

### A hard quarter; Q4 will be key; Maintain Reduce

- Q1 was a hard quarter for Blue Star with revenues down 60% yoy, driven by a dip of 70% in the unitary cooling business at Rs2.7bn which was impacted by lost summer season. The project business was down 50%, impacted due to sites not operating at full capacity which has led to a loss, with EBIT level losses in both the segments (Refer Exhibit 6).
- Both the businesses are showing improvement as the economy opens up hand is expected to normalize by Q4FY21, which is the next big quarter for the RAC industry
- We trim estimates to factor in the Q1 numbers (Exhibit 2) and expect them to reach FY19 levels again by FY22. We retain our Reduce, with a TP of Rs510 valuing stock at a PER of 24x for FY22E.

### Q1 was hard due to the covid-19 pandemic

Blue star numbers were a miss across our and consensus estimates. The unitary cooling business saw a 70% YoY drop while EMP business saw a 50% YoY drop in revenues at Rs.2.8bn and Rs.3.1bn respectively, leading to an overall 60% YoY drop in revenues at Rs.6.3bn. The GM dropped by 134bps at 23.5% in Q1FY21 while EBITDA margins dropped by 707bps to 0.2% due to lower sales and under absorption of overheads. The employee expenses and other expenses were slashed by 40% and 53% to Rs.699mn and Rs.757mn respectively due to good control on variable costs. Interest costs increased by 125% YoY to Rs.185mn in Q1FY21. The company made a loss after tax of Rs.197mn as compared to Rs.768mn in Q1FY20. While the summer season sales were lost for the AC business, the company only had 10% of its sites under operation with 15% labor, due to covid-19 induced lockdown

### Excess AC inventory to normalize by Q3

Inventory levels were higher by 30 days than usual levels but this is not alarming and Blue star expects inventory is expected to reach normal levels Q3FY21. Order inflow and revenue in the Electro-Mechanical Projects and Commercial Air Conditioning Systems segment were impacted due to the lockdown. Carried Forward Order Book was marginally higher as on June 30, 2020 at Rs.29.2bn compared to Rs.28.4bn as on June 30, 2019, mainly due to healthcare, pharma and processed food industry orders for commercial cooling products.

### Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	6,260	15,755	(60.3)	12,994	(51.8)
Total Expense	6,247	14,606	(57.2)	12,620	(50.5)
EBITDA	14	1,149	(98.8)	373	(96.4)
Depreciation	209	203	2.9	237	(11.8)
EBIT	(195)	945	(120.7)	136	(243.4)
Other Income	86	217	(60.2)	64	35.6
Interest	185	82	125.3	69	168.7
EBT	(295)	1,080	(127.3)	123	(339.0)
Tax	(95)	325	(129.3)	40	(341.0)
RPAT	(197)	768	(125.6)	89	(318.4)
APAT	(197)	768	(125.6)	89	(316.0)
			(bps)		(bps)
Gross Margin (%)	23.5	24.8	(134)	25.4	(196)
EBITDA Margin (%)	0.2	7.3	(707)	2.9	(266)
NPM (%)	(3.1)	4.9	(802)	0.7	(383)
Tax Rate (%)	32.3	30.1	218	32.0	27
EBIT Margin (%)	(3.1)	6.0	(912)	1.0	(417)

CMP	Rs 506
Target / Upside	Rs 510 / 1%
BSE Sensex	38,044
NSE Nifty	11,200

### Script Details

Equity / FV	Rs 193mn / Rs 2
Market Cap	Rs 49bn
	US\$ 651mn
52-week High/Low	Rs 888/Rs 409
Avg. Volume (no)	97,658
NSE Symbol	BLUESTARCO
Bloomberg Code	BLSTR IN

### Shareholding Pattern Jun'20(%)

Promoters	38.8
MF/Banks/FIs	23.0
FII	8.8
Public / Others	29.5

### Valuation (x)

	FY20A	FY21E	FY22E
P/E	33.9	60.0	23.8
EV/EBITDA	17.8	24.4	14.8
ROE (%)	17.3	9.9	21.2
RoACE (%)	15.4	11.0	17.6

### Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	53,602	40,101	49,151
EBITDA	2,828	2,125	3,490
PAT	1,433	811	2,042
EPS (Rs.)	14.9	8.4	21.3

