



BLUE STAR

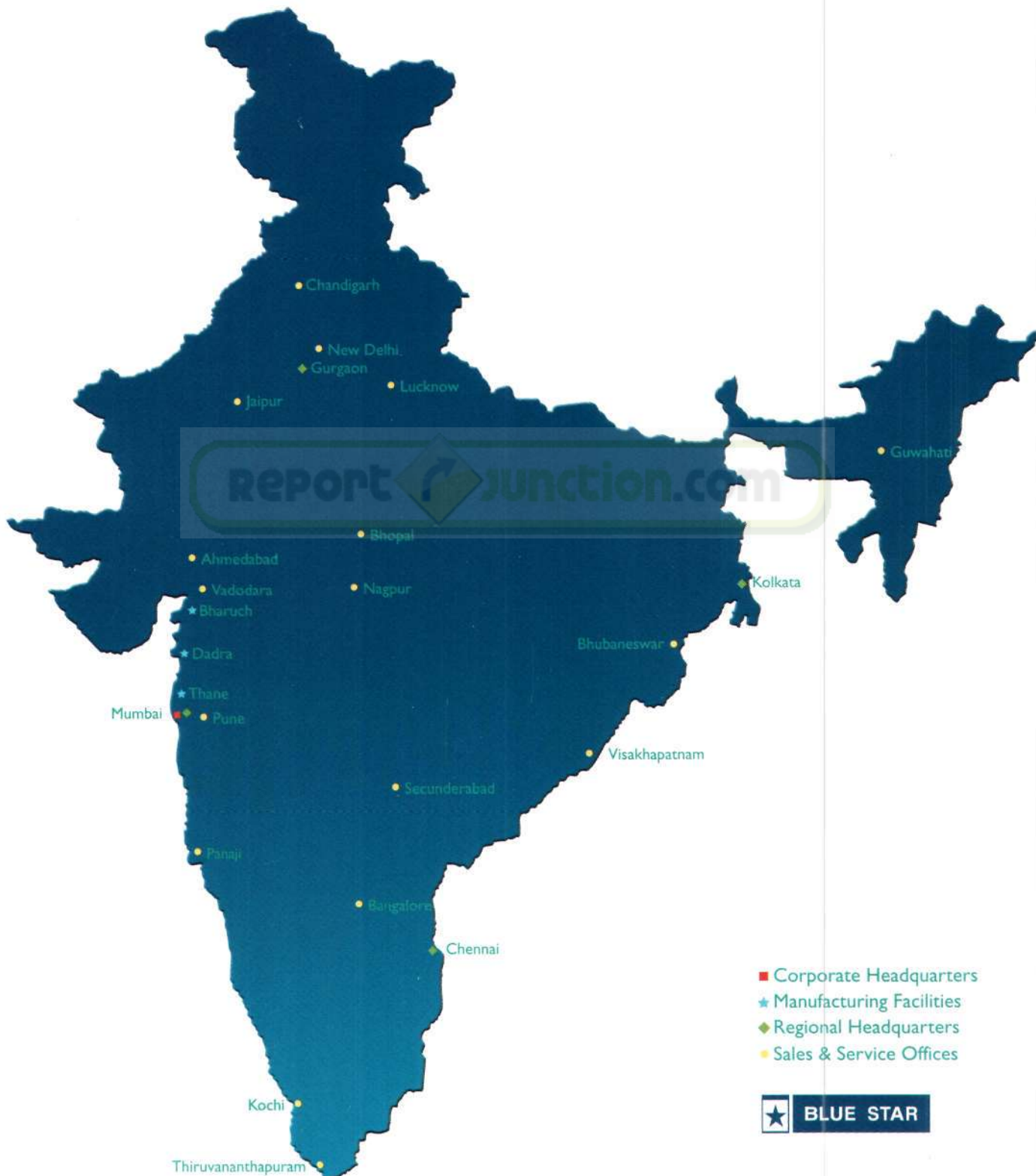
BLUE STAR LIMITED

# ANNUAL REPORT

2001-2002



# BLUE STAR ESTABLISHMENTS



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## BOARD OF DIRECTORS

Ashok M Advani  
*Chairman & Chief Executive*

Suneel M Advani  
*President & Vice Chairman*

T G S Babu  
*Executive Director*

Atul C Choksey

Uday S Kotak

G Ramchandani

Minoo R Shroff

Suresh N Talwar

## CORPORATE MANAGEMENT

Ashok M Advani  
*Chairman & Chief Executive*

Suneel M Advani  
*President & Vice Chairman*

T G S Babu  
*Executive Director*

V V Inamdar  
*Executive Vice President*

Satish Jamdar  
*Executive Vice President*

Neeraj Seth  
*Executive Vice President*

Arun Khorana  
*Vice President - Electronics Division*

Ranajit Majumdar  
*Vice President - Human Resources & Quality*

Avinash Pandit  
*Vice President - Packaged Airconditioning Division*

H Rajaram  
*Vice President - Finance*

S Sankaran  
*Vice President - Airconditioning Projects Division*

N Sivasankaran  
*Vice President - Central Airconditioning Service Division*

## COMPANY SECRETARY

K P T Kutty

## BANKERS

The Hongkong & Shanghai Banking Corporation Ltd

Standard Chartered Grindlays Bank Ltd

State Bank of India

Oriental Bank of Commerce

ABN - AMRO Bank

BNP Paribas

Bank of Baroda

Abu Dhabi Commercial Bank Ltd

## AUDITORS

K S Aiyar & Company, Mumbai

## BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata

Fraser & Ross, Chennai

Mohinder Puri & Company, New Delhi

## REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd  
260, Shanti Industrial Estate  
Sarojini Naidu Road, Mulund (West)  
Mumbai 400 080.

Telephone: 91-22-592 3837

Fax: 91-22-567 2693

## REGISTERED OFFICE

Kasturi Buildings  
Mohan T Advani Chowk  
Jamshedji Tata Road  
Mumbai 400 020.

Telephone: 91-22-202 0868

Fax: 91-22-202 5813

[www.bluestarindia.com](http://www.bluestarindia.com)



# LETTER FROM THE CHAIRMAN

## Dear Shareholder,

Last year was an unusual year of mixed corporate performance. The continuing economic slowdown and intense competition resulted in lack-lustre Total Income of Rs. 517 crores, a negligible increase over the previous year. The good news is that in spite of little top line growth, Profit After Tax climbed by 17% to reach Rs. 27.45 crores.

Improving the bottom line required a two-pronged restructuring drive. The first aspect covered reorganization of the core airconditioning and refrigeration business. The second dealt with the financial structure of the Company.

## ORGANIZATIONAL CHANGE

Signals from the market had been evident for the past few years that our AC&R businesses were not properly structured or manned. Their high costs and traditional way of doing business needed overhauling.

We decided on a major corporate restructuring last year with the objective of creating more focused and competitive operating divisions. What emerged were Special Projects Division for large airconditioning projects; a truncated Airconditioning Projects Division for medium-sized projects; a new Packaged Airconditioning Division for ducted systems and small chillers handled through a dealerised setup; Refrigeration and Airconditioning Products Division which covers all AC&R products including room airconditioners/mini split airconditioners; and Central Airconditioning Service Division for central airconditioning service. Electronics Division did not need restructuring though it continued its minor internal reorganization to improve efficiency.

