

Blue Star

Performance Highlights

Y/E March (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Net Sales	589.7	604.7	(2.5)	613.4	(3.9)
EBITDA	(3.1)	13.6	(123.0)	47.3	(106.6)
OPM (%)	(0.5)	2.3	(278)bp	7.7	(824)bp
Adjusted PAT	(32.8)	(20.8)	57.5	22.4	(246.5)

Source: Company, Angel Research

For 3QFY2012, Blue Star reported a 3.9% yoy decline in its revenue to ₹590cr. OPM for the quarter fell by 824bp yoy and 278bp qoq to negative 0.5% due to higher raw-material cost and other expenditure. PAT declined by 247% yoy to negative ₹33cr. According to management, the current scenario is going to continue for the next two to three quarters owing to cost overruns. Thus, **we continue to maintain our Neutral recommendation on the stock.**

Top line declines, margin dips significantly: Blue Star reported a 3.9% yoy decline in its top line to ₹590cr in 3QFY2012. The decline in the company's revenue was on account of a 15.3% yoy decline in the electromechanical projects and packaged air conditioning systems (EMPPACS) segment to ₹368cr, which accounted for nearly 63% of the total revenue. The segment also reported an EBIT loss of ₹15cr in 3QFY2012 vs. profit of ₹29cr in 3QFY2011, negatively affecting margins. Owing to the losses in this segment, overall OPM declined by 824bp yoy to negative 0.5%. The company also reported forex loss of ₹14cr during the quarter. PAT came in at negative ₹33cr during the quarter.

Outlook and valuation: Demand from the key market segments has still not picked up. However, growth in the cooling products segment remains strong. Overall, management is not very optimistic and expects the current scenario to continue over the next two to three quarters. Management also expects a 5-6% yoy contraction in margin until 1QFY2013. **We have revised our estimates downwards and continue to maintain our Neutral stance on the stock.**

Key financials (Consolidated)

Y/E March (₹ cr)	FY2010	FY2011	FY2012E	FY2013E
Net sales	2,525	2,976	2,964	3,250
% chg	0.9	17.9	(0.4)	9.6
Net profit	211.5	158.3	(33.6)	111.8
% chg	15.0	(25.1)	(121.2)	(432.9)
EBITDA margin (%)	10.9	8.5	1.5	5.9
FDEPS (₹)	23.5	17.6	(3.7)	12.4
P/E (x)	7.3	9.7	(45.7)	13.7
P/BV (x)	3.1	3.0	3.2	2.8
RoE (%)	46.0	31.5	1.7	23.8
RoACE (%)	53.8	30.6	1.0	17.0
EV/Sales (x)	0.6	0.5	0.5	0.5
EV/EBITDA (x)	5.6	6.1	33.9	8.0

Source: Company, Angel Research

NEUTRAL

CMP	₹171
Target Price	-
Investment Period	-
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Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	1,535
Beta	0.4
52 Week High / Low	385 / 151
Avg. Daily Volume	20,517
Face Value (₹)	2
BSE Sensex	17,194
Nifty	5,199
Reuters Code	BLUS.BO
Bloomberg Code	BLSTR@IN

Shareholding Pattern (%)

Promoters	40.1
MF / Banks / Indian Fls	19.3
FII / NRIs / OCBs	8.1
Indian Public / Others	32.5

Abs.(%)	3m	1yr	3yr
Sensex	(2.9)	(6.2)	89.6
Blue Star	(17.5)	(49.2)	22.2

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Exhibit 1: 3QFY2012 performance (Standalone)

