

Growth and margin stays healthy; Buoyant outlook retained

BLSTR's consolidated sales grew 19.5% YoY to Rs18.9bn, 6% above our estimate. Unitary Products sales growth was robust at 38% YoY to Rs7.3bn. Sales was driven by higher latent RAC demand in Q2 post muted summer, while Commercial Refrigeration saw healthy volume uptick. EMPS sales grew 12% YoY to Rs10.8bn aided by robust order book. Gross margin rose 160bps YoY to 24.8% led by cost control initiatives, higher scale and industry-wide lower ad-spends. EBITDA grew 43% YoY to Rs1.2bn leading to 110bps YoY rise in EBITDA margin to 6.5%, 90bps above our estimate. PAT rose 66% YoY to Rs707mn, above our/consensus estimate of ~Rs550mn each. BLSTR expects RAC sales to grow by 15% in FY24 (vs. 10% likely industry growth). The EBIT margin are likely to sustain at 8-8.5% in unitary products and 6.5-7% in projects segment. We tweak our PAT estimates for FY24E/25E by (1%)/5%. Retain ADD rating with a revised SOTP target of Rs900 (Rs780 earlier), post roll over to H1FY26E EPS.

Unitary Products: Higher latent demand lifts RAC sales; margin expansion healthy

Unitary Products sales grew 38% YoY to Rs7.3bn with a healthy EBIT margin of 8.4%, up 230bps YoY. BLSTR surpassed RAC industry growth (~30% in 2QFY24) as it grew 39% YoY with a market share of 13.5% in H1FY24. For FY24, it expects RAC to grow by 15% vs. likely industry growth of 10%. Festive sales during Onam and Durga Puja were healthy, while Diwali is also expected to be better. Commercial Refrigeration business saw healthy volume growth for deep freezers, water coolers and cold storages. Deep Freezers industry (Rs25bn in size where BLSTR has 28% market share), will continue to grow by 20% CAGR led by (1) rising penetration in smaller cities for sub-300 litre products and (2) Chinese imports becoming unviable due to tariff and non-tariff barriers. Capex earmarked for FY24 and FY25 combined is Rs6.5bn towards Sri City RAC plant, sub-300 liter deep freezers capacity, R&D (for building labs and product development centers), digitization and for incremental working capital needs.

EMPS & commercial AC: Healthy traction across sectors drive order book

EMPS sales grew 12% YoY to Rs10.8bn while EBIT margin stood at 6.1%, down 20bps YoY. Order inflow grew 47% YoY to Rs17.6bn. Order book grew 12% QoQ to Rs60.1bn. Demand for commercial ACs is healthy from healthcare and retail sectors while BLSTR continues to be No 1 or 2 player in ducted systems, VRF and chillers. It would take orders with focus on free cash flow. For exports, it is in process of developing specialized products for Europe and North America. EBIT margin will sustain at 6.5%-7% range.

Maintain ADD with revised target price of Rs900

We expect BLSTR to report revenue CAGR of 18% over FY23-26E, but earnings CAGR will be higher at 37% due to margin improvement and reducing tax rate (shift to new tax regime + Sri City tax benefits). We are optimistic about BLSTR's growth prospects in RAC, commercial refrigeration as well as projects business. However, current valuation offers limited upside. Maintain ADD with revised target price of Rs900 on SOTP basis.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	18,904	15,823	19.5	22,260	(15.1)	93,735	1,11,877	1,30,829
EBITDA	1,227	856	43.3	1,450	(15.4)	6,345	8,262	9,997
EBITDA margin (%)	6.5	5.4	110bps	6.5	-	6.8	7.4	7.6
Adj. Net profit	707	426	66.1	834	(15.2)	3,898	5,355	6,760
Adj. EPS (Rs)	3.7	2.2	66.1	4.3	(15.2)	19.0	26.0	32.9
EPS growth (%)						39.8	37.4	26.2
PE (x)						47.0	34.3	27.1
EV/EBITDA (x)						29.5	21.6	17.8
PBV (x)						11.2	6.1	5.3
RoE (%)						26.2	23.0	20.8
RoCE (%)						21.7	21.5	20.5

