

## Blue Star Engineering & Electronics Limited

October 09, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	150.00 (Enhanced from 100.00)	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The reaffirmation in the rating of Blue Star Engineering & Electronics Limited (BSEEL) considers the strong business risk profile of the company aided by continuous scaling of operations over the period FY21 - FY23 and consistent profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of more than 10% over the years. The company reported a 32% growth in the total operating income (TOI) in FY23 with increased sales of industrial and medtech equipment. 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 primarily to the industrial, medical equipment and data security solutions segment with low counterparty risk (reputed customers). The data security business has grown moderately and is expected to have stable demand on the back of strong needs for HSM systems (e.g., PIN generation systems) from Banking, Financial Services and Insurance (BFSI) customers. The medical equipment segment is expected to grow on the back of newly commissioned refurbishment facility started by the company. CARE Ratings Limited (CARE Ratings) expects this segment to grow owing to supply shortfall of low-cost refurbished MRI/CT scan machines in India. The industrial solutions segment which focuses on providing customised testing machines has gained positive momentum on the back of revival in the capex cycle by the customers (mostly metals, pipes, oil & gas companies). BSEEL's liquidity profile is comfortable with cash and liquid investments of ₹37.41 crore as on June 30, 2023. Furthermore, the company has given inter corporate deposit (ICD) of ₹155 crore (as on March 31, 2023) to BSL. These ICDs are callable at any time by the company. The 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: Factors likely to lead to rating actions

#### Positive factors

- Sustained ramping-up of operations beyond ₹600 crore with profitability margins at 15% and above.

#### Negative factors

- Significant decline in operating revenue to below ₹350 crore and PBILDT margin below 10% on a sustained basis.
- Deterioration in the financial risk profile with overall gearing exceeding 0.80x.
- Change in strategic importance of the company for the Blue Star group.

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

### Outlook: Stable

CARE Ratings expects the business risk profile to remain strong going ahead with stable operations and strong profitability margins to generate adequate cash accruals for the company. The financial and liquidity profiles of the company are comfortable with absence of long-term debt and capex plans and strong parentage of BSL.

### Detailed description of the key rating drivers:

#### Key strengths

#### Strong sales growth alongside adequate profitability

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

The TOI increased by 32% to ₹346 crore in FY23 compared with ₹262 crore in FY22. The sales have grown at a compounded annual growth rate (CAGR) of 39.3% for FY21-23. BSEEL derives major revenue from trading of industrial products and data security solutions along with after-sales service, installation, and maintenance of products. The company has maintained PBILDT margins in 12-14% range and expected to remain in this range going ahead. Furthermore, the counterparty of the company has moderate to strong credit profile, which exposes BSEEL to low counterparty risk. The industrial equipment business (which contributes around 48% of the overall business) has climbed 37% YoY and is expected to improve further due to the new sub-division of warehouse automation. Under this sub-division, the company will be responsible for improving the inventory management and warehouse space optimisation for their customers (currently at pilot stage). Under Medtech segment, the addition of refurbishment facility to aid refurbished medtech equipment sales which are in high demand due to affordability constraints in some of the hospitals across India. Additionally, the company receives annual maintenance contracts from customers, which is nearly 10% of the total income.

#### **Established presence in the industry with strong brand recall and reputed client base**

BSEEL was incorporated in 2010 because of business re-structuring exercise of BSL wherein the 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. Over time, the company has moved up the value chain from being merely a distributor to that of a system integrator and value-added reseller. The company's strength lies in leveraging the existing relationships of its parent and PAN-India presence (32+ offices) and trusted brand value, to market the right customer base with appropriate value proposition. This is in addition to adequate team of technology professionals which resolves product-related issues. The company also benefits from combined bidding where-in some of the projects are jointly undertaken with the parent (BSL). The customer concentration is moderate with 27% revenues from top five customers, and the company has a wide customer base catering to most of the major banks (for digital services), and steel/pipe/oil & gas companies (for industrial products).

#### **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 0.00x as on March 31, 2023 and total outside liabilities (TOL)/tangible net worth (TNW) of 0.95x as on March 31, 2023. Interest coverage ratio at 57x exhibits a strong cover. CARE Ratings expects the capital structure to stay strong in the projected period with no term debt and minimal reliance on working capital borrowings.

#### **Key weaknesses**

##### **Susceptibility to competition, changing technologies and downturns in end-user industries**

The demand for PEIS segment is dependent on the 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 remain susceptible to competition from other such distributors of global products. However, the company has competitive advantage in terms of the service experience (required for such equipment), PAN India presence as well as warehouse network at the end of the parent- BSL.

##### **Commodity price risk and forex exposure**

The company is exposed to the foreign currency fluctuation risk due to imports of the traded products from mainly North America, Japan and Europe. Some of the financial risk due to this is being mitigated by adequate hedging policy by using forward and option contracts. On the other hand, the company is exposed to the commodity price risk for raw materials like liquid helium which is imported. The company manages this risk by entering annual rate contracts with major suppliers. However, some fluctuation in margins can be observed during wide price inflation in commodity prices.

#### **Liquidity: Strong**

The liquidity is strong marked by cash and liquid investments of ₹39.78 crore as on June 30, 2023 (₹37.41 crore as on March 31, 2023) 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 2.11x (as on June 30, 2023) and working capital needs is funded through cash accruals leading to minimum reliance on working capital borrowings. The company has given ICD of ₹155 crore to BSL which is recallable anytime by BSEEL.

#### **Assumptions/Covenants** Not applicable

#### **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](#)

[Short Term Instruments](#)

[Wholesale Trading](#)  
[Policy on Withdrawal of Ratings](#)

## About the company and industry

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Services	Services	Commercial Services & Supplies	Trading & Distributors

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 the Blue Star group. As on June 30, 2023, 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)	FY2022 (A)	FY2023 (A)	Q1FY24 (UA)
Total operating income	262.10	346.01	83.78
PBILDT	33.65	44.37	12.93
PAT	31.52	40.27	8.94
Overall gearing (times)	0.01	0.00	-
Interest coverage (times)	68.75	57.03	58.77

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** 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
Fund-based/Non-fund-based-Long term		-	-	-	150.00	CARE A+; Stable

\*Reclassified from fund based to fund/non-fund based limits.

**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-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)
2	Unsupported rating-Unsupported rating (Long term)	LT	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A- (07-Jan-21) 2)CARE A- (19-May-20)
3	Fund-based/Non-fund-based-Long term	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)	-

**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	Fund-based/Non-fund-based-Long term	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](mailto:care@careedge.in) for any clarifications.

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### About us:

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### Disclaimer:

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