

## Blue Star Ltd

### Performance Update

	4QFY19	4QFY18	% chg. (yoy)	3QFY19	% chg. (qoq)
<b>Net Sales</b>	1,596	1,346	18.5	1,099	45.2
Operating profit	107	60	76.9	35	203.8
OPM (%)	6.7	4.5	221	3.2	349
<b>Adj. PAT</b>	82	28	198.5	4.0	1,932.9

Source: Company, Angel Research

For 4QFY2019, Blue Star posted results above our expectations on both top-line & bottom-line front. The company reported 18.5% yoy top-line growth and PAT was up ~199% yoy due to strong operating performance and one-time deferred tax credit recognized by the Company's subsidiary Blue Star Engineering & Electronics Ltd.

**Strong revenue growth across segments boosted top-line:** The company's top-line grew 18.5% yoy at ₹1,596cr on the back of strong performance in EMP business (up ~21% yoy) driven by increased pace of execution of projects in the Electro-Mechanical projects business and enhanced sales of chillers and VRF systems in the Commercial Air conditioning business. Further, the revenue of Unitary Products business increased by ~19% 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 ~3% yoy, thus increasing the market share to ~12.3%. However, Professional Electronics and Industrial Systems business' revenue de-grew ~11% yoy during the quarter.

**Adj. PAT grew ~199% yoy:** On the operating front, the company's margins improved by 221bps yoy on the back of price hike. The bottom-line registered growth of ~199% yoy to ₹82cr due to strong operating performance and one-time deferred tax credit recognized by the Company's subsidiary Blue Star Engineering & Electronics Ltd.

**Outlook & Valuation:** We forecast Blue Star to report top-line CAGR of ~13% to ₹6,680cr over FY2019-21E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~14% CAGR to ₹246cr 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)	FY2018	FY2019	FY2020E	FY2021E
<b>Net Sales</b>	<b>4,648</b>	<b>5,235</b>	<b>5,891</b>	<b>6,680</b>
% chg	6.0	12.6	12.5	13.4
<b>Net Profit</b>	<b>144</b>	<b>188</b>	<b>205</b>	<b>246</b>
% chg	17.0	30.5	8.9	20.2
OPM (%)	5.7	6.4	6.5	6.8
<b>EPS (Rs)</b>	<b>15.0</b>	<b>19.6</b>	<b>21.3</b>	<b>25.6</b>
P/E (x)	46.5	35.6	32.7	27.2
P/BV (x)	8.1	7.5	6.8	6.2
RoE (%)	17.3	21.0	20.9	22.8
RoCE (%)	16.7	20.9	23.0	25.8
EV/Sales (x)	1.5	1.3	1.2	1.0
EV/EBITDA (x)	26.2	20.5	17.8	15.0

Source: Company, Angel Research Note: CMP as of May 3, 2019

## BUY

CMP	₹ 698
Target Price	₹ 867
Investment Period	12 Months

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	6,759
Net Debt (₹ cr)	210
Beta	0.2
52 Week High / Low	830/507
Avg. Daily Volume	18,198
Face Value (₹)	2
BSE Sensex	38,655
Nifty	11,619
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR IN

Shareholding Pattern (%)	
Promoters	38.8
MF / Banks / Indian FIs	21.6
FII / NRIs / OCBs	7.6
Indian Public / Others	32.1

