

# ANNUAL REPORT 1998-99



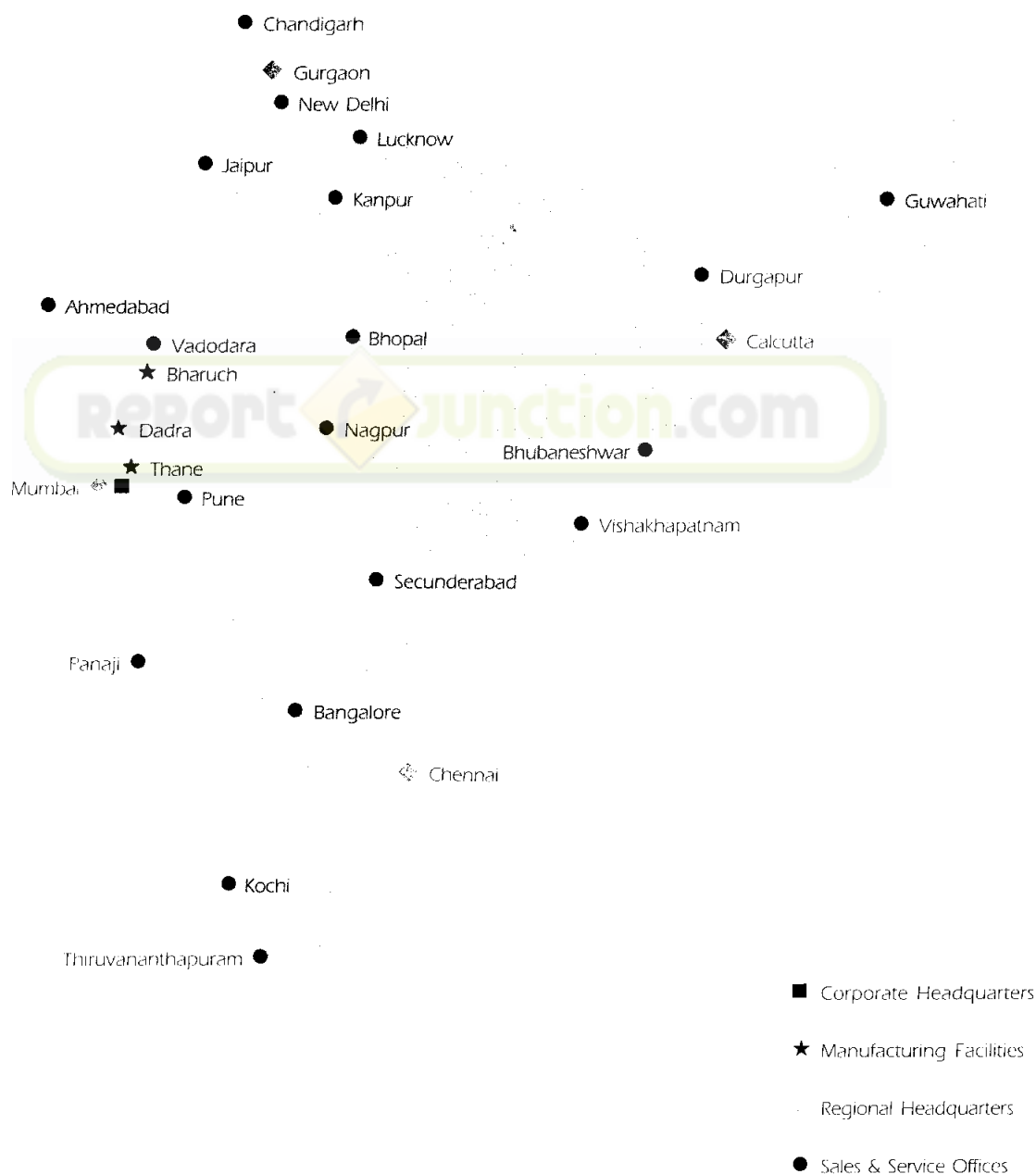


### Blue Star Establishments



- Corporate Headquarters
- ★ Manufacturing Facilities
- ◆ Regional Headquarters
- Sales & Service Offices

