

**BUY**

TP: Rs 1,670 | ▲ 15%

**BLUE STAR**

| Consumer Durables

| 03 May 2024

## UCP growth strong, margin outlook healthy

- Topline growth of 21.4% achieved in FY24, with gross margin expanding 120bps and EBITDA margin 70bps
- UCP segment grew 34.8% on topline in Q4; market share constant at 13.75%; management reiterated 15% target market share for FY25
- We increase FY25/FY26E EPS by 12%/13% and value the stock at 44x FY26E P/E. We raise TP to Rs 1,670 and maintain BUY

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**Strong quarter, and a strong year:** BLSTR posted a healthy quarter with 21.4% revenue growth of Rs 96.9bn in FY24. Gross margin for FY24 grew 120bps YoY to 23.7% and EBITDA margin 70bps YoY to 6.9%. Margins improved on better COGS, partially offset by higher employee and other operating costs. Adjusted PAT for FY24 grew 59.2% YoY to Rs 4.2bn. Order book remains robust at Rs 57bn, 12.3% growth YoY, with sturdy demand for BLSTR's key products.

**UCP segment above industry:** The Unitary Cooling Products (UCP) segment reported topline growth of 26.6% for FY24, above Lloyd (+12.2% YoY FY24) and industry (20% growth according to media reports). The company sold over 1mn units during the year, with a market share of 13.75%, compared to 13.5% in FY23, and stable compared to Q3FY24. Management aims to achieve 8-8.5% EBIT margin in this segment going forward.

**Other businesses offer strong outlook:** Both the Electro-Mechanical Products (EMP) and Professional Electronics and Industrial Systems (PEIS) segments are benefitting from a strong demand outlook as manufacturing, data centres and infrastructure sectors fuel growth in EMP. The PEIS segment benefits from continual capacity expansions in the country along with increasing healthcare infrastructure in semi-rural areas. The EMP/PEIS segments grew at a 17.4%/12.8% topline growth YoY in FY24. EBIT margin for EMP stood at 7.2% and PEIS at 13.6%, and management expects the EMP business to achieve a 7.5-8% margin going forward.

**Maintain BUY:** BLSTR's UCP business continues to grow well, with healthy market share. Management reiterates its 15% market share target by FY25, providing more confidence on this business. EMP remains strong with a healthy order book and continued industry tailwinds, with healthy outlook for PEIS too. Following the healthy performance during the quarter and year ended Mar'24, we raise our FY25E/FY26E EPS by 12%/13% and roll over to Mar'26E. We value BLSTR at 44x (40x earlier) FY26E P/E, a 15% premium to the stock's 2Y average, yielding a higher TP of Rs 1,670 (Rs 1,300 previously). Maintain BUY.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,448
Market cap	US\$ 3.4bn
Free float	61%
3M ADV	US\$ 5.9mn
52wk high/low	Rs 1,514/Rs 693
Promoter/FPI/DII	39%/11%/25%

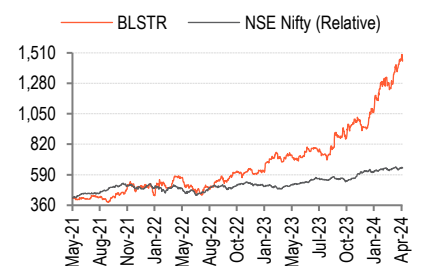
Source: NSE | Price as of 3 May 2024

### Key financials

Y/E 31 Mar	FY24P	FY25E	FY26E
Total revenue (Rs mn)	96,854	1,13,231	1,27,907
EBITDA (Rs mn)	6,649	9,064	10,895
Adj. net profit (Rs mn)	4,150	5,880	7,227
Adj. EPS (Rs)	21.5	30.5	37.5
Consensus EPS (Rs)	21.5	26.7	33.0
Adj. ROAE (%)	21.1	20.7	21.5
Adj. P/E (x)	67.2	47.4	38.6
EV/EBITDA (x)	41.9	30.8	25.6
Adj. EPS growth (%)	59.6	41.7	22.9

