

Blue Star Limited

Q3 FY11 Earnings Update

February 2, 2011

FINANCIAL HIGHLIGHTS

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Operating Income of Rs 606.83 crore for the quarter ended December 31, 2010, as compared to Rs 586.19 crore in Q3FY10, a marginal increase of 4%.
- For the quarter, Gross Margin was maintained at 23.5% compared to 23.4% in the same period last year.
- Operating Profit (PBIDT excluding Other Income) for the quarter declined by 18% to Rs 47.28 crore. This was mainly on account of lower than expected revenue and higher operating expenses. Further, Q3FY10 had a write-back of incentive provisions pertaining to FY09, amounting to Rs. 4.56 crore.
- Financial expenses were Rs. 7.91 crore as compared to Rs. 2.27 crore in Q3FY10, on account of both working capital increase as well as funding related to the D S Gupta acquisition.
- Net Profit was lower by 47% at Rs 22.36 crore compared to Rs 42.34 crore in the same period last year. Q3FY10 had an exceptional earning of Rs 8.73 crore while there was no exceptional item in Q3FY11.
- Earnings per share for the quarter (Face value of Rs 2.00) stood at Rs 2.49 vis-à-vis Rs 4.71 in the corresponding quarter of the previous year.
- Carry Forward Order Book as on December 31, 2010 increased to Rs 2073 crore compared to Rs 1890 crore as at December 31, 2009, representing a growth of 10%.
- Order Inflow during the quarter increased marginally from Rs 660 crore in Q3FY10 to Rs 682 crore.

Segment-wise results

- The Electro Mechanical Projects and Packaged Airconditioning business accounting for 72% of the total revenues in the quarter, declined by 5%. Segment results declined by 41%.
- Cooling Products revenue registered a healthy increase of 35% in the quarter, driven mainly by higher room airconditioner sales. Segment results, increased by 23%.

- The Professional Electronics and Industrial Systems business revenues grew by 29%, while segment results registered a significant increase of 33%.

- SBU-wise sales break-up:

(Rs crore)

	Q3FY11	Q3FY10	% Growth (Decline)	% of Net Sales
Electro Mechanical Projects and Packaged Airconditioning Systems	434.22	456.72	(5%)	72%
Cooling Products	127.83	94.84	35%	21%
Professional Electronics & Industrial systems	44.78	34.63	29%	7%

- SBU-wise results break-up:

(Rs crore)

	Q3FY11	Q3FY10	% Growth/ (Decline)	% of Total Segment Result
Electro Mechanical Projects and Packaged Airconditioning Systems	29.22	49.49	(41%)	57%
Cooling Products	10.14	8.24	23%	20%
Professional Electronics & Industrial systems	11.67	8.75	33%	23%

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 Q3FY11 declined to 6.7% compared to 10.8% in Q3FY10.

The Management was predicting an improvement in the commercial real estate market in H2 of this year. However, after a slight pick up in August - September, order finalizations have been delayed. Infrastructure projects are

moving slower than anticipated, the telecom industry has not returned to capital spending and the IT sector recovery seems to be delayed by another two quarters. As a result, the expected booking growth of 15-20% in H2 has not materialized in the quarter.

On the billing front, the Company had consciously decided to be cautious about aggressive project completion in light of the debtor position not improving. Billing was marginally lower than the same period last year

Finally, the Company had taken certain capability building and productivity improvement investment decisions at the beginning of the year in this business. These costs are largely related to manpower, consultants and modernizing our work practices. These programs will have a long-term impact even while the Company is bearing these higher costs in the current period. This has resulted in operating costs being higher than last year.

As a result of lower billing and the fixed operating costs in the business, as well as the additional operating expenses described above, operating profit has been negatively impacted in the quarter.

Going forward, the Company is witnessing some recovery in the Retail sector. Further the recruitment figures of IT companies is encouraging and the Company expects several Metro rail projects to get finalized in the coming six months.

In the Central Airconditioning business, the Company continued to witness good prospects from the healthcare and power segments, in addition to a moderate revival in the IT segment.

