

**BUY**  
 TP: Rs 1,870 | ▲ 15%

**BLUE STAR**

Consumer Durables

07 August 2024

**Strong quarter; outlook bright**

- **Topline jumps 28.7% in Q1, with gross margin rising 140bps and EBITDA margin 180bps**
- **UCP segment surges 44.3% in Q1; market share steady at 13.75%; management reaffirms 25%-30% revenue growth in FY25**
- **We raise FY25E/FY26E EPS by 2%/4%, introduce FY27 estimates, and value the stock at 44x P/E. We set a new TP of Rs 1,870. Maintain BUY**

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**Robust quarter:** BLSTR's Q1FY25 revenue increased 29% YoY to Rs 28.6bn, in line with our estimates. EBITDA jumped 64% YoY to Rs 2.3bn, surpassing our estimates due to robust performances across all verticals. The unitary cooling product (UCP) and electromechanical project (EMP) segments continued to thrive, fuelling management's optimism for FY25 growth. EBITDA margin expanded by 180bps YoY and 100bps QoQ to 8.3%. APAT surged to Rs 1.68bn, a strong 102% YoY increase. The company's carry-forward order book as of Jun'24 grew ~14%, setting a record at Rs 60.8bn.

**UCP segment shines:** The UCP division grew a robust 44.3% YoY, driven by a severe nationwide heatwave, achieving a strong EBIT margin of 9.1%. This performance surpassed Lloyd's EBIT margin of 3.3%. BLSTR is rapidly gaining market share and now commands 13.75% of the market, near its FY25 target of 15%. Management is optimistic about reaching this goal by FY25, bolstered by strategic brand building, a broader product portfolio, and enhanced distribution efforts.

**EMP business hits new heights:** The EMP division delivered a striking topline of Rs 10.3bn with an EBIT margin of 9.9% in Q1, showcasing notable gains sequentially and YoY. This robust margin, up 240bps QoQ and 290bps YoY, marks a new high for the segment. The order book jumped 13% YoY to Rs 45bn, fuelled by a surge in commercial air conditioning systems, underscoring the division's dynamic performance and growth trajectory.

**Maintain BUY, raise TP to Rs 1,870:** BLSTR's UCP business was robust in Q1 and its EMP business has a robust order backlog along with the benefit of strong industry tailwinds. We raise our FY25/FY26 EPS estimates by 2%/4% on the back of the strong quarterly performance and buoyant outlook for FY25. Also, we introduce our FY27 estimates. Upon rolling forward valuations to Jun'26E, our TP increases to Rs 1,870 (from Rs 1,670), based on an unchanged target P/E of 44x. Our target multiple is at ~20% premium to the stock's five-year average. Maintain BUY.

**Key changes**

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,622
Market cap	US\$ 3.7bn
Free float	61%
3M ADV	US\$ 9.0mn
52wk high/low	Rs 1,898/Rs 702
Promoter/FPI/DII	39%/11%/25%

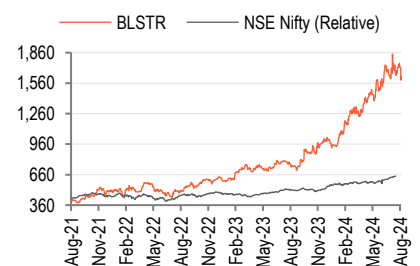
Source: NSE | Price as of 7 Aug 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	96,854	117,577	138,311
EBITDA (Rs mn)	6,649	9,242	11,345
Adj. net profit (Rs mn)	4,150	6,006	7,548
Adj. EPS (Rs)	21.5	31.2	39.2
Consensus EPS (Rs)	21.5	30.0	37.0
Adj. ROAE (%)	21.1	21.1	22.3
Adj. P/E (x)	75.3	52.0	41.4
EV/EBITDA (x)	47.0	33.8	27.5
Adj. EPS growth (%)	59.6	44.7	25.7