Y/E March (₹ cr)	3QFY12	2QFY12	% chg (qoq)	3QFY11	% chg (yoy)
Net Sales	590	605	(2.5)	613	(3.9)
Consumption of RM	416	433	(3.8)	419	(0.7)
(% of Sales)	70.6	71.6		68.4	
Staff Costs	53	50	5.1	52	1.1
(% of Sales)	8.9	8.3		8.5	
Other Expenses	124	108	14.4	95	30.9
(% of Sales)	21.0	17.9		15.4	
Total Expenditure	593	591	0.3	566	4.7
Operating Profit	(3)	14	(123.0)	47	(106.6)
OPM	(0.5)	2.3	(278)bp	7.7	(824)bp
Interest	22	31	(27.7)	8	179.4
Depreciation	8	8	1.3	8	0.7
Other Income	1	1	(41.2)	0	1,800.0
PBT (excl. Extr. Items)	(33)	(24)	36.7	31	(204.5)
Extr. Income/(Expense)	-	-		-	
PBT (incl. Extr. Items)	(33)	(24)	36.7	31	(204.5)
(% of Sales)	(5.6)	(4.0)		5.1	
Provision for Taxation	-	(3)	(100.0)	9	(100.0)
(% of PBT)	-	13.2		28.7	
Reported PAT	(32.8)	(20.8)	57.5	22.4	(246.5)
PATM	(5.6)	(3.4)	(212)bp	3.6	(920)bp
Equity shares (cr)	9.0	9.0		9.0	
EPS (₹)	(3.6)	(2.3)	57.5	2.5	(246.5)
Adjusted PAT	(32.8)	(20.8)	57.5	22.4	(246.5)

Source: Company, Angel Research

Segment-wise performance

The EMPPACS segment posted a decline of 15.3% yoy to ₹368cr in 3QFY2012, as debtor position remained challenging during the quarter as well. EBIT margin for the segment came in at negative 4.1% vs. positive 6.7% in 3QFY2011.

The cooling products segment posted strong growth of 28.1% yoy to ₹164cr, mainly driven by higher room AC and refrigeration product sales. However, EBIT margin contracted by 363bp yoy to 4.4%.

The professional electronics and industrial systems (PEIS) segment reported 16.0% yoy growth during the quarter to ₹52cr. EBIT margin for the segment came in at 22.5%, down 356bp yoy.

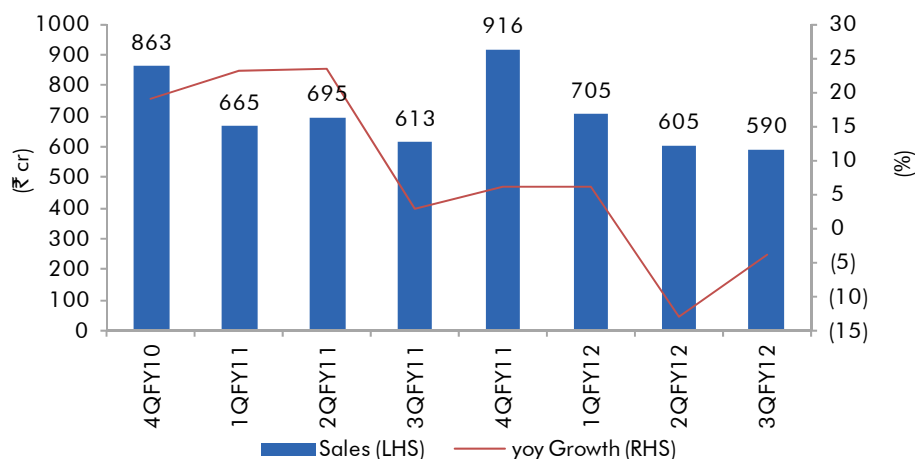
Exhibit 2: Segment-wise performance

Y/E March (₹ cr)	3QFY2012	2QFY2012	3QFY2011	% chg (qoq)	% chg (yoy)
Total Revenue					
A) EMPPACS	368	382	434	(3.9)	(15.3)
B) Cooling Products	164	157	128	4.3	28.1
C) PEIS	52	59	45	(12.5)	16.0
Total	583	599	607	(2.6)	(3.9)
Less: Inter-Segmental Revenue	-	-	-		
Net Sales	583	599	607	(2.6)	(3.9)
EBIT					
A) EMPPACS	(15)	(3)	29	345.2	(152.1)
B) Cooling Products	7	8	10	(15.7)	(30.0)
C) PEIS	12	17	12	(32.6)	0.2
EBIT Margin (%)					
A) EMPPACS	(4.1)	(0.9)	6.7	(324)bp	(1,084)bp
B) Cooling Products	4.4	5.4	8.0	(104)bp	(363)bp
C) PEIS	22.5	29.2	26.0	(667) bp	(356)bp

Source: Company, Angel Research

Sales decline by 3.9% yoy

In 3QFY2012, the company posted a 3.9% yoy decline in its top line, mainly due to weak demand and issues on the execution side. However, we expect the scenario to improve slightly in 2HFY2013.

