

BUY
 TP: Rs 2,200 | ▲ 22%

BLUE STAR

| Consumer Durables

| 30 January 2025

Strong quarter; bright outlook

- **Topline jumps 25% in Q3, with EBITDA margin expanding ~60bps on better product mix**
- **EMPS segment surges 32% in Q3; market share steady at 14%; UCP also registered strong 22% YoY growth. PEIS continues to decline**
- **Reflecting Q3 & our optimism for FY25, we continue to value BLSTR at P/E of 47x, roll forward valuations to Dec'26 & raise TP to Rs 2,200. BUY**

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Quarter gone by: BLSTR's Q3FY25 revenue increased 25% YoY to Rs 28bn, above our estimate of Rs 26bn. Gross margin expanded 20bps YoY to 24.5% on lower raw material prices, in our view. EBITDA margin also expanded 53bps YoY to 7.5% due to better product mix and cost saving initiatives. The electromechanical project (EMP) segment continued to perform well, fueling management's optimism for growth in Q4FY25. APAT surged to Rs 1.2mn, a ~20% YoY increase. The company's carry-forward order book as of Dec'24 grew ~13% to Rs 68bn.

EMPS drives growth; strong RAC demand in soft quarter: YoY revenue growth by segment showed EMP projects leading with a 32% increase, fueled by growth in manufacturing, data centres, and commercial real estate. UCP (Unitary Cooling Products) grew a robust 22% YoY, while PEIS (Professional Electronics And Industrial Systems) declined by 22%. EBIT margins improved by 100bps in UCP but dropped by 60bps in EMP and 700bps in PEIS. Within UCP, demand for room air conditioners (RAC) drove growth during a typically slower period. Commercial refrigeration faced setbacks due to new regulatory requirements and delays in ramping up deep freezer production.

Management guidance: Management guided for 19% revenue CAGR in the next five years and maintained its margin guidance of 7-7.5% for EMPS and 8-8.5% for UCP. The capex and product development budget is set at Rs 7.5bn-8bn over three years. BLSTR expects the PEIS business to recover in Q4FY25.

Maintain BUY: We expect BLSTR's earnings growth momentum to remain strong in Q4FY25, supported by robust performances in the EMP and UCP segments, ongoing cost optimisation efforts, and improved operating leverage. We model a 19% revenue CAGR for FY24-FY27E, with operating efficiencies driving ~30% earnings CAGR over the same period. The company's strong Q3 results and a positive outlook for FY25 reinforce our confidence in its growth trajectory. We continue to value the stock at 47x P/E, roll forward our valuation to Dec'26, and raise the TP to Rs 2,200 (from Rs 2,100). Given these factors, we remain optimistic about BLSTR's long-term prospects.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,798
Market cap	US\$ 4.0bn
Free float	61%
3M ADV	US\$ 10.2mn
52wk high/low	Rs 2,417/Rs 1,092
Promoter/FPI/DII	39%/11%/25%

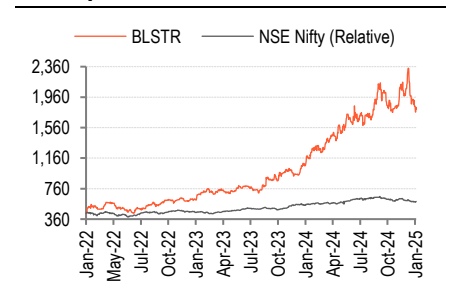
Source: NSE | Price as of 30 Jan 2025

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)	83.5	57.7	45.9
EV/EBITDA (x)	52.1	37.5	30.5
Adj. EPS growth (%)	59.6	44.7	25.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Rs mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	Q3FY25E	Variance (%)
Revenue	28,074	22,412	25.3	22,760	23.3	79,487	63,576	25.0	26,415	6.3
EBITDA	2,094	1,554	34.8	1,493	40.2	5,965	4,230	41.0	1,820	15.1
EBITDA Margin (%)	7.5	6.9	53bps	6.6	90bps	7.5	6.7	85.1	6.9	60bps
Depreciation	350	235		300		930	693			
Interest	159	102		65		301	459			
Other Income	87	127		185		510	350			
PBT	1,672	1,343	24.5	1,314	27.3	5,245	3,429	53.0		
Tax	465	339		350		1,388	884			
Adjusted PAT	1,200	1,005	19.4	961	24.9	3,847	2,546	51.1	1,207	(0.6)
Exceptional item	125	-				125	-			
Reported PAT	1,325	1,005	31.9	961	37.9	3,972	2,546	56.0		
Adj. PAT Margin (%)	4.3	4.5	(20bps)	4.2	10bps	4.8	4.0	80bps		
EPS (Rs)	6.3	5.2	20.2	5.0	25.2	20.0	13.2	51.6		

