

ICICI Securities Limited
is the author and
distributor of this report

Company update and
reco change

Capital Goods

Target price: Rs813

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 0.0	↑ 1.9
EBITDA	↓ 0.0	↑ 2.3
EPS	↓ 0.0	↑ 2.9

Target price revision

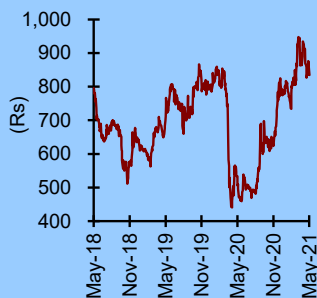
Rs813 from Rs765

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	38.8	38.8	38.8
Institutional investors	32.3	32.8	32.6
MFs and others	21.9	21.0	20.0
Insurance	0.4	0.5	0.8
FIs	10.0	11.3	11.8
Others	28.9	28.4	28.6

Source: NSE

Price chart



Research Analysts:

Renjith Sivaram

renjith.sivaram@icicisecurities.com
+91 22 6637 7340

Vipin Goel

vipin.goel@icicisecurities.com
+91 22 6637 7397

INDIA

ICICI Securities

Blue Star

HOLD

Upgrade from REDUCE

Focusing on core competencies

Rs821

Blue Star, in its recent analyst meet, highlighted the strategic decision to focus on its core competency of room AC, commercial refrigeration, commercial and packaged AC solutions, rather than diversifying into other whitegoods categories. The company will be investing in a plant in Sri-city which will reduce logistics and related-cost to cater to South Indian markets. In the near term, the company targets to attain 15% domestic room AC market share and then focus on exports of these products. It expects the implementation of new energy efficiency norms January 2022 onwards which can lead to ~7% price increase. Given the focus towards margins, cash and core competency, we upgrade the stock to HOLD with a revised target price of Rs813 (previously: Rs765).

- **Consolidate on domestic market share, then target exports:** The company has worked on introducing new models in entry-level segments and is prepared to address the requirement of new energy norms. It has a near-term target of 15% domestic market share in room AC and post this it will try to grow in overseas geographies. Some of the key overseas markets that the company is currently targeting are 16 countries spread across SAARC, Middle-East and Africa.
- **Likely implementation of new efficiency norms from January 2022:** The management is of the view that given the government push towards climate control, the change in energy efficiency norm is likely to be implemented during January 2022. This may further increase the overall price of room AC by 7%. Blue Star is geared up to address this with future-ready product offerings.
- **e-commerce gradually gaining relevance:** The company is witnessing a gradual increase in presence of e-commerce channel along with other channels. As per the company in FY21, ~18% of room AC sales were through e-commerce and Blue Star sold 15% through the same. Under water purifier category, majority of company's sales are through e-commerce and it plans to increase market share to 5% from 3%.
- **Expect no major impact due to second wave,** though the overall secondary sales have slowed down and growth may be impacted in April and May 2021. The company expects rebound June/July onwards. However, the industry target of 30% growth in summer sales is likely to come down depending on the opening up of the economy.
- **Upgrade to HOLD on increased focus towards margins:** Given the focus towards margins, cashflow and core competencies, we believe, Blue Star will be able to deliver long-term value. Hence, we upgrade the stock to HOLD with a revised target price of Rs813 (previously: Rs765).

Market Cap	Rs79bn/US\$1.1bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BLUS.BO/BLSTR IN	Revenue (Rs bn)	53,602	42,636	50,578	59,226
Shares Outstanding (mn)	96.3	Rec. Net Income (Rs bn)	1,447	981	2,013	2,565
52-week Range (Rs)	1,025/451	EPS (Rs)	15.1	10.2	21.0	26.7
Free Float (%)	61.2	% Chg YoY	(29.9)	(32.2)	105.3	27.4
FII (%)	12.2	P/E (x)	54.5	80.4	39.2	30.7
Daily Volume (US\$/000)	1,786	CEPS (Rs)	5.9	0.6	12.6	16.7
Absolute Return 3m (%)	0.7	EV/E (x) (Incl. Indus)	28.4	32.2	23.4	18.9
Absolute Return 12m (%)	73.0	Dividend Yield (%)	1.2	0.5	1.2	1.2
Sensex Return 3m (%)	(5.4)	RoCE (%)	12.9	10.6	16.0	18.9
Sensex Return 12m (%)	56.9	RoE (%)	17.5	11.8	22.6	27.6

