

BLUE STAR LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Short-term Bank Facilities	1,010 (enhanced from 810)	CARE A1+ (A One Plus)	Reaffirmed

Rating Rationale

The reaffirmation of the ratings assigned to the bank facilities of Blue Star Limited (BSL) continues to factor in BSL's proven track record and dominant market position in the central air-conditioning and cooling products business, reputed client base, pan-India presence with a wide marketing and dealers network. The ratings also factor in the low leverage and the improvement in debt coverage indicators in FY13 (refers to the period April 1 to March 31) on the back of revival of operating margins in the Electro-Mechanical Projects and Packaged Air-conditioning Systems (EMP) segment.

The rating strengths are, however, tempered by the sluggish demand resulting into the declining order book position and moderation in liquidity profile due to consistently high debtors outstanding.

Furthermore, improvement in the operating performance and timely collection of receivables are the key rating sensitivities.

Background

Incorporated in 1943, BSL is India's leading central air-conditioning and commercial refrigeration company fulfilling the cooling requirements and providing end-to-end solutions as a manufacturer, contractor and after-sales service provider to corporate, commercial, institutional and residential customers. The company has seven manufacturing facilities located at Thane, Ahmedabad, Bharuch, Dadra, Himachal Pradesh and Wada.

The operations of the company are categorized into the three segments, viz Electro Mechanical Projects and Packaged Air-conditioning Systems (EMP) segment, Cooling Products (CP) segment and Professional Electronics and Industrial Systems (PEIS) segment.

Credit Risk Assessment

BSL's proven track record and sustained leadership in the central air-conditioning and cooling products business

BSL was promoted by the late Mr Mohan T Advani in 1943. Currently, his sons, Mr Ashok Advani and Mr Suneel Advani, assisted by qualified and experienced professionals at senior management levels, manage the day-to-day affairs of the company.

BSL is India's leading central air-conditioning and commercial refrigeration company, with over six decades of experience in providing expert cooling solutions. The company is involved in fulfilling the cooling requirements and providing end-to-end solutions as a manufacturer, contractor and after-sales service provider to corporate, commercial, institutional and residential customers. As a result of its proven track record, the company

has been awarded some of the complex and prestigious jobs over a period of time.

Improved performance of the company in FY13

The EMP segment for BSL is engaged in the designing, manufacturing, installation, commissioning and maintenance of central air-conditioning plants, packaged/ ducted systems, variable refrigerant flow (VRF) systems; and contracting services in electrification, plumbing and fire-fighting and contributed about 59% of revenues in FY13. The CP segment is engaged in the manufacturing of room air-conditioners, commercial refrigeration products and cold chain equipment and contributed about 35% of revenues in FY13, whereas the PEIS is engaged in the distribution of professional electronic equipment, industrial products and systems, contributing about 6% revenues in FY13.

BSL returned to profitability in FY13 reporting a PAT of Rs.51.74 crore in FY13 as compared with a net loss of Rs.89.15 crore in FY12, primarily on account of the improvement in the performance of the EMP segment, for which the EBIT margins

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

improved to 4.47% in FY13 as compared with (5.47%) in FY12. The PBILDT margin improved by 411 bps in FY13 over FY12 on account of the better cost control and savings in procurements.

Improved financial risk profile marked by low leverage and improving debt coverage indicators, however debtors remain high

The overall gearing ratio has improved marginally from Rs.0.80 times as on March 31, 2012 to 0.79 times as on March 31, 2013, due to the repayment of foreign currency term loan of about Rs.30.36 crore in FY13.

The short-term debt of BSL increased from Rs.343.21 crore as on March 31, 2012 to Rs.372.67 crore as on March 31, 2013, on account of marginal increase in the total receivables as on March 31, 2013, as compared with March 31, 2012. The execution delays coupled with lower collections from the customers had put a strain on the company's liquidity position during FY13.

Receivables for more than six months as on March 31, 2013 were about 32% of the total receivables as compared with 26% as on March 31, 2012. The company is following up with the clients and expects to collect the pending amounts resulting in the receivables for more than six months coming down. Going ahead, the timely collection of receivables resulting in lower working capital borrowings will be the key rating sensitivity.

Decline in order book position

The order book position for the EMP segment has declined from around Rs.1,848 crore as on June 30, 2012 to Rs.1,438 crore as on June 30, 2013, which is about 0.88 times FY13 revenue of the EMP segment. The current order book is to be executed over 18-24 months, yielding limited revenue visibility in the medium term. The sluggish demand due to slowdown in EMP along with BSL's preference for orders with improved margins translated into it receiving lower orders compared with the past. Variable price orders constitute a small percentage of the current order book; however, the company is trying to incorporate price-escalation clauses in all the new orders.

Financial Performance

(Rs. Cr)

For the year ended/ As on March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Working Results			
Income from Operations	2,861.24	2,704.97	2,775.48
PBILDT	251.00	-4.91	108.97
Interest	24.39	71.51	51.37
Depreciation	31.71	31.45	32.90
PBT	227.00	-88.45	51.74
PAT (After def Tax)	155.00	-89.15	51.74
Gross Cash Accruals	187.48	-57.00	84.64
Financial Position			
Equity Share capital	17.99	17.99	17.99
Net Worth	572.86	466.70	473.50
Total capital employed	991.23	847.52	867.08
Key Ratios			
Growth (%)			
Growth in Total operating income	12.83	-5.46	2.61
Growth in PAT (After def Tax)	12.83	NM	NM
Profitability (%)			
PBILDT / Total operating income	8.77	-0.18	3.93
APAT / Total operating income	5.42	-3.30	1.86
ROCE	30.47	-3.66	9.45
RONW	29.16	-17.15	11.01
Solvency(times)			

For the year ended/ As on March 31,	2011	2012	2013
	(12m, A)	(12m, A)	(12m, A)
Debt Equity Ratio	-	0.07	-
Overall Gearing	0.73	0.80	0.79
Interest coverage (Times)	10.29	(-)ve	2.12
Term Debt/GCA (years)	0.53	(-)ve	1.18
Turnover			
Avg. Collection Period (days)	89	98	92
Avg. Inventory (days)	47	59	67
Avg. Creditors (days)	98	93	98
Op. cycle (days)	38	63	61

NM: Not Meaningful

(This follows our brief rational for entity published on 26 September 2013)

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