

12 May 2017

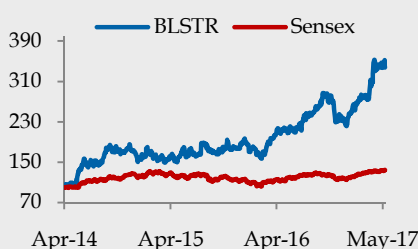
Industrials
Result Update
Key Statistics

CMP (INR)	665
Upside/downside (%)	14.7
Market Cap (INR/USD bn)	64/1.0
Shares outstanding (mn)	96
3 months avg volume	1,13,865
Divi. Yield (FY17, %), FV	1.1%/ INR 2
52 Wk high/low	724/402
Sensex/Nifty	30,188/9,401
Bloomberg Code	BLSTR IN

Performance (%)	1M	3M	12M
Absolute (%)	(0.4)	21.2	56.6
Rel. to Sensex (%)	5.9	23.2	44.9

Sh. Pattern, % (as on Mar-2017)

Promoter	39.1
FII	9.9
DII	20.1
Other	31.0
Total	100.0

Stock Price Performance*


* Rebased to 100 | Based on daily closing prices

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Solid performance, stable guidance

BSL posted an 18.5% rise in 4QFY17 consolidated net sales to INR 13.8bn supported by a 20%/18% growth in Unitary Products (UP)/ Electro Mechanical Projects (EMP) sales. Professional Electronics & Industrials Systems (PEIS) sales rose 8% to INR 568mn. EBIT margins in UP/EMP/PEIS were stable at/rose 185bps to/rose 529bps to 10.5%/4.8%/19.4%. EBITDAM was stable at 5.5%. Adjusted net profit fell by ~6% to INR 372mn; a result of lower other income (down 48% to INR 37mn) and higher effective tax rate (up 813bps to 26.4%). BSL would have grown 10 percentage points more than the industry in 4Q. **With a market share of ~11.5%, management expects to continue to outgrow the industry by 5-10 percentage points in FY18.**

- ✓ **Buoyant EMP, UCP sales:** EMP sales were higher by 18% supported by government infrastructure orders. The central plant equipment segment is witnessing early signs of recovery. BSL maintained its market share of ~12-13% in the VRF segment. EMP margins are guided to be in the 4.5%-5.5% range in FY18. UCP growth was supported by largest inverter ACs range (15% of sales vs. 12% for the industry), early summer, aggressive promotions, deeper product penetration and channel productivity.
- ✓ **Order book update:** Order book rose 21% YoY to INR 19.4bn. Expect Jaipur, Delhi Metro, Mumbai Metro (mostly mechanical orders as electrical orders are with civil contractors) orders in FY18.
- ✓ **GST impact:** If the GST rate is set at ~28%, then the AC prices may go up by 2.5-3%. Consumers and dealers may buy ACs before GST comes into effect (probable rollout in July'17) leading to good summer sales in 2017.
- ✓ **Air Coolers:** Target of 12-15% market share over the medium term (organized market size of INR 20 bn).
- ✓ **Upgrade to ACCUMULATE; TP of INR 763:** We expect a 14%/27% sales/earnings CAGR over FY17-19E. The room AC business continues to perform exceedingly well. EMP is yet to show signs of recovery. BSL is adding 5 new categories- in both B2B and B2C businesses. The same will bring down the seasonality element of the UCP segment. For example, for water purifiers the season starts just after the summers- the main season for the room AC business. And the prime season for air purifiers is in the winters. We are positive on the ways BSL is adding new categories and derisking its current business model. At CMP of INR 665, BSL trades at 32x FY19E Consol. EPS. **Upgrade to ACCUMULATE rating with a TP of INR 763.**

