

Blue Star Q1FY21

Financial Results & Highlights

Brief Company Introduction

Blue Star is India's leading air conditioning and commercial refrigeration company, with an annual revenue of over ₹5200 crores (over US\$ 750 million), a network of 32 offices, 5 modern manufacturing facilities, 2800 employees, and 2900 channel partners. The Company has 5000 stores for room ACs, packaged air conditioners, chillers, cold rooms as well as refrigeration products and systems, along with 765 service associates reaching out to customers in over 800 towns.

The Company fulfils the cooling requirements of a large number of corporate, commercial as well as residential customers. Blue Star has also forayed into the residential water purifiers business with a stylish and differentiated range including India's first RO+UV Hot & Cold water purifier; as well as the air purifiers and air coolers businesses.

Blue Star's other businesses include marketing and maintenance of imported professional electronics and industrial products and systems, which is handled by a wholly owned subsidiary of the Company called Blue Star Engineering & Electronics Ltd.

| Standalone Financials (In Crs) | | | | | |
|----------------------------------|--------|--------|----------|--------|----------|
| | Q1FY21 | Q1FY20 | YoY % | Q4FY20 | QoQ % |
| Sales | 534 | 1494 | -64.26% | 1231 | -56.62% |
| PBT | -44 | 105 | -141.90% | 35 | -225.71% |
| PAT | -31 | 74 | -141.89% | 33 | -193.94% |
| Consolidated Financials (In Crs) | | | | | |
| | Q1FY21 | Q1FY20 | YoY % | Q4FY20 | QoQ % |
| Sales | 635 | 1598 | -60.26% | 1306 | -51.38% |
| PBT | -30 | 108 | -127.78% | 12 | -350.00% |
| PAT | -20 | 75 | -126.67% | 8 | -350.00% |

Detailed Results:

1. The company had a consolidated revenue decline of 60% YoY in Q1. PAT was at a loss of Rs 20 Cr.
2. Carry forward order book for the company grew slightly to Rs 2923 Cr as of 30th June 2020.
3. Net borrowings increased to Rs 429 Cr from 0 a year ago. Debt to equity was at 0.6 times.
4. The company raised Rs 350 Cr during the quarter through the issuance of non-convertible debentures to fund working capital and to build sufficient liquidity on the Balance Sheet.
5. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems declined 50% YoY in Q1. Order inflow in Q1 was reduced to Rs 267 Cr due to the lockdown. Only 10% of sites were operational in Q1.

6. The Carried-forward order book of the Electro-Mechanical Projects business was Rs 2040 Cr as on 30th June 2020.
7. Commercial AC business saw a fall in billings of 66%. Major orders bagged in Q1FY21 were from Patna Medical College, ThyssenKrupp (Nagpur), and MMRC COVID Hospital (Mumbai).
8. In the unitary products segment, the company saw a revenue decline of 69.7% YoY in Q1. Revenue and profits in this segment were heavily affected by the lockdown in the peak selling summer season. RAC business shrank 65% YoY while the e-commerce channel gained traction with sales growth of 12% YoY.
9. The company bagged major orders in commercial refrigeration from Odisha State Medical Services Corporation, Royal Cold Chain (Azadpur Mandi), and Indian Immunologicals Limited in Q1.
10. The Professional Electronics and Industrial Systems business saw revenue fall to Rs 39 Cr from Rs 45 Cr last year. The segment continued to do well on the back of digitization initiatives in the BFSI sector.
11. The company expects demand for RACs and commercial refrigeration to normalize by Q4FY21.

