

BUY

TP: Rs 2,100 | ▲ 18%

BLUE STAR

Consumer Durables

07 November 2024

Strong EMP growth & RAC performance amid soft quarter

- **Topline jumps 20.4% in Q2, with gross margin rising 170bps due to better product mix and material cost reductions**
- **EMPS segment surges 32% in Q2; MS steady at 13.75%; UCP flattish. Management reaffirms 25-30% revenue growth in FY25 for UCP**
- **Reflecting Q2 & our optimism for FY25, we now value BLSTR at a P/E of 47x. We roll forward valuations to Sep'26, raising TP to Rs 2,100. BUY**

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Quarter gone by: BLSTR's Q2FY25 revenue increased 20% YoY to Rs 22.8bn, marginally above our estimate of Rs 22.3bn. Gross margin expanded 170bps YoY to 26.5% on better revenue mix and cost saving initiatives, in our view. However, the benefits of gross margin expansion were largely offset at EBITDA margin (+7bps YoY) by higher staff and other expenses. The electromechanical project (EMP) segment continued to perform strong, fueling management's optimism for 2HFY25 growth. APAT surged to Rs 962mn, a strong 36% YoY increase. The company's carry-forward order book as of Sep'24 grew ~10% to Rs 66bn.

EMPS drives growth; strong RAC demand in soft quarter: YoY revenue growth by segment showed EMP projects leading with a 32.6% increase, fueled by growth in manufacturing, data centres, and commercial real estate. UCP grew by 5.1%, while PEIS declined by 3.8%. EBIT margins improved by 220bps in EMP projects but dropped by 140bps in UCP and 820bps in PEIS. Within UCP, demand for RAC drove growth during a typically slower period, with BLSTR seeing a 53% rise in RAC volumes and 45% increase in sales for H1FY25. However, growth in Q2FY25 eased to 27% in volume and 25% in value. Commercial refrigeration faced setbacks due to new regulatory requirements and delays in ramping up deep freezer production.

Guidance retained: The revenue and margin guidance for UCP remains at 25-30% sales growth with an 8.5-9% margin, while management expects EMPS to maintain 7.5-8% margin. The capex and product development budget is set between Rs 3bn and Rs 4bn. Also, the PEIS business is anticipated to recover in Q4FY25.

Maintain BUY: We anticipate BLSTR earnings growth to maintain its momentum in H2FY25E, driven by strong performances in the EMP and UCP segments, cost-saving initiatives, and improved operating leverage. Reflecting the robust Q2 performance and an optimistic outlook for FY25, we now value the stock at 47x P/E (previously 44x) and with our valuation now rolled forward to Sep'26, the TP rises to Rs 2,100 (from Rs 1,870), a ~20% premium over the stock's five-year average. We maintain a BUY rating.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,779
Market cap	US\$ 4.1bn
Free float	61%
3M ADV	US\$ 10.6mn
52wk high/low	Rs 2,200/Rs 902
Promoter/FPI/DII	39%/11%/25%

