

August 07, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Blue Star Ltd

## Valuations captures positivity; maintain Reduce

### Result Synopsis

BLSTR has continued its strong growth momentum with revenue growth of 28.7% (7% lower than estimates). Revenue miss was largely on account of lower execution in the project business. Unitary products continue to outshine with its revenue growing by 44.3% yoy. Commercial refrigeration has also seen strong demand and is growing at 15% CAGR. EMPS margins at 9.9% surprised positively as there was higher supply of equipment and company had supplied its own commercial air-conditioner. BLSTR expects EPMS margins in the range of 7.5-8% to be sustainable. Order inflow for the quarter stood at Rs14.2bn growth of 13%, while order book stood at Rs60.8bn growing by 14%. The company has experienced strong order-booking from factories and data centers, while commercial building sector has seen limited traction. Company has given positive outlook for RAC in FY25 given the way Q1 has panned out and sentiment continues to remain buoyant. 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 international front it would be a slow progress as US and European market continues to face its own challenges. We 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 improved execution of projects, market share gains in RAC and continued growth momentum in Commercial refrigeration. We pencil in revenue/EBITDA/Adj PAT CAGR of 18%/24%/33% over FY24-26E. We have increased our SoTP-based PT to Rs1,492 vs earlier Rs1,380. We have increased our target multiple for EMPS business to 35x vs 30x as company has been consistently delivering on revenue improving margin profile. We maintain Reduce as current stock price valuation captures positivity of the strong domestic growth, while building traction on the international front would take longer than anticipated. We would advise to enter the stock on decline for favorable risk reward ratio.

### Result Highlights

- Business update** - Bluestar (BLSTR IN) reported lower than expected revenue growth, with Unitary products/EMPS/PEIS growing at 44.3%/9.5%/23.5% respectively. RAC saw unprecedented demand resulting strong growth in UP.
- Margins** - Gross margins have expanded by 144bps on yoy basis. EBITDA margins expanded by 179bps on yoy basis. BLSTR has said that 8.5%-9% EBITDA margin would be sustainable for FY25.
- EMPS** - Order-book at Rs60.8bn continues to remain healthy. Order inflow at ~Rs14bn was up 13% on yoy basis. Commercial building has seen limited traction, while factories and data centers have experienced robust order booking.
- Demand Outlook** - The company expects sustained growth driven by good demand, introduction of new products across all products categories and strong carried forward order-book. BLSTR is guiding revenue growth of 20-25% for FY25

### Exhibit 1: Actual vs estimates

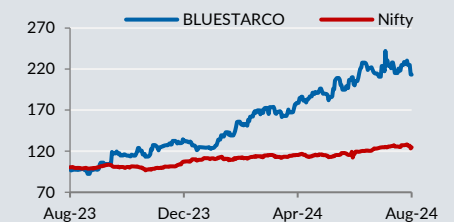
Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	28,654	30,722	29,760	-6.7	-3.7	Slower execution in the project business results in revenue miss
EBITDA	2,378	2,316	2,250	2.7	5.7	
EBITDA Margin (%)	8.3	7.5	7.6	80 bps	70 bps	
Adjusted PAT	1,687	1,572	1,450	7.3	16.3	

Reco	: <b>REDUCE</b>
CMP	: Rs 1,624
Target Price	: Rs 1,492
Potential Return	: -8.1%

### Stock data (as on Aug 7, 2024)

Nifty	24301
52 Week h/l (Rs)	1898/702
Market cap (Rs/USD mn)	334525/3986
Outstanding Shares (mn)	206
6m Avg t/o (Rs mn):	506
Div yield (%):	0.4
Bloomberg code:	BLSTR IN
NSE code:	BLUESTARCO

### Stock performance



	1M	3M	1Y
Absolute return	-4.7%	12.5%	120.9%

### Shareholding pattern (As of Mar'24 end)

Promoter	36.5%
FII+DII	40.6%
Others	22.9%

### Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	REDUCE
Target Price	1,492	1,380

