



ACCUMULATE

Price	Rs357
Target Price	Rs383
Investment Period	12 Months

Stock Info

Sector	Consumer Durable
Market Cap (Rs cr)	3,211
Beta	0.6
52 WK High / Low	434 / 122
Avg. Daily Volume	24200
Face Value (Rs)	2

BSE Sensex	15,174
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Nifty	4,514
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BSE Code	500067
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NSE Code	BLUESTARCO
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Reuters Code	BLUS.BO
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Bloomberg Code	BLSTR@IN
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Shareholding Pattern (%)

Promoters	40.1
MF/Banks/Indian FIs	16.3
FII/ NRIs/ OCBs	8.0
Indian Public/others	35.6

Abs.	3m	1yr	3yr
Sensex (%)	33.1	10.0	42.1
BSL (%)	108.5	(3.6)	194.6

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Performance Highlights

- Top-line declines 14.5%:** Blue Star's (BSL) Top-line declined substantially by 14.5% yoy to Rs538.5cr (Rs629.8cr) in 1QFY2010, on account of a delay in project execution, due to the economic slowdown. Further, the decline in the Top-line was also on account of a considerable fall in realisations. The sales of the Central Air-conditioning Systems (CAS), which is the largest division of the company, declined by 15% to Rs323cr (Rs380.1cr). The Turnover of the Cooling Products (CP) division was also down by 11.5% to Rs190.9cr (Rs215.9cr). The Professional Electronics and Industrial Equipment (PEI) division faced the maximum decline in sales, of 29.4% to Rs24.7cr (Rs35cr).
- OPM at 11.4%:** Despite a disappointing performance in the Top-line, the company managed to clock a 9.4% yoy growth in its overall Operating Profit, on account of a substantial reduction in the input costs. The OPM for the quarter expanded by 248bp to 11.4%. The CAS division had an EBIT of Rs34cr (Rs43.1cr), down 21.1% yoy. The EBIT Margin of this division declined by 80bps to 10.5%, on account of a higher fall in realisations as compared to the fall in the cost of inputs. The EBIT Margin of the CP division stood at 17.3%, up 450bps yoy.
- Net Profit at Rs41.2cr:** BSL's Net Profit grew 13.1% yoy, during the quarter, to Rs41.2cr (Rs36.4cr). The Interest cost for the quarter declined by 79% to Rs0.4cr (Rs2cr). The company's Other Income also fell by 38.5% yoy to Rs1.7cr (Rs2.7cr).
- Order Book at Rs1,717cr:** BSL's order book at the end of the quarter stood at Rs1,717cr, up 21% yoy. The order inflow during the quarter stood at Rs903cr (Rs947cr in 1QFY2009). However, the company's order inflow grew on a sequential basis during the quarter, for the first time in four quarters.

Key Financials

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
Net Sales	2,222	2,569	3,151	3,832
% chg	39.3	15.6	22.6	21.6
Net Profit	174.1	180.1	198.7	245.8
% chg	144.6	3.4	10.4	23.7
OPM (%)	10.0	10.6	9.7	9.8
EPS (Rs)	19.4	20.0	22.1	27.3
P/E (x)	18.4	17.8	16.2	13.1
P/BV (x)	12.2	8.7	6.5	5.0
RoE (%)	66.1	48.7	40.1	38.0
RoCE (%)	66.2	53.3	48.8	49.1
EV/Sales (x)	1.5	1.3	1.0	0.9
EV/EBITDA (x)	14.5	12.0	10.6	8.7

Source: Company, Angel Research

Operational Highlights

During the quarter, the CAS division's revenue was down by 15% to Rs323cr (Rs380.1cr), while it clocked an EBIT Margin of 10.5%, down 80bps yoy. The company added that sales billed during the quarter included some old orders, which were priced at lower levels. The company expects the margins of this segment to improve going ahead.

The CP division's Top-line was down 11.5% to Rs190.9cr (Rs215.9cr), while it clocked an EBIT Margin of 17.3%, up 450bps yoy. The company indicated that the decline in the turnover of the CP division was on account of a production cut in room air conditioners, to avoid the problem of excess production that it faced in FY2009. Blue Star also added that it would be difficult for it to maintain the high margins recorded in this quarter, going ahead, but expected them to stabilise at healthy levels.