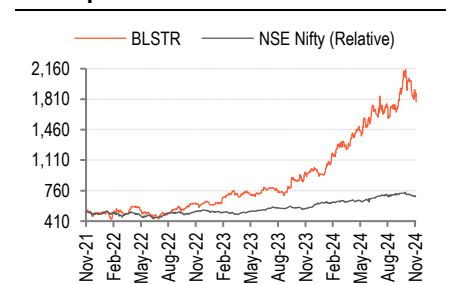
Source: NSE | Price as of 7 Nov 2024

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)	82.6	57.0	45.4
EV/EBITDA (x)	51.5	37.1	30.2
Adj. EPS growth (%)	59.6	44.7	25.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	Q2FY25E	Variance (%)
Revenue	22,760	18,904	20.4	28,654	(20.6)	51,413	41,164	24.9	22,269	2.2
EBITDA	1,493	1,227	21.7	2,378	(37.2)	3,871	2,677	44.6	1,476	1.2
EBITDA Margin (%)	6.6	6.5	7bps	8.3	(174bps)	7.5	6.5	102.7	6.6	(10bps)
Depreciation	300	230		280		580	458			
Interest	65	177		76		141	357			
Other Income	185	130		238		423	224			
PBT	1,314	950	38.3	2,259	(41.8)	3,573	2,086	71.3		
Tax	350	243		573		923	545			
Adjusted PAT	961	707	35.8	1,687	(43.1)	2,647	1,541	71.8	919	4.5
Exceptional item	-	-				-	-			
Reported PAT	961	707	35.8	1,687	(43.1)	2,647	1,541	71.8		
Adj. PAT Margin (%)	4.2	3.7	50bps	5.9	(170bps)	5.1	3.7	140bps		
EPS (Rs)	5.0	3.7	36.2	8.8	(42.9)	13.8	8.0	72.0		

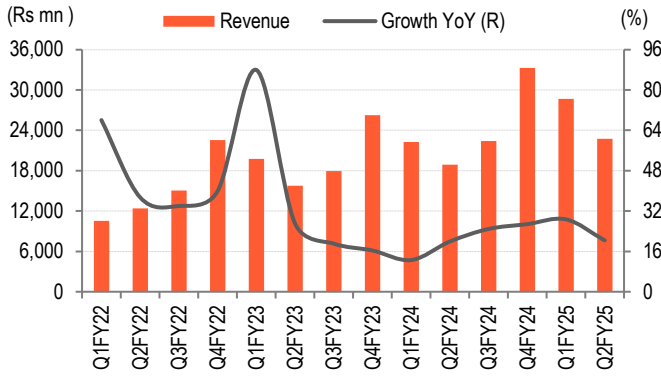
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Revenues													
Electro-Mechanical Projects And Packaged AC systems	7,234	8,299	11,399	7,934	9,591	10,030	12,526	9,491	10,772	11,823	15,068	10,390	14,284
YoY growth (%)	33.8	41.7	46.2	57.0	32.6	20.9	9.9	19.6	12.3	17.9	20.3	9.5	32.6
Professional Electronics & Industrial Systems	616	667	776	527	924	862	1,035	784	837	1,035	1,121	969	805
YoY growth (%)	44.5	46.8	55.9	27.2	49.9	29.3	33.4	48.9	(9.4)	20.1	8.3	23.5	(3.8)
Unitary Products	4,547	6,097	10,367	11,242	5,248	7,050	12,677	11,985	7,295	9,554	17,089	17,295	7,670
YoY growth (%)	42.7	23.7	32.6	122.5	15.4	15.6	22.3	6.6	39.0	35.5	34.8	44.3	5.1
EBIT													
Electro-Mechanical Projects and Packaged AC systems	465	524	758	452	607	717	992	666	653	967	1,125	1,030	1,192
Margin (%)	6.4	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1	8.2	7.5	9.9	8.3
Professional Electronics & Industrial Systems	98	128	143	59	138	110	198	105	122	152	136	96	52
Margin (%)	16.0	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6	14.7	12.1	9.9	6.4
Unitary Products	233	388	721	911	324	518	1,070	893	616	679	1,414	1,580	539
Margin (%)	5.1	6.4	7.0	8.1	6.2	7.4	8.4	7.5	8.4	7.1	8.3	9.1	7.0

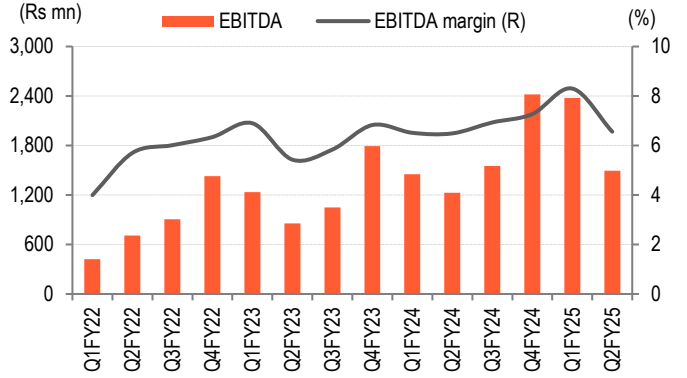
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



