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BOARD OF DIRECTORS

Ashok M Advani
Executive Chairman

Suneel M Advani
Vice Chairman & Managing Director

Satish Jamdar
Managing Director

Vir S Advani
Executive Director (w.e.f July 1, 2010)

Shailesh Haribhakti
Pradeep Mallick
Gurdeep Singh
Suresh N Talwar

COMPANY SECRETARY

K P T Kutty

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

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C-13, Kantilal Maganlal Estate
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REGISTERED OFFICE

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CORPORATE MANAGEMENT

Ashok M Advani
Executive Chairman

Suneel M Advani
Vice Chairman & Managing Director

Satish Jamdar
Managing Director

Vir S Advani
Executive Director (w.e.f July 1, 2010)

Avinash Pandit
President - Electro Mechanical Projects Group

B Thiagarajan
President - Airconditioning & Refrigeration Products Group

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

Manek Kalyaniwala
Executive Vice President - Finance

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

R Aravindan
Vice President - Airconditioning Projects Division (South)

Sumanta Chaudhuri
Vice President - Electrical Projects Division

R G Devnani
Vice President - Dadra, Bharuch & Thane Plants

Harish Govind
Vice President - Human Resources & Administration

C P Mukundan Menon
Vice President - Room Airconditioners Division

P Venkat Rao
*Vice President - Packaged Airconditioning Division &
Refrigeration Products Division*

D H Roy
Vice President - Wada & Himachal Plants

D P Singh
Vice President - Infrastructure Projects Division

K P Sukumar
Vice President - Airconditioning & Refrigeration Service Division



Letter from the Chairman

Dear Shareholder,

2009-10 was the second year of the global economic recession that began in the summer of 2008. The Indian economy weathered the financial and business turmoil better than most industrialised countries, but the slowdown put pressure on many business enterprises across a wide range of industries. For Blue Star, even though it was perhaps the most challenging year of the past decade, we were able to produce respectable financial results.

The attached Annexure summarises Blue Star's financial performance and key ratios. Despite a virtually flat Income line of Rs. 2556.11 crores, Profit After Tax grew by 17% to Rs. 211.49 crores. The other results and key ratios were moderately up or down compared to the previous year's figures which were already reasonably good. By and large, the Company maintained healthy profitability ratios and the Balance Sheet continues to show a strong financial position with negligible borrowings.

The quarterly business trend was interesting. The slump in key markets led to two successive quarters of revenue decline in Q1 and Q2 before the top line resumed an upward trend in Q3. This upturn signaled the end of the recession and in Q4 revenue growth accelerated to 23% enabling Total Income for the year to just exceed the previous year's figure. In short, the decline in the first half of the year was neutralised by the growth in the second half. The Company ended the year with the carry forward order position a healthy 30% higher than the year before.

The quarterly profit trend was steadier than the fluctuating Income line. In fact, in each of the four quarters there was positive growth in year-on-year Profit After Tax. This achievement was due to success in controlling operating expenses and interest costs. The moderation in raw material costs also helped in boosting gross margin and profits.

BUSINESS SEGMENTS

The economic slowdown affected all 3 business segments of the Company to some extent. The big Electro Mechanical Projects and Packaged Airconditioning Segment experienced a sharp slump in traditional markets, but the gap was filled by new opportunities in other fast growing sectors: integrated Mechanical-Electrical-Plumbing (MEP) projects, infrastructure, healthcare, education, hospitality and telecommunications. While Segment revenues showed modest growth of 4%, Segment profits declined by 3%.

The Cooling Products Segment sales were down by 2%, but better margins and cost control enabled a profit improvement of 11%. The resumption of sales growth toward the end of the year was an encouraging indicator of the positive outlook for 2010-11.

The Professional Electronics and Industrial Systems Segment results are somewhat confusing for the average reader. The segment is an amalgamation of a number of specialized niche businesses, most of which were adversely affected by the general slowdown. But an earlier strategic diversification into industrial projects a few years ago bore ample fruit with the booking of substantial project orders that began to be billed towards the end of the year. This change in the business mix resulted in a 19% profit increase, in spite of an overall 14% decline in revenues in the other businesses. The good news is the comfortable carry forward order position for industrial projects which bodes well for 2010-11.

THE EVOLVING ORGANISATION

In July 2009 we had initiated the process of succession at the top management level by promoting Mr Satish Jamdar as Managing Director. Below him, 3 Presidents and 3 Executive Vice Presidents were responsible for the various lines of business and staff activities. This major restructuring allowed the Chairman and Vice Chairman to shift out of day-to-day operations and focus on activities such as guiding the long-term direction of the Company, organisational development, approving business plans and reviewing performance.

Nearly one year later I can report that the transition of executive responsibility to a younger professional management team was reasonably smooth in spite of the difficult economic environment. The new team proved to be quick learners and tackled the problems head-on. Not surprisingly, there were some concerns such as individuals adjusting to new responsibilities or coping with volatility and uncertainty in the market place. But these issues were mostly of a routine nature and were handled smoothly.

