Blue Star Limited (Revised)

November 27, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	84.50	CARE AA+; Stable	Reaffirmed
Long-term / Short-term bank facilities	3,141.75	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	627.00	CARE A1+	Reaffirmed
Commercial paper	500.00	CARE A1+	Reaffirmed
Commercial paper	200.00	CARE A1+	Reaffirmed
Commercial paper	300.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the commercial paper (CP) issue and reaffirmation of ratings assigned to the bank facilities and instruments of Blue Star Limited (BSL) continue to derive strength from the company's strong business risk profile, which is supported by having a leading position in the domestic Electromechanical Project Segment (EMP), while continuing to significantly consolidate its position in the Unitary Product (UP) segment as well. In the past several years, BSL has undertaken substantial investments in both capex and research & development activities, which has resulted in further strengthening of the business risk profile through diversification of its product across different categories and segments. In FY24 (refers to April 01 to March 31), the total operating income (TOI) improved by 21% y-o-y to ₹9,632 crore. This was on the back of strong ~27% y-o-y growth in the UP segment and 17% y-o-y growth in the EMP segment.
The business continues to be driven by its robust brand recall and strong order book position (of ~₹5,697 crore as on March 31, 2024) aligning with the established relationship with marquee clients, which provides short-to-medium-term revenue visibility. CARE Ratings Limited (CARE Ratings) believes the company shall be able to report healthy operating performance on the back of its existing order book position and improving capacity utilisation level at its plant. CARE Ratings positively factors the progress at the Sri City plant, while also continues to monitor the future capex activities across different plants, lined-up over the next 2-3 years (yearly capex of ~₹250-300 crore).

CARE Ratings has also positively considered the funds raised through the qualified institutional placement (QIP) route amounting to ₹1000 crore, which has largely been utilised towards debt repayment/pre-payment of both the parent and its subsidiaries and partially towards funding its capex and general corporate requirements. The ratings further derive comfort from BSL's strong financial flexibility emanating through comfortable debt protection metrics and strong liquidity position. As on March 31, 2024, BSL's overall gearing has improved to 0.37x (against 0.75x as on March 31, 2023) with cash and liquid investments of around ₹626 crore.

In H1FY25, BSL reported TOI of ₹5,141 crore and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of 7.53%. The EMP and UP segments contributed 49% and 48%, respectively, to the revenue, while the balance 3% was from professional electronics and industrial systems (PEIS) segment. The company has an outstanding order book of ₹6,598 crore under EMP segment with nearly the entire order book from the domestic market. The capital structure is comfortable with overall gearing at 0.23x and cash & cash equivalent of ₹436 crore as on September 30, 2024.

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 and advances from the customers.

The company's, profitability margins though has witnessed improvement, remained at ~7% due to reliance on imported key components and price competition. However, CARE Ratings expects, with further indigenisation of products, enhanced localised sourcing and reducing logistics costs, and the government's PLI scheme are expected to improve margins going ahead.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement and sustenance of the PBILDT margin above 9% with increased demand, price hike, and cost control measures.
- Total debt to gross cash accruals (TDGCA) below 1.0x on a sustained basis.
- Overall gearing below 0.20x on a sustained basis.

Negative factors

- Decline in PBILDT margins from projected levels.
- Overall gearing of more than 1x on a sustained basis.
- Deterioration of total debt/PBILDT to more than 2.0x on a sustained basis.

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 mentioned in Annexure 6.

Outlook: Stable
The stable outlook reflects the medium-term revenue visibility from the EMP and non-RAC segment on the back of strong orderbook position, which is likely to partly offset any slowdown in the RAC segment. Furthermore, the recently 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 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, room air conditioner (RAC) systems and across projects 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. According to the company management, BSL commands a leadership position in ducted AC segment and scroll chillers, #2 position under variant refrigerant flow (VRF) and screw chiller product segment and as on March 31, 2024, the company has 13.75% market share in RAC and 35% market share in commercial refrigeration alongside extensive distribution network with over 8,800 stores across over 650 locations.

Diversified revenue streams with significant contribution from EMP and UP segments
BSL operates into EMP, UP and PEIS segment, which contributed 49%, 47% and 4%, respectively, to the consolidated net sales of the company for FY24. 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.

The revenue from EMP segment grew by 17.4% y-o-y to ₹4,715.5 crore in FY24 from ₹4,015.6 crore in FY23, driven by improved private capex activity and strong demand from manufacturing, data centres and infrastructure segments, with improved margins and healthy order book. This was alongside improved segmental margins at 7.2% in FY24 (vs 6.9% in FY23).

The revenue from the UP segment grew by 26.6% YoY to ₹4,592.2 crore in FY24 from ₹3,626.9 crore in FY23 with strong pent-up demand and the onset of early summers, and an improvement in the consumer sentiments, driven by strong demand from Southern region. The segmental margins stood at 7.8% in FY24 (vs. 7.8% in FY23). The number of ACs per household has been increasing due to increasing intensity of heat wave, global warming and brands have already introduced a new lineup with smart features such as IoT, energy-efficient models with low operational cost, hygiene features and increasing consumer finance accessibility which could give a boost to demand.

