

# Blue Star Limited

Q1 FY12 Earnings Update

July 29, 2011

## FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported a Total Operating Income of Rs 704.68 crore for the quarter ended June 30, 2011, as compared to Rs 664.83 crore in Q1FY11, representing an increase of 6%.
- For the quarter, Gross Margin declined from 23.6% to 21.6% as compared to same period last year due to higher costs pertaining to labor and raw materials and change in business mix.
- Operating profit (PBIDT excluding Other Income) for the quarter declined by 55% to Rs 27.59 crore. Operating Margin decreased to 3.7% compared to 8.5% in Q1FY11. In addition to the increase in direct costs, this is on account of higher general operating expenses on account of a higher R&D expenditure, advertising spend and higher interest costs on account of acquisition funding and strategic stocking of inventory for the products business.
- Financial expenses were Rs. 7.56 crores as compared to Rs. 2.0 crores in Q1FY11, on account of working capital increase.
- Net Profit was lower by 74% at Rs 9.79 crore compared to Rs 37.15 crore in Q1FY11.
- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 1.09 vis-à-vis Rs 4.13 in the corresponding quarter of the previous year.
- Carry Forward Order Book as on June 30, 2011 increased to Rs 2099 crore compared to Rs 1976 crore as at June 30, 2010, representing a growth of 6%.
- Order Inflow during the quarter decreased marginally from Rs 925 crore in Q1FY11 to Rs 851 crore.

### *Segment-wise results*

- The Electro Mechanical Projects and Packaged Airconditioning business accounting for 49% of the total revenues in the quarter, declined 9%, while segment results fell sharply to a loss of Rs 8.87 crore as compared to a profit of Rs 33.57 crore during Q1FY11.
- Cooling Products revenue registered a healthy increase of 30% in the quarter, driven mainly by higher room airconditioner sales. Segment results, increased by 24%.

- The Professional Electronics and Industrial Systems business revenues increased marginally by 3%, but segment results registered a substantial increase of 46%.

- SBU-wise sales break-up:

(Rs crore)

	Q1FY12	Q1FY11	% Growth (Decline)	% of Net Sales
Electro Mechanical Projects and Packaged Airconditioning Systems	341.70	374.15	(9%)	49%
Cooling Products	328.14	253.35	30%	46%
Professional Electronics & Industrial systems	33.34	32.32	3%	5%

- SBU-wise results break-up:

(Rs crore)

	Q1FY12	Q1FY11	%Growth/ (Decline)
Electro Mechanical Projects and Packaged Airconditioning Systems	(8.87)	33.57	(126%)
Cooling Products	44.14	35.71	24%
Professional Electronics & Industrial systems	7.97	5.45	46%

## BUSINESS HIGHLIGHTS

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

#### Overview

This line of business comprises Central Airconditioning, Electrical Contracting, Plumbing & Fire Fighting Contracting and Packaged Airconditioning, collectively called Electro Mechanical Projects and Packaged Airconditioning Systems. The Operating Margin of this business in Q1FY12 declined to -2.6% compared to 9% in Q1FY11.

After showing signs of revival in the middle of last year, the overall investment climate has significantly deteriorated in the last 6-9 months, something that the company has been indicating for the last 2 quarters. The market continues to be sluggish in terms of new orders and project execution times continue to be prolonged. The company's focus in the last 6 months has been on managing

the capital employed in this business and one of the outcomes is a lower revenue in the quarter. In addition, the company has been focused on advancing projects that have been long delayed and prolonged beyond a reasonable period. A number of jobs, about 10-12, were either significantly advanced or short-closed in this quarter. Given the age of these projects, cost variation between the estimated costs and actuals on these projects were quite significant on account of the significant commodity price increases in the last two years. The company had to provide for these cost overruns in this quarter, thus pulling down the operating margins in this segment.

The major variations between estimates and actual are broadly in the following categories and segments:

- Building electrical projects which were part of the erstwhile Naseer Electricals which got acquired in 2008
- Infrastructure projects which are long duration and have a higher lumpsum portion
- Residential and Commercial projects where builders and general contractors are involved.