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

### Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Revenue	33,278	26,238	26.8	22,412	48.5	96,854	79,773	21.4
EBITDA	2,419	1,792	35.0	1,554	55.7	6,649	4,928	34.9
EBITDA Margin (%)	7.3	6.8	44bps	6.9	34bps	6.9	6.2	68.8
Depreciation	283	227		235		976	848	
Interest	122	181		102		581	547	
Other Income	124	67		127		474	309	
PBT	2,138	1,450	47.4	1,343	59.2	5,567	3,842	44.9
Tax	544	918		339		1,429	1,243	
Adjusted PAT	1,597	545	192.9	1,005	59.0	4,138	2,599	59.2
Exceptional item						-	(1,400)	
Reported PAT	1,597	2,253	(29.1)	1,005	59.0	4,150	4,001	3.7
Adj. PAT Margin (%)	4.8	2.1	270bps	4.5	30bps	4.3	3.3	100bps
EPS (Rs)	8.3	2.8	199.5	5.2	58.8	21.5	13.5	59.6

Source: Company, BOBCAPS Research

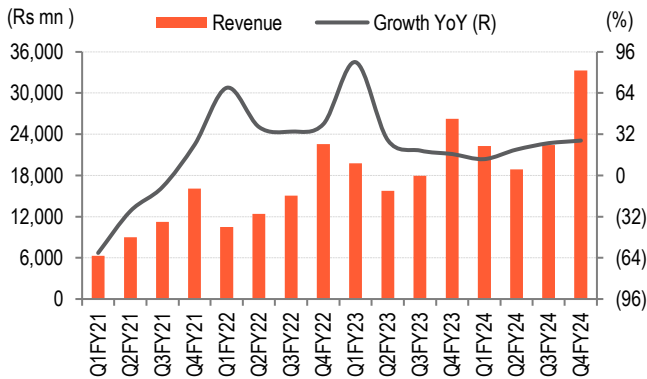
**Fig 2 – Segment-wise performance**

Particulars (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
<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
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
Professional Electronics & Industrial Systems	414	616	667	776	527	924	862	1,035	784	837	1,035	1,121
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
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
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
<b>EBIT</b>												
Electro- Mechanical Projects And Packaged AC systems	200	465	524	758	452	607	717	992	666	653	967	1,125
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
Professional Electronics & Industrial Systems	56	98	128	143	59	138	110	198	105	122	152	136
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
Unitary Products	218	233	388	721	911	324	518	1,070	893	616	679	1,414
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

Source: Company, BOBCAPS Research

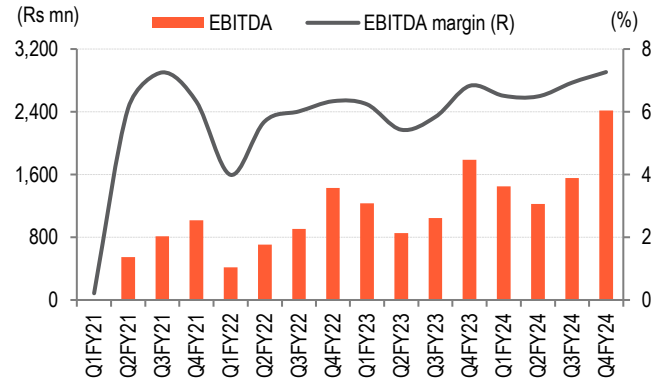
Key metrics: Quarterly

Fig 3 – Revenue growth trend



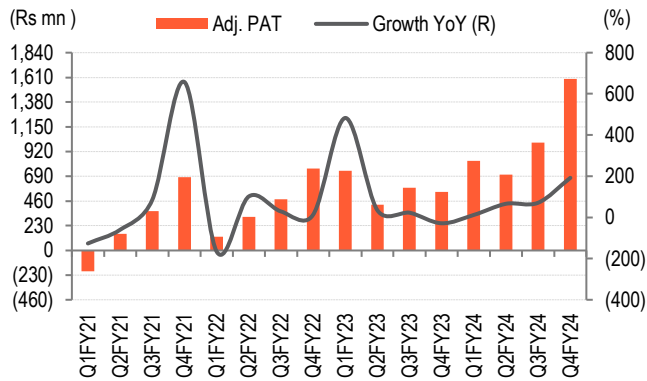
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



