

Blue Star Ltd

Performance Update

	2QFY20	2QFY19	% chg. (yoy)	1QFY20	% chg. (qoq)
Net Sales	1,249	1,032	21.0	1,575	(20.7)
Operating profit	72	55	29.8	115	(37.4)
OPM (%)	5.8	5.4	39bp	7.3	(153bp)
Adj. PAT	38	20	94.1	76.8	(50.6)

Source: Company, Angel Research

Blue Star's results came in above our expectations for 2QFY2020 on both top-line and bottom-line fronts. The company reported 21% yoy top-line growth and PAT was up 94% yoy due to healthy sales and improvement in operating margin.

Healthy revenue growth across segments boost overall top-line growth: The company's top-line grew 21% yoy at ₹1,249cr due to healthy sales performance across segments. The EMP business grew ~24% yoy driven by the execution of a healthy order book, though at a slower pace. Further, Unitary Products business reported double digit revenue growth i.e. ~10% yoy. Further, Room AC sales grew ~10% yoy, in line with industry growth and maintained its market share at ~12.5%. The revenue of Professional Electronics and Industrial Systems business de-grew ~53% yoy during the quarter.

Adj. PAT de-grew ~94% yoy: On the operating front, the company's margins improved by 39bps yoy. The bottom-line registered growth of ~94% yoy to ₹38cr due to healthy sales, operating performance and higher other income.

Outlook & Valuation: We estimate Blue Star to report top-line CAGR of ~13% to ₹6,651cr over FY2019-21E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~20% CAGR to ₹269cr owing to improvement in volumes and better operating margins. **We maintain our Buy recommendation on Blue Star with a Target Price of ₹980.**

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Net Sales	4,648	5,235	5,866	6,651
% chg	6.0	12.6	12.1	13.4
Net Profit	144	188	215	269
% chg	17.0	30.5	14.5	24.5
OPM (%)	5.7	6.4	6.3	6.7
EPS (Rs)	15.0	19.6	22.4	27.9
P/E (x)	53.9	41.3	36.1	29.0
P/BV (x)	9.3	8.9	8.3	7.5
RoE (%)	17.3	21.5	23.1	25.8
RoCE (%)	16.7	21.2	24.1	27.3
EV/Sales (x)	1.7	1.5	1.3	1.2
EV/EBITDA (x)	30.3	23.9	21.0	17.4

Source: Company, Angel Research Note: CMP as of November 15, 2019

BUY

CMP	₹810
Target Price	₹980
Investment Period	12 Months

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	7,780
Net Debt (₹ cr)	232
Beta	1.0
52 Week High / Low	881/560
Avg. Daily Volume	9,549
Face Value (₹)	2
BSE Sensex	40,545
Nifty	11,944
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)	
Promoters	38.8
MF / Banks / Indian FIs	20.4
FII / NRIs / OCBs	12.8
Indian Public / Others	28.1

