

Blue Star

15 November 2019

Reuters: BLUS.BO; Bloomberg: BLSTR IN

Healthy growth; decent margins; bright outlook

Blue Star (BLSTR) reported consolidated revenue of Rs12.5bn for 2QFY20, up 21% YoY, above our/consensus estimate of Rs11bn each. Unitary Products segment's revenue grew by 10% YoY to Rs3.8bn in a non-seasonal quarter, while demand was driven by Tier 3/4/5 towns. EMPS segment's revenue grew by 24% YoY to Rs7.8bn on execution of a healthy order book. Order book grew by 32% YoY and 3% QoQ to Rs29.4bn as on 1HFY20. Unitary Products' EBIT margin grew by 80bps YoY to 3.2%, while EMPS segment's margin fell 140bps YoY to 5.7%, on a high base, but up 30bps QoQ. Consolidated EBITDA margin rose by 30bps YoY to 5.9%, exactly in-line with our/consensus estimate. The company has not shifted to the lower tax regime as it is yet to avail Rs670mn worth of MAT credit. Lower interest costs and higher other income aided bottomline, with the PAT growing by 94% YoY to Rs379mn, above our/consensus estimates of Rs301mn/Rs320mn. We have marginally tweaked our estimates and retained Buy rating on BLSTR with a SOTP-based target price of Rs970 (Rs965 earlier). On September 2021E earnings, we assign a P/E of 35x to Unitary Product segment and 15x to the project business.

Unitary Products segment update: In the non-seasonal monsoon quarter, BLSTR's AC sales grew by 10% YoY, in line with the industry growth of 10%. Thus, BLSTR maintained its market share of 12.5%. Tier 3/4/5 towns were the key drivers of growth, accounting for 60% of total sales. BLSTR could not outpace the industry growth as the demand was more for low-priced entry-level products due to softness in the economy, while BLSTR's strength is in mass premium range. Consumer financing accounted for 40% of total sales. The AC industry has not taken any price hikes in 1HFY20 despite the hike in customs duty on IDU from 10% to 20%. BLSTR aims to take price hikes in 4QFY20 when the new products for summer season roll out. BLSTR expects to substantially increase the in-sourcing of IDU from 20% in FY20 to 70% in FY21. It will also scout for local outsourcing or import from countries which have FTA with India for the imported components. BLSTR expects AC industry to grow by 10%-12% in FY20 while it aims to outpace the industry by growing at 15%-18%. The Commercial Refrigeration portfolio of BLSTR grew by 6% in 2QFY20 after doing a planned transition of upgrading to an eco-friendly refrigerant in 1QFY20. Industries such as processed food, hospitality, dairy and ice-cream were key growth drivers. In water purifier, BLSTR has surpassed installed base of 100,000 units and attained market share of 2%-2.5%. In FY19, water purifier business had 160bps negative impact on unitary product segment margin, which is likely to reduce to 100bps negative impact in FY20. BLSTR is ramping up its advertising and marketing spend, having recently appointed Virat Kohli as the brand ambassador. It expects FY20 EBIT margin in 9%-9.5% range.

EMPS segment update: EMPS revenue grew 24% YoY to Rs7.8bn (63% of total sales), led by execution of a healthy order book. Sales of central air-conditioning products and systems were healthy leading to rise in BLSTR's market share in chillers and VRF (due to new product launches and enhanced reach in Tier 3/4 towns) led by sectors such as hospital, industrial and educational institutions. The segment reported total order inflow of Rs7.9bn versus Rs7.1bn YoY, led by airport orders of Delhi and Bangalore. Total order book grew by 32% YoY and 3% QoQ to Rs29.4bn as on 1HFY20. However, BLSTR is exercising caution in terms of pace of execution of projects due to reduced credit flow to real estate and infrastructure sector. It wants to ensure that private sector customers do not have cash flow issues. While the execution of government projects is progressing well, contractors such as BLSTR are facing payment delays. EBIT margin fell by 140bps YoY to 5.7%, on a high base, but it was up 30bps QoQ. BLSTR expects FY20 margin in 4.5%-5.5% range.