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	30.8	35.7
EPS (Old)	29.7	34.4
% Change	3.7%	3.8%

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	96,854	120,472	135,658
YoY Growth	21.4%	24.4%	12.6%
EBIDTA	6,649	8,794	10,174
YoY Growth	34.9	32.3	15.7
PAT	4,141	6,329	7,344
YoY Growth	83.2%	52.8%	16.0%
ROE	20.3	21.4	21.6
EPS	20.1	30.8	35.7
P/E	80.6	52.8	45.5
BV	133.9	154.0	177.3
EV/EBITDA	49.7	37.1	31.8

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	22,260	18,904	22,412	33,278	28,654	28.7	-13.9	96,854	79,586	21.7
EBITDA	1450	1227	1554	2419	2378	64.0	-2	6649	4928	34.9
EBITDA Margin %	6.5	6.5	6.9	7.3	8.3			6.9	6.2	
Depreciation	228	230	235	283	280	22.9	-1	976	848	15.1
EBIT	1222	997	1319	2136	2098	71.7	-2	5673	4080	39.0
EBIT Margin %	5.5	5.3	5.9	6.4	7.3			5.9	5.1	
Interest charges	180	177	102	122	76	-57.6	-37	581	547	6.2
Other Income	94	130	127	124	238	152.9	92	474	309	53.6
PBT	1136	950	1344	2141	2259	98.9	6	5571	5550	0.4
Tax	302	243	339	544	573	89.4	5	1,429	1,547	(7.7)
Effective Tax Rate (%)	26.6	25.5	25.2	25.4	25.3			25.6	27.9	
PAT	834	707	1005	1597	1687	102.3	6	4143	4008	3.4
PAT Margin %	3.7	3.7	4.5	4.8	5.9			4.3	5.0	
EPS (Rs)	4.3	3.7	5.2	8.3	8.8	102.3	6	21.5	20.8	3.4

Source: Company, YES Sec

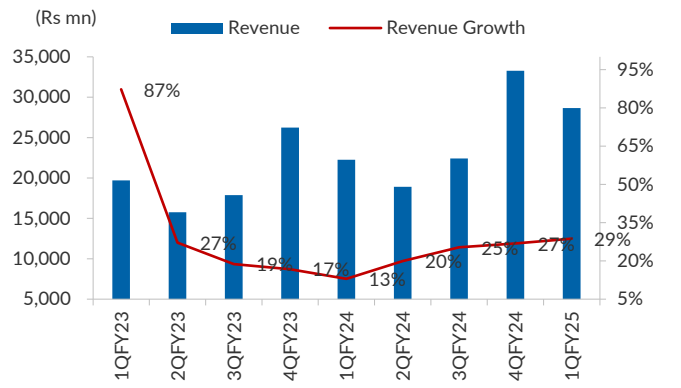
## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY24	FY23	YoY (%)
EMP & Packaged Air conditioner	9,491	10,772	11,823	15,068	10,390	9.5	-31.0	47,155	40,052	17.7
Unitary Products	11,985	7,295	9,554	17,089	17,295	44.3	1.2	45,922	36,186	26.9
Professional Electronics and Industrial systems	784	837	1,035	1,121	969	23.5	-13.6	3,777	3,348	12.8
Total Sales	22,260	18,904	22,412	33,278	28,654	28.7	-13.9	96,854	79,586	21.7
PBIT										
EMP & Packaged Air conditioner	666.2	652.8	966.6	1125.3	1030.3	54.7	-8.4	3,411	2,768	23.2
Unitary Products	893.4	616.1	679.3	1414.3	1580.3	76.9	11.7	3,603	2,823	27.6
Professional Electronics and Industrial systems	104.9	122.3	152.1	135.7	96.0	-8.5	-29.3	515	505	2.0
Total PBIT	1,665	1,391	1,798	2,675	2,707	62.6	1.2	7,529	6,096	23.5
Finance Costs	180.0	176.5	102.4	121.9	76.4	-57.6	-37.3	581	547	6.2
Unallocable expense	348	265	353	416	371	6.4	-10.8	1,382	1,707	-19.1
as % of sales	1.6	1.4	1.6	1.2	1.3			5.8	8.5	
Exceptional Items	0	0	-1	-4	-1			-5	-1,708	
PBT	1136	950	1344	2141	2260	98.9	5.6	5,571	5,550	0.4
PBIT Margins (%)						(bps)	(bps)			(bps)
EMP & Packaged Air conditioner	7.0	6.1	8.2	7.5	9.9	290	245	7.2	6.9	32
Unitary Products	7.5	8.4	7.1	8.3	9.1	168	86	7.8	7.8	4
Professional Electronics and Industrial systems	13.4	14.6	14.7	12.1	9.9	-346	-220	13.6	15.1	(145)
Total PBIT	7.5	7.4	8.0	8.0	9.4	197	141	7.8	7.7	11

