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September 12, 2024

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400 001 **BSE Scrip Code: 500067**	**National Stock Exchange of India Ltd** Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051 **NSE Symbol: BLUESTARCO**

Dear Sir/Madam,

Sub: Disclosure under Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the 'Listing Regulations')

Ref: Clarification on Postal Ballot Notice (the 'Notice') dated August 26, 2024

We refer to our letter dated August 26, 2024, relating the Postal Ballot Notice seeking approval of shareholders for the Special Resolutions as set out in the said Notice.

We wish to inform you that subsequent to the issuance of the said Notice, the Company has received feedback from Proxy Advisor(s). Based on the feedback received from Proxy Advisor(s), we wish to give additional information to all the Shareholders to bring more clarity on the Special Resolutions No. 1 to 5 of the said Notice relating to Blue Star Employees Stock Option Scheme 2024 and revision in the terms of remuneration of Mr B Thiagarajan, Managing Director.

The Note providing additional information for Special Resolutions No. 1 to 4 is enclosed herewith as **Annexure A** and for Special Resolution No. 5 as **Annexure B**.

This intimation is also being made available on the website of the Company at www.bluestarindia.com.

Kindly take the same on record.

Thanking you,
Yours faithfully,
For **Blue Star Limited**
RAJESH DIGAMBAR PARTE
Digitally signed by RAJESH DIGAMBAR PARTE
Date: 2024.09.12 18:45:15 +05'30'

BLUE STAR LIMITED

Rajesh Parte
Company Secretary & Compliance Officer
Encl.: a/a

ANNEXURE A

Resolutions No. 1 to 4 of Postal Ballot Notice dated August 26, 2024 – Implementation of Blue Star Employees Stock Option Scheme 2024

I) PROXY ADVISOR(S) FEEDBACK

As per the report released by Proxy Advisor(s) on Company's Postal Ballot, Proxy Advisor(s) have highlighted that the Company's Employees Stock Option Scheme 2024 is inconsistent with their voting guidelines citing reasons that (a) the Scheme permits stock options to be issued at face value (b) Vesting of at least 25% and maximum 50% will be performance based. Hence, remaining options would vest based on time based criteria. (c) The proposals include grant of units to employees of associate companies without a compelling rationale.

In view of the above, the Company hereinbelow provides the additional information relating to Resolutions No. 1 to 4 of the Postal Ballot Notice dated August 26, 2024:

II) COMPANY NOTE ON BLUE STAR EMPLOYEES STOCK OPTION SCHEME 2024 (ESOP PLAN / SCHEME)

The Option Plan to be put in place by the Board and the Nomination and Remuneration Committee (NRC) is proposed after a lot of deliberation. The Company would like to put forward the thought process and the reasoning for the proposal. **The stock option plan which is a subject matter of the Postal Ballot Notice dated August 26, 2024 is not comparable with any other standard stock option plan**. The rationale of proposed stock option plan is explained below:

A. BACKGROUND:

The Indian HVAC&R industry is at an inflexion point, and on the cusp of an extraordinary expansion. The air conditioning sector, encompassing both residential and commercial segments, is poised to witness a significant transformation, with its market size expected to double over the next four years. The Company's expertise in cooling technologies, focus on manufacturing, R&D, deep customer insights, extensive distribution network and robust brand equity, positions the Company favourably to capitalize on the opportunities this anticipated growth will present.

Looking back, this extraordinary expansion is expected to play out on an already aggressive growth base seen over last couple of years. The Company itself reported a 53% increase in PBT in FY 2024 over FY 2023, which again was on the back of a high 70% growth in PBT reported in FY 2023 itself (over FY 2022).

The Company, built on a strong base and foundation, is well positioned to capitalize on the opportunity that this transformation is expected to provide. However, there is no denying that among the many factors underpinning its success, for any Company the role of its employees remains pivotal. **The Company's achievements are inextricably linked to the quality of its talent and their collective skills, knowledge, and unwavering commitment**. The stupendous growth over the years, particularly in last 2 years as depicted above, is testimony to the fact that the Company already has outstanding talents on its rolls which needs to be secured.

