

Blue Star Limited ^(Revised)

January 08, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities (Fund-based)	50.00	CARE AA+; Stable [Double A Plus; Outlook: Stable]	Reaffirmed
Short-term Bank Facilities (Non-fund based)	518.00 (reduced from 1010.00)	CARE A1+ [A One Plus]	Reaffirmed
Long-term/Short-term Bank Facilities (Fund-based/Non- Fund based)	700.00	CARE AA+; Stable/CARE A1+ [Double A Plus; Outlook: Stable/A One Plus]	Assigned
Total Facilities	1268.00 (Rs. One thousand two hundred sixty-eight crore only)		
Commercial Paper	500.00 (Rs. Five hundred crore only)	CARE A1+ [A One Plus]	Reaffirmed

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 the long track record of the company for over seven decades, as well as established market position in air-conditioning division and cooling product division, backed by a strong dealership network. The order book position from various sectors for electro mechanical projects and packaged air-conditioning systems division imparts revenue visibility in the medium term. The rating also factors in improvement in the profitability margins (though subdued) during FY18 contributed by increase in scale of operations across segments as well as reduced borrowing cost. The credit profile of the company is comfortable with moderate debt coverage indicators.

The above rating strengths are however tempered by the challenges faced in Electro Mechanical Projects (EMP) segment (despite improvement in performance of this segment in FY18 and H1FY19), high working-capital intensity and low profitability margins inherent to the nature of the business and inherent risk involved in execution of large/mid-sized orders. *The ability of the company to further improve its profitability margins without jeopardizing its market position as well as efficiently manage its working capital cycle remain the key rating sensitivities.*

Detailed description of the key rating drivers**Key Rating Strengths****Established track record with extensive experience of promoters:**

BSL was incorporated in 1949 and has a successful track record of over seven decades in the industry. The company was promoted by late Mr. Mohan T. Advani in 1949. Mr. Vir S Advani (Managing Director) and Mr. B Thiagarajan (Joint 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 decades of experience in providing expert cooling solutions. The company continued its dominant presence with a market share of 11.50% in FY18, 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. Although sales outside India contributed 6% to the consolidated net sales in FY18, the company is expanding presence in international markets through joint ventures in Middle Eastern regions, amongst other countries.

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

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

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 2,900 channels partners with around 5000 stores for room air conditioners, packaged air conditioning, chillers, cold rooms and refrigeration products and systems as well as 765 service associates reaching out to customers in over 800 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 6% of consolidated net sales in FY18), the company offers various cooling products through own branding in Middle Eastern markets and in other countries through various partners. Blue Star majorly exports its products to 19 countries across the Middle East, Africa, SAARC and ASEAN region.

Moderate order book position

As on September 30, 2018, the company's total order book position was Rs.2,217 crore (0.48 times of net sales for FY18), to be executed on an average over a period of 18 to 36 months; thus providing short to medium term visibility.

Despite slothful growth of construction sector, renegotiation and revision across several contracts with each customer on account of introduction of GST, the order inflow and cash inflow is improving for the company on account of improved traction in sectors including hospitality, health-care, quick service restaurants, metros and malls. However, sluggish execution of projects by the primary contractors continues to remain a challenge in the industry due to various factors including delay in receipt of approvals among other factors. The overall market for the Electro-Mechanical Projects business continues to remain intensely competitive with new order booking from heavy industrial and factory segments remaining subdued.

Healthy segmental operational performance:

During FY18, revenue from the Electro Mechanical Projects business remained muted for most part of FY18 and H1FY19 with investments in infrastructure largely driven by Government through various projects like metro and healthcare while private investments remained sluggish. Improvement in profitability realized was driven by higher scale and better margin profile of certain jobs. With regards to the Unitary Products segment, revenue grew by 9.6% on a y-o-y basis during FY18; however the H1FY19 performance was muted mainly on account of Room Air Conditioner business. The air conditioner business was impacted on account of unseasonal rains and soft summer conditions across the country, resulting in excess inventory holding; funded through debt.

Comfortable debt coverage indicators and moderate overall gearing

In view of improvement in profitability and reduction in finance costs incurred, the interest coverage ratio improved to 8.60x in FY18 (as compared to 5.80x in FY17). Due to unseasonal rains and soft summer conditions across the country (especially in South India), the sales of the room air conditioner business did not grow as expected. This led to excess inventory holding thereby resulting in temporary increase in working capital borrowings by approx. Rs. 150 crore as on March, 2018. This deteriorated the overall gearing levels to 0.87x in FY18 (as compared to 0.73x in FY17). The debt position continued to remain high during H1FY19 wherein the outstanding debt position was Rs. 574 crore as on September 30, 2018. In addition to the said debt, BSL on an average utilizes non-fund based limits (Letter of Credit/Bank Guarantees) of Rs. 1000 crore that are placed in favor of the raw materials/equipment's imported as well as Guarantees for the projects being executed. During the ongoing festivities in India, the excess inventory held is expected to be monetized thus lowering the debt levels to its normalized position by FY19 end.

