

**Blue Star Limited  
Investor Update  
Q1FY19**

## **I. FINANCIAL HIGHLIGHTS FOR Q1FY19**

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Effective April 1, 2018, the Company has adopted Ind AS 115 and accordingly, has realigned its revenue recognition policies appropriately. The accounting changes have been applied with retrospective effect to each of the prior reporting periods presented. The Company has opted for a full retrospective approach in view of the seasonal nature of its business. The impact on revenue and profit was not material for the full year FY18.

Following are the financial highlights of the Company for the quarter ended June 30, 2018 on a consolidated basis:

- Revenue from operations for Q1FY19 was Rs 1507.8 Cr, as compared to Rs 1519.9 Cr in Q1FY18. Comparable revenue from operations in Q1 FY 18 after adjusting the excise duty and other applicable input taxes was Rs 1405.1 Cr (growth of 7.3% in Q1FY19 over Q1FY18).
- EBIDTA (excluding other income and finance income) for Q1FY19 was Rs 136.7 Cr as compared to Rs 110.6 Cr in Q1FY18, growth of 23.6%. EBIDTA (excluding other income and finance income) as a percentage of revenue improved to 9.1% in Q1FY19 from 7.3% in Q1FY18.
- PBT before exceptional items for Q1FY19 was Rs 111.8 Cr as compared to Rs 101.9 Cr in Q1FY18, growth of 9.7%. PBT before exceptional items as a percentage of revenue improved to 7.4% in Q1FY19 from 6.7% in Q1FY18.
- Tax expense for Q1FY19 was Rs 32.5 Cr (effective tax rate of 25.6%) as compared to Rs 25.9 Cr in Q1FY18 (effective tax rate of 25.4%).
- Consequently, consolidated net profit for Q1FY19 increased to Rs 91.6 Cr from Rs 76.2 Cr in Q1FY18, a growth of 20.2%.
- Carry-forward order book as at June 30, 2018 was Rs 2121.6 Cr as compared to Rs 1969.1 Cr as at June 30, 2017.
- Consolidated capital employed increased to Rs 1305.5 Cr as on June 30, 2018 from Rs 843.4 Cr as on June 30, 2017 to support seasonal working capital requirements.
- Consequently, consolidated net borrowings increased to Rs 413.4 Cr as on June 30, 2018 from Rs 47.7 Cr as on June 30, 2017. Our debt to equity ratio was 0.5 as on June 30, 2018 as compared to 0.1 as on June 30, 2017.

## **II. BUSINESS HIGHLIGHTS FOR Q1FY19**

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### **Segment I: Electro-Mechanical Projects & Packaged Air Conditioning Systems**

Segment I revenue was Rs 619.4 Cr in Q1FY19 as against Rs 599.1 Cr in Q1FY18, a growth of 3.4%. The segment results grew to Rs 39.7 Cr (6.4%) in Q1FY19 from Rs 24.3 Cr (4.1%) in Q1FY18. Order inflow in Q1FY19 was Rs 622.8 Cr as compared to Rs 709.5 Cr in Q1FY18.

## **1. Electro-Mechanical Projects business**

The market is showing signs of revival in terms of large number of enquiry inflows from private sector, largely office, hospital and industrial segments as well as from Government driven infrastructure projects such as metros, airports and healthcare. However, these enquires have not translated into order finalisation during the quarter. We expect the order booking momentum to pick-up over the next 3 to 5 months.

Revenue growth in Q1FY19 was lower due to accelerated pace of supplies in Q1FY18 ahead of the introduction of GST. The strategy is to focus on profitable and healthier cash flow projects which would contribute to segment results. We continue to invest in smart systems and technology in line with our value proposition of superior project delivery through intelligent engineering, modern execution practices and committed teams.

We maintained leadership position in the electro mechanical space in India. Some major orders won during Q1FY19 included LuLu Mall by KEF infra at Lucknow, My Home Bhooja Hyderabad, Brigade OMR Bangalore, Tata Realty Chennai, Lotus greens Noida, Oracle Bangalore, Wipro Chennai, Sintex Factory Gujarat, L&T Realty Mumbai, Amara Hospital Tirupati and Apollo Hospital Bhubaneswar.

