

# Blue Star Limited

Q2 FY09 Earnings Update

November 03, 2008

## FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported a Total Income of Rs 646.58 crore for the quarter ended September 30, 2008, representing 18% growth over the corresponding quarter in the previous year. Net sales for the quarter at Rs 646.54 crore were also up by 18% over Q2FY08.
- For the quarter, Gross Margin declined from 24.2% to 23.0%.
- Operating profit (PBDIT excluding Other Income) for the quarter at Rs 68.97 crore marginally increased as compared to the Operating Profit of Rs 68.41 crore earned in Q2FY08. The Operating Margin decreased from 12.5% in Q2FY08 to 10.7% in Q2FY09. The Company anticipated a decrease in Operating Margin in Q2FY09 due to the sharp increase in raw material prices, specifically steel and copper, in May 2008. This necessitated a price increase which came into effect towards end-July 2008. Therefore, margins in most of the orders executed in Q2FY09 were adversely affected. While the raw material prices are now under control, the sharp depreciation of the rupee is a concern area.
- Given the economic environment, it is the intention of the Company to focus on cash flow and efficient working capital management. It has been closely controlling the deliveries and job completion of projects rather than billings. Further, infrastructure projects have a longer execution time. Due to these factors, the billings are slower in comparison to the inflow of orders.
- Net profit for the quarter was Rs 44.95 crore, declining marginally over Net Profit of Rs 45.97 crore earned in Q2FY08.
- The Earnings per Share (face value of Rs 2.00) for the quarter was Rs 5.00 as against EPS of Rs 5.11 in Q2FY08.
- Carry Forward Order Book as on September 30, 2009 increased to Rs 1,555 crore compared to Rs. 1,031 crore as on September 30, 2008, representing an increase of 51%.
- Order Inflow during the quarter grew from Rs 591 crore in Q2FY08 to Rs 801 crore, an increase of 36%.

### *Segment-wise results*

- The central airconditioning and electrical contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems grew by 19% during the quarter. Segment results declined by 4% in the quarter compared to the corresponding quarter in the previous year. While the difficult economic situation and the liquidity crunch in the market place adversely affected certain segments such as builders and retail, the Company witnessed enhanced demand from infrastructure segments such as airports, power plants and metro rail apart from hospitality, healthcare and IT SEZ segments.
- The Cooling Products segment registered a good growth of 25% driven by sales of the newly launched star-rated split air-conditioners as well as commercial refrigeration products. Segment results grew by 35% during the quarter.
- Professional Electronics and Industrial Systems business has an innovative business model of a system integrator and value added reseller. The topline of this business is predominantly commission income and domestic value addition since most of the equipment is sold to customers on a high-sea basis by its Principals. Owing to the nature of this business, typically quarterly performance is not a good indicator of performance. During the quarter, while revenues declined by 4%, segment results registered a healthy growth of 26%.
- SBU-wise sales break-up:

(Rs crore)

	Q2FY09	Q2FY08	% Growth (Decline)	% of Net Sales
Electro mechanical projects and packaged airconditioning systems	475.35	401.09	19%	74%
Cooling products	129.61	103.44	25%	20%
Professional Electronics & Industrial systems	41.58	43.24	(4%)	6%

- SBU-wise results break-up:

(Rs crore)

	Q2FY09	Q2FY08	% Growth/ (Decline)	% of Total Segment Result
Electro mechanical projects and packaged airconditioning systems	54.80	57.07	(4%)	69%
Cooling products	14.45	10.74	35%	18%
Professional Electronics & Industrial systems	10.20	8.12	26%	13%

## 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, while the difficult economic situation and the liquidity crunch in the market place adversely affected certain segments such as builders and retail, the Company witnessed enhanced demand from infrastructure segments such as airports, power plants and metro rail apart from the hospitality, healthcare and IT SEZ segments. The Operating Margin of this business in Q2FY09 was 11.5% compared to 14.2% in Q2FY08

During the quarter, Blue Star booked the single largest order in its history from Delhi Metro Rail Corporation Limited (DMRC), valued at Rs 104 crore for the total airconditioning works including Environmental Control System and Building Management System for 7 metro stations and associated tunnel sections of Phase II of the Delhi MTRS Project. Blue Star had successfully executed the airconditioning projects of 3 stations in Phase I, which was constructed from Delhi Main Station to New Delhi Railway Station. Blue Star's expertise and competence in project execution and on-time delivery coupled

with the positive experience that DMRC had on the previous projects, helped the Company win this landmark order. The project is scheduled to be completed by January 2011.

