

July 25, 2024

## Blue Star Climatech Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	75.00	75.00	[ICRA]AA+(Stable); Reaffirmed
Long-term/ Short-term – Non-fund Based Facilities^	375.00	375.00	[ICRA]AA+ (Stable)/ [ICRA]A1+; Reaffirmed
<b>Total</b>	<b>450.00</b>	<b>450.00</b>	

\*Instrument details are provided in Annexure-I; ^ includes Rs. 150 crore interchangeable to fund based limits

### Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Blue Star Climatech Limited (BSCL) along with its parent, Blue Star Limited (BSL), given that BSCL is an exclusive contract manufacturer for BSL (group) with strong business and financial linkages between them. BSCL benefits from BSL being its principal customer, which is expected to augment its capacity as per BSL's needs and, hence, will remain a strategic entity for BSL's consolidated profile.

The ratings reaffirmation for the bank lines of BSCL favourably factors in the expectation that BSL's (which owns 100% in BSCL) credit profile will remain stable and supported by its strong business risk profile. ICRA notes BSL's diversified presence across its consumer and project businesses, its strong market position in the unitary cooling products and refrigeration business, strong execution track record in the projects business, and financial profile marked by stable revenue growth, and strong return and debt protection metrics. BSL's financial profile was supported by equity infusion of ~Rs. 1,000 crore in the form of Qualified Institutional Placement (QIP) in FY2024, which was used for capital expenditure, repayment of borrowings while strengthening its liquidity. BSL's revenue grew by 21% YoY in FY2024, led by healthy demand in the room air-conditioning (RAC) segment against the backdrop of an intense summer. The company's revenues are expected to be supported by the favourable demand outlook for the air conditioning industry in India due to the increasing penetration of air conditioners (ACs) per household, rising urbanisation, disposable income and climate change. The ratings also factor in the company's order book position in electro-mechanical projects and commercial air conditioning systems, which ensures revenue visibility in the near term.

The ratings, however, are constrained by the vulnerability of BSL's profitability to any adverse movements in input costs as its ability to pass on large price increases in a competitive market remains limited. Moreover, changes in regulations and energy efficiency standards can impact the company's cost structure. The domestic business also remains exposed to vagaries of project management risks in terms of site hand-over and fresh order inflow, which typically follows the capex cycle of end-user industries. The company's total outside liabilities (TOL)/ tangible net worth (TNW) is relatively high at 1.5 times in FY2024 (albeit improving from 3.0 times in FY2023), due to continued dependence on creditor funding as well as customer advances to manage its working capital, which generally remains high, especially during the fiscal end. The debtor cycle in the project business is also exposed to long approval cycles and work in progress (WIP) inventory in case of site hand over issues. However, it is mitigated to an extent of customer advances against the projects. The ratings are also constrained by seasonality and reliance of the RAC business on weather conditions, primarily the intensity of summers along with competition from several other established players.

The Stable outlook on the rating reflects BSL's strong brand positioning in the heating, ventilation and air conditioning (HVAC) domain in the domestic market, its growing presence in the RAC market in India, coupled with a strong liquidity position and adequate order book position in its project division, which will continue to support its robust credit profile in the medium to long term.

## Key rating drivers and their description

### Credit strengths

**Diversified revenue streams spread across electro-mechanical projects, commercial AC systems and unitary products segments** – BSL is present in the mechanical, electrical and plumbing (MEP) as well as the HVAC segments, mainly in the domestic market, in addition to the commercial AC, RAC and commercial refrigeration businesses in the domestic market. These two segments account for ~96% of BSL's revenues. However, its revenues are diversified in each of these segments in terms of products/services offered. The rest is generated by small, but margin accretive segments, namely professional electronics and industrial systems.

**Adequate order book position in electro-mechanical projects and commercial AC systems business provides revenue visibility only over the near term** – BSL has an adequate order book position in the electro-mechanical projects and commercial AC systems businesses with an order book of Rs. 5,435 crore as on March 31, 2024 (Rs. 4,785 crore as on March 31, 2023), which ensures revenue visibility in the near to medium term. The fresh order inflow for this segment has also been satisfactory over the last two fiscals, especially with the Government's infra push. Moreover, the company is likely to leverage its brand positioning and sound execution capacities in the near to medium term in terms of order booking and sales performance.

