

# Board's Report

## To The Members

The Directors are pleased to present the 70<sup>th</sup> Annual Report, together with the audited financial statements for the financial year ended March 31, 2018.

## COMPANY OVERVIEW

Your Company offers one of India's widest range of air conditioning and commercial refrigeration products, as well as a comprehensive range of air purifiers, water purifiers, air coolers and other specialty products. It fulfills cooling and refrigeration requirements of a large number of corporate, commercial as well as residential customers.

Leveraging on its project execution capabilities, the Company offers turnkey solutions in MEP (Mechanical, Electrical, Plumbing and Fire-fighting) contracting for buildings, factories, infrastructure and heavy industry projects. The Company's integrated business model of a manufacturer, contractor and after-sales service provider enables it to offer an end-to-end solution to its customers, which has proved to be a significant differentiator in the market place.

## FINANCIAL RESULTS

The financial statements of the Company have been prepared in accordance with the Indian Accounting Standards (Ind AS) notified under Section 133 of the Companies Act, 2013 read with Companies (Accounts) Rules, 2014. The standalone and consolidated financial highlights of the Company for the financial year ended March 31, 2018 are summarized as follows:

(₹ in crores)

Particulars	Standalone		Consolidated	
	For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2017
Revenue from operations	4425.15	4146.60	4749.99	4422.23
Total Revenue	4441.29	4180.98	4766.94	4456.81
Total Expenses	4263.39	4032.70	4566.21	4298.18
Profit before exceptional items and tax	177.90	148.28	200.73	158.63
Profit after exceptional items and before tax	195.75	148.28	206.00	158.63
Income tax	53.82	36.31	54.56	36.67
<b>Profit for the Year</b>	<b>141.93</b>	<b>111.97</b>	<b>149.25</b>	<b>123.05</b>

Prior to GST becoming effective on July 1, 2017, revenue for previous periods included excise duty. For comparability, revenue from operations for the prior period is also stated net of excise in the subsequent paragraph. There is no impact on Profit before Tax or Profit after Tax.

Comparable revenue from operations is as follows:

(₹ in crores)

Particulars	Standalone		Consolidated	
	For the year ended March 31, 2018	For the year ended March 31, 2017	For the year ended March 31, 2018	For the year ended March 31, 2017
Revenue from operations	4318.42	3855.14	4643.26	4130.77

## COMPARABLE OPERATING RESULTS

On a standalone basis, revenue from operations of the Company was ₹4318.42 crores as compared to ₹3855.14 crores (excluding excise component) in the previous year, registering a growth of over 12.01%. The Company registered Net Profit after Tax of ₹141.93 crores as compared to ₹111.97 crores for the financial year ended March 31, 2017.

On a consolidated basis, the revenue from operations of the Company was ₹4643.26 crores as compared to ₹4130.77 crores (excluding excise component) in the previous year, registering a growth of over 12.41%. The Company registered Net Profit after Tax of ₹149.25 crores as compared to ₹123.05 crores for the financial year ended March 31, 2017.

Your Company operates in three key segments (i) Electro-Mechanical Projects and Packaged Air Conditioning Systems (ii) Unitary Products, and (iii) Professional Electronics and Industrial Systems. Performance of the Company in the above mentioned segments during the year under review is as stated below:

#### **(a) Electro-Mechanical Projects and Packaged Air Conditioning Systems**

Your Company continued to maintain its leadership position in the electro-mechanical space in India. Market growth continued to remain muted and Corporates continued to stay cautious on fresh investments. Investments in infrastructure project were largely driven by Government in various infrastructure projects like metro and healthcare.

Your Company continues to invest in engineering capabilities, modern construction practices and technology in line with its value proposition of superior project delivery.

On a consolidated basis, comparable revenue of this segment grew by 9.67% to ₹2350.68 crores from ₹2143.35 crores (excluding excise component). Segment results registered an increase of 51.56% from ₹90.67 crores in the previous year on a comparable basis to ₹137.42 crores in the year under review.

#### **(b) Unitary Products**

The performance of the room air conditioning segment was driven by improved product penetration among the existing dealers/retailers, a better product range, attractive sales promotions and strengthening distribution. Your Company continued to perform better in the high energy-efficient products such as 5 star and inverter ACs.

On the Commercial Refrigeration business front, growth was seen across categories of deep freezers, storage water coolers, bottled water dispensers and modular cold rooms. Our new lines of business, kitchen refrigeration and medical refrigeration, witnessed reasonable growth in the market with increase in secondary sales.

