

Blue Star Ltd. (BLUESTAR)

Sensex	39,736
Nifty	11,662

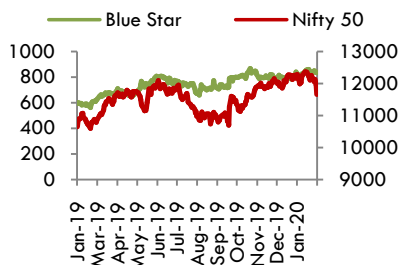
Key Stock Data

CMP	₹836/-
Target Price	₹922 (+10.3%)
Market Cap (₹mn.)	₹80,492
52W High/Low	887/560
Shares o/s (mn.)	96.3
Bloomberg	BLSTR:IN
NSE Code	BLUESTARCO
BSE Code	500067

Shareholding Pattern (%)

Promoters	38.8
FII & DII	29.8
Public & Others	31.4

Comparison Chart



	FY20E	FY21E	FY22E
Net Sales	59,217	68,220	78,894
Growth (%)	13.1	15.2	15.6
EBIDTA	4,099	4,947	6,106
EBIDTA Margin (%)	6.9	7.3	7.7
PAT	2,175	2,801	3,699
EPS (₹)	23.0	29.5	38.8
PE (x)	37.0	28.7	21.8

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Summary

Blue Star Ltd. (BLUESTAR) reported strong revenue growth of ~13% YoY to ₹12,359.1mn, with the EMPS segment registering growth of ~16% YoY to ₹7,588mn driven by strong execution and cost optimisation measures. The UCP segment grew 7.3% YoY/ 11.4% QoQ to ₹4,202.3mn driven by late pickup in demand.

Key Result Highlights

- Revenue grew by ~13% YoY to ₹12,359.1mn (-1.1% QoQ from ₹12,494.7mn) driven primarily by EMPS segment with revenue growth of ~16% YoY (declined by 3.2% QoQ) at ₹7,588mn.
- EBITDA grew by 34.7% YoY to ₹570.3mn (declined by 22.5% QoQ from ₹735.8mn), other expenses grew by 8.7% YoY to ₹1,221.7mn, while Raw Material cost and Staff expenses grew by 11.1% YoY and 18.2% YoY to ₹9,306.7mn (-0.4% QoQ from ₹mn) and ₹1,260.4mn (+5.5% QoQ from ₹1,195mn) respectively.
- EBITDA Margins grew by 76 bps YoY to 4.9% (declined 127bps QoQ from 5.9%) attributing to order execution in the EMPS segment and better cost controls in the commercial AC system business.
- Other income declined 41.3% YoY to ₹60.9mn due to higher income tax refunds in Q3FY19.
- Interest cost declined 42.4% YoY while grew 11.2% QoQ to ₹75.5mn due to effective management of working capital and lower cost of borrowing.
- Tax expenses was at ₹119.7mn compared to ₹9.9mn YoY due to reversal of tax asset created in FY19, arising from higher profitability in Blue Star Engg and Electronics
- During the quarter, the company made loss to profit of ₹195.8mn YoY (-48.4% QoQ from ₹379.4mn) with net profit margin at 1.6%.

Unitary Cooling products (UCP) Highlights

- The Unitary cooling products (UCP) segment had sales of ₹4,202.3mn (+7.3% YoY/-11.4% QoQ) driven by pickup in demand During Dec'20. 36% of sales were consumer financed.
- The EBIT declined 18.5% YoY /36% QoQ to ₹76.5mn due to pressure on prices realisation and higher Ad spend during the quarter.
- The company's Room AC sales grew 10% YoY during the quarter higher than the industry growth rate of 5%.
- Commercial refrigeration products like deep freezers and other products grew 6-7% YoY with demand from companies like Reliance Retail, Jubilant Foodworks etc.
- As per the management there was no major demand impact of the company's AC due to low-priced entry-level products and there is likely to be visible price rationalizing with no inventory overhang present.
- In the water purifier segment, the competition has intensified and the company has reduced its revenue target to ₹600mn down from ₹800mn for FY20 with likely market share at 2-2.5%. It also stated that this product segment is likely to breakeven with expected market share of 3-3.5% in FY21.
- The focus of the management will be in the Tier- 2, 3 & 4 cities with online sales for certain products like water purifiers to also be launched.
- Revenue growth and margin are likely to be at 15% and 8-8.5% respectively for FY20 as per the management guidance.

