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Vir S Advani
MD

Suneel M Advani
Chairman

B Thiagarajan
Jt MD

BLUE STAR @75

The company is reinventing itself for the journey ahead

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Business India

Blue Star completes 75 years this year. It is the leading air-conditioning and commercial refrigeration company in India. Starting in 1943 with 2 employees and ₹2000, the company's founder Mohan T. Advani was clear in his vision. Starting with water coolers and then air-conditioning, from the beginning he focused on technology based products. He was the pioneer in refrigeration and air-conditioning, in the days when both were considered a luxury. Mohan Advani was also amongst the earliest to focus on representing, and later doing joint ventures with several leading technology companies particularly from the US.

The company has grown multifold over the last few decades under the leadership of Mohan Advani's two sons first Ashok and then Suneel. As a team step by step, they built Blue Star into the leading name in air-conditioning and refrigeration. And later it was proud to say that every third commercial building in India had Blue Star products. Over the years Blue Star developed linkages with several technology leaders including Worthington, Westinghouse, HP, Honeywell, Perkins-Elmer etc. The company has always remained one of the leaders in its chosen fields.

In the 70s Blue Star was amongst the first to see the vast scope for Indian engineering companies in the Middle East. Accordingly it was amongst the early players to take turnkey contracts in various countries in West Asia.

Blue Star is also an interesting family controlled company that is run professionally. It will be fair to say that Blue Star was one of the earliest to adopt this model of family control with professional managers. All along while the Advani family has been in control, professional managers occupied the senior most positions. And even though some relations from the family were also given employment, professional standards and ethics were demanded of them.

There were other firsts too. It was amongst the earlier family controlled businesses to list and to adopt public and transparent accounting standards. It also focused on customer satisfaction and corporate governance long before these were fashionable terms. In just one example, a retirement age was set even for family members, including the chairman!

But it would be also fair to add that the company has been cautious and conservative in business terms. It did not diversify or setup new ventures across different sectors. Also, although it introduced leading technology companies like HP and Honeywell to India, when it came to large scale joint ventures the foreign partners were allowed to choose different Indian partners.

Also the company has not focused on market capitalisation. But the other side of this conservative approach has been that it has over the years been a non volatile stock and has consistently paid generous dividends. This has given the company a stable and loyal shareholder base with many shareholders holding shares for more than 50 years!

Now Suneel's son Vir Advani is the third generation as Managing Director along with B. Thiagarajan, a total professional as Jt. Managing Director. It will be interesting to see how Blue Star evolves and the direction it takes in the Vir Advani era.

Ashok H. Advani

Staying relevant

Blue Star rolls out an aggressive plan to accelerate growth in revenues and profits

It's party time at the Mumbai headquarters of the air-conditioning & refrigeration (AC&R) player, the ₹4,660 crore Blue Star, as the company hits yet another milestone. It has completed 75 years of existence. Today, the company is amongst the list of 41 companies with a turnover of over ₹4,000 crore; 75 years old and listed on the Indian bourse. The Advani family that runs the company holds a 38.89 per cent equity stake in the ₹6,578.31 crore (as on 13 July 2018) market cap outfit. They have lined up a host of activities and programmes to celebrate this platinum jubilee year, starting with the launch of a new logo with a tagline 'Built On Trust', to ringing of the opening bell at the NSE and closing bell at the BSE on 27 September 2018 (the date on which Blue Star completes 75 years).

"There will be goodies for all stakeholders," promises the 77-year-old Ashok M. Advani, the eldest son of the promoter, the late Mohan T. Advani. Ashok, chairman, Blue Star, till November 2016, retired after 47 years of service and is now 'chairman emeritus'. "For the shareholders, a special dividend of ₹1.50 per share (face value: ₹2 per share), in addition to the regular dividend of ₹8.50 per share, has been recommended by the board of directors, totaling the dividend to ₹10," adds Suneel Advani, the second son of Mohan, who took over as chairman in 2016. "A few special edition products to commemorate our platinum jubilee will also be rolled out. And, a special cover on Blue Star will be released by Indian Postal Department, besides a slew of events and engagements for customers, employees, dealers and several CSR activities." A double graduate

PHOTOS: SANJAY BORADE



Suneel: building a future-ready Blue Star

in electrical engineering and economics from MIT, US, Suneel also holds an LLB degree from Mumbai University.