During Q3FY11, Blue Star won two prestigious orders in the power sector - from Indu Projects for their 500 MW thermal power plant being set up for Chattisgarh Power Generation Co Ltd (Stage III) and from Reliance Infrastructure for two 300 MW captive units at MIDC Butibori for Vidharbha Industries Power Ltd. These, in addition to the significant orders won in the power sector in the previous quarters, have enabled the company to gain a dominant position in the fast growing and robust power sector segment. During the quarter, the Company also won a prestigious integrated MEP order from the Godrej group for their Green Building project coming up at Chandigarh. The Company also witnessed some good repeat orders from national account customers including Infosys, DLF, HCL, Volkswagen and Hindalco.

The Electrical Projects business caters to both the commercial building market as well as the power sector. As in the case of the Central Airconditioning business, order inflow from the commercial building segment has been muted. However, the Residential Tower and Power segments continue to show promise. It won a significant order from Logic Housing, Noida for a residential

housing project. In the power sector, prestigious orders were won from Madhya Pradesh Paschim Kshetriya Vidyut Vitaran Nigam Ltd and from OPTCL, Bhubaneswar. It also won a highway lighting order for a toll plaza in Basti, UP.

In Packaged/Ducted Airconditioning and small chillers, segments that contributed to growth included the office segment along with commercial segments such as retail showrooms, hotels, restaurants and marriage/function halls. There was also good demand from the industrial/manufacturing segments. During the quarter, significant orders were won from HCL Technologies, Noida; Ceat, Halol, Gujarat; Welspun, Anjar, Gujarat; Wockhardt Hospital, Aurangabad, Aga Khan Academy, Hyderabad and Cummins India, Pune. However, demand from mid-sized IT/ITeS, the largest buyer, has yet to recover. This coupled with input cost increases has resulted in the business under-performing in the quarter.

While the Company sustained its dominant position in the telecom segment, with its customised array of telepac airconditioners, the telecom infrastructure roll-out continued to be adversely affected. The forecasts for tower rollouts in FY11 were reduced from 50,000 to 20,000 and have now been pruned down to a meager 10,000 sites. This has had a severe impact on the business. The tower roll-outs are expected to gain momentum in Q1FY12 and the Company is well-positioned to leverage on the opportunities that will emerge in this sector in the next fiscal. The outlook for this business in the last quarter of FY11 is not encouraging.

Key Projects in the Quarter:

	New Orders Won in Q3FY11
Central Airconditioning	<ul style="list-style-type: none"> * Godrej Eternia, Chandigarh * HCL, Noida * DLF Magnolias, Gurgaon * Kohinoor Square, Mumbai * Volkswagen, Pune * Novotel Hotel, Pune * Surya Global Steel Tubes, Anjar, Gujarat * Hindalco, Mahan * NIT, Rourkela * AMRI, Bhubaneshwar * Indu Projects for power plant at Chattisgarh * Reliance Infrastructure for power plant near Nagpur * Imsofer Manufacturing, Baramati * Pune Embassy, Pune * Okaya IT Park, Noida * ISBT, Delhi * Infosys Technologies, Trivandrum/Mysore * Juniper Networks, Bengaluru * Ashok Leyland, Chennai * MRPL, Mangalore

	<ul style="list-style-type: none"> * Continental Hospital, Hyderabad * Blue Horizon Commercial Complex , Bengaluru
Electrical Projects	<ul style="list-style-type: none"> * Logic Housing, Noida * Madhya Pradesh Paschim Kshetriya Vidyut Vitaran Nigam Ltd * Toll Plaza, Basti, UP * Godrej, Chandigarh * Rolta Tower, Mumbai * OPTCL, Bhubaneswar * Oracle Financial Services, Bengaluru * Manjeera Mall, Hyderabad * Juniper Networks, Bengaluru * CMC Limited, Hyderabad * Centre for Digestive and Kidney Diseases, Mumbai
Packaged Airconditioning/ VRF Systems/ Precision Airconditioning	<ul style="list-style-type: none"> * HCL Technologies, Noida * Ceat, Halol * Wockhardt Hospital, Auranagabad * Welspun, Anjar * Dhan-Vallabh Developers Mall, Mumbai * Aditya Impex, Mumbai * GNFC, Bharuch, Gujarat * Shobna Desai Studio, Mumbai * Cummins India, Pune * Reddy Builders, Bengaluru * Aga Khan Academy, Hyderabad * V2 Conglomerate Mall, Jamshedpur * CPWD, Chennai * Reliance Communications, Imphal

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.

