



Contents

Letter from the Chairman	2
Annexure to Letter from the Chairman	5
Board of Directors	6
Corporate Management	8
Directors' Report	10
Annexure to Directors' Report - A	15
Annexure to Directors' Report - B	17
Report of the Directors on Corporate Governance	18
Management Discussion and Analysis	25
The Dynamics of Blue Star's Growth	38
Auditors' Report	40
Balance Sheet	44
Profit & Loss Account	45
Schedules to the Accounts	46
Notes forming part of the Accounts	53
Cash Flow Statement	70
Investor & Shareholder Information	72

BOARD OF DIRECTORS

Ashok M Advani

Executive Chairman

(w.e.f.July 1, 2009)

Suneel M Advani

Vice Chairman & Managing Director

Satish Jamdar

Managing Director

(w.e.f.July 1, 2009)

T Gouri Sankara Babu

Deputy Managing Director

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

CORPORATE MANAGEMENT

Ashok M Advani

Executive Chairman

(w.e.f.July 1, 2009)

Suneel M Advani

Vice Chairman & Managing Director

Satish Jamdar

Managing Director

(w.e.f.July 1, 2009)

T Gouri Sankara Babu

Deputy Managing Director

Vir S Advani

President - Corporate Affairs & Special Projects

(w.e.f.July 1, 2009)

Avinash Pandit

President - Electro Mechanical Projects Group

B Thiagarajan

President - Channel Business Group

(w.e.f.July 1, 2009)

J M Bhambure

Executive Vice President - R&D and Manufacturing

Manek Kalyaniwala

Executive Vice President - Finance

Arun Khorana

Executive Vice President

- Professional Electronics & Industrial Systems Division

R Aravindan

Vice President - Packaged Airconditioning Division

Sumanta Chaudhuri

Vice President - Electrical Projects Division

R G Devnani

Vice President - Dadra & Bharuch Plant

Harish Govind

Vice President - Human Resources and Administration

A Rakesh Rao

Vice President - Airconditioning & Projects Division (North)

P Venkat Rao

Vice President - Room Airconditioners & Refrigeration Products Division

D P Singh

Vice President - Infrastructure Projects Division

K P Sukumar

Vice President - Airconditioning & Refrigeration Service Division

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

AUDITORS

K S Aiyar & Company, Mumbai

BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata

Sharp & Tannan, Chennai

Mohinder Puri & Company, New Delhi

REGISTRARS & SHARE TRANSFER AGENTS

Link Intime India Pvt Ltd

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REGISTERED OFFICE

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Letter from the Chairman

DEAR SHAREHOLDER,

2008-09 was a year of radical change for Blue Star. The year started well, but by the end of Quarter 1 (Q1), the sudden drop in product sales made it evident that the business slowdown had begun. Deteriorating market conditions required quick decisions and adjustments to cope with a new emerging reality. That we successfully faced the business challenges and ended a difficult year on a positive note is an achievement that I would like to explain more fully.



Ashok M Advani

The attached Annexure summarises the financial performance and key ratios for 2008-09 in comparison with the previous year. The effect of the slowdown is clearly visible with Total Income growth reducing from 41% to 13%. When one recalls that 2007-08 had set records for growth with performance ratios reflecting excellent financial results, it is gratifying that the Company was able to maintain a similar high level of financial performance under adverse business conditions.

Operating Profit grew by 16% to Rs. 272.71 crores, with the Operating Margin actually improving to 10.6%. Profitability ratios remained high while the Balance Sheet continued to reflect a solid financial position.

The financial results might imply that 2008-09 was another year of business as usual; the reality was very different. Economic uncertainty and unprecedented volatility in markets increased the financial risks of even normal business activities like demand forecasting, material planning and procurement, and cash management.