"As we embarked on the platinum jubilee celebrations, there was a need to reflect the company's futuristic and contemporary outlook in its visual identity," explains Suneel, talking about the brand equity. "In line with this thinking, we unveiled a new logo. This new brand identity provides Blue Star with a refreshing, modern personality that projects continuity, reliability, and strength, while providing solidity and stability. The arrowhead within the logo stands for the company's forward, upward thinking, and its desire to dream big. The logo reflects an organisation that is firmly rooted to the ground, while aiming to reach for the stars".

Suneel, like Ashok, has spent his entire working career in Blue Star – joining as a management trainee in 1969 and moving up steadily to president and vice-chairman in 1984. He retired from his executive position in 2014, and was designated vice-chairman of the board and then elevated to the chairman's post in December 2016. During his career, Suneel formed many joint ventures with global majors such as HP, Motorola and Stork-Comprimo in the high-tech area, as also with Indian entities in the air-conditioning ancillaries field.

As the company enters its 75th year, the Advani brothers, along with a team of professionals that included Suneel's son Vir, have rolled out a strategic plan called BlueStar@75, which defines the road map for Blue Star for the next three years ending 2020-21. "The strategic charter has been formulated with an action plan called GEAR. The four pillars that support the GEAR framework are Growth, Excellence, Acceleration and Relationship. Growth being a high priority for the company, we have well-conceived and detailed action plans for growth in revenue, profitability, return on capital employed, shareholder value, capacity utilisation and productivity. With a strong leadership of Vir and B. Thiagarajan, joint MD, Blue Star, at the helm, we are in the process of building a future-ready Blue Star", explains Suneel, talking about the management team reinventing itself across its businesses for the



Ashok: 'goodies for all'

journey beyond 75 years.

"This plan lays down the key milestones to be achieved each year at the company level, as well as at individual businesses and functions levels," explains Vir S. Advani, MD, Blue Star, who holds Bachelor's degrees in Systems Engineering and Economics from the University of Pennsylvania. "It also has a clear focus on strengthening the company's core capabilities, acquiring new capabilities, building new processes, acquiring new technologies as well as enumerates details on intended investments to support the growth plans." Vir, who has also completed a comprehensive executive management programme in leadership development at Harvard Business School, joined Blue Star Infotech in 2000. In 2003, he founded Blue Star Design & Engineering and was designated its CEO. He has also had a two-year working stint in private equity in New York.

In 2007, as the third generation of the Advani family, he moved to Blue Star as vice-president, corporate affairs, where he made contributions in a profit improvement programme as well as electro-mechanical projects. In April 2016, Vir was appointed managing director of the company; but he takes on a larger canvas, overseeing the electro-mechanical projects

business, the international business group, corporate financial services, corporate planning and investor relations, apart from Blue Star Engineering & Electronics.

"The gist of BlueStar@75, is to grow revenues faster than the market at a CAGR of 20 per cent and profits at a CAGR of 30 per cent by 2021," explains Thiagarajan, who is a Bachelor of Engineering in Electrical & Electronics from Madurai University. He has also completed the senior executive programme in the London Business School and has four decades of experience, having worked for companies such as Larsen & Toubro, BPL Systems and Voltas, prior to joining Blue Star in 1998. A veteran at Blue Star, after handling various assignments as president, AC&R products group, he was elevated to the board in 2013 and subsequently to the post of joint MD in 2016. He oversees the sales, marketing, supply chain and service operations pertaining to the products business, manufacturing and R&D, amongst others.

Formative years

The early history of the company makes interesting reading. Blue Star was founded in 1943 by the late Mohan T. Advani, an entrepreneur, during the World War II years, when India's fight for freedom had reached its crescendo and was going through trying times. "The company's history closely parallels the history of India's independence and the country's subsequent rise," points out Suneel, while talking about some of the ups and downs in the company, starting with the first major catastrophe – 'the partition of the country' – that took place barely four years (1947) after his father got into business.

Other incidents, which followed soon, were effective too. The recession of 1953 hit the company and resulted in Mohan realising that the company couldn't survive solely on the business of air-conditioning, because the war had played havoc with the power situation. "In addition, the socialistic government had also classified air-conditioners as luxury products and imposed crippling taxes, like an excise duty of 125 per cent. All this culminated in the company diversifying by acquiring the sole agency of

what was then known as Schneider-Westinghouse (later known as Jeumont-Schneider), one of the foremost manufacturers of heavy electricals in Europe. "Independent India was beginning to develop its economy and the country's embryonic industries were crying for modern machinery and equipment of all kinds," recalls Ashok, talking about Blue Star and his father foraying into the professional electronics business, in partnership with Honeywell. "In quick succession, the company acquired exclusive distributorships of manufacturers of international standing and repute. These new businesses became the base of machinery and the electronics divisions. Meanwhile, the air-conditioning business gradually grew and in 1956, the company began manufacturing packaged air-conditioners.

