

Q3FY2012 Review
 Sector: Engineering
 BSE Sensex : 17,194

BLUE STAR

 Upgrade REDUCE
 CMP Rs170
 TP Rs173

In the last leg of pain

Blue Star reported disappointing results. Net sales declined by 4% to Rs5.8bn (PINCe Rs6.6bn). Execution of loss making orders and lower margins in cooling product division resulted in Blue Star reporting OPM of -0.5% as against 7.85% (YoY). Company reported a net loss of Rs328mn led by forex loss and low OPM. Adj. loss was Rs190mn (PINCe PAT of Rs102mn). Current order book stands at Rs21.6bn (flat QoQ).

New orders carry high margin

New orders bagged by the company carry higher margin. Current loss making projects are expected to get executed by Q2FY13 and H2FY13 onwards we would expect improvement in margins. In FY14, we believe the company would achieve high single digit margin (OPM). In Q3FY12, cost overrun in some of the projects and execution delays resulted into margin erosion. Sales declined by 15% to Rs3.7bn and incurred loss of Rs152mn (PBIT level). We believe margins to remain under pressure for the next 2-3 quarters as the company would continue to provide for cost overruns in certain projects under execution.

Cooling products division reported higher sales but lower margins

Cooling product division witnessed impressive sales growth of 28% to Rs1.6bn. High cost of raw material and increased competition continue to drag segmental margins which declined by 356bps to 5.4% (down 100bps QoQ). Margins are expected to settle at 8-8.5% in the long run. Professional Electronics & Industrial Systems performance was inline with our expectations. Sales grew by 16% to Rs520mn. Segment margins fell by 358bps to 22.5% mainly impacted by product mix.

VALUATIONS AND RECOMMENDATION

Focus on orders with high margin and better working capital would enable the company to improve its performance going ahead. We have revised our earning estimates for FY12E -13E and introduced FY14E. We have marginally reduced our sales estimates for FY12 by 2% and increased FY13E by 26% to factor in spill over of project sales to FY13 and higher sales in cooling products. Similarly, for FY12 we expect loss of Rs57mn (vs PAT of Rs428mn) and reduced our PAT estimates for FY13 by 1.5% to Rs1196mn to factor in cost overrun on spill over projects and reduced profitability in cooling division. We believe things to get incrementally better H2FY13 onwards post execution of loss making orders and increased inflow on account of expected improvement in the economy. Valuations are expected to gradually approach towards its historical average one year forward multiple (average of 18-19x) but at the same time we remain cautious & wait for more clarity to emerge in subsequent quarters in terms of order inflows and profitability and therefore, assign a multiple of 13x FY13E (earlier 10x FY13E). We upgrade the stock to 'REDUCE' with a revised target price of Rs173.

KEY FINANCIALS (CONSOLIDATED)

	(Rs mn)				
	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	25,494	29,761	29,113	37,687	41,340
YoY Gr. (%)	1.2	16.7	(2.2)	29.5	9.7
Op. Profits	2,992	2,544	476	2,299	3,621
OPM (%)	11.7	8.5	1.6	6.1	8.8
Adj. Net Profits	2,008	1,607	(57)	1,196	2,128
YoY Gr. (%)	17.3	(23.9)	(120.1)	-	78.0

KEY RATIOS

Adj. Dil. EPS (Rs)	22.3	17.9	(3.6)	13.3	23.7
ROCE (%)	62.5	36.0	2.6	18.0	26.5
ROE (%)	46.8	32.0	(1.2)	23.3	34.8
PER (x)	7.7	9.7	(271.5)	13.0	7.3
EV/ Net Sales (x)	0.6	0.7	0.7	0.6	0.5
EV/ EBITDA (x)	5.2	7.7	45.4	9.5	6.1

31 January 2012

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QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Jun-11	Sep-11	Dec-11
Net Sales	7,032	5,988	5,833
YoY Gr. (%)	0.1	(12.2)	(3.9)
Op. Profits	276	136	(31)
OPM (%)	3.9	2.3	(0.5)
Adj. Net Profits	98	(74)	(190)
YoY Gr. (%)	(73.0)	(119.2)	(246.5)

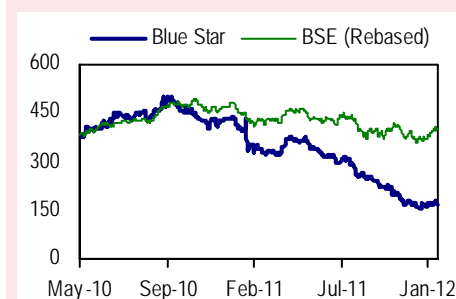
STOCK DATA

Market Cap	Rs15.6bn.
Book Value per share	Rs54.7
Eq Shares O/S (F.V. Rs2)	89.9mn.
Free Float	59.9%
Avg Traded Value (6 mnths)	Rs180mn
52 week High/Low	Rs400/151
Bloomberg Code	BLSTR IN
Reuters Code	BLUS.BO