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	BOBCAP Est. Q1FY25E	Variance (%)
Revenue	28,654	22,260	28.7	33,278	(13.9)	28,938	(1.0)
EBITDA	2,378	1,450	64.0	2,419	(1.7)	2,003	18.7
EBITDA Margin (%)	8.3	6.5	179bps	7.3	103bps	6.9	140bps
Depreciation	280	228		283			
Interest	76	180		122			
Other Income	238	94		124			
PBT	2,259	1,136	98.9	2,138	5.7		
Tax	573	302		544			
Adjusted PAT	1,687	834	102.3	1,597	5.6	1,271	32.7
Exceptional item							
Reported PAT	1,687	834	102.3	1,597	5.6		
Adj. PAT Margin (%)	5.9	3.7	210bps	4.8	110bps		
EPS (Rs)	8.8	4.3	102.3	8.3	5.9		

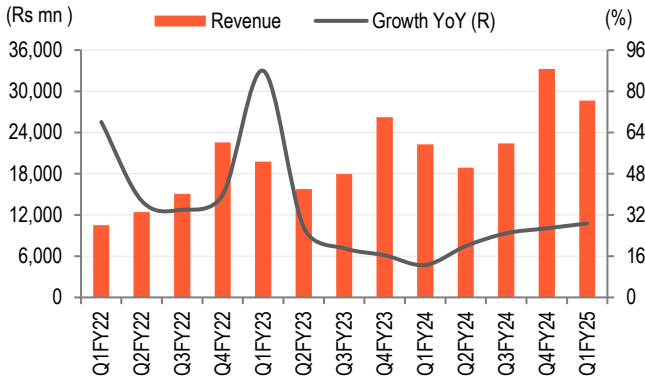
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Revenues</b>													
Electro- Mechanical Projects And Packaged AC systems	5,052	7,234	8,299	11,399	7,934	9,591	10,030	12,526	9,491	10,772	11,823	15,068	10,390
yoy growth (%)	61.7	33.8	41.7	46.2	57.0	32.6	20.9	9.9	19.6	12.3	17.9	20.3	9.5
Professional Electronics & Industrial Systems	414	616	667	776	527	924	862	1,035	784	837	1,035	1,121	969
yoy growth (%)	7.0	44.5	46.8	55.9	27.2	49.9	29.3	33.4	48.9	(9.4)	20.1	8.3	23.5
Unitary Products	5,054	4,547	6,097	10,367	11,242	5,248	7,050	12,677	11,985	7,295	9,554	17,089	17,295
yoy growth (%)	83.9	42.7	23.7	32.6	122.5	15.4	15.6	22.3	6.6	39.0	35.5	34.8	44.3
<b>EBIT</b>													
Electro- Mechanical Projects And Packaged AC systems	200	465	524	758	452	607	717	992	666	653	967	1,125	1,030
Margin (%)	4.0	6.4	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1	8.2	7.5	9.9
Professional Electronics & Industrial Systems	56	98	128	143	59	138	110	198	105	122	152	136	96
Margin (%)	13.4	16.0	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6	14.7	12.1	9.9
Unitary Products	218	233	388	721	911	324	518	1,070	893	616	679	1,414	1,580
Margin (%)	4.3	5.1	6.4	7.0	8.1	6.2	7.4	8.4	7.5	8.4	7.1	8.3	9.1

