

# Blue Star Ltd.

<b>Nifty</b>	17,959
<b>Sensex</b>	60,266

**Key Stock Data**

<b>CMP</b>	₹1021.3/-
<b>Target Price</b>	<b>₹1,150(+13%)</b>
<b>Market Cap (₹mn.)</b>	₹98,360.6
<b>52W High/Low</b>	1050/614
<b>Shares o/s (mn.)</b>	96.3
<b>NSE Code</b>	BLSTR:IN
<b>BSE Code</b>	BLUESTARCO
<b>Bloomberg</b>	500067

**Shareholding Pattern Sep'21 (%)**

<b>Promoters</b>	38.8
<b>DII's</b>	22.7
<b>FII's</b>	10.7
<b>Public &amp; Others</b>	27.8

(Rs mn)

<b>Particulars</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>1HFY22</b>
Revenues	52,348	53,602	42,636	22,918
EBITDA	3,456	2,828	2,398	1,129
EBITDA Margin(%)	6.6	5.3	5.6	4.9
Net Profit	1,901	1,432	1,004	440
EPS (₹)	19.5	15.3	10.4	4.6
DPS (₹)	10.0	10.0	14.0	
RoE (%)	21.8	17.5	12.0	
RoCE (%)	26.7	21.2	16.8	
P/E (x)	52.4	66.7	98.2	
EV/EBITDA (x)	29.2	35.4	41.5	
P/BV (x)	11.1	12.3	11.0	

Source: Company, Way2Wealth

**Summary**

**BLSTR's Revenue/EBITDA/ PAT grew 37.4%/28.4%/104.7% YoY despite cost pressures with better revenue booking across segments. The operating profit at ₹707mn (+28% YoY) was supported by better than estimated margins at 5.7% despite cost material cost pressures. PAT stood at ₹313.6mn (+105% YoY). Business outlook has seen improvement as economy opens up post witnessing lockdown in Q1FY22 and the company has aligned its long term focus on reducing import dependency and remains sanguine of government's push to develop a local ecosystem for RAC industry**

**Unitary Cooling Products (UCP) segment revenue came in at ₹4.55bn (+42.7% YoY) with EBIT margins at 5.1% (+143bps YoY). The performance was supported by strong demand from northern region, expansion of conventional distribution channel and increased E-commerce share in revenue. RAC industry registered robust 38% YoY growth and Blue star performance stood in line with the industry growth. Blue Star has forayed into mass premium category as it plans to scale up the market share by tapping the E-commerce market (13% of sales from E-Commerce as against 15% for industry). The commercial refrigeration segment grew faster than RAC and other products, led by medical, supermarket refrigeration and revival in demand for storage water coolers due to opening up of institutions. Blue Star has applied for PLI benefit for Sheet metal components and heat exchangers and has commenced construction of new factory at SriCity which is expected to be commissioned by Oct'22. The deep freezer plant at Wada would commence production in Jan'22**

**The EMPS business, grew 34% YoY has now has reached execution levels of pre-covid times (₹7.8bn). Growth in EMPS segment was on account of weak base of Q2FY21 which had been impacted on account of COVID led lockdown where company had adopted cautious approach in the segment anticipating liquidity crunch and giving preference to cash flow ahead of revenue booking. Execution has now started to witness traction from segments like infrastructure projects like metro Railways and substation orders and water distribution projects. The company will continue to focus on data-centre projects, metro rail orders, warehouses and the healthcare segment. Management remains cautious as far as private infra, commercial real estate and hospitality orders are concerned.**

