

BOARD OF DIRECTORS

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

Atul C Choksey

Pradeep Mallick

Minoo R Shroff

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani
Chairman & Chief Executive

Suneel M Advani
President & Vice Chairman

T G S Babu
Executive Director

V V Inamdar
Executive Vice President

Satish Jamdar
Executive Vice President

Neeraj Seth
Executive Vice President

Arun Khorana
Vice President - Electronics Division

Ranajit Majumdar
Vice President - Human Resources & Quality

Avinash Pandit
Vice President - Packaged Airconditioning Division

H Rajaram
Vice President - Finance

S Sankaran
Vice President - Airconditioning Projects Division

N Sivasankaran
Vice President - Central Airconditioning Service Division

B Thiagarajan
Vice President - Corporate Affairs & Communications

COMPANY SECRETARY

K P T Kutty

BANKERS

The Hongkong & Shanghai Banking Corporation Ltd
State Bank of India
Oriental Bank of Commerce
ABN - AMRO Bank
BNP Paribas
Abu Dhabi Commercial Bank Ltd

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata
Fraser & Ross, Chennai
Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd
C-13, Pannalal Silk Mills Compound
L B S Marg, Bhandup (West)
Mumbai 400 078.
Telephone: 91-22-2592 3837
Fax: 91-22-2567 2693

REGISTERED OFFICE

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Mumbai 400 020.
Telephone: 91-22-5665 4000
Fax: 91-22-5665 4151
www.bluestarindia.com



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Letter from the Chairman



DEAR SHAREHOLDER,

It is heartening that after several years of slow revenue growth, Blue Star's Total Income last year showed renewed vigour and crossed the Rs.600 crore milestone. This was largely the result of our more competitive posture aided by a moderate improvement in the economic environment.

Significant Developments

With competitive pressures creating ever higher customer expectations while driving prices downwards, our core airconditioning and refrigeration business has clearly entered a different era. A new marketing approach is required. The old business model of direct selling to customers is too inefficient and unresponsive to meet more demanding customer needs. We have increasingly been replacing it with dealerised distribution for sales and after-sales service of small and medium-sized equipment. This approach also offers the additional advantage of being closer to customers in smaller towns. Today, only large central plants that are technically complex are handled by our own engineers; the rest are handled by our dealers supported by our marketing and technical experts.

Another major change that gained momentum last year was the record number of innovative new products designed by our product development team and efficiently manufactured at our three plants in Thane, Bharuch and Dadra. For all but the big chiller designs and special applications, we have become self-reliant; a far cry from the time, only a few years ago, when the Company was compelled to buy most of its product knowhow and customers had to be content with virtually the same old products year after year. Today, we can confidently claim that even against formidable multinational competition, our new product innovations are quite competitive.

One of the continuing success stories in Blue Star's business portfolio is the distribution and service of professional electronics and industrial equipment. Though it is a distinctly different business from our core AC&R activities, it is one that we have successfully handled since the '50s. However, in spite of the differences, there is a common thread running through Blue Star's business lines and that is technology and engineering manpower. Our electronics team is adept at harnessing new technology to meet emerging business opportunities. They have demonstrated a consistent ability to grow rapidly and produce enviable bottom line results.



A breakthrough on the human relations front last year was a fresh approach to the traditional relationship between the Company and its unions. Management made determined efforts to demonstrate that by working together we can power the future progress of the Company thereby providing greater benefits to all its stakeholders. There was an encouraging response to this initiative. This led to the signing of fresh settlements at Bharuch, Ahmedabad, Kolkata and Delhi as a result of the renewed mutual confidence in each other.

Financial Performance

The attached Annexure summarises Blue Star's financial results and key performance indicators. Virtually all the parameters improved over the previous year with the exception of the sharp decrease in Gross Margin and a moderate decline in Operating Margin. In spite of the squeeze on margins, profits were up with improvement in the profitability ratios – Return on Capital Employed and Return on Shareholders' Funds - helped by the lean Balance Sheet. On the whole, I am satisfied with the performance and the strong financial position of the Company.

Shareholder Value

Last year the Company had announced a share buyback as the best way of utilizing spare cash to enhance shareholder value. The year-long buyback closed on February 3, 2003, having been moderately successful in reducing the paid up capital by 11.5%. It is interesting and, in a way, gratifying to learn that even though the Company was willing to buy additional shares at the maximum announced price of Rs.75 per share, most shareholders were satisfied holding on to their shares.

Another measure of shareholder confidence is that since the first announcement of the buyback, the market price of our share has appreciated from an average price of Rs.36 in October 2001 to Rs.81 in March 2003 and is currently quoting in the Rs.105-110 range. This amounts to a tripling of the share price in 20 months.

