 8%.

- SBU-wise sales break-up:

(Rs crore)

	Q1FY09	Q1FY08	% Growth	% of Net Sales
Electro mechanical projects and packaged airconditioning systems	380.01	277.04	37%	60%
Cooling products	215.93	158.28	36%	34%
Professional Electronics & Industrial systems	34.95	26.93	30%	6%

- SBU-wise results break-up:

(Rs crore)

	Q1FY09	Q1FY08	% Growth	% of Total Segment Result
Electro mechanical projects and packaged airconditioning systems	43.08	28.12	53%	57%
Cooling products	27.73	16.49	68%	36%
Professional Electronics & Industrial systems	5.32	4.91	8%	7%

BUSINESS HIGHLIGHTS

Electro Mechanical Projects & Packaged Airconditioning Systems

Overview

This line of business comprises the central airconditioning, packaged airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems.

In the central airconditioning business, over the last few quarters, the Company has been witnessing increased demand from new emerging segments such as infrastructure, power, healthcare and hospitality. Though the rise in raw material inputs such as steel and copper have put the margins under pressure, better procurement coupled with value engineering measures and cost control in project management helped enhance operating margins from 10.15% in Q1FY08 to 11.33% in Q1FY09.

In packaged/ducted airconditioning and small chillers, while the IT/ITES and organized retail segments showed some signs of a slowdown, the business witnessed enhanced demand from offices, multiplexes and eateries. Blue Star's Precision Control Packaged Airconditioners, which have been specially designed for the IT segment continued to do well growing by 44% in the quarter. The Company's recently launched eco-friendly range of VRF Systems also met with a tremendous response from the market. Blue Star is India's first and only manufacturer of VRF systems and has significant advantages over its foreign counterparts. The Company registered a 270% growth during the quarter in this product category driven by demand from premium residences, offices, hotels and hospitals.

Blue Star is the market leader in the telecom airconditioning business with its range of packaged airconditioners for unmanned telecom shelters. The Company enjoys a preferred partner status with several customers including Vodafone, Airtel, Reliance Telecom, BSNL, TTSL, Spice Telecom and other passive infrastructure players.

The newly formed electrical projects business made steady gains during the quarter, booking several orders including a Rs 19 crore order from HCL Technologies for their new 7-acre campus coming up at Bommasandra Bangalore. After the acquisition of Naseer Electricals in Q4FY08, the Company

has been focusing on rolling out the operations to other regions in the country and cross-selling to its existing central airconditioning customers.

Key Projects in the Quarter:

	New Orders Won in Q1FY09
Central Plants	<ul style="list-style-type: none"> * Pune Airport * Secretariat Complex, Raipur * NTPC, Sipat * Moser Baer, Greater Noida * Volkswagen, Pune * Talkatora Stadium, New Delhi * Gautam Buddha University, Greater Noida * DLF, Bldg 10 (ABC) & Bldg XIV, Gurgaon * Balaji Medical & Diagnostic Research Centre, Delhi * Platina Mall, Gurgaon * Wipro, Bhubaneswar & Hyderabad * Metro, Kolkata * Ozone Mall, Kolkata * Future Group, Kolkata * Satyam STC, Bahadurpally * Reliance Communication, Hyderabad * Infosys, Pune * J W Marriott, Chennai * Accenture, Chennai
VRF Systems	<ul style="list-style-type: none"> * Unitech Limited, Gurgaon * Splendid Aparna, Hyderabad * Chitkara Educational Trust, Baddi * Army College of Medical Sciences, Delhi * CPWD PMO (Prime Minister's Office) * Hotel Garh Rajwada, Jaisalmer * Intellect HR Services, Noida * Agartala Secretariat Building, Agartala * Columbia Asia Hospital, Patiala * CII, Kolkata
Packaged Airconditioning	<ul style="list-style-type: none"> * HCL Technologies, Bangalore * Satyam Computers, Secunderabad * Madras Cements, Arilayur * Chandana Brothers, Nellore * Bennett & Coleman, Mumbai * Persistent Technologies, Nagpur * Coastal Gujarat Power Limited, Gandhidham

Electrical Projects	* HCL Technologies, Bangalore * CISCO Systems, Bangalore * L&T Phoenix Limited, Hyderabad * Prestige Shantiniketan, Bangalore * K Raheja Mindspace, Hyderabad
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Service Business

In line with the sales revenue growth, the AMC business is also growing at a healthy pace. In addition, the Company offers a variety of new service products such as energy management audits and solutions, air management consultancy and services, water management services for cooling systems, product upgrades and retrofits, Green Building certification consultancy and associated services.

During the quarter, the Company booked a prestigious energy audit order from Moser Baer, Noida and an indoor air quality audit order from DMRC, Delhi. The Division is also aggressively promoting the replacement of ozone-depleting refrigerants with eco-friendly ones. The Company's revamp and retrofit business continues to perform well.

