

BUY

TP: Rs 880 | ▲ 15%

BLUE STAR

| Consumer Durables

| 04 August 2023

In-line numbers, steady growth ahead

- Q1 UCP revenue beat the industry, rising 7% YoY on the back of B2B sales; EMP order book robust
- Equity financing of Rs 10bn planned to contain leverage and fund future expansion and growth
- On rolling valuations forward to Jun'25E, our TP increases to Rs 880 (vs. Rs 825); maintain BUY

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Decent Q1: BLSTR posted 13% YoY topline growth to Rs 22.3bn in Q1FY24 with healthy gross and EBITDA margins of 22.2% and 6.5% respectively on account of a lower cost of materials, partially offset by higher employee cost and other expenses.

UCP growth guided to track industry in FY24: The unitary cooling products (UCP) division grew 7% YoY with a 7.5% EBIT margin despite the disruption caused by unseasonal rains. In comparison, Lloyd grew 20% (albeit with operational losses) and the industry declined 10% for the quarter. BLSTR commands 13.5% market share, which is flattish sequentially. Management expects the air conditioner industry to grow from 8mn units to 10mn in FY24 and BLSTR to correspondingly move from 0.8mn to 1mn units. It has a long-term target of 15% market share and 8.5% EBIT margins.

EMP business robust: The electro-mechanical projects (EMP) business delivered a topline of Rs 9.5bn and EBIT margin of 7% (+130bps YoY) in Q1. The segment's order book soared 45% YoY to Rs 40.2bn, backed by public and private capex, with healthy bookings from factories and data centres.

Rs 10bn fundraise planned to shore up balance sheet: BLSTR plans to raise up to Rs 10bn in equity to shore up its balance sheet. Net debt stood at Rs 2.8bn and gross debt at Rs 6bn as of Q1. Net debt-to-EBITDA was at 0.57x against the company's internal target of <0.3x, prompting it to raise equity. Moreover, management has capex plans of ~Rs 7.5bn over the next three years. This additional equity will shore up the company's net worth of ~Rs 13bn (end-FY23), which it can leverage to fund future expansion and growth.

Maintain BUY: BLSTR's UCP segment is deftly balancing margins with growth while its EMP business benefits from a robust order backlog and strong industry tailwinds. We maintain estimates but revise our TP to Rs 880 (vs. Rs 825) as we roll valuations forward to Jun'25E. We continue to value the stock at an unchanged P/E multiple of 38x, an ~18% premium to the 3Y average. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 762
Market cap	US\$ 1.8bn
Free float	61%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 820/Rs 489
Promoter/FPI/DII	39%/11%/25%

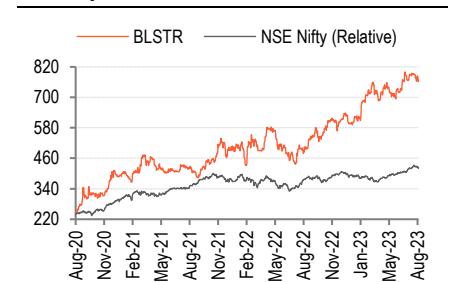
Source: NSE | Price as of 4 Aug 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	79,773	92,035	1,07,564
EBITDA (Rs mn)	4,928	6,300	8,140
Adj. net profit (Rs mn)	2,601	2,949	4,174
Adj. EPS (Rs)	13.5	15.3	21.7
Consensus EPS (Rs)	13.5	19.9	26.8
Adj. ROAE (%)	22.1	21.6	28.1
Adj. P/E (x)	56.5	49.8	35.2
EV/EBITDA (x)	29.8	23.3	18.0
Adj. EPS growth (%)	55.1	13.4	41.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	22,260	19,703	13.0	26,238	(15.2)
EBITDA	1,450	1,233	17.6	1,792	(19.1)
EBITDA Margin (%)	6.5	6.3	30bps	6.8	(30bps)
Depreciation	228	220		227	
Interest	180	106		181	
Other Income	94	105		67	
PBT	1,136	1,012	12.3	1,450	(21.7)
Tax	302	263		918	
Adjusted PAT	834	742	12.3	545	53.0
Exceptional item				1,708	
Reported PAT	834	742	12.3	2,253	(63.0)
Adj. PAT Margin (%)	3.7	3.8	0bps	2.1	170bps
EPS (Rs)	4.3	3.9	11.4	2.8	56.7