During the review period, the annual maintenance contracts as well as the revamp/retrofit and spare parts business performed well. The Company won several orders for indoor air quality from CISCO, Nokia Siemens, Philips, and Northern Trust and Embassy Services. It also won revamp orders from Reserve Bank of India, Delhi State Cancer University, Haryana Development Authority and Municipal Corporation of Greater Mumbai.

In the quarter, Blue Star's Energy Management & Green Building Services Group enabled Paharpur Business Centre, New Delhi to achieve a platinum rating, the highest level of LEED certification from the US Green Building Council, under LEED Existing Building Operation & Maintenance (O & M) rating system. This is the first Platinum rated Green Building in India under the Existing Building segment. There are around 115 certified Green Buildings in India and only a few of them have been awarded with a platinum rating under various categories such as New Construction, Core & Shell, Commercial Interior, Green Homes and Green Factory Building. No project had so far got a platinum rating under the category of Existing Building O & M in the country. This, being the first such project will be a role model for transforming large number of Existing Buildings to Green Buildings.

Cooling Products

The Cooling Products business comprises Room Airconditioners and Refrigeration Products and Systems. The Operating Margin declined marginally from 8.7% in Q3FY11 to 7.9% in Q3FY11. Input costs continue to be a concern in this business. The Company's decision to raise prices in September 2010 was timely and has helped arrest the margin decline in this business.

In the Room Airconditioners business, growth was driven by sales from both the commercial segment as well as the residential segment. During the quarter, the Company won new national account customers including Apex Encon Projects, Supertech, Kazstroy Service Infrastructure, Tower Vision, Nestle, Apollo Hospitals, Times of India and Elecon Engineering.

In January 2011, the Company has announced its foray into the residential segment with a wide range of stylish room airconditioners. Blue Star has been selling room airconditioners mainly catering to the corporate and commercial segment. Over the last couple of years, the Company has witnessed a significant demand from the residential segment given the higher disposable income and the growing middle class. Despite the fact that Blue Star room airconditioners were not available in retail channels, a significant amount of Blue Star's sales came from the residential segment, mainly from consumers who believe that a specialist is better than a generalist and a conviction that if Blue Star is a leader in cooling large spaces, its room airconditioners must be good. Considering the above, the Company thought it prudent to aggressively target the residential segment and leverage on the expertise in cooling that Blue Star has built over the years.

The Company has significantly altered its marketing mix to focus on the residential segment. On the product front, it has launched a new contemporary and stylish range of split airconditioners to appeal to home consumers. Apart from being energy efficient, these airconditioners boast of several features

including i-feel for comfort where one sits, six filters for ultra-pure air, turbo operation and elegant remote control, amongst others. In addition, it has also launched a futuristic range of smart split airconditioners with inverter technology which are highly intelligent and can save on power dramatically.

As regards to the distribution, the Company is planning to offer these products through some reputed retail channels in select cities in addition to the current 700 sales-and-service dealers. It is also building up a strong installation and service franchise network to support the retailers. In terms of advertising and brand communication, the Company has plans to increase its advertising spends in the forthcoming summer season with a new set of TV commercials supported by print ads, mainline dailies, hoardings and internet. The differentiated value proposition to the residential audience has been identified as 'Get office-like cooling at home' which leverages Blue Star's expertise in cooling offices and communicates that one can get the very same expertise at home.

In the Refrigeration Products segment, storage water coolers, chest freezers and coolers recorded substantial growth in the quarter. While Government institutions and the educational segment contributed to growth in water coolers, enhanced demand from the ice cream and dairy segments resulted in growth of freezers and coolers. For the cold chain, Blue Star offers equipment right from the farm to the fork. This business continued to perform well in the quarter under review. Significant orders were won from Alchemist, Chandigarh for meat storage; Sai Arpan Cold Storages, Delhi for a controlled atmosphere storage and Wockhardt, Delhi. Private investments in cold chain have begun and are visible in logistics and small sized pack houses. The Company also witnessed enhanced demand from the pharma sector during the quarter.

