

### Improved quarter; Q4 is vital for FY21; Maintain Reduce

- Q2 was a gradual improvement over Q1 with revenues down 28% YoY, driven by a dip of 16% in the unitary cooling business at Rs3bn. The project business was down 31%, impacted due to sites with sites operating at 65-70% levels in Q2 as they open up. While revenues came in line, EBIDTA and PAT were better than estimates (Exhibit 1)
- Both the businesses are expected to show improvement as the economy opens up, with company expecting better H2 margins. The AC business is expected to normalize by Q4FY21, which is the next big quarter for the RAC industry, with Q3 expected to operate at 90% of last year levels.
- We change our estimates following the H1 results and also roll forward to Sep-22E. We retain our Reduce rating, with a TP of Rs640 valuing stock at a PER of 28x for Sep-22E.

### Inline sales with improved operating leverage, stable working capital.

Sales came in at Rs9bn, down by 28% YoY; led by revenue decline of 31% YoY and 16% YoY to Rs5bn and Rs3bn in electromechanical and unitary products segment. EBIDTA came in at Rs551mn, down by 25% YoY, led by lower revenues, but partially offset by cost control initiatives. PAT came in at Rs150mn down by 60% YoY though better than estimates. WC was fairly in-line at 107days compared to 105 days in March quarter, mainly due to focus on cash optimization and inventory levels. It has retained its market share at 12.7%.

### Focus on maintaining market share and margins

The AC market is seeing better traction in Tier 2 cities and below, with better demand for mass premium products. Blue Star has been improving reach in North which is evenly split at 35% with South followed by West and East. Focus is on maintaining market share and margins. New channels like e-commerce are emerging, and it is taking steps to ensure more market share from these channels. Its current online share is 12%, lower than the industry share of 16%.

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	9,021	12,495	(27.8)	6,260	44.1
Total Expense	8,470	11,759	(28.0)	6,247	35.6
EBITDA	551	736	(25.1)	14	3950.0
Depreciation	206	216	(4.7)	209	(1.3)
EBIT	344	519	(33.7)	(195)	(276.3)
Other Income	59	106	(44.7)	86	(31.9)
Interest	179	68	162.9	185	(3.7)
EBT	225	540	(58.4)	(295)	(176.2)
Tax	74	169	(56.0)	(95)	(177.9)
RPAT	150	379	(60.4)	(197)	(176.5)
APAT	150	379	(60.4)	(197)	(176.5)
			(bps)		(bps)
Gross Margin (%)	24.6	25.2	(69)	23.5	108
EBITDA Margin (%)	6.1	5.9	22	0.2	589
NPM (%)	1.7	3.0	(137)	(3.1)	481
Tax Rate (%)	33.0	31.2	180	32.3	73
EBIT Margin (%)	3.8	4.2	(34)	(3.1)	694

CMP	Rs 646
Target / Downside	Rs 640 / 1%
NIFTY	11,730

### Scrip Details

Equity / FV	Rs 193mn / Rs 2
Market Cap	Rs 62bn
	USD 843mn
52-week High/Low	Rs 888/ 409
Avg. Volume (no)	180,018
Bloom Code	BLSTR IN

Price Performance	1M	3M	12M
Absolute (%)	0	31	(24)
Rel to NIFTY (%)	(5)	26	(24)

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	0.0	38.8	38.8
MF/Banks/FIs	0.0	27.4	26.5
FIIIs	0.0	7.6	8.8
Public / Others	0.0	26.3	25.9

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	74.2	30.3	26.8
EV/EBITDA	28.5	18.6	15.7
ROE (%)	10.2	21.3	19.6
RoACE (%)	11.6	17.5	18.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	40,101	49,151	57,014
EBITDA	2,286	3,490	4,048
PAT	836	2,050	2,318
EPS (Rs.)	8.7	21.4	24.1

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### AC import ban to have limited impact

The current ban on AC imports wont impact Blue Star much as it has its own manufacturing capability and option to outsource within India. The market will be able to absorb this ban in 3-4 months just in time for the AC season. The company makes all its IDUs in house and has a long term strategy in place to move away from imports.

