

BLUE STAR LTD.

RECOMMENDATION : BUY

MARKET PRICE : Rs.747.65 (As on 18th Aug 2023)

TARGET PRICE : Rs.935.00

FACE VALUE : Rs.2

BSE CODE : 500067

NSE CODE : BLUESTARCO





BLUE STAR FAST-COOLING* AC. AC ON. HEAT GONE.

*T&C Apply.



ABOUT THE COMPANY

Blue Star Ltd. is India's leading Heating, Ventilation, Air conditioning and Commercial Refrigeration (HVAC&R) Company. With a network of 30 offices, 7 modern manufacturing facilities including the new state-of-the-art deep freezer facility at Wada and Blue Star Climatech Limited's world-class facility at Sri City; 3132 employees and 4040 channel partners. The Company has 8000 stores for room ACs, packaged air conditioners, chillers, cold rooms as well as refrigeration products and systems, along with 1,251 service associates reaching out to customers in over 4,100 talukas. Blue Star's integrated business model of a manufacturer, contractor and after-sales service provider enables it to offer an end-to-end solution to its customers, which has proved to be a significant differentiator in the marketplace. In fact, every third commercial building in India has a Blue Star product installed.

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. The Company also offers expertise in allied contracting activities such as electrical, plumbing, fire-fighting and industrial projects, in order to offer turnkey solutions, apart from execution of specialised industrial projects.

The Company has manufacturing facilities at Dadra, Himachal Pradesh, Wada and Ahmedabad, which use modern, state-of-the-art manufacturing equipment to ensure that the products have consistent quality and reliability. The Company has a manufacturing footprint of more than 1 lakh sq m, with the mainstay of product development and R&D being energy-efficiency, coupled with eco-friendly and sustainable products.

About Blue Star

- India's leading air-conditioning, commercial refrigeration and MEP contracting company
- Total Revenue from Operations: Rs. 7977 crores
- Employee Strength: 3132
- 7 manufacturing facilities
- 30 offices; 4040 channel partners
- Present in select markets in the Middle East, Africa, SAARC and ASEAN regions; recently incorporated subsidiaries in US, Europe, Japan and Uganda
- Comprehensive solutions for corporate, commercial, residential customers
- Winner of multiple Golden Peacock Awards for Corporate Governance and Risk Management
- Winner of ICSI Best Governed Company (Listed Company : Medium Category) – 2019 award.

Business Segments



**Electro-Mechanical
Projects
&
Commercial Air
Conditioning Systems**



Unitary Products
(Room ACs, Air Coolers, Air
Purifiers, Water Purifiers and
Commercial Refrigeration
Products & Systems)



**Professional Electronics
and Industrial Systems**
(Housed under a wholly
owned subsidiary, Blue Star
Engineering & Electronics
Ltd)



Electro-Mechanical Projects

- Design, engineering, procurement and execution of MEP projects in buildings (including Airports), factories (including Data centres) and infrastructure (Metro rail, Electrical substations, Railway electrification & Water MEP) segments
 - Large central air conditioning & ventilation projects
 - Electrical projects
 - Plumbing projects
 - Fire-fighting projects
- Mechanical EPC projects in large Industrial sector & Electrical EPC projects for Electrical substations
- Our Value Proposition
 - Superior project delivery through intelligent engineering, modern execution practices, and committed teams
- Winner of 'MEP Contractor of the year' seven times in a row (2017 to 2023)

Commercial Air Conditioning Systems



- Complete range of energy-efficient Packaged and Ducted split air conditioners
- Innovative New range of Packaged & Ducted Split air conditioners with Special Filters and UVGI
- Innovative new generation Inverter ducted system
- VRF V Plus, the fifth generation VRF designed for Indian conditions and higher efficiency
- Side Discharge VRFs
- Highly Channelized Business – 660 dealers in 218 towns



Commercial Air Conditioning Systems

- Highly efficient 5 Star rated Configured Oil Free chillers
- Mix and Match Configured Series- Air-Cooled and Water-Cooled Screw chillers
- Energy-efficient 5 Star VFD Screw Chillers
- Energy-efficient 3 Star Inverter scroll chillers
- Process chillers for industrial and non-comfort cooling applications
- Wide range of Centrifugal Chillers from 350 TR to 4000 TR



Commercial Air Conditioning Systems



- Large Capacity Mix and Match Configured Series-Screw chillers
- 5th Generation discharge VRF



Side



After Sales Service



- India's largest air conditioning and refrigeration service provider
- Maintaining around 2 million tonnes of air conditioning and refrigeration equipment
- Backed by our value proposition "Gold Standard service delivery", we extensively expanded our service reach to Tier 2, 3 & 4 towns and are currently handling 3900 towns with > 1.2 million service calls a year
- Focus on Same day installation for 90% jobs; response time of 3 hours and turnaround time of 18 hours
- State of the art 'Remote Monitoring Centre' at Thane
- ISO 9001-2015 and ISO 45001 certified
- Accreditations from TAB, NEBB, CMVP, IAQ and NADCA

