

## Reduce

The Blue Star AR while addressing the covid-19 impact talks about company's focus on constant innovation, product expansion and dealer engagement. The company revamped its products and brand with Virat Kohli as the brand ambassador in FY20. The company has implemented the BlueStar@80 FY24 strategy; management continuity, constant innovation and cash conservation form the main pillars.

### New FY21-24 strategy in place

It has a strategic plan for FY21-24, with three objectives- grow faster than market, improve profits by scale and backward integration, deepen distribution through conventional and E-com channels. This ties in with what they have been consistently saying- increase their manufacturing component and deepening distribution. This strategy focuses on backward integration, liquidity maintenance, and network expansion. The company is set to shift its operating model from a physical to hybrid 'phygital' model for post covid-19 scenario. The current contribution from e-commerce to total sales is 5%; Blue Star aims to increase this contribution to 20% of sales by FY24.

### Innovating on product and distribution

Blue star continues to inch up its market share in the main AC business. Its market share in RAC has very marginally gone up by 20bps to 12.5%. It was 12.3% in FY19. However, over the past two years, it has gone up 100bps from 11.5% in FY18. In FY20, Blue Star forayed into the 'Premium-Yet-Affordable' segment by rolling out range of ACs with integrated air purifiers and smart wi-fi enabled 5-star ACs. The Company also launched a new range of air coolers and RO/RO+UV range of water purifiers in the entry/mid-level segment for e-commerce platforms. On the distribution, the company has gotten 508 new dealers on board. Blue star focused on increasing market reach in Tier 3 and 4 cities, it obtained an edge in marketing by appointing Virat Kohli as its brand ambassador. The company has also expanded international presence by inaugurating new flagship store in Dubai in FY20. It has increased market share in VRF by 200bps to 18% and 500bps in ducted systems to 45%.

### Strong balance sheet with focus on cash.

As per Blue Star's strategy for FY24, conserving cash has been the main focus with maintaining a close watch on receivables in order to keep WC in check. It has also raised Rs3.5bn NCDs to infuse enough cash in its books, cash balance for FY20 went up from ~Rs.1bn levels in FY19 to almost ~Rs.3bn in FY20. The net receivables fell by 25% to Rs.8.4bn in FY20. WC decreased marginally by Rs.320mn, which was Rs.6.2bn as on 31st March, 2020.

### Management continuity should aid new strategic plan

Management continuity will be another key positive as Blue Star seeks reappointment for its MD B Thiagarajan for another five years from FY22-27. The senior management team remains unchanged with Mr. Shailesh Haribhakti as chairman, Mr. Vir Advani as vice chairman and MD and Mr. Thiagarajan as MD at the forefront. This should help its current strategic plan from FY21-24.

|                 |             |
|-----------------|-------------|
| CMP             | Rs 489      |
| Target / Upside | Rs 508 / 4% |
| BSE Sensex      | 37,114      |
| NSE Nifty       | 10,902      |

### Scrip Details

|                  |                 |
|------------------|-----------------|
| Equity / FV      | Rs 193mn / Rs 2 |
| Market Cap       | Rs 47bn         |
|                  | USD 628mn       |
| 52-week High/Low | Rs 888/Rs 409   |
| Avg. Volume (no) | 102,956         |
| NSE Symbol       | BLUESTARCO      |
| Bloomberg Code   | BLSTR IN        |

### Shareholding Pattern Mar'20(%)

|                 |      |
|-----------------|------|
| Promoters       | 38.8 |
| MF/Banks/FIs    | 27.4 |
| FIIIs           | 7.5  |
| Public / Others | 26.3 |

### Blue Star Relative to Sensex



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## Annual Report Macro View

|                               |   |               |               |
|-------------------------------|---|---------------|---------------|
| <b>Key Management</b>         | <b>No changes during the year.</b>  |               |               |
| <b>Board of Directors</b>     | No changes during the year.   |               |               |
| <b>Auditors</b>               | No changes.<br>M/s. Deloitte Haskins & Sons continue to be the auditors of the company.   |               |               |
| <b>Insider Holdings</b>       | There were no insider holdings in the year.   |               |               |
| <b>Credit Ratings</b>         | No change in credit rating, A1+ rating from CARE and CRISIL for Commercial Paper, AA+ rating for long-term debt and A1+ rating for its short-term debt from CARE.   |               |               |
| <b>Pledged Shares</b>         | No shares were pledged during the year.   |               |               |
| <b>Macro-economic factors</b> | The global economy has been crippled with the covid-19 shutdown and supply disruption, which has added to the woes of unstable commodity prices, liquidity crunch and existing slowdown in domestic investments in India. FY21 seems as a washout year for company and majority industry peers, but positive outlook with increasing infra push and adaptation to shifting consumer demands will be a savior in FY22 onwards. |               |               |
| <b>Key Holders</b>            | <b>Category of Shareholder (%)</b>  | <b>FY2020</b> | <b>FY2019</b> |
|                               | A. Promoters & Promoter Group   | 38.76         | 38.76         |
|                               | B. Public Shareholding  | 61.24         | 61.24         |
|                               | C. Shares held by Employee Trusts   | 0.00          | 0.00          |
|                               | <b>Total</b>  | <b>100.00</b> | <b>100.00</b> |

## Industry Overview

The spread of the COVID-19 pandemic and continuation of the stringent nationwide lockdown in India in the months of April and May has taken place during the peak selling season across the Company's products businesses and has significantly impacted the Company's revenue in the first quarter of FY21.

In FY20, the overall market size for air conditioning products in India was ~Rs.175bn. Central Air Conditioning, growth in FY20 was mainly driven by Government, Industrial, Infrastructure, Hospitality, Retail, and Healthcare segments. The Room Air Conditioners market was on a growth trajectory till February 2020. However, the COVID-19 related market disruptions and the subsequent lockdown measures meant that it could only manage to stay flat over FY19.

The Commercial Refrigeration market witnessed a surge in demand driven by aggressive expansion plans from fast growing segments such as food, dairy, restaurants, e-tailers and cloud kitchens. Supermarket Refrigeration also provided ample growth opportunities in addition to Pharmaceutical and Healthcare industries.

## FY20 Performance & Developments

- The COVID-19 crisis and the subsequent lockdowns impacted the financial performance in Q4FY20, resulting in a shortfall of revenue and profit to the tune of Rs.4bn and Rs.700mn, respectively.
- The Company reported growth of 2.4% in consolidated revenue, which stood at Rs.53.6bn for FY20, as compared to Rs.52.3bn in FY19.
- EBIDTA for FY20 was Rs.2.8bn compared to Rs.3.5bn in FY19. PAT for the year was Rs.1.4bn compared to Rs.1.9bn in FY19.
- Consolidated net borrowings reduced to Rs.1.6bn as on March 31, 2020, compared to Rs.2.4bn as on March 31, 2019, driven by effective working capital management and cash and bank balance increase of nearly ~Rs.2bn from its Rs.1bn levels last year.
- Issued Non-Convertible Debentures worth Rs.3bn and received bids aggregating to Rs.4.5bn of which retained Rs.500mn from the oversubscription.
- The employee strength marginally increased to 2,885 in FY20 compared to 2,812 in FY19. The employee cost for FY20 was Rs.4.8bn, up by 15% YoY; median employee remuneration increased by 6% in FY20.
- Blue Star added around 720 channel partners and service associates during the year with 3,880 channel partners and 1,060 service associates. The Company also expanded its retail distribution reach for room air conditioners and added 508 retailers and distributors across the country to 6,000 stores, thereby increasing its presence in Tier 2 and 3 markets by 10% over last year.
- Company set 30 service centers in FY20 and has more than 250 customer service vans. Company deployed 24x7 service for its cold room customers.
- The Company's net forex cost was Rs.97mn for the year as compared to Rs.41mn in the previous year due to the impact of high volatility and sharp depreciation of INR in February 2020 and March 2020 due to several global events.
- The Company incurred a total expenditure of Rs.685mn on research and development for the year as against Rs.508mn in the previous year; the R&D expense was 1.3% of sales as compared to 0.9% of total sales in FY19.

