

Blue Star Limited

January 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	100.00 (Enhanced from 50.00)	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	1,600.00 (Enhanced from 1,270.00)	CARE AA+; Negative / CARE A1+ (Double A Plus ; Outlook: Negative/ A One Plus)	Reaffirmed
Short Term Bank Facilities	608.00 (Enhanced from 518.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Bank Facilities	2,308.00 (Rs. Two Thousand Three Hundred Eight Crore Only)		
Non Convertible Debentures	350.00	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed
Total Long Term Instruments	350.00 (Rs. Three Hundred Fifty Crore Only)		
Commercial Paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	500.00 (Rs. Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities/instruments of Blue Star Ltd (BSL) continue to derive strength from presence in the industry for more than seven and a half decades, well established brand name 'Blue Star', strong dealership network across locations with overall market share of 12.75% in the room conditioning business(as per the company). The ratings also benefits from diversified revenue stream and strong order book position with marquee clientele base, thus providing short to medium term revenue visibility.

The ratings also factor in the decline in PBILDT margins during FY20 and H1FY21; albeit expected to recover going ahead and moderation in overall gearing due to increase in debt amidst covid-19.

The strengths are however tempered by the slow moving real estate & infrastructure sector which affects the flow of liquidity & credit in the project business and smooth execution of mid/large size orders. Further the business continues to be working capital intensive and faces risk of technology obsolescence with the requirement to maintain adequate inventory levels. Further, BSL's profitability remains susceptible to fluctuation in the prices of commodity & currency.

Rating Sensitivities

Positive Factors:

- Improvement in overall PBILDT margins to 10% with Segment I & II reporting minimum of 8% at PBILDT level
- Improvement in TDGCA below unity.
- Gross gearing to remain lower than 0.2 times on sustained basis

Negative Factors:

- Collection period of more than 120 days on sustained basis
- Gross gearing to remain higher than 1.2 times on sustained basis
- Impact of covid-19 in revenue and profitability of BSL
- NCD issue has a Put option which can be exercised by the investors if the rating is revised to 'AA-' or below. CARE has not factored the rating trigger clause in its analysis.

Outlook: Negative

The outlook of the company continues to factor in covid-19 led disruptions that impacted the total operating income, and overall credit profile of the company in H1FY21. Although, the demand for the air conditioners is expected to remain stable in the near term, however given discretionary nature of the product, recovery in demand is expected to remain gradual and sustainability of the same remains to be seen.

Furthermore, the demand for **Electro-Mechanical Projects** and Commercial Air Conditioning Systems has witnessed some traction post easing of lockdown, primarily led by demand from healthcare and government projects, however, the demand from other key segments such as hospitality and real estate segment is yet to pick-up.

The outlook may be revised to 'Stable' in case of faster than anticipated recovery in demand resulting in sustained improvement in the company's business and financial risk profile.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record with extensive experience of promoters:

Incorporated in 1949, BSL has its presence in the industry for more than seven and half decades.

The company was promoted by late Mr. Mohan T. Advani in 1949. Mr. Vir S Advani (Vice Chairman and Managing Director) and Mr. B Thiagarajan (Managing Director) handle the overall operations of the group, with guidance from the board.

Sustained leadership in the central air-conditioning and cooling products business:

BSL is India's leading central air-conditioning and commercial refrigeration company, with over seven and half decades of experience in providing expert cooling solutions. The company continued to have a market share of 12.75% in H1FY21, in the room air-conditioner segment in India. The company fulfills cooling requirements and provides end-to-end solutions as a manufacturer, contractor and after-sales service provider to corporate, commercial, residential and institutional customers.

Pan-India presence with wide marketing and dealer network along with expanding presence in overseas markets:

The company has a wide marketing and dealer network across the country to provide comprehensive product information and distribution of products. The company has more than 3880 channels partners with around 6000 stores for room air conditioners, packaged air conditioning, chillers, cold rooms and refrigeration products and systems as well as 1060 service associates reaching out to customers in over 900 towns. To improve brand positioning, the company is increasing its presence on e-commerce segment through channel partners for sale of unitary products. On the export front (constituted around 10% of consolidated net sales in FY20 Rs.517crore (PY: Rs.503crore), the company offers various cooling products through own branding in Middle Eastern markets and in other countries through various partners.