Source: Company, YES Sec

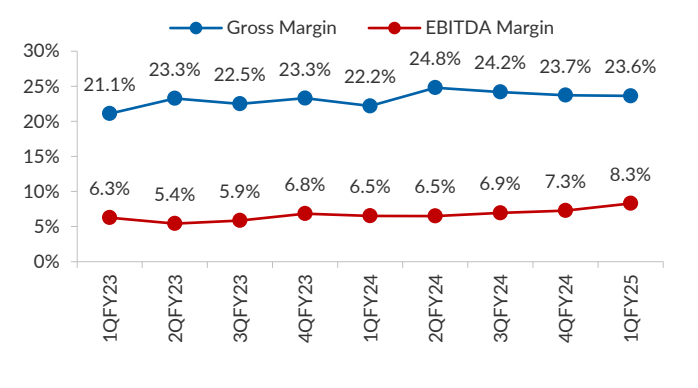
**CHARTS**

**Exhibit 4: Revenue growth continues to remain strong with UP outperforming**



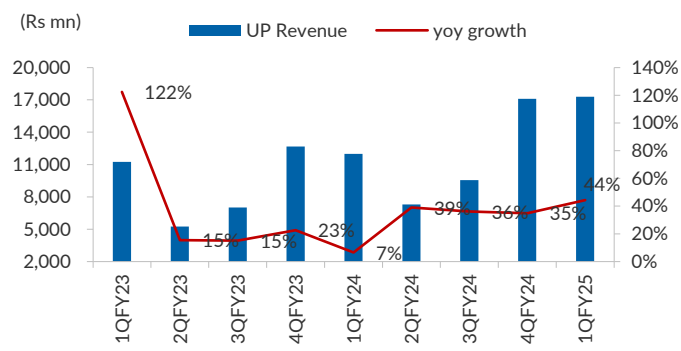
Source: Company, YES Sec

**Exhibit 5: EBITDA margins improves on better efficiency and operating leverage**



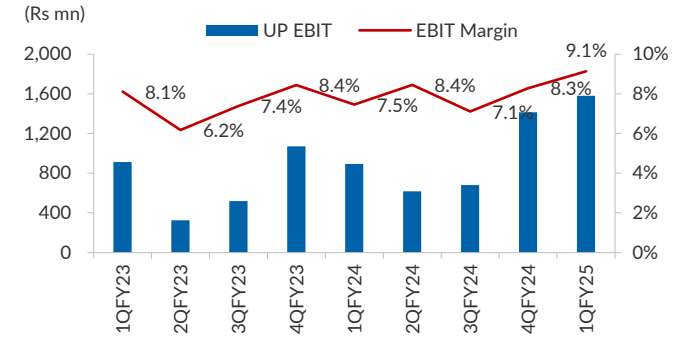
Source: Company, YES Sec

**Exhibit 6: Strong summer demand for RAC has propelled unitary products growth**



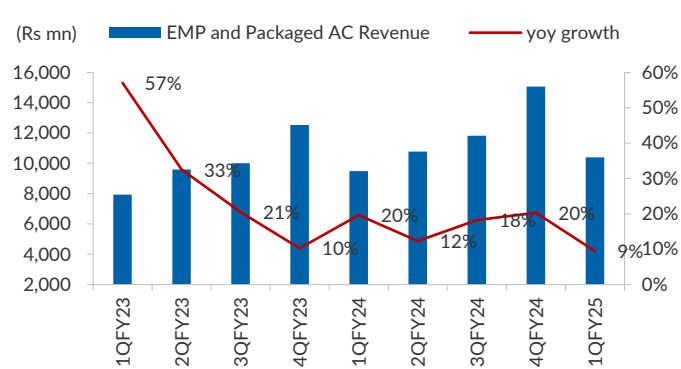
Source: Company, YES Sec

**Exhibit 7: Operating leverage has resulted in margin expansion**



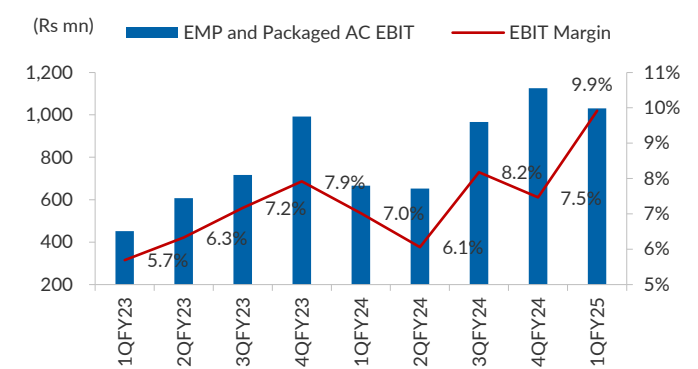
Source: Company, YES Sec

**Exhibit 8: Slower execution has resulted in muted revenue growth**



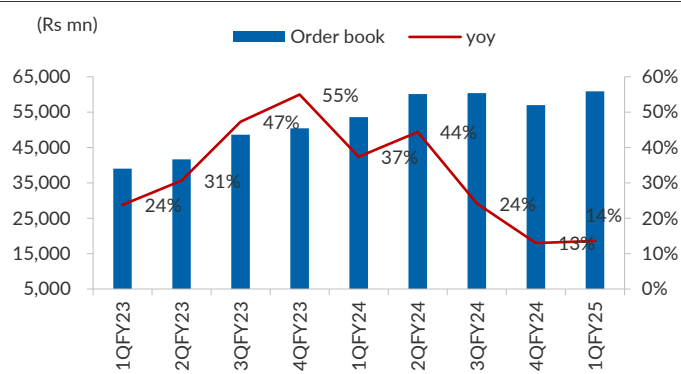
Source: Company, YES Sec

**Exhibit 9: EMPS margin is at decadal high**



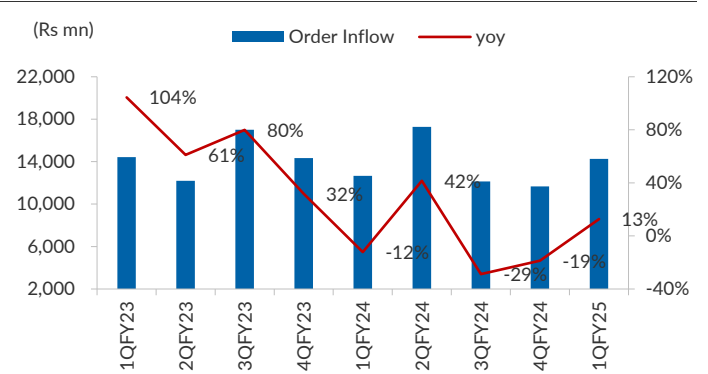
Source: Company, YES Sec

**Exhibit 10: EMPS order book remains healthy**



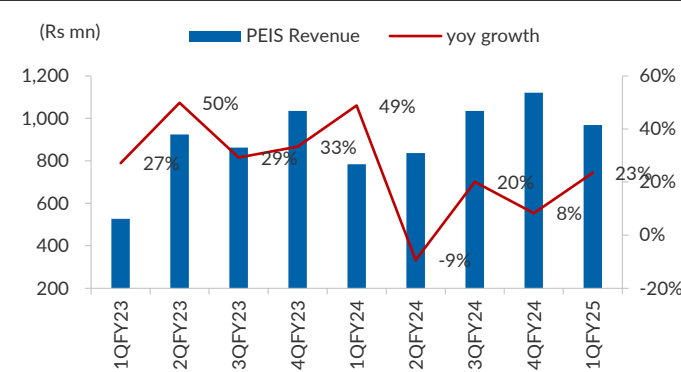
Source: Company, YES Sec

**Exhibit 11: Robust order-booking from factories and data centers results in inflow growth**



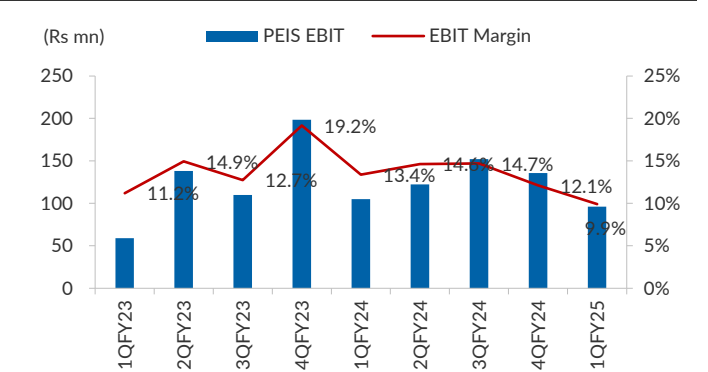
Source: Company, YES Sec

**Exhibit 12: PEIS growth remains strong**



Source: Company, YES Sec

**Exhibit 13: Supply chain disruption and cost overruns in MedTech business impacted margins**



Source: Company, YES Sec

