

## Blue Star Ltd

### Performance Update

	1QFY19	1QFY18	% chg. (yoy)	4QFY18	% chg. (qoq)
<b>Net Sales</b>	1,508	1,520	(0.8)	1,346	12.0
Operating profit	137	111	23.6	60	126.6
OPM (%)	9.1	7.3	179bp	4.5	458bp
<b>Adj. PAT</b>	92	76	20.3	31.7	188.8

Source: Company, Angel Research

For 1QFY2019, Blue Star posted results below our expectations on the top-line, however, it reported healthy growth on the bottom-line front. The company has reported flat top-line growth (after adjustment of GST, revenue growth was ~7%) and PAT was up ~20% yoy.

**Gained market share in AC segment but overall top-line remained flat:** The company's top-line was flat on yoy basis (after adjustment of GST, revenue growth was ~7%) at ₹1,508cr on the back of muted performance across segments. However, Electro-Mechanical Project Systems segment grew by ~3% yoy during the quarter, whereas Unitary Products segment reported ~4% de-growth yoy due to seasonality impact.

**Healthy operating performance, one time gain aided overall profitability:** On the operating front, the company's margins improved by 179bps yoy on the back of lower raw material prices and higher sales mix of inverted AC (a higher margin business). On the bottom-line front, company reported a growth of ~20% yoy to ₹92cr on account of better operating margins and one time exceptional income.

**Outlook & Valuation:** We forecast Blue Star to report top-line CAGR of ~13% to ₹5,955cr over FY18-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~19% CAGR to ₹205cr owing to improvement in volumes and better operating margins. **We maintain our Buy recommendation on Blue Star with a target price of ₹867.**

### Key Financials

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
<b>Net Sales</b>	<b>4,385</b>	<b>4,648</b>	<b>5,209</b>	<b>5,955</b>
% chg	13.5	6.0	12.1	14.3
<b>Net Profit</b>	<b>123</b>	<b>144</b>	<b>165</b>	<b>204</b>
% chg	12.2	17.0	14.4	24.1
OPM (%)	5.1	5.7	6.0	6.2
<b>EPS (Rs)</b>	<b>12.8</b>	<b>15.0</b>	<b>17.2</b>	<b>21.3</b>
P/E (x)	54.6	46.7	40.8	32.9
P/BV (x)	8.9	8.2	7.6	7.0
RoE (%)	16.3	17.7	18.7	21.2
RoCE (%)	16.5	17.0	19.3	21.8
EV/Sales (x)	1.7	1.6	1.4	1.2

## BUY

**CMP** ₹703  
**Target Price** ₹867

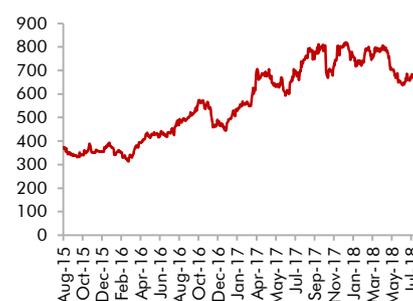
**Investment Period** 12 Months

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	6,771
Net Debt (₹ cr)	210
Beta	0.2
52 Week High / Low	845/611
Avg. Daily Volume	20,316
Face Value (₹)	2
BSE Sensex	38,024
Nifty	11,471
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)	
Promoters	38.8
MF / Banks / Indian FIs	20.0
FII / NRIs / OCBs	9.3
Indian Public / Others	31.9

Abs.(%)	3m	1yr	3yr
Sensex	7.6	18.3	34.8
Blue Star	(13.5)	0.0	88.7

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 1QFY2019 Performance**

Y/E March (` cr)	1QFY19	1QFY18	% chg. (yoy)	4QFY18	% chg. (qoq)	FY2018	FY2017	% chg
<b>Net Sales</b>	<b>1,508</b>	<b>1,520</b>	(0.8)	<b>1,346</b>	12.0	<b>4,648</b>	<b>4,385</b>	6.0
Net raw material	1071.9	1,119	(4.2)	945.1	13.4	3229.0	3112.25	3.8
(% of Sales)	71.1	73.6	(254)	70.2	89	69.5	71.0	
Employee Cost	100	88	13.0	108	(7.3)	398	339	17.3
(% of Sales)	6.6	5.8	81	8.0	(138)	8.6	7.7	
Other Expenses	199	202	(1.2)	233	(14.5)	756	712	6.2
(% of Sales)	13.2	13.3	(6)	17.3	(410)	16.3	16.2	
<b>Total Expenditure</b>	<b>1,371</b>	<b>1,409</b>	<b>(2.7)</b>	<b>1,286</b>	<b>6.6</b>	<b>4,382</b>	<b>4,163</b>	<b>5.3</b>
<b>Operating Profit</b>	<b>137</b>	<b>111</b>	<b>23.6</b>	<b>60</b>	<b>126.6</b>	<b>266</b>	<b>222</b>	<b>20</b>
OPM (%)	9.1	7.3	179	4.5	458	5.72	5.07	65
Interest	12	5	151.6	11	13.0	29	38	(23.9)
Depreciation	16	13	28.3	18	(12.1)	64	61	5.3
Other Income	3	9	(61.3)	4	(12.6)	17	35	(51.0)
<b>PBT</b>	<b>112</b>	<b>102</b>	<b>9.8</b>	<b>35</b>	<b>218.2</b>	<b>190</b>	<b>159</b>	<b>20.0</b>
(% of Sales)	7.4	6.7		2.6		4.1	3.6	
Exceptional Items	15.2	-		5		5.3		
Tax	33	26	25.6	8.24	294.4	49	37	34.8
(% of PBT)	29.1	25.4		23.4		26.0	23.1	
<b>Reported PAT before MI &amp; Extra Ord. Items</b>	<b>95</b>	<b>76</b>	<b>24.3</b>	<b>32</b>	<b>193.7</b>	<b>146</b>	<b>122</b>	<b>19.8</b>
PATM	6.3	5.0		2.4		3.1	2.8	
Minority Interest				(0)		(0)	0	
P/L of Ass. Co.	(3)	0		(1)		(2)	1	
Extra-ordinary Items	(0)	(0)					-	
<b>Reported PAT</b>	<b>92</b>	<b>76</b>	<b>20.3</b>	<b>31.71</b>	<b>188.8</b>	<b>144</b>	<b>123</b>	<b>17.0</b>