The quarter also saw the Company being awarded an order from Airports Authority of India (AAI) for the total airconditioning works and Building Management System at the new integrated terminal building of Aurangabad airport valued at Rs 8.1 crore. This is the 12th airport order that the Company has booked in the recent past in addition to Ahmedabad, Trivandrum, Mangalore, Nagpur, Jaipur, Amritsar, Khajuraho, Varanasi, Madurai, Dehradun and Pune together valued at Rs 74 crore. With several other airport modernization projects envisaged by AAI, Blue Star is confident of significant growth potential from this segment.

In packaged/ducted airconditioning and small chillers, while the IT/ITES and organized retail segments have slowed down due to the economic downturn, the business witnessed enhanced demand from offices and hotels.

The Company's eco-friendly range of VRF Systems launched in Q1FY09 continued to perform very well in the market place. The VRF technology due to its intelligence and energy efficiency is evoking a great interest in the country, over conventional systems. Blue Star is India's first and only manufacturer of VRF systems and has significant advantages over its foreign counterparts including its ability to handle high ambient temperatures and faster delivery. The Company registered significant growth during the quarter, growing three-fold, in this product category driven by demand from premium residences, offices, hotels and hospitals. Blue Star is steadily increasing its market share in this market which was a Japanese-equipment stronghold, and is now the No 2 player, with a market share of over 20%.

Blue Star's Precision Control Packaged Airconditioners, which have been specially designed for the IT segment also continued to do well. Blue Star is the market leader in the telecom airconditioning business with its range of packaged airconditioners for unmanned telecom shelters and continues to receive a steady inflow of orders from several customers such as Vodafone, Bharti, Idea, WTTIL, Essar etc. The Company has recently launched an innovative solution which will considerably bring down the operating costs of telecom service providers. This solution has been approved by Indus Towers and Bharti Infratel and the Company is confident of significant demand for this solution - in both new expansions as well as in retrofitting of the existing more than 70,000 cell sites.

The newly formed electrical projects business continued to make steady gains during the quarter. 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. It booked several orders, including an

electrical contracting order from Viceroy Group of Hotels for the upcoming Hotel Renaissance in the heart of Bangalore city valued at Rs 7 crore and a Rs 9 crore order from Satyam Computers for the prestigious Satyam Software Development SEZ Campus coming up at Hi Tech City, Hyderabad.

### Key Projects in the Quarter:

	New Orders Won in Q2FY09
Central Plants	<ul style="list-style-type: none"> <li>* Delhi Metro Rail Corpn</li> <li>* Aurangabad Airport</li> <li>* NTPC, Sipat</li> <li>* NTPC, Jajjar</li> <li>* Seven Hills Hospital, Mumbai</li> <li>* Moser Baer, Noida</li> <li>* Hilton, Chennai</li> <li>* Aravind Eye Hospital, Madurai</li> <li>* J W Marriott, Chennai</li> <li>* Savin World Resort, Siliguri</li> <li>* Suzlon, Coimbatore</li> <li>* Accenture, Pune/Chennai</li> <li>* NIMS Hospital (Unity Infra Projects), Hyderabad</li> <li>* Vrindavan Techvillage, Bangalore</li> <li>* Reliance Communications, Hyderabad</li> <li>* IBM Airtel, Pune</li> <li>* Ascendas Mall, Bangalore</li> <li>* Columbia Asia Hospital, Patiala</li> <li>* Bagmane Tech Park, Bangalore</li> <li>* Wipro, Kolkata</li> <li>* Viceroy -Renaissance Hotel, Bangalore</li> <li>* JK Education Foundation, Gurgaon</li> <li>* Paharpur Business Tower, New Delhi</li> <li>* Areva T &amp; C, Baroda</li> <li>* Infosys, Pune</li> <li>* Phoenix United Shopping Mall, Lucknow</li> </ul>
VRF Systems	<ul style="list-style-type: none"> <li>* Emerson Design Centre, Pune</li> <li>* NTPC, Noida</li> <li>* CPWD- PMO, New Delhi</li> <li>* Rajhans Constructions, Surat</li> <li>* Strides Arcolab, Bangalore</li> <li>* Splendid Aparna, Hyderabad</li> <li>* Shalom Infrastructure, Hyderabad</li> </ul>
Packaged Airconditioning	<ul style="list-style-type: none"> <li>* HCL Technologies, Chennai</li> <li>* Lanco Infratech, Gurgaon</li> <li>* Directorate of Sports &amp; Youth Services (Common Wealth Youth Games), Pune</li> <li>* Manav Rachna International School, Faridabad</li> <li>* Raj Construction Projects P Ltd, Surat</li> </ul>