## KEY EARNINGS CALL HIGHLIGHTS

- Business update – Both B2B and B2C business has done well. Order-book continues to be robust. Outlook continues to remain positive, long term prospects remains encouraging. Supply chain constraints continue, domestic supply is improving. Company will focus on growing faster than the market
- Costs are coming down as scale is improving, company is focusing on value engineering and indigenization.
- EMPS – Margins are higher as company has supplied its owned packaged air-conditioners and there was higher proportion of the equipment supply.
  - Carried forward order book stood at Rs60.8bn. Order inflow for Q1 stood at Rs14.6bn.
  - Robust booking from factories and data centers. Inflow of enquires from railways continues to be buoyant. Healthcare and retail sectors also witnessing increased enquires. **Infrastructure orders are now being finalized as new government is formed.**
  - Demand from government remained subdued, however education and other sector has offset the slowdown in government orders.
  - Demand for commercial air-conditioner remains strong from tier iii and iv cities. The company ranks one of the top 3 player in traditional and inverter ducted air-conditioners.
  - The company has launched new product (chiller) for data center application.
  - On the international front middle-east and Africa remained soft, while subsidiaries in Europe and US is engaging with the customers and orders should start flowing in
  - EMPS margins are expected to remain in 7.5-8% range.
  - Data center has opportunity to deliver Rs10bn worth of revenue and it can go up to Rs15bn.
  - The company has seen progress on the technical aspects of commercial air-conditioning in Europe and US and are expecting negotiations to start going forward
- Unitary Products – Demand has been higher than anticipated, the company has lost out on some demand on account of stockouts. In month of May the company has not being able to fulfil the demand despite increasing production by 50%. BLSTR continues to be command market share of 13.75%. Demand continues to be good post the summer season as well. Industry is now expected to grow by 25-30% vs earlier expectation of 20-25%
  - Commercial refrigeration segment continue to grow at 15% CAGR.
  - BIS related regulatory changes has impacted sales of water coolers. However the sales have been normalized in Q2.
  - The company continues to enjoy leadership position in deep freezers, storage water coolers and cold-rooms
  - **The company expects 8.5-9% margins to be sustainable in unitary products**
  - RAC industry would have grown by 50-60%. Channel inventory is not beyond a month
  - Energy label change for RAC is due on 1<sup>st</sup> January 2026. Discussion are going on replacement program of old rated AC sold 10 years ago
  - **BLSTR has increased the price of RAC by ~3% from July, price increase have been take to cover commodity inflation and higher ocean freight\**

