

# Blue Star Limited

Q3 FY08 Earnings Update

February 05, 2008

## FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported a **Total Income** of Rs 514.99 crore for the quarter ended December 31, 2007, representing **39% growth** over the corresponding quarter in the previous year. Net sales for the quarter at Rs 514.88 crore were also up by 39% over Q3FY07.
- For the 9-months ended December 31, 2007, Total Income grew 44% to Rs 1525.90 crore, compared to the corresponding period in the previous year. Net sales over the same period also grew 44% to Rs 1524.90 crore.
- Operating profit (PBDIT excluding Other Income) for the quarter was at Rs 55.7 crore up by 134% as compared to the Operating Profit of Rs 23.8 crore earned in Q3FY07. The **Operating Margin increased significantly to 10.8%** in Q3FY08 compared to 6.4% in Q3FY07. Scale, lower cost of sales and well controlled expenses contributed to exceptional margin improvement.
- Other income for the quarter was Rs 11 lakh (Rs 42 lakh in Q3FY07).
- **Net profit** for the quarter was Rs 35.44 crore, **up 208%** over Net Profit of Rs 11.50 crore for Q3FY07. For the nine months ended December 31, 2007, Net Profit spurted 179% to Rs 103.73 crore. While maintaining high revenue growth, the Company has been able to significantly enhance profitability with a prudent mix of sound working capital management and tight control over interest costs.
- The **Earnings per Share** (face value of Rs 2.00) for the quarter was Rs 3.94 as against EPS of Rs 1.28 in Q3FY07, while for the 9-month period ended December 31, 2007, EPS jumped from Rs 4.13 to Rs 11.53.
- **Carry Forward Order Book** as on December 31, 2007 stood at a healthy Rs 1,072 crore compared to the order book of Rs. 831 crore as at December 31, 2006.

### *Segment-wise results*

- The central and packaged airconditioning business continued to contribute significantly to the overall growth of the Company. This business grew by **36%** during Q3FY08. **Segment profit** during the quarter grew **119%** to Rs 44.80 crore.

- The cooling products business performed extremely well growing 45% during the quarter. The segment profit grew three-fold, a substantial 206% to Rs 12.91 crore.
- The professional electronics and industrial systems business performed well in the quarter, growing 53%. Segment profit grew a solid 84% to Rs 8.64 crore.
- SBU-wise sales break-up:

(Rs crore)

	Q3FY08	Q3FY07	% Growth	% of Net Sales
Central packaged airconditioning systems and	376.80	276.16	36%	73%
Cooling products	100.34	69.30	45%	19%
Professional Electronics & Industrial systems	37.74	24.67	53%	8%

- SBU-wise results break-up:

(Rs crore)

	Q3FY08	Q3FY07	% Growth	% of Total Segment Result
Central packaged airconditioning systems and	44.80	20.47	119%	68%
Cooling products	12.91	4.22	206%	19%
Professional Electronics & Industrial systems	8.64	4.69	84%	13%

## BUSINESS HIGHLIGHTS

### *Plans to Acquire Naseer Electricals*

The Company is planning to strengthen its airconditioning projects business through the strategic acquisition of the businesses of Naseer Electricals Private Limited, a leading Electrical Contracting firm as a going concern. With this move, the Company will be in a position to deliver integrated Mechanical, Electrical & Plumbing (MEP) contracting projects for the commercial building and infrastructure segments.

The growing Indian economy and the construction boom offer attractive business opportunities in the MEP contracting space. Moreover, many customers of Blue Star are seeking Electrical Contracting services from the Company. While Blue Star will continue to focus on its core businesses of airconditioning and commercial refrigeration as a manufacturer, contractor and service provider, it intends to further enhance its capabilities in the MEP space by entering Electrical Contracting through this transaction.

Naseer Electricals Private Limited, headquartered at Bangalore, is an Electrical Contracting firm with a turnover of Rs 107 crore (FY07) and a strong presence in South India. It is founded by Mr A S Dawood, who is currently the Managing Director. Naseer Electricals enjoys an exceptional reputation as a leading player in the IT, ITES, Infrastructure and Retail segments.

The formalities of closing the above transaction and taking over are in progress and we intend to provide additional details on the transaction during the third week of February.