In H1FY25, BSL reported TOI of ₹5,141 crore and PBILDT margin of 7.53%. The EMP and UP segments contributed 49% and 48%, respectively, to the revenue, while the balance 3% was from PEIS segment.

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 (3.48 lakh units) with project cost of ~₹350 crore without 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. The facility at Sri City is modular and capable to reach a capacity of ~1.2 million units Apart from this, the company has installed capacity for making deep freezers with 300-

500 ltrs capacity. However, with higher demand anticipation for low-capacity deep freezers (below 300 ltrs), the company has been doing capex for sub-300 (from 60 to 200 litres) litre deep freezers at Wada plant. Overall, the company has plans to continue to invest in manufacturing and R&D capabilities thus estimate to incur capex of ~₹300-400 crore in the current financial year.

Strong order-book position providing short-to-medium-term revenue visibility
The overall order-book has grown to ₹5,697 crore (12% y-o-y) providing medium-term revenue visibility. The major chunk of the order book (~76%) caters to the EMP segment. BSL undertakes orders based on customer creditworthiness and operating cash flow visibility, having a strong customer profile.

	FY19	FY20	FY21	FY22	FY23	FY24
Carried forward order book (₹crore)	2,316	2,947	2,952	3,253	5,073	5,697

The orderbook has been well diversified across offices (17.60%), water MEP projects (14.00%), metro rail (15.60%), hospitals (7.00%), industrial/factory (15.10%), data centres (7.90%), warehouses (0.50%), airports (2.80%), malls (4.20%), mixed-use development (0.70%), railways (8.20%), hotels (1.30%), and substations (4.70%). As on September 30, 2024, the company has an outstanding order book of ₹6,598 crore under EMP segment with nearly the entire order book from the domestic market.

Strong financial risk profile as reflected by high scale of operations and, comfortable debt protection metrics
Overall gearing (including LC acceptances) has improved to 0.37x on March 31, 2024 (vs 0.75x in March 31, 2023). Term loan totalling ₹162 crore obtained for setting up plant in Sri City have been repaid in October 2023 using QIP issue proceeds and NCDs amounting to ₹175 crore were repaid in June 2023, through internal accruals.
Interest coverage ratio improved from 8.68x in FY23 to 10.59x in FY24. This improvement is primarily attributed to enhancement in earnings before interest, taxation, depreciation, and amortisation (EBITDA) margins, and the strategic closure of long-term debt, thus reflecting strengthened ability to meet its interest obligations, showcasing its operational efficiency.

Key weaknesses
Susceptibility to competition, unpredictable climate, changing technologies and downturns in end-user industries
The demand for EMP segment depends on capex in the end-user industries, which are co-related to the macro-economic environment. Consequently, in downturns, the amount of capex reduces which can lead to lower order inflows impacting operating performance. 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, heat waves, 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, CARE Ratings also positively factors 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 5-7% range over the past few fiscals. 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. Further capex is projected to be made for Sri City plant. With the additional capacity of Sri City, Andhra Pradesh, 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.
The PEIS segment, encompassing MedTech Solutions, Data Security Solutions, and Industrial Solutions, is currently facing margin pressures. This downward trend is attributed to persistent challenges within the data security business, driven by a notable consumer shift towards cloud storage solutions as opposed to traditional on-premises IT infrastructure.

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 176 days (as on March 31, 2024). However, most of the working capital is financed through creditors because of back-to-back arrangements and advances from the customers.

Liquidity: Strong
The company's liquidity position remains strong, marked by cash balances and liquid investments of ₹626.3 crore as on March 31, 2024. In addition, the company has sizeable fund-based facilities (including interchangeable limits) aggregating ₹595 crore, which are moderately utilised (average 7.8% for past 12 months period ended May 2024). Both BSL and BSCL hardly utilised fund-based limits and generally utilised non-fund limits, which provides sufficient cushion in terms of liquidity for both companies. The current ratio stands at 1.3x in FY24 and operating cycle of 23 days negates any substantial requirement of working capital in the projected years.

Environment, social, and governance (ESG) risks:

Parameters	Risk factors
Environmental*	**Carbon emission:** Carbon emission has reduced by: • 84,600 kgCO/kWh at Wada plant after installation of 1.0-MW Solar system. • 17.41 T of CO2/kWh at Dadra plant after stoppage of use of lower capacity compressor. **Energy conservation:** Reductions in energy usage resulted in cost savings of ~₹18 lakh in FY23 and indirect saving of ₹10.5 lakh per annum and reduced carbon emission, by reducing contract demand, solar power installation (1 MW) and upgrading to high-capacity compressors. Renewable energy usage as a percentage of total energy used was 6.6% in FY23 (FY22: 5.7%).
Social	**Employee satisfaction** Great place to work index at 81 in FY23. **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:** 50% of the board comprises independent directors.

*Note: This is the latest available data.

