

BLUE STAR LTD.
22-Sep-16
Result Update

CMP	525
Target Price	615
Previous Target Price	560
Upside	17%
Change from Previous	-

Market Data

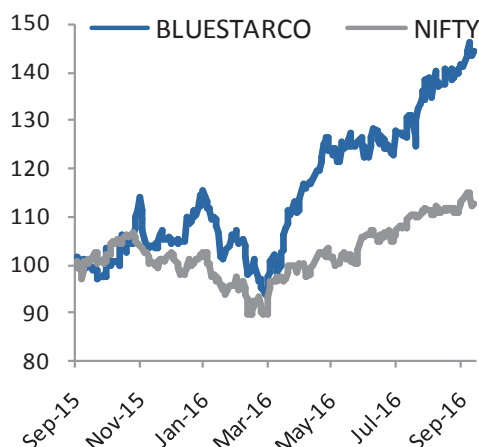
BSE Code	500067
NSE Symbol	BLUESTARCO
52wk Range H/L	444/306
Mkt Capital (Rs Cr)	3,056
Av. Volume	10724
Nifty	8777

Stock Performance

	1Month	3 Month	1Year
Absolute	7.0	51.7	30.9
Rel.to Nifty	6.3	36.2	16.1

Share Holding Pattern-%

	1QFY17	4QFY16	3QFY16
Promoter	39.0	39.5	39.5
Public	61.0	60.5	60.5
Others	--	--	--
Total	100.0	100.0	100.0

Company Vs NIFTY

Blue star: Maintain to grow 10% more than the market

Blue Star sees market growing 20% this festive season i.e. October to December and always company has maintained this that they will grow by 10% more than the market, So company expects 30% growth in this festive season.

The normal monsoon in most parts of the country is likely to enhance demand for unitary products, especially from Tier 3/4/5 towns. Middle class consumer spends continue to be on the rise and the festive season is anticipated to trigger greater sales of consumer durables. Though the Electro-Mechanical projects business as well as the Professional Electronics & Industrial Systems business remains slow-growing due to flat investment, the Unitary Products business is expected to drive overall growth. The addition of new product lines such as water purifiers, air purifiers and air coolers will further help the Company to maintain revenue growth and better results for the rest of the year.

Signs exclusive distributor agreement with AI-Futtaim Technology:

Company signed an agreement with AI-Futtaim Technology for exclusive distributorship of its Air Handling Units, Fan Coil Units, Chillers and Variable Refrigerant Flow (VRF) Systems across the UAE that look long and successful relationship going forward.

Recent Management commentaries:

Company has increased market share in room air conditioner business and commercial refrigeration products like water coolers and deep freezers.

Outlook and Valuation

Gaining market share in Room Air Conditioner and bringing up a consumer focus in the unitary cooling products is the key highlights in the business of Blue Star. The electro-mechanical projects business has been showing signs of improvement in some markets and application segments, though the overall market continues to be sluggish. Blue Star's 100% Inverter VRF (Variable Refrigerant Flow) has gained wide acceptance across national and international markets. Going forward we are seeing decent growth in the topline of the company and expect 18% topline growth in FY17E. Company's new agreement with AI-Futtaim will also help to increase revenue growth. Due to above mention reasons we have positive view on stock, we find current price is attractive and maintain "BUY" recommendation. We have raised our target price from Rs 560 to Rs 615.

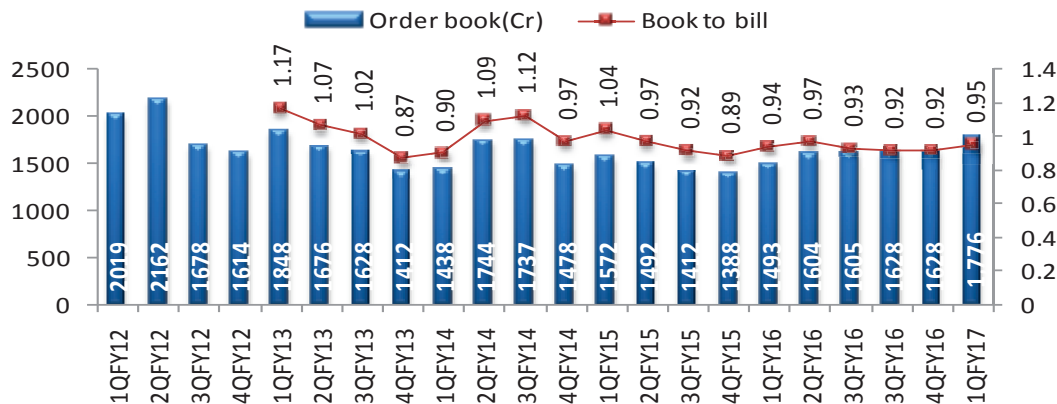
	Rs 'Cr				
Financials	FY13	FY14	FY15	FY16	FY17E
Sales	2924	2934	3182	3770	4446
EBITDA	90	150	167	216	245
Net Profit	39	78	54	109	144
EBIDTA%	3.1%	5.1%	5.3%	5.7%	5.5%
P/E	1%	3%	2%	3%	3%