International Business

- The Company's wholly owned subsidiary, Blue Star International FZCO at Dubai Airport Free Zone (DAFZA) Dubai manages businesses in the Middle East, Africa, ASEAN and SAARC regions
- Focus on building a larger international footprint by appointing new distributors and going deeper with current distributors into the market.
- A state of the art showroom at Dubai displaying the latest developments on product lines manufactured by Blue Star
- International projects at Qatar managed by a subsidiary of the company 'Blue Star Qatar'
- International projects in Malaysia managed by the company's Joint Venture at Malaysia under the management of Blue Star
- Formed new subsidiaries in the United States, Europe and Uganda to pursue opportunities there

Some of our prestigious projects



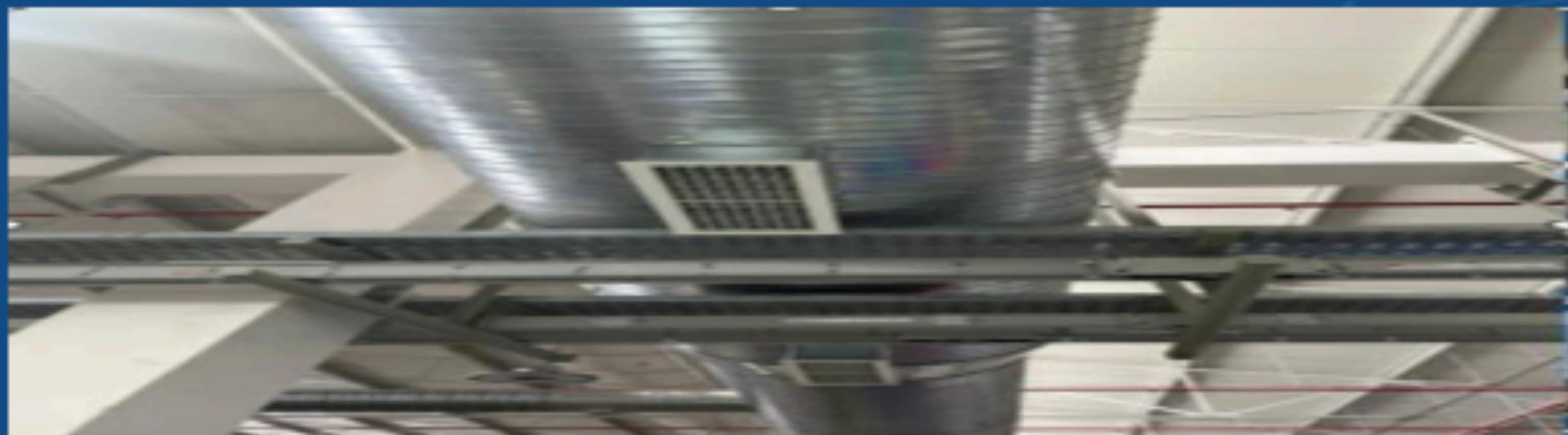
Yotta Data Centre - Noida



Wistron Infocomm - Bengaluru



Bangalore Metro Rail Corporation



Freudenberg Plant - Punjab



Jockey Factory - Cuttack



Hines Group

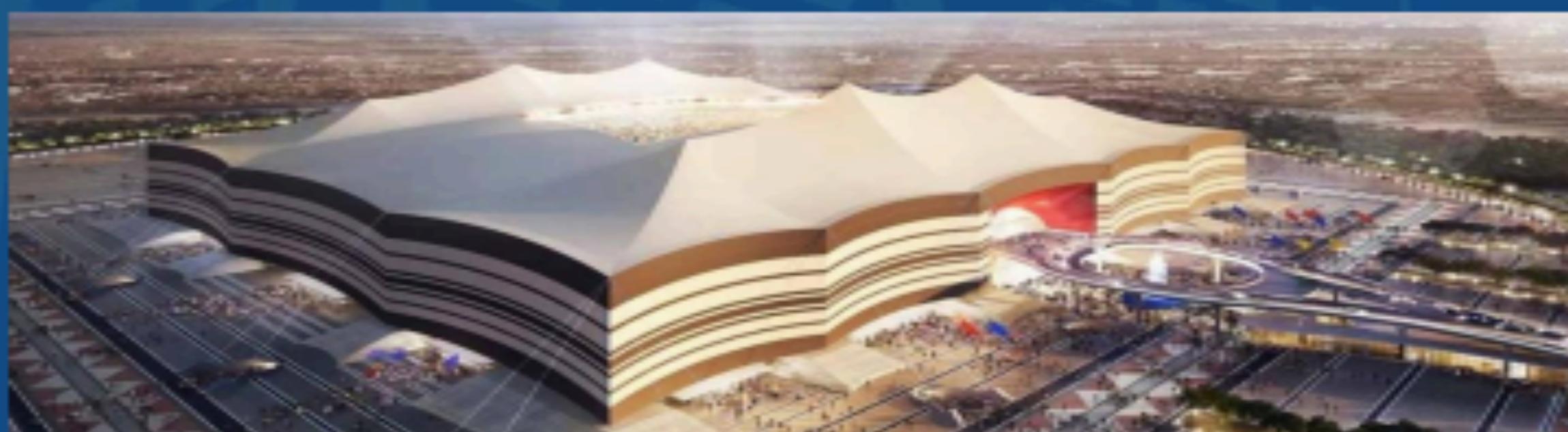
Some of our prestigious international projects



