

# Blue Star Limited

Q4 and FY07 Earnings Update

May 16, 2007

## FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Income of Rs 1607.41 crores for the year ended March 31, 2007, representing 36% growth over previous year. Net sales for the year at Rs 1601.28 crores was up by 36% over FY06.
- Total income for the quarter ended March 31, 2007 at Rs 547.33 crores, grew by 37% over the corresponding quarter in the previous year. Net sales for the quarter at Rs 542.91 crores, was up by 36% over the corresponding quarter of the previous year.
- All three business segments showed good growth in revenues and results.

- Segment-wise revenue break-up:

(Rs crores)

	Q4FY07	Q4FY06	% Growth	FY07	FY06	% Growth
Central airconditioning systems	387.03	279.52	38%	1124.27	821.30	37%
Cooling products	122.02	89.50	36%	372.78	271.20	37%
Professional Electronics & Industrial Systems	33.86	27.44	23%	104.23	80.36	30%

- Segment-wise result break-up:

(Rs crores)

	Q4FY07	Q4FY06	% Growth	FY07	FY06	% Growth
Central airconditioning systems	37.26	33.93	10%	102.70	80.03	28%
Cooling products	8.12	7.96	2%	23.46	13.17	78%
Professional Electronics & Industrial Systems	5.91	6.46	(9%)	20.62	15.27	35%

- Operating profit (PBIDT excluding Other Income) for the year at Rs 116.92 crores was up by 35% as compared to PBDIT of Rs 86.68 crores earned in FY06.
- Product Exports grew by a healthy 49% to Rs. 67.66 crores in FY07. Although still relatively small, this represents a growing acceptance of Blue Star products and equipment in the international market.
- Other income for the quarter stood at Rs 4.42 crores (Rs 1.81 crores in Q4FY06) while other income for the year was Rs 6.13 crores (Rs 4.06 crores in FY06).
- Net profit for Q4FY06 stood at Rs 33.99 crores. Net profit for FY07 at Rs 71.18 crores is up by 46% over FY06.
- The earnings per share for FY07 (Face value of Rs 2.00) stood at Rs 7.91 vis-à-vis Rs 5.44 in the previous year
- The Board of Directors have recommended a final dividend of Rs. 0.60 per share, over and above the interim dividend of Rs 2.40 paid in March 2007. Thus the total dividend recommended for the financial year equals Rs 3.00 per share (Face value of Rs 2.00) representing 150% compared to 120% declared last year.
- Carry Forward Order Book as on March 31, 2007 stood at Rs 755 crores compared to the order book of Rs. 565 crores as at March 31, 2006.

## FINANCIAL RATIOS

	2006-07	2005-06
Gross Margin (excl non-operating income)	22.4%	22.8%
Operating Margin (excl. non-operating Income)	7.3%	7.4%
Return on Capital Employed	32.1%	30.1%
Return on Shareholders' Funds	33.4%	28.3%
Earnings Per Share (Rs) (Face Value of Rs 2)	7.91	5.44
Dividend Per Share (Rs)(Face Value of Rs 2)	3.00	2.40
Capital Turnover	5.21	4.74
Debt/Equity	0.42	0.44

## BUSINESS HIGHLIGHTS

### Central Airconditioning Systems

#### Overview

The IT/ITES and Retail segments continued to fuel the demand for central airconditioning during the quarter. The Company continues to enjoy a preferred partnership status in most of the new growth segments. Blue Star's strong credentials coupled with its energy-efficient superior products, exemplary project management skills, and track record of on-time delivery, helped the Company sustain its leadership position. Further, customers appreciate the fact that Blue Star offers solutions and partners with them across the life cycle of the system.