(Source: Company/Eastwind)

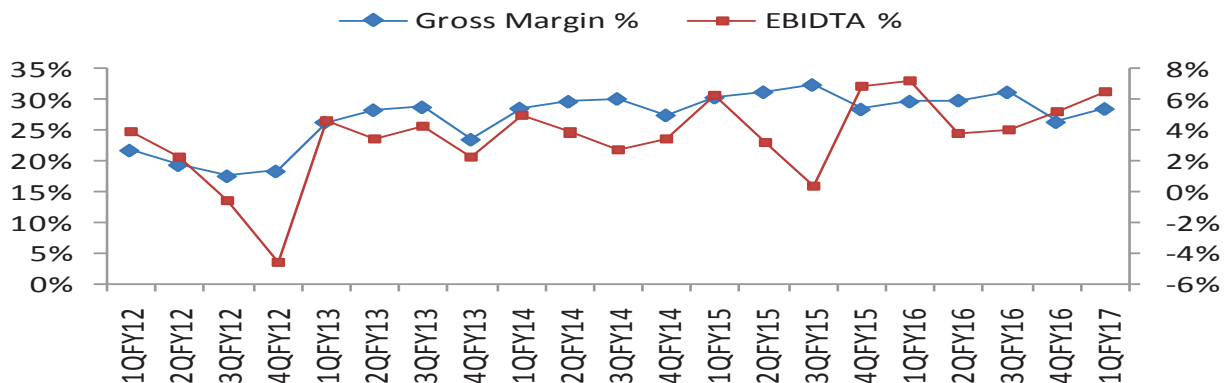
Investment Arguments :

- The wide product range including state-of-the-art inverter split air conditioners, enhanced distribution reach and premium brand equity will further strengthen the performance of the product business.
- The electro-mechanical projects business has been showing signs of improvement in some markets and application segments.
- With additional product lines being added to the Company's portfolio such as water purifiers, Blue Star expects air coolers and air purifiers, to sustain its growth momentum in FY17 as well.
- Substantial repayment of debt would be constrained by working capital needs as the company expects strong growth in FY17.
- The company's room air conditioning (RAC) business has been outgrowing the industry by 10% points over the last few quarters, resulting in the company consistently increasing its market share.

Business Performance :



Trend of EBITDA , EBIT & PAT Margin(%):



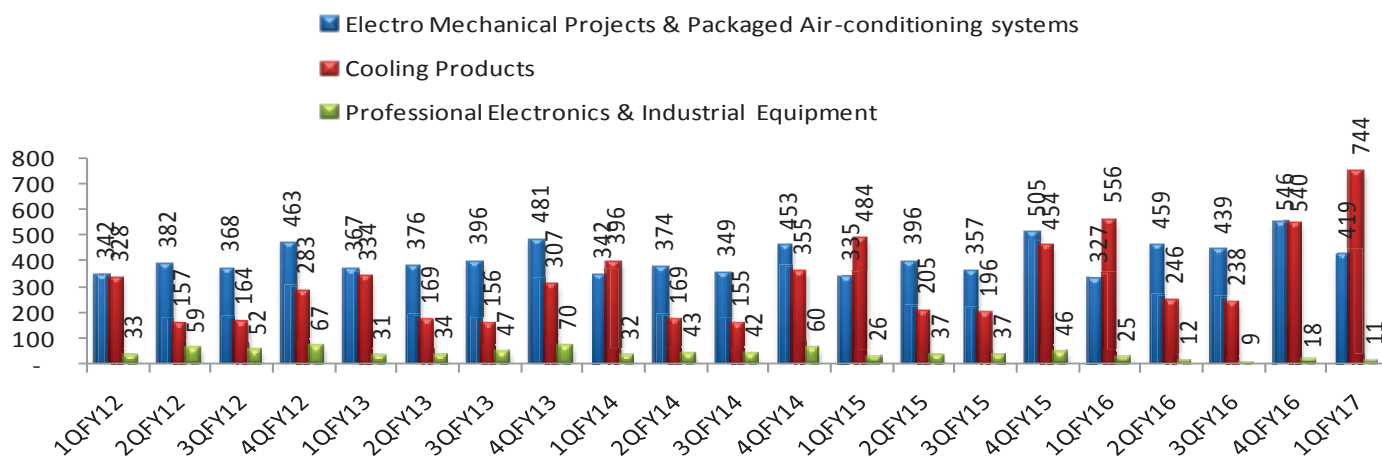
1QFY17 Concall highlights:

- Electro Mechanical Projects will grow by 20%.
- Cooling Products will grow 10% faster than the market. In previous quarter company expect the same growth so previous quarter market grew by 27% and Bluestar by 34%.
- Inverter's contribution on total sales is 20% and this segment grew by 27%.
- VRF system will grow 10-15%
- VRF market size and market share are 1300-1400 cr and 12-13% respectively
- Order intake grew by 35%
- Tax rate will be 21-22%
- Capex plan for maintenance will be Rs 40-50 Cr
- Company awarded by some orders from Mumbai metro.