In such an unpredictable scenario, Blue Star's approach was prompt, flexible and prudent. Early in Q2, we decided on an aggressive plan to cut costs and maintain liquidity. There were many areas that needed attention including:

- Control of employee costs (by restricting recruitment even for vacancies caused by attrition).
- Cut in operating and discretionary expenses.
- Restricted capital expenditure (except for essential and on-going projects).
- A major corporate-wide profit improvement plan with the involvement of international consultants.
- Cash collections and inventory control to ensure liquidity and lower interest costs.
- Pursuit of selected growth segments in an otherwise slowing economy.

These decisions came into effect from August '08. Sales had already started reflecting the decelerating trend in top line growth. However, due to a time lag, the cost reduction and profit improvement measures took a while to begin working. So Q2 and Q3 was a worrying and stressful period for the entire organisation because profit was under pressure. But by Q4, the cumulative effects of months of dedicated and focused efforts, aided by a favourable trend in raw material costs, became evident: The year ended well on the profit front.

BUSINESS SEGMENTS

All 3 lines of business felt the impact of the economic slowdown. Revenue growth ranged between 13% and 21%, substantially lower than the previous year. In spite of the business downturn, all 3 posted reasonable profit results with increases ranging from 12% to 29%. The Company's diversified business activities brought a reassuring balance and stability to the overall financial performance. While there were no stars, neither were there any losers that could be a serious drag on the Company.

Electro Mechanical Projects and Packaged Airconditioning Systems accounted for 70% of total revenues. Billings grew 15%, while segment results increased by 12%. Growth was affected by the slowdown in construction, retail and information technology segments. This was cushioned by the newly acquired electrical projects business that picked up momentum. Large infrastructure projects and growth in healthcare, hotels and education segments also offered attractive business potential.

Cooling Products achieved reasonable sales especially in the expanding split airconditioner market. Overall sales growth was 13%, while segment results increased by 29%. A feature of this segment is the strategy of avoiding commoditised businesses through a policy of differentiation that permits better pricing. A trained, dealerised network improves market coverage to deliver profits in a highly competitive business.

Professional Electronics and Industrial Systems was able to minimise the effects of the slowdown by focusing on specialised projects, systems design and integration, and technical services. Business grew 21%, while segment results were up 25%.

BLUE STAR'S FINANCIAL MODEL

Electro Mechanical Projects and the Cooling Products business are both mature, competitive markets. Yet, in recent years, Blue Star has demonstrated a track record of sustained profitable growth while maintaining a lean balance sheet. The financial model that enables this happy state of affairs has a couple of key features:

- Keep annual growth in operating expenses lower than the growth in gross margin to achieve higher profits.
- Avoid capital intensive activities and focus on efficient use of working capital to achieve healthy cash flow.

Increasing profits when income and gross margin are growing fast does not take great skill. It is when business growth slows that profitability comes under pressure. Clearly, in such a situation, costs have to be brought in line with gross margin if profit is to be maintained.

As I explained earlier, our cost control drive last year progressively reduced the total expense growth rate for the year down to about the growth rate of gross margin. This ensured that profit was sustained for the year. In fact, by Q4, total expenses dropped to the level of 2007-08 Q4, whereas gross margin actually grew by 13%. This resulted in a healthy 35% boost to Profit Before Tax (excluding exceptional items) for the quarter.

The second aspect of our financial model is to maintain a lean balance sheet with low debt. Last year, by focusing on profits and maintaining tight inventory control, we generated a record operating cash flow of Rs. 169.72 crores, even

though the credit squeeze made collection of sundry debtors very difficult. This enabled the Company to end the year with borrowings of only Rs. 23.60 crores and debt/equity of 0.06, both lower than the previous year.

The financial strength that high profit and low financial leverage provide is a confirmation that they are important performance drivers of the business. Even in the current economic slowdown, the Company has the cash flow to pay a generous dividend, fund capital expenditure, finance moderate business acquisitions and handle additional working capital needs without resorting to excessive debt. In short, we have a self-sustaining and robust financial model that has demonstrated its relevance under a variety of business situations over a number of years.

