Blue Star Limited

July 14, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	3,141.75 (Enhanced from 1,885.00)	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	683.00	CARE A1+	Reaffirmed
Commercial paper	200.00	CARE A1+	Assigned
Commercial paper	500.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the ratings of the bank facilities and instruments of Blue Star Limited (BSL) continues 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. In FY23 (refers to the period April 1 to March 31), the total operating income (TOI) improved by 32% YoY to ₹7,947 crore. This was on the back of strong 39% YoY growth in the UP segment and 26% YoY growth in the EMP segment. Although the UP segment has seen lower-than-anticipated demand in Q1 FY24, especially in the room air conditioner (RAC) segment (around 60% of UP segment) due to unseasonal rains and slowdown seen especially in the northern region; however, CARE Ratings Limited (CARE Ratings) expects the same to be partly offset by the company's highest ever carried forward strong order-book of ₹5,042 crore as on March 31, 2023. CARE Ratings expects, low domestic penetration of air conditioners, increasing urbanisation, rising disposable income along with moderation in CPI inflation, is likely to improve the overall consumption demand gradually in the domestic market, that will support larger sales volumes for the UP segment in the upcoming quarters.

The business continues to be driven by its robust brand recall and higher capacity utilisation seen at the plants. The ratings further consider the healthy carried forward order book position (₹5,042 crore as on March 31, 2023) of BSL with its established relationship with marquee clients providing short to medium-term revenue visibility. CARE Ratings has also positively factored in the commissioning of Phase-I of the Sri City plant (under subsidiary Blue Star Climatech Limited) in Andhra Pradesh, which will enable component manufacturing under the PLI scheme, thus aiding in margin improvement owing to backward integration and reduction in in-bound/out-bound logistics costs (especially for the southern region). The resilience of the business has been indicated during periods of input cost inflation, where-in the company passed on the inflationary pressures to the customers by taking price hikes without any major impact in the market share.

The ratings consider BSL's strong financial flexibility marked by comfortable debt protection metrics (overall gearing reducing to 0.75x as on March 31, 2023, as against 0.90x as on March 31, 2022. The liquidity continues to be strong supported by cash and liquid investments of ₹373 crore as on March 31, 2023, and moderately utilised bank lines providing sufficient cushion in terms of funding requirements.

The above rating strengths are offset by the susceptibility of the business to competition, seasonal variations, changing technologies and downturns in end-user industries. Furthermore, the ratings consider BSL's exposure to challenges in the EMP business resulting in terms of delayed projects which may result in slowing of the order execution rate. Additionally, the business continues to be working capital-intensive, however, comfort is drawn from the fact that most of the working capital is financed through creditors because of back-to-back arrangements as well as advances from the customers.

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

Rating sensitivities

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

- Improvement and sustenance of the PBILDT margin above 10% with increased demand, price hike and cost control measures.
- Total debt to gross cash accruals (TDGCA) below 1.0x.
- Overall gearing below 0.20x on a sustained basis.

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

- Decline in the PBILDT margins from projected levels.
- Overall gearing of more than 1x on a sustained basis.
- Any significant delay in time and cost overruns of the proposed expansion plans of the Sri City, Andhra Pradesh project, resulting into deterioration of capital structure and delay in cash flow generation.
- Deterioration of total debt to PBILDT not more than 2.0x.

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, 2023
Direct subsidiaries		
Blue Star Engineering and Electronics Limited	India	100%
Blue Star Qatar WLL	Qatar	49%*
Blue Star International FZCO	UAE	100%
Blue Star Climatech Limited	India	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 JVs are consolidated by the Equity method (i.e., as a separate line item) to the extent of holding.