Outlook: A 27% earnings CAGR over FY19-FY22E, rising return ratios, healthy free cash flow, lean working capital cycle and strong growth prospects of the AC industry will aid BLSTR's valuation.

Y/E March (Rsmn)	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Net revenues	10,322	15,755	12,495	21.0	(20.7)	25,400	28,249	11.2
Raw material costs	7,738	11,845	9,341	20.7	(21.1)	18,952	21,186	11.8
Staff costs	1,031	1,147	1,195	15.9	4.2	2,058	2,342	13.8
Other expenses	973	1,615	1,223	25.8	(24.2)	2,443	2,838	16.2
Total expenditure	9,741	14,606	11,759	20.7	(19.5)	23,453	26,365	12.4
EBITDA	581	1,149	736	26.7	(35.9)	1,947	1,884	(3.2)
EBITDA margin (%)	5.6	7.3	5.9			7.7	6.7	
Interest costs	117	82	68	(41.8)	(17.5)	238	150	(36.8)
Depreciation	169	203	216	28.0	6.5	330	420	27.2
Other income	49	217	106	115.0	(51.1)	83	323	290.1
Exceptional items	(27)	-	(17)			125	(17)	
PBT	317	1,080	540	70.5	(49.9)	1,587	1,620	2.1
Tax	78	325	169	115.3	(48.1)	403	494	22.5
Profit from associates	(42)	15	9			(71)	24	
Minority interest	(1)	(1)	(2)			(3)	(2)	
PAT	195	768	379	94.1	(50.6)	1,111	1,148	3.4
PAT margin (%)	1.9	4.9	3.0			4.4	4.1	
EPS (Rs)	2.0	8.0	3.9	94.1	(50.6)	11.5	11.9	3.4

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Consumer Durables

CMP: Rs812

Target Price: Rs970

Upside: 19%

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Key Data

Current Shares O/S (mn)	96.3
Mkt Cap (Rsbn/US\$bn)	78.1/1.1
52 Wk H / L (Rs)	882/560
Daily Vol. (3M NSE Avg.)	56,818

Price Performance (%)

	1 M	6 M	1 Yr
Blue Star	2.6	8.1	37.1
Nifty Index	4.1	6.6	12.0

Source: Bloomberg

Exhibit 1: Financial summary (consolidated)

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Revenues	46,390	52,348	59,454	68,613	79,317
EBITDA	2,659	3,465	4,039	5,308	6,277
Adjusted net profit	1,387	1,874	2,431	3,180	3,821
Adjusted EPS (Rs)	14.4	19.5	25.2	33.0	39.7
EPS growth (%)	12.7	35.1	29.7	30.8	20.2
EBITDA margin (%)	5.7	6.6	6.8	7.7	7.9
P/E (x)	56.4	41.7	32.2	24.6	20.5
P/BV (x)	9.9	9.0	8.0	6.9	5.9
EV/EBITDA (x)	30.5	23.3	19.9	15.0	12.7
Dividend yield (%)	1.2	1.2	1.5	1.7	2.0
RoCE (%)	18.9	22.8	25.3	31.8	34.4
RoE (%)	18.6	22.8	26.3	30.2	31.1

