

# Blue Star Limited

FY09 and Q4 Earnings Update

May 19, 2009

## FINANCIAL HIGHLIGHTS

### *FY09 Performance*

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Operating Income of Rs 2,569.09 crore for the year ended March 31, 2009, representing 15% growth over previous year. Net sales for the year at Rs 2,568.86 crore were also up by 15% over FY08.
- Gross margin for the year decreased marginally from 24.3% to 24.1%.
- Operating profit (PBIDT excluding Other Income) for the year at Rs 272.48 crore grew 16% over PBDIT of Rs 234.49 crore earned in FY08. Operating Margin increased marginally to 10.6% in FY09 from 10.5% in FY08.
- Other operating income for the year was Rs 23 lakhs (Rs 7 lakhs last year).
- Interest costs for the year at Rs 13.55 crore increased by 79% over Rs 7.56 crore in FY08.
- The tax expense decreased significantly from Rs 67.93 crore to Rs 57.93 crore in the year mainly on account of taxation benefits from the Himachal and Wada factories.
- Due to tighter control on inventory and renegotiated back-to-back payment terms with vendors, despite the slowdown in collections, cash flow improved resulting in reduction in borrowings.
- Profit Before Tax (excluding exceptional items) grew 15% to Rs 238.22 crore.
- Net Profit at Rs 180.29 crore registered a marginal increase of 4% because last year included a non-recurring boost due to exceptional income of Rs 35.32 crore.
- The earnings per share for FY09 (Face value of Rs 2.00) stood at Rs 20.04 vis-à-vis Rs 19.36 in the previous year.
- Carry Forward Order Book as on March 31, 2009 stood at Rs. 1,339 crore representing an 18% increase compared to the order book of Rs. 1,135 crore as at March 31, 2008.

- The Board of Directors have recommended a 350% dividend of Rs. 7.00 per share (Face value of Rs 2.00).

## FINANCIAL RATIOS

	2008-09	2007-08
Gross Margin (excl non-operating income)	24.1%	24.3%
Operating Margin (excl. non-operating Income)	10.6%	10.5%
Return on Capital Employed	61.0%	81.4%
Return on Shareholders' Funds	49.1%	66.1%
Earnings Per Share (Rs) (Face Value of Rs 2)	20.04	19.36
Dividend Per Share (Rs)(Face Value of Rs 2)	7.00	7.00
Capital Turnover	6.58	7.48
Debt/Equity	0.06	0.14

### *Segment-wise results for FY09*

- Blue Star performed well in all 3 lines of business.
- The electro mechanical projects and packaged airconditioners business accounting for 69% of the total revenues, grew 15% during FY09. Segment results in the year grew 12% over the previous year. The economic slowdown coupled with the liquidity crunch caused delays in project expansion in segments such as IT/ITES, retail and builders adversely affecting growth. However, the Company saw increased business from the infrastructure segment including airports, power plants and metro rail as well as from the healthcare, hospitality and education segments.
- The cooling products segment also registered a modest growth of 13% in the year driven by sales of split airconditioners. Segment results increased by 29% in the year.
- The professional electronics and industrial systems business continued to contribute significantly to the profitability of the Company. The business grew 21% during FY09, with segment results registering growth of 25%.

- Segment-wise revenue break-up:

(Rs crore)

	Q4FY09	Q4FY08	% Growth	FY09	FY08	% Growth
Electro Mechanical Projects & Packaged Airconditioning Systems	513.23	501.36	2%	1790.90	1556.29	15%
Cooling products	163.40	170.36	(4%)	603.86	532.42	13%
Professional Electronics & Industrial Systems	48.08	36.42	32%	174.08	144.33	21%

- Segment-wise result break-up:

(Rs crore)

	Q4FY09	Q4FY08	% Growth	FY09	FY08	% Growth
Electro Mechanical Projects & Packaged Airconditioning Systems	76.61	59.71	28%	213.12	189.70	12%
Cooling products	22.80	17.92	27%	74.86	58.07	29%
Professional Electronics & Industrial Systems	10.20	7.25	41%	36.03	28.92	25%

