

## BOARD OF DIRECTORS

Ashok M Advani  
*Chairman & Managing Director*

Suneel M Advani  
*Vice Chairman & Managing Director*

T G S Babu  
*Executive Director*

Satish Jamdar  
*Executive Director*

Shailesh Haribhakti

Pradeep Mallick

Gurdeep Singh

Suresh N Talwar

## CORPORATE MANAGEMENT

Ashok M Advani  
*Chairman & Managing Director*

Suneel M Advani  
*Vice Chairman & Managing Director*

T G S Babu  
*Executive Director*

Satish Jamdar  
*Executive Director*

Avinash Pandit  
*Executive Vice President*

H Rajaram  
*Executive Vice President*

J M Bhambure  
*Vice President - R & D*

R G Devnani  
*Vice President - Dadra Plant*

Arun Khorana  
*Vice President - Electronics Division*

Ranajit Majumdar  
*Vice President - Human Resources & Quality*

S Sankaran  
*Vice President - Business Development*

N Sivasankaran  
*Vice President - International Projects*

B Thiagarajan  
*Vice President - Airconditioning & Refrigeration Service Division*

## COMPANY SECRETARY

K P T Kutty

## BANKERS

The Hongkong & Shanghai Banking Corporation Ltd  
State Bank of India  
Oriental Bank of Commerce  
ABN - AMRO Bank  
BNP Paribas

## AUDITORS

K S Aiyar & Company, Mumbai

## BRANCH AUDITORS

R Venkatarama Aiyar & Company, Kolkata  
Fraser & Ross, Chennai  
Mohinder Puri & Company, New Delhi