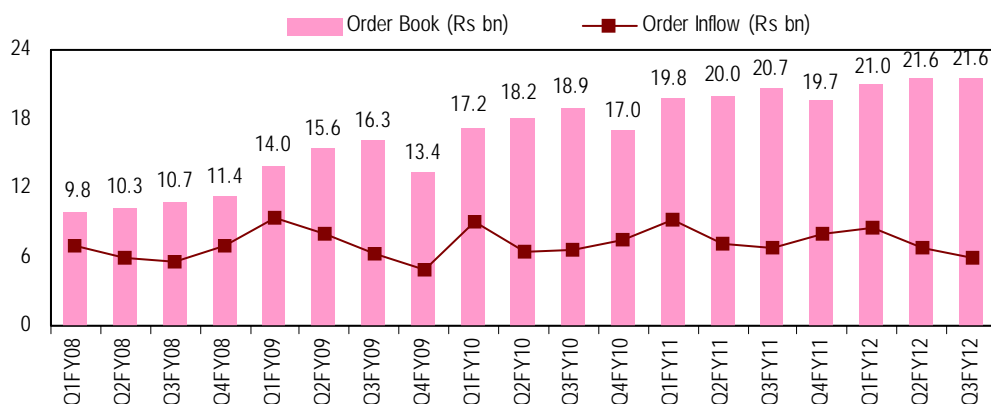
PERFORMANCE (%)

	1M	3M	12M
Absolute	(0.6)	(17.8)	(49.4)
Relative	(10.6)	(15.3)	(46.1)

RELATIVE PERFORMANCE



Order Book (Rs bn)



Source: Company & PINC Research

Segmental Result

Particulars (Rs mn)	Quarter Ended			Year Ended		
	Q3FY12	Q3FY11	Gr%	9MFY12	9MFY11	Gr%
Segment Revenue						
Electro Mech Projects	3,677	4,342	(15.3)	10,918	12,813	(14.8)
Cooling Products	1,637	1,278	28.1	6,487	5,226	24.1
Professional Electronics and Ind Sys.	520	448	16.0	1,447	1,445	0.1
Total	5,833	6,068	(3.9)	18,852	19,484	(3.2)
Segment Result (PBIT)						
Electro Mech Projects	(152)	292	(152.0)	(275)	1,061	(125.9)
Cooling Products	72	101	(29.5)	598	615	(2.7)
Professional Electronics and Ind Sys.	117	117	0.1	370	342	8.2
Total PBIT	37	510	(92.8)	693	2,017	(65.7)
Less: Interest	221	79	179.4	602	135	347.7
Net other un-allocable Exp	143	118	21.7	528	487	8.6
Total PBT	(328)	314	(204.5)	(438)	1,396	(131.4)
Capital Employed						
Electro Mech Projects	4,987	5,256	(5.1)	4,987	5,484	(9.1)
Cooling Products	2,329	1,113	109.2	2,329	1,842	26.4
Professional Electronics and Ind Sys.	677	638	6.2	677	638	6.2
Add: Un-allocable Capital Employed	(2,695)	(1,109)		(2,695)	(2,066)	30.5
Total	5,297	5,898	(10.2)	5,297	5,898	(10.2)
PBIT Margin (%)						
Electro Mech Projects	(4.1)	6.7	(1,086)	(2.5)	8.3	(1,079)
Cooling Products	4.4	7.9	(356)	9.2	11.8	(255)
Professional Electronics and Ind Sys.	22.5	26.1	(358)	25.5	23.6	191
Total	0.6	8.4	(778)	3.7	10.4	(668)
Net Sales Mix (%)						
Electro Mech Projects	63.0	71.6		57.9	65.8	
Cooling Products	28.1	21.1		34.4	26.8	
Professional Electronics and Ind Sys.	8.9	7.4		7.7	7.4	
Total	100.0	100.0		100.0	100.0	