The current quarter was also impacted by lower margins on running jobs. The Projects business is expected to continue to face margin pressure for the coming 4-6 quarters. Given the fixed price nature of projects, there may be cost over-runs as well as some short-closures in builder promoted real estate projects as developers scale down the size and scope of projects already underway. Further, in its endeavor to diversify the project portfolio beyond commercial real estate, the company's overall order book has undergone a change in the last 24 months. This project portfolio change, the fixed price nature of contracts and the expected high levels of commodity prices (particularly copper and steel), will have an ongoing impact on its margins as it progressively executes the order book.

The management team is taking a number of actions to control the impact of this potential margin erosion including:

- Maintaining the focus on managing the capital employed in this business by focusing on receivables and advancing and closing projects
- Being very selective and focused in terms of the order acceptance criteria, including improving the terms of payment and other commercial terms
- Aggressively approaching clients for escalations and variations especially on long delayed projects
- Pursuing a number of options to optimize operating costs and improve productivity through modern work practices

As stated earlier, the company will be tempering revenue growth through this year as it works on reducing the capital employed in the business.

On the market side, in spite of the sluggish commercial real estate environment, the company continues to witness demand from the healthcare, education, hospitality & power segments. During the quarter, Blue Star won prestigious HVAC orders across the above segments namely Reliance Samalakit Project(2400 MW), BHEL (2 x 600 MW ) Shree Singaji Thermal Power Project-Khandwa, New Integrated Terminal Building, Goa Airport, CISCO & HCL Technologies-Bengaluru, MRF Ltd.- Chennai, Galaxy Mall- Bengaluru, Shristi Hotel-Kolkata, IOCL-Paradip etc.

The Electrical Projects business caters to the commercial building market, residential and the power sector. During the quarter, the company received impressive stand-alone electrical orders in the residential and Offices segments. These included prestigious projects like IOCL-Paradip, Citizen Hospital- Secunderabad, Prestige towers - Bengaluru etc.

While the Company sustained its dominant position in the telecom segment, with its customised array of telepac airconditioners, several setbacks in the telecom industry due to regulatory and political controversies are threatening the outlook for the passive infrastructure companies that are largely dependant on the new operator companies. This has had a severe impact on the Company's telecom airconditioning business. However, the Company is well positioned to leverage on fresh growth opportunities whenever the tower roll-outs gain momentum.

In Packaged/Ducted airconditioning and small chillers, there was a good inflow of orders from the Industrial, Offices, and Education segments. The Company which launched the new range of eco-friendly and energy efficient Variable Refrigerant Flow (VRF) airconditioning systems using inverter technology in Feb'11 started getting orders across segments like Offices, IT/ITeS and Industrial segments. In addition, Blue Star VRF systems with digital scroll technology has also done well in Industrial and IT/ITeS segments. Some of the major orders in IVRF are Goa State IDC, Embassy Projects -Pune, while in VRF with digital scroll technology were SRP oils Pvt Ltd - Kolkata,Persistent Software - Nagpur.

#### Key Projects in the Quarter:

	New Orders Won in Q1FY12
Central Airconditioning	<ul style="list-style-type: none"> <li>* BHEL, Shree Singaji Thermal Power Project,Khandwa</li> <li>* Cisco, Bengaluru</li> <li>* DD Mall, Delhi</li> <li>* DLF Building -14 (Block C&amp;D), Gurgaon</li> <li>* E-City , Coimbatore</li> </ul>

