

Blue Star | BUY

Growth driven by EMP + CAC; outlook remain strong for UP

In Q2FY25, Blue Star revenue was at INR 22.7bn, up 20% YoY, down 21% QoQ (In line JMFe), 5 year CAGR of +13%. Growth was primarily driven by the EMP & Commercial AC. EBITDA was at INR 1.5bn up 21% YoY and down 37% QoQ. OPM was at 6.6% vs 6.5% YoY and 8.3% QoQ (JMFe OPM at 6.8%). Reported PAT was at INR 964mn up 36% YoY and down 43% QoQ.

- In UP- strong RAC performance while commercial Ref capped growth:** In Q2, RAC grew c. 27% in volumes and 25% in value on the back of strong stocking by the channel ahead of festive. In Oct'24 Blue star RAC grew c.30% in volume and 28% value and continue to maintain market share of c.13.75%. In the commercial Ref segment; due to regulatory changes pertaining to BIS and Quality Control Order (QCO), production and sale of water coolers (high margin segment) impacted and liquidation of old inventory at lower realisations capped margins. Also; delay in ramping up the facility of deep freezer impacted the overall revenue. In Q2FY24 there was large export of RAC to Middle East but the same was not there in Q2FY25. All this resulted in Unitary Product revenue to be up by 5% YoY to INR 7.6bn. Management expect commercial ref has normalised and expect strong demand. Guided revenue growth of c.25-30% and margin of 8.5-9%.
- Q2 growth was driven by EMP & Commercial AC:** EMP growth was driven by strong momentum in the manufacturing and data center. Infrastructure is now started gaining traction along with the commercial real estate. Carried forward order book in EMP was INR 50bn up 9% YoY. Strong demand in data centres, education, and commercial real estate led to better margins and revenue growth of CAC. Margins were up by 223bps YoY to 8.3% mainly due to better mix and cost optimisation. Guided margin of 7-7.5%.
- Delay in order finalisation impacted PEIS:** Revenue of PEIS was at INR 805mn down 4% YoY because of supply chain constraint like delay in import of hi-tech capital equipment. Expect demand to revive from Q4FY25 onwards.
- Outlook & Valuation:** We expect Blue Star's Unitary Products (UP) business revenue to grow at a CAGR at 22% over FY24-27 (vs Management expect c.25-30% in FY25), along with margin expansion of 120 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 AC business. We expect EMP and PEIS segment revenue CAGR of c.18%/16% over FY24-27 mainly backed by private capex and data center. All the above will result in revenue/earnings CAGR of 20%/33% over the next 3 years with RoCE/RoE of 28%/23% in FY27 and OCF/FCF of INR 20.8bn/10.8bn. we value BS on Sept'26 SOTP, UP at INR 1,161 PE of 52x (earlier 50x) due to Profitable market share gain, MEP & Commercial ACs at INR 733 PE of 40x (earlier 35x) due to strong growth backed by private capex + data center and PEIS at INR 76 PE of 30x (because of strong RoCE). Our SOTP target is INR 1,971, up 11% 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)	1,971
Upside/(Downside)	10.8%
Previous Price Target	1,790
Change	10.1%

Key Data – BLSTR IN

Current Market Price	INR1,779
Market cap (bn)	INR365.7/US\$4.3
Free Float	62%
Shares in issue (mn)	96.3
Diluted share (mn)	205.6
3-mon avg daily val (mn)	INR904.8/US\$10.7
52-week range	2,200/901
Sensex/Nifty	79,542/24,199
INR/US\$	84.4

Price Performance

%	1M	6M	12M
Absolute	-8.1	23.1	85.7
Relative*	-6.4	13.8	51.6

* To the BSE Sensex

Financial Summary

Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E
Net Sales	79,773	96,854	1,19,946	1,43,878	1,67,626
Sales Growth (%)	31.6	21.4	23.8	20.0	16.5
EBITDA	4,928	6,647	8,810	11,431	13,242
EBITDA Margin (%)	6.2	6.9	7.3	7.9	7.9
Adjusted Net Profit	2,303	4,143	6,142	8,159	9,661
Diluted EPS (INR)	23.9	20.1	29.9	39.7	47.0
Diluted EPS Growth (%)	36.2	-15.7	48.3	32.8	18.4
ROIC (%)	22.6	21.6	21.7	25.5	27.2
ROE (%)	19.6	21.0	21.5	23.7	23.0
P/E (x)	74.4	88.3	59.5	44.8	37.9
P/B (x)	12.9	14.0	11.8	9.7	7.9
EV/EBITDA (x)	35.3	25.4	19.1	14.4	12.0
Dividend Yield (%)	0.6	0.3	0.3	0.3	0.3

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

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
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Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Concall takeaways continued

In Unitary Products (UP)

- RAC industry grew c.17% YoY in Q2 while Blue Star grew 27%. Industry was up 31% in H1 while Blue Star volumes were up by 55% YoY.
- Commercial Refrigeration products are under trail and testing for exports.
- Market size of RAC industry is c.280bn and Blue Star has 13.75% market share. It was not able to inch up the market share as inventory exhausted in Q1. Commercial Refrigeration market size is INR 40bn and Blue Star has c.30% market share. In RAC expect market share of c.14% in FY25.
- More than 50% of the RAC sale is through consumer finance, power consumption is coming down leading to growth in RAC.

