

BUY
 TP: Rs 1,100 | ▲ 26%

BLUE STAR

Consumer Durables

31 October 2023

On a purple patch

- Sustained, strong performance marked by above-industry growth of 39% YoY in UCP segment along with higher margins in Q2
- QIP fundraise of Rs 10bn to help enhance manufacturing capabilities in the medium term and lower interest cost short term
- Our TP climbs to Rs 1,100 (vs. Rs 880) as we raise FY24/FY25 EPS by 18%/9% and roll valuations over; retain BUY

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Strong quarter: BLSTR reported strong 20% YoY topline growth to Rs 18.9bn, along with 110bps expansion in EBITDA margin to 6.5% due to lower raw material costs. The unitary cooling products (UCP) and electromechanical projects (EMP) businesses reported healthy traction, and management remains optimistic about overall performance in H2FY24 given a strong start to the festive season. Adj. PAT came in at Rs 707mn, growing 66% YoY.

UCP performance ahead of peers: Backed by volume growth, the company's UCP topline increased 39% YoY to Rs 7.3bn, which compares favourably with VOLT's 15.4% and Llyod's 18.5% YoY print for the quarter. Segmental EBIT margin also expanded 220bps YoY to 8.4%, whereas VOLT reported just 40bps expansion to 7.7%. Despite a slowdown in cooling product sales during the first quarter, BLSTR managed to regain momentum and outgrow its peers in Q2.

EMP follows suit: The EMP vertical also fared well during the quarter with 12% YoY topline growth to Rs 10.8bn. Demand from data centres, railway electrification, healthcare and factories was healthy, while order finalisation in the commercial buildings sector was dogged by delays.

Balance sheet robust with recent fund raise: BLSTR ended H1FY24 with net cash of Rs 2.9bn as opposed to net borrowings of Rs 3.9bn as at H1FY23. During Q2, the company raised Rs 10bn through a QIP and expects to use these funds to enhance manufacturing capacity, invest in research and development, increase digitalisation, and meet higher working capital requirements given its growth plans.

Maintain BUY: BLSTR's UCP business continues to grow apace, staying ahead of competitors and maintaining a profitable market share. The EMP business derives benefits from a robust order book and strong industry tailwinds. Following the all-round outperformance in Q2, we increase our FY24/FY25 EPS estimates by 18%/9% and raise our target P/E multiple to 40x (vs. 38x) – ~15% premium to the 3Y average. On rolling valuations forward to Sep'25E, we have a revised TP of Rs 1,100 (vs. Rs 880). The company remains our top pick in the AC space – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 872
Market cap	US\$ 2.0bn
Free float	61%
3M ADV	US\$ 4.2mn
52wk high/low	Rs 950/Rs 553
Promoter/FPI/DII	39%/11%/25%