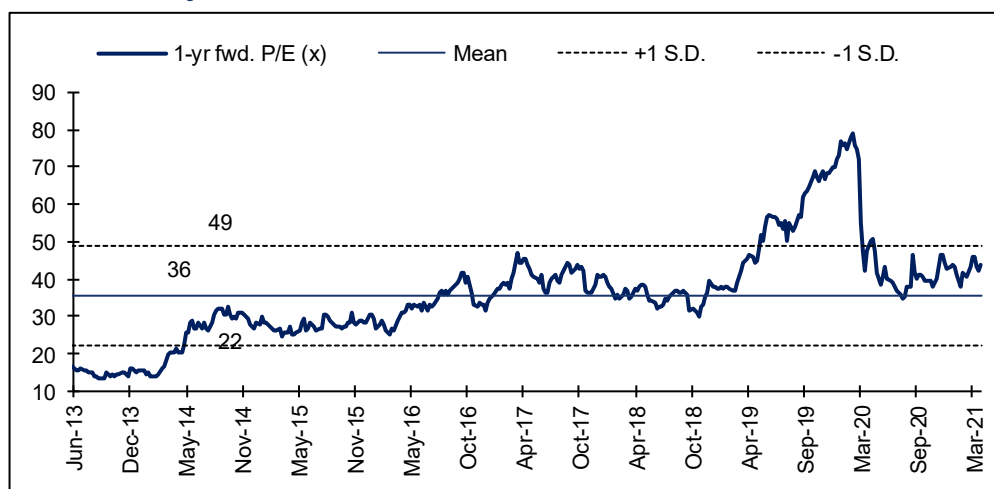
Please refer to important disclosures at the end of this report

Outlook and valuation

The stock is currently trading at 39.2x FY22E EPS of Rs21 and 30.7x FY23E EPS of Rs26.7. Increase in freight costs, commodity prices, pricing pressures and higher spend towards branding and marketing are likely to keep overall margins under stress. Given the focus towards margins, cashflow and core competencies, we believe, Blue Star will be able to deliver long-term value, hence, we upgrade the stock to **HOLD** from *REDUCE* with a revised target price of Rs813 from Rs765 earlier.

The second wave of the pandemic is likely to impact overall growth prospects in near term. We value the stock at a target P/E multiple of 30.4x FY23E earnings. Our target multiple of 30.4x FY'23E earnings is based on a weighted EBIT contribution average of 40x for UCP segment, 20x for EMP segment (increased from 18x earlier), and 20x for professional electronics and industrial equipment segment (*table-1*). Focus on technology, in-house manufacturing and introduction of new products will be long-term growth drivers for Blue Star.

Chart 1: One-year forward P/E chart



Source: Bloomberg, I-Sec research

Table 1: Valuation multiple for FY23E

	EBIT contribution (%) (A)	APAT FY23E (B)	APAT Contribution (Rs mn) (AxB=C)	Multiple (D)	Value (Rs mn) (CxD=E)	Consolidated Multiple (E/B)
EMP	37.8		968	20	19,366	
UCP	52.1		1,337	40	53,487	
Professional Elec. & Industrial equip.	10.1		259	20	5,181	
Total		2,565	2,565		78,034	30.4

Source: Company data, I-Sec research

Note: We have arrived at PAT contribution from each of the segments by assigning them weightages same as their respective contribution to total EBIT. Further, we value each segment on the basis of the earnings multiple assigned to each segment individually, to arrive at a combined valuation of Rs78bn. This at FY23E earnings of Rs2.6bn, leads to a target multiple of 30.4x FY23E.

Table 2: Earnings revision (consolidated)

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	50,578	50,578	0.0	58,105	59,226	1.9
EBIDTA	3,377	3,377	0.0	4,108	4,204	2.3
PAT	2,013	2,013	0.0	2,493	2,565	2.9

Source: Company data, I-Sec research

Other key takeaways

- Commercial refrigeration - is poised for a big take off in India , Blue Star is expanding its capacity in Wada, Maharashtra, with a deep freezer factory to commence operations from September 2021.
- Water purifier has only 3% penetration in India currently, most peers have contract manufacturing and work in multiple channels. The company has currently decided to focus on e-commerce and gradually increase share to 5% from the current 3%.
- ~45% of the first time room AC buyer is through commercial finance and this is gaining traction.
- Blue Star has successfully penetrated in the modern trade channel and is the 2nd of three players in room AC in ~60% large modern trade outlets.
- The current size of room AC market in India is ~Rs175bn with 7% penetration.

Table 3: Financial assumptions (consolidated)

(Rs mn)

	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
EMP projects	18,760	22,334	23,611	27,481	28,267	22,187	26,181	30,108
Growth YoY (%)	10.1	19.1	5.7	16.4	2.9	-21.5	18.0	15.0
Unitary products	15,797	19,974	20,887	22,690	23,006	18,683	22,419	26,903
Growth YoY (%)	18.6	26.4	4.6	8.6	1.4	-18.8	20.0	20.0
Prof electr	1,690	1,915	1,983	2,178	2,329	1,766	1,978	2,215
Growth YoY (%)	15.2	13.3	3.6	9.8	7.0	-24.2	12.0	12.0
Others	2,051	-370	-	-	-	-	-	-
Net revenue	38,298	43,852	46,481	52,348	53,602	42,636	50,578	59,226
EBIT								
EMP projects	781	907	1,220	1,509	1,203	1,065	1,309	1,656
Unitary products	1,621	1,679	1,681	1,859	1,623	1,088	1,794	2,287
Prof electronics	304	325	240	438	543	338	396	443
Others	-	-	-	-	-	-	-	-
Total	2,705	2,910	3,140	3,806	3,369	2,491	3,498	4,386
EBIT margin (%)								
EMP projects	4.2	4.1	5.2	5.5	4.3	4.8	5.0	5.5
Unitary products	10.3	8.4	8.0	8.2	7.1	5.8	8.0	8.5
Prof electronics	18.0	17.0	12.1	20.1	23.3	19.1	20.0	20.0
Total	7.1	6.6	6.8	7.3	6.3	5.8	6.9	7.4