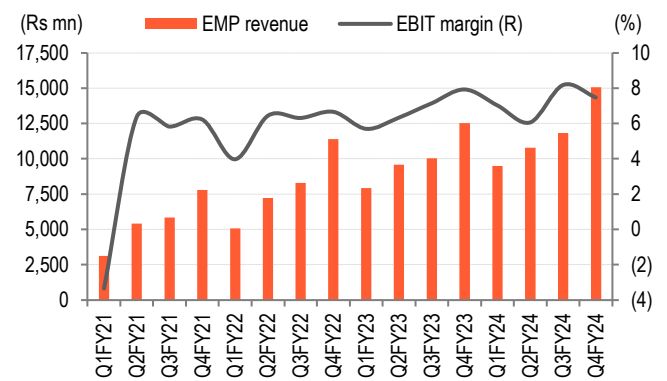
Source: Company, BOBCAPS Research

Fig 5 – Net profit trend



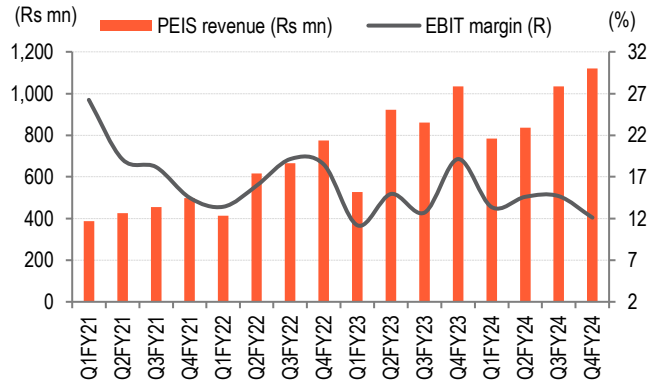
Source: BOBCAPS Research, Company

Fig 6 – EMP vertical growth trend



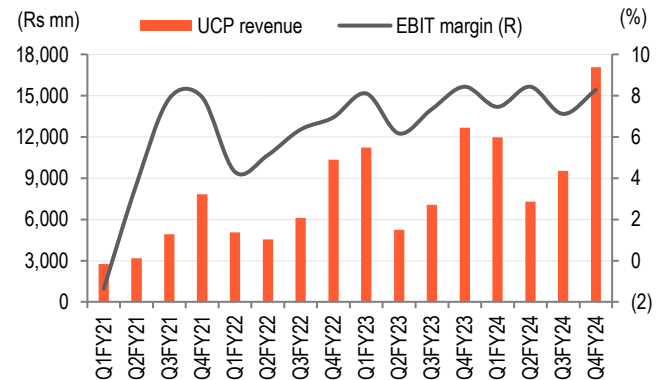
Source: BOBCAPS Research, Company

Fig 7 – PEIS vertical growth trend



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

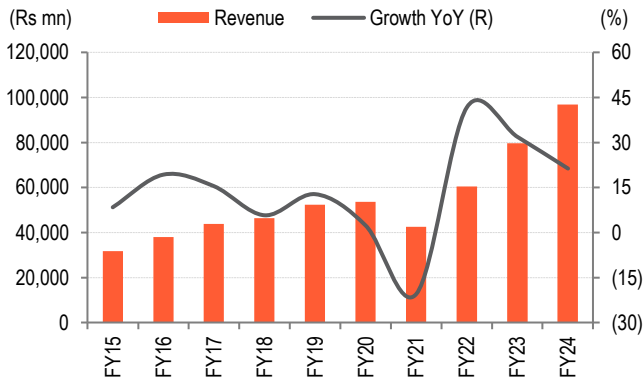
Fig 8 – UCP vertical growth trend



Source: Company, BOBCAPS Research

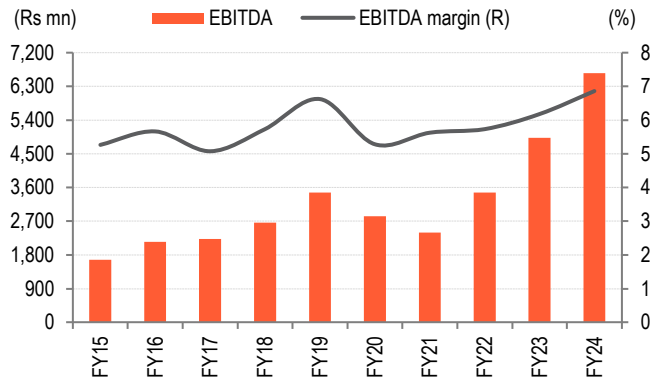
Key metrics: Annual

Fig 9 – Revenue growth trend



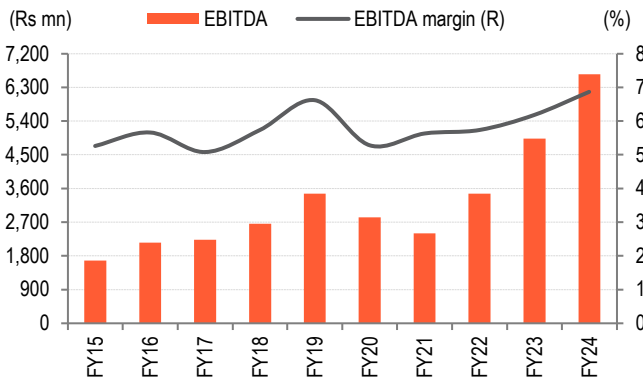
Source: Company, BOBCAPS Research

Fig 10 – EBITDA growth trend



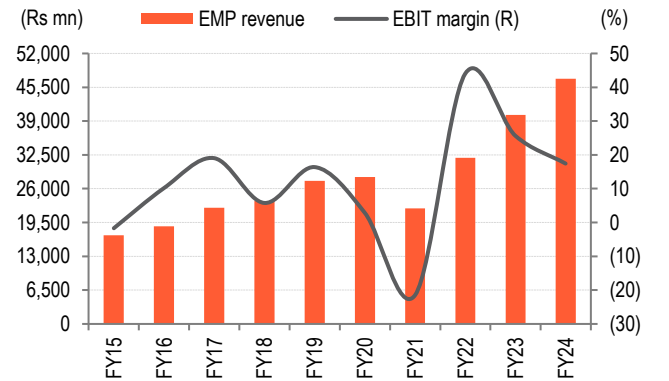
Source: Company, BOBCAPS Research

Fig 11 – Net profit trend



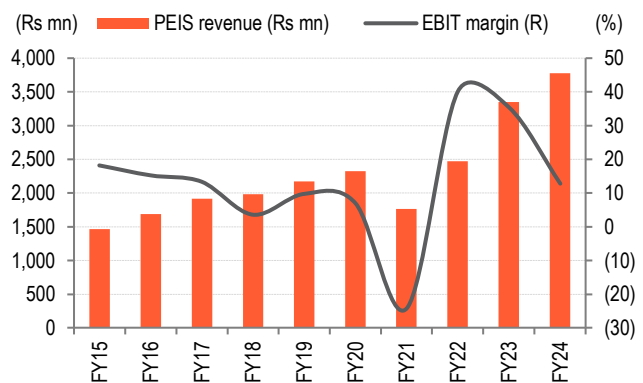
Source: BOBCAPS Research, Company