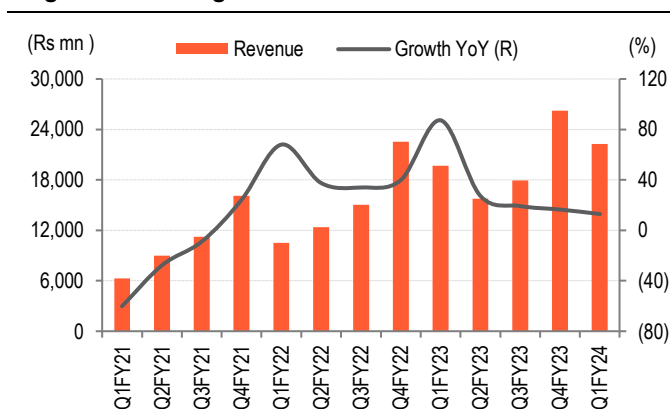
Source: Company, BOBCAPS Research

Fig 2 – Segment-wise performance

Particulars (Rs mn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Revenues													
Electro-Mechanical Projects and Packaged AC systems	3,124	5,408	5,855	7,800	5,052	7,234	8,299	11,399	7,934	9,591	10,030	12,526	9,491
YoY growth (%)	(49.9)	(31.0)	(22.8)	18.1	61.7	33.8	41.7	46.2	57.0	32.6	20.9	9.9	19.6
Professional Electronics & Industrial Systems	387	426	454	498	414	616	667	776	527	924	862	1,035	784
YoY growth (%)	(13.2)	(51.9)	(20.1)	16.6	7.0	44.5	46.8	55.9	27.2	49.9	29.3	33.4	48.9
Unitary Products	2,749	3,187	4,930	7,818	5,054	4,547	6,097	10,367	11,242	5,248	7,050	12,677	11,985
YoY growth (%)	(69.7)	(15.5)	17.3	31.1	83.9	42.7	23.7	32.6	122.5	15.4	15.6	22.3	6.6
EBIT													
Electro-Mechanical Projects and Packaged AC systems	(105)	344	341	485	200	465	524	758	452	607	717	992	666
Margin (%)	(3.4)	6.4	5.8	6.2	4.0	6.4	6.3	6.7	5.7	6.3	7.1	7.9	7.0
Professional Electronics & Industrial Systems	102	82	83	72	56	98	128	143	59	138	110	198	105
Margin (%)	26.3	19.1	18.2	14.5	13.4	16.0	19.1	18.5	11.2	14.9	12.7	19.2	13.4
Unitary Products	(38)	117	388	621	218	233	388	721	911	324	518	1,070	893
Margin (%)	(1.4)	3.7	7.9	7.9	4.3	5.1	6.4	7.0	8.1	6.2	7.4	8.4	7.5

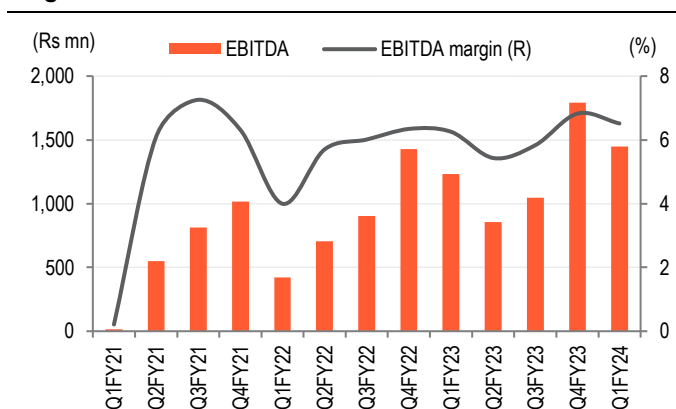
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



