

Blue Star Ltd

Performance Update

	3QFY19	3QFY18	% chg. (yoy)	2QFY19	% chg. (qoq)
Net Sales	1,099	932	17.9	1,032	6.5
Operating profit	35	42	(17.1)	58	(39.4)
OPM (%)	3.2	4.6	(135bp)	5.6	(243bp)
Adj. PAT	4	13	(69.8)	23.8	(83.0)

Source: Company, Angel Research

For 3QFY2019, Blue Star posted results below our expectations on the bottom-line front. The company reported ~18% yoy top-line growth, whereas PAT was down ~70% yoy due to losses in JV and higher interest cost.

Strong revenue growth across segments boosted top-line: The company's top-line grew ~18% yoy at ₹1,099cr on the back of strong performance in EMP business (up ~16% yoy) driven by the increased pace of execution of projects, and a pick-up in the central air conditioning business, especially chillers and VRF systems. Further, the revenue of Unitary Products business increased by ~22% yoy due to strong growth in deep freezers and storage water coolers in the commercial refrigeration business coupled with growth in the air coolers and water purifiers businesses. Sales grew in the RAC segment by ~8% yoy, thus increasing the market share to ~12.5%. Professional Electronics and Industrial Systems business' revenue grew ~16% yoy during the quarter.

Adj. PAT de-grew ~70% yoy: On the operating front, the company's margins contracted by 135bps yoy on the back of weak margin in the UCP segment due to increasing pricing pressure and higher consumer financing cost. The bottom-line registered de-growth of ~70% yoy to ₹4cr on account of higher interest cost (₹14.5cr) and losses in International JV.

Outlook & Valuation: We forecast Blue Star to report top-line CAGR of ~12% to ₹5,871cr over FY2018-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~17% CAGR to ₹198cr 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
Net Sales	4,385	4,648	5,178	5,871
% chg	13.5	6.0	11.4	13.4
Net Profit	123	144	135	198
% chg	12.2	17.0	(6.1)	46.1
OPM (%)	5.1	5.7	6.1	6.3
EPS (Rs)	12.8	15.0	14.1	20.6
P/E (x)	46.0	39.3	41.8	28.6
P/BV (x)	7.5	6.9	6.5	6.0
RoE (%)	16.3	17.7	15.6	20.8
RoCE (%)	16.5	17.0	19.6	22.0
EV/Sales (x)	1.3	1.3	1.1	1.0

BUY

CMP	₹589
Target Price	₹867
Investment Period	12 Months

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	5,605
Net Debt (₹ cr)	210
Beta	0.2
52 Week High / Low	843/507
Avg. Daily Volume	18,198
Face Value (₹)	2
BSE Sensex	35,876
Nifty	10,746
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)	
Promoters	38.8
MF / Banks / Indian Fls	22.1
FII / NRIs / OCBs	10.2
Indian Public / Others	29.0

Abs. (%)	3m	1yr	3yr
Sensex	2.5	5.5	53.0
Blue Star	3.1	(20.5)	75.6

3-year price chart



Source: Company, Angel Research

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Exhibit 1: 3QFY2019 Performance

Y/E March (` cr)	3QFY19	3QFY18	% chg. (yoy)	2QFY19	% chg. (qoq)	9MFY19	9MFY18	% chg
Net Sales	1,099	932	17.9	1,032	6.5	3,639	3,293	10.5
Net raw material	837.7	678	23.6	704.7	18.9	2733	2450.5	11.5
(% of Sales)	76.2	72.7	350	68.3	795	75.1	74.4	
Employee Cost	107	101	5.2	106	0.7	312	290	7.7
(% of Sales)	9.7	10.9	(117)	10.3	(55)	8.6	8.8	
Other Expenses	120	110	8.2	164	(26.9)	357	351	1.7
(% of Sales)	10.9	11.9	(97)	15.8	(497)	9.8	10.7	
Total Expenditure	1,064	890	19.6	974	9.2	3,402	3,091	10.1
Operating Profit	35	42	(17.1)	58	(39.4)	237	201	18
OPM (%)	3.2	4.6	(135)	5.6	(243)	6.51	6.12	40
Interest	13	7	78.2	12	12.3	37	18	104.5
Depreciation	18	17	5.9	17	7.9	51	46	12.5
Other Income	10	4	191.3	5	110.3	24	17	43.4
PBT	14	21	(33.7)	34	(58.8)	173	155	11.8
(% of Sales)	1.3	2.3	(43.8)	3.3		4.8	4.7	
Exceptional Items				(2.7)				
Tax	1	6	(83.0)	8	(87.4)	41	41	0.4
(% of PBT)	7.0	27.2		22.8		23.9	26.6	
Reported PAT before MI & Extra Ord. Items	13	16	(15.3)	24	(44.7)	132	113	16.0
PATM	1.2	1.7		2.3		3.6	3.4	
Minority Interest	0	0		(4)		0	0	
P/L of Ass. Co.	(14)	(2)		(4)		(21)	(1)	
Extra-ordinary Items	5			(0)		(4)	0	
Reported PAT	4	13	(69.8)	24	(83.0)	107	112	(5.0)

Source: Company, Angel Research

Key investment arguments

Cooling Products division – the backbone of growth: Company is estimating more than 20% growth (outperforming the market at 15-20% growth) in FY2019E in the cooling products division. Further, considering the strong growth in last summer, the market is expected to be further driven by the rise in demand over the coming months.