- Blue Star incurred A&P spend of Rs.835mn in FY20 as compared to Rs.548mn in FY19, up by 52% YoY, it decided to make Virat Kohli its brand ambassador.
- The Company plans to raise Rs.3bn through issue of unsecured three-year non-convertible debentures, in line with the BlueStar@80 strategy 2024; the Company is in the process of setting up an additional facility to expand its manufactured commercial refrigeration range of products by FY22.
- Online sales of room air conditioners and water purifiers in FY20 grew by 63% and 42% respectively over the previous year along with a strong beginning in sales of air purifiers and deep freezers.
- The company expanded operations in the Middle East, with its new office and flagship showroom in Dubai during the year. In FY20, some of the projects under execution in Qatar and Malaysia include multi-story building projects in Qatar; and Cyberjaya Hospital, Bukit Jalil Mall, and BB Tower project in Malaysia.

## Business Segment Analysis

### ELECTRO-MECHANICAL PROJECTS AND COMMERCIAL AIR CONDITIONING SYSTEMS

- Revenue for this segment in FY20 was Rs.28.3bn, a growth of 2.9% YoY. EBIT was Rs.1.2bn in FY20 compared to Rs.1.5bn in FY19. This segment makes up for 53% of total sales.
- Order inflow for this segment during the year was Rs.31bn compared to Rs.30bn in FY19, a growth of 5.2% YoY. Won significant order from Mumbai Metro for air conditioning system of Rs.2.5bn.
- Order book of the Electro-Mechanical Projects business was Rs.20.4bn as on March 31, 2020 compared to Rs.17.2bn as on March 31, 2019, an increase of 19% YoY.
- Continued to consolidate maintained leadership position in the Ducted Systems in Q4 FY20 and improved market share in Chillers and VRF categories.

### UNITARY PRODUCTS

- Revenue grew to Rs.23bn in FY20 against Rs.22.7bn in FY19, a growth of 1.4% YoY. This segment contributed to 43% of total revenues in revenues.
- EBIT was Rs1.6bn in FY20 compared with Rs.1.9bn in FY19 due to higher spend on advertising and sales promotion and lower sales in the month of March due to covid-19.
- Room Air Conditioner market share grew marginally to 12.5% in FY20 as compared to 12.3% in FY19.
- Water Purifier business to achieve market share of 2%. Expected to grow at 4% in FY21 and poised to break even next year.
- The Commercial Refrigeration business performed well and maintained leadership in deep freezers, watercoolers and cold rooms. The Company also gained market share in bottled water dispensers.

## PROFESSIONAL ELECTRONICS AND INDUSTRIAL SYSTEMS

- In FY20, segment revenue was Rs.2.3bn against Rs.2.2bn in FY19, a growth of 7.0% YoY. The segment contributes to 4% of total revenue in FY20.
- EBIT grew to Rs.543mn in FY20 compared to Rs.478mn in FY19; driven by major orders in the data security solutions business and growth in Industrial Systems. The segment contributed to 16% of profits due to higher EBIT margins at 20%.
- The International business grew steadily in the Middle East, SAARC and Africa markets. With a stable margin of 4% to 5% in FY20, continued to contribute to ~10% of total revenues.
- The Infra Security business, won some video surveillance orders. The Communication Systems business secured a few orders for radio frequency, microwave, avionics test and measuring equipment from the Defense, Space and Aerospace sectors.

## Strategy & Outlook

The spread of Covid-19 and nationwide lockdown in India has taken place during the product business peak sales months of March, April and has extended to May trickling revenue impact into Q1FY21 and is expected to impact overall revenues and bottom line in FY21. Positively, the Covid-19 crisis has enhanced the market potential for Healthcare, Pharmaceutical, Food Preservation and Home Delivery sectors.

Company will soon launch its new range of central air conditioning solutions claiming capability of killing the COVID-19 virus; along with a plan to scale up retrofit solutions. The work-from-home practice is expected to continue post lockdown and demand is expected to rise for unitary products.

The company's strong focus is on adding new dealers in metros and Tier 3,4 and 5 cities and establishing brand in e-commerce channels. Company will leverage AI, Big Data analytics and Augmented Reality technologies through the 'phygital' mode, thereby widening the addressable market.

The Professional Electronics and Industrial Systems business also stands to benefit with increased thrust on digital payments providing impetus to data security solutions. Affordable healthcare is going to receive a huge investment which company will leverage this as it specializes in low-cost solutions for the Healthcare Technology business.

The Company with a proposal to raise funds and optimize costs, will continue to focus on cash flow and capital employed in these challenging conditions.

Company will continue to invest in R&D and manufacturing in order to remain ahead of the curve. Blue Star has an undeterred focus on indigenous sourcing through the Aatmanirbhar Bharat Abhiyan and expanding its export operations.

## Opportunities

- With the e-commerce market being valued at Rs.2.6tn (USD 35bn), growing online sales due to social distancing norms, will create demand for its unitary products and commercial cooling products due to increasing demand for warehouse space.
- Only 5% of Indian population has access to air conditioners, as compared to 50% and more in the developed markets. This is likely to fuel demand for room air conditioners over the next few years.

- Increased opportunities from the Pharma, Healthcare and Processed Food sectors offers tremendous opportunities for growth of the Company's Commercial Refrigeration business.
- The company believes that water purifiers will witness market size expansion, with the growing awareness on health and enhancing levels of human immunity to infectious diseases.
- Increasing digital interaction by banking and financial services sector as an outcome of social distancing will open up new opportunities for the Data Security Systems business.
- Government's spending allocation towards Healthcare Systems is also expected to create opportunities for the Company's Healthcare business.

### Threats

- Along with being cyclical in nature, the international operations are also exposed to geo-political risks such as changes in tax regime and political unrest.
- The company also faces competition from international and domestic players due to widespread market operations.
- The Company's product businesses are seasonal in nature, which can spell doom for the company as dealers tend to over or under-stock in order to forecast unforeseen weather patterns.
- The company with its international presence and imports of components faces risk of volatile foreign exchange and commodity prices which are a sensitive factor in the current economic environment.
- Key components for manufacture of the Company's products such as compressors, copper tubes, electronic parts, indoor units for split air-conditioners and inverter drives are sourced from vendors in China and other countries. Any disruption in supply caused due to geo-political reasons, imposition of non-tariff barriers or COVID-19, may significantly impact the company.

## SUBSIDIARIES AND JOINT VENTURE COMPANIES

### Subsidiary Companies:

#### Blue Star Engineering & Electronics

- Revenue for FY20 was up by 8% at Rs.2.5bn, while PAT for FY20 declined by 18% YoY to Rs.418mn. As a deferred tax credit to the tune of Rs.116mn was reversed in FY20.
- PBT for FY20 grew by 77% YoY to Rs.600mn as against Rs.340mn in FY19.

