

Blue Star Limited
 January 22, 2020

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	CARE A1+ (A One Plus)	Reaffirmed
Long-term/Short-term Bank Facilities (Fund-based/Non- Fund based)	1270.00	CARE AA+; Stable/CARE A1+ (Double A Plus; Outlook: Stable/A One Plus)	Reaffirmed
Total Facilities	1838.00 (Rupees One thousand eight thirty eight crore only)		
Commercial Paper	500.00 (Rupees 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 presence in the industry for more than seven decades, well established brand name 'Blue Star', strong dealership network across locations with good market share in the room air conditioning business. The rating benefits from the consistent & growing revenue base with moderate order book position translating into short term revenue visibility along with low yet stable profitability margins. The overall credit profile of BSL stands comfortable with low gearing levels and comfortable debt protection metrics and adequate liquidity position.

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, faces risk of technology obsolescence with the requirement to maintain adequate inventory levels. The low profitability margins of BSL are susceptible to commodity price fluctuation & foreign exchange fluctuation risk.

Rating SensitivitiesPositive Factors:

- Improvement in overall PBILDT margins to 10% with Segment I & II reporting minimum of 8% at PBILDT level respectively
- Decrease in dependence of imports as percentage of overall raw material cost by 30%

Negative Factors:

- Collection period of more than 120 days on sustained basis
- Gross gearing to not remain higher than 1.20 times on sustained basis

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 decades. 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 12.50% in H1FY20, 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.

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

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 2,900 channels partners with around 5000 stores in in 575 locations for room air conditioners, packaged air conditioning, chillers, cold rooms and refrigeration products and systems. On the export front (5% of consolidated net sales in FY19), it offers various cooling products under its own brand name in Middle Eastern markets through various partners.

Diversified revenue streams

Overall business is classified in three segments – 1) Electro Mechanical Project business (EMP, Segment I), 2) Unitary Products (UP, Segment II) 3) Professional Electronics & Industrial Systems (PEIS, Segment III) contributing 50%, 45% and 5% respectively to the consolidated net sales in H1FY20. The revenue profile is fairly diversified within each of these segments in terms of products/services offered and geographies. Across the three businesses, BSL follows an integrated business approach, where it acts as manufacturer, contractor and after-sales service provider, thus providing an end-to-end solution to its customers.

Consistent improvement in profitability margins yet stands on lower side

Segment-II & Segment-III has reported marginal improvement in the operational profitability in FY19. The growth in PBILDT was led by Segment-III (PEIS) which received multiple high margin orders for Data security solution & Non-Destructive Testing solutions. Thus, the overall PBILDT margins improved to 7.72% in H1FY20 from 6.37% in FY19 & 5.16% in FY18. BSL continues to face challenge around the flow of liquidity & credit in the Project business which is now prevalent for more than a year and continues for the real estate & infrastructure customers. Thus, the company has been cautiously monitoring its timely receipt of cash flows.

Moderate order book position

Total order book position stood at Rs.2935crore (0.39 times of net sales for FY19) as on September 30, 2019, 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, 70% of the orders pertains to Segment-I. BSL has posted 32.40% growth in order book in comparison to the corresponding quarter.

Though the company has considerable order book position, the project execution pace has not picked up and credit flow in the real estate & infrastructure sectors remains a constraint. To mitigate the same, the company has been cautiously monitoring its timely receipt of cash flows to efficiently manage its working capital cycle. However increased demand from Tier-3, 4 & 5 towns is expected to support the growth in products segment. Further, the order acquisition & execution would pick up pace, once the situation stabilizes on the banking & NBFC space.

Rationale for the on-going project

The custom duty hike in certain components of manufacturing has resulted in increase in the cost of production. Thus the company intends to reduce the imports by manufacturing the components in-house. In FY20, BSL would manufacture at least 20% of the overall indoor unit consumption in the Himachal factory, proportion of which would increase to 70-80% by FY21 & FY22. For other components, BSL is exploring alternate sources of procurement other than China and including some FTA countries which will to some extent have mitigating effect on the custom duty hike.