Diversified revenue streams with significant contribution from EMP & UP segments

BSL's operates into three segments, EMP, UP and PEIS contributed 56%, 43% and 5% respectively to the consolidated net sales of the company for H1FY21. The company's revenue is fairly diversified within each of these segments in terms of products/services offered and geographies. Thus company's integrated business model across three segments, of a manufacturer, contractor and after-sales service provider enables the company to offer an end-to-end solution to its customers.

Profitability margins declined in FY20 and H1FY21 albeit expected to recover going ahead

PBILDT margins have declined significantly from 6.37% in FY19 to 5.40% in FY20 & 4.60% in H1FY21. Profitability was lower in Q4-FY20 as the company made significant expenses on marketing, publicity, and promotion but was not able to benefit from these expenses in form of higher sales volume due to Covid-19 related slowdown in sales. On the back drop of stress in real estate and infrastructure sector in company has been maintaining cautious approach since last 2 years Thus the company is maintaining balance in overall billing growth with operating cash flow & working capital, which does extend pressure on the margins as there is continuous

overheads cost. Apart from margin pressure due to higher fixed cost in FY20; during H1FY21, BSL has taken a cautious approach in execution of orders and executing those orders where credit quality of customer is good has also resulted in decline in margins in H1FY21. The company has taken various cost cutting measures to improve margins in H1FY21 they have implemented cost optimization measures across all expense lines. This is expected to result in improvement in margins going ahead. During H1FY21, PAT declined significantly due to decline in PBILDT on account of pandemic led lock down, increase in finance cost due to higher debt, provisioning for doubtful debts and charges paid for container demurrage. If above provision and demurrage charges were not accounted BSL would have reported positive PAT.

Strong order book position with marquee clientele base

The company's Total order book position (MEP + room air conditioners) stood at Rs.3019.57 crore (0.56 times of sales for FY20) as on September 30, 2020, to be executed on an average over a period of 18 to 24 months; thus providing short to medium term visibility. Of the total order book, 69% of the order pertains Electro mechanical project business BSL has reported marginal growth in order book of on Q-o-Q basis (3%) growth in order book in comparison to the corresponding quarter. During H1FY21 BSL bagged E&M order valued at Rs.149crore for 'Mumbai Metro Line III', Package UGC-03' for five underground stations from Mumbai Central to Worli, from Dogus-Soma JV. During October, 2020 BSL received one more EMP order of Rs.128crore from M/s Wistron Infocomm, major manufacturer of iPhones for Apple. Further the order acquisition & execution pace would be faster once Covid-19 situation stabilizes.

Moderation in capital structure due to increase in debt amidst covid-19 and adoption of IND-AS 116

During FY20 capital structure of the company deteriorated as indicated by overall gearing of 1.15x as on March 31, 2020 as against PY:0.71x as on March 31, 2019, on account of increase in working capital due to covid-19 lockdown and inclusion of finance lease in borrowings (Rs.59crore in FY20 & Nil in FY19), however net gearing was affected marginally and stood at 0.76x(PY: 0.59x) on account of high cash balance as company kept strong liquidity during pandemic. Interest coverage ratio improved on Y-o-Y basis to 9.83x (PY: 6.94x) on account of lower finance cost due to lower cost of borrowings. TDGCA deteriorated to 3.25x (PY: 2.13x) on account of higher debt, however net TDGCA deteriorated marginally to 2.14x (PY:1.72x) on account of higher cash balance.

As on September 30, 2020 the overall gearing deteriorated to 1.10x as compared to 0.51x as on September 30, 2019 as company issued NCDs worth of Rs.350crore to pay off short term debt (CPs and LCs) and maintain strong liquidity during H1FY21. However, Net gearing as on September 30, 2020 improved to 0.49x as against a net gearing of 0.76 times as on March 31, 2020; albeit; was inferior in comparison to a net gearing of 0.14x as on September 30, 2019. Interest coverage ratio also deteriorated to 1.95x due to lower PBILDT (impact of pandemic) and higher finance cost due to higher debt taken to maintain liquidity. Net TDGCA also deteriorated to 10.38x due to declined GCA and higher amount of debt on account of pandemic.

Key Rating Weaknesses

Working capital intensive business

The company's business is working capital intensive by virtue of seasonality of business like for room conditioners wherein demand is during the summer season, the stocking up of inventory levels begins from December onwards. Thus increase in the inventory levels is seen in Q4.

During Q1FY21, BSL witnessed increased inventory levels and debtor days on account of lock down (higher inventory in channel also resulted in pricing pressure in Q1FY21 which has resulted in decline in PBILDT margins), due to spill-over effect of Q1FY21 in Q2FY21 working capital cycle increased in H1FY21 from FY20.