**Key Highlights of Q2FY22 Result**

- **Revenue/EBITDA/ PAT grew 37.4%/28.4%/104.7% YoY despite cost pressures –** Blue Star Q2FY22 revenue was at ₹12.4bn (+37% YoY; flat compared to Q2FY20 levels) with better revenue booking across segments. The operating profit at ₹707mn (+28% YoY) was supported by better margins at 5.7% despite cost material cost pressures. PAT stood at ₹313.6mn (+105% YoY). Business outlook has seen improvement as economy opens up post witnessing lockdown in Q1FY22 and the company has aligned its long term focus on reducing import dependency and remains sanguine of government's push to develop a local ecosystem for RAC industry.
- **EMPS segment** revenue came in at ₹7.2bn (+34% YoY/+43% QoQ) has now has reached execution levels of pre-covid times (₹7.8bn). Growth in EMPS segment was on account of weak base of Q2FY21 which had been impacted on account of COVID led lockdown where company had adopted cautious approach in the segment anticipating liquidity crunch and giving preference to cash flow ahead of revenue booking. Execution has now started to witness traction from segments like infrastructure projects like metro Railways and substation orders and water distribution projects. Even the commercial AC and international business has started to witness demand traction supported by demand from healthcare, industrial and government sector. EBIT margins stood stable at 6.4% YoY despite commodity price inflation supported by better operating leverage. Order inflow for the quarter stood at ₹7.0bn (+4%YoY) whereas EMPS order book witnessed growth of 6% YoY and stands at ₹31.9bn. The company will continue to focus on data-centre projects, metro rail orders, warehouses and the healthcare segment. Management remains cautious as far as private infra, commercial real estate and hospitality orders are concerned.

**Unitary Cooling Products (UCP) segment** revenue came in at ₹4.55bn (+42.7% YoY/-10% QoQ) with EBIT margins at 5.1% (+143bps YoY). UCP segment performance was supported by strong demand from northern region, expansion of conventional distribution channel and increased E-commerce share in revenue. RAC industry registered robust 38% YoY growth and Blue star performance stood in line with the industry growth. Blue Star has forayed into mass premium category as it plans to scale up the market share by tapping the E-Commerce market (13% of sales from E-Commerce as against 15% for industry). The commercial refrigeration segment grew faster than RAC and other products, led by medical, supermarket refrigeration and revival in demand for storage water coolers due to opening up of institutions. In order to mitigate the adverse impact of the recent increase in the raw material prices, Blue Star had taken 3% price hikes effective Sep'21 and YTD price hike stands at 7%. Blue star will continue to focus on the new products categories (water purifier and air purifier) that it has recently ventured into and believes that it provides strong growth opportunities in the medium to long term. Blue Star has applied for PLI benefit for Sheet metal components and heat exchangers and has commenced construction of new factory at SriCity which is expected to be commissioned by Oct'22. The deep freezer plant at Wada would commence production in Jan'22.

**PEIS revenues** grew 44.5% YoY to ₹616.3mn (+48.8% QoQ) with EBIT margin at 16% aided by execution of a few high-value orders secured in data security solutions, non-destructive testing and healthcare. Traction here remains healthy, led by data security and testing machines for the manufacturing sector. The data security solutions business has witnessed strong traction, led by the BFSI sector

- **Net debt reduced to ₹443mn** – With focus on improving cash flow generation and reducing working capital cycle, Blue Star has been able to bring down net debt position to ₹443mn as compared to ₹680mn in Q1FY22 thereby further strengthening its balance sheet quality. The company has adopted cautious approach while dealing with its projects business and has decided to prefer cash flows over revenue which has helped company to scale down the gross debt position from ₹4.5bn in FY21 to current level of ₹4bn.

## View

For Blue Star, Q2FY22 has healthy traction in the products business compared to Q2FY20 levels, in terms of both, demand as well as margins, despite normalisation of operating costs and elevated RM costs. The projects business, too, reverted to faster execution, strong recovery of receivables and healthy 6.4% segment-margin. Improving demand across consumers and the projects business, as activities open up, should continue to drive earnings growth over FY22-24. Capex towards the new Sri City RAC plant will add capacities and lower logistic costs, starting FY24. Considering the under penetration of RAC at 6% at industry level and the government plan's to develop local ecosystem for RAC industry would make the company as one of the key beneficiary. The company also has developed strategic plan where it intends to scale up the market share from the current 13% to 15% over the next three years and margins from the current 7% levels to 10%. **Recent operational performance and overall pick up in projects as well as products segments helps us to retain it as a BUY with target price of ₹1150-1200.**

