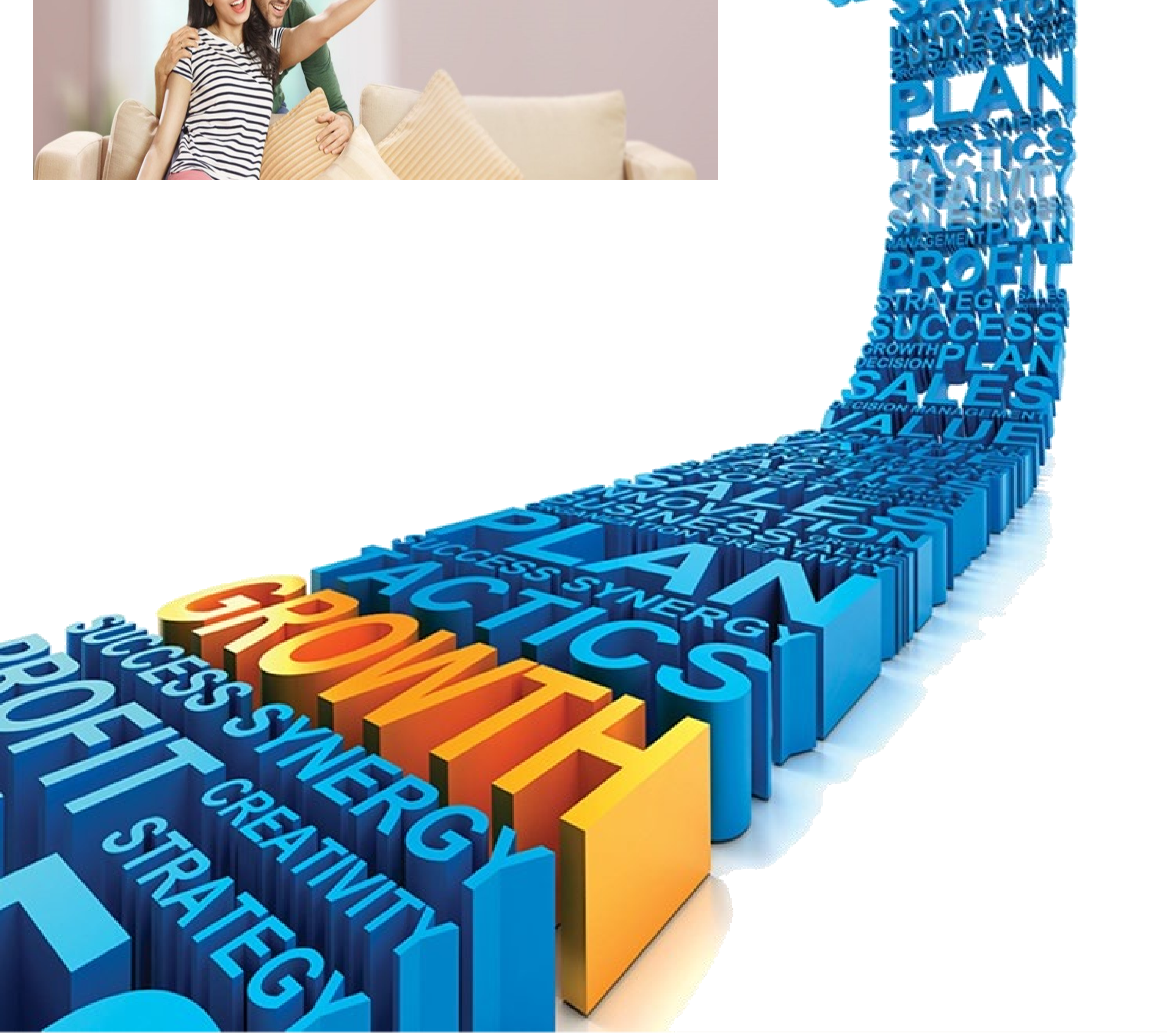
INITIATING COVERAGE | BUY | CMP: ₹761 | 4TH JULY 2019

WAY2WEALTH
A COFFEE DAY COMPANY
Research Desk

Blue Star Ltd.

Strong brand image with growing market share



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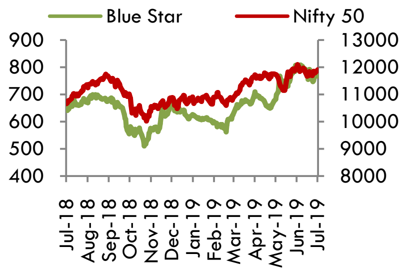
Nifty	11,947
Sensex	39,908

Key Stock Data	
Reuters Code	BLUS.NS
Bloomberg Code	BLSTR.IN
CMP	₹ 761
Market Cap (₹ mn.)	73,265
52W High/Low	825/507
30-dayAvg Volume (mn)	3,109

Shareholding Pattern	
Promoters	38.8
FIIs & DIIs	30.7
Public & Others	30.5

Comparison Chart



Valuation (x)	FY19A	FY20E	FY21E
P/E	38.6	30.3	22.9
EV/EBITDA	21.8	16.5	12.7
RoANW (%)	22.8	24.3	25.1
RoACE(%)	23.5	27.4	31.7

Outperformer in the AC Industry with 12.3% of market share

Since entering into the room air-conditioner category in FY11, Bluestar (BLSTR) has outperformed the industry by garnering 12.3% of market share. We continue to be optimistic on the growth prospects of the AC industry and the company considering low penetration levels (5%), hot-humid conditions, rising affordability and disposable income as well as availability of consumer finance. We continue to see BLSTR to grow on the back of increasing distribution network, rising market share and a trend of higher proportion of sales moving towards inverter AC's. Further, growth is aided by scale-up in commercial refrigeration production and turning around of water-purifier business. With priority of the current stable government towards infra space, the company is likely to witness health order book from large value contracts for the EMPS segment. Along with operating leverage benefit, in-house manufacturing of room AC's and higher share of product and service business in EMPS segment we are likely to see improvement in margin profile (+170 bps) enabling earnings CAGR growth of 30% over FY19-21E.Over the next five years, BLSTR's management has ambitious plan of growing revenues by 20% CAGR and profitability by 25% CAGR.

Preferred choice despite high competition

BLSTR is a preferred choice among aspirational customers due to is superior product performance, high technology focus and premium brand image. It has consistently increased market share from 7.5% in FY14 to 12.3% in FY19, despite increased competition intensity from local and MNC brands. The company has plans to outpace industry growth by increasing distribution outlets from 4500 to 6000 and higher market share of inverter ACs with expansion in northern region.

Margin Improvement with improving portfolio mix in EMPS segment

The margins are expected to improve with due to in-house manufacturing content, premiumisation of portfolio and turnaround in the water purifier category likely in FY21, With stable government formation and priority on infra space, the company plans to improve its portfolio mix in the EMPS segment with large value but fewer projects across verticals of buildings (airports, metro, railway, power transmission) and industrials projects (factories). In addition, the healthy rise in market share in central air-conditioning products such as chillers, VRF and ducted systems as well as rising exports and service income will aid growth with improved profitability for the segment

Healthy Cash flows and sustainable leverage position

The company has good distribution outreach both domestic and international, favourable market position and product-mix (both in UCP and EMPS), good return ratios, consistent strong cash flows and a sustainable leverage position enabling to provide good RoE and EPS growth prospects over the long run. **Hence, we initiate coverage with a *BUY* rating and a target price of ₹899 (P/E 27x FY21E)**

Summary Financials

Summary Financials(*₹mn*)	FY18	FY19	FY20E	FY21E
Revenue from Operations	46,481	52,348	59,909	69,704
EBITDA	2,659	3,465	4,586	5,894
EBIT	2,021	2,716	3,586	4,729
Net Profit	1,440	1,900	2,415	3,205
EPS	15.5	20.0	25.1	33.3
EBITDA Margin in %	5.7	6.6	7.7	8.5

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Blue Star Business Overview

Blue Star (BLSTR) was founded on 27 September 1943 and today it is a prominent player in the air-conditioning and commercial refrigeration industry in India, with a strong foothold in international markets.

The traditional central air-conditioning business has successfully morphed into a full-fledged electro-mechanical turnkey solutions provider, delivering superior project delivery. It's an integrated business model of being a manufacturer, installer and after-sales service provider, offering comprehensive solutions for the residential, commercial and infrastructure segments proved to be a significant differentiator in the market.

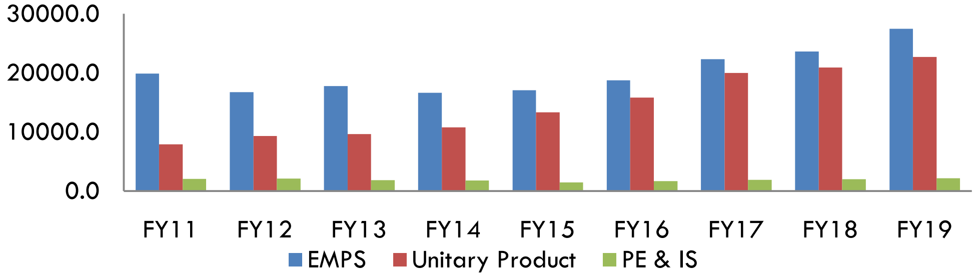
After its foray into room ACs in FY11, the company has become a brand to reckon with in the residential segment. It is further diversifying and entering new consumer durable categories such as air cooler, water purifier and air purifier.

With a turnover of over ₹52bn, it has a network of 32 offices, five modern manufacturing facilities, over 2,800 employees, and a robust channel management system comprising 3,000 channel partners, 1,000 retailers as well as 800 service associates reaching out to customers in over 800 towns. It exports to 19 countries across the Middle East, Africa, SAARC and ASEAN regions

The business activity is divided into three segments

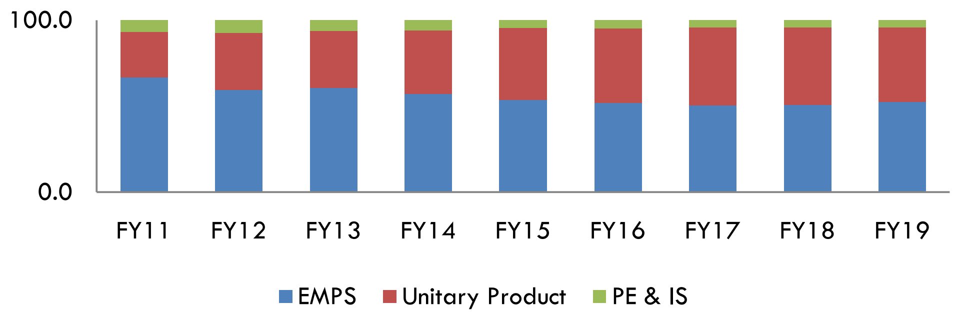
1. **Electro-mechanical projects and packaged air-conditioning systems (EMPS)** comprises of MEP works (mechanical, electrical and plumbing projects), central air-conditioning projects and packaged air-conditioning solutions like ducted systems, VRF and chillers. This segment accounted for 53% of FY19 revenues.
2. **Unitary cooling products (UCP)** consists of room air-conditioner (AC), commercial refrigeration products and other consumer products such as water purifier, air purifier and air cooler. This segment accounted for 43% of FY19 revenues.
3. **Professional electronics and Industrial systems (PE&IS)** provides products such as healthcare systems, data security solutions, infra security systems, communication systems, testing machines and industrial products. This segment accounted for 4% of FY19 revenues.

