

Blue star Ltd

REDUCE

CMP Rs843

Target Rs800

Downside 5.5%

Inline performance; valuation remains elevated

Result Highlights

- ✓ **Quarter summary** – Blue star (BLSTR) delivered revenue growth of 24% yoy with Unitary products and EMPS and packaged air-conditioner registering growth of 31% and 18% respectively. Increased commodity prices have led to 358bps yoy contraction in gross margin. EBITDA growth stood at 173% yoy on cost control initiatives.
- ✓ **Growth across products** – Commercial air-conditioning registered 19% growth, while RAC a key segment registered growth of 33% higher than market growth of 27%. Other products such water purifiers and air coolers have done well during the quarter.
- ✓ **Commodity inflation impact** – Gross margins contracted sharply by 358bps to 21.9% lowest in past many quarters on rising prices of key commodities like Steel, Copper, Aluminum and Plastics.
- ✓ **Market share trends** – BLSTR continues to grow faster than the market and gain market share. BLSTR's market share in RAC now stands at 13.25% up by 75bps. In water purifier BLSTR commands market share of 3%.

Valuation and view – 4Q saw broad based growth across the segments. RAC business delivered market leading growth resulting in market share growth for the company. EMPS segment saw improved execution, while selective execution of better margin orders resulted in improved margins. Gross margins were impacted on rising commodity prices; however, company has taken another round of price increase to the tune of 3-5% across SKU's from 1st April to offset increased commodity prices. Near term growth momentum continues to pose challenge on account of lockdown/restriction across various parts of the country, we believe BLSTR to return to normalized growth by 2HFY22 on easing of lockdowns/restriction as it has taken several initiatives like launching new RAC models in mass premium range, executing projects in risk adjusted manner and increasing its presence on e-commerce.

BLSTR is estimated to deliver double digit CAGR revenue growth on back of improved execution of projects, market share gains in RAC, continued growth momentum in packaged air-conditioners and commercial refrigeration. Profitability is set to improve on cost control initiatives and reduction in working capital requirements. We now pencil in Revenue/EBITDA/PAT CAGR of 21%/39%/66% over FY21-23E. We have SoTP based PT of Rs800 assigning 40x to unitary products and maintain reduce rating on high valuations.

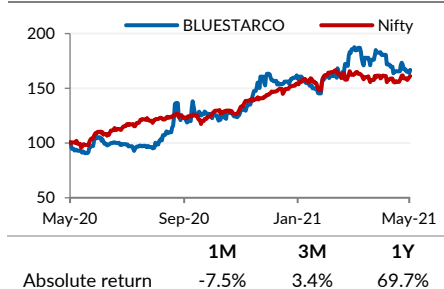
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	16,116	12,994	24.0%	11,239	43.4%
EBITDA	1,018	373	172.7%	815	24.8%
EBITDAM (%)	6.3%	2.9%		7.3%	
Depreciation	249	237	4.9%	259	-4.1%
Interest	134.1	69.0	94.3%	149.2	-10.1%
Other income	398	64	526.6%	81	391.8%
PBT	1,033	123	738.1%	488	111.7%
Tax	362	40	817.2%	130	179.6%
Adjusted PAT	671	84	700.8%	358	87.2%
Reported PAT	671	84	700.8%	358	87.2%
PATM (%)	4.2%	0.6%		3.2%	
EPS (Rs)	7.0	0.9		3.7	

Stock data (as on May 07, 2021)

Nifty:	14,823
52 Week h/l (Rs)	977/452
Market cap (Rs/USD mn)	81,164/1,104
Outstanding Shares	96
6m Avg t/o (Rs mn):	120
Div yield (%):	0.5
Bloomberg code:	BLSTR IN
NSE code:	BLUESTARCO

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	38.8%
FII+DII	32.6%
Others	28.6%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	42,636	54,201	62,157
YoY Growth	-20.5	27.1	14.7
EBITDA	2,398	4,065	4,631
Margins (%)	5.6	7.5	7.4
PAT	1,004	2,274	2,761
YoY Growth	-29.9	126.7	21.4
ROE	12.3	24.9	25.8
ROCE	16.6	26.6	29.1
EPS	10.4	23.6	28.7
P/E	81.3	35.9	29.5
EV/EBITDA	29.4	20.3	17.5

Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	10.4	23.6	28.7
EPS (Old)	NA	21.7	27.1
% Change	NA	8.8	5.9

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CONCALL TAKEAWAYS

- ✓ **Business update** – Early summer and improved business sentiment led to growth across all the segment. Cost reduction measures and prudent working capital management led to healthy generation of cash and in turn led to strengthening balance sheet. Growth momentum has been challenging and might impact planned revenue growth in month of April and May. All the plants continue to be operational.
- ✓ **EMPS** – order inflow stood Rs22.4bn while order book stands at Rs21.49bn, order inflows continued to be slow from commercial establishments, marriage halls coupled with muted government spending. Prudent execution and continued focus on infrastructure sector like metros, healthcare and sub-stations has led to higher margin delivery.

Sector	Proportion of Order book
Office IT/ Non-IT	29%
Metro rail	22%
Infrastructure	9%
Industrial	9%
Power sub stations	6%
Metro	4%
Others	21%

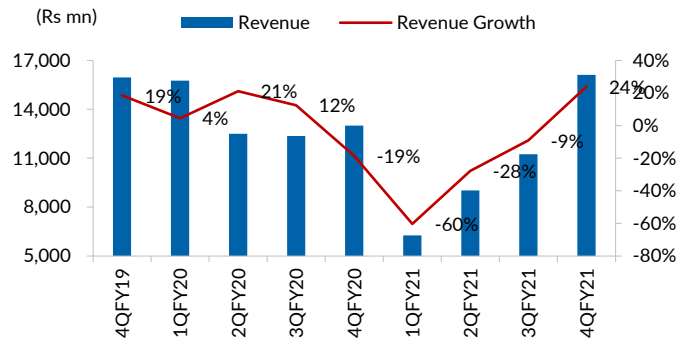
- ✓ Commercial air-conditioners has done well with Q4 delivering 19% growth order inflow from offices, marriage halls and auditorium is nonexistent. Blue star is number 1 in ducted air-conditioner, number 2 in VRF and number 3 in chillers. On international front there is improved demand from south-east Asian regions. Dubai expo and FIFA world cup are expected to bring new opportunities in near term.
- ✓ **Unitary Products** – Growth in UP was as per expectations, however raw material like Steel, copper, Aluminum and ABS plastics has seen substantial increase in Q4 leading to pressure on gross margins.
 - RAC market has grown by 27% in Q4 while blue star has grown by 33% with market share improving to 13.25%. Water purifier is an e-comm led product and has seen good growth. Market share in water purifiers is now 3%. Water coolers and Air purifiers continues to deliver good growth.
 - RAC business has seen strong growth till first half of April, however from middle of April RAC business was impacted due to lockdown across various part of country. As per initial estimates RAC is likely to see 20% impact on month of April'21 on base of April'19.
 - Commercial refrigeration space has witnessed good traction on back of stocking across the channel, demand from healthcare and government vacation program and launch of pharma, medical and Vaccine cold storage. Blue star is leader in healthcare and pharma cooling segment.
- ✓ **PEIS:** PEIS business has grown 16.6% and company continues to focus on data security and data centers which are key growth drivers for the company
- ✓ **Other income:** Other income at Rs398mn was boosted by profit of Rs320mn on sale of office property in Mumbai.
- ✓ **Price hikes** – Company had price increase in the range of 4-6% with effect from 1st Jan 21 to offset increasing commodity inflation. Further company has implemented another round of price increase to the tune of 3-5% from 1st Apr 21 to cover for further increase in commodity prices.

Blue star Ltd

- ✓ **Inventory** – Inventory levels in the market at current juncture are at normalized levels as March and early part of April saw good growth. However, inventory at the end of the quarter is expected to be higher than normal.
- ✓ **PLI Scheme** – Company is not looking to apply for components under PLI scheme, while company expects to benefit from indigenization of the components. Blue star is looking for backward integration of some of the processes.

