

**The Speech of the Chairman, Mr Shailesh Haribhakti at the  
74th Annual General Meeting of Blue Star Limited**

**Profitable and Sustainable Growth through Innovation**



Ladies and Gentlemen,

Good afternoon!

It gives me immense pleasure to extend a warm welcome to all of you at the 74<sup>th</sup> AGM of Blue Star Limited, which turns out to be the third consecutive one in the virtual mode. I was hopeful that the entire Board would have had an opportunity to meet you in person at least this year, but we thought that it is prudent to avoid a physical meeting, given the fact that the infection rate continues to be high in Mumbai.

The good news, of course, is that the hospitalisation rate and fatalities are negligible thanks to the high vaccination rates. Therefore, the Central and State Governments have been operating with minimal restrictions and businesses are able to function normally.

### **The year that was**

As I reflect on the period since the last AGM, 6 things stand out clearly, as far as Blue Star is concerned:

1. The Company's growth accelerated every quarter, and we closed fiscal 2021-22 on a high note, delivering all-time high profits.
2. Strategic initiatives such as the rejigging of the product portfolio to address the belly of the market; the implementation of a new manufacturing footprint with backward integration and a focus on localisation; implementing the Total Cost Management Programme; strengthening our R&D; investing in digital initiatives; enhancing Blue Star's brand salience; and building a leadership pipeline – all these progressed extremely well, and as a consequence, your Company is poised to grow faster than the market in India, and enter new overseas geographies such as the US and Europe.
3. Your Company continued to manage cash flows exceptionally well and strengthened its Balance Sheet.

4. The Board and the Management believe that the Indian Air Conditioning and Refrigeration industry is expected to witness huge growth in the next 5 years. At the same time, the Capex cycle has set in, and the construction cycle has begun. These developments will propel the growth of your Company. In May 2022, the Board approved an ambitious 3-year strategic plan.
5. The Company has remained ahead of the curve in terms of its commitment to Environmental, Social, and Governance standards.
6. As I had stated last year, Blue Star has reinvented itself once again and has emerged stronger, and I believe that, with its strong fundamentals, the Company will be able to overcome headwinds such as inflation, interest rate hike and the depreciation of the Indian Rupee.

I continue to remain optimistic about Blue Star's prospects.

### **Q1FY23 financial results**

Earlier today, the Board met and approved the results for Q1FY23.

As you are aware, the Summer season was impacted in 2020 and 2021. This year we witnessed a reasonably good season without any lockdown restrictions. Despite commodity price escalations, supply chain disruptions, and inflationary pressures, your Company maintained its growth momentum and delivered impressive results for Q1FY23. This is the third consecutive quarter of good corporate performance, and it sets the tone for the rest of fiscal 2022-23.

Financial highlights for the quarter ended June 30, 2022, on a consolidated basis, are summarised below:

Revenue from operations for Q1FY23 grew to Rs 1970.32 crores, compared to Rs 1052.04 crores in Q1FY22.

EBIDTA (excluding other income and finance income) for Q1FY23 was Rs 123.31 crores (EBITDA margin 6.3% of revenue), compared to Rs 42.23 crores (EBITDA margin 4% of revenue) in Q1FY22, due to the higher scale.

Net profit for Q1FY23 was Rs 74.35 crores, compared to a net profit of Rs 12.71 crores in Q1FY22.

Net cash position as on June 30, 2022, was Rs 81.03 crores, compared to a net borrowing of Rs 68.47 crores as of June 30, 2021, and the Company repaid 50 % of the NCD borrowings.

The carried forward order book as on June 30, 2022, is at a record Rs 3901.48 crores in comparison with Rs 3152.30 crores as on June 30, 2021.

### **Profitable and Sustainable Growth through Innovation**

All of us must take pride in the fact that India is a fast-growing economy and that the world looks at our country not only as a huge market but as a potential destination for sourcing. All the stakeholders including the Central and State Governments, policy-makers and the public and private sector enterprises are working towards accelerating India's growth. Infrastructure development, improving ease of doing business, the introduction of Production Linked Incentive Schemes for various sectors, entering into Free Trade Agreements with several countries, and investments in skill building are some of the major measures being undertaken. While much work still remains to be done, the direction is encouraging.

In this context, I would like to highlight the fact that there has always been a direct correlation between the sustained economic growth of a nation and its R&D spends. When countries such as the USA, Germany, Japan, South Korea, and China grew, their R&D investments as a percentage of GDP also grew.

According to the data published by the UNESCO Institute of Statistics India's R&D expenditure as a percentage of its GDP is estimated at 0.66%.

Unfortunately, it has been steadily declining over the past 3 years. In comparison, the corresponding figures for Japan (3.3%), South Korea (4.8%), Germany (3.1%), China (2.2%), the USA (2.8%), Israel (5%), and Taiwan (3.3%) are much higher. Ironically, in the case of India, Government spending in R&D is much higher than that of the industry.

If we look at the number of full-time researchers per million population, the picture is shocking. The data available for 2017 reveals that India had 253 full-time researchers, whereas Japan had 5331, South Korea 7980, China 1307, Taiwan 6380, Israel 8342, Germany 5212, and the USA 4412. Even Brazil had 888 full-time researchers per million population.