Segment-wise revenue trend (₹mn)



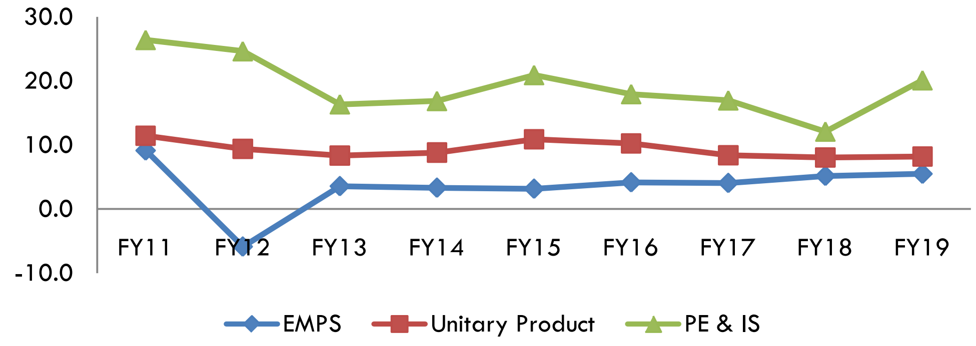
Source: Company, Way2Wealth Research

Segment-wise revenue mix (%)



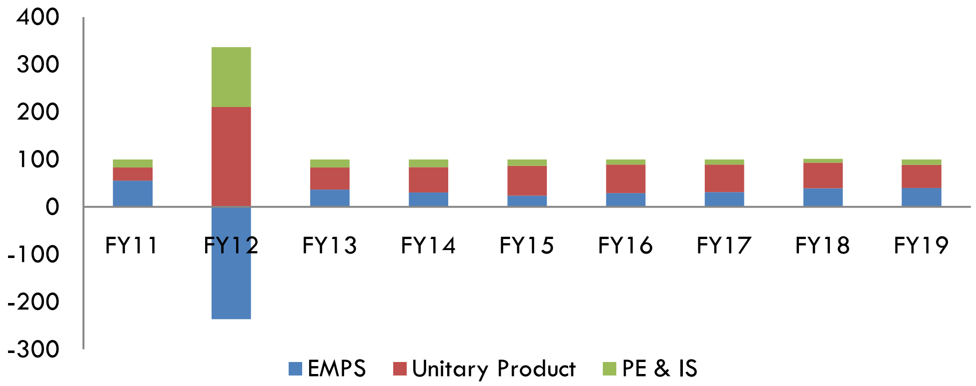
Source: Company, Way2Wealth Research

Segment-wise EBIT margin mix (%)



Source: Company, Way2Wealth Research

Segment-wise EBIT mix (%)



Source: Company, Way2Wealth Research

Least penetrated consumer durable product offers growth prospects

At around 5.5-6mn units (₹138bn in value), India is the second-fastest room air conditioners (RAC) market in the world among large economies. While the split AC segment accounts for 83% of the market, window AC forms 15% and multi split is 2%.

However, India has the lowest AC penetration (5%)in the top 10 RAC markets compared to other home appliances like colour television (65% penetration), refrigerator (23% penetration) and washing machines (13% penetration).

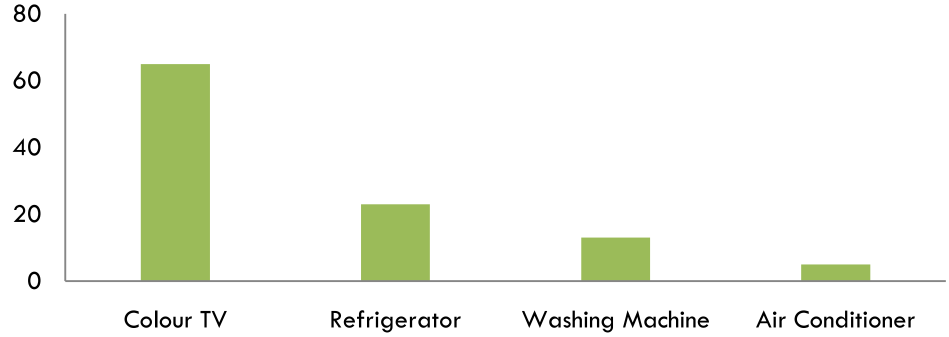
We believe India can sustain over 10-15% AC volume CAGR driven by rising urbanisation, cheaper financing options, growing disposable incomes (with easy access to credit and rising household income, the middle-class consumer spending also rises), rising temperatures and perhaps the most aspirational population amongst other economies of the world like China, Brazil and Russia.

Further, average life of an AC is eight years after which replacement demand kicks in, giving incremental avenues to tap existing customers.

Home Appliance	Size- FY18 (₹ bn)	CAGR (% FY10-18)	Size in units (mn)	Penetration level (%)	Key Players
Colour television	258	10.5	13.7	65	Sony, Samsung, LG, Panasonic
Refrigerator	228	14.4	12.3	23	LG, Samsung, Whirlpool, Godrej
Washing Machine	84	12.5	6.2	13	LG, Samsung, Whirlpool, IFB, Panasonic
Air- Conditioner	138	13.5	5.5	5	Voltas, LG, Daikin, Blue Star, Hitachi, Lloyd

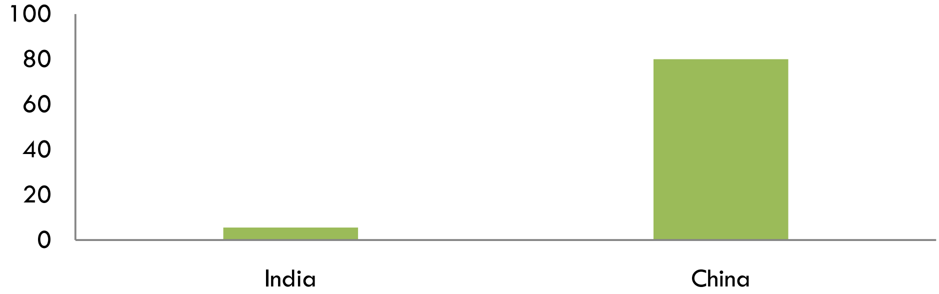
Source: CRISIL, Industry, Way2Wealth Research

Market penetration level in India (%)



Source: CRISIL, Industry, Way2Wealth Research

AC market size comparison of India and China (mn units)

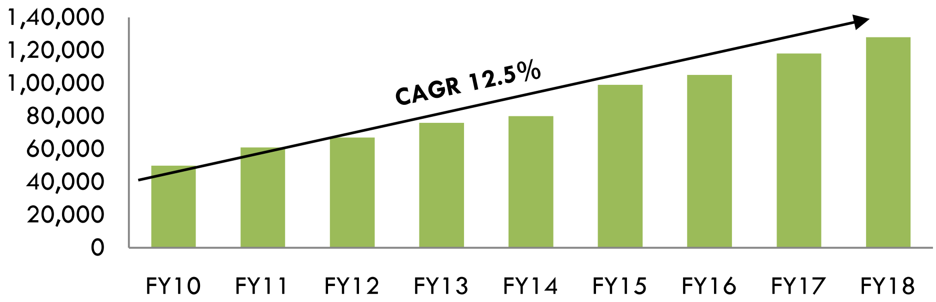


Source: CRISIL, Industry, Way2Wealth Research

AC industry moving towards Split AC

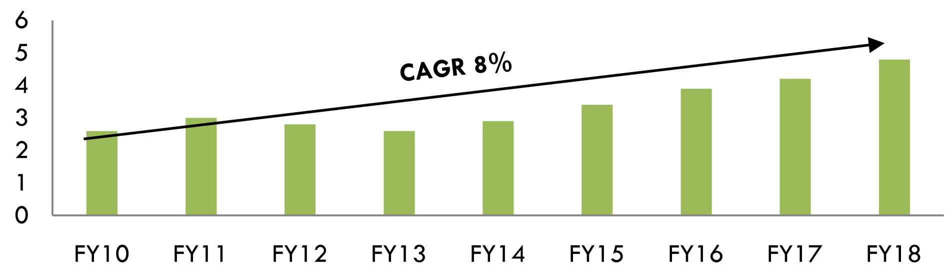
AC is available in two sub-categories, namely window and split AC. Over the past few years, the share of window AC steadily reduced from 40% in FY12 to 23% in FY18, in volume terms. Split ACs are preferred over window ACs despite being priced more by 1.2x to 1.3x times because of their zero-noise level, lower running costs (electricity consumption) and easier portability. Among all white goods products, Indians are most conscious of energy-efficient star rating standards in AC as it is a power guzzler. India's energy efficiency rating is comparable with global standards. Currently, the market share break-up between split and window AC categories is 78:22 in volume terms and 81:19 in value terms for the industry. The penetration of inverter AC is on the rise globally aided by new technology of variable flow as against fixed flow in split ACs. In India, the share of inverter ACs, as a percentage of split AC market, has risen rapidly from 12% two years ago to 40% in FY19 as inverter AC offers 30% higher energy efficiency which has driven its faster adoption. With rising volume, even the price gap between inverter AC and split AC has narrowed down to ~5%. As per CRISIL estimate, the share of split (including inverter) AC in total market size is likely to further rise to 89% in volume terms and 91% in value terms over the next five years. In terms of tonnage, 1.5tn is the largest product category with 55% share followed by 1tn with 37% share.

AC Industry growth trend in value terms (₹mn)



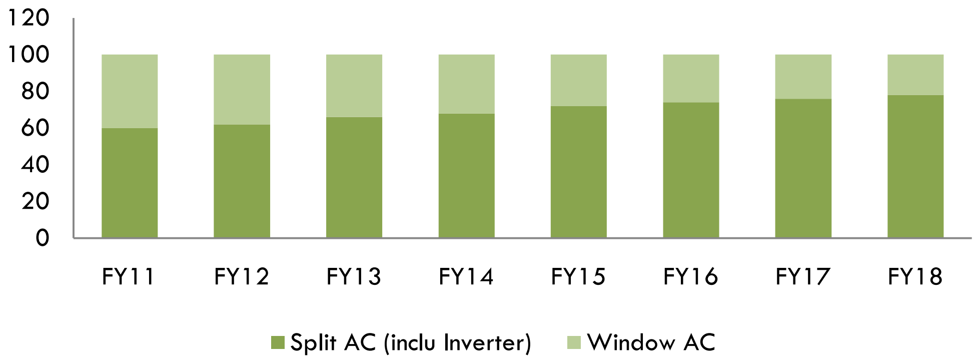
Source: CRISIL, Way2Wealth Research

AC industry growth trend – in volume terms (mn units)



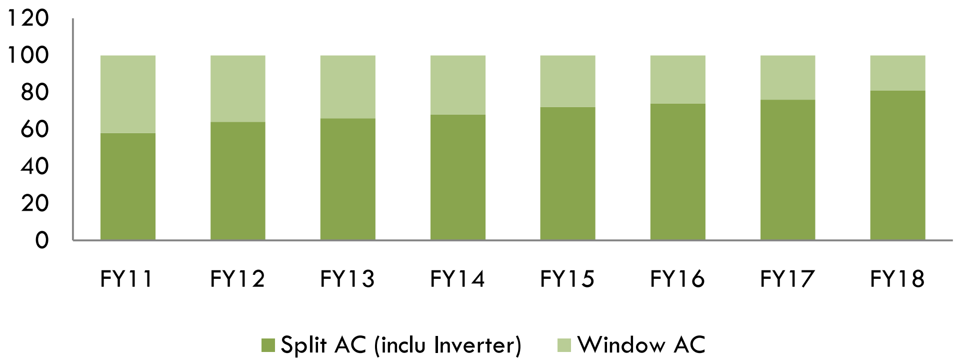
Source: CRISIL, Way2Wealth Research

Split and window AC share – value-wise (%)