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India | Consumer Durables

31 October, 2023

ADD

Price: Rs885

Target Price: Rs900

Forecast return: 2%

Institutional Research

Market Data

Bloomberg:	BLSTR IN
52 week H/L:	955/553
Market cap:	Rs181.9bn
Shares Outstanding:	205.6mn
Free float:	62.6%
Avg. daily vol. 3mth:	4,09,248

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	Rs900; up 15.4%
EPS:	FY24E: Rs19.0; down 7.2% FY25E: Rs26.0; up 1.2%

Source: Centrum Broking. Note - EPS change is mainly due to QIP led equity issuance. PAT change is (1%)/5% for FY24E/25E

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	36.5	38.9	38.8	38.8
FIIIs	14.9	11.1	10.5	11.0
DIIIs	24.7	24.1	24.6	24.3
Public/other	23.9	25.9	26.1	26.0

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	17,853	18,904	5.9
EBITDA	1,003	1,227	22.4
EBITDA margin %	5.6	6.5	90bps
PAT	558	707	26.7
EPS	2.9	3.7	26.7

Source: Company Data, Centrum Broking



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Consumer Durables

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	93,735	93,918	(0.2)	1,11,877	1,13,582	(1.5)
EBITDA	6,345	6,405	(0.9)	8,262	8,013	3.1
EBITDA margin %	6.8	6.8	-	7.4	7.1	30bps
Adj. PAT	3,898	3,934	(0.9)	5,355	5,093	5.1
Diluted EPS (Rs)	19.0	20.4	(7.2)	26.0	25.7	1.2

Source: Centrum Broking. Note: EPS change is mainly due to QIP led equity issuance

Blue Star versus NIFTY Midcap 100

	1m	6m	1 year
BLSTR IN	1.1	19.5	43.1
NIFTY Midcap 100	(4.1)	22.3	23.7

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Revenue growth (%)			
EMPS	18.0	19.8	17.9
Unitary Products	17.0	19.0	16.0
PE & IS	17.0	18.0	16.0
EBIT Margin (%)			
EMPS	6.8	7.2	7.4
Unitary Products	8.2	8.5	8.7
PE & IS	16.0	17.0	18.0

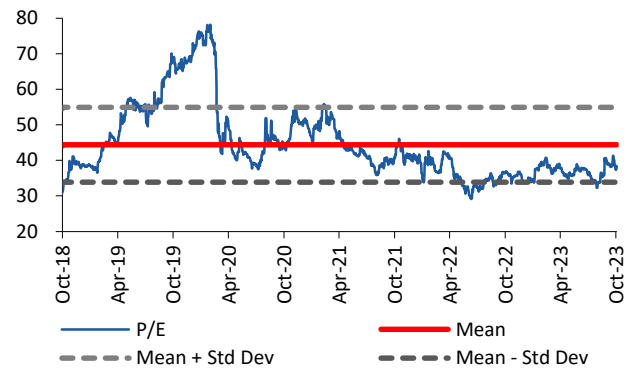
Source: Centrum Broking

Valuations

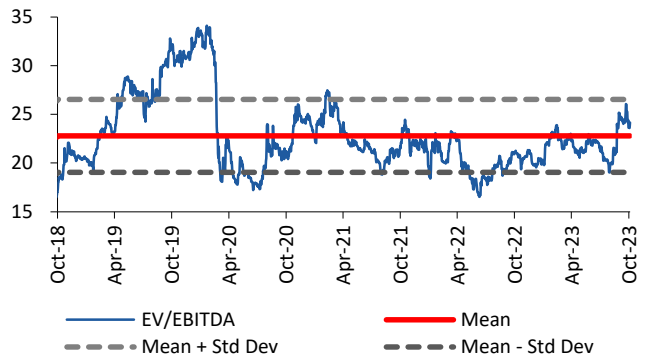
We assign P/E of 40x to Unitary Products and 18x to Projects business' H1FY26E earnings. We arrive at the SOTP-based target price of Rs900.

