BLUE STAR

# BLUE STAR LIMITED ANNUAL REPORT 2015-2016

BLUE STAR

# VISION

**TO DREAM, TO STRIVE,
TO CARE AND, ABOVE ALL,
TO BE THE BEST IN
EVERYTHING WE DO.**

BLUE STAR

# CREDO

I AM BLUE STAR.
I TAKE PRIDE IN
DELIVERING
A WORLD-CLASS
CUSTOMER
EXPERIENCE.

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## BOARD OF DIRECTORS

Ashok M Advani
*Chairman*

Suneel M Advani
*Vice Chairman*

Satish Jamdar
*Managing Director (up to March 31, 2016)*

Vir S Advani
*Managing Director (w.e.f. April 1, 2016)*

B Thiagarajan
*Joint Managing Director (w.e.f. April 1, 2016)*

Shailesh Haribhakti
Shobana Kamineni
Pradeep Mallick
M K Sharma
Gurdeep Singh

## COMPANY SECRETARY

Vijay Devadiga

## BANKERS

The Hongkong & Shanghai Banking Corporation Ltd
State Bank of India
Oriental Bank of Commerce
BNP Paribas
Kotak Mahindra Bank
IDBI Bank

## AUDITORS

S R B C & CO LLP, Chartered Accountants

## REGISTRAR & 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.
Tel: +91 22 2594 6970
Fax: +91 22 2594 6969
Email: rnt.helpdesk@linkintime.co.in

## REGISTERED OFFICE

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Jamshedji Tata Road
Mumbai 400 020.
Tel: +91 22 6665 4000
Fax: +91 22 6665 4151
www.bluestarindia.com
CIN: L28920MH1949PLC006870

## CORPORATE MANAGEMENT

Satish Jamdar
*Managing Director (up to March 31, 2016)*

Vir S Advani
*Managing Director (w.e.f. April 1, 2016)*

B Thiagarajan
*Joint Managing Director (w.e.f. April 1, 2016)*

R Aravindan
*Executive Vice President - Electro-Mechanical Projects Group*

Neeraj Basur
*Chief Financial Officer*

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

R G Devnani
*Executive Vice President - Manufacturing*

Tojo Jose
*Executive Vice President - Human Resources (up to May 31, 2016)*

C P Mukundan Menon
*Executive Vice President - Air Conditioning & Refrigeration Products Sales Group*

P Venkat Rao
*Chief Human Resources Officer (w.e.f. June 1, 2016)*

V S Ashok
*Vice President - Air Conditioning & Refrigeration Service Group*

Sujan Chatterjee
*Vice President - Corporate Financial Services*

Rahul Deshpande
*Vice President - Operations, Electro-Mechanical Projects Group*

C Haridas
*Vice President - Sales & Marketing, Room Air Conditioners*

Suresh Iyer
*Chief Information Officer*

D H Roy
*Vice President - Procurement & Supply Chain*

Ajay Sharma
*Head - Water Purifiers*

Rajendra Verma
*Vice President - International Business Group*

# Letter from the Chairman

**Ashok M Advani,** *Chairman*

## Dear Shareholder,

2015-16 was a year of consolidation and transition for Blue Star. 'Consolidation' refers to the completion of a two-year exercise involving corporate restructuring and retrospective amalgamation of Blue Star Limited and Blue Star Infotech Limited (BSIL). Towards the end of the year, the Managing Director, Satish Jamdar, conveyed his desire to retire which created a mood of anticipation of the changes to come. The year concluded with the smooth transition of leadership from Satish Jamdar to Vir S Advani and B Thiagarajan.

**Consolidated Financial Performance**

Instead of the Standalone Accounts, it is more meaningful to look at the Consolidated Audited Accounts. Total Revenue grew by 19% to ₹3787 crores, while Profit After Tax doubled from ₹54 crores to ₹108 crores.

Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) before exceptional items climbed to ₹233 crores. Return on Capital Employed at 24.8% and Return on Shareholders' Funds at 19.4% reached their highest levels in the past five years and are expected to keep improving. These encouraging financial results confirm the acceleration of business growth and profitability that began in the previous year.

**Balance Sheet & Cash Flow**

Complementing the healthy growth of revenue and profit is the state of the Balance Sheet which strengthened considerably mainly due to the merger of Blue Star and BSIL. The year-end borrowings of ₹363 crores shown in the Consolidated Accounts are really equivalent to a much lower net figure of ₹205 crores after 'adjusting' the current investment of ₹158 crores which was the net cash received by BSIL for the sale of its IT business.

The year-end debt equity ratio on a consolidated basis came down to 0.55, a more solid figure than the previous year's 0.87. This reduction occurred despite the interim dividend payout of ₹75 crores in March 2016. Had the dividend been declared and paid after the finalisation of accounts, as is usually done, borrowings would have been lower to that extent and debt/equity would have further reduced to a comfortable 0.44.

Thus, with modest leverage and substantial liquid assets in the Balance Sheet, Blue Star's financial position is now much stronger. Looking ahead, the Company's asset-light financial model aims to deliver cash profit high enough to pay good dividends, while retaining sufficient profit to fund future business growth without resorting to excessive debt. We have achieved this in the past and we will do it again.

**Business Segments**

A review of the segment-wise performance reveals that Electro-Mechanical Projects & Packaged Air Conditioning Systems revenues grew a moderate 12% to ₹1908 crores, while operating profit showed a healthier increase of 48% to ₹80 crores. The business continued to be handicapped by the long slump in industrial investment and commercial construction aggravated by the slow execution of ongoing projects.

Unitary Products (the erstwhile Cooling Products) with 42% of Corporate revenues i.e. ₹1576 crores produced 58% of the profits i.e. ₹166 crores. This segment has consistently been the major bread-winner for the Company. The current extension

of the product range into non-cooling but related areas like water purifiers and air purifiers explains the new name for this business segment.

Professional Electronics & Industrial Systems had a disappointing year mainly due to recessionary conditions in the industrial sector. Though revenues grew 15%, the results declined from ₹31 crores to ₹27 crores.

**Top Management Succession**

The new financial year 2016-17 began with the passing of the Managing Director's baton from Satish Jamdar to Vir S Advani. Simultaneously, B Thiagarajan stepped into the position of Joint Managing Director. While the new team will manage the Company together, each of them will oversee different business areas and support functions. This organisational structure leverages individual strengths and provides clear accountability in a diversified company. Major corporate matters, of course, involve coordination and joint decisions where the shared corporate culture and values ensure a common bond with unified decision making. What gives me confidence in the partnership is that Vir and Thiagarajan have actually worked successfully in this manner as Executive Directors under Satish.

The new top management is off to a quick start. They had already begun the planning process earlier along with senior managers by addressing the fundamental question of what sort of Company they want Blue Star to be in 3 years when it celebrates its 75$^{th}$ Jubilee. This exercise resulted in the Strategic Plan FY17-FY19: Blue Star @ 75 and the Annual Business Plan for 2016-17 which have been approved by the Board.

I do not intend to steal Vir's thunder. Let him tell you himself. In a separate communication in this Annual Report, he explains the Corporate Vision and plans, and how the management intends to tackle the opportunities and challenges of the Company. Suffice it to say, they aim to transform Blue Star in a number of important ways over the next 3 years. Their views and aspirations are thought-provoking and aggressive, yet very conscious of the heightened risks and uncertainties in the world of today.

**The Road Ahead**

While 2016-17 has started well and business growth is expected to pick up, our plans are to some extent dependent on a healthy, growing economy. India is relatively well positioned compared to most other countries but there are a number of macro-economic factors that could be problematic. Inflation is rising again especially highly sensitive food prices. This is preventing the RBI from cutting interest rates. Investments in the infrastructure and industrial expansion remain subdued due to the dysfunctional banking system and over-leveraged corporate balance sheets. The Brexit development will create a major upheaval in international financial markets. India too will feel the effect to some extent but being relatively insulated, is better prepared to deal with the consequences.

