Blue Star Limited

June 29, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	100.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Long-term / Short-term bank facilities	1,960.00 (Enhanced from 1,600.00)	CARE AA+; Stable / CARE A1+ (Double A Plus; Outlook: Stable/ A One Plus)	Reaffirmed; Outlook revised from Negative
Short-term bank facilities	608.00	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**2,668.00 (₹ Two thousand six hundred sixty-eight crore only)**		
Non-convertible debentures	175.00 (Reduced from 350.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed; Outlook revised from Negative
Total long-term instruments	**175.00 (₹ One hundred seventy-five crore only)**		
Commercial paper	500.00	CARE A1+ (A One Plus)	Reaffirmed
Total short-term instruments	**500.00 (₹ Five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings reaffirmation of the bank facilities and instruments of Blue Star Limited (BSL) continue 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. The ratings consider BSL's strong financial flexibility marked by large scale of operations, comfortable debt protection metrics and strong liquidity position. The business continues to be driven by its robust brand recall and prudent management policies to optimise cost structure and targeting of mass premium product segment to drive sales and margins. The ratings further consider the healthy carried forward order book position of BSL with its established relationship with marquee clients providing short to medium-term revenue visibility. CARE Ratings Limited (CARE Ratings) notes that BSL's foray into air-conditioning (AC) and component manufacturing under Production Linked Scheme (PLI scheme) through its wholly-owned subsidiary – Blue Star Climatech Limited is expected to aid margin improvement with savings in logistics and raw material cost.

The above rating strengths are offset by the susceptibility of the business to competition, climatic vagaries, changing technologies and downturns in end-user industries. Furthermore, the ratings consider BSL's exposure to challenges in terms of moderate profitability margins in the UP segment relative to industry and its working capital intensive operations.

In FY22 (refers to the period April 1 to March 31), the total operating income (TOI) improved by 42% to ₹6,045 crore and the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin improved with increase in the volumes and three price hikes taken by the company in FY22 (April 2022, July 2022 and October 2022) improving the base price for FY22; however, due to rising input cost, the impact of price hike was partly negated. Q1FY23 and Q2FY23 is expected to be good with start of heat wave as early in February 2022 and pent-up demand of last two summers and revival in the infrastructure and construction projects. The EMP segment is supported by a healthy order book of ₹2,295 crore as on March 31, 2022. The company repaid ₹175 crore of non-convertible debentures (NCD) on May 31, 2022, by exercising call option, and the balance ₹175 crore will be repaid in June 2023. The liquidity continues to be strong supported by cash and cash equivalents of ₹356 crore as on June 01, 2022, and moderately utilised bank lines providing sufficient flexibility. The possibility of any further waves and associated restrictions and its impact on the consumer spending will continue to remain a key rating monitorable.

Outlook: Changed from 'Negative' to 'Stable'. The revision in the rating outlook factors in the expectation that BSL will continue to benefit from its strong brand visibility and strong market position in the EMP segment.

[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 delay in commissioning of the Sri City, Andhra Pradesh project, resulting into time and cost overruns and delay in cash flow generation.
- Deterioration of total outside liabilities to net-worth more than 3.5x.

Detailed description of key rating drivers:
Key rating 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 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. As on March 31, 2022, BSL commands a leadership position in ducted AC segment, #2 position under variant refrigerant flow (VRF) and chiller product segment. As on March 31, 2022, the company has 13.25% market share in RAC and 29% in refrigeration product segment.

Diversified revenue streams with significant contribution from EMP and UP segments: BSL operates into EMP, UP and professional electronics and industrial systems (PEIS) segment, which contributed 53%, 43% and 4%, respectively, to the consolidated net sales of the company for FY22. 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 44% to ₹3,195 crore in FY22 from ₹2,219 crore in FY21 and a growth of 13% from FY20 (₹2,827 crore) driven by revival of the construction cycle and improved pace of execution; thereby contributing 53% to the total sales for FY22. The profit before interest and tax (PBIT) margin of the segment has improved q-o-q to 6.68% in Q4FY22 from 3.96% in Q1FY22.

The revenue from the UP segment grew by 39% to ₹2,604 crore in FY22 from ₹1,868 crore in FY21 and a growth of 13% from FY20 (₹2,300 crore). Strong pent-up demand coupled with the onset of early summers, and an improvement in the consumer sentiments enabled good growth in the revenue for the RAC business. The PBIT margin of the segment improved q-o-q to 6.97% in Q4FY22 from 4.31% in Q1FY22. The company had undertaken three price hikes in April 2021, July 2021 and October 2021 due to rising raw material cost and freight cost. The margin expansion was led by price hike and increased volumes with improved demand for RAC and refrigerators.

Capex activity being executed under Blue Star Climatech Limited to aid margin improvement going forward: BSL is setting up a new manufacturing facility in Sri City, Andhra Pradesh, wherein it would manufacture components for RAC (split type) with an investment outlay of ₹388 crore towards phase-I funded through debt of ₹300 crore. This facility would be in BSL's newly incorporated 100% subsidiary, Blue Star Climatech Limited. The commercial production is expected to begin from Q3FY23 and is expected to improve the profitability margins with savings in the logistics cost and raw material cost. The company will also reduce its delivery time to the southern states of India, thereby increasing their presence further (currently 35%-40% of the revenue comes from southern region). Furthermore, benefits under the PLI scheme are expected to start from FY24.