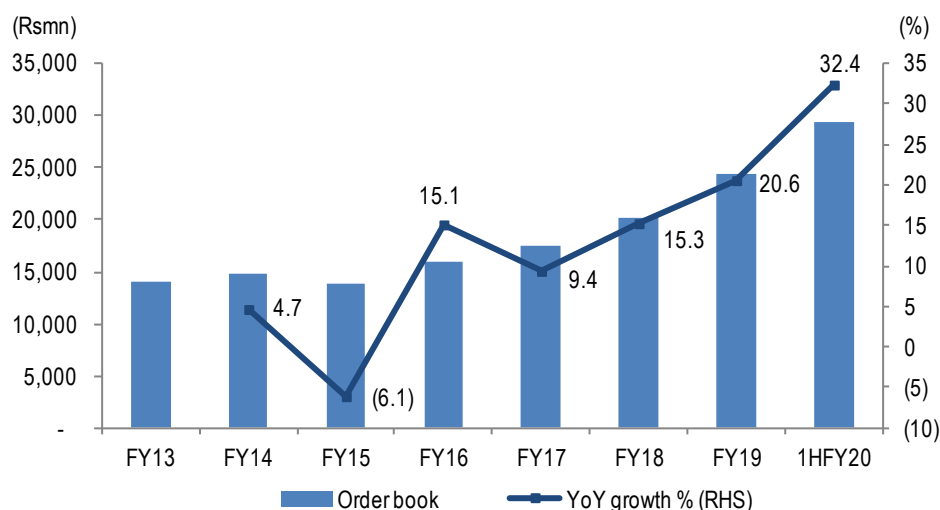
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot (consolidated)

Y/E March	2QFY19	1QFY20	2QFY20	YoY (%)	QoQ (%)	1HFY19	1HFY20	YoY (%)
Revenues (Rsmn)								
EMPS & Packaged AC Systems	6,310	6,239	7,835	24.2	25.6	12,503	14,075	12.6
Unitary Products	3,431	9,069	3,772	10.0	(58.4)	11,738	12,841	9.4
PE & IS	582	446	887	52.5	98.8	1,159	1,333	15.1
Revenue mix (%)								
EMPS & Packaged AC Systems	61.1	39.6	62.7			49.2	49.8	
Unitary Products	33.2	57.6	30.2			46.2	45.5	
PE & IS	5.6	2.8	7.1			4.6	4.7	
EBIT (Rsmn)								
EMPS & Packaged AC Systems	448	335	446	(0.4)	32.9	845	781	(7.5)
Unitary Products	82	989	120	45.9	(87.9)	1,032	1,109	7.4
PE & IS	126	44	244	94.5	452.7	208	289	38.4
EBIT margin (%)								
EMPS & Packaged AC Systems	7.1	5.4	5.7			6.8	5.5	
Unitary Products	2.4	10.9	3.2			8.8	8.6	
PE & IS	21.6	9.9	27.5			18.0	21.6	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Order book trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Actual performance versus our estimates, Bloomberg consensus estimates

2QFY20 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	12,495	10,999	13.6	11,100	12.6
EBITDA	736	648	13.6	653	12.7
Adjusted PAT	379	301	25.9	320	18.6

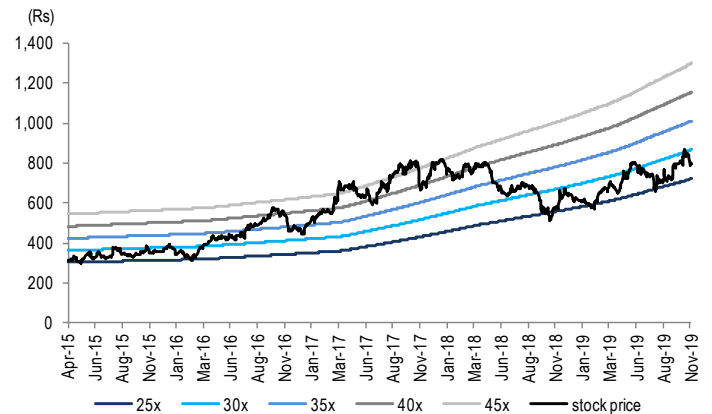
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: Change in our estimates

(Rsmn)	Old			New			Deviation (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenues	59,454	68,613	79,317	59,454	68,613	79,317	-	-	-
EBITDA	4,134	5,308	6,297	4,039	5,308	6,277	(2.3)	-	(0.3)
PAT	2,350	3,137	3,811	2,431	3,180	3,821	3.4	1.4	0.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: P/E charts



