

Blue Star Ltd

Performance Update

	4QFY18	4QFY17	% chg. (yoy)	3QFY18	% chg. (qoq)
Net Sales	1,476	1,369	7.8	981	50.4
Operating profit	90	72	25.6	51	75.7
OPM (%)	6.1	5.2	87bp	5.2	88bp
Adj. PAT	47	37	27.4	18.8	152.1

Source: Company, Angel Research

For 4QFY2018, Blue Star posted results in-line with our expectations both on top line and bottom-line fronts. The revenue was higher by 7.8% y-o-y and PAT was up 27.4% y-o-y. During the quarter, cooling and the unitary products has been the key performer for the company. Operating margin improved by 87bps on account of lower material costs.

Blue Star outperformed the industry growth: The company's top-line grew by ~7.8% yoy (not adjusted for exercise duty) y-o-y to ₹1,476cr on the back of healthy growth in central air conditioning systems. The Central Air Conditioning Systems segment grew by ~19.3% y-o-y during the quarter (Industry reported ~15% growth yoy), whereas unitary products segment reported ~9% growth y-o-y. The company has also forayed into other products such as air coolers, water purifiers and air purifiers which also boosted the company's growth.

Healthy operating performance aided overall profitability: On the operating front, the company's margin improved by 87bps y-o-y on the back of healthy growth in air conditioning system, which is a higher margin business. On the bottom-line front, company reported a growth of ~27.4% y-o-y to ₹47cr on account of healthy revenue growth and better operating margins.

Outlook & Valuation: We forecast Blue Star to report top-line CAGR of ~13% to ₹6,080cr over FY18-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~21% CAGR to ₹213cr owing to improvement in volumes. **We maintain our Buy recommendation with a target price of ₹867.**

Key Financials

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Net Sales	4,385	4,741	5,352	6,080
% chg	13.5	8.1	12.9	13.6
Net Profit	123	145	177	213
% chg	12.2	18.1	22.0	20.0
OPM (%)	5.1	5.8	6.0	6.2
EPS (Rs)	12.8	15.1	18.5	22.2
P/E (x)	58.8	49.8	40.8	34.0
P/BV (x)	9.6	8.9	8.2	7.5
RoE (%)	16.3	17.8	20.0	21.9
RoCE (%)	16.5	17.9	19.9	22.3

BUY

CMP ₹754
 Target Price ₹867

Investment Period 12 Months

Stock Info

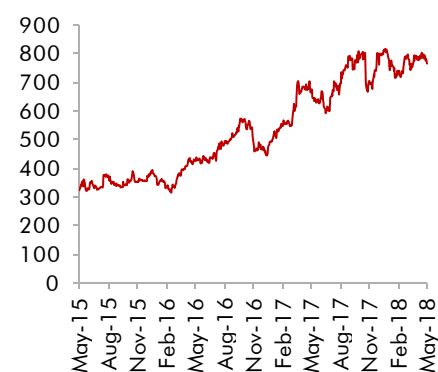
Sector	Cons. Durable
Market Cap (₹ cr)	7,546
Net Debt (₹ cr)	210
Beta	0.2
52 Week High / Low	845/587
Avg. Daily Volume	20,316
Face Value (₹)	2
BSE Sensex	33,812
Nifty	10,442
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)

Promoters	38.9
MF / Banks / Indian Fls	24.9
FII / NRIs / OCBs	9.4
Indian Public / Others	26.9

Abs.(%)	3m	1yr	3yr
Sensex	7.4	27.1	22.9
Blue Star	5.3	13.5	138.4

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2018 Performance

Y/E March (₹cr)	4QFY18	4QFY17	% chg. (yoy)	3QFY18	% chg. (qoq)	FY2018	FY2017	% chg
Net Sales	1,476	1,369	7.8	981	50.4	4,741	4,385	8.1
Net raw material	1025.1	979	4.8	641	59.8	3247.3	3112.25	4.3
(% of Sales)	69.5	71.5	(200)	65.4	409	68.5	71.0	
Employee Cost	108	90	19.8	101	6.4	398	339	17.3
(% of Sales)	7.3	6.6	73	10.3	(302)	8.4	7.7	
Other Expenses	253	229	10.4	187	35.0	819	712	15.2
(% of Sales)	17.1	16.7	41	19.1	(195)	17.3	16.2	
Total Expenditure	1,386	1,297	6.8	930	49.0	4,464	4,163	7.2
Operating Profit	90	72	25.6	51	75.7	276	222	24
OPM (%)	6.1	5.2	87	5.2	88	5.83	5.07	76
Interest	11	11	(5.6)	7	45.7	29	38	(23.9)
Depreciation	18	17	10.3	17	6.1	64	61	5.3
Other Income	4	7	(48.9)	4	7.3	22	35	(35.7)
PBT	65	51	26.6	30	114.6	206	159	29.9
(% of Sales)	4.4	3.8		3.1		4.3	3.6	
Tax	19	13	39.3	9	99.2	55	37	48.8
(% of PBT)	28.5	25.9		30.7		26.5	23.1	
Reported PAT	46	38	22.1	21	121.4	151	122	24.2
PATM	3.1	2.8		2.1		3.2	2.8	
Minority Interest	0	0		0		0	0	
P/L of Ass. Co.	(1)	(1)		(2)		(2)	1	
Extra-ordinary Items	5					4	-	
PAT after MI & P/L Asso.Co.	51	37	37.8	19	172.8	145	123	18.1
Adj PAT	47	37	27.4	19	152.1	145	123	18.1

Source: Company, Angel Research

Key investment arguments

Cooling Products division – the backbone for growth: Company is expecting a +20% (expected to outperform the market 15-20%) growth in FY19 in the cooling products division. Company is expecting a strong growth in this summer and the market is expected to further grow 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 comprising four models currently in FY19. 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 help the company to boost sales.