- PEIS – PEIS margins are impacted on back of costs overruns and supply chain issues in MedTech business.
- Exports – Exports are expected to be muted and it will not be needle mover for BLSTR

#### Exhibit 14: SoTP Valuation on FY26E PAT estimates

PAT (Rs mn)	Target multiple (x)	Rs mn
EMP and Packaged Air-conditioner	35	100,334
PEIS	30	14,612
UP	50	191,782
Total MCAP (Rs mn)		306,727
Number of Shares (mn)		206
<b>Target Price (Rs)</b>		<b>1,492</b>

## FINANCIALS

### Exhibit 15: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	193	193	411	411	411
Reserves	9,983	13,114	27,129	31,258	36,051
Net worth	10,176	13,307	27,540	31,670	36,462
Debt	4,778	5,776	1,666	2,073	2,334
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	227	233	671	789	865
Total liabilities	15,181	19,315	29,877	34,531	39,661
Fixed Asset	5,851	9,423	12,988	14,476	15,523
Investments	1,682	1,497	2,668	2,668	2,668
Other Non-current Assets	1,553	1,070	1,428	1,775	1,999
Net Working Capital	3,398	4,853	7,652	5,952	6,707
Inventories	11,442	14,334	14,072	21,124	23,787
Sundry debtors	11,897	15,488	19,526	22,774	25,645
Loans and Advances	1,928	2,478	427	531	598
Sundry creditors	20,417	25,112	26,166	38,287	43,113
Other current liabilities	6,920	8,914	10,741	13,057	14,563
Cash & equivalents	2,697	2,473	5,140	9,660	12,764
Total Assets	15,181	19,315	29,877	34,531	39,660

Source: Company, YES Sec

### Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	60,456	79,773	96,854	120,472	135,658
Operating profit	3,465	4,928	6,649	8,794	10,174
Depreciation	323	884	975	1,128	1,269
Interest expense	464	547	581	166	187
Other income	357	309	474	955	1,093
Profit before tax	3,035	3,806	5,568	8,456	9,813
Taxes	829	1,547	1,429	2,128	2,470
Minorities and other	(8)	(2)	(2)	(2)	(2)
Adj. profit	2,214	2,260	4,141	6,329	7,344
Exceptional items	-	(1,708)	-	-	-
Net profit	2,214	3,968	4,141	6,329	7,344

Source: Company, YES Sec

## Exhibit 17: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	3,499	4,353	6,148	8,622	9,999
Depreciation	323	884	975	1,128	1,269
Tax paid	(829)	(1,547)	(1,429)	(2,128)	(2,470)
Working capital $\Delta$	(675)	(1,260)	(3,973)	1,700	(755)
Other operating items					
Operating cashflow	2,318	2,429	1,722	9,322	8,043
Capital expenditure	(1,623)	(4,456)	(4,541)	(2,615)	(2,315)
Free cash flow	695	(2,026)	(2,819)	6,706	5,728
Equity raised	1,036	1,473	11,532	-	-
Investments	(14)	(9)	3	-	-
Debt financing/disposal	262	998	(4,110)	406	261
Interest paid	(464)	(547)	(581)	(166)	(187)
Dividends paid	(1,926)	(2,311)	(1,439)	(2,199)	(2,552)
Net $\Delta$ in cash	(625)	(224)	2,668	4,520	3,104

Source: Company, YES Sec

## Exhibit 18: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.73	0.59	0.74	0.75	0.75
Interest burden (x)	0.87	0.87	0.91	0.98	0.98
EBIT margin (x)	0.06	0.05	0.06	0.07	0.07
Asset turnover (x)	1.54	1.64	1.59	1.56	1.47
Financial leverage (x)	4.13	4.14	2.98	2.61	2.72
RoE (%)	23.3	19.3	20.3	21.4	21.6