Carry-forward order book of the Electro Mechanical Projects business was Rs 1447.0 Cr as at June 30, 2018 as compared to Rs 1453.2 Cr as at June 30, 2017

## **2. Central and Packaged Air Conditioning Systems business**

In Q1FY19, Central and Packaged Air Conditioning Systems business registered a growth of 15.2% while the market grew at 13.0%. We continued to grow at a faster pace than market growth. The trend of growth is expected to continue in Q2FY19. New product variants launched in last financial year gained good acceptance in market and helped to gain market share. Key segments that contributed to the business in Q1FY19 are government, retail, hotels, industrial and hospitals.

Major orders bagged in Q1FY19 were from Red fort Museum, Rajeev Gandhi Hospital, MES (Military Engineer Service), Siemens Limited, Unichem Laboratories, Jinal Steel works and Emmar Properties. We would be launching an energy saving variant of chiller in FY19, which would widen our product range in the chiller market.

## **3. International Business**

Our focus remained on expansion of the Blue Star product range and consolidation of growth in the different markets that we are present in. Our international business is present in 19 markets and we are currently focused on deepening the penetration in these markets. We also launched a range of Room Air Conditioners, Water Cooler, Bottle Water Dispensers and Water Tank Chillers, for the Saudi Arabian market, along with our authorized distributor Sands International in Saudi Arabia. With this partnership, we aim to cater to a large base of customers in Saudi Arabian market and provide them a world class consumer experience. A wholly owned subsidiary Blue Star Systems and Solutions LLC

is being incorporated in the mainland UAE to support and expand the air conditioning and service businesses in the country.

We received the prestigious EUROVENT Certification, for our Air Handling Units (AHUs). This is a critical accomplishment, which will help us offer a wider range of EUROVENT Certified range of AHUs in the international markets that we operate in.

During the quarter we continued to actively engage in product launches, seminars and press meets across the globe; to showcase our wide range of products, and provide our stakeholders, partners and customers the perfect platform for interaction. We continue our journey to strengthen our brand in select international markets. We have plans to selectively and profitably grow our international business and the overall business outlook remains positive.

## **Segment II: Unitary Products**

Revenue for this segment de-grew to Rs 830.8 Cr in Q1FY19 as against Rs 861.3 Cr in Q1FY18. The segment results were however flat at Rs 95.0 Cr (11.4%) in Q1FY19 as compared with Rs 95.3 Cr (11.1%) in Q1FY18. Better product mix and cost rationalization contributed to improved margins in Q1FY19.

### **1. Room Air Conditioner business**

Unseasonal rains and soft summer conditions across the country, especially in the Southern part of the country affected Q1FY19 performance. The RAC industry de-grew by 13% in value terms. Our sales declined by 10% which is a matter of concern since we had planned for a growth of 20% and hence have inventory holding in excess of normal levels by around 60 days. We expect pricing and liquidation pressures to continue till the festive season.

The position was revived partly towards the quarter end, predominantly in the Northern Region. We performed better than the market in quarter end, primarily due to higher billing of premium products and our market share improved from 11.4 % in Q1FY18 to 11.7% in Q1FY19.

Major orders won in Q1FY19 were from Narayana Group of Institutions, Sri Chaitanya Group of Institutions, SKD Reality, VIT – Bhopal, Gujarat Gas, Ananda Residency, ECIL, PWD – Orissa, Rungta Mines, CPWD – Guwahati, Maruti Suzuki, Pernod Ricard, JIMS etc.

We expect competition to continue to intensify in the inverter air-conditioner segment with some competitors resorting to reducing / maintaining prices despite increase in input costs. In spite of a soft summer, we expect growth momentum to pick up in the rest of the year in the back drop of significant under penetration. We see good prospects from institutional segment.