"In the first 10 years, we set ourselves up and became viable," recounted the late Mohan Advani, in *The history of Blue Star*. "Next, we devoted our resources and energies to diversifying and expanding the product lines we handled. By early 1960s, we had thus developed into a broad-based engineering company, marketing high technology products. Always, the main emphases were on engineering, industrial products and air-conditioning." Mohan also talked about failures: "The 1960s also witnessed a series of setbacks, a fiasco of some magnitude, shaking up the foundations of commercial organisations. The company promoted Techni-Glass Ltd intended to make and market a new cellular thermal insulation called



Vir: core businesses are at an inflexion point

Cell-O-Therm, which failed miserably. The failure was a good lesson learnt for the future. The good part was that the company was able to recover by taking over the land and the factory which now forms the basis of the Thane factory, which houses the R&D division. The impact of this debacle was so strong that the company didn't want to do any new manufacturing for quite some time and decided to go the joint venture way. Besides, in 1965, India had embarked on a war with Pakistan,

thwarting the company's manufacturing ambitions. Its collaboration with Worthington, US to make a complete range of industrial and commercial refrigeration and air-conditioning equipment did not transpire because of the war; the same thing also happened with Honeywell".

Thereafter, Blue Star moved away from manufacturing as a business strategy and got further into distribution of imported high-technology engineering equipment – the mainstay of AC&R contracting. Another business that had begun to grow was AC&R appliances, such as window air-conditioners, water coolers, bottle coolers, deep freezers and refrigerators. By then, in its 25 years of existence, the company had undertaken innumerable large projects across commercial, industrial, educational and research organisations.

Turning point

In 1969, with a turnover of just ₹10 crore, Blue Star went public and became a listed entity, coinciding with the year Suneel was inducted into the business. This infusion was a critical take-off point. It planned and executed the air-conditioning of three skyscrapers in India – Air India Building, Express Towers and The Oberoi Hotel – followed by other large projects in the 1970s. Soon, in September 1973, Blue Star celebrated its 30th anniversary, but sadly lost its visionary guide Mohan in February 1974 – a shock to the whole family of Blue Star. "For Blue Star, it was the end of the beginning, but Mohan's dream had to

continue to be fulfilled."

However, by then, Ashok and Suneel were already in the thick of the company's operations and they started making some international moves. In mid-1970s, the company ventured overseas, aggressively targeting the Middle East markets by setting up a joint venture with Al Shirawi in Dubai. Multi-million air-conditioning projects were executed in Syria, Iraq and Saudi Arabia too. "As the 1970s progressed, Blue Star signed up with other internationally renowned business organisations, such as Hitachi and Perkin-Elmer (scientific instruments), as also Hewlett Packard. The distributorship for the full range of HP electronics products not only enhanced the company's analytical instrument portfolio, but also came to form the foundation of its expansion into medical electronics, test and measurement and electronic components," recalls Ashok who, in the 1980s, formed joint ventures with Yokogawa, HP and Motorola. Blue Star also introduced Copeland to India and began making centrifugal and reciprocating chillers in technical collaboration with York.

"This was the inflexion point, and there was now no looking back," says Suneel, talking about the opportunities that came with the country's liberalisation and the growing macro-economic statistics that followed in the late 1980s and early 1990s. The late 1980s witnessed major changes with the de-licensing and liberalisation of economic and industrial policy, with multinationals entering India in a big way during this period. Free imports impacted India seriously, affecting local manufacturing adversely.

In 1991, India was caught in a balance of payments crisis, resulting in the devaluation of the rupee. The economic breakdown led to overdue industrial, trade and financial reforms, which began to transform the economy. "Blue Star decided to 'stick to the knitting' and stay 'lean and mean', realising that the golden era of diversification was over. It decided to divest its marginal and unrelated businesses and get back to its areas of core competence in air conditioning and refrigeration. The decline of the Middle East market in the mid-1980s and the growth impetus provided



Thiagarajan: strengthening the brand

by the economic liberalisation made Blue Star concentrate on the domestic market. The company grabbed the market leadership position in central air-conditioning in India in 1988. The refrigeration area was chosen for diversification, with emphasis on commercial and industrial applications. The new policies of liberalisation were favourable for electronics and telecommunications. The company also entered into a JV in Malaysia during this time," says the second generation Advani duo, who led Blue Star's forays into the export of software development services in the 1980s, which matured in the 1990s and was spun off to its shareholders in 2000, as Blue Star Infotech, with subsidiaries in the US and the UK. The Chryscapital-backed Infogain bought over Blue Star Infotech's IT solutions business in 2016, whilst Blue Star retained its real estate and assets.