Further Q1 & Q4 are the two big quarters for water cooler sales and air purifiers is a small market wherein demand was seen in Q3FY20 due to the climatic situation in NCR & northern parts of the country. Further the company has launched air conditioners with inbuilt air purifier as they are quite convergent to each other, company has also launched ACs with virus deactivation technology which can be installed in old ACs and centralised systems as well (will cost Rs.2,000 to Rs.4,000 more in RAC). In order to tackle the high lead time of products/certain key raw materials, the company needs to maintain adequate stock of raw material.

The company has been consistently efficient in the collection cycle. In EMP segment, the collections are in accordance to percentage stage completion. Thus overall company extends credit period of around 90 days to its customers. Further BSL has been availing credit period of around 90-120 days. Thus the ability of the company to efficiently manage the operating cycle would be crucial from credit perspective.

Competitive & fragmented industry

The air conditioning segment is fragmented with 25 well known players, including Indian & global corporates with top five players accounting for about 60% of the market share. In domestic market, Voltas is said to have leading market share in fixed-speed ACs (window & split ACs) and faster growing inverter AC segment. Voltas Limited has

annual market share across multi brand outlets around 23.4%.

Commodity & currency fluctuation risk

BSL has commodity exposure towards copper & aluminum, for which the company enters into appropriate rate contracts with suppliers for a time period. The change in commodity prices effects all the players equally and the impact of price increased is passed to customers.

Further BSL has forex risk management policy which defines limits for uncovered exposures. The company uses foreign exchange forward contracts and option contracts to hedge the forex exposures BSL has booked forex loss of Rs.9.70crore during FY20 (PY: Rs.4.06crore).

Liquidity: Strong

BSL's cash and cash equivalent stood at Rs.228crore as on September 30, 2020, further, the company has Rs.196crore in short term investments (MF). As a result of which the company's cash and cash equivalent (including liquid investments in MF) was at Rs.424crore as on September 30, 2020. Average utilization of fund based and non-fund based limits was 55% (average utilization excluding March-May20 is mere 20%) & 70% respectively for the past twelve months ending October 2020. It has total available bank limits of Rs.2464.30crore – (Rs.465.30crore of fund based limits and Rs.1,999crore of non-fund based limits, out of which Rs.260crore is fungible into fund based). High cash and bank balance, liquid Investments and unused working capital lines results, ability to access capital markets as and when required results in **strong** liquidity position of the company.

Analytical approach: Consolidated owing to financial and operational linkages between the parent and subsidiaries, common management, fungible cash flows and corporate guarantee provided by BSL. The consolidated financials of BSL includes the below mentioned companies

Name of the Company	% of holding
Blue Star Engineering and Electronics Ltd	100%
Blue Star Qatar WLL	49% (It is a subsidiary by virtue as BSL controls the management of the company)
Blue Star International FZCO	100%
Blue Star Systems & Solutions LLC	Subsidiary of Blue Star International FZCO. (It is a subsidiary by virtue as BSL controls the management of the company)
Blue Star M&E Engineering Sdn Bhd	49%
Blue Star Oman Electro ' Mechanical Company LLC	51%

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology: Consolidation and Factoring Linkages in Ratings](#)

[Criteria for Rating Credit Enhanced Debt](#)

[Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[CARE's methodology for manufacturing companies](#)

[Liquidity analysis of non-financial sector entities](#)

About the Company

BSL was incorporated in 1949 (established in 1943) by late Mr. Mohan T Advani. As on September 30, 2019, the promoter group held 38.76% equity stake in the company. The company is India's leading central air-conditioning and commercial refrigeration company and its manufacturing facilities are spread across various locations in India including Ahmedabad, Dadra, Wada and Himachal Pradesh. The company's operations can be classified into three segments, namely Electro Mechanical Projects & Packaged Air Conditioning Systems (EMP), Unitary Products (UP) and Professional Electronics and Industrial Systems (PEIS) 56%, 43% and 5% respectively to the consolidated net sales of the company for H1FY21. BSL also exports its products to multiple countries across the Middle East, Africa, SAARC and ASEAN region.

The **EMP segment** covers the design, manufacturing, installation, commissioning and maintenance of central air-

conditioning plants, packaged/ducted systems, and variant refrigerant flow systems. The company also undertakes contracting services in electrification, plumbing and fire-fighting. It also comprises of after-sales services such as revamp, add and upgrades. BSL had recently introduced engineering facilities management which covers series of operation & maintenance services for efficient functioning of electro-mechanical utilities.

