

HOLD

TP: Rs 1,350 | ▲ 10%

BLUE STAR

| Consumer Durables

| 04 November 2022

Best Q2 performer among AC pack

- Q2 unitary product margin up 110bps YoY to 6.2%; management commentary positive, unlike tepid outlook from peers
- Strong, sustained traction in EMP business led by peak order book in a favourable market
- FY23/FY24 EPS pared 4.5%/0.3% to bake in the H1 print; on rollover, our TP rises to Rs 1,350 (vs. Rs 1,100) – retain HOLD

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Better Q2 despite unfavourable seasonality: BLSTR reported a relatively stronger Q2FY23 performance than peers with in-line revenue (+27% YoY) and modest margin deterioration vis-à-vis competitors. In addition to robust momentum in electromechanical projects (EMP), a better performance in the unitary cooling product (UCP) vertical boosted overall growth. BLSTR has maintained market share at 13.25% for Q2FY23, expects to add 50bps in FY23 and to close FY24 at 15%.

UCP margin expansion a rarity for the quarter: UCP EBIT margin at 6.2% climbed 110bps YoY in Q2 as compared to declines for peers (VOLT: -280bps YoY to 7.3%, Lloyd: -20%). While other players in the air conditioner space expect stress on margins to persist in H2, BLSTR reiterated its optimistic 8-8.5% target for FY23. An expanding distribution footprint and new affordable product range are buoying growth.

EMP maintains traction: The EMP business clocked stronger margins as the carried-forward order book scaled to record highs of Rs 4.2bn (vs. Rs 3.2bn in Q2FY22). EMP revenue grew 33% YoY to Rs 9.6bn. The judicious selection of projects offering adequate cash flow during the ongoing construction capex upcycle is fuelling growth. Management forecasts a 20-25% CAGR increase in EMP revenue at 6-6.5% margins over next few years

Retain HOLD; TP revised to Rs 1,350: Accounting for H1FY23 numbers, we trim FY23/FY24 EPS estimates marginally by 4.5%/0.3%. On rolling valuations forward to Sep'24E, our TP rises to Rs 1,350 (vs. Rs 1,100), based on an unchanged 38x P/E – a 13% premium to the 5Y average. BLSTR continues to focus on taking growth higher via tactical market share gains and margin expansion. We retain HOLD given limited upside potential, but now prefer BLSTR over VOLT (also rated HOLD, TP Rs 1,000) in light of the company's resilient performance in the cooling business during trying times, management's upbeat outlook and cushioning from robust EMP traction.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,223
Market cap	US\$ 1.4bn
Free float	61%
3M ADV	US\$ 1.7mn
52wk high/low	Rs 1,274/Rs 836
Promoter/FPI/DII	39%/12%/23%

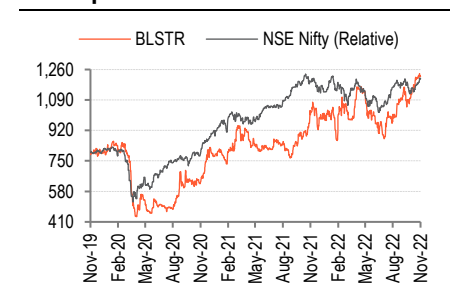
Source: NSE | Price as of 4 Nov 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	60,456	69,965	80,341
EBITDA (Rs mn)	3,465	4,074	4,995
Adj. net profit (Rs mn)	1,677	2,369	2,772
Adj. EPS (Rs)	17.4	24.6	28.8
Consensus EPS (Rs)	17.4	27.8	36.1
Adj. ROAE (%)	17.6	21.9	22.6
Adj. P/E (x)	70.2	49.7	42.5
EV/EBITDA (x)	34.0	28.9	23.6
Adj. EPS growth (%)	67.1	41.2	17.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q4FY22	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Revenue	15,762	12,397	27.1	22,476	19,703	(20.0)	35,466	22,918	54.8
EBITDA	856	707	21.1	1,430	1,233	(30.6)	2,089	1,129	85.0
EBITDA Margin (%)	5.4	5.7	(30bps)	6.4	6.3	(80bps)	5.9	4.9	100bps
Depreciation	245	204	-	231	220	-	465	405	-
Interest	121	112	-	129	106	-	227	219	-
Other Income	86	84	-	69	105	-	191	161	-
PBT	576	474	21.4	1,139	1,012	(43.1)	1,587	666	138.3
Tax	149	160	-	376	263	-	412	226	-
Adjusted PAT	426	313	35.9	764	742	(42.7)	1,168	440	165.2
Exceptional item	-	-	-	-	-	-	-	-	-
Reported PAT	426	313	35.9	764	742	(42.7)	1,168	440	165.2
Adj. PAT Margin (%)	2.7	2.5	20bps	3.4	3.8	(110bps)	3.3	1.9	140bps
EPS (Rs)	4.4	3.3	35.7	7.9	7.8	(42.9)	12.2	4.6	167.1

Source: Company, BOBCAPS Research

Fig 2 – Actual vs. Estimates

Particulars (Rs mn)	Actual	BOBCAPS	Variance (%)
Revenue	15,762	15,830	(0.4)
EBITDA	856	1,003	(14.6)
EBITDA Margin (%)	5.4	6.3	(90bps)
Adj. PAT	426	515	(17.3)

