August 10, 2009
Volume 1, Issue 12

Informed Investor

A retail investor's take on the Indian stock markets

Monsoon Wet Blanket on India

Optimistic players in the stock markets have been betting on rural India driving growth after the recession hit the urban middle classes.

However it is now clear beyond doubt that the monsoons have been poor across the country. The Met department has indicated that rainfall deficiency for the country as a whole stood at around 25 per cent.

Such statistics are misleading since many parts of the country have received rainfall far below the median.

The only saving grace is that India has managed to build up a buffer stock of food grains.

However Indians will be at the mercy of global markets for pulses and sugar whose prices have run up quite a bit.

Food prices are soaring in a country where the bulk of people's incomes are spent on minimum nutrition.

================

Back Page

Investment Idea

Blue Star India Ltd

Rein in Portfolio (Mis)Managers

The biggest stock market scam going around is the so-called Portfolio Management Schemes (PMS) offered by various brokerages. High Net-Worth Individuals who have little time to keep an eye on their holdings are roped in to invest lakhs of rupees on PMS schemes by sweet-talking brokerage executives who then make merry with the money.

Anecdotal evidence from victims of the PMS fraudsters indicate that most of these (mis)managed portfolios fell far below the benchmark indices during the meltdown and did not come anywhere close to the recent market up move. The cumbersome contracts these operators enter into with investors give very little options to those who have seen their capital eroded as brokerages frequently 'churn' the portfolios of investors.

Shares are traded without the consent of the investors and often intra-day transactions carried out despite the benefits of long-term investing promised by the hard-selling executives. The fine-print in the contracts that brokerages shove down the throats of unsuspecting investors literally make them write away a part of their life savings to boiler room operatives.

It is only after a spate of lawsuits and sustained lobbying by organizations representing investors that SEBI has moved in to curb the excesses of the portfolio managers.

Among the first steps taken by the market regulator has been to make it mandatory for portfolio managers to keep separate accounts for clients. So far, brokerages have been pooling in the securities transacted by them on behalf of their portfolio investors. However unscrupulous portfolio managers passed on losses of their biggest investors to their smaller clients.

Investors' associations are now demanding that PMS operators provide their members with details of each transaction made on their account. Such a measure would surely expose the operators who enter and exit stocks rapidly to generate trading volumes and consequently brokerage fees.

SEBI may also regulate the Power of Attorney given to portfolio managers by their clients. The PoAs empowers the brokerages to buy, sell and otherwise dispose of shares on behalf of a client.

The prevailing practice of negotiating portfolio management fees individually with investors may also be curbed with SEBI proposing a ceiling on charges levied on investors. While normal brokerages charge 0.5 per cent on trades, portfolio managers charge as much as 3 per cent by way of commission in addition to fixed annual fees and performance incentives.

There have also been cases where brokerages charge a very low fee but take a percentage of the portfolio as their cut if it reaches a certain agreed target. However with the markets tanking since 2008, investors who opted for such arrangements have complained that managers actively 'churned' their portfolios so that their employers could earn brokerage fees from trading.

The ideal situation, then, would be to separate the portfolio manager's functions from the brokerage business so that the interest of the investor is not compromised to benefit the broker.■

BLUE STAR

BSE: 500067
NSE: BLUESTARCO
CMP (BSE): Rs 356.60

P/E (TTM): 18.70
ROCE: 73.09
ROE: 63
Dividend Yield (%): 1.91
52Wk H/L(Rs) 449.60/122.75
Debt/Equity: 0
3 Yr CAGR Sales (%): 34
3 Yr CAGR Profit (%): 62

Registered Office:
Blue Star India Ltd
Kasturi Building,
Mohan T Advani Chowk,
Jamshedji Tata Road,
Mumbai – 400 020
Phone: 022- 66654000
Fax: 022-66654151/2

Contact Person:
B. Thiagarajan
Email:
bthiagarajan@
bluestarindia.com

For regular updates on companies, stock info and analytical reports
JOIN
informed-investor
mailing list
To sign up send a mail with **Join** on the subject line to:
informed.investor.newsletter@gmail.com

A Cool Growth Story

Blue Star India Ltd is one of the capital goods companies that stand to benefit from the continuing infrastructure boom in the country thanks to strong project execution record and the established relationship it has with institutional buyers.