Shareholders are clearly happy with Blue Star's performance and value proposition. I am confident that with low interest rates and favourable tax treatment for dividends, our high dividend payout policy based on sound financial performance will continue to offer the best shareholder value in the Company's 60th year and in years to come.

Mumbai : June 5, 2003.

ASHOK M ADVANI
Chairman & Chief Executive



Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs.in crores)

	2002-03	2001-02
Total Income	601.06	517.32
Growth over Previous Year	+ 16%	+ 1%
Operating Profit (PBDIT)	52.59	45.83
Profit Before Tax	40.18	27.33
Growth over Previous Year	+ 47%	+ 7%
Profit After Tax	31.04	27.45
Growth over Previous Year	+ 13%	+ 17%
Shareholders' Funds	115.52	111.41
Borrowings	12.05	12.09
Capital Employed	127.57	123.50
Operating Cash Flow	26.02	45.38

KEY RATIOS

	2002-03	2001-02
Gross Margin	23.5%	25.6%
Operating Margin	8.7%	8.9%
Return on Capital Employed	33.3%	26.7%
Return on Shareholders' Funds	26.9%	24.6%
Earnings Per Share (Rs.)	16.79	13.52
Dividend Per Share (Rs.)	9.00	6.50
Capital Turnover	4.71	4.19
Debt/Equity	0.10	0.11
Inventory Turnover	6.60	6.54
Receivables (Days Billings Outstanding)	62	64



Board of Directors



Ashok M Advani

Chairman & Chief Executive

Ashok M Advani is an MBA from the Harvard Graduate School of Business Administration, an Electrical Engineer from MIT, USA and a B Sc (Honours) from Mumbai University.

He joined Blue Star in 1969 and held a variety of senior positions in manufacturing and finance in the Company before he took over the Company's affairs as Chairman & Chief Executive in 1984. Ashok is also the Vice Chairman of Blue Star Infotech Limited.

He has been a member of the Local Advisory Board of The Chase Manhattan Bank and a past President of the Bombay Chamber of Commerce and Industry.

Suneel M Advani

President & Vice Chairman

Suneel M Advani is a double graduate in Electrical Engineering and Economics from MIT, USA. He also holds a degree in Law from Bombay University.

He joined Blue Star in 1969 as a Management Trainee and moved up steadily by holding responsible positions before he was elevated to the position of President and Vice Chairman in 1984. Suneel is also the Chairman of Blue Star Infotech Limited, Blue Star Infotech (UK) Limited, Blue Star Infotech Malaysia and Blue Star Infotech America, Inc., apart from being on the board of Arab Malaysian Blue Star Sdn Bhd.

Suneel is the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA) and is actively involved in CII and other trade associations.



T G S Babu

Executive Director

T G S Babu is an Engineering Graduate from IIT, Madras and has done his MBA from IIM, Ahmedabad. He has been working with Blue Star from 1977 in various positions, except for a four-year period when he worked with MRF Ltd as GM Sales.

Prior to his current appointment, T G S Babu was Executive Vice President. Under his leadership, Blue Star's central airconditioning business has achieved a clear market leadership and continues to grow at a healthy rate.

Atul C Choksey

Director

Atul Choksey is a B.S. in Chemical Engineering from Illinois Institute of Technology, USA and is a leading industrialist. He joined the Board of Blue Star in 1996.

He is on the Board of several leading companies such as Apcotex Lattices, Ceat, Finolex Cables and Marico Industries amongst others. He is also on the Board of Cricket Club of India. Atul has been a past President of Bombay Chamber of Commerce and Industry and is associated with several industrial and social organizations.





Pradeep Mallick

Director

Pradeep Mallick is a B.Tech from IIT, Madras and Diploma holder in Business Management from UK. He is also a Chartered Engineer and Fellow of the Institution of Electrical Engineers, London. Before joining Wartsila India Limited as its Managing Director in 1988, he worked with several leading companies such as Crompton Greaves, Tata Exports and General Electric, to name a few. Currently, he is an advisor to Wartsila India Ltd. He joined the Board of Blue Star in January 2003.

Pradeep is also on the Board of several other leading companies such as Schenectady – Beck India, Tata Telecom, and on the Indian Advisory Board of ING Bank. In addition, he is associated with several industrial associations such as Confederation of Indian Industry, Bombay Chamber of Commerce & Industry and social organizations like Population First and Dignity Foundation.

Minoo R Shroff

Director

Minoo Shroff is a Science Graduate and Fellow Member of Management Accountants and Cost and Works Accountants. A well known economist and financial expert, he has been an advisor to several leading industrial groups for over 30 years.