	<ul style="list-style-type: none"> <li>* Chandana Bros, Vizag</li> <li>* Shri Ram Motels &amp; Resorts, New Delhi</li> <li>* Oceanic Buildcon Pvt Ltd, Baroda</li> <li>* ABB Ltd, Bangalore</li> <li>* Zuari Cement, Secunderabad</li> <li>* J C Bros, Hyderabad</li> </ul>
<b>Electrical Projects</b>	<ul style="list-style-type: none"> <li>* Ramky Infrastructures, Hyderabad</li> <li>* Viceroy -Renaissance Hotel, Bangalore</li> <li>* Satyam Software Development, Hyderabad</li> <li>* Symphony Services, Bangalore</li> <li>* ST Microelectronics, Bangalore</li> </ul>

### Service Business

The service business performed well during the quarter, with growth driven by annual maintenance contracts business, 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.

Despite the fact that the Company has launched several new products, through prudent inventory management, the stocks of spares was maintained at an optimum level. Customer satisfaction continues to be high. Various modes of automation are under implementation to track and monitor the same. Continuous focus on identifying and reducing 'waste' has led to an increase in the productivity and profitability, despite a significant increase in the input costs.

During the quarter, the service business booked notable revamp orders from HAL, Lucknow; Navjeevan Infotech, Gurgaon and Robust Hotels Ltd, Chennai. It also won a prestigious energy audit order from Reliance Energy and duct cleaning orders from New Zealand and Swedish embassies.

### 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 booked major orders for bulk milk coolers from KMF, Glaxo Smithkline, Dinshaw and Amul. An order was also booked for the airconditioning of Manekshaw Army Convention Centre and Auditorium - a prestigious project of Indian Army at New Delhi, valued Rs 7 crore.

### *Cooling Products*

The cooling products business performed well with growth driven by the newly launched star-rated split airconditioners, as well as refrigeration products and cold chain equipment. Benefits of scale contributed to an increase in margins from 10.4% in Q2FY08 to 11.1% in Q2FY09.

In Q4FY08, the Company had replaced its entire range of wall-mounted split airconditioners with star-rated energy efficient machines. These machines continue to perform well in the market place.

In the refrigeration products business, the premium refrigerated display cabinets from ISA, Italy performed well with orders booked from Nilgiris, Chennai; SSP Catering at Delhi airport; Mainland China, Kolkata; Baskin Robbins, Pune; Vedansh Hospitality, Mumbai and Sigma Aldrich, Bangalore amongst several others.

During the quarter, the Company set up a new National Accounts Management Cell for the room airconditioners and refrigeration products business in order to provide a single point contact and enhance business amongst large nation-wide players. The National Accounts team has already signed up 5 accounts just within a few weeks of its launch. These include Bata India, Religare Group, Jindal Steel Shoppe (Art D'nox), Oriental Cuisines (French Loaf) and Shankara Eye Clinics. The team has begun supply of cooling products to all the above on a rate contract basis and is confident of adding several new accounts as well as enhancing business from existing accounts.

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 booked several cold storage orders including Domino's Pizza, Bangalore; Perishable cargo complex at Bagdogra airport; R S Cold Storage, Patna; Neelkant, Sonapat and Sungro Seeds, Amabala.

### *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, defence, pharmaceuticals, banking and R&D.

During the quarter, all the individual SBUs performed well. While the segment revenue registered a decline of 4%, there was a modest increase of 26% in

segment profit of Q2FY09 compared to Q2FY08. 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.

