

# Blue Star Ltd. (BLUESTAR)

Sensex	40,357
Nifty	11,895

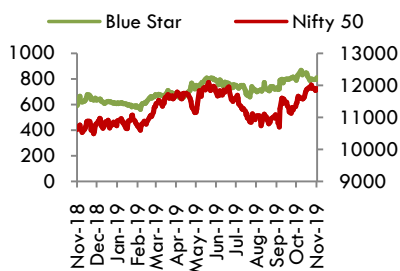
## Key Stock Data

CMP	₹810/-
Market Cap (₹mn.)	₹77,966
52W High/Low	881/560
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



## Summary

**Blue Star Ltd. (BLUESTAR) reported strong revenue growth of 21% YoY to ₹12,494.7mn, with the EMPS segment registering growth of 24.2% YoY/25.6% QoQ to ₹7,835.4mn driven by health order book and strong execution. UCP segment grew 10% YoY to ₹3,772.1mn in line with market rate enabled by increased billing across all product categories.**

## Key Result Highlights

- Revenue grew by 21% YoY to ₹12,494.7mn (+25.6% QoQ from ₹15,754.5mn) driven by EMPS segment with revenue growth of 24.2% YoY and 25.6% QoQ to ₹7,835.4mn.
- EBITDA grew by 26.7% YoY to ₹735.8mn (declined by 35.9% QoQ from ₹1,148.5mn) due to decline in other expenses by 25.2% YoY to ₹1,223.2mn (decline of 24.2% QoQ from ₹1,614.7mn). Raw Material cost and staff expense grew by 32.5% YoY and 12.9% YoY to ₹9,340.7mn (-21.1% QoQ from ₹11,844.8mn) and ₹1,195mn (+4.2% QoQ from ₹1,146.5mn) respectively.
- EBITDA Margins grew by 26 bps YoY to 5.9%; declined 140bps QoQ from 7.3% attributing to order execution in the EMPS segment and increased revenue from UCP segment
- Other income grew 2.2x YoY to ₹106mn on higher interest receipts worth ₹45mn from income tax refunds
- Interest cost declined 41.8% YoY/17.5% QoQ to ₹67.9mn due to effective management of working capital and lower cost of borrowing.
- The company would not opt for the reduced income tax rate of 25.2% owing to unavailed MAT credit worth ₹670mn
- Net Profit grew by 35.7%YoY to ₹379.4mn (-50.6% QoQ from ₹768.4mn) with Net profit margin at 3%.

## Unitary Cooling products (UCP) Highlights

- The Unitary cooling products (UCP) segment had sales of ₹3,772.1mn (+10% YoY/-58.4% QoQ) driven by increased billing in all product categories.
- The Room AC industry grew 10% YoY during the quarter.
- As per the management, the company has maintained its market share of 12.5%
- QoQ the company witness room AC growth of 25% compared to market growth of 21%
- Low end products (also enabled by online sales) saw improved demand with 60% of demand from Tier 3-4 & 5 cities, with purchased enabled by consumer financing companies.
- As per the management, by the end of FY20 the company would like to manufacture 20% of indoor units from Himachal Pradesh plant and take it to 70-80% by FY21.
- The company plans to launch ACs incorporated with Air-purifiers.
- Commercial refrigeration products (30% of UCP revenue) saw drop in sales YoY primarily from chillers but grew 6% QoQ.
- Commercial refrigeration products during the quarter saw good demand from processed foods, dairy and hospitality industries.

	FY19	FY20E	FY21E
Net Sales	52,349	59,909	69,704
Growth (%)	12.6	14.4	16.4
EBIDTA	3,466	4,586	5,894
EBIDTA Margin (%)	6.6	7.7	8.5
PAT	1,901	2,410	3,208
EPS	19.8	25.0	35.2
PE	41.0	32.4	23.1

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- As per the management, 100,000 unites of water purifier was installed by the company with sales growth as per expectation. The company was able to have 2-3% of market share enabled by realignment of distribution channels to have a large base. Top 3 player have 70-75% of market share.
- As per the management, there was significant reduction of inventory levels industrywide by Sep'19.
- The management has guided industry growth of 10-12% and has maintained its margin in this segment to be at 9.5-10% with revenue growth of 15-18% for FY20.