On a consolidated basis, Unitary Products comparable revenue in the year grew by 17.21% to ₹2105.36 crores as against previous year's revenue of ₹1796.25 crores (excluding excise component). Segment results have risen by 15.04% from ₹167.88 crores in the previous year to ₹193.13 crores in the year under review.

#### **(c) Professional Electronics and Industrial Systems (PE&IS)**

The PE&IS segment is operated by Blue Star Engineering & Electronics Limited, a wholly owned subsidiary of the Company. At a consolidated level, the comparable revenue generated by this business segment during the year under review was ₹187.22 crores as compared to ₹191.48 crores of the previous year (excluding excise component). The results stood at ₹19.58 crores as compared to ₹32.48 crores in the previous year.

Revenue of this segment was impacted due to continued softness in industrial capital expenditure and slow pace of execution across various projects. The sluggish demand for the products under this segment has impacted the profitability of the Company.

## **DIVIDEND**

The Board, at its meeting held on May 14, 2018, recommended a dividend of ₹8.50 per equity share of ₹2 each for the financial year ended March 31, 2018. In addition, to commemorate the Company's Platinum Jubilee in 2018, the Board recommended a special dividend of ₹1.50 per equity share of ₹2 each. Accordingly, an aggregate dividend of ₹10 per equity share of ₹2 each has been proposed. This dividend is payable to those shareholders whose names appear in the Register of Members as on the Book Closure Date. This proposal is subject to the approval of members at the ensuing Annual General Meeting. The Board has adopted the Dividend Distribution Policy for the Company which can be viewed on the website of the Company under the link: <https://www.bluestarindia.com/media/104569/dividend-distribution-policy.pdf>.

## FINANCING

On a consolidated basis, borrowing cost for the year was ₹28.74 crores which was lower as compared to ₹37.78 crores in the previous year, due to reduced borrowing levels led by effective working capital management and ability to source the funds at a lower cost. In addition, disciplined and systematic hedging decisions based on accurate information of forex exposure resulted in net gain of ₹0.73 crores, as compared to a net gain of ₹1.50 crores in the previous year.

The Company secured short term rating of A1+ (highest safety) from CRISIL, top credit rating agency, for its commercial papers. The Company already enjoys A1+ rating from CARE.

## DEPOSITS

The Company has not accepted any deposits from the public falling within the ambit of Section 73 of the Companies Act, 2013 (the 'Act'), and the Companies (Acceptance of Deposits) Rules, 2014.

## CHANGES IN SHARE CAPITAL

During the year under review, the Company allotted 4,29,400 equity shares of ₹2 each, fully paid up, to the option grantees pursuant to the exercise of stock options by the eligible employees under the Blue Star Limited Employee Stock Option Scheme, 2013.

Consequent to the above, the issued, subscribed and paid up share capital of your Company as on March 31, 2018 stood at ₹19,19,99,576 comprising 9,59,99,788 equity shares of ₹2 each.

## CONSOLIDATED FINANCIAL STATEMENT

In accordance with Regulation 34 of the Listing Regulations and Section 129(3) of the Act, the consolidated financial statement has been prepared by the Company, as per the Indian Accounting Standards (Ind AS), and forms a part of this Annual Report.

The consolidated financial statement shall also be laid at the ensuing Annual General Meeting of the Company.

## SUBSIDIARIES AND JOINT VENTURE COMPANIES

### Subsidiary Companies:

#### a) Blue Star Engineering & Electronics Limited

Blue Star Engineering & Electronics Limited is a wholly owned subsidiary of Blue Star Limited. It offers advanced technology products, surveillance solutions as well as electronic systems and product testing solutions.

Total comparable revenue of Blue Star Engineering & Electronics Limited for the year ended March 31, 2018 was ₹191.90 crores, as against its previous year's revenue of ₹181.49 crores. The subsidiary achieved a net profit of ₹19.66 crores for the year under review, as against last year's net profit of ₹4.92 crores.

#### b) Blue Star Qatar WLL

Blue Star Qatar WLL is a joint venture between Blue Star Limited and Al Malki Trading and Contracting Company WLL, wherein Blue Star Limited holds 49% of the share capital and voting rights, and the balance is held by Al Malki Trading and Contracting Company WLL. The company is principally engaged in the business of MEP contracting and maintenance in Qatar.

This company is a subsidiary of Blue Star Limited by virtue of Section 2(87)(i) of the Companies Act 2013, as Blue Star controls the composition of the company's Board.