In **UP segment**, BSL offers room air conditioners for residential as well as commercial applications. BSL also manufactures & markets commercial refrigeration products and cold chain equipment. The company also has water purifiers, air purifiers and air coolers in its product portfolio.

In **PEIS segment**, BSL has been distributor in India for manufacturers of professional electronic equipment & services, as well as industrial products & systems. The business is managed by BSL's wholly owned subsidiary Blue Star Engineering & Electronics Limited [BSEEL - rated CARE AA+ (CE); Stable]. The segment operates in two broad segments vide eight lines of business:

- Professional electronics which comprises Healthcare systems, Data Security Solutions, Infra Security Solutions and Communication Systems
- Industrial Systems which encompasses Testing Machines, Non Destructive Testing Systems and Industrial Automation, NDT Products and Industrial Products.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	H1FY21
Total operating income	5219	5,367	1,543
PBILDT	332	290	71
PAT	190	144	(5)
Overall gearing (times)	0.71	1.15	1.10
Interest coverage (times)	6.94	9.83	1.95

A: Audited, UA=Un-Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	-	100.00	CARE AA+; Negative
Non-fund-based - ST-BG/LC	-	-	-	-	608.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	-	1600.00	CARE AA+; Negative / CARE A1+
Debentures-Non Convertible Debentures	INE472A08034	June 01, 2020	7.65%	June 01, 2022	175.00	CARE AA+; Negative
Debentures-Non Convertible Debentures	INE472A08026	June 01, 2020	7.65%	June 01, 2023	175.00	CARE AA+; Negative
Commercial Paper- Commercial Paper (Standalone)	-	-	-	-	500.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	100.00	CARE AA+; Negative	1)CARE AA+; Negative (18-May-20)	1)CARE AA+; Stable (22-Jan-20)	1)CARE AA+; Stable (08-Jan-19)	1)CARE AA+; Stable (23-Nov-17)
2.	Non-fund-based - ST-BG/LC	ST	608.00	CARE A1+	1)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (23-Nov-17)
3.	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (14-Jun-18)	1)CARE A1+ (23-Nov-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	1600.00	CARE AA+; Negative / CARE A1+	1)CARE AA+; Negative / CARE A1+ (18-May-20)	1)CARE AA+; Stable / CARE A1+ (22-Jan-20)	1)CARE AA+; Stable / CARE A1+ (08-Jan-19)	-
5.	Debentures-Non Convertible Debentures	LT	350.00	CARE AA+; Negative	1)CARE AA+; Negative (01-Jun-20) 2)Provisional CARE AA+; Negative (18-May-20)	-	-	-

Annexure-3: Covenants of NCD

Particular	Description
Financials covenants	- Consolidated Net Debt/EBIDTA not to exceed 3x to be tested annually. Should be applied from FY22 onwards. - Minimum consolidated Interest Service Coverage Ratio of 2x to be tested annually. Should be applied from FY22 onwards. - Consolidated net gearing less than 1.5x to be tested annually. With exception of 1.2x for FY21 - Maximum secured debt as a percentage of total assets to not exceed 50%

Particular	Description
Others covenants Rating downgrade stepup	If the rating of the NCDs is downgraded at any point of time during the currency of the NCDs, the coupon for the balance period would increase by 0.25% for each notch downgrade below AA+. Such increase in coupon shall be applied with effect from the date such rating downgrade is announced by the rating agency specified under Issuer Rating and such increased coupon shall be payable on and from the immediate next coupon payment date.
Ownership of promoter	No change in ownership of promoter group below pre-agreed thresholds (26%). The promoter group remains the single largest shareholders and maintains management control of the Issuer.
Other	- The issuer will not declare or pay any dividends (either in cash or property or obligations) or distributions or return of equity/quasi-equity, unless approved by the Debenture trustee - The issuer will not make payments and/or repayments in relation to debt instruments, unpaid dues and financial indebtedness, availed by the company from the promoter or associates or group companies or subsidiaries or JVs of the Issuer.

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper-Commercial Paper (Standalone)	Simple
2.	Debentures-Non Convertible Debentures	Complex
3.	Fund-based - LT-Cash Credit	Simple
4.	Fund-based/Non-fund-based-LT/ST	Simple
5.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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