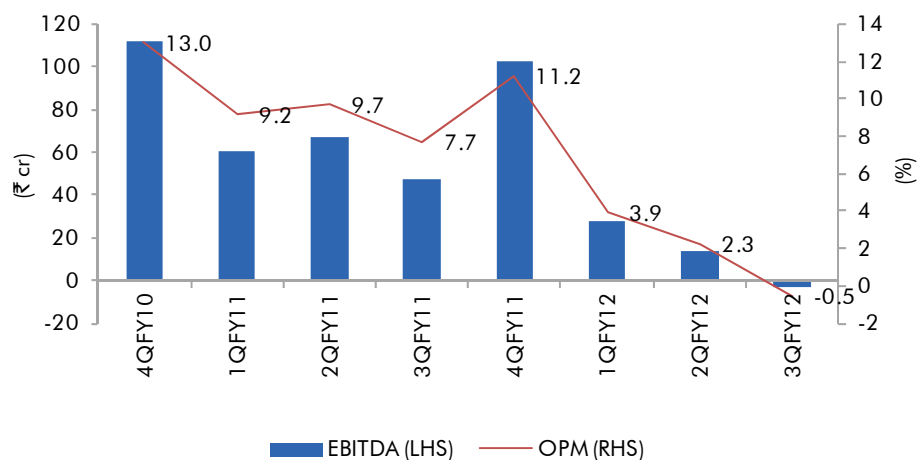
Exhibit 3: Sales trend


Source: Company, Angel Research

OPM declines significantly on the back of cost overruns

For 3QFY2012, Blue Star's OPM declined by 824bp yoy to negative 0.5%, mainly due to higher other expenditure and raw-material cost, which increased to 70.6% of sales compared to 68.4% in 3QFY2011. Going ahead, management expects the scenario to improve only after two to three quarters. Margins are expected to come down by 5-6% on a yoy basis on the back of project delays, cost overruns and higher raw-material prices.

Exhibit 4: OPM trend

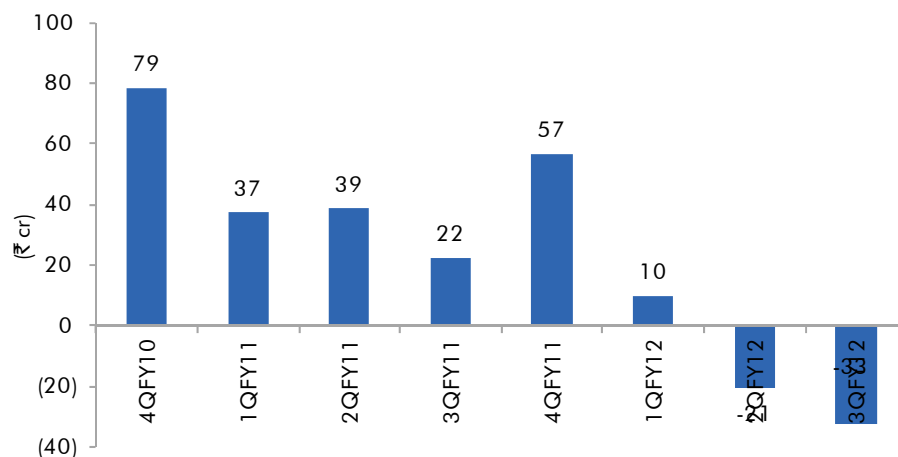


Source: Company, Angel Research

PAT negative on the back of forex loss

PAT declined by 247% yoy to negative ₹33cr during the quarter on the back of lower OPM and forex loss of ₹14cr. PAT margin declined by 920bp yoy to negative 5.6% vs. positive 3.6% in 3QFY2011.