One more top management change in the current year is the impending promotion of Mr Vir S Advani as whole-time Director to the Board of Directors with effect from July 1, 2010. His elevation to the Board will induct young blood that brings fresh ideas in a fast-changing world.

THE ROAD AHEAD

Turning to plans for 2010-11, with the Indian economy showing perceptible signs of faster growth, our business plans have also shifted to a more aggressive mode. But it will not be business as usual. The world continues to change and Blue Star needs to be ready to meet new business demands. Here are the major thrust areas the Company has identified for 2010-11:

- Strategies to accelerate business growth.
- Upgrading technology and strengthening capabilities in R&D for new products.
- Refocusing on providing a world-class customer experience.
- Building robust work processes to improve consistency and reliability in delivery.
- Grooming tomorrow's leaders and managers.

Our people are excited that Blue Star's plans remain focused on profitable growth. They acknowledge that while there are attractive opportunities, we face a challenging future that will demand much from everyone. But they remain confident that the well-tested Blue Star Way will continue to guide us successfully as it always has.

Mumbai : May 26, 2010

Ashok M Advani
Executive Chairman

Annexure to Letter from the Chairman

BLUE STAR FINANCIAL PERFORMANCE

(Rs. in crores)

	2009-10 Audited	2008-09 Audited
Total Income	2556.11	2524.38
Growth over Previous Year	+1%	+13%
Operating Profit (PBITDA) excl. Non-Operating Income	299.16	276.41
Growth over Previous Year	+8%	+16%
Profit Before Tax	276.62	238.22
Growth over Previous Year	+16%	-2%
Profit After Tax	211.49	180.29
Growth over Previous Year	+17%	+4%
Shareholders' Funds	491.68	367.13
Borrowings	8.93	27.28
Capital Employed	500.61	395.03
Operating Cash Flow	115.46	189.56
Carry Forward Order Position	1747	1339
Growth Over Previous Year	+30%	+18%

KEY RATIOS

	2009-10 Audited	2008-09 Audited
Gross Margin (excl. Non-Operating Income)	26.2%	25.6%
Operating Margin (excl. Non-Operating Income)	11.7%	10.9%
Return on Capital Employed	55.3%	60.3%
Return on Shareholders' Funds	43.0%	49.1%
Earnings Per Share (Rs.)	23.52	20.05
Dividend Per Share (Rs.)	8.00	7.00
Capital Turnover	5.11	6.39
Debt/Equity	0.02	0.07
Inventory Turnover	7.29	9.01
Receivables (Days Billings Outstanding)	90	87

Board of Directors



Ashok M Advani, Executive 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 with effect from July 2009. As Executive Chairman, he oversees Corporate Strategy, Corporate Governance, Investor Relations and Corporate Social Responsibility.

Ashok is the Vice Chairman of Blue Star Infotech Limited and on the Board of Alfa Laval (India) 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, 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. As Vice Chairman & Managing Director, he oversees the Electro Mechanical Projects Group, Corporate Communications & Marketing and Public Relations.

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. 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 in 2009. In his current appointment as Managing Director, Satish oversees the operations and support services of the Company.



Vir S Advani, Executive Director (w.e.f July 1, 2010)

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 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 w.e.f July 1, 2010.

Vir is also a Director of Blue Star Design & Engineering Limited and J T Advani Finance Private Limited.



Shailesh Haribhakti, Director

Shailesh Haribhakti is a Fellow member of the Institute of Chartered Accountants of India. He is also a Graduate Cost Accountant, Certified Internal Auditor, Certified Fraud Examiner and Certified Financial Planner. He joined M/s Haribhakti & Co, Chartered Accountants, Mumbai as Deputy Managing Partner in 1978 and is currently its Managing Partner.

Shailesh joined the Board of Blue Star in 2005. In addition to Blue Star, he is also on the Boards of several leading companies such as Ambuja Cement, Akruti, ACC and Pantaloon, amongst others. He has been associated with several institutions and trade associations such as Indian Merchants' Chamber, Institute of Internal Auditors, Bombay Management Association, ASSOCHAM, Western India Regional Council of ICA and NMIMS. In addition, he is empanelled as an Arbitrator by the Indian Council of Arbitration.



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 Elantas Beck India, ESAB India, Mount Everest Mineral Water and Tube Investments of India. In addition, he is associated with Industry Associations such as Confederation of Indian Industry, 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 Unilever Detergents business.

In 1998, Gurdeep returned to Hindustan Lever as the Director - Human Resources and Corporate Affairs. He retired as Senior Vice President - Corporate Affairs in April 2006. He joined the Board of Blue Star in 2003. He is also on the Boards of Halonix, Gabriel India and Technova India.



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, Cadbury India, Larsen & Toubro, Greaves Cotton, Sandvik Asia, ESAB India, Johnson & Johnson and Uhde India, amongst others.

Directors



Ashok M Advani
Executive Chairman



Suneel M Advani
Vice Chairman & Managing Director



Satish Jamdar
Managing Director



Vir S Advani
Executive Director
(w.e.f July 1, 2010)

Presidents



Avinash Pandit
President - Electro Mechanical Projects Group



B Thiagarajan
President - Airconditioning & Refrigeration Products Group