Applicable criteria

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

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Consumer discretionary	Consumer durables	Consumer durables	Household appliances

BSL was established in 1943 by the late Mohan T Advani. The company is India's leading central air-conditioning and commercial refrigeration company, and its manufacturing facilities are spread across locations in India including Ahmedabad, Dadra, Wada, and Himachal Pradesh. The company's operations can be classified into three segments, EMP and Packaged Air Conditioning Systems (Segment -I), UP (Segment- II) and PEIS (Segment -III) each contributing, respectively, 49%, 47%, and 4%, respectively, to the company's consolidated net sales in FY24. It has presence in 18 international markets in the Middle East, Africa, SAARC, and ASEAN regions through its product distribution business and JV companies.

Brief Financials (₹ crore) (Consolidated)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	7,947	9,632	5,141
PBILDT	475	615	387
PAT	401	414	265
Overall gearing (times)	0.75	0.37	0.23
Interest coverage (times)	8.68	10.59	28.00

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
Detailed explanation of 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
Commercial paper (Standalone)*	INE472A14NT9	28/08/2024	7.25	24/02/2025	100.00	CARE A1+
Commercial paper (Standalone)*	INE472A14NU7	24/09/2024	7.35	23/12/2024	100.00	CARE A1+
Commercial paper (Standalone)*	INE472A14NV5	14/10/2024	7.14	26/12/2024	50.00	CARE A1+
Commercial paper (Standalone)*	INE472A14NW3	14/10/2024	7.20	10/01/2025	100.00	CARE A1+
Commercial paper (Standalone)*	INE472A14NY9	24/10/2024	7.42	12/03/2025	50.00	CARE A1+
Commercial paper (Standalone)*	INE472A14NX1	24/10/2024	7.29	20/01/2025	100.00	CARE A1+
Commercial paper (Standalone)	Proposed	-	-	7-365 days	200.00	CARE A1+
Commercial paper (Standalone)	Proposed	-	-	7-365 days	300.00	CARE A1+
Fund-based - LT-Cash credit		-	-	-	84.50	CARE AA+; Stable

Fund-based/Non-fund-based-LT/ST		-	-	-	3141.75	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	627.00	CARE A1+

*As on October 30, 2024

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 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-Cash Credit	LT	84.50	CARE AA+; Stable	1)CARE AA+; Stable (11-Jul-24)	1)CARE AA+; Stable (14-Jul-23) 2)CARE AA+; Stable (28-Jun-23)	1)CARE AA+; Stable (29-Jun-22)	1)CARE AA+; Negative (07-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	627.00	CARE A1+	1)CARE A1+ (11-Jul-24)	1)CARE A1+ (14-Jul-23) 2)CARE A1+ (28-Jun-23)	1)CARE A1+ (29-Jun-22)	1)CARE A1+ (07-Oct-21)
3	Commercial Paper-Commercial Paper (Standalone)	ST	500.00	CARE A1+	1)CARE A1+ (11-Jul-24)	1)CARE A1+ (14-Jul-23) 2)CARE A1+ (28-Jun-23)	1)CARE A1+ (29-Jun-22)	1)CARE A1+ (07-Oct-21)
4	Fund-based/Non-fund-based-LT/ST	LT/ST	3141.75	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (11-Jul-24)	1)CARE AA+; Stable / CARE A1+ (14-Jul-23) 2)CARE AA+; Stable / CARE A1+ (28-Jun-23)	1)CARE AA+; Stable / CARE A1+ (29-Jun-22)	1)CARE AA+; Negative / CARE A1+ (07-Oct-21)
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)
6	Commercial Paper-Commercial Paper (Standalone)	ST	200.00	CARE A1+	1)CARE A1+ (11-Jul-24)	1)CARE A1+ (14-Jul-23)	-	-
7	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+				

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

Annexure-6: List of entities consolidated:

<table>
<tr><th>Sr No</th><th>Name of the entity</th><th>Extent of consolidation</th><th>Rationale for consolidation</th></tr>
<tr><td>1</td><td>Blue Star Engineering and Electronics Limited</td><td>Full</td><td rowspan="12">Strong operational and financial linkages between the entities</td></tr>
<tr><td>2</td><td>Blue Star Qatar WLL</td><td>Full</td></tr>
<tr><td>3</td><td>Blue Star International FZCO</td><td>Full</td></tr>
<tr><td>4</td><td>Blue Star Climatech Limited</td><td>Full</td></tr>
<tr><td>5</td><td>Blue Star North America Inc.</td><td>Full</td></tr>
<tr><td>6</td><td>Blue Star Innovation Japan LLC</td><td>Full</td></tr>
<tr><td>7</td><td>Blue Star Europe B.V.</td><td>Full</td></tr>
<tr><td>8</td><td>Blue Star Systems and Solutions LLC</td><td>Full</td></tr>
<tr><td>9</td><td>BSL AC&R (Singapore) Pte Limited</td><td>Full</td></tr>
<tr><td>10</td><td>Blue Star Air Conditioning & Refrigeration (U) Limited</td><td>Full</td></tr>
<tr><td>11</td><td>Blue Star M&E Engineering Sdn Bhd</td><td>Proportionate</td></tr>
<tr><td>12</td><td>Blue Star Oman Electro-Mechanical Co. LLC</td><td>Proportionate</td></tr>
</table>

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.

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