#### Blue Star Qatar

- FY20 revenue was up by 65% YoY to Rs.2.5bn and PAT was up by 32% YoY to Rs.90mn in FY20.

#### Blue Star International

- Revenue in FY20 was up by 40% YoY to Rs.2.4bn, while PAT declined by 79% YoY to Rs.3mn for FY20.



### **Blue Star Systems and Solutions**

- The subsidiary commenced the first year of its operations in FY20. FY20 revenue was Rs.90mn while it ended FY20 with a loss of Rs.49mn.

### **Joint Venture Companies:**

#### **Blue Star M&E Engineering**

- Company's revenue for FY20 was up by 8% YoY at Rs.1.2bn. PAT for FY20, declined by 51% YoY to Rs.557mn.

#### **Blue Star Oman Electro-Mechanical Company**

- A joint venture between W J Towell and the Company, was formed to engage in the business of MEP contracting and maintenance in Oman. The company had filed a petition for liquidation of the JV in FY19.

### **Profit and Loss Analysis**

- The Company reported revenue for FY20 at Rs.53.6bn, up by 2.4% YoY. Revenue for electromechanical projects and commercial air conditioning systems business which constitutes 53% of total revenues, was up marginally by 3% to Rs.28.3bn in FY20.
- The cost of goods in FY20 was Rs.40.2bn compared to Rs.39.3bn in FY19, which continued to constitute 75% of revenue from operations. Material margins remained stable at 25% in FY20.
- Employee cost for the year at Rs.4.8bn increased by 15% YoY. The employee cost was 9% of the Total Income compared to 8% in the previous year. The median employee remuneration moved up by 6%.
- The EBIDTA excluding Other Income and Finance Income for FY20 was Rs.2.8bn compared to Rs.3.5bn in FY19, which declined on the account of increasing employee costs and ad spend. While EBITDA margins fell by 134bps to 5.3% in FY20.
- Depreciation for FY20 increased to Rs.880mn compared to Rs.749mn in the previous year. Rent was partly reclassified into depreciation and amortization on adoption of Ind AS 116 in FY20 and remaining was realized as bad debt provision.
- On a consolidated basis, finance cost for the year decreased to Rs.295mn crores as compared to Rs.479mn in the previous year, even when debt increased by from Rs.3.5bn in FY19 to Rs.4.5bn in FY20; as this was towards the tail end of the year taken on account of WC capital at an attractive interest rate averaging at ~7% compared to previous year's ~9%.
- Profit before tax and exceptional items for FY20 decreased by 15.5% to Rs.2.1bn compared to Rs.2.5bn in FY19. PBT margin came in at 3.9% in FY20 compared to 4.7% in the previous year.
- There was an exceptional expense of Rs.40mn during the year on account of Platinum Jubilee expense.
- Company's tax rate for FY20 came in at 31.7% which is due to reversal of MAT credit of ~Rs.200mn as future tax rate adopted as per new regime is 25.2%. Consolidated Net Profit for FY20 was Rs.1.4bn compared to Rs.1.9bn in FY19.

## Balance Sheet Analysis

- The leased land and building Rs.546mn was classified as right of use assets as a result of adoption new Ind AS 'Leases'. The net block stood at Rs.3.8bn which was up by 15% as government grant to the tune of Rs.203mn were amortized in case of purchase of plant and machinery.
- Consolidated net debt reduced to Rs.1.6bn crores as on March 31, 2020, compared to Rs.2.4bn as on March 31, 2019 due to effective working capital management despite COVID-19 disruptions and increased cash reserve of Rs.3.5bn due to issued NCDs.

| Particulars (Rs. mn) | FY20  | FY19  |
|----------------------|-------|-------|
| Gross Debt           | 4,489 | 3,445 |
| Net Debt             | 3,499 | 3,640 |
| Total Equity         | 7,824 | 8,731 |
| Gross Debt to Equity | 0.6x  | 0.4x  |
| Net Debt to Equity   | 0.2x  | 0.3x  |

- Cash and bank balances in FY20 were Rs.3bn, up by ~Rs.2bn compared to FY19. The working capital fell by Rs.320mn, which was Rs.6.2bn as on 31st March, 2020.
- CWIP has almost doubled to Rs.564mn in FY20 as compared to Rs.308mn in FY19.
- Inventories for FY20 remained flat at Rs.8.7bn, although starting of Q4FY20 the company saw double digit growth in sales the covid-19 impact caused an increase in stock of finished goods by 10% to Rs.2.6bn.
- Trade Payables increased by 3% from Rs.15.3bn in FY19 to Rs.15.8bn in FY20. The net receivables fell by 25% to Rs.8.4bn in FY20.
- For FY20, capex tripled to Rs.1.6bn from Rs.305mn in FY19 as PP&E to the tune of ~Rs.500mn was recognized as right of use asset as per Ind AS 116.

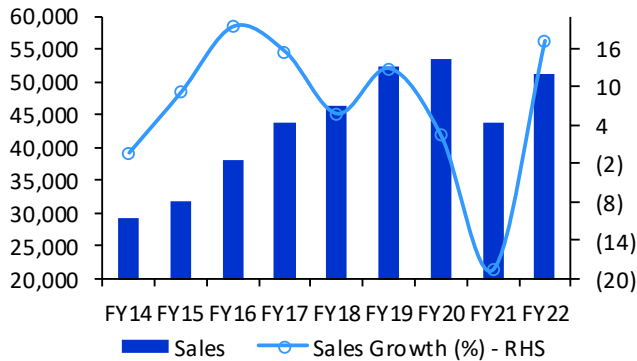
## Cash Flow and Ratio Analysis

- The cash flow from operating activities has gone up by 27.3% YoY to Rs.3.9bn. Company has paid taxes of Rs.653mn during the year.
- Net cash flow further from investing activities declined by Rs.600mn to negative Rs.1.6bn in FY20 vs. negative Rs.1bn in FY19.
- The board declared an interim dividend of Rs.10 per share on FV in FY20. March 20, 2020. Dividend payout for FY20 went up to 74% as compared to 51% in FY19.
- Blue Star's net debt to equity ratio improved to 0.2 in FY20, compared to 0.3 in FY19, reflecting improvement in cash flows during the year. The effective cost of debt in FY20 reduced to 7.4% as compared to 13.4% in FY19.
- The cash conversion cycle for FY20 dropped to 9 days compared to 31 days in FY19 as the company focused on prompt receivable recovery ~Rs.2bn in FY20.
- The RoE has come down to 18.6% from 21.4% with a decline in RoCE to 25.4% from 29.8% compared to previous year.
- EBITDA/OCF declined from 1.2x to 0.7x and EBITDA to FCF declined marginally from 1.4x to 1.2x during the year.