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

- The Electro-Mechanical Projects & Packaged AC Systems (EMPS) segment revenues grew 24.2% YoY/ 25.6% QoQ to ₹7,835.4mn driven by healthy order book with demand for centralised AC products led to increase in revenue from commercial AC system.
- New commercial AC products are seeing good traction with growth faster than the market enabled by better outreach in Tier 2-3 cities
- The EBIT margin during the quarter declined 141 bps YoY to 5.7% due to increase in input and overhead costs.
- There was an order inflow growth of 11.2% YoY from ₹7143.4mn to ₹7,943.5mn with a major order from JSW Steel, Safdarjung hospital, ISRO Sriharikota etc.
- Order book as on 30-September-19 was at ₹29.35bn a growth of 32.4% YoY from ₹22.19bn.
- The management has cautioned with regards to pace of execution of projects with slowdown in credit flow and liquidity issues in real estate and infra projects.
- The company is also facing delay in payments from government project but no major issues from orders.
- The company plans to bid for more metro and airport projects.
- The management has maintained margin guidance of 4.5-5.5% and revenue growth of 12% for FY20.

### Other business Highlights

- The professional electronics segment revenues grew 52.5% YoY to ₹887.2mn (+98.8% QoQ from ₹446.2mn), with EBIT margins growth of 594bps YoY/1,763bps QoQ to 27.5%, due to receipt of high value orders relating to Data security solution and non-destructive testing business. As per the management, increase in digitisation along with government initiatives would also enable revenue growth in this segment.
- The management has guided an EBIT margin of 15-20% for FY20.

### Valuations & Recommendation

We maintain our estimates on the back improvement in sales of cooling products and order execution in the EMPS segment enabled by better working capital management backed by health order book and enhanced distribution reach. We expect a CAGR earning growth of 33% over FY19-21E. **We maintain our BUY with a target price of ₹878 (P/E 25x FY21E)**

**Consolidated Financials**

	Q2FY20	Q2FY19	VAR [%]	Q1FY20	VAR [%]
(₹mn)					
<b>Revenue from Operations</b>	<b>12,494.7</b>	<b>10,322.0</b>	<b>21.0</b>	<b>15,754.5</b>	<b>(20.7)</b>
Raw Material Consumed	7,183.8	5,070.3	41.7	7,741.7	(7.2)
Purchase of stock in trade	1,783.1	1,283.2	39.0	2,362.3	(24.5)
Stock Adjustment	373.8	693.6	(46.1)	1,740.8	(78.5)
<i>RMC as a %age of sales</i>	<i>74.8%</i>	<i>68.3%</i>		<i>75.2%</i>	
Employee Expenses	1,146.5	1,058.4	12.9	1,146.5	4.2
<i>EPC as a %age of sales</i>	<i>9.6%</i>	<i>10.3%</i>		<i>7.3%</i>	
Other Expenses	1,614.7	1,635.8	(25.2)	1,614.7	(24.2)
<i>Other Expenses as a %age of sales</i>	<i>9.8%</i>	<i>15.8%</i>		<i>10.2%</i>	
<b>EBIDTA</b>	<b>735.8</b>	<b>580.7</b>	<b>26.7</b>	<b>1,148.5</b>	<b>(35.9)</b>
<i>EBIDTA Margins %</i>	<i>5.9%</i>	<i>5.6%</i>		<i>7.3%</i>	
Other Income	106.0	49.3	115.0	216.6	(51.1)
Depreciation	216.4	169.1	28.0	203.2	6.5
<b>EBIT</b>	<b>625.4</b>	<b>460.9</b>	<b>35.7</b>	<b>1,161.9</b>	<b>(46.2)</b>
Interest	67.9	116.7	(41.8)	82.3	(17.5)
Exceptional items	(17.1)	(27.2)	(37.1)	0.0	NA
<b>PBT</b>	<b>540.4</b>	<b>317.0</b>	<b>70.5</b>	<b>1,079.6</b>	<b>(49.9)</b>
Tax	168.8	78.4	115.3	325.2	(48.1)
Profit/(Loss) from Associates & JVs	9.3	42.0	(77.9)	14.8	(37.2)
Minority Interest	1.5	1.1	36.4	0.8	87.5
<b>Profit After Tax</b>	<b>379.4</b>	<b>279.5</b>	<b>35.7</b>	<b>768.4</b>	<b>(50.6)</b>
<b>EPS</b>	<b>3.9</b>	<b>2.9</b>		<b>7.9</b>	