At the same time, with a focus on 'Make in India', aided by 'production linked incentives' **the HVAC business model is transitioning from being primarily a 'trading' model to a 'manufacturing' one.** The transformation which is happening in this regard comes with its own set of challenges. A few of the major developments are as follows:

1. Impact of transition in business model of HVAC companies:

a. While the Company was always ahead of the curve with respect to manufacturing, with the increased focus on backward integration there is acceleration in the shift from trading to manufacturing. Besides, Indian HVAC products are required to adhere to Quality Control Orders (QCOs) which are issued to ensure that consumers get high-quality products in the market. This shift calls for strengthening the manufacturing function with skills in precision manufacturing, manufacturing engineering, quality and vendor development.

b. The transition also calls for enhanced rigor in end-to-end supply chain as well as on product design and development. R&D and supply chain talent with required skill sets needs to be hired, developed and nurtured.

c. The above business model transition will call for increasing spends on capital expenditure including product development. **It was with this focus that the Company had made a QIP issuance in FY 24. Against approx. Rs 500 cr being spent on capital expenditure over a period of 5 years in the last decade, we now have Rs 500 cr being spent in just one year.** This requires imbibing 'project engineering' skills both in capital procurement and implementation.

   With the industry in a transition phase, the talent infusion of the nature that the business model now calls for is limited in HVAC industry, and the same will have to be sourced from other industries, including automotive, heavy engineering and MNC GCCs.

   In many such industries, ESOP plans are already in vogue. When we tap talent of the type we now need, we find that if we do not have an ESOP program in place it becomes a big limitation to attract skilled high-potential talent from such industries.

2. **Increase in Competition:**

With the HVAC industry on the cusp of growth, to tap the opportunity that the unpenetrated market provides several Indian and global players are in the process of setting up or expanding their own operations (including sales, marketing, R&D, supply chain, manufacturing and after-market) in India in a major way. Considering the increased competition, the risk of employee poaching has become a pressing concern. Predatory hiring practices could erode the Company's talent pool, affecting company qualitatively and quantitatively. Many of the Competitors already have an ESOP plan in place, and this called for the NRC to look at the need to implement an ESOP program to retain as well as attract key managerial talent.

Given the above background, the Board of Directors and NRC has, after taking into account a multitude of factors, and after a lot of deliberation, proposed an ESOP plan for consideration of the shareholders.

B. RATIONALE AND PROPOSED STRUCTURE

Based on the feedback received from Proxy Advisor(s), Company would like to provide rationale and a few changes to the proposal:

Observations	How achieved in Proposed structure
1. Ensure Stakeholder interest	'Performance' is the key overarching criteria for devising the Plan. The same has been ensured at two stages – First for Grant and again for Vesting.
2. Issue is proposed at Face value of share leading to 'Steep Discount' as compared to current market value .	Potential **benefit in value terms to eligible employees at the time of Grant** is the key driver of the ESOP plan. The overall **average benefit in value terms at grant** (excluding Directors, approved by separate resolution) will be **capped to 35% of aggregate fixed CTC to all eligible employees.** The range of capping at different salary grades will be between 14% to 40% of Fixed CTC, such that average is not more than 35% of Fixed CTC It is important to note that this will be vesting over a period of time. As the value of benefit to employee is fixed : a) Grant of options at **steep discount helps to keep dilution low** as number of shares to be issued will substantially reduce.

