

HOLD
 TP: Rs 1,100 | ▲ 11%

BLUE STAR

Consumer Durables

05 August 2022

Commendable margin performance

- Q1 EBIT margin in cooling business relatively strong at 8.1%, outperforming peers
- Among the few companies to take price hikes in Q1, enabled by balanced approach to market share growth and margins
- Retain HOLD with revised TP of Rs 1,100 (vs. Rs 1,200) as we lower our target P/E to 38x (vs. 40x) amid rising competitive intensity

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Good quarter: BLSTR's Q1FY23 revenue stood at Rs 19.7bn, up 87% YoY, led by strong growth in the unitary cooling (UCP) and electromechanical project (EMP) segments at 122% and 57% YoY respectively. This translates to a 3Y CAGR of 7% in UCP vs. 7%/19% for VOLT/Lloyd. Notably, despite cost pressure, BLSTR was able to navigate Q1 relatively well, maintaining its EBITDA margin at 6.3% – stable QoQ vs. a decline for competitors. Adj. PAT was at Rs 744mn (3Y CAGR of -0.7%).

Commendable margins in UCP: EBIT margin in the UCP business rose 110bps QoQ to 8.1% led by improved operating leverage, price hikes, and a favourable product mix following introduction of the affordable segment from Jan'22. In comparison, VOLT's UCP division reported a 7.7% (-300bps QoQ) EBIT margin, while Lloyd reported losses. In a key positive, BLSTR's management remained optimistic about keeping UCP margins in the 8-10% range in H2FY23.

EMP segment gaining traction: The EMP segment grew 57% YoY in Q1 with an EBIT margin of 5.7%. Commercial AC sales performed well in the retail, builder and entertainment segments. The order pipeline remains healthy owing to an uptick in the construction cycle (airport, metro, railways, healthcare), rising manufacturing capex and data centre expansion. Overall, management is aiming for a 6% margin in EMP, with a focus on cash flows.

Balanced approach to market share: BLSTR maintained its market share at 13.25% in Q1FY23, similar to FY22. The company has taken a judicious approach to managing market share growth and margins, with its share increasing gradually from 13% at end-FY21. Notably, it is one of the few companies that raised prices in Q1. Management expects market share to increase to 15% by FY25.

Competition rising; retain HOLD: BLSTR has navigated Q1 well amid RM inflation and slowing demand towards the quarter-end. However, we note that Q2 and Q3FY23 are seasonally soft quarters for the AC industry. Further, in light of the rising competitive intensity, we value the stock at a lower 38x FY24E EPS (40x earlier), which yields a revised TP of Rs 1,100 (Rs 1,200 earlier); retain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	BLSTR IN/Rs 991
Market cap	US\$ 1.2bn
Free float	61%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 1,225/Rs 758
Promoter/FPI/DII	39%/12%/22%

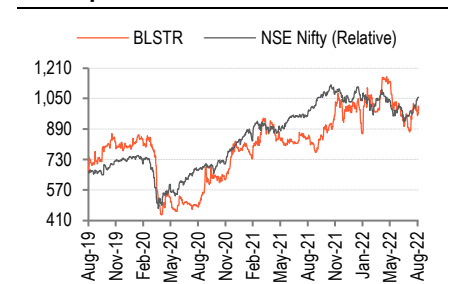
Source: NSE | Price as of 5 Aug 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	60,456	70,045	80,432
EBITDA (Rs mn)	3,465	4,225	5,008
Adj. net profit (Rs mn)	1,677	2,481	2,781
Adj. EPS (Rs)	17.4	25.8	28.9
Consensus EPS (Rs)	17.4	27.8	36.1
Adj. ROAE (%)	17.6	22.8	22.4
Adj. P/E (x)	56.9	38.5	34.3
EV/EBITDA (x)	27.5	22.6	19.1
Adj. EPS growth (%)	67.1	48.0	12.1