Abs.(%)	3m	1yr	3yr
Sensex	6.6	10.8	53.2
Blue Star	15.9	(11.3)	64.9

### 3-year price chart



Source: Company, Angel Research

**Amarjeet S Maurya**

022-39357800 Ext: 6831

amarjeet.maurya@angelbroking.com

**Exhibit 1: 4QFY2019 Performance**

Y/E March (₹ cr)	4QFY19	4QFY18	% chg. (yoy)	3QFY19	% chg. (qoq)	FY2019	FY2018	% chg
<b>Net Sales</b>	<b>1,596</b>	<b>1,346</b>	<b>18.5</b>	<b>1,099</b>	<b>45.2</b>	5235	4639	12.8
Net raw material	1198.4	1,005	19.3	837.7	43.1	3931	3455	13.8
(% of Sales)	75.1	74.6	48	76.2	(113)	75.1	74.5	
Employee Cost	109	108	1.2	107	2.4	421	398	6.0
(% of Sales)	6.8	8.0	(117)	9.7	(286)	8.1	8.6	
Other Expenses	182	174	4.5	120	51.8	548	520	5.3
(% of Sales)	11.4	12.9	(152)	10.9	49	10.5	11.2	
<b>Total Expenditure</b>	<b>1,489</b>	<b>1,286</b>	<b>15.8</b>	<b>1,064</b>	<b>40.0</b>	<b>4,901</b>	<b>4,373</b>	<b>12.1</b>
<b>Operating Profit</b>	<b>107</b>	<b>60</b>	<b>76.9</b>	<b>35</b>	<b>203.8</b>	<b>334</b>	<b>266</b>	<b>26</b>
OPM (%)	6.7	4.5	221	3.2	349	6.38	5.73	65
Interest	11	11	2.7	13	(16.0)	48	29	66.6
Depreciation	24	18	29.5	18	29.7	75	64	17.4
Other Income	6	9	(33.4)	10	(41.7)	40	22	79.4
<b>PBT</b>	<b>78</b>	<b>40</b>	<b>93.2</b>	<b>14</b>	<b>451.2</b>	<b>251.14</b>	<b>195.57</b>	<b>28.4</b>
(% of Sales)	4.9	3.0	63.0	1.3		4.8	4.2	
Exceptional Items								
Tax	1	8	(92.0)	1	(33.3)	42	49	(15.0)
(% of PBT)	0.8	20.4		7.0		16.7	25.3	
<b>Reported PAT before MI &amp; Extra Ord. Items</b>	<b>78</b>	<b>32</b>	<b>140.5</b>	<b>13</b>	<b>487.5</b>	<b>209</b>	<b>146</b>	<b>43.1</b>
PATM	4.9	2.4		1.2		4.0	3.2	
Minority Interest	0	0		0		0	0	
P/L of Ass. Co.	2	(1)		(14)		-19	-2	
Extra-ordinary Items	2	(4)		5		-2	-4	
<b>Reported PAT</b>	<b>82</b>	<b>28</b>	<b>198.5</b>	<b>4</b>	<b>1,932.9</b>	<b>188</b>	<b>140</b>	<b>34.2</b>

Source: Company, Angel Research

### Outlook & Valuation:

We forecast Blue Star to report top-line CAGR of ~13% to `6,680cr over FY2019-21E on the back of healthy demand growth in Air Conditioning and Unitary Products division. On the bottom-line front, we estimate ~14% CAGR to `246cr 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)	FY2018	FY2019	FY2020E	FY2021E
<b>Total operating income</b>	<b>4,648</b>	<b>5,235</b>	<b>5,891</b>	<b>6,680</b>
% chg	6.0	12.6	12.5	13.4
<b>Total Expenditure</b>	<b>4,382</b>	<b>4,901</b>	<b>5,508</b>	<b>6,226</b>
Raw Material	3,229	3,931	4,006	4,543
Personnel	398	421	518	601
Others Expenses	756	548	984	1,082
<b>EBITDA</b>	<b>266</b>	<b>334</b>	<b>383</b>	<b>454</b>
% chg	19.6	25.6	14.6	18.6
(% of Net Sales)	5.7	6.4	6.5	6.8
Depreciation & Amortisation	64	75	79	87
<b>EBIT</b>	<b>202</b>	<b>259</b>	<b>304</b>	<b>367</b>
% chg	24.9	28.2	17.3	20.7
(% of Net Sales)	4.3	5.0	5.2	5.5
Interest & other Charges	29	48	41	41
Other Income	17	40	22	22
(% of PBT)	8.9	15.9	7.7	6.3
Share in profit of Associates	-	-	-	-
<b>Recurring PBT</b>	<b>190</b>	<b>251</b>	<b>285</b>	<b>347</b>
% chg	20.0	32.0	13.3	22.1
Tax	49	42	80	97
(% of PBT)	26.0	16.7	28.0	28.0
<b>PAT (reported)</b>	<b>141</b>	<b>209</b>	<b>205</b>	<b>250</b>
Minority Interest (after tax)	0	0	0	1
Profit/Loss of Associate Company	2	19	-	3
Extraordinary Items	5	2	-	-
<b>ADJ. PAT</b>	<b>144</b>	<b>188</b>	<b>205</b>	<b>246</b>
% chg	17.0	30.5	8.9	20.2
(% of Net Sales)	3.1	3.6	3.5	3.7
<b>Basic EPS (₹)</b>	<b>15.0</b>	<b>19.6</b>	<b>21.3</b>	<b>25.6</b>
<b>Fully Diluted EPS (₹)</b>	<b>15.0</b>	<b>19.6</b>	<b>21.3</b>	<b>25.6</b>
% chg	17.0	30.5	8.9	20.2

