

Estimate change



TP change



Rating change

Bloomberg	BLSTR IN
Equity Shares (m)	96
M.Cap.(INRb)/(USDb)	81.2 / 1.1
52-Week Range (INR)	1025 / 452
1, 6, 12 Rel. Per (%)	-6/11/14
12M Avg Val (INR M)	108

Financials & Valuations (INR b)

Y/E Mar	2021P	2022E	2023E
Sales	42.6	55.2	66.9
EBITDA	2.4	3.1	4.0
PAT	1.0	1.6	2.4
EBITDA (%)	5.6	5.7	6.0
EPS (INR)	10.4	16.9	25.2
EPS Gr. (%)	-31.9	62.4	48.6
BV/Sh. (INR)	91.9	100.4	113.0

Ratios

Net D/E	0.1	0.2	0.1
RoE (%)	11.3	16.9	22.3
RoCE (%)	10.8	14.1	17.9
Payout (%)	1.2	50.0	50.0

Valuations

P/E (x)	80.9	49.8	33.5
P/BV (x)	9.2	8.4	7.5
EV/EBITDA (x)	34.3	26.4	20.5
Div Yield (%)	0.0	1.0	1.5
FCF Yield (%)	4.5	0.2	1.8

Shareholding pattern (%)

As On	Mar-21	Dec-20	Mar-20
Promoter	38.8	38.8	38.8
DII	21.6	22.5	22.8
FII	11.1	10.4	8.8
Others	28.6	28.4	29.6

FII Includes depository receipts

CMP: INR843
TP: INR700 (-17%)
Sell

Muted operating performance; risks increase in FY22

Washout summer season likely in case lockdown is extended in May'21

- As expected, BLSTR posted a weak 4QFY21 revenue, with a flat two-year revenue CAGR. EBITDA came in below our estimate as rising commodity costs, coupled with an increase in competitive intensity, weighed on margin.
- The commentary on RAC industry trends suggests that events like a lockdown in Apr'21 (and the ongoing extension into May'21), rising commodity costs, and higher competitive intensity poses a risk to earnings in FY22. We cut our FY22E/FY23E EPS estimate by 17%/6%. At the CMP, the UCP business of BLSTR is trading at 50x FY23E EPS, thus indicating an unfavorable risk reward. Maintain **Sell** with a TP of INR700 per share.

Commodity cost inflation weighs in on margin

- 4QFY21 snapshot:** Revenue grew 24% YoY (flat two-year CAGR) to INR16.1b and was in line with our estimate. EBITDA came in 11% below our expectation at INR1.02b, indicating weak operating performance. EBITDA margin stood at 6.3% v/s our estimate of 7.2%. Other income jumped to INR398m on account of sale of property worth INR320m. Reported PAT came in at INR680m and was 10% above our expectation.
- FY21 snapshot:** Revenue declined 21% YoY to INR42.6b. EBITDA fell 15% to INR2.4b. EBITDA margin stood at 5.6% (down 30bp YoY). Adjusted PAT declined 32% YoY to INR1b.
- Key segmental highlights: a) EMP** – Revenue increased 18% YoY to INR7.8b, in line with our expectation. PBIT margin stood at 6.2% v/s our estimate of 4.8%. EMP revenue declined 22% YoY to INR22.2b in FY21. PBIT margin stood at 4.8% v/s 4.3% last year. Order book stood at INR29.5b (flat YoY). **b) UCP (Unitary Cooling Products)** – Revenue increased 31% YoY to INR7.8b, 10% ahead of our estimate. On account of the poor PBIT margin of just 7.9%, absolute PBT was 12% below our expectation. Revenue declined 19% YoY to INR18.7b in FY21. PBIT margin stood at 5.8% v/s 7.1% last year.

Key takeaways from the management interaction

- Unprecedented increase in raw material and freight costs led to a 5-8% price increase across various Room AC SKUs from Jan-Mar'21. Another 3-5% price rise was taken in Apr'21, which is expected to be rolled out once the market reopens post lifting of COVID-related lockdown restrictions.
- RAC market grew by 27% YoY in 4QFY21, while BLSTR grew by 33% and increased its market share to 13.2% (v/s 13% in 9MFY21).
- State lockdowns impacted demand for Room ACs in Apr'21, with sales for Blue Star down 20% YoY v/s Apr'19 sales. The management said demand in 1QFY22 will be impacted, irrespective of how many states decide on a lockdown in May'21.
- Owing to higher focus on working capital, the company ended FY21 with a net cash of INR1.5b (v/s a net debt of INR1.3b in 9MFY21 and INR1.6b in FY20) – the only silver lining in an otherwise struggling year on account of COVID-19.