	<ul style="list-style-type: none"> <li>* Galaxy Mall, Bengaluru</li> <li>* Galleria Mall, Kolkata</li> <li>* HCL Technologies, Bengaluru</li> <li>* International Biotech Park, Hinjewadi Pune</li> <li>* IOCL - Paradip</li> <li>* Leela Soft, Kochi</li> <li>* MRF Ltd, Chennai</li> <li>* New Integrated Terminal Building, Goa Airport, Goa</li> <li>* Parker Haniffin India Pvt. Ltd, Chennai</li> <li>* Parker Haniffin India Pvt. Ltd, Navi Mumbai</li> <li>* Pierburg India Pvt Ltd. Takwe near Pune</li> <li>* Reliance Samalkot Project</li> <li>* Shristi Hotel, Kolkata</li> <li>* SKF Bearings, Bengaluru</li> <li>* Supertech Shopperix Mall, Meerut</li> <li>* Trauma Centre, IMS Varanasi</li> <li>* Virtusa India Pvt. Ltd, Hyderabad</li> </ul>
<b>Electrical Projects</b>	<ul style="list-style-type: none"> <li>* IREO Victory Valley, Gurgaon</li> <li>* Shristi Corporation, Kolkata</li> <li>* Prestige Estates, Bengaluru</li> <li>* Citizen Hospital, Secunderabad</li> <li>* IOCL Office, Paradip</li> <li>* Juniper Networks, Bengaluru</li> <li>* Denso Factory, Manesar</li> <li>* Mahindra Satyam, Secunderabad</li> <li>* Qualcomm, Secunderabad</li> <li>* PVR Cinemas, Pune</li> </ul>
<b>Packaged Airconditioning/ VRF Systems/ Precision Airconditioning</b>	<ul style="list-style-type: none"> <li>* Embassy Projects, Pune</li> <li>* Scrips N Scrolls Pvt. Ltd., Bengaluru</li> <li>* SRP oils Pvt Ltd, Kolkata</li> <li>* Goa State IDC, Goa</li> <li>* Birla industries, Mumbai</li> <li>* Advaith Motors, Bengaluru</li> <li>* Persistent Software , Nagpur</li> <li>* Chennai Public School, Chennai</li> <li>* Sheetal diamonds, Surat</li> <li>* Posco Steel, Kapoli</li> <li>* D Mart, Mumbai</li> </ul>

### Service Business

Apart from annual maintenance contracts, the Company offers 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.

Blue Star consolidated its leadership position in ISO certified after-sales airconditioning and commercial refrigeration service. It did extremely well in meeting customers' expectations through various customer relationship enhancing measures and professionally managed, 24x7 call centre. This has resulted in the increase of no of service contracts. The Company also continues to invest in automation to ensure better 'customer and channel interface' as well as improvement on productivity. Some of the notable orders were in the IT/ITeS segment e.g. Dell.

### ***Cooling Products***

The Cooling Products business comprises Room Airconditioners and Refrigeration Products and Systems. The Operating Margin declined marginally from 14.1% in Q1FY11 to 13.5% in Q1FY12. Input costs continue to be a concern in this business.

Despite a decline of around 6% in the room airconditioner market due to subdued consumer buying in this category, the company's Room Airconditioner business registered a good growth in Q1FY12. This growth was mainly driven by the Company's foray into the retail channel & widening the range of models. The Company also had an enhanced visibility in mass media & extended its coverage through its dealer network.

As regards to the distribution, the Company has already tied up with well known retailers like Croma, Sales India, Viveks Ltd., Vasant & Co, Harmony house etc. in select cities in addition to the current 800 sales-and-service dealers. In terms of advertising and brand communication, the Company had dramatically increased its spend on mass-media advertising by airing TV commercials supported by print ads, mainline dailies, hoardings and internet during the summer and specifically the Cricket World Cup event.

The Refrigeration Products business continued to perform well with healthy growth in the water cooler business, mainly from the Educational institutions, Manufacturing, and Offices. Some of the prestigious orders were that of BITS Pilani - Hyderabad, IIT Cuddapah, Vizag Steel plant, Infosys etc. The Company also witnessed considerable growth in the chest coolers and freezers business driven by the ice cream and dairy segments. A few notable orders are Vijaykant Dairy - Karnataka, Lazza Icecreams - Kerala. Further, bottled water dispensers continued to do well due to enhanced demand from the residential segment, small offices and commercial establishments. For the cold chain, the Company has witnessed good inflow of orders in Pharma segment and food processing sector. During the quarter, major orders were booked from Monsanto - Bengaluru; Haldiram-Noida; Khyber Group -Gulmarg and Indian Food Tech - Rudrapur.

## ***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 businesses in this segment performed well. The Company has specifically done well in Industrial segment. One of the major orders booked is from Rourkela Steel plant worth Rs. 18 crores for Compressed Air station involving Supply, Erection & Commissioning of Air Compressors along with accessories.

## ***Exports***

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

The Company started supplying the refrigeration units from Wada factory to an OEM customer for Middle East and Europe market.

