

Strong growth, positive outlook with new opportunities on cards

In Q1FY25, Blue Star Rev was at INR 28.6bn, up 29% YoY, down 14% QoQ (In line JMFe), 5 year CAGR of +13%. The growth was mainly driven by strong performance in Unitary Products (UP) on the back of strong season. EBITDA was at INR 2.3bn up 64% YoY and down 1% QoQ. OPM was at 8.3% vs 6.5%YoY and 7.3% QoQ (JMFe OPM at 7.5%). It reported PAT of INR 1.7bn up 102% YoY and up 6% QoQ.

- Strong growth in UP:** Revenue was up 44% YoY to INR 17.2bn, 5 year CAGR of +14%, Lloyd +24%, JHAC +1% on the back of strong summer season for RAC along with strong traction in commercial Ref. Strong volumes + operating leverage led to EBIT margin at 9.1% up 168bps YoY and up 86bps QoQ. In Q1; demand exceeded the planned inventory and hence BS lost c.INR 2.5bn of sales with an EBIT of c.INR 20-25mn. However BS continues to maintain its market share of c.13.75%. In June it has taken a price hike of c.3% in RAC mainly due to higher RM. Going forward management has guided for a growth of c.25-30% in FY25 and margins of c.8.5-9%. (JMFe.9%)
- In EMP & Commercial AC(CAC) higher mix towards CAC led to strong margins:** Revenue at INR 10.3bn up 10% YoY (5yr CAGR +11%) mainly driven by strong demand from education, manufacturing & retail sector for EMP along with healthy growth from tier 3 and 4 cities for CAC with significant orders primarily for ducted systems and VRF chillers. EBIT margins at 9.9% up 290bps YoY and 245 bps QoQ mainly because of the price revisions, new launches, operating leverage and prudent cost management. Management expects revenue/margins to be 20-25% and 7.5-8% for FY25 respectively.
- Working on new opportunities:** Management expects data centres are opening up new opportunities on the back of increasing use of AI resulting significant capacity expansion in Data centres. Management expects c.10-15bn revenue in next 3 years from the same. For exports; management expects traction to start soon in US and Europe on the back of new customers and strong R&D on products. Expects exports of c.6-7% in FY25.
- Outlook & Valuation:** We expect Blue Star's Unitary Products (UP) business revenue to grow at a CAGR at 21% over FY24-27 (vs Management expect c.25% in FY25), along with margin expansion of 145 bps, mainly because of Blue Star's increased focus on its sourcing and in-house manufacturing, distribution and marketing, improved product mix, affordable price brand, logistics cost advantage, PLI, and scale along with strong industry tailwinds in the Commercial Refrigeration business. We expect EMP and PEIS segment revenue CAGR of c.17%/20% over FY24-27 mainly backed by private capex and strong industry tailwinds. All the above will result in revenue/earnings CAGR of 19%/31% over the next 2 years with RoCE/RoE of 28%/21% in FY26 and OCF/FCF of INR 12.8bn/5.8bn. we now value BS on Sept'26 (earlier Mar'26) SOTP, UP at INR 1,087 PE of 50x (Profitable market share gain), MEP & Commercial ACs at INR 606 PE of 35x (because of strong growth backed by pick up in capex), and PEIS at INR 97 PE of 30x (because of strong RoCE). Our SOTP target is INR 1,790, up 10% from CMP and hence maintains a BUY.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,790
Upside/(Downside)	10.4%
Previous Price Target	1,560
Change	14.7%

Key Data – BLSTR IN

Current Market Price	INR1,622
Market cap (bn)	INR333.5/US\$4.0
Free Float	62%
Shares in issue (mn)	96.3
Diluted share (mn)	205.6
3-mon avg daily val (mn)	INR777.1/US\$9.3
52-week range	1,907/702
Sensex/Nifty	79,468/24,298
INR/US\$	84.0

Price Performance

%	1M	6M	12M
Absolute	-4.9	38.8	120.4
Relative*	-4.3	24.8	82.7

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	79,773	96,854	1,18,021	1,41,232	1,62,255
Sales Growth (%)	31.6	21.4	21.9	19.7	14.9
EBITDA	4,928	6,647	9,044	11,424	13,330
EBITDA Margin (%)	6.2	6.9	7.7	8.1	8.2
Adjusted Net Profit	2,303	4,143	6,360	8,041	9,402
Diluted EPS (INR)	23.9	20.1	30.9	39.1	45.7
Diluted EPS Growth (%)	36.2	-15.7	53.5	26.4	16.9
ROIC (%)	22.6	21.6	22.4	25.6	27.5
ROE (%)	19.6	21.0	22.2	23.2	22.4
P/E (x)	67.8	80.5	52.4	41.5	35.5
P/B (x)	11.7	12.8	10.7	8.8	7.2
EV/EBITDA (x)	32.3	23.1	16.9	13.0	10.8
Dividend Yield (%)	0.6	0.3	0.4	0.4	0.4

