

**BUY**

**TP: Rs 1,650 | ▲ 15%**

**BLUE STAR**

| Consumer Durables

| 06 May 2023

**Momentum continues; outlook bright**

- UCP business shines in Q4, delivering 20% YoY growth and an 8.4% EBIT margin
- EMP EBIT margin improves further to 7.9%, a new high, with a robust order backlog
- FY24/FY25 EPS estimates raised 6%/4% along with rollover, yielding a higher TP of Rs 1,650 (vs. Rs 1,450); maintain BUY

Vinod Chari | Nilesh Patil  
Swati Jhunjhunwala  
research@bobcaps.in

**Good quarter:** BLSTR's Q4FY23 revenue at Rs 26.2bn (+16% YoY) and EBITDA at Rs 1.8bn (+25% YoY) were ahead of our estimates on an all-round beat across verticals. The unitary cooling product (UCP) and electromechanical project (EMP) businesses continued to see strong traction, and management remains optimistic of growth prospects in FY24. EBITDA margin expanded by 50bps YoY and 100bps QoQ to 6.8%. Adj. PAT (tax adjusted) came at Rs 860mn, +13% YoY. The company posted an exceptional item of Rs1.7bn on sale of freehold land. The company's carry-forward order book as of Mar'23 grew 55% to a record Rs 50.4bn, from Rs 32.5bn in FY22.

**UCP on a roll:** The UCP division posted impressive growth of 20% YoY with an 8.4% EBIT margin, outperforming VOLT's 13% YoY topline growth and Lloyd's operational losses for the quarter. BLSTR, with the fastest market share gains in FY23, now commands 13.5% share (marginally short of its FY23 target of 13.75%). Management believes it is well on track to reaching 15% by FY25. Efforts toward brand building, launching products for a wider portfolio and deepening distribution are serving as key triggers for market share gains.

**EMP traction continues:** The EMP business delivered a topline of Rs 12.5bn and a 7.9% EBIT margin in Q4, improving its performance sequentially as well as YoY. EBIT margin has expanded by 80bps QoQ (+120bps YoY) over the 5Y high of 7.1% touched in Q3FY23. The EMP order book soared 70% YoY to Rs 38.9bn, backed by the twin engines of public and private capex.

**Maintain BUY, raise TP to Rs 1,650:** BLSTR's UCP business has outperformed peers in Q4 and its EMP business has a robust order backlog along with the benefit of strong industry tailwinds. We raise our FY24/FY25 EPS estimates by 6%/4% on the back of the strong quarterly performance and buoyant outlook for FY24. Upon rolling valuations forward to Mar'25E, our TP increases to Rs 1,650 (vs. Rs 1,450), based on an unchanged P/E of 38x. Our target multiple is an ~18% premium to the stock's 3Y average on a 2Y forward basis and carries 15% upside – maintain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,437
Market cap	US\$ 1.7bn
Free float	61%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 1,615/Rs 859
Promoter/FPI/DII	39%/11%/25%

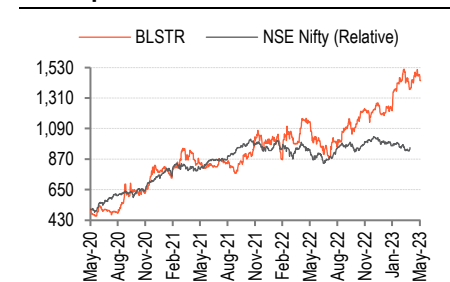
Source: NSE | Price as of 5 May 2023

**Key financials**

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	79,773	92,035	107,564
EBITDA (Rs mn)	4,928	6,300	8,140
Adj. net profit (Rs mn)	2,601	2,949	4,174
Adj. EPS (Rs)	27.0	30.6	43.3
Consensus EPS (Rs)	29.2	37.6	48.4
Adj. ROAE (%)	22.1	20.8	25.1
Adj. P/E (x)	53.2	46.9	33.2
EV/EBITDA (x)	28.1	22.0	17.0
Adj. EPS growth (%)	55.1	13.4	41.5