Total income of this company for the year ended March 31, 2018 was ₹111.64 crores as compared to ₹110.77 crores in the previous financial year. Net profit after tax for the year ended March 31, 2018 was ₹5.43 crores as compared to ₹3.63 crores in the previous year.

**c) Blue Star International FZCO**

Blue Star International FZCO, incorporated on April 18, 2017, is a wholly owned subsidiary of Blue Star Limited, operating in the Dubai Airport Freezone, a free trade zone in the UAE.

Being the maiden year, the company clocked a total income of ₹53.45 crores and reported a net loss of ₹6.28 crores for the period ended March 31, 2018.

**Joint Venture/Associate Companies:****a) Blue Star M & E Engineering Sdn Bhd**

Blue Star M & E Engineering Sdn Bhd, a joint venture with Amcorp Properties Bhd, Malaysia, is principally engaged in the business of HVAC & MEP contracting and maintenance in Malaysia.

During the year, as a part of the restructuring of the international business, entire shares held by the Company in Blue Star M & E Engineering Sdn Bhd were transferred to Blue Star International FZCO on December 22, 2017. This company continues to be associate of your Company. In order to develop further business opportunities in the region strategically, Blue Star International FZCO subscribed to 49 redeemable convertible preference shares of RM 40,000 each in Blue Star M & E Engineering Sdn Bhd on March 29, 2018, amounting to ₹3.48 crores.

This company's total income for the year ended March 31, 2018 was ₹94.56 crores as compared to ₹108.44 crores in the previous financial year. Net profit after tax for the year ended March 31, 2018 was ₹7.17 crores as compared to ₹5.14 crores in the previous year.

**b) Blue Star Oman Electro-Mechanical Company LLC**

A joint venture between W J Towell & Co LLC and Blue Star Limited, Blue Star Oman Electro-Mechanical Company LLC is principally engaged in the business of MEP contracting and maintenance in Oman. Its income for the year ended March 31, 2018 was ₹97.46 crores as compared to ₹112.28 crores in the previous year. For the year ended March 31, 2018, the venture had a net loss of ₹10.86 crores as compared to a profit of ₹0.70 crores in the previous year.

In accordance with Section 136 of the Act, the audited financial statement of the Company, including the consolidated financial statement, and audited financial statements of the subsidiary companies, are available on the corporate website: [www.bluestarindia.com](http://www.bluestarindia.com).

A copy of these documents will be available to the members, on their request in writing. It will also be available for inspection by any member during business hours at the registered office of the Company.

A statement containing the salient features of the financial statements of the subsidiaries, associates and joint venture companies in Form AOC-1, as required under Rule 5 of the Companies (Accounts) Rules, 2014, forms part of the consolidated financial statement.

**SIGNIFICANT DEVELOPMENTS**

- a) In 2016, your Company had acquired land from J&K State Industrial Development Corporation, for setting up a manufacturing facility at Samba in Jammu. Due to non-availability of certain fiscal incentives envisaged earlier as a consequence of the introduction of GST, this proposed manufacturing facility project in Jammu became economically non-viable and therefore, the Company decided not to go ahead with this project.
- b) The Board approved the proposal to incorporate a step down subsidiary in mainland UAE, under Blue Star International FZCO, with an initial investment of AED 300,000. This will enable our UAE operations to improve their competitive position in the central air conditioning, mid-sized HVAC projects and service business, through a direct presence in mainland UAE.

- c) In January 2018, BSE shifted Blue Star shares to Group A from Group B comprising top 200 companies based on several factors like market capitalization, trading volumes and numbers, track records, profits, dividends, shareholding patterns, and qualitative aspects including governance.

## NEW INITIATIVES

The Company successfully completed seamless transition to GST during the year. The Company has embarked upon several initiatives in the areas of technology led digitalisation of some key business processes, employee engagement and internet enabled automation across its products and services.

## AWARDS AND RECOGNITIONS

During the year under review, the Company was felicitated with many prestigious awards for excellence in its areas of business, and an illustrative list is given below:

- Blue Star was recognised as the MEP Contractor of the Year at the 'Construction Week India Awards 2017'.
- Blue Star received a commendation, 'Strong Commitment to Excel' at 'CII-EXIM Bank Awards for Business Excellence, 2017'.
- Blue Star won the IDC Insight Awards for Operational Excellence 2017 for its mobile-based Preventive Maintenance Service app.
- Blue Star won an award for its mobile field service app at the '12<sup>th</sup> Annual CIO 100 Symposium and Awards ceremony 2017' and at the 'Manufacturing IT Summit 2017'.