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### Focusing on liquidity and cost reduction

The company maintained strong focus on WC and liquidity and has recently raised NCDs worth Rs.3.5bn in open market; driving net debt to Rs.4.3bn in Q1FY21. It plans to maintain debt levels between Rs.3.5bn to Rs.4bn in FY21. With end customer segments like real estate in distress, Blue Star is only focusing on taking order with strong visibility of cash flow in the EMP segment.

#### Exhibit 1: Actual v/s DART estimates

Particulars (Rs mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q1FY21	Q1FY21E	Q1FY21E	Var (%)	Var (%)	
Sales	6,260	9,906	6,635	(36.8)	(5.6)	Revenue impacted due to lost summer season and project sites not fully operational
EBITDA	14	236	33	(94.2)	(58.8)	Lower revenues led to a decline in EBITDA
EBITDA margins	0.2	2.4	0.5	(216.5)	(28.0)	
PAT	(197)	7	(160)	(2908.6)	22.9	Minimal EBITDA and higher interest cost led to a loss
Pat margins	(3.1)	0.1	(2.4)	(321.1)	(72.9)	
EPS	(2.0)	0.1	(1.7)	(2908.6)	22.9	

Source: Company, DART

#### Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	Earlier	New	Var (%)	Earlier	New	Var (%)
Sales	43,680	40,101	(8.2)	51,167	49,151	(3.9)
EBITDA	2,402	2,125	(11.5)	3,633	3,490	(3.9)
PAT	1,046	810	(22.5)	2,092	2,042	(2.4)
EPS	10.9	8.4	(22.6)	21.8	21.3	(2.4)

Source: Company, DART

**Exhibit 3: Quarterly Performance**

Rs mn	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
<b>Net Revenue</b>	<b>15,755</b>	<b>12,495</b>	<b>12,359</b>	<b>12,994</b>	<b>6,260</b>	<b>(60.3)</b>	<b>(51.8)</b>	<b>15,755</b>	<b>6,260</b>	<b>(60.3)</b>
Cost of materials consumed	7,742	7,184	7,716	8,447	2,092	(73.0)	(75.2)	7,742	2,092	(73.0)
Purchase of Stock in trade	2,362	1,783	1,763	3,264	1,534	(35.1)	(53.0)	2,362	1,534	(35.1)
Chg. in Inventories, WIP & SIP	1,741	374	(172)	(2,022)	1,166	(33.0)	(157.6)	1,741	1,166	(33.0)
<b>Total RM Cost</b>	<b>11,845</b>	<b>9,341</b>	<b>9,307</b>	<b>9,689</b>	<b>4,791</b>	<b>(59.6)</b>	<b>(50.6)</b>	<b>11,845</b>	<b>4,791</b>	<b>(59.6)</b>
Staff Expenditure	1,147	1,195	1,260	1,243	699	(39.0)	(43.8)	1,147	699	(39.0)
Other Expenses	1,615	1,223	1,222	1,688	757	(53.1)	(55.2)	1,615	757	(53.1)
<b>EBITDA</b>	<b>1,149</b>	<b>736</b>	<b>570</b>	<b>373</b>	<b>14</b>	<b>(98.8)</b>	<b>(96.4)</b>	<b>1,149</b>	<b>14</b>	<b>(98.8)</b>
Depreciation	203	216	223	237	209	2.9	(11.8)	203	209	2.9
<b>EBIT</b>	<b>945</b>	<b>519</b>	<b>347</b>	<b>136</b>	<b>(195)</b>	<b>(120.7)</b>	<b>(243.4)</b>	<b>945</b>	<b>(195)</b>	<b>(120.7)</b>
Other Income	217	106	61	64	86	(60.2)	35.6	217	86	(60.2)
Interest	82	68	76	69	185	125.3	168.7	82	185	125.3
Profit/(Loss) from Asso. & JVs	14.8	9.3	0.005	5.7	3.5	(76.4)	(38.6)	15	4	(76.4)
Exceptional items	0	(17.1)	(15.7)	(7.5)	0			0	0	
<b>PBT</b>	<b>1094</b>	<b>550</b>	<b>317</b>	<b>129</b>	<b>(291)</b>	<b>(126.6)</b>	<b>(325.7)</b>	<b>1,094</b>	<b>(291)</b>	<b>(126.6)</b>
Tax	325	169	120	40	(95)	(129.3)	(341.0)	325	(95)	(129.3)
Minority Interest	(0.8)	(1.5)	(1.7)	(0.5)	(0.6)	(25.0)	20.0	(1)	(1)	(25.0)
<b>Net Profit</b>	<b>768</b>	<b>379</b>	<b>195</b>	<b>89</b>	<b>(197)</b>	<b>(125.6)</b>	<b>(320.9)</b>	<b>768</b>	<b>(197)</b>	<b>(125.6)</b>
Reported EPS	8.0	3.9	2.0	0.9	(2.0)	(125.6)	(320.9)	8.0	(2.0)	(125.6)