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2024

JM Financial Research is also available on:
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S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Concall Key takeaways continued

Unitary Products

- In RAC industry grew at c.70% each in April and May and 15% in June resulting overall growth of c.50-60% and as a result channel was having inventory at c.1 month.
- Due to improved better sourcing; BS started sourcing copper from India and electronics from India; however compressors are still imported. Expects supply chain to improve in India.
- The market for Commercial Refrigeration namely, Deep Freezers, Water Coolers and Modular Cold Rooms continued to grow at CAGR of 15%. BIS related regulatory changes for Water Coolers announced in the last week of March 2024 impacted the sale of Water Coolers in Q1FY25. Though the production and sales have normalized in Q2FY25, substantial reduction in sale of Water Coolers resulted in lower growth and profitability in Q1FY25.
- Blue Star maintains its leadership in key categories like Deep Freezers, Storage Water Coolers, and Modular Cold Rooms. Outlook remains strong in the segment.

EMP & Commercial AC

- Inflow of enquiries and tenders in the railway electrification sectors remained buoyant but was a slowdown in finalization of orders in the Power and Metro Railway sectors mainly due to elections.
- In Q1 expanded its products range with the commercial launch of state-of-the-art chillers for data center application and Brine Chillers. With these new product lines, it looks for penetrating new segments.

Professional Electronics and Industrial Systems (PEIS)

- Supply chain disruptions and cost overruns in MedTech business impacted the segment margins.

Other

- Due to better collections; Working capital improved and hence better cash on Q1. However from Q2 inventory will go up resulting cash to be c.INR 3.5-4bn in Q4FY24.
- Expects capex of INR 4-4.5BN in FY25 and c.7-8bn in next 3 years. Capex in Q1 was INR 350mn

Exhibit 1. Change in Estimates

Particulars (INR Mn)	Old Estimates		New Estimates		Change in Estimates	
	FY25	FY26	FY25	FY26	FY25	FY26
Revenue	1,17,345	1,39,122	1,18,021	1,41,232	1%	2%
EBITDA	8,738	11,099	9,044	11,424	3%	3%
% OPM	7.4%	8.0%	7.7%	8.1%		
PAT	6,086	7,869	6,332	8,013	4%	2%
EPS	30	38	30.8	39.0	4%	2%

Source: JM Financial, Company

Exhibit 2. Quarterly Performance

Blue Star Ltd Quarterly (INR Mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	vs. expectations %
Sales	28,654	22,260	28.7	33,278	(13.9)	(2.8)
COGS	21,886	17,322	26.3	25,386	(13.8)	
Gross Margin (%)	23.6	22.2	144bps	23.7	-10bps	
EBITDA	2,378	1,450	64.0	2,419	(1.7)	6.8
EBITDA margin (%)	8.3	6.5	179bps	7.3	103bps	
Interest	76	180	(57.6)	122	(37.3)	
Depreciation	280	228	22.9	283	(1.1)	
Other income	238	94	152.9	124	91.8	
PBT	2,259	1,136	98.9	2,138	5.7	
Tax	573	302	89.4	544	5.2	
Tax rate (%)	25.3	26.6		25.5		
Adj. PAT	1,687	834	102.3	1,594	5.8	
Exceptional item	0	0		0		
Share profit/(Loss) of JV	1	0		4	(77.1)	
Reported PAT	1,688	834	102.4	1,597	5.7	18.7
Adj.PAT	1,688	834	102.4	1,597	5.7	