## Blue Star Establishments





## Board of Directors

Ashok M Advani  
*Chairman & Chief Executive*

Suneel M Advani  
*President & Vice Chairman*

Bal K Malhotra  
*Executive Director*

Atul Choksey

Uday Kotak

G Ramchandani

Minoo R Shroff

Suresh N Talwar

## Corporate Management

Ashok M Advani  
*Chairman & Chief Executive*

Suneel M Advani  
*President & Vice Chairman*

Bal K Malhotra  
*Executive Director*

T G S Babu  
*Executive Vice President*

R N Bhave  
*Vice President — Information Technology & Systems*

H N Ganatra  
*Vice President — International*

V V Inamdar  
*Vice President — ACPD, Western Region & Industrial Division*

Satish Jamdar  
*Vice President — Dadra & Bharuch Plants*

Arun Khorana  
*Vice President — Electronics Division*

A S Prakash Rao  
*Vice President — ACPD, Northern Region*

H. Rajaram  
*Vice President — Finance*

Assar S Sambtani  
*Vice President — International Software Division*

S Sankaran  
*Vice President — ACPD, Southern Region*

M S Sethi  
*Vice President — Thane Plant*

Neeraj Seth  
*Vice President — Commercial Equipment Division*

N Sivasankaran  
*Vice President — ACPD Mktg. & Service*

## Company Secretary

K P T Kutty

## Bankers

The Hongkong & Shanghai

Banking Corporation Ltd.

ANZ Grindlays Bank Ltd.

State Bank of India

Oriental Bank of Commerce

ABN-AMRO Bank

Banque Nationale De Paris

Bank of Baroda

Abu Dhabi Commercial Bank Ltd.

## Auditors

K S Aiyar & Company, Mumbai

## Branch Auditors

R Venkatarama Aiyar & Company, Calcutta

Fraser & Ross, Chennai

Mohinder Puri & Company, New Delhi

## Registrars & Share Transfer Agents

Intime Spectrum Registry Pvt. Ltd.

260-Shanti Industrial Estate

Sarojini Naidu Road

Mulund (West)

Mumbai 400 080

## Registered Office

Kasturi Buildings

Mohan T Advani Chowk

Jamshedji Tata Road

Mumbai 400 020

Telephone 2020868

Fax 91-22-2025813



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**ASHOK M. ADVANI** *Chairman & Chief Executive*

*renew our technology licensing agreement to manufacture the latest range of York centrifugal and water-cooled screw chillers.*

*The project is currently under active implementation at Thane. In order to ensure world-class products, the plant has undergone substantial relayout, the manufacturing processes have been modernised, the supply chain streamlined and productivity levels greatly increased by eliminating redundant manpower and enhancing skills through training. The objective is for Thane-manufactured*

*chillers to match the technology and quality levels of imports at a 10% lower cost to the customer. The first products are expected to roll out within a few weeks.*

## *Letter from the Chairman*

Dear Shareholder:

The year 1998-99 was the third successive year of slow growth for the Indian economy and for Blue Star. Considering the external environment, your Company performed reasonably well, showing modest positive growth in revenue and profits. But behind the scenes, we were working seriously on a number of fundamental strategic and structural changes. I would like to share the major developments with you.

### **New Technology Tie-up with York**

One of Blue Star's key competitive strengths in our core central airconditioning business has been our 15-year strategic relationship and technical licensing arrangement with York International of USA. During the year there were extensive talks with York with the objective of strengthening this partnership. We looked at various options, before deciding to

### **Project Engineering & Execution**

Blue Star is generally acknowledged to have the finest team of airconditioning engineers in India. Their strengths have been progressively enhanced over the years by installing CAD capability which now covers all our engineering establishments.

