

November 07, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

Blue Star Ltd

Unitary products disappoint; reiterate Reduce

Result Synopsis

BLSTR delivered inline revenue growth with EMPS delivering robust 32.6% growth, while unitary products business saw muted growth of 5.1%. PEIS segment has declined by 3.8% yoy. Muted revenue growth is attributed to challenges in the commercial refrigeration business arising from regulatory changes related to BIS and Quality Control Order (QCO) as well as delays in ramping up production of the new range of glass top deep freezers. RAC continued its growth momentum with BLSTR maintaining its market share of 13.75%. The company expects to end FY25 at 14% share vs earlier targeted share of 15%. EMPS on the other hand continues to surprise positively both on execution as well as margin front. Order inflow for the quarter stood at Rs19.4bn growth of 12%, while order book stood at Rs65.9bn growing by 10%. The company is witnessing improved traction from the real estate space. We continue to remain positive on the domestic business, as its company has growth drivers in place with strong proposition in the commercial refrigeration and air-conditioning space, while on the exports front to USA BLSTR has received additional quantities to be supplied, however company expects stiff competition from the Japanese, Chinese and Korean players. We continue to maintain our Reduce rating as positivity of the domestic market has been captured in the current valuation, while international business would take time for ramping up as BLSTR is currently focusing on increasing its capability and it will take time to make significant inroads as China is still cost competitive given their scale of operations.

BLSTR is estimated to deliver strong double-digit CAGR revenue growth on back of strong execution of projects, market share gains in RAC and continued growth momentum in Commercial refrigeration. We pencil in revenue/EBITDA/Adj PAT CAGR of 19%/23%/30% over FY24-27E. We have increased our SoTP-based PT to Rs1,749 vs earlier Rs1,492 rolling forward our estimates to FY27. We have maintained our target multiple for EMPS business to 35x as company has been consistently delivering on revenue improving margin profile.

Result Highlights

- Business update** - Bluestar (BLSTR IN) reported inline revenue growth, with Unitary products/EMPS growing at 5.1%/32.6% respectively, while PEIS has registered decline of 3.8%. Muted growth in unitary products was one-time challenge in commercial refrigeration arising from regulatory changes related to BIS and Quality Control Order (QCO)
- Margins** - Gross margins have expanded by 167bps on yoy basis. EBITDA margins expanded by 7bps on yoy basis.
- EMPS** - Order-book at Rs65.9bn continues to remain healthy. Order inflow at ~Rs19bn was up 12% on yoy basis. Order finalization in commercial real-estate sector has resulted in inflow growth.
- Demand Outlook** - The company expects strong growth momentum in RAC and commercial air-conditioners to continue in FY25, while impact of regulatory changes in commercial refrigeration is expected to be temporary.

Exhibit 1: Actual vs estimates

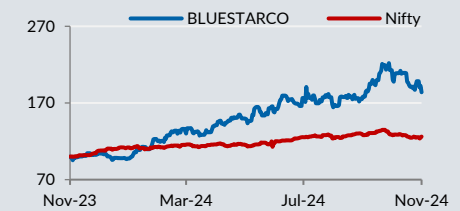
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	22,760	22,225	22,120	2.2	2.9	Decline in PEIS revenue and margins impacted performance
EBITDA	1,493	1,471	1,530	1.5	-2.4	
EBITDA Margin (%)	6.6	6.6	6.9	-6 bps	-30 bps	
Adjusted PAT	961	977	1,003	-1.7	-4.2	

Reco	: REDUCE
CMP	: Rs 1,776
Target Price	: Rs 1,749
Potential Return	: -1.5%

Stock data (as on Nov 7, 2024)

Nifty	24199
52 Week h/l (Rs)	2200/902
Market cap (Rs/USD mn)	386772/4589
Outstanding Shares (mn)	206
6m Avg t/o (Rs mn):	712
Div yield (%)	0.3
Bloomberg code:	BLSTR IN
NSE code:	BLUESTARCO

Stock performance



	1M	3M	1Y
Absolute return	-8.1%	9.6%	85.7%

Shareholding pattern (As of Sep'24 end)