### Consolidated Balance Sheet

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	19	19	19	19
Reserves & Surplus	812	877	959	1,057
<b>Shareholders Funds</b>	<b>831</b>	<b>896</b>	<b>978</b>	<b>1,076</b>
Minority Interest	2	1	1	1
Total Loans	376	345	345	345
Deferred Tax Liability	25	24	24	24
<b>Total Liabilities</b>	<b>1,234</b>	<b>1,261</b>	<b>1,344</b>	<b>1,449</b>
<b>APPLICATION OF FUNDS</b>				
<b>Gross Block</b>	<b>529</b>	<b>439</b>	<b>489</b>	<b>539</b>
Less: Acc. Depreciation	137	208	287	374
<b>Net Block</b>	<b>392</b>	<b>232</b>	<b>203</b>	<b>165</b>
Capital Work-in-Progress	25	34	34	34
Investments	13	79	79	79
Current Assets	2,659	2,715	3,019	3,468
Inventories	833	932	1,049	1,190
Sundry Debtors	1,100	1,147	1,291	1,464
Cash	81	101	131	166
Loans & Advances	518	419	459	521
Other Assets	126	115	88	127
Current liabilities	1,974	1,930	2,122	2,430
<b>Net Current Assets</b>	<b>685</b>	<b>785</b>	<b>897</b>	<b>1,038</b>
<b>Deferred Tax Asset</b>	<b>119</b>	<b>132</b>	<b>132</b>	<b>133</b>
Mis. Exp. not written off	-	-	-	-
<b>Total Assets</b>	<b>1,234</b>	<b>1,261</b>	<b>1,344</b>	<b>1,449</b>

### Consolidated Cash flow Statement

Y/E March (` cr)	FY2018	FY2019	FY2020E	FY2021E
Profit before tax	206	251	285	347
Depreciation	64	75	79	87
Change in Working Capital	(194)	(80)	(82)	(106)
Interest / Dividend (Net)	22	48	41	41
Direct taxes paid	(45)	(42)	(80)	(97)
Others	(23)	0	0	0
<b>Cash Flow from Operations</b>	<b>24</b>	<b>252</b>	<b>243</b>	<b>273</b>
(Inc.)/ Dec. in Fixed Assets	(99)	(40)	(50)	(50)
(Inc.)/ Dec. in Investments	7	0	0	0
<b>Cash Flow from Investing</b>	<b>(93)</b>	<b>(40)</b>	<b>(50)</b>	<b>(50)</b>
Issue of Equity	13	0	0	0
Inc./(Dec.) in loans	150	(32)	0	0
Dividend Paid (Incl. Tax)	(86)	(113)	(123)	(148)
Interest / Dividend (Net)	(23)	(47)	(41)	(41)
<b>Cash Flow from Financing</b>	<b>53</b>	<b>(192)</b>	<b>(163)</b>	<b>(188)</b>
Inc./(Dec.) in Cash	(16)	20	30	35
<b>Opening Cash balances</b>	<b>97</b>	<b>81</b>	<b>101</b>	<b>131</b>
<b>Closing Cash balances</b>	<b>81</b>	<b>101</b>	<b>131</b>	<b>166</b>

### Key Ratios

Y/E March	FY2018	FY2019	FY2020E	FY2021E
<b>Valuation Ratio (x)</b>				
P/E (on FDEPS)	46.5	35.6	32.7	27.2
P/CEPS	32.7	23.6	23.6	19.8
P/BV	8.1	7.5	6.8	6.2
Dividend yield (%)	1.3	1.7	1.8	2.2
EV/Sales	1.5	1.3	1.2	1.0
EV/EBITDA	26.2	20.5	17.8	15.0
EV / Total Assets	5.7	5.4	5.1	4.7
<b>Per Share Data (₹)</b>				
EPS (Basic)	15.0	19.6	21.3	25.6
EPS (fully diluted)	15.0	19.6	21.3	25.6
Cash EPS	21.3	29.6	29.6	35.2
DPS	9.0	11.7	12.8	15.4
Book Value	86.6	93.4	101.9	112.1
<b>Returns (%)</b>				
ROCE	16.7	20.9	23.0	25.8
Angel ROIC (Pre-tax)	18.1	24.4	27.3	31.2
ROE	17.3	21.0	20.9	22.8
<b>Turnover ratios (x)</b>				
Asset Turnover (Gross Block)	8.8	11.9	12.0	12.4
Inventory / Sales (days)	64	65	65	65
Receivables (days)	80	80	80	80
Payables (days)	95	93	90	91
Working capital cycle (ex-cash) (days)	49	52	55	54

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.com

Website: www.angelbroking.com

## DISCLAIMER

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd. It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

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%)
--------------------	-------------------------------------	---	--------------------