

June 23, 2023

## Blue Star Climatech Limited: [ICRA]AA+(Stable)/ [ICRA]A1+ assigned

### Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	75.00	[ICRA]AA+(Stable); Assigned
Long-term/ Short-term – Non-fund Based Facilities*	375.00	[ICRA]AA+(Stable)/ [ICRA]A1+; Assigned
<b>Total</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 and the strong business and financial linkages between them.

The ratings assigned to the bank lines of BSCL favourably factor in the BSL's (owns 100% in BSCL) strong business risk profile with diversified presence across its consumer and project businesses, BSL's strong market position in the unitary cooling products and refrigeration business, strong execution track record in the projects business, and robust financial profile marked by stable revenue growth, and strong return and debt protection metrics.

BSCL was incorporated in 2021 to support long-term growth, and it houses BSL's third manufacturing unit (at Sricity, Andhra Pradesh) for its key room air conditioning (RAC) products. Apart from the cost savings in terms of logistics, the unit will also qualify for production linked incentives (PLI) as well as enjoy fiscal benefits. The company incurred a total capex of ~Rs. 350 crore for phase-I of the project, which was funded by a mix of debt of ~Rs. 200 crore and a combination of equity infusion and inter-corporate deposits from BSL. The new plant commenced its operations from January 2023. The unit reduces BSL's dependence on third party suppliers for RACs and helps its cost structure in terms of backward integration for select outsourced items. BSCL will benefit from BSL as its key customer and will augment its capacity as per BSL's needs and, hence, will remain a strategic entity for BSL's consolidated profile.

BSL's operating income (OI) grew by a CAGR of 11% in FY2023 over the last five years. For FY2023, the company reported healthy revenue growth of 32% over FY2022 led by strong recovery in demand after the Covid-19 pandemic and strong sales against the backdrop of an intense summer. The company's growth momentum is expected to continue in the medium term, given the favourable demand outlook for the air conditioning industry in India due to the increasing penetration of Air conditionings (AC) per household, rising urbanisation, disposable income and weather changes. The ratings also factor in the company's strong order book position in electro-mechanical projects and commercial air conditioning systems, which ensures revenue visibility in the near to medium term.

The ratings, however, are constrained by the vulnerability of the 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. Further, the ratings also consider the high total outside liabilities (TOL)/ tangible net worth (TNW) ratio at 3.0 times in FY2023, due to significant dependence on creditor funding as well as customer advances to manage its working capital, which generally remains high during the fiscal end. The debtor cycle in the project business is constrained by the long approval cycle in projects and work in progress (WIP) inventory in case of site hand over issues. The ratings also are constrained by the seasonality and reliance of the unitary products business to weather conditions, primarily the intensity of summers along with stiff competition from several other established players.

The Stable outlook on the rating reflects ICRA's expectation that BSCL will continue to benefit from its parentage and BSL's strong market positioning in the RAC market in India.

## Key rating drivers and their description

### Credit strengths

**Diversified revenue streams with significant contribution from electro-mechanical projects, commercial AC systems and unitary segments** – BSL is present in the mechanical, electrical and plumbing (MEP), as well as in heating, ventilation and air conditioning (HVAC) segments, mainly in the domestic market, in addition to the commercial AC, room AC and commercial refrigeration businesses in the domestic market. These two segments account for ~95% 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 margin accretive segments, namely professional electronics and industrial systems.

**Healthy order book position in electro-mechanical projects and commercial AC systems business** – BSL has a healthy order book position in the electro-mechanical projects and commercial AC systems businesses with an order book of Rs. 4,785 crore as on March 31, 2023 (Rs. 3,034 crore as on March 31, 2022), which ensures revenue visibility in the near to medium term.

**Strong market presence in domestic and commercial AC business** – BSL enjoys a notable market position across the country in RACs, with presence in both window and split ACs, in addition to commercial refrigeration. This has aided the unitary division and increased its market share over the years (market share pegged at 13.5% in RACs and ~30% in refrigeration, as of March 2023).

