

Blue Star Engineering & Electronics Limited

October 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	150.00	CARE A+; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating of Blue Star Engineering & Electronics Limited (BSEEL) considers the company's strong business risk profile aided by continuous scaling of operations over FY21-FY24 and consistent profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of over 10% over the years. The company reported a 9% growth in total operating income (TOI) in FY24 with increased sales of industrial and medtech equipments. 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 the industrial, medical equipment and data security solutions segment with low counterparty risk (reputed customers). Data security business has grown moderately and is expected to have stable demand, considering strong needs for HSM systems (for example: PIN generation systems) from BFSI customers. The medical equipment segment is expected to grow with increased demand for low-cost refurbished MRI/CT scan machines in India. The industrial solutions segment which focuses on providing customised testing machines gained positive momentum, considering revival in the capex cycle by customers (mostly metals, pipes, oil and gas companies). BSEEL's liquidity profile is comfortable with cash and liquid investments of ₹151.5 crore as on June 30, 2024. Furthermore, the company has given Inter Corporate Deposit (ICD) of ₹120 crore (as on March 31, 2024) to BSL. These ICDs are callable 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 company's ability 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 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 from operations for the company. The company's financial and liquidity profile is comfortable with absence of long-term debt and capex plans and strong parentage of BSL.

Detailed description of key rating drivers:

Key strengths

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

Strong sales growth alongside adequate profitability

TOI increased by 9% to ₹377 crore in FY24 compared to ₹346 crore in FY23. Sales have grown at compound annual growth rate (CAGR) of 28% for FY21-24. BSEEL derives major revenue from trading industrial products and data security solutions and after-sales service, installation, and maintenance of products. The company has maintained its profitability with PBILDT margins in 12-13% range and expected to remain in this range going ahead. Furthermore, the company's counterparty has moderate to strong credit profile thus BSEEL is exposed to low counterparty risk. The industrial equipment business (which contributes ~53.8% of the overall business) climbed 26% Y-o-Y 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. Under Medtech segment, improved demand for refurbished medtech equipment sales due to affordability constraints in some hospitals across India. Product sales constitute 70% of the revenue and balance 30% is from services, which includes installation and maintenance contracts.

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 PEIS segment was transferred to BSEEL. Prior to that, BSL has been distributor of professional equipment and services and 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 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 some projects are jointly undertaken with the parent (BSL). Customer concentration is moderate with 23% revenues from top 10 customers, the company has a wide customer base catering most major banks (for digital services), Steel/Pipe/Oil and 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 company's capital structure is strong with an overall gearing of 0.00x as on March 31, 2024, and total outside liability to total net worth (TOL/TNW) of 0.72x as on March 31, 2024. Interest coverage ratio at 62.16x exhibits a strong cover. Capital structure is expected 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

Demand for PEIS segment depends on capex in the end-user industries, which are co-related to macro-economic environment. Consequently, in downturns, amount of capex reduces which can lead to lower order inflows impacting trading operations. Furthermore, operations remain susceptible to competition from other such distributors of global products. However, the company has competitive advantage in terms of service experience (required for such equipment), PAN India presence and warehouse network at the end of the parent- BSL.

Commodity price risk and orex exposure

The company is exposed to foreign currency fluctuation risk due to imports of 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 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 in wide price inflation in commodity prices.

Liquidity: Strong

Liquidity remains adequate marked by cash and liquid investments of ₹151.5 crore as on June 30, 2024, (₹84.90 crore as on March 30, 2023) and unutilised working capital limits further augmenting the company's liquidity profile. The liquidity is further supported by nil repayments in the projected period considering no long-term borrowings in the company. Current ratio stands at 2.16x (as on March 31, 2024) and working capital needs is funded through cash accruals leading to minimum reliance on working capital borrowings.

Assumptions/Covenants Not applicable

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Wholesale Trading](#)

[Factoring Linkages Parent Sub JV Group](#)

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Services	Services	Commercial services and supplies	Trading and distributors

Incorporated in 2010, BSEEL is involved in distribution and maintenance of imported PEIS and in providing plumbing and firefighting contracting services, engineering services in the field of refrigerators and air-conditioning, heating, ventilation and renting of properties. 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, 2024, 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)	FY2023(A)	FY2024(A)	Q1FY25 (UA)
Total operating income	346.01	377.68	97.78
PBILDT	44.37	47.52	9.37
PAT	40.27	46.35	9.38
Overall gearing (times)	0.00	0.00	-
Interest coverage (times)	53.62	62.16	85

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-Long Term		-	-	-	150.00	CARE A+; Stable

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Working Capital Limits	LT	-	-	-	-	-	1)Withdrawn (05-Oct-21)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	-	1)Withdrawn (05-Oct-21)
3	Fund-based/Non-fund-based-Long Term	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (09-Oct-23)	1)CARE A+; Stable (07-Oct-22)	1)CARE A-; Stable (05-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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