### ***Q4FY09 Performance***

- Total income for the quarter ended March 31, 2009 at Rs 724.76 crore, grew by 2% over the corresponding quarter in the previous year. Net sales for the quarter at Rs 724.71 crore, was also up by 2% over the corresponding quarter of the previous year.
- For the quarter, Gross margin grew from 24.5% to 27.0%.
- Operating profit for the quarter at Rs 94.31 crore increased by 30% compared to PBDIT of Rs 72.46 crore earned in Q4FY08. Operating Margin increased significantly to 13.0% in Q4FY09 from 10.2% in Q4FY08.

Softening of raw material prices and enhanced price realizations resulted in an increase in profitability.

- Owing to a tight control on employee and operating costs as well as lower interest costs, Profit Before Tax (excluding exceptional items) at Rs 87.54 crore registered a healthy growth of 35%.
- Net Profit at Rs 66.74 crore registered a marginal decline of 5% because last year included a non-recurring boost due to exceptional income of Rs 35.32 crore.
- The earnings per share for Q4FY09 (Face value of Rs 2.00) stood at Rs 7.42 vis-à-vis Rs 7.82 in Q4FY08.
- Order inflow for Q4FY09 was Rs 421 crore representing a 39% decrease over the order inflow of Rs 694 crore in Q4FY08.

## **BUSINESS HIGHLIGHTS FOR Q4FY09**

### *Electro Mechanical Projects & Packaged Airconditioning Systems*

#### **Overview**

This line of business comprises the central airconditioning, packaged airconditioning, electrical contracting and plumbing and fire-fighting contracting business, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems. The Operating Margin of this business sharply increased in Q4FY09 to 14.9% compared to 11.9% in Q4FY08, mainly due to enhanced price realizations and selectively pursuing segments which offer profitable growth opportunities. Further, decrease in commodity prices as well as stringent control on operating costs also contributed to enhanced margins.

In the central airconditioning business, the Company continued to witness good prospects from infrastructure segments as well as from healthcare and hospitality. During the quarter, the Company booked a prestigious integrated MEP order from Sea Valley Resorts for their upcoming 5-star hotel and entertainment Centre at Visakhapatnam. The project is valued at 21 crore and the Company's scope includes HVAC, electrical and plumbing works. The Company also won a prestigious order to aircondition the integrated terminal building for domestic/international operations at Raipur Airport. This order valued at Rs 8.5 crore has been placed by Era Infra Engineering Limited and includes the total HVAC works and Building Management System at Raipur Airport. This is the thirteenth airport order that Blue Star has bagged in the

recent past. The scheduled completion time for the project is about 12 months.

The Company continued to aggressively pursue business from the Govt of India which has been less affected by the slowdown. This focus resulted in several orders from Govt agencies for the airconditioning of various stadiums coming up in New Delhi for the Commonwealth Games scheduled in 2010, the latest being Chatrasal Stadium. In addition, it also booked prestigious Govt orders for airconditioning of CIDCO, Mumbai; The New India Assurance Co., Mumbai and DRDO, Pune.

Based on past performance and strong relationships that Blue Star has built over the years, the Company received several repeat orders from customers like Moser Baer, DLF, Volkswagen, Ericsson & Gautam Buddha University, to name a few. Blue Star also continued to promote its manufactured products including the latest technology screw chillers, screwless design double skin air handling units and variable refrigeration volume systems. The sales of screw chillers and air handling units registered a healthy growth during the quarter. Blue Star is committed to Green Building Designs and has submitted bids for number of such projects, which are expected to be finalized in the coming months.

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 continued demand from offices and hotels.

The Company's eco-friendly range of VRF Systems launched in the first quarter of FY09 continued to make deep inroads during the quarter. Blue Star is India's first and only manufacturer of VRF systems and has significant advantages over its foreign counterparts. Blue Star has been steadily increasing its market share in this market which was a Japanese-equipment stronghold, and is the No 2 player, with a market share of over 20%. During the quarter, several orders were booked from the education segment including orders from Jamnabai Narsee School, Mumbai; Oxford College of Sciences, Bangalore and Chennai Public School.