Source: Company, Angel Research

### **Key investment arguments**

**Cooling Products division – the backbone of growth:** Company is estimating +20% growth (outperform the market at 15-20% growth) in FY19E in the cooling products division. Further, owing to the strong growth in this summer, the market is expected to be further driven by the rise in demand.

**Newer products and strong demand to aid overall profitability:** Blue Star is planning to add two brand new models to its RAC product range in FY19, it has four models currently. The company is planning to launch one high wall-cordless split AC model around the same time. Besides that, increase in demand from large government related infra projects like metro and some small segments from hospitals and educational institutions will also boost sales.

**Wide distribution network:** Blue Star has a strong presence in the South and West regions of India and is now planning to increase its presence in North. Hence, company has already increased its dealer count and is taking steps to improve per dealer output in Northern region. Moreover, Bluster Silicones, an overseas subsidiary of China National Bluster (Group) signed a distribution agreement with Grasim Industries in India for its whole series of silicone products in an attempt to expand its distribution network in India and increase its market share.

**Outlook & Valuation:** We forecast Blue Star to report top-line CAGR of ~13% to ₹5,955cr over FY18-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~19% CAGR to ₹205cr owing to improvement in volumes and better operating margins. **We maintain our Buy recommendation on Blue Star with a target price of ₹867.**

#### **Downside risks to our estimates**

- Any slowdown in consumer segments like IT/ITES, healthcare, hospitality and infrastructure could impact the company's growth.
- Foreign exchange fluctuations have a direct impact on the profit of the cooling products division since commercial refrigerators are imported.
- The RAC industry has been witnessing high traction and the company has been able to outperform the industry over the past few years. Any unexpected drop in performance of the RAC industry would pose a threat to our estimates.

#### **Company Background**

Blue Star Limited is an air-conditioning and commercial refrigeration company. The company conducts various activities, such as electrical, plumbing and fire-fighting services. Its segments include Electro-Mechanical Projects and Packaged Air Conditioning Systems, and Unitary Products. The Electro-Mechanical Projects and Packaged Air-Conditioning Systems segment includes central air-conditioning projects, electrical contracting business and packaged air-conditioning businesses, including manufacturing and after sales service. The Unitary Products segment includes cooling appliances, cold storage products, including manufacturing and after sales service. The company's products include central air conditioning, room air conditioners and speciality cooling products. Its other businesses include marketing and maintenance of imported professional electronic equipment and services, as well as industrial products and systems, which is handled by Blue Star Engineering & Electronics.

### Consolidated Profit & Loss Statement

#### Profit & Loss Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
<b>Total operating income</b>	<b>3,863</b>	<b>4,385</b>	<b>4,648</b>	<b>5,209</b>
% chg	20.5	13.5	6.0	12.1
<b>Total Expenditure</b>	<b>3,703</b>	<b>4,163</b>	<b>4,382</b>	<b>4,896</b>
Raw Material	1,938	3,112	3,229	3,547
Personnel	417	339	398	448
Others Expenses	1,347	712	756	901
<b>EBITDA</b>	<b>160</b>	<b>222</b>	<b>266</b>	<b>313</b>
% chg	54.8	39.0	19.6	17.5
(% of Net Sales)	4.1	5.1	5.7	6.0
Depreciation & Amortisation	57	61	64	71
<b>EBIT</b>	<b>103</b>	<b>162</b>	<b>202</b>	<b>242</b>
% chg	71.0	57.2	24.9	19.6
(% of Net Sales)	2.7	3.7	4.3	4.6
Interest & other Charges	43	38	29	33
Other Income	73	35	17	20
(% of PBT)	54.9	21.8	8.9	8.7
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>132</b>	<b>159</b>	<b>190</b>	<b>229</b>
% chg	210.6	19.7	20.0	20.2
Tax	28	37	49	62
(% of PBT)	20.9	23.1	26.0	27.0
<b>PAT (reported)</b>	<b>105</b>	<b>122</b>	<b>141</b>	<b>167</b>
Minority Interest (after tax)	1	0	0	0
Profit/Loss of Associate Company	1	1	2	2
Extraordinary Items	(5)	-	5	-
<b>ADJ. PAT</b>	<b>110</b>	<b>123</b>	<b>144</b>	<b>165</b>
% chg	15.2	12.2	17.0	14.4
(% of Net Sales)	2.8	2.8	3.1	3.2
<b>Basic EPS (Rs)</b>	<b>11.4</b>	<b>12.8</b>	<b>15.0</b>	<b>17.2</b>
<b>Fully Diluted EPS (₹)</b>	<b>11.4</b>	<b>12.8</b>	<b>15.0</b>	<b>17.2</b>
% chg	15.2	12.2	17.0	14.4