He joined the Board of Blue Star in 1982. In addition to Blue Star, he is also on the Board of leading companies like Raymond, Nicholas Piramal India, Nagarjuna Oil Corporation and Amzel Automotive to name a few. After holding responsible positions in several leading professional, industrial and cultural organizations, he is currently the Chairman of one of the largest public trusts – The Bombay Parsi Panchayat.



Gurdeep Singh

Director

Gurdeep Singh is a Chemical Engineering Graduate from IIT, Delhi. After his graduation, he joined Hindustan Lever Ltd as a Management Trainee. He held various responsible positions in the Company before he was expatriated to Brazil as Technical Director of Unilever Detergents business.

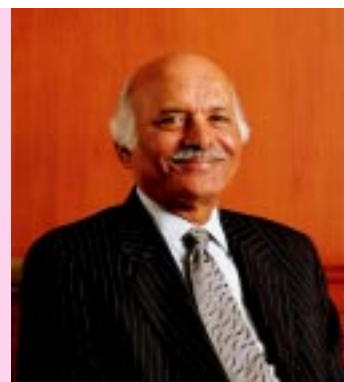
In 1998, Gurdeep returned to Hindustan Lever and is currently the Director – Human Resources, Corporate Affairs and Technology. He joined the Board of Blue Star in May 2003. He is also the Co-Chairman of Nepal Lever, and on the Board of Hindlevar Chemicals, Sivalik Cellulose and Levers Associated Trust.

Suresh N Talwar

Director

Suresh Talwar is a Commerce & Law Graduate. He is a solicitor and the Senior Partner of the Crawford Bayley & Company, and is also a legal counsel to various Indian companies, multinational corporations and Indian and foreign banks.

He joined the Board of Blue Star in 1986. In addition to Blue Star, he is also on the Board of several leading companies such as Merk, Cadbury India, Sandvik Asea, Esab India, Johnson & Johnson, Madura Coats, Uhde India and Wyeth Lederle amongst others.



Executive Committee



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T G S Babu
Executive Director



V V Inamdar
Executive Vice President



Satish Jamdar
Executive Vice President



Neeraj Seth
Executive Vice President



Corporate Management



Ashok M Advani
Chairman & Chief Executive



Suneel M Advani
President & Vice Chairman



T C S Babu
Executive Director



V V Inamdar
Executive Vice President



Satish Jamdar
Executive Vice President



Neeraj Seth
Executive Vice President



Arun Khorana
Vice President
Electronics Division



Ranajit Majumdar
Vice President
Human Resources & Quality



Avinash Pandit
Vice President
Packaged Airconditioning Division



H Rajaram
Vice President - Finance



S Sankaran
Vice President
Airconditioning Projects Division



N Sivasankaran
Vice President
Central Airconditioning Service Division



B Thiagarajan
Vice President
Corporate Affairs & Communications



Directors' Report

The Directors are pleased to present their 55th Annual Report and the Audited Accounts for the year ended March 31, 2003.

HIGHLIGHTS OF 2002-03

- Total income grew by 16% and crossed the Rs.600 crore mark.
- Profit Before Tax recorded a sharp increase of 47% to reach Rs.40.18 crores while Profit After Tax climbed to Rs.31.04 crores from Rs.27.45 crores in the previous year.
- Borrowings were maintained at the same level despite higher revenues. Interest cost came down for the second year in succession by 60% resulting in a saving of Rs.3.34 crores.
- Earnings per share increased to Rs.16.79 as against Rs.13.52 last year while book value increased by 20% to Rs.64.22 per share.
- The Directors have proposed an equity dividend of 90% including a Special Diamond Jubilee dividend of 25%.

SUMMARISED FINANCIAL RESULTS

(Rs.in crores)

	April 2002 - March 2003	April 2001 - March 2002
Total Income	601.06	517.32
Profit before interest, depreciation and taxation	52.59	45.83
Interest	2.25	5.59
Depreciation	10.16	12.91
Profit before tax	40.18	27.33
Provision for taxation	9.57	2.28
Add : Deferred Tax	0.43	0.31
Add : Prior years tax adjustment	—	2.09
Profit after tax	31.04	27.45
Add : Balance brought forward	11.30	14.85
- Transfer from Foreign Projects Reserve	0.39	0.55
- Excess Provisions for Proposed Dividend write back	0.37	—
Total available for appropriation	43.10	42.85
Less : General Reserve	8.00	19.00
- Proposed Dividend	16.19	12.55
- Corporate Dividend Tax	2.07	—
Balance carried forward	16.84	11.30