Fig 12 – EMP vertical growth trend



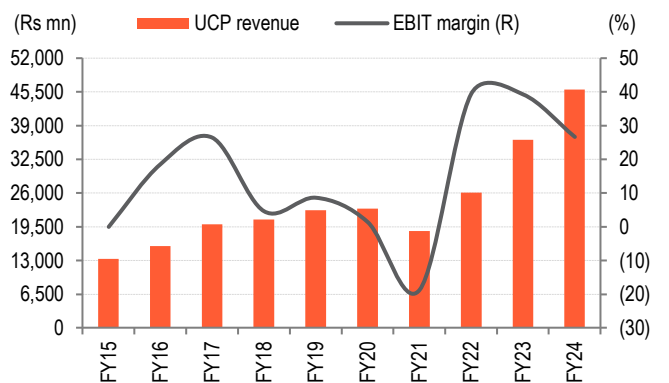
Source: BOBCAPS Research, Company

Fig 13 – PEIS vertical growth trend



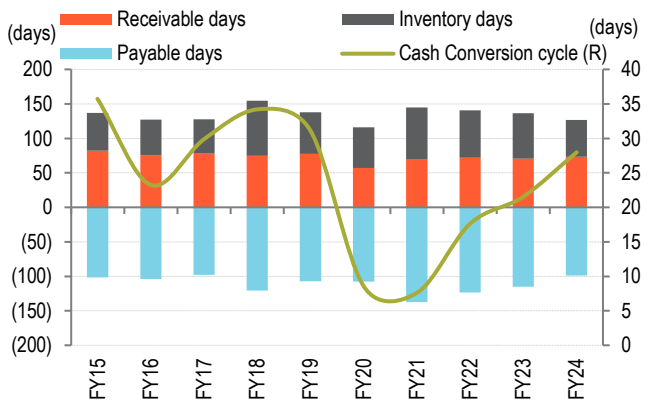
Source: Company, BOBCAPS Research | PEIS: Professional Electronics and Industrial Systems

Fig 14 – UCP vertical growth trend



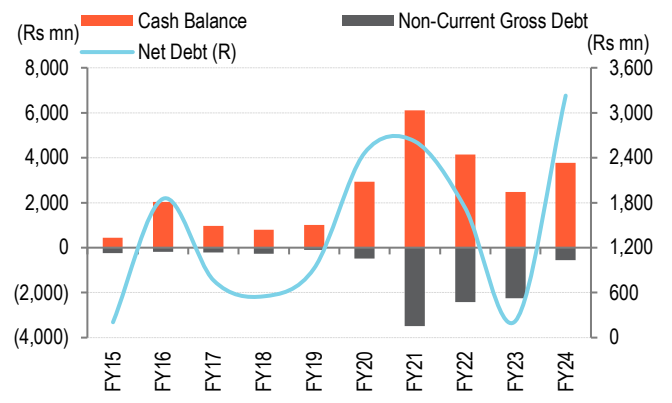
Source: Company, BOBCAPS Research

**Fig 15 – Working capital management**



Source: Company, BOBCAPS Research

**Fig 16 – Liquidity profile**



Source: Company, BOBCAPS Research

## Earnings call highlights

### Electro-Mechanical Products

- **Segment performance:** In the EMP business, the company reported topline of Rs 15.1bn for Q4 and Rs 47.2bn for FY24, 20.3% and 17.4% growth YoY respectively. EBIT margin for Q4 stood at 7.5% and for FY24 at 7.2%. Margin here is expected to hover in the range of 7.5-8% and management believes that 20-25% revenue growth is possible here.
- **Order book:** The company ended the year with a Rs 57bn order book, growth of 12.3% over FY23.
- **Key catalysts:** The EMP business saw strong traction in the manufacturing, data centres and infrastructure sectors. BLSTR witnessed some delay finalising orders, largely in the commercial building and infrastructure sectors, but expects this to pick up post elections.
- **Commercial air-conditioning (CAC):** Growth in the CAC business was led by healthy demand across key sectors, such as industrial, healthcare, hospitality and retail, with new product launches and channel expansion. The company continues to explore premiumisation in this category.
- **International business:** The international business was slightly subdued due to the ongoing crisis in the Red Sea. Management expects exports to pick up soon.

