



## BOARD OF DIRECTORS

Ashok M Advani  
*Executive Chairman*

Suneel M Advani  
*Vice Chairman & Managing Director*

Satish Jamdar  
*Managing Director*

Vir S Advani  
*Executive Director*

Shailesh Haribhakti  
Pradeep Mallick  
Gurdeep Singh  
Suresh N Talwar

## COMPANY SECRETARY

Sangameshwar Iyer

## BANKERS

The Hongkong & Shanghai Banking Corporation Ltd  
State Bank of India  
Oriental Bank of Commerce  
The Royal Bank of Scotland  
BNP Paribas

## AUDITORS

S R Batliboi & Associates

## REGISTRARS & SHARE TRANSFER AGENTS

Link Intime India Pvt Ltd  
C-13, Kantilal Maganlal Estate  
Pannalal Silk Mills Compound  
L B S Marg, Bhandup (West)  
Mumbai 400 078.  
Telephone: +91 22 2594 6970  
Fax: +91 22 2594 6969  
Email: [rnt.helpdesk@linkintime.co.in](mailto:rnt.helpdesk@linkintime.co.in)

## REGISTERED OFFICE

Kasturi Buildings  
Mohan T Advani Chowk  
Jamshedji Tata Road  
Mumbai 400 020.  
Telephone: +91 22 6665 4000  
Fax: +91 22 6665 4151  
[www.bluestarindia.com](http://www.bluestarindia.com)

## CORPORATE MANAGEMENT

Ashok M Advani  
*Executive Chairman*

Suneel M Advani  
*Vice Chairman & Managing Director*

Satish Jamdar  
*Managing Director*

Vir S Advani  
*Executive Director*

Avinash Pandit  
*President - Electro Mechanical Projects Group*

B Thiagarajan  
*President - Airconditioning & Refrigeration Products Group*

J M Bhambure  
*Executive Vice President - R&D and Technology*

Tojo Jose  
*Executive Vice President- Human Resources & Administration*

Manek Kalyaniwala  
*Executive Vice President - Finance*

Arun Khorana  
*Executive Vice President  
- Professional Electronics & Industrial Systems Division*

G Anandkumar  
*Vice President - Plumbing Projects Division*

R Aravindan  
*Vice President - Airconditioning Projects Division (South)*

Sujan Chatterjee  
*Vice President - Corporate Finance & Accounts*

Sumanta Chaudhuri  
*Vice President - Electrical Projects Division*

R G Devnani  
*Vice President - Thane, Wada, Dadra & Bharuch Plants*

C P Mukundan Menon  
*Vice President - Room Airconditioners Division*

P Venkat Rao  
*Vice President - Packaged Airconditioning Division  
& Refrigeration Products Division*

D H Roy  
*Vice President - Himachal Plants*

D P Singh  
*Vice President - Infrastructure Projects Division*

K P Sukumar  
*Vice President - Airconditioning & Refrigeration Service Division*

# Contents

Letter from the Chairman .....	1
Annexure to Letter from the Chairman .....	3
Board of Directors .....	4
Corporate Management .....	6
Directors' Report .....	8
Annexure to Directors' Report - A .....	12
Report of the Directors on Corporate Governance .....	15
Management Discussion and Analysis .....	23
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 .....	54
Cash Flow Statement .....	74
Consolidated Auditors' Report .....	76
Consolidated Balance Sheet .....	78
Consolidated Profit & Loss Account .....	79
Consolidated Schedules to the Accounts .....	80
Notes forming part of the Consolidated Accounts .....	86
Consolidated Cash Flow Statement .....	102
Investor & Shareholder Information .....	104



# Letter from the Chairman

## Dear Shareholder,

Blue Star's business growth picked up moderately in 2010-11 after a year of revenue stagnation with Total Income increasing by 14% to Rs. 2893 crores. That was one of the few positive developments in an extremely challenging year.

The Company was impacted by a combination of adverse external factors – rising input costs that squeezed gross margin by 2.4%; a general slowdown in commercial real estate projects leading to lower cash collections and mounting receivables on several of our electro mechanical projects; a substantial increase in borrowings and interest costs; and a higher income tax liability in spite of lower pre-tax profit.



**Ashok M Advani**, *Executive Chairman*

The Annexure to this letter reveals the effect of these factors on our financial results. To be quite honest, the overall picture is not pretty. A lower dividend, while not severe, has been recommended by the Board. In line with our belief that all stakeholders should “share the gain; share the pain”, employees and Directors have also taken appropriate cuts in their performance incentives and commissions.

The declining results are disappointing vis-à-vis the high standards we established in the past. This comparison is somewhat deceptive because of the “high base effect”. Compared to the operating margins, return on capital employed and return on shareholders’ funds of many other “average” companies, our figures do not look too bad. We still made reasonable profits and declared a respectable dividend.

I am not arguing that we should be satisfied with these results. We have set and achieved high standards in the past. We intend to reach the same standards again. But first we must understand what went wrong.

