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BOARD OF DIRECTORS

Ashok M Advani
Chairman

Suneel M Advani
Executive Vice Chairman

Satish Jamdar
Managing Director

Vir S Advani
*President - Electro Mechanical Projects Group
and 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

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Telephone: +91 22 6665 4000

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CORPORATE MANAGEMENT

Suneel M Advani
Executive Vice Chairman

Satish Jamdar
Managing Director

Vir S Advani
President - Electro Mechanical Projects Group and Executive Director

B Thiagarajan
President - Airconditioning & Refrigeration Products Group

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

Tojo Jose
Executive Vice President - Human Resources

Manek Kalyaniwala
Executive Vice President - Finance

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

P Venkat Rao
Executive Vice President- Central and Packaged Airconditioning Products

G Anandkumar
Vice President - Plumbing Projects Division

R Aravindan
Vice President - Airconditioning Projects Division, Southern Region

Sujan Chatterjee
Vice President - Corporate Financial Services

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 and Refrigeration Products & Systems

A Rakesh Rao
Vice President - Business Development, Electro Mechanical Projects Group

D H Roy
Vice President - Himachal Plants

D P Singh
Vice President - Infrastructure Projects Division

K P Sukumar
Vice President- Corporate Programmes

Rajendra Verma
Vice President - Airconditioning Projects Division, Northern & Western Regions

Letter from the Chairman

Dear Shareholder,

The past year was one that most of us in Blue Star would rather forget. It began somewhat innocuously on a modestly hopeful note. We had expectations of tackling the slowing economy and facing challenging market conditions in our usual determined



Ashok M Advani, Chairman

manner. But our confidence was shaken by some disturbing developments that came to light in Q1 itself.

The problems I am referring to pertain to Blue Star's biggest business, namely Electro Mechanical Projects Group (EMPG). It is basically a contracting business which involves system design and engineering, manufacture and procurement of equipment, project execution at job site, and commissioning.

The industrial economy has been slowing down for a couple of years especially in sectors such as infrastructure and capital goods. This has affected new order inflow and billings in EMPG Projects and Professional Electronics & Industrial Systems.

At the start of 2011-12, the tempo of many ongoing projects had reduced due to tight liquidity conditions leading to undue delay in collections from customers. This resulted in poor cash flow in the business, higher borrowings and increased interest cost. Because of inflationary conditions, the Company reviewed

the majority of projects under execution to assess actual costs incurred and expected costs to completion. The review revealed substantial cost over-runs and erosion of gross margin in the majority of the fixed price contracts. In accordance with Accounting Standard AS7, the cost increase was absorbed in the accounts for the year 2011-12 resulting in losses and reduced revenues.

As a corrective measure, we promptly issued strict guidelines for minimum gross margins and terms of payment for new order bookings. While the revised guidelines improved the quality of new business booked last year, they also further reduced the volume of business in the shrunken market. This decline in revenues is a price we have to pay until the economy revives, but it reinforces a sound business principle: Top-line growth is good only if it makes a profit for the Company.

One of the bright spots of the year was the growth of the room airconditioner and refrigeration products businesses. In an otherwise dull room airconditioner market which declined by 10%, the Company showed 25% growth by successfully expanding market coverage in the residential segment and mid-sized Tier III and Tier IV towns.

Persistent inflation had driven up raw material costs like copper, steel and oil-based raw materials. This led to a squeeze on gross margins across the board. For room airconditioners and refrigeration products with substantial import content, the problem was compounded by the depreciation in the exchange rate of the rupee.

Faced with such a variety of negative factors, the Company took decisive action on multiple fronts:

- Cash flow was the top priority that needed urgent attention. By September 2011, borrowings had climbed to over ₹600 crores. A Company-wide drive on collection of dues with careful control of cash outflows was able to bring total borrowings down by almost ₹250 crores by year-end. This creditable achievement did a lot to boost confidence. The emphasis on cash management continues in the current year with obvious benefits to the balance sheet and lower interest expenses.

- Price increases became unavoidable due to escalating input costs, but raising prices to maintain margins was only possible to a limited extent because of competitive pressures and customer resistance to higher prices.
- A longer term plan was initiated to address costs across the entire value chain including product design, value engineering, procurement, manufacturing, logistics and marketing. This should start yielding results in the current year.
- Since the decline in Corporate revenues will take time to reverse, control of operating expenses and overheads is essential. Employee expenses are being curtailed by trimming excess headcount and outsourcing various processes in support functions like administration, warehousing and payroll.

All this requires discipline and hard work and we have been making progress. With the worst behind us in 2011-12, the recovery process has begun. The Company expects to make a modest profit this year. A big concern continues to be the difficult and uncertain economic environment. Much depends on revival of economic growth which, when it happens, will help immensely in the drive back to good Corporate health. In the meanwhile, financial prudence must remain a Corporate priority.