Year End (31 Mar)	FY15	FY16	FY17E	FY18E	FY19E
Revenues (INR mn)	31,819	38,298	44,008	50,534	57,413
Growth (%)	8.4	20.4	14.9	14.8	13.6
EBITDA (INR mn)	1,673	2,149	2,355	2,830	3,387
EBITDA Margin (%)	5.3	5.6	5.4	5.6	5.9
Adj. PAT (INR mn)	956	1,185	1,230	1,565	1,998
Adj. Net margin (%)	3.0	3.1	2.8	3.1	3.5
Dil. Adj. EPS (INR/ share)	10.0	12.4	12.9	16.4	20.9
Growth (%)	23.1	23.9	3.8	27.2	27.7
ROE (%)	21.0	17.9	16.3	19.0	21.8
Adj. P/E (x)	66.5	53.6	51.7	40.6	31.8
P/BV (x)	14.0	9.6	8.4	7.7	6.9
EV/EBITDA (x)	38.1	29.4	27.9	22.9	19.1

 Source: Company, YSL estimates; Note: Valuations as on 12th May 2017

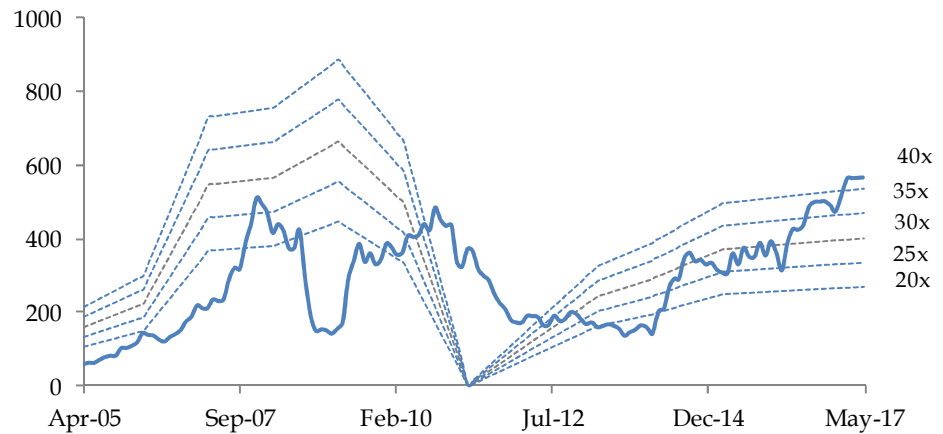
- ✓ **New UCP verticals: Residential electric water coolers-** soft launched in 3Q in Mumbai, Delhi, Bangalore, Pune, Nagpur, Chandigarh, Ahmedabad, Secunderabad. The category needs higher brand build spend. The brand building spends for new categories commenced in 3Q (INR 100 mn in 3Q) and would continue until at least 1HFY18.

Exhibit 1: Results of discontinued IT business included in the respective financials

Particulars consolidated (INR mn)	4QFY17	3QFY17	4QFY16	FY17	FY16
Income from Operations	-	-	-	-	2,051
Expenses	-	-	-	-	1,790
Profit before tax	-	-	-	-	261
Capital Employed	-	-	-	-	-

Source: Company, YSL

Exhibit 2: 1 year forward PE Band Chart



Source: Company, YSL

Key risks

- I. **Slowdown in capex:** Any slowdown in domestic capex could affect the rollout of industrial projects/premises, infrastructure projects. Also, any slowdown in real estate markets can affect the commercial, residential projects. The slowdown in capex can have a cascading effect on the performance of the EMP division and its order book/fresh order flows.
- II. **Competitive intensity in the AC segment:** The competitive intensity in the room AC segment can affect the overall profit pool of the players if some of the players resort to irrational pricing. Onslaught of MNC players/Korean Chaebols, imports from China, can erode the competitive strengths of the top players.

Exhibit 3: 4QFY17 Performance (Consolidated)