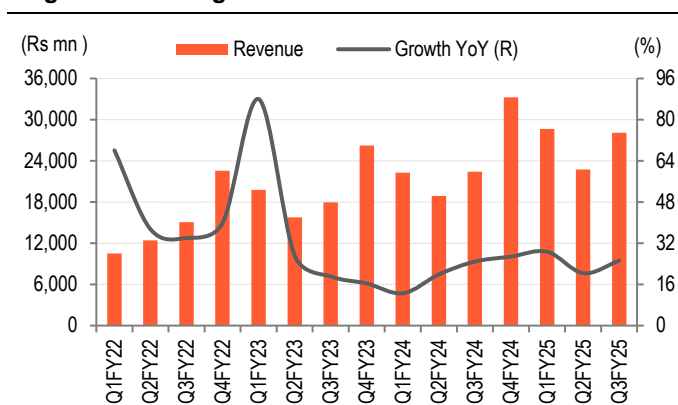
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Revenues													
Electro-Mechanical Projects and Packaged AC systems	8,299	11,399	7,934	9,591	10,030	12,526	9,491	10,772	11,823	15,068	10,390	14,284	15,624
YoY growth (%)	41.7	46.2	57.0	32.6	20.9	9.9	19.6	12.3	17.9	20.3	9.5	32.6	32.2
Professional Electronics & Industrial Systems	667	776	527	924	862	1,035	784	837	1,035	1,121	969	805	806
YoY growth (%)	46.8	55.9	27.2	49.9	29.3	33.4	48.9	(9.4)	20.1	8.3	23.5	(3.8)	(22.1)
Unitary Products	6,097	10,367	11,242	5,248	7,050	12,677	11,985	7,295	9,554	17,089	17,295	7,670	11,644
YoY growth (%)	23.7	32.6	122.5	15.4	15.6	22.3	6.6	39.0	35.5	34.8	44.3	5.1	21.9
EBIT													
Electro-Mechanical Projects and Packaged AC systems	524	758	452	607	717	992	666	653	967	1,125	1,030	1,192	1,187
Margin (%)	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1	8.2	7.5	9.9	8.3	7.6
Professional Electronics & Industrial Systems	128	143	59	138	110	198	105	122	152	136	96	52	62
Margin (%)	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6	14.7	12.1	9.9	6.4	7.7
Unitary Products	388	721	911	324	518	1,070	893	616	679	1,414	1,580	539	948
Margin (%)	6.4	7.0	8.1	6.2	7.4	8.4	7.5	8.4	7.1	8.3	9.1	7.0	8.1

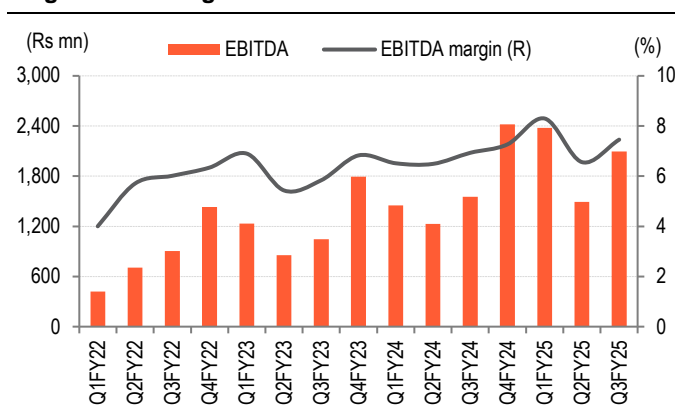
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



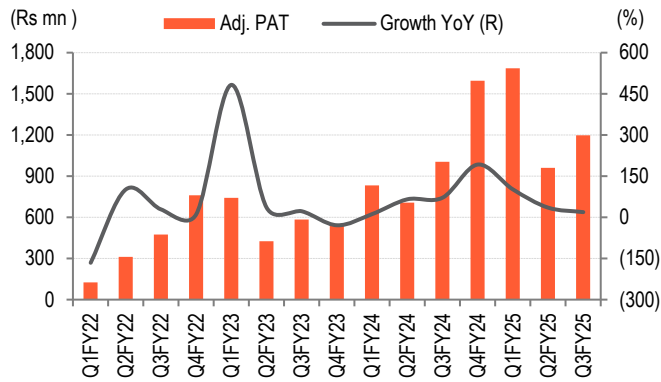
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