Exhibit 5: PAT trend



Source: Company, Angel Research

Outlook and valuation

There are still no signs of pick-up in demand from the commercial real estate market. Consequently, the company continues to witness a challenging environment, as reflected by weak top-line growth in 3QFY2012. Overall, management is not very optimistic and expects the current scenario to continue over the next two to three quarters. Management also expects OPM to contract by 5-6% on a yoy basis until 1QFY2013. New orders are being accepted at higher margins of 10-11%, but will reflect post 1QFY2013.

Owing to the weak outlook and expected margin erosion, **we have revised our estimates downwards and maintain our Neutral recommendation on the stock.**

Profit and loss statement (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
Gross sales	2,552	2,558	3,006	2,994	3,282
Less: Excise duty	49.7	32.6	29.2	29.4	32
Net Sales	2,503	2,525	2,976	2,964	3,250
Other operating income	-	-	-	-	-
Total operating income	2,503	2,525	2,976	2,964	3,250
% chg	12.7	0.9	17.9	(0.4)	9.6
Total Expenditure	2,243	2,250	2,722	2,919	3,057
Net Raw Materials	1,874	1,882	2,287	2,457	2,567
Other Mfg costs	50	50	92	90	99
Personnel	182	185	215	214	235
Other	136	133	128	157	156
EBITDA	260	275	254	46	193
% chg	16.4	5.8	(7.4)	(82.1)	322.8
(% of Net Sales)	10.4	10.9	8.5	1.5	5.9
Depreciation & Amortisation	26	35	32	37	41
EBIT	234	240	223	9	152
% chg	16.3	2.7	(7.3)	(96.0)	1,583.2
(% of Net Sales)	9.3	9.5	7.5	0.3	4.7
Interest & other Charges	10	8	26	34	26
Other Income	22	31	34	34	34
(% of PBT)	8.9	11.9	14.6	401.4	21.2
Share in profit of Associates	-	-	-	-	-
Recurring PBT	246	263	231	8	159
% chg	1.5	6.9	(12.2)	(96.4)	1,791.4
% of Income	9.8	10.4	7.8	0.3	4.9
Extraordinary Expense/(Inc.)	-	14	0	(42)	(10)
PBT (reported)	246	277	231	(34)	149
Tax	58	65	73	-	37
(% of PBT)	23.6	23.5	31.5	-	25.0
PAT (reported)	188	211	158	(34)	112
Add: Share of earnings of associate	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-
Prior period items	-	-	-	-	-
PAT after MI (reported)	188	211	158	(34)	112
ADJ. PAT	188	198	158	8	122
% chg	26.0	5.2	(20.1)	(94.7)	1,348.3
(% of Net Sales)	7.5	7.8	5.3	0.3	3.7
Basic EPS (₹)	20.5	23.5	17.6	(3.7)	12.4
Fully Diluted EPS (₹)	20.5	23.5	17.6	(3.7)	12.4
% chg	5.7	15.0	(25.1)	(121.2)	(432.9)

Balance sheet (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
SOURCES OF FUNDS					
Equity Share Capital	18	18	18	18	18
Preference Capital	-	-	-	-	-
Reserves & Surplus	349	474	493	460	529
Shareholders' Funds	367	492	511	478	547
Minority Interest					
Total Loans	24	9	445	430	330
Deferred Tax Liability (Net)	1	(1)	(1)	(1)	(1)
Total Liabilities	391	499	955	906	876
APPLICATION OF FUNDS					
Gross Block	333	351	406	466	526
Less: Acc. Depreciation	145	180	212	248	290
Net Block	188	171	194	217	236
Capital Work-in-Progress	25	28	28	33	37
Goodwill	-	-	-	-	-
Investments	4	4	27	27	27
Current Assets	1,149	1,393	1,957	1,803	1,982
Cash	6	13	52	7	24
Loans & Advances	293	132	146	148	162
Inventories	207	258	404	403	430
Debtors	643	628	821	741	812
Other	-	361	533	504	552
Current liabilities	975	1,097	1,252	1,173	1,405
Net Current Assets	174	296	705	630	577
Mis. Exp. not written off	1	-	1	-	-
Total Assets	391	499	955	906	876