Electro-Mech. Projects & Packaged AC Systems (EMPS) Highlights

- The Electro-Mechanical Projects & Packaged AC Systems (EMPS) segment revenues grew 15.8% YoY while declined 3.2% QoQ to ₹7,588mn driven by strong job execution in the Electro-mechanical projects business and cost optimisation measures in the commercial AC system.
- For the quarter, the EBIT grew 29.5% YoY to ₹390mn with margins at 5.1% which grew 55 bps YoY based on projects with better job execution and improved profitability.
- The company continues to face slow from real estate and infra space resulting in order inflow de-growth of ~20% YoY from ₹6,847.1mn to ₹5,504.9mn for the quarter.
- The management stated that it is seeing good traction from hospitality and rail orders.
- International orders inflow and execution from Dubai and Qatar are seeing good traction with order visibility from SAARC and African countries.
- Order book as on 30-December-19 was at ₹28.12bn a growth of 23.5% YoY from ₹22.77bn.
- The management stated that it will continue to focus on projects with good cash flows, profitability and faster execution.
- The management has guided margin of 4.5-5% with revenue growth of 10-12% for FY20.

Other business Highlights

The professional electronics segment revenues grew 9.4% YoY to ₹568.8mn (-35.9% QoQ from ₹887.2mn), with EBIT margins growth of 1843bps YoY/409bps QoQ to 31.6%, due to regulatory requirements on data localization and increased thrust on digital payment solutions creating short term opportunities for the Data security solutions.

Valuations & Recommendation

With expected normal onset of summer providing good demand for cooling products and the government announced infra spend of ₹105tn in next 5 years augers well for the company to get orders with improvement in margins. Based on these factors, we estimate a CAGR earnings growth of 21% over FY19-22E and **maintain our BUY with a target price of ₹922 (P/E 24x FY22E)**

Consolidated Financials

	Q3FY20	Q3FY19	VAR [%]	Q2FY20	VAR [%]
(₹ mn)					
Revenue from Operations	12,359.1	10,989.7	12.5	12,494.7	(1.1)
Raw Material Consumed	7,715.9	6,316.4	22.2	7,183.8	7.4
Purchase of stock in trade	1,762.5	1,452.2	21.4	1,783.1	(1.2)
Stock Adjustment	(171.7)	607.9	(128.2)	373.8	(145.9)
<i>RMC as a %age of sales</i>	<i>75.3%</i>	<i>76.2%</i>		<i>74.8%</i>	
Employee Expenses	1,260.4	1,065.9	18.2	1,146.5	5.5
<i>EPC as a %age of sales</i>	<i>10.2%</i>	<i>9.7%</i>		<i>9.6%</i>	
Other Expenses	1,221.7	1,123.9	(25.2)	1,223.2	(0.1)
<i>Other Expenses as a %age of sales</i>	<i>9.9%</i>	<i>10.2%</i>		<i>9.8%</i>	
EBIDTA	570.3	423.4	34.7	735.8	(22.5)
<i>EBIDTA Margins %</i>	<i>5.9%</i>	<i>3.9%</i>		<i>5.9%</i>	
Other Income	60.9	103.7	(41.3)	106.0	(42.5)
Depreciation	223.3	182.5	22.4	216.4	3.2
EBIT	407.9	344.6	18.4	625.4	(34.8)
Interest	75.5	131.0	(42.4)	67.9	(11.2)
Exceptional items	(15.7)	(71.7)	(78.1)	(17.1)	(8.2)
PBT	540.4	141.9	70.5	540.4	(49.9)
Tax	119.7	9.9	1109.1	168.8	(29.1)
Profit/(Loss) from Associates & JVs	0.5	(140.9)	100.4	9.3	(94.6)
Minority Interest	1.7	0.5	240.0	1.5	13.3
Profit After Tax	195.8	(9.4)	LTP	379.4	(50.6)
EPS	2.0	0.1		3.9	