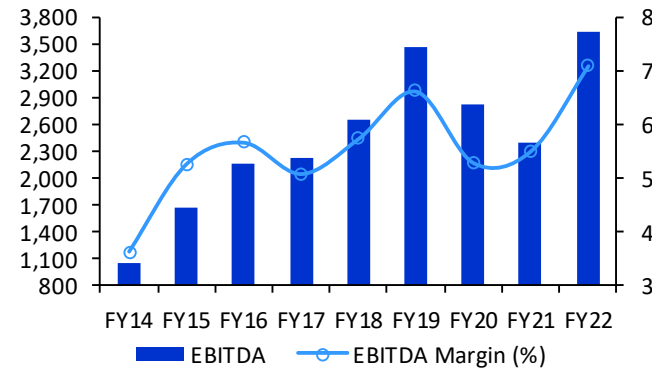
## Financial Metrics and Charts

**Exhibit 1: Sales & Growth (%)**



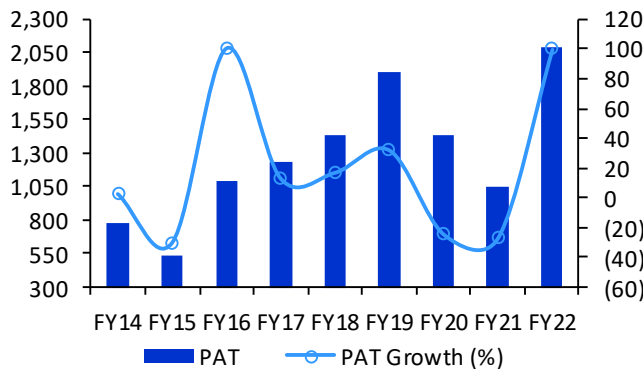
Source: Company, DART

**Exhibit 2: EBITDA and margin (%)**



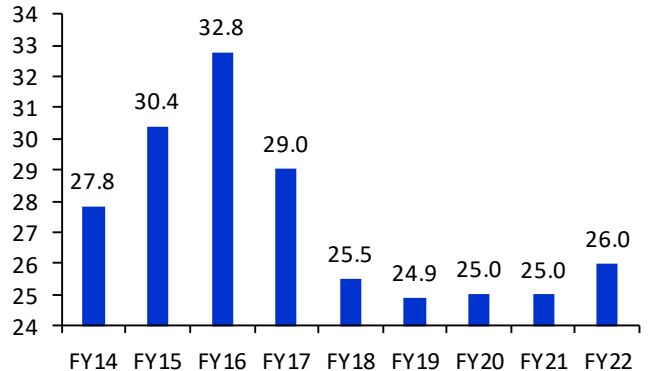
Source: Company, DART

**Exhibit 3: PAT and YoY growth (%)**



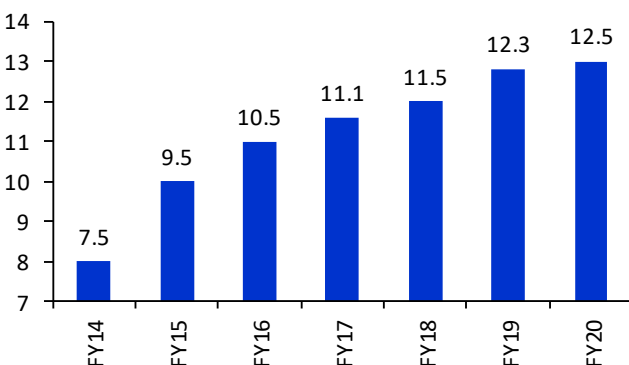
Source: Company, DART

**Exhibit 4: GP Margin (%)**



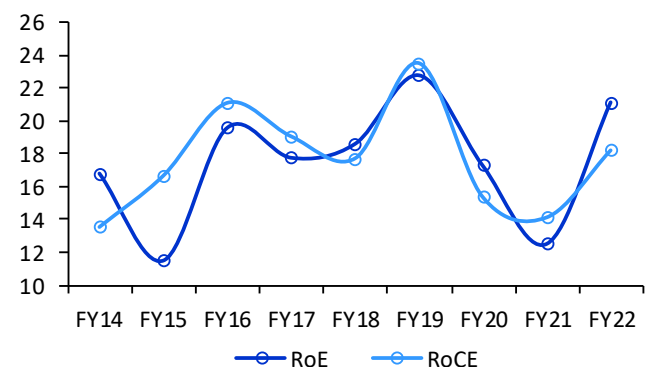
Source: Company, DART

**Exhibit 5: Room AC Market share**



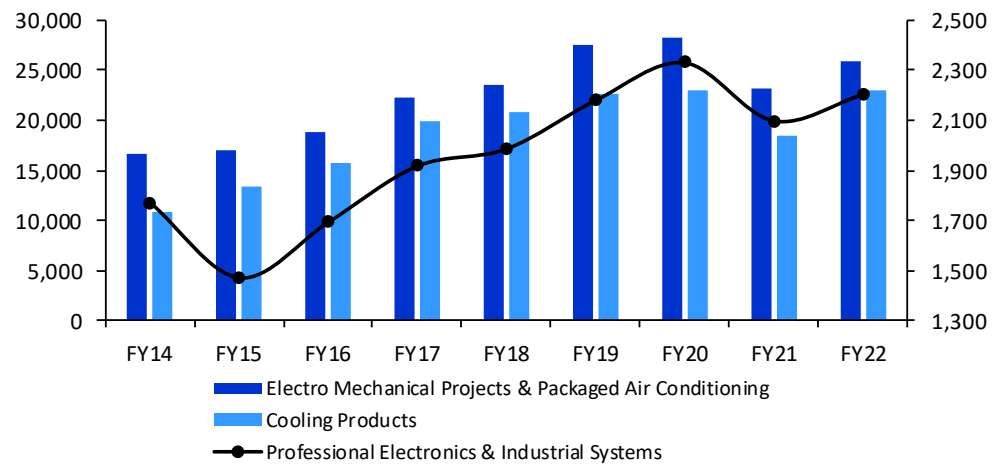
Source: Company, DART

**Exhibit 6: RoE and RoCE (%)**



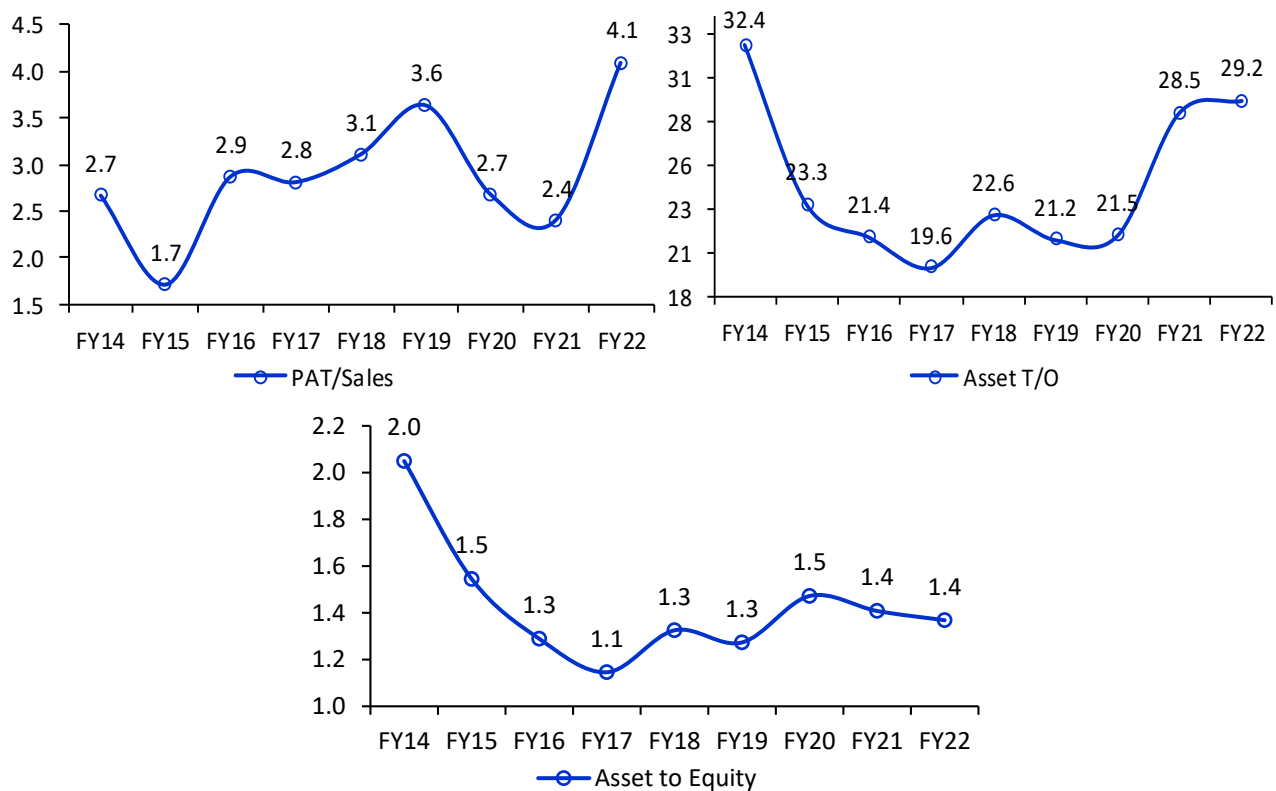
Source: Company, DART

**Exhibit 7: Segment performance**



Source: Company, DART

**Exhibit 8: DuPont Analysis**



Source: Company, DART

## 4- Quarter Concall Trend Analysis

| Particulars           | Q1FY20  | Q2FY20   | Q3FY20  | Q4FY20   |
|-----------------------|---|--|---|--|
| Financial Performance | <ul style="list-style-type: none"> <li>Blue-Star reported revenue growth of 4.5% YoY at Rs. 15.8bn during the quarter</li> <li>EBITDA for the quarter was Rs.1.1bn as against Rs 1.4bn in Q4FY18</li> <li>Other Income rose to Rs. 216.6mn in Q1FY20 from Rs. 33.4mn in Q1FY19 on account of receipt of an industrial promotion subsidy for a manufacturing facility at Wada</li> </ul>   | <ul style="list-style-type: none"> <li>Revenue for Q2FY20 was Rs.12.5bn, a growth of 21% YoY. EBIDTA for Q2FY20 was Rs.736mn, an increase of 26.7% YoY.</li> <li>Tax expense for Q2FY20 was Rs.169mn compared to Rs.79mn in Q2FY19. The Company has decided not to immediately opt for the lower rate of 22% corporate tax to un-avail MAT credit of Rs.670mn.</li> <li>Net profit for Q2FY20 was Rs.379mn, an increase of 94% YoY. The other income of Rs.106mn includes a one-time Rs.45mn of interest on refunds.</li> </ul>  | <ul style="list-style-type: none"> <li>Revenue for Q3FY20 was Rs.12.4bn, which was a growth of 12.5% YoY. EBIDTA for Q3FY20 was Rs.570mn up by 34.6% YoY.</li> <li>Tax expense for Q3FY20 was Rs.120mn compared to Rs.10mn in Q3FY19. Effective tax rate in Q3FY20 was 37.8% as against 7.0% in Q3FY19 due to reversal of deferred tax asset.</li> <li>Net profit for Q3FY20 was Rs.197mn as compared to Rs.132mn in Q3FY19.</li> </ul>   | <ul style="list-style-type: none"> <li>Revenue for FY20 was Rs.53.6bn, a growth of 2.4% YoY. EBIDTA for FY20 was Rs.2.8bn compared to Rs.3.5bn in FY19.</li> <li>Tax expense for FY20 was Rs.653mn compared to Rs.420mn in FY19. Effective tax rate in FY20 was 31.7% as against 16.7% in FY19 due to reversal of deferred tax asset. Net profit for FY20 was Rs.1.4mn compared to Rs.1.9bn in FY19.</li> <li>Reduction of Capital Employed to Rs.9.5bn as on March 31, 2020 from Rs.11.2bn as on March 31, 2019. Company ended Q4FY20 with a cash balance of Rs.2bn.</li> </ul>   |