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

Particulars (Rs mn)	Actual	DART	Consensus	DART	Consensus	Comments
	Q2FY21	Q2FY21E	Q2FY21E	Var (%)	Var (%)	
Sales	9,021	9,301	9,892	(3.0)	-8.8	Sales were in line with our estimates
EBITDA	551	372	409	48.1	34.8	EBIDTA was better than estimates on better cost control
EBITDA margins	6.1	4.0	4.1	210.6	197.5	
PAT	150	74	87	103.2	73.5	A stronger EBIDTA led to a PAT beat
Pat margins	1.7	0.8	0.9	87.2	79.1	
EPS	1.6	0.8	0.9	103.2	73.5	

Source: Company, DART

#### Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	Earlier	New	Var (%)	Earlier	New	Var (%)
Sales	40,101	40,101	0.0	49,151	49,151	0.0
EBITDA	2,125	2,286	7.6	3,490	3,490	(0.0)
PAT	5.3%	5.7%	(0)	7.1%	7.1%	0
EPS	810	836	3.2	2,042	2,050	0.4

Source: Company, DART

**Exhibit 3: Quarterly Performance**

Rs mn	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
<b>Net Revenue</b>	<b>12,495</b>	<b>12,359</b>	<b>12,994</b>	<b>6,260</b>	<b>9,021</b>	<b>(27.8)</b>	<b>44.1</b>	<b>28,249</b>	<b>15,281</b>	<b>(45.9)</b>
Cost of materials consumed	7,184	7,716	8,447	2,092	4,892	(31.9)	133.9	14,926	6,984	(53.2)
Purchase of Stock in trade	1,783	1,763	3,264	1,534	854	(52.1)	(44.3)	4,145	2,388	(42.4)
Chg. in Inventories, WIP & SIP	374	(172)	(2,022)	1,166	1,060	183.5	(9.1)	2,115	2,225	5.2
<b>Total RM Cost</b>	<b>9,341</b>	<b>9,307</b>	<b>9,689</b>	<b>4,791</b>	<b>6,806</b>	<b>(27.1)</b>	<b>42.1</b>	<b>21,186</b>	<b>11,597</b>	<b>(45.3)</b>
Staff Expenditure	1,195	1,260	1,243	699	908	(24.0)	30.0	2,342	1,607	(31.4)
Other Expenses	1,223	1,222	1,688	757	756	(38.2)	(0.2)	2,838	1,513	(46.7)
<b>EBITDA</b>	<b>736</b>	<b>570</b>	<b>373</b>	<b>14</b>	<b>551</b>	<b>(25.1)</b>	<b>3950.0</b>	<b>1,884</b>	<b>564</b>	<b>(70.0)</b>
Depreciation	216	223	237	209	206	(4.7)	(1.3)	420	415	(1.0)
<b>EBIT</b>	<b>519</b>	<b>347</b>	<b>136</b>	<b>(195)</b>	<b>344</b>	<b>(33.7)</b>	<b>(276.3)</b>	<b>1,465</b>	<b>149</b>	<b>(89.8)</b>
Other Income	106	61	64	86	59	(44.7)	(31.9)	323	145	(55.1)
Interest	68	76	69	185	179	162.9	(3.7)	150	364	142.3
Profit/(Loss) from Asso. & JVs	9.3	0.005	5.7	3.5	0	(100.0)	(100.0)	24	4	(85.5)
Exceptional items	(17.1)	(15.7)	(7.5)	0	0	(100.0)	#DIV/0!	(17)	0	(100.0)
<b>PBT</b>	<b>550</b>	<b>317</b>	<b>129</b>	<b>(291)</b>	<b>225</b>	<b>(59.1)</b>	<b>(177.1)</b>	<b>1,644</b>	<b>(67)</b>	<b>(104.1)</b>
Tax	169	120	40	(95)	74	(56.0)	(177.9)	494	(21)	(104.3)
Minority Interest	(1.5)	(1.7)	(0.5)	(0.6)	0	(100.0)	(100.0)	(2)	(1)	(73.9)
<b>Net Profit</b>	<b>379</b>	<b>195</b>	<b>89</b>	<b>(197)</b>	<b>150</b>	<b>(60.4)</b>	<b>(176.5)</b>	<b>1148</b>	<b>(46)</b>	<b>(104.0)</b>
Reported EPS	3.9	2.0	0.9	(2.0)	1.6	(60.4)	(176.5)	11.9	(0.5)	(104.0)