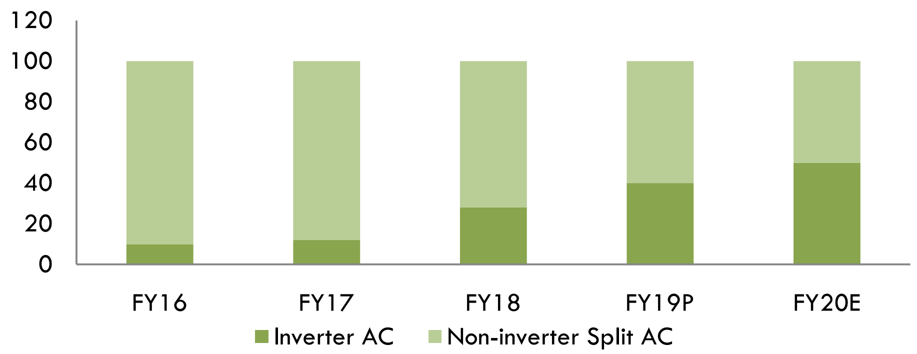
Source: CRISIL, Way2Wealth Research

Split and window AC share – volume-wise (%)



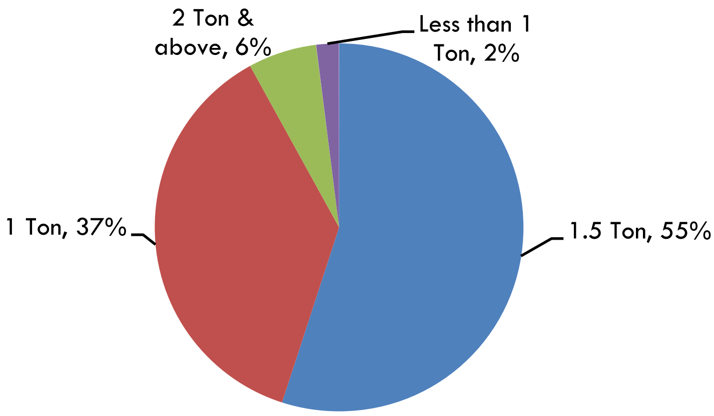
Source: CRISIL, Way2Wealth Research

Rising share of inverter AC (%)



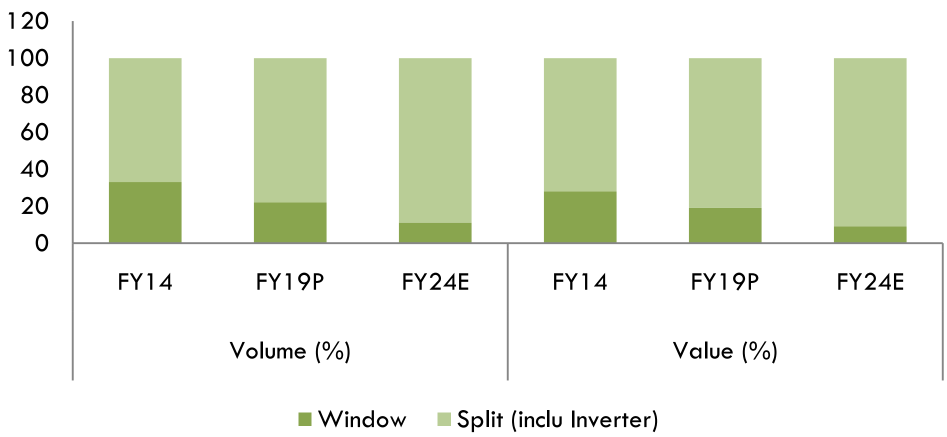
Source: CRISIL, Way2Wealth Research

Tonnage-wise AC industry share (%)



Source: CRISIL, Way2Wealth Research

Five Year forecast of Spilt and Window AC trend



Source: CRISIL, Way2Wealth Research

Tepid AC Industry in FY19 but things have fired up

FY19 was a difficult year for the AC industry owing to weak summer season with unseasonal rains and floods hitting large parts of the country during February to June resulting in inventory built up across brands and distribution channel. Further accentuating to the woes were the cost pressure owing to rise in commodity prices, depreciating Indian rupee (import content is high in AC at ~40-45%) as well as hike in customs duty by the India government (customs duty on fully built unit hiked from 10% to 20%, while customs duty on compressors were hiked from 7.5% to 10%). Lower sales, rising costs and intense competition to clear out inventory affected margins for all the players. The AC industry reported a sales decline of 3-4% in FY19, while operating margin fell 180bps-250bps. The situation has improved for FY20, even though things were not great till mid-March where there were average sales across brands. With elongated summer and deficient-delay in monsoons, AC sales have fired up in most parts of the country even leading to shortage in some of the markets where the demand is strong making the 1HFY20 probably the bumper season (40-45% growth) after many years of slow to moderate sales. Also, easy consumer finance has helped drive in number with nearly 90% of demand coming from split AC with inverter AC also seeing robust pick-up.

Heat wave conditions during April-June 2019 in Northern and Central India have made many companies to divert or double their manpower to AC business with many customers demanding same day installation.

Distribution network, R&D spend, In-house manufacturing and Brand positioning drivers to gain market share.

Despite Voltas being the industry leader with 24% market share, presence of around ~20 brands like LG, Daikin, Hitachi, Lloyd and with lot more low-priced brands of high import content, BLSTR has performed incredibly well with 12.3% of market share in last eight years since foraying into room air conditioner segment outpacing many MNC and well-established local brands based on its distribution network, R&D spend, in-house manufacturing, and brand positioning since consumer preference is now tilted towards brands which specialise in AC and not multi-product consumer durable firms.

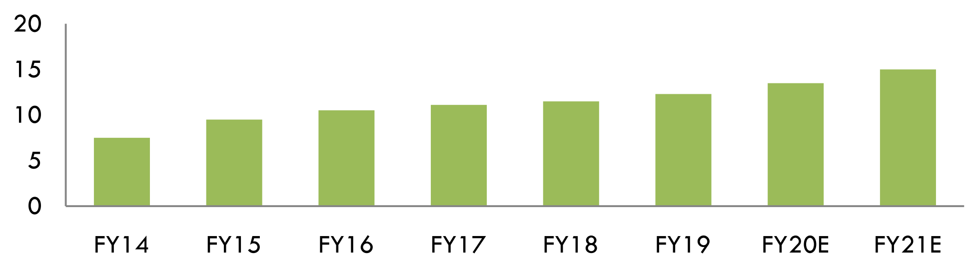
The company now offers high technology, high energy efficient and low noise products which are priced at a marginal premium of 5% to premium brands. With its focus on high technology, BLSTR has a higher market share and larger revenues from premium products such as inverter AC and five-star split AC. This has led to the company being a premium brand image among the aspirational class. Over the past five years, It's market share has consistently increased from 7.5% in FY14 to 12.3% in FY19, despite rising number of players in the AC industry including the entry of MNC brands with deep pockets. The company now has an installed base of over two million units with 52% revenues coming from Tier 3/4/5 towns.
The management targets to attain 15% market share by FY21E by sustaining the strong growth momentum and growing faster than the industry for which, it plans to - (a) Expand its distribution network. (b) Enhance R&D capabilities to offer best-in-class products and features. (c) Gold Standard customer service. (d) Reducing imports by above-industry in-house manufacturing content (e) sustained investment in advertising and brand communication to have a brand image as a premium player.

A. Focus on North India, distribution expansion and customer experience

Since its foray into room AC category in FY11, the company has consistently gained market share. Its market share has risen from 7.5% in FY14 to 12.3% in FY19, in value terms. It aims to increase the market share further to 13.5% in FY20E and 15% in FY21E, which will enable it to become the third-largest player. It aims to increase the market share on the back of measures such as increasing focus on North India market, structured distribution expansion, enhancing customer experience at the store level, strengthening premium brand image and backward integration for higher value addition. North India is India's largest AC market, but the company has a relatively lower market share in this region compared to its national average. By strengthening its distribution network in the northern region as well as more focused advertising, it intends to scale up its presence in North India. On an average, the regional revenue mix for the company is 35%-40% from southern region, 25%-27% from western and northern region each and the balance 10% from eastern region. In comparison, for the entire AC industry, northern region is the largest market accounting for 35%-38% of sales.

In terms of product portfolio, while it has differentiated products across all price points and all energy ratings, it has a higher market share in inverter AC owing to its high technology focus and premium brand image. Currently, it is ranked third behind LG and Daikin in the inverter AC segment and hence a rising share of inverter AC in the total AC industry is favourable for the company. The share of inverter AC in India has risen rapidly from 12% two years ago to 40% now, while in case of BLSTR, inverter AC accounts for 43% of total AC sales.

Rise in market share of BLSTR AC (%)

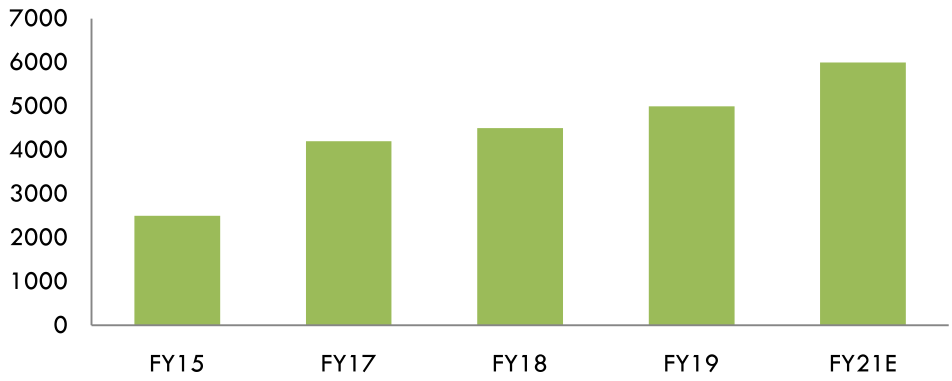


Source: Company, Way2Wealth Research

B. Expansion of distribution network along with improvement of depth of sales

In the past three years, distribution reach of the company has expanded from 2,500 outlets to 4,500 outlets on a pan-India basis. In FY21, the company targets to increase this reach to 6,000 outlets across 575 locations pan-India through exclusive as well as multi-brand sales outlets, sales & service dealers, retail showrooms, modern trade as well as on major e-commerce platforms. The company has a strong installation and service franchise network to support retailers. Currently, it has 200 exclusive brand stores in the country, and it plans to increase it to 250 stores by the end of FY20. Around 52% of the room AC sales are from smaller towns (Tier 3/4/5) since consumers in these markets are aspirational and prefer premium brands. Also, the company now aims to have its presence at all AC dealers who sell more than 500 units of ACs per year. There are approximately 4,000 such dealers in India and collectively they represent ~70% of the AC market. The core focus is the depth of sales (more sales per counter) rather than just breadth of the network (number of dealers).