Source: Company, Bloomberg, BOBCAPS Research

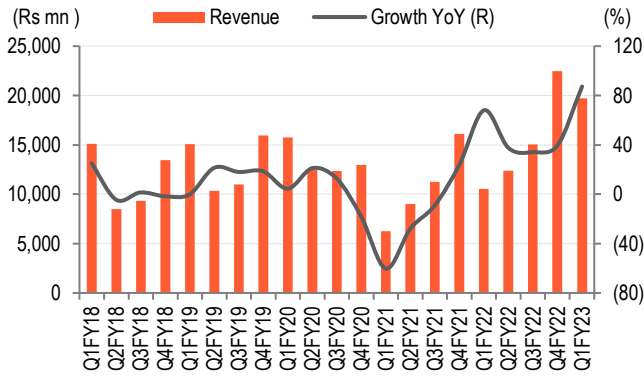
Stock performance



Source: NSE

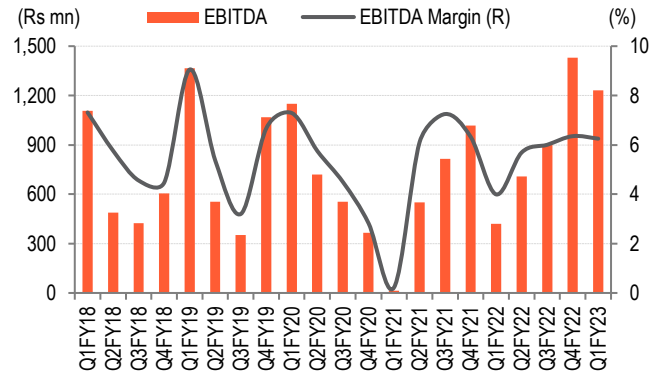


Fig 1 – Revenue growth



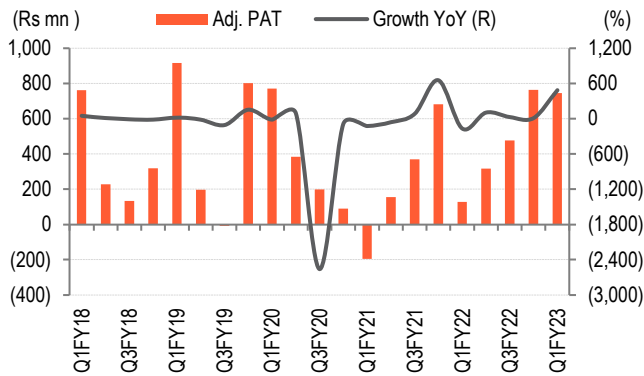
Source: Company, BOBCAPS Research

Fig 2 – EBITDA growth



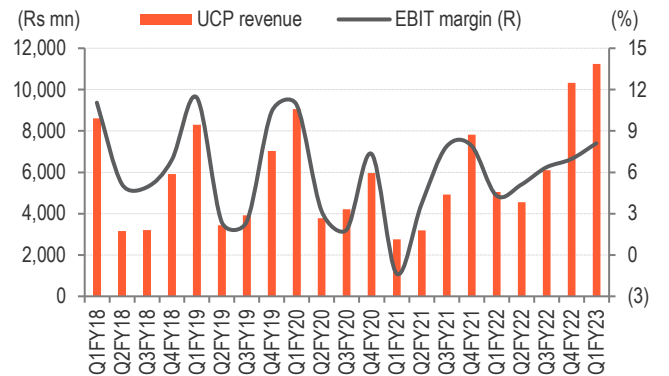
Source: Company, BOBCAPS Research

Fig 3 – PAT growth



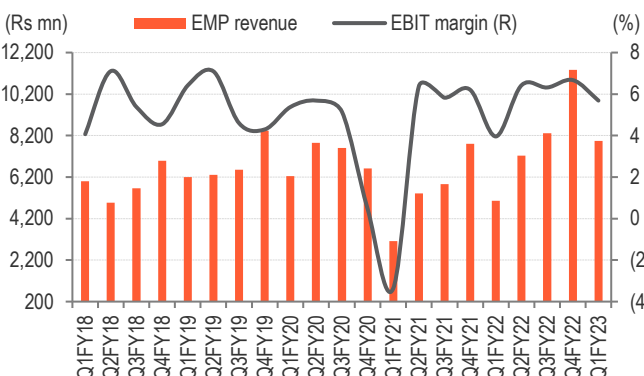
Source: Company, BOBCAPS Research

Fig 4 – UCP: Growth trend



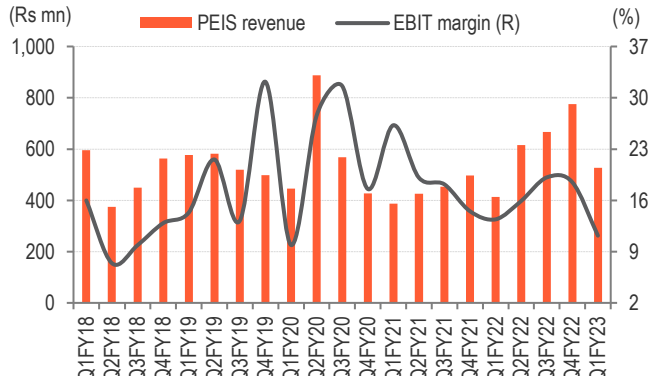
Source: Company, BOBCAPS Research

Fig 5 – EMP: Growth trend



Source: Company, BOBCAPS Research

Fig 6 – PEIS: growth trend



Source: Company, BOBCAPS Research | PEIS – Professional electronics and industrial systems

