



<b>Report Date</b>	January 31, 2008.
<b>Company Name</b>	<b>Blue Star Ltd. (BSL)</b>
<b>Recommendation</b>	<b>BUY</b>

<b>CMP – Rs. 490.45</b>	<b>Target Price – Rs. 600/-</b>	<b>Mkt. Cap. Rs. 4411.6 crore</b>
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### Investment Rationale

- BSL, the airconditioning and commercial refrigeration major, has reported impressive performance for Q3 FY08. Net Sales grew @39.1% to Rs.514.88 crore on back of excellent growth of all its business segments. Central Air-Conditioning Systems (CAC) grew @36.4% to Rs.376.8 crore, while Cooling Products business grew @44.8% to Rs.100.34 crore and Professional Electronics was up 53% to Rs.37.74 crore. OPM% improved significantly to 10.8% (6.4%) on account of lower raw material costs and controlled expenses. PBIT % of all its businesses also grew impressively. PBIT% of CAC was up to 11.9% (7.4%), while PBIT% of Cooling Products business grew to 12.9% (6.1%) and that of Professional Electronics was up to 22.9% (19%). Higher sales coupled with improved margins led to 200% spurt in PBT to Rs.47.73 crore and 208.2% growth in PAT to Rs.35.44 crore.
- For 9 months ended December 2007, Net Sales grew @ 44.1% to Rs.1524.9 crore. OPM% improved to 10.6% (6.8%). Consequently, PBT zoomed by 168.2% to Rs.141.91 crore and PAT by 178.9% to RS.103.73 crore.
- BSL is market leader in India in institutional and commercial users for refrigeration and CAC solutions. CAC segment is expected to be the biggest growth driver for BSL over next few years. BSL is expected to be benefited immensely on account of commercial construction and real estate boom. BSL also enjoys preferred vendor status from its clients and this could lead to good repeat business. Key growth drivers for this segment would be growing presence of organised retail chains, branded eateries chain, malls, multiplexes, IT and ITeS setups, telecom, power generation, and growing construction boom.
- Cooling Product segment is also expected to boost revenues and profitability on back of increasing sales of split air conditioners and refrigeration products & systems driven by Cold Chain business. BSL is well positioned to leverage on booming demand in this business.
- BSL deals in wide range of sophisticated professional electronic equipment imported from world-renowned manufacturers and marketed in India catering to Healthcare, Manufacturing, R&D, Quality Control, Petrochemicals, etc. It is now expanding scope to offer solutions / application orientation around these basic products, with lots of indigenous content. It is very profitable and has lot of potential to offer complete systems.
- Recently, BSL acquired Naseer Electricals, electrical contracting firm based in Bangalore, with turnover of Rs 107 crore in FY 2007, with strong clientele base of IT, ITeS, infrastructure and retail space in South India. Growing Indian economy and the construction boom offer attractive business opportunities in the MEP (Mechanical, Electrical and Plumbing) contracting space. Moreover, many customers of Blue Star are seeking Electrical Contracting services from the Company. While BSL will continue to focus on its core businesses of airconditioning and commercial refrigeration as a manufacturer, contractor and service provider, it intends to further enhance its capabilities in the MEP space by entering Electrical Contracting through this transaction.

### Valuation

- At CMP of Rs. 490.45, share (Rs. 2/- paid up) is trading 27.9 times FY 2008 expected EPS of Rs.17.6 and 18.5 times FY 2009 expected EPS of Rs.26.6. In view of excellent future prospects in all business segments, we recommend to “BUY” the share at CMP.

### **Financial Summary**

**Rs. Crore**

	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>%</b>	<b>2007 A</b>
<b>Rs. Crore</b>	<b>Q3</b>			<b>9 months</b>			<b>12 mths</b>
			<b>Change</b>			<b>Change</b>	
Net Sales	514.88	370.13	<b>39.1%</b>	1,524.90	1,058.37	<b>44.1%</b>	1,601.28
Total Expenses	459.15	346.34	<b>32.6%</b>	1,362.85	985.91	<b>38.2%</b>	1,484.36
EBITDA	55.73	23.79	<b>134.3%</b>	162.05	72.46	<b>123.6%</b>	116.92
<b>EBITDA (%)</b>	<b>10.8%</b>	<b>6.4%</b>		<b>10.6%</b>	<b>6.8%</b>		<b>7.3%</b>
Interest Expenses / (Income)	1.57	2.16	<b>-27.3%</b>	5.38	6.59	<b>-18.4%</b>	9.55
Depreciation	5.54	5.80	<b>-4.5%</b>	15.76	14.67	<b>7.4%</b>	20.90
Other Income	0.11	0.42	<b>-73.8%</b>	1.00	1.71	<b>-41.5%</b>	6.13
P.B.T. before Extra Ordinary Items	48.73	16.25	<b>199.9%</b>	141.91	52.91	<b>168.2%</b>	92.60
Extra Ordinary Income / (Exp.)	-	-		-	-		-
P.B.T. after Extra Ordinary Items	48.73	16.25	<b>199.9%</b>	141.91	52.91	<b>168.2%</b>	92.60
Net Profit	35.44	11.50	<b>208.2%</b>	103.73	37.19	<b>178.9%</b>	71.18
Equity Capital (Rs 2/-)	17.99	17.99		17.99	17.99		17.99
EPS for the period (Rs)	3.94	1.28	<b>208.2%</b>	11.53	4.13	<b>178.9%</b>	7.91

**Disclosures**

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