### Unitary Cooling Products

- **Segment performance:** The UCP segment grew 34.8% YoY with a topline of Rs 17.1bn during Q4, and 26.6% YoY to Rs 45.9bn for FY24.
- **Market share:** The company sold over 1mn units of room air-conditioners (RACs) during the year, with a market share of 13.75%. This compares to a market share of 13.5% at the end of FY23 and 13.75 in Q3FY24.
- **RAC market:** The RAC market grew 65-75% in the month of Apr'24, 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%. Peak summer has shifted from mid-May to the later parts of Apr and early May over the years. Management expects strong growth in Apr this year to normalise in May as it expects some early buying by customers.

- **Profitability:** EBIT margin for Q4 stood at 8.3% and for FY24 at 7.8%, which were both flattish on a YoY basis. Management is targeting an 8-8.5% EBIT margin for this segment going forward.
- **Key catalysts:** BLSTR saw strong demand for its commercial refrigeration (Rs 50bn market) and RAC businesses, and the early onset of summer contributed to a strong demand for cooling and other summer products.

### Professional Electronics and Industrial Systems

- **Segment performance:** PEIS business showed healthy performance as well, with revenue growth at 8.3% in Q4 and 12.8% in FY24. EBIT margin for FY24 was 13.6%. Q4FY24 EBIT margin was slightly lower at 12.1%.
- **Key catalysts:** Within the segment, as manufacturing capacity is increasing across the country, the need for non-destructive testing is rising, leading to healthy demand. This comes on the back of higher quality standards and specifications aimed for by various industries. Additionally, the healthcare business is benefitting from expansions in semi-rural healthcare infrastructure and higher investments.

### Other highlights

- **Capex:** BLSTR incurred a capex of Rs 4.4bn in FY24, and expects to incur Rs 2.5bn-3bn every year for the next three years.
- **Working capital management:** The cash conversion cycle for BLSTR increased to 28 days in FY24, compared to 22 days in FY23, largely due to lower payable days.
- **Liquidity profile:** The company ended the year with a cash balance of Rs 3.8bn and a net cash balance of Rs 4.6bn, compared to net borrowing of Rs 2.1bn in FY23. This was largely due to proceeds from the Rs 10bn qualified institutional placement issue in Sep and repayment of loans.
- **Profitability:** Gross and EBITDA margins expanded during the quarter and year ended Mar'24, largely due to better raw material pricing. Adjusted PAT grew 3x to Rs 1.6bn in Q4 and 59.2% to Rs 4.1bn in FY24.

## Valuation methodology

BLSTR's UCP business continues to grow well, with healthy market share. Management reiterates its 15% market share target by FY25, further providing confidence over this business. The EMP remains strong with a healthy order book and continued industry tailwinds, with healthy outlook in PEIS too. Following the healthy performance during the quarter and year ended Mar'24, we raise our FY25/FY26E EPS by 12%/13% and roll over to Mar'26E. We value the stock at 44x FY26E P/E (40x earlier), a 15% premium to the stock's 2Y average, yielding a higher TP of Rs 1,650 (previously Rs 1,300). Maintain BUY.

**Fig 17 – Revised estimates**

Particulars (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Sales	1,13,231	1,27,907	1,10,673	1,25,018	2.3	2.3
EBITDA	9,064	10,895	8,883	10,461	2.0	4.2
PAT	5,880	7,227	5,237	6,372	12.3	13.4
EPS (Rs)	30.5	37.5	27.2	33.1	12.3	13.4
EBITDA Margin (%)	8.0	8.5	8.0	8.4	0bps	20bps