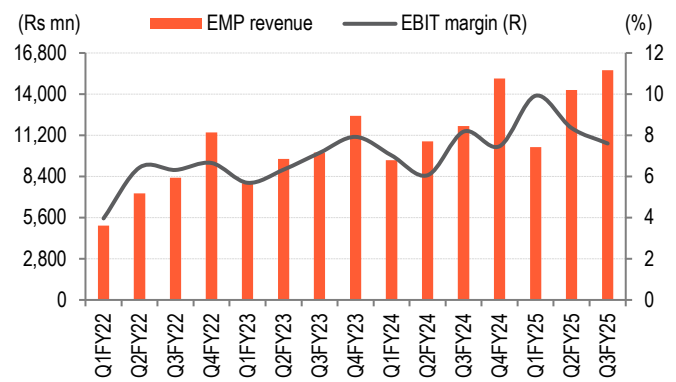
Source: Company, BOBCAPS Research

Fig 5 – Net profit trend



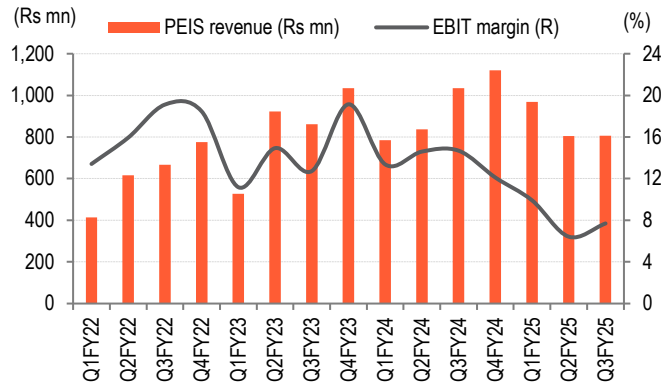
Source: Company, BOBCAPS Research

Fig 6 – EMP vertical's growth trend



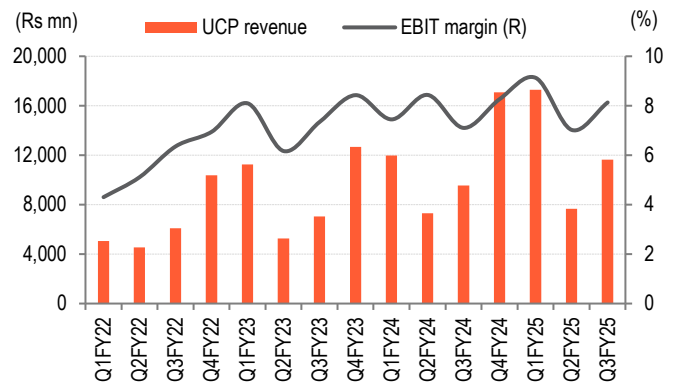
Source: Company, BOBCAPS Research

Fig 7 – PEIS vertical's growth trend



Source: Company, BOBCAPS Research

Fig 8 – UCP vertical's growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

- Steady growth with strong profitability outlook:** BLSTR delivered a strong Q3FY25 performance, with profit margin expansion driven by scale benefits and stringent cost controls. The company remains optimistic about maintaining a healthy balance sheet and expects continued growth momentum in Q4. While near-term headwinds such as rupee depreciation, rising commodity prices, and changes in U.S. trade terms pose challenges, BLSTR is well-prepared for long-term industry growth. The RAC market is projected to grow at a 19% CAGR over the next five years, with some fluctuations in annual growth rates.
- Seasonal demand and inventory management:** Inventory levels in the trade channel remain low, aligning with seasonal demand patterns as dealers prepare for summer, which begins in early March. Major stocking is expected in February to meet peak demand. The company continues to monitor inventory cycles to ensure optimal supply chain efficiency.
- Margin stability and segment recovery:** Margins are expected to remain within the guided range of 7-7.5% for EMPS and 8-8.5% for Unitary Products. The Professional Electronics segment has faced headwinds in data security and medtech over the past three quarters, while Industrial Solutions continue to perform

well. A broad-based recovery across all sub-segments is expected to support growth and margin expansion in the coming quarters.

- **Capex plans and scalable capacity expansion:** BLSTR has outlined a capex plan of Rs 7.5bn-8bn over three years to support future growth. Current RAC production capacity stands at 1.2mn units (Himachal Pradesh: 0.6mn, Sri City: 0.6mn), with modular scalability up to 1.8mn-2.4mn units as demand rises. This flexible capacity model allows the company to efficiently scale up operations as needed.