Source: Bombay Stock Exchange, Nirmal Bang Institutional Equities Research

Financial statements (consolidated)

Exhibit 7: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Net sales	46,390	52,348	59,454	68,613	79,317
% growth	5.8	12.8	13.6	15.4	15.6
Raw material costs	34,550	39,312	44,293	50,773	58,615
Staff costs	3,977	4,215	4,875	5,558	6,345
Other overheads	5,204	5,356	6,246	6,974	8,079
Total expenditure	43,731	48,883	55,414	63,305	73,040
EBITDA	2,659	3,465	4,039	5,308	6,277
% growth	19.6	30.3	16.6	31.4	18.3
EBITDA margin (%)	5.7	6.6	6.8	7.7	7.9
Other income	170	247	420	315	340
Interest costs	287	479	315	322	338
Depreciation	638	749	850	966	1,066
Exceptional items	53	27	-	-	-
Profit before tax	1,956	2,511	3,294	4,335	5,212
Tax	494	420	889	1,170	1,407
Share of profit in associates	(19)	(188)	30	20	20
Adjusted net profit	1,387	1,874	2,431	3,180	3,821
% growth	12.7	35.1	29.7	30.8	20.2
Adjusted PAT margin (%)	3.0	3.6	4.1	4.6	4.8
Adjusted EPS (Rs)	14.4	19.5	25.2	33.0	39.7
% growth	12.7	35.1	29.7	30.8	20.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
Share capital	192	193	193	193	193
Reserves & surplus	7,735	8,538	9,576	11,131	13,094
Net worth	7,927	8,731	9,768	11,323	13,287
Minority interest	15	18	18	18	18
Short-term loans	3,440	3,359	3,109	2,859	2,609
Long-term loans	259	87	87	87	87
Total loans	3,699	3,445	3,195	2,945	2,695
Total liabilities	11,642	12,194	12,982	14,287	16,001
Net block	3,359	3,499	4,865	5,898	6,732
Capital WIP & intangible assets	815	915	700	600	600
Investments	132	146	146	146	146
Inventories	10,171	8,693	9,964	11,200	12,887
Debtors	9,504	11,121	11,180	12,456	14,388
Cash & bank	809	1,009	1,065	1,386	1,363
Other current assets	6,437	7,051	7,044	7,620	8,802
Total current assets	26,921	27,874	29,253	32,661	37,440
Creditors	15,327	15,346	16,377	18,492	21,278
Other current liabilities & provisions	5,394	5,969	6,680	7,602	8,715
Total current liabilities	20,721	21,315	23,057	26,094	29,993
Net current assets	6,200	6,558	6,196	6,567	7,446
Deferred tax asset (net)	1,136	1,076	1,076	1,076	1,076
Total assets	11,642	12,194	12,982	14,287	16,001

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20E	FY21E	FY22E
EBIT	2,021	2,716	3,190	4,342	5,211
(Inc.)/dec. in working capital	(1,695)	(158)	418	(51)	(902)
Cash flow from operations	325	2,559	3,608	4,291	4,309
Other income	170	247	420	315	340
Depreciation	691	776	850	966	1,066
Tax paid (-)	(553)	(360)	(889)	(1,170)	(1,407)
Income from associates	(22)	(191)	26	16	16
Net cash from operations	611	3,031	4,014	4,418	4,324
Capital expenditure (-)	(914)	(990)	(2,000)	(1,900)	(1,900)
Net cash after capex	(304)	2,041	2,014	2,518	2,424
Interest paid (-)	(287)	(479)	(315)	(322)	(338)
Dividends paid (-)	(1,157)	(1,161)	(1,393)	(1,625)	(1,857)
Inc./(dec.) in short-term borrowing	1,481	(81)	(250)	(250)	(250)
Inc./(dec.) in long-term borrowing	57	(173)	-	-	-
Inc./(dec.) in total borrowings	1,538	(254)	(250)	(250)	(250)
(Inc.)/dec. in investments	(23)	(14)	-	-	-
Minority interest	3	3	-	-	-
Equity issue/(buyback)	1	1	-	-	-
Cash from financial activities	74	(1,904)	(1,959)	(2,198)	(2,446)
Others	73	63	-	-	-
Opening cash balance	966	809	1,009	1,065	1,386
Closing cash balance	809	1,009	1,065	1,386	1,363
Change in cash	(157)	201	56	320	(22)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Key ratios