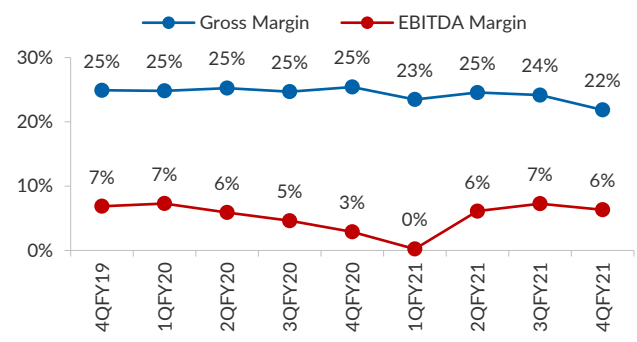
CHARTS

Exhibit 2: Strong revenue growth on back of strong growth in RAC and improved execution of projects



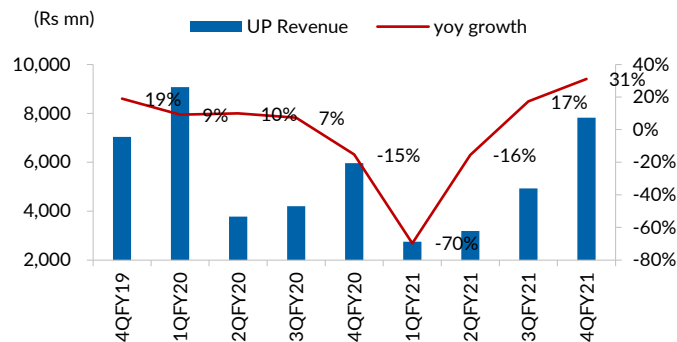
Source: Company, YES Sec - Research

Exhibit 3: High commodity prices dent gross margin



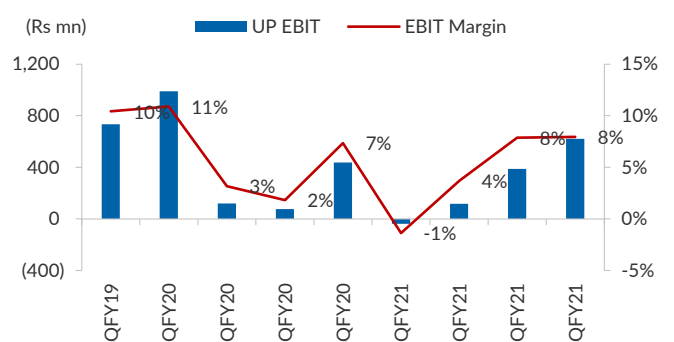
Source: Company, YES Sec - Research

Exhibit 4: New RAC launches in mass premium segment and increased traction in commercial refrigeration has led to strong growth