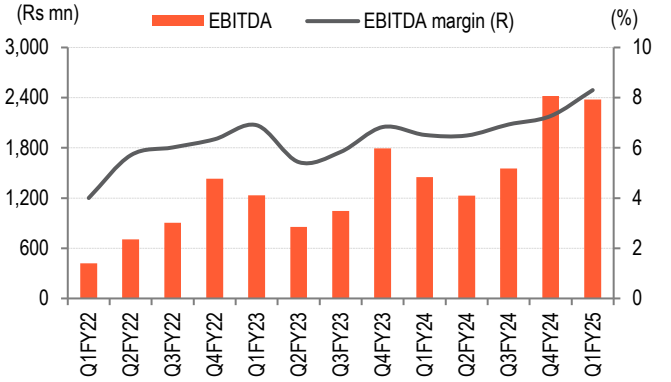
Source: Company, BOBCAPS Research

**Fig 3 – Revenue growth trend**



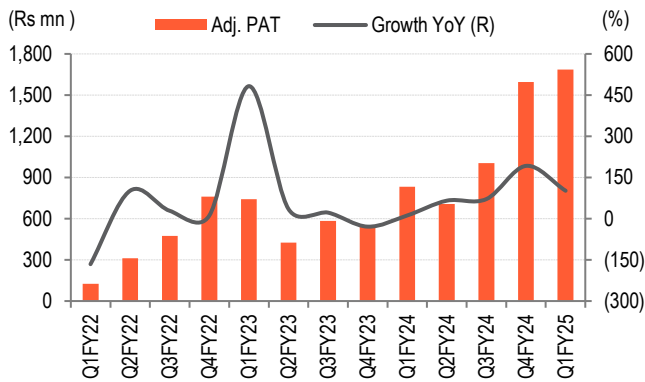
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**