There were also key managerial changes in the divisions. These, combined with headcount rationalization through a voluntary retirement scheme, were necessary to get the Company better aligned to address challenges in the market. The organizational changes took several months



to effect and resulted in considerable movement of people to new locations. Though there was no immediate improvement in operating performance, the benefits of the new divisional structure are expected to show up in the current year.

## FINANCIAL RESTRUCTURING

While the Audited Accounts and the Directors' Report present last year's financial results, I would like to highlight some of the significant developments and their impact on financial performance. The attached Annexure shows that even though Gross Margin was under pressure and Operating Margin remained flat, profitability measured in terms of Return on Capital Employed grew significantly from 20.5% to 26.7% while Return on Shareholders' Funds also improved from 21.4% to 24.6%. These figures are commendable especially so, in a difficult business environment.

Improving performance ratios obviously depends on growing the numerator viz. profit. What is often ignored is that even when the numerator is not increasing, the ratio can still improve by reducing the denominator, in this case, the funds employed. In accounting terms, the

focus needs to shift from the Profit & Loss Account to the Balance Sheet.

This is the approach we adopted last year. Slimming the Balance Sheet became a major thrust area. We started with a detailed analysis of all the assets and liabilities. Besides the normal business focus on controlling inventories and receivables, we looked for underutilized fixed assets, loans and advances as well as current liabilities. It was a rewarding exercise. There was a lot of potential cash hidden in the balance sheet.

The results are evident in the cash flow statement which shows a healthy net Operating Cash Flow of Rs. 43.16 crores in spite of a disappointing increase of Rs. 7.69 crores in Sundry Debtors. An additional Rs. 19.28 crores cash flow came from Investing Activities. Of this, Rs. 15.35 crores was the result of a net reduction in Fixed Assets i.e. sale less purchases.

The Balance Sheet as on March 31, 2002 reveals a sharp reduction of total funds from Rs. 167.39 crores to Rs. 123.50 crores. Borrowings came down to a negligible Rs. 12.09 crores. The Company ended this year in a strong financial position. And, despite ongoing doubts about the economic environment, cash flow continues to look comfortable.

## SHAREHOLDER VALUE

In the past I have clearly spelt out Blue Star's value proposition to investors. In short, it is to first earn 'real' profits which generate positive cash flows. Since Blue Star's basic business is not capital intensive, there is more than enough cash generated to comfortably finance the normal growth of the Company, pay a generous dividend to shareholders and still leave a substantial cash surplus.