EMP & Commercial AC (CAC)

- The development of new products in the areas of decarbonization and energy efficiency improvement for identified OEMs in Europe & North America are progressing well and the field trials for a few products have been completed successfully. There is a slowdown in Europe and the indications are that the demand will revive in 12-18 months. Certain shipments for the US market have commenced but the momentum is expected to pick up post the presidential elections.
- Expect Data center opportunity of c.60bn and it will address c.45bn. It will capture market share of 20%.
- Of the EMP order book - Commercial building will be 20%, infra will be 35%.

Exhibit 1. Quarterly Performance

Blue Star Ltd Quarterly (INR Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	vs. expectations %
Sales	22,760	18,904	20.4	28,654	(20.6)	2.3
COGS	16,737	14,218	17.7	21,886	(23.5)	
Gross Margin(%)	26.5	24.8	167bps	23.6	284bps	
EBITDA	1,493	1,227	21.7	2,378	(37.2)	(1.2)
EBITDA margin (%)	6.6	6.5	7bps	8.3	-174bps	
Interest	65	177	(63.3)	76	(15.2)	8.0
Depreciation	300	230	30.2	280	6.9	3.3
Other income	185	130	42.8	238	(22.1)	(7.5)
PBT	1,314	950	38.3	2,259	(41.8)	(3.5)
Tax	350	243	44.4	573	(38.8)	2.2
Tax rate (%)	26.7	25.5		25.3		
Adj. PAT	964	707	36.2	1,687	(42.9)	(5.4)
Exceptional item	0	0		0		
Share profit/(Loss) of JV	-3	0	#DIV/0!	1	(462.5)	
Reported PAT	961	707	35.8	1,688	(43.1)	(5.6)
Adj. PAT	961	707	35.8	1,688	(43.1)	

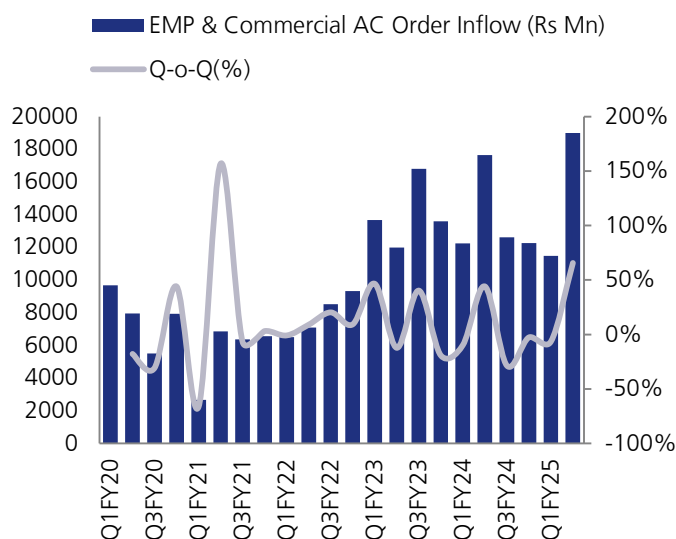
Source: JM Financial, Company

Exhibit 2. Segment Mix

Segmental (INR mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Segment Revenue					
Electro - mechanical Projects (EMP) & Commercial AC	14,284	10,772	32.6%	10,390	37%
Unitary Products (UP)	7,670	7,295	5.1%	17,295	-56%
Professional Electronics & Industrial systems (PEIS)	805	837	-4%	969	-17%
Segment Revenue	22,760	18,904	20%	28,654	-21%
Segment EBIT					
Electro - mechanical Projects (EMP) & Commercial AC	1,192	653	83%	1,030	16%
Unitary Products (UP)	539	616	-12%	1,580	-66%
Professional Electronics & Industrial systems (PEIS)	52	122	-58%	96	-46%
Segment EBIT	1,783	1,391	28%	2,707	-34%
Segment Margin (%)					
Electro - mechanical Projects (EMP) & Commercial AC	8.3%	6.1%	229 bps	9.9%	-157 bps
Unitary Products (UP)	7.0%	8.4%	-142 bps	9.1%	-211 bps
Professional Electronics & Industrial systems (PEIS)	6.4%	14.6%	-819 bps	9.9%	-349 bps
Segment EBIT margin (%)	7.8%	7.4%	47 bps	9.4%	-161 bps