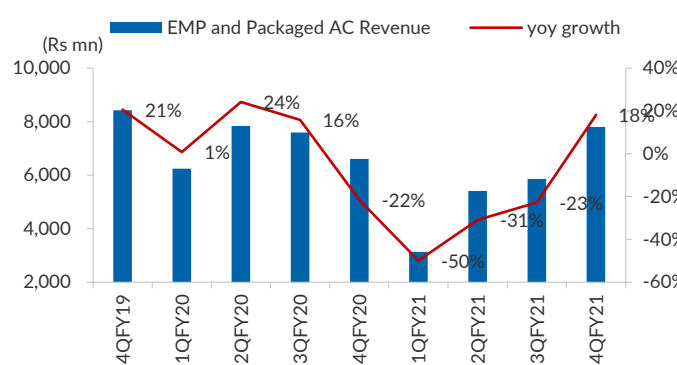
Source: Company, YES Sec - Research

Exhibit 5: EBIT margins continues to remain steady



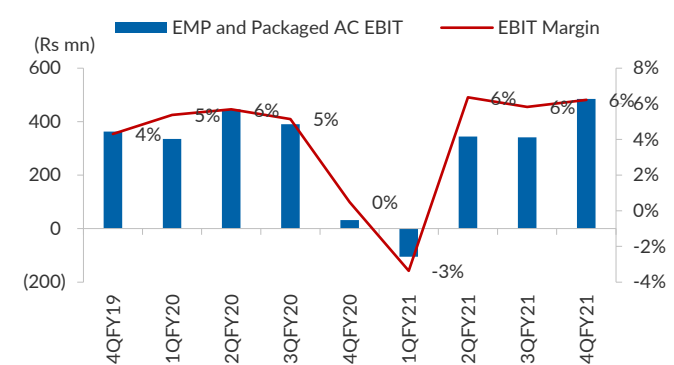
Source: Company, YES Sec - Research

Exhibit 6: Improved execution of projects has led to growth in EMPS segment



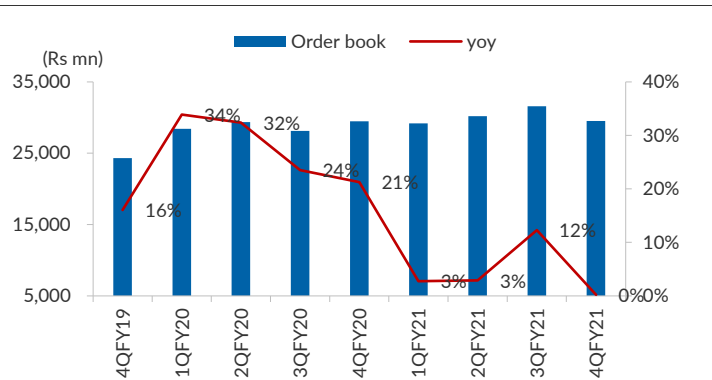
Source: Company, YES Sec - Research

Exhibit 7: Margins have improved on back of selective execution of better margin projects