Al Wasl Shopping Centre - Dubai



Vox Cinema - Dubai



Al Bayt International Stadium



Al Salam - Dubai



PAVILLION 2, BUKIT JALIL MALL, Malaysia



Bowyer Wick Office & Warehouse

Room Air Conditioners

- Wide range of highly-affordable split ACs offering state-of-the-art features and premium build quality
- Installed base of over two million units.
- Products available in 8000 outlets in more than 650 locations across the country.
- Focus on inverter technology, energy efficient products and ACs with purification technologies.
- Focus on residential as well as corporate and commercial customers
- Aesthetics and low noise make our products widely recommended by interior designers
- Higher quality consistent performance under various Indian conditions



Commercial Refrigeration Products



- Wide range of commercial refrigeration equipment
- Market leader in most of the segments
- Products having latest technology with innovative features:
 - Deep Freezers
 - Bottle Coolers
 - Visi Coolers/Freezers
 - Storage Water Coolers/Dispensers
 - Bottled Water Dispensers
 - Ice Cubers/Flakers
 - Cold Rooms
 - Commercial Kitchen Refrigeration
 - Medical Refrigeration
 - Supermarket Refrigeration



State-of-the-Art Manufacturing Facilities



Himachal Pradesh 2



Ahmedabad



Dadra



Wada



Himachal Pradesh 1

New world-class manufacturing facility for Room ACs at Sri City under Blue Star Climatech Limited, a wholly owned subsidiary commenced commercial production in FY23



Bird's eye view of the Sri City Plant

Second plant at Wada commenced commercial production in FY23

Manufacturing Facilities



- Specialise in manufacturing a variety of highly engineered and custom-built products.
- Manufacturing footprint of 1.3 lakh square meter.
- Over 300 models manufactured across 25 product lines.
- Lean manufacturing and world-class practices.
- Green Building initiative - Wada factory certified 'Green factory' – Gold category from IGBC and Solar plant installed at Dadra.
- Intelligent I-Factory through application of Industry 4.0 for Real-time monitoring of assets to improve overall equipment effectiveness, Utility & Energy.
- Successful implementation of Manufacturing excellence program, Blue star has now embarked upon complete process improvement

Manufacturing Facilities

- Automation of processes using robots and Cobots
- Using Product Life Cycle Management to improve New product Introduction process
- Improved efficiency of operations through Digital Work Instruction, Augmented reality, Auto guided vehicle, Additive manufacturing, Poka Yoke, e QMS, Automatic storage & retrieval system
- Usage of new edge techniques like Advance Planning & Scheduling, Business process Continuity, Virtual factory 3D simulation modelling, 3D plant layout, Predictive analytics
- Product monitoring & traceability though QR Code, logistic monitoring thru specially designed sensors and remote monitoring of products like chillers
- Manufacturing factories are ISO 9001-2015 & ISO 45001:2018 certified by TUV Nord