During the quarter, the Company received orders worth USD 1.1 million for 2100 # water coolers from various distributors in UAE, Qatar, Oman and Kuwait. It also received orders worth USD 1.3 million for unitary products from OEM accounts in the UAE and Iran.

Continued unrest in several regions in the Middle East is likely to adversely affect capital expansion plans and may impact business in the foreseeable future.

## **BUSINESS OUTLOOK**

### **Industry Outlook**

Segments such as healthcare and power continue to provide good prospects to the industry. IT/ITES and Retail segments are also showing signs of a modest recovery. Further, the cooling products market comprising room airconditioners and refrigeration products business continues to show strong growth and is expected to do well in the future.



## Company Outlook

After showing some signs of revival, the overall investment climate has significantly deteriorated in the past year. The company expects the coming quarters to continue to be challenging for the EMPG business. As a market leader the company is committed to the business and is confident about its long-term prospects. It sees the current situation as a natural extension of a delayed investment cycle and is hopeful that the situation will correct and momentum will return in the business over the next 6 to 8 quarters.

On the contrary the Cooling Products and Professional Electronics & Industrial Systems businesses have performed well during the quarter and this trend is likely to continue. In the coming quarters, the company's prime focus continues to be able to manage capital efficiency and improve the quality of the incoming business while it navigates through the company's current order book.

## 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 STANDALONE FINANCIAL RESULTS**  
**FOR THE QUARTER ENDED JUNE 30, 2011**

Rs in lakhs

Particulars	UNAUDITED FOR THE QUARTER ENDED		AUDITED FOR THE YEAR ENDED
	30.6.2011	30.6.2010	31.3.2011
1. (a) Net Sales/Income from Operations	70,318	65,982	285,690
(b) Other Operating Income	150	501	3,167
<b>Total Income from Operations 1(a+b)</b>	<b>70,468</b>	<b>66,483</b>	<b>288,857</b>
2. Expenditure			
a. (Increase)/decrease in stock in trade and work in progress	747	(2,792)	(17,776)
b. Consumption of raw materials and Project expenses	42,027	47,401	208,248
c. Purchase of traded goods	12,386	5,790	28,036
d. Employees cost	4,915	4,733	20,614
e. Depreciation	713	755	3,171
f. Other expenditure	7,634	5,234	21,902
g. Total	68,422	61,121	264,195
<b>3. Profit from Operations before Other Income, Interest &amp; Exceptional Items (1-2)</b>	<b>2,046</b>	<b>5,362</b>	<b>24,662</b>
4. Other Income	6	9	434
<b>5. Profit before Interest and Exceptional Items</b>	<b>2,052</b>	<b>5,371</b>	<b>25,096</b>
6. Financial expenses	756	200	2,439
<b>7. Profit after Interest but before Exceptional Items (5-6)</b>	<b>1,296</b>	<b>5,171</b>	<b>22,657</b>
8. Exceptional items	-	43	43
<b>9. Profit (+)/Loss (-) from Ordinary Activities before tax (7+8)</b>	<b>1,296</b>	<b>5,214</b>	<b>22,700</b>
10. Tax expense	317	1,499	7,200
<b>11. Net Profit (+)/Loss (-) from Ordinary Activities after tax (9-10)</b>	<b>979</b>	<b>3,715</b>	<b>15,500</b>
12. Extraordinary items (net of tax expense)			
<b>13. Net Profit (+)/Loss (-) for the period (11-12)</b>	<b>979</b>	<b>3,715</b>	<b>15,500</b>
14. Paid-up equity share capital (Face Value per share Rs.2/-)	1,799	1,799	1,799
15. Reserves excluding Revaluation Reserves as per balance sheet			55,551
16. Earnings Per Share (EPS)			
a) Basic and diluted EPS before Extraordinary items	1.09	4.13	17.23
b) Basic and diluted EPS after Extraordinary items	1.09	4.13	17.23
17. Public shareholding			
- Number of shares	53850284	53845184	53850284
- Percentage of shareholding	59.88	59.88	59.88
18. Promoters and Promoters group shareholding			
a) Pledged/ Encumbered			
- Number of shares	600000	600000	600000
- Percentage of shares(as % to total shareholding of promoter and promoter group)	1.66	1.66	1.66
- Percentage of shares(as % to total share capital of the Company)	0.67	0.67	0.67
b) Non Encumbered			
- Number of shares	35485821	35490921	35485821
- Percentage of shares(as % to total shareholding of promoter and promoter group)	98.34	98.34	98.34
- Percentage of shares(as % to total share capital of the Company)	39.46	39.46	39.46

