



BLUE STAR



BLUE STAR LIMITED ANNUAL REPORT 2016-2017

Contents

Letter from the Chairman	2
Letter from the Managing Director	5
Board of Directors	8
Board's Report	11
Annexure 1 to Board's Report	23
Annexure 2 to Board's Report	26
Annexure 3 to Board's Report	29
Annexure 4 to Board's Report	35
Corporate Governance Report	56
Management Discussion and Analysis	73
The Dynamics of Blue Star's Growth	92
Business Responsibility Report	94
Independent Auditors' Report	105
Balance Sheet	112
Statement of Profit & Loss	113
Statement of Changes in Equity	115
Cash Flow Statement	116
Notes to Financial Statements	118
Independent Auditors' Report on Consolidated Financial Statements	191
Consolidated Balance Sheet	196
Consolidated Statement of Profit & Loss	197
Consolidated Statement of Changes in Equity	199
Consolidated Cash Flow Statement	200
Notes to Consolidated Financial Statements	202
Statement relating to Subsidiaries and Joint Venture Companies (Form AOC-1)	276
Investor and Shareholder Information	278

BOARD OF DIRECTORS

Ashok M Advani
Chairman (up to November 30, 2016)

Suneel M Advani
Chairman (w.e.f. December 1, 2016)

Vir S Advani
Managing Director

B Thiagarajan
Joint Managing Director

Rajiv R Lulla
Non-Executive Director (w.e.f. December 1, 2016)

Dinesh N Vaswani
Non-Executive Director (w.e.f. December 1, 2016)

Independent Directors

Sam Balsara *(w.e.f. June 20, 2017)*

Shailesh Haribhakti

Shobana Kamineni

Pradeep Mallick

M K Sharma *(up to June 12, 2017)*

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 Ltd
IDBI Bank Ltd
IDFC Bank Ltd
ICICI Bank Ltd
DBS Bank Ltd
Standard Chartered Bank

AUDITORS

S R B C & CO LLP, Chartered Accountants

INTERNAL AUDITORS

Mahajan & Aibara, Chartered Accountants LLP

REGISTRAR & TRANSFER AGENTS

Link Intime India Pvt Ltd
C-101, 247 Park, L B S Marg, Vikhroli (West),
Mumbai 400 083. Tel: +91 22 4918 6270; Fax: +91 22 4918 6060
Website: www.linkintime.co.in

REGISTERED OFFICE

Kasturi Buildings
Mohan T Advani Chowk, Jamshedji Tata Road
Mumbai 400 020. Tel: +91 22 6665 4000; Fax: +91 22 6665 4151
www.bluestarindia.com
CIN: L28920MH1949PLC006870

CORPORATE MANAGEMENT

Vir S Advani
Managing Director

B Thiagarajan
Joint Managing Director

C P Mukundan Menon
President - Sales & Marketing, Products Business

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

P Venkat Rao
Chief Human Resources Officer

D H Roy
Executive Vice President - Supply Chain

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

Ajay Sharma
Head - Water Purifiers

SUBSIDIARY COMPANIES

Prem Kalliath
Chief Executive Officer, Blue Star Engineering & Electronics Ltd

Dawood Bin Ozair
Chief Executive Officer, Blue Star International FZCO

Letter from the Chairman

Dear Shareholder,

This is my first letter to you as Chairman of Blue Star, and at the outset I would like to thank you for your continued support to both Ashok and myself over the years. The year 2016-17 has witnessed some major changes in the Board composition, starting with a smooth transition from Ashok to me, when I took over as Chairman over 6 months ago. Subsequently, Dinesh N Vaswani and Rajiv R Lulla from the promoter family joined the Board as Non-Executive Directors, and the Company stands to gain from their extensive repertoire of knowledge and experience as senior professionals in business and finance, both in India and overseas.

2016-17 Consolidated Financial Performance

2016-17 was a strong year for Blue Star in terms of all-round performance, despite major hiccups during the year such as demonetisation, which threatened to upend the Indian economy, and poor investments in the manufacturing and construction sectors. The Company reported a Total Operating Income of ₹4425 crores, representing growth of 22% over the previous year on a like-to-like basis, whilst Operating Profit for the year grew 20% to ₹257 crores. So, both revenue and profit grew hand-in-hand, which is a good indicator of robust growth. Significantly, Blue Star gained market share across all its businesses, and this was accompanied by improved customer satisfaction levels.