Blue Star's Precision Control Packaged Airconditioners (PCPA), which have been specially designed for the IT segment performed well during the quarter. Blue Star also continued to sustain its leadership position in the telecom airconditioning business with its range of packaged airconditioners for unmanned telecom shelters.

The newly formed electrical projects business performed impressively by cross-selling its services to existing HVAC customers and rolling out operations in other regions of the country. It booked a prestigious Rs 19 crore combined M&E

order from Nokia Siemens, Bangalore where the electrical works is valued at Rs 12 crore.

### Key Projects in the Quarter:

	<b>New Orders Won in Q4FY09</b>
<b>Central Plants</b>	<ul style="list-style-type: none"> <li>* Raipur Airport</li> <li>* Sea Valley Resorts, Visakhapatnam</li> <li>* CIDCO, Mumbai</li> <li>* The New India Assurance Co., Mumbai</li> <li>* Syngenta Pharma, Mumbai</li> <li>* Sheth Developers, Mumbai</li> <li>* Radisson Hotel, Ranchi</li> <li>* AMRI Hospital, Kolkata</li> <li>* Airtel, Kolkata</li> <li>* Rashtriya Ispat Nigam Ltd, Visakhapatnam</li> <li>* TriStar Hotels, Pune</li> <li>* Volkswagen, Pune</li> <li>* DRDO, Pune</li> <li>* Chennai Silks</li> <li>* HLL Lifecare Ltd, Kochi</li> <li>* Willington Charitable Trust, Chennai</li> <li>* Chatrasal Stadium, Delhi</li> <li>* Ericsson, Jaipur</li> <li>* Gautam Buddha University, Greater Noida</li> <li>* DB Mall, Bhopal</li> </ul>
<b>VRF Systems</b>	<ul style="list-style-type: none"> <li>* Cairn Energy, Barmer, Rajasthan</li> <li>* Kpit Cummins Infosystem, Bangalore</li> <li>* Jamnabai Narsee School, Mumbai</li> <li>* Spice Trading Corpn, Bangalore</li> <li>* Chennai Public School, Chennai</li> <li>* Oxford College of Sciences, Bangalore</li> <li>* Janson Engg College, Coimbatore</li> <li>*</li> </ul>
<b>Packaged Airconditioning</b>	<ul style="list-style-type: none"> <li>* Sistema Shyam Teleservices, Chennai/Hyderabad</li> <li>* Oracle, Bangalore</li> <li>* Renault Nissan, Chennai</li> <li>* Hotel Raj, Titicoron</li> <li>* IDEA Cellular, Chennai</li> <li>* Jeppiar Engg College, Chennai</li> </ul>
<b>Electrical Projects</b>	<ul style="list-style-type: none"> <li>* Sea Valley Resorts, Vizag</li> <li>* Nokia Seimens, Bangalore</li> <li>* Willington Charitable Trust, Chennai</li> <li>* Emami Biotech, Haldia</li> <li>* Exact Developers, Manesar</li> <li>* Syntel International, Chennai</li> <li>* Express Infrastructure, Chennai</li> </ul>

## **Service Business**

The Company's Service Division provides after-sales service support to its customers. Highly trained teams maintain more than 1.5 million TR of equipment.

Apart from the customary warranty and annual maintenance services, the Company offers a variety of 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.

As a natural outcome of Blue Star's Energy Audits, carried out by a strong 30-member team of BEE accredited Energy Auditors and Managers, many customers are opting for revamp or retrofits and upgrading to more energy efficient systems. The team secured an order from Reliance Power in Mumbai to carry out energy audits for a few of their high-energy consuming customers.

