

Blue Star Limited

Q3 FY13 Earnings Update

January 22, 2013

Financial Highlights

The following are the financial highlights of the Company for the *quarter (Q3FY13)*

- Total Operating Income stood at Rs 598.80 crores for the quarter ended December 31, 2012, as compared to Rs 584.01 crores in Q3FY12, representing an increase of 2.5%.
- Operating Profit (PBIDT excluding Other Income) for the quarter increased to Rs 25.43 crores from a loss of Rs 8.81 crores in Q3FY12.
- Financial Expenses for the quarter decreased by 38% to Rs 13.72 crores from Rs 22.10 crores in Q3FY12.
- Provision for taxation for the quarter was nil, same as that in Q3FY12. Although the Company is required to make a provision for MAT, due to the set-off of the carried forward business loss of the previous year, there is no taxable income for the year and hence no provision was required for tax.
- Consequently, Net Profit is Rs 5.37 crores as compared to a Net Loss of Rs 32.76 crores during the same quarter of the previous year.
- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 0.60 vis-à-vis a negative of Rs 3.64 in the corresponding quarter of the previous year.
- Carry Forward Order Book as on December 31, 2012 reduced to Rs 1628 crores compared to Rs 1678 crores as on September 30, 2012, due to slower new order bookings as well as a concerted effort to improve the quality of new orders won.

Financial Performance for the nine-month period ended December 31, 2012 (Cumulative Q3FY13)

- For the nine-month period ended December 31, 2012, the Company reported a Total Operating Income of Rs 1908.82 crores, as compared to Rs 1887.23 crores over the same period in the previous year representing a marginal growth of 1%.
- Operating Profit (PBIDT excluding Other Income) increased 194% to Rs 79.11 crores as compared to Rs 26.90 crores during the same period last year.
- Net Profit grew to Rs 33.18 crores as compared to a Net Loss of Rs 43.77 crores during the same period of the previous year.

Segment-wise results

- SBU-wise sales break-up:

(Rs crore)

	Q3FY13	Q3FY12	% Growth / (Decline)	% of Net Sales
Electro Mechanical Projects and Packaged Airconditioning Systems	396.02	368.02	7.6%	66%
Cooling Products	155.71	164.04	(5.1%)	26%
Professional Electronics & Industrial systems	47.07	51.97	(9.4%)	8%

- SBU-wise results break-up:

(Rs crore)

	Q3FY13	Q3FY12	%Growth/ (Decline)
Electro Mechanical Projects and Packaged Airconditioning Systems	22.94	(15.18)	251%
Cooling Products	3.78	7.15	(47.1%)
Professional Electronics & Industrial systems	9.56	11.68	(18.1%)

BUSINESS HIGHLIGHTS

General Outlook for the Segments:

Segment I - Electro Mechanical Projects & Packaged Airconditioning Systems

Overall the electro-mechanical projects market continues to be sluggish with demand slowing across sectors. Though enquiries are getting floated, the finalisation of jobs continues to be slow because of political uncertainty, cash flow problems of builders, high Interest rates etc. There is however some positive movement in enquiry flow lately in segments like Hospitals, IT/ITeS, Industrials, Mixed Used Development, Educational Institutions and Commercial Complexes.

At an aggregate level, the central air-conditioning equipment market continues to grow marginally. Central plant market is roughly flat, the ducted air conditioners market is growing at 5% this year and the market for VRFs continues to grow at 15%, with demand coming primarily from Industrial, Offices and Retail.

Segment II - Cooling Products

The Room airconditioners Industry went through one more quarter of de-growth in Q3FY13. According to our estimates, the market would have de-grown by around 10% over last year. The reason being lower than expected festival business across the country, increased power tariff and decreased power availability in a few states.

The demand in the commercial refrigeration business is robust with demand for Water Coolers coming from Educational Institutions, Industry and Government segments while Freezers witnessed a good demand from the Ice Cream and Dairy segments. However, the competition is increasing in the market and price realization is expected to be under pressure as we enter the summer season.

In Cold storage products, the traditional segments of Pharma, Fast Food & Restaurants, Ice cream, Banana ripening and Fruits & Vegetables storages continue to fetch good business opportunities.

Segment III - Professional Electronics and Industrial Systems

Demand for hi-technology imported equipment has been flat over last year owing to the foreign exchange position. Government, scientific, education, etc. have been cautious in adding new equipment.

Demand for the Destructive and Non-destructive testing machines continues to be reasonable with the light and medium industrial market continuing to make incremental capital investments.

There has been a significant slowdown and deferment of capex finalization in core industrial segments particularly Steel, Mines and Metals and Oil & Gas for the entire year. This has impacted our Industrial Projects business quite substantially.

