

Blue Star Limited

Q1 FY14 Earnings Update

July 25, 2013

FINANCIAL HIGHLIGHTS

The following are the financial highlights of the Company for the *quarter (Q1FY14)*

- The company reported a Total Operating Income of Rs 770.82 crores for the quarter ended June 30, 2013, as compared to Rs 731.42 crores in Q1FY13, representing an increase of 5%.
- The Operating Profit (PBIDT excluding Other Non Operating Income) for the quarter increased by 15% to Rs 38.42 crores from Rs 33.53 crores in Q1FY13.
- During the quarter, Other Income declined 38% to Rs 4.38 crores as compared to Rs 7.01 crores during the same period last year, due to lower foreign exchange gains.

The Financial Expenses for the quarter declined marginally by 7% to Rs 11.70 crores from Rs 12.53 crores in Q1FY13 due to a reduction in interest cost as a result of lower borrowing, which was partly offset by higher foreign exchange costs.

- Consequently, Net Profit grew by 11% from Rs 20.54 crores in Q1FY13 to Rs 22.77 crores during the quarter.
- The Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 2.53 vis-à-vis Rs 2.28 in the corresponding quarter of the previous year.
- The Carry Forward Order Book as on June 30, 2013 stood at Rs 1438 crores compared to Rs 1418 crores as on March 31, 2013 with an order inflow of Rs. 791 crores in Q1FY14. The comparison of the order book with Q1FY13 is not relevant as we had de-booked a significant number of jobs in Q2FY13.

Segment-wise results for Q1FY14

- The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 44% of the total revenues in the quarter, declined 6.7% while segment results registered a significant increase of 63% to Rs 20.16 crores. The increase in profitability was mainly due to better gross margin and enhanced quality of new orders booked.
- Cooling Products revenue registered a growth of 18.8% in the quarter driven by significant increase in sales of room airconditioners. Segment results grew 12.7% to Rs 42.31 crores over the same period.

- The Professional Electronics and Industrial Systems business revenues increased by a modest 4.3%, while segment results declined 53.1% to Rs 3.37 crores, owing to the unfavourable business climate.
- SBU-wise sales break-up:

(Rs crore)

	Q1FY14	Q1FY13	% Growth/ (Decline)	% of Net Sales
Electro Mechanical Projects and Packaged Airconditioning Systems	342.49	367.05	(6.7%)	44%
Cooling Products	396.26	333.63	18.8%	51%
Professional Electronics & Industrial systems	32.07	30.76	4.3%	4%

- SBU-wise results break-up:

(Rs crore)

	Q1FY14	Q1FY13	%Growth/ (Decline)
Electro Mechanical Projects and Packaged Airconditioning Systems	20.16	12.37	63%
Cooling Products	42.31	37.55	12.7%
Professional Electronics & Industrial systems	3.37	7.19	(53.1%)

BUSINESS HIGHLIGHTS FOR Q1FY14

Segment I

The macro-economic environment continues to be challenging for electro-mechanical projects. The market was sluggish in terms of new enquiry generation, order finalization and a liquidity crunch. However, there has been some improvement in demand from the Hotel, Hospital /Healthcare and Industrial Segments.

At an aggregate level, the Central plant market continues to be flat, the ducted AC market has de-grown by around 5% . The only segment that has shown some growth this quarter is VRF, which has grown by 15%.

Segment II

The Room AC Industry witnessed good growth during the quarter. After two consecutive soft summers, Q1FY14 witnessed a healthy summer for two months of April and May'13. This provided the much needed momentum to the Industry. However, the

early rains in June has slowed down the overall growth and the market is expected to have grown by around 15% in volume terms this quarter.

There is an increased shift towards Split ACs and Inverter Split ACs. Higher Star Rated ACs are preferred in both Window ACs and Split ACs. As always, the Household / Residential segments was the top performing segment in Q1FY14 followed by the Light Commercial Segment.

Going forward, the input cost increases due to run away depreciation of the Indian Rupee is a major challenge. This may result in a price increases in the Industry resulting in contraction in demand in Q2FY14.