**Segment Performance**

	Q2FY20	Q2FY19	VAR [%]	Q1FY20	VAR [%]
(₹mn)					
<b>REVENUES</b>					
Electro-Mech.Projects & Packaged AC Systems	7,835.4	6,309.7	24.2	6,239.4	25.6
Unitary Cooling products	3,772.1	3,430.6	10.0	9,068.9	(58.4)
Professional Electronics & Indus Sysys.	887.2	581.7	52.5	446.2	98.8
<b>Total Segment Revenue</b>	<b>9,099.8</b>	<b>10,322</b>	<b>(11.8)</b>	<b>15,754.5</b>	<b>(42.2)</b>
<b>EBIT</b>					
Electro-Mech.Projects & Packaged AC Systems	445.6	447.5	(0.4)	335.3	32.9
<i>Margin %</i>	<i>5.7%</i>	<i>7.1%</i>		<i>5.4%</i>	
Unitary Cooling products	119.6	82.0	45.9	989.1	(87.9)
<i>Margin %</i>	<i>3.2%</i>	<i>2.4%</i>		<i>10.9%</i>	
Professional Electronics & Indus Sysys.	244.3	12.6	94.5	44.2	452.7
<i>Margin %</i>	<i>27.5%</i>	<i>21.6%</i>		<i>9.9%</i>	
<b>Segment Capital Employed</b>					
Electro-Mech.Projects & Packaged AC Systems	5,841.0	5,510.5	6.0	5,669.4	3.0
Unitary Cooling products	3,303.3	4945.0	(33.2)	2,292.6	44.1
Professional Electronics & Indus Sysys.	30.2	461.1	(93.5)	(244.0)	(112.4)
Unallocable	(119.1)	(2930.1)	(95.9)	1,751.3	106.8
<b>TOTAL</b>	<b>9,055.4</b>	<b>89.21</b>	<b>(13.4)</b>	<b>9,469.2</b>	<b>(4.4)</b>

**Financials**

(₹ mn)

Income Statement	FY18	FY19	FY20E	FY21E
<b>Total Revenues</b>	<b>46,181</b>	<b>52,348</b>	<b>59,909</b>	<b>69,704</b>
<b>Total Expense</b>	<b>43,822</b>	<b>48,883</b>	<b>55,323</b>	<b>63,811</b>
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
<b>EBITDA</b>	<b>2,659</b>	<b>3,466</b>	<b>4,586</b>	<b>5,894</b>
Depreciation	638	749	1,000	1,164
<b>EBIT</b>	<b>2,021</b>	<b>2,716</b>	<b>3,586</b>	<b>4,728</b>
Interest	287	479	494	498
Other Income	170	247	313	298
Exc. / E.O. items	53	27	0	0
<b>PBT</b>	<b>1,956</b>	<b>2,512</b>	<b>3,405</b>	<b>4,528</b>
Tax	494	420	1,002	1,148
Profit/Loss share of associates	0	0	0	0
Minority Interest	22	191	0	0
RPAT	1,440	1,901	2,403	3,380
Adjustments	0	0	0	0
<b>Net Earnings (Loss) After Provision for Losses/write offs/ Tax (PAT)</b>	<b>1,440</b>	<b>1,901</b>	<b>2,403</b>	<b>3,380</b>

(₹ mn)

Balance Sheet	FY18	FY19	FY20E	FY21E
<b>Sources of Funds</b>				
Equity Capital	192	193	193	193
Reserves & Surplus	7,735	8,731	10,974	14,209
Minority Interest	15	18	18	18
<b>Net Worth</b>	<b>7,927</b>	<b>8,731</b>	<b>11,167</b>	<b>14,402</b>
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)
<b>Total Capital Employed</b>	<b>10,506</b>	<b>11,119</b>	<b>13,884</b>	<b>17,581</b>
<b>Applications of Funds</b>				
Net Block	3,653	3,422	3,522	3,537
CWIP	184	308	308	308
Investments	132	146	146	146
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	10,171	8,693	6,093	7,517
Receivables	9,504	11,121	10,669	14,323
Cash and Bank Balances	806	1,009	1,481	1,923
Loans and Advances	324	312	479	558
Other Current Assets	5,825	7,149	9,005	10,386
<b>Total: Current Assets, Loans &amp; Advances</b>	<b>26,663</b>	<b>28,283</b>	<b>27,703</b>	<b>34,541</b>
<b>Current Liabilities &amp; Provisions</b>				
Payables	18,988	19,594	17,795	17,187
<b>Total: Current Liabilities &amp; Provisions (-)</b>	<b>19,704</b>	<b>20,464</b>	<b>18,665</b>	<b>21,945</b>
<b>Net Current Assets</b>	<b>7,315</b>	<b>7,820</b>	<b>9,908</b>	<b>13,590</b>
<b>Total Assets</b>	<b>10,506</b>	<b>11,119</b>	<b>13,884</b>	<b>17,581</b>