Source: Company, DART

**Exhibit 4: Operating Cost as a % of Sales**

Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	75.2	74.8	75.3	74.6	76.5	134.3	196.0	75.2	76.5	134.3
Staff Cost	7.3	9.6	10.2	9.6	11.2	388.5	159.5	7.3	11.2	388.5
Other Expenses	10.2	9.8	9.9	13.0	12.1	184.5	(89.9)	10.2	12.1	184.5

Source: Company, DART

**Exhibit 5: Margins (%)**

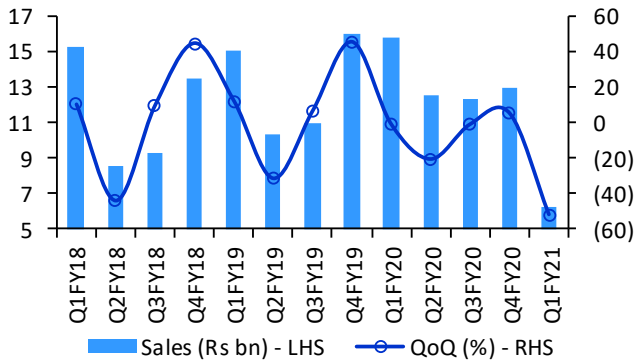
Particulars	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
GM	24.8	25.2	24.7	25.4	23.5	(134.3)	(196.0)	24.8	23.5	(134.3)
EBITDA	7.3	5.9	4.6	2.9	0.2	(707.3)	(265.6)	7.3	0.2	(707.3)
EBIT	6.0	4.2	2.8	1.0	(3.1)	(912.1)	(417.0)	6.0	(3.1)	(912.1)
PBT	6.9	4.4	2.6	1.0	(4.7)	(1,159.8)	(564.4)	6.9	(4.7)	(1,159.8)
NPM	4.9	3.0	1.6	0.7	(3.1)	(801.8)	(382.5)	4.9	(3.1)	(801.8)

