

Blue Star Limited

October 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	100.00	CARE AA+; Negative (Double A Plus; Outlook: Negative)	Reaffirmed
Long Term / Short Term Bank Facilities	1,600.00	CARE AA+; Negative / CARE A1+ (Double A Plus; Outlook: Negative/ A One Plus)	Reaffirmed
Short Term Bank Facilities	608.00	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 ratings reaffirmation of the bank facilities/instruments of Blue Star Limited (BSL) continue to factor in the strong business risk profile supported by its dominant market position in the electromechanical project segment (EMP-Segment I) and unitary product (UP-Segment -II) segment with diverse geographical presence across India. The ratings consider BSL's strong financial flexibility marked by its high scale of operations, comfortable debt protection metrics and strong liquidity position. The business continues to be driven by its robust brand recall and sound business acumen of the management demonstrated in their prudent policies over the years to achieve operational integration to optimize cost structure and business strategy in terms of targeting mass premium product segment to drive sales and margins. The ratings further take into account comfortable carried forward order book position with established relationship with marquee clients providing short to medium term revenue visibility. CARE notes the BSL's foray into air-conditioning (AC) component manufacturing under production linked scheme (PLI scheme) through its wholly owned subsidiary which in CARE's opinion is a step towards realizing operational integration objective of the company and aid in margin improvement.

The above rating strengths are offset by the susceptibility of the business to competition, climatic vagaries, changing technologies and downturns in end-user industries. Further, the ratings consider the BSL exposure to challenges in terms of moderate profitability margins relative to industry and working capital intensive operations.

CARE acknowledges the impact of COVID-19 on the business operations which has impacted two successive peak selling seasons (Q1FY21 and Q1FY22) for the company resulting in loss of sales volume and profitability. The pandemic related disruption also impacted project business in International markets particularly in Middle East regions and political instability in Malaysia. While the pandemic-led lockdown impacted the consumer durables industry, the company managed to gain market share in room air conditioner in FY21 through better product offerings and achieve breakeven in water purifier business. The possibility of any further waves and associated restrictions and its impact on consumer spending will remain a key rating monitorable.

Outlook: Negative

CARE continues to remain on negative outlook on account of recovery of demand being contingent on absence of any further waves and associated restrictions. Further, 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, pharma, and government projects, however, the demand from other key segments such as hospitality and real estate segment is yet to pick-up. The outlook will be revised to stable in event of faster than anticipated recovery in demand resulting in sustained improvement in the company's revenue and profitability margins

Rating Sensitivities

Positive Factors

- Improvement in overall PBILDT margins to 10% with Segment I & II reporting minimum of 5% and 8% respectively at PBILDT level
- Improvement in total debt to gross cash accruals (TDGCA) below unity.
- Gross gearing to remain lower than 0.20 times on sustained basis

Negative Factors

- Significant debt funded capex leading to decline in financial risk profile with overall gearing exceeding 1.20x
- Collection period of more than 120 days on sustained basis
- Substantial decline in profitability margins from the projected levels

Detailed description of the key rating drivers

Key Rating Strengths

Strong business risk profile supported by dominant position in commercial air-conditioning systems and cooling product business

BSL is one of the strong players in the consumer durable business, particularly in commercial, room AC systems and across project business in related segments with established track record of over six decades and demonstrated capabilities in executing projects across project businesses in domestic and international markets. As on June 30, 2021, BSL commands a leadership position in ducted air-conditioning segment, #2 position under variant refrigerant flow (VRF), with 19% market share #3 position in chiller product segment with 17% share[^]. With better product and deal offerings during FY21 has led to BSL commanding market share of 13% in Cooling and purification product and 2.5% in purifier business