Observations	How achieved in Proposed structure
	b) Issue of Options at market price, or at a l**ower discount to market price,** will cause the **number of options allotted to go up thereby increasing dilution.**
3. 50% of Vesting was proposed to be Tenure based as even past performance is a criteria. There is a view that this does not give impetus to continuing performance.	50% Tenure based Vesting was proposed as 100% of grant was basis performance and potential only. Further, there was a cap on benefit defined for every employee. The intent of the NRC as mentioned above was to reward performance **it is clarified that while the option of tenure-based vesting was initially kept, it is now proposed that 100% of vesting will be linked to Performance criteria's. The Performance criteria which will be used are elaborated below under Vesting section.**
4. Grant of units to employees of associate companies	We clarify that employees of Associate companies will not qualify for ESOPs. Employees of Subsidiaries will be eligible as all subsidiaries are 100% owned by the parent and the Company discloses consolidated results. All of the subsidiaries are an integral part of the parent Company and some of them are operating as an extended arms of the Company i.e. as a manufacturing company or sales company in related Companies products etc. Further, employee talent pool is transferable within the parent & subsidiaries for the benefit of the group as a whole and thus the scheme would cover subsidiary employees.

C. KEY FEATURES OF THE PROPOSED ESOP PLAN

1. Eligibility:

The ESOP program to be put in place for a cohort of high-potential senior management employees (up to 4 levels below Board position) on the rolls of the Company/its subsidiaries, and for the new senior management recruits which the Group plans to hire to help bridge the identified skill gaps.

2. Equitable distribution:

The potential benefit is proposed to be equitably distributed. Up to 65% of the options is proposed to be set aside for the senior management team which does not include SMPs and KMPs.

3. Grant of Option:

The grant of options shall have direct linkage to 'performance' and 'potential' of the employees. There will be no weightage for tenure. To be eligible to get the Grant, and to help determine the quantum of options that an individual will be eligible for, the NRC has transparently laid down the performance & potential criteria as below:
For determining the eligibility, weightage will be given to the following:

Performance Criteria Used for Grant Purpose	Weightage
Annual Performance Rating (average of last 3/2/1 years rating as available)	40%
Rating derived basis performance of the 'division' to which the employee belongs (Actual PBT v/s Annual Budget Plan (ABP) PBT for the division)	40%
Talent Management Score of the employee which considers the potential of the employee basis: ➢ Behavioural Event Interview (BEI) assessment by external consultant. ➢ 360◦ assessment and ➢ Competencies demonstrated on the job	20%
Total	**100%**

Thus, there will be a robust and scientific way of administrating the 'grant' which takes into account only performance and potential. It may be further noted that the overall **average benefit in value terms at grant** (excluding Directors, approved by separate resolution) will be **capped to up to 35% of aggregate fixed CTC to all eligible employees.** The range of capping at different salary grades will be between 14% to 40% of Fixed CTC, such that average is not more than 35% of Fixed CTC. Further, these options will vest over period of time.

The performance criteria's used for determining grant are explained below:

➢ **<u>Annual Performance Rating:</u>**

The Annual Performance Rating of an employee is the grading arrived at for the employee on the basis of his performance against the Key Result Areas (KRA's) that the employee was expected to achieve during the year.

The KRA's of each employee are to a large **extent defined in a measurable manner so as to eliminate subjectivity and takes into account measures like growth in**

revenue, improvement in contribution, cost saving initiatives implemented, innovation carried out, new products introduced, gain in market share, improvement in quality parameters, improvement in working capital turns, optimum capital allocation, customer satisfaction, etc depending on the category and function that the employee belongs to. The KRA's are defined for each eligible employee.

Further, within each band, comparative ranking is done and the employees' performance is categorized into either 'exceptional' or 'overachieved' or 'achieved' or 'partially achieved', as the case may be. The average rating so assigned over a period of 3/2/1 years will carry 40% weightage in determining the grant.

➢ **Actual Division PBT v/s Annual Budget PBT:**

Achievement of Actual Division PBT vis-à-vis Annual Budget Plan (ABP) PBT helps align everyone in the division towards a common purpose. This ensures that synergies within the group are leveraged for benefit of the whole.

Each division, depending on how they have performed vis-à-vis ABP is assigned a Grading which can be either 0% (if Actual PBT is less than threshold % of ABP PBT as decided by the Board/NRC) or 90% or 100% or 105% or 115% or 130% depending on the performance v/s ABP PBT.