Segment Performance

	Q3FY20	Q3FY19	VAR [%]	Q2FY20	VAR [%]
(₹ mn)					
REVENUES					
Electro-Mech. Projects & Packaged AC Systems	7,588.0	6,554.7	15.8	7,835.4	(3.2)
Unitary Cooling products	4,202.3	3,915.2	7.3	3,772.1	11.4
Professional Electronics & Indus Sysys.	568.8	519.8	9.4	887.2	(35.9)
Total Segment Revenue	12,359.1	10,989.7	12.5	12,494.7	(1.1)
EBIT					
Electro-Mech. Projects & Packaged AC Systems	390.0	301.1	29.5	445.6	(12.5)
<i>Margin %</i>	<i>5.1%</i>	<i>4.6%</i>		<i>5.7%</i>	
Unitary Cooling products	76.5	93.9	(18.5)	119.6	(36.0)
<i>Margin %</i>	<i>1.8%</i>	<i>2.4%</i>		<i>3.2%</i>	
Professional Electronics & Indus Sysys.	179.9	68.6	162.2	244.3	(26.4)
<i>Margin %</i>	<i>31.6%</i>	<i>13.2%</i>		<i>27.5%</i>	
Segment Capital Employed					
Electro-Mech. Projects & Packaged AC Systems	5,615.0	5,394.1	4.1	5,841.0	(3.9)
Unitary Cooling products	3,169.5	4,511.4	(29.7)	3,303.3	(4.1)
Professional Electronics & Indus Sysys.	(132.6)	228.1	(158.1)	30.2	(539.1)
Unallocable	245.8	(2,165.3)	111.4	(119.1)	306.4
TOTAL	8,897.7	89.21	(11.7)	9,055.4	(1.7)

Financials

(₹ mn)

Income Statement	FY19	FY20E	FY21E	FY22E
Total Revenues	52,348	59,217	68,220	78,894
Total Expense	48,883	55,118	63,273	72,788
COGS	39,312	44,045	50,482	58,113
Employee Cost	4,215	5,152	5,799	6,390
Other Expenses	5,356	5,922	6,993	8,284
EBITDA	3,466	4,099	4,947	6,106
Depreciation	749	989	1,139	1,282
EBIT	2,716	3,110	3,808	4,824
Interest	479	489	492	503
Other Income	247	424	402	562
Exc. / E.O. items	27	27	27	27
PBT	2,512	3,405	4,528	4,528
Tax	420	897	944	1,237
Profit/Loss share of associates	0	30	30	30
Minority Interest	191	(27)	(27)	(27)
Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)	1,901	2,205	3,380	3,729

(₹ mn)

Balance Sheet	FY19	FY20E	FY21E	FY22E
Sources of Funds				
Equity Capital	193	193	193	193
Reserves & Surplus	8,538	10,713	13,514	17,186
Minority Interest	18	18	18	18
Net Worth	8,731	10,905	13,706	17,379
L.T Borrowings	87	178	273	331
S.T Borrowings	3,359	3,553	3,752	3,945
Total Debt	3,445	3,731	4,025	4,276
Deferred Tax Liability (Net of Deferred Tax Assets)	(1,076)	(1,076)	(1,076)	(1,076)
Total Capital Employed	11,119	13,579	16,674	20,598
Applications of Funds				
Net Block	3,422	3,533	3,394	3,112
CWIP	308	308	308	308
Investments	146	146	146	146
Current Assets, Loans & Advances				
Inventories	8,693	6,191	7,281	8,376
Receivables	11,121	10,546	13,457	17,724
Cash and Bank Balances	1,009	1,057	1,605	2,058
Loans and Advances	312	474	546	599
Other Current Assets	7,149	8,914	10,192	11,687
Total: Current Assets, Loans & Advances	28,283	27,182	33,080	40,444
Current Liabilities & Provisions				
Payables	19,594	17,522	20,186	23,344
Total: Current Liabilities & Provisions (-)	20,464	17,590	20,254	23,413
Net Current Assets	7,820	9,591	12,826	17,032
Total Assets	11,119	13,579	16,674	20,598