Wide distribution network: Blue Star has a strong presence in the South and West and is now planning to increase its presence in North. Hence, company has already increased their 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 LTD in India over 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 ₹6080cr over FY18-20E on the back of healthy demand growth in air conditioning and unitary products division. On the bottom-line front, we estimate ~21% CAGR to ₹213cr owing to improvement in volumes. **We maintain our Buy recommendation 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
Total operating income	4,385	4,741	5,352	6,080
% chg	13.5	8.1	12.9	13.6
Total Expenditure	4,163	4,464	5,031	5,703
Raw Material	3,112	3,247	3,645	4,134
Personnel	339	398	460	535
Others Expenses	712	819	926	1,034
EBITDA	222	276	321	377
% chg	39.0	24.2	16.2	17.4
(% of Net Sales)	5.1	5.8	6.0	6.2
Depreciation & Amortisation	61	64	71	78
EBIT	162	213	250	299
% chg	57.2	31.3	17.8	19.4
(% of Net Sales)	3.7	4.5	4.7	4.9
Interest & other Charges	38	29	29	29
Other Income	35	22	20	20
(% of PBT)	21.8	10.8	8.3	6.9
Share in profit of Associates	-	-	-	-
Recurring PBT	159	206	242	290
% chg	19.7	29.9	17.2	20.1
Tax	37	55	65	78
(% of PBT)	23.1	26.5	27.0	27.0
PAT (reported)	122	151	176	212
Minority Interest (after tax)	0	0	0	0
Profit/Loss of Associate Company	1	(2)	1	1
Extraordinary Items	-	4	-	-
ADJ. PAT	123	145	177	213
% chg	12.2	18.1	22.0	20.0
(% of Net Sales)	2.8	3.1	3.3	3.5
Basic EPS (Rs)	12.8	15.1	18.5	22.2
Fully Diluted EPS (₹)	12.8	15.1	18.5	22.2
% chg	12.2	18.1	22.0	20.0

Consolidated Balance Sheet

Y/E March (₹cr)	FY2017	FY2018E	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	19	19	19	19
Reserves & Surplus	738	796	867	952
Shareholders Funds	757	815	886	971
Minority Interest	1	1	1	1
Total Loans	221	371	371	371
Deferred Tax Liability	24	24	24	24
Total Liabilities	1,004	1,212	1,283	1,368
APPLICATION OF FUNDS				
Gross Block	359	399	439	479
Less: Acc. Depreciation	72	135	206	284
Net Block	288	264	233	195
Capital Work-in-Progress	34	34	34	34
Investments	79	79	79	79
Current Assets	2,141	2,472	2,773	3,116
Inventories	596	831	953	1,083
Sundry Debtors	939	1,039	1,173	1,333
Cash	97	81	101	111
Loans & Advances	390	402	428	474
Other Assets	120	119	118	116
Current liabilities	1,670	1,769	1,969	2,189
Net Current Assets	471	703	804	927
Deferred Tax Asset	132	132	132	132
Mis. Exp. not written off	-	-	-	-
Total Assets	1,004	1,212	1,282	1,367

Consolidated Cash flow Statement

Y/E March (₹cr)	FY2017	FY2018E	FY2019E	FY2020E
Profit before tax	159	206	242	290
Depreciation	61	64	71	78
Change in Working Capital	(105)	(247)	(81)	(113)
Interest / Dividend (Net)	19	29	29	29
Direct taxes paid	2	(55)	(65)	(78)
Others	(26)	0	0	0
Cash Flow from Operations	159	(3)	194	206
(Inc.)/ Dec. in Fixed Assets	(107)	(40)	(40)	(40)
(Inc.)/ Dec. in Investments	177	0	0	0
Cash Flow from Investing	69	(40)	(40)	(40)
Issue of Equity	7	0	0	0
Inc./(Dec.) in loans	6	150	0	0
Dividend Paid (Incl. Tax)	(2)	(87)	(106)	(128)
Interest / Dividend (Net)	(185)	(7)	(28)	(28)
Cash Flow from Financing	(174)	56	(134)	(156)
Inc./(Dec.) in Cash	54	12	20	10
Opening Cash balances	15	68	81	101
Closing Cash balances	68	81	101	111

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
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
Per Share Data (₹)				
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
Returns (%)				
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
Turnover ratios (x)				
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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Disclosure of Interest Statement Nilkamal

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| 1. Analyst ownership of the stock | No |
| 2. Angel and its Group companies ownership of the stock | No |
| 3. Angel and its Group companies' Directors ownership of the stock | No |
| 4. Broking relationship with company covered | 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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