➢ **Talent Management Inputs:**

Under talent management, each employee is assigned a 'Score' which reflects his or her potential and is arrived at basis the scoring of the employee gathered from:

- Behavioural Event Interview (BEI) assessment made by external consultant,
- 360◦ assessment and
- consistency in demonstrating competencies on the job

With weightage given to each of the above parameter the Board and the NRC have kept both performance and potential paramount while curating the parameters which will determine eligibility for grant of options.

4. Vesting of Options:

The Company in the Explanatory Statement **mentioned a range of 25% to 50% of Vesting being linked to** Company's Performance (based on the parameters as may be determined by NRC and mentioned in Grant letter) and that the balance vesting of stock options shall be time based.

It is now clarified that the Company in order to emphasize the importance of continuing performance, has decided to link 100% of vesting to performance rating. **Therefore, there will be no tenure-based vesting.**

Accordingly, the Company is issuing the clarification on Vesting Criteria as below:

Criteria for Vesting Purpose	Weightage
Individual Composite Annual Performance demonstrated, which inter alia includes performance of the individual against key result areas which will be measurable targets including volume growth, cost savings, margin improvement, reduction in working capital levels, optimum capital spends, customer satisfaction, leadership capabilities etc. as the case may be and score assigned under Talent Management Assessment.	40%
Achievement against Threshold % of Annual Budget Plan (ABP) Company Revenue The **threshold below which 30% of Options would lapse** is proposed to be **70% of the ABP Revenue (proposed by Management and approved by the Board)** of the year prior to each vesting. If the performance achievement is: a) below the threshold set : 30% of Options would lapse. b) between 70% and up to 100% of ABP revenue : proportionate Options would vest. c) at 100% or above of ABP Revenue: entire 30% of Options would stand vested As the stretch built in ABP can vary from year to year, the NRC desires to keep the flexibility to determine the threshold % below which the options would lapse, at anywhere between 70% to 90%. As of now, it is proposed at 70% of Target ABP Revenue.	30%
Achievement against Threshold % of Annual Budget Plan (ABP) Company PBT The threshold below which 30% of Options would lapse is proposed to be **70%of the ABP PBT Target (proposed by Management and approved by the Board)** of the year prior to each vesting. If the performance achievement is: a) below the threshold set : 30% of Options would lapse. b) between 70% and up to 100% of ABP PBT : proportionate Options would vest. c) at 100% or above of ABP PBT: entire 30% of Options would stand vested. As the stretch built in ABP can vary from year to year, the NRC desires to keep the flexibility to determine the threshold % below which the	30%

Criteria for Vesting Purpose	Weightage
options would lapse, at anywhere between 70% to 90%. As of now, it is proposed at 70% of Target ABP PBT.	
Total	**100%**

ANNEXURE B

Resolution No. 5 of Postal Ballot Notice dated August 26, 2024 – Revision in remuneration of Mr B Thiagarajan, Managing Director

I) Proxy Advisor(s) Feedback

As per the report released by Proxy Advisor(s) on Company's Postal Ballot, Proxy Advisor(s) have highlighted that the Company's proposal for revision in remuneration of Mr B Thiagarajan, Managing Director is inconsistent with their voting guidelines citing reasons that (a) remuneration proposed is high for size and complexity of the business and high when compared to peers and (b) The company should cap the aggregate remuneration in absolute terms and disclose the performance parameters that govern his variable pay.

In view of the above, the Company hereinbelow provides the additional information relating to Resolution No. 5 of the Postal Ballot Notice dated August 26, 2024:

II) Company's note on Resolution No 5 – Revision in Remuneration of Mr B Thiagarajan, Managing Director:

In this regard, we would like to highlight our rationale for the proposed remuneration: The remuneration structure of a Managing Director is driven by multiple factors, which primarily includes Company performance, Individual performance, Company size and Complexity, Industry Benchmarks, Experience and Expertise and so on. The Board and NRC, in line with the Nomination and Remuneration Policy, considers these factors and after deliberations, sets out the terms of the remuneration including long term and short-term incentives.