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY23	FY22	YoY (%)
Revenue	26,238	22,542	16.4	17,942	46.2	79,773	60,641	31.6
EBITDA	1,792	1,430	25.3	1,047	71.1	4,928	3,465	42.2
EBITDA Margin (%)	6.8	6.3	50bps	5.8	100bps	6.2	5.7	50bps
Depreciation	227	231	-	156	-	848	860	-
Interest	181	129	-	139	-	547	464	-
Other Income	67	69	-	52	-	309	357	-
PBT	1,450	1,139	27.3	804	80.4	3,842	2,498	53.8
Tax	918	376	-	216	-	1,547	829	-
Adjusted PAT	860	762	12.9	584	47.3	2,297	1,677	36.9
Exceptional item	1,708	-	-	-	-	(1,708)	-	-
Reported PAT	2,253	762	195.9	584	285.8	4,005	1,677	138.8
Adj. PAT Margin (%)	3.3	3.4	(10bps)	3.3	0bps	2.9	2.8	10bps
EPS (Rs)	5.5	7.9	(30.2)	6.1	(9.4)	23.8	17.3	37.5

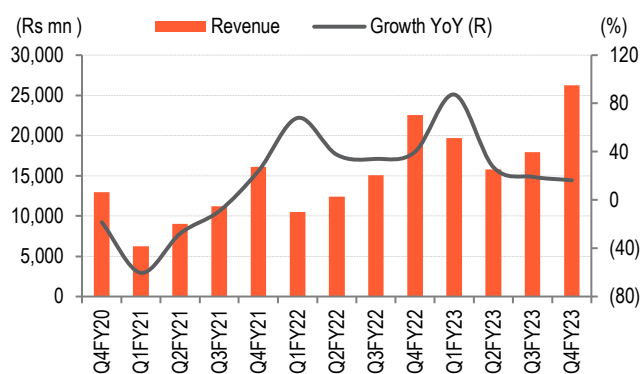
Source: Company, BOBCAPS Research

**Fig 2 – Actuals vs. Estimates**

Particulars (Rs mn)	Actual	Estimate	Variance (%)
Revenue	26,238	24,141	8.7
EBITDA	1,792	1,710	4.7
EBITDA Margin (%)	6.8	7.1	(30bps)
RPAT	2,253	1,334	195.9

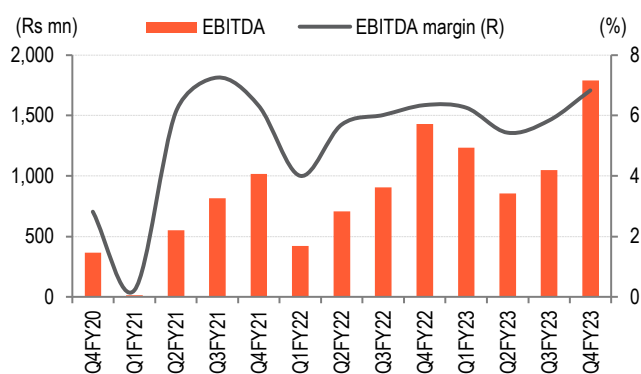
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



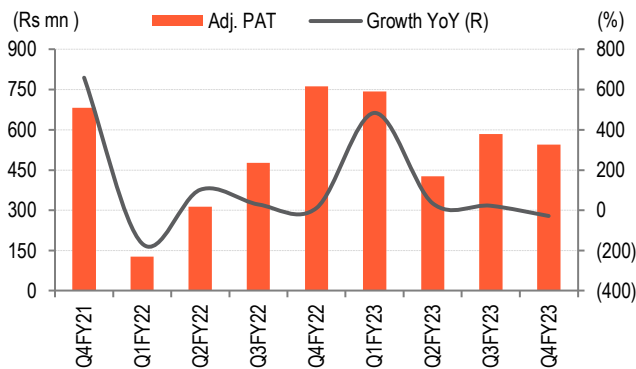
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**