The non-destructive testing (NDT) business performed extremely well with enhanced sales of automated NDT inspection testing systems for spiral weld in pipes and rail wheel tests along with sales of advanced technology phased array test equipment. The Company also booked prestigious orders for NDT inspection services from Numaligarh Refinery & IGCAR, Kalpakkam.

The industrial products business is currently pursuing several turnkey project orders at steel plants. Several large value deals, in excess of Rs. 20 crore are likely to be finalized in next few quarters. In the destructive testing business, while standard universal testing machines business has slowed down, environment simulated chambers witnessed increased demand.

### *Exports*

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

The product export business registered a growth of 46% during the quarter. 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. In addition, the appreciating dollar further helped in enhancing margins during the quarter.

As far as international projects are concerned, the Company continues to be selective in pursuing projects with healthy margins. The Company's JV in Qatar has been performing well. It is currently executing a project for Dukhan Hospital, Qatar valued at Rs 21 crore, in addition to the Phase 1 & 2 of Qatar University valued at Rs 20 crore. The prospects of this JV look healthy and the Company is confident of making further inroads in the coming quarters.

## **BUSINESS OUTLOOK**

### **Industry Outlook**

The economic slowdown has caused an acute liquidity crunch in the market place and has caused delays in certain projects in IT/ITES and Retail, especially those driven by mid-sized builders. However, there seems to be no signs of delays in infrastructure-led electro mechanical projects such as airports, power and metro rail. Further, there is enhanced demand from healthcare and the

hospitality industries. Large IT Companies, also continue to pursue expansion plans by setting up SEZs.

Cooling products also continue to offer growth opportunities driven by increased demand for split airconditioners, refrigeration products and cold chain equipment, especially in the agricultural segment.

## Company Outlook

The gloomy economic outlook and liquidity crunch have affected most companies across the globe. Considering the volatility of the market place, Blue Star has been selectively pursuing segments which offer profitable growth opportunities. In addition, the Company continues to focus on cost control measures and is managing working capital efficiently. Blue Star has demonstrated its ability to rapidly adapt seamlessly to the external environment in the past and is optimistic of 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 SEPTEMBER 30, 2008**

Rs. in lakhs

Particulars	QUARTER ENDED		HALF YEAR ENDED		AUDITED FOR THE YEAR ENDED
	30.9.2008	30.9.2007	30.9.2008	30.9.2007	31.3.2008
1. (a) Net Sales/Income from Operations	64654	54777	127743	101002	223304
(b) Other Operating Income	4	1	18	1	7
Total Income from Operations 1(a+b)	64658	54778	127761	101003	223311
2. Expenditure					
a. (Increase)/decrease in stock in trade and work in progress					
	(193)	379	(1222)	(2145)	(8541)
b. Consumption of raw materials- Cost of Sales	48001	39990	95330	77447	172560
c. Purchase of traded goods	1997	1135	3509	2101	5074
d. Employees cost (See note 2)	4220	3700	9008	7024	15440
e. Depreciation	613	524	1179	1022	2197
f. Other expenditure	3733	2733	8518	5943	15321
g. Total	58371	48461	116322	91392	202051
<b>3. Profit from Operations before Other Income, Interest &amp; Exceptional Items (1-2)</b>	<b>6287</b>	<b>6317</b>	<b>11439</b>	<b>9611</b>	<b>21260</b>
4. Other Income	112	81	263	88	166
<b>5. Profit before Interest and Exceptional Items</b>	<b>6399</b>	<b>6398</b>	<b>11702</b>	<b>9699</b>	<b>21426</b>
6. Interest	436	157	636	381	756
<b>7. Profit after Interest but before Exceptional Items (5-6)</b>	<b>5963</b>	<b>6241</b>	<b>11066</b>	<b>9318</b>	<b>20670</b>
8. Exceptional items	-	-	-	-	3532
<b>9. Profit (+)/Loss (-) from Ordinary Activities before tax (7+8)</b>	<b>5963</b>	<b>6241</b>	<b>11066</b>	<b>9318</b>	<b>24202</b>
10. Tax expense	1468	1644	2930	2489	6793