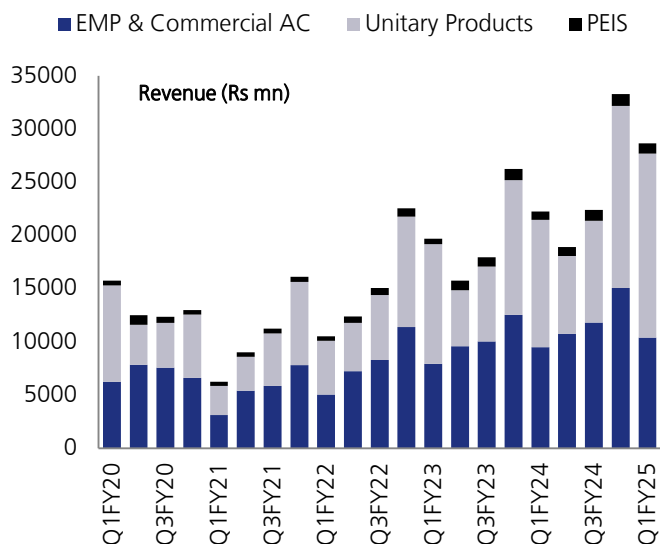
Source: JM Financial, Company

Exhibit 3. Segmental Revenue

Segmental - INR Mn	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Segment Revenue					
Electro - mechanical Projects (EMP) & Commercial AC	10,390	9,491	9.5%	15,068	-31%
Unitary Products (UP)	17,295	11,985	44.3%	17,089	1%
Professional Electronics & Industrial systems (PEIS)	969	784	23%	1,121	-14%
Segment Revenue	28,654	22,260	29%	33,278	-14%
Segment EBIT					
Electro - mechanical Projects (EMP) & Commercial AC	1,030	666	55%	1,125	-8%
Unitary Products (UP)	1,580	893	77%	1,414	12%
Professional Electronics & Industrial systems (PEIS)	96	105	-8%	136	-29%
Segment EBIT	2,707	1,665	63%	2,675	1%
Segment Margin (%)					
Electro - mechanical Projects (EMP) & Commercial AC	9.9%	7.0%	290 bps	7.5%	245 bps
Unitary Products (UP)	9.1%	7.5%	168 bps	8.3%	86 bps
Professional Electronics & Industrial systems (PEIS)	9.9%	13.4%	-346 bps	12.1%	-220 bps
Segment EBIT margin (%)	9.4%	7.5%	197 bps	8.0%	141 bps