(INR mn)	4QFY17			FY17		
	Mar-17	Mar-16	% Chg	Mar-17	Mar-16	% Chg
Net Sales	13,718	11,571	18.6	43,877	37,980	15.5
Other operating income	38	36	5.4	131	159	(17.7)
Total Sales	13,756	11,606	18.5	44,008	38,138	15.4
Change in WIP	(864)	(1,402)		-169	-649	
Consumption of materials (incl. direct proj. cost)	7,105	6,446		21,893	19,117	
Purchase of stock in trade	3,548	3,442		9,402	7,073	
Excise	0	0	15.4			21.9
Employee cost	900	768	17.3	3,390	3,986	(14.9)
Other expenses	2,311	1,716	34.7	7,137	6,303	13.2
Total Expenditure	13,000	10,969	18.5	41,653	35,831	16.2
EBITDA	756	638	18.6	2,355	2,307	2.1
Depreciation	166	177	(6.1)	606	571	6.1
Operating Profit	590	461	28.0	1,749	1,736	0.7
Other Income	37	71	(47.7)	215	138	55.9
Profit/(loss) from JV/assoc.	(9)	7		13	9	
EBIT	619	539	14.7	1,977	1,883	5.0
Interest	113	108	4.8	378	432	(12.5)
Exceptional Items	0	(247)	-		-118	-
EBT	505	184	174.9	1,599	1,333	19.9
Provision for current tax	170	54	214.6	443	363	22.1
Provision for deferred tax	(37)	(20)		-77	-86	
Fringe benefits	0	0			0	
Tax provisions of earlier years	0	0			0	
Minority interest (profit)/ loss	(0)	(0)		-2	-9	
Net income	372	150	147.6	1,230	1,048	17.4
Adjustments	0	247		0	118	
Adjusted net income	372	397	(6.4)	1,230	1,166	5.5
Other Comprehensive income	(21)	(4)		-44	-11	
Total Comprehensive income	351	393	(10.8)	1,186	1,155	2.7
Equity Capital (F.V. Rs 2)	191	180		191	180	
EPS for the period (Rs)	3.9	4.4	(11.9)	12.9	13.0	(0.6)
Diluted EPS (Rs)	3.9	4.2	(6.4)	12.9	12.2	5.5
EBIDTA (%)	5.5	5.5	0	5.4	6.0	-70
OPM (%)	4.3	4.0	32	4.0	4.6	-58
NPM (%)	2.7	3.4	-71	2.8	3.0	-26
Expenditure (% of Net Sales)						
Consumption of materials	71.2	73.1	-195	70.7	67.0	376
Employee cost	6.5	6.6	-7	7.7	10.5	-275
Other expenses	16.8	14.8	202	16.2	16.5	-31
(% of Net Sales)						
Contribution	28.8	26.9	195	29.3	33.0	-376
Tax as a % of PBT	26.4	18.2	813	22.9	20.8	216
CEPS (Rs/share)	5.6	6.4		19.2	19.3	
Interest Coverage (x)	5.5	5.0		5.2	4.4	

Source: Company, YSL

Exhibit 4: 4QFY17 Segmental Performance (Consolidated)

(INR mn)	4QFY17	%	4QFY16	%	YoY (%)	FY17	%	FY16	%	YoY (%)
Electro Mechanical Projects & Services	6,797	49.1	5,745	49.2	18.3	22,337	50.5	18,760	48.9	19.1
Unitary products	6,471	46.8	5,401	46.3	19.8	19,996	45.2	15,797	41.2	26.6
Professional Electronics & Industrial Systems	568	4.1	528	4.5	7.5	1,915	4.3	1,690	4.4	13.3
Others		0.0		0.0		0	0.0	2,122	5.5	(100.0)
Total	13,836	100.0	11,674	100.0	18.5	44,247	100.0	38,368	100.0	15.3
Less: inter segment revenue						0		71		
Net segment revenue	13,836		11,674		18.5	44,247		38,298		15.5
EBIT										
Electro Mechanical Projects & Services	328	29.3	171	21.0	91.8	972	29.1	781	26.3	24.4
Unitary products	682	60.9	568	69.8	20.1	2,070	61.9	1,621	54.6	27.7
Professional Electronics & Industrial Systems	110	9.8	74	9.1	48.0	300	9.0	303	10.2	(1.2)
Others		0.0		0.0		0	0.0	261	8.8	(100.0)
Total EBIT	1,120	100.0	813	100.0	37.7	3,342	100.0	2,966	100.0	12.7
Less: interest	-113		-108			-378		-432		(12.5)
Other un-allocable expenditure	-493		-282			-1,377		1,091		(226.2)
Total PB Exceptional items & Tax	514		424		21.3	1,586		3,626		(56.2)
Exceptional items			-247			0		-118		
Prior period income						0		0		
PBT	514		177		191.1	1,586		3,507		(54.8)
EBIT/ sales (%)										
Electro Mechanical Projects & Services	4.8%		3.0%			4.4%		4.2%		
Unitary products	10.5%		10.5%			10.4%		10.3%		
Professional Electronics & Industrial Systems	19.4%		14.1%			15.7%		18.0%		
Others								12.3%		
EBIT / capital employed (%)										
Electro Mechanical Projects & Services	34.3%		20.1%			25.4%		23.0%		
Unitary products	118.8%		166.5%			90.1%		118.8%		
Professional Electronics & Industrial Systems	111.4%		94.7%			76.0%		96.7%		
Others								21.1%		
Capital employed										
Electro Mechanical Projects & Services	3,827	50.5	3,399	53.8	12.6	3,827	50.5	3,399	53.8	12.6
Unitary products	2,297	30.3	1,365	21.6	68.3	2,297	30.3	1,365	21.6	68.3
Professional Electronics & Industrial Systems	395	5.2	314	5.0	25.8	395	5.2	314	5.0	25.8
Others	1,064	14.0	1,236	19.6	(13.9)	1,064	14.0	1,236	19.6	(13.9)
Total	7,583	100.0	6,314	100.0	20.1	7,583	100.0	6,314	100.0	20.1