### *Central and Packaged Airconditioning Systems*

#### **Overview**

In the central airconditioning business, the Company is witnessing increased demand from new emerging segments such as infrastructure, power, healthcare, telecom and hospitality. In the IT/ITES sector, there appears to be a slowdown amongst smaller players who are adversely affected by the depreciating dollar. While the large IT/ITES players are continuing with their aggressive expansion plans, we may see delays in some projects in the coming months. Although the Retail sector has witnessed some setbacks, especially in the Food Retail segment, there is significant growth in Tier 2 cities, offering enormous opportunities for Blue Star. As far as infrastructure and power sectors are concerned, finalizations of projects have longer lead times and therefore, rate of order inflow is expected to accelerate only in Q1 of FY09. In Q4, the Company expects to maintain the current level of order inflow and order backlog.

During the quarter, Blue Star booked two large and prestigious orders in the infrastructure segment. These are orders from Nuclear Power Corporation of India (NPCIL) for airconditioning India's first fast breeder reactor at Kalapakkam valued at Rs 38 crore as well as an order from Delhi Metro Rail Corporation, Delhi for Rs 17 crore.

The order inflow of the newly launched R134A eco-friendly screw chillers has been good. The quarter under review witnessed the successful commissioning of these chillers in several locations. Given the positive feedback on these

chillers from the market place, the Company is confident of increasing its market share in screw chillers.

The Company booked several prestigious orders in the quarter:

### Key Projects in the Quarter

Under Execution	Commissioned	New Orders Won
<ul style="list-style-type: none"> <li>* Infosys, Pune</li> <li>* Moser Baer, Noida</li> <li>* ST Microelectronics, Noida</li> <li>* Dupont, Hyderabad</li> <li>* Chalet Hotel, Mumbai</li> <li>* Indu Projects, Hyderabad</li> <li>* HPCL, Hyderabad</li> <li>* United Bank of Switzerland (thru L&amp;T), Hyderabad</li> <li>* Bengal Peerless, Kolkata</li> <li>* Bengal Greenfield, Kolkata</li> <li>* Hexaware, Chennai</li> <li>* Chennai Trade Centre</li> </ul>	<ul style="list-style-type: none"> <li>* Microsoft, Hyderabad</li> <li>* DGNP, Vizag</li> <li>* Ascendas IT Park, Hyderabad</li> <li>* SALPG (thru L&amp;T), Vizag</li> <li>* Titanium I, Mumbai</li> <li>* Ascendas (Mahindra Industrial Park Ph 3), Chennai</li> <li>* DLF, Hyderabad</li> <li>* Metro Cash &amp; Carry, Mumbai</li> <li>* Raheja Building at BKC, Mumbai</li> <li>* Standard Chartered Bank, Mumbai</li> </ul>	<ul style="list-style-type: none"> <li>* Nirlon, Mumbai</li> <li>* Virtusa Software, Hyderabad</li> <li>* Nuclear Power Corpn, Kalapakkam</li> <li>* Delhi Metro, Delhi</li> <li>* Leela IT Park, Kochi</li> <li>* DLF Tower, Gurgaon</li> <li>* DLF Cybertower, Gurgaon</li> <li>* DLF Silokhera SEZ Project</li> <li>* Terminal 1A, Mumbai Domestic Airport (GVK)</li> <li>* Metro Rail, Kolkata (thru Perfect Electricals)</li> <li>* RMZ, Chennai</li> <li>* Suncity Business Tower, Gurgaon</li> <li>* Wipro, Vizag</li> </ul>

In the packaged/ducted airconditioning and small chillers segment, the Company introduced air cooled and water cooled screw chillers in the sub 100 TR capacity for smaller applications.

Several significant orders were booked during the quarter including orders from Vasavadatta Cement, Bangalore and Indian Machine Tools, Bangalore for ducted systems. The indigenous digital scroll technology based Variable Refrigerant Flow (VRF) systems also performed well with orders from Country Club, Mangalore; Malathy Manipal Hospital, Bangalore; Infosys, Bangalore; Army Medical College, Delhi and Integrated Subscriber (Dish TV), Noida. During the quarter, the Company introduced a new range of VRF systems with the eco-friendly R410A refrigerant. This will help the Company in making further inroads in the VRF segment.

Blue Star's Precision Control Packaged Airconditioners, which have been specially designed for the IT segment continued to do well with significant orders from Starent Networks, Pune and Cognizant Technology Solutions, Pune.