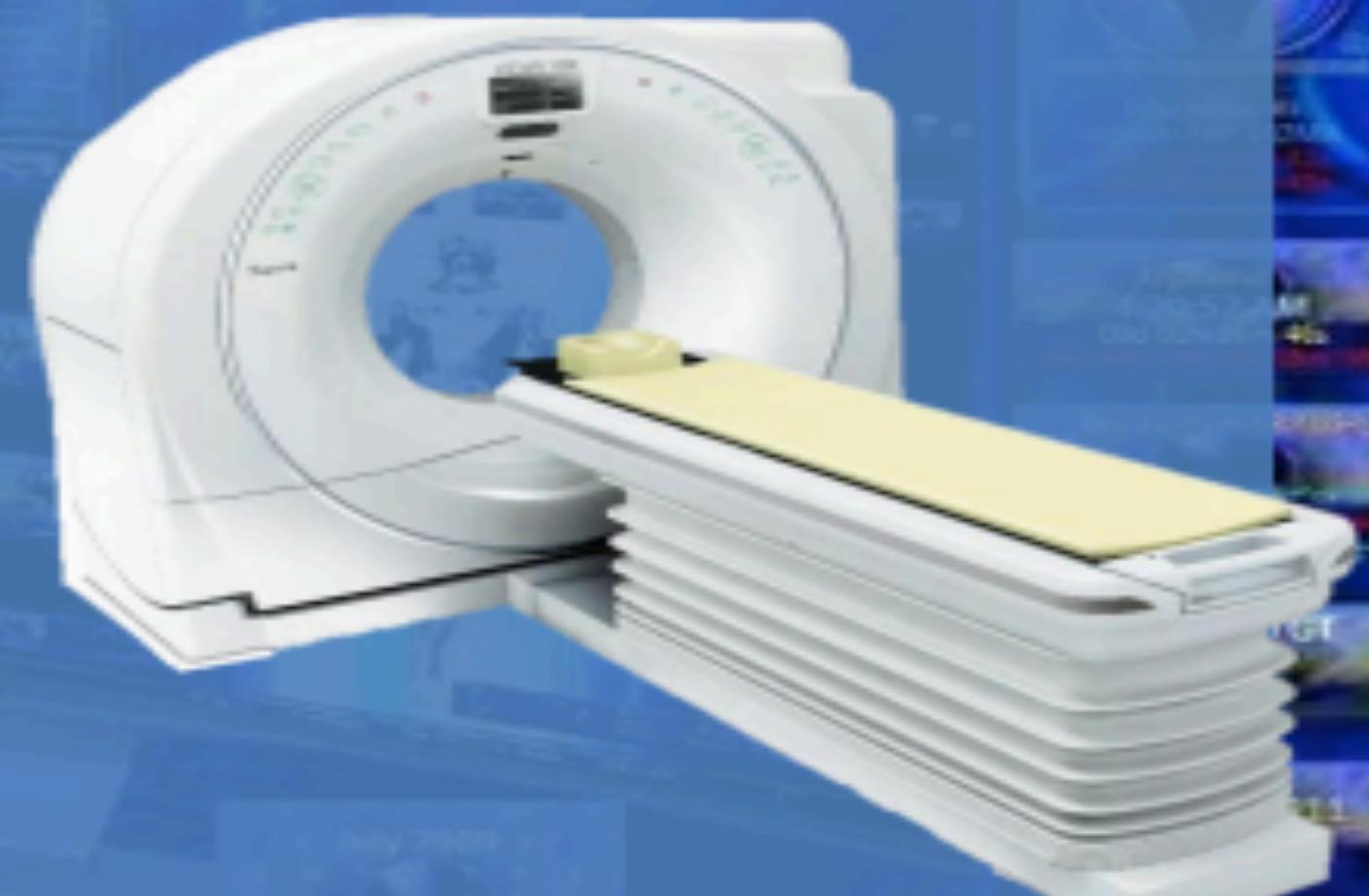
Research & Development

- Consistent investment in R&D to enhance company's product offerings and technical capabilities
- Focus on energy efficient and sustainable products and technologies
- Cost innovation through Total Cost Management and Design to Value, initiative for highly affordable air conditioners
- High level of product development and testing capabilities with several patents for new breakthrough products
- Enhanced electronics design capability for variable speed products and smart controllers
- NABL (ISO-17025) accredited laboratories for performance testing of products
- NABL (ISO-17025) accredited reliability and safety test facilities
- Launched the Ashok M Advani Innovation Mission to fast-track R&D and innovation programs supported by Innovation Centres in India and under the newly incorporated subsidiary at Japan

Professional Electronics & Industrial Systems



- Managed by the Company's wholly owned subsidiary, Blue Star Engineering & Electronics Ltd
- Bringing world class technology led solutions to customers across a wide range of industries
- Evolved from being only a distributor of leading global manufacturers to a high-end system integrator and value-added reseller
- Recognized as a gateway for advance technologies in India
- Offerings across diverse industry segments including –
 - Advanced Technology Products
 - Turnkey Engineering Solutions
 - Customized Testing Products
 - Value-added services

