

Blue Star Limited

Q3 FY05 Earnings Update

January 25, 2005

FINANCIAL HIGHLIGHTS

For Q3 FY05 & Nine months ended on December 31, 2004

- Central airconditioning and commercial refrigeration major Blue Star Limited reported Total Income of Rs 224.1 crores for the quarter ended December 31, 2004, representing 52.4% growth over the corresponding quarter in the previous year. For the nine months ended December 31, total income at Rs 611.4 crore, grew by 34.8% over corresponding nine months of the previous year
- Net sales for the current quarter at Rs 223.8 crores was up by 54.2% over the corresponding quarter in the previous year. Net sales for the nine months at Rs 608.4 crore is up by 36.2% over the corresponding nine months of the previous year.
- The growth in net sales was fueled by buoyancy in the central airconditioning business, which grew by 48.8% in the nine-month period over the corresponding period of the previous year. This business contributed 71.2% to the net sales in the nine-month period as compared to its contribution of 65.1% in the corresponding nine months of the previous year
- SBU-wise sales break-up:

	Q3FY05	Q3FY04	% Growth	YTD FY05	YTD FY04	% Growth
Central airconditioning systems	170.0	113.0	50.5%	433.0	291.0	48.8%
Cooling products	42.2	23.7	78.3%	142.0	123.9	14.7%
Professional Electronics & Industrial equipment	11.6	8.5	36.2%	33.4	31.9	4.6%

- Operating profit (excluding Other Income) at Rs 12.1 crores is up by 90.1% over the corresponding quarter of the previous year. Operating profit (excluding Other Income) for the nine-month period at Rs 32.0 crores is up by 81% over the corresponding nine months of the previous year.

- Net profit at Rs 5.93 crores is up by 55.4% over the corresponding quarter of the previous year. Net profit for the nine months at Rs 18.28 crore is up by 51.9% over the corresponding nine months of the previous year.
- The earnings per share for the quarter stood at Rs 3.30 vis a vis Rs 2.12 in the last year.
- Carry Forward Order Book as on December 31, 2004 stood at Rs. 473 crores, representing an 11% increase over the Carry Forward Order Book on December 31, 2003.
- Order inflow for the first nine months at Rs 741 crores is up by 14% over the corresponding nine months of the previous year.

BUSINESS HIGHLIGHTS

Central Airconditioning

Overview

The central airconditioning business continues to dominate Blue Star's revenue and is a key growth driver. In fact, this SBU's contribution to total revenue has increased over the past few quarters. Blue Star's engineering and designing prowess backed by strong after sales service capability and commitment and formidable track record continue to draw major central airconditioning projects.

The Gross Margins have been under pressure in this business unit owing to the increases in raw materials like steel and copper and other input costs. This increase has been partially offset by efficiencies at the operating level, largely attributed to the volume growth and benefits of the company's investments in automating its service and contracting activities. While pressure on cost of sales is expected to continue, economies of scale derived from growing volumes and a focus on further improving internal efficiencies is expected to counter overall operating margin pressure.

Key Projects in the Quarter

Domestic

Under Execution	Commissioned	New Orders Won
<ul style="list-style-type: none"> Ranbaxy Corporate Office, Gurgaon Vanenburg IT Park Ph-IV, Secunderabad HPCL, Vizag Mico Bosh, Bangalore Moser Baer (DVDR) DMRC, Delhi ONGC/NBCC, Mumbai NPC, Kota and Kaiga 	<ul style="list-style-type: none"> DLF Mega Mall, Gurgaon Forensic Sciences Laboratory, New Delhi Infosys Park V, Bangalore Frito Lay, Howrah Moser Baer (CDR), Noida Grand Hyatt, Mumbai 	<ul style="list-style-type: none"> Ram Manohar Lohia Hospital, New Delhi Delhi High Court, New Delhi Times of India, Mumbai Vascon Multiplex, Pune RMZ Eco Space Building, Bangalore Columbia Hospital, Bangalore DHL Worldwide Express, Mumbai Sun Microsystems, Bangalore HCL Technologies BPO Services, Chennai NTPC, Sipat

International

Under Execution	Commissioned	New Orders Won
<ul style="list-style-type: none"> Bank of Mauritius Cosmos Pharma, Kenya 	<ul style="list-style-type: none"> BPML/Ebene Cyber city, Mauritius 	<ul style="list-style-type: none"> HSBC, Sri Lanka

New Product Launches

The Company launched a new range of screw chillers used in centrally airconditioning large spaces. These are manufactured at Blue Star's ISO 9001 certified factory at Thane. These chillers save power in spaces which have varying loads, making it ideal for applications such as multiplexes, malls, offices, hospitals and hotels.