Valuation and view

Incorporating existing risks on topline and margin, we cut our FY22E/FY23E EPS estimate by 17%/6%. The commentary on RAC industry trends suggests that events like a lockdown in Apr'21 (and the ongoing extension into May'21), rising commodity costs, and higher competitive intensity poses a risk to earnings in FY22. At the CMP, the UCP business of BLSTR is trading at 50x FY23E EPS, thus indicating an unfavorable risk reward. Maintain Sell with a TP of INR700 per share.

Quarterly performance

Y/E March	FY20				FY21				FY20	FY21	(INR m)	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			Variance	
Sales	15,755	12,495	12,359	12,994	6,260	9,021	11,239	16,116	53,602	42,636	15,830	2%
Change (%)	4.5	21.0	12.5	-18.6	-60.3	-27.8	-9.1	24.0	2.4	-20.5	21.8	
EBITDA	1,149	736	570	373	14	551	816	1,018	2,828	2,398	1,145	-11%
Change (%)	-16.0	26.7	34.7	-65.9	-98.8	-25.1	43.0	172.7	-18.4	-15.2	206.7	
As a percentage of sales	7.3	5.9	4.6	2.9	0.2	6.1	7.3	6.3	5.3	5.6	7.2	
Depreciation	203	216	223	237	209	206	259	249	880	923	275	
Interest	82	68	76	69	185	179	149	134	295	647	137	
Other Income	217	106	61	64	86	59	81	398	447	624	74	
Extra-ordinary Items	0	-17	-16	-8	0	0	0	0	-40	0	0	
PBT	1,080	558	332	131	(295)	225	488	1,033	2,100	1,452	807	28%
Tax	325	169	120	40	-95	74	130	362	653	471	200	
Effective Tax Rate (%)	30.1	30.3	36.0	30.2	32.3	33.0	26.5	35.1	31.1	32.4	24.8	
MI/Share of profit from JV	14	8	(1)	5	3	3	9	9	26	23	12	
Reported PAT	768	379	196	89	(197)	153	367	680	1,433	1,004	619	10%
Change (%)	-16.1	94.1	NM	-88.9	-125.6	-59.6	87.5	663.7	-24.6	-30.0	595.6	
Adjusted PAT	768	397	212	96	(197)	153	367	680	1,473	1,004	619	10%
Change (%)	0.6	78.0	239.5	-88.3	-125.6	-61.4	73.6	604.4	-21.4	-31.9	541.5	

Segment-wise details

Description	(INR m)											
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
EMP and CAS	6,194	6,310	6,555	8,423	6,239	7,835	7,588	6,604	3,124	5,408	5,855	7,800
PE and IS	577	582	520	499	446	887	569	427	387	426	454	498
UCP	8,308	3,431	3,915	7,036	9,069	3,772	4,202	5,963	2,749	3,187	4,930	7,818
Total	15,078	10,322	10,990	15,958	15,755	12,495	12,359	12,994	6,260	9,021	11,239	16,116
PBIT												
EMP and CAS	397	448	301	363	335	446	390	32	-105	344	341	485
PE and IS	83	126	69	161	44	244	180	75	102	82	83	72
UCP	950	82	94	733	989	120	77	438	-38	117	388	621
Total PBIT	1,430	655	464	1,257	1,369	810	646	544	-41	543	812	1,178
Segment PBIT (%)												
EMP and CAS (%)	6.4	7.1	4.6	4.3	5.4	5.7	5.1	0.5	-3.4	6.4	5.8	6.2
PE and IS (%)	14.3	21.6	13.2	32.2	9.9	27.5	31.6	17.6	26.3	19.1	18.2	14.5
UCP (%)	11.4	2.4	2.4	10.4	10.9	3.2	1.8	7.3	-1.4	3.7	7.9	7.9
Total PBIT (%)	9.5	6.3	4.2	7.9	8.7	6.5	5.2	4.2	(0.7)	6.0	7.2	7.3

Highlights from the management commentary**EMP segment**

- **Electromechanical Projects:** Order inflow has slowed from the Commercial Building segment. Muted government spending impacted orders in the Infra space. Factories and Buildings saw good order inflows owing to higher government focus on local manufacturing.
- MEP projects are mostly fixed price contracts. While bidding, there is some element of procurement price protection built in, while some discounts are also availed from the supplier (with long-term contracts).