Promoter	36.5%
FII+DII	40.6%
Others	22.9%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	1,749	1,492

Δ in earnings estimates

	FY26e	FY27e
EPS (New)	36.6	43.8
EPS (Old)	35.7	NA
% Change	2.5%	NA%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	122,689	143,044	162,081
YoY Growth	26.7%	16.6%	13.3%
EBITDA	8,380	10,442	12,318
YoY Growth	26.0	24.6	18.0
PAT	6,016	7,518	8,998
YoY Growth	45.3%	25.0%	19.7%
ROE	20.4	22.2	22.9
EPS	29.3	36.6	43.8
P/E	60.7	48.6	40.6
BV	153.0	176.9	205.5
EV/EBITDA	42.7	34.0	28.5

AAKASH FADIA

Analyst

aakash.fadia@ysil.in



Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	18,904	22,412	33,278	28,654	22,760	20.4	-20.6	51,413	41,164	24.9
EBITDA	1227	1554	2419	2378	1493	21.7	-37	3871	2,677	44.6
EBITDA Margin %	6.5	6.9	7.3	8.3	6.6			7.5	6.5	
Depreciation	230	235	283	280	300	30.2	7	580	458	26.6
EBIT	997	1319	2136	2098	1194	19.7	-43	3,292	2,219	48.3
EBIT Margin %	5.3	5.9	6.4	7.3	5.2			6.4	5.4	
Interest charges	177	102	122	76	65	-63.3	-15	141	357	(60.4)
Other Income	130	127	124	238	185	42.8	-22	423	224	89.1
PBT	950	1344	2141	2259	1311	38.0	-42	3,570	2,086	71.2
Tax	243	339	544	573	350	44.4	-39	923	545	69.4
Effective Tax Rate (%)	25.5	25.2	25.4	25.3	26.7			25.9	26.1	
PAT	707	1005	1597	1687	961	35.8	-43	2,647	1,541	71.8
PAT Margin %	3.7	4.5	4.8	5.9	4.2			5.1	3.7	
EPS (Rs)	3.7	5.2	8.3	8.8	5.0	35.8	-43	13.7	8.0	71.8

Source: Company, YES Sec

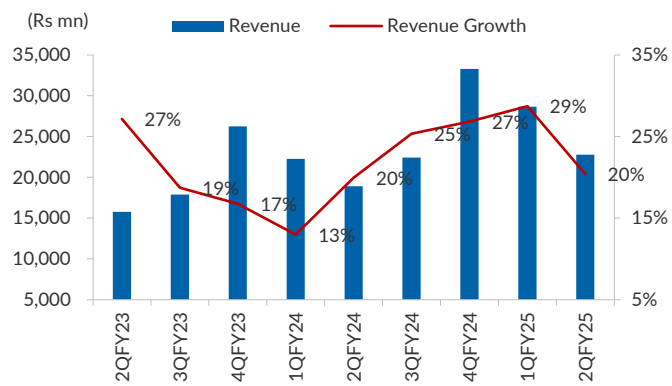
Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
EMP & Packaged Air conditioner	10,772	11,823	15,068	10,390	14,284	32.6	37.5	24,674	20,263	21.8
Unitary Products	7,295	9,554	17,089	17,295	7,670	5.1	-55.7	24,965	19,279	29.5
Professional Electronics and Industrial systems	837	1,035	1,121	969	805	-3.8	-16.8	1,774	1,621	9.4
Total Sales	18,904	22,412	33,278	28,654	22,760	20.4	-20.6	51,413	41,164	24.9
PBIT										
EMP & Packaged Air conditioner	652.8	966.6	1125.3	1030.3	1192.1	82.6	15.7	2,222	1,319	68.5
Unitary Products	616.1	679.3	1414.3	1580.3	539.2	-12.5	-65.9	2,120	1,510	40.4
Professional Electronics and Industrial systems	122.3	152.1	135.7	96.0	51.7	-57.7	-46.1	148	227	-35.0
Total PBIT	1,391	1,798	2,675	2,707	1,783	28.2	-34.1	4,490	3,056	46.9
Finance Costs	176.5	102.4	121.9	76.4	64.8	-63.3	-15.2	141	357	-60.4
Unallocable expense	265	353	416	371	404	52.7	9.0	775	613	26.4
as % of sales	1.4	1.6	1.2	1.3	1.8			3	3	
Exceptional Items	0	-1	-4	-1	3			2	0	
PBT	950	1344	2141	2260	1311	38.0	-42.0	3,571	2,086	71.2
PBIT Margins (%)						(bps)	(bps)			(bps)
EMP & Packaged Air conditioner	6.1	8.2	7.5	9.9	8.3	229	-157	9.0	6.5	250
Unitary Products	8.4	7.1	8.3	9.1	7.0	-142	-211	8.5	7.8	66
Professional Electronics and Industrial systems	14.6	14.7	12.1	9.9	6.4	-819	-349	8.3	14.0	(569)
Total PBIT	7.4	8.0	8.0	9.4	7.8	47	-161	8.7	7.4	131

