

## Blue Star Ltd

### Performance Update

	2QFY19	2QFY18	% chg. (yoy)	1QFY19	% chg. (qoq)
<b>Net Sales</b>	<b>1,032</b>	<b>850</b>	<b>21.5</b>	<b>1,508</b>	<b>(31.5)</b>
Operating profit	58	49	18.7	137	(57.5)
OPM (%)	5.6	5.8	(13bp)	9.1	(344bp)
<b>Adj. PAT</b>	<b>20</b>	<b>23</b>	<b>(14.0)</b>	<b>91.6</b>	<b>(78.7)</b>

Source: Company, Angel Research

For 2QFY2019, Blue Star posted results above our expectations on the top-line front; however, bottom-line numbers came below expectations. The company has reported 21.5% top-line growth, whereas PAT was down ~14% yoy due to losses in JV and higher interest cost.

**Strong revenue growth Electro-Mechanical Project (EMP) and better than industry performance boosted top-line:** The company's top-line grew 21.5% yoy at ₹1,032cr on the back of strong performance in EMP Business (up ~27% yoy) driven by accelerated execution of major MEP projects. Further, Professional Electronics and Industrial Systems business revenues increased by ~55% yoy. However, Unitary Products business revenues increased marginally by 9% yoy. Room AC business has performed better than the industry and the market share has improved (current market share at 12.3%).

**PAT de-grew ~14%:** On the operating front, the company's margins contracted by 13bps yoy on the back of higher raw material prices. The bottom-line, posted de-growth of ~14% yoy to ₹20cr on account of higher interest cost, one time exceptional expense (₹2.7cr) and losses in International JV.

**Outlook & Valuation:** We forecast Blue Star to report top-line CAGR of ~13% to ₹5,854cr over FY2018-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~18% CAGR to ₹201cr 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>5,122</b>	<b>5,854</b>
% chg	13.5	6.0	10.2	14.3
<b>Net Profit</b>	<b>123</b>	<b>144</b>	<b>154</b>	<b>201</b>
% chg	12.2	17.0	6.9	30.5
OPM (%)	5.1	5.7	6.1	6.3
<b>EPS (Rs)</b>	<b>12.8</b>	<b>15.0</b>	<b>16.0</b>	<b>20.9</b>
P/E (x)	44.1	37.7	35.2	27.0
P/BV (x)	7.2	6.7	6.2	5.7
RoE (%)	16.3	17.7	17.6	21.0
RoCE (%)	16.5	17.0	19.2	21.7
EV/Sales (x)	1.2	1.2	1.1	1.0
EV/EBITDA (x)	24.6	21.2	17.9	15.1

Source: Company, Angel Research Note: CMP as of October 31, 2018

## BUY

CMP ₹565  
Target Price ₹867

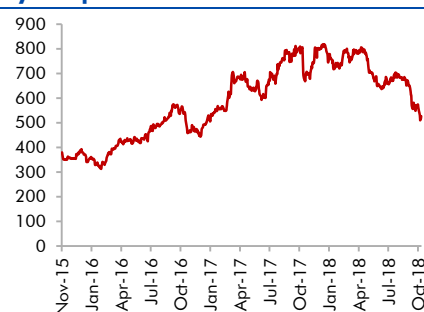
Investment Period 12 Months

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	5,490
Net Debt (₹ cr)	210
Beta	0.2
52 Week High / Low	845/507
Avg. Daily Volume	11,670
Face Value (₹)	2
BSE Sensex	34,314
Nifty	10,351
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)	
Promoters	38.7
MF / Banks / Indian FIs	20.9
FII / NRIs / OCBs	8.3
Indian Public / Others	32.1

Abs.(%)	3m	1yr	3yr
Sensex	(8.4)	3.7	29.7
Blue Star	(16.9)	29.3	48.7

### 3-year price chart



Source: Company, Angel Research

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**Exhibit 1: 2QFY2019 Performance**