Customised OEM Business

The OEM business offers process chillers for special process applications in the medical, food and plastic industries. It also offers OEM branded water coolers and specialized MIL graded airconditioners for defense, and bulk milk coolers for the dairy industry with a tie-up with Packo, Belgium.

During the quarter, the Company focused on private dairies for bulk milk coolers and concluded major orders from Sahyadri Agro and Supreme Dairy, amongst many others. The Company also won an order for supply of 38 special water coolers from Indian Railways to cool drinking water for use on railway platforms.

Cooling Products

The cooling products business performed extremely well with growth driven by the newly launched star-rated split airconditioners, as well as refrigeration products and cold chain equipment. Benefits of scale, higher price realizations due to differentiated products and tax benefits contributed to a substantial increase in margins from 10.4% in Q1FY08 to 12.8% in Q1FY09, despite raw material input cost pressure.

In Q4FY08, the Company had replaced its entire range of wall-mounted split airconditioners with star-rated energy efficient machines. Under a new Central Government legislation expected to become operational from October 2008, airconditioners need to be compulsorily tested in authorized laboratories and their energy efficiency certified through clearly visible energy labels, to be fixed on all ACs. Since Blue Star has been promoting the concept of energy efficiency for several years, it was decided to sell only star labelled split airconditioners from this summer onwards on a voluntary basis even though the law has not come into force. During the quarter, despite higher prices of the Company's star-rated units vis-à-vis other non star-rated machines in the market place, the sales of Blue Star's split airconditioners outperformed market growth. Major orders were booked from Mamta Hospital, Khamam; Canara Bank, Erode; Global Hospital, Chennai; Mahatma Gandhi Medical College, Pondicherry; Home Store, Delhi and RCF, Mumbai, to name a few.

In the refrigeration products business, the premium refrigerated display cabinets from ISA, Italy continued to do well with orders booked from Delhi Airport; Barista, Delhi; Nilgiris, Chennai and Bangalore; and Smart Retail, Bangalore.

For the cold chain, Blue Star offers equipment right from pack houses at the farm end to supermarket refrigeration equipment for retail outlets. During the quarter, the Company won a prestigious order from a new emerging market for seed storages. This order from Sungrow Seeds, Delhi includes storage of seeds with composite temperature and humidity control equipment. Blue Star also booked significant integrated pack house orders from Soumya Agrotech and Chakraborty Estate, both in Kolkata. A rate contract was also signed with McDonalds for its Southern and Western region requirements.

Professional Electronics and Industrial Systems

Over the years, the Company has changed its business model from merely being a distributor of leading global manufacturers to that of a system integrator and value added reseller, thereby moving up the value chain. The Company executes several turnkey engineered projects in the areas of manufacturing, telecom, healthcare, defense, pharmaceuticals, banking and R&D.

During the quarter, all the individual SBUs performed well. While the segment revenue registered a growth of 30%, there was a modest increase of 8% in segment profit of Q1FY09 compared to Q1FY08. Given the nature of the business, quarterly performance is not a true indicator of the overall performance of the business. The prospects of this business continue to be good.

On the destructive testing front, the Company bagged significant orders from Jindal, Ratnamani, Sievert and Man Industries. It also booked a landmark order from SE Forge, a unit of Suzlon, for an online ultrasonic phased array system that will be used for testing forging rings in windmill towers. This will be the first online ultrasonic phased array system to be installed in India.

Exports

Blue Star's exports are derived from two streams - International Projects and Product Exports.

The product export business registered a growth of 73% during the quarter mainly driven by sales of ducted splits as well as wall-mounted split airconditioners. While the raw material input costs put pressure on the margins, the appreciation of the dollar helped in offsetting the raw material input cost increase. Since the focus is on products that are specialized and more technical in nature, and are targeted at specific industry and customer needs, the margins and price realizations are better than standard products.

As far as international projects are concerned, given the substantial boom in the domestic market, the Company continues to be selective in pursuing projects with healthy margins.

BUSINESS OUTLOOK

Industry Outlook

Though there is a slowdown in certain sectors such as retail, the boom in infrastructure-led electro mechanical projects and enhanced demand from healthcare, power and the hospitality industries is driving growth. Cooling products also continue to offer substantial growth driven by increased demand for split airconditioners, refrigeration products and cold chain equipment, especially in the agricultural segment.

Company Outlook

Inspite of a deteriorating economic situation, the Company produced very good results in Q1. Blue Star aggressively pursued business in fast growing sectors like infrastructure-led electro-mechanical projects, increased its market share in room airconditioners, and its innovative, value-added services have been well accepted. At the same time, the Company intends to continue its value engineering drive and cost control measures to minimize the impact of inflationary input cost increases. Though the economic outlook is not clear, the

Company is optimistic about outperforming market growth and producing a good performance over the next few quarters.