Cash flow statement (Consolidated)

Y/E March (₹ cr)	FY09	FY10	FY11	FY12E	FY13E
Profit before tax	242	277	231	(34)	149
Depreciation	26	35	32	37	41
(Inc.)/ Dec. in Working Capital	(29)	(114)	(370)	30	70
Less: Other income	22	31	34	34	34
Direct taxes paid	58	65	73	-	37
Cash Flow from Operations	159	101	(214)	(0)	190
(Inc.)/ Dec. in Fixed Assets	(67)	(22)	(55)	(64)	(64)
(Inc.)/ Dec. in Investments	-	-	(23)	-	-
Other income	22	31	34	34	34
Cash Flow from Investing	(45)	10	(44)	(30)	(30)
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	(13)	(15)	436	(15)	(100)
Dividend Paid (Incl. Tax)	74	84	74	-	42
Others	(25)	(4)	(65)	1	
Cash Flow from Financing	(111)	(103)	297	(14)	(142)
Inc./(Dec.) in Cash	3	8	39	(45)	17
Opening Cash balances	3	6	13	52	7
Closing Cash balances	6	13	52	7	24

Key ratios

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Valuation Ratio (x)					
P/E (on FDEPS)	8.3	7.3	9.7	(45.7)	13.7
P/E (on basic, reported EPS)	8.3	7.3	9.7	(45.7)	13.7
P/CEPS	7.3	6.6	8.1	34.1	9.4
P/BV	4.2	3.1	3.0	3.2	2.8
Dividend yield (%)	4.1	4.7	4.1	-	2.3
Market cap. / Sales	0.6	0.6	0.5	0.5	0.5
EV/Sales	0.6	0.6	0.5	0.5	0.5
EV/EBITDA	6.0	5.6	6.1	33.9	8.0
EV / Total Assets	4.0	3.0	2.0	2.1	2.1
Per Share Data (Rs)					
EPS (Basic)	20.5	23.5	17.6	(3.7)	12.4
EPS (fully diluted)	20.5	23.5	17.6	(3.7)	12.4
Cash EPS	23.3	25.8	21.1	5.0	18.1
DPS	7.0	8.0	7.0	-	4.0
Book Value	40.8	54.7	56.8	53.1	60.9
Du-Pont analysis (%)					
EBIT margin	9.3	9.5	7.5	0.3	4.7
Tax retention ratio	76.1	76.5	68.5	100.0	75.0
Asset turnover (x)	7.3	5.8	4.3	3.3	3.7
ROCE (Post Tax)	52.0	42.2	22.0	1.0	13.0
Cost of Debt (Post Tax)	24.9	39.7	7.7	7.9	5.2
Leverage (x)	0.1	0.0	0.4	1.3	1.0
Operating ROE	55.0	42.2	27.2	(7.6)	21.2
Returns (%)					
ROCE (Pre-tax)	67.3	53.8	30.6	1.0	17.0
Angel ROIC	73.0	58.7	33.4	1.0	18.0
ROE	59.5	46.0	31.5	1.7	23.8
Turnover ratios (x)					
Asset Turnover (Gross Block)	8.3	7.4	7.9	6.8	6.6
Asset Turnover (Net Block)	15.4	14.1	16.3	14.4	14.3
Operating Income / Invested Capital	7.8	6.2	4.5	3.4	3.9
Inventory / Sales (days)	36	34	41	50	47
Receivables (days)	82	92	89	96	87
Payables (days)	108	134	143	144	143
Working capital cycle (ex-cash) (days)	22	33	57	79	66
Solvency ratios (x)					
Gross debt to equity	0.1	-	0.9	0.9	0.6
Net debt to equity	-	-	0.1	0.1	0.1
Net debt to EBITDA	0.1	-	1.5	9.2	1.6
Interest Coverage (EBIT / Interest)	23.7	28.4	8.7	0.3	5.8

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Disclosure of Interest Statement	Blue Star
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	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%)
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