Y/E March (` cr)	2QFY19	2QFY18	% chg. (yoy)	1QFY19	% chg. (qoq)	1HFY19	1HFY18	% chg
<b>Net Sales</b>	<b>1,032</b>	<b>850</b>	21.5	<b>1,508</b>	(31.5)	<b>2,540</b>	<b>2,370</b>	7.2
Net raw material	704.7	559	26.0	1071.9	(34.3)	1772.5	1664.7	6.5
(% of Sales)	68.3	65.8	244	71.1	(282)	69.8	70.2	
Employee Cost	106	100	5.7	100	5.9	206	189	9.1
(% of Sales)	10.3	11.8	(153)	6.6	363	8.1	8.0	
Other Expenses	164	141	15.8	199	(17.9)	367	357	2.8
(% of Sales)	15.8	16.6	(78)	13.2	263	14.5	15.1	
<b>Total Expenditure</b>	<b>974</b>	<b>801</b>	<b>21.6</b>	<b>1,371</b>	<b>(29.0)</b>	<b>2,345</b>	<b>2,210</b>	<b>6.1</b>
<b>Operating Profit</b>	<b>58</b>	<b>49</b>	<b>18.7</b>	<b>137</b>	<b>(57.5)</b>	<b>195</b>	<b>160</b>	<b>22</b>
OPM (%)	5.6	5.8	(13)	9.1	(344)	7.67	6.73	93
Interest	12	6	98.8	12	(3.6)	24	11	122.6
Depreciation	17	16	7.2	16	5.2	33	28	16.5
Other Income	5	5	9.3	3	47.6	8	13	(37.0)
<b>PBT</b>	<b>34</b>	<b>32</b>	<b>8.2</b>	<b>112</b>	<b>(69.2)</b>	<b>146</b>	<b>134</b>	<b>9.4</b>
(% of Sales)	3.3	3.7		7.4		5.8	5.6	
Exceptional Items	(2.7)			15.2		12.5		
Tax	8	9	(17.3)	33	(75.9)	40	35	14.1
(% of PBT)	22.8	29.8		29.1		27.6	26.4	
<b>Reported PAT before MI &amp; Extra Ord. Items</b>	<b>24</b>	<b>22</b>	<b>6.9</b>	<b>95</b>	<b>(74.8)</b>	<b>118</b>	<b>98</b>	<b>20.4</b>
PATM	2.3	2.6		6.3		4.7	4.1	
Minority Interest								
P/L of Ass. Co.	(4)	1		(2.9)		(7)	1	
Extra-ordinary Items	(0)	(0)		(0.1)		(0)	(0)	
<b>Reported PAT</b>	<b>20</b>	<b>23</b>	<b>(14.0)</b>	<b>92</b>	<b>(78.7)</b>	<b>111</b>	<b>99</b>	<b>12.4</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 ₹5,854cr over FY2018-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~18% CAGR to ₹201cr 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**

Y/E March (₹ cr)	FY2017	FY2018	FY2019E	FY2020E
<b>Total operating income</b>	<b>4,385</b>	<b>4,648</b>	<b>5,122</b>	<b>5,854</b>
% chg	13.5	6.0	10.2	14.3
<b>Total Expenditure</b>	<b>4,163</b>	<b>4,382</b>	<b>4,810</b>	<b>5,485</b>
Raw Material	3,112	3,229	3,488	3,981
Personnel	339	398	441	515
Others Expenses	712	756	881	989
<b>EBITDA</b>	<b>222</b>	<b>266</b>	<b>312</b>	<b>369</b>
% chg	39.0	19.6	17.5	18.0
(% of Net Sales)	5.1	5.7	6.1	6.3
Depreciation & Amortisation	61	64	71	78
<b>EBIT</b>	<b>162</b>	<b>202</b>	<b>242</b>	<b>291</b>
% chg	57.2	24.9	19.5	20.3
(% of Net Sales)	3.7	4.3	4.7	5.0
Interest & other Charges	38	29	41	32
Other Income	35	17	20	20
(% of PBT)	21.8	8.9	9.1	7.2
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>159</b>	<b>190</b>	<b>221</b>	<b>278</b>
% chg	19.7	20.0	16.1	26.1
Tax	37	49	60	75
(% of PBT)	23.1	26.0	27.0	27.0
<b>PAT (reported)</b>	<b>122</b>	<b>141</b>	<b>161</b>	<b>203</b>
Minority Interest (after tax)	0	0	0	0
Profit/Loss of Associate Company	1	2	7	2
Extraordinary Items	-	5	-	-
<b>ADJ. PAT</b>	<b>123</b>	<b>144</b>	<b>154</b>	<b>201</b>
% chg	12.2	17.0	6.9	30.5
(% of Net Sales)	2.8	3.1	3.0	3.4
<b>Basic EPS (₹)</b>	<b>12.8</b>	<b>15.0</b>	<b>16.0</b>	<b>20.9</b>
<b>Fully Diluted EPS (₹)</b>	<b>12.8</b>	<b>15.0</b>	<b>16.0</b>	<b>20.9</b>
% chg	12.2	17.0	6.9	30.5