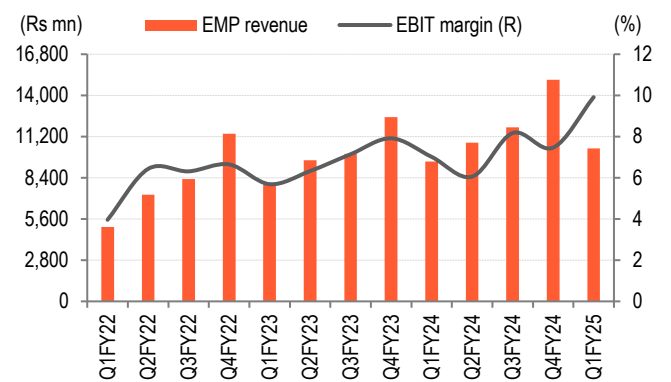
Source: Company, BOBCAPS Research

**Fig 5 – Net profit trend**



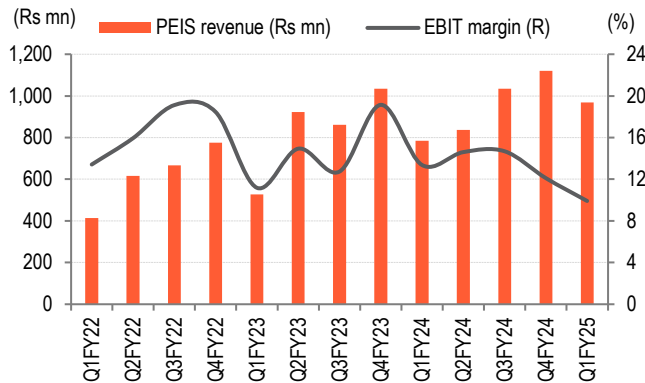
Source: Company, BOBCAPS Research

**Fig 6 – EMP vertical's growth trend**



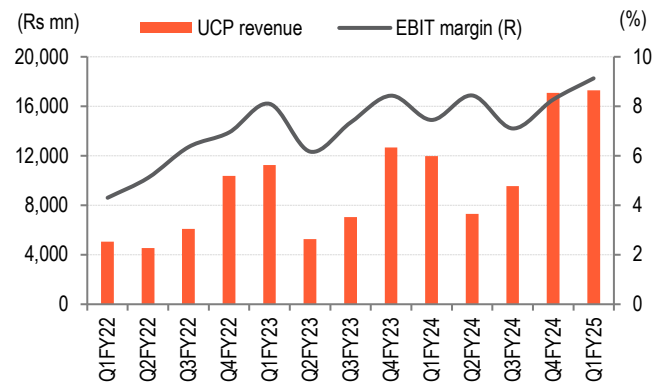
Source: Company, BOBCAPS Research

**Fig 7 – PEIS vertical's growth trend**



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

**Fig 8 – UCP vertical's growth trend**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Electro-Mechanical Products

- **Segment performance:** In the EMP business, the company reported topline of Rs 10.3bn for Q1, ~10% growth YoY. EBIT margin for Q1 stood at 9.9% . Margin here is expected to hover at 7.5-8% and management believes that 20-35% revenue growth is possible here.
- **Order book:** The company ended the year with a Rs 45bn order book, growth of 12.9% over Q1FY24, due to growth coming in from commercial air conditioner systems.
- **Electromechanical projects and market dynamics:** Despite limited traction in the commercial building sector, the electromechanical projects business experienced robust bookings from the factories and data center sectors. This growth was largely driven by ongoing government efforts to encourage manufacturing investments through Production-Linked Incentive (PLI) initiatives. Also, there was a noticeable increase in inquiries from the healthcare and retail sectors. The railway electrification sector saw a consistent inflow of inquiries and tenders, although there was a slowdown in order finalisations in the power and metro railway sectors.
- **Commercial Air Conditioning Systems:** The demand for commercial air conditioning systems in the government sector remained subdued. However, increased demand from the education, manufacturing, and retail sectors more than compensated by driving revenue growth during the quarter. Price revisions and prudent cost management contributed to improved margins. Strong demand continued in tier-3 and -4 cities, with significant orders primarily driven by ducted systems and VRF (variable refrigerant flow) chillers
- **Market position:** The company maintained its top position in conventional and inverter ducted air conditioning systems and ranked among the top three players in India in scroll chillers, VRF, and screw chillers. This quarter also saw the expansion of the product range with the commercial launch of state-of-the-art chillers for data centre replication and brine chillers. With these new product lines, the company is confident of penetrating new market segments, especially with high-margin products, leading to a significant improvement in EMP's margin in Q1FY25 compared to Q1FY24.
- **International business:** Demand in the Middle East and Africa remained subdued during the quarter. Despite this, the company is strategically focusing its international business efforts to address market needs accordingly. Investments in R&D are ongoing to expand the product portfolio and enhance offerings. BLSTR's subsidiaries in the US and Europe are actively engaging with customers, and management expects business activity in these regions to pick up traction soon.

### Unitary Cooling Products

- **Segment performance:** The UCP segment grew 44.3% YoY with topline of Rs 17.2bn during Q1.

- **Cooling and Purification Products:** The cooling and purification products business experienced exceptionally strong growth this quarter, particularly for room air conditioners (RACs), driven by seasonal demand and unusually high temperatures. The demand exceeded inventory plans, but the company successfully capitalised on this by ramping up production. Despite a 50% increase in production, some market demand in May was unmet. Margins for the quarter improved due to volume growth, which enhanced operating leverage. The performance in Q1FY25 was exceptional, and the company remains optimistic about growth prospects for the entire year.
- **RAC market:** The RAC market grew 65-75% in Q1FY25, which is expected to be the peak of this summer season. Management expects the RAC industry to grow by 20-25% annually, and expects BLSTR to grow at 25-30%.
- **Market share:** The company estimates its market share to remain at 13.75%, which is flat QoQ.
- **Commercial refrigeration business:** The commercial refrigeration market, including deep freezers, water coolers, and modular cold rooms, continued to grow at a CAGR of 15%. However, regulatory changes for water coolers announced in the last week of Mar'24 impacted sales in Q1FY25. Although production and sales normalised in Q2FY25, the substantial reduction in water cooler sales resulted in lower-than-expected revenue growth and profitability for Q1FY25. Despite this, the company maintains its leadership in key categories such as deep freezer storage, water coolers, and modular cold rooms.
- **Market outlook and growth prospects:** The outlook for the commercial refrigeration market remains strong, and the company expects to accelerate its growth in the coming quarters. Continued investments in research and development and strategic focus on meeting market demands are expected to drive sustained growth. The company's leadership in key product categories and ability to adapt to regulatory changes position it well for future expansion and profitability.
- **Profitability:** EBIT margin for Q1 stood at 9.1% which is 160bps expansion vs Q1FY24.