## DIRECTORS

In accordance with provisions of the Companies Act, 2013, Suneel M Advani retires by rotation at the ensuing Annual General Meeting, and being eligible, offers himself for re-appointment. Pradeep Mallick retired as an Independent Director of the Company on attaining the age of 75 years as per the Company's retirement policy, with effect from November 30, 2017. Board placed on record its sincere appreciation for the valuable contribution made by Pradeep Mallick during his tenure as a Director.

Further, based on the recommendation of the Nomination and Remuneration Committee, the Board had appointed Anil Harish (DIN: 00001685) as the additional Independent Director of the Company, with effect from November 22, 2017 for a period of 5 years.

As per the provisions of the Act, Anil Harish holds office up to the date of the ensuing Annual General Meeting of the Company.

Your Company has received notice under Section 160 of the Act, from a member proposing appointment of Anil Harish as an Independent Director on the Board of your Company. Accordingly, the necessary resolution seeking approval of the members for appointment of Anil Harish has been incorporated in the Notice of the ensuing Annual General Meeting.

Brief profiles of the Directors proposed to be appointed/re-appointed at the ensuing Annual General Meeting are annexed to the Notice convening Annual General Meeting.

The Board recommends their appointment at the ensuing Annual General Meeting.

### Declaration by Independent Directors

The Company has received necessary declaration from each of the Independent Directors of the Company under Section 149(7) of the Act, confirming that they meet with the criteria of independence as laid down in Section 149(6) of the Act, read with Regulation 25 of the Listing Regulations.

## KEY MANAGERIAL PERSONNEL

In accordance with the provisions of Section 203 of the Act, the following personnel have been designated as the Key Managerial Personnel of the Company:

Name	Designation
Vir S Advani	Managing Director
B Thiagarajan	Joint Managing Director
Neeraj Basur	Chief Financial Officer
Vijay Devadiga	Company Secretary

## DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the provisions contained in Section 134 of the Act, the Directors, to the best of their knowledge and belief, confirm that:

- In the preparation of the annual accounts for the financial year ended March 31, 2018, the applicable accounting standards have been followed, along with proper explanation relating to material departures;
- The Directors have selected such accounting policies and applied them consistently, and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as at March 31, 2018, and of the profit of the Company for that period;
- The Directors have taken proper and sufficient care for the maintenance of adequate accounting records, in accordance with the provisions of the Act for safeguarding the assets of the Company, and for preventing and detecting fraud and other irregularities;
- The Directors have prepared the annual accounts for the year ended March 31, 2018, on a going concern basis;
- The Directors have laid down internal financial controls to be followed by the Company, and that such internal financial controls are adequate and are operating effectively; and
- The Directors have devised proper systems to ensure compliance with the provisions of all applicable laws, and that such systems are adequate and operating effectively.

## MEETINGS OF BOARD OF DIRECTORS

During the year under review, 5 (five) meetings of the Board of Directors were held on May 9, 2017; August 11, 2017; October 31, 2017; February 6, 2018; and March 7, 2018. The intervening gap between these meetings was within the period prescribed under the Act and Listing Regulations. The details of the meetings and attendance of the Directors are provided in the Corporate Governance Report.

## BOARD COMMITTEES

Your Company has in place, all the Committee(s) as mandated under the provisions of the Act and Listing Regulations.

Currently, there are seven Committees of the Board, namely:

- Audit Committee
- Nomination and Remuneration Committee
- Investor Grievance cum Stakeholders' Relationship Committee
- Risk Management Committee
- Corporate Social Responsibility Committee
- Share Transfer Committee
- Executive Management Committee

## AUDIT COMMITTEE

The Audit Committee of the Company comprises Shailesh Haribhakti, Gurdeep Singh, Anil Harish and B Thiagarajan. Shailesh Haribhakti is the Chairman of the Committee. Gurdeep Singh and Anil Harish were appointed as the members of the Audit Committee with effect from August 11, 2017 and November 22, 2017, respectively.

The composition of the Committee is in compliance with the requirements of Section 177 of the Act and Regulation 18 of the Listing Regulations. The charter of the Committee is in conformity with the Act and the Listing Regulations as more particularly set out in the Corporate Governance Report, which forms a part of this report.

During the year under review, there was no instance wherein the Board had not accepted any recommendation of the Audit Committee.