Mumbai : June 20, 2012

Ashok M Advani
Chairman

Board of Directors



Ashok M Advani
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 in 2009. He has relinquished his position as the Executive Chairman, w.e.f. April 1, 2012 and continues as the Chairman of the Company.

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
Executive 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 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 of the Company in 2005. He has relinquished his position of Managing Director w.e.f. April 1, 2012 and is presently the Executive Vice Chairman of the Company.

Suneel is also the Chairman & Managing Director of Blue Star Infotech Limited; Chairman of Blue Star Infotech (UK) Limited and Blue Star Infotech America, Inc as well as 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 and 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 of the Company in 2009. In his current appointment as Managing Director, Satish oversees the operations and support services of the Company. He is also a Director of Blue Star Electro-Mechanical Limited and the Chairman of the CII Maharashtra State Council.



Vir S Advani
President, Electro
Mechanical Projects
Group and 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 of the Company in 2010. In July 2011, Vir took over the business operations of the Electro Mechanical Projects Group and was redesignated as President, Electro Mechanical Projects Group and Executive Director.

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 Chartered Accountant and the Chairman of BDO Consulting Pvt Ltd, which is the Indian Member Firm of the world's fifth largest accountancy network – BDO International. As Managing Partner of Haribhakti & Co, he is deeply involved in Auditing, Risk Advisory Services and Tax Services. He serves on the Board of over ten large Indian Companies and Chairs five Audit Committees. He joined the Board of Blue Star in 2005.

Shailesh's passion for quality reflects in ISO 9000 certification for various processes of the Group's operations. During a career span of over three decades, he has successfully established many innovative services. His current passions involve SME Ecosystem Transformation and Mentor Capital provision. He strongly believes in the virtues of Corporate Social Responsibility, Governance and promoting a greener environment. He actively promotes these causes through forums like ASSOCHAM, CII and the Indian Merchants' Chamber. He contributes towards their evolution by participating in the process of framing regulations and standards.



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, Foseco India 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 the 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, Technova India and Gateway Rail Frieght Ltd.



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, Larsen & Toubro, Greaves Cotton, Sandvik Asia, ESAB India, Johnson & Johnson and Uhde India, amongst others. His professional specialisation covers corporate law, corporate tax, foreign exchange laws, Restrictive Trade Practices laws and international issue of securities by Indian companies.

Directors' Report

The Directors are pleased to present their 64th Annual Report and the Audited Accounts for the year ended March 31, 2012.

SUMMARISED FINANCIAL RESULTS

(₹ in crores)

	April 2011 - March 2012	April 2010 - March 2011
Total Revenue	2724.59	2892.91
Profit (Loss) before Interest, Depreciation and Taxation	13.25	282.58
Financial Expenses	70.25	24.36
Depreciation	31.45	31.71
Add: Profit on sale of investments	-	0.43
Profit (Loss) before Tax	(88.45)	226.94
Taxes	0.70	71.94
Profit (Loss) after Tax	(89.15)	155.00
Add: Balance brought forward	279.77	213.44
Total available for appropriation	190.62	368.44
Less: General Reserve	-	15.50
Proposed Dividend	8.99	62.96
Corporate Dividend Tax	1.46	10.21
Balance carried forward	180.17	279.77

DIVIDEND

The Directors have proposed a dividend of ₹1.00 per equity share. The dividend will absorb ₹10.45 crores including Corporate Dividend Tax.

OPERATING PERFORMANCE

Total Revenue of the Company was ₹2724.59 crores for the year ended March 31, 2012 compared to ₹2892.91 crores in the previous year. Operating Profit Before Interest, Depreciation and Tax declined from ₹282.58 crores to ₹13.25 crores.

The sharp decline in Operating Profit was largely caused by a combination of factors in the Electro Mechanical Projects business in Segment 1. These included a slowdown in execution of projects due to delays in collections from customers; inflationary cost over-runs and erosion of gross margins on fixed price contracts; and higher expected costs for completion of ongoing projects. In accordance with Accounting Standard AS7, all these cost increases were absorbed in the accounts for 2011-12, resulting in losses and reduced revenues.

In the Cooling Products segment, while top-line growth was favourable, margins were under pressure due to higher input costs and significant increases in fuel and freight costs. Consequently, the segment result was marginally lower. The Professional Electronics and Industrial Systems business was also affected by the general business slowdown.

FINANCIAL PERFORMANCE

Finance costs increased sharply from ₹24.36 crores to ₹70.25 crores. This was partly due to higher interest on increased borrowings. In addition, there was a significant foreign exchange loss and cost of forward cover of ₹36.67 crores. Profit/(Loss) After Tax was a disappointing ₹(89.15) crores compared to ₹155 crores in the previous year.