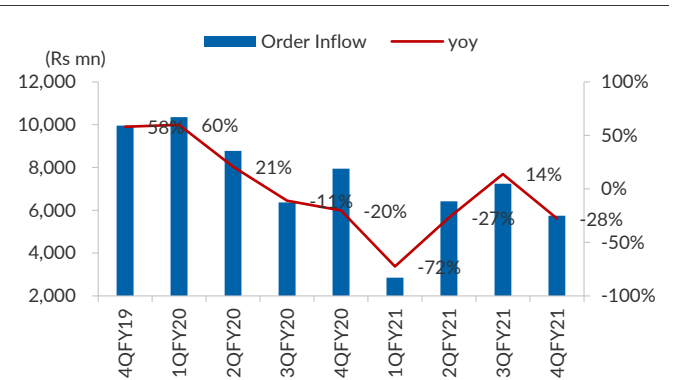
Source: Company, YES Sec - Research

Exhibit 8: Order book continues to remain stable



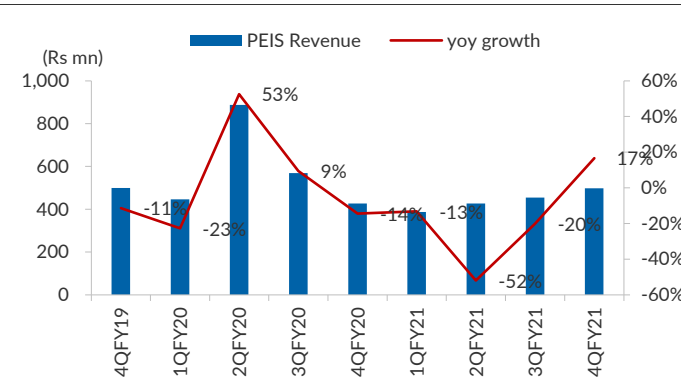
Source: Company, YES Sec - Research

Exhibit 9: Order inflows have declined on difficult business environment



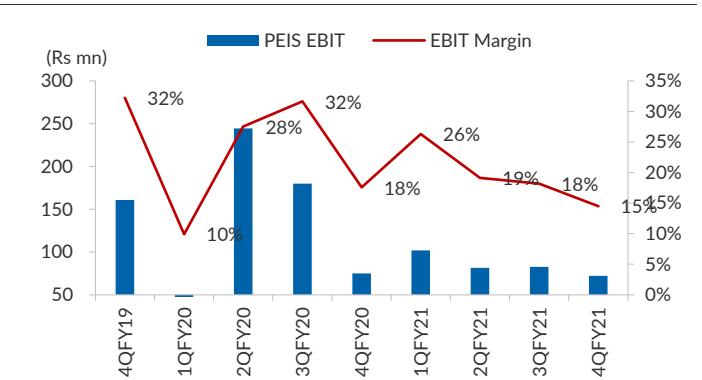
Source: Company, YES Sec - Research

Exhibit 10: Data centers and data security business had led to growth in PEIS



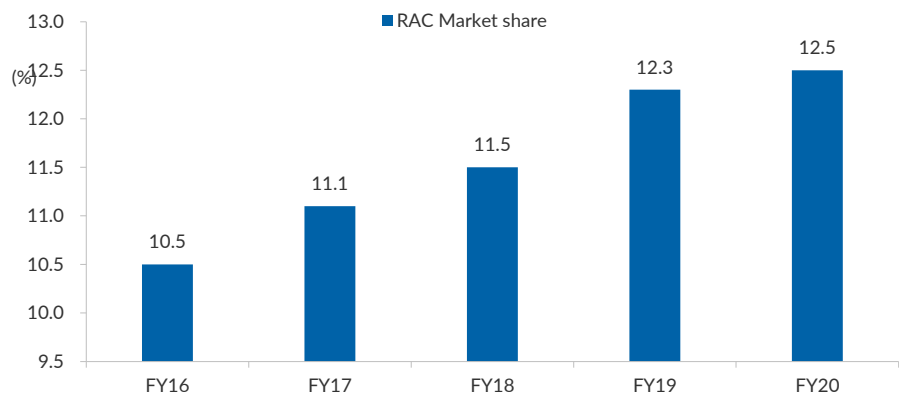
Source: Company, YES Sec - Research

Exhibit 11: Margins in PEIS has returned back to normalized levels



Source: Company, YES Sec - Research

Exhibit 12: RAC market share continues to expand



Company, YES Sec - Research

Exhibit 13: Revenue and Margin Assumptions

Revenue (Rs mn)	FY18	FY19	FY20	FY21E	FY22E	FY23E
EMP & Packaged Air conditioner	23,735	27,481	28,267	22,187	26,918	31,125
yoy	6%	16%	3%	-22%	21%	16%
Unitary Products	21,892	22,690	23,006	18,683	25,252	28,798
yoy	10%	4%	1%	-19%	35%	14%
Professional Electronics and Industrial systems	1,872	2,178	2,329	1,766	2,031	2,234
yoy	-2%	16%	7%	-24%	15%	10%
Total Revenue	47,500	52,348	53,602	42,636	54,201	62,157
yoy	7%	10%	2%	-20%	27%	15%
PBIT (Rs mn)						
EMP & Packaged Air conditioner	1,374	1,509	1,203	1,065	1,481	1,774
% Margin	6%	5%	4%	5%	6%	6%
Unitary Products	1,931	1,859	1,623	1,088	2,020	2,419
% Margin	9%	8%	7%	6%	8%	8%
Professional Electronics and Industrial systems	196	438	543	338	426	469
% Margin	10%	20%	23%	19%	21%	21%
Total PBIT	3,501	3,806	3,369	2,491	3,927	4,662
% Margin	7%	7%	6%	6%	7%	8%