Trend in distribution network expansion (Nos)



Source: Company, Way2Wealth Research

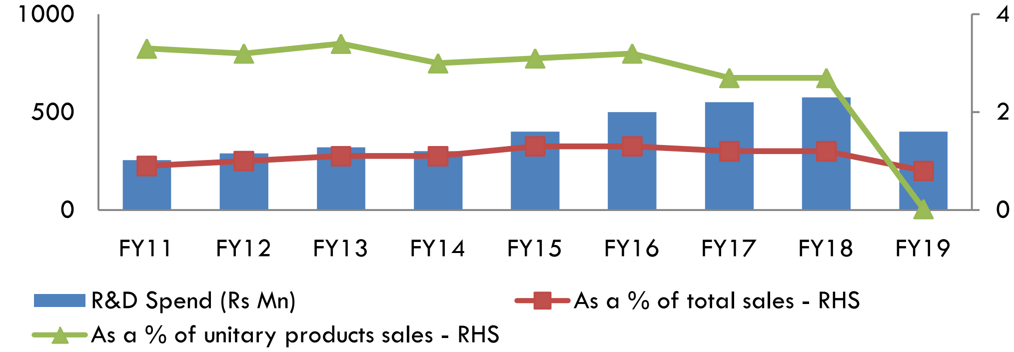
C. Investment in R&D to enhance product offerings

The company is known for launching break-through products based on cutting edge technology which offers innovative features and enhances a consumer's experience. It has high level of product development and testing skills and believes in consistent investment in R&D to enhance technical capabilities including electronics for digital and smart products. Some of the highly innovative and distinct features developed by BLSTR includes decimal cooling capabilities which offers precise temperature setting in the multiple of 0.1 degree Celsius, sound-proof acoustic jacket for the compressor for extra quiet performance, dual rotor technology for faster cooling and a built-in voltage stabiliser designed to operate smoothly from 160- 270 volts without the aid of an external voltage stabiliser.

Some of the newly introduced features in inverter AC includes faster temperature pull-down feature as ACs capable of delivering 30% extra cooling over and above their rated capacity, Wi-Fi enabled mobile-app operations and a smart budget management feature which enables users to smartly manage their budget by tracking their AC usage trend. The company aims to spend ₹500mn in FY20 as against ₹400mn in FY19 to develop customised, modern and sophisticated products. BLSTR is also investing in indigenising inverter technology (electronics and PCB) as well as plastic components.

It aims to enhance its R&D capabilities and plans to bring at least two break-through products every year. It is investing in areas such as solar, air purification and digital products. Aesthetically appealing water-cooler with internal water purifier is a key new product developed recently, which proved highly successful in the market place. It is currently working on new developments such as integrated AC with air purifier, hybrid model of air cooler with AC capabilities and solar air-conditioning.

Trend in R&D Spending



Source: Company, Way2Wealth Research

D. Customer Service of gold standard to be the differentiator and growth enabler

The company believes that customer service will continue to be its winning differentiator and a growth enabler. It aims to be the best-in-class gold standard in customer service in the next three years. It intends to use technology tools like apps, chatbot and data analytics to enhance customer experience. The company is one of the largest after-sales air-conditioning service providers in the country. Currently, it has 800 expert service associates across the country, which it intends to increase to 1,000 associates in FY20E. As part of its Gold Standard Service Programme, it offers superior after-sales service equipped with several customised smart applications, modernisation of tools as well as remote monitoring. All its services are ISO 9001-2008 certified.

E. Focus on in-house manufacturing by reducing import content

As for most industry peers, AC is an assembly-based trading business model owing to high import content. However, the company always had above-industry content of in-house manufacturing. It has reduced the import content from 45% two years ago to 35% now by localising plastic components for indoor cases as well as inverter drives. It aims to further reduce its import content to de-risk itself from rising trade barriers and rising cost of imports as well as to drive higher value addition. Domestic manufacturing and sourcing can help in driving higher value addition through backward integration, procurement, supply chain efficiency and margin improvement initiatives as well as help in faster changes in product aesthetics through the local knowledge of consumer's taste and preferences, which are changing at a faster pace.

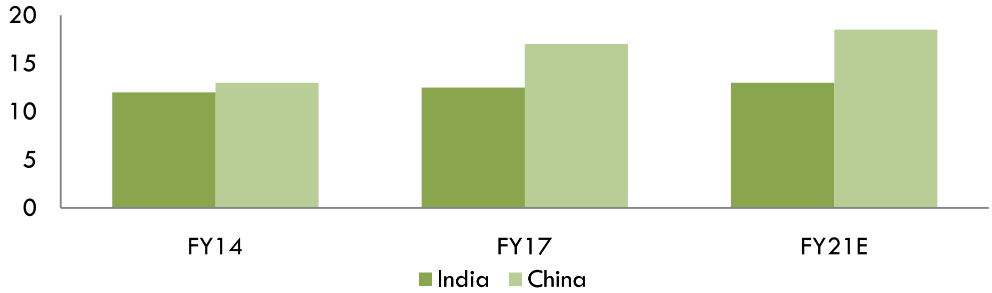
The company currently has five manufacturing plants located at Dadra (in the Union territory of Dadra & Nagar Haveli), Kala Amb (Himachal Pradesh – two facilities), Wada (Maharashtra) and Ahmedabad (Gujarat) with a manufacturing foot print of 100,000 sq. km. The company has decided to significantly enhance its manufacturing footprint by increasing localisation at existing plants, expand its Wada facility to manufacture water coolers and deep freezers as well as set up a new greenfield plant at Sri City in Andhra Pradesh.

The company aims to significantly de-risk its dependency on Chinese imports and plans to reduce import content in ACs from the current level of 35% to 20% in three years' time. The company is likely to import only compressor and some electronic chipsets, while it aims to make the remaining products in-house or source it from local vendors. The indoor unit (IDU) of an AC will be a key unit where maximum indigenisation will take place. Currently, 90% of IDU plastics is imported and aims to reduce it to zero in three years through in-house manufacturing (as it has achieved a decent scale now) and through local supply chain being developed by Indian EMS players. It currently has AC production capacity of 550,000 units spread across its two plants in Himachal Pradesh. This year, nearly half of that total capacity (around 250,000 units) will have IDU units which will be made indigenously. It has also tied up with two Japanese universities to indigenise the electronic drivers that are used in the outdoor units of split ACs.

The company plans to spend ₹1.4bn-₹1.5bn capex at Wada (Maharashtra) plant for brownfield expansion (to make water-coolers and deep freezers) while it is also building a greenfield manufacturing plant at Sri City in Andhra Pradesh, having 0.5mn unit AC capacity (in phase 1) and will service South and West India markets from this facility. Its existing plant at Himachal Pradesh will service North and East India markets. According to management, the consumer durable brands are likely to opt for a higher share of India-based manufacturing rather than relying on imports. The key reasons for the same are: (a) To improve value addition, which is the main driver to increase gross margin. (b) Trade barriers. (c) Forex fluctuations. (d) Rising commercial sense to manufacture in India owing to benefits of scale, cost and logistics.

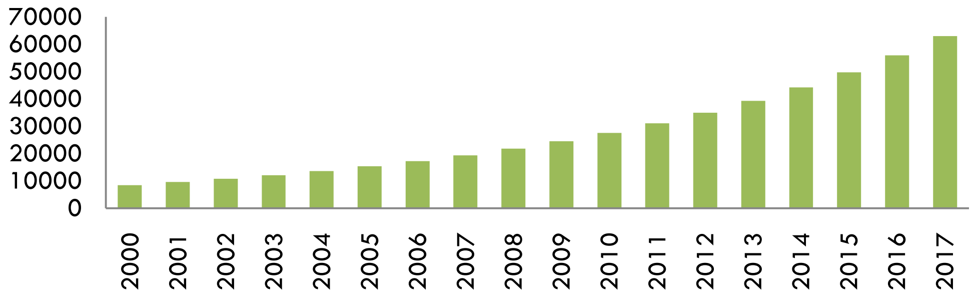
The company aims to increase its operating margin by 200bps till FY21 by having higher in-house manufacturing content in core products like inverter AC, PCB, and deep-freezers as well as by deploying latest technologies (process automation and digital technologies) for enhancing productivity and achieving higher value addition through backward integration, procurement and supply chain efficiency. The fact that other domestic brands (like Voltas) and MNC brands (like Midea) have also announced domestic manufacturing plants is an early indicator of a shifting business model from trading/assembly-based to in-house manufacturing-based. It is also a vindication that BLSTR's higher focus on above-industry in-house manufacturing content was the correct choice. Also rising manufacturing cost in China to trigger companies to manufacture in-house

Trend in labour and overheads as a percentage of total costs in India and China (%)



Source: Company, Way2Wealth Research

Rise in average annual manufacturing wage in China (RMB)



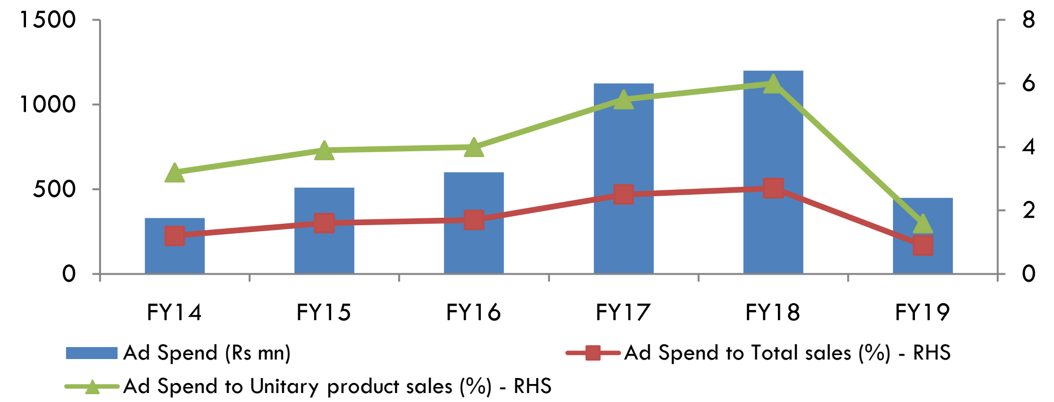
Source: Company, Way2Wealth Research

F. Investment in advertising and brand communication for brand sustenance

Consumers in the room AC segment are brand-conscious, preferring specialist air-conditioning players which has worked to the company's advantage, as it enjoys the reputation of being a premium and aspirational brand, and its rich pedigree and high-quality product-service array which auger well with this image. The company aims to strengthen the Blue Star brand with a value proposition of "Built on Trust." It aims to increase advertisement spending from 2.7% of product revenues to 3% in order to grow its image as a premium player. It also plans to increase digital media presence to engage with young customers.

The company plans to increase its advertising and brand spending to ₹550mn in FY20 versus ₹450mn in FY19. 70% to 75% of the annual advertisement spend is done during the summer season period of February to June. The company will continue to highlight its differentiated value proposition 'Nobody Cools Better' with a set of TV commercials, advertisements in mainline newspapers, cinema and hoardings. It also intends to enhance its digital marketing efforts in social media as well as the internet. The advertising efforts have been successful in building a premium brand image. The company has a higher advertisement expenditure outlay compared to peers such as Voltas and Whirlpool despite being smaller in size.