**Healthy financial risk profile** – The financial risk profile of BSL at consolidated level is healthy and characterised by comfortable capital structure and coverage metrics in FY2023 as indicated by gearing of 0.5 time as on March 31, 2023 (0.5 time as on March 31, 2022), gross Debt/ OPBDITA of 1.3 times (1.6 times in FY2022) and interest coverage of 9.0 times (7.6 times in FY2022) in FY2023. The company plans to incur capex of around ~Rs. 380 crore for capacity expansion in BSCL in FY2024, which is expected to be funded by a mix of debt and equity. Despite its debt-funded expansion plans in BSCL, which is mandated to support its backward integration plans to improve BSL's operating margins, the capital structure and coverage indicators are supported by limited borrowing levels in the standalone entity. Also, borrowing at the consolidated level is largely restricted to BSCL's capacity expansion plans. Hence, ICRA expects the capital structure and coverage indicators to gradually improve, going forward.

**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 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 margins in the segment 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 cycle 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. The same has led to high

TOL/TNW as reflected by 3.0 times in FY2023 over 3.2 times in FY2022. 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 onwards.

**Exposed to inherent seasonality, competition in AC business and adverse movements in input costs** – A dominant share of BSL's revenues derives from the sale from unitary segment (~45%) whose demand is seasonal and remains susceptible to changes in weather conditions. Further, the company's profitability is exposed to any adverse movements in input costs as the ability to pass on large price increases in a competitive market remains limited.

**High import dependence with exposure to forex risks** – Although the share of import of 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, and 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, net cash accruals of Rs. 408.4 crore in FY2023 along with cash and liquid investments of Rs. 373.2 crore as on March 31, 2023. Further, the company has comfortable buffer in its working capital limits as reflected by moderate utilisation of ~58% of its sanctioned working capital limits for the last 12 months ending March 31, 2023. The company has a repayment obligation of Rs. 206.8 crore in FY2024 (of which NCD of Rs. 175 crore has already been repaid in June 2023), along with significant planned capex in BSCL for capacity expansion. These are expected to be sufficiently met by cash accruals, additional term loans for planned capex, and cash and liquid balance.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the ratings if at the consolidated level, the company demonstrates a significant increase in scale of operations along with diversification of its product portfolios and improvement in profitability, leading to healthy cash accruals and 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 consolidated entity, 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 could include adjusted TOL/TNW of more than 3.0x on a sustained basis.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating approach – Consolidation</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 and the strong business and financial linkages between them, with BSCL working 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 manufacturer and dealer in all kinds of air conditioners, commercial refrigeration equipment, cooling appliances and other related product. The company plays the role of an OEM of residential and commercial air conditioners for BSL. BSCL currently 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, built over an area of 20 acres. The plant is also eligible for the Government of India's PLI scheme.

Established in 1943 by Late Mohan Advani, BSL is India's leading HVAC and commercial refrigeration company with manufacturing facilities at Dadra, Himachal Pradesh, Wada and Ahmedabad. The three major segments of the company are i) electro-mechanical projects and commercial AC systems ii) unitary products and professional electronics and iii) industrial systems. The first two segments account for ~95% 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 the high margin professional electronics and industrial systems business.

### Key financial indicators

Consolidated	FY2022	FY2023*
Operating income	6,045.6	7,977.3
PAT	166.9	400.3
OPBDIT/OI	5.8%	6.3%
PAT/OI	2.8%	5.0%
Total outside liabilities/Tangible net worth (times)	3.2	3.0
Total debt/OPBDIT (times)	1.6	1.3
Interest coverage (times)	7.6	9.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore, \*Provisional

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

Any other information: None

### Rating history for past three years

Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jun 23, 2023	-	-	-
1 Fund Based Limits	Long term	75.00	-	[ICRA]AA+ (Stable)	-	-	-
2 Non Fund-Based Facilities^	Long term and short term	375.00	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-

^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^	Very Simple

^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

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## 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 M & E Engineering (Sdn) Bhd <sup>^</sup>	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.

## ANALYST CONTACTS

**Shamsher Dewan**  
+91 124 4545 328  
[shamsherd@icraindia.com](mailto:shamsherd@icraindia.com)

**Srikumar Krishnamurthy**  
+91 44 4596 4318  
[ksrikumar@icraindia.com](mailto:ksrikumar@icraindia.com)

**Suprio Banerjee**  
+91 22 6114 3400  
[supriob@icraindia.com](mailto:supriob@icraindia.com)

**Karan Gupta**  
+91 22 6114 3416  
[karan.gupta@icraindia.com](mailto:karan.gupta@icraindia.com)

## RELATIONSHIP CONTACT

**L. Shivakumar**  
+91 22 6114 3406  
[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**  
Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit [www.icra.in](http://www.icra.in)

## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001  
Tel: +91 11 23357940-45



### Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.