From diamond to platinum

In 2003, Blue Star completed its 60 years of existence, reinvented itself again and again (*Business India*, October 13-26, 2003) to keep in tune and adapt with the changing market conditions, thus strengthening its core and becoming more customer-centric. It also reduced its cost structure and maintained its leadership position. "In this, we built a B2B company," admits Suneel, who is now looking at

a big shift to the B2C segment, as the company becomes 75 years old. "We want to reinvent and stay relevant," says he.

Meanwhile, in 2009, there was a top management re-organisation too – Ashok and Suneel slowly moved out of day-to-day operations to devote their time to broader issues, such as planning and guiding the future of the company, concentrating on organisational development and monitoring of business performance. A younger team of professionals comprising Satish Jamdar, Vir S. Advani and B. Thiagarajan, who have been groomed by Ashok and Suneel, came to the forefront to handle the business. Progressively, Vir became the ED of the company in 2010 and, on Satish's retirement, was subsequently promoted as MD in 2016, with Thiagarajan becoming the joint MD. The same year, Ashok stepped down from the board to be chairman emeritus and Suneel was elevated as chairman of the board.

On the business front, Blue Star grew inorganically into the electrical as well as plumbing and fire-fighting segments after acquiring Naseer Electricals in 2008 and D.S. Gupta Construction in 2010. "Having fortified our position as an end-to-end service provider in the mechanical, electrical and plumbing (MEP) and fire-fighting segment, we have handled several integrated electro-mechanical projects

Key Financial Information - 10 year trend											
	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	CAGR %
Revenue from Operations	2503	2525	2981	2820	2924	2934	3182	3625	4422	4750	13
PBT (before exceptional items)	238	263	231	-103	41	76	84	119	159	201	27
ROCE (%)	74	62	37	-4	12	16	17	21	24	26	-
EPS (Rs per share)	20.05	23.52	17.9	-11.69	4.34	8.39	6.02	10.99	12.89	15.58	-
Share Price (R)*	155.4	364.5	371.5	186.5	158.3	201.3	307.7	390.3	692.4	755.5	39
Market Cap (R crores)**	1398	3278	3341	1677	1424	1810	2767	3511	6617	7253	41

*As on last day of the Financial Year

** Based on the last day of the Financial Year

in India and overseas as an integrated MEP service providers in the building, industrial and infrastructure segments. With a potent blend of sound technical know-how, a talented and experienced workforce and robust design expertise, we leveraged the market opportunity of being part of numerous engineering marvels," explains Vir, under whose guidance several prominent airports, metro rail projects, office spaces, malls, hospitals, hotels, residential buildings, educational institutions, power plants, electrical substations and industrial projects across geographies stand testimony to Blue Star's engineering expertise. It has partnered with companies like ICICI and Amul, as also retail chains like McDonald's and Kalyan Jewellers, to name a few.

According to Amit Jatia, vice-chairman, Westlife Development, the parent company of Hardcastle Restaurants, which runs McDonald's and has been working with Blue Star since the inception of McDonald's (West and South) in 1996, "Blue Star supplies air-conditioners for the restaurants and cold rooms. The company has an efficient and responsive sales service team, which led us to give all our new restaurants business to them. What sets them apart is that they are cost-competitive, while maintaining high quality standards. They have a highly competent and accessible senior technical management team which is process-and-solutions-driven. Blue Star invests in their people by training and encouraging them to take up dealerships thus developing their entrepreneurial skills. We are proud to work with a completely indigenous company like Blue Star, which is on a par with global giants".

"Our relationship with Blue Star dates back many years, observes Anuj Agarwal, head, infrastructure management & services group, ICICI Bank and ICICI Foundation. "They have been one of our partners for supply & comprehensive maintenance of air-conditioning equipment for our branches and offices, which are spread across the length and breadth of the country. Their project management and timeliness of service ensures that our branches/offices get set up on time, and also maintain the right ambient temperature for comfort and



Menon: eyeing the overseas markets

efficiency". As on date, Blue Star maintains and services over 7,000 of our machines ranging from chillers to split-air-conditioners across various locations. Further, Blue Star has also been a knowledge partner with ICICI Foundation for Inclusive Growth, and has assisted in the setting up of ICICI Academy for Skills at various locations. "It has helped in the creation of course content for the skill on room air-conditioners, and has also helped in setting up of laboratories at the various academies through specialised models and props for training purposes. ICICI Academy for Skills conducts vocational trainings to meet the demand for skilled labour and create sustainable livelihood opportunities for underprivileged youth."