Suneel M Advani, *Chairman of the Board*

Blue Star's business performance and steady improvement in operating results has been recognised by the stock markets, and is reflected in the impressive growth in our share price. Blue Star shares have generated a return of 79% in the last one year. Also, consequent to the merger last year, shareholders of Blue Star Infotech who were allotted Blue Star shares have also experienced an annualised return of 84% over the last year.

Balance Sheet & Cash Flow

Our Balance Sheet position strengthened considerably on the back of improved operating performance and proceeds from the sale of Blue Star Infotech's business, last year. Year-end net borrowings reduced to ₹120 crores from ₹317 crores last year, which helped to substantially improve our year-end debt equity ratio to 0.16 from 0.50 last year. Strong operating performance, coupled with improving working capital efficiencies contributed to an increase in the Return on Capital Employed to 28.1%, up from 23.9%. Blue Star's financial position is stronger than before and 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.

Business Segments and Support Functions

While the Electro-Mechanical Projects business continued to be impacted due to the slowdown in commercial construction, the Air Conditioning & Refrigeration Products business continued to perform very well, driven by our strong brand equity, enhanced distribution reach and comprehensive portfolio of products. The room air conditioners business grew much faster

than the industry growth of 20%, with Blue Star's market share growing to 11.5% in this product category. Whilst the manufacturing facilities reported record production, the R&D team worked at incorporating state-of-the-art technology across the diverse product portfolio. The supply chain team delivered larger than expected cost savings, supported by a soft commodity market. Further, the Company has strengthened its portfolio with its entry into the Water Purifier business and the Export business, which are promising growth drivers for the future.

With the launch of 13 models of water purifiers last year including India's first RO+UV+Hot+Cold model, Blue Star has positioned itself as a premium player in this category. Blue Star water purifiers are already available in 80 towns with over 135 channel distributors, and have met with a very encouraging response in the market.

With an enhanced presence in over 17 countries across the Middle East, SAARC, Africa, and ASEAN regions, the International business has shown great promise in its expansion plans, and intends to cover five more geographical locations in 2017-18. The Company has tied up with several large, influential distributors across the addressed markets to reach out to end-consumers, and continues to participate in various international exhibitions, networking events as well as press conferences overseas.

We are working towards de-risking the high dependence on the domestic construction cycle through strategic investments in overseas markets. The Company is now pursuing new opportunities in areas adjacent to our existing businesses, such as MEP projects for factories; air coolers and air purifiers; and kitchen and healthcare refrigeration, in addition to the earlier stated related diversification into water purification. We are also incubating new lines of business to keep the Professional Electronics and Industrial Systems businesses relevant and profitable.

Blue Star continues to be the largest after-sales air conditioning and commercial refrigeration service provider in the country, and has enhanced its reputed position in the market place as a superior value-added service provider. In line with Blue Star's Gold Standard Service Programme, service performance parameters have improved dramatically, registering an all-time high on our customer satisfaction index. The remote monitoring centre at Thane does a remarkable job of monitoring hundreds of chillers and VRF systems installed across the country, along with failure prediction of components to enable preventive maintenance. In addition to Air Conditioning & Refrigeration service, the Company offers broader services such as Enterprise Facility Management, which have been received well.

In 2016-17, the Corporate Finance team excelled at robust forex risk management and tax refund collections. The Company counts on them to drive the transition to GST and a seamless migration of key business processes efficiently. Blue Star has taken corporate governance to the next level by implementing an ERM framework, a vigilance mechanism and a strong controller function.

Due to the concerted and creative efforts of the IT team, we look forward to Blue Star becoming a truly digital enterprise with physical products at the core, equipped with data-based, innovative services and processes. Across divisions, the Company has won numerous industry awards and recognitions in 2016-17, including the 'Best MEP Contractor 2016' runner-up award from Construction Week India for the Bengaluru Metro project; the Brand Excellence Award in Consumer Durables from ABP News; and the 'Best Domestic RO+UV Water Purifier' award of Water Digest.

A new, fair and transparent performance management system for employees has been put in place, with policies promoting better work-life balance as well as schemes for employee reward and recognition. The objective of 15% gender diversity across managerial levels and businesses by FY19 is being driven systematically through conscious and planned hiring, with women-centric initiatives across locations. A talent management programme is being implemented systematically to hone the future leaders of the Company.



Suneel M Advani with Vir S Advani (l) and B Thiagarajan (r) at the bust of Mohan T Advani, Founder.

Looking Ahead

Unpredictability and volatility have become a part of all our lives, and we need to equip ourselves with agility and flexibility to deal with these difficult times. Instead of scaling back or retreating as many companies are doing, Blue Star is calmly and confidently making plans to expand its businesses, enter new markets, and launch new products.