Fig 7 – Quarterly performance

Particulars (Rs mn)	Q1FY23	Q1FY22	YoY (%)	Q4FY22	QoQ (%)
Revenue	19,703	10,520	87.3	22,476	(12.3)
EBITDA	1,233	421	193.2	1,430	(13.7)
EBITDA margin (%)	6.3	4.0	230bps	6.4	(10bps)
Depreciation	220	201		231	
Interest	106	107		129	
Other Income	105	80		69	
PBT	1,012	192	426.1	1,139	(11.2)
Tax	263	65		376	
Adjusted PAT	744	127	484.8	764	(2.5)
Exceptional item					
Reported PAT	744	127	484.8	764	(2.5)
Adj. PAT margin (%)	3.8	1.2	260bps	3.4	40bps
EPS (Rs)	7.8	1.3	488.7	7.9	(1.9)

Source: Company, BOBCAPS Research

Fig 8 – Actual vs. Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)
Revenue	19,703	19,989	(1.4)
EBITDA	1,233	1,399	(11.9)
EBITDA margin (%)	6.3	7.0	(70bps)
Adj. PAT	744	753	(1.1)

Source: Company, BOBCAPS Research

Fig 9 – Segment analysis

Particulars (Rs mn)	Q1FY20				Q2FY20				Q3FY20				Q4FY20				3Y CAGR (%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23				
Revenues																	
EMP	6,239	7,835	7,588	6,604	3,124	5,408	5,855	7,800	5,052	7,234	8,299	11,360	7,934	8.3			
YoY growth (%)	0.7	24.2	15.8	(21.6)	(49.9)	(31.0)	(22.8)	18.1	61.7	33.8	41.7	45.6	57.0				
PEIS	446	887	569	427	387	426	454	498	414	616	667	776	527	5.7			
YoY growth (%)	(22.7)	52.5	9.4	(14.4)	(13.2)	(51.9)	(20.1)	16.6	7.0	44.5	46.8	55.9	27.2				
UCP	9,069	3,772	4,202	5,963	2,749	3,187	4,930	7,818	5,054	4,547	6,097	10,340	11,242	7.4			
YoY growth (%)	9.2	10.0	7.3	(15.3)	(69.7)	(15.5)	17.3	31.1	83.9	42.7	23.7	32.3	122.5				
EBIT																	
EMP	335	446	390	32	(105)	344	341	485	200	465	524	758	452				
Margin (%)	5.4	5.7	5.1	0.5	(3.4)	6.4	5.8	6.2	4.0	6.4	6.3	6.7	5.7				
PEIS	44	244	180	75	102	82	83	72	56	98	128	143	59				
Margin (%)	9.9	27.5	31.6	17.6	26.3	19.1	18.2	14.5	13.4	16.0	19.1	18.5	11.2				
UCP	989	120	77	438	(38)	117	388	621	218	233	388	721	911				
Margin (%)	10.9	3.2	1.8	7.3	(1.4)	3.7	7.9	7.9	4.3	5.1	6.4	7.0	8.1				

Source: Company, BOBCAPS Research

Valuation methodology

BLSTR has navigated Q1FY23 well amid raw material inflation and slowing demand towards the quarter-end. However, we note that Q2 and Q3FY23 are seasonally soft quarters for the AC industry. Further, in light of the rising competitive intensity, we value the stock at a lower 38x FY24E EPS (40x earlier) – this yields a revised TP of Rs 1,100 (Rs 1,200 earlier). Retain HOLD.