I do not wish to list only problems and uncertainties because my personal view remains upbeat for good reason. There are many positive developments taking place across the broad economic, social, political and technological canvas of India. The Central and State governments are paying serious attention to the ease of doing business by simplifying bureaucratic procedures and relaxing controls which will benefit industrial and business activities while encouraging foreign investment. A new generation of youth is growing up with different hopes and aspirations. There may not be too many conventional blue collar jobs being created, but Indian entrepreneurial spirit is generating new self employment and contract work opportunities. In short, there is progress on many fronts and change is happening.

Blue Star too, has a younger group of engineers and managers who are empowered to take on the new challenges. The Company's financial position is reasonably strong. We are resilient enough to absorb the impact of Brexit and continue business as usual. We have the vision, the resources and the leadership. Our employees possess commitment, skill and above all, the willingness to work hard. I believe they will transform the Company into a dynamic new Blue Star.

**Ashok M Advani**
Chairman

Mumbai: June 24, 2016

# 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 BSc (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 relinquished his position as the Executive Chairman in 2012, and continues as the Chairman of the Company.

Ashok was also the Vice Chairman of the erstwhile Blue Star Infotech Ltd. He has been a member of the Local Advisory Board of The Chase Manhattan Bank and is a Past President of the Bombay Chamber of Commerce and Industry.

**Suneel M Advani,** *Vice Chairman*

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

He spent his entire working career in Blue Star, joining as a Management Trainee in 1969 and moving up steadily to President and Vice Chairman in 1984. He retired from his executive position in 2014, and continues as Vice Chairman of the Board. Suneel established Blue Star's presence in computer software development and export, and when this division was spun off to become Blue Star Infotech Ltd in 2000, he assumed the position of Chairman there and later, Managing Director as well, in addition to his responsibilities in Blue Star.

In the span of his career, Suneel formed many joint ventures with global majors such as HP, Motorola, Stork-Comprimo in the hi-tech area, and with smaller Indian entities in the air conditioning field. For Blue Star and Blue Star Infotech, he conceived and completed several corporate acquisitions. Over the years, he served on the managing councils of several industry and trade bodies, such as CII, and is the founder and a Past President of Refrigeration and Airconditioning Manufacturers' Association (RAMA).

**Vir S Advani,** *Managing Director*

Vir S Advani holds Bachelors Degrees in Systems Engineering and in Economics from the University of Pennsylvania. He has also completed a comprehensive Executive Management Program on Leadership Development at Harvard Business School.

Vir, after a 2-year working stint in private equity in New York, joined Blue Star Infotech Ltd in 2000 and then founded Blue Star Design & Engineering Ltd 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 profit improvement programme as well as in electro-mechanical projects. He was promoted as Executive Vice President in 2008; President - Corporate Affairs & Special Projects in 2009 and Executive Director in 2010. In April 2016, Vir has been appointed as the Managing Director of the Company, and currently oversees the Electro-Mechanical Projects business, the International Business Group, Corporate Financial Services, Corporate Planning and Investor Relations, apart from Blue Star Engineering & Electronics Ltd.

Vir is a Director of Blue Star Engineering & Electronics Ltd. He is a Member of three CII National Committees; namely Gulf & Middle East, Exports and Exports Competitiveness as well as Real Estate and Building Technology.

**B Thiagarajan,** *Joint Managing Director*

B Thiagarajan is a Bachelor of Engineering in Electrical and Electronics from Madurai University. He has also completed the Senior Executive Program of London Business School. He has over three decades of experience, having worked for reputed companies such as Larsen & Toubro Ltd, BPL Systems Ltd and Voltas Ltd, prior to joining Blue Star in 1998.