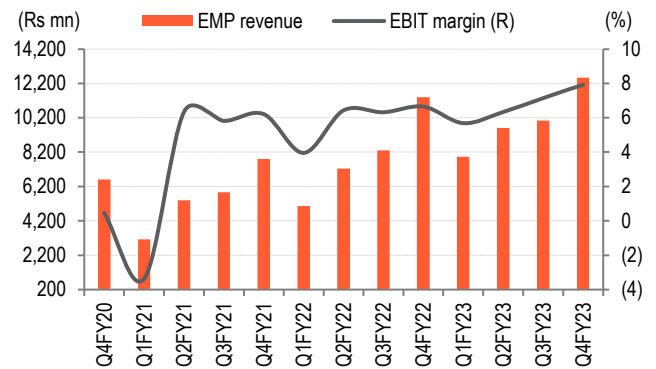
Source: Company, BOBCAPS Research

**Fig 5 – Profit growth trend**



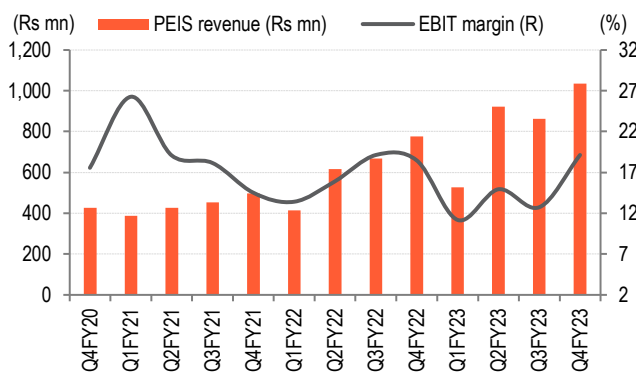
Source: Company, BOBCAPS Research

**Fig 6 – EMP vertical growth trend**



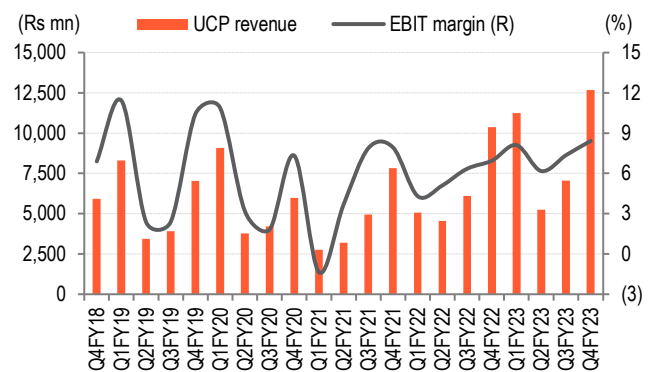
Source: Company, BOBCAPS Research

**Fig 7 – PEIS vertical growth trend**



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

**Fig 8 – UCP vertical growth trend**



Source: Company, BOBCAPS Research

### Earning call highlights

- Market share:** BLSTR cooling division grew 22% in the January-March period and currently has 10% volume and 13.5% value market share with sales of 800,000 units. It aims to sell 1mn units in FY24 and increase value market share to 15% by FY25.
- Margins:** Management aims to improve gross margins across multiple businesses going forward. It guides for 50bps improvement in EBITDA margin for FY24, similar to that achieved in FY23 (from 5.7% to 6.2%). The cooling business is expected to earn 9-9.5% margins and EMP 6.5-7%, with margins prioritised over market share. In the projects segment, the diversified project portfolio is guided to improve gross margin by ~2.5% and EBITDA margin by 1-2% in FY25.
- Growth strategy:** BLSTR expects to deliver a three-year CAGR north of 20% both on the topline and bottomline, with ROCE of 30% and ROE of 20% going forward. To this end, the company aims to deepen its reach in tier-3/4/5 markets, address opportunities in heating, ventilation, air conditioning, and refrigeration systems (HVACR) offered by the middle class and mid/small enterprises, and enter the affordable segment in contrast to its premium-only positioning.

The company also plans to increase its distribution reach from 8,000 to 10,000 touch points over three years. Further, it is looking to indigenise and integrate backward in the near future as well as digitalise its customer-facing operations.