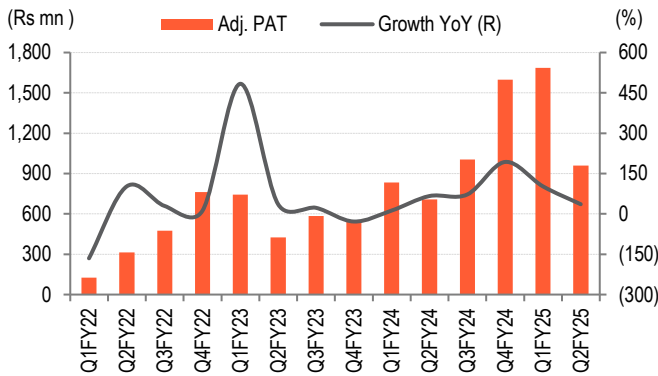
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



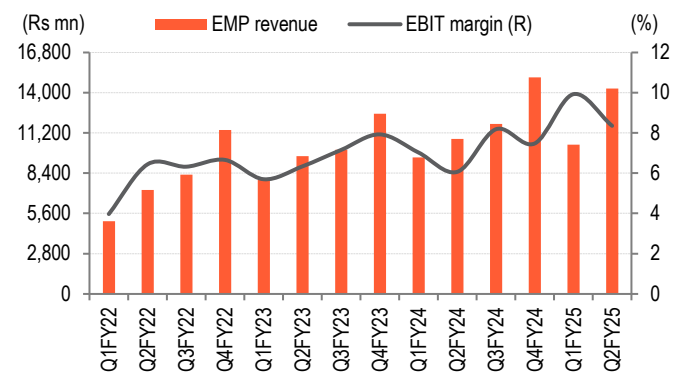
Source: Company, BOBCAPS Research

Fig 5 – Net profit trend



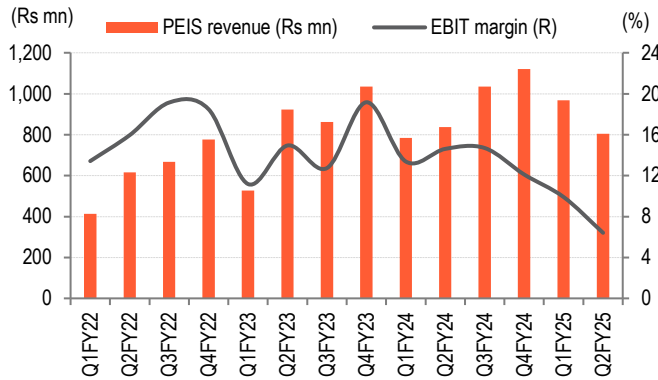
Source: Company, BOBCAPS Research

Fig 6 – EMP vertical's growth trend



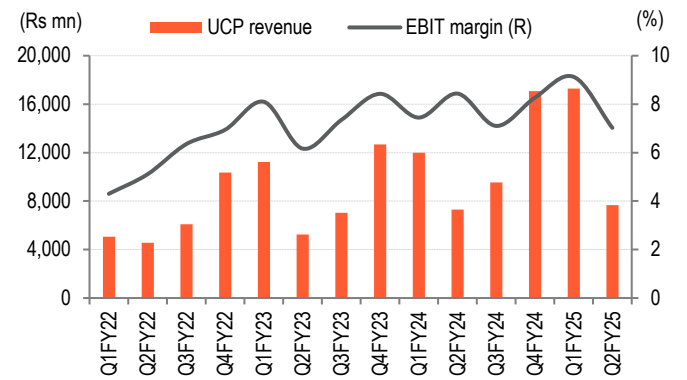
Source: Company, BOBCAPS Research | EMP: Electro-Mechanical Projects