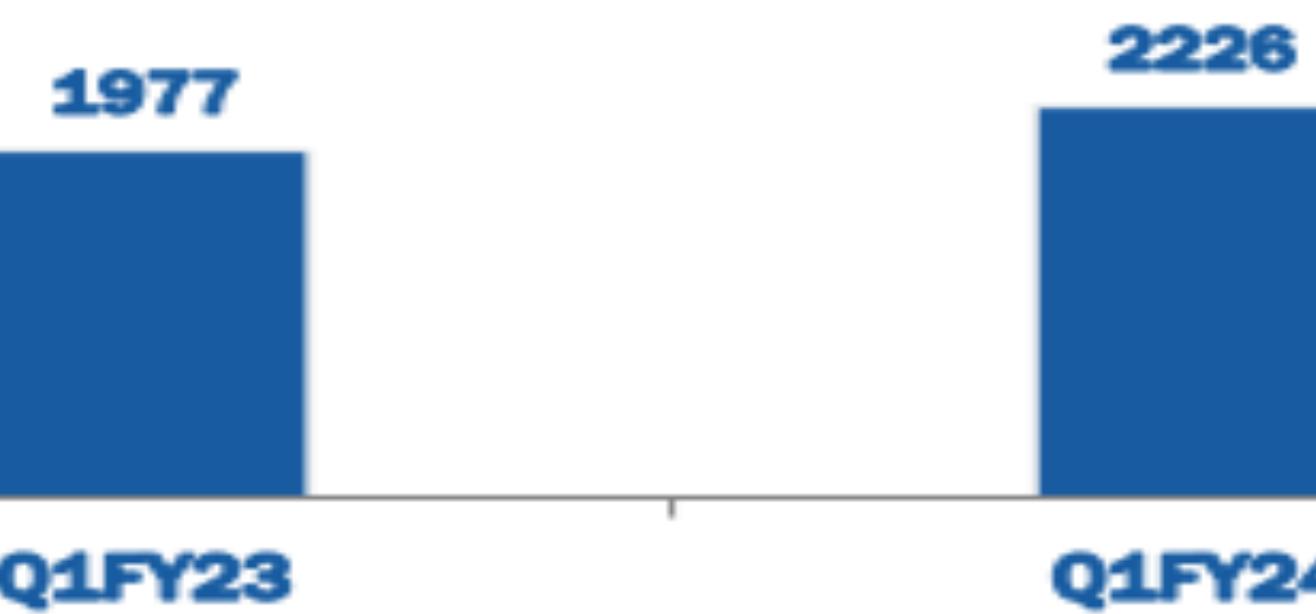
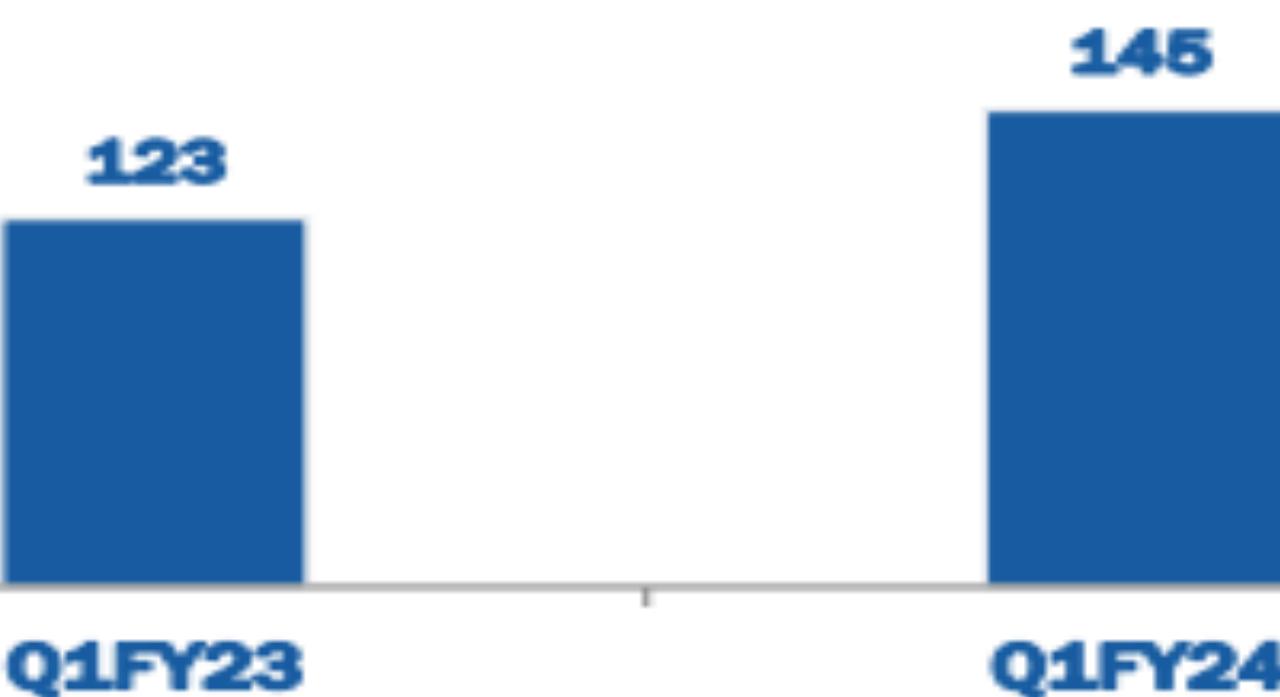