One of the important lessons of last year was that we were mistaken in expecting an acceleration of GDP growth in India and a moderation of inflation after a good monsoon. We were misled by over-optimistic economic forecasts from various sources. As the year went by, sharp increases in global commodity prices, especially key raw materials like copper, steel and oil-based products, caused a serious erosion in our gross margin. This could only be partly mitigated by raising prices.

In 2011-12, the macro-economic scene is very different from the past. Even though the Indian economy is growing, it has changed radically and become more unpredictable, volatile and complex. Markets, competition and customer expectations are now more challenging, and the Company needs to change fast enough to deal with the new realities. We should pay heed to the old dictum, “The past is no guide to the future.”

### BUSINESS SEGMENTS

The 3 business segments of Blue Star performed quite differently from each other. The most severely affected was the Electro Mechanical Projects and Packaged Airconditioning Segment. Revenues grew a modest 4%, while Segment results declined 18% and Capital Employed climbed substantially by 24%. Being, by far, the largest segment accounting for 65% of total revenues, its lack-lustre performance had a big effect on overall Corporate results.

The other 2 business segments performed much better. The Cooling Products Segment produced healthy revenue growth of 35% though profits increased a moderate 12% because of erosion of margins due to inflationary cost increases. Professional Electronics and Industrial Systems also grew very well. Revenues jumped 40%, but a change in business mix allowed only a 20% profit increase.

### BALANCE SHEET MANAGEMENT

One of Blue Star's strengths in recent years was a focus on efficient funds management and healthy cash flow that produced good profits to reward our stakeholders and provided resources for business growth. An additional strength was a conservative approach to debt that gave us a strong balance sheet and financial stability in turbulent times.

We did not leverage these strengths in our drive to grow when economic expansion slowed down in 2008 after the financial crisis. We were aggressive in booking new business in the deteriorating environment, but could not focus enough on cash flow and control of working capital. As a result, the balance sheet reflects much higher borrowings and interest costs that have climbed disproportionately.

### THE WAY FORWARD

It is clear that faced with a challenging business environment, there is much to be done to put the Company back on the path to profitable growth. The plan involves immediate short-term operational measures as well as longer-term strategic and organisational issues which are needed to build and sustain our competitive strength and better meet customer expectations.

The operational measures to cut costs, speed up cash collections, manage working capital more efficiently and improve manpower productivity have already begun and should start yielding results soon. But given the magnitude of the problems, it will take a concerted effort to restore a satisfactory level of operational efficiency.

The longer-term programme is part of a 3-year Strategic Plan that addresses a number of Corporate priorities. The major planks of this plan include (a) strengthening our R&D and product development capabilities, (b) building the technical and managerial skills of our engineers and managers, (c) upgrading customer support and service delivery, (d) modernising the project planning and execution process for electro mechanical projects, (e) consolidating and integrating the newly acquired businesses, (f) increasing market penetration in fast growing segments like residential and smaller towns.

These programmes need managerial commitment and substantial resources over a sustained period to yield results. Each one is important to reinforce Blue Star's leadership position in the long run. These are still early days and we have a long road ahead. But we will not waver because we are determined to succeed.

**Ashok M Advani**  
Executive Chairman

Mumbai : June 8, 2011

# Annexure to Letter from the Chairman

## BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2010-11 Audited	2009-10 Audited
Total Income	2892.91	2544.04
Growth over Previous Year	+14%	+1%
Operating Profit (PBITDA) excl. Non-Operating Income	282.67	305.84
Growth over Previous Year	-8%	+11%
Profit Before Tax	227.00	276.62
Growth over Previous Year	-18%	+16%
Profit After Tax	155.00	211.49
Growth over Previous Year	-27%	+17%
Shareholders' Funds	573.50	491.67
Borrowings	418.38	65.99
Capital Employed	991.88	557.67
Operating Cash Flow	(79.94)	91.08
Carry Forward Order Position	1967.9	1699.1
Growth Over Previous Year	+16%	+27%

## KEY RATIOS

	2010-11 Audited	2009-10 Audited
Gross Margin (excl. Non-Operating Income)	23.5%	25.9%
Operating Margin (excl. Non-Operating Income)	9.8%	12.0%
Return on Capital Employed	22.9%	49.6%
Return on Shareholders' Funds	27.0%	43.0%
Earnings Per Share (Rs.)	17.23	23.52
Dividend Per Share (Rs.)	7.00	8.00
Capital Turnover	2.92	4.56
Debt/Equity	0.73	0.13
Inventory Turnover	5.45	7.25
Receivables (Days Billings Outstanding)	99	91

# Board of Directors



**Ashok M Advani**  
Executive Chairman

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 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 and a Director of Blue Star Electro-Mechanical Limited. 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 & Airconditioning Manufacturers' Association (RAMA).



**Satish Jamdar**  
Managing Director

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.