Valuations	Rs/share
Unitary Products H1FY26E EPS	Rs16.7
Unitary Products P/E (x)	40
Unitary Products price per share	670
Projects business H1FY26E EPS	Rs12.8
Projects business P/E (x)	18
Projects business price per share	230
Target price per share	900

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			P/E (x)			ROE (%)			ROCE (%)		
	(Rsmn)	Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
BLSTR	1,83,409	18.4	29.5	43.2	65.8	47.0	34.3	22.2	26.2	23.0	17.5	21.7	21.5
JCHAC	29,338	7.6	NA	NA	(35.7)	(137.5)	39.1	(11.7)	(15.5)	9.4	(8.1)	(9.0)	8.9
IFBI	36,120	15.3	45.4	231.4	241.8	37.7	22.0	2.3	13.4	19.4	3.7	14.3	19.1
VOLT	2,76,962	18.7	29.5	35.1	205.1	67.5	40.1	2.5	7.4	11.7	7.0	8.7	12.1
WHIRL	2,05,935	15.4	39.4	47.4	94.0	63.2	43.3	6.4	8.9	12.1	6.6	9.2	12.2

Source: Company, Centrum Broking

Key concall takeaways

Unitary products

- Festive season has started well, had impressive sales during Onam, Durga Puja. Diwali trend is significantly higher than last year.
- Supply chain disruption are behind, continue to invest in capability building
- Margin improved due to cost management and higher scale
- RAC industry is estimated to have grown at 30% in Q2, BLSTR grew by 39%. Market share 13.5% in H1FY24.
- Cold storage demand from warehousing, pharma and hotels.
- FY24 + FY25 capex = Rs6.5bn for manufacturing (Sri City AC, sub-300 liters deep freezer), R&D (for building labs & product development), digitization, incremental working capital needs
- RAC market likely to grow by 10% in FY24, BLSTR might grow by 15%, subject to climate condition in Feb-Mar 2024
- Non Room AC products have been always growing faster than Room AC.
- Based on rising competitive intensity, ideal margin guidance will be 8-8.5%
- When Blue Star Climatech starts production, costing will improve. 30% of production will be sourced from Blue Star Climatech.
- In the current phase, export plans are based on commercial AC segment. Not looking to export RAC in current phase due to China's scale and pricing
- 10% of RAC is outsourced by BLSTR, mainly window ACs. 90% of RAC made by BLSTR will be made by its own factories. Components such as compressor and motors will be bought from outside. Some IPs owned by BLSTR will be fabricated from outside.
- In Q2 volume growth and value growth would be similar due to no change in price / energy label
- Commercial Ref will grow by 25% CAGR over next 5 years. Its base is low plus Chinese import is not feasible so shift from unorganized market will happen. Other large players are also increasing capacity plus some MNCs are also taking over small domestic players.
- Capital employed is higher in Q2 due to Sri City capex and sub-300 liters deep freezer capex.
- Premium products constitute less than 10% of total sales for BLSTR and most other brands. Affordable category is the largest market category for the market.
- Deep Freezer – usage is expanding beyond ice cream towards ready to cook products. 400-500 litres are main categories. Due to penetration in smaller cities, 150 and 250 litres are gaining prominence. Glass top are being preferred over hard top. Chinese imports are impacted by tariff barriers and not tariff barriers like QCO and the import business model is no longer viable. Industry will continue to grow by 20%. Blue Star has 28% market share. Chinese would be holding 50% share. Sub 300 litre many brands were importing, including Blue Star in the past. Industry size is Rs25bn.

EMPS and Packaged Air Conditioning

- Total order book at Rs61bn, while EMPS order book at Rs46.1bn vs Rs30.54bn, up 51%
- Order inflow at Rs17.7bn, up 47%
- Focus remains on cash flow
- Commercial AC – good demand from healthcare and retail. BLSTR is no 1 or 2 in ducted, VRF, chiller
- In process of developing advanced products for North America, Europe

- B2B will maintain healthy growth momentum with good inflows and enquiry trend
- Margin guidance is 6.5-7%
- Project business does not influence commercial product orders. Out of total product orders, not even a 2% share come from project orders. In large projects, both these components are not bundled together at the time of bidding.
- In one-third of total projects, BLSTR is a sub-contractor.