Fig 10 – Revised estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	70,045	80,432	70,203	80,924	(0.2)	(0.6)
EBITDA	4,225	5,008	4,362	5,027	(3.1)	(0.4)
PAT	2,481	2,781	2,531	2,790	(2.0)	(0.3)
EPS	25.8	28.9	26.3	29.0	(2.0)	(0.3)
EBITDAM (%)	6.0	6.2	6.2	6.2	(20bps)	0bps

Source: Company, BOBCAPS Research

Fig 11 – Peer comparison

Ticker	Revenue (Rs bn)				EBITDA (Rs bn)				EBITDA Margin (%)			PAT (Rs bn)				P/E (x)		
	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	CAGR (%)	FY22	FY23E	FY24E
VOLT	79	89	108	16	6.8	7.5	10.3	23	8.6	8.5	9.5	5.1	5.3	7.3	20	64	60	44
POLYCAB	122	143	162	15	12.7	16.0	19.4	24	10.4	11.2	12.0	8.4	10.6	13.0	25	42	33	27
CROMPTON	54	76	88	27	7.7	10.3	12.6	28	14.3	13.5	14.4	5.9	6.8	8.8	22	40	35	27
HAVL	139	158	179	13	17.6	21.1	25.4	20	12.6	13.3	14.2	12.0	14.6	17.4	21	67	55	46
ORIENTEL	24	29	33	16	2.3	2.7	3.3	19	9.4	9.4	9.9	1.3	1.5	1.9	21	44	37	30
VGRD	35	40	44	13	3.4	4.2	4.7	18	9.7	10.3	10.7	2.3	2.7	3.1	16	45	37	33
DIXON	107	171	220	44	3.8	6.4	8.4	48	3.6	3.8	3.8	1.9	3.5	4.8	59	88	48	35
AMBER	42	58	74	33	2.7	4.4	5.8	46	6.5	7.5	7.9	1.0	1.9	2.9	71	75	39	26

Source: Company, BOBCAPS Research

Key risks

- Upside: Aggressive market share gains together with margin expansion.
- Downside: Inability to pass on increase input cost.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.0	2,268	3,500	HOLD
Blue Star	BLSTR IN	1.2	991	1,100	HOLD
Crompton Greaves	CROMPTON IN	3.0	374	500	BUY
Dixon Technologies	DIXON IN	2.9	3,827	4,500	BUY
Havells India	HAVL IN	10.2	1,289	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	260	310	HOLD
Polycab India	POLYCAB IN	4.5	2,361	3,000	BUY
V-Guard Industries	VGRD IN	1.3	236	250	HOLD
Voltas	VOLT IN	4.1	973	1,100	HOLD

Source: BOBCAPS Research, NSE | Price as of 5 Aug 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	53,602	42,636	60,456	70,045	80,432
EBITDA	2,828	2,398	3,465	4,225	5,008
Depreciation	880	923	860	866	1,312
EBIT	1,948	1,475	2,605	3,359	3,696
Net interest inc./(exp.)	(295)	(647)	(464)	(445)	(459)
Other inc./(exp.)	447	624	357	393	472
Exceptional items	0	0	0	0	0
EBT	2,100	1,452	2,498	3,307	3,708
Income taxes	653	471	829	833	934
Extraordinary items	40	0	0	0	0
Min. int./Inc. from assoc.	30	26	11	11	11
Reported net profit	1,433	1,004	1,677	2,481	2,781
Adjustments	40	0	0	0	0
Adjusted net profit	1,473	1,004	1,677	2,481	2,781

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	15,824	16,049	20,417	11,514	13,222
Other current liabilities	5,409	5,301	8,448	9,788	11,239
Provisions	0	0	0	0	0
Debt funds	4,489	4,516	3,003	3,181	3,282
Other liabilities	249	223	324	370	421
Equity capital	193	193	193	193	193
Reserves & surplus	7,631	8,659	9,983	11,405	13,031
Shareholders' fund	7,824	8,852	10,176	11,598	13,223
Total liab. and equities	33,795	34,941	42,368	36,451	41,388
Cash and cash eq.	2,939	6,112	4,147	(10,268)	(11,221)
Accounts receivables	8,377	8,110	11,897	13,554	15,696
Inventories	8,698	8,824	11,442	14,969	16,206
Other current assets	6,498	5,549	7,348	8,513	9,775
Investments	0	0	0	0	0
Net fixed assets	4,438	3,836	4,328	5,962	6,651
CWIP	564	681	1,451	1,681	1,930
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	2,281	1,829	1,755	2,033	2,334
Total assets	33,795	34,941	42,368	36,443	41,372

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	4,500	3,498	918	(10,572)	2,602
Capital expenditures	(814)	174	(2,179)	(2,500)	(2,000)
Change in investments	0	(2,791)	1,340	0	0
Other investing cash flows	7	232	166	(462)	(500)
Cash flow from investing	(808)	(2,385)	(673)	(2,962)	(2,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,128	2,968	654	178	101
Interest expenses	0	0	0	0	0
Dividends paid	(2,797)	(3,663)	(1,521)	(1,059)	(1,156)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(1,669)	(696)	(868)	(882)	(1,055)
Chg in cash & cash eq.	2,023	418	(623)	(14,415)	(953)
Closing cash & cash eq.	2,939	6,112	4,147	(10,268)	(11,221)