Trend of Advertising and sales promotion



Source: Company, Way2Wealth Research

Market Leader in commercial refrigeration products

BlueStar is the market leader in the commercial refrigeration category with a share of 32%. The key products in this category include deep freezer, bottle cooler, visi cooler/freezer, storage water cooler/dispenser, bottled water dispenser, ice cuber/flaker and cold room. The company is well entrenched at both retail and institutional level in terms of its distribution network. In terms of its revenue mix, retail sales and OEM accounts for 50:50 share. Deep freezers and modular cold rooms (MCR) are witnessing robust growth owing to expansion of e-tailers and portals such as Big Basket, Swiggy and Zomato along with aggressive expansion from Quick Service Restaurants (QSR) such as Jubilant FoodWorks, Hardcastle etc. In addition, dairy, ice-cream and food processing segments are also witnessing high growth.

The company has recently forayed into adjacent complementary categories such as kitchen refrigeration, medical refrigeration and retail refrigeration. The outlook on these categories is promising, considering the expansion plan of end-user industries such as food processing and cold chain logistics providers, pharmaceutical manufacturers and hospitals as well as large and medium format modern retail stores. The company has also forayed into product categories like air purifier, air cooler and water purifier. The air coolers, launched under 'Windus' sub-brand, are equipped with a unique cross-drift technology that helps in faster cooling in harsh and dry summer season. The range comes with different water tank capacities starting from 35 litres to 75 litres and a price range from ₹8,990 to ₹13,490. The air purifiers have been launched with innovative features such as SensAir technology and UV purification systems and are priced between ₹8,990 to ₹23,990. Among the three, water purifier is the largest and most promising category as it has the potential to grow exponentially.

Commercial product portfolio

Immense potential in water purifier

The company has forayed into the water purifier category in FY18. This category is witnessing strong growth of 20% as water quality is deteriorating while consumers are becoming more health conscious with the rise in disposable income. With a low penetration level of 6%, this category holds tremendous growth potential as it is a basic need of every household. Over the next 10 years, the penetration level is likely to increase to 20%-25% and the size of this industry is expected to be equivalent to that of the AC industry. The water purifier category also provides avenue for regular service income, which is another positive.

The market size of residential water purifier market is estimated to be ₹42bn with around 2.6mn units being sold every year in variants such as RO, UV, RO+UV. In terms of value, because of their higher price points, electric water purifiers account for around 80% of the market, while the balance comprises gravity-based water purifiers. The market is dominated by three players - Eureka Forbes, Kent RO and Live Pure.

The company garnered sales of ₹500mn in FY18 and ~₹1bn in FY19, thereby registering 2.5% market share. With a refreshed product portfolio, asset-light model, deeper market penetration, strong brand image and differentiated service network, it aspires to achieve 10% market share by FY21E. This implies a quantum jump in sales to ₹5bn in FY21, which would also help to turn the category profitable for the company as currently it is in the investment phase. In terms of product portfolio, it offers stylish, premium and differentiated range of RO+UV+UF products across price points from ₹10,900 to ₹44,900, while only UV purifiers are sold at price points ranging from ₹7,900 to ₹8,900. The product offers unique features such as cold and hot water, filter change alerts, aqua taste boosters and electronic dispensing. While the price points are competitive, the distribution network has also expanded to 2,800 touch- points across 150 towns through 200 channel partners. The retail presence will be further strengthened across the country by expanding the touch points to 3,500 outlets by end-FY20E.

This business is highly service-intensive with a regular need for replacement of consumables such as the sediment, carbon as well as RO membrane filters. Considering that currently the company is India's largest air-conditioning and refrigeration service provider, it aims to offer differentiated service in the water purifier category too and create new benchmarks in the industry. It has appointed over 100 service franchises which are being supported by a team of trained company engineers to lead the installation and service requisites, and strong service processes have been put in place.

It has partnered with O&M, India's leading creative advertising agency for the formulation of its communication strategy. The value proposition for the category is 'Choose Purity'. The company launched TV commercials with a message that it's purified water is best suited for them as they are the most vulnerable to water-borne diseases. This is being supported by advertisements in mainline newspapers and digital campaigns on social media and e-commerce channels. Just like in AC, BLSTR has adopted integrated marketing communication comprising mass media, field promotions, digital platform, press, events and social media. It has also undertaken an outdoor media campaign including branding of nearly 1,000 Uber cabs in all the metro cities.

While expanding its retail presence, it is doing extremely well in terms of online sales and has a higher market share than the three established peers. The share of online sales is much higher at 20% versus 6%-7% for the industry. This helps it to grow quicker than general trade channel as well as industry growth rate. It has exclusive models for the e-commerce channel comprising Amazon, Flipkart, PayTM and Tata CliQ.

While the company is currently offering residential water purifiers, it will gradually enhance its range to cover commercial water purification systems as well. This initiative is part of the company's aggressive growth plans to expand its presence in related new product categories.

Water purifier product portfolio

Setting up of overseas distribution networks for Unitary products

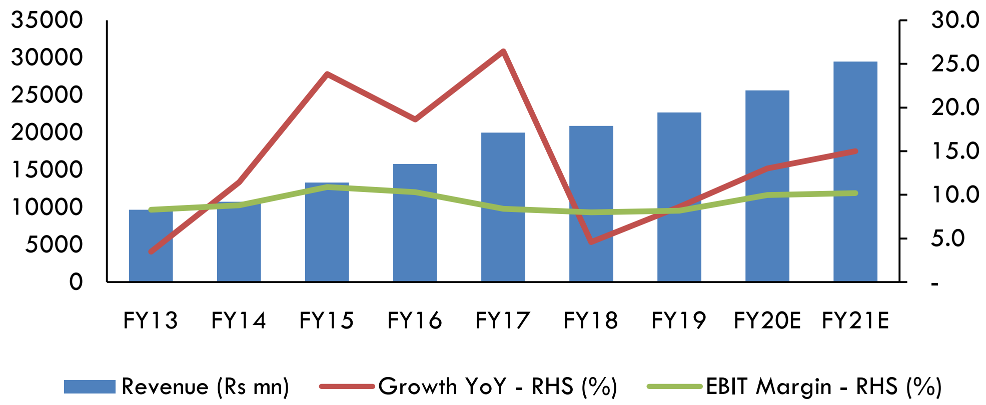
The company has presence in 19 countries with strong presence in MENA, Gulf and SAARC. Earlier it used to sell products only on enquiry basis across West Asian countries. But, over the past three years, it has started setting up overseas distribution networks. It has started to service West Asian countries. It is exploring to set up assembling units in Egypt and Bangladesh to comply with local laws. Recently it launched range of room AC, water-cooler, bottle water dispensers and water tank chillers for the Saudi Arabian market through an authorised distributor.

Unitary products segment poised to grow for the next two years

Room AC sales were subdued for FY19 for the company and the industry as a whole but the outlook bright for FY20 with delayed monsoon and heat wave in Northern and Central parts of India during April-June is likely to register healthy growth driven by driven by pent-up demand for ACs, strengthening distribution network, rising market share and improving revenue mix owing to a higher proportion of inverter ACs. Besides, scale-up in commercial refrigeration products and water purifiers will also aid growth. Further, the company had gone for a 5% price hike in 2QFY19 for its new product portfolio, whose full impact was realised in Q4FY19 and further to be realised in Q1FY20. We expect 15%/17% revenue growth in FY20E/FY21E, respectively.

Considering the impact on margin due to investment in the water purifier segment the EBIT margin which was 8.2% in FY19 and is likely to gain 150-200bps and regain its historical levels of 9-11% (as in FY14-16 prior to investment in water purifier segment) in coming two years as the water purifier business turns profitable in FY21. The capital employed for the segment for FY19 stood at ₹4.6bn as up from ₹3.85bn YoY with inventory build-up for the summer season across its product portfolio.

Unitary Product Revenue and Margin Trend



Source: Company, Way2Wealth Research

Infra priority to propel Electro-mechanical projects and packaged air-conditioning systems (EMPS) revenues

Government-propelled infrastructure investments are key drivers of growth for the industry. Sectors like metro rail, airports, healthcare, education, light industrial projects and commercial office complexes are likely to see significant capital expenditure over the next 10 years. In addition, infrastructure investments in tier 2/3/4 cities like shopping malls, retail complexes and airports are likely to further push growth. For the company, government investments in these sector augers well for Blue Star's Electro-mechanical projects and packaged air-conditioning systems (EMPS) segment which comprises of MEP works (mechanical, electrical and plumbing projects), central air-conditioning projects and packaged air-conditioning solutions like ducted systems, VRF and chillers. Considering the relatively subdued industrial capex as well as residential real estate sector in last few years, the company was highly selective in the project order it gave priority to healthy cash flow and profitability. However, considering the likely spurt in government-funded infrastructure projects, healthier pipeline of commercial construction and the initial signs of revival in industrial capex, the growth prospects for this segment is likely to improve.

Under the MEP and HVAC (heating, ventilation and air-conditioning), the company undertakes design, supply, installation and commissioning of large central air-conditioning projects, electrical projects, plumbing projects, fire-fighting projects as well as turnkey industrial projects. It offers value proposition in term of superior project delivery through intelligent engineering, modern execution practices and committed teams. The HVAC market in India is expected to touch US$7.7bn by 2022 and with government spending it create value growth to private-public enterprises.

The company aims to take MEP and HVAC projects which are larger in value, but fewer in numbers. The company did not increase the size of its order book materially over the past five to six years. It also aims to have an evenly balanced portfolio across the three verticals of buildings (hotels, hospitals, commercial towers etc), infrastructure (airports, metro, railway, power transmission) and industrial projects (factories E&M). While it intends to improve its market share in sectors such as airports, metros, railway redevelopment and power transmission, it is also evaluating entry into select adjacencies with high-margin opportunities within factory E&M, industrial EPC and infrastructure MEP.

The company continues to expand remote monitoring and intelligent diagnostics capabilities, while also scaling up engineering facility management services. It aims to enhance customer engagement and grow revenues from service by way of annual maintenance contracts as well as energy management, air management and water management solutions. 25% of BLSTR's service revenues come from maintaining products of other competing brands, which signifies tremendous scope to scale up the service vertical.

Gross Fixed capital formation trend (%)

Source: Company, Way2Wealth Research

Bank Credit/ GDP Growth (%)

Source: Company, Way2Wealth Research

Expertise in Central Air-conditioning projects

Blue Star is India's largest air-conditioning and refrigeration service provider, maintaining around 2mn tonnes of air-conditioning and refrigeration equipment. It has service reach of more than 3,000 towns and is handling more than 1mn service calls per year. For central air-conditioning projects, the company has expertise of over seven decades in system design, contracting, installation and maintenance. It provides expert turnkey cooling solutions to a variety of customers in the corporate, commercial and industrial sectors. It has significant market share in segments such as industrial, infrastructure, metro rail, power, hospitality, education, IT/ITeS, retail and healthcare. It has superior project management capabilities resulting in on-time delivery, high project quality and seamless coordination at all levels. The company continues to invest in technology and R&D to grow its business as well as profitability. It is growing higher than the market with key growth drivers being rising penetration in the northern region and network expansion.
Among central air-conditioning products, it has market leadership in ducted systems, which it aims to sustain and consolidate, while it also aims to increase market share in VRF and chillers and become the second-largest player. It aims to stay ahead of the curve by investing in technology, introducing advanced products as well as undertaking channel expansion. Configured chiller and ducted inverter were the highly successful new products developed recently.