Blue Star continued to dominate the telecom airconditioning business with its range of packaged airconditioners for unmanned telecom shelters, during the quarter. This business for the nine-month period ended December 31, 2007 has

registered a 150% growth over the previous year. During the quarter, the Company continued to get significant repeat orders from customers such as Vodafone, IDEA, Bharti, Tata Teleservices and other passive infrastructure players.

In the central and packaged airconditioning business, the Company has several national/major account customers from IT, retail, banking, telecom, developers and healthcare segments which contribute to over a third of the revenues. These include Apollo Hospitals, DLF, Future Group, HDFC Bank, ICICI Bank, Infosys, Microsoft, Moser Baer, RMZ, Reliance and Vodafone.

### **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 service products such as Annual Maintenance Contracts, Energy Management, Air Management, Water Management, and Product Upgrades and Retrofits.

As a fall-out of Blue Star's Energy Audit recommendations, many customers are opting for revamp or retrofit solutions and upgrading their system to a more energy efficient one. Further, many customers are augmenting additional capacity as a part of their expansion plans. In fact, the revamp business activity is growing at a rate in excess of 35%.

### ***Cooling Products***

The cooling products business performed extremely well with growth driven by split airconditioners, as well as refrigeration products and cold chain equipment. Though raw material prices have escalated, custom duty reduction, value engineering, product mix and scale contributed to enhanced margins. The Company is confident of maintaining these margins in the cooling products segment going forward.

In the room airconditioners segment, Blue Star continued to outperform the market growth with a growth rate of over 50%. The focus remains on the corporate, commercial and light commercial segments, where Blue Star's market share is now in double digits. The market shift in preference for split airconditioners vis-à-vis window airconditioners has provided a tremendous boost for this business. The volumes of split airconditioners launched for the commercial market grew significantly during the quarter. The range of cassette, mega and verticool airconditioners registered a growth of over 75%. Prestigious orders were bagged from State Bank of India, LIC and Andhra Pradesh High Court apart from orders from telecom players such as Vodafone, Airtel and Aircel.

For the cold chain, Blue Star offers equipment right from pack houses at the farm end to supermarket refrigeration equipment for retail outlets. The cold chain and refrigeration products business is primarily driven by the agricultural and retail segment. Apart from these segments, significant expansion is taking place in the cold chain logistics segment. There are several players setting up intermediate warehouses and city warehouses including Khet-Se, Future Logistics, Snowman, Agility and Concor. The Company intends to capitalize on the opportunities available in this new emerging segment.

During the quarter, the Company booked cold storage projects from AP Agro, Secunderabad; Soumya Agro Tech, Kolkata; Tata Chemicals, Chandigarh; Zulleig Pharma, Mumbai and Brahmagiri, Kochi. In the modular cold room segment, the Company registered a growth of 40% - driven by the fast food chains, star-rated hotels, hospitals and the pharma segment. The focus on developing channel partners for the modular cold room segment has begun to yield results, with 87% of the business in this category coming from the dealers. The freezers business grew an impressive 35% with orders from Havmor, Hatsun Agro, Vadilal, Dairy Farm and Mangturam Foods. The imported products business of ice cube machines and refrigerated display cabinets from ISA, Italy registered a growth of over 50%.

### *Professional Electronics and Industrial Systems*

The business represents in India, leading global manufacturers including Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Mindray from China, Techcomp from Hong Kong, Olympus NDT from Canada and Aeroflex, Panametrics and Molecular Devices from USA, to name a few.

During the quarter, all the individual SBUs performed well. The material testing business received a significant order from Mukund Industries for ultrasonic testing of bars. Automobile component procurement by Foreign OEMs from India is on the rise and this order will place the Company in a good position for ultrasonics in the auto components industry. The medical electronics business booked orders for 6 Hitachi MRI machines during the quarter. The Medical Council of India has introduced a pre-requisite that Medical colleges that offer a post graduation in Radiology have to install a MRI system. This should lead to increased demand of MRI systems. The data communication business received orders for host security modules from various banks including IDBI, Standard Chartered, Kotak Mahindra and ING Vysya. It also received a prestigious order for Barclays Bank to provide retail banking solutions over mobile phones.

### *Exports*

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

While the depreciating dollar had adversely affected product export margins in Q2FY08, enhanced price realizations saw the trend getting back to normal in the quarter under review. 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 are better than standard products.