- **R&D:** The company invested Rs 260mn in R&D in FY23 and expects to invest Rs 300mn in FY24. It also received an amount Rs 1bn from one of its promoters, Vir Advani, towards specific R&D activities, which is margin-neutral. These activities include new product categories, high efficiency objectives and product decarbonisation. Management indicated that these efforts will not increase the working capital requirement significantly.
- **Advertisement expense:** The company incurred advertising expenses of Rs 610mn in FY23 and has earmarked a sum of Rs 730mn for FY24.
- **International business:** BLSTR entered the UAE market in 2017 and also established subsidiaries in the US and Europe in 2023. The Middle East business has reached sales of US\$ 100mn. The strategy in the Middle East and Africa is to export products, and includes design and development in India. BLSTR also operates a small niche business in Qatar but has no plans to scale this up. It is looking to bolster international exposure through commercial air conditioning.
- **EMP:** The company continues to focus on profitable growth and is purposefully diversifying its book away from commercial buildings toward data centres, factories and infrastructure (railway electrification, metro, water).
- **Electronics:** The electronics business is small and has posted revenue of Rs 3.3bn in Q4, but the company expects it to cross Rs 10bn with profits upwards of Rs 1bn over medium term.
- **Refrigeration:** BLSTR is a leader in commercial refrigeration and sees scope for significant market share gains. The company plans to build scale, widen its deep freezer range, and enter into adjacencies such as retail, healthcare and kitchens.
- **Capex:** The company spent Rs 3.5bn in FY23 and expects to incur Rs 2.5bn-3bn per year for the next two years. Sri City is designed for the manufacture of 1.2mn units and has commissioned capacity of 300,000 units as of Jan'23. This capacity is to be raised in phases of 300,000 units each.

## Valuation methodology

BLSTR's UCP business has outperformed peers in Q4FY23 and its EMP business has a robust order backlog along with an impetus from strong industry tailwinds. We raise our FY24/FY25 EPS estimates by 6%/4% on the back of the strong quarterly performance and buoyant outlook for FY24.

Upon rolling valuations forward to Mar'25E, our TP increases to Rs 1,650 (vs. Rs 1,450), based on an unchanged P/E of 38x. Our target multiple is an ~18% premium to the stock's three-year average on a two-year forward basis and carries 15% upside – maintain BUY.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	92,035	107,564	81,640	94,794	12.7	13.5
EBITDA	6,300	8,140	4,950	6,659	27.3	22.2
PAT	2,949	4,174	2,789	4,018	5.7	3.9
EPS (Rs)	30.6	43.3	29.0	41.7	5.7	3.9
EBITDA Margin (%)	6.8	7.6	6.1	7.0	70bps	60bps

Source: Company, BOBCAPS Research

## Key risks

Key upside/downside risks to our estimates are:

- Inability to expand UCP market share amidst rising industry competition
- Weakness in EMP OB

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	1,865	2,100	HOLD
Blue Star	BLSTR IN	1.7	1,437	1,650	BUY
Crompton Greaves	CROMPTON IN	2.0	256	440	BUY
Dixon Technologies	DIXON IN	2.1	2,891	4,100	BUY
Havells India	HAVL IN	9.9	1,286	1,500	BUY
KEI Industries	KEII IN	2.1	1,936	2,130	BUY
Orient Electric	ORIENTEL IN	0.6	220	290	HOLD
Syrma SGS	SYRMA IN	0.6	297	400	BUY
V-Guard Industries	VGRD IN	1.3	249	260	HOLD
Voltas	VOLT IN	3.2	798	900	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 May 2023

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Total revenue</b>	<b>42,636</b>	<b>60,456</b>	<b>79,773</b>	<b>92,035</b>	<b>107,564</b>
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
<b>Reported net profit</b>	<b>1,004</b>	<b>1,677</b>	<b>4,001</b>	<b>2,949</b>	<b>4,174</b>
Adjustments	0	0	(1,400)	0	0
<b>Adjusted net profit</b>	<b>1,004</b>	<b>1,677</b>	<b>2,601</b>	<b>2,949</b>	<b>4,174</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	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	14,907	17,926
Shareholders' fund	8,852	10,176	13,307	15,100	18,119
<b>Total liab. and equities</b>	<b>34,941</b>	<b>42,368</b>	<b>53,991</b>	<b>61,959</b>	<b>72,456</b>
Cash and cash eq.	6,112	4,147	2,473	2,489	4,237
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
<b>Total assets</b>	<b>34,941</b>	<b>42,368</b>	<b>53,991</b>	<b>61,959</b>	<b>72,456</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
<b>Cash flow from operations</b>	<b>3,498</b>	<b>918</b>	<b>2,474</b>	<b>3,076</b>	<b>4,964</b>
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)
<b>Cash flow from investing</b>	<b>(2,385)</b>	<b>(673)</b>	<b>(1,817)</b>	<b>(2,824)</b>	<b>(2,910)</b>
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)	(1,156)	(1,156)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(696)</b>	<b>(868)</b>	<b>(911)</b>	<b>(236)</b>	<b>(305)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>418</b>	<b>(623)</b>	<b>(254)</b>	<b>16</b>	<b>1,748</b>
<b>Closing cash &amp; cash eq.</b>	<b>6,112</b>	<b>4,147</b>	<b>2,473</b>	<b>2,489</b>	<b>4,237</b>

### Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	10.4	17.4	41.5	30.6	43.3
Adjusted EPS	10.4	17.4	27.0	30.6	43.3
Dividend per share	4.0	10.0	12.0	12.0	12.0
Book value per share	91.9	105.7	138.2	156.8	188.1

### Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	3.2	2.3	1.7	1.5	1.3
EV/EBITDA	57.7	40.0	28.1	22.0	17.0
Adjusted P/E	138.0	82.6	53.2	46.9	33.2
P/BV	15.6	13.6	10.4	9.2	7.6

### DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	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	0.6
<b>Adjusted ROAE</b>	<b>12.0</b>	<b>17.6</b>	<b>22.1</b>	<b>20.8</b>	<b>25.1</b>

### Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
<b>YoY growth (%)</b>					
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
<b>Profitability &amp; Return ratios (%)</b>					
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	20.8	25.1
ROCE	11.2	14.9	17.9	17.5	20.5
<b>Working capital days (days)</b>					
Receivables	69	72	71	71	71
Inventory	76	69	66	67	66
Payables	137	123	115	115	115
<b>Ratios (x)</b>					
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
<b>Adjusted debt/equity</b>	<b>0.5</b>	<b>0.3</b>	<b>0.5</b>	<b>0.5</b>	<b>0.5</b>

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

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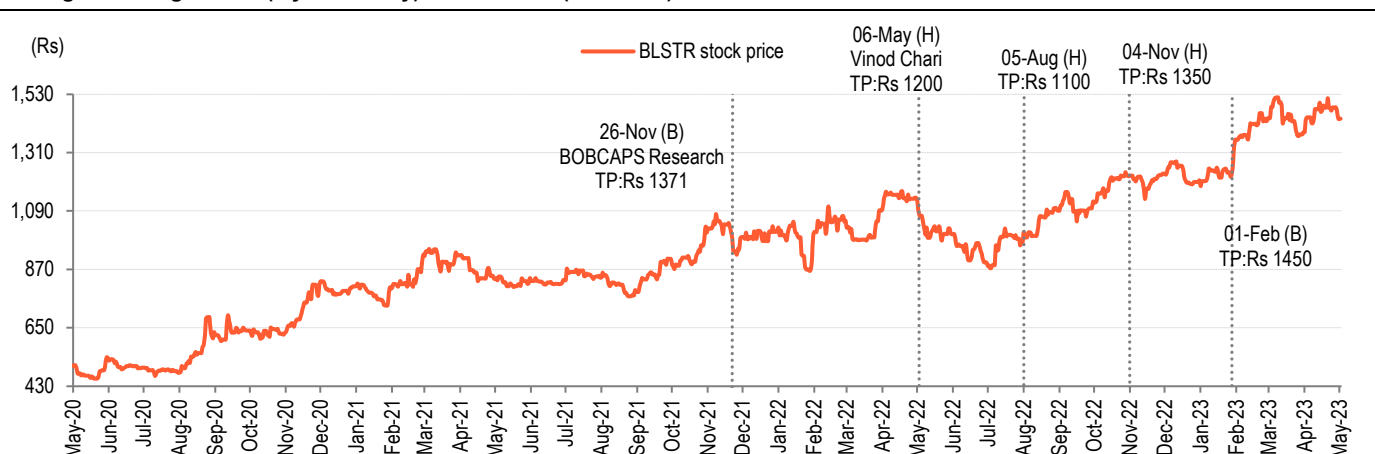
### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- 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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