Source: Company, YES Sec

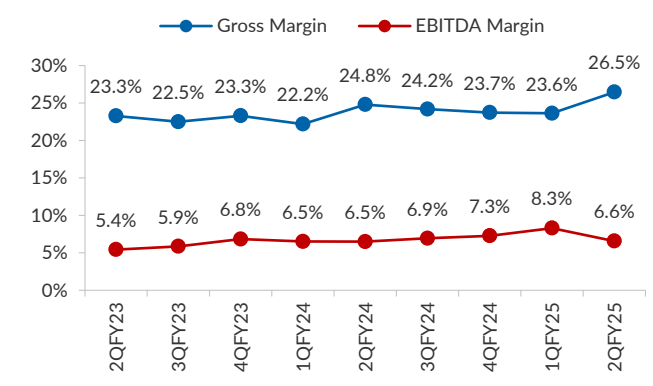
CHARTS

Exhibit 4: Strong execution in project business has resulted in overall revenue growth



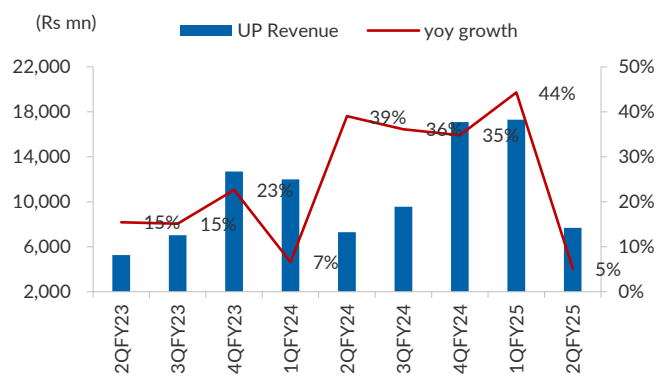
Source: Company, YES Sec

Exhibit 5: EBITDA margin has been flat on yoy basis despite improvement in gross margins



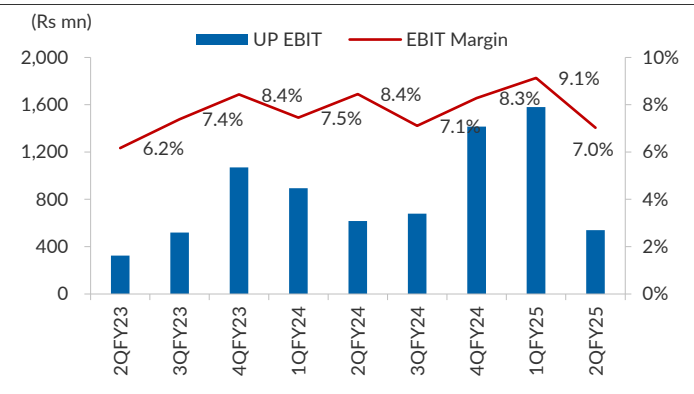
Source: Company, YES Sec

Exhibit 6: Challenges in commercial refrigeration on account of regulatory changes has resulted muted revenue growth