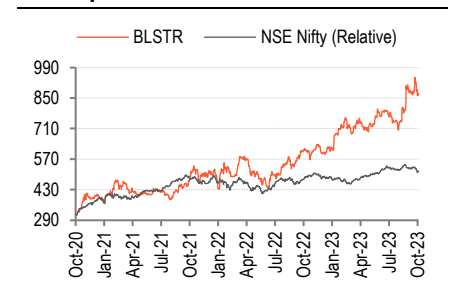
Source: NSE | Price as of 30 Oct 2023

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	6,668	8,140
Adj. net profit (Rs mn)	2,601	3,476	4,564
Adj. EPS (Rs)	13.5	18.0	23.7
Consensus EPS (Rs)	13.5	18.8	25.0
Adj. ROAE (%)	22.1	17.8	16.6
Adj. P/E (x)	64.6	48.3	36.8
EV/EBITDA (x)	34.1	25.2	20.6
Adj. EPS growth (%)	55.1	33.7	31.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
Revenue	18,904	15,762	19.9	22,260	(15.1)	41,164	35,533	15.8
EBITDA	1,227	856	43.3	1,450	(15.4)	2,677	2,089	28.1
EBITDA Margin (%)	6.5	5.4	110bps	6.5	0bps	6.5	5.9	60bps
Depreciation	230	245		228		458	465	
Interest	177	121		180		357	227	
Other Income	130	86		94		224	191	
PBT	950	576	65.0	1,136	(16.4)	2,086	1,587	31.4
Tax	243	149		302		545	412	
Adjusted PAT	707	426	66.2	834	(15.2)	1,541	1,168	31.9
Exceptional item								
Reported PAT	707	426	66.2	834	(15.2)	1,541	1,168	32.0
Adj. PAT Margin (%)	3.7	2.7	100bps	3.7	0bps	3.7	3.3	50bps
EPS (Rs)	3.7	2.2	65.7	4.3	(15.2)	8.0	6.1	31.1

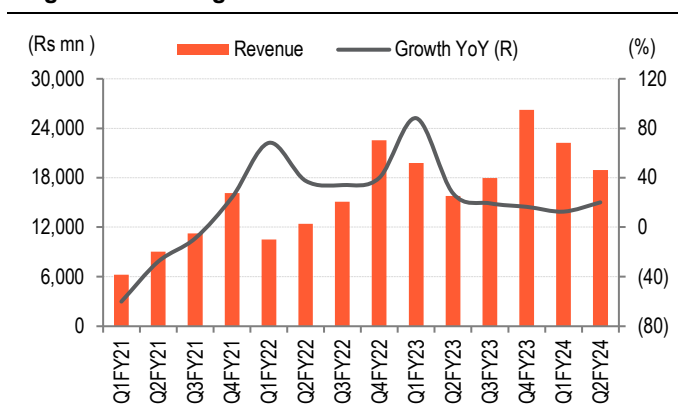
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Revenues													
Electro-Mechanical Projects and Packaged AC systems	5,408	5,855	7,800	5,052	7,234	8,299	11,399	7,934	9,591	10,030	12,526	9,491	10,772
YoY growth (%)	(31.0)	(22.8)	18.1	61.7	33.8	41.7	46.2	57.0	32.6	20.9	9.9	19.6	12.3
Professional Electronics & Industrial Systems	426	454	498	414	616	667	776	527	924	862	1,035	784	837
YoY growth (%)	(51.9)	(20.1)	16.6	7.0	44.5	46.8	55.9	27.2	49.9	29.3	33.4	48.9	(9.4)
Unitary Cooling Products	3,187	4,930	7,818	5,054	4,547	6,097	10,367	11,242	5,248	7,050	12,677	11,985	7,295
YoY growth (%)	(15.5)	17.3	31.1	83.9	42.7	23.7	32.6	122.5	15.4	15.6	22.3	6.6	39.0
EBIT													
Electro-Mechanical Projects and Packaged AC systems	344	341	485	200	465	524	758	452	607	717	992	666	653
Margin (%)	6.4	5.8	6.2	4.0	6.4	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1
Professional Electronics & Industrial Systems	82	83	72	56	98	128	143	59	138	110	198	105	122
Margin (%)	19.1	18.2	14.5	13.4	16.0	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6
Unitary Cooling Products	117	388	621	218	233	388	721	911	324	518	1,070	893	616
Margin (%)	3.7	7.9	7.9	4.3	5.1	6.4	7.0	8.1	6.2	7.4	8.4	7.5	8.4

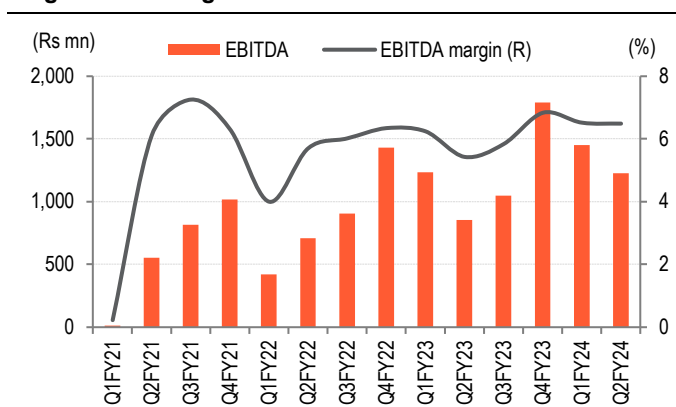
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