CORPORATE REORGANISATION

With 2008-09 successfully behind us, it was time to take up the important matter of organisational development and succession planning at the top management level. Accordingly, at its meeting on May 15, 2009, the Board of Directors considered and approved the following changes with effect from July 1, 2009:

- I will be redesignated Executive Chairman
- Satish Jamdar will be promoted as Managing Director

Below Board level, 3 Presidents and 3 Executive Vice Presidents will be responsible for major businesses groups and support activities each under a working director. More information on the individuals and their responsibilities are provided in the listing under Corporate Management at the beginning of this Annual Report.

Essentially, the reorganisation is part of the process of the Chairman and Vice Chairman progressively handing over operating responsibility to a younger team of capable professional managers. As 'Promotors', my brother, Suneel and I intend to remain active in planning and guiding the future of the Company, organisational development, evaluating business opportunities, allocating resources and monitoring business performance.

At this time, Blue Star is in a sound financial position. Our people have demonstrated discipline and agility in quickly adapting to an uncertain economic environment. So it is a good opportunity to address the future. We have great confidence in the competence of Satish Jamdar and the new top management team to take on the challenge. As the economy revives, I am sure that our strong position in the market will see us back on the high growth path.

ASHOK M ADVANI

Mumbai : May 29, 2009

Chairman & Managing Director

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2008-09 Audited	2007-08 Audited
Total Income	2574.04	2270.09
Growth over Previous Year	+13%	+41%
Operating Profit (PBDITA) excl. Non-Operating Income	272.71	234.49
Growth over Previous Year	+16%	+100%
Profit Before Tax	238.22	242.02
Growth over Previous Year	- 2%	+161%
Profit After Tax	180.29	174.09
Growth over Previous Year	+4%	+145%
Shareholders' Funds	367.13	263.55
Borrowings	23.60	36.54
Capital Employed	391.34	303.67
Operating Cash Flow	169.72	133.78

Key Ratios

	2008-09 Audited	2007-08 Audited
Gross Margin (excl. Non-Operating Income)	24.1%	24.3%
Operating Margin (excl. Non-Operating Income)	10.6%	10.5%
Return on Capital Employed	61.0%	81.4%
Return on Shareholders' Funds	49.1%	66.1%
Earnings Per Share (Rs.)	20.04	19.36
Dividend Per Share (Rs.)	7.00	7.00
Capital Turnover	6.56	7.48
Debt/Equity	0.06	0.14
Inventory Turnover	9.40	6.18
Receivables (Days Billings Outstanding)	92	79

Board of Directors



Ashok M Advani, Executive Chairman (w.e.f. July 1, 2009)

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. He was redesignated as Chairman & Managing Director in 2005 and Executive Chairman with effect from July 1, 2009. As Executive Chairman, he oversees Corporate Strategy, Corporate Governance, Investor Relations and Corporate Social Responsibility.

Ashok is the Vice Chairman of Blue Star Infotech Limited and on the Board of Alfa Laval (India) 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, Vice Chairman & Managing Director

Suneel M Advani is a double graduate in Electrical Engineering and Economics from MIT, USA. He also holds a degree in Law from Mumbai 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. He was redesignated as Vice Chairman & Managing Director in 2005. As Vice Chairman & Managing Director, he oversees the Electro Mechanical Projects Group, Corporate Communications & Marketing and Public Relations.

Suneel is also the Chairman & Managing Director of Blue Star Infotech Limited, Chairman of Blue Star Design & Engineering Limited, Blue Star Infotech (UK) Limited and Blue Star Infotech America, Inc. Suneel is a Member of the CII National Council, the apex governing body of CII. Besides, he is also associated with other trade associations and was the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA).



Satish Jamdar, Managing Director (w.e.f. July 1, 2009)

Satish Jamdar is a Mechanical Engineering graduate from IIT Bombay and also qualified in Systems Management from NIIT and Management Studies from UK and USA. He joined Blue Star in 1996 as Vice President – Manufacturing and has over 35 years of experience in manufacturing, materials management and IT projects having worked for companies such as Siemens, BPL-Sanyo and Alstom.