- **Commercial AC** – Robust order inflows came in from offices (IT), marriage halls, and auditoriums. **BLSTR is focusing on Healthcare and Light Electricals sector owing to the buoyant outlook.**
- **Market share:** No.1 in ducted AC, No.2 in VRF, and No.3 in Chiller category.
- The management will continue to prioritize execution based on the cash flow position of clients.
- It said that the extent of labor disruption at project site is less compared to last year (state-wise lockdown v/s a national lockdown).

UCP segment

- Unprecedented increase in raw material and freight costs led to a 5-8% price increase across various Room AC SKUs from Jan-Mar'21. Another 3-5% price rise was taken in Apr'21, which is expected to be rolled out once the market reopens post lifting of COVID-related lockdown restrictions.
- The management explained that procurement of raw material for Apr-Jun'21 started much before Oct'20. Hence, price increases from Jan'21 till date should cover inflation in commodity prices.
- RAC market grew by 27% YoY in 4QFY21, while BLSTR grew by 33%, with a 13.2% market share. It faced higher competitive pressure in 4QFY21.
- Business prospects were normal until 7-8th Apr'21. However, state lockdowns impacted demand for Room ACs in Apr'21 (down 20% YoY v/s Apr'19). The management said demand in 1QFY22 will be impacted, irrespective of how many states decide on a lockdown in May'21.
- Inventory levels are normal as of now. Sales in Mar'21 and the first week of Apr'21 were good. It expects inventory to be significantly higher by 1QFY22 end.
- BLSTR achieved a market share of 3% in Water Purifier, with major billing from e-commerce. It will remain an e-commerce product going forward.
- The management aims to maintain its margin profile of ~8%. It would want to hold onto this margin range (hence hiked prices in Apr'21). Ad-spends are back to normalized levels in 4QFY21.
- **Commercial Refrigeration:** Order inflow improved from the Restaurant and Government sector. Healthcare Cooling Products have been well accepted by government and Pharma companies. BLSTR is the market leader in Healthcare Cooling. It has received key orders from Dr. Reddy's Laboratories, Aurobindo Pharma, Zydus Wellness, Cadila Healthcare, and Swiggy.

Costs

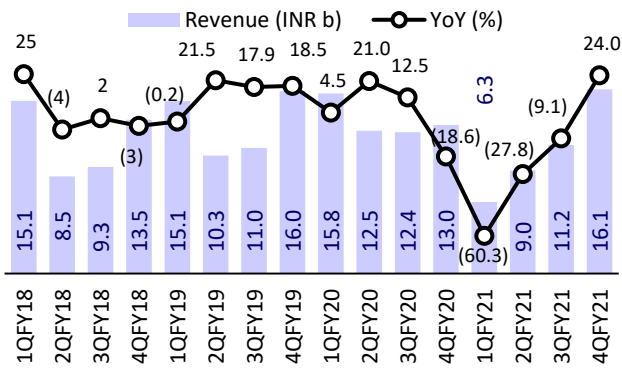
- The company reduced overall SG&A expenses by 36% in FY21 (by reducing travel and ad-spends and renegotiating rentals). Some of these costs will return, while some costs have been permanently eliminated.

AC PLI scheme

- PLI incentives are for components. Earlier, it was assumed as it will be on finished goods too. The management said it wouldn't participate as of now.
- It will continue with its Sri City plant expansion. **PLI scheme will lead to increase in domestic availability of components in a few years, which will ultimately aid end-manufacturers like BLSTR.**
- Imports of finished goods have been nil since the last few quarters. All the outsourced finished goods are via domestic suppliers.