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	1.6	3,969	3,200	SELL
Blue Star	BLSTR IN	3.4	1,448	1,670	BUY
Havells India	HAVL IN	12.7	1,664	1,780	HOLD
Orient Electric	ORIENTEL IN	0.6	230	240	HOLD
Syrma SGS	SYRMA IN	1.0	488	550	HOLD
V-Guard Industries	VGRD IN	1.8	347	310	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 May 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Total revenue</b>	<b>60,456</b>	<b>79,773</b>	<b>96,854</b>	<b>1,13,231</b>	<b>1,27,907</b>
EBITDA	3,465	4,928	6,649	9,064	10,895
Depreciation	860	848	976	1,176	1,335
EBIT	2,605	4,080	5,673	7,888	9,561
Net interest inc./(exp.)	(464)	(547)	(581)	(517)	(499)
Other inc./(exp.)	357	309	474	522	600
Exceptional items	0	0	0	0	1
EBT	2,498	3,842	5,567	7,893	9,662
Income taxes	829	1,243	1,429	2,013	2,435
Extraordinary items	0	(1,400)	0	0	0
Min. int./Inc. from assoc.	11	4	5	0	0
<b>Reported net profit</b>	<b>1,677</b>	<b>4,001</b>	<b>4,150</b>	<b>5,880</b>	<b>7,227</b>
Adjustments	0	(1,400)	0	0	0
<b>Adjusted net profit</b>	<b>1,677</b>	<b>2,601</b>	<b>4,150</b>	<b>5,880</b>	<b>7,227</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
Accounts payables	20,417	25,112	26,166	35,675	40,300
Other current liabilities	8,448	8,358	10,746	12,563	14,192
Provisions	0	0	0	0	1
Debt funds	3,003	6,620	2,429	4,703	4,988
Other liabilities	324	595	740	861	969
Equity capital	193	193	411	411	411
Reserves & surplus	9,983	13,114	25,690	30,221	36,100
Shareholders' fund	10,176	13,307	26,101	30,632	36,511
<b>Total liab. and equities</b>	<b>42,368</b>	<b>53,991</b>	<b>66,183</b>	<b>84,435</b>	<b>96,960</b>
Cash and cash eq.	4,147	2,473	3,774	10,281	14,332
Accounts receivables	11,897	15,488	19,526	22,406	25,548
Inventories	11,442	14,334	14,072	18,398	19,683
Other current assets	7,348	10,211	13,029	15,232	17,207
Investments	0	0	0	0	1
Net fixed assets	4,328	8,813	9,800	11,124	12,289
CWIP	1,451	609	1,081	1,263	1,427
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	1
Other assets	1,755	2,062	4,902	5,730	6,473
<b>Total assets</b>	<b>42,368</b>	<b>53,991</b>	<b>66,183</b>	<b>84,435</b>	<b>96,962</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24P	FY25E	FY26E
<b>Cash flow from operations</b>	<b>918</b>	<b>2,474</b>	<b>2,892</b>	<b>8,973</b>	<b>8,413</b>
Capital expenditures	(2,179)	(1,821)	(4,333)	(2,500)	(2,500)
Change in investments	1,340	342	(1,012)	0	0
Other investing cash flows	166	(337)	98	(891)	(798)
<b>Cash flow from investing</b>	<b>(673)</b>	<b>(1,817)</b>	<b>(5,246)</b>	<b>(3,391)</b>	<b>(3,298)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	654	717	(4,392)	2,273	285
Interest expenses	0	0	0	0	1
Dividends paid	(1,521)	(1,627)	8,040	(1,348)	(1,348)
Other financing cash flows	0	0	0	0	1
<b>Cash flow from financing</b>	<b>(868)</b>	<b>(911)</b>	<b>3,648</b>	<b>925</b>	<b>(1,061)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(623)</b>	<b>(254)</b>	<b>1,294</b>	<b>6,507</b>	<b>4,054</b>
<b>Closing cash &amp; cash eq.</b>	<b>4,147</b>	<b>2,473</b>	<b>3,774</b>	<b>10,281</b>	<b>14,332</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24P	FY25E	FY26E
Reported EPS	8.7	20.8	21.5	30.5	37.5
Adjusted EPS	8.7	13.5	21.5	30.5	37.5
Dividend per share	5.0	6.0	7.0	7.0	7.0
Book value per share	52.8	69.1	135.5	159.0	189.5