This is precisely what happened last year. It was obvious that with low borrowings which were steadily coming

down as we tightened the balance sheet, the Company was overcapitalized. It made eminent financial sense and offered the best shareholder value to use Rs. 26.04 crores, i.e. 25% of the Net Worth for a share buyback.

We went ahead with this towards the end of the year. Shareholders approval of the buyback was obtained by way of a postal ballot. The buyback commenced on February 15, 2002 and proceeded smoothly. By March 31, 2002, shares worth Rs. 6.24 crores had been purchased from the open market thereby reducing the paid-up capital by 5.0%. Subsequently, as on date, a further Rs. 1.72 crores worth have been purchased by the Company. The buyback will continue as already announced.

## CORPORATE GOVERNANCE

In recent months, investors worldwide have been hit by a series of financial, managerial, accounting, auditing and regulatory scandals. This has left them confused and cynical. It has also hurt legitimate businesses trying to cope with a tough economic environment.

There are no easy answers to the challenge of cleaning up this mess. Tougher laws, better enforcement and more effective regulation by independent agencies are only a partial solution. Human ingenuity always seems to find ways around laws. In the final analysis, compliance must come voluntarily from basic values: accountability, integrity and transparency. Without sounding 'holier than thou', I must reiterate our firm belief in these values. We will continue to practice them.

**ASHOK M ADVANI**  
Chairman & Chief Executive

Mumbai, June 12, 2002





## BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2001-02	2000-01
Total Income	517.32	509.82
Growth over Previous Year	+ 1%	+15%
Operating Profit (PBDIT)	45.83	45.85
Profit Before Tax	27.33	25.57
Growth over Previous Year	+7%	+50%
Profit After Tax	27.45	23.54
Growth over Previous Year	+17%	+55%
Shareholders' Funds	111.41	110.04
Borrowings	12.09	57.35
Capital Employed	123.50	167.39
Operating Cash Flow	43.16	28.77

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## KEY RATIOS

	2001-02	2000-01
Gross Margin	25.6%	25.9%
Operating Margin	8.9%	9.0%
Return on Capital Employed	26.7%	20.5%
Return on Shareholders' Funds	24.6%	21.4%
Earnings Per Share	Rs. 13.52	Rs. 11.58
Dividend Per Share	Rs. 6.50	Rs. 5.50
Capital Turnover	4.19	3.05
Debt/Equity	0.11	0.52
Inventory Turnover	6.54	6.01
Receivables (Days Billings Outstanding)	64	59





**Ashok M Advani**  
*Chairman & Chief Executive*



**Suneel M Advani**  
*President & Vice Chairman*

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**T G S Babu**  
*Executive Director*



**Atul C Choksey**  
*Director*







Uday S Kotak  
Director



G Ramchandani  
Director

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Minoo R Shroff  
Director



Suresh N Talwar  
Director

The Directors are pleased to present their 54<sup>th</sup> Annual Report and the Audited Accounts for the year ended March 31, 2002.

## HIGHLIGHTS OF 2001-02

- Despite modest growth in total income, profit after tax increased by 17% to Rs. 27.45 crores.
- There was a substantial reduction in borrowings from Rs. 57.35 crores to Rs. 12.09 crores resulting in a debt/equity ratio of only 0.11.
- Interest cost reduced by 36% recording a saving of Rs. 3.10 crores.
- Earning per share increased to Rs. 13.52 as against Rs. 11.58 last year.

## DIVIDEND

The Directors have proposed a dividend of Rs. 6.50 per equity share versus Rs. 5.50 paid in the previous year. In view of the on-going share buyback the exact quantum of dividend will be somewhat less than Rs. 12.55 crores provided for in the accounts, depending on the equity capital as on the record date.

## OPERATING PERFORMANCE

While the Company retained its leadership position in the central airconditioning and commercial refrigeration businesses, revenue growth was marginal. The dull-economic environment, lack of fresh industrial investment and decline in some key business sectors were the primary factors responsible. Furthermore, severe price competition led to erosion in selling prices.

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## SUMMARISED FINANCIAL RESULTS

(Rs. in lakhs)

	April 2001 March 2002	April 2000 March 2001
Total Income	51732	50981
Profit before interest, depreciation and taxation	4583	4585
Interest	559	869
Depreciation	1291	1159
Profit before tax	2733	2557
Provision for taxation	228	203
Add: Deferred Tax	31	-
Add: Prior years tax adjustment	209	-
Profit after tax	2745	2354
Add: Balance brought forward	1485	1898
-- Transfer from Foreign Projects Reserve	55	50
Less: Profit transferred to BSIL	-	1186
Total available for appropriation	4285	3116
Less: General Reserve	1900	400
-- Proposed Dividend	1255	1118
-- Corporate Dividend Tax	-	114
Balance carried forward	1130	1484