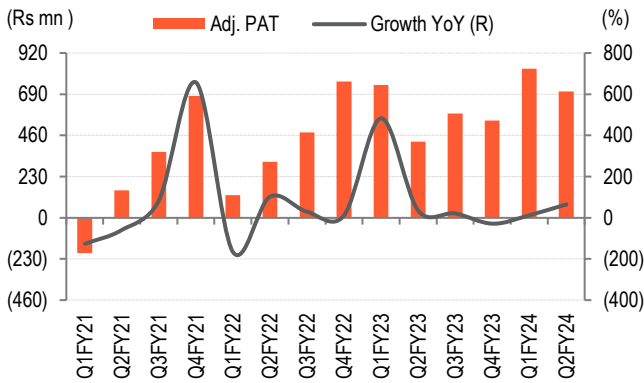
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



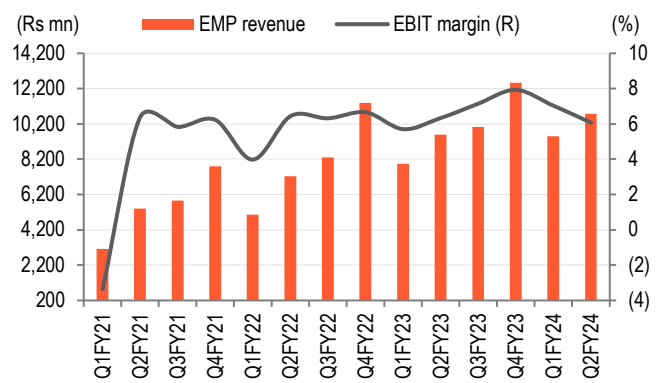
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