A. Company Performance

Blue Star stands as a market leader across many of its selected domains of business. In the last few years, the Company's continued focus on investment for future growth towards expansion of manufacturing capacity, research & development, sales & distribution network, digitalisation, talent development and capability building coupled with concerted efforts to enhance quality of its order book, profitability, efficient utilisation of capital and building on internal capabilities have charted a path of sustained success, consistently driving exemplary performance across all business segments. This has yielded impressive outcomes, both in terms of revenue generation and profitability, further solidifying its leadership position within the industry. Over last 5 years the Companies CAGR in Revenue and PBT has been 15.9% and 28.2% respectively. Mr Thiagarajan as a Managing Director has an instrumental role to play in this success.

B. Individual performance

The performance evaluation of Managing Directors involves a comprehensive analysis of their leadership effectiveness, strategic accomplishments, and contribution to the Company's overall success. The NRC and the Board considers various factors in a formal evaluation process involving financial performance, strategic execution, leadership and organisational developments, operational efficiency, risk management, governance, product innovation and so on. Each of the KPIs are well defined and linked to tangible measurable targets. The NRC and the Board every year while determining the variable compensation and also while fixing the remuneration of MDs for following year take into consideration each of these KPIs vis-à-vis performance of the individual.

C. Size and complexity of Business

Blue Star is a large-scale company with over Rs. 10,000 crores in revenue, operating locally and globally across multiple sectors. The key business segments are:

1. **Electro-Mechanical Projects and Commercial Air Conditioning Systems**

   This business segment encompasses the design, manufacturing, installation, and maintaining central air conditioning systems and related services for large scale projects in airports, commercial buildings, and industrial infrastructure.

2. **Unitary Products (Air Conditioning and Cooling Solutions)**

   This segment includes air conditioners, air coolers, water/air purifiers, commercial refrigeration products and cold chain equipment with Blue Star being a major player in the Indian market.

3. **Professional Electronics and Industrial Systems**

   Blue Star act as the exclusive distributor in India for numerous internationally renowned manufacturers of professional electronic equipment and industrial products, and systems and for refurbish medical diagnostic equipment.

4. **Supply Chain and Operations**

   The Company's operations requires managing a complex supply chain across various manufacturing sites and international projects, crucial for its consumer and engineering sectors.

5. **Global operations**

   The Company operates internationally across the Middle East, Africa, SAARC, and ASEAN regions and in Europe and America. Blue Star leverages from the experience and expertise of Mr Thiagarajan for global expansion.

Finally, with respect to criticality, what is most important is as highlighted in the ESOP note i.e. the transition phase that the industry is going through. At this juncture, the industry is evolving and stewarding the business through this transition calls for experience and expertise of a different order.

D. Industry benchmark

The NRC and the Board carries out an industry benchmarking on compensation to make informed, strategic decisions regarding remuneration to maintain fairness, transparency, and alignment with market trends and shareholder interests. This process involves comparing the company's executive pay packages, performance criteria, and incentive structures against those of similar organizations within the same industry or sector.

Based on the benchmarking, certain principles are drawn out for fixing the remuneration. A similar process was followed for fixing the remuneration for FY25. Hitherto, the NRC used to track and carry benchmarking of engineering and project companies that were largely in its size range, however, given the increase in the revenue size of the Company, the benchmarking study for FY25 covered the pay structures of around twenty companies largely from the engineering sector and appliances sector. This included the Companies mentioned in the Proxy Advisor(s) report and few more additional companies which are not competitors but comparable companies from whom the Company recruits talent and loses talent to. The twenty companies include around eight to ten companies having both position that is Executive Chairman and a Managing Director.

Based on benchmarking and the business targets, the total remuneration of the MDs has been fixed.

The details of the total remuneration fixed for the Managing Director is as under:

Sr. No	**Remuneration**	**Amount in crores**
1.	Fixed remuneration	Rs. 5.85
2.	Performance pay	Rs. 7.05
Total		Rs. 12.90

100% of the Performance Pay is payable subject to achievement of the budgeted Profit Before Tax (before exceptional items). Further, there is a threshold of 70%, below which zero Performance Pay is earned.