## **2. Commercial Refrigeration business**

In Q1FY19, Commercial Refrigeration business registered a growth of 8.2% while the market grew at 2.2%. We continued to grow at a faster pace than market growth. Our strong position among national and key account customers helped deep freezer category maintain a steady growth momentum. Bottled water dispensers gained modest growth. The new lines of business "Medical Refrigeration" and "Kitchen Refrigeration" had gained traction in the market. Our foray into Retail Refrigeration has evoked good response and this business should see results in the quarters ahead. Expansion plans of QSR (Quick Service Restaurants), Dairy and Ice Cream segments increased demand for modular cold room business. Overall the Commercial Refrigeration business is poised for scaling up with its strong and wide product range.

## **3. Water Purifier business**

Revenue from our water purifier business doubled in Q1FY19 as compared to Q1FY18.

During the quarter, we launched stylish and differentiated range of residential water purifiers with RO, UV, RO+UV and RO+UV+UF technologies. The range comprises nine series, with price points varying from Rs 10,900 to Rs 44,900 in the RO and its variants range; and price points from Rs 7,900 to Rs 8,900 in the UV range. When we forayed into the business, it was with 13 models in limited price bands and the same has now been extended to 35 models (including colour variants) across various price points.

Select models offer an innovative and unique Immuno Boost Technology. We are also test marketing a range of commercial water purifiers, to cater to the growing demand of purified water in offices, restaurants, clinics, and other commercial establishments.

Our water purifiers are already available in 174 towns with over 250 channel distributors/dealers including ecommerce channels and modern trade in over 2400 retail points, and we target to increase the presence to over 3600 outlets in FY19. There are over 400 'Star Water Consultants' across major outlets for demonstrations and lead generation that have been appointed. We have launched a new TV commercial highlighting our Immuno Boost technology.

Our segment II results were impacted by around 140 bps during the quarter, due to investment in this product category primarily in marketing, brand building and R & D.

Since our entry into the residential water purifier business, we have made good progress in this segment with a wide range of product variants. We are committed to make significant investments and want this business to set a benchmark in terms of the quality of products as well as customer service. Our goal is to achieve revenue of around Rs 100 cr in FY19.

### **Segment III: Professional Electronics and Industrial Systems**

Segment III revenue was Rs 57.7 Cr in Q1FY19 as against Rs 59.5 Cr in Q1FY18. The segment results were Rs 8.3 Cr (14.4%) in Q1FY19 as compared with Rs 9.5 Cr (16.0%) in Q1FY18.

This segment witnessed improvement in enquires inflow. Revenue of health care business improved from supply of CT scanners to the health department of the Government of Uttar Pradesh.

Growth potential of Indian digital payment sector and rising focus of enterprises on data security create a huge opportunity for this business. Expected growth in healthcare market also offers good opportunity to grow this business. The order booking inflow has grown over the past 2 quarters and we expect the momentum to sustain in the coming quarters too. We have added contemporary products to widen our reach in digital data security market.

Major orders bagged in Q1FY19 were UP – CT, Rajeev Diagnostics, Rajasthan, National Payments Corporation of India (NPCI), Thermit, Microlab, BHEL, National Bureau Of Plant Genetic Resources (NBPGR), Maharashtra Seamless, Timken Jayaswal Nicco, Suzuki, etc.

### **III. BUSINESS OUTLOOK**

Increased enquiries from private sector and prospects from infrastructure sector such as development of airports, healthcare and metro rail projects will open up opportunities for the electro mechanical projects business. In spite of a soft summer, market potential in the Unitary Products segment remains strong in the backdrop of significant under penetration. We also expect the pace of order inflow in the Professional Electronics & Industrial segment to continue. We will continue to make investments in manufacturing, marketing, brand building, product development as well as human resources in the next few years in order to capitalize on the imminent growth opportunities.

#### **For more information contact**

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**SAFE HARBOUR**

Certain statements in this release concerning our future growth prospects are forward-looking statements which involve a number of risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The risks and uncertainties relating to these statements include, but are not limited to, risks and uncertainties regarding fiscal policy, competition, inflationary pressures and general economic conditions affecting our industry. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.