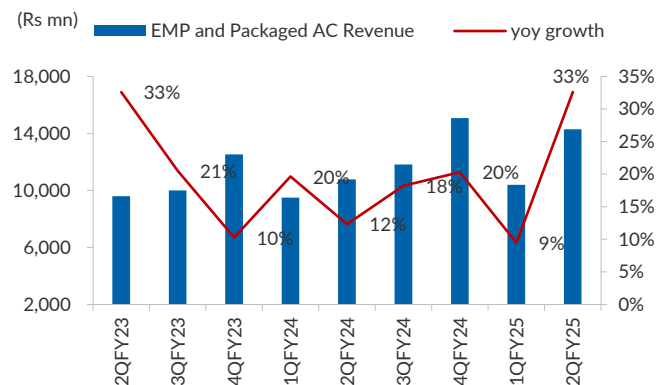
Source: Company, YES Sec

Exhibit 7: Challenges in commercial refrigeration has resulted in lower margins



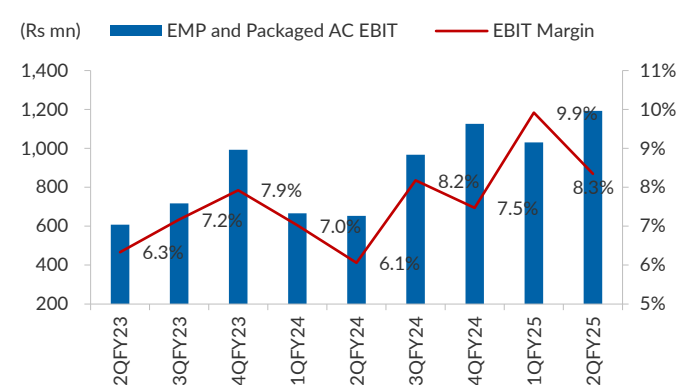
Source: Company, YES Sec

Exhibit 8: Healthy execution has resulted in strong growth



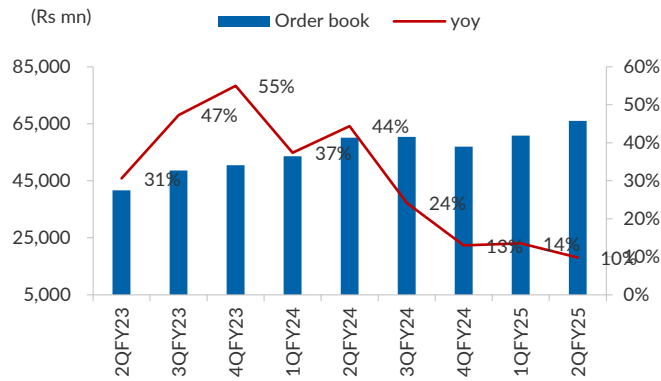
Source: Company, YES Sec

Exhibit 9: EMPS margin continues to surprise positively



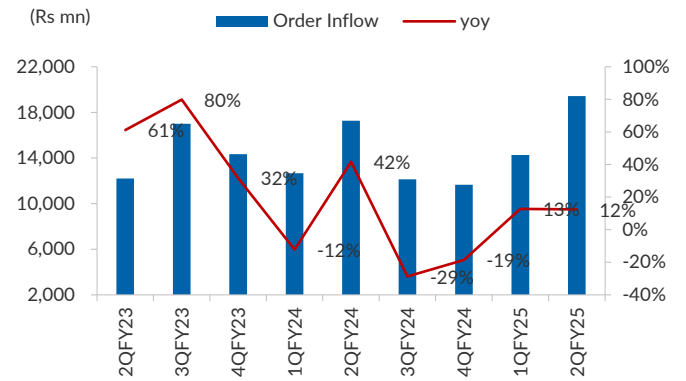
Source: Company, YES Sec

Exhibit 10: EMPS order book remains healthy



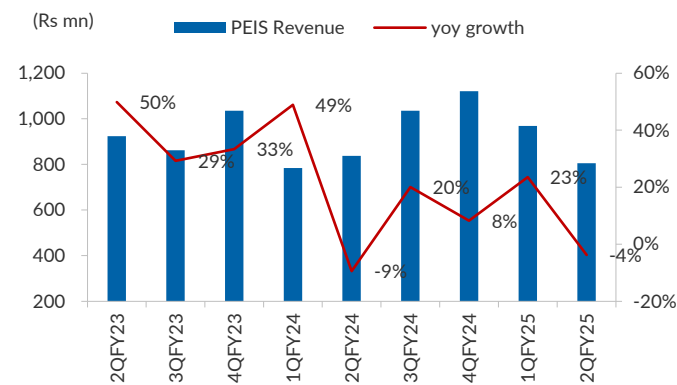
Source: Company, YES Sec

Exhibit 11: Orders from commercial real estate has resulted inflow growth



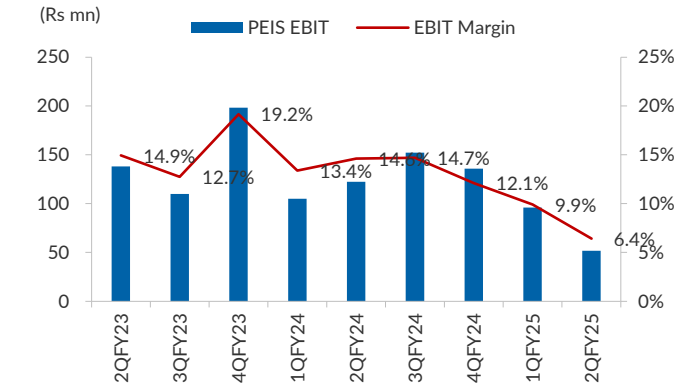
Source: Company, YES Sec

Exhibit 12: Supply chain restrictions and uncertainties have resulted in delay in execution impacting revenue



Source: Company, YES Sec

Exhibit 13: Negative operating leverage has resulted margin contraction



Source: Company, YES Sec

KEY EARNINGS CALL HIGHLIGHTS

- **Segment Reporting-** Internally, management is currently discussing the approach for segment classification. There is ongoing debate about whether to report these segments separately. At this stage, no specific timeline has been set. The decision will align with how competitors are presenting their reports.
- **EMPS Segment-** In the Electro-Mechanical Projects business, manufacturing and data centers segments continued to drive growth . Scaled economies, better profile mix as well as cost reengineering contributed to a 220 bps improvement in segment margins. Order inflow stood at 18990 million as compared to 7650 million. Infrastructure projects are also slowly picking up momentum
- **EMPS split-** Commercial building projects should be around 20% and infrastructure projects should be around 35%. There is a slight skew towards factories and data centers
- **Commercial Air conditioning business,** The primary focus was on accelerating deliveries and improving margins through the ongoing Total Cost Management (TCM) initiatives. New product development initiatives are progressing as planned.