To streamline material procurement and project execution performance, your Company initiated an Enterprise Resource Planning (ERP) project with BaaN during the year. A dedicated cross-functional team has been set up to drive this multi-crore project over the next two to three years. They have completed the initial phase of business process re-engineering and have begun testing the first pilot project in the Western Region. Next year will see progressive implementation of the entire system in the core





*Airconditioning Projects Division. When fully implemented, ERP will dramatically transform the way in which the central airconditioning business is handled and is expected to result in major benefits in terms of reduced costs, faster project execution and higher productivity of resources.*

### **Energy Efficiency**

*With electrical power being scarce and very expensive, consumers of electricity are acutely conscious of the need to find ways to cut power consumption. In the field of airconditioning which is a heavy user of electricity, the quest has been largely met by recent technological developments which have substantially improved the efficiency of airconditioning systems. These include new compressor designs such as screw compressors for large systems (150TR and up); scroll compressors in medium capacity applications (5TR-20TR); variable speed drives for centrifugal chillers; better heat exchangers using new types of copper tubing; and computer-optimised designs. All these have yielded significant energy-efficiency improvements in our airconditioning products.*

*From the customer standpoint, the small higher initial cost is rapidly paid back through savings in the form of lower electricity bills. As additional benefits, such technological innovations also offer quieter and more reliable operation. Blue Star has been the pioneer in India in introducing these new products and initial response from customers and consultants has been most encouraging.*

### **Increasing Geographic Reach through Affiliated Contractors & Dealers**

*Historically, Blue Star has largely relied on its own sales force for its central airconditioning business. This works*

*well for large, technically complex systems. But, there are a number of independent contractors and installers located in smaller towns, where Blue Star does not have a presence, who have the capability to handle small and medium-sized jobs. They can significantly extend the Company's market reach. A small start was made last year by signing on a few contractors as Blue Star's business associates. In the current year, this programme is being expanded.*

*For ducted systems too, the same logic is applicable. Increasingly, our marketing thrust has been to appoint systems dealers who are actively supported through training and technical backup by the Company. Expansion of the dealer network gathered momentum last year resulting in healthy sales growth without significant increase in manpower or marketing costs.*

### **Contract Manufacturing**

*Having made heavy investments in modern manufacturing facilities at Dadra and Thane, your Company also explored contract manufacturing for the first time last year. These efforts have fructified in three significant areas in the current year.*

*First, window airconditioners are being manufactured by the Dadra Plant for a local airconditioner company which brands these products and sells them through their dealer network. Supplies have recently commenced.*

*The second new business initiative is to manufacture and brand ducted split airconditioners for the tough Middle East market. The first shipment has already been made.*

*The third contract manufacturing tie-up is for polyurethane foam cold room panels for Kolpak of USA. This is an exciting project because Kolpak has provided technology and*



manufacturing know-how to meet their exacting design and quality specifications and have given a substantial buy-back commitment for their Asian markets. Supplies are expected to commence within a few weeks.

Besides the additional sales revenue provided by contract manufacturing, there are at least two additional tangible benefits. First, it provides valuable inputs to improve product designs and quality standards. Secondly, the increased volume reduces per unit manufacturing cost by spreading fixed expenses over a higher production level.

### Business Focus

In recent times, it has become an accepted management axiom that business organisations should focus on their core competencies. Blue Star realised the wisdom of this philosophy in the early '90s, well before the term "core competencies" was coined, when we exited from a number of unrelated businesses such as refrigerators, EPABXs and personal computers. There were substantial benefits from freeing underutilised resources and scarce managerial talent to focus on what we do best. It was as if a dead weight had been removed from the corporate shoulders which reduced the drag on higher growth and profitability. The same lesson has been reinforced in the past couple of years with many Indian companies following a similar exit policy.

Blue Star has defined its core businesses as airconditioning, refrigeration and distribution of professional electronics equipment. This leaves two major lines of business which are outside the focus areas, namely, software and industrial projects.

As you are no doubt aware, last year, it was decided that the software business should be spun-off into a separate company

as this would result in enhanced shareholder value. That basic decision still holds good though the time-frame for the spin-off has got somewhat extended. Details of the progress of the demerger are provided in the Directors' Report.