During the quarter, the Company also booked a prestigious Total Facilities Management Services (TFMS) order from Volkswagen India, valued at Rs 3 crore for their state-of-the-art car manufacturing facility at MIDC, Chakan. The total area of the manufacturing facility is around 150 acres and the manufacturing facility comprises body shop, paint shop and assembly shop. Blue Star's scope entails providing operations & maintenance services for the utility equipment.

## ***Cooling Products***

The cooling products business also performed well with high growth driven by split airconditioners, 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 10.5% in Q4FY08 to 14.0% in Q4FY09.

The room airconditioner business performed impressively in the quarter with enhanced business from the healthcare, hotel, education and banking segments. Sales from the residential segment during the latter part of the quarter were also impressive. The Company has a comprehensive range of room airconditioners targeted at the corporate and commercial segment. Some of the major orders won during the quarter included orders from Perk Hospitals, Hyderabad; Meenakshi Mission Hospitals, Madurai, Hosmat Hospital, Bangalore; Vasavi Engg College and Gayatri Engg college in Andhra Pradesh; Adishanhkara Engg College, Kerala; Longowal University, Chandigarh; Hotel Breeze, Tamil Nadu; Yatch Club Resorts, Kerala, Bank of Maharashtra, Allahabad Bank, SBI and Indian Bank.

The refrigeration products business continued to witness orders for the premium refrigerated display cabinets from ISA. Chest freezer sales also grew with enhanced demand from ice-cream manufacturers. The Company also renewed their rate contracts with Amul and Havmor Ice-creams, during the quarter.

For the cold chain, Blue Star offers equipment right from pack houses at the farm end to supermarket refrigeration equipment for retail outlets. Blue Star is executing most of the perishable cargo centres in airport complexes. The Company's scope in these centres is not only limited to refrigeration systems and also includes material handling and security equipment. The Company has already commissioned perishable cargo centres at Goa, Nasik and Bagdogra airports, and is re-locating the centre at Goa airport. During the quarter, the Company won prestigious orders from Mangalore Chemical & Fertiliser for a packhouse at Kochi, UB Group for beer storage and Matsya Fed for sea-food. In the modular cold room business, the Company signed a rate contract with Taj Group of Hotels, apart from orders from Yum Restaurants (KFC), Bikanerwala, Ulavar Santhai, Papa John, Haldiram and Sun'n'Sand.

### ***Professional Electronics and Industrial Systems***

Over the years, the Company has changed its business model from 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. The non-destructive testing machines business won prestigious orders from Modern Steel for ultrasonic bar testing systems and from Man Industries for ultrasonic spiral systems, apart from signing a rate contract with L&T for advanced ultrasonic phased array inspection and TOFD. The analytical instruments business received an order valued at USD 700,000 for Field Emission Transmission Electron Microscope from IACS, Kolkata and the testing instruments business won a prestigious order for seven plant growth chambers from Punjab Agricultural University, Ludhiana, during the quarter.

### ***Exports***

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

The product export business saw a drop in revenues during the quarter due to slackened demand. The global economic slowdown has adversely affected

Dubai the most out of the Middle East nations, with the real estate business severely impacted due to the liquidity crunch. However, towards the end of the quarter, slow recovery was witnessed in some segments. The export business registered an overall increase in profitability due to the appreciation of the dollar and decrease in the raw material input cost. The business is also focusing on emerging markets such as Abu Dhabi, Qatar, Saudi Arabia & Africa, which are expected to offer tremendous opportunities in the future.

As far as international projects go, the Company has a JV in Qatar focusing on MEP projects in the region. The Company continues to be selective in pursuing projects with healthy margins.

## **BUSINESS OUTLOOK**

### **Industry Outlook**

Infrastructure segments such as airports, telecom, power plants and metro rail as well as other projects of the Govt and public sector undertakings continue to be unaffected by the economic downturn with significant project expansion plans. The healthcare and hospitality segments, owing to the substantial demand-supply gap, are also pursuing with expansion plans aggressively. While, the slowdown continues to adversely affect segments such as retail, IT/ITES and real estate, there seem to be some signs of a modest recovery. However, the economic environment is extremely fluid and the outlook appears uncertain.