### Professional Electronics and Industrial Systems

- **Segment performance:** The PEIS business showed healthy performance as well, with revenue growth at ~24% in Q1. Q1FY25 EBIT margin was 350bps lower at 9.9%. While most product categories performed well, supply chain disruptions and cost overruns in the MedTech business impacted segment margins.
- **Positive business outlook and robust order books:** Despite challenges, the year started on a positive note with robust demand for BLSTR's product portfolio. The outlook for the remainder of the year remains favourable, with expectations of sustained growth driven by ongoing market trends and the launch of new products. The company is pleased to announce that its order books remain robust, reflecting the sustained confidence and trust placed in them by esteemed customers and partners. This strong order book is indicative of continued growth and a positive trajectory for the business.

### Other highlights

- **Capex:** The company's capex plan for the current year is around Rs 4.5bn. Over the next two to three years, this expenditure could range between Rs 7.5bn and Rs 8bn. This aligns with the previously indicated capex plan, and the company remains committed to it. Any new developments will be assessed as they arise.
- **QIP funds utilisation:** The funds raised through the Qualified Institutional Placement (QIP) in September last year were allocated for specific purposes, including cab manufacturing, R&D, digitalisation, and growing working capital needs. These funds were utilised as planned, supporting the company's strategic initiatives and operational requirements.
- **Liquidity profile:** The net cash balance stood at Rs 10bn, compared to net borrowing of Rs 2bn in Q1FY24.
- **Profitability:** Gross and EBITDA margins expanded during the quarter and the year ended Mar'24, largely due to better raw material pricing. Adjusted PAT grew 2x to Rs 1.5bn in Q1.

## Valuation methodology

BLSTR's UCP business demonstrated exceptional strength in Q1, while its EMP segment benefitted from a robust order backlog and favourable industry tailwinds. In response to this strong quarterly performance and promising outlook for FY25, we have raised our FY25/FY26 EPS estimates by 2% and 4%, respectively. Also, we introduce FY27 estimates. As we roll forward our valuations to Jun'26, our TP rises to Rs 1,870 (from Rs 1,670), maintaining a P/E ratio of 44x. This new TP reflects ~20% premium over the stock's five-year average. We continue to maintain our BUY recommendation.

**Fig 9 – Revised estimates**

Particulars (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	117,577	138,311	162,501	113,231	127,907	NA	3.8	8.1	NA
EBITDA	9,242	11,345	13,927	9,064	10,895	NA	2.0	4.1	NA
PAT	6,006	7,548	9,407	5,880	7,227	NA	2.1	4.4	NA
EPS (Rs)	31.2	39.2	48.8	30.5	37.5	NA	2.1	4.4	NA
EBITDA Margin (%)	7.9	8.2	8.6	8.0	8.5	NA	(10bps)	(30bps)	NA