Name of JVs	Country of Incorporation	Extent of Shareholding as on March 31, 2023
Blue Star M&E Engineering Sdn Bhd	Malaysia	49%
Blue Star Oman Electro-Mechanical Co. LLC	Oman	51%

Outlook: Stable

The stable outlook reflects the medium-term revenue visibility from the EMP and non-RAC segment on the back of strong orderbook, which is likely to partly offset any slowdown in the RAC segment. Furthermore, the newly commissioned facility at Sri City, will ensure higher volume sales along with significant advantages of backward integration, thereby supporting the revenue growth as well as ensuring stability in profitability margins. The company is expected to sustain its strong financial risk and liquidity profile amidst healthy cash flow generation from the operations.

Detailed description of the key rating drivers:

Key strengths

Strong business risk profile supported by dominant position in commercial AC systems and cooling product business:

BSL is one of the strong players in the consumer durable business, particularly in commercial, RAC systems and across project business in related segments with an established track record of over six decades and demonstrated capabilities in executing projects across project businesses in domestic and international markets. BSL commands a leadership position in ducted AC segment, while #2 position under variant refrigerant flow (VRF) and chiller product segment. As on March 31, 2023, the company has 13.5% market share in RAC alongside extensive distribution network with over 8,000 stores.

Diversified revenue streams with significant contribution from EMP and UP segments:

BSL operates into electro-mechanical projects (EMP), Unitary Products (UP) and professional electronics and industrial systems (PEIS) segment, which contributed 50%, 45% and 4%, respectively, to the consolidated net sales of the company for FY23.

The company's revenue is fairly diversified within each of these segments in terms of products/services offered and geographies. Thus, the 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. The revenue from EMP segment grew by 25% YoY to ₹4,016 crore in FY23 from ₹3,205 crore in FY22 driven by improved private capex activity and pending order execution. This was alongside improved segmental margins at 6.9% in FY23 (vs 6.1% in FY22).
The revenue from the UP segment grew by 39% YoY to ₹3,627 crore in FY23 from ₹2,612 crore in FY22 with strong segmental margins improvement to 7.8% in FY23 (from 6.0% in FY22). The margin expansion was led by price hike in April 2022 and increased volumes with improved demand for RAC and commercial refrigerators. There has been some slowdown in the RAC business (60% of the UP segment) for Q1FY24, which is expected to be partly offset by the demand in the commercial refrigeration business and rebound expected by the company management in the quarters going ahead.

Capex activity to aid revenue growth and operational efficiency going forward:
BSL has operationalised the new manufacturing facility at Sri City, Andhra Pradesh since January 2023 for Phase-I (3 lakh units) with project cost of ₹350 crore without any time overruns and below the estimated costs. This facility is housed in Blue Star Climatech Limited (100% subsidiary of BSL), which sells the products directly to BSL. CARE Ratings notes that the additional phases will not only be restricted to RAC components for domestic market, but also manufacture heating and cooling products for the international market.
Apart from this, the company has installed capacity for making deep freezers with 300-500 ltr capacity. However, with higher demand anticipation for low-capacity deep freezers (below 300 ltrs), the company has been doing capex in this regard at Wada plant which may be completed over next 6-8 months.
Though the project size is quite high at Sri City as compared to its net worth, CARE Ratings draws comfort from the fact that the company will be doing capex only in a phased manner and additional capacity will be installed basis the demand-supply scenario.

Strong order-book position providing short to medium-term revenue visibility:
The major chunk of the order book (around 70%-80%) caters to the EMP segment. The incremental orders during the year were received from data centre players, metro rail, etc. With these, the overall order-book has grown to ₹5,042 crore (55% YoY) providing medium-term revenue visibility.
BSL undertakes orders on the basis of customer creditworthiness and operating cash flow visibility.

	FY19	FY20	FY21	FY22	FY23
Carried forward order book (₹ crore)	2,316	2,947	2,952	3,253	5,042

The orderbook has been well diversified across data centres (10%), offices (17%), hospitals (8%), factory (8%) and various infrastructure projects including metro (22%), railway (14%), airport, water MEP, substations, and power generation/distribution projects.