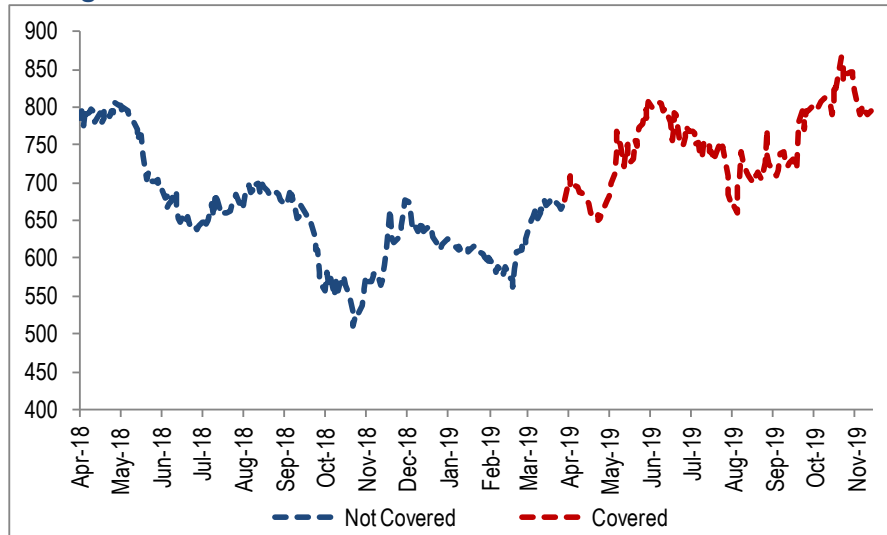
Y/E March	FY18	FY19	FY20E	FY21E	FY22E
Per share (Rs)					
Adjusted EPS	14.4	19.5	25.2	33.0	39.7
Book value	82.3	90.7	101.4	117.6	138.0
Valuation (x)					
P/E	56.4	41.7	32.2	24.6	20.5
P/BV	9.9	9.0	8.0	6.9	5.9
EV/EBITDA	30.5	23.3	19.9	15.0	12.7
EV/sales	1.7	1.5	1.4	1.2	1.0
Return ratios (%)					
RoCE	18.9	22.8	25.3	31.8	34.4
RoE	18.6	22.8	26.3	30.2	31.1
RoIC	20.9	25.0	28.0	35.4	38.3
Profitability ratios (%)					
EBITDA margin	5.7	6.6	6.8	7.7	7.9
EBIT margin	4.4	5.2	5.4	6.3	6.6
PAT margin	3.0	3.6	4.1	4.6	4.8
Turnover ratios					
Total asset turnover (x)	4.3	4.4	4.7	5.0	5.2
Debtor days	76	72	73	71	71
Inventory days	85	88	87	86	86
Creditor days	143	142	143	142	142
Solvency ratio (x)					
Debt-equity	0.5	0.4	0.3	0.3	0.2

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 March 2019	Buy	670	815
9 April 2019	Buy	685	815
6 May 2019	Buy	697	835
9 July 2019	Buy	734	835
14 August 2019	Buy	707	835
23 September 2019	Buy	795	965
7 October 2019	Buy	806	965
15 November 2019	Buy	812	970

Rating chart



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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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