Other key takeaways

- Gross margin rise due to scale, cost management program (product portfolio changes / realignment), lower operating cost industry wise (ad-spend coming down)
- Consumer financing cost is rising as more than 45% of RAC sales is happening through consumer financing.
- Part of QIP raise will be used to reduce debt, but eventually when they undertake manufacturing capex the debt could raise debt again

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rsmn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	15,062	22,542	19,770	15,823	17,942	26,238	22,260	18,904	19.5	(15.1)
Direct Costs	11,815	17,905	15,614	12,156	13,921	20,127	17,322	14,218	17.0	(17.9)
Gross Profit	3,247	4,637	4,156	3,667	4,021	6,112	4,938	4,686	27.8	(5.1)
Staff Cost	1,253	1,455	1,349	1,422	1,446	1,697	1,612	1,733	21.9	7.5
Other Expenses	1,088	1,753	1,575	1,389	1,528	2,623	1,876	1,726	24.2	(8.0)
Total Expenditure	14,156	21,113	18,537	14,967	16,895	24,447	20,810	17,677	18.1	(15.1)
EBITDA	906	1,430	1,233	856	1,047	1,792	1,450	1,227	43.3	(15.4)
Depreciation	225	231	220	245	156	227	228	230	(6.0)	1.0
EBIT	681	1,199	1,013	611	892	1,565	1,222	997	63.1	(18.4)
Interest	116	129	106	121	139	181	180	177	46.0	(1.9)
Other Income	134	63	105	86	52	67	94	130	51.6	37.9
PBT	700	1,132	1,012	576	804	1,450	1,136	950	65.0	(16.4)
Tax	228	376	263	149	216	603	302	243	62.9	(19.8)
Extraordinary item	-	-	-	-	-	1,392	-	-	NA	NA
PAT	472	756	748	427	588	2,240	834	707	65.7	(15.2)
Add: Profits from associates	4	7	(5)	(1)	(4)	13	-	0	NA	NA
Less : Minority Interest	(1)	(1)	(1)	(1)	-	(0)	(0)	(1)	NA	NA
PAT after minority	475	762	742	426	584	2,253	834	707	66.1	(15.2)
Adjusted EPS (Rs/share)	2.5	4.0	3.9	2.2	3.0	4.5	4.3	3.7	66.1	(15.2)
Adjusted PAT	475	762	742	426	584	860	834	707	66.1	(15.2)

As a % of revenue

Direct Costs	78.4	79.4	79.0	76.8	77.6	76.7	77.8	75.2		
Gross Margin	21.6	20.6	21.0	23.2	22.4	23.3	22.2	24.8		
Staff Cost	8.3	6.5	6.8	9.0	8.1	6.5	7.2	9.2		
Other expenses	7.2	7.8	8.0	8.8	8.5	10.0	8.4	9.1		
EBITDA Margin	6.0	6.3	6.2	5.4	5.8	6.8	6.5	6.5		
Adjusted PAT Margin	3.2	3.4	3.8	2.7	3.3	3.3	3.7	3.7		
Tax rate	32.5	33.2	26.0	25.9	26.9	41.5	26.6	25.5		

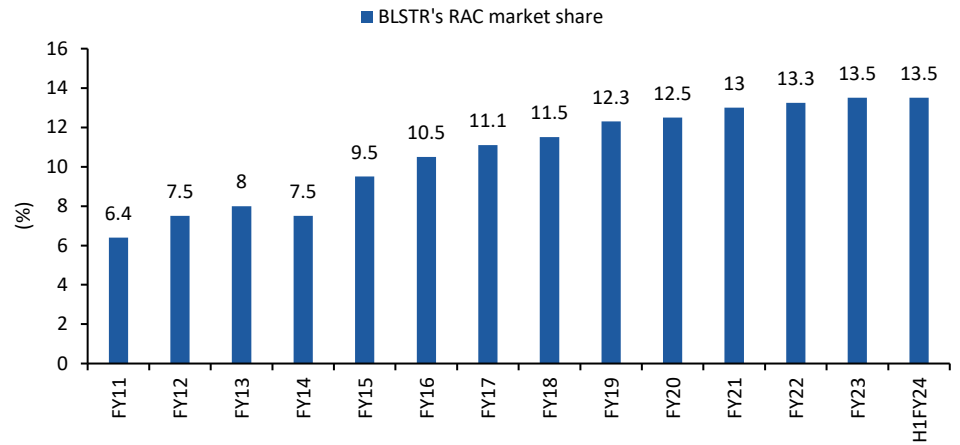
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly segmental snapshot