Based on the management information systems of the Company, the industry-wise revenue break-up for the central airconditioning business during the year is estimated as follows:

Segment	% of revenue
IT/ITES	45%
Retail (including malls and multiplexes)	21%
Industrial/Pharma	13%
Offices	11%
Others	10%

The Company bagged a slew of prestigious orders in the quarter:

#### Key Projects in the Quarter:

Under Execution	Commissioned	New Orders Won
* Aditya Infracon, New Delhi	* Cross River Mall, New Delhi	* Hexaware, Chennai
* Moser Baer, Noida	* IBM, Bangalore	* Reliance Retail (300 stores)
* Jindal Power, Raigarh	* Watergate Mall, Delhi	* Infosys, Chennai
* Megapolis Mall, Mumbai	* RMZ Eurospace 1A, Bangalore	* Tata Motors, Pune
* Beverly IT Park, New Delhi	* IEML, New Delhi	* Great Eastern Hotel, Kolkata
* Satyam, Secunderabad		* TCS, Pune
* Select Infrastructure, New Delhi		* RMZ Infinity Tower D & E, Bangalore
* Kalyani Infotech, Bangalore		* Moser Baer, Noida
* RITES, New Delhi		* Jaipur Airport
		* Amritsar Airport
		* Galaxy Mercantiles, New Delhi
		* Net Net Ventures, Secunderbad

Apart from the above, strong organizational capabilities of Blue Star led to repeat business from many corporate customers at local as well as national levels.

The Company strengthened its leadership position in the telecom segment with its customized range of packaged airconditioners especially designed for the telecom industry. Blue Star offers a complete range of telecom airconditioning solutions including the twin circuit telepacs, filter-free telepacs and EFC Telepacs. The Company has already supplied its equipment to major telecom service providers such as Hutch, Airtel, Reliance Telecom, BSNL, TTSL, Spice Telecom and Essar as well as to other passive infrastructure providers like GTL, Quipo, TVS and Tower Vision. Blue Star's deep understanding of the dynamics and intricacies of the telecom segment and the subsequent demands on airconditioning has helped the Company enjoy a preferred partner status in the fast growing telecom sector.

### **New Product Launches**

During the quarter, the Company launched screw chillers incorporating the eco-friendly R134A refrigerant. The Company also launched ductable splits with a capacity of 22TR targeted at commercial builders. These have been very well received in the market place and this product coupled with the recently launched floor standing packaged machines of 22TR, will help the Company further increase its market share in the retail segment.

### **Service Business**

Apart from the traditional break-down maintenance, the Company has been focusing on important issues such as Energy Management, Indoor Air Quality Management and Water Management and has migrated to higher levels in customer-centric cooling solutions by offering a bundle of benefits, which include uptime guarantee, savings in power bills and improved indoor air quality.

During the quarter, the Company introduced facilities management services, in order to give customers a single-window solution. Considering the power crisis across the country, the Division undertook a programme to help customers cut down on power consumption through energy saving tips and energy audits.

### **Cooling Products**

#### **Room Airconditioners**

Blue Star continues to focus on the corporate, commercial and light commercial markets, offering a choice of models and capacities relevant to

commercial spaces. Blue Star is well positioned in the split airconditioners market with its range of differentiated products. With the shift in market preference from window to split airconditioners, the Company recorded significant growth rates in the overall room airconditioners business, primarily driven by increase in sales volumes of split airconditioners.

During the quarter, the Company launched ‘flexible ducted splits’ which offer great ease of installation. The response to this new innovative product targeted at light commercial spaces has been overwhelming and the Company is confident of its outlook. The Company also assisted 6 dealers during the quarter to set up highly visible Product Display Areas. In addition, 25 dealers were appointed in unrepresented towns to strengthen the dealer network and increase penetration.

### **Refrigeration Products**

During the quarter, sales volumes of most of the refrigeration products grew significantly mainly driven by eateries, retail chains, pharma and research institutes. The Company entered into a distribution agreement to market Siemens Vertical Freezers, and the initial response to these products is encouraging. The Company also bagged an order for over 400 milk coolers from Maharashtra State Aids Control Society. Blue Star participated in AAHAR-07, a popular exhibition targeted at the hospitality industry where the Company evoked an overwhelming response for its new range of refrigeration and supermarket equipment.