Like the way Blue Star has been a key stakeholder in ensuring comfort cooling and ambience for customers and colleagues of ICICI Bank, it has also played a leading role in the expansion of Amul for about 25 years, as its preferred vendor for cold rooms and deep freezers. Says R.S. Sodhi, MD, Gujarat Co-operative Milk Marketing Federation (makers of Amul products), "Amul had met several leading indigenous

and overseas-based vendors, while exploring the storage devices during the launching of ice-cream. During the processes, Blue Star suggested that we import the cost-effective as well as low operational cost deep freezer and agreed to support in operation and after-sales service requirements in India. Amul decided at that time to import the consignment of deep freezer with Amul branding, to try out in Indian market with the help of Blue Star. Based on the overwhelming feedback, the production facility of such deep freezers was established by Blue Star in its plant in India".

Now, to expand ice-cream market in India, Amul has developed a well-known *hamara apana* model, where Blue Star is a channel partner. "Amul was able to upgrade ice-cream market with installation of hard top, glass top, parlour freezer, etc, supplied by Blue Star and known for cost-effective operation and affordable pricing for their products. They are continuously upgrading the products through their technical team," adds Sodhi, who has standardised various capacity of cold storages for dairy and frozen products, with the help of Blue Star.

Mainstay continues

Even today, the MEP and the packaged air-conditioning systems segment continue to be the mainstay of the company. Together, they contribute the largest share of the company's total revenue from operation – 50 per cent for the year ended March 2018. "Though the market stayed stagnant with government funded infrastructure, corporate and commercial segments witnessing a slowdown, profitability grew mainly on account of better margin profile of certain key jobs, such as factories and educational institutions," explains Vir.

What has been undergoing a rapid change is the central plant equipment segment, including product categories like ducted system, variable refrigerant flow (VRF), chillers, and domestic heating ventilation and air-conditioning (HVAC) opportunities. The first few distinctive changes taking place is in the packaged air-conditioning, under which variable refrigerant flow is slowly replacing the traditional ducting systems. According to an ICICI report,

"The trend of ducted air-conditioning getting replaced with VRF is clearly visible. The VRF market is expected to grow at a CAGR of 20 per cent during the next 2-3 years." The top four VRF players – Daikin, Toshiba, Hitachi and Mitsubishi – are expected to witness competition from Blue Star, Carrier Midea and Voltas. Additionally, some of the import model room AC players, like Vestar, have also introduced their new VRF products. The overall ducted segment is moving swiftly to VRF, with more entrants challenging the might of the market leader Daikin. Midea introduced its energy-efficient variant that utilises the outlet heat of the refrigerant. LG is supplying an innovative hydro kit separately as a retrofit to the existing VRF machine, this will be heating the water, using the outlet's high temperature refrigerant; this will further improve energy efficiency. "Blue Star's indigenously designed VRF has received good acceptance and the company will be looking at improving its market share in this segment," says the 56-year-old C.P. Mukundan Menon, president, sales & marketing, products business. Menon, another veteran at Blue Star, had started as regional manager, western region, in June 1984.

Based on dynamic market requirements, last year, Blue Star launched the latest fifth generation VRF, which has a large capacity outdoor unit with 24-28 HP. "This product offerings are highly efficient even in extreme ambient conditions, as they have been designed to deliver full capacity at 43 degree Celsius and are capable of handling a wide range of fluctuations. We have also introduced an easy-to-install pre-piped VRF, which enables integrators to offer VRF technology in smaller towns," adds Menon.

Under the small-to-medium-sized projects, previously, ducted air-conditioning projects used to be dominant. But this is gradually shifting towards VRF projects. "Blue Star recently launched the next generation, 100 per cent inverter VRF air-conditioning system named Blue Star VRF IV Plus, which is the first 100 per cent inverter VRF system 'Made for India' and is well-suited for the varying climatic conditions, as well as voltage fluctuations, faced across the country.



Devnani: products for Indian conditions

With this launch, we believe, Blue Star can become a prominent player in the VRF segment," explains Ramesh Devnani, Executive VP, manufacturing, Blue Star, who feels this is a landmark indigenous introduction to the Indian HVAC market, due to its high performance ability in peak ambient climatic conditions, as well as erratic power fluctuations experienced across the country.