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 FY2019, having four models currently. The company is planning to launch one high wall-cordless split AC model around the same time. Moreover, 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, the 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 ~12% to ₹5,871cr over FY2018-20E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~17% CAGR to ₹198cr 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
Total operating income	4,385	4,648	5,178	5,871
% chg	13.5	6.0	11.4	13.4
Total Expenditure	4,163	4,382	4,862	5,501
Raw Material	3,112	3,229	3,526	3,992
Personnel	339	398	445	517
Others Expenses	712	756	891	992
EBITDA	222	266	316	370
% chg	39.0	19.6	18.8	17.1
(% of Net Sales)	5.1	5.7	6.1	6.3
Depreciation & Amortisation	61	64	71	78
EBIT	162	202	245	292
% chg	57.2	24.9	21.2	19.1
(% of Net Sales)	3.7	4.3	4.7	5.0
Interest & other Charges	38	29	50	40
Other Income	35	17	29	22
(% of PBT)	21.8	8.9	12.9	8.0
Share in profit of Associates	-	-	-	-
Recurring PBT	159	190	224	274
% chg	19.7	20.0	17.7	22.2
Tax	37	49	60	74
(% of PBT)	23.1	26.0	27.0	27.0
PAT (reported)	122	141	164	200
Minority Interest (after tax)	0	0	0	0
Profit/Loss of Associate Company	1	2	24	2
Extraordinary Items	-	5	4	-
ADJ. PAT	123	144	135	198
% chg	12.2	17.0	(6.1)	46.1
(% of Net Sales)	2.8	3.1	2.6	3.4
Basic EPS (₹)	12.8	15.0	14.1	20.6
Fully Diluted EPS (₹)	12.8	15.0	14.1	20.6
% chg	12.2	17.0	(6.1)	46.1

Consolidated Balance Sheet

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
SOURCES OF FUNDS				
Equity Share Capital	19	19	19	19
Reserves & Surplus	738	796	850	929
Shareholders Funds	757	815	869	948
Minority Interest	1	1	1	1
Total Loans	221	371	380	380
Deferred Tax Liability	24	24	24	24
Total Liabilities	1,004	1,211	1,274	1,354
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	2,425	2,719	3,049
Inventories	596	815	922	1,046
Sundry Debtors	939	1,019	1,135	1,287
Cash	97	81	134	147
Loans & Advances	390	394	414	458
Other Assets	120	116	114	112
Current liabilities	1,670	1,732	1,903	2,113
Net Current Assets	471	693	816	937
Deferred Tax Asset	132	132	132	132
Mis. Exp. not written off	-	-	-	-
Total Assets	1,004	1,211	1,274	1,354

Consolidated Cash flow Statement

Y/E March (₹cr)	FY2017	FY2018	FY2019E	FY2020E
Profit before tax	159	190	224	274
Depreciation	61	64	71	78
Change in Working Capital	(105)	(238)	(70)	(107)
Interest / Dividend (Net)	19	29	50	40
Direct taxes paid	2	(49)	(60)	(74)
Others	(26)	0	0	0
Cash Flow from Operations	159	(4)	214	211
(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	9	0
Dividend Paid (Incl. Tax)	(2)	(86)	(81)	(119)
Interest / Dividend (Net)	(185)	(7)	(49)	(39)
Cash Flow from Financing	(174)	57	(121)	(158)
Inc./(Dec.) in Cash	54	12	53	14
Opening Cash balances	15	68	81	134
Closing Cash balances	68	81	134	147

Key Ratios

Y/E March	FY2017	FY2018	FY2019E	FY2020E
Valuation Ratio (x)				
P/E (on FDEPS)	46.0	39.3	41.8	28.6
P/CEPS	31.0	27.6	24.1	20.3
P/BV	7.5	6.9	6.5	6.0
Dividend yield (%)	1.3	1.5	1.4	2.1
EV/Sales	1.3	1.3	1.1	1.0
EV/EBITDA	25.6	22.1	18.4	15.7
EV / Total Assets	5.7	4.9	4.5	4.2
Per Share Data (₹)				
EPS (Basic)	12.8	15.0	14.1	20.6
EPS (fully diluted)	12.8	15.0	14.1	20.6
Cash EPS	19.0	21.3	24.4	29.0
DPS	7.5	9.0	8.5	12.3
Book Value	78.9	84.9	90.5	98.7
Returns (%)				
ROCE	16.5	17.0	19.6	22.0
Angel ROIC (Pre-tax)	20.2	19.7	23.7	26.5
ROE	16.3	17.7	15.6	20.8
Turnover ratios (x)				
Asset Turnover (Gross Block)	12.2	11.6	11.8	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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Disclosure of Interest Statement

	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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