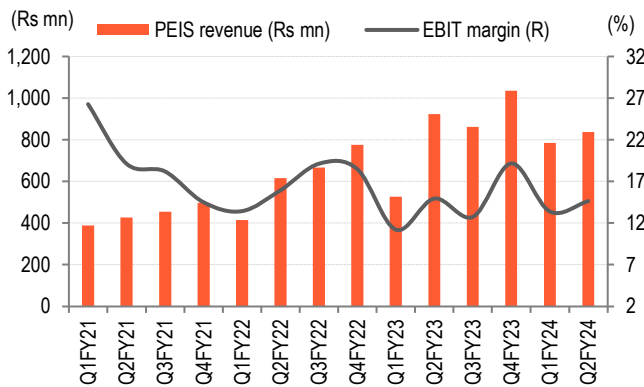
Source: Company, BOBCAPS Research

Fig 6 – EMP vertical growth trend



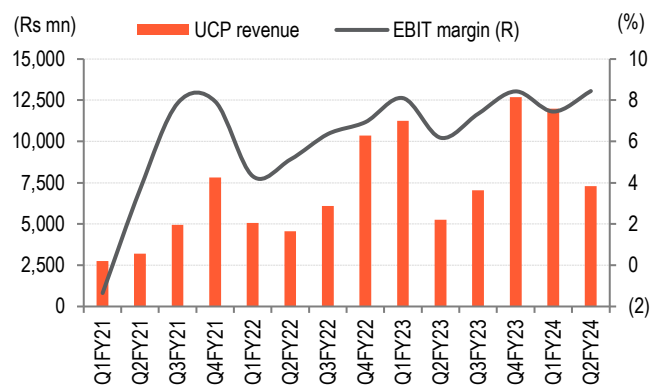
Source: Company, BOBCAPS Research

Fig 7 – PEIS vertical growth trend



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

Fig 8 – UCP vertical growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

UCP

- Performance:** BLSTR's UCP segment outperformed peers, growing 39% YoY in Q2FY24 on the back of higher volumes and ending the quarter with 13.5% market share. The quarterly print compares favourably with industry growth of 30% and VOLT/Lloyd's increases of 15.4%/18.5% YoY. Management expects the UCP industry to grow at 10% in FY24 and BLSTR to grow at a higher 15%.
- Margins:** BLSTR prioritises margins and cash flows over market share gains, ending the quarter with an 8.4% EBIT margin (+220bps YoY) for the UCP segment. Operating leverage has a magnifying effect on the UCP business, in the sense that as revenue increases, margins expand, and vice versa. This was visible during Q2, along with benefits from product repositioning into the affordable premium segment and utilisation of new manufacturing capacities at Sri City. Management expects the segment to generate an EBIT margin of 8-8.5% on a sustainable basis, factoring in intensifying competition in the industry.

- **Growth strategy:** Management expects growth to be triggered by commercial air conditioning systems (CAC) and is currently expanding into Europe and North America. It is in the process of developing, prototyping and testing products for export to international brands under white labelling. Management also expects existing capacity to cater to both domestic and international demand.

The company does not plan to export room air conditioning systems (RAC) in the immediate future as India is yet to become competitive vis-à-vis Chinese players. The plan is to increase scale and market position domestically before entering the international market.

- **Deep freezers:** BLSTR is currently expanding into the manufacture of sub-300ltr deep freezers and expects this market to log a CAGR in excess of 20% over the medium term. Given the rising consumption of ice-cream products in smaller markets, deep freezers, which are generally manufactured with 300-500ltr of capacity, are now seeing a shift to smaller sized products (sub-300ltr).

Per management, the domestic market is likely to veer towards organised players as the unorganised sector, which was relying on cheaper Chinese imports, has become expensive due to tariff and non-tariff barriers. Chinese imports accounted for 50% of the domestic deep-freezer market (sub-300ltr) in FY23. BLSTR has 28% market share in the sub-300ltr deep freezer category as of H1FY24 and plans to increase this number going forward.

EMP

- **Orders:** EMP order inflow for the quarter stood at Rs 17.7bn as compared to Rs 11.2bn in Q2FY23. BLSTR closed the first half with an order book of Rs 46.1bn, growing 51% YoY over H1FY23.
- **Margin:** The company expects the segment to earn a steady, sustainable EBIT margin of 6.5%.

Balance sheet

- **QIP utilisation:** BLSTR successfully raised Rs 10bn through the QIP route in September and plans to improve its capital structure in the short term by repaying debt, which will give it the flexibility to reborrow later. Over the next two years, it intends to incur capex of Rs 6.5bn for the enhancement of manufacturing capacities, R&D labs and new product development, besides increasing digitalisation on a company-wide basis.
- **Working capital:** The cash conversion cycle at the end of H1FY24 stood at 26 days as compared to 22 days at the end of FY23.

Valuation methodology

BLSTR remains our top pick 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.

Following the all-round outperformance in Q2FY24, we increase our FY24/FY25 EPS estimates by 18%/ 9% and raise our target P/E multiple to 40x (vs. 38x) – ~15% premium to the three-year average. We now introduce FY26 forecasts as well. On rolling valuations over to Sep'25E, we arrive at a revised TP of Rs 1,100 (vs. Rs 880).

In our view, BLSTR's ability to balance margins and market share better than listed peers, as evidenced in recent quarters, should help it maintain P/E multiples at a premium to the historical average and hence we position it as a relative BUY among the RAC pack.