"Not only does VRF system uses R-410-A as refrigerant to overcome ozone depletion issues, but also allows a large outdoor unit to serve multiple indoor units," explains Debashish H. Roy, Executive VP, R&D & Supply Chain, Blue Star. "Each indoor unit can control its refrigerant supply to meet the demand of the area it serves, meaning every indoor unit can have a different configuration and individualised comfort control. As they allow for a more effective control over refrigerant flow, VRF systems can be considered as a promising energy efficient method to reduce the energy use compared to conventional units. The individual control in VRF systems is more economical and efficient; therefore, they are ideal for the dynamic occupancy. Allocating a portion of outdoor space for its outdoor unit can also be considered an advantage, because it has minimised the cost of maintenance. VRF systems also give the possibility for retro fitting". The current

market share of Blue Star under VRF is 15 per cent, which is expected to increase to 25-30 per cent over the next 3-4 years, with strong market CAGR of 20-25 per cent.

In the HVAC segment, over the years, as the retail industry in India is growing, it has led to higher demand for commercial space by retailers. As per a Cushman & Wakefield report, India's top-8 property markets are likely to witness 10 per cent surge in office space net absorption to 32.5 million sq ft alone, the highest seen over the past six years. "The current pipeline of mall supply looks strong with 11 million sq ft of supply expected to become operational across eight cities. Hyderabad, amongst the least penetrated markets, may witness the highest supply of malls during the year (2.6 million sq ft). Bengaluru may see 16 per cent higher supply of mall area in 2017, but supply in Hyderabad is expected to increase by 36 per cent. Delhi-NCR is likely to be placed third in terms of net absorption, with maximum demand seen in Gurgaon and other submarkets, excluding DLF Cybercity, MG Road and Golf Course Road markets, and Noida-Greater Noida Area. The year would also herald a rise in the demand for space in the office sector, wherein the pecking order is expected to change," adds the report.

In addition, at least 10 Indian cities

are working on metro railway projects. The government had initiated a plan in 2012 to study the feasibility of such networks in all cities with a population of more than two million. Given the increasing urban population, metro rail has become one of the best ways to decongest traffic. "Metro lines create demand for HVAC projects and the scope of HVAC increases with underground stations and underground metro lines. Given the strong domestic metro pipeline, we believe, the overall order intake for HVAC projects should considerably improve, going forward. This will offset the overall sluggishness in private capex and near-term slowdown in large infrastructure projects like airports," states the ICICI report, talking about the surge in demand for HVAC players.

B2B to B2C

For a large part of the last seven-and-a-half decades of Blue Star's existence, it has been a negligible player in the retail room AC market or, for that matter, in any other consumer durables. "This is going to change," promises Suneel, who, together with the team at Blue Star, have worked out a plan to target this growing unitary products (comprising room air-conditioners, as well as commercial refrigeration products and systems apart from water purifiers, air-coolers and air-purifiers) market.

"A low penetration at 4 per cent of the total households, improving affordability and better availability of electricity, along with hot climatic conditions, is expected to fuel growth in the domestic market for ACs. India is today at the same stage where China was in 1995, after which the room AC growth rate had witnessed secular growth. Additionally, the climatic conditions of India are more severe, which leads to purchase of room ACs as a key decision when a person moves up a certain income threshold," states the ICICI report.

Despite being the second most populous nation, the annual room AC market in India was at 4.2 million units per annum during 2015-16, as against 38 million units per annum in China. "The average ticket size of room AC in India is 1.5-tonne unit vs 1-tonne unit in China, hence adjusted



Blue Star has a strong pedigree of expertise in cooling

for this, the Chinese AC demand will still be at 25 million units per annum, despite having much higher penetration level (80 per cent as on 2016-17). In volume terms, China dominates the global market with 43 per cent of the total demand, followed by Japan and the US with 9 per cent each and India at 5 per cent of the global demand, in terms of volume.

Now, as per the data available until 2017-18, the domestic air-conditioning market was ₹18,500 crore in value terms; of this, the market for central air-conditioning, including central plants, packaged/ducted systems, VRF systems and ancillary equipment was about ₹6,500 crore, while the market for room air-conditioners was ₹12,000 crore. "The growth has been despite the room AC market being engulfed by myriad challenges including those related to implementation of GST and the new Bureau of Energy Efficiency (BEE) labelling programme as well as the rise in commodity prices," explains V.S. Ashok, the 51-year-old VP, air-conditioning & refrigeration service group, who has been in the company since 1992.

According to the ICICI report, the room AC segment will continue to grow at 12-13 per cent CAGR for the next 5-6 years. Government spending towards urban infrastructure and transportation, coupled with the

expected recovery in the commercial real estate market, is expected to support project segment growth.