The total cost to the remuneration is within the limit approved by the Shareholders of the Company.

E. Experience and Expertise

Mr B Thiagarajan is a veteran of the HVAC industry with nearly three decades of the experience. He joined Blue Star in the year 1997 and during his term he has held several assignments in Service Business, Corporate Communications & Marketing and Corporate Affairs & Planning before he was promoted to President of AC&R Products Group in 2009. He was elevated to the Board in 2013 and was appointed as Joint Managing Director in 2016 before taking charge as Managing Director with effect from April 2019.

Mr B Thiagarajan currently oversees the Air Conditioning and Refrigeration business operations in India, including Sales & Marketing, Manufacturing, R&D, Supply Chain and Customer Service. He also oversees Corporate Communications and Public Relations functions.

Mr Thiagarajan plays an active role in various industry forums and is currently a member of the CII National Council and chairs the CII National Committee on Consumer Electronics and Durables. He is also the National Chairman of the Indian Green Building Council and Chairman of CII Green Cooling Council. He was the Past President of Refrigeration and Air Conditioning Manufacturers Association (RAMA) and the Past Chairman of CII Western Region and CII Maharashtra State.

He is a well-known and respected leader not only in HVAC and in the entire consumer electronics space, but also a leader whose views are respected by the investor community.

GRANT OF STOCK OPTIONS

Given the contributions of Mr B Thiagarajan listed above, his expertise will be very critical for the Company's build up to the next phase of growth. The business model transition from trading and assembly to backward integrated manufacturing is a variable where there lies extreme uncertainty. Keeping various such factors in mind the NRC and the Board have recommended stock options to Mr B Thiagarajan.

As mentioned in the Postal Ballot Notice, it is proposed to grant Stock Options to Mr B Thiagarajan of up to 65% of his fixed remuneration (comprising basic, perquisites and retirals) for any financial year. However, the total Stock Options to be granted to him under ESOP 2024, during the term of his appointment (i.e. till March 31, 2026) shall not exceed 1.50 times of the fixed remuneration for FY2024-25.

Accordingly, for FY25, Mr B Thiagarajan shall be eligible for Stock Options not exceeding Rs 3.81 crores and during the term of his appointment, Mr B Thiagarajan shall be eligible for total Stock Options not exceeding Rs 8.77 crores under ESOP 2024.

For the purpose of clarity, the performance parameters detailed above in the ESOP note would also be applicable to the Managing Director. This would mean that the entire 100% Stock Options would be linked to performance vesting i.e. 40% on annual competencies, 30% on achievement of the Company Annual Budget Plan (ABP) Revenue and balance 30% on achievement of the Company ABP Profit Before Tax (before exceptional item) (PBT).

Below the threshold of 70 % of ABP PBT and 70% of ABP revenue proportionate options would lapse.

For example, in the event of less than 70% achievement of PBT, 30% of granted options assigned to ABP PBT achievement shall lapse and between 70% and 100% of ABP PBT achievement, proportionate stock options shall be vested. Only on achievement of 100% or more of ABP PBT, 100% of the respective stock options shall be vested. The same holds true for ABP Revenue achievement Individual Comprehensive Annual Performance.

REMUNERATION COMPARISON

Given above, the Company would like to highlight the remuneration comparison vis-à-vis projected by Proxy Advisor(s) :

Sr. No	Particulars	Company's Projection – FY25 (Rs in crore)	Proxy Advisor(s) Projection – FY25 (Rs in crore)
1.	Fixed Salary	5.85	5.85
2.	Performance Pay*	7.05	8.09
3.	Stock Options**	3.80	3.80
	Total	**16.70**	**17.74**

*Pay-out subject to achievement of the performance criteria as mentioned above.

**Vesting of stock options would be over a period of time and not in one single year, hence this is not a FY25 pay out.

Based on the above-mentioned factors considered by NRC and the Board, the Company is of the view that the compensation proposed to MD is commensurate with the responsibilities assigned to him.