The PEI division's revenue was down 29.4% to Rs24.7cr (Rs35cr), while its EBIT Margin was up 1,320bps to 28.3%. The company's order book currently stands at Rs1,717cr, up 21% (Rs1,410cr in 1QFY2009).

Exhibit 1: Segment-wise Performance

Particulars	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Revenue (Rs cr)						
A) CAS	323.0	380.1	(15)	1,790.9	1,556.3	15.1
B) CP	190.9	215.9	(11.5)	603.9	532.4	13.4
C) PEI	24.7	35.0	(29.4)	174.1	144.3	20.7
Total	538.6	631.0	(14.5)	2,568.9	2,233.0	15.0
EBIT (Rs cr)						
A) CAS	34.0	43.1	(21.1)	213.1	189.7	12.3
B) CP	33.0	27.7	(19.1)	74.9	58.1	28.9
C) PEI	7.0	5.3	32.0	36.0	28.9	24.6
Total	74.0	76.1		324.0	276.9	17.0
EBIT Margin (%)						
A) CAS	10.5	11.3		11.9	12.2	
B) CP	17.3	12.8		12.4	10.9	
C) PEI	28.3	15.1		20.7	20.2	

Source: Company, Angel Research

Outlook and Valuation

The economic slowdown has resulted in a considerable decline in the demand for Air Conditioning systems and Cooling Products. Moreover, there has also been a delay in project execution on account of a deferment of the capex plans. While the Retail and IT sectors are the worst affected sectors, the demand from Infrastructure and other sectors like Hospitality, Education and Government continue to be robust. Going ahead, based on the guidance given by the management, we expect the company to clock a moderate growth in its business, on account of the improvement in Order inflows.

We expect the company's Top-line to grow at a CAGR of 22% over FY2009-11E. **At the CMP, the stock is trading at 13.1x FY2011E EPS and 5x FY2011E P/BV. We recommend an Accumulate view on the stock.**

Exhibit 2: 1QFY2010 Performance						
Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
Net Sales	538.5	629.8	(14.5)	2,568.9	2,221.6	15.6
Consumption of RM	394.9	478.1	(17.4)	1,949.8	1,690.9	15.3
(% of Sales)	73.3	75.9		75.9	76.1	
Staff Costs	46.4	47.9	(3.0)	182.3	144.7	26.0
(% of Sales)	8.6	7.6		7.1	6.5	
Other Expenses	36.0	47.9	(24.8)	164.4	163.0	0.9
(% of Sales)	6.7	7.6		6.4	7.3	
Total Expenditure	477.3	573.9	(16.8)	2,296.4	1,998.6	14.9
Operating Profit	61.2	56.0	9.4	272.5	223.0	22.2
OPM (%)	11.4	8.9		10.6	10.0	
Interest	0.4	2.0	(79.0)	13.6	7.6	78.3
Depreciation	8.2	5.7	44.7	25.9	22.0	17.6
Other Income	1.7	2.7	(38.5)	5.0	48.5	(89.7)
PBT (excl. Extr. Items)	54.3	51.0	6.4	238.0	241.9	(1.6)
Extr. (Income) / Expense	-	-		-		
PBT (incl. Extr. Items)	54.3	51.0	6.4	238.0	241.9	(1.6)
(% of Sales)	10.1	8.1		9.3	10.9	
Provision for Taxation	13.1	14.6	(10.3)	57.9	67.9	(14.6)
(% of PBT)	24.2	28.6		24.3	28.1	
Reported PAT	41.2	36.4	13.1	180.1	174.0	3.5
PATM (%)	7.6	5.8		7.0	7.8	
Equity Shares (cr)	18.0	18.0		18.0	18.0	
EPS (Rs)	4.6	4.0		20.0	19.3	

Source: Company, Angel Research



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Ratings (Returns) :	Buy (Upside > 15%) Reduce (Downside upto 15%)	Accumulate (Upside upto 15%) Sell (Downside > 15%)	Neutral (5 to -5%)
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