The demand in the Commercial Refrigeration business is stable. While the Freezer market has grown in excess of 20%, the Water cooler market grew by 9% in this quarter. The major segments contributing to business were ice cream, dairy, industrial and educational institutions. However, going forward, the appreciation of the dollar may impact the pricing of imported products in the Commercial refrigeration business.

In Cold storage products, the traditional segments of Pharma, Fast Food & Restaurants, Ice cream, Banana ripening and Fruits & Vegetables storages continue to fetch good business opportunities. In addition, we have also seen good business in the food processing segment and the company has picked up several orders from poultry , Marine and Fruits & Vegetables segments.

Segment III

The demand for hi-technology imported equipment has been impacted by the appreciation of the dollar. As in the past, it will take a couple of quarters for budgets to be reset before demand resumes for these products.

The capex finalization and Government spending in core industrial segments particularly Steel, Mines and Metals and Oil & Gas continued to be extremely sluggish in Q1FY14.

Business Performance of Blue Star for Q1FY14 in the Segments:

Segment I (Electro Mechanical Projects & Packaged Airconditioning Systems)

The Electro Mechanical Projects and Packaged Airconditioning Systems business, accounting for 44% of the total revenues in the quarter, declined 7%, while segment results registered a significant increase of 63% to Rs 20.16 crores.

The margin of 5.9% in Segment 1, was higher than the preceding four quarters. While we have indicated a gradual improvement of margins in FY14, the Q1FY14 results were ahead of plan on account of unexpected delays in closing some older low-margin projects in the quarter.

The Capital Employed in the business stood at Rs. 466 crores as of June 2013 rising significantly from Rs 400 crores on March 31, 2013. The increase in this quarter is primarily on account of increase in inventory levels in our equipment business and a drop in collections as liquidity is getting tighter.

The Order inflow in Q1FY14 has been flat in the Electro-Mechanical Projects business. We continued our strategy of being selective in booking orders while adhering to more stringent margin and commercial term guidelines.

For the Central AC products business, despite the overall sluggishness, we have witnessed some demand from the Industrial, Pharma and Hospital sectors in this quarter.

Our Packaged AC business continues to hold a leadership position with a majority market share in ducted systems and a gradually improving market share in VRF systems. In Q1, the Ducted Systems business was flat, while revenues grew significantly in VRF systems. The top performing segments for the quarter were Offices, Banks and Hospitals.

Some of the major orders won by Blue Star during the quarter in Segment 1 are

Electro-mechanical Projects: PIU Hospital (Government of Gujarat) - Gandhinagar, JSW - Mumbai, IBM - Bengaluru, Apollo Hospitals - Bengaluru, El DuPont - Hyderabad, Shiv Nadar University -Dadri, Jaypee Klassic Towers - Noida, IREO-SKYON - Gurgaon.

Packaged AC Sytems: Hartron Communications - Vizag, Gujarat High Court - Gandhi Nagar, Andhra Pradesh Health and Medical Institute Development Corporation - Hyderabad.

Central AC Products: Laurus Labs - Vizag, Wockhardt Pharma - Aurangabad, Garware - Aurangabad, Accuprint - Mumbai, Phoenix Mall - Chennai, Steria India Ltd. - Chennai, Romell Real Estate - Mumbai

Key Projects in the Quarter:

	New Orders Won in Q1FY14
Central Airconditioning	<ul style="list-style-type: none"> * PIU(Gujarat Govt.) - Gandhinagar * Jindal Steel Works - Mumbai * IBM - Bengaluru * Apollo Hospitals - Bengaluru * EI Dupont - Hyderabad * Shiv Nadar University - Dadri

	<ul style="list-style-type: none"> * Jaypee-Klassic Towers - Noida * IREO - "SKYON" - Gurgaon
Packaged Airconditioning / VRF Systems	<ul style="list-style-type: none"> * Hartron Communications - Gurgaon * Gujarat High Court - Gandhi Nagar * APHMIDC -Hyderabad
Chillers	<ul style="list-style-type: none"> * Laurus Labs - Vishakapatnam * Steria India Ltd - Chennai * Phoenix Mall - Chennai * Garware - Aurangabad * Wockhardt Pharma - Aurangabad * Gland Pharma - Hyderabad * Romell Real Estate - Mumbai * Sahara India - Noida * Accuprint - Mumbai

Service Business

Blue Star offers its customers annual maintenance contracts, retrofits and upgrades as well as new service products such as energy management audits and solutions, air management consultancy and services, water management services for cooling systems, Green Building certification consultancy and associated services.