**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	857	938
<b>Shareholders Funds</b>	<b>757</b>	<b>815</b>	<b>876</b>	<b>957</b>
Minority Interest	1	1	1	1
Total Loans	221	371	380	380
Deferred Tax Liability	24	24	24	24
<b>Total Liabilities</b>	<b>1,004</b>	<b>1,202</b>	<b>1,281</b>	<b>1,364</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	359	399	439	479
Less: Acc. Depreciation	72	135	206	284
Net Block	<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	2,685	3,032
Inventories	596	815	912	1,042
Sundry Debtors	939	1,019	1,123	1,283
Cash	97	81	128	139
Loans & Advances	390	394	410	457
Other Assets	120	116	113	111
Current liabilities	1,670	1,732	1,882	2,108
<b>Net Current Assets</b>	<b>471</b>	<b>693</b>	<b>803</b>	<b>924</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>1,202</b>	<b>1,281</b>	<b>1,364</b>

### Consolidated Cash flow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	159	190	221	278
Depreciation	61	64	71	78
Change in Working Capital	(105)	(238)	(63)	(110)
Interest / Dividend (Net)	19	29	41	32
Direct taxes paid	2	(49)	(60)	(75)
Others	(26)	0	0	0
<b>Cash Flow from Operations</b>	<b>159</b>	<b>(4)</b>	<b>210</b>	<b>204</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	9	0
Dividend Paid (Incl. Tax)	(2)	(86)	(92)	(121)
Interest / Dividend (Net)	(185)	(7)	(40)	(32)
<b>Cash Flow from Financing</b>	<b>(174)</b>	<b>57</b>	<b>(123)</b>	<b>(152)</b>
Inc./(Dec.) in Cash	54	12	47	11
<b>Opening Cash balances</b>	<b>15</b>	<b>68</b>	<b>81</b>	<b>128</b>
<b>Closing Cash balances</b>	<b>68</b>	<b>81</b>	<b>128</b>	<b>139</b>

### Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	44.1	37.7	35.2	27.0
P/CEPS	29.7	26.5	23.4	19.3
P/BV	7.2	6.7	6.2	5.7
Dividend yield (%)	1.3	1.6	1.7	2.2
EV/Sales	1.2	1.2	1.1	1.0
EV/EBITDA	24.6	21.2	17.9	15.1
EV / Total Assets	5.4	4.7	4.4	4.1
<b>Per Share Data (₹)</b>				
EPS (Basic)	12.8	15.0	16.0	20.9
EPS (fully diluted)	12.8	15.0	16.0	20.9
Cash EPS	19.0	21.3	24.2	29.3
DPS	7.5	9.0	9.6	12.6
Book Value	78.9	84.9	91.3	99.7
<b>Returns (%)</b>				
ROCE	16.5	17.0	19.2	21.7
Angel ROIC (Pre-tax)	20.2	19.7	23.0	26.0
ROE	16.3	17.7	17.6	21.0
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	12.2	11.6	11.7	12.2
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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	Blue Star
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

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