The other unrelated business of industrial projects is one in which your Company has been involved for about two decades. Originally, it was thought that since Blue Star had a good engineering team and project management skills in the central airconditioning business, those strengths could be profitably utilised in the field of industrial projects. But experience has shown that the sheer diversity of projects with demanding technical requirements combined with adverse contractual and financial terms tied up substantial financial and manpower resources without producing adequate returns. We have, therefore, decided that after the remaining projects have been completed we will not bid for such business. The funds released from this activity can significantly reduce borrowings, while the engineering manpower can be profitably deployed in the airconditioning and refrigeration field.

### Shareholder Value

To summarise, last year, these new initiatives made significant progress towards improving Corporate performance and enhancing shareholder value. Most of them are on-going programmes which will result in the Company and the shareholders being well positioned to reap substantial future benefits as economic growth revives.

Yours sincerely,

**ASHOK M. ADVANI**

Chairman & Chief Executive

July 28, 1999





## BOARD OF DIRECTORS



*From L to R: Uday Kotak, Suresh N Talwar, Minoo R Shroff, Ashok M Advani, Suneel M Advani, Atul Choksey, G Ramchandani, Bal K Malhotra*



## Directors' Report

The Directors are pleased to present their 51st Annual Report and the Audited Accounts for the year ended March 31, 1999.

### Highlights of 1998-99

- \* Despite continued business pressures, the Company recorded a modest growth in total income from Rs. 452.77 crores to Rs. 476.49 crores.
- \* Operating Profit increased by over 21% from Rs. 31.72 crores to Rs. 38.37 crores.
- \* Gross Margins improved by 2.8%, equivalent to a net saving of Rs. 12.90 crores.
- \* Earnings per share increased to Rs. 6.00 compared to Rs. 5.72 in the previous year.
- \* Export earnings grew by 24% from Rs. 35.19 crores to Rs. 43.59 crores.
- \* Equity dividend is being maintained at 35%.

### Summarised Financial Results

	April '98 March '99 Rs. Lakhs	April '97 March '98 Rs. Lakhs
Total Income	47648.92	45277.31
Profit before interest, depreciation and taxation	3837.29	3171.99
Interest	986.44	555.80
Depreciation	1038.52	811.83
Provision for taxation	185.00	253.00
Profit after taxation	1627.33	1551.36
Add: Balance brought forward	1091.58	983.46
Transfer from Foreign Projects Reserve	32.00	—
Total available for appropriation:	2750.91	2534.82
Less: General Reserve	500.00	400.00
Dividend	948.40	948.40
Corporate Dividend Tax	104.32	94.84
Balance carried forward	1198.19	1091.58

### Dividends

The Directors propose maintaining the equity dividend at Rs. 3.50 per share. The dividend will absorb Rs. 10.53 crores including Corporate Dividend Tax. In view of the proposed spin-off of International Software Division effective October 1, 1998 profits of this division for the period October 1, 1998 to March 31, 1999 have been set aside and not considered while proposing the dividend.

### Operating Results

With the continued slowdown in business and severe competitive pressure on selling prices, there was a corporate thrust on reducing material costs. Gross margins improved from 23.0% to 25.8% through a combination of value engineering and efficient procurement.

Strict control of headcount kept the growth in employee expenses at under 5% while Operating and General Expenses (excluding interest) increased by 10%. Due to substantially higher borrowings, interest costs went up by Rs. 4.31 crores, an increase of 77% over the previous year.

A new technical licensing agreement was signed with York International for manufacturing the latest range of centrifugal and screw chillers at Thane.

### Financial Position

The Company has over the last few years made substantial investments in fixed assets to support business operations. Due to slow collections in a tight market the level of debtors also increased sharply. As a result of both these factors loan funds increased by Rs. 22.06 crores which remains a cause for concern.

### Software Spin-off

Shareholders have approved a proposal for spin-off of the International Software Division into a separate Company, Blue Star Infotech Ltd., (BSIL). Lengthy Court proceedings have delayed implementation of the Scheme. The Petitions are now kept for final hearing and High Court approval is expected shortly.

Upon the Scheme being implemented, the software business will be deemed to have been transferred effective October 1, 1998. Therefore, the profit of the