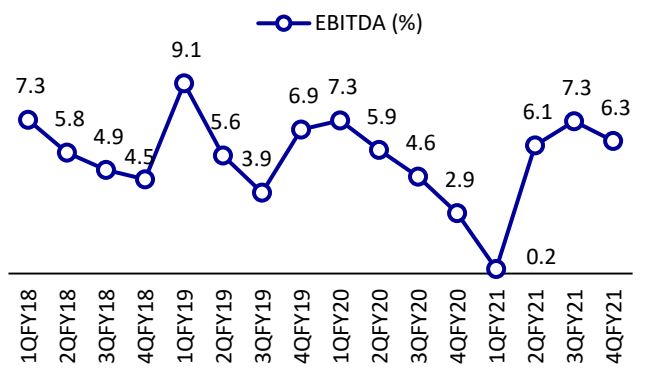
Story in charts

Exhibit 1: Revenue rose 24% YoY (in line) in 4QFY21



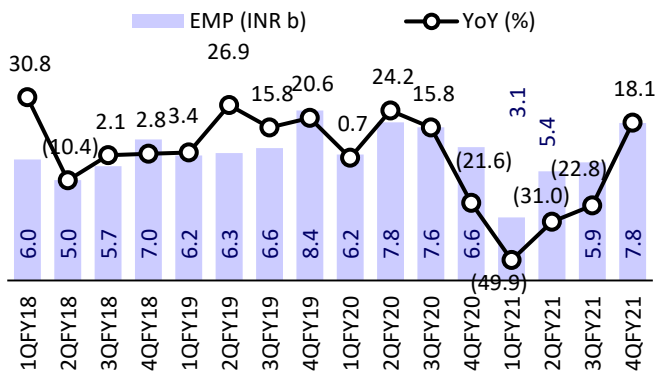
Source: MOFSL, Company

Exhibit 2: Higher commodity costs impacts EBITDA margin



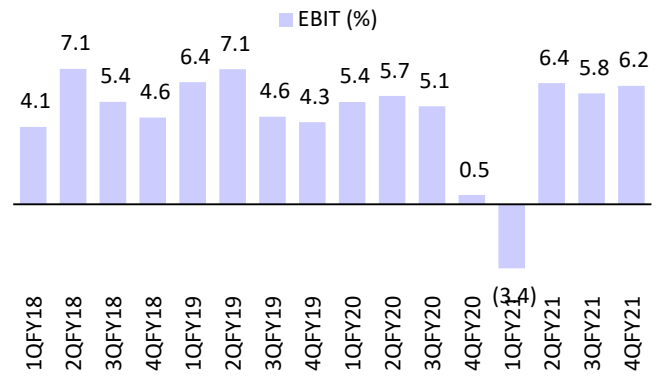
Source: MOFSL, Company

Exhibit 3: EMP segment revenue rose 18% YoY on a favorable base



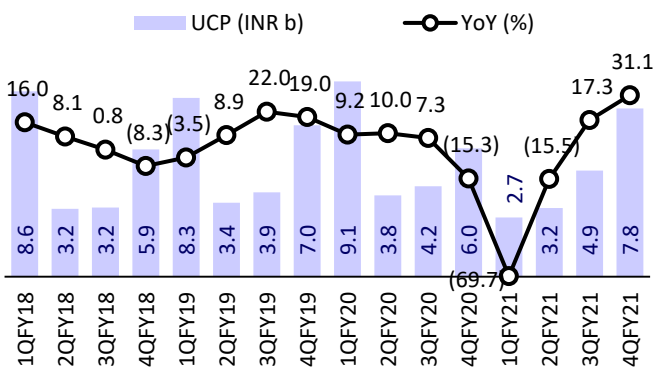
Source: MOFSL, Company

Exhibit 4: EBIT margin was stable sequentially at 6.2% owing to the execution of high-margin projects and cost control