The company has emerged as India's largest central air-conditioning company and along with Voltas accounts for the major chunk of the air-conditioning, commercial refrigeration and cold chain equipment market in the country.

BSIL has now positioned itself as a complete end-to-end MEP (Mechanical, Electrical and Plumbing) solutions provider to institutional customers by venturing into electricals and plumbing as well.

Though BSIL has a presence in the highly competitive home air-conditioning and refrigeration market, it has consciously moved out of this segment due to its low margins and is concentrating on high value segments like central air-conditioning, commercial refrigeration, and cold storage equipment.

Today, BISL has emerged as India's largest central air conditioning company with a 30 per cent market share. Despite the slowdown in the economy, the management foresees continued potential for growth as commercial and office space get added in the country.

The company has been bagging orders from retail, hospitality, financial services companies, airports,etc. BSIL acquired Nasir Electricals in 2007 as buyers began to adopt global practices where MEP (Mechanical Air-conditioning, Electrical wiring and Plumbing) were bundled together by a single contractor.

BSIL's business may be broadly divided into Central Air-conditioning Systems, Cooling Products and Professional Electronics/Industrial Systems. The central air-conditioning business accounted for 70 per cent of its sales while cooling products accounted for a little more than 22 per cent in the last financial year. The last segment - Professional Electronics/Industrial Systems has been growing faster than other parts of the business and also offers the highest margins, according to the management.

Investment Rationale

BSIL has a nationwide footprint with several big names on its client list who offer it repeat business. Its clients include Infosys, Wipro, Bharti Airtel, DLF, Aditya Birla Retail and the major airport companies. Thanks to healthy cash flows, the company does not need to dilute equity or seek debt to fund its own growth. BSIL distributes more than 40 per cent of its profits as dividends.

Though its revenues declined by 14 per cent in the first quarter of the current financial year, BSIL has reported healthy order growth for the coming months. According to the management, its order backlog in the second quarter is up 22 per cent as compared to the year before at Rs 1720 cr. This is expected to increase as the Indian economy comes out of a recession. Orders to the tune of Rs 400 cr that has been delayed for the past several quarters may be revived as customers decide to increase capital expenditure. BSIL has also indicated that it would look for opportunities in the infrastructure sector.

According to the management, the company has also managed to obtain orders from government bodies in the last quarter.

Risks and Concerns

Going forward the company could face margin pressure if prices of commodities rise for any reason. Many of the contracts entered into by BSIL are fixed price contracts which would not allow it to pass on cost increases to its customers.

BSIL could also be badly affected in case of a prolonged downturn in the Indian economy since more than 70 per cent of its business comes from India.

Though retail and IT have been badly hit by the downturn, the management has indicated that the company would continue to benefit from the robust growth enjoyed by the hospitality and government sectors.

Blue Star India Ltd may be treated as a direct bet on the Indian economy. However any rise in inflation and higher interest rates could dampen earnings. ■

DISCLAIMER: STOCKS DISCUSSED IN THIS NEWSLETTER ARE PURELY FOR ILLUSTRATING THE INVESTMENT RATIONALE OF THE ANALYST UNDERTAKING THE EXERCISE AND DOES NOT CONSTITUTE INVITATION TO THE READER TO BUY, SELL, HOLD OR TAKE ANY POSITIONS WHATSOEVER ON THE ABOVE STOCKS. BE ADVISED THAT ANYONE INVESTING IN THE ABOVE STOCKS ARE DOING SO AT THEIR OWN RISK WITH NO LIABILITY WHATSOEVER ON THE PART OF THE OWNER, ANALYST OR MODERATOR OF THIS NEWSLETTER. INVESTORS SHOULD UNDERTAKE THEIR OWN RESEARCH BEFORE INVESTING IN ANY STOCK. THE INFORMED INVESTOR NEWSLETTER IS A COMPANION TO THE INFORMED INVESTOR MAILING LIST HOSTED PRESENTLY ON GOOGLEGROUPS. UNLESS OTHERWISE STATED, CONTENT IN THIS WORK IS LICENSED UNDER THE CREATIVE COMMONS ATTRIBUTION-NO DERIVATIVE WORKS 2.5 INDIA LICENSE.