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 4: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	53,602	42,636	50,578	59,226
Operating Expenses	50,774	40,238	47,201	55,023
EBITDA	2,828	2,398	3,377	4,204
% margins	5.3	5.6	6.7	7.1
Depreciation & Amortisation	880	923	808	958
EBIT	1,948	1,475	2,569	3,246
Gross Interest	295	647	351	391
Other Income	447	624	480	580
Recurring PBT	2,100	1,452	2,698	3,435
Add: Extraordinaries	(40)	-	-	-
Add: Share in associates	-	-	-	-
PBT	2,060	1,452	2,698	3,435
Less: Taxes	653	471	680	866
Less: Minority Interest & Share in associates	(26)	(23)	5	5
Net Income (Reported)	1,432	1,004	2,013	2,565
Adjusted Net Income	1,447	981	2,013	2,565

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	26,512	28,596	26,565	30,068
of which cash & cash eqv.	2,939	6,112	4,844	5,004
Total Current Liabilities & Provisions	22,056	22,100	20,194	23,283
Net Current Assets	4,456	6,496	6,371	6,786
Investments	796	279	297	317
Other Non-Current Assets	3,155	2,690	2,895	3,131
Net Fixed Assets	3,930	3,931	4,446	4,998
Goodwill	-	-	-	-
Total Assets	12,336	13,395	14,008	15,232
Liabilities				
Borrowings	4,489	4,516	5,019	5,579
Deferred Tax Liability	-	-	-	-
Minority Interest	23	27	32	37
Equity Share Capital	193	193	193	193
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	7,631	8,659	8,765	9,423
Net Worth	7,824	8,852	8,958	9,615
Total Liabilities	12,336	13,395	14,008	15,232

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	2,839	2,893	3,186	3,927
Working Capital Changes	2,353	1,934	(1,735)	(274)
Capital Commitments	(1,080)	(924)	(1,323)	(1,510)
Free Cashflow	4,112	3,904	128	2,144
Cashflow from Investing Activities	198	(1,472)	(230)	(263)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	1,044	27	503	561
Interest paid	(295)	(647)	(351)	(391)
Dividend paid	(1,152)	(384)	(960)	(960)
Extraordinary Items/Others	(1,977)	(1,045)	(358)	(932)
Chg. in Cash & Bank balance	1,930	382	(1,268)	159

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	15.1	10.2	21.0	26.7
Recurring Cash EPS	5.9	0.6	12.6	16.7
Dividend per share (DPS)	10.0	4.0	10.0	10.0
Book Value per share (BV)	81.7	92.5	93.6	100.5
Growth Ratios (%)				
Operating Income	2.4	(20.5)	18.6	17.1
EBITDA	(18.4)	(15.2)	40.8	24.5
Recurring Net Income	(29.9)	(32.2)	105.3	27.4
Diluted adjusted EPS	(29.9)	(32.2)	105.3	27.4
Diluted Recurring CEPS	(56.9)	(89.8)	1,988.9	33.3
Valuation Ratios				
P/E	54.5	80.4	39.2	30.7
P/CEPS	139.0	1,366.0	65.4	49.1
P/BV	10.0	8.9	8.8	8.2
EV / EBITDA	28.4	32.2	23.4	18.9
EV / Operating Income	1.5	1.8	1.6	1.3
EV / Operating FCF (pre - Capex)	15.5	16.0	54.4	21.7
Operating Ratios				
Raw Material/Sales (%)	75.0	76.7	74.0	74.0
SG&A/Sales (%)	10.7	8.7	10.6	10.4
Other Income / PBT (%)	21.3	43.0	17.8	16.9
Effective Tax Rate (%)	31.7	32.4	25.2	25.2
NWC / Total Assets (%)	12.3	2.9	10.9	11.7
Inventory Turnover (days)	59.2	75.5	58.4	56.6
Receivables (days)	57.0	69.4	54.8	54.8
Payables (days)	113.8	145.6	118.6	118.6
Net D/E Ratio (x)	0.2	-0.2	0.0	0.1
Return/Profitability Ratios (%)				
Recurring Net Income Margins	2.7	2.3	4.0	4.3
RoCE	12.9	10.6	16.0	18.9
RoNW	17.5	11.8	22.6	27.6
Dividend Payout Ratio	0.8	0.4	0.5	0.4
Dividend Yield	1.2	0.5	1.2	1.2
EBITDA Margins	5.3	5.6	6.7	7.1

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15 return; ADD: 5 to 15 return; HOLD: Negative 5 to Positive 5 return; REDUCE: Negative 5 to Negative 15 return; SELL: < negative 15 return*

ANALYST CERTIFICATION

I/We, *Renjith Sivaram, BE, MBA (Finance); Vipin Goel, MBA, BTEch*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.