

Blue Star Q4FY20

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)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1096.83	1481.32	-25.96%	1062.76	3.21%	4786.5	4783.7	0.06%
PBT	35.45	58.83	-39.74%	4.81	637.01%	167.67	179.85	-6.77%
PAT	33.26	41.44	-19.74%	0.6	5443.33%	120.87	121.8	-0.76%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1305.7	1601.9	-18.49%	1242	5.13%	5404.9	5259.53	2.76%
PBT	12.33	78.21	-84.23%	31.67	-61.07%	206	251.14	-17.97%
PAT	8.38	77.55	-89.19%	19.7	-57.46%	140.67	209.15	-32.74%

Detailed Results:

1. The company had a revenue decline of 18.5% in Q4. PAT also declined by 84% YoY.
2. FY20 revenues for the company grew a modest 2.76% YoY while PAT declined 33% YoY.
3. Carry forward order book for the company grew 21.2% YoY to Rs 2946.6 Cr.
4. Net borrowings were reduced to Rs 155 Cr from Rs 243 Cr a year ago.
5. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems grew 2.76% YoY in FY20 with a shortfall in March revenues leading to reduced profitability for the division.

6. In the unitary products segment, the company saw revenue growth of 1.4% YoY in FY20. Revenue and profits in this segment were heavily affected by the loss of sale from COVID-19 disruption in the peak selling month of March.
7. The Professional Electronics and Industrial Systems business saw revenue growth of 7% YoY in FY20. The company received major orders in the Data Security Solutions business. The division saw growth in the NDT systems, destructive testing, and NDT product business during FY20.
8. Demand has taken a hit due to lockdown and should gradually recover as the lockdown eases.

Investor Conference Call Highlights:

1. The order inflows for the EMP business had slowed down since Q3 and was further weakened by the industry sentiments arising from COVID-19.
2. The company saw newly launched products, such as the next-generation inverter ducted, water-cooled VRF, air-cooled VFD screw chillers, and the configured oil-free chiller gain good traction and market acceptance.
3. The company bagged major orders from the Airport Authority of India in Chennai and Avenue Supermarts across multiple locations.
4. The RAC business saw revenue contraction mainly due to supply chain and demand disruptions in March due to COVID-19.
5. The company gained market share in bottled water dispensers. Their new business lines of the commercial kitchen, medical refrigeration, and supermarket refrigeration also gained good traction.
6. Major orders bagged in Q4 FY '20 were from Reliance Retail, Amul, Vadilal, Dinshaw, Top N Town, and Hatsun Agro Products Limited.
7. The company currently has a market share of 2% in the water purifiers segment. It aims to increase this to 14% by the end of FY21.
8. The company has an inventory of up to 60 days including warehouse and dealer inventory.
9. Out of 6000 outlets for the company around 2900 are working right now at the time of the call.
10. The management expects lockdown to come back in the near future and thus is looking to have its dealers enable virtual demonstrations and appointment times for visiting showrooms.
11. Commercial refrigeration is a good opportunity for the company with an expected rise in food delivery and pharma distribution.
12. The company saw a growth of 10% in January and 19% in February in the RAC division. The company expects a drop in the current summer season to be around 30-50%.
13. The company expects projects from malls, hotels, other non-essential places to get postponed. The company also expects this division to contract by 10%.
14. The company has 65% sales from Tier 3,4,5 towns and it will continue to expand its presence in these areas.

15. The company also expects the demand for water purifiers and RACs with air purifiers rising for the company.
16. The company is looking for an ECL provision of Rs 15 Cr.
17. The company is now 2nd in the market in the VRF space and 3rd in the chiller space.
18. The company ended Q4 with surplus cash of more than Rs 200 Cr.
19. The management expects festival season sales to go up mainly due to lack of sales in the summer from COVID-19.
20. The company had taken the decision to go for the affordable premium segment in the RAC business this year on the back of consumer sentiment and broad economic situation earlier this year. The management expects around 60-75% of RAC sales to come from this category especially with so many people starting to adapt to working from home.
21. As mentioned earlier, the management expects Q1 sales to be 30-50% lower as compared to last year.

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 flat revenues and declined profits for FY20. The major reason for this performance was the disruption in sales across all divisions from COVID-19 especially in the unitary business where March lies in peak season. The company had done well to stock enough inventory to be able to stay on despite lack of manufacturing activity during the lockdown period. It remains to be seen whether the estimations of good festival season sales come true 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 market share in the nascent water purifier segment. 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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