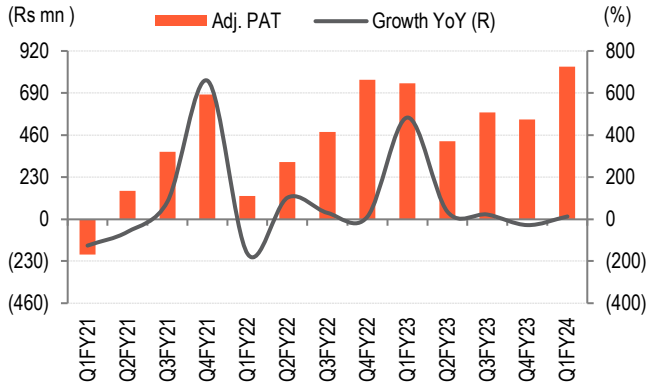
Source: Company, BOBCAPS Research

Fig 4 – EBITDA trend



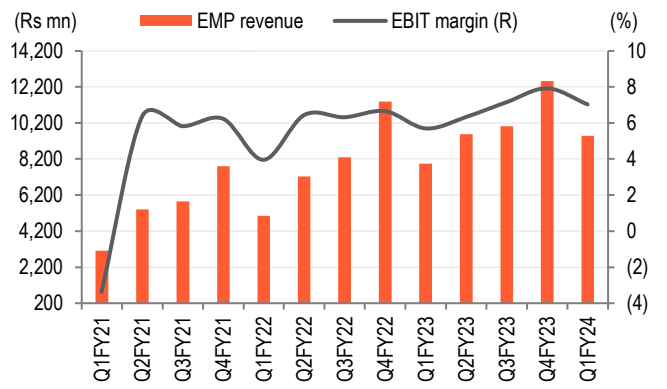
Source: Company, BOBCAPS Research

Fig 5 – Profitability trend



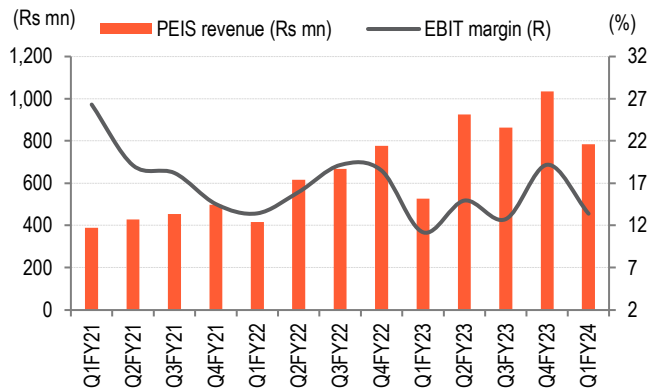
Source: Company, BOBCAPS Research

Fig 6 – EMP segment performance



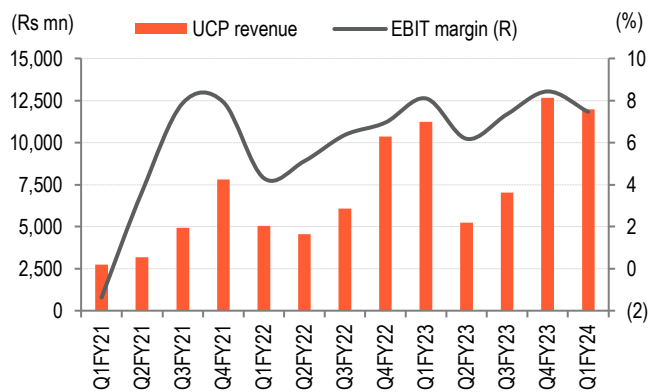
Source: Company, BOBCAPS Research

Fig 7 – PEIS segment performance



Source: Company, BOBCAPS Research | PEIS: Professional Electronics and Industrial Systems

Fig 8 – UCP segment performance



Source: Company, BOBCAPS Research

Valuation methodology

BLSTR remains one of our top picks in the air conditioning space. The company has consistently maintained market share, is expanding its reach in the lucrative B2B segment, and building capacity to cater to the growing demand for cooling products. Its UCP division is deftly balancing margins with growth while the EMP business benefits from a robust order backlog and strong industry tailwinds.