Having been a player to reckon with in air-conditioning in the corporate and commercial segments for close to seven decades, Blue Star entered the residential segment in 2010 with a contemporary and stylish range of room ACs. "The company had been witnessing a significant demand from the residential segment, given the higher disposable income and the growing middle class, who are upwardly mobile and seek comfort," explains Thiagarajan. "Despite the fact that Blue Star room air-conditioners were not available in retail channels, a significant amount of Blue Star's sales came from the residential segment, mainly from consumers who believe that a specialist is better than a generalist and had a conviction that if Blue Star is a leader in cooling large spaces, its room air-conditioners must be good".

"Given our strong pedigree of expertise in cooling, coupled with the impressive range of energy-efficient Blue Star ACs, easy access through a robust extended channel of retailers and dealers, as well as a strong installation and service franchise across the country, the company has been on a fast growth trajectory ever since, and presently assumes a 12 per cent market share in the room air-conditioners

business," adds Vir, who feels Blue Star has been a strong contender in the consideration set of the discerning consumer and that several home consumers have instilled their faith in the brand and believe that Blue Star offers contemporary and modern products due to its strong air-conditioning pedigree. Currently, with its value proposition of 'Nobody Cools Better', the company has done well for itself, despite being a late entrant in this segment.

As per market data, the Indian room AC market is going through a transition towards energy efficiency. Consumer awareness has improved and they have become more informed of the benefits of energy efficiency, longer lifecycle advantages and lower noise of inverter ACs. The domestic room AC market is currently dominated by three-star fixed-speed ACs. LG has recently decided to vacate the fixed-speed segment and focus on inverters.

In terms of the overall market size and market share, the most followed data is the one published by AC Nielson. However, this excludes data from exclusive stores and sales and service dealers (SSD). "Hence, from our interactions with the industry players, we believe the overall total room AC units sold during 2016-17 is 5 million per annum. The market share of Voltas, Daikin, Lloyd and Blue Star has improved due to LG vacating the fixed-speed AC space in 2016-17. Overall, in the last 3-4 years, Samsung and Panasonic have lost market share, while Voltas, Daikin, Lloyd and Blue Star have gained. The overall room AC market has grown at a CAGR of 12-13 per cent from 1.3 million units per annum in 2004-05 to 5 million per annum in 2016-17. This growth rate is expected to continue," says the ICICI report, adding that the shift to inverter market will be a key development and companies that are able to adapt themselves and cater to this, with more inverter SKUs are likely to dominate in the medium-to long-term perspective.

But one should not forget the downsides, if any, from the external events. In the past, for instance, the global meltdown (coinciding with its retail entry) started impacting Blue Star from end 2010, when it registered a loss for the first and only time in 2012.



Connected with the trends

This was the result of a slowdown in numerous electro-mechanical projects due to tight liquidity conditions, leading to undue delay in collections from customers. This resulted in poor cash flow in the business, higher borrowings and increased interest costs. For the cooling products, while the top-line growth was favourable, margins were under pressure due to higher input costs and significant increases in fuel and freight costs.

Diversification

Leveraging on the distribution network, Blue Star has launched water purifiers, water coolers, air purifiers and air coolers to expand its offerings in the domestic retail market. While retail started to pick up, in 2016, the company expanded its product line in the adjacent category of cooling with the introduction of air coolers, including models for price conscious customers in non-humid areas of North and Central India for spaces ranging from 100 sq ft to 300 sq ft which has picked up well in Tier III/IV/V markets.

"The category of air purifiers with multi-stage filtration launched last year is expected to grow three-fold over the next five years, given the rising concern of air quality in the country," says Ajay Sharma, VP, water purifier division, who joined Blue Star in 2014, to launch this division. "Given its long

association with water due to its offerings of water coolers and bottled water dispensers coupled with the fact that it is perceived as a trustworthy and modern brand and has a robust distribution network of 4,000 retail points across the country, we forayed into the residential water purifier business in 2017, with the plan to make deep inroads into this business," he adds. "The range of products augurs well with Blue Star's premium and aspirational brand personality. Within the first year of its launch, Blue Star Water Purifiers won the esteemed 'Best Domestic RO+UV Water Purifier' award at the 11th edition of the Water Digest awards 2017".

"Though these business segments – water purifier, air purifier and air coolers – are at a nascent stage, we believe these products have high growth visibility in long term and will help the company strengthen its brand positioning and brand recall in the mind of consumers," explains Thiagarajan. Having launched the product in 2016-17, he expects to gradually increase the penetration and has set a near-term target market share of 15 per cent of the overall ₹220 crore of current home water purifier market. Home water purifier penetration is also low in India at 6 per cent and the market is expected to clock 25 per cent CAGR in the next 3-4 years.