Investor Conference Call Highlights:

1. The management reiterates the aim of the water purifier business to reach a market share of 2.5% in FY21. This business is expected to breakeven in the year ahead.
2. Inventory in RACs is at 30 days. The company expects the RAC market to have recovered 70-80% in July. Q2 revenues are expected to be at 80% of normal levels with Q3 at 90% of last year's levels.
3. The company has raised debt only to maintain sufficient liquidity in current uncertain times and to have sufficient working capital financing at hand.
4. Commercial real estate is seeing postponement or sale of projects due to liquidity constraints. Thus the company is being cautious and evaluating each customer's individual credit risk profile before accepting any new projects.
5. The company had a target to reduce dependence on China for RM including components to 15% by 2023 even before the Amtanirbhar movement which it is expediting.
6. Currently, India doesn't have a scale for compressors or motors or drives. This is an issue that affects the whole industry.
7. The management expects 5-10% market growth in RACs even under current uncertain conditions in FY21.
8. In the overall recovery of 70% in RACs, the North has seen revenue recovery of up to 85% in June.
9. The management has stated that the RAC industry has seen prices drop as inventory levels were high.
10. Before lockdown, the company had 150 sites running in the EMP division. Currently, only 50 sites are operational with 50% manpower to maintain safety standards.
11. The company is only dependent on China for IDUs and it expects to complete indigenization of IDUs by the end of the year. The management is stating that just raising custom duty for imported goods from China is not the best way to go and the govt should instead support local production with incentives and subsidies.

12. The management has mentioned that it is not looking to get into making all components. It is not looking to get into compressors or motors.
13. The current market share in water purifiers is 0.
14. The provisions taken by the company in the EMP division is around Rs 15 Cr.
15. The company is seeing a 34% market share in water coolers. The company expected good traction in air purifiers but it failed to take off. The company expects this product to come back in vogue once air pollution comes back to previous levels. The market size for this product is estimated to be Rs 50 Cr.
16. RAC production started from the 2nd week of June. The management has stated that the prices have dropped despite comfortable levels of inventory for the industry mainly as most of the peak season of summer didn't see sales and everyone is looking to get some sales done before the end of the peak season.
17. The management is optimistic that the commercial refrigeration business will see good recovery from July. Demand for deep freezers is expected to come back from Q3 onwards. Water coolers also should see demand coming back at the same time.
18. The management expects cost savings in FY21 to be around 40%. Around 50% of this cost reduction is expected to be sustainable.
19. The management has stated that the company will aim to keep net borrowings at below Rs 400 Cr for FY21.
20. The energy level was expected to come in Jan 2021. This is expected to get postponed to July 2021.
21. The management has stated that it is hard to match Chinese manufacturing costs for components anywhere in the world. Thus the best compromise may be to invite a Chinese manufacturer to set up operations in India where it is possible to reach the goal of increasing local employment and keep prices in check.
22. The company is currently executing projects in 3 airports in Bangalore, Chennai, and Delhi.
23. The company continues to focus on projects with good cash flows and the focus is mainly on infra projects where the funding is assured through JICA or Asian Development Bank or any other big authority.
24. The company had plans to move around 60% of its RAC portfolio into an affordable premium segment. Now it is looking to put 80% of its portfolio in this category. This is because 65% of sales are coming from Tier 3,4,5 cities and rural areas which the management expects to rise to 75%. Another reason for this move is that the management believes that growth in the RAC industry will be led by the middle class and Tier 3, 4, 5 towns.
25. The management has stated that it is still too early to comment on the growth of e-commerce for the company.

Analyst's View:

Blue Star is one of the largest cooling solutions providers in the country. It is one of the biggest branded players in the RAC market. The company has seen a massive decline in revenues and profits for Q1FY21. The major reason for this performance was the disruption in sales across all divisions from COVID-19 and lockdown especially in the unitary business where sales didn't happen in the majority of the peak season. The company has done well to keep enough inventory to meet demand after the lockdown opened. It remains to be seen whether the estimations of industry revival remain on track as mentioned by the management and whether there are further disruptions in store from the evolving COVID-19 situation. It will be interesting to see how the company will achieve its ambitious target of expansion and capture of 2.5-3% market share in the nascent water purifier segment which currently stands at n0 market share. Nonetheless, given the company's strong market presence, its history of successfully completing EMP projects, and its robust presence in semi-urban and rural India, Blue Star is a pivotal white goods stock to watch out for.

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