EXPORT & FOREIGN EXCHANGE EARNINGS

Foreign exchange inflow for the year, including commission income, was ₹149.5 crores compared to ₹160.3 crores for the previous year. Foreign exchange outflow for the year was ₹544.4 crores as compared to ₹561.5 crores in the previous year.

SUBSIDIARY COMPANY

During the year, the Company made a further investment of ₹19.52 crores in the shares of the wholly owned subsidiary, Blue Star Electro-Mechanical Limited.

CONSOLIDATED RESULTS

The Annual Report also includes the Consolidated Financial Statements of the Company. This incorporates the results of the Company's wholly owned subsidiary, Blue Star Electro-Mechanical Ltd and its share in the results of its joint venture companies and associate company. The consolidated results for the year show a Total Revenue of ₹2843.03 crores compared to the previous year's ₹3012.59 crores and a Net Loss of ₹105.10 crores versus Profit After Tax of ₹160.96 crores in the previous year. In terms of the general permission granted by the Ministry of Corporate Affairs vide General circular no.2/2011, the Accounts of the subsidiary have not been attached with the accounts of the holding company. Any member desirous of obtaining the same will be provided with a copy thereof upon making a request to the Company.

AUDITORS

M/s S R Batliboi & Associates, Chartered Accountants, retire as Auditors of the Company at the forthcoming Annual General Meeting and have given their consent for re-appointment. As required under the provisions of section 224 of the Companies Act, 1956, the Company has obtained a written certificate from M/s S R Batliboi & Associates, Chartered Accountants, to the effect that their appointment, if made, would be in conformity with the limits specified in the said section.

In compliance with the provisions of Section 233B of the Companies Act, 1956 and with the prior approval of the Central Government, M/s ABK & Associates, Cost Accountants (Regn. No. 036) were appointed as Cost Auditors to conduct audit of cost records for airconditioners for the financial year 2011-12. The Cost Audit Report for the financial year 2010-11 which was due to be filed with the Ministry of Corporate Affairs within 180 days from the close of the financial year (i.e. dt: 27.9.2011) was filed on 27.8.2011.

Vide an order of the MCA issued under Notification No.52/26/CAB-2010 dated 24.1.2012, the MCA has covered a number of industries, under automatic Cost Audit with effect from the financial year commencing on or after 1.4.2012. Accordingly, M/s ABK & Associates, Cost Accountants have been appointed as the Cost Auditor of the Company to conduct the cost audit of all the manufactured products of the Company, viz. airconditioning and refrigeration equipment, packaged airconditioners, industrial packaged chillers, air handling units and airconditioners manufactured by the Company for the financial year ending March 31, 2013, upon the remuneration and terms and conditions as may be mutually agreed between the Company and M/s ABK & Associates.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors hereby inform the members that the Audited Accounts for the financial year ended March 31, 2012 are in full conformity with the requirement of the Companies Act, 1956. These financial results have been audited by the statutory auditors M/s S R Batliboi & Associates, Chartered Accountants. The Directors further confirm that:

- 1) In the preparation of the Annual Accounts, the applicable accounting standards have been followed.
- 2) The accounting policies are consistently applied and reasonable, prudent judgment and estimates are made so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profits of the Company for that period.
- 3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for providing and detecting fraud and other irregularities.
- 4) The Directors have prepared the Annual Accounts on a going concern basis.

DIRECTORS

With effect from April 1, 2012, Mr Ashok M Advani relinquished his position of Executive Chairman and Wholetime Director and continues as Chairman. Mr Suneel M Advani relinquished his position of Managing Director with effect from April 1, 2012 and is presently the Executive Vice Chairman of the Company.

Mr Satish Jamdar and Mr Pradeep Mallick will retire from the Board by rotation and being eligible, offer themselves for re-election.

EMPLOYEES

The number of permanent employees decreased from 2825 at the end of the previous year to 2785 as at March 31, 2012.

DISCLOSURE OF PARTICULARS

Information as per Section 217(1)(e) of the Companies Act, 1956, read with the rules made thereunder relating to conservation of energy, technology absorption, foreign exchange earnings and outgo are given in Annexure A forming part of this report. Particulars of employees as required under Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, form part of this report. However, in pursuance of Section 219(1) (b) of the Companies Act, 1956, this report is being sent to all the shareholders of the Company "excluding" the aforesaid information. The said particulars will be made available for inspection at the Registered Office of the Company. Members interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company. A Management Discussion and Analysis Report, as required under Clause 49 of the Listing Agreement is published separately in this Annual Report.

For and on behalf of the Board

Ashok M Advani
Chairman

Mumbai : May 16, 2012