Abs.(%)	3m	1yr	3yr
Sensex	8.0	14.6	53.0
Blue Star	12.1	38.1	69.6

3-year price chart



Source: Company, Angel Research

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2QFY2020 Performance

Y/E March (₹ cr)	2QFY20	2QFY19	% chg. (yoy)	1QFY20	% chg. (qoq)	1HFY20	1HFY19	% chg
Net Sales	1,249	1,032	21.0	1,575	(20.7)	2,825	2,540	11.2
Net raw material	934.1	773.79	20.7	1184.5	(21.1)	2119	1895	11.8
(% of Sales)	74.8	75.0	(21)	75.2	(43)	75.0	74.6	
Employee Cost	119.5	103.07	15.9	115	4.2	234	206	13.8
(% of Sales)	9.6	10.0	(42)	7.3	229	8.3	8.1	
Other Expenses	124.03	99.99	24.0	162	(23.2)	286	247	15.6
(% of Sales)	9.9	9.7	24	10.3	(33)	10.1	9.7	
Total Expenditure	1,178	977	20.6	1,461	(19.4)	2,638	2,348	12.4
Operating Profit	72	55	29.8	115	(37.4)	187	192	(3)
OPM (%)	5.8	5.4	39	7.3	(153)	6.61	7.56	(95)
Interest	7	12	(41.8)	8	(17.5)	15	24	(36.8)
Depreciation	22	17	28.0	20	6.5	42	33	27.2
Other Income	11	5	115.0	22	(51.1)	32	23	37.6
PBT	54	32	70.5	108	(49.9)	162.00	158.71	2.1
(% of Sales)	4.3	3.1	40.8	6.8		5.7	6.2	
Exceptional Items								
Tax	17	8	115.3	33	(48.1)	49	40	22.5
(% of PBT)	31.2	24.7		30.1		30.5	25.4	
Reported PAT before MI & Extra Ord. Items	37	24	55.7	75	(50.7)	113	118	(4.9)
PATM	3.0	2.3		4.8		4.0	4.7	
Minority Interest	0	0				0	0	
P/L of Ass. Co.	1	-4		1		2	-7	
Extra-ordinary Items								
Reported PAT	38	20	94.1	77	(50.6)	115	111	3.3

Source: Company, Angel Research

Outlook & Valuation:

We estimate Blue Star to report top-line CAGR of ~13% to `6,651cr over FY2019-21E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~20% CAGR to `269cr owing to improvement in volumes and better operating margins. We maintain our Buy recommendation on Blue Star with a Target Price of `980.

Downside risks to our estimates

- Any slowdown in consumer segments like IT/ITES, healthcare, hospitality and infrastructure could impact the company's growth.
- Foreign exchange fluctuations have a direct impact on the profit of the cooling products division since commercial refrigerators are imported.
- The RAC industry has been witnessing high traction and the company has been able to outperform the industry over the past few years. Any unexpected drop in performance of the RAC industry would pose a threat to our estimates.

Company Background

Blue Star Limited is an air-conditioning and commercial refrigeration company. The company conducts various activities, such as electrical, plumbing and fire-fighting services. Its segments include Electro-Mechanical Projects and Packaged Air Conditioning Systems, and Unitary Products. The Electro-Mechanical Projects and Packaged Air-Conditioning Systems segment includes central air-conditioning projects, electrical contracting business and packaged air-conditioning businesses, including manufacturing and after sales service. The Unitary Products segment includes cooling appliances, cold storage products, including manufacturing and after sales service. The company's products include central air conditioning, room air conditioners and specialty cooling products. Its other businesses include marketing and maintenance of imported professional electronic equipment and services, as well as industrial products and systems, which is handled by Blue Star Engineering & Electronics.

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2018	FY2019	FY2020E	FY2021E
Total operating income	4,648	5,235	5,866	6,651
% chg	6.0	12.6	12.1	13.4
Total Expenditure	4,382	4,901	5,496	6,205
Raw Material	3,229	3,931	3,989	4,523
Personnel	398	421	516	599
Others Expenses	756	548	991	1,084
EBITDA	266	334	370	446
% chg	19.6	25.6	10.6	20.6
(% of Net Sales)	5.7	6.4	6.3	6.7
Depreciation& Amortisation	64	75	86	95
EBIT	202	259	284	350
% chg	24.9	28.2	9.4	23.6
(% of Net Sales)	4.3	5.0	4.8	5.3
Interest & other Charges	29	48	33	27
Other Income	17	40	40	40
(% of PBT)	8.9	15.9	13.7	11.0
Share in profit of Associates	-	-	-	-
Recurring PBT	190	251	291	364
% chg	20.0	32.0	15.9	24.9
Tax	49	42	76	95
(% of PBT)	26.0	16.7	26.0	26.0
PAT (reported)	141	209	215	269
Minority Interest (after tax)	0	0	0	0
Profit/Loss of Associate Company	2	19	-	-
Extraordinary Items	5	2	-	-
ADJ. PAT	144	188	215	269
% chg	17.0	30.5	14.5	24.9
(% of Net Sales)	3.1	3.6	3.7	4.0
Basic EPS (₹)	15.0	19.6	22.4	28.0
Fully Diluted EPS (₹)	15.0	19.6	22.4	28.0
% chg	17.0	30.5	14.5	24.9