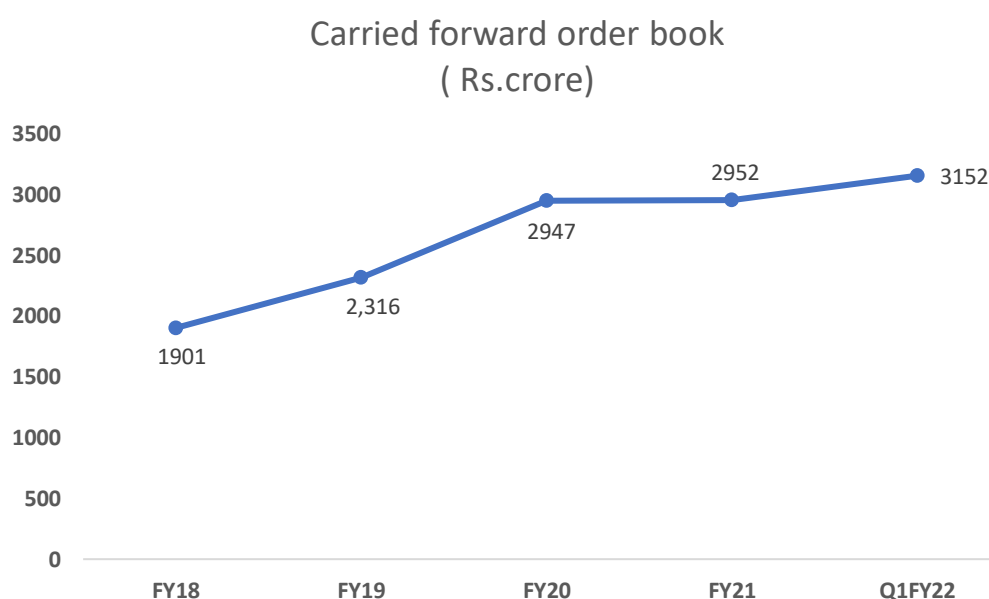
[^]Source: Blue Star FY21 annual report

Diversified revenue streams with significant contribution from EMP & UP segments

BSL's operates into EMP, UP and Professional Electronics and Industrial systems (PEIS) segment which contributed 52%, 44% and 4% respectively to the consolidated net sales of the company for FY21. 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.

Strong order-book position providing short to medium-term revenue visibility

BSL's confirmed order book position stands at Rs.3152 crore with 30% of the orders having completion timelines in FY22 and remaining in FY23 and FY24 thus providing short to medium term revenue visibility for the company. The major chunk of the order book (~95%) caters to EMP segment. BSL is exercising caution and is undertaking orders basis customer creditworthiness and operating cash flow visibility. The above stated approach has not resulted in any moderation in carried forward order book of the company, the trend of which can be seen in the chart below:



Strong financial risk profile as reflected by high scale of operations, comfortable debt protection metrics

The financial risk profile marked by overall gearing (including acceptances), PBILDT interest coverage and total debt to gross cash accruals (TDGCA), though moderated, but remained comfortable at 0.94x, 3.31x and 2.41 respectively. The moderation was mainly on account of BSL's leveraging via issuance of NCD in FY21 to augment the long-term liquidity avenues of the company coupled with low sales volume in the backdrop of pandemic.

Impact of COVID-19 on the business profile

In FY21 and Q1FY22, the pandemic and associated lockdown resulted in loss of sales in peak selling season for BSL resulting in moderation in revenues and profitability margins.

For EMP segment, order inflow from the commercial buildings sectors remained muted on account of delays in order finalization due to uncertainties around the pandemic and the same trend continued during Q1FY22. Muted government spending on infrastructure, particularly in H1FY21, impacted order inflow from the infrastructure sector. However, factories and light industrial sector showed resilience due to Make in India initiative resulting in order book inflow of Rs.2244.84 crore for the segment (PY: Rs.3104.67 crore).

Commercial AC systems received good traction post easing of lockdown from sectors related to healthcare, pharma and light industrial. The traditional business contributing segments viz. IT, offices, marriage halls remain closed during FY21 and Q1FY22. Despite that, BSL continued to maintain leadership position in Ducted Air-conditioning, number 2 in VRF and number 3 in chiller product segment.