Fig 7 – PEIS vertical's growth trend



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

Fig 8 – UCP vertical's growth trend



Source: Company, BOBCAPS Research | UCP: Unitary Cooling Products

Earnings call highlights

Unitary Cooling Products

- **Quarter gone by:** In H1FY25, BLSTR reported robust growth of 53% in RAC (room air conditioners) volumes and 45% growth in value sales. Q2FY25 saw a moderation in this growth to 27% in volume and 25% in value, while October showed an uptick with 30% and 28% increases, respectively. According to GFK Nielsen data, the industry's tertiary sales volume grew 17% in Q2FY25, whereas BLSTR outperformed with a 30% increase, showcasing its strong market position in the RAC segment.
- **Significant B2B presence and focus on energy efficiency:** BLSTR remains a significant player in the B2B sales of RACs, catering to offices, banks, and other commercial spaces, although B2B sales are not captured by GFK Nielsen data. Over 50% of AC sales now occur through consumer financing, highlighting the brand's accessibility. As a result, BLSTR maintained a steady market share of 13.75% in RACs, supported by its advancements in energy-efficient AC units which is driving down power consumption for consumers.
- **Modern retail channels propel RAC sales:** About 50% of BLSTR's RAC sales is generated through modern retail formats, with partnerships spanning major national chains like Croma and Reliance Digital as well as strong regional players like Bajaj and Vivek. This multi-channel approach has been instrumental in solidifying BLSTR's footprint in the RAC market, even as it adjusts its market share target slightly to 14% by FY25, a step back from the original 15% target.
- **Water coolers face production challenges amid regulatory shifts:** Sales and production of water coolers faced setbacks due to changes in BIS (Bureau of Indian Standards) and QCO (Quality Control Order) requirements, resulting in delays as older inventory was cleared. Water coolers are a high-margin product for BLSTR, and production is expected to stabilise in the upcoming quarters, following the recent adjustments. Commercial refrigeration sales were relatively flat in Q2 but have shown normalisation starting October.
- **Expanding horizons with exports to the USA:** In Q2FY24, BLSTR's results benefited from export orders that were not present in Q2FY25, impacting the sales comparison. However, BLSTR continues to make inroads internationally, with the USA as a key export market. Initial shipments to the first American customer have been fulfilled, and ongoing product testing and validation with a second customer indicate promising expansion prospects in the export segment.

Electro-Mechanical Projects and Services

- **Steady growth in commercial AC business:** BLSTR's commercial AC (CAC) segment is experiencing consistent growth, with a robust order inflow of Rs 19bn in the recent period, up from Rs 18bn YoY. Key industries fueling this expansion include manufacturing and data centres, while infrastructure projects are showing encouraging signs of recovery. The commercial real estate sector remains strong, boosting demand for BLSTR's commercial AC solutions across various domains.

- **Expanding order book and project pipeline:** BLSTR's EMPS (Electro-Mechanical Projects and Services) order book stands at Rs 50bn, a 9% YoY increase from Rs 46bn. With a solid pipeline, the company is well-positioned to capitalise on the recovery of infrastructure projects and the steady demand within commercial real estate. This substantial order book reflects BLSTR's capability to secure and sustain long-term projects, despite challenges in certain markets.
- **Data centres drive growth with comprehensive solutions:** BLSTR has emerged as a significant player in the data centre space, where it handles complete MEP (Mechanical, Electrical, and Plumbing) work, including the provision of chillers essential to maintain data centre efficiency. This strategic focus aligns with the expanding market for data centres in India, where demand for advanced cooling solutions is on the rise. The company is addressing a significant Rs 45bn portion of the Rs 60bn commercial AC market and holds a competitive market share of 20%.
- **Diverse end-user industries fuel CAC market:** The commercial AC market is seeing robust growth across diverse sectors, with end-user industries like airports, metros, hotels, hospitals, shops, and showrooms projected to grow by 15-20% annually, according to management. Currently, the commercial building sector contributes around 20% of CAC sales, while infrastructure projects contribute 35%, underscoring the sector's resilience and potential for expansion.
- **Outlook and international prospects:** While the European market faces a temporary slowdown, BLSTR anticipates a revival in demand within the next 12-18 months. In the meantime, the company's strategic sales mix has resulted in a favourable margin increase, reflecting a strong operational foundation. As BLSTR continues to expand its reach in the CAC market, management believes this approach is balanced and will ensure resilience and readiness for future growth across domestic and international markets.

