

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

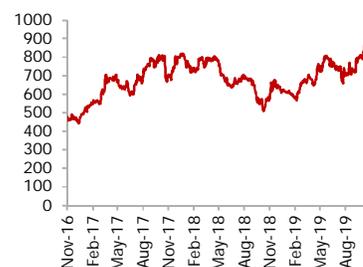
| | |
|-------------------|-----------|
| CMP | ₹810 |
| Target Price | ₹980 |
| Investment Period | 12 Months |

| 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

Amarjeet S Maurya

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

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

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

| Disclosure of Interest Statement | Blue Star |
|---|-----------|
| 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%) |
|--------------------|-------------------------------------|---|--------------------|