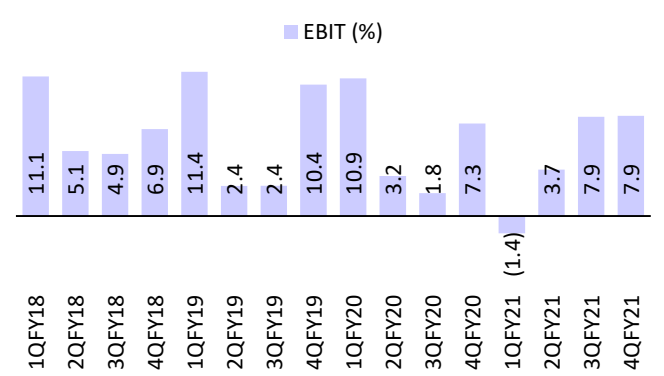
Source: MOFSL, Company

Exhibit 5: UCP revenue rose 31% YoY, with strong growth in the RAC segment

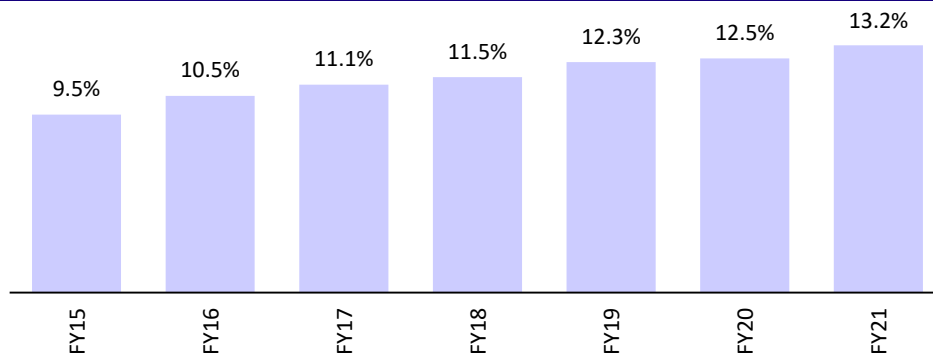


Source: MOFSL, Company

Exhibit 6: In spite of higher operating leverage, EBIT margin stood below our estimate on commodity inflation pressures



Source: MOFSL, Company

Exhibit 7: Market share gains in Room ACs (a highly competitive market)

Source: Company

Valuation and view

- **Reduce our FY22E/FY23E EPS estimate:** Incorporating existing risks on topline and margin, we cut our FY22E/FY23E EPS estimate by 17%/6%. Extension of the COVID-led lockdown in May'21 could lead to a washout of the summer season, while higher competitive intensity and rising commodity prices could put margin under pressure.
- **Market leader in the EMP segment, focus on RAC via higher ad spends:** BLSTR remains the leader in the EMP business, with a host of solutions and products under various categories. The management's focus remains on expanding the RAC business in terms of reach by spending adequately on branding and advertising. The Water Purifier business has become break even in FY21-end, and is expected to aid profitability of the UCP segment henceforth.
- **Maintain Sell with a TP of INR700/share:** Our SoTP-based TP stands at INR700/share (valuing the UCP business at 40x Mar'23E EPS, EMP at 10x, and Professional Electronics at 15x). Maintain **Sell**.

Exhibit 8: Earnings change summary

INR m	Old		New		Change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	61,000	70,500	55,200	66,896	-10%	-5%
EBITDA	3,755	4,463	3,146	4,019	-16%	-10%
EBITDA margin	6.2%	6.3%	5.7%	6.0%	-0.5%	-0.3%
Adjusted PAT	1,955	2,584	1,630	2,422	-17%	-6%

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Total Revenue	46,390	52,348	53,602	42,636	55,200	66,896	75,398
Change (%)	5.8	12.8	2.4	-20.5	29.5	21.2	12.7
EBITDA	2,659	3,465	2,828	2,398	3,146	4,019	4,674
% of Total Revenue	5.7	6.6	5.3	5.6	5.7	6.0	6.2
Other Income	170	247	447	624	386	468	528
Depreciation	638	749	880	923	1,004	1,100	1,220
Interest	287	479	295	647	400	200	200
Exceptional items	53	27	-40	0	0	0	0
PBT	1,956	2,511	2,060	1,452	2,129	3,187	3,782
Tax	494	420	653	471	536	802	952
Rate (%)	25.3	16.7	31.7	32.4	25.2	25.2	25.2
Reported PAT	1,440	1,900	1,433	1,004	1,630	2,422	2,867
Change (%)	18.0	32.0	-24.6	-30.0	62.4	48.6	18.4
Adj. PAT	1,387	1,874	1,473	1,004	1,630	2,422	2,867
Change (%)	12.7	35.1	-21.4	-31.9	62.4	48.6	18.4