Thiagarajan has handled various assignments in the Service business, Corporate Communications & Marketing and Corporate Affairs & Planning before he was promoted as President - AC&R Products Group in 2009. Under his leadership, the AC&R products business of the Company grew significantly. In 2013, Thiagarajan was elevated as Executive Director & President - AC&R Products Business. In April 2016, Thiagarajan has been appointed as Joint Managing Director, and currently oversees Manufacturing and R&D; Marketing, Supply Chain and Service operations pertaining to the Products business; Corporate Communications; Public Relations; Corporate Marketing Services as well as Human Resources.

Thiagarajan plays an active role in various industry forums, and is the Past President of RAMA. He has been driving the Cold Chain Infrastructure Development for several years. He is a nominated Member of the CII National Council, Chairperson of the CII National Committee on State Level Co-ordination in Agriculture, and represents Blue Star in the Western Regional Council of CII.

**Shailesh Haribhakti,** *Director*

Shailesh Haribhakti is a Chartered Accountant, Cost Accountant, Certified Internal Auditor, Financial Planner and Fraud Examiner. He strongly believes that good governance is of sustainable competitive advantage to companies. With a strong background in audit, tax and consulting, he seeks to create enduring value for companies and organisations that he is involved with. Being a strong supporter of a clean and green environment, Shailesh is pioneering the concept of 'innovating to zero' in the social context. He is currently Chairman of the National Pension Scheme Trust and Member of Pension Advisory Committee of Pension Fund Regulatory & Development Authority.

Shailesh joined the Board of Blue Star in 2005 and in addition, serves on Boards of multinational and Indian Companies as well as of not-for-profit organisations; and is a Member of several advisory boards. He is the Managing Partner of Haribhakti & Co LLP, Chartered Accountants; Group Chairman of Baker Tilly DH Consultants Pvt Ltd; Chairman of New Haribhakti Business Services; and Chairman, Mentorcap Management Pvt Ltd.

**Shobana Kamineni,** *Director*

Shobana Kamineni holds a Bachelors Degree in Economics and has an Accelerated Diploma in Hospital Administration from Columbia University, New York. As a member of the founding family of the Apollo Hospitals Group, she has directed the company's diversification into several new domains. She is the Executive Vice Chairperson of Apollo Hospitals Enterprise Ltd. Shobana is at the helm of Apollo Global Projects Consultancy that steers the planning, design and execution of new projects. Shobana spearheads Apollo Pharmacy - India's largest pharmacy chain. She has championed Apollo's collaboration with Munich Re in 2008, and continues to be a Wholetime Director on the Board of Apollo Munich Health Insurance.

Shobana joined the Board of Blue Star in 2014. She is Vice Chairperson of the KEI Group; an Independent Director on the Board of Hero MotoCorp Ltd; Advisor to the External Board of CISCO India; and on the Advisory Council of the National Cadet Corp. As an active member of CII, Shobana was elected as the Vice President for 2015. Shobana has been a recipient of prestigious national awards for Entrepreneurship and Leadership.

**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 (CEng FIET). Pradeep is a recipient of the Distinguished Alumnus Award from IIT Madras. He was conferred Knight First Class of the Order of the White Rose of Finland. He joined the Board of Blue Star in 2003.

Pradeep was the Managing Director of Wartsila India Ltd from 1988 to 2003, prior to which he worked with several leading companies in the field of electrical power transmission and distribution. Pradeep is also on the Boards of several other companies including Automotive Stampings & Assemblies Ltd, Foseco India Ltd and Gujarat Pipavav Port Ltd. He is a Past Chairman of CII Western Region and Past President of Bombay Chamber of Commerce and Industry. He is also associated with social organisations like Population First.

**M K Sharma,** *Director*

M K Sharma holds Bachelors degrees in Arts and Law, and Post Graduate Diplomas in Personnel Management and Labour Laws. He has also attended the Advanced Management Program at Harvard Business School.