Source: Company, DART

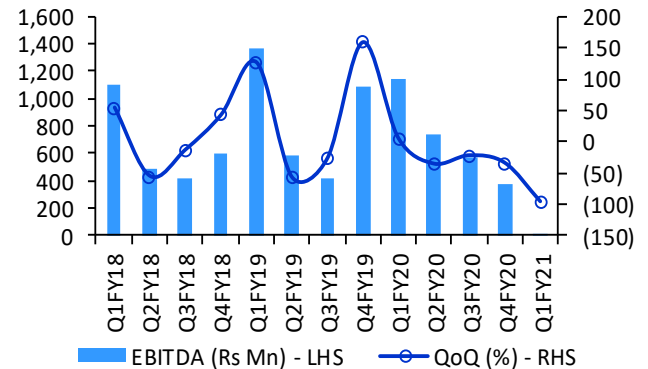
**Exhibit 6: Segment Performance**

Revenue	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Electro Mechanical Projects	6,239	7,835	7,588	6,604	3,124	(49.9)	(52.7)	6,239	3,124	(49.9)
Cooling Products	9,069	3,772	4,202	5,963	2,749	(69.7)	(53.9)	9,069	2,749	(69.7)
Professional Electronics & Industrial Systems	446	887	569	427	387	(13.2)	(9.3)	446	387	(13.2)
<b>Total</b>	<b>15,755</b>	<b>12,495</b>	<b>12,359</b>	<b>12,994</b>	<b>6,260</b>	<b>(60.3)</b>	<b>(51.8)</b>	<b>15,755</b>	<b>6,260</b>	<b>(60.3)</b>
<b>EBIT</b>										
Electro Mechanical Projects	335	446	390	32	(105)	(131.4)	(432.2)	335	(105)	(131.4)
Cooling Products	989	120	77	438	(38)	(103.8)	(108.6)	989	(38)	(103.8)
Professional Electronics & Ind. Systems	44	244	180	75	102	130.3	35.7	44	102	130.3
<b>EBIT Margin (%)</b>										
Electro Mechanical Projects	5.4	5.7	5.1	0.5	(3.4)	(874.4)	(385.0)	5.4	(3.4)	(874)
Cooling Products	10.9	3.2	1.8	7.3	(1.4)	(1,227.5)	(870.5)	10.9	(1.4)	(1227)
Professional Electronics & Ind. Systems	9.9	27.5	31.6	17.6	26.3	1,637.9	871.6	9.9	26.3	1638
<b>Segment Capital employed</b>										
Electro Mechanical Projects	5,669	5,481	5,615	4,484	6,024	6.3	34.3	5,669	6,024	6.3
Cooling Products	2,293	3,303	3,170	3,045	3,898	70.0	28.0	2,293	3,898	70.0
Professional Electronics & Industrial Systems	(244)	30	(133)	(72)	(132)	(46.1)	82.0	(244)	(132)	(46.1)

