

## Blue Star Q4FY21

### 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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1531	1231	24.37%	1028	48.93%	3904	4660	-16.22%
PBT	98	35	180.00%	33	196.97%	98	168	-41.67%
PAT	65	33	96.97%	24	170.83%	66	121	-45.45%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1651	1306	26.42%	1132	45.85%	4326	5405	-19.96%
PBT	103	12	758%	49	110.20%	145	206	-29.61%
PAT	67	8	738%	36	86.11%	98	141	-30.50%

#### Detailed Results:

1. The company had a consolidated revenue rise of 26% YoY in Q4. PAT was up to Rs 67 Cr vs Rs 8 Cr last year, mainly due to the low base last year.
2. FY21 performance for the company was dismal due to Q1 performance. Revenues in FY21 were down 20% YoY while PAT was at Rs 98 Cr vs Rs 141 Cr last year.
3. Other income included Rs 32 Cr from the sale of property in Mumbai.
4. Carry forward order book for the company was flat YoY at Rs 2952 Cr as of 31st Mar 2021.
5. Net borrowings reduced by Rs 282.46 Cr in Q4. The company ended with a net positive cash balance of Rs 151.45 Cr as of 31st Mar 2021.

6. Segment revenue for the Electro-Mechanical Projects & Packaged Air Conditioning Systems was up 18% YoY in Q4. Order inflow in FY21 was at Rs 2245 Cr vs Rs 3105 Cr in FY20.
7. The Carried-forward order book of the Electro-Mechanical Projects business was Rs 2149 Cr as of 31st Mar 2021.
8. The segment-wise breakup of the order book is:
  - a. Office (IT/Non-IT): 29%
  - b. Metro Rail: 22%
  - c. Hospitals: 9%
  - d. Industrial: 9%
  - e. Power Generation & Distribution: 6%
  - f. Malls: 4%
  - g. Others (airports, hotels, educational institutions, etc.): 21%
9. The commercial AC business saw revenue growth of 19% YoY in Q4. Major orders bagged in Q4FY21 were from Birla Cement (Nagpur), Avenue Supermart (Vijaywada/Surat), ISRO (Bangalore), Flextronics (Chennai), Gujarat Biotechnology (Ahmedabad), and West Coast Pharmaceuticals (Ahmedabad).
10. Improved demand for cooling products in the Middle East markets enabled recovery for our International Business during the quarter. The upcoming EXPO 2020 in Dubai and the FIFA tournament in Qatar are expected to offer growth opportunities. The projects businesses in Qatar and Malaysia continued to be impacted owing to Covid.
11. In the unitary products segment, the company saw revenue growth of 31% YoY in Q4. FY21 revenues were down 18.8% YoY.
12. RAC market in India grew 27% YoY in Q4. The company increased its market share to 13.25% and grew RAC business 33% YoY.
13. The commercial refrigeration business saw improvement in demand across all customer segments coupled with aggressive stocking by the channel. Blue Star launched a new range of pharma cold rooms, medical freezers, ice-lined refrigerators, and vaccine transporters, which were well received by the government, vaccine manufacturers, and private distributors.
14. The company bagged major orders in commercial refrigeration from Dr. Reddy's Labs, Apollo, Aurobindo Pharma, Zydus Cadila, Rebel Foods, Swiggy, Reliance Retail, etc.
15. The Professional Electronics and Industrial Systems business saw revenue rise to Rs 50 Cr from Rs 43 Cr last year.
16. Major orders were bagged in Q4FY21 from FIS Payment Solutions and Services, Navodaya Education Trust, Jio Platforms Limited, IndusInd Bank Limited, ICICI Bank Limited, etc.
17. The Directors have recommended a dividend of Rs 4 per share.

**Investor Conference Call Highlights:**

1. Muted government expenditure also impacted order inflows in the infrastructure sector. Order inflows from the factories and light industrial sector improved as compared to last year, driven by the Make in India initiatives of the government.
2. Factories, data centers, and warehousing sectors are also expected to show a good opportunity in the upcoming quarters.
3. Stocking of inventory by channel ahead of the peak selling season, the improved share of billing from the e-commerce channel, and a general business sentiment improvement enabled growth in revenue for the room air conditioner business in Q4.

4. Blue Star achieved a market share of 3% in water purifiers with a major share of billings to e-commerce players. It also reached breakeven in the product and has decided that water purifiers will be an e-commerce-centric product portfolio going forward.
5. The material impact on sales from COVID-related restrictions in April appears to be 20% according to the management.
6. Competitive intensity has risen from all the external price pressures from raw material, input costs, and increased freight costs.
7. Order inflow for FY21 was Rs 2244 Cr vs Rs 3104 Cr last year.
8. The company has had to increase prices by 3-5% to mitigate the recent rise in input costs.
9. There have been cost rationalizations across the board but some of them will be back once normal business activity resumes.
10. The usual demand from restaurants and others for commercial refrigeration has been muted but it has been replaced by demand from health care, pharma, food processing to the delivery segment.
11. The management expects the traditional customers to recover once the COVID situation normalizes.
12. Water coolers have seen slow offtake as this segment is mainly for government institutions, educational institutions, and others that are yet to recover fully.
13. Blue Star is going to moderate the production pace for the next 2 or 3 months because it has sufficient stocks to sell in the background of the current disruption, according to the management.
14. The company aims to neutralize the downward impact of some of the input cost increases and keep the margin near 8%.
15. There isn't much pressure on margin from MEP projects as they are fixed in nature and most cases contain procurement price protection. Thus only project overshooting project time would be causing margin pressure.
16. Currently, the non-AC segment accounts for 40% of unitary products business. The largest share in the non-AC segment is from commercial refrigeration. Although the management is optimistic about the growth prospects of the RAC segment, the others should help in reducing the dependence on it and diversify revenue sources.
17. Although the company is not looking to apply for the PLI license, it is expected to benefit indirectly from it.

#### **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 Q4FY21. It saw a good recovery in all businesses including the RAC segment which outpaced industry growth and saw the company's market share rise to 13.25%. The company has done well to rationalize inventory and order ahead for raw materials and institute price increases of 3-5% which has helped it counter the RM price inflation. The demand for end-to-end cold chain products remains resilient and has replaced traditional demand from restaurants and others for the commercial refrigeration business. It has also seen good growth in the water purifier segment achieving breakeven and reaching a market share of 3%. It remains to be seen what disruptions the company will have to face from the RM shortage and the impact on consumer behavior from the 2nd wave of COVID-19. 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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