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	14.9	10.4	17.4	25.8	28.9
Adjusted EPS	15.3	10.4	17.4	25.8	28.9
Dividend per share	10.0	4.0	10.0	11.0	12.0
Book value per share	81.2	91.9	105.7	120.4	137.3

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	1.8	2.2	1.6	1.4	1.2
EV/EBITDA	33.8	39.8	27.5	22.6	19.1
Adjusted P/E	64.8	95.1	56.9	38.5	34.3
P/BV	12.2	10.8	9.4	8.2	7.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	70.1	69.1	67.1	75.0	75.0
Interest burden (PBT/EBIT)	107.8	98.4	95.9	98.4	100.3
EBIT margin (EBIT/Revenue)	3.6	3.5	4.3	4.8	4.6
Asset turnover (Rev./Avg TA)	12.1	11.1	14.0	11.7	12.1
Leverage (Avg TA/Avg Equity)	0.5	0.5	0.5	0.5	0.5
Adjusted ROAE	17.8	12.0	17.6	22.8	22.4

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	2.4	(20.5)	41.8	15.9	14.8
EBITDA	(18.4)	(15.2)	44.5	21.9	18.5
Adjusted EPS	(21.4)	(31.9)	67.1	48.0	12.1
Profitability & Return ratios (%)					
EBITDA margin	5.3	5.6	5.7	6.0	6.2
EBIT margin	3.6	3.5	4.3	4.8	4.6
Adjusted profit margin	2.7	2.4	2.8	3.5	3.5
Adjusted ROAE	17.8	12.0	17.6	22.8	22.4
ROCE	13.7	11.2	14.9	20.1	19.9
Working capital days (days)					
Receivables	57	69	72	71	71
Inventory	59	76	69	78	74
Payables	108	137	123	60	60
Ratios (x)					
Gross asset turnover	8.0	5.8	7.6	7.1	6.7
Current ratio	1.1	1.3	1.2	1.2	1.2
Net interest coverage ratio	6.6	2.3	5.6	7.5	8.0
Adjusted debt/equity	0.6	0.5	0.3	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

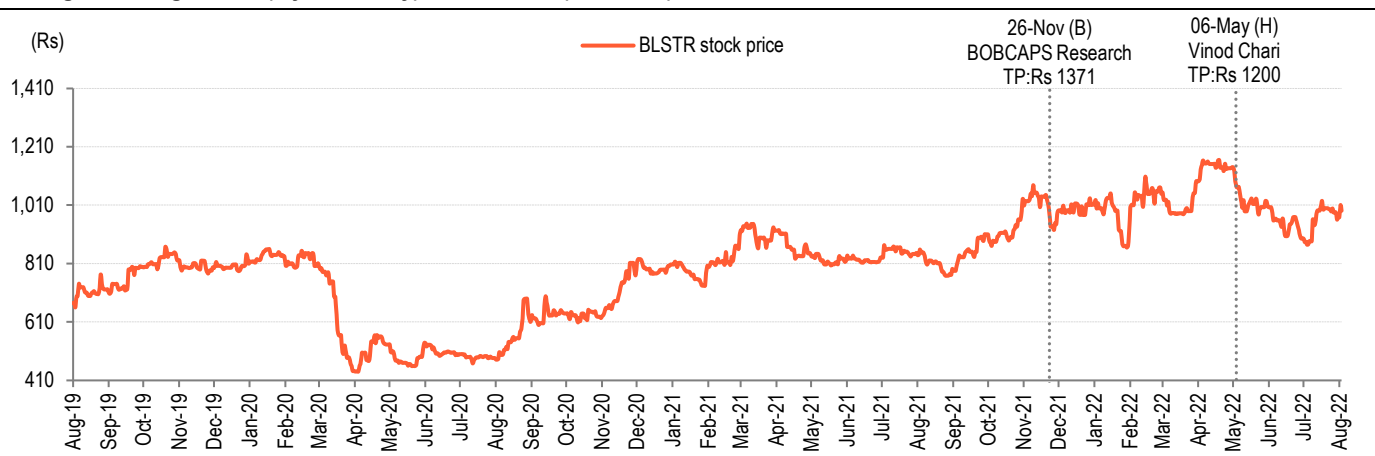
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BLUE STAR (BLSTR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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