Chillers, VRF and ducted systems– Industry leader with market share of 35%

The market size of central air-conditioning including packaged/ducted systems, VRF system and other ancillary equipment like chiller is expected to be ₹70bn. In the ducted system category, the company is the industry leader with a strong market share of 35%. It continues to innovate a new range of ducted system and has recently brought inverter technology in the ducted system which will help it to remain at the forefront of the industry and further grow its market share. The company has a market share of 16% in VRF system and 14% in chiller. In both VRF and chiller categories, it aims at growing its market share to 20% each in the near term and become the second-largest player.
The company developed its own VRF technology after its tie-up with Sanyo ended in 2008. In 10 years' time, it has attained technological expertise as well as self-sufficiency in manufacturing. The margin has increased 700bps as it started in-house manufacturing of VRF. Having mastered inverter technology, it aims to keep ahead of the curve in VRF systems as well. The company intends to aggressively grow its market share in VRF by strengthening the product mix and through channel expansion. Some of the new key products launched include: (a) VRF V Plus, a fifth generation VRF, which is 100% inverter based VRF system with higher output capacity (large capacity outdoor unit of 24HP to 28HP) and efficiency. (b) VRF Sprint, which is a pre-piped inverter based VRF system for residential application. It helps to cater to growing demand from Tier-3 markets as it enables system integrators to offer VRF technology in small towns. (c) VRF IV S is a side discharge inverter-based VRF system for medium-sized commercial applications. The demand for the product is driven by segments such as offices, educational institutes, industrial units, showrooms, healthcare, hospitality, banquet halls and retail shops.

Even in chillers, it aims to adopt the inverter technology soon. In its product portfolio, it has highly efficient centrifugal chillers, screw chillers, flexible and energy-efficient scroll chillers, process chillers for industrial and non-comfort cooling applications, air-cooled and water-cooled chillers. In FY19, while the chiller market grew in the range of 15% to 18%, BLSTR grew at a much rapid pace of 25% to 30%. The central air-conditioning products of the company are highly energy efficient as they offer power savings of up to 20% while maintaining precise internal cooling conditions.

A strong presence in products such as chillers, VRF and ducted systems has not only helped to register healthy growth in electro-mechanical project segment but has also been a key driver of profitability for the segment.

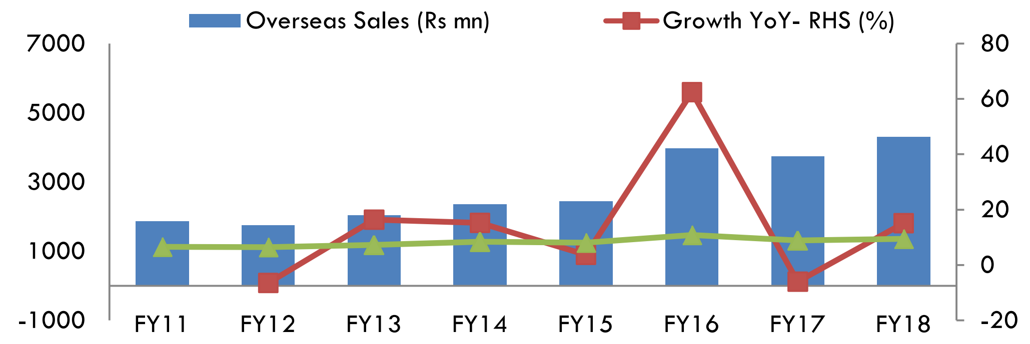
VRF product portfolio

Consolidate overseas projects and grow the exports of products

For executing international projects, it has three global joint ventures – one each in Qatar, Malaysia and Oman. The joint ventures in Qatar and Malaysia are old and small in terms of scale as the primary interest of BLSTR lies in product exports and not international project execution. In these two joint ventures, the collective investment is only ₹100mn to ₹150mn while they have total order book of ₹1bn to ₹1.5bn on an average. However, the joint venture in Oman faced cost overrun in its projects. After evaluating the business potential of Oman, the company decided to exit the country and wind up the joint venture. Consequently, it has made provision of ₹50mn in 2QFY19 and ₹145mn in 3QFY19 towards its share of the loss as well as its residual exposure in the JV. The company does not expect any further loss to arise from Oman and the legal and procedural formalities to wind up the JV are expected to conclude in a few months.

The company intends to significantly grow its product exports. Its key markets are the UAE, Oman, Qatar, Nigeria, Egypt, Saudi Arabia, Bangladesh, Sri Lanka and Vietnam which contribute 80% to its export revenues. It aims to increase its export revenues from ₹3bn currently to ₹7.5bn in the next three to five years by increasing its market share in key geographies stated above as well as entering new countries. The key geographies continue to be Middle East, Africa, SAARC and ASEAN region where BLSTR has maximum focus. The expansion of international footprint will be done through enhancing the reach of distributors, dealers, channel partners as well as associates. It also opened its first international state-of-the-art exclusive showroom in Dubai in 4QFY19. This showroom would display the complete range of the company's latest energy-efficient products to serve the UAE market. The growth outlook on UAE market is buoyant owing to upcoming mega events such as Dubai World Expo 2020 and FIFA World Cup in Qatar. Along with air-conditioning and refrigeration products, it also exports central cooling products like VRF and chillers as well as ancillary products such as water coolers along with after-sales services and system integration in global markets.

Overseas sales trend



Source: Company, Way2Wealth Research

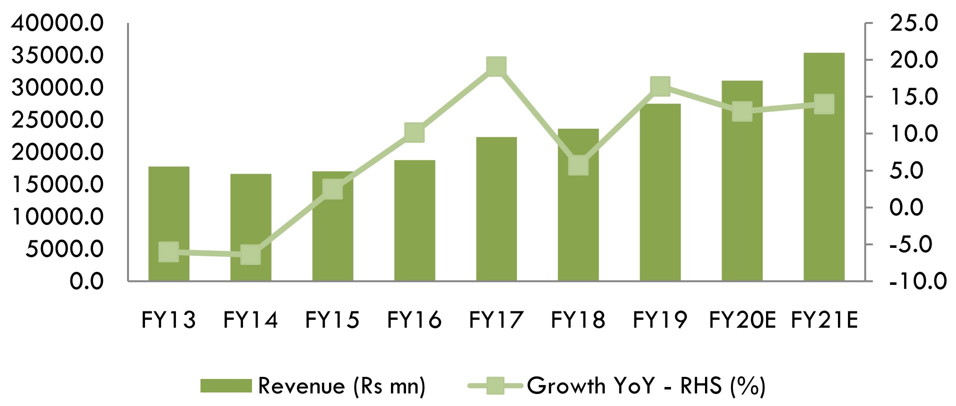
Central air-conditioning products as well as rising exports will aid EMPS growth

The EMPS segment registered healthy execution with revenues growing 16% in FY19 driven by increased pace of execution of projects in the Electro–Mechanical projects business and enhanced sales of chillers and VRF systems in the Commercial Air conditioning business. However, increase in input costs and the impact of rupee depreciation and upward revision in custom duties impacted the profitability of this segment. The order backlog stood at ₹24.3bn as of compared to ₹20.2bn as of FY18. The company targeting to take large-value projects amid the rise in infrastructure, buildings and industrial projects, the outlook for the next two years is bright. In addition, scale-up in central air-conditioning products such as chillers, VRF and ducted systems as well as rising exports will aid revenue growth. We expect the EMPS segment to post 13%/14% YoY growth in FY20E/FY21E, respectively. FY19 EBIT margin stood at ~6%, up 30bps YoY. With a rising share of product and service revenues, we are factoring in a 40-45bps improvement in the EBIT margin profile over FY20-21E

Order book trend of EMPS segment

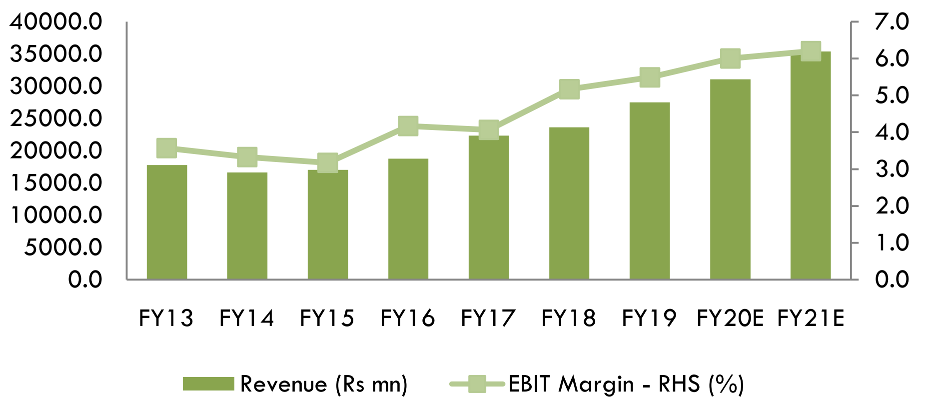
Source: Company, Way2Wealth Research

EMPS Revenue trend



Source: Company, Way2Wealth Research

EMPS Revenue and Margin trend



Source: Company, Way2Wealth Research

Moving business model from a distributor to that of a system integrator and a value added re-seller

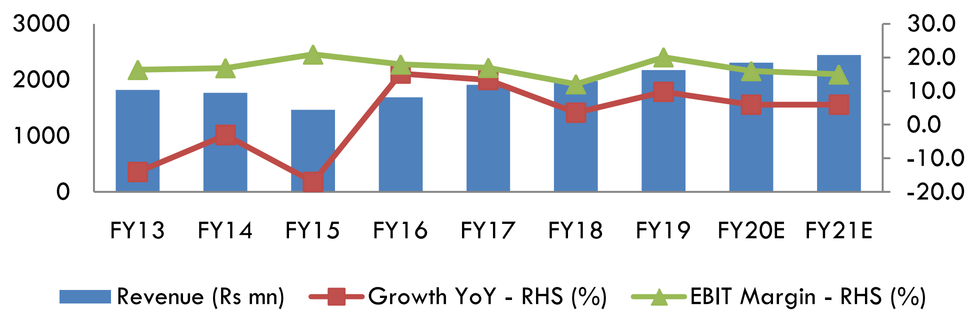
The professional electronics and industrial systems (PE&IS) segment comprises business lines such as healthcare systems, data security solutions, infra security systems, communication systems, testing machines and industrial products. This is the smallest segment, accounting for 4.2% of its FY19 revenues. For over six decades, the professional electronics and industrial systems business has been the exclusive distributor in India for many internationally renowned manufacturers of hi-tech professional electronic equipment and services, as well as for industrial products and systems. Over the years, the company has significantly scaled up operations in this business and has moved up the value chain by changing its business model from being merely a distributor to that of a system integrator and value-added re-seller. This business is handled by Blue Star Engineering & Electronics, a wholly owned subsidiary. The business operates in two broad segments - professional electronics comprising healthcare systems, data security solutions, infra security solutions and communication systems and industrial systems that encompasses testing machines, non-destructive testing (NDT) systems and industrial automation, NDT products and industrial products. The business has been successful in capturing the pulse of the market and has carved out a profitable niche for itself in most specialised markets that it operates in.

Professional electronics segment is growing on increased orders in the data security systems and healthcare businesses. The healthcare systems business is registering good growth against the backdrop of a significant large order for CT scanners from the government, medical and health services sector, which was bagged in FY18. This order secured from the Government of Uttar Pradesh was the largest order ever secured in this arena. A major portion of this order was executed in FY19 and to be completed by 1HFY20. The data security business is performing well aided by digitisation initiatives with orders from major banks, certification authorities, telecom and payment technology companies. The infra security business, which mainly revolves around video surveillance, and the communication systems business that largely deals with radio frequency, microwave as well as avionics test and measuring equipment, are receiving good orders from the defence, space and aerospace sectors. The industrial products business, which mainly transacts in industrial valves and pumps, is witnessing subdued demand, barring good orders from the paper industry.