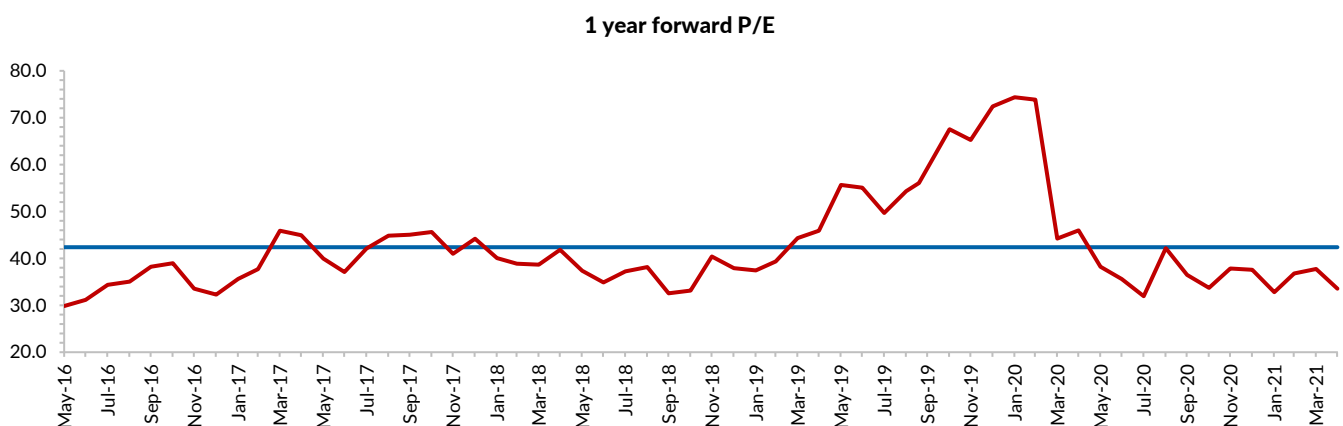
Source: Company, YES Sec – Research

Exhibit 14: SoTP calculation based on FY23 earnings estimates

PAT (Rs mn)	Target multiple (x)	Rs mn
EMPS	15	15,694
EPS	15	4,150
UCP	40	57,064
Total MCAP (Rs mn)		76,908
Number of Shares (mn)		96
Target Price (Rs)		800

Source: Company, YES Sec – Research

Exhibit 15: Currently trading at 35x one-yr fwd earnings



Source: Company, YES Sec – Research

FINANCIALS

Exhibit 16: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	193	193	193	193	193
Reserves	8,538	7,631	8,249	9,660	11,370
Net worth	8,731	7,824	8,442	9,852	11,562
Debt	3,445	4,489	4,516	3,376	3,226
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	203	250	247	277	298
Total liabilities	12,379	12,563	13,205	13,505	15,086
Fixed Asset	4,414	5,112	4,551	4,531	4,433
Investments	148	170	2,950	2,950	2,950
Other Non-current Assets	1,878	1,686	1,327	760	802
Net Working Capital	4,930	2,657	1,464	2,956	3,259
Inventories	8,693	8,698	8,824	8,795	10,086
Sundry debtors	11,121	8,377	8,110	8,613	9,877
Loans and Advances	1,670	1,697	201	1,713	1,902
Sundry creditors	15,346	15,824	16,049	15,592	17,881
Other current liabilities	4,914	5,357	5,348	6,674	7,597
Cash & equivalents	1,009	2,939	2,913	2,308	3,643
Total Assets	12,379	12,563	13,205	13,505	15,086

Exhibit 17: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	52,348	53,602	42,636	54,201	62,157
Operating profit	3,465	2,828	2,398	4,065	4,631
Depreciation	749	880	923	983	1,061
Interest expense	479	295	647	473	419
Other income	247	447	624	399	510
Profit before tax	2,485	2,100	1,452	3,009	3,660
Taxes	420	653	471	757	921
Minorities and other	191	(26)	(23)	(23)	(23)
Adj. profit	1,874	1,473	1,004	2,274	2,761
Exceptional items	(27)	40	-	-	-
Net profit	1,901	1,433	1,004	2,274	2,761

Exhibit 18: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	2,963	2,395	2,099	3,481	4,079
Depreciation	749	880	923	983	1,061
Tax paid	(420)	(653)	(471)	(757)	(921)
Working capital Δ	441	2,274	(1,598)	(1,492)	(302)
Other operating items					
Operating cashflow	3,734	4,896	953	2,215	3,917
Capital expenditure	(990)	(1,577)	(362)	(963)	(963)
Free cash flow	2,744	3,318	591	1,252	2,954
Equity raised	(323)	(17)	0	0	-
Investments	(14)	(22)	10	-	-
Debt financing/disposal	(261)	1,044	27	(1,140)	(150)
Interest paid	(479)	(295)	(647)	(473)	(419)
Dividends paid	(1,160)	(2,322)	(385)	(864)	(1,051)
Net Δ in cash	201	1,930	(27)	(605)	1,336