Source: Company, YSL

FINANCIALS (Consolidated)
INCOME STATEMENT

(INR Millions)

Year ending March	FY15	FY16	FY17	FY18E	FY19E
Total operating revenues	31,819	38,298	44,008	50,534	57,413
YoY Growth (%)	8.4	20.4	14.9	14.8	13.6
EBITDA	1,673	2,149	2,355	2,830	3,387
EBITDA Margin (%)	5.3	5.6	5.4	5.6	5.9
Depreciation & Amortization	432	571	606	700	750
EBIT	1,363	1,902	1,977	2,420	2,967
EBIT Margin (%)	4.3	-	-	-	-
Interest	485	431	378	330	300
Profit before tax	463	1,352	1,599	2,090	2,667
Tax	(79)	277	367	522	667
Profit after tax	542	1,066	1,230	1,565	1,998
Extraordinary items	414	119	-	-	-
Adjusted Net profit	956	1,185	1,230	1,565	1,998
Net Margin (%)	3.0	3.1	2.8	3.1	3.5

BALANCE SHEET

(INR Millions)

Year ending March	FY15	FY16	FY17	FY18E	FY19E
SOURCE OF FUNDS					
Share capital	180	180	191	191	191
Reserve & Surplus	4,376	4,721	7,380	8,023	8,985
Total shareholder's funds	4,556	6,627	7,571	8,215	9,176
Debt	3,967	3,630	2,161	2,300	1,700
Deferred tax liabilities/ (assets)	(165)	(222)	(1,077)	(1,074)	(1,071)
Minority interest	-	10	12	15	18
TOTAL	8,358	10,045	8,668	9,456	9,823
APPLICATION OF FUNDS					
Fixed assets	2,790	2,845	3,897	3,641	3,491
Investments	363	648	622	650	850
Inventories	4,785	5,401	5,956	6,917	7,834
Debtors	7,178	8,313	9,390	10,865	12,344
Cash & cash equivalents (incl ST investments)	443	538	966	1,029	985
Other current assets	6,024	7,928	4,589	7,259	7,923
Total current liabilities	13,227	15,629	16,751	20,905	23,604
Net current assets	5,204	6,551	4,149	5,165	5,482
TOTAL	8,358	10,045	8,668	9,456	9,823

CASH FLOW STATEMENT

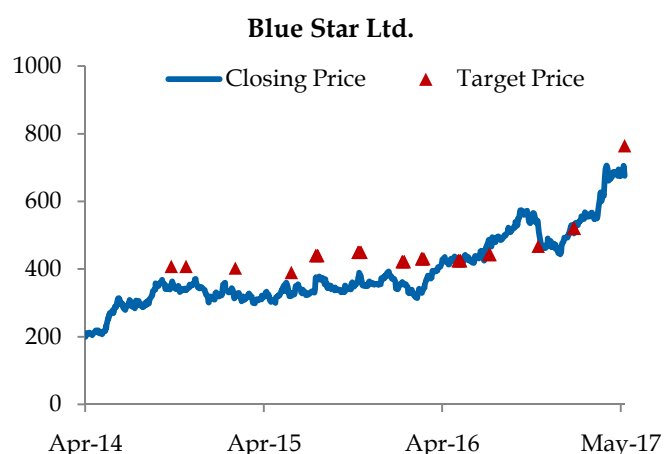
(INR Millions)