Comfortable capital structure

In H1FY20, improvement in profitability and lower finance cost due to lower dependence on working capital borrowings, the interest coverage ratio improved to 14.69x (vis-à-vis 8.54x in H1FY19) and 6.94x in FY19. Despite lower reliance on working capital, the debt size has increased on account of fresh term loan amounting to Rs.50 crore being availed to fund the capex requirement in H1FY20. Nevertheless accrued profitability has resulted in improvement in net-worth base which stood around Rs.869.54crore as on September 30, 2019 (vis-à-vis Rs.824.57crore as on March 31, 2019). This has contributed to a reduction in Overall gearing (including LC acceptances) to 0.63x as on September 30, 2019 from 0.71x as on March 31, 2019 & 0.87x as on March 31, 2018.

Key Rating Weaknesses***Working capital intensive business***

The business model is working capital intensive due to substantial raw material imports, and seasonality in the air conditioning business. In the air conditioning business, demand peaks in Q1 and Q2, and the stocking of inventory is done during Q4 which leads to higher debt levels in Q4 as compared to other quarters. The increase in the inventory levels

during Q4 is partly financed by availing working capital borrowings from banks and commercial paper. BSL also has substantial requirements of bank guarantees in its project business. It enjoys strong support from its lenders, and is able to avail various bank limits at competitive rates.

The company has been consistently efficient in managing its working capital 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. 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. BSL faces stiff competition from other renowned players namely Voltas, Hitachi, LG, Samsung amongst others.

Commodity & currency fluctuation risk

BSL is exposed to fluctuation in prices of copper & aluminum, which are key inputs for its products. However, any change in commodity prices effects all the players equally and the impact of price increased is passed to customers. BSL also has substantial imports and is exposed to foreign exchange fluctuation risk. BSL has well defined forex risk management policy, and uses forward contracts to reduce its forex exposures. The company has unhedged receivables amounting to Rs.128.40crore and unhedged payables of Rs.108.53crore as on March 31, 2019 (vis-à-vis Rs.85.12crore of receivables & Rs.163.68crore of payables as on March 31, 2018). However on the net-off basis, the un-hedged forex exposure is minimal. The major part of risk is covered on account of natural hedge and the company has net un-hedged receivables which remains susceptible for any adverse currency fluctuation.

Liquidity: Adequate

Liquidity is marked by consistently improving annual cash accruals which stood around Rs.275.58crore in FY19 (vis-à-vis Rs.216.54crore in FY18). BSL maintains sufficient cash accruals to meet the debt obligations and to fund the capex requirements. Further the company has cash & bank balance of Rs.97.63crore as on March 31, 2019 (vis-à-vis Rs.78.19 crore as on March 31, 2018) and Rs.148.57crore as on September 30, 2019. BSL has sanctioned fund-based limits of around Rs.465.22crore and non-fund based utilization of around Rs.1809 crore which has average utilization of around 39% & 63% respectively for the past twelve months ending November 2019.

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

[Manufacturing Companies](#)

[Rating Outlook and Credit Watch](#)

[Criteria for Short Term Instruments](#)

[Factoring Linkages in Ratings](#)

[CARE's default recognition policy](#)

[Financial ratios - Non Financial Sector](#)

[Rating Credit Enhanced Debt](#)

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) contributing 50%, 45% and 5% respectively to the consolidated net sales of the company for H1FY20. 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.

Consolidated Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4610.25	5219.05
PBILDT	237.82	332.36
PAT	143.13	190.40
Overall gearing (times)	0.87	0.71
Interest coverage (times)	8.27	6.94

Status of non-cooperation with previous CRA: No

Any other information: No

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

Annexure-1: Details of 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	-	-	-	1270.00	CARE AA+; Stable / CARE A1+
Commercial Paper	-	-	-	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	50.00	CARE AA+; Stable	-	1)CARE AA+; Stable (08-Jan-19)	1)CARE AA+; Stable (23-Nov-17)	1)CARE AA+; Stable (23-Jan-17) 2)CARE AA+ (14-Oct-16)
2.	Non-fund-based - ST-BG/LC	ST	518.00	CARE A1+	-	1)CARE A1+ (08-Jan-19)	1)CARE A1+ (23-Nov-17)	1)CARE A1+ (23-Jan-17) 2)CARE A1+ (14-Oct-16)
3.	Commercial Paper	ST	500.00	CARE A1+	-	1)CARE A1+ (08-Jan-19) 2)CARE A1+ (14-Jun-18)	1)CARE A1+ (23-Nov-17)	1)CARE A1+ (23-Jan-17) 2)CARE A1+ (14-Oct-16)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	1270.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (08-Jan-19)	-	-

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 clarification.

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