Segment wise performance

- The Electro-Mechanical Projects and Packaged Air Conditioning Systems business, accounting for 36% of the total revenues in the quarter, increased by 28% to Rs 419 crores owing to conversion of higher order book in select segments and increase in billing from new projects, booked over last six months
- The Unitary Products revenues, comprising 61% of the total revenues of the Company in the quarter increased by a healthy 34% to Rs 744 crores. The room air conditioner business performed impressively driven by a harsh summer, with the largest range of star-rated inverter split air conditioners. Further, commercial refrigeration products such as water coolers, bottled water dispensers and glass top freezers witnessed significant demand. Enhanced product penetration amongst the existing channels coupled with a comprehensive range and aggressive promotional activities contributed to the growth and profitability in this segment.
- The Professional Electronics and Industrial Systems business revenues dipped by 16% to Rs 34.78 crores, while Segment Results registered a decline of 38% to Rs 4.42 crores owing to sluggish order inflow and general market slowdown.

Segment wise Revenue(Cr)



Financials Snap Shot

INCOME STATEMENT

	FY14	FY15	FY16	FY17E
Revenue (Net of Excise D	2934	3182	3770	4446
Other Income	18	8	17	27
Total Revenue	2952	3190	3787	4473
COGS	2087	2214	2607	3172
GPM	1	1	1	1
Other Expenses	450	533	600	689
EBITDA	150	167	216	245
EBITDA Margin (%)	5%	5%	6%	6%
Depreciation	38	43	60	53
EBIT	113	124	156	192
Interest	54	49	43	44
PBT	76	43	135	176
Tax	2	-8	27	32
Tax Rate (%)	3%	-19%	20%	18%
Reported PAT	78	54	109	144
Dividend Paid	21	42	68	68
No. of Shares	9	9	9	9

Source: Eastwind/Company

RATIOS

	FY14	FY15	FY16	FY17E
EPS	8.6	6.0	12.1	16.0
Book Value	51.2	50.7	73.7	62.9
DPS	2.3	4.7	7.6	7.6
Payout (incl. Div. Tax.)	0.3	0.8	0.6	0.5
Valuation(x)				
P/E	23.3	51.1	28.1	26.0
Price / Book Value	3.9	6.1	4.6	6.6
Dividend Yield (%)	1%	2%	2%	2%
Profitability Ratios				
RoE	17%	12%	16%	25%
RoCE	24%	26%	23%	33%
Turnover Ratios				
Asset Turnover (x)	1.3	1.5	1.5	1.6
Debtors (No. of Days)	95.9	82.3	80.5	80.5
Inventory (No. of Days)	81.5	78.9	75.6	70.0
Creditors (No. of Days)	103.2	101.5	105.9	103.5
Net Debt/Equity (x)	0.0	0.1	0.0	0.0

Source: Eastwind/Company

BALANCE SHEET

	FY14	FY15	FY16	FY17E
Share Capital	18	18	18	18
Reserves	443	438	472	548
Net Worth	461	456	663	566
Long term Debt	0	24	18	18
Short term Debt	494	373	345	366
Deferred Tax	2	1	2	2
Total Capital Employed	461	479	681	584
Net Fixed Assets	271	279	285	297
Capital WIP	1	2	6	6
Debtors	771	718	831	980
Cash & Bank Balances	68	44	54	57
Trade payables	830	885	1094	1261
Total Provisions	73	88	46	45
Net Current Assets	491	311	417	321
Total Assets	2336	2175	2590	2750

Source: Eastwind/Company

CASH FLOW STATEMENT

	FY14	FY15	FY16	FY17E
OP/(Loss) before Tax	76	43	135	176
Depreciation	38	43	60	53
Direct Taxes Paid	-19	-26	-52	-32
Operating profit before w	171	186	191	272
CF from Op. Activity	67	215	242	174
Capital expenditure on fix	-40	-60	-55	-65
CF from Inv. Activity	11	-49	-44	-80
Repayment of Long Term	0	25	0	0
Interest Paid	-54	-50	-43	-44
Divd Paid (incl Tax)	-27	-39	-107	-68
CF from Fin. Activity	-26	-190	-205	-91
Inc/(Dec) in Cash	52	-24	-7	4
Add: Opening Balance	17	68	44	54
Closing Balance	68	44	54	57

Source: Eastwind/Company