Exhibit 19: Du-pont analysis

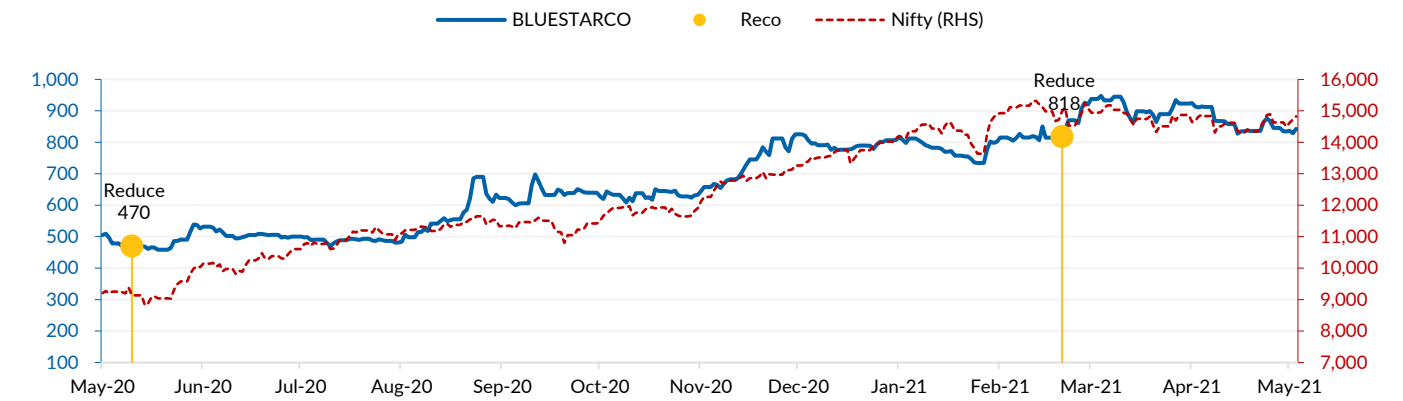
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.75	0.70	0.69	0.76	0.75
Interest burden (x)	0.84	0.88	0.69	0.86	0.90
EBIT margin (x)	0.06	0.04	0.05	0.06	0.07
Asset turnover (x)	1.60	1.58	1.23	1.52	1.60
Financial leverage (x)	3.83	4.10	4.27	3.91	3.62
RoE (%)	22.0	17.8	12.3	24.9	25.8

Exhibit 20: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	10	2	(20.5)	27.1	14.7
Op profit growth	25	(18)	(15.2)	69.5	13.9
EBIT growth	29	(19)	(12.4)	65.9	17.2
Net profit growth	30	(21)	(31.9)	126.7	21.4
Profitability ratios (%)					
OPM	6.6	5.3	5.6	7.5	7.4
EBIT margin	5.7	4.5	4.9	6.4	6.6
Net profit margin	3.6	2.7	2.4	4.2	4.4
RoCE	24.5	19.6	16.6	26.6	29.1
RoNW	22.0	17.8	12.3	24.9	25.8
RoA	5.7	4.3	2.9	6.4	7.1
Per share ratios					
EPS	19.5	15.3	10.4	23.6	28.7
Dividend per share	10.0	20.0	4.0	9.0	10.9
Cash EPS	27.2	24.4	20.0	33.8	39.7
Book value per share	90.7	81.2	87.7	102.3	120.1
Valuation ratios					
P/E	42.9	56.9	81.3	35.9	29.5
P/CEPS	30.7	35.2	42.2	25.0	21.3
P/B	9.3	10.4	9.6	8.3	7.0
EV/EBIDTA	24.2	29.4	34.7	20.3	17.5
Payout (%)					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	62	158	38.4	38.0	38.1
Tax payout	17	31	32.4	25.2	25.2
Liquidity ratios					
Debtor days	78	57	69.4	58.0	58.0
Inventory days	61	59	75.5	59.2	59.2
Creditor days	107.0	107.8	137.4	105.0	105.0

Recommendation tracker



Source: Company, YES Sec – Research

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