**Consolidated Balance Sheet**

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	19	19	19	19
Reserves & Surplus	738	796	862	943
<b>Shareholders Funds</b>	<b>757</b>	<b>815</b>	<b>881</b>	<b>962</b>
Minority Interest	1	1	1	1
Total Loans	221	371	371	371
Deferred Tax Liability	24	24	24	24
<b>Total Liabilities</b>	<b>1,004</b>	<b>1,211</b>	<b>1,277</b>	<b>1,359</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	359	399	439	479
Less: Acc. Depreciation	72	135	206	284
<b>Net Block</b>	<b>288</b>	<b>264</b>	<b>233</b>	<b>195</b>
Capital Work-in-Progress	34	34	34	34
Investments	79	79	79	79
Current Assets	2,141	2,425	2,708	3,060
Inventories	596	815	928	1,061
Sundry Debtors	939	1,019	1,142	1,305
Cash	97	81	107	116
Loans & Advances	390	394	417	465
Other Assets	120	116	115	113
Current liabilities	1,670	1,732	1,915	2,144
<b>Net Current Assets</b>	<b>471</b>	<b>693</b>	<b>793</b>	<b>916</b>
<b>Deferred Tax Asset</b>	<b>132</b>	<b>132</b>	<b>132</b>	<b>132</b>
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>1,004</b>	<b>1,211</b>	<b>1,277</b>	<b>1,359</b>

**Consolidated Cash flow Statement**

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	159	190	229	283
Depreciation	61	64	71	78
Change in Working Capital	(105)	(238)	(73)	(113)
Interest / Dividend (Net)	19	29	33	28
Direct taxes paid	2	(49)	(62)	(76)
Others	(26)	0	0	0
<b>Cash Flow from Operations</b>	<b>159</b>	<b>(4)</b>	<b>197</b>	<b>199</b>
(Inc.)/ Dec. in Fixed Assets	(107)	(40)	(40)	(40)
(Inc.)/ Dec. in Investments	177	0	0	0
<b>Cash Flow from Investing</b>	<b>69</b>	<b>(40)</b>	<b>(40)</b>	<b>(40)</b>
Issue of Equity	7	0	0	0
Inc./(Dec.) in loans	6	150	0	0
Dividend Paid (Incl. Tax)	(2)	(86)	(99)	(123)
Interest / Dividend (Net)	(185)	(7)	(32)	(27)
<b>Cash Flow from Financing</b>	<b>(174)</b>	<b>57</b>	<b>(131)</b>	<b>(150)</b>
Inc./(Dec.) in Cash	54	12	26	10
<b>Opening Cash balances</b>	<b>15</b>	<b>68</b>	<b>81</b>	<b>107</b>
<b>Closing Cash balances</b>	<b>68</b>	<b>81</b>	<b>107</b>	<b>116</b>

### Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	58.8	49.8	40.8	34.0
P/CEPS	39.7	33.6	29.3	25.0
P/BV	9.6	8.9	8.2	7.5
Dividend yield (%)	1.0	1.2	1.5	1.8
EV/Sales	1.7	1.6	1.4	1.2
EV/EBITDA	32.7	27.0	23.1	19.7
EV / Total Assets	7.3	6.1	5.8	5.4
<b>Per Share Data (₹)</b>				
EPS (Basic)	12.8	15.1	18.5	22.2
EPS (fully diluted)	12.8	15.1	18.5	22.2
Cash EPS	19.0	22.4	25.7	30.2
DPS	7.5	9.1	11.1	13.3
Book Value	78.9	84.9	92.3	101.2
<b>Returns (%)</b>				
ROCE	16.5	17.9	19.9	22.3
Angel ROIC (Pre-tax)	20.2	20.7	23.2	26.0
ROE	16.3	17.8	20.0	21.9
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	12.2	11.9	12.2	12.7
Inventory / Sales (days)	50	64	65	65
Receivables (days)	78	80	80	80
Payables (days)	98	95	93	90
Working capital cycle (ex-cash) (days)	30	49	52	55

Source: Company, Angel Research

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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