M K Sharma joined Hindustan Unilever Ltd in 1974, and subsequently joined its Management Committee in 1990. After serving as Vice Chairman for 7 years, he retired in 2007, completing 12 years on its Board. He has rich experience in mergers and acquisitions, corporate restructuring and law. He has also served as a member of Corporate Law Committee formed by the Ministry of Corporate Affairs and Naresh Chandra Committee on Corporate Governance.

M K Sharma joined the Board of Blue Star in 2013. He is currently Non-Executive Chairman of ICICI Bank Ltd as well as United Spirits Ltd; an Independent Director of Wipro Ltd as well as Asian Paints Ltd; a Member of the Board of Governors of the Anglo Scottish Education Society; and a Member of the Executive Board of Indian School of Business. He is also actively involved in several industry associations.

**Gurdeep Singh,** *Director*

Gurdeep Singh is a Chemical Engineering Graduate from IIT Delhi. After his graduation, he joined Hindustan Unilever Ltd 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 Unilever Ltd in 1998 as Director - Human Resources, Corporate Affairs and Technology, and retired from the company in 2003. He joined the Board of Blue Star in 2003. He is also on the Boards of several leading companies including Kloeckner Pentaplast India Pvt Ltd, Technova India Ltd and Gateway Rail Freight Ltd.

# Letter from the Managing Director

## Dear Shareholder,

I thank you for the opportunity to lead the Company at such an exciting time in its growth journey. It is an honour and a privilege to serve as the Managing Director, and I look forward to a long and meaningful relationship with all our stakeholders.

As we readied ourselves for the expected management transition, my colleague B Thiagarajan who has been elevated as Joint Managing Director, and I felt that it is necessary for us to define a new direction for the Company. We see growth as the key priority and we must therefore not only grow our existing businesses faster than the market, but should explore new avenues for profitable growth and expand our footprint beyond India. If we are to succeed, we need to focus on delivering world-class products and services and on attracting as well as retaining the best available talent. The goal is very clearly to generate sufficient profits, strengthen the Balance Sheet, invest in the businesses and have adequate surpluses to pay good dividends.

*Vir S Advani, Managing Director and B Thiagarajan, Joint Managing Director (R-L)*

Keeping these objectives at the forefront, we have prepared a detailed Strategic Plan called Blue Star @75 that serves as a blue print for the next three years when our Company turns 75 years young in FY19. The foundation of the plan is a new Vision, a Credo and a fortified set of Values & Beliefs, which together define the way forward for Blue Star. On this foundation, we have identified strategic objectives for each of our businesses, including entry into new geographies and solution segments, as well as strategic priorities for the support functions including R&D, digital/IT, marketing, business development, finance, human resources and supply chain. The plan is strengthened by a programme to transform the work culture, which we expect will lead to committed and energised teams and leaders with a strong entrepreneurial and an innovation mindset. The plan is supported with adequate investments including capital expenditure on new manufacturing capacity of ₹215 crores and revenue investments in the businesses and support functions of approximately ₹200 crores over the next three years.

So, how will Blue Star look in the future? We will have globally competitive AC&R products and solutions that are supported by substantial investments in product development, brand building and backward integration in manufacturing. We will attain leadership in the projects business by focussing on superior project delivery, and will lead the market with a Gold Standard in customer service. Our import-distribution business will be rejuvenated with a portfolio of new system integrated solutions, and we will grow our presence in the Middle East, SAARC, Africa and the ASEAN region. Our brand will extend into new lines of business beyond AC&R for both the consumer and the B2B markets. Our employees and extended organisation of partners will embrace digital technologies that will open up new channels and bring us closer to our customers. We will have a talented and highly productive team that will endeavour to drive excellence and be the best in everything that we do. We will have industry-leading profitability and other financial performance metrics.

As the new leadership, Thiagarajan and I take responsibility for delivering Blue Star @75. Behind us is a very capable team who is committed to building a future-ready Blue Star that will delight customers, while consistently delivering impressive financial performance. We look forward to your unstinting support in the journey ahead.

**Vir S Advani**
Managing Director