The company to expand the addressable market by launching adjacent products in sectors such as healthcare, data security and non-destructive testing systems. It also plans to evaluate new opportunities in industrial robotics, 3D printing, non-radiology medical devices and railway safety testing. It is open to exploring joint ventures to augment capabilities and enhance value addition.

With multiple growth opportunities across several verticals, we expect the segment to sustain its healthy growth traction and are factoring in a 6% revenue CAGR over FY19E-FY21E. The FY19 EBIT margin stood at 20%, up 400bps YoY, we are factoring in EBIT margin of 16% for FY20E/FY21E, respectively.

PE & IS segment Revenue and Margin trend



Source: Company, Way2Wealth Research

Strong Financials aid growth

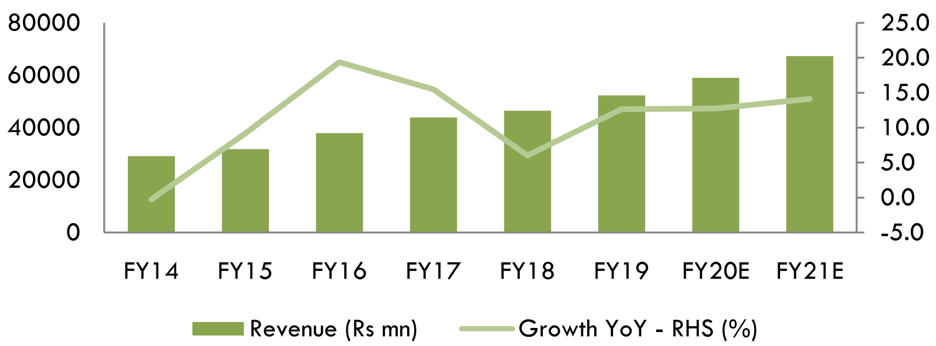
Over past six years from FY14-19, the company has posted strong revenue and earnings CAGR growth of 12% and 20% respectively. We expect it is likely to continue, on the back of rising penetration of AC's from a low base enabled by strong distribution network, rising market share and improving revenue mix (more of inverter ACs). Scaling up its commercial refrigeration products and water purifier will also aid growth

Priority push in infra space with a stable government formation will enable build up of healthy order book of large value projects for the EMPS segment for better growth prospects

We expect the company to leverage benefit out of in-house manufacturing of room ACs, turnaround of water purifier and improving revenue mix of EMPS segment (higher share of product and service business) to have improvement of 170 bps in the margin profile over FY19-21E from 6.6% to 8.3% translating to 30% EBITDA CAGR.

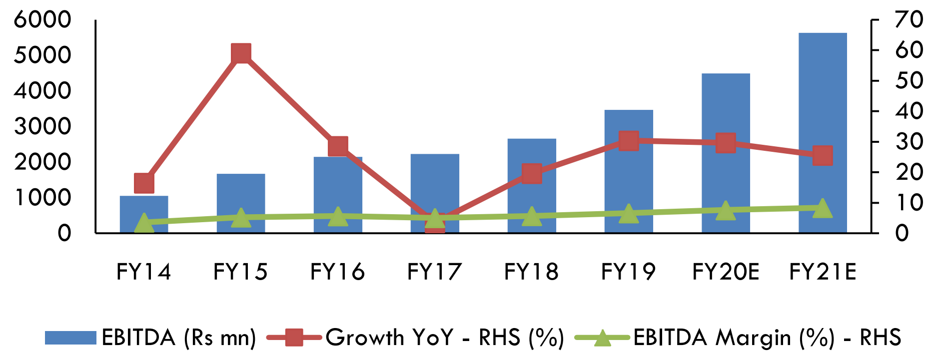
Over next five years, the management has ambitious plans of growing revenues by 20% CAGR and profitability by 25% CAGR.

Revenue CAGR of 15% over FY19-21E



Source: Company, Way2Wealth Research

EBITDA CAGR of 30% over FY19-21E

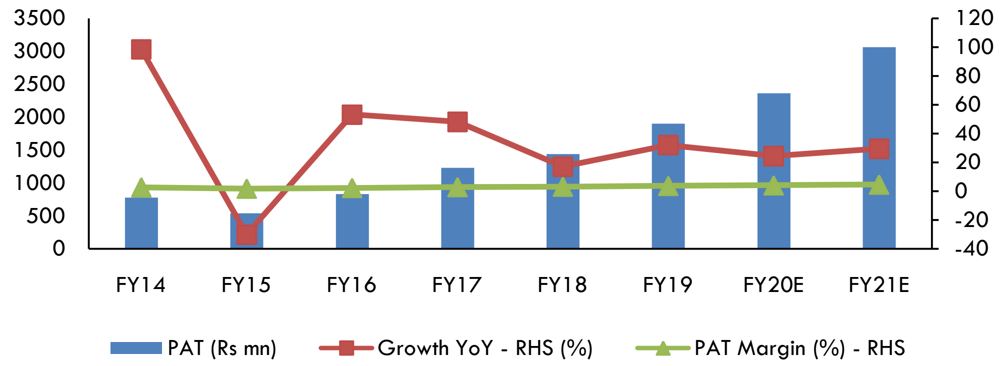


Source: Company, Way2Wealth Research

Improvement in return ratios

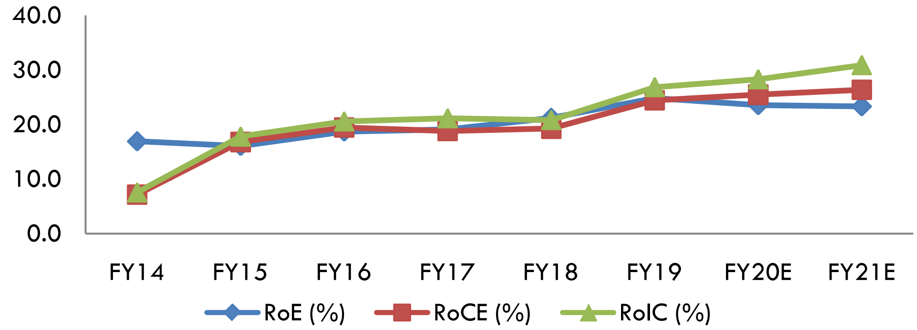
The company has seen an improvement RoE from 19.1% to 24.8% over FY17-19 even with demonetisation, GST, increase in raw material cost, and unseasonal summer rains (in FY19). In the current scenario, considering external factors like trade-wars and uncertainty over material cost in the medium to long term, we expect the RoE to remain at 23-24%. With cost-optimisation, improving share of product and service business, distribution outreach and with delayed but normal summer we are likely to see improvement in margins of unitary segment and the water purifier segment turning profitable in FY21E. All these factors into play, we are likely to see the operating profits to expand leading to rising profitability enabled by steady leverage position(Debt-Equity of 0.3-0.4x) enabling RoCE/RoIC to rise to 27%/32% in FY21E, from the current levels of 24%/27% respectively.

PAT CAGR of 30% over FY19-21E



Source: Company, Way2Wealth Research

Return Ratios trend



Source: Company, Way2Wealth Research

Growth in free cash flow generation to continue

The company has generated consistent positive cash flow from operations of ₹12.9bn and free cash flow of ₹8.5bn in last six years which we continue to see over FY19-21E (of ₹5.7bn) driven by rising profitability even with planned capacity expansion at Wada and Sri-City plants and maintenance capex of ₹750mn-1bn per annum.

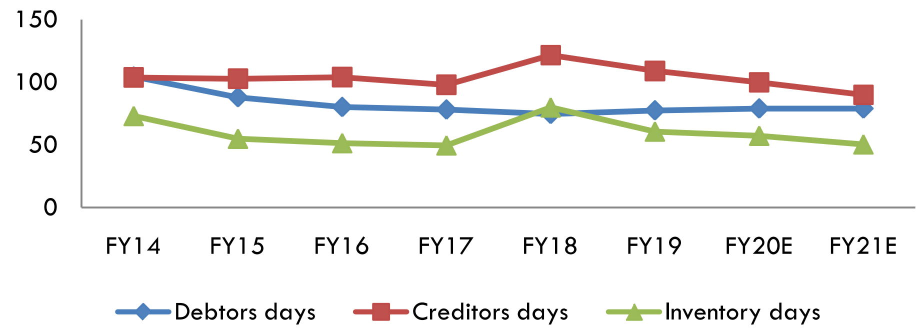
Cash Flow Metrics (₹mn)

Source: Company, Way2Wealth Research

Working Capital Cycle to remain slightly stretched

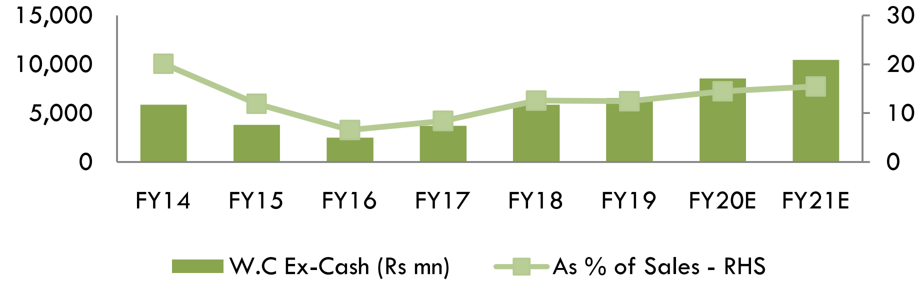
Even though the ex-cash working capital cycle for the company has improved from 20.4% of sales in FY14 to 12.5% of sales in FY19 driven by foray into room AC segment in FY11 (revenue mix towards B2C), we foresee the W.C cycle to be stretched over FY19-21E due to increase in debtor days which is likely to increase marginally from the current 78 days to 79-80days.The inventory days during this period is likely to fall from 61 days to 50 days and the creditors days to fall from 109 days to 90 days to have better balance sheet strength despite 12% revenue CAGR and capex outlay for two plants.