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 term debt/gross cash accruals (GCA), improved during the year and remained comfortable at 0.75x, 8.68x and 0.9x (as against 0.82x, 7.47x and 1.8x, respectively). The improvement was led by healthy profits strengthening the net worth and debt remaining at similar levels. The financing for the phase-I of the project was done with debt-to-equity ratio of 2:1.

Key weaknesses

Susceptibility to competition, unpredictable climate, changing technologies and downturns in end-user industries:
The demand for EMP 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 operating performance. Furthermore, while BSL continues to maintain leadership position in the EMP segment and strong market position in commercial AC systems, the RAC segment remains susceptible to climatic vagaries like delayed summers and early monsoon. The segment is also characterised by stiff competition, especially in the inverter AC segment and fluctuations in input costs resulting in pricing pressures.
However, CARE ratings draws comfort from the fact that the company has timely passed on some of the input cost inflation to customers in the past without much impact on the market position. Additionally on the industry front, we also positively factor the low penetration of air conditioners in the domestic market and intensifying summers to aid growth for the industry going forward.

Moderate profitability due to presence in price competitive industry
The PBILDT margins have stayed moderate in the 5%-8% range over the past few fiscals. This has been attributed to dependency on import of some key components like compressors (major cost) and copper tubes. The company includes the variability clause (to the extent possible) for the EMP projects; however, this segment needs to be monitored for input cost inflation and order execution rate. On the other hand, the UP segment is susceptible to seasonality and intensive competition resulting in price pressures and moderation of PBILDT margins. However, the government initiative (PLI scheme) to reduce air conditioning component costs may help the industry in localised sourcing of key components. The commissioning of Sri City plant (since January 2023) has enabled BSL to manufacture heat exchangers and sheet metal components at this plant.

Most of the imported raw materials were initially transported from western ports to Himachal Pradesh plant. On the other hand, the customer concentration is high (45%) in the southern region. Hence, with the additional capacity of Sri City, Andhra Pradesh, the in-bound and out-bound logistics cost is expected to reduce. Hence, with the localisation of component manufacturing and reduction in import dependency, CARE Ratings expects the PBILDT margins to rationalise going forward.

Working capital intensive business:
The company's business is working capital intensive by virtue of seasonality of business, viz, RAC wherein the demand is during the summer season and the stocking up of inventory levels begins from December onwards. Furthermore, Q1 and Q4 are the two big quarters for cooling product sales due to the climatic situation in the country. Thus, inventory levels remain elevated in Q4 and Q1 of every financial year.
Additionally, the operations are working capital intensive due to the EPC nature of operations in EMP segment (50%). The same is reflected by high gross current assets days of 183 days (as on March 31, 2023). However, most of the working capital is financed through creditors because of back-to-back arrangements as well as advances from the customers.

Liquidity: Strong
The company's liquidity position remains strong, marked by cash balances and liquid investments of ₹373 crore as on March 31, 2023. In addition, the company has sizeable fund-based facilities aggregating ₹590 crore, which are moderately utilised (average below 10% for past 12-month period ended May 2023), which provides sufficient cushion in terms of liquidity for the company. BSL generally utilised non-fund-based limits with overall utilisation (including both fund/non-fund) at 58% for past 12 months ended May 2023. BSL has repayments aggregating close to ₹227 crore in FY24 and ₹56 crore in FY25, which can be comfortably met through its cash accruals. Out of ₹227 crore of repayment for FY24, ₹175 crore has been repaid on June 1, 2023 and the balance of ₹52 crore can be comfortably repaid from the cash accruals earned in the next few months. The current ratio stands at 1.12x during FY23 and operating cycle of 18 days negates any substantial requirement of working capital in the projected years.