Strong order-book position providing short to medium-term revenue visibility: BSL's confirmed order book position stands at ₹3,253 crore as on March 31, 2022, up from ₹2,952 crore as on March 31, 2021, largely driven by EMP segment providing short to medium-term revenue visibility for the company. The major chunk of the order book (around 70%-75%) caters to the EMP segment. BSL undertakes orders on the basis of customer creditworthiness and operating cash flow visibility. The above stated approach has not resulted in any moderation in the carried forward order book of the company.

	FY18	FY19	FY20	FY21	FY22
Carried forward order book (₹ crore)	1,901	2,316	2,947	2,952	3,253

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 TDGCA, improved during the year and remained comfortable at 0.82x, 7.47x and 2.94x, respectively. The improvement was led by healthy profits strengthening the net worth and debt remaining at similar levels.

Key rating weaknesses

Susceptibility to competition, climatic vagaries, 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 same remains susceptible to climatic vagaries as well as external shocks like the COVID-19 as reflected by decline in the revenues in FY21. The segment is also characterised by stiff competition, especially in the inverter AC segment and rising input costs, the segment remains susceptible to pricing pressures. The ability of the company to timely pass on such rise to the final customer and liquidate inventory at acceptable margin levels, while maintaining its leadership position remains key monitorable.

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 northern parts of the country. Thus, inventory levels remain elevated in Q4 and Q1 of every financial year. Additionally, to tackle the high lead time of products/certain key raw materials, the company needs to maintain adequate stock of raw material.

Liquidity: Strong

The company's liquidity position remains strong, marked by cash balances and liquid investments of ₹415 crore as on March 31, 2022. In addition, the company has sizeable fund-based facilities aggregating ₹420 crore, which are moderately utilised (8% for the past 12-month period ended April 2022), which further augments the liquidity profile of the company. BSL has repayments aggregating ₹198.96 crore in FY23 and ₹252.08 crore in FY24, which can be comfortably met through its cash accruals. Out of ₹198.96 crore of repayment for FY23, ₹175 crore has been repaid on May 31, 2022, and the balance of ₹23.96 crore can be comfortably repaid from the cash accruals earned in the next few months. The current ratio stands at 1.17x during FY22 and operating cycle of eight days negates any substantial requirement of working capital in the projected years. The company has capex of ₹388 crore towards phase-I of Sri City project under Blue Star Climatech Limited, a 100% subsidiary of BSL. The capex will be funded through debt of ₹300 crore (includes working capital borrowings) and rest from cash accruals. The company also has plans for sustenance capex of ₹220 crore for FY23 and ₹240 crore for FY24, however, as per the management, the yearly sustenance capex is around ₹150 crore, which can be comfortably done from available cash accruals.

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, 2022
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 JV's are consolidated by the Equity method (i.e., as a separate line item) to the extent of holding.

Name of Joint Ventures	Country of Incorporation	Extent of Shareholding as on March 31, 2022
Blue Star M&E Engineering Sdn Bhd	Malaysia	49%
Blue Star Oman Electro-Mechanical Co. LLC	Oman	51%

Applicable criteria

Policy on default recognition
Consolidation
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
Manufacturing Companies

About the company
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, along with an upcoming facility in 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 53%, 43% and 4%, respectively, to the consolidated net sales of the company in FY22, 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 (₹ crore)	FY20 (A)	FY21 (A)	FY22 (Abr.)
Total operating income	5,367	4,263	6,045
PBILDT	244	214	346
PAT	143	100	168
Overall gearing (including acceptances) (times)	1.15	0.94	0.82
Interest coverage (times)	8.27	3.31	7.47

A: Audited; Abr.: Abridged
The financials have been reclassified as per CARE Ratings' standards.

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 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	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	100.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC		-	-	-	608.00	CARE A1+
Fund-based/Non-fund-based-LT/ST		-	-	-	1960.00	CARE AA+; Stable / CARE A1+
Debentures-Non-convertible debentures	INE472A08034	June 01, 2020	7.65%	June 01, 2023	175.00	CARE AA+; Stable
Commercial paper-Commercial paper (Standalone)		-	-	-	500.00	CARE A1+

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	Fund-based - LT-Cash credit	LT	100.00	CARE AA+; Stable	-	1)CARE AA+; Negative (07-Oct-21)	1)CARE AA+; Negative (07-Jan-21) 2)CARE AA+; Negative (18-May-20)	1)CARE AA+; Stable (22-Jan-20)
2	Non-fund-based - ST-BG/LC	ST	608.00	CARE A1+	-	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)
3	Commercial paper-Commercial paper (Standalone)	ST	500.00	CARE A1+	-	1)CARE A1+ (07-Oct-21)	1)CARE A1+ (07-Jan-21) 2)CARE A1+ (18-May-20)	1)CARE A1+ (22-Jan-20)
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	1960.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Negative / CARE A1+ (07-Oct-21)	1)CARE AA+; Negative / CARE A1+ (07-Jan-21) 2)CARE AA+; Negative / CARE A1+ (18-May-20)	1)CARE AA+; Stable / CARE A1+ (22-Jan-20)
5	Debentures-Non-convertible debentures	LT	175.00	CARE AA+; Stable	-	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)	-

*Long term/short term

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

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

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Complex
3	Fund-based - LT-Cash credit	Simple
4	Fund-based/Non-fund-based-LT/ST	Simple
5	Non-fund-based - ST-BG/LC	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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