(₹ mn)

Cash Flow Statement	FY19	FY20E	FY21E	FY22E
Net Profit / (Loss) Before Tax	2,714	3,107	3,805	4,821
Depreciation	749	989	1,139	1,282
Net Interest	247	424	402	562
Direct Taxes Paid	(420)	(897)	(944)	(1,237)
Change in Working Capital (Non-Cash)	(351)	(1,724)	(2,687)	(3,753)
Other	(124)	897	897	1,180
(A) Net Cash Flow from Operating Activities	2,815	2,795	2,612	2,854
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(924)	(1,100)	(1,000)	(1,000)
Free Cash Flow	1,891	1,695	1,612	1,854
Inc./ (Dec.) in Investments	(14)	0	0	0
(B) Cash Flow from Investing Activities	(938)	(1,100)	(1,000)	(1,000)
Issue of Equity/ Preference	1	0	0	0
Inc./ (Dec.) in Debt	(254)	285	294	251
Interest exp net	(479)	(489)	(492)	(503)
Dividend Paid (Incl. Tax)	(1,127)	(867)	(867)	(1,204)
(C) Net Cash Flow from Financing Activities	(1,859)	(1,070)	(1,064)	(1,455)
Net Change in Cash	201	48	548	399
Opening Cash balances	809	1,009	1,057	1,605
Closing Cash balances	1,009	1,057	1,605	2,058

Ratios	FY19	FY20E	FY21E	FY22E
(A) Margin (%)				
Gross Profit Margin	24.9	25.6	26.0	26.3
EBIDTA Margin	6.6	6.9	7.3	7.7
EBIT Margin	5.2	5.3	5.6	6.1
Tax Rate	16.7	29.5	25.4	25.2
Net Profit Margin	3.1	3.7	4.1	4.7
(B) As Percentage of Net Sales				
COGS	75.1	74.4	74.0	73.7
Employee	8.1	8.7	8.5	8.1
Other	10.2	10.0	10.3	10.5
(C) Measures of Financial Status (x)				
Gross Debt / Equity	0.4	0.3	0.3	0.2
Interest Coverage	5.7	6.4	7.7	9.6
Average Cost of Debt (%)	13.4	13.6	12.7	12.1
Debtors days	78	65	72	82
Inventory days	61	38	39	39
Payable days	107	108	108	108
Working Capital days	55	59	69	79
FA T/O	15.3	16.8	20.1	25.4
(D) Measures of Investment				
EPS (₹) (excl EO)	19.8	23.0	29.5	38.8
CEPS (₹)	27.6	33.3	41.4	52.2
DPS (₹)	11.7	10.6	10.6	13.2
Dividend Payout (%)	59.3	46.0	35.8	34.0
Profit Plough back (%)	40.7	64.0	64.2	66.0
Book Value (₹)	91	114	143	181
RoANW (%)	22.8	22.5	23.0	24.0
RoACE (%)	23.5	21.4	21.6	22.3
RoAIC (%) (Excl. Cash & Invest.)	27.4	27.5	27.6	28.7
(E) Valuation Ratios				
CMP (₹)	836	836	836	836
P/E (x)	42.3	37.0	28.7	21.8
Market Cap. (₹ Mn.)	80,492	80,492	80,492	80,492
MCap/ Sales (x)	1.5	1.4	1.2	1.0
EV (₹ Mn.)	82,928	83,166	82,912	82,711
EV/Sales (x)	1.5	1.4	1.2	1.0
EV/EBDITA (x)	23.2	20.3	16.8	13.5
P/BV (x)	8.9	7.4	5.9	4.6
FCF/ Yield (%)	1.8	1.9	1.9	1.9
Dividend/Yield (%)	1.2	1.1	1.1	1.3
EBITDA/OCF	1.2	1.5	1.9	2.1
EBITDA/Free cash flow	1.8	2.4	3.1	3.3

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Disclosure of Interest Statement in Blue Star Ltd. as on February 01, 2020

Name of the Security	Blue Star Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst:	No
Analyst's Relative: Yes / No	No
Analyst's Associate/Firm: Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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