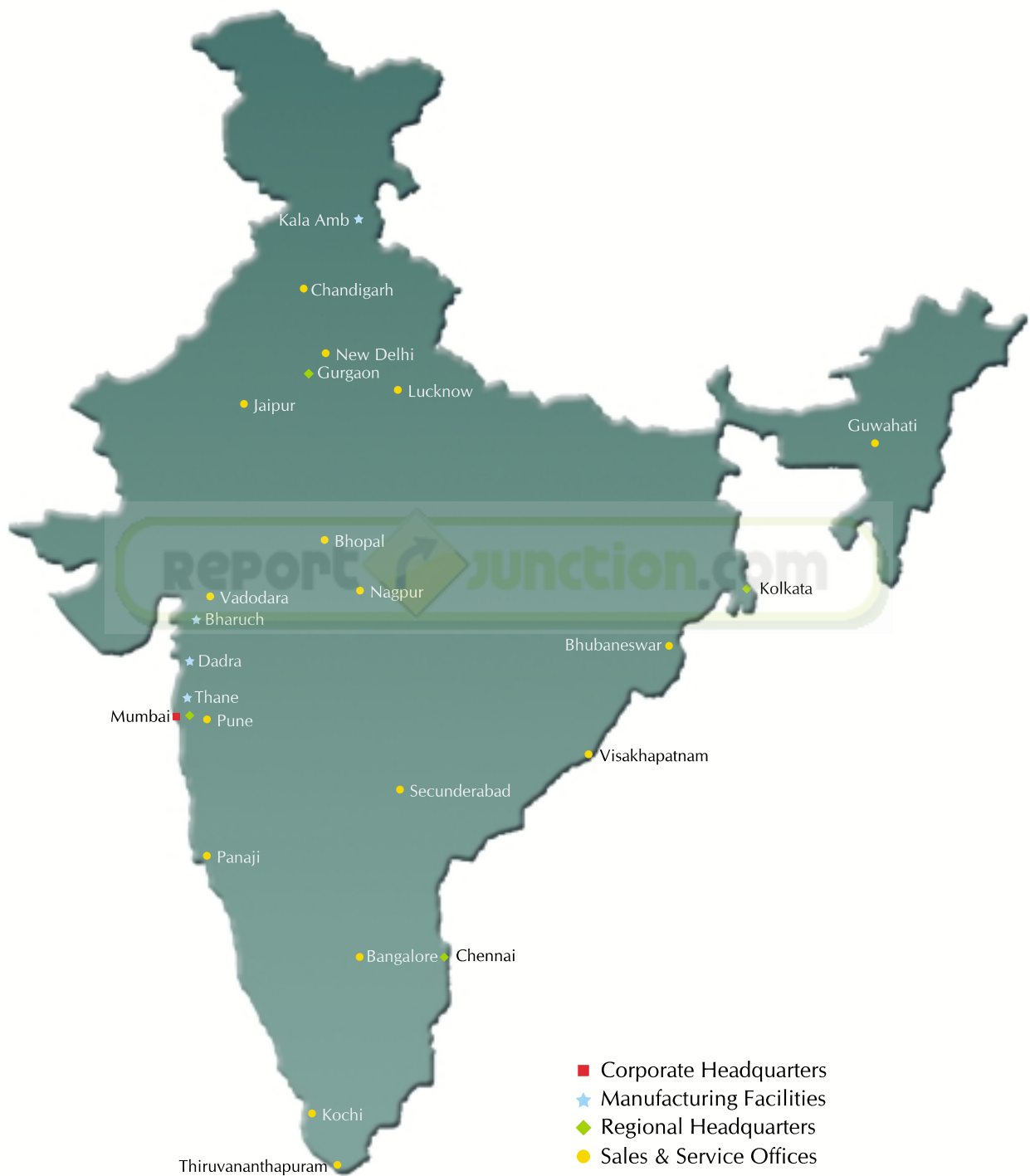
## REGISTRARS & SHARE TRANSFER AGENTS

Intime Spectrum Registry Ltd  
C-13, Pannalal Silk Mills Compound  
L B S Marg, Bhandup (West)  
Mumbai 400 078.  
Telephone: 91-22-2596 3838  
Fax: 91-22-2594 6969

## 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)

# Blue Star Establishments



# Contents

Letter from the Chairman .....	5
Annexure to Letter from the Chairman .....	7
Board of Directors .....	8
Corporate Management .....	12
Directors' Report .....	13
Annexure to Directors' Report - A .....	17
Annexure to Directors' Report - B .....	19
Report of the Directors on Corporate Governance .....	20
Management Discussion and Analysis .....	27
The Dynamics of Blue Star's Growth .....	52
Auditors' Report .....	54
Balance Sheet .....	58
Profit & Loss Account .....	59
Schedules to the Accounts .....	60
Notes forming part of the Accounts .....	67
Cash Flow Statement .....	82
Investor & Shareholder Information .....	84



**ASHOK M ADVANI**  
*Chairman & Managing Director*

“ The healthy Indian economy no doubt provided business opportunities, but what is particularly gratifying is that we grew at a faster rate than the overall airconditioning and commercial refrigeration industry, thereby increasing our market share and maintaining our leadership position in most segments.”

# Letter from the Chairman

## DEAR SHAREHOLDER,

2005-06 saw the third successive year of rapid business expansion of Blue Star. Such a long period of sustained high growth has never been achieved in the more than two decades that I have been at the helm of your Company. The healthy Indian economy no doubt provided business opportunities, but what is particularly gratifying is that we grew at a faster rate than the overall airconditioning and commercial refrigeration industry, thereby increasing our market share and maintaining our leadership position in most segments.

The Annexure to this letter summarises and compares the financial performance of your Company over the last two years. The growth and profitability ratios generally look good. In a market that continued to be vigorously competitive, a significant achievement was the reversal of the 5-year record of erosion in gross margin and operating margin, and a welcome improvement in both ratios.

Another notable development was that healthy growth occurred in all 3 business segments of the Company, with corresponding increase in profits. This well-balanced segment-wise performance is reassuring, because it indicates that there were no major weak areas that were a drag on Corporate results.

The big Central Airconditioning Systems segment accounted for about 70% of Total Income. Last year we powered ahead with new order inflow increasing by 31% and billings growing by 26%. The new range of screw chillers developed in-house has been well received in the market, and is proving to be very competitive with imported chillers. The growing strength of Blue Star designed and manufactured airconditioning equipment, including a wide range of chillers, ducted systems and air-side products, helped us obtain better prices and margins.

Blue Star's positioning in the market has never been at the lower end of the price spectrum. We focus, instead, on adding value through superior product design, system engineering, energy efficiency, quality and reliability, competent service and technical support. In short, we avoid commodity businesses by differentiating ourselves.

The Cooling Products segment had a banner year with a big jump of 52% in order bookings, a billings increase of 29%, and a segment profit growth of 206% that clearly proved the success of this strategy of differentiation. In view of rapid business growth, substantial investments were made in additional manufacturing capacity, including a new plant in Himachal Pradesh to produce room airconditioners, and a large cold room facility in Bharuch.

In Cooling Products, one of Blue Star's strengths is our unique dealer channel network. These are not run-of-the-mill show-room dealers who carry a wide range of competing consumer durables where products have been virtually reduced to commodities, mainly competing on price and special promotions. Most of our dealers do not sell competing brands, and offer technical and applications knowledge, efficient after sales support and service. They do not rely on walk-in trade, focusing instead, on corporate, commercial and discerning residential customers. Their staff are well trained and responsive to customers' specialised needs. So, in Cooling Products too, the policy of differentiation has been successful with a strong dealer network actively selling and supporting a wide range of superior products.