### Consolidated Financials

								(₹ mn)
PARTICULARS	Q2FY22	Q2FY21	YOY [%]	Q1FY22	QOQ [%]	1HFY22	1HFY21	
<b>Revenue from Operations</b>	<b>12,397.4</b>	<b>9,021.2</b>	<b>37.4</b>	<b>10,520.4</b>	<b>17.8</b>	<b>22,917.8</b>	<b>15,281.4</b>	
Raw Material Consumed	7,381.0	4,892.0	50.9	5,469.7	34.9	12,850.7	6,983.5	
Purchase of stock in trade	1,981.3	854.3	131.9	2,004.7	(1.2)	3,986.0	2,388.0	
Stock Adjustment	179.4	1,059.9	(83.1)	476.9	62.4	656.3	2,225.4	
RMC as a % of sales	77.0	75.4		75.6		76.3	75.9	
Employee Expenses	1,219.0	908.4	34.2	1,158.6	5.2	2,377.6	1,607.2	
Employee Exps as a % of sales	9.8	10.1		11.0		10.4	10.5	
Other Expenses	929.7	755.8	23.0	988.2	(5.9)	1,917.9	1,512.9	
Other Exps as a % of sales	7.5	8.4		9.4		8.4	9.9	
<b>EBIDTA</b>	<b>707.0</b>	<b>550.8</b>	<b>28.4</b>	<b>422.3</b>	<b>67.4</b>	<b>1,129.3</b>	<b>564.4</b>	
<b>EBITDA Margins %</b>	<b>5.7</b>	<b>6.1</b>	<b>(40)</b>	<b>4.0</b>	<b>169</b>	<b>4.9</b>	<b>3.7</b>	
Other Income	81.2	58.6	38.6	79.5	2.1	160.7	144.7	
Depreciation	204.3	206.3	(1.0)	200.5	1.9	404.8	415.3	
<b>EBIT</b>	<b>583.9</b>	<b>403.1</b>	<b>44.9</b>	<b>301.3</b>	<b>93.8</b>	<b>885.2</b>	<b>293.8</b>	
Interest	111.8	178.5	(37.4)	107.3	4.2	219.1	363.9	
Exceptional items	-	-	-	-	-	-	-	
<b>PBT</b>	<b>472.1</b>	<b>224.6</b>	<b>110.2</b>	<b>194.0</b>	<b>143.4</b>	<b>666.1</b>	<b>(70.1)</b>	
Tax	159.9	74.2	115.5	65.2	145.2	225.1	(21.0)	
Profit/(Loss) from Associates & JVs	2.3	3.6	(36.1)	(1.7)	(235.3)	0.6	7.1	
Minority Interest	(0.9)	(0.8)	12.5	(0.2)	350.0	(1.1)	1.4	
<b>Profit After Tax</b>	<b>313.6</b>	<b>153.2</b>	<b>104.7</b>	<b>126.9</b>	<b>147.1</b>	<b>440.5</b>	<b>(40.6)</b>	
<b>EPS</b>	<b>3.3</b>	<b>1.6</b>		<b>1.3</b>		<b>4.6</b>	<b>(0.4)</b>	

Source: Company, Way2Wealth

### Segmental Performance

								(₹ mn)
Particulars	Q2FY22	Q2FY21	VAR [%]	Q1FY22	VAR [%]	1HFY22	1HFY21	
<b>REVENUES</b>								
Electro-Mech. Projects & Packaged AC Systems	7,234.0	5,408.3	33.8	5,052.4	43.2	12,286.4	8,532.7	
% of Total	58.4	60.0		48.0		53.6	55.8	
Unitary Cooling products	4,547.1	3,186.5	42.7	5,053.7	(10.0)	9,600.8	5,935.0	
% of Total	36.7	35.3		48.0		41.9	38.8	
Professional Electronics & Indus Sys.	616.3	426.4	44.5	414.3	48.8	1,030.6	813.7	
% of Total	5.0	4.7		3.9		4.5	5.3	
<b>Total Segment Revenue</b>	<b>12,397.4</b>	<b>9,021.2</b>	<b>37.4</b>	<b>10,520.4</b>	<b>17.8</b>	<b>22,917.8</b>	<b>15,281.4</b>	
<b>EBIT</b>								
Electro-Mech. Projects & Packaged AC Systems	465.4	344.1	35.3	200.3	132.4	665.7	238.8	
Margin %	6.4	6.4	7	4.0	247	5.4	2.8	
Unitary Cooling products	232.6	117.3	98.3	217.7	6.8	450.3	79.7	
Margin %	5.1	3.7	143	4.3	81	4.7	1.3	
Professional Electronics & Indus Sys.	98.3	81.5	20.6	55.6	76.8	153.9	183.3	
Margin %	16.0	19.1	(316)	13.4	253	14.9	22.5	
<b>TOTAL</b>	<b>796.3</b>	<b>542.9</b>	<b>46.7</b>	<b>473.6</b>	<b>68.1</b>	<b>1,269.9</b>	<b>501.8</b>	