We are below FY24/FY25 consensus earnings estimates by 15% as we build in highly conservative assumptions given the competitive intensity in the AC industry. That said, BLSTR's ability to balance margins and market share better than listed peers, as evidenced in recent quarters, should help narrow the valuation discount to peers (currently trading at 33x, a 15-30% discount to VOLT and HAVL-Lloyd) and position it as a relative BUY.

We maintain estimates but revise our TP to Rs 880 (vs. Rs 825) as we roll valuations forward to Jun'25E. We continue to value the stock at an unchanged P/E multiple of 38x, an ~18% premium to the three-year average, and reiterate our BUY rating.

Fig 9 – Key assumptions

Particulars (Rs mn)	FY24E	FY25E
Sales	92,035	1,07,564
EBITDA	6,300	8,140
PAT	2,949	4,174
EPS (Rs)	15.3	21.7
EBITDA Margin (%)	6.8	7.6

Source: BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- inability to expand UCP market share amidst rising industry competition, and
- weakness in the EMP order book.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,504	2,500	HOLD
Blue Star	BLSTR IN	1.8	762	880	BUY
Crompton Greaves	CROMPTON IN	2.3	297	370	BUY
Dixon Technologies	DIXON IN	3.3	4,616	4,300	HOLD
Havells India	HAVL IN	10.0	1,314	1,600	BUY
KEI Industries	KEII IN	2.7	2,425	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	240	240	HOLD
Polycab India	POLYCAB IN	8.4	4,615	5,000	BUY
Syrma SGS	SYRMA IN	1.0	477	600	BUY
V-Guard Industries	VGRD IN	1.5	285	270	HOLD
Voltas	VOLT IN	3.3	819	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	42,636	60,456	79,773	92,035	1,07,564
EBITDA	2,398	3,465	4,928	6,300	8,140
Depreciation	923	860	848	1,674	1,831
EBIT	1,475	2,605	4,080	4,626	6,308
Net interest inc./(exp.)	(647)	(464)	(547)	(1,056)	(1,175)
Other inc./(exp.)	624	357	309	370	445
Exceptional items	0	0	0	0	0
EBT	1,452	2,498	3,842	3,941	5,578
Income taxes	471	829	1,243	993	1,406
Extraordinary items	0	0	(1,400)	0	0
Min. int./Inc. from assoc.	26	11	4	4	4
Reported net profit	1,004	1,677	4,001	2,949	4,174
Adjustments	0	0	(1,400)	0	0
Adjusted net profit	1,004	1,677	2,601	2,949	4,174

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	16,049	20,417	25,112	28,997	33,890
Other current liabilities	5,301	8,448	8,358	9,643	11,270
Provisions	0	0	0	0	0
Debt funds	4,516	3,003	6,620	7,539	8,390
Other liabilities	223	324	595	680	788
Equity capital	193	193	193	193	193
Reserves & surplus	8,659	9,983	13,114	13,752	15,614
Shareholders' fund	8,852	10,176	13,307	13,944	15,807
Total liab. and equities	34,941	42,368	53,991	60,803	70,144
Cash and cash eq.	6,112	4,147	2,473	1,333	1,926
Accounts receivables	8,110	11,897	15,488	17,990	20,955
Inventories	8,824	11,442	14,334	16,978	19,585
Other current assets	5,549	7,348	10,211	11,781	13,769
Investments	0	0	0	0	0
Net fixed assets	3,836	4,328	8,813	9,638	10,307
CWIP	681	1,451	609	703	822
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,829	1,755	2,062	2,379	2,781
Total assets	34,941	42,368	53,991	60,803	70,144

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	3,498	918	2,474	3,076	4,964
Capital expenditures	174	(2,179)	(1,821)	(2,500)	(2,500)
Change in investments	(2,791)	1,340	342	0	0
Other investing cash flows	232	166	(337)	(324)	(410)
Cash flow from investing	(2,385)	(673)	(1,817)	(2,824)	(2,910)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,968	654	717	920	850
Interest expenses	0	0	0	0	0
Dividends paid	(3,663)	(1,521)	(1,627)	(2,312)	(2,312)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(696)	(868)	(911)	(1,392)	(1,461)
Chg in cash & cash eq.	418	(623)	(254)	(1,139)	593
Closing cash & cash eq.	6,112	4,147	2,473	1,333	1,926