- **Commercial Refrigeration-** One-time challenges in the Commercial Refrigeration business arising from regulatory changes related to BIS and Quality Control Order (QCO) as well as delays in ramping up production of the new range of state-of-the-art glass top deep freezers moderated the overall revenue growth of this segment. These one-time challenges in the Commercial Refrigeration business also caused the Segment margins for the quarter to drop by 140 bps.
- **Water Coolers-** Sale of water cooler saw disruptions and margins for water coolers declined govt had said that standards are going to be changed regarding outlet temperature of water coolers. Management has assured that it has normalized for the month of October
- **Unitary Products-** Despite being a typically lean quarter for this segment, the demand for room air conditioners remained strong and the Company recorded healthy growth and maintained its market share Dealers began stocking up in anticipation of the festival season.
- **Market Share-** Market share has been maintained at 13.75% Management has guided that they will close the year with 14 % market share and they that they will not be able to reach 15% market Share in the refrigeration category is 30% out of a market size of 40000 million
- **USA Market:** The company is currently working with a client who has successfully received their products, are satisfied with its performance. The client has requested additional quantities Another customer is in the process of validating their order, which is expected to take 3-4 months. In the industry, the company anticipates intense competition from Chinese, Japanese, and Korean players.
- **Channel Inventory:** The material sold during Q1 has been fully exhausted. Dealers, including modern retailers like Croma, Vijay Sales, and regional players, have become more organized and efficient. They maintain robust systems to track sales and manage inventory levels effectively. Capital deployment is well-managed, ensuring there is no risk of excess stock up or inventory being offloaded unnecessarily. There is continuous monitoring of sales on an hourly basis across stores, negating any inventory pressure.
- **Capex-**Company has been introducing somewhere around 75 SKUs every season and capex budget is about 3000 million to 4000 million a year