## NOMINATION AND REMUNERATION COMMITTEE

The Nomination and Remuneration Committee comprises Gurdeep Singh, Suneel M Advani, Sam Balsara and Dinesh N Vaswani. Gurdeep Singh is the Chairman of this Committee. Sam Balsara was inducted as a member of this Committee, with effect from August 11, 2017. Pradeep Mallick ceased to be the member of the Committee with effect from November 30, 2017.

The Committee is constituted in line with the requirements mandated by the Act and of the Listing Regulations. The terms of reference of the Committee are in conformity with the said requirements, as more particularly set out in the Corporate Governance Report, which forms a part of this report.

## RISK MANAGEMENT COMMITTEE

The Risk Management Committee has been formed to assist the Board in fulfilling its responsibilities relating to evaluation and mitigation of various risks exposures that potentially impact the Company. An Enterprise Risk Management (ERM) framework prescribed under the Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework was adopted for implementation by the Committee.

The Risk Management Committee comprises Suneel M Advani, Vir S Advani, B Thiagarajan and Neeraj Basur. Vir S Advani is the Chairman of this Committee.

The Committee has adopted a formal Risk Management Policy. The Committee identifies, evaluates and assesses the risks, understands the exposure of risks and accordingly prepares the risk mitigation plan. It has identified the Risk Management Units which are constantly monitored, and the severity of risk is tracked, based on risk rating methodology.

During the year, the Committee reviewed the Company's risk management processes on a quarterly basis to oversee mitigation effectiveness of various risk categories across all Risk Management Units.

The Company maintains risk registers to ensure that the effectiveness of the mitigation action plan gets assessed independently. These registers were presented to and reviewed by the Risk Management Committee and Audit Committee.

## CORPORATE SOCIAL RESPONSIBILITY (CSR) COMMITTEE

The CSR Committee comprises Suneel M Advani, B Thiagarajan and Shobana Kamineni. Suneel M Advani is the Chairman of this Committee.

During the year under review, the Company was required to spend an amount of ₹211 lakhs towards activities as stipulated under Schedule VII of the Act. The Company has spent an amount of ₹220 lakhs towards various CSR initiatives.

A brief outline of the CSR Policy and the initiatives undertaken by the Company on CSR activities during the year are set out in Annexure 2 of this report as prescribed in the Companies (Corporate Social Responsibility Policy) Rules, 2014. The Policy is also available on the website of the Company.

Details of the other committees of the Board are provided in the Corporate Governance Report.

## EVALUATION OF PERFORMANCE OF BOARD, ITS COMMITTEES AND OF DIRECTORS

The Nomination and Remuneration Committee at its meeting held on February 5, 2018 approved the process in which the evaluation of Chairman, Directors, Board and its committees were to be conducted. Accordingly, the questionnaires were circulated seeking inputs of the Directors to evaluate governance standards based on various parameters including structure and composition of Board and committees, quality of Board processes, Board culture and dynamics, effectiveness vis-à-vis stakeholders' expectations in terms of strategic direction and guidance to leadership team.

The inputs received from the Directors were deliberated and reviewed by the Independent Directors at a separate meeting held on March 14, 2018. At this meeting, they evaluated the performance of the Non-Independent Directors, the Board as well as that of the Chairman, taking into account the views of the Executive and Non-Executive Directors. The Board of Directors carried out an annual evaluation of the performance of the Board as a whole, the Directors individually, and the working of the committees of the Board. The outcome of the evaluation was noted by the Nomination and Remuneration Committee at its meeting held on April 26, 2018, and by the Board of Directors at its meeting held on May 14, 2018. While the Directors have expressed their satisfaction with the evaluation process and the outcome, the Board also noted the key action points emerged from the process for implementation.

## NOMINATION AND REMUNERATION POLICY

The Nomination and Remuneration Policy of the Company was adopted by the Board based on the recommendation of the Nomination and Remuneration Committee. The Policy provides broad guidelines on appointment, removal, retirement, qualifications, attributes, structure of remuneration and independence of the Directors, KMPs and Senior Management. It is designed to foster a high-performance culture enabling the Company to attract, retain and motivate employees to achieve results. The performance of the Managing Director and Joint Managing Director were evaluated and reviewed by the Nomination and Remuneration Committee at its meeting held on April 26, 2018. The Nomination and Remuneration Policy is uploaded on the Company's website under the weblink: <https://www.bluestarindia.com/media/137066/blue-star-nomination-and-remuneration-policy.pdf>