For more information contact

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SAFE HARBOUR

Certain statements in this release concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fiscal policy, competition, inflationary pressures and general economic conditions affecting our industry. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

BLUE STAR LIMITED
UNAUDITED FINANCIAL RESULTS
FOR THE QUARTER ENDED JUNE 30, 2008

(Rs.in lakhs)

Particulars	Quarter ended		AUDITED FOR THE YEAR ENDED
	30.6.2008	30.6.2007	31.3.2008
1. Net Sales/Income from Operations	63089	46225	223304
2. Other Income	165	7	3705
3. Total Income (1+2)	63254	46232	227009
4. Expenditure			
a. Increase/decrease in stock in trade and work in progress	(1029)	(2524)	(8541)
b. Consumption of raw materials	48841	38423	177634
c. Purchase of traded goods (See note 2)	-	-	-
d. Employees cost (See note 4)	4787	3324	15440
e. Depreciation	566	498	2197
f. Other expenditure	4785	3210	15321
g. Total	57951	42931	202050
5. Interest	200	224	756
6. Exceptional items	-	-	-
7. Profit (+)/Loss (-) from Ordinary Activities before tax (3) - (4+5+6)	5103	3077	24202
8. Tax expense	1462	845	6792
9. Net Profit (+)/Loss (-) from Ordinary Activities after tax (7-8)	3641	2232	17409
10. Extraordinary items (net of tax expense)	-	-	-
11. Net Profit (+)/Loss (-) for the period (9-10)	3641	2232	17409
12. Paid-up equity share capital (Face Value per share Rs.2/-)	1799	1799	1799
13. Reserves excluding Revaluation Reserves as per balance sheet of previous accounting year	-	-	24556
14. Earnings Per Share (EPS)			
a) Basic and diluted EPS before Extraordinary items for the period, for the year to date and for the previous year (not annualised)	4.05	2.48	19.36
b) Basic and diluted EPS after Extraordinary items for the period, for the year to date and for the previous year (not annualised)	4.05	2.48	19.36
15. Public shareholding			
- Number of shares	53822188	53824538	53824538
- Percentage of shareholding	59.84	59.85	59.85

Notes:

- The above results have been subjected to "Limited Review" by the statutory auditors, reviewed by the Audit Committee and approved at the meeting of the Board of Directors held on July 28, 2008.
- Details of purchase of traded goods is difficult to segregate due to the intervoven nature of business of the Company.
- The results of the quarter ended June 30, 2008 include the results of the Electrical Contracting business acquired from Naseer Electricals Pvt. Ltd. on January 24, 2008 and to that extent are not comparable with the results for the quarter ended June 30, 2007.
- In accordance with the Accounting Standard AS-15 (Revised 2005) on Employee Benefits issued by the ICAI, the Company has re-assessed its liability towards certain employee benefits covered by the Standard. The liability on such reassessment as at June 30, 2008 is estimated at Rs. 746 lakhs. The same has been included in the Employees cost of the quarter ended June 30, 2008.
- During the quarter ended June 30, 2008, the Company received and disposed of 27 investor complaints. No complaints were pending at the beginning and at the end of the quarter.

Registered Office:

Kasturi Buildings
Mohan T. Advani Chowk
Jamshedji Tata Road
Mumbai 400 020
www.bluestarindia.com

Date : July 28, 2008

Place : Mumbai

For BLUE STAR LIMITED

Ashok M. Advani
Chairman & Managing Director

Segment wise Revenue, Results and Capital Employed for the quarter ended June 30, 2008

(Rs. in lakhs)

Description	Quarter ended		AUDITED FOR THE YEAR
	30.6.2008	30.6.2007	31.3.2008
I. SEGMENT REVENUE			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	38001	27704	155629
ii. Cooling Products	21593	15828	53242
iii. Professional Electronics and Industrial Systems	3495	2693	14433
TOTAL SEGMENT REVENUE	63089	46225	223304
Less: Inter Segment Revenue			
NET SALES/ INCOME FROM OPERATIONS	63089	46225	223304
II. SEGMENT RESULT			
PROFIT/(LOSS) BEFORE INTEREST & TAX			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	4308	2812	18970
ii. Cooling Products	2773	1649	5807
iii. Professional Electronics and Industrial Systems	532	491	2892
TOTAL SEGMENT RESULT	7613	4952	27668
Less:			
i.) Interest	200	224	756
ii.) Other un-allocable Expenditure net of un-allocable Income	2310	1651	2710
TOTAL PROFIT BEFORE TAX	5103	3077	24202
III CAPITAL EMPLOYED:			
(Segment Assets- Segment Liabilities)			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	28413	17322	20309
ii. Cooling Products	16349	10418	14721
iii. Professional Electronics and Industrial Systems	3221	3516	3244
TOTAL CAPITAL EMPLOYED IN SEGMENTS	47983	31256	38274
Add: Un-allocable Corporate Assets less Liabilities	(6558)	192	(7907)
TOTAL CAPITAL EMPLOYED IN THE COMPANY	41425	31448	30367

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Date : July 28, 2008

Place : Mumbai

For BLUE STAR LIMITED

Ashok M. Advani
Chairman & Managing Director