### **Cold Storages**

The demand for cold chain equipment continues to be on the rise and Blue Star is in a strong position to leverage on the impending boom in this segment. The Company offers equipment right from pack houses at the farm end to supermarket refrigeration equipment for retail outlets.

In order to effectively address the expected boom in cold chain equipment requirements, the Division restructured to focus on the Agricultural segment. It has also created a key national account cell to focus on supermarket customers, who have both back-end and supermarket display requirements. With its expertise in back-end cold storages and its tie-up with ISA, Italy for aesthetically appealing supermarket display equipment, the Company is confident of being a leading player in the sunrise supermarket segment. The Company has already bagged orders from for A V Birla Retail, Foodland, Spencers, Food World, Vishal Mega Mart, amongst others.

During the quarter, the Company also bagged orders for pack houses at the farm end from Heritage Foods Ltd and Tanflora. Further, the Company bagged a prestigious order from Reliance Retail for cold storages worth Rs 23 crores. This includes ripening chambers, cut vegetable rooms, frozen food rooms and dairy rooms.

### **Professional Electronics SBU**

The Electronics Division continued to perform impressively during the year, registering a growth of 30% during FY07. Although, there was a decline in segment result in Q4 FY07 compared to Q4 FY06, given the nature of the business, quarterly performance is not a true indicator of the performance of the business. This can be seen in the full year FY07 result growth of 35% over FY06.

For over five decades, the Electronics Division of Blue Star has been consistently providing its customers with a wide range of products, systems and value-added services in the field of professional electronics and industrial equipment. The Division represents in India, leading global manufacturers including Hitachi and JEOL from Japan, Thales e-security from UK, Yxlon from Germany, Mindray from China, and Aeroflex, Panametrics and NuAire from USA, to name a few.

During the quarter, the Company bagged major orders from Man industries and Pratibha industries for non-destructive testing systems. The quarter also saw Blue Star commissioning a sophisticated “L-saw system” for Jindal Saw in Texas, USA. Orders were also bagged from Tata Steel for overhead yard utility pipeline, oxygen pressure reducing stations and LD gas mixing stations. In all, during the year, Tata Steel placed orders valued at Rs 31 crores.

### **Exports**

Blue Star’s export income is derived from two streams - International Projects and Product Exports.

Products are primarily exported to the Middle East and Europe. Blue Star offers products like chillers, air handling units, fan coil units and roof top units apart from traditional cooling products like water coolers, ducted systems and room airconditioners. These products, which compete with global brands, have been very well received in the market place and have resulted in a significant rise in the Company’s exports during the year.

During the quarter, the Company got its first export order for seven screw chillers incorporating R134A refrigerant from Bahrain. Considering that till a couple of years back, the Company used to depend on imported screw chillers

for the domestic market, it is commendable that these indigenously manufactured chillers now compete and are gaining wide acceptance even in international markets.

During the quarter, the Company opened an office in Doha, which will handle requirements of both international projects as well as products from the region.

### **Upcoming Plant at Wada**

To cater to the fast growing demand, the Company is in the process of setting up a major manufacturing facility at Wada (Thane District) in Maharashtra. This will be Blue Star's fifth factory, located over an area of around 14 hectares (35 acres) and will manufacture both air-conditioning and refrigeration equipment for the domestic and the international markets. Phase I of the plant will be completed by March 2008, although partial production will begin earlier. The Company plans to invest about Rs 35 crores in Phase I.

## **BUSINESS OUTLOOK**

### **Industry Outlook**

The Central airconditioning market continues to be on a growth path mainly fueled by IT/ITES and Retail sectors. Cooling products are also witnessing substantial growth driven by increased demand of room airconditioners and cold chain equipment.