Professional Electronics & Industrial Systems

- Lines of Business include:
 - MedTech Solutions
 - Data Security Solutions
 - Industrial Solutions
 - Non-Destructive Testing Solutions
 - Material Testing Systems
 - Warehouse Automation
 - Metrology Solutions



Financial Performance – Q1FY24

**Revenue (Rs Cr)****EBITDA (Rs Cr)****Profit before tax (Rs Cr)****Earnings per share (EPS)* (Rs)**

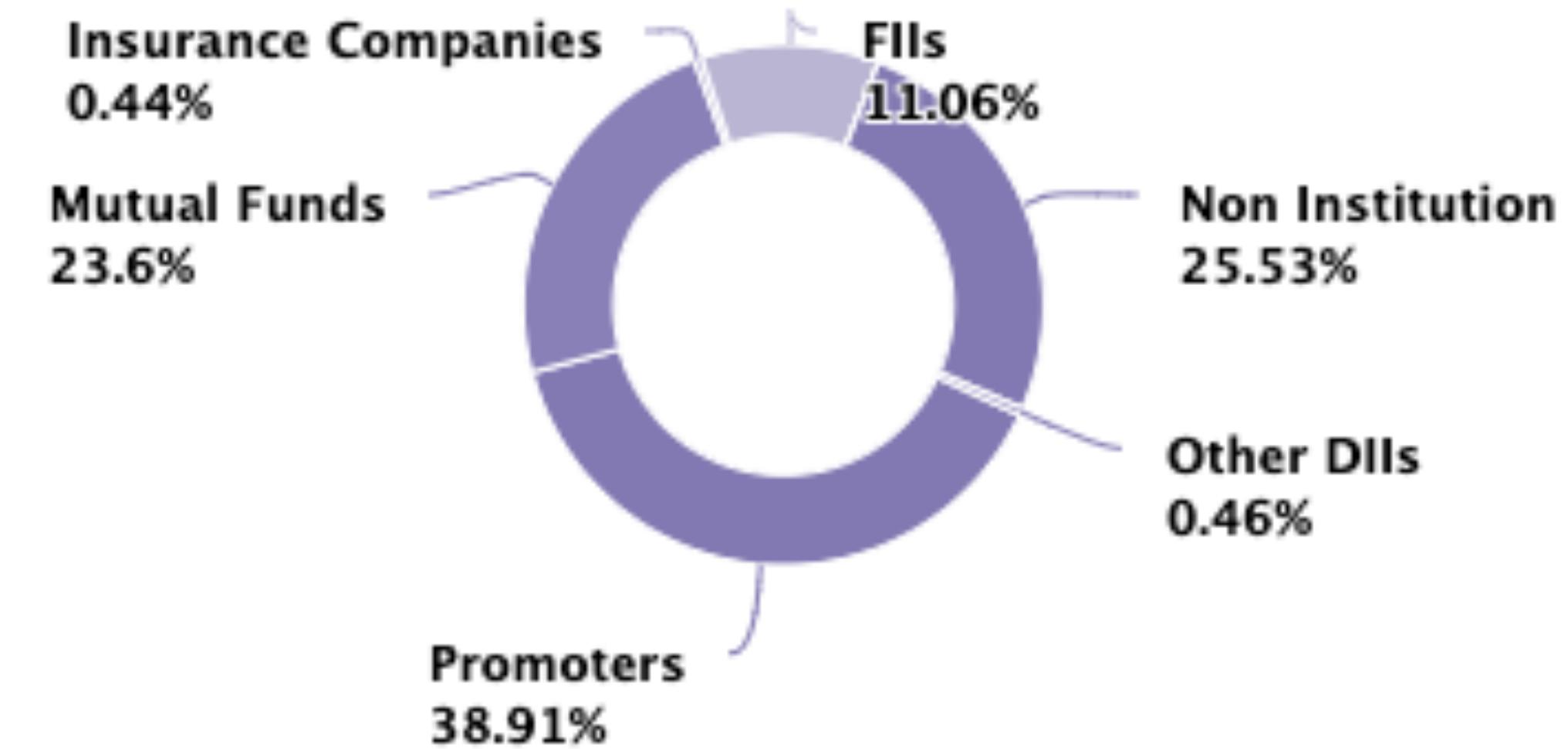
Yearly Results

YEARLY RESULTS OF BLUE STAR (in Rs. Cr.)	MAR '23	MAR '22	MAR '21	MAR '20	MAR '19
Net Sales/Income from operations	7,977.32	6,045.58	4,263.59	5,360.19	5,234.84
Total Income From Operations	7,977.32	6,045.58	4,263.59	5,360.19	5,234.84
EXPENDITURE					
Consumption of Raw Materials	5,020.14	3,661.98	2,360.45	3,108.84	2,801.24
Purchase of Traded Goods	1,346.86	1,103.64	880.09	917.22	959.50
Increase/Decrease in Stocks	-185.33	-50.94	30.81	-7.95	170.44
Employees Cost	591.44	508.55	381.81	484.51	421.49
Depreciation	84.78	85.98	92.29	87.99	74.90
Other Expenses	711.43	475.88	370.62	574.79	535.63
P/L Before Other Inc., Int., Excpt. Items & Tax	408.00	260.49	147.52	194.79	271.64
Other Income	30.87	35.72	62.35	44.70	24.69
P/L Before Int., Excpt. Items & Tax	438.87	296.21	209.87	239.49	296.33
Interest	54.70	46.40	64.72	29.47	47.87
P/L Before Exceptional Items & Tax	384.17	249.81	145.15	210.02	248.46
Exceptional Items	170.81	--	--	-4.03	2.68
P/L Before Tax	554.98	249.81	145.15	205.99	251.14
Tax	154.69	82.90	47.09	65.32	41.99
P/L After Tax from Ordinary Activities	400.29	166.91	98.06	140.67	209.15
Net Profit/(Loss) For the Period	400.29	166.91	98.06	140.67	209.15
Minority Interest	-0.23	-0.29	-0.31	-0.45	-0.34
Share Of P/L Of Associates	0.40	1.09	2.60	3.03	-18.75
Net P/L After M.I & Associates	400.46	167.71	100.35	143.25	190.06
Equity Share Capital	19.26	19.26	19.26	19.26	19.26
Reserves Excluding Revaluation Reserves	1,311.39	998.32	865.92	763.11	853.80
EPS BEFORE EXTRA ORDINARY					
Basic EPS	41.60	17.44	10.42	14.87	19.75
Diluted EPS	41.60	17.44	10.42	14.87	19.74
EPS AFTER EXTRA ORDINARY					
Basic EPS.	41.60	17.44	10.42	14.87	19.75
Diluted EPS.	41.60	17.44	10.42	14.87	19.74

Key Financial Ratios