Comfortable liquidity position

Due to the seasonal nature of business, utilization of working capital borrowings are higher during Q2 and Q3 (being off-seasons), which then reduces by the end of the financial year. On an average, BSL utilizes 30% of its working capital limits of Rs. 260 crore. In addition, BSL avails funds through placing Commercial Papers of Rs. 500 crore for optimization of finance costs. The company had a cash and cash equivalent balance of Rs. 34 crore as on December 14, 2018. The working capital cycle maintained by BSL is comfortable, wherein the net operating cycle was 34 days in FY18. Although there has been a temporary increase in the inventory of room air conditioners during Q4FY18 and H1FY19, the same is expected to monetize by the end of FY19.

Key Rating Weaknesses

Working capital intensive business

The company's business is working capital intensive by virtue of seasonality of business. The company is required to maintain adequate inventory for unitary products to meet demand during season period and in EMP segment the collections are in accordance to percentage stage completion along with retention money held. Furthermore, in order to tackle the high lead time of certain key raw materials, the company needs to maintain adequate stock of raw material. On account of unseasonal rains and soft summer conditions across the country (especially in South India), the sales of the room air conditioner business during H1FY19 did not grow as expected. BSL funded the excess inventory holding by availing working capital borrowings. The inventory holding period accordingly increased to 63 days in FY18 (as compared

to 55 days in FY17). However, with the ongoing festivities in India, the excess inventory held is expected to be monetized thus lowering the debt levels to its normalized position by FY19 end.

Accordingly, the ability of the company to successfully monetize its inventory without jeopardizing its operating margins and thereby reduce its debt levels forms a key rating sensitivity.

Analytical approach: Consolidated

CARE has analyzed BSL's credit profile by considering the consolidated financial statements of the group owing to financial and operational linkages between the parent and subsidiaries, common management, fungible cash flows and corporate guarantee provided by BSL to various subsidiaries for the purpose of rating debt.

The consolidated financials of BSL include the financials of Blue Star Engineering & Electronics Limited (Wholly-owned subsidiary), Blue Star Qatar WLL (49% equity stake, however BSL has 95% profit sharing and controls composition of Board of Directors; hence consolidated) and associate Blue Star M&E Engineering (Sdn) Bhd (49% stake) and joint venture Blue Star Oman Electro-Mechanical Co. LLC (51% stake, however profit sharing is 50%).

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Blue Star Limited (BSL) was incorporated in 1949 by late Mr. Mohan T Advani. As on March 31, 2018, the promoter group held 38.89% 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 in to three segments, namely Electro-Mechanical Projects (EMP), Unitary products and Professional Electronics and Industrial Systems (PE&IS) each respectively to contributing to 50%, 46% and 4% to the consolidated net sales of the company, in FY18. BSL majorly exports its products to 19 countries across the Middle East, Africa, SAARC and ASEAN region. The EMP segment undertakes turnkey projects including design, manufacturing, installation, commissioning and maintenance of central air-conditioning plants, packaged/ducted systems, and variable refrigerant flow (VRF) systems. Also, the company undertakes contracting services for electrification, plumbing and fire-fighting and after-sales services for revamp, upgrade and maintenance of plants. In unitary products, BSL offers room air conditioners for residential and commercial application as well as commercial refrigeration products and cold chain equipment. In FY16, for further diversification and expansion of product portfolio, it forayed in air purification business and launched water purification business. In PE&IS segment, the company undertakes marketing and maintenance through distributorship of imported professional electronics and industrial products and systems. The segment is operated by Blue Star Engineering and Electronics Limited, a wholly owned subsidiary of the company.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	4381	4711
PBILDT	219	247
PAT	122	149
Overall gearing (times)	0.73	0.87
Interest coverage (times)	5.80	8.60

A: 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

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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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	518.00	CARE A1+
Fund-based/Non-fund-based-LT/ST	-	-	-	700.00	CARE AA+; Stable / CARE A1+
Commercial Paper	-	-	7 to 364 days	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Nov-17)	1)CARE AA+; Stable (23-Jan-17) 2)CARE AA+ (14-Oct-16)	1)CARE AA+ (18-Jan-16)
2.	Non-fund-based - ST-BG/LC	ST	518.00	CARE A1+	-	1)CARE A1+ (23-Nov-17)	1)CARE A1+ (23-Jan-17) 2)CARE A1+ (14-Oct-16)	1)CARE A1+ (18-Jan-16)
3.	Commercial Paper	ST	500.00	CARE A1+	1)CARE A1+ (14-Jun-18)	1)CARE A1+ (23-Nov-17)	1)CARE A1+ (23-Jan-17) 2)CARE A1+ (14-Oct-16)	1)CARE A1+ (18-Jan-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	700.00	CARE AA+; Stable / CARE A1+	-	-	-	-

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