**Notes:**

- The above results have been reviewed by the Audit Committee and approved by the Board of Directors at their respective meetings held on July 29, 2011.
- Exceptional Items represents profit on sale of Investments.
- In accordance with the established practice in relation to construction contracts, contract revenue is calculated based on the ratio of the cost incurred to total estimated cost to complete the project. During the quarter, on substantial progress of certain projects, there has been a revision of estimated cost to complete resulting in a decrease in revenue and profits.
- Figures of the corresponding previous quarter and year have been regrouped, wherever necessary, to conform to the figures of the current quarter.
- During the quarter ended June 30 2011, the Company received and disposed of 13 investor complaints. No complaints were pending at the beginning and at the end of the quarter.

For BLUE STAR LIMITED

**Registered Office:**  
Kasturi Buildings  
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Jamshedji Tata Road  
Mumbai 400 020  
www.bluestarindia.com  
**Date : July 29, 2011**  
**Place : Mumbai**

**SATISH JAMDAR**  
**MANAGING DIRECTOR**

**UNAUDITED STANDALONE SEGMENT WISE REVENUE, RESULTS AND CAPITAL EMPLOYED FOR THE  
QUARTER ENDED JUNE 30 , 2011**

Rs in lakhs

Description	UNAUDITED FOR THE QUARTER ENDED		AUDITED FOR THE YEAR ENDED
	30.6.2011	30.6.2010	31.3.2011
<b>I. SEGMENT REVENUE</b>			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	34,170	37,415	186,169
ii. Cooling Products	32,814	25,335	78,843
iii. Professional Electronics and Industrial Systems	3,334	3,232	20,678
<b>TOTAL SEGMENT REVENUE</b>	<b>70,318</b>	<b>65,982</b>	<b>285,690</b>
Less: Inter Segment Revenue			
<b>NET SALES/ INCOME FROM OPERATIONS</b>	<b>70,318</b>	<b>65,982</b>	<b>285,690</b>
<b>II. SEGMENT RESULT</b>			
<b>PROFIT/(LOSS) BEFORE INTEREST &amp; TAX</b>			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	(887)	3,357	17,621
ii. Cooling Products	4,414	3,571	9,008
iii. Professional Electronics and Industrial Systems	797	545	5,463
<b>TOTAL SEGMENT RESULT</b>	<b>4,324</b>	<b>7,473</b>	<b>32,092</b>
Less:			
i.) Financial expenses	756	200	2,439
ii.) Other un-allocable Expenditure net of un-allocable Income	2,272	2,102	6,996
<b>TOTAL PROFIT BEFORE TAX and Exceptional Item</b>	<b>1,296</b>	<b>5,171</b>	<b>22,657</b>
<b>Add: Exceptional Item</b>	<b>-</b>	<b>43</b>	<b>43</b>
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>1,296</b>	<b>5,214</b>	<b>22,700</b>
<b>III. CAPITAL EMPLOYED:</b>			
<b>(Segment Assets- Segment Liabilities)</b>			
i. Electro Mechanical Projects and Packaged Air-conditioning Systems	62,587	48,401	56,086
ii. Cooling Products	26,030	14,997	23,504
iii. Professional Electronics and Industrial Systems	6,933	5,277	7,050
<b>TOTAL CAPITAL EMPLOYED IN SEGMENTS</b>	<b>95,550</b>	<b>68,675</b>	<b>86,640</b>
Less : Un-allocable Corporate Liabilities net of Corporate Assets	(37,221)	(15,792)	(29,290)
<b>TOTAL CAPITAL EMPLOYED IN THE COMPANY</b>	<b>58,329</b>	<b>52,883</b>	<b>57,350</b>

**Registered Office:**

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**Date :July 29, 2011**

**For BLUE STAR LIMITED**

**SATISH JAMDAR  
MANAGING DIRECTOR**