I would like to share one more datum; while the number of non-resident patent applications filed in India was approximately 34,000, resident patent applications filed were a little over 16,000 as per the data published for 2018. The corresponding figures for Japan were 60,000 (non-resident) and 2,54,000 (resident). In South Korea, non-resident patent applications were approximately 47,000 and the resident applications were 1,63,000, while China received 1,48,000 non-resident patent applications and 13,94,000 resident applications!

We can look at many other data points, but it is very clear that as a country, we have been ignoring the importance of investments in R&D. It is not just the Government, but it appears that the industry itself did not recognise the potential of R&D and innovation.

As India prepares for accelerated economic growth and aspires to position itself as a major sourcing destination for the world, there is growing consensus that substantial investments in R&D and innovation are critical.

Blue Star believes that there are compelling reasons why a focus on R&D and Innovation is important:

## 1. Scale imperative:

There is no doubt that the domestic market is growing, but in terms of market size, India is small compared with China. For example, the domestic market size for room air conditioners in India is less than 10% of China's domestic demand. This is the case with every product category. There is no doubt that the domestic demand in India will steadily grow, but in order that we compete with Chinese players in the global arena, you will agree that it is important for us to innovate and offer customised and superior solutions.

## 2. Integrating with global supply chains:

Post the pandemic, Europe and the USA are in a hurry to find partners outside China to de-risk their supply chains and this opportunity is not going to be open for a long time. Custom designing products and solutions for the export markets is the critical success factor.

## 3. Sustainable and green products and solutions:

In terms of energy efficiency as well as global warming potential (pertaining to refrigerants and insulation), the air conditioning and refrigeration industry is on a treadmill to find sustainable solutions, since regulatory standards across the world are fast becoming stringent. Blue Star has always been ahead of the curve and, in its pursuit to be the front-runner, continues to invest in R&D in terms of expert resources, testing laboratories and partnerships with international agencies.

## 4. Affordable products:

Penetration of air conditioning both in B2C and B2B segments is extremely low in India. For example, in the room air conditioners category, the household penetration is around 7%. More than 90% of the customers are first-time buyers and the demand from Tier 3, 4, and 5 markets is approximately 65%. The growth driver is the aspirational middle-class consumer whose preference is affordable,

functionally superior, and reliable products, supported by dependable after-sales service from a trusted brand. Therefore, products must be redesigned and also differentiated in order to address the belly of the market. Even in the B2B space, the growth potential offered by the smaller towns is huge. Keeping in mind the applications and user segments such as a shop, showroom, single screen cinema theatre, or marriage hall in many smaller towns across the country, it is necessary for us to constantly innovate and introduce affordable products.

#### 5. Component eco-system:

India has been dependent on imported components and raw materials, and post the pandemic, supply chain disruptions and the volatility of prices as well as exchange rate fluctuations have left the Company with no choice but to explore alternate vendors. It is pertinent to also note that, thanks to the PLI scheme introduced by the Union Government, a new domestic component eco-system is developing extremely fast. Simultaneously, the Company has invested in certain backward integration initiatives. Without a strong R&D organisation, adapting to these changes will not be possible.

#### 6. Food security of India and the world:

With its wide range of product offerings, Blue Star is a leader in commercial refrigeration and the Company has the expertise and domain knowledge for the preservation and life extension of perishables which includes fruits, vegetables, dairy, processed food, meat, poultry, fish, and even flowers. India is a large producer of many fruits and vegetables, but the wastage is huge due to improper post-harvest practices. Moreover, our exports are negligible. Even in the case of fish, India has enormous potential to grow our exports. Therefore, the development of an integrated cold chain infrastructure continues to be an important focus area for the Government as well as other stakeholders. Blue Star will continue to

innovate and introduce cold chain solutions that are energy-efficient, sustainable, dependable, and affordable.

We have been steadily increasing our investments in R&D, and we will continue to do so. We are perhaps the largest Indian air conditioning and refrigeration player in terms of dedicated resources and investments in R&D. This also includes prototype facilities and state-of-the-art laboratories. We have 12 Performance Testing laboratories and 15 Reliability & Simulation laboratories. Five of our laboratories are approved and accredited by international agencies such as the American Heating and Refrigeration Institute. Eight of our laboratories are accredited by the Government of India. In fact, we have just set up a large testing facility for chillers in Wada.

We have also inaugurated a modern innovation centre in Thane. The construction of a global R&D facility is on the anvil in Dadra.

We have received 14 patents so far, and 30 more are pending approval.

I also take pride in the fact that 12% of our R&D engineers are women as on date and our target is to increase this number to 20% by March 2024.

As Blue Star embarks on its next phase of growth, we will further strengthen the Company's R&D and Innovation capabilities.

I would like to thank my colleagues on the Board as well as Mr Ashok M Advani and Mr Suneel M Advani, Chairmen Emeriti, for their counsel, and compliment the executive management and the employees of Blue Star for delivering exceptional results in fiscal 2021-22.

I am grateful to you, dear shareholders, for your continued faith in the Company.

My best wishes to you all!