Source: Company, DART

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

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Raw Material Cost	74.8	75.3	74.6	76.5	75.4	68.9	(108.0)	75.0	75.9	89.4
Staff Cost	9.6	10.2	9.6	11.2	10.1	50.6	(109.3)	8.3	10.5	222.9
Other Expenses	9.8	9.9	13.0	12.1	8.4	(141.2)	(371.6)	10.0	9.9	(14.6)

Source: Company, DART

**Exhibit 5: Margins (%)**

Particulars	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
GM	25.2	24.7	25.4	23.5	24.6	(68.9)	108.0	25.0	24.1	(89.4)
EBITDA	5.9	4.6	2.9	0.2	6.1	21.7	588.8	6.7	3.7	(297.7)
EBIT	4.2	2.8	1.0	(3.1)	3.8	(33.8)	694.0	5.2	1.0	(420.9)
PBT	4.4	2.6	1.0	(4.7)	2.5	(191.0)	714.1	5.8	(0.4)	(625.6)
NPM	3.0	1.6	0.7	(3.1)	1.7	(136.9)	480.8	4.1	(0.3)	(436.5)

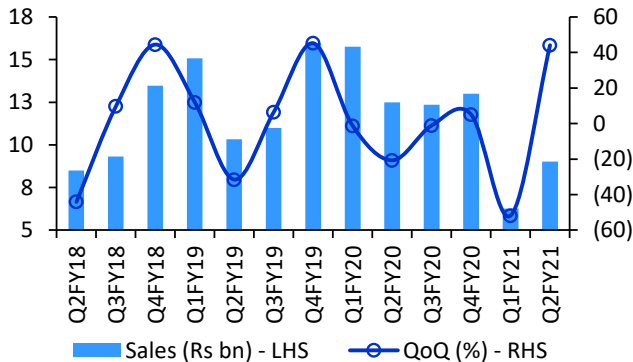
Source: Company, DART

**Exhibit 6: Segment Performance**

Revenue	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY (%)	QoQ(%)	YTD FY20	YTD FY21	YoY(%)
Electro Mechanical Projects	7,835	7,588	6,604	3,124	5,408	(31.0)	73.1	14,075	8,533	(39.4)
Cooling Products	3,772	4,202	5,963	2,749	3,187	(15.5)	15.9	12,841	5,935	(53.8)
Professional Electronics & Industrial Systems	887	569	427	387	426	(51.9)	10.1	1,333	814	(39.0)
<b>Total</b>	<b>12,495</b>	<b>12,359</b>	<b>12,994</b>	<b>6,260</b>	<b>9,021</b>	<b>(27.8)</b>	<b>44.1</b>	<b>28,249</b>	<b>15,281</b>	<b>(45.9)</b>
<b>EBIT</b>										
Electro Mechanical Projects	446	390	32	(105)	344	(22.8)	(426.8)	781	239	(69.4)
Cooling Products	120	77	438	(38)	117	(1.9)	(412.0)	1,109	80	(92.8)
Professional Electronics & Ind. Systems	244	180	75	102	82	(66.6)	(19.9)	289	183	(36.5)
<b>EBIT Margin (%)</b>										
Electro Mechanical Projects	5.7	5.1	0.5	(3.4)	6.4	67.5	973.3	5.5	2.8	(275)
Cooling Products	3.2	1.8	7.3	(1.4)	3.7	51.1	504.9	8.6	1.3	(729)
Professional Electronics & Ind. Systems	27.5	31.6	17.6	26.3	19.1	(842.3)	(717.1)	21.6	22.5	89
<b>Segment Capital employed</b>										
Electro Mechanical Projects	5,481	5,615	4,484	6,024	5,544	1.1	(8.0)	5,481	5,544	1.1
Cooling Products	3,303	3,170	3,045	3,898	3,585	8.5	(8.0)	3,303	3,585	8.5
Professional Electronics & Industrial Systems	30	(133)	(72)	(132)	(90)	(397.0)	(31.8)	30	(90)	(397.0)