Exhibit 14: SoTP Valuation on FY27E PAT estimates

PAT (Rs mn)	Target multiple (x)	Rs mn
EMP and Packaged Air-conditioner	35	122,245
PEIS	30	15,176
UP	50	222,207
Total MCAP (Rs mn)		359,628
Number of Shares (mn)		206
Target Price (Rs)		1,749

FINANCIALS

Exhibit 15: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Equity capital	193	411	411	411	411
Reserves	13,114	27,129	31,054	35,960	41,831
Net worth	13,307	27,540	31,466	36,371	42,242
Debt	5,776	1,666	2,111	2,461	2,788
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	233	671	800	902	998
Total liabilities	19,315	29,877	34,376	39,734	46,028
Fixed Asset	9,423	12,988	14,476	15,523	16,239
Investments	1,497	2,668	2,668	2,668	2,668
Other Non-current Assets	1,070	1,428	1,808	2,107	2,387
Net Working Capital	4,853	7,652	6,044	7,073	8,026
Inventories	14,334	14,072	21,513	25,082	28,420
Sundry debtors	15,488	19,526	23,193	27,041	30,640
Loans and Advances	2,478	427	541	630	714
Sundry creditors	25,112	26,166	38,992	45,461	51,511
Other current liabilities	8,914	10,741	13,271	15,275	17,154
Cash & equivalents	2,473	5,140	9,380	12,363	16,707
Total Assets	19,315	29,877	34,376	39,734	46,028

Source: Company, YES Sec

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	79,773	96,854	122,689	143,044	162,081
Operating profit	4,928	6,649	8,380	10,442	12,318
Depreciation	884	975	1,128	1,269	1,409
Interest expense	547	581	169	197	223
Other income	309	474	955	1,068	1,337
Profit before tax	3,806	5,568	8,038	10,045	12,023
Taxes	1,547	1,429	2,023	2,528	3,026
Minorities and other	(2)	(2)	(2)	(2)	(2)
Adj. profit	2,260	4,141	6,016	7,518	8,998
Exceptional items	(1,708)	-	-	-	-
Net profit	3,968	4,141	6,016	7,518	8,998

Source: Company, YES Sec

Exhibit 17: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax	4,353	6,148	8,207	10,242	12,246
Depreciation	884	975	1,128	1,269	1,409
Tax paid	(1,547)	(1,429)	(2,023)	(2,528)	(3,026)
Working capital Δ	(1,260)	(3,973)	1,608	(1,028)	(954)
Other operating items					
Operating cashflow	2,429	1,722	8,919	7,954	9,675
Capital expenditure	(4,456)	(4,541)	(2,615)	(2,315)	(2,125)
Free cash flow	(2,026)	(2,819)	6,304	5,638	7,550
Equity raised	1,473	11,532	(0)	0	0
Investments	(9)	3	-	-	-
Debt financing/disposal	998	(4,110)	444	350	328
Interest paid	(547)	(581)	(169)	(197)	(223)
Dividends paid	(2,311)	(1,439)	(2,091)	(2,613)	(3,127)
Net Δ in cash	(224)	2,668	4,240	2,983	4,344