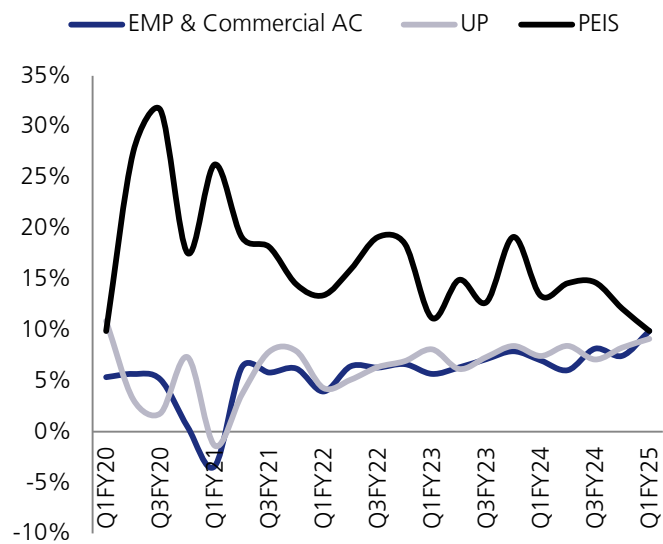
Source: JM Financial, Company

Exhibit 4. Revenue mix trend



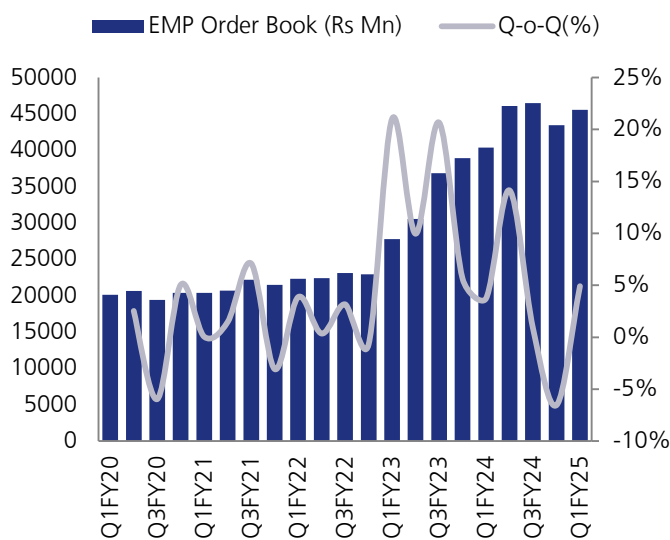
Source: JM Financial, Company

Exhibit 5. Segmental EBIT margins trend



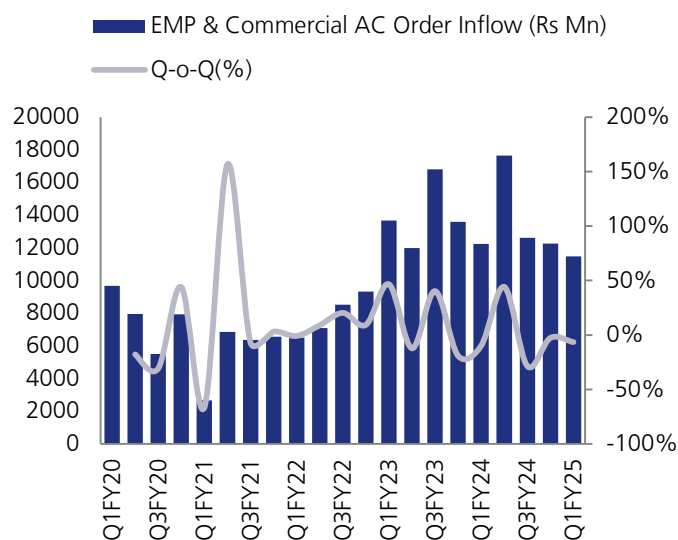
Source: JM Financial, Company

Exhibit 6. EMP Order book up c.13% YoY



Source: JM Financial, Company

Exhibit 7. EMP & CAC order inflow down 6% YoY



Source: JM Financial, Company

Financial Tables (Consolidated)

Income Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Sales	79,773	96,854	1,18,021	1,41,232	1,62,255	
Sales Growth	31.6%	21.4%	21.9%	19.7%	14.9%	
Other Operating Income	0	0	0	0	0	
Total Revenue	79,773	96,854	1,18,021	1,41,232	1,62,255	
Cost of Goods Sold/Op. Exp	61,817	73,922	89,460	1,06,771	1,22,340	
Personnel Cost	5,914	7,495	8,244	9,151	10,158	
Other Expenses	7,114	8,790	11,273	13,886	16,427	
EBITDA	4,928	6,647	9,044	11,424	13,330	
EBITDA Margin	6.2%	6.9%	7.7%	8.1%	8.2%	
EBITDA Growth	42.2%	34.9%	36.1%	26.3%	16.7%	
Depn. & Amort.	848	975	1,198	1,293	1,405	
EBIT	4,080	5,672	7,846	10,131	11,925	
Other Income	309	474	800	600	600	
Finance Cost	547	581	146	47	27	
PBT before Excep. & Forex	3,842	5,565	8,500	10,684	12,499	
Excep. & Forex Inc./Loss(-)	1,708	0	0	0	0	
PBT	5,550	5,565	8,500	10,684	12,499	
Taxes	1,547	1,428	2,167	2,671	3,125	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	8	5	32	32	32	
Reported Net Profit	4,011	4,143	6,360	8,041	9,402	
Adjusted Net Profit	2,303	4,143	6,360	8,041	9,402	
Net Margin	2.9%	4.3%	5.4%	5.7%	5.8%	
Diluted Share Cap. (mn)	96.3	205.6	205.6	205.6	205.6	
Diluted EPS (INR)	23.9	20.1	30.9	39.1	45.7	
Diluted EPS Growth	36.2%	-15.7%	53.5%	26.4%	16.9%	
Total Dividend + Tax	964	1,028	1,234	1,234	1,234	
Dividend Per Share (INR)	10.0	5.0	6.0	6.0	6.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	5,554	5,565	8,500	10,684	12,499	
Depn. & Amort.	848	976	1,198	1,293	1,405	
Net Interest Exp. / Inc. (-)	547	581	146	47	27	
Inc (-) / Dec in WCap.	-2,075	-2,765	-1,315	-1,440	-1,544	
Others	-1,469	-103	-800	-600	-600	
Taxes Paid	-927	-1,363	-2,167	-2,671	-3,125	
Operating Cash Flow	2,478	2,892	5,562	7,313	8,661	
Capex	-1,821	-4,359	-4,500	-2,500	-3,000	
Free Cash Flow	657	-1,467	1,062	4,813	5,661	
Inc (-) / Dec in Investments	255	-1,012	0	0	0	
Others	-250	124	800	600	600	
Investing Cash Flow	-1,817	-5,246	-3,700	-1,900	-2,400	
Inc / Dec (-) in Capital	0	10,000	0	0	0	
Dividend + Tax thereon	-964	-1,158	-1,234	-1,234	-1,234	
Inc / Dec (-) in Loans	980	-4,157	-1,000	-400	0	
Others	-927	-1,036	-146	-47	-27	
Financing Cash Flow	-911	3,648	-2,379	-1,680	-1,260	
Inc / Dec (-) in Cash	-250	1,294	-518	3,733	5,001	
Opening Cash Balance	2,726	2,479	3,773	3,255	6,988	
Closing Cash Balance	2,477	3,773	3,255	6,988	11,989	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	13,306	26,101	31,200	37,979	46,120	
Share Capital	193	411	411	411	411	
Reserves & Surplus	13,114	25,690	30,788	37,568	45,709	
Preference Share Capital	0	0	0	0	0	
Minority Interest	32	26	26	26	26	
Total Loans	5,776	1,666	666	266	266	
Def. Tax Liab. / Assets (-)	-79	-3	-3	-3	-3	
Total - Equity & Liab.	19,035	27,790	31,888	38,268	46,408	
Net Fixed Assets	9,319	12,819	16,121	17,328	18,923	
Gross Fixed Assets	13,295	17,332	22,603	25,103	28,103	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	4,809	5,784	6,982	8,275	9,680	
Capital WIP	833	1,271	500	500	500	
Investments	1,402	276	276	276	276	
Current Assets	43,190	53,015	58,825	69,596	81,558	
Inventories	14,334	14,072	16,649	19,111	21,925	
Sundry Debtors	15,488	19,526	23,276	27,854	32,000	
Cash & Bank Balances	2,473	3,774	3,255	6,988	11,989	
Loans & Advances	1,368	737	737	737	737	
Other Current Assets	9,528	14,907	14,907	14,907	14,907	
Current Liab. & Prov.	34,876	38,320	43,334	48,933	54,350	
Current Liabilities	25,112	26,166	31,180	36,779	42,195	
Provisions & Others	9,764	12,154	12,154	12,154	12,154	
Net Current Assets	8,314	14,695	15,491	20,663	27,209	
Total - Assets	19,035	27,790	31,888	38,267	46,408	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Net Margin	2.9%	4.3%	5.4%	5.7%	5.8%	
Asset Turnover (x)	4.7	4.1	4.0	4.0	3.8	
Leverage Factor (x)	1.4	1.2	1.0	1.0	1.0	
RoE	19.6%	21.0%	22.2%	23.2%	22.4%	