Valuation methodology

We anticipate a robust 19% revenue CAGR from FY24 to FY27E, driven by strong performance in the EMP and UCP segments, cost-saving initiatives, and improved operating leverage, which should drive ~30% earnings CAGR for the similar period.

Reflecting the robust Q2 performance and an optimistic outlook for FY25, we now value the stock at a P/E of 47x (previously 44x), a ~20% premium to the stock's five-year average, and with our valuation now rolled forward to Sep'26 the TP rises to Rs 2,100 (from Rs 1,870). We maintain our BUY rating.

Key risks

Key downside risks to our estimates are:

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	79,773	96,854	117,577	138,311	162,501
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
Reported net profit	4,001	4,150	6,006	7,548	9,407
Adjustments	(1,400)	0	0	0	0
Adjusted net profit	2,601	4,150	6,006	7,548	9,407

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
Total liab. and equities	53,991	66,183	86,529	102,118	121,131
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
Total assets	53,991	66,183	86,529	102,118	121,131

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	2,474	2,892	8,799	8,387	8,831
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)
Cash flow from investing	(1,817)	(5,246)	(3,627)	(3,628)	(3,816)
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
Cash flow from financing	(911)	3,648	1,009	(945)	(878)
Chg in cash & cash eq.	(254)	1,294	6,182	3,814	4,138
Closing cash & cash eq.	2,473	3,774	9,955	13,770	17,907

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	4.3	3.5	2.9	2.5	2.1
EV/EBITDA	69.5	51.5	37.1	30.2	24.6
Adjusted P/E	131.7	82.6	57.0	45.4	36.4
P/BV	25.7	13.1	11.1	9.3	7.6

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
YoY growth (%)					
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
Profitability & Return ratios (%)					
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
Working capital days (days)					
Receivables	71	74	72	73	73
Inventory	66	53	59	56	58
Payables	115	99	115	115	115
Ratios (x)					
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

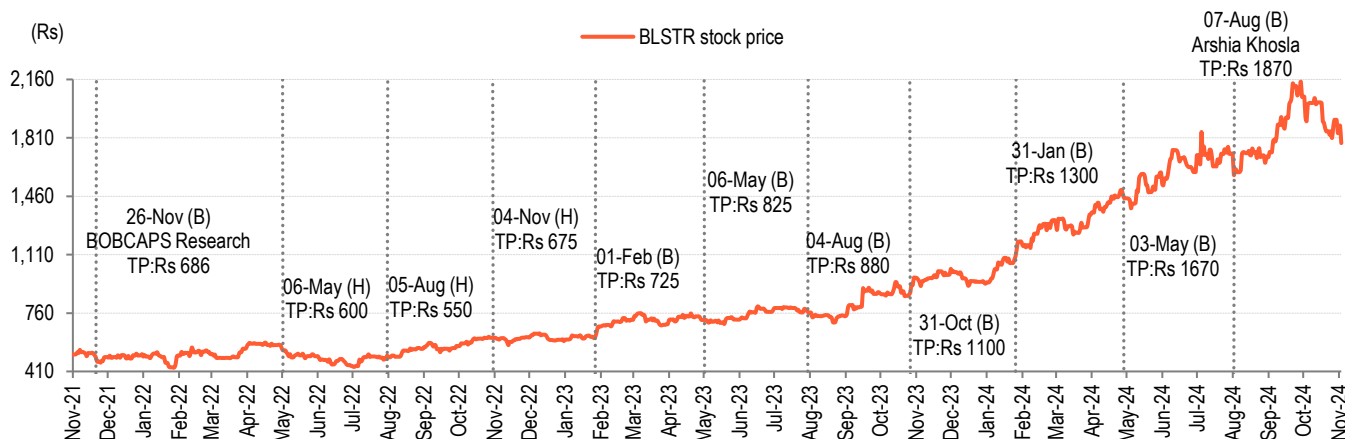
HOLD – Expected return from -6% to +15%

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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