Source: Company, Way2Wealth

**Team**

<b>Analyst</b>	<b>Designation</b>	<b>Sector</b>	<b>Email</b>	<b>Telephone</b>
Jayakanth Kasthuri	Research Analyst	Capital Goods, Consumer Durables & Logistics	jayakanthk@way2wealth.com	+91 22-4019 2914
Ashwini Sonawane	Research Associate	FMCG	ashwinisonawane@way2wealth.com	+91 22-4019 2956
Yogita Desai	Research Analyst	Chemicals & Building Materials	yogitadesai@way2wealth.com	+91 22-4019 2910
Harshil Gandhi	Research Analyst	BFSI	harshilgandhi@way2wealth.com	+91 22-4019 2915
<b>Institutions</b>	<b>Designation</b>		<b>Email</b>	<b>Telephone</b>
Kaushal Jaini	Vice President		kaushaljaini@way2wealth.com	+91 22-4019 2916
Manisha Panchal	Institutional Dealer		manishapanchal@way2wealth.com	+91 22-4019 2984

### Disclaimer

**Analyst Certification:** I, Jayakanth Kasthuri, the research analyst and author of this report, hereby certify that the views expressed in this research report accurately reflect our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s), principally responsible for the preparation of this research report, receives compensation based on overall revenues of the company (Way2Wealth Brokers Private Limited, hereinafter referred to as Way2Wealth) and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

It is confirmed that Jayakanth Kasthuri, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. Our research professionals are paid in part based on the profitability of Way2Wealth, which include earnings from other business. Neither Way2Wealth nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Way2Wealth is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. The contents of this material are general and are neither comprehensive nor appropriate for every individual and are solely for the informational purposes of the readers. This material does not take into account the specific objectives, financial situation or needs of an individual/s or a Corporate/s or any entity/s.

This research has been prepared for the general use of the clients of the Way2Wealth and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Way2Wealth will not treat recipients as customers by virtue of their receiving this report. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

The report is based upon information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. Way2Wealth or any of its affiliates or employees makes no warranties, either express or implied of any kind regarding any matter pertaining to this report, including, but not limited to warranties of suitability, fitness for a particular purpose, accuracy, timeliness, completeness or non-infringement. We accept no obligation to correct or update the information or opinions in it. Way2Wealth or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. The recipients of this report should rely on their own investigations. In no event shall Way2Wealth be liable for any damages of any kind, including, but not limited to, indirect, special, incidental, consequential, punitive, lost profits, or lost opportunity, whether or not Way2Wealth has advised of the possibility of such damages.

This material contains statements that are forward-looking; such statements are based upon the current beliefs and expectations and are subject to significant risks and uncertainties. Actual results may differ from those set forth in the forward-looking statements. These uncertainties include but are not limited to: the risk of adverse movements or volatility in the securities markets or in interest or foreign exchange rates or indices; adverse impact from an economic slowdown; downturn in domestic or foreign securities and trading conditions or markets; increased competition; unfavorable political and diplomatic developments; change in the governmental or regulatory policies; failure of a corporate event and such others. This is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any particular trading strategy. No part of this material may be copied or duplicated in any form by any means or redistributed without the written consent of Way2Wealth. In no event shall any reader publish, retransmit, redistribute or otherwise reproduce any information provided by Way2Wealth in any format to anyone. Way2Wealth and its affiliates, officers, directors and employees including persons involved in the preparation or issuance of this report may from time to time have interest in securities / positions, financial or otherwise in the securities related to the information contained in this report.

To enhance transparency, Way2Wealth has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

### Disclosure of Interest Statement in Blue Star Ltd. as on 03 November 2021

Name of the Security	Blue Star Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	No
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
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

This information is subject to change without any prior notice. Way2Wealth reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, Way2Wealth is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.