The relatively small, but specialised, Professional Electronics and Industrial Equipment segment also performed well, with order bookings growing by 33% and revenues by 36%. We serve niche markets requiring high technology and customised solutions in a variety of specialised fields. Though these activities are very different from airconditioning and refrigeration, the common thread running through Blue Star's various businesses is our technical and engineering capability being used to provide solutions that effectively meet a wide range of customer needs.

The financial position of the Company is also summarised in the Annexure. The higher capital requirements, resulting from the fast growing business operations in 2005-06, were comfortably met by a combination of internally generated funds and borrowings. But if future growth is to be fuelled without resorting to excessive financial leverage, working capital will need to be even more tightly managed. This remains a prime focus area as we go forward.

Overall, I can summarise Blue Star's financial performance in 2005-06 as successfully continuing to deliver profitable growth. Blue Star has never followed the herd. We have consciously chosen a strategy of differentiation with a clear focus on in-house engineering and development, manufacture of higher margin products, strong distribution and reliable support and service. All this takes capability and commitment, and these are qualities the nearly 2000 strong Blue Starites have demonstrated in abundance. With order inflow continuing at a healthy rate, I look forward to even greater success in 2006-07.

Mumbai : May 19, 2006

**ASHOK M ADVANI**  
Chairman & Managing Director

# Annexure to Letter from the Chairman

## BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2005-06	2004-05
Total Income	1178.62	930.92
Growth over Previous Year	+ 27%	+ 30%
Operating Profit (PBDITA) excl. Non-Operating Income	86.68	57.85
Profit Before Tax	69.09	52.44
Growth over Previous Year	+ 32%	+ 13%
Profit After Tax	48.90	39.16
Growth over Previous Year	+ 25%	+ 20%
Shareholders' Funds	172.71	148.42
Borrowings	75.87	37.28
Capital Employed	248.58	185.70
Operating Cash Flow	18.36	15.34

## KEY RATIOS

	2005-06	2004-05
Gross Margin	22.5%	21.8%
Operating Margin (excl. Non-Operating Income)	7.4%	6.3%
Return on Capital Employed	30.1%	30.0%
Return on Shareholders' Funds	28.3%	26.4%
Earnings Per Share (Rs.)	27.19	21.77
Dividend Per Share (Rs.)	12.00	10.00
Capital Turnover	4.74	5.01
Debt/Equity	0.44	0.25
Inventory Turnover	6.06	6.98
Receivables (Days Billings Outstanding)	74	78



**Board of Directors**

L to R:

Suresh N Talwar,  
Satish Jamdar,  
Pradeep Mallick,  
Suneel M Advani,  
Ashok M Advani,  
Gurdeep Singh,  
Shailesh Haribhakti,  
T G S Babu





Report Junction.com

# Board of Directors



**Ashok M Advani**

**Chairman & Managing Director**

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. Ashok is also the Vice Chairman of Blue Star Infotech Limited and on the board of Alfa Laval (India) Limited.

Ashok 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. 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., apart from being on the board of Blue Star M&E Engineering (Sdn) Bhd.

Suneel has been the President of the Refrigeration and Airconditioning Manufacturers' Association (RAMA) and is actively involved in CII and other trade associations.



**T G S Babu**

**Executive Director**

T G S Babu is an Engineering Graduate from IIT, Madras and has done his MBA from IIM, Ahmedabad. He has been working with Blue Star from 1977 in various positions, except for a four-year period when he worked with MRF Ltd as GM Sales.

Prior to his current appointment, T G S Babu was Executive Vice President. Under his strong leadership, Blue Star's central airconditioning business achieved a clear market leadership and continues to grow at a healthy rate. T G S Babu currently oversees the channel business activities of the Company including packaged airconditioning, room airconditioners and commercial refrigeration products and systems.

T G S Babu is the current President of RAMA and is actively involved in other trade associations.



**Satish Jamdar**

**Executive Director**

Satish Jamdar is a Mechanical Engineering graduate from IIT Powai 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 30 years of experience in manufacturing, material management and IT projects having worked for companies such as Siemens, BPL-Sanyo and Alstom.

Satish spearheaded the establishment of Blue Star's modern state-of-the-art manufacturing facility at Dadra in 1997. Prior to his current appointment, Satish was Executive Vice President. Under his able and competent leadership, the productivity and product development capabilities of all four factories of Blue Star has substantially increased. Satish currently oversees manufacturing, international sales and material management apart from airconditioning and refrigeration service business.