Consolidated Financials

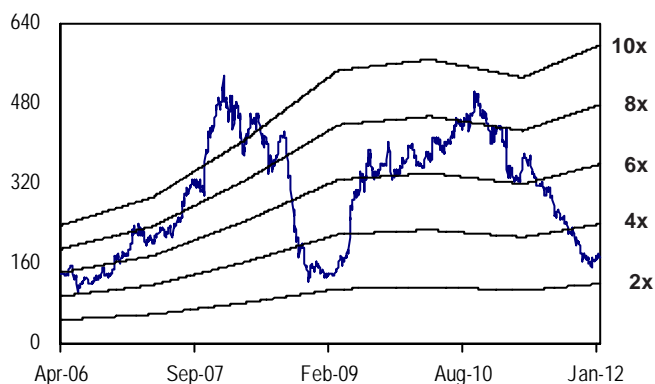
Income Statement	FY10	FY11	FY12E	FY13E	FY14E
Net Sales	25,494	29,761	29,113	37,687	41,340
Growth (%)	1.2	16.7	(2.2)	29.5	9.7
Operating Profit	2,992	2,544	476	2,299	3,621
Growth (%)	8.2	(15.0)	(81.3)	383.4	57.5
Other income	67	338	150	165	182
EBITDA	3,058	2,882	626	2,464	3,802
Growth (%)	8.7	(5.8)	(78.3)	293.9	54.3
Depreciation	347	319	361	415	467
EBIT	2,711	2,563	264	2,048	3,335
Interest paid	85	256	378	450	464
PBT (before E/o items)	2,627	2,307	(113)	1,598	2,871
E/o Income / (loss)	140	4	(360)	-	-
Tax provision	651	728	(123)	431	775
Net Profit	2,115	1,610	(324)	1,196	2,128
Growth (%)	17.3	(23.9)	(120.1)	(469.1)	78.0
Adjusted net profit	2,008	1,607	(57)	1,196	2,128
Adj Dil EPS (Rs)	22.3	17.9	(3.6)	13.3	23.7
Diluted EPS Growth (%)	11.4	(19.8)	(120.1)	(469.1)	78.0

Cash Flow Statement	FY10	FY11	FY12E	FY13E	FY14E
Pre-tax profit	2,766	2,311	(474)	1,598	2,871
Depreciation	347	319	361	415	467
Total tax paid	(732)	(845)	123	(431)	(775)
Chg in working capital	(1,278)	(2,969)	(1,692)	(810)	(1,326)
Other items	51	52	361	434	448
Cash from oper. (a)	1,155	(1,132)	(1,320)	1,206	1,685
Capital expenditure	(239)	(505)	(465)	(600)	(450)
Chg in investments	92	4	-	-	-
Other items	35	(767)	43	45	48
Cash flow from inv. (b)	(112)	(1,267)	(423)	(555)	(402)
Free cash flow (a+b)	1,043	(2,400)	(1,743)	652	1,283
Equity raised/ (repaid)	-	-	-	-	-
Debt raised/ (repaid)	(181)	3,769	1,896	188	203
Interest Paid	(85)	(252)	(378)	(450)	(464)
Dividend (incl. tax)	(737)	(839)	-	(490)	(871)
Other items	-	-	-	-	-
Cash flow from fin. (c)	(1,002)	2,677	1,518	(752)	(1,133)
Net chg in cash (a+b+c)	40	278	(224)	(100)	150

Balance Sheet	FY10	FY11	FY12E	FY13E	FY14E
Equity Share Capital	180	180	180	180	180
Reserves & surplus	4,737	4,933	4,609	5,315	6,571
Shareholders' funds	4,917	5,112	4,788	5,495	6,751
Total Debt	89	4,445	6,341	6,530	6,732
Deferred Tax liability	(15)	(7)	(7)	(7)	(7)
Capital Employed	4,991	9,550	11,122	12,017	13,476
Net fixed Assets	1,992	2,225	2,329	2,513	2,496
Cash & Cash Eq.	132	524	300	200	350
Net other current assets	2,825	6,529	8,221	9,031	10,357
Investments	42	272	272	272	272
Misc Exp.	-	-	-	-	-
Total assets	4,991	9,550	11,122	12,017	13,476

Key Ratios	FY10	FY11	FY12E	FY13E	FY14E
OPM (%)	11.7	8.5	1.6	6.1	8.8
Net margin (%)	7.9	5.4	(0.2)	3.2	5.1
Dividend yield (%)	4.6	4.0	-	2.7	4.8
Net debt/ Equity (x)	(0.0)	0.8	1.3	1.2	0.9
Net working capital (days)	81.5	145.1	144.0	121.0	121.0
Asset turnover (x)	5.1	3.1	2.6	3.1	3.1
ROCE (%)	62.5	36.0	2.6	18.0	26.5
RoE (%)	46.8	32.0	(1.2)	23.3	34.8
EV/Net sales (x)	0.6	0.7	0.7	0.6	0.5
EV/EBITDA (x)	5.2	7.7	45.4	9.5	6.1
PER (x)	7.7	9.7	-	13.0	7.3
Price/Book (x)	3.2	3.0	3.2	2.8	2.3

1-Year forward P/BV Band



T E A M

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Rating Objective		
Rating	Large Caps	Mid Caps
	M.Cap > USD1bn	M.Cap <= USD1bn
Return %		
BUY	More than 15	More than 20
Accumulate	5 to 15	10 to 20
Reduce	(-)5 to +5	0 to 10
Sell	Below (-)5	Less than 0



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