Y/E March	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue (Rsmn)										
EMPS	8,299	11,399	7,968	9,612	10,030	12,526	9,491	10,772	12.1	13.5
Unitary Products	6,097	10,367	11,276	5,287	7,050	12,677	11,985	7,295	38.0	(39.1)
Professional Electronics	667	776	527	924	862	1,035	784	837	(9.4)	6.7
Total	15,062	22,542	19,770	15,823	17,942	26,238	22,260	18,904	19.5	(15.1)
Revenue mix (%)										
EMPS	55.1	50.6	40.3	60.7	55.9	47.7	42.6	57.0		
Unitary Products	40.5	46.0	57.0	33.4	39.3	48.3	53.8	38.6		
Professional Electronics	4.4	3.4	2.7	5.8	4.8	3.9	3.5	4.4		
EBIT (Rsmn)										
EMPS	524	758	452	607	717	992	666	653	7.5	(2.0)
Unitary Products	388	721	911	324	518	1,070	893	616	90.2	(31.0)
Professional Electronics	128	143	59	138	110	198	105	122	(11.4)	16.6
Total	1,040	1,622	1,422	1,069	1,345	2,260	1,665	1,391	30.1	(16.4)
EBIT margin (%)										
EMPS	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1		
Unitary Products	6.4	7.0	8.1	6.1	7.4	8.4	7.5	8.4		
Professional Electronics	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6		
Total	6.9	7.2	7.2	6.8	7.5	8.6	7.5	7.4		

