

The AC industry is witnessing a strong offtake for the current summer as per our interaction with Blue Star. The company has taken a 5-8% price hike so far but expects the next round of price hike to likely happen in April. It expects the combination of price hike and scale effect to help it maintain margins. Company has already launched mass market products and aims to target Tier 3/4 cities and after establishing in South India, continues its efforts to improve share in North India. It opines that PLI can accelerate indigenization of AC components in India.

Strong outlook for the summer

In our interaction, Blue Star said it is witnessing a strong pick up from the channel for the coming summer season. Channel inventory at normal levels and they expect more buying from the channel before another round of price hikes happen for the ACs. It has taken a price hike of 5-8% in the current quarter and does not plan to take any further till April, when they will review their price strategy again. While costs like A&P have come back, it expects the combination of price hike and scale effect to help it maintain margins. In terms of supply, it is covered for this summer for key components like copper and PCBs. Blue Star has smartly taken care of its supply needs by placing its requirements four months earlier itself.

Targeting mass market for increasing share

Blue Star is strategically repositioning its brand to include the mass premium category with the intent of expanding its market reach and target the mass market and has launched new products this summer for this category. While it currently has a market share of 13%, it has higher share in South. To this end, it is trying to improve its market share in the South. These new mass market products will help the company to expand into Tier 3 and 4 market in North.

Cautious in projects; PLI could accelerate industry capex

In the projects business it has focus on a balance of growth and cash flows to smoother WC cycle instead of continuously obtaining new orders. It has a healthy order book of Rs30bn. On PLI, it opines that PLI will help accelerate the indigenization and capex which would've taken five years can happen in only three years under PLI. There is also an opportunity in the vaccine cold chain, where it has a 35% market share in the Rs2bn market, but this is an one time opportunity that will play over 3-4 quarters.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	52,348	53,602	40,101	49,151	57,014
Growth(%)	12.8	2.4	(25.2)	22.6	16.0
EBITDA	3,465	2,828	2,286	3,490	4,048
OPM(%)	6.6	5.3	5.7	7.1	7.1
PAT	1,901	1,433	836	2,050	2,318
Growth(%)	32.0	(24.6)	(41.6)	145.1	13.1
EPS(Rs.)	19.8	14.9	8.7	21.4	24.1
Growth(%)	32.0	(24.6)	(41.6)	145.1	13.1
PER(x)	43.6	57.8	99.1	40.4	35.7
ROANW(%)	22.8	17.3	10.2	21.3	19.6
ROACE(%)	23.5	15.4	11.6	17.5	18.3

CMP	Rs 863
Target / Downside	Rs 730 / 15%
NIFTY	14,558

Scrip Details

Equity / FV	Rs 193mn / Rs 2
Market Cap	Rs 83bn
	USD 1bn
52-week High/Low	Rs 974/ 409
Avg. Volume (no)	149,446
Bloom Code	BLSTR IN

Price Performance	1M	3M	12M
Absolute (%)	2	11	36
Rel to NIFTY (%)	6	6	(35)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	38.8	38.8	38.8
MF/Banks/FIs	27.4	26.5	22.5
FIIIs	7.6	8.8	10.4
Public / Others	26.2	25.9	28.4

Blue Star Relative to SENSEX

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Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	53,602	40,101	49,151	57,014
Total Expense	50,774	37,816	45,661	52,966
COGS	40,181	30,597	37,257	43,216
Employees Cost	4,845	3,609	4,178	4,846
Other expenses	5,748	3,609	4,227	4,903
EBIDTA	2,828	2,286	3,490	4,048
Depreciation	880	900	930	930
EBIT	1,948	1,386	2,560	3,118
Interest	295	555	310	621
Other Income	447	250	450	560
Exc. / E.O. items	(40)	0	0	0
EBT	2,060	1,081	2,700	3,057
Tax	653	270	675	764
RPAT	1,433	836	2,050	2,318
Minority Interest	(26)	(25)	(25)	(25)
Profit/Loss share of associates	0	0	0	0
APAT	1,433	836	2,050	2,318

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	193	193	193	193
Minority Interest	23	23	23	23
Reserves & Surplus	7,631	8,442	10,467	12,760
Net Worth	7,824	8,635	10,659	12,952
Total Debt	4,489	4,206	4,703	5,136
Net Deferred Tax Liability	(818)	(818)	(818)	(818)
Total Capital Employed	11,519	12,046	14,568	17,293