Business Performance of Blue Star in the Segments:

Segment I - Electro Mechanical Projects & Packaged Airconditioning Systems

The Electro Mechanical Projects and Packaged Airconditioning business accounting for 66% of the total revenues in the quarter, has grown by 7.6% to Rs 396.02 crores. Segment results grew to Rs 22.94 crores in Q3FY13 compared to a loss of Rs.15.18 crores in Q3FY12. The Operating Margin of this business in Q3FY13 increased to 5.79% compared to -4.13% in Q3FY12 mainly due to better gross margins and focus on business from more profitable segments.

The Segment Operating Margin has dropped from 7.03% in Q2FY13 to 5.79% in Q3FY13. The drop is primarily due to drop in billing as projects execution continues to be slow.

The Capital Employed in the business as at end December 2012 was Rs 477 crores, which was higher than Rs 423 crores at the end of September 2012. The increase in this quarter is primarily on account of substantial drop in our collection of advances on new orders booked, selectively paying down vendors and business associates, increase in inventory levels in our equipment business and the overall tight liquidity in the market. It is also becoming increasingly challenging to improve the capital employed levels due to low collections and creditors needing to be paid out quickly.

The Company has witnessed a shrinkage in order inflow in Q3FY13 as well. This is because we continue to be selective in booking orders with better terms of payment & other commercial terms. Besides, we have been aggressively pursuing existing customers for price escalations & variations.

In the central airconditioning equipment business, despite facing challenges like aggressive pricing in the market by competition, customers preferring other solutions like VRFs etc., the company is confident of achieving growth by expanding the product range, reach and also by developing good relationships with consultants and customers.

The Company is also closely monitoring the new trends emerging in the market like demand for water cooled ducted split ACs, eco-friendly gas based ducted systems, and is geared up well to cater to customer's needs and thereby achieve good growth in this segment despite stiff competition from multi-nationals.

Key Projects in the Quarter:

	New Orders Won in Q3FY13
Central Airconditioning	<ul style="list-style-type: none"> * Capital Greens, New Delhi * QRG Hospital, Faridabad * Success Towers, Gurgaon * Pearl City Walk, Bhatinda * Wells Fargo India Solutions, Hyderabad & Bengaluru * JSW Toshiba, Chennai * Ganga Hi-tech City, Hyderabad * Shankara Cancer Hospital, Bengaluru
Packaged Airconditioning / VRF Systems	<ul style="list-style-type: none"> * POSCO Engg & Const. India Ltd, Gurgaon * HCL Technologies, Chennai * Lafarge India Pvt. Ltd., Udaipur * Lakshmi Diamonds, Surat * Volkswagen, Mumbai

Chillers	<ul style="list-style-type: none"> * GIFT city, Ahmedabad * Parkson Engg, Delhi * Security Paper Mill, Bhopal * Renata Pharma, Bangladesh * CPWD Indian Maritime City, Chennai * Summer Estater, Chandigarh * Infosys, Bengaluru * Metro Cash & Carry, Chennai * Velammal Medical College, Madurai * Sai Fertilizers, Mumbai * Aditya Birla Retail Ltd., Hyderabad
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Segment II - Cooling Products

In the Cooling Products segment, revenue registered a decline of 5% in the quarter, while segment results declined by 47% to Rs 3.78 crores. Quarter 3 is generally a lean season for this business.

Blue Star had a de-growth in the room air-conditioner business this quarter as compared to the same quarter last year. Last year there was an additional trigger of a BEE Table change resulting in panic buying by customers in December 2011 in anticipation of steep price increases by manufacturers which is not there in this year. Our de-growth however was slightly lower than the market de-growth.

The company also witnessed an impact of erosion in margins in Q3FY13. This is due to multiple reasons namely:

A) Sales Volume drop in Room airconditioners category for reasons explained above.

B) Losses in the business of sourcing and selling of installation accessories such as copper pipes, refrigerant and insulation material, which has been subjected to high commodity price fluctuations. This has adversely affected segment results. As explained in the last quarter, this business is expected to be wound up by March 2013.

C) Dropping operating margins in the refrigeration products business. You may be aware that we had invested in a new factory in Ahmedabad in H1FY13. Excess manufacturing capacity and its related overheads have resulted in lower operating profits in this business. This is expected to be reversed as we sequentially load the factory for the upcoming summer.

The Capital Employed in Segment 2 reduced from Rs 237 crores as on September 30, 2012 to Rs 216 crores as on December 31, 2012.

Going forward the Company expects the budget stimulants, its plans of Channel expansion and a focus on the light commercial segment to help it achieve a slender growth in FY13.