(₹mn)

Cash Flow Statement	FY18	FY19	FY20E	FY21E
<b>Net Profit / (Loss) Before Tax</b>	<b>2,073</b>	<b>2,714</b>	<b>3,583</b>	<b>4,726</b>
Depreciation	638	749	1,000	1,164
Net Interest	170	247	313	296
Direct Taxes Paid	(494)	(420)	(1,002)	(1,148)
Change in Working Capital (Non-Cash)	(2,881)	(351)	(1,610)	(3,288)
Other	(399)	(124)	897	897
<b>(A) Net Cash Flow from Operating Activities</b>	<b>(831)</b>	<b>2,815</b>	<b>3,180</b>	<b>2,647</b>
Capex {Inc./ (Dec.) in Fixed Assets n WIP}	(296)	(924)	(1,100)	(1,179)
<b>Free Cash Flow</b>	<b>(1,127)</b>	<b>1,891</b>	<b>2,080</b>	<b>1,468</b>
Inc./ (Dec.) in Investments	(23)	(14)	0	0
<b>(B) Cash Flow from Investing Activities</b>	<b>(319)</b>	<b>(938)</b>	<b>(1,100)</b>	<b>(1,179)</b>
Issue of Equity/ Preference	1	1	0	0
Inc./ (Dec.) in Debt	1,538	(254)	329	338
Interest exp net	(287)	(479)	(494)	(498)
Dividend Paid (Incl. Tax)	(707)	(1,127)	(867)	(867)
<b>(C) Net Cash Flow from Financing Activities</b>	<b>544</b>	<b>(1,859)</b>	<b>(1,032)</b>	<b>(1,026)</b>
Net Change in Cash	(157)	201	472	270
Opening Cash balances	966	809	1,009	1,488
Closing Cash balances	806	1,009	1,481	1,923

Ratios	FY18	FY19	FY20E	FY21E
<b>(A) Margin (%)</b>				
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	29.4	25.3
Net Profit Margin	3.1	3.1	4.0	4.8
<b>(B) As Percentage of Net Sales</b>				
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
<b>(C) Measures of Financial Status (x)</b>				
Gross Debt / Equity	0.5	0.4	0.3	0.3
Interest Coverage	7.0	5.7	7.3	9.5
Average Cost of Debt	9.8	13.4	13.7	12.6
Debtors days	75	78	65	75
Inventory days	80	61	37	39
Payable days	120	107	108	110
Working Capital days	57	55	60	71
FA T/O	13.8	15.3	17.0	19.7
<b>(D) Measures of Investment</b>				
EPS (₹) (excl EO)	15.0	19.8	25.0	35.2
CEPS (₹)	21.6	27.6	35.3	47.2
DPS (₹)	8.6	11.7	9.0	9.0
Dividend Payout (%)	57.5	59.3	36.1	25.6
Profit Ploughback (%)	50.9	49.3	63.9	74.4
Book Value (₹)	83	91	116	150
RoANW (%)	18.6	22.8	24.2	26.3
RoACE (%)	17.7	23.5	23.2	24.6
RoAIC (%) (Excl Cash & Invest.)	23.3	27.4	31.9	33.7
<b>(E) Valuation Ratios</b>				
CMP (₹)	810	810	810	810
P/E (x)	54.1	41.0	32.4	23.1
Market Cap. (₹ Mn.)	77,966	77,966	77,966	77,966
M Cap/ Sales (x)	1.7	1.5	1.3	1.1
EV (₹ Mn.)	80,845	80,391	80,248	80,144
EV/Sales (x)	1.7	1.5	1.3	1.1
EV/EBDITA (x)	30.4	23.2	17.5	13.6
P/BV (x)	9.8	8.9	7.0	5.4
FCF/ Yield (%)	0.3	1.8	2.7	1.9
Dividend/Yield (%)	0.9	1.2	1.1	1.1
EBITDA/OCF	(3.2)	1.2	1.4	2.4
EBITDA/Free cash flow	(2.4)	1.8	2.2	4.5

**Team**

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**Disclosure of Interest Statement in Blue Star Ltd. as on November 18, 2019**

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
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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