UCP

- The Unitary Products segment saw robust Q3 growth, supported by strong festive demand and dealer stocking ahead of the summer season. BLSTR's RAC market share improved to 14%, with the company aiming to reach 15% over the next two years while maintaining an operating margin of 8.5%.
- Margin expansion of 100bps to 8.1% in Q3 was driven by scale benefits from RAC sales growth. However, additional costs related to consumer finance (which accounts for 40% of RAC sales), extended warranties, e-waste regulations, and import tariffs could limit further margin expansion in the future.
- The Indian RAC industry is expected to reach 15mn units in FY25, with BLSTR contributing 1.5mn units. Supply chain conditions remain stable, ensuring adequate material availability for the peak summer season. The Indian government's focus on developing a domestic component ecosystem is expected to position India as the world's largest RAC market by 2045-2050.
- Local compressor manufacturing capacity is increasing, but BLSTR will only consider in-house production when it reaches a minimum scale of 2.5mn RAC unit sales. The next energy label change, effective Jan'26, has been accounted for, with BLSTR already developing compliant products. The company is eligible for Rs 780mn worth of PLI incentives over four years under Phase 1 of the scheme.
- In the Commercial Refrigeration segment, regulatory challenges in water coolers and deep freezers have been resolved, positioning BLSTR well for the upcoming summer season. Modular cold rooms are witnessing strong demand, particularly from quick commerce and food delivery sectors. The VISI cooler market is also seeing an uptick as retailers upgrade their stores. The commercial refrigeration segment is expected to grow at 20% CAGR, driven by these favourable industry trends.

EMPS

- The Electro-Mechanical Projects & Commercial Air Conditioning (EMPS) segment witnessed strong order finalisation, led by factory and data centre demand. However, growth in commercial AC was moderate due to liquidity challenges in select sectors, with manufacturing, retail, and education driving most of the demand.
- BLSTR maintained its leadership position in ducted systems (No. 1) and retained the No. 2 spot in VRF and chillers. Margins remained healthy at 7.6%, in line with

long-term guidance, reflecting disciplined cost management and operational efficiencies.

- The company's arbitration process for the WJT project is ongoing, with a resolution expected in 12-15 months. Despite near-term challenges in certain sectors, BLSTR's diversified growth strategy, disciplined cost management, and strategic capacity expansion position it well for sustained performance in the coming quarters.

Valuation methodology

We expect BLSTR's earnings growth momentum to remain strong in Q4FY25, supported by robust performances in the EMP and UCP segments, ongoing cost optimisation efforts, and improved operating leverage. We model a 19% revenue CAGR for FY24-FY27E, with operating efficiencies driving a ~30% earnings CAGR over the same period. The company's strong Q3 results and positive outlook for FY25 reinforce our confidence in its growth trajectory. We continue to value the stock at 47x P/E, and with our valuation now rolled forward to Dec'26 we raise the TP to Rs 2,200 (from Rs 2,100). Given these factors, we remain optimistic about BLSTR's long-term prospects. Maintain BUY.

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	3.6	2.9	2.5	2.1
EV/EBITDA	70.3	52.1	37.5	30.5	24.9
Adjusted P/E	133.2	83.5	57.7	45.9	36.8
P/BV	26.0	13.3	11.3	9.4	7.7

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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BUY – Expected return >+15%

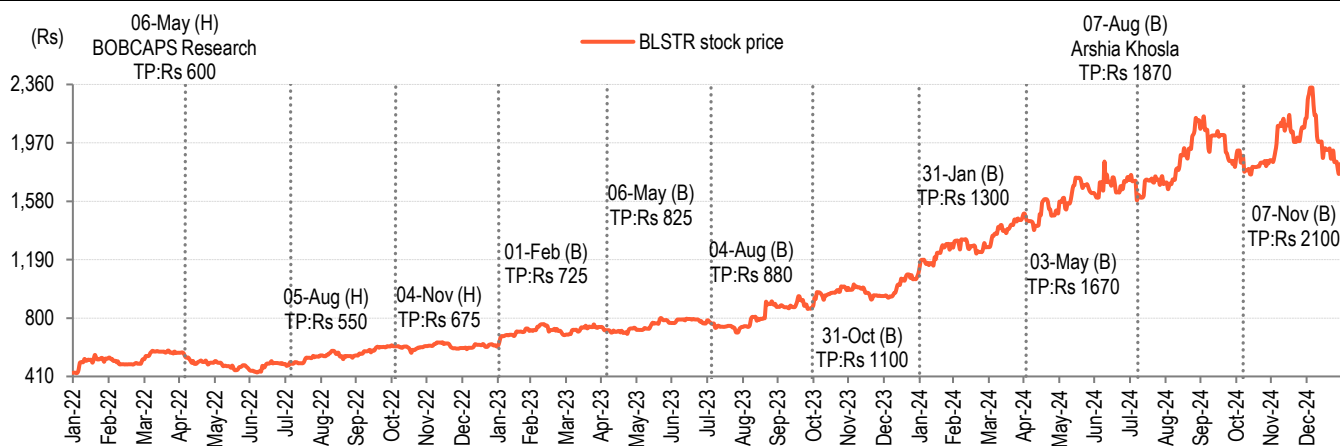
HOLD – Expected return from -6% to +15%

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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