After joining Blue Star, Satish spearheaded the establishment of Blue Star's modern manufacturing facilities in Dadra, Himachal and Wada. He was also responsible for corporate financial services, airconditioning and refrigeration service, international operations as well as the customised OEM business.

Satish was promoted as Executive Director in 2003, Deputy Managing Director in 2007 and Managing Director in 2009. In his current appointment as Managing Director, Satish oversees the operations and support services of the Company. Satish is also a Director of Blue Star Electro-Mechanical Limited.



**Vir S Advani**  
Executive Director

Vir S Advani holds a BS degree in Systems Engineering and a BA degree in Economics from the University of Pennsylvania. He has also completed a comprehensive Executive Management Programme on Leadership Development at Harvard Business School. Vir has been in the Blue Star Group for over a decade, after a 2-year working stint in New York.

In 2000, he joined Blue Star Infotech, and then founded Blue Star Design & Engineering in 2003, designated as its Chief Executive Officer. In 2007, he moved to Blue Star as Vice President - Corporate Affairs, where he made valuable contributions in a company-wide profit improvement programme as well as in electro mechanical projects, in a short span of time. He was promoted as Executive Vice President in 2008; President - Corporate Affairs & Special Projects in 2009 and Executive Director in 2010.

Vir is also a Director of Blue Star Design & Engineering Limited, Blue Star Electro-Mechanical Limited and JT Advani Finance Private Limited.



**Shailesh Haribhakti**  
Director

Shailesh Haribhakti is a Fellow member of Institute of Chartered Accountants of India. He is the Managing Partner of M/s Haribhakti & Co, Chartered Accountants and Chairman of BDO Consulting Pvt Ltd. He served a three-year term on the Standards Advisory Council of the International Accounting Standards Board.

Shailesh joined the Board of Blue Star in 2005. He is a Committee member of Futures & Options segment of National Stock Exchange of India and a Member of the SEBI Committee on Disclosures and Accounting Standards. He serves as Member of Managing Committees of ASSOCHAM and IMC and Corporate Governance Committees of ASSOCHAM and CII and is the Chairman of the Global Warming Committee of IMC. He is on the Board of Directors of several listed and private companies.



**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.

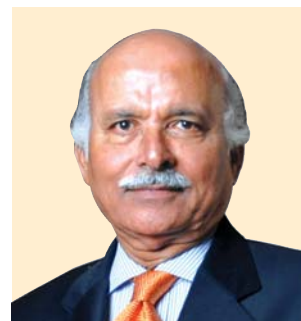
Pradeep is also on the Boards of several other leading companies including Automotive Stampings & Assemblies, Elantas Beck India, ESAB India, Mount Everest Mineral Water and Tube Investments of India. In addition, he is associated with Industry Associations such as CII, Bombay Chamber of Commerce & Industry 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.

Gurdeep returned to Hindustan Lever in 1998 as Director - Human Resources, Corporate Affairs and Technology, and retired from the Company in October 2003. He joined the Board of Blue Star in 2003. He is also on the Boards of several leading companies including Halonix, Gabriel India, Everest Kanto Cylinder, Renuka do Brazil S A and Tecnova India.



**Suresh N Talwar**  
Director

Suresh N Talwar is a Commerce & Law Graduate and 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, Larsen & Toubro, Greaves Cotton, Sandvik Asia, ESAB India, Johnson & Johnson and Uhde India, amongst others.



# Corporate Management

## Directors



**Ashok M Advani**  
*Executive Chairman*



**Suneel M Advani**  
*Vice Chairman & Managing Director*



**Satish Jamdar**  
*Managing Director*



**Vir S Advani**  
*Executive Director*

## Presidents



**Avinash Pandit**  
*President - Electro Mechanical  
Projects Group*



**B Thiagarajan**  
*President - Airconditioning &  
Refrigeration Products Group*

## Executive Vice Presidents



**J M Bhambure**  
*Executive Vice President -  
R&D and Technology*



**Tojo Jose**  
*Executive Vice President- Human  
Resources & Administration*



**Manek Kalyaniwala**  
*Executive Vice President  
- Finance*



**Arun Khorana**  
*Executive Vice President - Professional  
Electronics & Industrial Systems Division*

## Vice Presidents



**G Anandkumar**

Vice President - Plumbing Projects Division



**R Aravindan**

Vice President - Airconditioning Projects Division (South)



**Sujan Chatterjee**

Vice President - Corporate Finance & Accounts



**Sumanta Chaudhuri**

Vice President - Electrical Projects Division



**R G Devnani**

Vice President - Thane, Wada, Dadra & Bharuch Plants



**C P Mukundan Menon**

Vice President - Room Airconditioners Division



**P Venkat Rao**

Vice President - Packaged Airconditioning Division & Refrigeration Products Division



**D H Roy**

Vice President - Himachal Plants



**D P Singh**

Vice President - Infrastructure Projects Division



**K P Sukumar**

Vice President - Airconditioning & Refrigeration Service Division