Fig 9 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	92,035	1,07,564	92,035	1,07,564	0.0	0.0
EBITDA	6,668	8,140	6,300	8,140	5.8	0.0
PAT	3,476	4,564	2,949	4,174	17.9	9.3
EPS (Rs)	18.0	23.7	15.3	21.7	17.9	9.3
EBITDA Margin (%)	7.2	7.6	6.8	7.6	40bps	0bps

Source: Company, 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	1.2	2,986	2,900	HOLD
Blue Star	BLSTR IN	2.0	872	1,100	BUY
Crompton Greaves	CROMPTON IN	2.2	283	360	BUY
Dixon Technologies	DIXON IN	3.7	5,104	6,300	BUY
Havells India	HAVL IN	9.7	1,269	1,600	BUY
KEI Industries	KEI IN	2.7	2,472	2,300	HOLD
Orient Electric	ORIENTEL IN	0.6	217	250	HOLD
Polycab India	POLYCAB IN	9.0	4,937	6,100	BUY
V-Guard Industries	VGRD IN	1.6	303	290	HOLD
Voltas	VOLT IN	3.4	835	910	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Oct 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	60,456	79,773	92,035	1,07,564	1,21,504
EBITDA	3,465	4,928	6,668	8,140	9,473
Depreciation	860	848	1,410	1,386	1,432
EBIT	2,605	4,080	5,258	6,753	8,041
Net interest inc./(exp.)	(464)	(547)	(869)	(1,098)	(1,095)
Other inc./(exp.)	357	309	370	445	533
Exceptional items	0	0	0	0	1
EBT	2,498	3,842	4,760	6,100	7,479
Income taxes	829	1,243	1,285	1,537	1,885
Extraordinary items	0	(1,400)	0	0	0
Min. int./Inc. from assoc.	11	4	4	4	4
Reported net profit	1,677	4,001	3,476	4,564	5,596
Adjustments	0	(1,400)	0	0	0
Adjusted net profit	1,677	2,601	3,476	4,564	5,596

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	20,417	25,112	28,997	33,890	38,282
Other current liabilities	8,448	8,358	9,643	11,270	12,730
Provisions	0	0	0	0	1
Debt funds	3,003	6,620	7,900	9,980	10,949
Other liabilities	324	595	680	788	886
Equity capital	193	193	411	411	411
Reserves & surplus	9,983	13,114	25,434	28,843	33,283
Shareholders' fund	10,176	13,307	25,846	29,254	33,695
Total liab. and equities	42,368	53,991	73,065	85,182	96,542
Cash and cash eq.	4,147	2,473	13,331	16,254	18,854
Accounts receivables	11,897	15,488	17,990	20,955	23,711
Inventories	11,442	14,334	16,978	19,585	22,269
Other current assets	7,348	10,211	11,781	13,769	15,553
Investments	0	0	0	0	1
Net fixed assets	4,328	8,813	9,903	11,016	12,084
CWIP	1,451	609	703	822	928
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	1
Other assets	1,755	2,062	2,379	2,781	3,141
Total assets	42,368	53,991	73,065	85,182	96,543

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	918	2,474	3,339	4,910	5,655
Capital expenditures	(2,179)	(1,821)	(2,500)	(2,500)	(2,500)
Change in investments	1,340	342	0	0	0
Other investing cash flows	166	(337)	(324)	(410)	(368)
Cash flow from investing	(673)	(1,817)	(2,824)	(2,910)	(2,868)
Equities issued/Others	0	0	219	0	0
Debt raised/repaid	654	717	1,281	2,080	969
Interest expenses	0	0	0	0	1
Dividends paid	(1,521)	(1,627)	8,844	(1,156)	(1,156)
Other financing cash flows	0	0	0	0	1
Cash flow from financing	(868)	(911)	10,343	924	(184)
Chg in cash & cash eq.	(623)	(254)	10,858	2,923	2,602
Closing cash & cash eq.	4,147	2,473	13,331	16,254	18,854

