

Blue Star Q3FY21

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)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1028	1068	-3.75%	812	26.60%	2373	3628	-34.59%
PBT	33	5	560.00%	12	175.00%	1	132	-99.24%
PAT	24	1	2300.00%	8	200.00%	1	88	-98.86%
Consolidated Financials (In Crs)								
	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %	9MFY21	9MFY20	YoY%
Sales	1132	1242	-8.86%	908	24.67%	2675	4099	-34.74%
PBT	49	32	53%	22	122.73%	42	194	-78.35%
PAT	37	20	85%	15	146.67%	32	134	-76.12%

Detailed Results:

1. The company had a consolidated revenue decline of 9% YoY in Q3. PAT was up 85% YoY at Rs 37 Cr.
2. 9M performance for the company was dismal due to Q1 performance. Revenues in 9M were down 35% YoY while PAT was at Rs 32 Cr vs Rs 134 Cr last year.
3. Carry forward order book for the company grew 12.3% YoY to Rs 3157 Cr as of 31st Dec 2020.
4. Net borrowings reduced to Rs 131 Cr from Rs 344 Cr in Sep 2020. Debt to equity was at 0.16 times.
5. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems was down 32.9% YoY in Q3. Order inflow in Q3 was at Rs 637 Cr which was up 15.6% QoQ.

6. The Carried-forward order book of the Electro-Mechanical Projects business was Rs 2217 Cr as of 31st Dec 2020.
7. The commercial AC business saw a partial recovery in Q3. Major orders bagged in Q3FY21 were from Avenue Supermart (All India), Food & Drug Laboratory (Baroda), Prime Hospital (Roorke), ISRO Mahendragiri (Bangalore), and Larsen & Toubro Ltd (Bangalore).
8. Improved demand for cooling products in the Middle East markets enabled recovery for our International Business during the quarter.
9. In the unitary products segment, the company saw revenue growth of 17.3% YoY in Q3. Segment EBIT was up almost 5 times YoY at Rs 38.8 Cr.
10. RAC market in India grew 25% YoY in Q3. The company maintained a market share of 13% and grew 32% YoY RAC business. It intends to participate in the RAC PLI scheme announced by the Govt of India. Blue Star also announced a price increase between 4% to 6% with effect from January 1, 2021.
11. The commercial refrigeration business saw good recovery with traction coming from investments into the vaccination cold chain. Blue Star has been receiving orders from Government and private sector players investing in the augmentation of the cold chain for the vaccine inoculation program.
12. The company bagged major orders in commercial refrigeration from SK Logistics, Metropolis, and Riveraa Labs, Keimed and CMC, Vellore.
13. The Professional Electronics and Industrial Systems business saw revenue fall to Rs 45 Cr from Rs 57 Cr last year.
14. Opportunities from the BFSI sector for the Data Security Solutions business, increased order inflow from the healthcare sector, a pick-up in orders from the industrial sector for material testing, and growth in orders from the essential services of the government sector drove revenue during the quarter.

Investor Conference Call Highlights:

1. Inquires in other markets such as SAARC, ASEAN and Africa improved during the quarter.
2. The upcoming Expo 2021 in Dubai is expected to offer good opportunities in the construction sector for Blue Star.
3. The company owns 20 acres of land in Sri City, apart from potential expansion opportunities at the Himachal Pradesh location.
4. There has been pre-buying going on at the dealer level in anticipation of a string summer and the price rise of raw materials which is to be reflected in Q4.
5. The employee cost reduction taken by Blue Star is likely to be rolled back in the future as the business recovers.
6. In the PLI scheme announced for RACs, around Rs 3000 Cr is expected to be for finished goods and Rs 2000 Cr is expected to be for components.
7. The management doesn't think that the recent ban on CBU imports has contributed significantly to the market share rise for Blue Star. It has also stated that it has impacted mid and small-size players mostly.
8. The PLI scheme for RACs is expected to be similar to the mobile PLI scheme. Both are expected to run for 5 years.
9. The management sees the PLI scheme as a good opportunity to solidify its presence in the SAARC and ASEAN regions.
10. Water purifier business is expected to become breakeven by the end of FY21.

11. Margin profile is expected to remain stable in Q4 and there is also some room for overall growth in the coming quarter according to management.
12. The company is making close to 100% of its IDUs in-house. It had also taken the buying decisions for Q4 in Q3 itself so it was not affected too badly by the container shortage.
13. The container issues are expected to be normalized by March or April.
14. the cold chain opportunity for vaccination drives is expected to be Rs 200 Cr or more for Blue Star. The vaccinations will be happening in phases and so the demand for this is not expected to be a flash in the pan and will be spread out over many quarters.
15. The company may also operate under the PLI scheme for components and supply electronics for RACs but it will not be looking to get into the compressor space as it has different economies of scale and requires different levels of investment than Blue Star wants to do.
16. E-commerce sales were at 6% in Q3.

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 decent recovery in revenues and profits for Q3FY21. It saw a good recovery in the RAC business which also saw the company's market share rise to 13%. The company has done well to rationalize inventory and order ahead for raw materials which helped it stave off the threat from the container shortage. There are a few big opportunities for Blue Star on the horizon like the RAC PLI scheme and the demand for the cold chain for vaccination drives. It has also seen good growth in the water purifier segment where it expects to achieve breakeven by the end of FY21. It remains to be seen whether the estimations of industry revival remain on track as mentioned by the management and whether disruptions from container shortage and the rise in raw material prices go away soon. Nonetheless, given the company's strong market presence, its history of 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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