### **Company Outlook**

The central airconditioning business has the largest share of the Company's revenue and is expected to be the biggest growth driver of the Company in the coming quarters of the year as well. Blue Star's strengths in manufacturing, contracting and after-sales service coupled with strong credentials and a substantial pool of talented engineers will help the Company in sustaining market leadership.

The Company also expects the cooling products business to contribute substantially to the overall growth and profitability. The cooling products business performed well in FY06 and this trend continued in FY07 as well with impressive growth in profits. Blue Star has become a significant player in the split airconditioner segment owing to an innovative range of products. The Company is also well positioned to leverage on the impending boom in cold chain infrastructure.

The outlook for the Professional Electronics business continues to be promising. Its growth pattern in the last few years has been solid. The Division has forayed

into several new high growth niche segments with additional product lines, and is optimistic about its prospects in this business.

In FY08, the average growth rates of all the markets that Blue Star currently addresses is estimated to be in the range of 20% and the Company is optimistic about exceeding these market growth rates in FY08.

**For more information contact**

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**SAFE HARBOR**

**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 YEAR ENDED MARCH 31, 2007**

(Rs In lakhs)

QUARTER ENDED		PARTICULARS	9 MONTHS ENDED	AUDITED	
31.3.2007	31.3.2006		31.12.2006	YEAR ENDED	
				31.3.2007	31.3.2006
53463	39171	Sales, Work bills & Services	104370	157833	115595
828	645	Commission	1467	2295	1861
442	181	Other Income	171	613	406
<b>54733</b>	<b>39998</b>	<b>Total Income</b>	<b>106008</b>	<b>160741</b>	<b>117862</b>
<b>49845</b>	<b>35833</b>	<b>Total Expenditure</b>	<b>98591</b>	<b>148436</b>	<b>108788</b>
1020	853	(Increase) / Decrease in Stock in trade	(4845)	(3824)	(4718)
40434	29635	Consumption of Raw Materials	87660	128093	95505
4043	2363	Staff Cost	8244	12286	8827
4348	2982	Other Expenditure	7532	11881	9174
296	190	Interest	659	955	572
623	447	Depreciation	1467	2090	1593
<b>3969</b>	<b>3528</b>	<b>Profit Before Tax</b>	<b>5291</b>	<b>9260</b>	<b>6909</b>
777	716	Provision for Taxation	1,364	2,140	1,642
(287)	109	Deferred Tax (Asset) /Liability for the year	33	(254)	77
80	165	Fringe Benefit tax	175	255	300
<b>3399</b>	<b>2538</b>	<b>Net Profit</b>	<b>3719</b>	<b>7118</b>	<b>4890</b>
<b>1799</b>	<b>1799</b>	<b>Paid-up Equity Share Capital of Rs.2 each (See note 3 )</b>	<b>1799</b>	<b>1799</b>	<b>1799</b>
		<b>Reserves</b>		<b>19,498</b>	<b>15,472</b>
<b>3.78</b>	<b>2.82</b>	<b>Earnings Per Share (Rs.) (See note 3 )</b>	<b>4.13</b>	<b>7.91</b>	<b>5.44</b>
<b>53824538</b>	<b>53907350</b>	<b>Aggregate of Public shareholding</b>			
		<b>-Number of shares (See note 3 )</b>	<b>53878684</b>	<b>53824538</b>	<b>53907350</b>
<b>59.85</b>	<b>59.94</b>	<b>- Percentage of Shareholding</b>	<b>59.91</b>	<b>59.85</b>	<b>59.94</b>