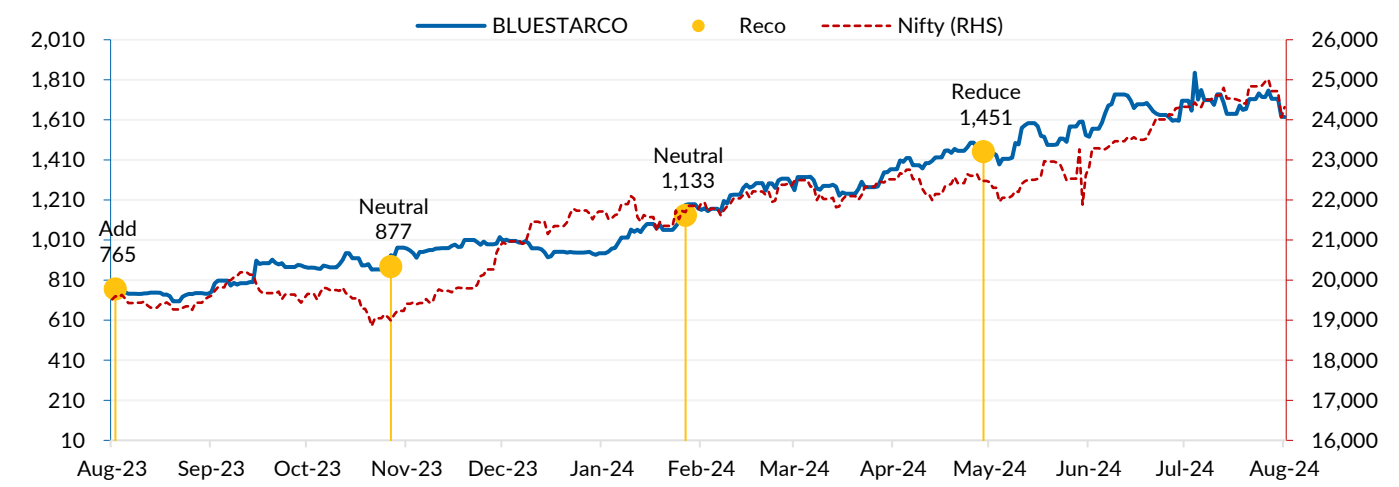
## Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	41.8	32.0	21.4	24.4	12.6
Op profit growth	44.5	42.2	34.9	32.3	15.7
EBIT growth	66.7	24.4	41.3	40.2	16.0
Net profit growth	120.6	2.1	83.2	52.8	16.0
<b>Profitability ratios (%)</b>					
OPM	5.7	6.2	6.9	7.3	7.5
EBIT margin	5.8	5.5	6.3	7.2	7.4
Net profit margin	3.7	2.8	4.3	5.3	5.4
RoCE	24.7	25.6	25.5	27.4	27.6
RoNW	23.3	19.3	20.3	21.4	21.6



Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	5.6	4.7	6.8	8.2	7.9
<b>Per share ratios</b>					
EPS	23.0	23.5	20.1	30.8	35.7
Dividend per share	20.0	24.0	7.0	10.7	12.4
Cash EPS	26.3	32.7	24.9	36.3	41.9
Book value per share	105.7	138.2	133.9	154.0	177.3
<b>Valuation ratios</b>					
P/E	141.3	78.8	80.6	52.8	45.5
P/CEPS	123.3	64.5	65.3	44.8	38.8
P/B	30.7	23.5	12.1	10.5	9.2
EV/EBIDTA	45.7	32.4	49.7	37.1	31.8
<b>Payout (%)</b>					
Dividend payout	87.0	102.3	34.8	34.7	34.8
Tax payout	27.3	40.6	25.7	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	71.8	70.9	73.6	69.0	69.0
Inventory days	69.1	65.6	53.0	64.0	64.0
Creditor days	123.3	114.9	98.6	116.0	116.0

## Recommendation Tracker



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