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	8.7	20.8	18.0	23.7	29.1
Adjusted EPS	8.7	13.5	18.0	23.7	29.1
Dividend per share	5.0	6.0	6.0	6.0	6.0
Book value per share	52.8	69.1	134.2	151.9	174.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.8	2.1	1.8	1.6	1.4
EV/EBITDA	48.5	34.1	25.2	20.6	17.7
Adjusted P/E	100.2	64.6	48.3	36.8	30.0
P/BV	16.5	12.6	6.5	5.7	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	67.1	67.7	73.0	74.8	74.8
Interest burden (PBT/EBIT)	95.9	94.2	90.5	90.3	93.0
EBIT margin (EBIT/Revenue)	4.3	5.1	5.7	6.3	6.6
Asset turnover (Rev./Avg TA)	14.0	9.1	9.3	9.8	10.1
Leverage (Avg TA/Avg Equity)	0.5	0.8	0.5	0.4	0.4
Adjusted ROAE	17.6	22.1	17.8	16.6	17.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	41.8	32.0	15.4	16.9	13.0
EBITDA	44.5	42.2	35.3	22.1	16.4
Adjusted EPS	67.1	55.1	33.7	31.3	22.6
Profitability & Return ratios (%)					
EBITDA margin	5.7	6.2	7.2	7.6	7.8
EBIT margin	4.3	5.1	5.7	6.3	6.6
Adjusted profit margin	2.8	3.3	3.8	4.2	4.6
Adjusted ROAE	17.6	22.1	17.8	16.6	17.8
ROCE	14.9	17.9	15.3	14.7	15.3
Working capital days (days)					
Receivables	72	71	71	71	71
Inventory	69	66	67	66	67
Payables	123	115	115	115	115
Ratios (x)					
Gross asset turnover	7.6	7.1	6.1	6.1	6.0
Current ratio	1.2	1.1	1.3	1.3	1.4
Net interest coverage ratio	5.6	7.5	6.1	6.2	7.3
Adjusted debt/equity	0.3	0.5	0.3	0.3	0.3

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

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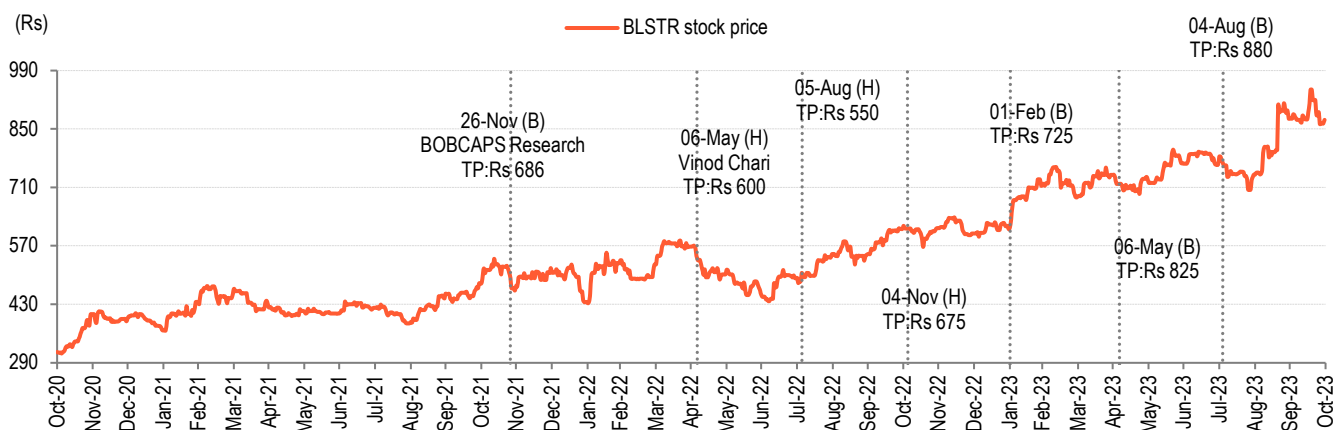
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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