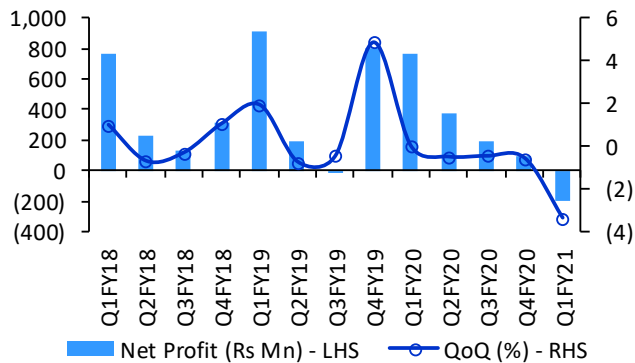
Source: Company, DART

**Exhibit 7: Sales and QoQ growth (%)**


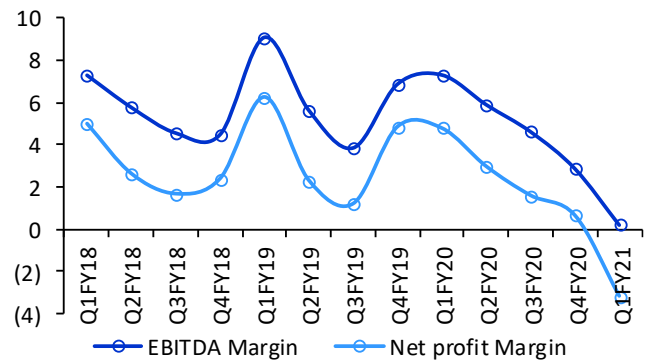
Source: Company, DART

**Exhibit 8: EBITDA and QoQ growth (%)**


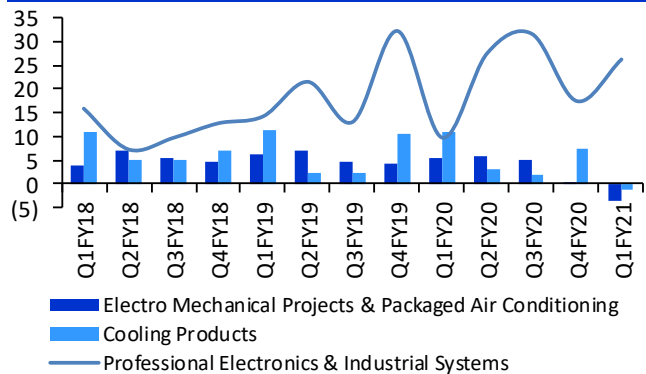
Source: Company, DART

**Exhibit 9: Net Profit and growth (%)**


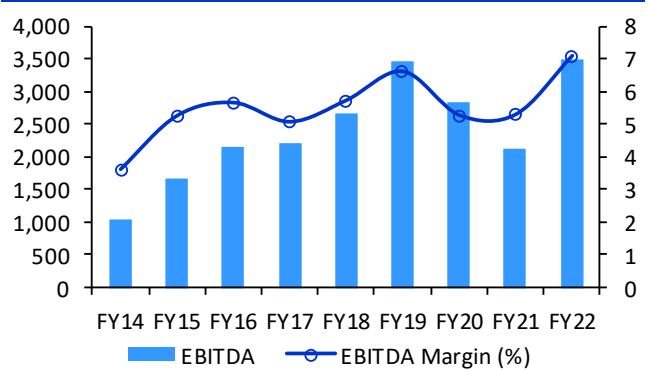
Source: Company, DART

**Exhibit 10: EBITDA and Net Profit margins (%)**


Source: Company, DART

**Exhibit 11: Segment EBIT margin (%)**


Source: Company, DART

**Exhibit 12: EBITDA and Margin (%)**


Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>52,348</b>	<b>53,602</b>	<b>40,101</b>	<b>49,151</b>
<b>Total Expense</b>	<b>48,883</b>	<b>50,774</b>	<b>37,976</b>	<b>45,661</b>
COGS	39,312	40,181	30,678	37,257
Employees Cost	4,215	4,845	3,609	4,178
Other expenses	5,356	5,748	3,689	4,227
<b>EBIDTA</b>	<b>3,465</b>	<b>2,828</b>	<b>2,125</b>	<b>3,490</b>
Depreciation	749	880	900	930
<b>EBIT</b>	<b>2,716</b>	<b>1,948</b>	<b>1,225</b>	<b>2,560</b>
Interest	479	295	508	320
Other Income	247	447	330	450
Exc. / E.O. items	27	(40)	0	0
<b>EBT</b>	<b>2,511</b>	<b>2,060</b>	<b>1,047</b>	<b>2,689</b>
Tax	420	653	262	672
RPAT	1,901	1,433	811	2,042
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>811</b>	<b>2,042</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	8,416	10,433
<b>Net Worth</b>	<b>8,731</b>	<b>7,824</b>	<b>8,609</b>	<b>10,626</b>
Total Debt	3,445	4,489	4,206	4,703
Net Deferred Tax Liability	(1,076)	(818)	(818)	(818)
<b>Total Capital Employed</b>	<b>11,119</b>	<b>11,519</b>	<b>12,020</b>	<b>14,535</b>

**Applications of Funds**

Net Block	3,422	3,921	3,901	4,071
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>22,545</b>	<b>28,409</b>
Inventories	8,693	8,698	7,283	8,757
Receivables	11,121	8,377	8,789	10,773
Cash and Bank Balances	1,009	2,939	1,169	1,863
Loans and Advances	312	339	204	252
Other Current Assets	6,738	7,941	5,100	6,764
<b>Less: Current Liabilities &amp; Provisions</b>	<b>21,315</b>	<b>22,056</b>	<b>15,785</b>	<b>19,305</b>
Payables	15,346	15,824	9,888	11,985
Other Current Liabilities	5,969	6,233	5,897	7,320
	<i>sub total</i>			
Net Current Assets	6,557	6,238	6,760	9,104
<b>Total Assets</b>	<b>11,117</b>	<b>11,518</b>	<b>12,020</b>	<b>14,535</b>