Assumptions/Covenants Not applicable

Environment, social, and governance (ESG) risks

	Risk factors
Environmental*	**Carbon emission:** During FY22, carbon emission reduced by 84,600 kgCO/kWh and 17.41 T of CO2/kWh at Wada plant and Dadra plant, respectively. **Energy conservation:** Reductions in energy usage resulted in cost savings of around ₹21 lakh, by reducing contract demand, solar power installation (1MW) and upgrading to high-capacity compressors.
Social	**Employee satisfaction** Great place to work index at 81 in FY23 (vs 75 in FY19). **Gender diversity** Gender diversity low (9% females), however the same is at par with industry averages. Reason being due to manufacturing intensive operations.
Governance	**Adequate board independence:** Majority of the board (more than 50%) comprises independent directors including independent chairman (Shailesh Haribhakti).

*Note that this is the latest data available

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Consumer Durables	Consumer Durables	Household Appliances

Blue Star Limited (BSL) was established in 1943 by late Mohan T Advani. The company is India's leading central AC and commercial refrigeration company, and its manufacturing facilities are spread across various locations in India, including Ahmedabad, Dadra, Wada, Himachal Pradesh, Sri City, Andhra 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 50%, 45% and 4%, respectively, to the consolidated net sales of the company in FY23, respectively. It has presence in 18 international markets in the Middle East, Africa, SAARC and ASEAN regions through its product distribution business and joint venture companies.

Brief Financials -Consolidated (₹ crore)	FY2022 (A)	FY2023 (Abr.)	Q4FY2023 (UA)
Total operating income	6,020.04	7,947.18	2,630.48
PBILDT	321.56	474.73	-
PAT	167.97	400.69	225.29
Overall gearing (times)	0.90	0.75	-
Interest coverage (times)	6.93	8.68	19.81

A: Audited, UA: Unaudited Abr: Abridged; Note: the above results are latest financial results available and have been prepared as per CARE Ratings' Standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE Ratings Ltd: Not applicable

Disclosure of Interest of Managing Director & CEO: Not applicable

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: Annexure-4

Lender details: Annexure-5

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
Commercial Paper-Commercial Paper (Standalone)*	INE472A14NE1	15-06-2023	7.21%	13-09-2023	100.00	CARE A1+
	INE472A14NF8	27-06-2023	7.11%	25-09-2023	50.00	
	INE472A14NC5	10-05-2023	7.25%	07-08-2023	100.00	
	INE472A14ND3	31-05-2023	7.15%	29-08-2023	100.00	
	Not yet placed	-	-	-	350.00	
Fund-based - LT-Cash Credit		-	-	-	100.00	CARE AA+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	3141.75	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	683.00	CARE A1+

*Details for outstanding amount as on June 30, 2023

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 2023-2024	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
1	Fund-based - LT-Cash Credit	LT	100.00	CARE AA+; Stable	1)CARE AA+; Stable (28-Jun-23)	1)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Negative (07-Oct-21)	1)CARE AA+; Negative (07-Jan-21) 2)CARE AA+; Negative (18-May-20)
2	Non-fund-based - ST-BG/LC	ST	683.00	CARE A1+	1)CARE A1+ (28-Jun-23)	1)CARE A1+ (29-Jun-22)	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (18-May-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (28-Jun-23)	1)CARE A1+ (29-Jun-22)	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (18-May-20)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	3141.75	CARE AA+;	1)CARE AA+; Stable	1)CARE AA+;	1)CARE AA+;	1)CARE AA+;

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	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
				Stable / CARE A1+	/ CARE A1+ (28-Jun-23)	Stable / CARE A1+ (29-Jun-22)	Negative / CARE A1+ (07-Oct-21)	Negative / CARE A1+ (07-Jan-21) 2)CARE AA+; Negative / CARE A1+ (18-May-20)
5	Debentures-Non Convertible Debentures	LT	-	-	1)Withdrawn (28-Jun-23)	1)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Negative (07-Oct-21)	1)CARE AA+; Negative (07-Jan-21) 2)CARE AA+; Negative (01-Jun-20) 3)Provisional CARE AA+; Negative (18-May-20)
6	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based/Non-fund-based-LT/ST	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in