## MANAGERIAL REMUNERATION

Details of the ratio of the remuneration of each Director to the median employee's remuneration and other details, in terms of Section 197(12) of the Act, read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is enumerated further.

i.	The ratio of the remuneration of each Director to the median remuneration of the employees of the Company for the financial year	Vir S Advani	103x
		B Thiagarajan	66x
ii.	The percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year	Vir S Advani	45.15%
		B Thiagarajan	22.63%
		Neeraj Basur	11.31%
		Vijay Devadiga	12.42%
iii.	The percentage increase in the median remuneration of employees in the financial year	10.58%	
iv.	The number of permanent employees on the rolls of Company	2602	



v.	Average percentile increase already made in the salaries of employees, other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof, and point out if there are any exceptional circumstances for increase in the managerial remuneration	Average increase to employees other than Managerial Personnel and justification thereof	13.91% To remain competitive in the market, to attract and retain talent.
		Average increase to Managerial Personnel	Please refer to (ii) of this table.
		Exceptional circumstances for increase to managerial remuneration	The average increase given in FY 2017-18 was based on the outcome of compensation and benefits benchmarking to align remuneration of Whole-time Directors to market median.
vi.	Affirmation that the remuneration is as per the remuneration policy of the Company	It is hereby affirmed that the remuneration paid is as per the Nomination and Remuneration Policy of the Company.	

The Non-Executive Directors of the Company are paid sitting fees and commission as per the statutory provisions and within the limits approved by the members. The ratio of remuneration and percentage increase in Non-Executive Directors' remuneration are therefore not considered for the purposes above. The details of remuneration of Non-Executive Directors are provided in the Corporate Governance Report.

## CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standards of corporate governance and continues to be compliant with the requirements of the corporate governance as enshrined in the Listing Regulations. The report on Corporate Governance, as stipulated under Regulation 27 of the Listing Regulations, forms part of the Annual Report. The certificate from the Statutory Auditors of the Company confirming compliance with the conditions of Corporate Governance, as stipulated under Regulation 27 of the Listing Regulations, has been annexed with the said report.

## VIGIL MECHANISM

Your Company is committed to conduct its business with highest standards of ethical standards, integrity and transparency across its operations, in compliance with the applicable laws and regulations. In line with a strong commitment to governance and compliance, the Company has instituted a robust vigil mechanism framework encompassing various elements and components in an integrated manner.

Vigil Mechanism structure at Blue Star is based on Committee of Sponsoring Organisations of the Treadway Commission (COSO) 2013 framework governing risk, compliance and controls. Embedded in the Vigil Mechanism structure are three lines of defence principles. The first line of defence comprises of key management controls, financial controls, governance policies and internal control measures. The second line of defence is addressed by assurance from risk management and compliance procedures. The third line of defence is provided through the work done by internal and external auditors.

Governance policies, internal controls, stakeholders' engagement, enterprise risk management, compliance, internal and statutory audit are key components of Blue Star's Vigil Mechanism. They are interwoven in the vigil mechanism system to enable constant interplays to drive home the assurance of best practices and creation of value for all the stakeholders of the Company.

As a part of its governance policies, the Company has laid down a whistle blower policy to enable the Directors and employees of the Company to report concerns of any unethical behaviour, unacceptable and improper practices or suspected fraud. The policy has also been uploaded on its website. An Ethics Committee has been constituted, comprising the Chief Financial Officer, HR Head and Company Secretary (Ethics Officer) to administer this Policy.

The Whistle Blower Policy is uploaded on the Company's website under the weblink:

<https://www.bluestarindia.com/media/6011/whistle-blower-policy.pdf>

The Company has also adopted a Code of Conduct which is available on the website of the Company under the weblink:

<https://www.bluestarindia.com/media/6010/code-of-conduct.pdf>

The Audit Committee reviews on a quarterly basis, complaints, if any, and implements corrective actions, whenever necessary.

### **INTERNAL CONTROL SYSTEMS**

The Company has established an internal control system, commensurate with the size, scale and complexity of its operations. In order to enhance the standards of controls and governance, the Company has adopted COSO 2013 framework to ensure that robust internal financial controls exist in relation to operations, financial reporting and compliance.

Significant features of the Company's internal control system are:

- A well-established, independent, Internal Audit team operates in line with best-in-class governance practices. It reviews and reports to the Audit Committee about compliance with internal controls, the efficiency and effectiveness of operations as well as key process risks.
- The Audit Committee periodically reviews internal audit plans, significant audit findings and adequacy of internal controls.
- Systematic self-certification of adherence to key internal controls, as part of control self-assurance by process owners, monitors and reviewers.
- Adherence with a comprehensive information security policy and continuous upgrades of the Company's IT systems for strengthening automated controls.