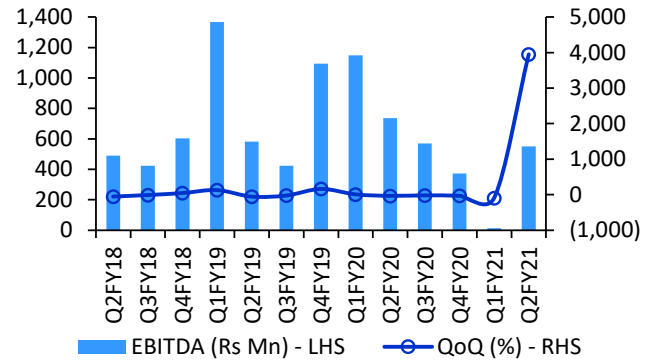
Source: Company, DART

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



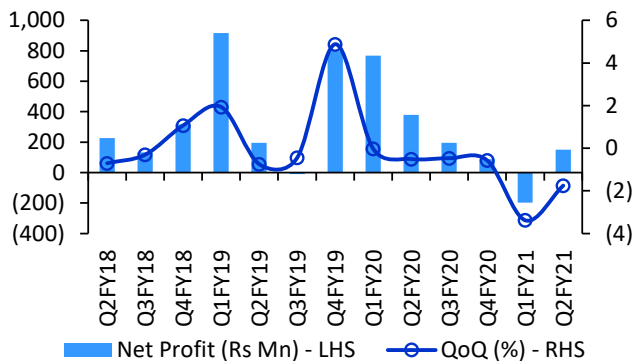
Source: Company, DART

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



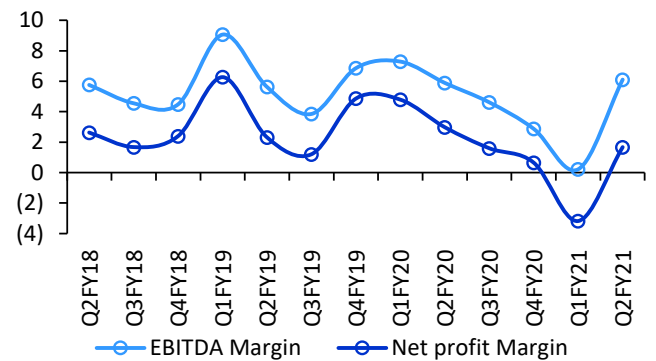
Source: Company, DART

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



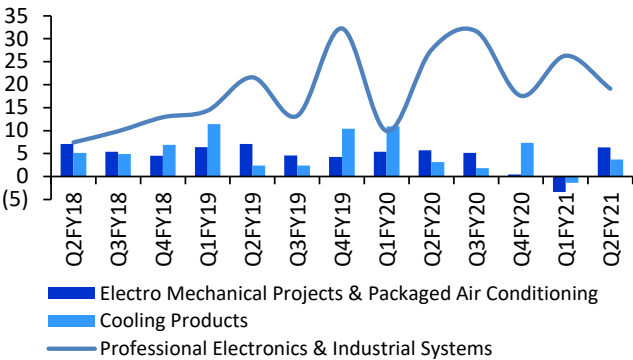
Source: Company, DART

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



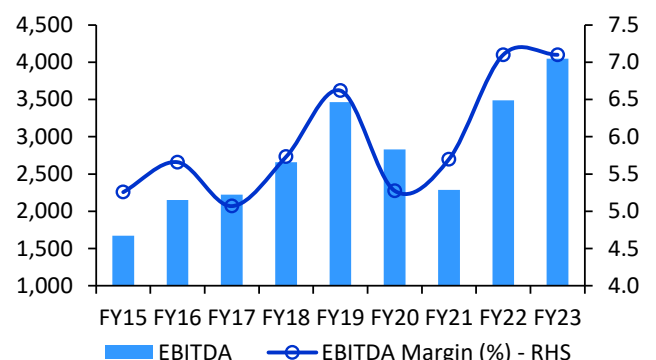
Source: Company, DART

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



Source: Company, DART

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



Source: Company, DART

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>53,602</b>	<b>40,101</b>	<b>49,151</b>	<b>57,014</b>
<b>Total Expense</b>	<b>50,774</b>	<b>37,816</b>	<b>45,661</b>	<b>52,966</b>
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
<b>EBIDTA</b>	<b>2,828</b>	<b>2,286</b>	<b>3,490</b>	<b>4,048</b>
Depreciation	880	900	930	930
<b>EBIT</b>	<b>1,948</b>	<b>1,386</b>	<b>2,560</b>	<b>3,118</b>
Interest	295	555	310	621
Other Income	447	250	450	560
Exc. / E.O. items	(40)	0	0	0
<b>EBT</b>	<b>2,060</b>	<b>1,081</b>	<b>2,700</b>	<b>3,057</b>
Tax	653	270	675	764
RPAT	1,433	836	2,050	2,318
Minority Interest	(26)	(25)	(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>1,433</b>	<b>836</b>	<b>2,050</b>	<b>2,318</b>

**Balance Sheet**

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

**Applications of Funds**

Net Block	<b>3,921</b>	<b>3,901</b>	<b>4,071</b>	<b>4,241</b>
CWIP	564	564	564	564
Investments	796	796	796	796