Blue Star's ability to adapt to changing times as well as its deep-rooted values and ethics have helped it grow from strength to strength over the past seven decades, whilst many companies which were started in 1940s-60s ceased to exist along the way. The emphasis on customer-centricity and employee engagement makes Blue Star the company of choice for all - customers, employees and investors.

The Board continues to have high confidence in the twin leadership of Vir S Advani and B Thiagarajan to ably steer the Company's operations well in these times of complexity and turbulence. They are making concerted efforts to implement the aggressive but prudent Strategic Plan, 'Blue Star@75', which will make the Company ready for the future, looking for opportunities while looking out for challenges. I am confident that this management duo will be able to take this Company to even greater heights, one that we can all continue to be truly proud of.

Suneel M Advani
Chairman of the Board

Letter from the Managing Director

Dear Shareholder,

As you may recall, my colleague, B Thiagarajan and I had prepared a Strategic Plan called Blue Star@75, which defines the roadmap for the three years leading up to the Company's Platinum Jubilee in 2018-2019. Blue Star's new Vision, Credo and fortified set of Values & Beliefs serve as the foundation for this ambitious plan, which calls for aggressively growing our existing businesses, expanding geographically and seeding new business lines while keeping profitability and return on capital at the forefront. The plan commits us to preparing a future-ready, customer-centric Blue Star, with significant investments in R&D, manufacturing, digital transformation, brand building, governance, quality, people and leadership, as well as an enhanced focus on our channel partners, business associates and vendors for higher levels of engagement.

Against this backdrop, I am pleased to report that in spite of the challenges in the economy and demonetisation, we have moved ahead on a number of fronts in 2016-2017, the first year of Blue Star@75. We began by using a Balanced Score Card framework for preparing an actionable plan with clearly defined strategic objectives and initiatives with identified inter-dependencies for each of the businesses and functions. The leadership team conducted extensive interactions with Blue Starites across the country to align them to the Strategic Plan.

In our existing businesses, we focused on offering differentiated products and solutions. We leveraged our world-class product development, supply chain and manufacturing capabilities to bring innovative AC&R products to the market ahead of our competition. This, coupled with a concerted effort to expand our solutions portfolio in the after-sales service, MEP projects as well as the electronics and engineering system integration businesses, contributed to a market share improvement in every business.

On the new business front, we entered five new countries with a range of AC&R products, taking the total count to seventeen. We evaluated a number of new business opportunities as a part of an ongoing effort to expand our business core through related diversification. In line with the findings, we entered the residential water purifier market, the Company's first significant related diversification in over five years.

The Blue Star brand building effort was given a special focus in the year as we broadened our communication beyond the room air conditioner category for our growing B2C product portfolio. Going forward, we have planned larger mass media investments to demonstrate Blue Star's depth and breadth of solutions across the B2B and B2C markets that we serve.

We have made significant progress and investments in our three flagship quality and productivity improvement excellence programmes in MEP projects, after-sales service and manufacturing operations. The results are already showing, with customer satisfaction levels improving, and the Company being recognised in various industry fora.

I hope you will share my enthusiasm in the progress that we have made on Blue Star@75 in 2016-2017. While the world is getting more polarised, as the Indian economy breaks out into a gallop, we expect increased multi-national competition in the domestic market. Going forward, retaining our leadership position will require a different mindset and new capabilities, which my colleague, B Thiagarajan and I are committed to build, as we steer the Company into the future. We look forward to your continued support through this exciting journey that lies ahead for Blue Star.



Vir S Advani, *Managing Director*

Vir S Advani
Managing Director



Board of Directors

(L-R sitting) Shailesh Haribhakti, Vir S Advani, Suneel M Advani, B Thiagarajan, Gurdeep Singh
(L-R standing) Dinesh N Vaswani, Sam Balsara, Pradeep Mallick, Shobana Kamineni, Rajiv R Lulla



Board of Directors



Suneel M Advani, *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.

Suneel 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 was designated as Vice Chairman of the Board. He has been elevated as the Chairman of the Board from December 2016. 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 and 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 Air Conditioning 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 was 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 the CII International Council as well as a member of two CII National Committees; namely Exports 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. He was appointed as Joint Managing Director in 2016, and currently oversees Sales, Marketing, Supply Chain and Service Operations pertaining to the Products Business; Manufacturing and R&D; Corporate Communications; Public Relations; Corporate Marketing Services as well as Human Resources.

Thiagarajan plays an active role in various industry fora, and is the Past President of RAMA. He is a nominated member of the CII National Council, Co-chairperson of the CII Agriculture Council, and Vice Chairman of CII Maharashtra State Council.