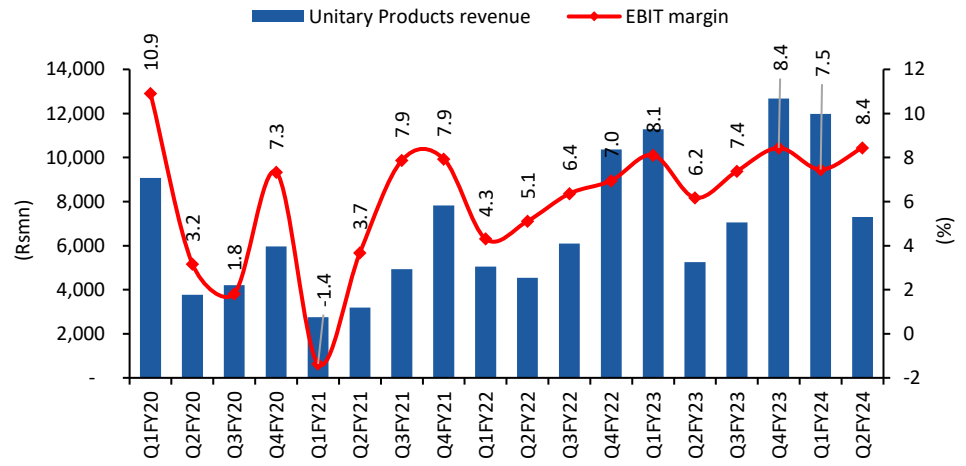
Source: Company, Centrum Broking

Exhibit 3: BLSTR’s RAC market share trend



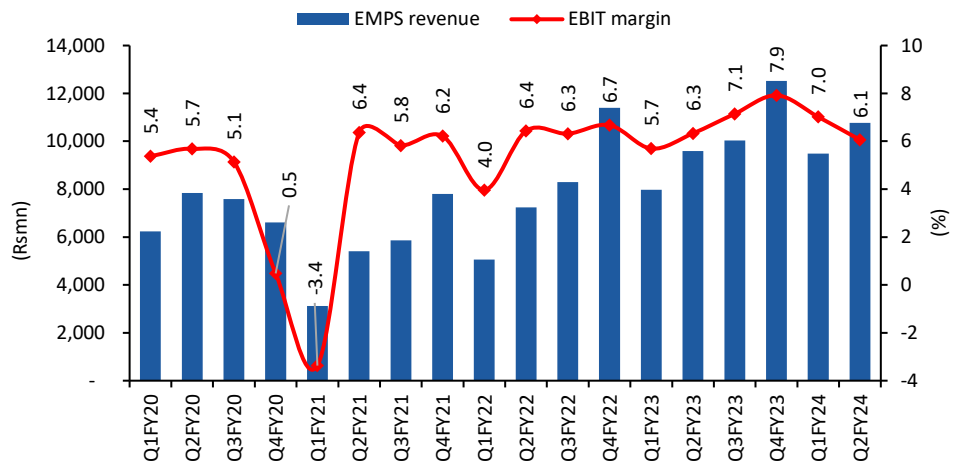
Source: Company Data, Centrum Broking

Exhibit 4: Unitary Products segment revenue and EBIT margin trend



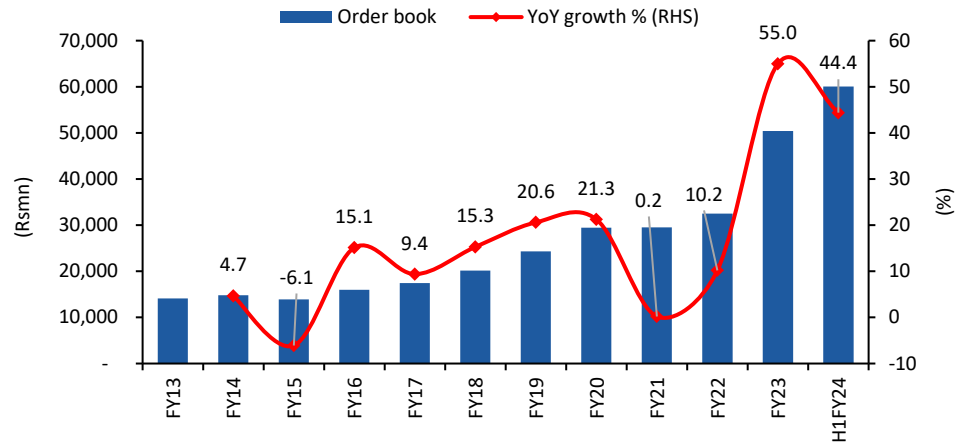
Source: Company Data, Centrum Broking

Exhibit 5: EMPS segment revenue and EBIT margin trend



Source: Company Data, Centrum Broking

Exhibit 6: BLSTR's EMPS order book trend



Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	60,641	79,773	93,735	1,11,877	1,30,829
Operating Expense	47,332	61,817	71,614	85,139	99,168
Employee cost	5,086	5,914	6,936	7,943	9,027
Others	4,759	7,114	8,840	10,534	12,636
EBITDA	3,465	4,928	6,345	8,262	9,997
Depreciation & Amortisation	860	848	952	1,182	1,316
EBIT	2,605	4,080	5,393	7,080	8,681
Interest expenses	464	547	633	520	432
Other income	357	309	435	485	530
PBT	2,498	3,842	5,195	7,044	8,779
Taxes	829	1,231	1,299	1,691	2,019
Effective tax rate (%)	33.2	32.0	25.0	24.0	23.0
PAT	1,669	2,611	3,896	5,354	6,760
Minority/Associates	8	2	2	1	0
Recurring PAT	1,677	2,612	3,898	5,355	6,760
Extraordinary items	0	1,392	0	0	0
Reported PAT	1,677	4,005	3,898	5,355	6,760