**Strong market presence in domestic RAC and commercial AC business** – BSL enjoys a notable market position in RACs across the country, with presence in both window and split ACs, in addition to commercial refrigeration and commercial air conditioning. This has aided the unitary division and increased its market share (pegged at 13.75% in RACs in terms of value, as of March 2024; source: company annual report FY2024) over the years.

**Healthy financial risk profile** – The financial risk profile of BSL, at a consolidated level, improved significantly and remained healthy as characterised by comfortable debt metrics in FY2024 with Total Debt/ OPBDITA of 0.4 times (1.3 times in FY2023) and interest coverage of 11.7 times (9.3 times in FY2023) in FY2024. The equity infusion of ~Rs. 1,000 crore in the form of QIP supported capex requirements, borrowing repayments while strengthening BSCL's liquidity profile. ICRA expects the debt indicators to remain healthy given its strong liquidity position to fund its capex plans in the near to medium term, with limited reliance on debt.

**Favourable outlook for the Indian AC industry supports long-term growth prospects** – Increasing urbanisation, climate change and improving standards of living are expected to provide a huge opportunity for AC original equipment manufacturers (OEMs) in the domestic market. In addition, favourable regulatory developments in the recent past, i.e., the production linked incentive scheme (PLI) scheme for the AC component sector, provide strong growth prospects for the industry over the medium to long-term.

### Credit challenges

**Project business exposed to stiff competition as well as time and cost overruns, leading to pressure on margins during economic downturns** – The company's project business remains exposed to time and cost overruns with a longer gestation period for most of its orders in the project business, leading to pressure on the segment margins during economic downturns. Further, the company continues to face competition from established players in the project business. The business also remains exposed to vagaries of project management risks in terms of site hand-over and fresh order inflow, which typically follows the capex cycle of end-user industries.

**Large reliance on creditor funding leading to high TOL/TNW** – The projects business is working capital intensive given the elongated debtor cycle, driven by long bill approval cycles and WIP inventory in case of site hand-over issues. The company manages its working capital through reliance on creditor funding as well as advances from customers. With purchases for the AC division being typically high during the season in March, the creditor levels also remain high, which generally tapers down from June. The same has led to high total outside liabilities/ tangible net worth (TOL/TNW) as reflected by 1.5 times in FY2024

(3.0 times in FY2023). However, the TOL/TNW has improved significantly in FY2024 owing to equity infusion through QIP of ~Rs. 1,000 crore in FY2024 resulting in healthy TNW.

**Exposed to inherent seasonality, competition in AC business and adverse movements in input costs** – A dominant share of BSL’s revenues comes from the sales in the unitary segment (~47%) whose demand is seasonal and remains susceptible to changes in weather conditions. Further, the company’s profitability is exposed to adverse movements in input costs as the ability to pass on large price increases in an intensely competitive market remains limited.

**High import dependence with exposure to forex risks** – Although the share of imported raw material for RACs has declined to ~50% currently, over ~65-70% earlier, it remains exposed to forex fluctuations, price volatility and supply-side shocks, given high import dependence. However, the company hedges the forex exposure, which mitigates the risk to an extent. BSL also takes periodical pricing actions depending on the demand-supply situation.

### Liquidity position: Strong

The company’s liquidity position is strong, driven by healthy operational cash flows and net cash accruals of Rs. 402 crore in FY2024, along with cash and liquid investments of Rs. 623 crore as on March 31, 2024. Further, the company has comfortable buffer in its working capital limits as reflected by moderate utilisation of ~9% of its sanctioned working capital limits for the last 12 months ending April 30, 2024. The company has nil repayment obligations in FY2025 and FY2026, which further supports the liquidity profile. The company has planned capex of Rs. 350-400 crore, on a consolidated basis, which will be sufficiently met by cash accruals, cash and liquid balance, and additional term loans, if required.

### Environmental and Social Risks

**Environmental considerations:** The company is exposed to risks such as harmful emissions that have a negative impact on the environment and risk of ozone depletion. However, the company has adopted of eco-friendly refrigerants and focuses on reducing its carbon footprint. BSL (parent entity) also develops and launches products and solutions that are energy efficient and ozone-friendly with low impact on global warming, while positively impacting its business operations.