**NOTES :**

- The above results have been reviewed by the Audit Committee and subsequently approved by the Board of Directors at its meeting held on May 9, 2007.
- 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 additional charge for Gratuity and leave encashment for the year ended March 31, 2007 is estimated at Rs. 321 lakh and the same has been charged to the Profit and Loss account. Further, in accordance with the said Standard a provision amounting to Rs. 1165 lakh has been made towards performance incentive payments due within next one year.
- During the year the equity share of Rs. 10 each of the Company has been subdivided into five equity shares of Rs.2 each pursuant to the approval of the Board of Directors and the shareholders' at the Annual General Meeting held on August 4, 2006. Accordingly, the total number of fully paid equity shares has increased to 8,99,36,105 from 1,79,87,221 shares. The EPS for the entire period has been calculated on post split basis.
- During the quarter ended March 31, 2007, the Company received and disposed of 20 investor complaints. No complaints were pending as at the beginning and at the end of the quarter.
- The Directors have recommended a final dividend of Rs.0.60 per equity share over and above Rs.2.40 per share paid as interim dividend in March 2007.

**Segment wise Revenue, Results and Capital Employed for the year ended March 31, 2007**

(Rs. in lakhs)

Quarter ended		Description	NINE MONTHS		
31.3.2007	31.3.2006		ENDED	AUDITED	
			31.12.2006	31.3.2007	31.3.2006
		<b>I. SEGMENT REVENUE</b>			
38703	27952	i. Central Air-conditioning Systems	73724	112427	82130
12202	8950	ii. Cooling Products	25076	37278	27120
3386	2744	iii. Professional Electronics and Industrial Systems	7037	10423	8036
-	170	iv. Residual	-	-	170
<b>54291</b>	<b>39816</b>	<b>TOTAL SEGMENT REVENUE</b>	<b>105837</b>	<b>160128</b>	<b>117456</b>
-	-	Less: Inter Segment Revenue	-	-	-
<b>54291</b>	<b>39816</b>	<b>SALES, WORK BILLS, SERVICES &amp; COMMISSION</b>	<b>105837</b>	<b>160128</b>	<b>117456</b>
		<b>II. SEGMENT RESULT</b>			
		<b>PROFIT/(LOSS) BEFORE INTEREST &amp; TAX</b>			
3726	3393	i. Central Air-conditioning Systems	6544	10270	8003
812	796	ii. Cooling Products	1,534	2346	1317
591	646	iii. Professional Electronics and Industrial Systems	1471	2062	1527
-	(64)	iv. Residual	-	-	(80)
<b>5129</b>	<b>4771</b>	<b>TOTAL SEGMENT RESULT</b>	<b>9549</b>	<b>14678</b>	<b>10767</b>
		<b>Less:</b>			
296	190	i.) Interest	659	955	572
864	1055	ii.) Other un-allocable Expenditure net of un-allocable Income	3,599	4,463	3,286
<b>3969</b>	<b>3526</b>	<b>TOTAL PROFIT BEFORE TAX</b>	<b>5291</b>	<b>9260</b>	<b>6909</b>
		<b>III CAPITAL EMPLOYED:</b>			
		<b>(Segment Assets- Segment Liabilities)</b>			
15391	13110	i. Central Air-conditioning Systems	16475	15391	13110
11383	8686	ii. Cooling Products	9883	11383	8686
3006	2045	iii. Professional Electronics and Industrial Systems	2087	3006	2045
-	-	iv. Residual	-	-	-
<b>29780</b>	<b>23841</b>	<b>TOTAL CAPITAL EMPLOYED IN SEGMENTS</b>	<b>28445</b>	<b>29780</b>	<b>23841</b>
1073	1921	Add: Un-allocable Corporate Assets less Liabilities	2692	1073	1921
<b>30853</b>	<b>25762</b>	<b>TOTAL CAPITAL EMPLOYED IN THE COMPANY</b>	<b>31137</b>	<b>30853</b>	<b>25762</b>

**Registered Office:**  
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 www.bluestarindia.com  
**Date : May 9, 2007**  
**Place : Mumbai**

For BLUE STAR LIMITED

**Ashok M Advani**  
 Chairman & Managing Director