KEY FINANCIAL RATIOS OF BLUE STAR (in Rs. Cr.)	MAR 23	MAR 22	MAR 21	MAR 20	MAR 19
PER SHARE RATIOS					
Basic EPS (Rs.)	41.60	17.44	10.42	14.87	19.75
Diluted EPS (Rs.)	41.60	17.44	10.42	14.87	19.74
Cash EPS (Rs.)	50.37	26.26	19.77	23.74	29.50
Book Value [ExclRevalReserve]/Share (Rs.)	138.51	105.98	92.20	81.48	90.85
Book Value [InclRevalReserve]/Share (Rs.)	138.51	105.98	92.20	81.48	90.85
Revenue from Operations/Share (Rs.)	828.38	627.79	442.74	556.61	543.60
PBDIT/Share (Rs.)	54.38	39.69	31.38	34.01	38.55
PBIT/Share (Rs.)	45.57	30.76	21.79	24.87	30.77
PBT/Share (Rs.)	57.63	25.94	15.07	21.39	26.08
Net Profit/Share (Rs.)	41.57	17.33	10.18	14.61	21.72
NP After MI And SOA / Share (Rs.)	41.58	17.42	10.42	14.88	19.74
PROFITABILITY RATIOS					
PBDIT Margin (%)	6.56	6.32	7.08	6.10	7.09
PBIT Margin (%)	5.50	4.89	4.92	4.46	5.66
PBT Margin (%)	6.95	4.13	3.40	3.84	4.79
Net Profit Margin (%)	5.01	2.76	2.29	2.62	3.99
NP After MI And SOA Margin (%)	5.01	2.77	2.35	2.67	3.63
Return on Networth/Equity (%)	30.09	16.48	11.33	18.30	21.76
Return on Capital Employed (%)	27.16	22.04	16.29	26.80	32.85
Return on Assets (%)	7.41	3.88	2.82	4.16	5.67
Total Debt/Equity (X)	0.43	0.47	0.51	0.57	0.39
Asset Turnover Ratio (%)	1.61	1.42	120.11	155.85	156.21
LIQUIDITY RATIOS					
Current Ratio (X)	1.12	1.17	1.26	1.04	1.09
Quick Ratio (X)	0.74	0.79	0.87	0.70	0.73
Inventory Turnover Ratio (X)	3.89	3.36	4.83	6.16	6.02
Dividend Payout Ratio (NP) (%)	24.04	22.97	0.00	134.46	50.61
Dividend Payout Ratio (CP) (%)	19.84	15.18	0.00	83.29	36.30
Earnings Retention Ratio (%)	75.96	77.03	0.00	-34.46	49.39
Cash Earnings Retention Ratio (%)	80.16	84.82	0.00	16.71	63.70
COVERAGE RATIOS					
Interest Coverage Ratios (%)	9.57	8.24	3.24	8.13	6.19
Interest Coverage Ratios (Post Tax) (%)	9.57	8.24	3.24	8.13	6.19
VALUATION RATIOS					
Enterprise Value (Cr.)	13,601.29	10,333.70	9,149.76	4,593.37	6,776.50
EV/Net Operating Revenue (X)	1.70	1.71	2.15	0.86	1.29
EV/EBITDA (X)	25.97	27.04	30.28	14.03	18.25
MarketCap/Net Operating Revenue (X)	1.66	1.67	2.12	0.83	1.25
Retention Ratios (%)	75.95	77.02	0.00	-34.46	49.38
Price/BV (X)	9.97	9.95	10.20	5.67	7.48
Price/Net Operating Revenue	1.66	1.67	2.12	0.83	1.25
Earnings Yield	0.03	0.02	0.01	0.03	0.03