Year ending March	FY15	FY16	FY17E	FY18E	FY19E
Operating cash flow	2,149	2,416	3,173	1,454	2,360
Capex	(352)	(512)	(1,658)	(444)	(600)
Free cash flow (FCFF)	1,797	1,904	1,515	1,010	1,760
Investments & Others	(135)	69	1,822	162	130
Cash flow from investing	(487)	(443)	164	(282)	(470)
Equity issue	-	4	11	-	-
Debt issue (net)	(967)	(329)	(1,680)	142	(597)
Dividend & tax thereon	(440)	(711)	(864)	(921)	(1,036)
Other financing cash flows	(497)	(430)	(378)	(330)	(300)
Cash flow from financing	(1,903)	(1,466)	(2,910)	(1,110)	(1,934)
NET CASH FLOWS	(241)	508	427	63	(43)
Opening cash	684	443	538	966	1,029
Closing cash	443	1,118	966	1,029	985

KEY RATIOS

Year ending March	FY15	FY16	FY17	FY18E	FY19E
PROFITABILITY RATIOS					
EBITDA Margin (%)	5.3	5.6	5.4	5.6	5.9
Net profit margin (%)	3.0	3.1	2.8	3.1	3.5
Return on invested capital (%)	5.0	4.7	4.2	6.8	9.8
Return on total assets (%)	11.4	11.8	14.2	16.6	20.4
Return on equity (%)	21.0	17.9	16.3	19.0	21.8
Return on capital employed (%)	16.3	19.0	22.8	25.6	30.3
EFFICIENCY RATIOS					
Asset Turnover	1.5	1.5	1.7	1.7	1.7
Debt to equity	0.9	0.5	0.3	0.3	0.2
Net debt to equity	0.8	0.5	0.2	0.2	0.1
Interest coverage	2.8	4.4	5.2	7.3	9.9
Debtor days	81	78	77	77	77
Inventory days	57	54	51	52	52
Payable days	106	109	102	112	112
Working capital cycle	38	24	23	15	16
PER SHARE DATA					
Diluted EPS (Rs)	10.0	12.4	12.9	16.4	20.9
Book value per share (Rs)	47.7	69.3	79.2	86.0	96.0
DPS (Rs)	5.0	6.5	7.5	8.0	9.0
VALUATION RATIOS					
P/E	66.5	53.6	51.7	40.6	31.8
P/BV	14.0	9.6	8.4	7.7	6.9
EV/EBITDA	38.1	29.4	27.9	22.9	19.1
Dividend Yield (%)	0.8	1.0	1.1	1.2	1.4

Recommendation History



Date	Rating	Target Price	Closing Price
29-Sep-14	ACCUMULATE	408	347
30-Oct-14	ACCUMULATE	408	347
11-Feb-15	ACCUMULATE	403	327
09-Jun-15	ACCUMULATE	390	323
05-Aug-15	ACCUMULATE	453	374
03-Nov-15	ACCUMULATE	450	371
02-Feb-16	ACCUMULATE	422	353
31-May-16	NEUTRAL	442	418
02-Aug-16	NEUTRAL	443	472
15-Nov-16	NEUTRAL	446	468
30-Jan-17	NEUTRAL	510	521
12-May-17	ACCUMULATE	763	665

RATING RATIONALE

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

ACCUMULATE: expected point to point returns of 15% or more

NEUTRAL: expected point to point returns in the range of -10% and +15%

REDUCE: expected point to point decline of 10% or more

NO VIEW: Not in regular research coverage

SUSPENDED: The rating as well as the target price has been suspended temporarily. This could be due to events that made coverage impracticable or to comply with applicable regulations and/or company policies.

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1	Research Analyst or his/her relative's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received compensation or other benefits from the subject company(ies) or third party in connection with this research report	No
6	Broking/Investment Banking/Merchant Banking relationship with the subject company at the time of publication of Research Report	No
7	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
8	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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