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. In the Non-Destructive Testing business, significant orders were booked from Oil Country Tabular; NTPC; Central Glass and Ceramic Research Institute, Kolkata and BHEL, Hyderabad. Based on its competitive advantage in analytical applications desired in metallurgical research, the analytical instruments business won an order from National Metallurgical Laboratory, Jamshedpur for a field emission electron microscope valued at USD 1.5 million. The Medical business won an MRI order from Ruby Medical Services for their centre at Beed. In the Data Communications business, significant orders were won for the

Government project of MPIC (Multi Purpose Identity Card) and for additional handheld terminals from Pipava Port as well as SC Johnson for warehouse applications.

Exports

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

The complete revival of the economy in the Middle East is likely to some time, though there has been a modest recovery in some segments. During the quarter, the Company won notable orders for central airconditioning equipment for prestigious projects including Al Wakra Mall, Qatar; Seasons Community, Dubai and Jumbo Showroom, Dubai. It also received orders worth USD 1 million for unitary products from OEM accounts in the Middle East.

Qatar has won the bid to host the FIFA 2022 World Cup and there is likely to be a boom in construction and infrastructure-related activity in the near future in the region.

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 two quarters of reasonable revenue growth, the Q3 slowdown is somewhat unexpected, largely due to sluggish progress in electro-mechanical projects and the slump in telecom airconditioning. This has impacted profits and cash flow to some extent. However, Management believes that decisions taken three months ago on bringing the capital employed under control and improving the quality of new orders booked are appropriate and will yield the desired results in the medium term. Looking ahead to the main summer season, the picture looks better. Sales of airconditioners and refrigeration products have been healthy and continue to show robust growth prospects. The chief areas of concern are rising input costs due to high inflation of key raw materials which keep profit margins under pressure.

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 DECEMBER 31, 2010

. in lakhs

Particulars	QUARTER ENDED		NINE MONTHS ENDED		AUDITED FOR THE YEAR ENDED
	31.12.2010	31.12.2009	31.12.2010	31.12.2009	31.3.2010
1. (a) Net Sales/Income from Operations	60,683	58,619	194,842	167,041	252,497
(b) Other Operating Income	658	254	2,458	430	2,446
Total Income from Operations 1(a+b)	61,341	58,873	197,300	167,471	254,943
2. Expenditure					
a. (Increase)/decrease in stock in trade and work in progress	(4,748)	(8,523)	(9,360)	(7,929)	(2,484)
b. Consumption of raw materials- Cost of Sales	46,694	52,598	141,401	125,042	175,618
c. Purchase of traded goods	4,465	830	17,836	6,680	15,074
d. Employees cost	5,195	4,296	15,005	13,679	18,487
e. Depreciation	804	876	2,349	2,561	3,473
f. Other expenditure	5,007	3,896	14,849	11,278	18,332
g. Total	57,417	53,973	182,080	151,311	228,500
3. Profit from Operations before Other Income, Interest & Exceptional Items (1-2)	3,924	4,900	15,220	16,160	26,443
4. Other Income	3	30	173	402	668
5. Profit before Interest and Exceptional Items	3,927	4,930	15,393	16,562	27,111
6. Financial expenses	791	227	1,478	596	845
7. Profit after Interest but before Exceptional Items (5-6)	3,136	4,703	13,915	15,966	26,266
8. Exceptional items	0	873	43	1,396	1,396
9. Profit (+)/Loss (-) from Ordinary Activities before tax (7+8)	3,136	5,576	13,958	17,362	27,662
10. Tax expense	900	1,342	4,143	4,067	6,513
11. Net Profit (+)/Loss (-) from Ordinary Activities after tax (9-10)	2,236	4,234	9,815	13,295	21,149
12. Extraordinary items (net of tax expense)	-	-	-	-	-
13. Net Profit (+)/Loss (-) for the period (11-12)	2,236	4,234	9,815	13,295	21,149
14. Paid-up equity share capital (Face Value per share Rs.2/-)	1,799	1,799	1,799	1,799	1,799
15. Reserves excluding Revaluation Reserves as per balance sheet as on 31st March 2010					47,369
16. Earnings Per Share (EPS)					
a) Basic and diluted EPS before Extraordinary items	2.49	4.71	10.91	14.78	23.52
b) Basic and diluted EPS after Extraordinary items	2.49	4.71	10.91	14.78	23.52
17. Public shareholding					
- Number of shares	53850284	53839184	53850284	53839184	53845184
- Percentage of shareholding	59.88	59.86	59.88	59.86	59.87
18. Promoters and Promoters group shareholding					
a) Pledged/ Encumbered					
- Number of shares	600000	600000	600000	600000	600000
- Percentage of shares(as % to total shareholding of promoter and promoter group)	1.66	1.66	1.66	1.66	1.66
- Percentage of shares(as % to total share capital of the Company)	0.67	0.67	0.67	0.67	0.67
b) Non Encumbered					
- Number of shares	35485821	35496921	35485821	35496921	35490921
- Percentage of shares(as % to total shareholding of promoter and promoter group)	98.34	98.34	98.34	98.34	98.34
- Percentage of shares(as % to total share capital of the Company)	39.45	39.47	39.45	39.47	39.46