Source: Company, YES Sec

Exhibit 18: Du-pont analysis

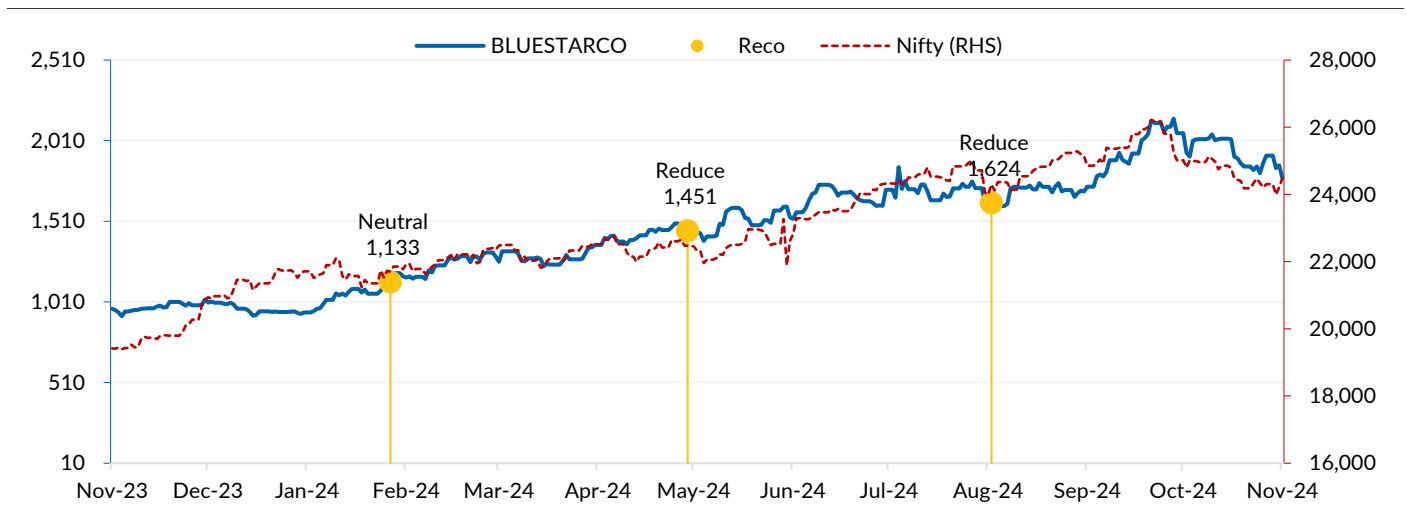
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Tax burden (x)	0.59	0.74	0.75	0.75	0.75
Interest burden (x)	0.87	0.91	0.98	0.98	0.98
EBIT margin (x)	0.05	0.06	0.07	0.07	0.08
Asset turnover (x)	1.64	1.59	1.58	1.51	1.49
Financial leverage (x)	4.14	2.98	2.63	2.79	2.77
RoE (%)	19.3	20.3	20.4	22.2	22.9

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth matrix (%)					
Revenue growth	32.0	21.4	26.7	16.6	13.3
Op profit growth	42.2	34.9	26.0	24.6	18.0
EBIT growth	24.4	41.3	33.5	24.8	19.6
Net profit growth	2.1	83.2	45.3	25.0	19.7
Profitability ratios (%)					
OPM	6.2	6.9	6.8	7.3	7.6
EBIT margin	5.5	6.3	6.7	7.2	7.6
Net profit margin	2.8	4.3	4.9	5.3	5.6
RoCE	25.6	25.5	26.1	28.3	29.2
RoNW	19.3	20.3	20.4	22.2	22.9

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
RoA	4.7	6.8	7.8	8.0	8.3
Per share ratios					
EPS	23.5	20.1	29.3	36.6	43.8
Dividend per share	24.0	7.0	10.2	12.7	15.2
Cash EPS	32.7	24.9	34.7	42.7	50.6
Book value per share	138.2	133.9	153.0	176.9	205.5
Valuation ratios					
P/E	86.2	88.2	60.7	48.6	40.6
P/CEPS	70.5	71.4	51.1	41.6	35.1
P/B	25.7	13.3	11.6	10.0	8.6
EV/EBIDTA	35.4	54.4	42.7	34.0	28.5
Payout (%)					
Dividend payout	102.3	34.8	34.7	34.8	34.8
Tax payout	40.6	25.7	25.2	25.2	25.2
Liquidity ratios					
Debtor days	70.9	73.6	69.0	69.0	69.0
Inventory days	65.6	53.0	64.0	64.0	64.0
Creditor days	114.9	98.6	116.0	116.0	116.0

Recommendation Tracker



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