<b>Current Assets, Loans &amp; Advances</b>	<b>28,294</b>	<b>22,570</b>	<b>28,443</b>	<b>34,626</b>
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
<b>Less: Current Liabilities &amp; Provisions</b>	<b>22,056</b>	<b>15,785</b>	<b>19,305</b>	<b>22,933</b>
Payables	15,824	9,888	11,985	13,902
Other Current Liabilities	6,233	5,897	7,320	9,031
	<i>sub total</i>			
Net Current Assets	6,238	6,785	9,138	11,693
<b>Total Assets</b>	<b>11,518</b>	<b>12,046</b>	<b>14,568</b>	<b>17,293</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
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>(B) As Percentage of Net Sales (%)</b>				
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
<b>(C) Measure of Financial Status</b>				
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
<b>(D) Measures of Investment</b>				
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
<b>(E) Valuation Ratios</b>				
CMP (Rs)	646	646	646	646
P/E	43.3	74.2	30.3	26.8
Mcap (Rs Mn)	62,239	62,239	62,239	62,239
MCap/ Sales	1.2	1.6	1.3	1.1
EV	63,789	65,219	65,045	63,418
EV/Sales	1.2	1.6	1.3	1.1
EV/EBITDA	22.6	28.5	18.6	15.7
P/BV	7.9	7.2	5.8	4.8
Dividend Yield (%)	1.7	1.9	2.5	3.8
<b>(F) Growth Rate (%)</b>				
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
<b>Cash Flow</b>				
<b>(Rs Mn)</b>	<b>FY20A</b>	<b>FY21E</b>	<b>FY22E</b>	<b>FY23E</b>
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

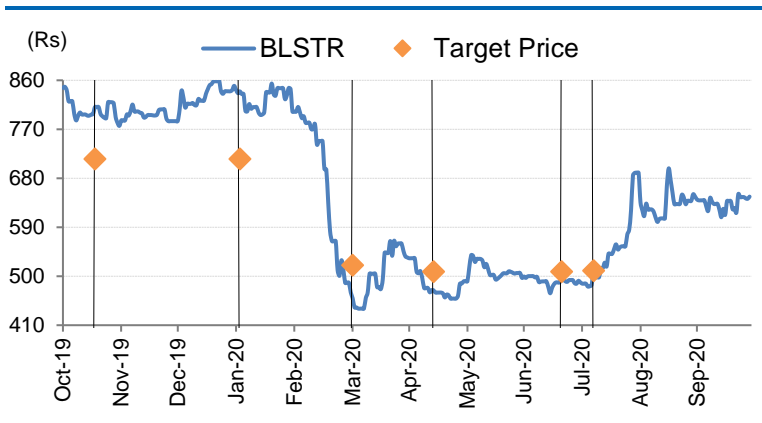


### DART RATING MATRIX

Total Return Expectation (12 Months)

<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.)
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
Aug-20	Reduce	510	506

\*Price as on recommendation date

### DART Team

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