|                       | <ul style="list-style-type: none"> <li>Electro-Mechanical Projects and Commercial Air Conditioning Systems segment showed a modest growth of 0.7% to Rs. 6.2bn YoY</li> <li>Unitary Products Segments witnessed a revenue growth of 9.2% YoY to Rs. 9.1bn. Room AC's reported a growth of 25.0%, while its market share improved to 12.5% in the quarter from 11.7% in Q1FY19</li> <li>Demand for fixed-speed 2 and 3-star models which resulted in lower price realizations and margins</li> <li>Professional Electronics and Industrial Systems revenue fell to Rs. 446.2mn in the quarter from Rs. 577.1mn in Q1FY19 but it happened because of a one-time order received for CT Scanners from Government of UP in Q1FY19</li> </ul> | <ul style="list-style-type: none"> <li>Electro-Mechanical Projects &amp; Commercial Air Conditioning Systems Segment revenue was Rs 7.8bn in Q2FY20, a growth of 24.2% YoY. PBT was Rs.446mn in Q2FY20 against Rs.448mn in Q2FY19. Order inflow in Q2FY20 was higher by 11.2% YoY at Rs.7.9bn. Maintained leadership in the Electro-Mechanical space in India.</li> <li>New product launches and increased operational reach in tier-3, 4 and 5 cities helped to gain market share in Chillers and VRF categories during the quarter. Continued to grow faster than the market and improved market share across product categories.</li> <li>Unitary Products Segment revenue was Rs.3.8bn in Q2FY20, a growth of 10% YoY. PBT was Rs.120mn in Q2FY20 compared to Rs.82mn in Q2FY19.</li> <li>Registered a 22% year-on-year growth in our Room AC business in H1.</li> <li>Professional Electronics and Industrial Systems Segment revenue was Rs 887mn in, a growth of 52.5% YoY. PBT was Rs.244mn in Q2FY20 compared to Rs.126mn in Q2FY19.</li> </ul> | <ul style="list-style-type: none"> <li>Electro-Mechanical Projects &amp; Commercial Air Conditioning Systems Segment revenue was Rs.7.6bn Q3FY20, a growth of 15.8% YoY. PBT was Rs.390mn in Q3FY20 against Rs.301mn in Q3FY19.</li> <li>Unitary Products Segment revenue was Rs.4.2bn in Q3FY20, a growth of 7.3% YoY. PBT was Rs.77mn in Q3FY20 compared to Rs.94mn in Q3FY19. Higher advertisement expenses during festival season impacted the margin.</li> <li>Room Air Conditioner business grew by 10% in Q3FY20 as against estimated market growth of 5%, improving market share.</li> <li>Water purifier FY20 revenues were Rs.600mn with ~2% market share which was lower than expectations.</li> <li>Professional Electronics and Industrial Systems Segment revenue was Rs.569mn Q3FY20, a growth of 9.4% YoY. PBT was Rs.180mn in Q3FY20 compared to Rs.69mn in Q3FY19.</li> </ul> | <ul style="list-style-type: none"> <li>Electro-Mechanical Projects &amp; Commercial Air Conditioning Systems Segment revenue was Rs.6.6bn in Q4FY20, a decline of 21.6% YoY. EBIT was Rs.32mn in Q4FY20 against Rs.363mn in Q4FY19.</li> <li>In FY20, segment revenue was Rs.28.3bn, a growth of 3% YoY. EBIT was Rs.1.2bn in FY20 compared to Rs.1.5bn in FY19.</li> <li>Unitary Products Segment revenue was Rs.6bn in Q4FY20, a decline of 15.3% YoY. EBIT was Rs.438mn in Q4FY20 compared to Rs.733mn in Q4FY19.</li> <li>Segment revenue grew to Rs.23bn in FY20, a growth of 1.4% YoY. EBIT was Rs.1.6bn in FY20 compared with Rs.1.9bn in FY19. Water Purifier business achieved market share of 2%.</li> <li>Professional Electronics and Industrial Systems Segment revenue was Rs.427mn in Q4FY20 as compared to Rs.499mn in Q4FY19. EBIT was Rs.75mn in Q4FY20 compared to Rs.161mn in Q4FY19.</li> <li>In FY20, segment revenue was Rs.2.3bn, a growth of 7% YoY. EBIT grew to Rs.543mn in FY20 compared to Rs.438mn in FY19.</li> </ul> |