Segment III - Professional Electronics and Industrial Systems

In the Professional Electronics and Industrial Systems segment, the revenues reduced by 9%, while segment results declined 18% to Rs 9.56 crores in the quarter, owing to the unfavourable business climate and declining demand in the capital goods sector.

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

As explained earlier, the Agency business in Q3FY13 continued to be lower vis-a-vis Q3FY12 due to the impact of a strengthening dollar. We have de-grown by around 10% in this business.

The System Integration business is doing reasonably well and showing some growth.

The order inflow for the industrial Projects business has reduced significantly on account of bleak demand in core metallurgical, Oil & Gas and Power industries . This has led to lower billing and with sitting costs remaining intact, the profitability is substantially down. Unfortunately the situation is expected to continue for next 2 - 3 quarters. However, the company is confident that with its good customer base namely SAIL, RINL, JSPL, Tata Steel, etc. and with the industrial capex cycle improving by Q3FY14, the Industrial Projects business should see better business and profitability in H2 next year.

Key Projects in the Quarter:

PE&IS	<ul style="list-style-type: none"> * ISRO, Bengaluru * Du Pont, Hyderabad * Kosei Minda Aluminium, Chennai * Ahmedabad Textile Ind. Research Association, Ahmedabad * CPWD Indian Maritime City, Chennai * Summer Estater, Chandigarh * Infosys, Bengaluru * Specialize Instruments, Mumbai * HDFC Bank, IOB, Corporation Bank, and State Bank of Mauritius, Mumbai * Volkswagen, Pune
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Exports

During the quarter, the company received a good inflow of orders worth Rs. 25.7 Cr. inclusive of Rs. 19.6 Cr. for Unitary and Refrigeration product from OEM accounts. It

also received orders for Water Coolers & Room AC worth Rs. 6.0 Cr from various distributors in UAE, Oman, Qatar, Yemen and Kuwait.

The real estate market in Dubai is slowly reviving and we are seeing a gradual increase in inquiries.

In order to improve visibility, Blue Star participated in the 'Big - 5' exhibition held at Dubai, UAE from 5th November to 8th November'12 through its distributor, M/s Central Trading Company wherein the products namely, DVRF Systems, Water Chillers and Room Air Conditioners were displayed.

COMPANY OUTLOOK

The external environment looks extremely sluggish. In such volatile market conditions, the company is making concerted effort to grow the business profitably by focusing on equipment business, executing select big projects with better margins, quickly closing non -profitable legacy jobs, improving sourcing and operational efficiency, carrying out value engineering and cost control measures and bringing down capital employed to desired levels.

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, 2012

Rs. In Lakhs

Sr. no.	PARTICULARS	QUARTER ENDED (UNAUDITED)			NINE MONTHS ENDED (UNAUDITED)		Year ended (Audited)
		31.12.12	30.9.12	31.12.11	31.12.12	31.12.11	31.3.12
1	Income from Operations						
	a) Net Sales/Income from Operations (Net of Excise Duty)	59,302	57,346	57,609	188,966	186,497	266,935
	b) Other Operating Income	578	514	792	1,916	2,226	3,147
	Total Income from Operations (Net)	59,880	57,860	58,401	190,882	188,723	270,082
2	Expenses						
	a) Cost of materials consumed (including direct project cost)	36,923	33,434	37,693	111,210	117,954	166,392
	b) Purchase of Stock in trade	10,313	9,511	6,983	30,629	22,499	36,938
	c) Changes in Inventories of Finished Goods, Work-in-progress and Stock-in-Trade	(4,554)	(1,437)	190	(3,728)	1,691	5,254
	d) Employee Benefits Expense	5,119	5,365	5,251	15,767	15,163	20,691
	e) Depreciation and Amortisation Expense	840	815	809	2,402	2,323	3,144
	f) Other Expenses	9,536	8,972	9,165	29,093	28,726	41,859
	Total Expenses	58,177	56,660	60,091	185,373	188,356	274,278
3	Profit / (Loss) from Operations before Other Income, Finance Cost and Exceptional Items (1-2)	1,703	1,200	(1,690)	5,509	367	(4,196)
4	Other Income	206	647	624	1,555	1,339	2,376
5	Profit / (Loss) before Finance Cost and Exceptional Items (3+4)	1,909	1,847	(1,066)	7,064	1,706	(1,820)
6	Finance Costs	1,372	1,120	2,210	3,746	6,083	7,025
7	Profit / (Loss) after Finance cost but before Exceptional Items (5-6)	537	727	(3,276)	3,318	(4,377)	(8,845)
8	Exceptional Items	-	-	-	-	-	-
9	Profit / (Loss) before Tax (7+8)	537	727	(3,276)	3,318	(4,377)	(8,845)
10	Tax Expense	-	-	-	-	-	70
11	Net Profit / (Loss) after Tax (9-10)	537	727	(3,276)	3,318	(4,377)	(8,915)
12	Extraordinary Items (net of tax expense)	-	-	-	-	-	-
13	Net Profit / (Loss) for the Period (11-12)	537	727	(3,276)	3,318	(4,377)	(8,915)
14	Paid Up Equity Share Capital (Face Value of the share - Rs. 2/- each)	1,799	1,799	1,799	1,799	1,799	1,799
15	Reserves excluding Revaluation Reserve as per balance sheet of previous accounting year						45,591
16	Earnings Per Share (EPS) (in Rs.)						
	a) Basic	0.60	0.81	(3.64)	3.69	(4.87)	(9.91)
	b) Diluted	0.60	0.81	(3.64)	3.69	(4.87)	(9.91)