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- inability to expand UCP market share amid 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	1.7	4,286	4,200	HOLD
Blue Star	BLSTR IN	3.7	1,622	1,870	BUY
Crompton Greaves	CROMPTON IN	3.3	435	520	BUY
Dixon Technologies	DIXON IN	8.2	11,607	13,800	BUY
Havells India	HAVL IN	13.6	1,824	1,900	HOLD
KEI Industries	KEII IN	4.4	4,137	4,100	HOLD
Orient Electric	ORIENTEL IN	0.7	261	300	HOLD
Polycab India	POLYCAB IN	12.0	6,707	7,100	HOLD
Syrma SGS	SYRMA IN	0.9	416	450	HOLD
V-Guard Industries	VGRD IN	2.4	473	440	HOLD
Voltas	VOLT IN	5.8	1,470	1,410	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>79,773</b>	<b>96,854</b>	<b>117,577</b>	<b>138,311</b>	<b>162,501</b>
EBITDA	4,928	6,649	9,242	11,345	13,927
Depreciation	848	976	1,176	1,335	1,475
EBIT	4,080	5,673	8,066	10,010	12,452
Net interest inc./(exp.)	(547)	(581)	(527)	(519)	(566)
Other inc./(exp.)	309	474	522	600	690
Exceptional items	0	0	0	0	0
EBT	3,842	5,567	8,061	10,091	12,576
Income taxes	1,243	1,429	2,056	2,543	3,169
Extraordinary items	(1,400)	0	0	0	0
Min. int./Inc. from assoc.	4	5	0	0	0
<b>Reported net profit</b>	<b>4,001</b>	<b>4,150</b>	<b>6,006</b>	<b>7,548</b>	<b>9,407</b>
Adjustments	(1,400)	0	0	0	0
<b>Adjusted net profit</b>	<b>2,601</b>	<b>4,150</b>	<b>6,006</b>	<b>7,548</b>	<b>9,407</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	25,112	26,166	37,045	43,577	51,199
Other current liabilities	8,358	10,746	13,045	15,346	18,030
Provisions	0	0	0	0	0
Debt funds	6,620	2,429	4,787	5,190	5,661
Other liabilities	595	740	893	1,046	1,225
Equity capital	193	411	411	411	411
Reserves & surplus	13,114	25,690	30,347	36,547	44,605
Shareholders' fund	13,307	26,101	30,758	36,958	45,016
<b>Total liab. and equities</b>	<b>53,991</b>	<b>66,183</b>	<b>86,529</b>	<b>102,118</b>	<b>121,131</b>
Cash and cash eq.	2,473	3,774	9,955	13,770	17,907
Accounts receivables	15,488	19,526	23,266	27,626	32,306
Inventories	14,334	14,072	19,105	21,284	25,706
Other current assets	10,211	13,029	15,817	18,606	21,860
Investments	0	0	0	0	0
Net fixed assets	8,813	9,800	11,124	12,289	13,314
CWIP	609	1,081	1,312	1,543	1,813
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	2,062	4,902	5,950	7,000	8,224
<b>Total assets</b>	<b>53,991</b>	<b>66,183</b>	<b>86,529</b>	<b>102,118</b>	<b>121,131</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>2,474</b>	<b>2,892</b>	<b>8,799</b>	<b>8,387</b>	<b>8,831</b>
Capital expenditures	(1,821)	(4,333)	(2,500)	(2,500)	(2,500)
Change in investments	342	(1,012)	0	0	0
Other investing cash flows	(337)	98	(1,127)	(1,128)	(1,316)
<b>Cash flow from investing</b>	<b>(1,817)</b>	<b>(5,246)</b>	<b>(3,627)</b>	<b>(3,628)</b>	<b>(3,816)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	717	(4,392)	2,358	403	471
Interest expenses	0	0	0	0	0
Dividends paid	(1,627)	8,040	(1,348)	(1,348)	(1,348)
Other financing cash flows	0	0	0	0	0
<b>Cash flow from financing</b>	<b>(911)</b>	<b>3,648</b>	<b>1,009</b>	<b>(945)</b>	<b>(878)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(254)</b>	<b>1,294</b>	<b>6,182</b>	<b>3,814</b>	<b>4,138</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,473</b>	<b>3,774</b>	<b>9,955</b>	<b>13,770</b>	<b>17,907</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	20.8	21.5	31.2	39.2	48.8
Adjusted EPS	13.5	21.5	31.2	39.2	48.8
Dividend per share	6.0	7.0	7.0	7.0	7.0
Book value per share	69.1	135.5	159.7	191.9	233.7