International business segment was adversely affected during FY21 and normalisation of business activities in H2FY21 enabled a growth in revenue on account of improved demand for AC and refrigeration product across ASEAN and SAARC markets. Execution pace of project business at Qatar remained slow on account of COVID related restrictions and operations at JV in Malaysia were affected due to macro-economic instability. The scenario at both the locations continued to remain the same during Q1FY22.

In room AC business and purification process under UP segment, due to sharp increase in raw material cost coupled with increased ocean freight cost on account of shortage of containers, forced BSL to undertake price hike to the extent of 5% in January 2021 and 3% in April 2021. The main revenue drivers for the segment were improved share of billing from e-commerce channels and improved business sentiments in H2FY21 which led to stocking of inventory by channels ahead of peak selling season.

In commercial refrigeration business, demand for ice coolers driven by ice-cream vendors continued to remain low in FY21 and Q1FY22. However, demand remain supported by the products related to vaccine transporters, cold rooms, medical freezers because of BSL's investment in vaccination cold chain. Healthy growth in supermarket refrigeration and kitchen equipment driven by growth in retail sector also supported the recovery for this segment in H2FY21.

PEIS segment revenue were driven by the opportunities from BFSI sector for the data security solutions business, orders from the healthcare and essential services of the government.

Key Rating Weakness

Susceptibility to competition, climatic vagaries, changing technologies and downturns in end-user industries

The demand for EMP segment is dependent on capex in end user industries which are co related to the macro-economic environment. Consequently, during downturns, the amount of capex reduces which can lead to lower order inflows impacting operating performance. Further, while BSL continues to maintain leadership position in EMP segment and strong market position in commercial AC systems, the same remains susceptible to climatic vagaries as well as external shocks like the Covid-19 as reflected by decline in revenues in FY21. With leading Indian, Korean and Japanese entities, the segment is also characterized by stiff competition. With pandemic having adversely affected the peak season in two successive years resulted in higher inventory in the channel as well as with manufacturers in first half of FY21 and FY22. Coupled with risk of higher inventory levels as well as rising input costs, the segment remains susceptible to pricing pressures in the near term. The ability of the company to timely pass on such rise to the final customer and liquidate inventory at acceptable margin levels, while maintaining its leadership position remain key monitorables.

Working capital intensive business

The company's business is working capital intensive by virtue of seasonality of business viz. room conditioners wherein demand is during the summer season and the stocking up of inventory levels begins from December onwards. Further, Q1 & Q4 are the two big quarters for cooling product sales due to the climatic situation in northern parts of the country. Thus, inventory levels remain elevated in Q4 and Q1 of every financial year. Additionally, to tackle the high lead time of products/certain key raw materials, the company needs to maintain adequate stock of raw material.

Liquidity: Strong

The company's liquidity position remains strong, given the decent cash flow generation, supported by the performance of the EMP and UP segment and judicious capital expenditure requirement. The company had cash balances and liquid investments of Rs. 326 crore as on August 31, 2021. In addition, the company has sizeable fund-based facilities aggregating Rs.420 crore, which are utilized to the extent of 48% for the past twelve months ending August 2021 which further augments the liquidity

profile of the company. BSL has repayments aggregating Rs.27.30 crore in remaining part of FY22 and Rs.193.34 crore in FY23 which can be comfortably met through its cash accruals. The current ratio stands at 1.23x during FY21 and lean operating cycle of 11 days negates any substantial requirement of working capital in the projected years.