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24P	FY25E	FY26E
EV/Sales	4.6	3.5	2.9	2.5	2.2
EV/EBITDA	80.5	56.6	41.9	30.8	25.6
Adjusted P/E	166.3	107.3	67.2	47.4	38.6
P/BV	27.4	21.0	10.7	9.1	7.6

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24P	FY25E	FY26E
Tax burden (Net profit/PBT)	67.1	67.7	74.5	74.5	74.8
Interest burden (PBT/EBIT)	95.9	94.2	98.1	100.1	101.1
EBIT margin (EBIT/Revenue)	4.3	5.1	5.9	7.0	7.5
Asset turnover (Rev./Avg TA)	14.0	9.1	9.9	10.2	10.4
Leverage (Avg TA/Avg Equity)	0.5	0.8	0.5	0.4	0.4
Adjusted ROAE	17.6	22.1	21.1	20.7	21.5

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24P	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	41.8	32.0	21.4	16.9	13.0
EBITDA	44.5	42.2	34.9	36.3	20.2
Adjusted EPS	67.1	55.1	59.6	41.7	22.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	5.7	6.2	6.9	8.0	8.5
EBIT margin	4.3	5.1	5.9	7.0	7.5
Adjusted profit margin	2.8	3.3	4.3	5.2	5.7
Adjusted ROAE	17.6	22.1	21.1	20.7	21.5
ROCE	14.9	17.9	18.9	19.6	19.8
<b>Working capital days (days)</b>					
Receivables	72	71	74	72	73
Inventory	69	66	53	59	56
Payables	123	115	99	115	115
<b>Ratios (x)</b>					
Gross asset turnover	7.6	7.1	6.5	6.6	6.5
Current ratio	1.2	1.1	1.3	1.3	1.3
Net interest coverage ratio	5.6	7.5	9.8	15.2	19.2
Adjusted debt/equity	0.3	0.5	0.1	0.2	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%

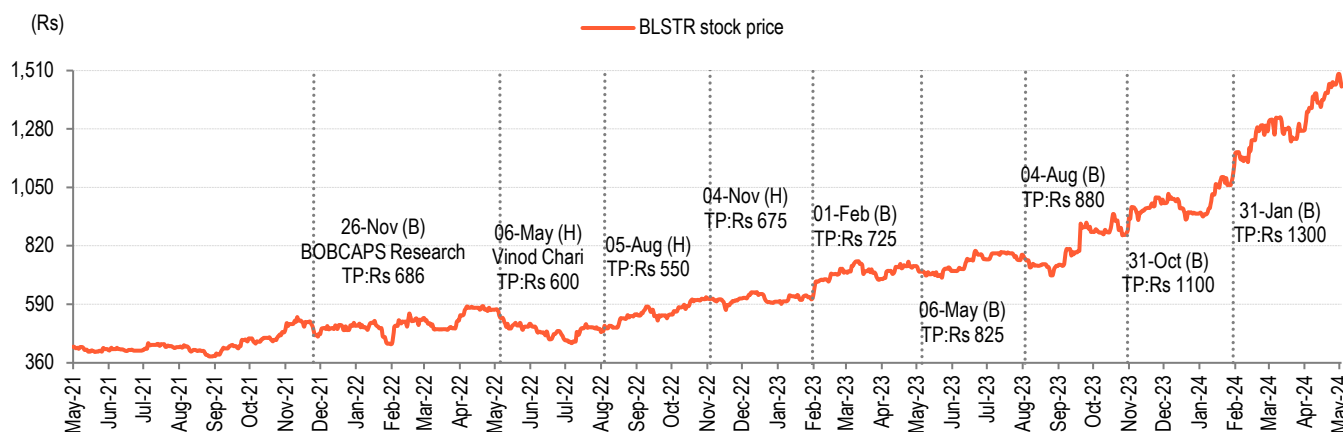
**HOLD** – Expected return from -6% to +15%

**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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