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	5.2	8.7	20.8	15.3	21.7
Adjusted EPS	5.2	8.7	13.5	15.3	21.7
Dividend per share	4.0	10.0	12.0	12.0	12.0
Book value per share	46.0	52.8	69.1	72.4	82.1

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	3.4	2.4	1.8	1.6	1.4
EV/EBITDA	61.2	42.4	29.8	23.3	18.0
Adjusted P/E	146.4	87.6	56.5	49.8	35.2
P/BV	16.6	14.4	11.0	10.5	9.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	69.1	67.1	67.7	74.8	74.8
Interest burden (PBT/EBIT)	98.4	95.9	94.2	85.2	88.4
EBIT margin (EBIT/Revenue)	3.5	4.3	5.1	5.0	5.9
Asset turnover (Rev./Avg TA)	11.1	14.0	9.1	9.5	10.4
Leverage (Avg TA/Avg Equity)	0.5	0.5	0.8	0.7	0.7
Adjusted ROAE	12.0	17.6	22.1	21.6	28.1

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	(20.5)	41.8	32.0	15.4	16.9
EBITDA	(15.2)	44.5	42.2	27.8	29.2
Adjusted EPS	(31.9)	67.1	55.1	13.4	41.5
Profitability & Return ratios (%)					
EBITDA margin	5.6	5.7	6.2	6.8	7.6
EBIT margin	3.5	4.3	5.1	5.0	5.9
Adjusted profit margin	2.4	2.8	3.3	3.2	3.9
Adjusted ROAE	12.0	17.6	22.1	21.6	28.1
ROCE	11.2	14.9	17.9	18.0	22.1
Working capital days (days)					
Receivables	69	72	71	71	71
Inventory	76	69	66	67	66
Payables	137	123	115	115	115
Ratios (x)					
Gross asset turnover	5.8	7.6	7.1	6.1	6.1
Current ratio	1.3	1.2	1.1	1.1	1.1
Net interest coverage ratio	2.3	5.6	7.5	4.4	5.4
Adjusted debt/equity	0.5	0.3	0.5	0.5	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

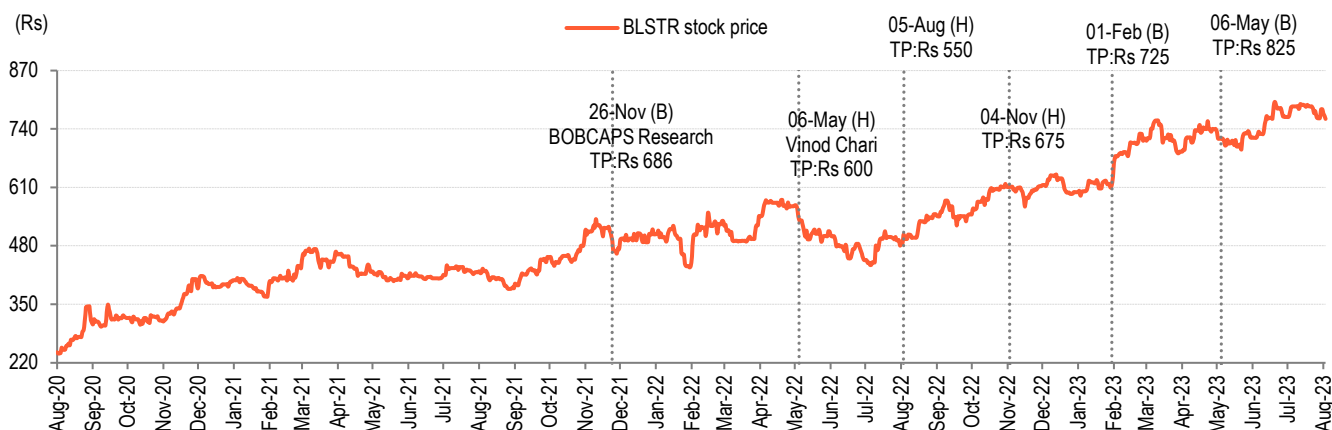
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BLUE STAR (BLSTR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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