Service Business

Blue Star maintains over 400,000 TR of airconditioning capacity. Traditionally, the HVAC service business has primarily consisted of breakdown maintenance. However, there is an emerging need for service products in the areas of energy management, air management, water management and product upgrades. The

Company has developed and launched several innovative service products in these areas.

Further, the service delivery processes have been ISO 9001 certified in central airconditioning service in the Western Region and the same is now being extended to other service segments across the country. The transactions are being aligned to the ERP system of BaaN which will improve operational efficiency.

The recently formed Service Specialist Group, for handling high end technical services and Service Quality Assurance team for monitoring field service quality have also been strengthened.

Cooling Products

Overview

The third quarter is usually the slowest period of the year for this seasonal business. However, with the overall market volumes growing, the growth in sales has been significant in this segment. Profitability has been impacted due to increasing raw material costs, as well as dropping price realization per ton.

By taking a decision to set up a new manufacturing facility in Himachal Pradesh, the company intends to benefit from both the economies of scale of the new plant, as well as the tax and duty incentives in the region. This move should level the playing field vis-à-vis the growing competition, most of who are already benefiting from these incentives.

Exports

On the exports front, the Company continued to make progress especially in the Middle East. Blue Star has developed a comprehensive range of cooling products for the international market. For perhaps the first time, Blue Star participated in an overseas exhibition namely Big 5 in Dubai during 20th to 24th November 2004. The objective was to showcase Blue Star's manufacturing, product development and project design capabilities. The response to Blue Star's range of products was overwhelming and the Company is confident about its prospects in the international market.

Expansion of Production Capacity

Blue Star currently has three manufacturing facilities in Thane, Bharuch and Dadra. As a result of growing sales volumes (domestic and exports) and a wider

product range, the Company is setting up a fourth manufacturing facility at Kala Amb in Himachal Pradesh. Moreover, the region offers tremendous tax and duty incentives for manufacturers. This Plant will manufacture window and split airconditioners to start with and is expected to be commissioned in the first half of FY 05-06.

An additional 5000 sq m is being added at the Bharuch Plant, effectively doubling the built up area of the Plant. This will help in meeting the additional demand for cold rooms, air handling units and chillers for the foreseeable future.

Professional Electronics SBU

Overview

The Company's focus on turn-key solutions through value addition is paying rich dividends and has contributed significantly in achieving the business goals. The Company has taken up several new projects which will ensure its leadership in the niche areas it addresses through this division.

During the quarter, the Company bagged a prestigious Rs 17-crore order from a leading steel manufacturer for distribution and flow control of oxygen pipeline and utilities for blast furnace for a growth plant project on turn-key basis, as part of the new expansion of the steel plant.

It also completed a pilot project with HPCL for the online density measurement of fuel at some of the important retail outlets in and around Mumbai. Based on the successful execution of this pilot project, the Company is confident of major orders for supply, calibration and servicing of the online density measurement systems at retail outlets across the country.

Blue Star is a leading supplier of Non-Destructive Testing (NDT) solutions through its collaboration with RD Tech, Canada. The Company recently completed a major installation for Automatic Weld inspection of seamless pipes and is optimistic about its prospects in NDT projects.

BUSINESS OUTLOOK

Industry Outlook

The positive approach of the government towards rationalization of customs tariffs and the ongoing efforts to align trade relations with regional friendly countries, is expected to give further fillip to the growth of the AC&R industry. It is to be noted that India is still far behind countries like China in terms of per

capita consumption of airconditioning & refrigeration and therefore the scope for manifold growth in this sector is immense.

While the current growth is being fueled by the services sector, the Company anticipates that with the expected revival in industrial investment, airconditioning demand from this sector will also contribute to the overall market growth in the medium term.

In addition to the Indian market, the Middle East market, and in particular, Dubai, is expected to witness exponential growth in HVAC requirements in the coming 2-4 years. Given the similarity of applications, proximity and similar work methods, this market holds tremendous opportunity for Indian HVAC firms.

As mentioned in the last report, the Refrigeration and Airconditioning industry has been lobbying with the Government for a reduction of CENVAT for locally manufactured equipment from the current level of 24% to 16%, in line with other capital goods and consumer durables. If the Government concedes this demand, the market for Packaged and Room Airconditioners will see a significant spurt in growth.

Company Outlook

In the near future central airconditioning business will be the key growth driver for Blue Star. While the overall market growth potential will attract new entrants, Blue Star's value proposition of Energy Efficiency, System Design expertise and After-sales Service excellence, backed by over 60-years of HVAC experience, will ensure market leadership and profitable growth.

The refrigeration & cooling products division is expected to grow in line with industry growth rates. However, competition may not allow the Company to pass on higher material costs to customers in the near future. With the new facility in Himachal Pradesh likely to be ready for the commercial production in Q2FY06, Blue Star hopes to arrest the margin erosion.