Applications of Funds

Net Block	3,921	3,901	4,071	4,241
CWIP	564	564	564	564
Investments	796	796	796	796
Current Assets, Loans & Advances	28,294	22,570	28,443	34,626
Inventories	8,698	7,252	8,757	10,158
Receivables	8,377	8,789	10,773	12,496
Cash and Bank Balances	2,939	1,225	1,897	3,956
Loans and Advances	339	204	252	298
Other Current Assets	7,941	5,100	6,764	7,718

Less: Current Liabilities & Provisions	22,056	15,785	19,305	22,933
Payables	15,824	9,888	11,985	13,902
Other Current Liabilities	6,233	5,897	7,320	9,031

sub total

Net Current Assets	6,238	6,785	9,138	11,693
Total Assets	11,518	12,046	14,568	17,293

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	25.0	23.7	24.2	24.2
EBIDTA Margin	5.3	5.7	7.1	7.1
EBIT Margin	3.6	3.5	5.2	5.5
Tax rate	31.7	25.0	25.0	25.0
Net Profit Margin	2.7	2.1	4.2	4.1
(B) As Percentage of Net Sales (%)				
COGS	75.0	76.3	75.8	75.8
Employee	9.0	9.0	8.5	8.5
Other	10.7	9.0	8.6	8.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.6	0.5	0.4	0.4
Interest Coverage	6.6	2.5	8.3	5.0
Inventory days	59	66	65	65
Debtors days	57	80	80	80
Average Cost of Debt	7.4	12.8	7.0	12.6
Payable days	108	90	89	89
Working Capital days	42	62	68	75
FA T/O	13.7	10.3	12.1	13.4
(D) Measures of Investment				
AEPS (Rs)	14.9	8.7	21.4	24.1
CEPS (Rs)	24.1	18.1	31.0	33.8
DPS (Rs)	11.0	12.0	16.3	24.5
Dividend Payout (%)	73.9	138.2	76.3	101.3
BVPS (Rs)	81.5	89.9	111.0	134.9
RoANW (%)	17.3	10.2	21.3	19.6
RoACE (%)	15.4	11.6	17.5	18.3
RoAIC (%)	20.8	14.3	21.8	24.0
(E) Valuation Ratios				
CMP (Rs)	863	863	863	863
P/E	57.8	99.1	40.4	35.7
Mcap (Rs Mn)	83,112	83,112	83,112	83,112
MCap/ Sales	1.6	2.1	1.7	1.5
EV	84,662	86,092	85,918	84,291
EV/Sales	1.6	2.1	1.7	1.5
EV/EBITDA	29.9	37.7	24.6	20.8
P/BV	10.6	9.6	7.8	6.4
Dividend Yield (%)	1.3	1.4	1.9	2.8
(F) Growth Rate (%)				
Revenue	2.4	(25.2)	22.6	16.0
EBITDA	(18.4)	(19.2)	52.7	16.0
EBIT	(28.3)	(28.9)	84.7	21.8
PBT	(18.0)	(47.5)	149.7	13.2
APAT	(24.6)	(41.6)	145.1	13.1
EPS	(24.6)	(41.6)	145.1	13.1

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	3,920	1,064	3,282	5,702
CFI	(1,600)	(880)	(1,100)	(1,100)
CFF	(310)	(1,994)	(1,524)	(2,536)
FCFF	2,285	184	2,182	4,602
Opening Cash	1,009	1,181	1,345	1,345
Closing Cash	2,939	1,225	1,897	3,956

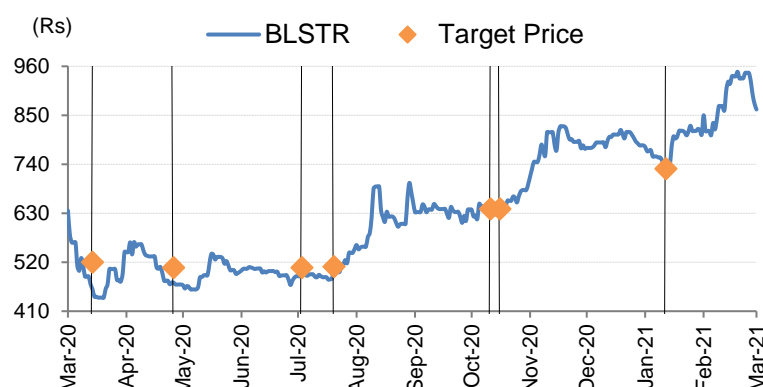
E – Estimates

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.)
Mar-20	Reduce	520	459
May-20	Reduce	508	474
Jul-20	Reduce	508	493
Aug-20	Reduce	510	506
Oct-20	Reduce	640	646
Nov-20	Reduce	640	624
Jan-21	Reduce	730	734

*Price as on recommendation date

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