| Particulars                         | Q1FY20   | Q2FY20   | Q3FY20  | Q4FY20  |
|-------------------------------------|--|--|---|---|
| <b>Tailwinds / Headwinds</b>        | <ul style="list-style-type: none"> <li>• The macroeconomic conditions are weak, and there are visible symptoms of slowdown in demand</li> <li>• The demand for most of the product categories continue to remain for low-end products</li> </ul>   | <ul style="list-style-type: none"> <li>• In Q2FY20, delays in new project approvals from financial institutions led to relatively lower order inflow in the buildings segment.</li> <li>• Pressure on prices continues and that has an impact on the overall margins. Company has not re-calibrated prices significantly.</li> </ul>   | <ul style="list-style-type: none"> <li>• The festival season was a bit muted and despite expectation and sales actually picked up towards the end November - beginning December.</li> <li>• Copper prices have been fairly stable. INR has also been fairly range bound barring very short-term volatility.</li> </ul>  | <ul style="list-style-type: none"> <li>• As the virus began to spread and a nationwide lockdown was enforced, execution of orders and consequently revenue generation from all other businesses also came to a halt in the second fortnight of March.</li> <li>• The company fell short of revenue and profit across all segments to the tune of Rs.4bn and Rs.700mn respectively due to supply chain disruption in March, 2020.</li> </ul> |
| <b>New Products and Innovations</b> | <ul style="list-style-type: none"> <li>• New product categories of commercial kitchen refrigeration, medical refrigeration and supermarket refrigeration gained traction in the market</li> </ul>  | <ul style="list-style-type: none"> <li>• Signed Virat Kohli as the new brand ambassador for air-conditioners business.</li> </ul>  | <ul style="list-style-type: none"> <li>• 45% to 50% of IDU requirement in FY20 is expected to be in-house manufactured, in order to reduce dependence.</li> </ul>   | <ul style="list-style-type: none"> <li>• Most of the products introduced in FY20 were affordable range, substantially reduced gap between Rs.500 to Rs.700. • Affordable premium products protected margin, also made the price attractive for consumers. The share of these products could go up to 75%.</li> </ul>  |
| <b>Order Book and major orders</b>  | <ul style="list-style-type: none"> <li>• Order book grew by 33.9% YoY at Rs 28.4bn. • EMP segment order book grew by 39.0% YoY to Rs. 20.1bn • EMP segment received an order of Rs. 2.5bn for largest tunnel ventilation system and environmentally controlled system from Mumbai Metro Rail Corporation • Major orders received for Commercial Air Conditioning System were from JSW Steel Ltd, National Thermal Power Corporation and Director General of Naval Purchases</li> </ul> | <ul style="list-style-type: none"> <li>• Order book as on September 30, 2019 was Rs.29.3bn, an increase of 32.4% YoY. • Order book of the Electro Mechanical Projects business was Rs.20.6bn as on September 30, 2019, an increase of 37% YoY. • Professional Electronics and Industrial System received large orders from Honda Motorcycle and Scooter India and Welspun Corp Limited.</li> </ul> | <ul style="list-style-type: none"> <li>• Order book as on December 31, 2019 was Rs.28.1bn which is an increase of 23.5% YoY. • Order inflow during the quarter was at Rs.5.5bn as compared to Rs.6.8bn in Q3FY19. • Order book of the Electro Mechanical Projects business was Rs.19.4bn as on December 31, 2019 which was an increase of 23.4% YoY.</li> </ul> | <ul style="list-style-type: none"> <li>• Order book as at March 31, 2020 was Rs.29.5bn compared to Rs.24.3bn as on March 31, 2019, an increase of 21.3% YoY. • Order book of the Electro-Mechanical Projects business was Rs.20.4bn as on March 31, 2020 compared to Rs.17.2bn as on March 31, 2019, an increase of 19% YoY. • Order inflow in FY20 was Rs.31bn compared to Rs.29.5bn in FY19, a growth of 5.2% YoY.</li> </ul>             |

| Particulars         | Q1FY20   | Q2FY20  | Q3FY20  | Q4FY20   |
|---------------------|--|---|---|--|
| Market factors      |  | <ul style="list-style-type: none"> <li>Q2FY20 demand for Room Air Conditioners was good and market grew by 10%, grew in line with the market and maintained our market share of 12.5%.</li> </ul>   | <ul style="list-style-type: none"> <li>The growth in room AC business is ~10% and the other product is 6% to 7% and on a blended basis, is 7.5%.</li> </ul>   | <ul style="list-style-type: none"> <li>Out of 6,000 outlets, around 2,900 stores are already operational as company not commenced production.</li> <li>Marginally improved the market share to 12.5% in FY20 even being impacted in the month of March due to covid-19.</li> <li>Consolidated market share and maintained leadership position in the Ducted Systems in Q4 FY20 and improved market share in Chillers and VRF categories.</li> <li>For the room ac business, primary sales grew by 10% in January and by 19% in February.</li> <li>Have 55% of sales coming from tier 3-4-5 towns and continue to strengthen presence.</li> </ul> |
| Management Guidance | <ul style="list-style-type: none"> <li>Price hikes will take place after Q3FY20</li> <li>Room AC's target growth rate is 12.0-15.0%</li> <li>EESL tender depends on its economic and commercial viability</li> <li>Management expects the EMP segment to have a margin of 5-5.5% in FY20 and targets a growth rate of 12%</li> <li>Unitary Product segment margin to be maintained at 9.5-10%</li> </ul> | <ul style="list-style-type: none"> <li>Company will continue to invest in advertising water purifier business in print and digital media.</li> <li>Low penetration coupled with increasing demand from Tier-3, 4 and 5 towns will continue to support growth in the products business.</li> <li>Company is expecting to come to 9% to 9.5% margin profile for the UCP segment in Q4FY20, Q3 will be low single-digit margin for product business.</li> <li>Intending to manufacture at least 20% of indoor unit consumption in-house. Aim to increase capacity to 80% over next one and a half-year.</li> </ul> | <ul style="list-style-type: none"> <li>Lower penetration coupled with higher demand from Tier 3, 4 and 5 markets should continue to support growth for room ACs.</li> <li>Growth expectation for FY20 is 10% to 12% in Industrial Air Conditioning Segment and around 15% in Unitary Products Segment.</li> <li>Margins for Industrial Cooling segment are expected for FY20 are expected to be around 5% in Unitary Products segment between 8.5% to 9%.</li> <li>Expected tax rates should be in the range of 27% to 28% for FY20 ahead.</li> </ul> | <ul style="list-style-type: none"> <li>FY21 drop will be anywhere between 30% and 50% in the summer season as most of sale window has been lost.</li> <li>Company expects the proportion of sales through consumer finance mode to improve from 45% to 55% by the end of FY21.</li> <li>In VRF, the company is placed at number two and in Chillers; it is at number three position.</li> </ul>  |
| Capital Expenditure |  | <ul style="list-style-type: none"> <li>Reduction in our Capital employed to Rs.10.6bn in Q2FY20 from Rs.12.7bn in Q3FY19.</li> </ul>  | <ul style="list-style-type: none"> <li>Reduction of Capital Employed to Rs.10.2bn in Q3FY20 from Rs.11.7bn in Q3FY19.</li> </ul>  |  |