In the case with air coolers, the current market size is ₹200 crore. Here, the company is not aiming to capture large market share in this segment but believes its presence will help build brand loyalty and recall in the minds of potential AC buyers, who will migrate from coolers to AC in future. In the air purifiers business, though this segment is small at a market size of ₹25 crore, “it has immense growth potential owing to increasing pollution and consumer awareness towards better and healthy living. We also see the possibility of air purifiers getting incorporated with room AC units a few years down the line,” visualises Vir.

International footprint

The Advanis have always harboured the desire to build a large international footprint. Over the next few years, the team at Blue Star has identified new opportunities for AC&R products, MEP projects and after-sales services in global markets. The international business is currently engaged in AC&R project exports to the Middle-East, Africa, SAARC and ASEAN regions, as well as all OEM equipment sales. It also includes international projects which are mainly managed by the company’s international joint ventures in Qatar and Malaysia. “With rapid change in rules and regulations in the GCC countries, such as Saudi Arabia and the UAE, the market for energy-efficient AC is likely to increase. As regards SAARC and ASEAN regions, the market in countries such as Nepal, Bangladesh, Vietnam and Myanmar is expected to grow with higher FDI. While hospitality segment is driving growth in the Maldives, Nepal and Sri Lanka, manufacturing and power sectors are witnessing growth in Bangladesh, and seafood industry coupled with manufacturing is driving growth in Vietnam and Sri Lanka,” says Menon, who is making steady progress in the developing African market.

Meanwhile, Blue Star has won significant orders for packaged units from Singapore and also appointed dealers in Nepal, the Maldives, Bangladesh and Sri Lanka. Given the thrust towards export markets, “We expect contributions from exports to increase from the current 5 per cent to 25 per cent in the long term,” says Vir.



Roy: betting big on VRF

Clearly, with the key pillars it place on the drawing board, the team at Blue Star is looking at delivering the promised strategy. “Our core businesses are at an inflexion point,” he adds. “On the backdrop of significant under penetration, the air-conditioning and refrigeration market in India is poised for stellar growth in the next 5-10 years. Our strategy therefore is woven around accelerating the growth trajectory of all our businesses at a pace faster than the market growth rate. Equally, our strategy also focusses on ensuring that our growth is profitable and enables us to deliver the desired rate of return on capital to our investors and shareholders. Capital allocation is done in a calibrated manner to optimise returns that would continue to help us achieve our strategic goals. Focus on improving productivity of all sources of capital is another pillar that is expected to help us achieve our financial goals,” observes Neeraj Basur, CFO, Blue Star, since July 2014.

Talking about the outlook for Blue star, the ICICI report states, “Blue Star is poised to witness growth in both cooling products and projects. Initial growth will be led by improvement

in market share of room AC from the current 10.5 per cent to 12-13 per cent and the second leg of growth will be led by recovery in project segment. Additionally, the company plans to introduce new products like water purifiers, air-coolers, air purifiers, though these cannot meaningfully improve near term growth they should support medium to long term growth prospects. Blue Star plans to focus on the retail water purifier category and targets to achieve 15 per cent market share. It has the maximum SKUs under inverter AC and believes that the overall share of inverter AC will witness strong growth. After the sale of its IT division, the overall debt has reduced and cash flows have improved”. Blue Star currently has an RoCE of 26 per cent, which is expected to increase to 32 per cent in 2021, with RoE going up from the current 17 per cent to 28 per cent in 2021, after accounting for capex over the next two years including putting up of two new manufacturing plants at Wada and Sricity.

“Blue Star has a good board that regularly challenges the day-to-day management of the company. Also the promoters (the second generation Advani brothers), have a different style of working that compliments one another, and the combination works. Compared to most companies, they are very externally oriented and stay connected with the trends and happenings in the industry, open to listen, which has helped the company stay up all through these years. The management team is an intellectual power horse that weighs the pros and cons carefully while taking decisions, even if it is delayed they are cautious. Now, the next line led by Vir and Thiagarajan is also good and well groomed to take the company forward,” comments Vikram Bhalla, senior partner & MD, Boston Consulting Group, which has been engaged by Blue Star on various occasions since 2002-03 to formulate overall growth and project strategies.

The Advanis and the team at Blue Star, with a consumer durables mindset, are gearing and tuning in to spring out something out of the blue to stay relevant beyond the 75-year-old subsistence of the company.

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