Shareholding Pattern as on Jun'23



Summary

- ❖ In Q1 of FY'24, the Company delivered robust set of numbers, with Net Sales up by 12.97% i.e. Rs.2226.00 crs in Jun'23 as compared to Rs.1970.32 crs in Jun'22. However, the Net Profits increased by 12.25% i.e. Rs.83.35 crs in Jun'23 versus Rs.74.25 crs in Jun'22. In addition to this, the Statement of Changes in Equity witnessed an increase in the Equity Capital i.e. Rs.38.52 crs in Jun'23 juxtapose to Rs.19.26 crs in Jun'22.
- ❖ As per fine financials and fair fundamentals, the Company is available at a good price of Rs.747.65 with its 52 week low of Rs.515.15 and 52 week high of Rs.820.00.
- ❖ Since the Promoters are holding majority stake around 38.91% as well as its consistent performance, it is fair to assume that the Management is working efficiently and is growth oriented.
- ❖ The Shareholding Pattern as on Jun'23, shows the FIIs and the Other DIIs cumulatively stood with 11.52% stake. Whereas, the Mutual Fund Houses own 23.60% holdings in the Company.
- ❖ Blue Star Ltd. Ltd. is held by SBI MF, AXIS MF, KOTAK MF, NIPPON INDIA MF, FRANKLIN TEMPLETON MF, ICICI PRU MF, UTI MF, PGIM MF, HSBC MF, BARODA BNP PARIBAS MF, SUNDARAM MF, ABSL MF, ITI MF, TATA MF, ITI MF, LIC MF, BANK OF INDIA MF and a few more.
- ❖ On consolidated basis, the Company registered Return on Equity (ROE) and Return on Capital Employed (ROCE) around 30.09% & 27.16% respectively as on Mar'23.
- ❖ Blue Star Ltd. is a dividend paying stock. For the year ending Mar'23, the Company has declared an equity dividend of 600.00% i.e. Rs.12.00 per equity share. Having a good dividend track report, Blue Star Ltd. has consistently declared dividends for the last 5 years.

Disclosure

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Disclosures as required under SEBI (Research Analyst) Regulations, 2014

Introduction:

I, Amiteshwar Singh, am the proprietor of M/S Amiteshwar.in. I am a Research Analyst registered with SEBI having registration no. INH100010013. I provide services through my website www.researchlyne.com which is primarily focused on research of Multi-Cap stocks of India.

Business Activity:

I provide research services on equity stocks listed on Indian stock exchanges. The research is based on fundamental analysis.

I do thorough research and analysis on fundamentals of companies. As such, I undertake extensive scrutiny of major Company statistics like Balance Sheet, Profit & Loss Account, Key Financial Ratios (ROE, ROCE and Debt to Equity etc.), Quarterly, Half-yearly & Annual Results, Cash Flows, Annual Reports and Shareholding Pattern etc.

Each Company's Business Model, Future Projections, Competitive Advantages & other Moats are thoroughly checked before recommending their Stock.

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List of Associates / Relatives:

1. My spouse, Mrs. Prabhjash Kaur
2. My daughter, Ms. Palvit Kaur

Note: Subject Company is a company on which buy/sell recommendation or target price is given or changed in the research report.

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2. **Sell Recommendation:** The subscribers can sell the shares of the subject company when they receive a return of 25% on the market price when the subject company was recommended.

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