| Particulars            | Q1FY20  | Q2FY20  | Q3FY20   | Q4FY20  |
|------------------------|---|---|--|---|
| Others                 | <ul style="list-style-type: none"> <li>• Inventory has been brought down to normal level</li> <li>• With the increase in IDU manufacturing the manufacturing percentage will move up to 65.0-70.0% from the current 60.0%, it will happen over the next 6-8 quarters</li> <li>• It will take a few quarters for purifier business to reach breakeven after a reducing trajectory of cost burn</li> <li>• Advertising spend increased by Rs.180.0mn YoY</li> </ul> | <ul style="list-style-type: none"> <li>• Borrowings reduced to Rs.1.9bn as on September 30, 2019 (debt equity ratio 0.2) compared to Rs.4.6bn as on September 30, 2018 (debt equity ratio 0.6).</li> </ul>  | <ul style="list-style-type: none"> <li>• Borrowings reduced to Rs.1.3bn in Q3FY20 (debt equity ratio 0.2) compared to Rs.3.8bn in Q3FY19 (debt-equity ratio of 0.5).</li> </ul>                      | <ul style="list-style-type: none"> <li>• The supply chain disruption in India coupled with the nationwide lockdown caused a steep decline in the billing for all the players including Blue Star.</li> <li>• Borrowings reduced to Rs.1.6bn as on March 31, 2020 (debt equity ratio of 0.21) compared to Rs.2.5bn as on March 31, 2019 (debt equity ratio of 0.28).</li> <li>• Company has 60 days of combined inventory with dealers, warehouses and factories.</li> </ul> |
| International Business | <ul style="list-style-type: none"> <li>• Demand for inverter air conditioners increased</li> <li>• Steady order inflow in key markets</li> <li>• Focus on market consolidation and growth the markets of Middle East, Africa and South countries with revisions in the product standards and certifications and to enhance distribution reach.</li> </ul>   | <ul style="list-style-type: none"> <li>• International Business bagged orders from Middle East, Africa and SAARC countries.</li> <li>• Margins for international business are and are expected to remain in the range of 4.5% to 5.5%.</li> </ul> | <ul style="list-style-type: none"> <li>• International business continues to focus on growth in the Middle East, Africa and SAARC countries, continued to grow steadily in these markets.</li> </ul> | <ul style="list-style-type: none"> <li>• International business continues to focus on the Middle East, Africa and SAARC countries and gained good traction in the market. Joint venture in Qatar continued to do well.</li> <li>• Order inflow and pace of execution were impacted in Malaysia due to challenging economic conditions.</li> </ul>   |
| Costs                  | <ul style="list-style-type: none"> <li>• Finance cost decreased by 32.0% to Rs.82.3mn YoY on account of effective management of working capital and lower borrowings.</li> </ul>  |   | <ul style="list-style-type: none"> <li>• Incurred expenses on office renovation across the country of Rs.220-240mn in Q3FY20, ~Rs.800-900mn a year and expect to be on trajectory.</li> </ul>        |   |



### Profit and Loss Account

| (Rs Mn)                                | FY19A         | FY20A         | FY21E         | FY22E         |
|--|---------------|---------------|---------------|---------------|
| <b>Revenue</b>                         | <b>52,348</b> | <b>53,602</b> | <b>43,680</b> | <b>51,167</b> |
| <b>Total Expense</b>                   | <b>48,883</b> | <b>50,774</b> | <b>41,277</b> | <b>47,534</b> |
| COGS                                   | 39,312        | 40,181        | 32,760        | 37,864        |
| Employees Cost                         | 4,215         | 4,845         | 3,276         | 3,786         |
| Other expenses                         | 5,356         | 5,748         | 5,242         | 5,884         |
| <b>EBIDTA</b>                          | <b>3,465</b>  | <b>2,828</b>  | <b>2,402</b>  | <b>3,633</b>  |
| Depreciation                           | 749           | 880           | 590           | 691           |
| <b>EBIT</b>                            | <b>2,716</b>  | <b>1,948</b>  | <b>1,813</b>  | <b>2,942</b>  |
| Interest                               | 479           | 295           | 677           | 430           |
| Other Income                           | 247           | 447           | 225           | 280           |
| Exc. / E.O. items                      | 27            | (40)          | 0             | 0             |
| <b>EBT</b>                             | <b>2,511</b>  | <b>2,060</b>  | <b>1,361</b>  | <b>2,792</b>  |
| Tax                                    | 420           | 653           | 340           | 726           |
| RPAT                                   | 1,901         | 1,433         | 1,046         | 2,091         |
| Minority Interest                      | 191           | (26)          | (25)          | (25)          |
| <b>Profit/Loss share of associates</b> | <b>0</b>      | <b>0</b>      | <b>0</b>      | <b>0</b>      |
| <b>APAT</b>                            | <b>1,901</b>  | <b>1,433</b>  | <b>1,046</b>  | <b>2,091</b>  |

### Balance Sheet

| (Rs Mn)                       | FY19A         | FY20A         | FY21E         | FY22E         |
|-------------------------------|---------------|---------------|---------------|---------------|
| <b>Sources of Funds</b>       |               |               |               |               |
| Equity Capital                | 193           | 193           | 193           | 193           |
| Minority Interest             | 18            | 23            | 23            | 23            |
| Reserves & Surplus            | 8,538         | 7,631         | 8,652         | 10,718        |
| <b>Net Worth</b>              | <b>8,731</b>  | <b>7,824</b>  | <b>8,844</b>  | <b>10,911</b> |
| Total Debt                    | 3,445         | 4,489         | 4,402         | 4,814         |
| Net Deferred Tax Liability    | (1,076)       | (818)         | (818)         | (818)         |
| <b>Total Capital Employed</b> | <b>11,119</b> | <b>11,519</b> | <b>12,452</b> | <b>14,930</b> |

