



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

BLUE STAR

WHAT WE LIKE

MEAN REVERSION PLAY?

	2001	2011	CAGR	2011	2021	CAGR	2031
Revenues	491	2981	19.76%	2981	4264	3.64%	?
EBITDA	45.85	289	20.21%	289	302	0.44%	?
PBT	25.56	231	24.62%	231	145	-4.55%	?
PAT	23.54	161	21.20%	161	100	-4.65%	?

Triggers are in place for mean reversion in the MEP segment due to various factors like the economy reviving, govt push in the construction sector, and industrial activities. Blue Star being a leader in the MEP space in the country ensures that it will capture most of the mean reversion wave.

UNDER-PENETRATION IN RAC IN INDIA



PLI SCHEME BENEFITS

Blue Star has committed investments of 156 Cr under its wholly-owned subsidiary Blue Star Climatech Ltd for sheet metal components and heat exchangers for the AC industry PLI scheme.

It has commenced construction of the new factory for room air conditioners at Sri City and the same is expected to be commissioned by October 2022.

The PLI is expected to promote the development of the component ecosystem in India and develop India into a RAC manufacturing destination.

STRONG CASH GENERATING ABILITY

	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total
CFO	67	215	257	159	19	258	450	350	92	1892
PAT	78	54	105	123	144	190	143	100	168	229

	FY 21	FY 22
Capital Employed	424	333
Net Borrowing	-151	67

WHAT WE DON'T LIKE

VAGARIES OF THE PAST

Acquisition	Acquisition Value
Naseer Electricals, Bangalore-based electricals contracting firm	INR 42 Cr (CY-2008)
DS Gupta Construction, Mumbai-based plumbing & firefighting firm	INR 80 Cr (CY-2010)

Blue Star entered the MEP segment in 2008. FY10 saw a huge jump in profit in MEP business of 181 Cr. But FY11 saw it nosedive to a 98 Cr loss. Critics say Blue Star's due diligence before its acquisitions was questionable. We at SSS however believe the management has tightened their screws post that.

RAW MATERIAL & LOGISTICS PRESSURES

In CY21, due to raw material & logistics cost pressures Blue Star had to take a price increase of 12-14% in its products. Due to the buoyancy in demand and good brand positioning, it did not result in any loss of market share.

However, one cannot expect that increasing prices will never impact market share for them. Hence, it would be interesting to see how they manage to maintain their margins in an inflationary environment.

SEASONALITY IN BUSINESS

Q4 & Q1 are the best quarters for them with Q1 being the most important. But due to Covid related disruptions, for the last two consecutive years, Q1 has been their worst quarter.

And because of seasonality, the company has to be vigilant with its working capital management, especially the inventory it would like to keep on its books in different seasons.

ECONOMIC SLOWDOWN AND/OR EXTENDED COVID

A slowdown in the economy or Covid related supply chain disruptions impacts discretionary spending substantially.

Hence any of the two for an extended period can create a lot of problems for the RAC industry and Blue Star.