### **Company Outlook**

Though the carry forward order book continues to be healthy, the economic downturn has led to delays in project execution in certain segments adversely affecting the Company's topline. However, infrastructure, healthcare and hospitality have contributed significantly to the overall revenues and the Company has strengthened its foothold in these segments with several significant orders. In addition, Blue Star continues to focus on value engineering, managing working capital efficiently and controlling operating costs. Though the economic outlook appears to be uncertain over the next few quarters, Blue Star's expertise, experience and credentials will hold it in good stead for the future.

**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**  
**AUDITED FINANCIAL RESULTS**  
**FOR THE QUARTER ENDED MARCH 31, 2009**

(Rs.in lakhs)

Particulars	QUARTER ENDED		NINE MONTHS	AUDITED FOR THE YEAR	
	31.3.2009	31.3.2008	31.12.2008	31.3.2009	31.3.2008
1. (a) Net Sales/Income from Operations	72471	70814	184415	256886	223304
(b) Other Operating Income	5	2	18	23	7
Total Income from Operations 1(a+b)	72476	70816	184433	256909	223311
2. Expenditure					
a. (Increase)/decrease in stock in trade and work in progress	3648	(6022)	2971	6619	(8541)
b. Consumption of raw materials- Cost of Sales	47841	57647	134345	182186	172560
c. Purchase of traded goods	1395	1818	4773	6168	5074
d. Employees cost	4811	4288	13415	18226	15440
e. Depreciation	709	621	1879	2588	2197
f. Other expenditure	5345	5837	11094	16439	15321
g. Total	63749	64190	168477	232226	202051
<b>3. Profit from Operations before Other Income, Interest &amp; Exceptional Items (1-2)</b>	<b>8727</b>	<b>6626</b>	<b>15956</b>	<b>24683</b>	<b>21260</b>
4. Other Income	222	72	273	495	166
<b>5. Profit before Interest and Exceptional Items</b>	<b>8948</b>	<b>6698</b>	<b>16229</b>	<b>25177</b>	<b>21426</b>
6. Interest	194	219	1161	1355	756
<b>7. Profit after Interest but before Exceptional Items (5-6)</b>	<b>8754</b>	<b>6479</b>	<b>15068</b>	<b>23822</b>	<b>20670</b>
8. Exceptional items	-	3532	-	-	3532
<b>9. Profit (+)/Loss (-) from Ordinary Activities before tax (7+8)</b>	<b>8754</b>	<b>10011</b>	<b>15068</b>	<b>23822</b>	<b>24202</b>
10. Tax expense	2080	2975	3713	5793	6793
<b>11. Net Profit (+)/Loss (-) from Ordinary Activities after tax (9-10)</b>	<b>6674</b>	<b>7037</b>	<b>11355</b>	<b>18029</b>	<b>17409</b>
12. Extraordinary items (net of tax expense)	-	-	-	-	-
<b>13. Net Profit (+)/Loss (-) for the period (11-12)</b>	<b>6674</b>	<b>7037</b>	<b>11355</b>	<b>18029</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 2009				34914	24556
16. Earnings Per Share (EPS)					
a) Basic and diluted EPS before Extraordinary items	7.42	7.82	12.62	20.04	19.36
b) Basic and diluted EPS after Extraordinary items	7.42	7.82	12.62	20.04	19.36
17. Public shareholding					
- Number of shares	53833184	53823988	53864276	53833184	53823988
- Percentage of shareholding	59.86	59.85	59.89	59.86	59.85
18. Promoters and Promoters group shareholding					
a) Pledged / Encumbered	nil	nil	nil	nil	nil
b) Non Encumbered					
- Number of shares	36102921	36112117	36071829	36102921	36112117
- Percentage of shares(as % to total shareholding of promoter and promoter group)	100.00	100.00	100.00	100.00	100.00
- Percentage of shares(as % to total share capital of the Company)	40.14	40.15	40.11	40.14	40.15

Notes:

- The above results have been reviewed by the Audit Committee and approved at the meeting of the Board of Directors held on May 15, 2009.
- In accordance with the Scheme of Arrangement approved by the shareholders and sanctioned by the Hon'ble High Court of Bombay, additional bonus and retainership fees paid to consultants as per business purchase agreement with Naseer Electricals Pvt Ltd., net of current liabilities no longer payable totalling to Rs. 335.09 lakhs have been adjusted against the General Reserve of the Company.
- During the quarter ended March 31, 2009, the Company received and disposed of 12 investor complaints. No complaints were pending as at the beginning and at the end of the quarter.
- The Directors have recommended a dividend of Rs7.00 per equity share (Previous year Rs.7.00 per equity share inclusive of Re.1.00 as a special dividend).

**Registered Office:**

Kasturi Buildings  
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Mumbai 400 020  
www.bluestarindia.com  
Date : May 15, 2009  
Place : Mumbai

**For BLUE STAR LIMITED**

**Ashok M Advani**  
Chairman & Managing Director

**SEGMENT WISE REVENUE, RESULTS AND CAPITAL EMPLOYED FOR THE YEAR ENDED MARCH 31, 2009**

(Rs. in lakhs)

Quarter ended		Description	NINE MONTHS ENDED	AUDITED YEAR ENDED	
31.3.2009	31.3.2008			31.12.2008	31.3.2009
		<b>I. SEGMENT REVENUE</b>			
51323	50136	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	127768	179091	155629
16340	17036	ii. Cooling Products	44047	60387	53242
4808	3642	iii. Professional Electronics and Industrial Systems	12600	17408	14433
<b>72471</b>	<b>70814</b>	<b>TOTAL SEGMENT REVENUE</b>	<b>184415</b>	<b>256885</b>	<b>223304</b>
-	-	Less: Inter Segment Revenue			-
<b>72471</b>	<b>70814</b>	<b>NET SALES/ INCOME FROM OPERATIONS</b>	<b>184415</b>	<b>256885</b>	<b>223304</b>
		<b>II. SEGMENT RESULT</b>			
		<b>PROFIT/(LOSS) BEFORE INTEREST &amp; TAX</b>			
7661	5971	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	13650	21312	18970
2280	1792	ii. Cooling Products	5206	7486	5806
1020	725	iii. Professional Electronics and Industrial Systems	2583	3603	2892
<b>10961</b>	<b>8489</b>	<b>TOTAL SEGMENT RESULT</b>	<b>21439</b>	<b>32400</b>	<b>27668</b>
		<b>Less:</b>			
194	219	i.) Interest	1161	1355	756
2013	(1740)	ii.) Other un-allocable Expenditure net of un-allocable Income	5210	7223	2710
<b>8754</b>	<b>10011</b>	<b>TOTAL PROFIT BEFORE TAX</b>	<b>15068</b>	<b>23822</b>	<b>24202</b>
		<b>III. CAPITAL EMPLOYED:</b>			
		<b>(Segment Assets- Segment Liabilities)</b>			
31613	20309	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	27845	31613	20309
11675	14721	ii. Cooling Products	12423	11675	14721
3080	3244	iii. Professional Electronics and Industrial Systems	4446	3080	3244
<b>46368</b>	<b>38274</b>	<b>TOTAL CAPITAL EMPLOYED IN SEGMENTS</b>	<b>44714</b>	<b>46368</b>	<b>38274</b>
(7,233)	-7907	Add: Un-allocable Corporate Assets less Liabilities	621	(7,233)	7,907
<b>39135</b>	<b>30367</b>	<b>TOTAL CAPITAL EMPLOYED IN THE COMPANY</b>	<b>45335</b>	<b>39135</b>	<b>30367</b>

**Registered Office:**

Kasturi Buildings  
Mohan T. Advani Chowk  
Jamshedji Tata Road  
Mumbai 400 020  
www.bluestarindia.com  
Date : May 15, 2009  
Place : Mumbai

For BLUE STAR LIMITED

**Ashok M Advani**  
Chairman & Managing Director