E – Estimates

**Important Ratios**

Particulars	FY19A	FY20A	FY21E	FY22E
<b>(A) Margins (%)</b>				
Gross Profit Margin	24.9	25.0	23.5	24.2
EBIDTA Margin	6.6	5.3	5.3	7.1
EBIT Margin	5.2	3.6	3.1	5.2
Tax rate	16.7	31.7	25.0	25.0
Net Profit Margin	3.6	2.7	2.0	4.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	75.1	75.0	76.5	75.8
Employee	8.1	9.0	9.0	8.5
Other	10.2	10.7	9.2	8.6
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.4	0.6	0.5	0.4
Interest Coverage	5.7	6.6	2.4	8.0
Inventory days	61	59	66	65
Debtors days	78	57	80	80
Average Cost of Debt	13.4	7.4	11.7	7.2
Payable days	107	108	90	89
Working Capital days	46	42	62	68
FA T/O	15.3	13.7	10.3	12.1
<b>(D) Measures of Investment</b>				
AEPS (Rs)	19.8	14.9	8.4	21.3
CEPS (Rs)	27.6	24.1	17.8	31.0
DPS (Rs)	10.0	11.0	12.0	16.3
Dividend Payout (%)	50.7	73.9	142.6	76.6
BVPS (Rs)	90.9	81.5	89.7	110.7
RoANW (%)	22.8	17.3	9.9	21.2
RoACE (%)	23.5	15.4	11.0	17.6
RoAIC (%)	27.4	20.8	12.6	21.8
<b>(E) Valuation Ratios</b>				
CMP (Rs)	506	506	506	506
P/E	25.6	33.9	60.0	23.8
Mcap (Rs Mn)	48,757	48,757	48,757	48,757
MCap/ Sales	0.9	0.9	1.2	1.0
EV	51,193	50,307	51,794	51,597
EV/Sales	1.0	0.9	1.3	1.0
EV/EBITDA	14.8	17.8	24.4	14.8
P/BV	5.6	6.2	5.6	4.6
Dividend Yield (%)	2.0	2.2	2.4	3.2
<b>(F) Growth Rate (%)</b>				
Revenue	12.8	2.4	(25.2)	22.6
EBITDA	30.3	(18.4)	(24.8)	64.2
EBIT	34.4	(28.3)	(37.1)	108.9
PBT	28.4	(18.0)	(49.2)	156.8
APAT	32.0	(24.6)	(43.4)	151.9
EPS	32.0	(24.6)	(43.4)	151.9
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY19A</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>
CFO	2,848	3,920	961	3,316
CFI	(1,003)	(1,600)	(880)	(1,100)
CFF	(1,695)	(310)	(1,948)	(1,534)
FCFF	2,543	2,285	81	2,216
Opening Cash	809	1,009	1,181	1,345
Closing Cash	1,009	2,939	1,169	1,863

E – Estimates

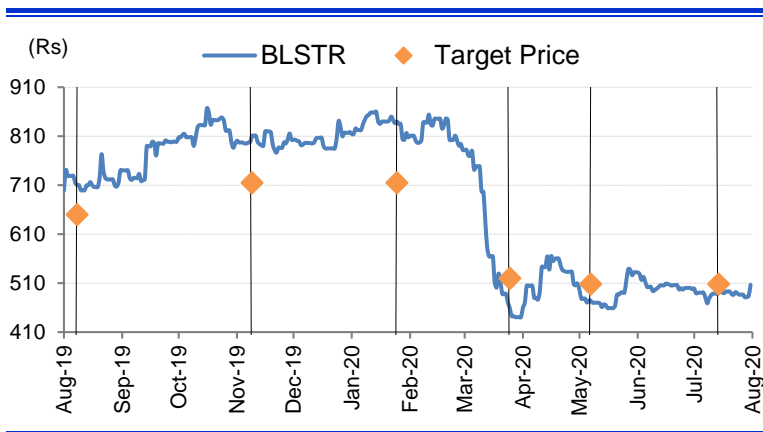


### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Reduce	650	710
Nov-19	Reduce	715	811
Jan-20	Reduce	715	840
Mar-20	Reduce	520	459
May-20	Reduce	508	474
Jul-20	Reduce	508	493

\*Price as on recommendation date

### DART Team

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