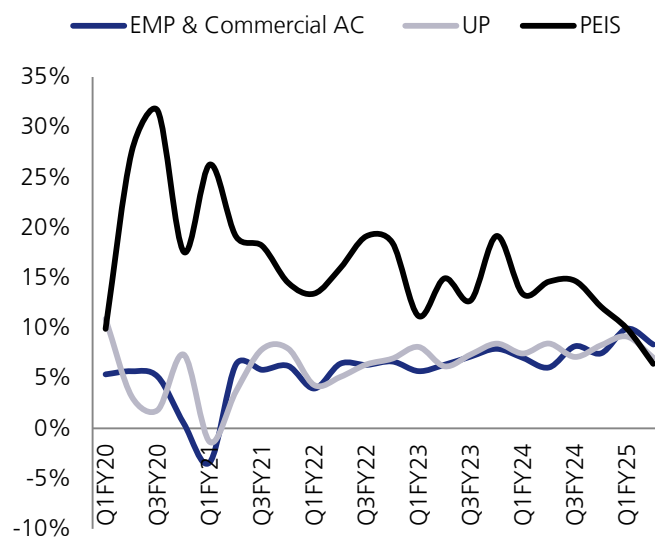
Source: JM Financial, Company

Exhibit 3. Order inflow up by 66% QoQ



Source: JM Financial, Company

Exhibit 4. Segment margin trend



Source: JM Financial, Company

Exhibit 5. Change in Estimates

Particulars (INR Mn)	Old Estimates			New Estimates			Change in Estimates		
	FY25	FY26	FY27	FY25	FY26	FY27	FY25	FY26	FY27
Revenue	1,18,021	1,41,232	1,62,255	1,19,946	1,43,878	1,67,626	1.6%	1.9%	3.3%
EBITDA	9,044	11,424	13,330	8,810	11,431	13,242	-2.6%	0.1%	-0.7%
% OPM	7.7%	8.1%	8.2%	7.3%	7.9%	7.9%			
PAT	6,332	8,013	9,402	6,114	8,131	9,633	-3.4%	1.5%	2.5%
EPS	31	39	46	29.7	39.5	46.9	-3.4%	1.5%	2.5%

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	1,19,946	1,43,878	1,67,626	
Sales Growth	31.6%	21.4%	23.8%	20.0%	16.5%	
Other Operating Income	0	0	0	0	0	
Total Revenue	79,773	96,854	1,19,946	1,43,878	1,67,626	
Cost of Goods Sold/Op. Exp	61,817	73,922	89,960	1,07,621	1,25,049	
Personnel Cost	5,914	7,495	8,394	9,318	10,342	
Other Expenses	7,114	8,790	12,782	15,509	18,993	
EBITDA	4,928	6,647	8,810	11,431	13,242	
EBITDA Margin	6.2%	6.9%	7.3%	7.9%	7.9%	
EBITDA Growth	42.2%	34.9%	32.6%	29.7%	15.8%	
Depn. & Amort.	848	975	1,198	1,293	1,321	
EBIT	4,080	5,672	7,612	10,138	11,921	
Other Income	309	474	800	800	1,000	
Finance Cost	547	581	205	97	77	
PBT before Excep. & Forex	3,842	5,565	8,207	10,841	12,844	
Excep. & Forex Inc./Loss(-)	1,708	0	0	0	0	
PBT	5,550	5,565	8,207	10,841	12,844	
Taxes	1,547	1,428	2,093	2,710	3,211	
Extraordinary Inc./Loss(-)	0	0	0	0	0	
Assoc. Profit/Min. Int.(-)	8	5	32	32	32	
Reported Net Profit	4,011	4,143	6,142	8,159	9,661	
Adjusted Net Profit	2,303	4,143	6,142	8,159	9,661	
Net Margin	2.9%	4.3%	5.1%	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	29.9	39.7	47.0	
Diluted EPS Growth	36.2%	-15.7%	48.3%	32.8%	18.4%	
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