In the Middle East, the Company has consolidated its position in Oman by appointing 'Oman Trading Establishment' from the Bhawan's Group as its Distributor. Bhawan Group is the largest business house in the Sultanate of Oman. In order to support the Company's business partners in the UAE, a senior member of the Blue Star Product Exports team has been stationed in Dubai starting December 2007. He will support the Company's distributors in technical matters and also help in generating increased business for new products. The above combined efforts should see the Product Exports grow in the coming financial year.

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. During the quarter, the Company's JV in Qatar booked orders from New Western District Hospital, Qatar; Qatar University and Sofitel Hotel, Qatar valued at Rs 50 crore.

## **BUSINESS OUTLOOK**

### **Industry Outlook**

The central airconditioning market continues to be on a growth path mainly fueled by the construction boom. Cooling products are also witnessing substantial growth driven by increased demand of split airconditioners and cold chain equipment, especially in the agricultural segment.

### **Company Outlook**

The central airconditioning business is witnessing high growth in new emerging segments such as infrastructure, telecom, healthcare, power and hospitality. Blue Star's strengths in manufacturing, contracting and value-added after-sales service along with its strong credentials will ensure sustained leadership.

The Company also expects the cooling products business to contribute significantly in the growth. Blue Star has become a significant player in split airconditioners in the corporate and commercial segment, owing to its range of differentiated, energy-efficient products. The Company is also well positioned to leverage on the impending boom in cold chain infrastructure.



The outlook for the Professional Electronics and Industrial Systems business continues to be attractive. Its growth pattern in the last few years has been solid and its strong reputation as a value added reseller and system integrator will help it to further enhance market share.

#### 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 DECEMBER 31, 2007**

(Rs.in lakhs)

Particulars	3 months ended		Year to Date for nine months ended		Previous accounting year ended
	(31/12/2007)	(31/12/2006)	(31/12/2007)	(31/12/2006)	(31/03/2007)
					<b>Audited</b>
1. Net Sales/Income from Operations	51488	37013	152490	105837	160128
2. Other Income	11	42	100	171	613
<b>3. Total Income (1+2)</b>	<b>51499</b>	<b>37055</b>	<b>152590</b>	<b>106008</b>	<b>160741</b>
4. Expenditure					
a. Increase/decrease in stock in trade and work in progress					
	(374)	(2695)	(2519)	(4845)	(3824)
b. Consumption of raw materials	38621	32052	118169	87660	128093
c. Purchase of traded goods (See note 2)	-	-	-	-	-
d. Employees cost	4128	2712	11152	8244	12286
e. Depreciation	554	580	1576	1467	2090
f. Other expenditure	3540	2565	9483	7532	11881
g. Total	46469	35214	137861	100058	150526
5. Interest	157	216	538	659	955
6. Exceptional items	-	-	-	-	-
<b>7. Profit (+)/Loss (-) from Ordinary Activities before tax (3+4+5+6)</b>	<b>4873</b>	<b>1625</b>	<b>14191</b>	<b>5291</b>	<b>9260</b>
8. Tax expense	1329	475	3818	1572	2142
<b>9. Net Profit (+)/Loss (-) from Ordinary Activities after tax (7-8)</b>	<b>3544</b>	<b>1150</b>	<b>10373</b>	<b>3719</b>	<b>7118</b>
10. Extraordinary items (net of tax expense)	-	-	-	-	-
<b>11. Net Profit (+)/Loss (-) for the period (9-10)</b>	<b>3544</b>	<b>1150</b>	<b>10373</b>	<b>3719</b>	<b>7118</b>
12. Paid-up equity share capital (Face Value per share Rs.2/-)	1799	1799	1799	1799	1799
13. Reserves excluding Revaluation Reserves as per balance sheet of previous accounting year					19498
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 to be annualised)	<b>3.94</b>	<b>1.28</b>	<b>11.53</b>	<b>4.13</b>	<b>7.91</b>
b) Basic and diluted EPS after Extraordinary items for the period, for the year to date and for the previous year (not to be annualised)	<b>3.94</b>	<b>1.28</b>	<b>11.53</b>	<b>4.13</b>	<b>7.91</b>
15. Public shareholding					
- Number of shares	53824538	53878684	53824538	53878684	53824538
- Percentage of shareholding	59.85	59.91	59.85	59.91	59.85

Notes:

- The above results have been subject to 'Limited Review' by the statutory auditors, reviewed by the Audit Committee and approved at the meeting of the Board of Directors held on January 30, 2008.
- Details of purchase of traded goods is difficult to segregate due to the interwoven nature of business of the Company.
- The Employees cost for the quarter ended December 31, 2007, includes payment of bonus for the previous year amounting to Rs.97.23 lakhs, pursuant to the amendment in The Payment of Bonus Act 1965. In addition, it includes provision amounting to Rs.502 lakhs (PY : Nil) towards payment of performance incentives to be made within the next one year in accordance with AS 15 (Revised 2005) requirements on Employee Benefits issued by the Institute of Chartered Accountants of India.
- Tax expense includes Provision for tax, Deferred Tax liability and Fringe benefit tax liability.
- During the quarter ended December 31, 2007, the Company received and disposed of 20 investor complaints. No complaints were pending at the beginning and at the end of the quarter.

**Registered Office:**

Kasturi Buildings  
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Mumbai 400 020  
www.bluestarindia.com  
**Date : January 30, 2008**  
**Place : Mumbai**

**For BLUE STAR LIMITED**

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

Segment wise Revenue, Results and Capital Employed for the quarter ended December 31, 2007

(Rs. in lakhs)

Quarter ended		Description	NINE MONTHS ENDED		AUDITED
					YEAR ENDED
31.12.2007	31.12.2006		31.12.2007	31.12.2006	31.3.2007
		<b>I. SEGMENT REVENUE</b>			
37680	27616	i. Central and Packaged Air-conditioning Systems	105493	73724	112427
10034	6930	ii. Cooling Products	36206	25076	37278
3774	2467	iii. Professional Electronics and Industrial Systems	10791	7037	10423
-	-	iv. Residual	-	-	-
<b>51488</b>	<b>37013</b>	<b>TOTAL SEGMENT REVENUE</b>	<b>152490</b>	<b>105837</b>	<b>160128</b>
-	-	Less: Inter Segment Revenue	-	-	-
<b>51488</b>	<b>37013</b>	<b>NET SALES/ INCOME FROM OPERATIONS</b>	<b>152490</b>	<b>105837</b>	<b>160128</b>
		<b>II. SEGMENT RESULT</b>			
		<b>PROFIT/(LOSS) BEFORE INTEREST &amp; TAX</b>			
4480	2047	i. Central and Packaged Air-conditioning Systems	12999	6463	10286
1291	422	ii. Cooling Products	4014	1630	2544
864	469	iii. Professional Electronics and Industrial Systems	2167	1360	1923
-	-	iv. Residual	-	-	-
<b>6635</b>	<b>2938</b>	<b>TOTAL SEGMENT RESULT</b>	<b>19180</b>	<b>9453</b>	<b>14753</b>
		<b>Less:</b>			
157	216	i.) Interest	538	659	955
1605	1097	ii.) Other un-allocable Expenditure net of un-allocable Income	4451	3503	4538
<b>4873</b>	<b>1625</b>	<b>TOTAL PROFIT BEFORE TAX</b>	<b>14191</b>	<b>5291</b>	<b>9260</b>
		<b>III. CAPITAL EMPLOYED:</b>			
		<b>(Segment Assets- Segment Liabilities)</b>			
21518	16475	i. Central and Packaged Air-conditioning Systems	21518	16475	15391
11288	9883	ii. Cooling Products	11288	9883	11383
2949	2087	iii. Professional Electronics and Industrial Systems	2949	2087	3006
-	-	iv. Residual	-	-	-
<b>35755</b>	<b>28445</b>	<b>TOTAL CAPITAL EMPLOYED IN SEGMENTS</b>	<b>35755</b>	<b>28445</b>	<b>29780</b>
4,211	2692	Add: Un-allocable Corporate Assets less Liabilities	4211	2692	1,073
<b>39966</b>	<b>31137</b>	<b>TOTAL CAPITAL EMPLOYED IN THE COMPANY</b>	<b>39966</b>	<b>31137</b>	<b>30853</b>

**Registered Office:**

Kasturi Buildings  
Mohan T. Advani Chowk  
Jamshedji Tata Road  
Mumbai 400 020  
www.bluestarindia.com  
**Date : January 30 , 2008**  
**Place : Mumbai**

**For BLUE STAR LIMITED**

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