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Share Capital	192	193	193	193	193	193	193
Reserves	7,735	8,538	7,631	8,659	9,474	10,685	12,119
Net Worth	7,927	8,731	7,824	8,852	9,667	10,878	12,311
Minority Interest	15	18	23	27	30	33	36
Loans	3,699	3,476	4,604	4,516	4,016	3,516	3,016
Deferred Tax Liability	-1,136	-1,076	-818	-475	-475	-475	-475
Capital Employed	10,506	11,149	11,633	12,920	13,238	13,952	14,888
Gross Fixed Assets	5,363	6,194	7,344	7,665	8,665	9,665	10,665
Less: Depreciation	1,443	2,192	2,907	3,829	4,834	5,933	7,153
Net Fixed Assets	3,920	4,002	4,438	3,836	3,831	3,732	3,512
Capital WIP	254	412	674	715	715	715	715
Investments	132	146	169	2,950	2,990	3,030	3,070
Curr. Assets	26,921	27,874	28,295	27,519	29,898	35,799	40,643
Inventory	10,171	8,693	8,698	8,824	9,074	10,997	12,394
Debtors	9,504	11,121	8,377	8,110	9,830	11,913	13,427
Cash and Bank Balance	809	1,009	2,939	3,322	2,147	2,168	2,737
Loans and Other current assets	6,437	7,051	8,281	7,263	8,847	10,722	12,084
Current Liab. and Prov.	20,721	21,285	21,942	22,100	24,197	29,324	33,051
Creditors	15,327	15,346	15,824	16,049	16,636	20,160	22,723
Other liabilities	5,394	5,939	6,118	6,051	7,562	9,164	10,329
Net Current Assets	6,200	6,589	6,353	5,419	5,701	6,475	7,591
Application of Funds	10,506	11,149	11,633	12,920	13,238	13,952	14,888

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
Basic (INR)							
Adjusted EPS	14.4	19.5	15.3	10.4	16.9	25.2	29.8
Cash EPS	21.1	27.2	24.4	20.0	27.4	36.6	42.4
Book Value	82.6	90.7	81.2	91.9	100.4	113.0	127.8
DPS	7.5	10.0	19.9	0.1	8.5	12.6	14.9
Payout (incl. Div. Tax.)	62.3	61.6	156.2	1.2	50.0	50.0	50.0
Valuation (x)							
P/E	58.3	43.3	55.1	80.9	49.8	33.5	28.3
Cash P/E	40.0	30.9	34.5	42.1	30.8	23.0	19.9
EV/EBITDA	31.5	24.1	29.3	34.3	26.4	20.5	17.4
EV/Sales	1.8	1.6	1.5	1.9	1.5	1.2	1.1
Price/Book Value	10.2	9.3	10.4	9.2	8.4	7.5	6.6
Dividend Yield (%)	0.9	1.2	2.4	0.0	1.0	1.5	1.8
Profitability Ratios (%)							
RoE	17.5	21.5	18.8	11.3	16.9	22.3	23.3
RoCE	13.8	18.6	13.5	10.8	14.1	17.9	19.7
RoIC	15.8	22.6	15.6	15.0	19.8	25.0	28.5
Turnover Ratios							
Debtors (Days)	75	78	57	69	65	65	65
Inventory (Days)	80	61	59	76	60	60	60
Creditors (Days)	121	107	108	137	110	110	110
Asset Turnover (x)	4.4	4.7	4.6	3.3	4.2	4.8	5.1
Leverage Ratio							
Net Debt/Equity (x)	0.4	0.3	0.2	0.1	0.2	0.1	0.0

Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21P	FY22E	FY23E	FY24E
PBT before EO Items	1,956	2,511	2,060	1,452	2,129	3,187	3,782
Depreciation	638	749	880	923	1,004	1,100	1,220
Interest and other income	(41)	157	417	175	14	(268)	(328)
Direct Taxes Paid	(451)	(352)	(854)	(102)	(536)	(802)	(952)
(Inc.)/Dec. in WC	(1,913)	(432)	2,072	1,051	(1,457)	(753)	(547)
CF from Operations	189	2,633	4,574	3,498	1,154	2,464	3,175
(Inc.)/Dec. in FA	(924)	(837)	(814)	174	(1,000)	(1,000)	(1,000)
Free Cash Flow	(735)	1,797	3,760	3,672	154	1,464	2,175
Investment in liquid assets	40	138	(68)	(2,569)	386	468	528
CF from Investments	(883)	(698)	(882)	(2,396)	(614)	(532)	(472)
(Inc.)/Dec. in Debt	1,534	(274)	943	(21)	(500)	(500)	(500)
(Inc.)/Dec. in Equity	129	98	-	-	-	-	-
Interest Paid	(285)	(479)	(311)	(395)	(400)	(200)	(200)
Dividend Paid	(864)	(1,154)	(2,301)	(12)	(815)	(1,211)	(1,434)
Others	24	73	(93)	(291)	-	-	-
CF from Fin. Activity	538	(1,735)	(1,762)	(720)	(1,715)	(1,911)	(2,134)
Inc./Dec. in Cash	(157)	201	1,930	382	(1,174)	21	569
Add: Beginning Balance	966	809	1,009	2,939	3,322	2,147	2,168
Closing Balance	809	1,009	2,939	3,322	2,147	2,168	2,737

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