During the year, the internal controls were tested and found effective, as a part of the Management's control testing initiative.

Accordingly, the Board, with the concurrence of the Audit Committee and the Auditors is of the opinion that the Company's Internal Financial Controls were adequate and operating effectively for the financial year ended March 31, 2018.

### **LOANS, GUARANTEES AND INVESTMENTS**

Details of loans, guarantees and investments covered under the provisions of Section 186 of the Act, as may be applicable, are given in the standalone financial statement as per Note 6.

### **CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES**

All related party transactions that were entered into during the financial year were on an arm's length basis and in the ordinary course of business. All related party transactions are approved by the Audit Committee.

There are no material transactions with any related party as defined under Section 188 of the Act, read with the Companies (Meetings of Board and its Powers) Rules, 2014. The details of transactions with the related parties are provided in the standalone financial statement as per Note 36.

A policy governing the related party transactions has been adopted and the same has been uploaded on the Company's website under the weblink: <https://www.bluestarindia.com/media/78799/policy-for-transaction-with-related-parties.pdf>

## HUMAN RESOURCES

The Human Resources philosophy of your Company is to attract and retain the best talent in the industry. Your Company considers its employees as partners in success. Your Company constantly endeavours in adopting the best policies to keep its employees motivated, engaged and aligned to the interests of the Company. Your Company undertakes various employee engagement programmes and also fosters a culture of continuous learning and development and creating future leaders. Your Company constantly explores various possibilities to make Blue Star a better place to work.

## EMPLOYEE STOCK OPTIONS

The Nomination and Remuneration Committee of the Board of Directors of the Company, inter alia, administers and monitors the Employees' Stock Option Scheme of the Company, in accordance with the SEBI (Share Based Employee Benefits) Regulations, 2014. Details of the shares issued under Employee Stock Option Scheme (ESOS), as also the disclosures, in compliance with Section 62 of the Act, and Rule 12 of the Companies (Share Capital and Debentures) Rules, 2014, and the SEBI (Share Based Employee Benefits) Regulations, 2014 is available on our website: [www.bluestarindia.com](http://www.bluestarindia.com).

## PARTICULARS OF EMPLOYEES

Particulars of employees as required under Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are required to be annexed to the Board's Report. In accordance with the provisions of Section 136 of the Act, the Annual Report excluding the aforesaid information is being sent to all the members of the Company and others entitled thereto. Any member interested in obtaining such particulars may write to the Company Secretary at the Registered Office of the Company.

## DISCLOSURES UNDER SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

The Company has zero tolerance for sexual harassment at workplace, and has adopted a policy on prevention, prohibition and redressal of the same, in line with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules thereunder for prevention and redressal of complaints of sexual harassment at workplace. All employees (permanent, contractual, temporary and trainees) are covered under this Policy.

The Company has set up Internal Complaints Committees to redress complaints received regarding sexual harassment. The Company organises workshops and awareness programmes at regular intervals for sensitising the employees with the provisions of the said Act. During the year under review, one complaint with allegations of sexual harassment was filed with the Company, and the same was investigated and resolved as per the provisions of the aforesaid Act.

## ENERGY CONSERVATION, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO

The Company incurred a total expenditure of ₹55.36 crores on research and development for the year as against ₹53.67 crores in the previous year.

During the year, the Company recorded foreign exchange earnings from export of its products, commission and other income, aggregating to ₹263.68 crores as against ₹256.63 crores in the previous year.

There was a corresponding increase in foreign exchange outflow, which stood at ₹1252.13 crores as compared to ₹1037.85 crores in the previous year.

The information on Energy Conservation, Technology Absorption and Foreign Exchange Earnings and Outgo, as required under Section 134(3)(m) of the Act, read with Rule 8 of the Companies (Accounts) Rules, 2014, is annexed herewith as Annexure 1.

### MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion and Analysis for the year under review, as stipulated under Regulation 34 of the Listing Regulations, is annexed to this report.

### BUSINESS RESPONSIBILITY REPORT

In compliance with Regulation 34 of the Listing Regulations, the Business Responsibility Report describing sustainability initiatives undertaken by the Company during the year under review is provided in a separate section forming part of this Annual Report.