Satish spearheaded the establishment of Blue Star's modern state-of-the-art manufacturing facility at Dadra in 1997, at Himachal Plant in 2005 and at Wada in 2008. He was promoted as Executive Director in 2003 and Deputy Managing Director in 2007 prior to his current appointment as Managing Director. As Managing Director, Satish is responsible for all the Company's operations and support activities except those reporting to the Executive Chairman and Vice Chairman & Managing Director.



T Gouri Sankara Babu, Deputy Managing Director

T Gouri Sankara 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.

Babu was promoted to Executive Director in 2000 and Deputy Managing Director in 2007. He oversaw the channel business activities of the Company including packaged airconditioning, room airconditioners, commercial refrigeration products and systems as well as human resources. With effect from July 1, 2009, he has relinquished his operating role and is responsible for special corporate developmental assignments.

T Gouri Sankara Babu has been the President of RAMA and is actively involved in other trade associations.

**Shailesh Haribhakti, Director**

Shailesh Haribhakti is a Fellow member of the Institute of Chartered Accountants of India. He is also a Graduate Cost Accountant, Certified Internal Auditor, Certified Fraud Examiner and Certified Financial Planner. He joined M/s. Haribhakti & Co, Chartered Accountants, Mumbai as Deputy Managing Partner in 1978 and is currently its Managing Partner.

Shailesh joined the Board of Blue Star in 2005. In addition to Blue Star, he is also on the Boards of several leading companies such as Ambuja Cement, Akruti, ACC and Pantaloons amongst others. He has been associated with several institutions and trade associations such as Indian Merchants' Chamber, Institute of Internal Auditors, Bombay Management Association, ASSOCHAM, Western India Regional Council of ICA and NMIMS. In addition, he is empanelled as an Arbitrator by the Indian Council of Arbitration.

**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 Engineering & Technology, London. Pradeep was the Managing Director of Wartsila India Limited from 1988 to 2003, prior to which he worked with several leading companies in the field of electrical power transmission and distribution. He joined the Board of Blue Star in 2003.

Pradeep is also on the Boards of several other leading companies including Elantas Beck India, ESAB India, Mount Everest Mineral Water and Tube Investments of India. In addition, he is associated with Industry Associations such as Confederation of Indian Industry, Bombay Chamber of Commerce & Industry and social organizations like Population First.

**Gurdeep Singh, Director**

Gurdeep Singh is a Chemical Engineering Graduate from IIT Delhi. After his graduation, he joined Hindustan Lever Limited 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 as the Director - Human Resources and Corporate Affairs. He retired as Senior Vice President – Corporate Affairs in April 2006. He joined the Board of Blue Star in 2003. He is also on the Boards of Halonix, Perfect Circle and Technova India.

**Suresh N Talwar, Director**

Suresh N Talwar is a Commerce & Law Graduate and a solicitor and Partner of M/s Talwar, Thakore & Associates, Mumbai. Before setting up this firm in April 2007, he was the Senior Partner of Crawford Bayley & Company. He joined the Board of Blue Star in 1986. In addition to Blue Star, he is also on the Boards of several leading companies such as Merck, Cadbury India, Larsen & Toubro, Greaves Cotton, Sandvik Asia, ESAB India, Johnson & Johnson, Uhde India and Wyeth amongst others

Corporate Management

DIRECTORS



Ashok M Advani
Executive Chairman
(w.e.f. July 1, 2009)



Suneel M Advani
Vice Chairman & Managing Director



Satish Jamdar
Managing Director
(w.e.f. July 1, 2009)



T Gouri Sankara Babu
Deputy Managing Director

PRESIDENTS



Vir S Advani
President - Corporate Affairs & Special Projects
(w.e.f. July 1, 2009)



Avinash Pandit
President - Electro Mechanical Projects Group



B Thiagarajan
President - Channel Business Group
(w.e.f. July 1, 2009)