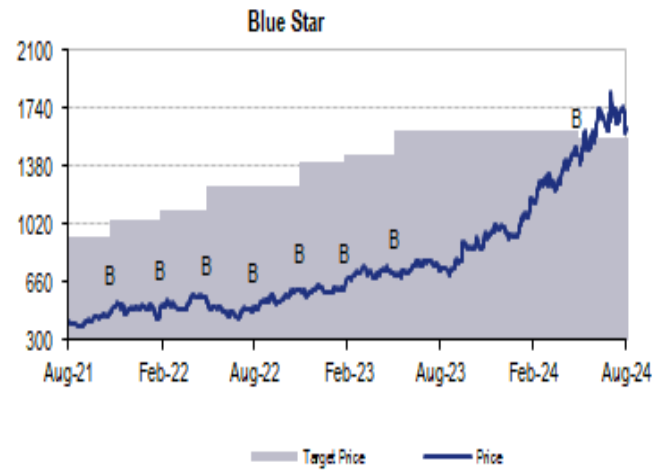
Key Ratios						
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
BV/Share (INR)	138.2	126.9	151.7	184.7	224.3	
ROIC	22.6%	21.6%	22.4%	25.6%	27.5%	
ROE	19.6%	21.0%	22.2%	23.2%	22.4%	
Net Debt/Equity (x)	0.2	-0.1	-0.1	-0.2	-0.3	
P/E (x)	67.8	80.5	52.4	41.5	35.5	
P/B (x)	11.7	12.8	10.7	8.8	7.2	
EV/EBITDA (x)	32.3	23.1	16.9	13.0	10.8	
EV/Sales (x)	2.0	1.6	1.3	1.1	0.9	
Debtor days	71	74	72	72	72	
Inventory days	66	53	51	49	49	
Creditor days	122	106	104	103	103	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
31-Jan-20	Hold	800	
9-Apr-20	Hold	525	-34.4
13-May-20	Hold	415	-21.0
19-May-20	Hold	415	0.0
7-Aug-20	Hold	415	0.0
29-Oct-20	Hold	580	39.8
31-Jan-21	Buy	870	50.0
7-May-21	Buy	930	6.9
12-May-21	Buy	930	0.0
19-Jul-21	Buy	930	0.0
5-Aug-21	Buy	940	1.1
29-Oct-21	Buy	1,040	10.6
3-Feb-22	Buy	1,100	5.8
6-May-22	Buy	1,250	13.6
5-Aug-22	Buy	1,250	0.0
4-Nov-22	Buy	1,400	12.0
31-Jan-23	Buy	1,450	3.6
9-May-23	Buy	1,600	10.3
5-May-24	Buy	1,560	-2.5

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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