<b>11. Net Profit (+)/Loss (-) from Ordinary Activities after tax (9-10)</b>	<b>4495</b>	<b>4597</b>	<b>8136</b>	<b>6829</b>	<b>17409</b>
12. Extraordinary items (net of tax expense)					
<b>13. Net Profit (+)/Loss (-) for the period (11-12)</b>	<b>4495</b>	<b>4597</b>	<b>8136</b>	<b>6829</b>	<b>17409</b>
14. Paid-up equity share capital (Face Value per share Rs.2/-)	1799	1799	1799	1799	1799
15. Reserves excluding Revaluation Reserves as per balance sheet as on 31st March 2008					24556
16. Earnings Per Share (EPS)					
a) Basic and diluted EPS before Extraordinary items	5.00	5.11	9.04	7.59	19.36
b) Basic and diluted EPS after Extraordinary items	5.00	5.11	9.04	7.59	19.36
17. Public shareholding					
- Number of shares	53905474	53824538	53905474	53824538	53824538
- Percentage of shareholding	59.93	59.84	59.93	59.84	59.84

Notes:

- 1 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 October 27, 2008.
- 2 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 employee benefits covered by the Standard. The liability on such reassessment as on September 30, 2008 is estimated at Rs.999 lakhs. The same has been included in the Employees cost of the half year ended September 30, 2008.
- 3 The results of the quarter ended September 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 September 30, 2007.
- 4 During the quarter ended September 30, 2008, the Company received and disposed of 24 investor complaints. No complaints were pending at the beginning and at the end of the quarter.

**Registered Office:**

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Mumbai 400 020  
www.bluestarindia.com

**Date : October 27 , 2008, Place : Mumbai**

**For BLUE STAR LIMITED**

**Ashok M Advani**  
**Chairman & Managing Director**

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

(Rs. in  
lakhs)

Quarter ended		Description	HALF YEAR ENDED		AUDITED FOR THE YEAR
30.9.2008	30.9.2007		30.9.2008	30.9.2007	31.3.2008
		<b>I. SEGMENT REVENUE</b>			
47535	40109	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	85536	67813	155629
12961	10344	ii. Cooling Products	34554	26172	53242
4158	4324	iii. Professional Electronics and Industrial Systems	7653	7017	14433
<b>64654</b>	<b>54777</b>	<b>TOTAL SEGMENT REVENUE</b>	<b>127743</b>	<b>101002</b>	<b>223304</b>
-	-	Less: Inter Segment Revenue			
<b>64654</b>	<b>54777</b>	<b>NET SALES/ INCOME FROM OPERATIONS</b>	<b>127743</b>	<b>101002</b>	<b>223304</b>
		<b>II SEGMENT RESULT</b>			
		<b>PROFIT/(LOSS) BEFORE INTEREST &amp; TAX</b>			
5480	5707	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	9787	8519	18970
1445	1074	ii. Cooling Products	4218	2723	5806
1020	812	iii. Professional Electronics and Industrial Systems	1553	1303	2892
<b>7944</b>	<b>7593</b>	<b>TOTAL SEGMENT RESULT</b>	<b>15558</b>	<b>12545</b>	<b>27668</b>
		<b>Less:</b>			
436	157	i.) Interest	636	381	756

1545	1195	ii.) Other un-allocable Expenditure net of un-allocable Income	3856	2846	2710
<b>5963</b>	<b>6241</b>	<b>TOTAL PROFIT BEFORE TAX</b>	<b>11066</b>	<b>9318</b>	<b>24202</b>
		<b>II CAPITAL EMPLOYED:</b>			
		<b>I.</b>			
		<b>(Segment Assets- Segment Liabilities)</b>			
31618	19901	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	31618	19901	20309
15840	11332	ii. Cooling Products	15840	11332	14721
3448	3070	iii. Professional Electronics and Industrial Systems	3448	3070	3244
<b>50906</b>	<b>34303</b>	<b>TOTAL CAPITAL EMPLOYED IN SEGMENTS</b>	<b>50906</b>	<b>34303</b>	<b>38274</b>
637	753	Add: Un-allocable Corporate Assets less Liabilities	<b>637</b>	<b>753</b>	<b>-7907</b>
<b>51543</b>	<b>35056</b>	<b>TOTAL CAPITAL EMPLOYED IN THE COMPANY</b>	<b>51543</b>	<b>35056</b>	<b>30367</b>

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www.bluestarindia.com

**Date : October 27 , 2008**

**Place : Mumbai**

**For BLUE STAR LIMITED**

**Ashok M Advani**  
**Chairman & Managing Director**