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	42.2	31.6	17.5	19.4	16.9
EBITDA	44.5	42.2	28.8	30.2	21.0
Adj. EPS	67.1	55.8	39.8	37.4	26.2
Margins (%)					
Gross	21.9	22.5	23.6	23.9	24.2
EBITDA	5.7	6.2	6.8	7.4	7.6
EBIT	4.3	5.1	5.8	6.3	6.6
Adjusted PAT	2.8	5.0	4.2	4.8	5.2
Returns (%)					
ROE	17.6	22.2	26.2	23.0	20.8
ROCE	13.9	17.5	21.7	21.5	20.5
ROIC	19.8	21.7	24.2	25.8	26.1
Turnover (days)					
Gross block turnover ratio (x)	8.9	7.0	5.9	5.4	5.3
Debtors	60	63	60	55	56
Inventory	78	76	72	67	68
Creditors	141	134	127	117	119
Net working capital	44	37	31	50	48
Solvency (x)					
Net debt-equity	0.2	0.2	0.2	(0.2)	(0.2)
Interest coverage ratio	7.5	9.0	10.0	15.9	23.2
Net debt/EBITDA	0.6	0.7	0.6	(0.6)	(0.5)
Per share (Rs)					
Adjusted EPS	8.7	13.6	19.0	26.0	32.9
BVPS	52.8	69.1	79.8	146.4	169.2
CEPS	13.2	18.0	23.6	31.8	39.3
DPS	5.0	6.0	6.0	8.0	10.0
Dividend payout (%)	57.4	28.9	31.6	30.7	30.4
Valuation (x)					
P/E	102.4	65.8	47.0	34.3	27.1
P/BV	16.9	12.9	11.2	6.1	5.3
EV/EBITDA	53.5	37.9	29.5	21.6	17.8
Dividend yield (%)	0.6	0.7	0.7	0.9	1.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	193	193	411	411	411
Reserves & surplus	9,983	13,114	15,997	29,681	34,385
Shareholders fund	10,176	13,307	16,409	30,092	34,796
Minority Interest	30	32	32	32	32
Total debt	4,778	5,776	4,776	2,159	2,159
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	14,984	19,115	21,217	32,283	36,987
Gross block	6,799	11,389	15,812	20,562	24,812
Less: acc. Depreciation	(2,998)	(3,493)	(4,445)	(5,627)	(6,943)
Net block	3,801	7,896	11,367	14,935	17,869
Capital WIP	1,940	1,423	250	250	250
Net fixed assets	5,740	9,319	11,617	15,185	18,119
Non Current Assets	0	0	0	0	0
Investments	1,734	1,584	1,584	1,584	1,584
Inventories	11,442	14,334	14,074	16,964	20,198
Sundry debtors	11,897	15,488	15,212	18,308	21,611
Cash & Cash Equivalents	2,697	2,473	1,241	7,362	7,540
Loans & advances	223	268	260	308	364
Other current assets	9,117	10,445	11,278	13,365	15,776
Trade payables	20,417	25,112	24,858	29,633	35,094
Other current liab.	7,017	9,000	8,415	10,281	12,135
Provisions	709	764	856	958	1,054
Net current assets	7,234	8,132	7,936	15,435	17,205
Total assets	14,984	19,115	21,217	32,283	36,987

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	2,498	3,842	5,195	7,044	8,779
Depreciation & Amortisation	860	848	952	1,182	1,316
Net Interest	464	547	633	520	432
Net Change – WC	(2,440)	(1,123)	(1,035)	(1,378)	(1,592)
Direct taxes	(630)	(1,035)	(1,299)	(1,691)	(2,019)
Net cash from operations	761	3,081	4,448	5,679	6,916
Capital expenditure	(2,169)	(4,427)	(3,250)	(4,750)	(4,250)
Acquisitions, net	0	0	0	0	0
Investments	1,335	150	0	0	0
Others	0	0	0	0	0
Net cash from investing	(834)	(4,277)	(3,250)	(4,750)	(4,250)
FCF	(73)	(1,196)	1,198	929	2,666
Issue of share capital	0	0	219	0	0
Increase/(decrease) in debt	262	998	(1,000)	(2,617)	0
Dividend paid	(963)	(1,156)	(1,234)	(1,645)	(2,056)
Interest paid	(464)	(547)	(633)	(520)	(432)
Others	613	1,676	219	9,974	0
Net cash from financing	(552)	972	(2,430)	5,192	(2,488)
Net change in Cash	(625)	(224)	(1,231)	6,121	178

Source: Company, Centrum Broking

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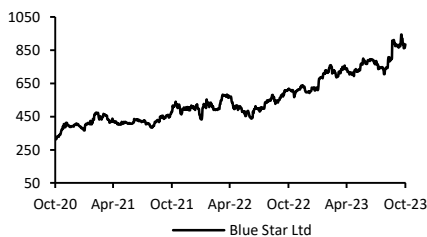
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Blue Star



Source: Bloomberg

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