NOTES:

- The above results have been reviewed by the Audit Committee and approved by the Board of Directors at their respective meetings held on January 18, 2013 and have been subjected to Limited Review by the Statutory Auditors.
- Figures of the corresponding previous quarters and year have been regrouped, wherever necessary, to conform to the figures of the current quarter.

For **BLUE STAR LIMITED**

Date : January 18, 2013
Place : Mumbai
www.bluestarindia.com

Satish Jamdar
Managing Director

BLUE STAR LIMITED
UNAUDITED SEGMENT WISE REVENUE, RESULTS & CAPITAL EMPLOYED FOR THE QUARTER ENDED DECEMBER 31, 2012

							(Rs. in Lakhs)
Sr. No.	Particulars	QUARTER ENDED (UNAUDITED)			NINE MONTHS ENDED (UNAUDITED)		Year ended (Audited)
		31.12.12	30.9.12	31.12.11	31.12.12	31.12.11	31.3.12
I	SEGMENT REVENUE						
	a. Electro Mechanical Projects and Packaged Airconditioning Systems	39,602	37,587	36,800	113,894	109,316	155,607
	b. Cooling Products	15,571	16,864	16,404	65,796	64,935	93,264
	c. Professional Electronics and Industrial Systems	4,707	3,409	5,197	11,192	14,472	21,211
	TOTAL SEGMENT REVENUE	59,880	57,860	58,401	190,882	188,723	270,082
	Less: Inter - Segment Revenue	-	-	-	-	-	-
	Total Income from Operations (Net)	59,880	57,860	58,401	190,882	188,723	270,082
II	SEGMENT RESULT						
	PROFIT/(LOSS) BEFORE INTEREST & TAX						
	a. Electro Mechanical Projects and Packaged Airconditioning Systems	2,294	2,642	(1,518)	6,173	(2,747)	(8,509)
	b. Cooling Products	378	791	715	4,924	5,977	8,745
	c. Professional Electronics and Industrial Systems	956	263	1,168	1,937	3,697	5,229
	TOTAL SEGMENT RESULT	3,628	3,696	365	13,034	6,927	5,465
	Less: i) Interest and Other Financial Charges	1,372	1,120	2,210	3,746	6,083	7,025
	ii) Un-allocable Expenditure	1,719	1,849	1,431	5,970	5,221	7,285
	TOTAL PROFIT BEFORE TAXATION AND EXCEPTIONAL ITEM	537	727	(3,276)	3,318	(4,377)	(8,845)
	Exceptional item	-	-	-	-	-	-
	PROFIT BEFORE TAXATION	537	727	(3,276)	3,318	(4,377)	(8,845)
III	CAPITAL EMPLOYED						
	(Segment Assets - Segment Liabilities)						
	a. Electro Mechanical Projects and Packaged Airconditioning Systems	47,772	42,353	49,868	47,772	49,868	35,059
	b. Cooling Products	21,680	23,751	23,285	21,680	23,285	20,683
	c. Professional Electronics and Industrial Systems	6,831	6,716	6,773	6,831	6,773	7,096
	TOTAL CAPITAL EMPLOYED IN SEGMENTS	76,283	72,820	79,926	76,283	79,926	62,838
	Add: Un-allocable Corporate Assets less Liabilities	(25,544)	(22,619)	(26,953)	(25,544)	(26,953)	(15,448)
	TOTAL CAPITAL EMPLOYED IN THE COMPANY	50,739	50,201	52,973	50,739	52,973	47,390

For BLUE STAR LIMITED

Date : January 18, 2013
Place : Mumbai

Satish Jamdar
Managing Director