### INTEGRATED REPORTING

In line with SEBI circular dated February 6, 2017, your Company has adopted Integrated Reporting describing initiatives undertaken by the Company for enhancing stakeholders value in the long term. The Integrated Report is provided in a separate section forming part of this Annual Report.

### STATUTORY AUDITORS

The Company's existing Statutory Auditors, M/s S R B C & Co LLP, Chartered Accountants, were appointed at the 66<sup>th</sup> Annual General Meeting of the Company, for a period of 5 years, to hold office until the conclusion of the 71<sup>st</sup> Annual General Meeting to be held for FY 2018-19, subject to ratification of their appointment at every Annual General Meeting.

Your Company and M/s S R B C & Co LLP, mutually agreed to advance their rotation as the Statutory Auditors at the ensuing Annual General Meeting to enable smooth transition for the incoming statutory auditors. Accordingly, M/s S R B C & Co LLP, Chartered Accountants, the existing statutory auditors have resigned effective from the conclusion of the ensuing Annual General Meeting on August 8, 2018. It is proposed to appoint M/s Deloitte Haskins & Sells LLP, Chartered Accountants as the new Statutory Auditors in their place. As per the recommendation of the Board, M/s Deloitte Haskins & Sells LLP would be appointed for a term of 5 consecutive years, to hold office from conclusion of the ensuing Annual General Meeting upto the conclusion of 75<sup>th</sup> Annual General Meeting to be held for FY 2022-23, subject to approval by the shareholders at the ensuing Annual General Meeting. Necessary resolution seeking approval of members of the Company for appointment of M/s Deloitte Haskins & Sells LLP, Chartered Accountants, as the Statutory Auditors in place of M/s S R B C & Co LLP, existing Statutory Auditors has been incorporated in the Notice of Annual General Meeting.

The Company has received a letter from M/s Deloitte Haskins & Sells LLP, Chartered Accountants to the effect that their appointment, if made, would be within the limits prescribed under Section 141 of the Companies Act, 2013.

### AUDITORS' REPORT

The Board has duly reviewed the Statutory Auditors' Report on the financial statements. There are no qualification, reservation, adverse remark given by the Auditors in their report.

### COST AUDITORS

In terms of the provisions of Section 148 of the Act, read with the Companies (Cost Records and Audit) Amendment Rules, 2014, the Board of Directors had, on the recommendation of the Audit Committee, appointed M/s Narasimha Murthy & Co, Hyderabad, Cost Accountants, as the Cost Auditors, to conduct cost audit for the financial year ended March 31, 2018.

As required under the Act, remuneration payable to the cost auditor is required to be placed before the members in a general meeting for their ratification. Accordingly, a resolution seeking members' ratification for the remuneration payable to Cost Auditors, forms part of the Notice convening the Annual General Meeting.

### SECRETARIAL AUDITOR

In terms of the provisions of Section 204 of the Act, read with Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board had appointed M/s N L Bhatia & Associates, Practicing Company Secretaries, as the Secretarial Auditor of the Company for conducting the secretarial audit of your Company for the financial year ended March 31, 2018.

The Secretarial Audit Report given by M/s N L Bhatia & Associates, Practicing Company Secretaries has been provided as per Annexure 3 to this Report. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark.

### EXTRACT OF THE ANNUAL RETURN

Pursuant to Section 92(3) and Section 134(3)(a) of the Act, read with Rule 12(1) of the Companies (Management and Administration) Rules, 2014, an extract of annual return in form MGT-9 has been provided as per Annexure 4 to this report.

### OTHER DISCLOSURES

- There were no material changes and commitments affecting the financial position of the Company, which have occurred between the end of the financial year under review and the date of this report.
- There were no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status of your Company and its operations in the future.
- Your Company has not issued any shares with differential voting.
- Your Company has not issued any sweat equity shares.
- There was no revision in the financial statements.
- No fraud has been reported by the Auditors to the Audit Committee or the Board.

### ACKNOWLEDGEMENTS

The Directors place on record, their sincere appreciation for the assistance, guidance and co-operation provided by the Government of India and other regulatory authorities. The Directors thank the financial institutions and banks associated with the Company for their support as well. The employees of the Company play a pivotal role in enabling the Company to scale new heights year after year, and their commitment and contribution is deeply acknowledged. Shareholders' involvements are greatly valued. The Directors look forward to your continuing support.

For and on behalf of the Board of Directors

Date : May 14, 2018  
Place : Mumbai

**Suneel M Advani**  
Chairman