Analytical approach: Consolidated as BSL along with its subsidiaries are operating in the same line of business and have significant operational, financial and management linkages. The subsidiaries and Joint ventures (JV) adopted for consolidation are tabulated below:

Name of Subsidiaries	Country of incorporation	Extent of shareholding as on March 31, 2021
Direct Subsidiaries		
Blue Star Engineering and Electronics Limited	India	100%
Blue Star Qatar WLL	Qatar	49%*
Blue Star International FZCO	UAE	100%
Indirect Subsidiaries		
Held through Blue Star International FZCO		
Blue Star Systems and Solutions LLC	UAE	100%
BSL AC&R (Singapore) Pte Limited	Singapore	100%

*Management control is with BSL, hence a subsidiary

Note: The subsidiaries are fully consolidated, whereas the entities held through JV's are consolidated by the Equity method (i.e., as a separate line item) to the extent of holding.

Name of Joint Ventures	Country of incorporation	Extent of shareholding as on March 31, 2021
Blue Star M&E Engineering Sdn Bhd	Malaysia	49%

Applicable Criteria

Criteria on rating outlook and credit watch

CARE's Policy on Definition of default

Financial ratios – Non-Financial Sector

Liquidity analysis of non-financial sector entities

Rating Methodology-Manufacturing sector companies

CARE's policy on Consolidation

CARE's criteria on short term instruments

About the Company

Blue Star Limited (BSL) was established in 1943 by late Mr. Mohan T Advani. 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, Thane and Himachal Pradesh. The company's operations can be classified into three segments, namely Electromechanical Projects and Packaged Air Conditioning Systems (EMP; Segment -I), unitary products (UP; Segment-II) and Professional Electronics and Industrial systems (PEIS; Segment -III) each contributing 52%, 44% and 4% respectively to the consolidated net sales of the company in FY21, respectively. It has presence in 19 international markets in the Middle East, Africa and South Asia.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Income from Continuing Operations	5367.03	4263.29
PBILDT	243.81	214.51
PAT (after discontinued operations)	143.25	100.35
Overall Gearing (Including LC Acceptances) (times)	1.15	0.94
Interest coverage (times)	8.27	3.31

A: Audited

Note: The financials are adjusted as per CARE Standards

Status of non-cooperation with previous CRA: Not available

Any other information: Not available

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure 4

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	INE472A08036 INE472A08034	June 06, 2021/June 01, 2020	7.65%	June 06, 2023/June 01, 2023	350.00	CARE AA+; Negative
Commercial Paper-Commercial Paper (Standalone)		-	-	7-364 days	500.00	CARE A1+

Details of NCD-

ISIN	Date of issue	Amount (in Rs.crore)	Coupon rate	Maturity Date	Rating assigned
INE472A08036	June 06, 2020	175.00	7.65%	June 06, 2023	CARE AA; Negative
INE472A08034	June 01, 2020	175.00	7.65%	June 01, 2023	CARE AA; Negative
Total		350.00			

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	100.00	CARE AA+; Negative	-	1)CARE AA+; Negative (07-Jan-21)2)CARE AA+; Negative (18-May-20)	1)CARE AA+; Stable (22-Jan-20)	1)CARE AA+; Stable (08-Jan-19)
2	Non-fund-based - ST-BG/LC	ST	608.00	CARE A1+	-	1)CARE A1+ (07-Jan-21)2)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (08-Jan-19)
3	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (07-Jan-21)2)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)	1)CARE A1+ (08-Jan-19)2)CARE A1+ (14-Jun-18)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	1600.00	CARE AA+; Negative	-	1)CARE AA+; Negative / CARE A1+ (07-Jan-21)2)CARE AA+;	1)CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable /

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
				/ CARE A1+		Negative / CARE A1+ (18-May-20)	(22-Jan-20)	CARE A1+ (08-Jan-19)
5	Debentures-Non Convertible Debentures	LT	350.00	CARE AA+; Negative	-	1)CARE AA+; Negative (07-Jan-21)2)CARE AA+; Negative (01-Jun-20)3)Provisional CARE AA+; Negative (18-May-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument

Particular	Description
<u>Financials covenants</u>	- 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%
<u>Others covenants</u>	
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 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

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please: [click here](#)

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.

Disclaimer

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