In order to enhance the customer experience and satisfaction levels, the company has started a service excellence program. The program plans to enhance channel reach, service delivery quality and customer delight over next one year.

During the quarter, both the annual maintenance contracts and the Revamp business have grown and contributed a good share of the service business.

Some of the prestigious orders the company has received in Q1FY14 are from Infosys, CTS, Accenture, Axis Bank, HDFC Bank, Yes Bank, Yum restaurants, McDonalds, Metro Cash & Carry, D Mart, Shoppers Stop etc.

Segment II (Cooling Products)

In the Cooling Products segment, revenue registered a growth of 19% in the quarter while segment results grew by 13% to Rs 42.31 crores over the same period.

Our Room air-conditioner business posted a strong growth of 27 % and we have improved our market share by around 1% in both number and value terms. This was primarily due to better stock availability, good channel coverage, competitive pricing

and increased product range with colour options. The margins for this business held in Q1FY14, as compared to Q1FY13.

For Refrigeration products and systems the demand has typically come from Pharma, Ice cream and dairy segments, Hotels and restaurants, Institutions, Industrial and Office segments. The margins for this business were down in Q1FY14 owing to increasing competition, price challenges and the company's re-entry into National Accounts business where margins are comparatively lower. .

Going forward, the company will continue its efforts to increase market share in both Room AC and Refrigeration business through initiatives like channel expansion, focus on the light commercial segment and by increasing visibility through advertising.

The Capital Employed in Segment 2 decreased significantly from Rs 220 crores as on March 31, 2013 to Rs 130 crores as on June 30, 2013. This is primarily due to decrease in inventory levels as a result of strong summer sales and a reduction in receivables.

Segment III(Professional Electronics and Industrial Systems)

In the Professional Electronics and Industrial Systems , revenue increased by a modest 4%, while segment results declined 53% to Rs 3.37 crores, owing to the unfavourable business climate.

As you are aware, Segment III consists mainly of three components namely a) Agency business, b) System Integration business and c) Industrial Projects business.

The Agency business in Q1FY14 was lower vis-a-vis Q1FY13 due to the negative impact created by the appreciating dollar.

The System Integration business, after having a steady FY13, is showing signs of slowing down due to lack of capital expenditure in the light and medium industrial market.

As we have already spoken earlier, the order inflow for the industrial Projects business has reduced significantly on account of poor demand in core metallurgical, Oil & Gas and Power industries. This has led to lower billing and thereby affected the profitability.

Exports

In Q1FY14, the Product Exports business of Blue Star has registered a good growth over Q1FY13. During this quarter, the company received a good inflow of orders in Room AC and Refrigeration products from OEM accounts and various distributors in UAE, Oman, Qatar, Yemen and Kuwait.

One of the prestigious orders booked by the company was that of Ministry of Education in Oman.

In order to improve visibility, Blue Star participated in the 'Project Qatar -2013' exhibition held at Doha, from May 6th to May 9th 2013 and displayed various products including Water Coolers, Split Air conditioners and Tank Chillers.

BUSINESS OUTLOOK

Company Outlook

The corrective steps taken in the previous year are showing results. The company continued its profitable growth in the first quarter through efforts on driving margins, implementing prudent booking guidelines specifically in Segment 1, and by focusing on profitable market segments, entering new markets and geographies through wider distribution and by implementing effective cost control initiatives in segment 2.

While the electro mechanical projects business will continue to be under pressure in FY14 due to the challenging and uncertain business environment, the cooling products business is likely to face challenging times owing to the appreciation of the dollar. However, the company intends to continue its focus on channel expansion and other initiatives related to cost control and prudent financial management in order to sustain this performance for the rest of the year.

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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.