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 fluctuations in earnings, our ability to manage growth, intense competition in IT services including those factors which may affect our cost advantage, wage increases in India, our ability to attract and retain highly skilled professionals, time and cost overruns on fixed-price, fixed-time frame contracts, client concentration, restrictions on immigration, our ability to manage our international operations, reduced demand for technology in our key focus areas, disruptions in telecommunication networks, our ability to successfully complete and integrate potential acquisitions, liability for damages on our service contracts, withdrawal of governmental fiscal incentives, political instability, legal restrictions on raising capital or acquiring companies outside India, and unauthorized use of our intellectual property 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, 2004

(Rs In lakhs)

QUARTER ENDED		PARTICULARS	NINE MONTHS ENDED		AUDITED
31.12.2004	31.12.2003		31.12.2004	31.12.2003	YEAR ENDED
					31.3.2004
22382	14518	Net Sales/Income from Operations	60835	44678	69746
32	189	Other Income	308	680	1860
22414	14707	Total Income	61143	45358	71606
21171	13881	Total Expenditure	57632	42908	65766
(1,967)	(785)	(Increase) / Decrease in Stock in trade	(4,295)	(2,801)	(1,081)
19639	11287	Consumption of Raw Materials	51821	36045	53801
2103	1780	Staff Cost	5231	4639	5961
1396	1600	Other Expenditure	4875	5025	7085
91	55	Interest	208	125	182
357	262	Depreciation	842	726	999
795	508	Profit Before Tax	2461	1599	4659
223	127	Provision for Taxation	673	409	1188
(21)	0	Less: Deferred Tax (Asset) /Liability for the year	(40)	(14)	215
593	382	Net Profit	1828	1204	3255
1799	1799	Paid-up Equity Share Capital of Rs.10 each	1799	1799	1799
3.30	2.12	Earnings Per Share (Rs.)	10.16	6.69	18.09

NOTE :

1. The above results were reviewed by the Audit Committee and approved at the meeting of the Board of Directors held on January 25, 2005.
2. During the quarter ended December 31, 2004, the Company received and disposed of 36 investor complaints. No complaints were pending as at the beginning and at the end of the quarter.
3. The Statutory Auditors have carried out a limited review of the results for the quarter ended December 31, 2004.

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Mumbai 400 020
www.bluestarindia.com
Date :January 25,2005
Place : Mumbai

For BLUE STAR LIMITED

Ashok M Advani
Chairman & Chief Executive

Segment wise Revenue, Results and Capital Employed for the quarter ended December 31, 2004

(Rs. in lakhs)

Quarter ended		Description	NINE MONTHS ENDED		AUDITED
31.12.2004	31.12.2003		31.12.2004	31.12.2003	YEAR ENDED
					31.3.2004
		I. SEGMENT REVENUE			
17000	11299	i. Central Air-conditioning Systems	43298	29101	47865
4223	2368	ii. Cooling Products	14201	12386	16834
1159	851	iii. Professional Electronics and Industrial Equipment	3336	3191	5013
-	-	iv. Residual	-	-	34
22382	14518	TOTAL SEGMENT REVENUE	60835	44678	69746
-	-	Less: Inter Segment Revenue	-	-	-
22382	14518	NET SALES/ INCOME FROM OPERATION	60835	44678	69746
		II. SEGMENT RESULT			
		PROFIT/(LOSS) BEFORE INTEREST & TAX			
1,474	1259	i. Central Air-conditioning Systems	3752	2722	4629
(130)	(16)	ii. Cooling Products	0	46	(256)
297	150	iii. Professional Electronics and Industrial Equipment	648	600	1119
-	(6)	iv. Residual	-	(17)	11
1641	1387	TOTAL SEGMENT RESULT	4400	3351	5503
91	55	Less:			
755	824	i.) Interest	208	125	182
795	508	ii.) Other un-allocable Expenditure net of un-allocable Income	1,731	1,627	662
		TOTAL PROFIT BEFORE TAX	2461	1599	4659
		III. CAPITAL EMPLOYED:			
		(Segment Assets- Segment Liabilities)			
10370	8725	i. Central Air-conditioning Systems	10370	8725	7593
5115	5078	ii. Cooling Products	5115	5078	5014
1277	868	iii. Professional Electronics and Industrial Equipment	1277	868	1222
497	426	iv. Residual	497	426	403
17259	15097	TOTAL CAPITAL EMPLOYED IN SEGMENTS	17259	15097	14232
2935	2392	Add: Un-allocable Corporate Assets less Liabilities	2935	2392	954
20194	17489	TOTAL CAPITAL EMPLOYED IN THE COMPANY	20194	17489	15186

Registered Office:

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 Jamshedji Tata Road
 Mumbai 400 020
 www.bluestarindia.com

Date : January 25, 2005
Place : Mumbai
For BLUE STAR LIMITED
Ashok M Advani
 Chairman & Chief Executive