Consolidated Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
SOURCES OF FUNDS				
Equity Share Capital	19	19	19	19
Reserves& Surplus	812	854	912	1,019
Shareholders Funds	831	873	931	1,039
Minority Interest	2	2	1	1
Total Loans	376	348	245	245
Deferred Tax Liability	25	25	24	24
Total Liabilities	1,234	1,270	1,142	1,252
APPLICATION OF FUNDS				
Gross Block	529	608	489	539
Less: Acc. Depreciation	137	208	294	389
Net Block	392	400	196	151
Capital Work-in-Progress	25	41	34	34
Investments	13	15	79	79
Current Assets	2,659	2,791	2,865	3,279
Inventories	833	869	932	1,057
Sundry Debtors	1,100	1,112	1,221	1,385
Cash	81	101	154	185
Loans & Advances	518	578	440	525
Other Assets	126	131	117	126
Current liabilities	1,974	2,110	2,163	2,424
Net Current Assets	685	681	701	855
Deferred Tax Asset	119	132	132	133
Mis. Exp. not written off	-	-	-	-
Total Assets	1,234	1,270	1,142	1,252

Consolidated Cash flow Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	206	251	291	364
Depreciation	64	75	86	95
Change in Working Capital	(194)	(43)	33	(123)
Interest / Dividend (Net)	22	34	33	27
Direct taxes paid	(45)	(35)	(76)	(95)
Others	(23)	(18)	0	0
Cash Flow from Operations	24	263	367	269
(Inc.)/ Dec. in Fixed Assets	(99)	(103)	(50)	(50)
(Inc.)/ Dec. in Investments	7	33	0	0
Cash Flow from Investing	(93)	(70)	(50)	(50)
Issue of Equity	13	10	0	0
Inc./(Dec.) in loans	150	0	(103)	0
Dividend Paid (Incl. Tax)	(86)	(115)	(129)	(161)
Interest / Dividend (Net)	(23)	(68)	(32)	(26)
Cash Flow from Financing	53	(173)	(264)	(187)
Inc./(Dec.) in Cash	(16)	20	53	31
Opening Cash balances	97	81	101	154
Closing Cash balances	81	101	154	185

Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
Valuation Ratio (x)				
P/E (on FDEPS)	53.9	41.3	36.1	28.9
P/CEPS	37.9	27.3	25.8	21.3
P/BV	9.3	8.9	8.3	7.5
Dividend yield (%)	1.1	1.5	1.7	2.1
EV/Sales	1.7	1.5	1.3	1.2
EV/EBITDA	30.3	23.9	21.0	17.4
EV / Total Assets	6.5	6.3	6.8	6.2
Per Share Data (₹)				
EPS (Basic)	15.0	19.6	22.4	28.0
EPS (fully diluted)	15.0	19.6	22.4	28.0
Cash EPS	21.3	29.6	31.4	37.9
DPS	9.0	11.7	13.4	16.8
Book Value	86.6	90.9	97.0	108.2
Returns (%)				
ROCE	16.7	21.2	24.1	27.3
Angel ROIC (Pre-tax)	18.1	23.5	30.1	34.4
ROE	17.3	21.5	23.1	25.9
Turnover ratios (x)				
Asset Turnover (Gross Block)	8.8	8.6	12.0	12.3
Inventory / Sales (days)	65	61	58	58
Receivables (days)	86	78	76	76
Payables (days)	122	107	93	91
Working capital cycle (ex-cash) (days)	30	31	41	43

Source: Company, Angel Research

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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