Blue Star Engineering & Electronics Limited

October 07, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Total bank facilities	**100.00 (₹ One hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating of Blue Star Engineering & Electronics Limited (BSEEL) considers the improvement in business risk profile of the company aided by increased scale of operation in FY22 and consistent PBILDT margin of more than 10% over the years. The rating also considers the established track record of the promoter; Blue Star Limited (BSL; rated CARE AA+; Stable/CARE A1+) with a strong brand recall. BSEEL has pan-India presence with a wide product portfolio/service offerings catering to the industrial and data security solutions segment, strong counterparty with major revenue derived from professional electronics and industrial systems segment (PEIS). PEIS contributes 95% of the income for BSEEL. Total income from operations has consistently grown over the period FY18-FY22 barring FY21 which was impacted due to COVID-19. BSEEL's liquidity profile is comfortable with cash and cash equivalent of ₹15.14 crore as on June 30, 2022. Furthermore, the company has given Inter Corporate Deposit (ICD) of ₹160 crore (as on March 31, 2022) to BSL. These ICDs are recallable at any time by the company. Financial risk profile is strong with absence of long-term debt and minimal reliance on working capital borrowings for operations.

The above rating strengths remain offset by the modest scale of operations and susceptibility to competition, changing technologies and downturns in the end-user industries. Going forward, the ability of the company to ramp up its scale of operations whilst keeping profitability margins intact remains a key rating monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained ramping up of operations beyond ₹400 crore with healthy profitability margin

Negative factors – Factors that could lead to negative rating action/downgrade:

- Significant decline in operating revenue to below ₹200 crore and PBILDT margin below 10% on a sustained basis
- Deterioration in financial risk profile with overall gearing exceeding 0.80x
- Change in strategic importance of the company for the Blue Star group

Detailed description of the key rating drivers

Key rating strengths

Established track record with diversified presence and extensive experience of promoters

BSEEL remains a wholly-owned subsidiary of BSL and contributes around 4-5% to the total consolidated revenues of the latter. BSL is India's leading central air-conditioning and commercial refrigeration company, and its manufacturing facilities are spread across various locations in India. BSL commands leadership position in EMP segment and a very strong footing in room AC product segment. Prior FY21, BSL had provided corporate guarantee (CG) to the bank facilities availed by BSEEL. After BSEEL achieving self-sufficiency in its operations, the CG was withdrawn. However, sharing of the same brand name with 100% shareholding and high economic cost to replace BSEEL provides strong incentive to the holding company to support BSEEL.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Strong sales growth with robust profitability margins
TOI increased by 47% to ₹262 crore in FY22 compared to ₹178 crore in FY21. Barring FY21 which was impacted by COVID-19, the company's sales have consistently grown over the period FY18-FY20. PBILDT margin has been in the range of 10-15% over the period FY18-FY22 with 22.80% in FY20. With increase in competition and the trading nature of business, PBILDT margin is expected to be range bound between 10-12% in the projected years i.e. FY23-FY25.
BSEEL derives major revenue from trading of industrial products and data security solutions along with after-sales service, installation, and maintenance of products. Furthermore, the counterparty of the company has moderate to strong credit profile thus BSEEL is exposed to low risk of funds getting stuck.

Established presence in the industry with strong brand recall
BSEEL was incorporated in 2010 because of business re-structuring exercise of BSL wherein PEIS segment was transferred to BSEEL. Prior to that, BSL has been distributor of professional equipment and services as well as industrial products in India for over six decades. After incorporation, the company has leveraged on the experience of its holding company and scaled up operations in this business. It has moved up the value chain by changing its business model from being merely a distributor to that of a system integrator and value-added reseller.

Strong financial risk profile as reflected by nil debt and comfortable profitability margins
BSEEL has no long-term debt and reliance on working capital borrowings is low as the day-to-day operations are funded through internal accruals. The capital structure of the company is strong with an overall gearing of 0.01x as on March 31, 2022 and TOL/NW of 0.92x as on March 31, 2022. Interest coverage ratio at 69 times exhibits a strong cover. The capital structure is expected to stay strong in the projected period with no term debt and minimal reliance on working capital borrowings.

Key rating weaknesses

Moderate scale of operations, albeit improving
BSEEL has shown consistent improvement in its scale of operations with total income of ₹262 crore in FY22 compared to ₹203 crore in FY18, except for FY21 which was impacted due to covid-19.
The company deals in trading and after-sales service of specialised products and hence the PBILDT margins have been above average. With gradual expansion of product base and diversification efforts, the PBILDT margin has witnessed continuous increase over the period FY18-FY21, however competition and rising input cost impacted PBILDT margin for FY22. Furthermore, debt level has been on lower side resulting in low interest cost.

Susceptibility to competition, changing technologies and downturns in end-user industries
The demand for PEIS segment is dependent on capex in the 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 trading operations. Furthermore, the operations same remain susceptible to external shocks like the COVID-19 as reflected by decline in revenues in FY21 as well as competition prevalent in the trading business due to presence of large unorganised players**.**

Liquidity: Adequate
Liquidity remains adequate marked by cash balance of ₹15.14 crore as on June 30, 2022 (₹19.21 crore as on March 31, 2022) and unutilised working capital limits further augmenting the liquidity profile of the company. The liquidity is further supported by nil repayments in the projected period on account of no long-term borrowings in the company. The current ratio stands at 1.87x and working capital needs is funded through cash accruals leading to minimum reliance on working capital borrowings. The company has given ICD of ₹160 crore to BSL which is recallable anytime by BSEEL.

Analytical approach: Standalone. However, management and operational linkages with BSL are considered

Applicable criteria

Policy on default recognition

Factoring Linkages Parent Sub JV Group

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Wholesale Trading

About the company

Incorporated in 2010, Blue Star Engineering and Electronics Limited (BSEEL) is involved in the distribution and maintenance of imported professional electronics and industrial systems (PEIS) and in the business of providing plumbing and firefighting contracting services, engineering services in the field of refrigerators and air-conditioning, heating, ventilation and renting of properties. The PEIS segment was transferred to BSEEL from its parent company Blue Star Limited (*BSL; rated CARE AA+; Stable/ CARE A1+)* in FY16 as a part of business restructuring and re-alignment plan of Blue Star group. As on June 30, 2022, BSEEL remains a wholly owned subsidiary of BSL. Over the years, the company has moved up the value chain from being merely a distributor to a system integrator and value-added re-seller.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	178.45	262.10	55.90
PBILDT	28.48	33.65	6.84
PAT	23.00	31.52	5.68
Overall gearing (times)	0.00	0.01	-
Interest coverage (times)	29.67	68.75	52.62

A: Audited; UA: Un-Audited
Note: The financials are adjusted as per CARE Standards

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3
Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital limits		-	-	-	100.00	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (15-Jan-20)
2	Fund-based - LT-Term loan	LT	-	-	-	-	-	1)Withdrawn (22-Jan-20)
3	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (15-Jan-20)
4	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (15-Jan-20)
5	Fund-based - LT-Working capital limits	LT	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE AA+ (CE); Negative (07-Jan-21) 2)CARE AA+ (CE); Negative (19-May-20)	1)CARE AA+ (CE); Stable (22-Jan-20)
6	Un Supported Rating-Un Supported rating (Long Term)	LT	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A- (07-Jan-21) 2)CARE A- (19-May-20)	1)CARE A- (22-Jan-20)
7	Fund-based - LT-Working capital limits	LT	100.00	CARE A+; Stable	-	1)CARE A-; Stable (05-Oct-21)	-	-

** Long Term / Short Term*

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not applicable

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Working Capital Limits	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 instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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