Debtor and inventory days decline over FY14-17



Source: Company, Way2Wealth Research

W.C Ex-Cash to Sales trend

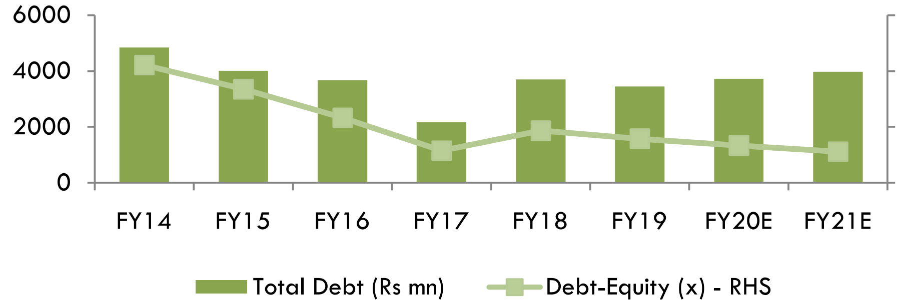


Source: Company, Way2Wealth Research

High Fixed asset turnover ratio with low leverage position

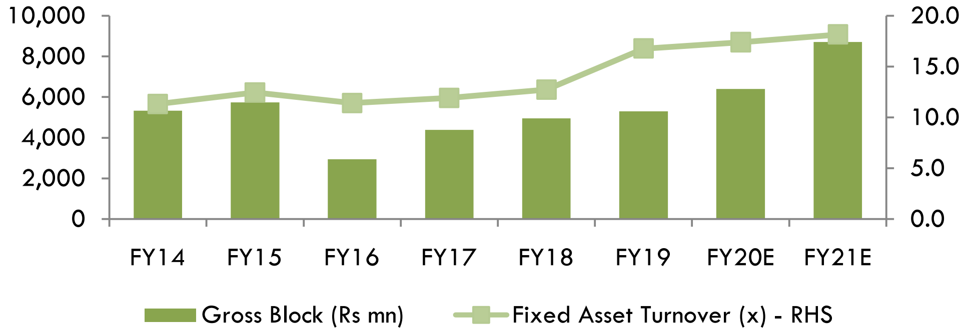
The management has indicated that 0.5x is the optimum debt-equity ratio below which the company would not like to operate. Historically the company has debt-equity ratio of 0.4-0.5x we are likely to see it around 0.3-0.4x owing to rise in net worth even with rising capex on capacity expansion as well as a greenfield manufacturing plant at Sri City. With Gross block of ₹5.2bn for FY19-end and fixed asset turnover of 16.8x we continue to see it debt-equity ratio 0.2-0.4x levels on the back of improved revenue from commercial products, scaling up in international market and improved services.

Low leverage position



Source: Company, Way2Wealth Research

Consistent Fixed asset turnover ratio



Source: Company, Way2Wealth Research

Key Risks

- Significant slowdown in consumer spending could impact industry demand and affect revenue growth.
- AC is a seasonal product and has high dependence on the summer season. Any permanent shift in the weather pattern that reduced the intensity of the summer season in India can impact the growth prospects of AC industry.
- Any unforeseen rise in competitive intensity could impact the margins.
- Any adverse change in terms of trade could lead to elongation in the working capital cycle.
- Any disruption in manufacturing plants could impact the availability of products.
- Wild fluctuations in commodity prices, if they cannot be passed on to the consumers, could impact profitability.
- Any adverse government policies that may favour imports instead of local manufacturing could impact it's competitive position.
- Any execution challenges in existing EMPS projects could affect the revenue growth and margin profile.
- Any slowdown in capex from government-funded infrastructure projects, commercial building construction and industrial projects could impact the order inflow traction.

Peer Comparison

(₹ mn)

Financial Comparison	Blue Star				Voltas				Whirlpool			
Y/E Mar,	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E	FY18	FY19	FY20E	FY21E
Revenue	46,481	52,348	59,909	69,704	64,044	71,241	80,498	92,830	48,319	54,781	61,921	70,548
Growth(%)		*12.6*	*14.4*	*16.4*		*11.2*	*13.0*	*15.3*		*13.4*	*13.0*	*13.9*
EBITDA	2,659	3,465	4,586	5,894	6,626	6,117	6,802	8,262	5,600	6,124	7,571	8,734
Growth(%)		*30.3*	*32.4*	*28.5*		*(7.7)*	*11.2*	*21.5*		*9.4*	*23.6*	*15.4*
EBITDA Margin (%)	5.7	6.6	7.7	8.5	10.3	8.6	8.5	8.9	11.6	11.2	12.2	12.4
Net Profit	1,440	1,900	2,416	3,205	5,779	5,657	6,127	7,444	3,507	4,190	4,854	5,695
Growth(%)		*32.0*	*27.1*	*32.7*		*(2.1)*	*8.3*	*21.5*		*19.5*	*15.8*	*17.3*
EPS (₹)	15.5	20.0	25.1	33.3	17.5	16.7	18.5	22.5	27.6	32.0	38.2	44.8
Book Value (₹)	83	91	116	150	106	113	132	154	142	167	200	235
EV	76,810	76,587	76,533	75,711	195,672	196,161	195,494	194,653	181,440	178,821	191,551	191,264

Valuation (x)												
CMP (₹)	**761**				**634**				**1597**			
P/E	50.7	38.6	30.3	22.9	36.7	37.5	34.6	28.5	58.0	50.0	41.9	35.7
P/BV	9.2	8.4	6.6	5.1	6.0	5.7	4.9	4.2	11.3	9.6	8.0	6.8
EV/ EBITDA	28.6	21.8	16.5	12.7	31.7	34.5	30.9	25.3	32.4	29.2	25.3	21.9
EV/Sales	1.6	1.4	1.3	1.1	3.3	3.0	2.6	2.3	3.8	3.3	3.1	2.7

Return Ratio (%)												
RoE	21.2	24.8	23.9	24.0	16.9	15.6	15.1	15.7	21.3	20.7	20.8	21.0
RoCE	19.2	24.4	25.8	27.1	23.2	21.1	21.2	22.0	28.3	26.2	27.8	28.7
RoIC	20.8	26.9	28.7	31.7	25.1	22.5	22.7	23.8	149.8	132.7	135.4	138.6

Financials

(₹ mn)

Income Statement	FY18	FY19	FY20E	FY21E
Total Revenues	**46,181**	**52,348**	**59,909**	**69,704**
Total Expense	**43,822**	**48,883**	**55,323**	**63,811**
COGS	34,550	39,312	44,240	51,194
Employee Cost	3,977	4,215	4,493	4,949
Other Expenses	5,296	5,356	6,590	7,667
EBITDA	**2,659**	**3,465**	**4,586**	**5,894**
Depreciation	638	749	1,000	1,164
EBIT	**2,021**	**2,716**	**3,586**	**4,728**
Interest	287	479	485	483
Other Income	170	247	313	278
Exc. / E.O. items	53	27	0	0
PBT	**1,956**	**2,511**	**3,413**	**4,524**
Tax	494	420	998	1,320
Profit/Loss share of associates	0	0	0	0
Minority Interest	22	191	0	0
RPAT	1,440	1,900	2,415	3,205
Adjustments	0	0	0	0
Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)	**1,440**	**1,900**	**2,415**	**3,205**

(₹ mn)

Balance Sheet	FY18	FY19	FY20E	FY21E
Sources of Funds				
Equity Capital	192	193	193	193
Reserves & Surplus	7,735	8,538	10,980	14,212
Minority Interest	15	18	18	18
Net Worth	**7,927**	**8,731**	**11,173**	**14,404**
Total Debt	3,699	3,445	3,774	4,113
Deferred Tax Liability (Net of Deferred Tax Assets)	(1,136)	(1,076)	(1,076)	(1,076)
Total Capital Employed	**10,506**	**11,119**	**13,890**	**17,460**
Applications of Funds				
Net Block	3,653	3,120	3,377	3,668
CWIP	184	308	308	308
Investments	132	146	146	146
Current Assets, Loans & Advances				
Inventories	10,171	8,693	9,397	9,615
Receivables	9504	11,121	12,967	15,087
Cash and Bank Balances	806	1,009	1,392	2,553
Loans and Advances	324	312	447	526
Other Current Assets	5825	7,149	9,005	10,386
Total: Current Assets, Loans & Advances	***26,663***	***28,283***	***33,208***	***38,166***
Current Liabilities & Provisions				
Payables	15,487	15,663	16,413	17,187
Other Current Liabilities	4,609	5,105	6,736	7,641
Total: Current Liabilities & Provisions (-)	***20,096***	***20,738***	***23,149***	***24,289***
Net Current Assets	**6,537**	**7,545**	**10,059**	**13,338**
Total Assets	**10,506**	**11,119**	**13,890**	**17,460**

(₹ mn)

Cash Flow Statement	FY18	FY19	FY20E	FY21E
Net Profit / (Loss) Before Tax	**2,073**	**2,714**	**3,583**	**4,726**
Depreciation	638	749	1,000	1,164
Net Interest	170	247	313	278
Direct Taxes Paid	(494)	(420)	(998)	(1,320)
Change in Working Capital (Non-Cash)	(2,160)	(736)	(2,130)	(2,118)
Other	(399)	(123)	897	897
(A) Net Cash Flow from Operating Activities	**(172)**	**2,431**	**2,665**	**3,627**
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(577)	(340)	(1,258)	(1,455)
Free Cash Flow	**(750)**	**2,091**	**1,406**	**2,173**
Inc./ (Dec.) in Investments	(23)	(14)	0	0
(B) Cash Flow from Investing Activities	**(600)**	**(354)**	**(1,258)**	**(1,455)**
Issue of Equity/ Preference	1	1	0	0
Inc./(Dec.) in Debt	1,538	(254)	329	338
Interest exp net	(287)	(479)	(485)	(483)
Dividend Paid (Incl. Tax)	(707)	(1,127)	(867)	(867)
(C) Net Cash Flow from Financing Activities	**544**	**(1,859)**	**(1,023)**	**(1,012)**
Net Change in Cash	(164)	99	383	1,161
Opening Cash balances	966	806	1,009	1,392
Closing Cash balances	806	1,009	1,392	2,553

Ratios	FY18	FY19	FY20E	FY21E
(A) Margin (%)				
Gross Profit Margin	25.7	24.9	26.2	26.6
EBIDTA Margin	5.7	6.6	7.7	8.5
EBIT Margin	4.3	5.2	6.0	6.8
Tax Rate	25.3	16.7	29.2	29.2
Net Profit Margin	3.1	3.1	4.0	4.6
(B) As Percentage of Net Sales				
COGS	74.3	75.1	73.8	73.4
Employee	8.6	8.1	7.5	7.1
Other	11.4	10.2	11..0	11.0
(C) Measures of Financial Status (x)				
Gross Debt / Equity	0.5	0.4	0.3	0.3
Interest Coverage	7.0	5.7	7.4	9.8
Average Cost of Debt	9.8	13.4	13.4	12.3
Debtors days	75	78	79	79
Inventory days	80	61	57	50
Payable days	122	109	100	90
Working Capital days	51	53	61	70
FA T/O	12.7	16.8	17.7	19.0
(D) Measures of Investment				
EPS (₹) (excl EO)	15.0	19.8	25.2	33.4
CEPS (₹)	21.6	27.6	35.6	45.5
DPS (₹)	8.6	11.7	10.6	10.6
Dividend Payout (%)	57.5	59.3	42.0	31.6
Profit Ploughback (%)	50.9	49.3	64.1	73.0
Book Value (₹)	83	91	116	149
RoANW (%)	18.6	22.8	24.3	25.1
RoACE (%)	17.7	23.5	23.2	23.5
RoAIC (%) (Excl Cash & Invest.)	23.3	27.4	31.7	34.5
(E) Valuation Ratios				
CMP (₹)	761	761	761	761
P/E (x)	50.7	38.6	30.3	22.9
Market Cap. (₹ Mn.)	73,037	73,265	73,265	73,265
MCap/ Sales (x)	1.6	1.4	1.2	1.1
EV (₹ Mn.)	75,927	75,701	75,647	74,825
EV/Sales (x)	1.6	1.4	1.3	1.1
EV/EBDITA (x)	28.6	21.8	16.5	12.7
P/BV (x)	9.2	8.4	6.6	5.1
FCF/ Yield (%)	0.8	2.2	1.9	3.0
Dividend/Yield (%)	1.0	1.3	1.2	1.2
EBITDA/OCF	(15.4)	1.4	1.7	1.6
EBITDA/Free cash flow	(3.5)	1.7	3.3	2.7

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