Balance Sheet		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Shareholders' Fund	13,306	26,101	30,981	37,879	46,278	
Share Capital	193	411	411	411	411	
Reserves & Surplus	13,114	25,690	30,570	37,468	45,867	
Preference Share Capital	0	0	0	0	0	
Minority Interest	32	26	26	26	26	
Total Loans	5,776	1,666	1,166	766	766	
Def. Tax Liab. / Assets (-)	-79	-3	-3	-3	-3	
Total - Equity & Liab.	19,035	27,790	32,170	38,668	47,067	
Net Fixed Assets	9,319	12,819	16,121	17,328	19,007	
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	9,596	
Capital WIP	833	1,271	500	500	500	
Investments	1,402	276	276	276	276	
Current Assets	43,190	53,015	59,724	70,744	83,680	
Inventories	14,334	14,072	16,979	19,499	22,729	
Sundry Debtors	15,488	19,526	23,656	28,376	33,060	
Cash & Bank Balances	2,473	3,774	3,445	7,225	12,248	
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	43,951	49,681	55,896	
Current Liabilities	25,112	26,166	31,797	37,527	43,742	
Provisions & Others	9,764	12,154	12,154	12,154	12,154	
Net Current Assets	8,314	14,695	15,773	21,063	27,783	
Total - Assets	19,035	27,790	32,170	38,667	47,067	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY23A	FY24A	FY25E	FY26E	FY27E	
Profit before Tax	5,554	5,565	8,207	10,841	12,844	
Depn. & Amort.	848	976	1,198	1,293	1,321	
Net Interest Exp. / Inc. (-)	547	581	205	97	77	
Inc (-) / Dec in WCap.	-2,075	-2,765	-1,407	-1,510	-1,698	
Others	-1,469	-103	-800	-800	-1,000	
Taxes Paid	-927	-1,363	-2,093	-2,710	-3,211	
Operating Cash Flow	2,478	2,892	5,311	7,210	8,333	
Capex	-1,821	-4,359	-4,500	-2,500	-3,000	
Free Cash Flow	657	-1,467	811	4,710	5,333	
Inc (-) / Dec in Investments	255	-1,012	0	0	0	
Others	-250	124	800	800	1,000	
Investing Cash Flow	-1,817	-5,246	-3,700	-1,700	-2,000	
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	-500	-400	0	
Others	-927	-1,036	-205	-97	-77	
Financing Cash Flow	-911	3,648	-1,939	-1,730	-1,310	
Inc / Dec (-) in Cash	-250	1,294	-328	3,780	5,023	
Opening Cash Balance	2,726	2,479	3,773	3,445	7,225	
Closing Cash Balance	2,477	3,773	3,445	7,225	12,248	

Source: Company, JM Financial

Dupont Analysis		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
Net Margin		2.9%	4.3%	5.1%	5.7%	5.8%
Asset Turnover (x)		4.7	4.1	4.0	4.1	3.9
Leverage Factor (x)		1.4	1.2	1.1	1.0	1.0
RoE		19.6%	21.0%	21.5%	23.7%	23.0%

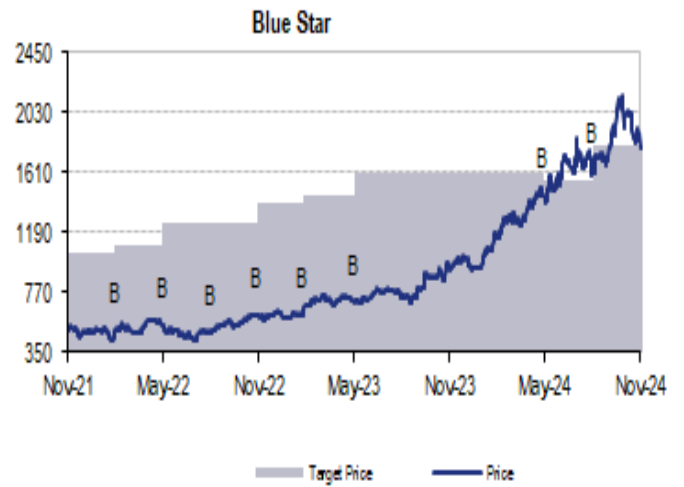
Key Ratios		FY23A	FY24A	FY25E	FY26E	FY27E
Y/E March						
BV/Share (INR)		138.2	126.9	150.7	184.2	225.1
ROIC		22.6%	21.6%	21.7%	25.5%	27.2%
ROE		19.6%	21.0%	21.5%	23.7%	23.0%
Net Debt/Equity (x)		0.2	-0.1	-0.1	-0.2	-0.2
P/E (x)		74.4	88.3	59.5	44.8	37.9
P/B (x)		12.9	14.0	11.8	9.7	7.9
EV/EBITDA (x)		35.3	25.4	19.1	14.4	12.0
EV/Sales (x)		2.2	1.7	1.4	1.1	1.0
Debtor days		71	74	72	72	72
Inventory days		66	53	52	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
8-Aug-24	Buy	1,790	14.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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.
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* REITs refers to Real Estate Investment Trusts.

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