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.9	3.2	2.7	2.3	1.9
EV/EBITDA	63.4	47.0	33.8	27.5	22.4
Adjusted P/E	120.2	75.3	52.0	41.4	33.2
P/BV	23.5	12.0	10.2	8.5	6.9

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	67.7	74.5	74.5	74.8	74.8
Interest burden (PBT/EBIT)	94.2	98.1	99.9	100.8	101.0
EBIT margin (EBIT/Revenue)	5.1	5.9	6.9	7.2	7.7
Asset turnover (Rev./Avg TA)	9.1	9.9	10.6	11.3	12.2
Leverage (Avg TA/Avg Equity)	0.8	0.5	0.4	0.4	0.3
Adjusted ROAE	22.1	21.1	21.1	22.3	23.0

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	32.0	21.4	21.4	17.6	17.5
EBITDA	42.2	34.9	39.0	22.8	22.8
Adjusted EPS	55.1	59.6	44.7	25.7	24.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	6.2	6.9	7.9	8.2	8.6
EBIT margin	5.1	5.9	6.9	7.2	7.7
Adjusted profit margin	3.3	4.3	5.1	5.5	5.8
Adjusted ROAE	22.1	21.1	21.1	22.3	23.0
ROCE	17.9	18.9	20.0	20.4	21.2
<b>Working capital days (days)</b>					
Receivables	71	74	72	73	73
Inventory	66	53	59	56	58
Payables	115	99	115	115	115
<b>Ratios (x)</b>					
Gross asset turnover	7.1	6.5	6.9	7.1	7.4
Current ratio	1.1	1.3	1.3	1.3	1.4
Net interest coverage ratio	7.5	9.8	15.3	19.3	22.0
Adjusted debt/equity	0.5	0.1	0.2	0.1	0.1

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



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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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CIN: **U65999MH1996GOI098009**



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

**BUY** – Expected return >+15%

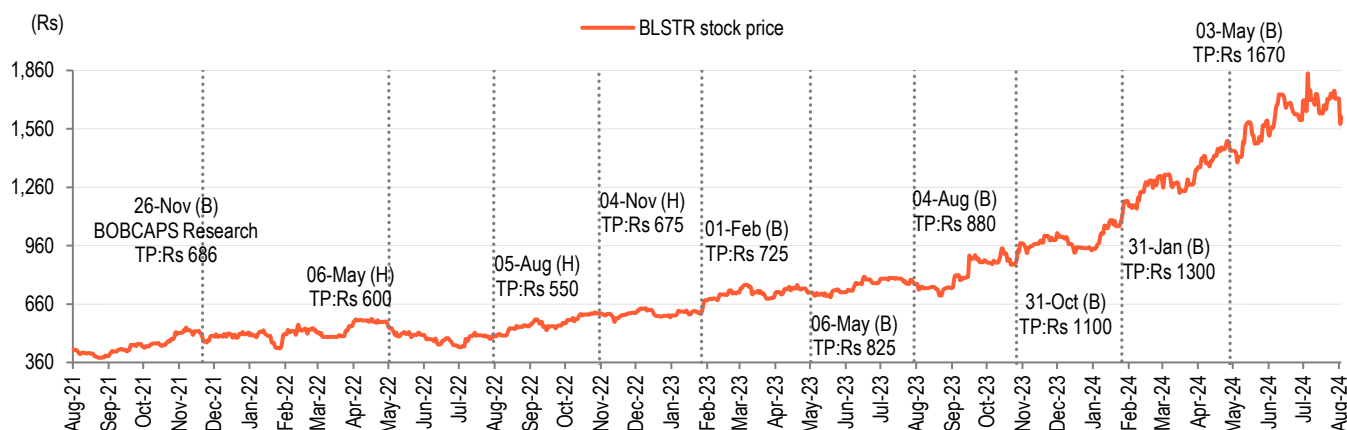
**HOLD** – Expected return from -6% to +15%

**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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