### Applications of Funds

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Net Block   | 3,422         | 3,921         | 4,212         | 4,621         |
| CWIP  | 308           | 564           | 564           | 564           |
| Investments                                       | 831           | 796           | 796           | 796           |
| <b>Current Assets, Loans &amp; Advances</b>       | <b>27,872</b> | <b>28,294</b> | <b>23,899</b> | <b>28,931</b> |
| Inventories                                       | 8,693         | 8,698         | 7,916         | 9,116         |
| Receivables                                       | 11,121        | 8,377         | 9,574         | 11,215        |
| Cash and Bank Balances                            | 1,009         | 2,939         | 762           | 1,315         |
| Loans and Advances                                | 312           | 339           | 225           | 264           |
| Other Current Assets                              | 6,738         | 7,941         | 5,422         | 7,021         |
| <b>Less: Current Liabilities &amp; Provisions</b> | <b>21,315</b> | <b>22,056</b> | <b>17,017</b> | <b>19,980</b> |
| Payables  | 15,346        | 15,824        | 10,770        | 12,476        |
| Other Current Liabilities                         | 5,969         | 6,233         | 6,247         | 7,504         |
| sub total   |               |               |               |               |
| Net Current Assets                                | 6,557         | 6,238         | 6,882         | 8,950         |
| <b>Total Assets</b>                               | <b>11,117</b> | <b>11,518</b> | <b>12,452</b> | <b>14,930</b> |

E – Estimates

### Important Ratios

| Particulars                               | FY19A  | FY20A  | FY21E  | FY22E  |
|---|--------|--------|--------|--------|
| <b>(A) Margins (%)</b>                    |        |        |        |        |
| Gross Profit Margin                       | 24.9   | 25.0   | 25.0   | 26.0   |
| EBIDTA Margin                             | 6.6    | 5.3    | 5.5    | 7.1    |
| EBIT Margin                               | 5.2    | 3.6    | 4.2    | 5.8    |
| Tax rate                                  | 16.7   | 31.7   | 25.0   | 26.0   |
| Net Profit Margin                         | 3.6    | 2.7    | 2.4    | 4.1    |
| <b>(B) As Percentage of Net Sales (%)</b> |        |        |        |        |
| COGS                                      | 75.1   | 75.0   | 75.0   | 74.0   |
| Employee                                  | 8.1    | 9.0    | 7.5    | 7.4    |
| Other                                     | 10.2   | 10.7   | 12.0   | 11.5   |
| <b>(C) Measure of Financial Status</b>    |        |        |        |        |
| Gross Debt / Equity                       | 0.4    | 0.6    | 0.5    | 0.4    |
| Interest Coverage                         | 5.7    | 6.6    | 2.7    | 6.8    |
| Inventory days                            | 61     | 59     | 66     | 65     |
| Debtors days                              | 78     | 57     | 80     | 80     |
| Average Cost of Debt                      | 13.4   | 7.4    | 15.2   | 9.3    |
| Payable days                              | 107    | 108    | 90     | 89     |
| Working Capital days                      | 46     | 42     | 58     | 64     |
| FA T/O                                    | 15.3   | 13.7   | 10.4   | 11.1   |
| <b>(D) Measures of Investment</b>         |        |        |        |        |
| AEPS (Rs)                                 | 19.8   | 14.9   | 10.9   | 21.8   |
| CEPS (Rs)                                 | 27.6   | 24.1   | 17.0   | 29.0   |
| DPS (Rs)                                  | 10.0   | 11.0   | 12.0   | 16.3   |
| Dividend Payout (%)                       | 50.7   | 73.9   | 110.5  | 74.8   |
| BVPS (Rs)                                 | 90.9   | 81.5   | 92.1   | 113.7  |
| RoANW (%)                                 | 22.8   | 17.3   | 12.6   | 21.2   |
| RoACE (%)                                 | 23.5   | 15.4   | 14.2   | 18.2   |
| RoAIC (%)                                 | 27.4   | 20.8   | 17.9   | 23.3   |
| <b>(E) Valuation Ratios</b>               |        |        |        |        |
| CMP (Rs)                                  | 489    | 489    | 489    | 489    |
| P/E                                       | 24.7   | 32.7   | 44.8   | 22.4   |
| Mcap (Rs Mn)                              | 47,047 | 47,047 | 47,047 | 47,047 |
| MCap/ Sales                               | 0.9    | 0.9    | 1.1    | 0.9    |
| EV  | 49,483 | 48,597 | 50,687 | 50,547 |
| EV/Sales                                  | 0.9    | 0.9    | 1.2    | 1.0    |
| EV/EBITDA                                 | 14.3   | 17.2   | 21.1   | 13.9   |
| P/BV                                      | 5.4    | 6.0    | 5.3    | 4.3    |
| Dividend Yield (%)                        | 2.1    | 2.3    | 2.5    | 3.3    |
| <b>(F) Growth Rate (%)</b>                |        |        |        |        |
| Revenue                                   | 12.8   | 2.4    | (18.5) | 17.1   |
| EBITDA                                    | 30.3   | (18.4) | (15.0) | 51.2   |
| EBIT                                      | 34.4   | (28.3) | (6.9)  | 62.3   |
| PBT                                       | 28.4   | (18.0) | (33.9) | 105.2  |
| APAT                                      | 32.0   | (24.6) | (27.0) | 99.9   |
| EPS                                       | 32.0   | (24.6) | (27.0) | 99.9   |

### Cash Flow

| (Rs Mn)      | FY19A   | FY20A   | FY21E   | FY22E   |
|--------------|---------|---------|---------|---------|
| CFO          | 2,848   | 3,920   | 530     | 3,367   |
| CFI          | (1,003) | (1,600) | (880)   | (1,100) |
| CFF          | (1,695) | (310)   | (1,919) | (1,730) |
| FCFF         | 2,543   | 2,285   | (350)   | 2,267   |
| Opening Cash | 809     | 1,009   | 1,181   | 1,345   |
| Closing Cash | 1,009   | 2,939   | 762     | 1,315   |

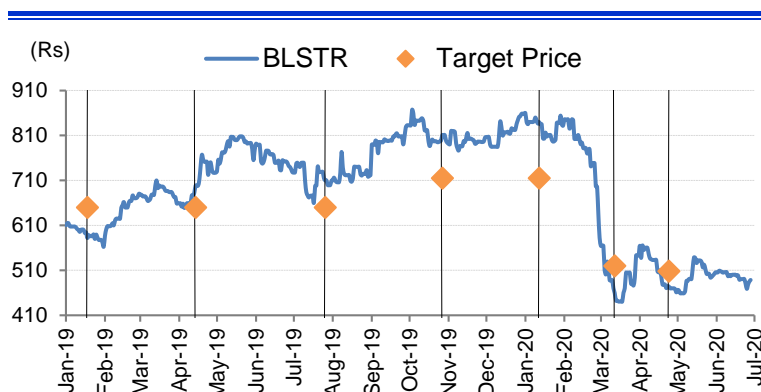
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

|            |           |
|------------|-----------|
| Buy        | > 20%     |
| Accumulate | 10 to 20% |
| Reduce     | 0 to 10%  |
| Sell       | < 0%      |

## Rating and Target Price History



| Month  | Rating     | TP (Rs.) | Price (Rs.) |
|--------|------------|----------|-------------|
| Feb-19 | Reduce     | 650      | 582         |
| May-19 | Reduce     | 650      | 698         |
| Aug-19 | Reduce     | 650      | 710         |
| Nov-19 | Reduce     | 715      | 811         |
| Jan-20 | Reduce     | 715      | 840         |
| Mar-20 | Accumulate | 520      | 459         |
| May-20 | Reduce     | 508      | 474         |

\*Price as on recommendation date

## DART Team

|                          |                          |                                |                        |
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