Notes:

- The above results have been reviewed by the Audit Committee and approved at the meeting of the Board of Directors held on January 27, 2011 and have been subjected to Limited Review by the Statutory Auditors.
- Exceptional Items represents profit on sale of Investments.
- 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 December 31, 2010, the Company received and disposed of 14 investor complaints. No complaints were pending at the beginning and at the end of the quarter.

Registered Office:

Kasturi Buildings
Mohan T. Advani Chowk
Jamshedji Tata Road
Mumbai 400 020
www.bluestarindia.com

Date : January 27, 2011

Place : Mumbai

For BLUE STAR LIMITED

Satish Jandhar
Managing Director

**UNAUDITED STANDALONE SEGMENT WISE REVENUE, RESULTS AND CAPITAL EMPLOYED FOR THE QUARTER ENDED
DECEMBER 31 , 2010**

Rs in lakhs

Quarter Ended		Description	NINE MONTHS ENDED		AUDITED FOR THE YEAR ENDED
31.12.2010	31.12.2009		31.12.2010	31.12.2009	31.3.2010
		I. SEGMENT REVENUE			
43,422	45,672	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	128,127	118,282	179,601
12,783	9,484	ii. Cooling Products	52,263	39,455	58,095
4,478	3,463	iii. Professional Electronics and Industrial Systems	14,452	9,304	14,801
60,683	58,619	TOTAL SEGMENT REVENUE	194,842	167,041	252,497
		Less: Inter Segment Revenue	-	-	-
60,683	58,619	NET SALES/ INCOME FROM OPERATIONS	194,842	167,041	252,497
		II. SEGMENT RESULT			
		PROFIT/(LOSS) BEFORE INTEREST & TAX			
2,922	4,949	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	10,607	13,526	21,470
1,014	824	ii. Cooling Products	6,146	5,322	8,073
1,167	875	iii. Professional Electronics and Industrial Systems	3,416	2,581	4,571
5,103	6,648	TOTAL SEGMENT RESULT	20,169	21,429	34,114
		Less:			
791	227	i.) Financial expenses	1,478	596	845
1,176	1,718	ii.) Other un-allocable Expenditure net of un-allocable Income	4,776	4,867	7,003
3,136	4,703	TOTAL PROFIT BEFORE TAX and Exceptional Item	13,915	15,966	26,266
-	873	Add: Exceptional Item	43	1,396	1,396
3,136	5,576	PROFIT/(LOSS) BEFORE TAX	13,958	17,362	27,662
		III. CAPITAL EMPLOYED:			
		(Segment Assets- Segment Liabilities)			
52,562	42,185	i. Electro Mechanical Projects and Packaged Air-conditioning Systems	52,562	42,185	41,442
11,129	8,300	ii. Cooling Products	11,129	8,300	9,247
6,379	4,367	iii. Professional Electronics and Industrial Systems	6,379	4,367	5,304
70,070	54,852	TOTAL CAPITAL EMPLOYED IN SEGMENTS	70,070	54,852	55,993
(11,088)	(5,094)	Add: Un-allocable Corporate Assets less Liabilities	(11,088)	(5,094)	(6,825)
58,982	49,758	TOTAL CAPITAL EMPLOYED IN THE COMPANY	58,982	49,758	49,168

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Date :January 27, 2011

Place : Mumbai

For BLUE STAR LIMITED

**Satish Jamdar
Managing Director**