**Social considerations:** BSL (parent entity) is exposed to social risks such as compliance with health and safety standards along with evolving consumer lifestyle changes, which could translate into substantial investments. However, health and safety awareness program and safety audits are conducted regularly, while safety protocols are documented and shared across the organisation regularly. Further, BSL tries to maintain high level of product quality, safety and durability by minimising environmental and social impact.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if the group demonstrates a significant increase in scale of operations along with improvement in profitability, leading to healthy cash accruals and sustained improvement in liquidity profile as well as credit metrics.

**Negative factors** – Negative pressure on the rating could arise if there is significant moderation in the market position and profitability of the group, sustained increase in working capital intensity, any large unanticipated debt-funded capex or decline in profitability, resulting in material weakening of liquidity and credit metrics. Specific credit metrics, which could include adjusted TOL/TNW of more than 3.0x on a sustained basis, may also trigger a rating downgrade.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has taken a consolidated view of BSCL along with its parent, BSL (details enlisted in Annexure-II), given that BSCL is an exclusive contract manufacturer for BSL with strong business and financial linkages between them. Moreover, BSCL functions as an extended arm of BSL.

## About the company

BSCL was incorporated on May 17, 2021, as a wholly owned subsidiary of BSL to carry on the business as the manufacturer and dealer of all kinds of air conditioners, commercial refrigeration equipment, cooling appliances and other related products. The company plays the role of an OEM of residential and commercial air conditioners for BSL. Currently, BSCL has a manufacturing capacity of 3.5 lakh units per annum. The company's new manufacturing plant is at Sri City in Chittoor district of Andhra Pradesh. The plant is also eligible for the Government of India's PLI scheme.

Established in 1943, BSL is India's leading HVAC and commercial refrigeration company with manufacturing facilities at Dadra, Himachal Pradesh, Wada, Ahmedabad and Sri City. The three major segments of the company are—i) electro-mechanical projects and commercial AC systems; ii) unitary products and iii) professional electronics and industrial systems. The first two segments drove ~96% of BSL's revenues in FY2024. However, its revenues are diversified in each of these segments in terms of products/ services offered. The rest is generated by the high margin professional electronics and industrial systems business.

### Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	7,980.6	9,690.7
PAT	400.3	413.8
OPBDIT/OI	6.4%	7.0%
PAT/OI	5.0%	4.3%
Total outside liabilities/Tangible net worth (times)	3.1	1.5
Total debt/OPBDIT (times)	1.3	0.4
Interest coverage (times)	9.3	11.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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

**Any other information: None**

## Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years		
		Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
			Jul 25, 2024	Jun 23, 2023	-	-
1 Fund Based Limits	Long term	75.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2 Non Fund-Based Facilities <sup>^</sup>	Long term and short term	375.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-

<sup>^</sup>includes Rs. 150 crore interchangeable to fund based limits

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Fund Based Limits	Simple
Long term/ Short Term – Non Fund-Based Facilities <sup>^</sup>	Very Simple

<sup>^</sup>includes Rs. 150 crore interchangeable to fund based limits

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Limits	NA	NA	NA	75.00	[ICRA]AA+ (Stable)
NA	Non Fund-Based Facilities <sup>^</sup>	NA	NA	NA	375.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company, <sup>^</sup>includes Rs. 150 crore interchangeable to fund based limits

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**Annexure II: List of entities considered for consolidated analysis**

Company Name	BSL Ownership	Consolidation Approach
Blue Star Limited	100.00%	Full Consolidation
Blue Star Climatech Limited	100% (rated entity)	Full Consolidation
Blue Star Engineering and Electronics Limited	100%	Full consolidation
Blue Star Qatar – WLL*	49%	Full Consolidation
Blue Star International FZCO	100%	Full Consolidation
Blue Systems & Solutions LLC	100%	Full Consolidation
BSL AC&R (SINGAPORE) PTE. LTD.	100%	Full Consolidation
Blue Star North America INC	100%	Full Consolidation
Blue Star Europe BV	100%	Full Consolidation
Blue Star Japan LLC	100%	Full Consolidation
Blue Star Air Conditioning & Refrigerator (U) Limited#	100%	Full Consolidation
Blue Star M & E Engineering (Sdn) Bhd ^	49%	Proportionate consolidation
Blue Star Oman Electro-Mechanical Co. LLC <sup>^</sup>	51%	Proportionate consolidation

Source: Company, \*control is with BSL, hence it is considered as subsidiary, <sup>^</sup>Joint ventures

Note: ICRA has taken a consolidated view of the parent (BSL), its subsidiaries and joint ventures while assigning the ratings.

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