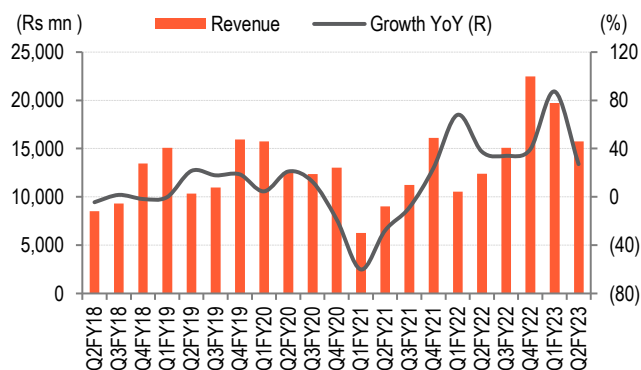
Source: Company, BOBCAPS Research

Fig 3 – Peer comparison: UCP business, Q2FY23

Company	EBIT margin (%)	Revenue growth (%)		
		3Y CAGR	Growth YoY	Growth QoQ
BLSTR – UCP	6.2	12.0	15.0	(53.0)
VOLT – UCP	7.3	25.9	4.0	(52.0)
Lloyd – UCP	(20.0)	33.0	21.0	(62.0)

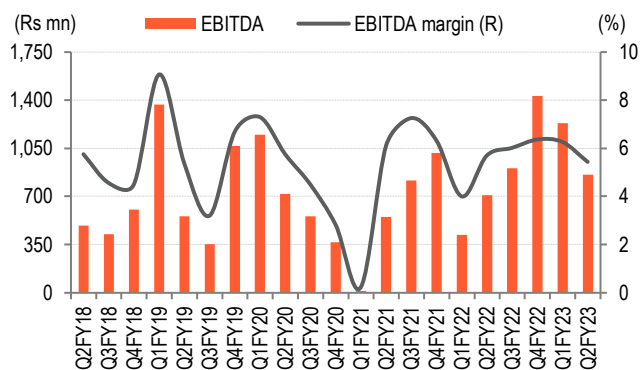
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth



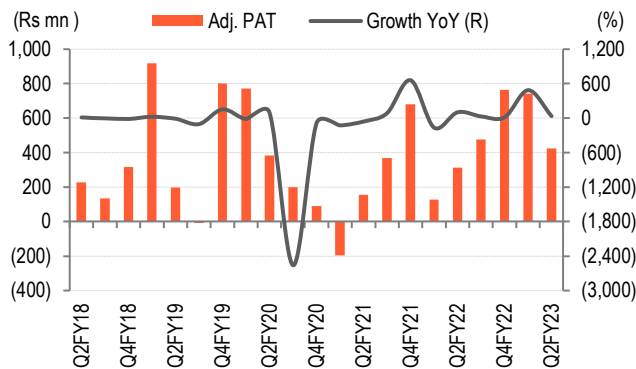
Source: Company, BOBCAPS Research

Fig 5 – EBITDA growth



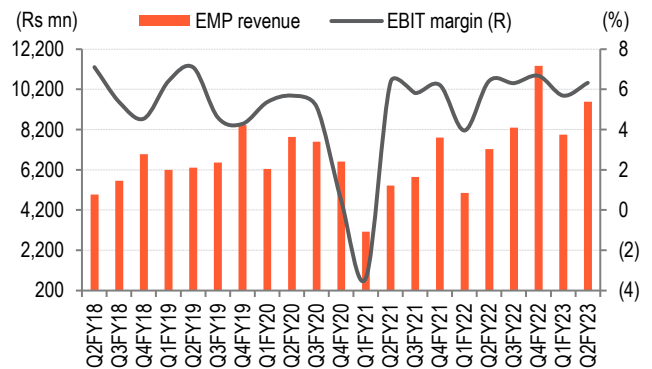
Source: Company, BOBCAPS Research

Fig 6 – PAT growth



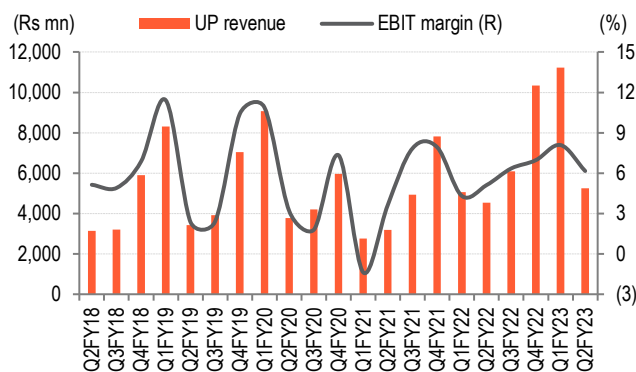
Source: Company, BOBCAPS Research

Fig 7 – EMP growth



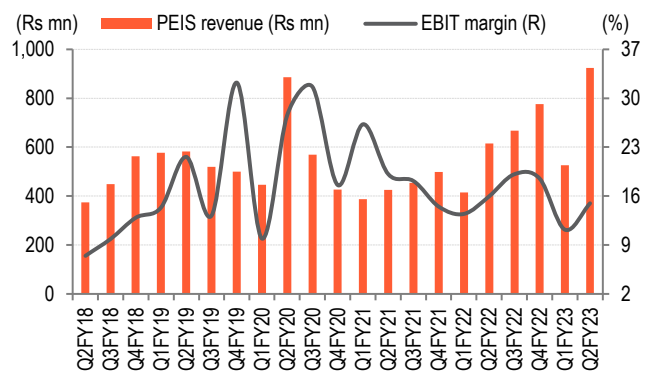
Source: Company, BOBCAPS Research

Fig 8 – UCP growth



Source: Company, BOBCAPS Research

Fig 9 – PEIS growth



Source: Company, BOBCAPS Research | PEIS: Professional Electronics and Industrial Systems

Earnings call highlights

- **Outlook:** Management is optimistic about H2FY23 prospects led by (1) robust room AC (RAC) demand from the residential segment, (2) its portfolio rejig towards the affordable range (price review in Jan'23), with an increasing thrust on sales to the Hindi-speaking belt, and (3) a strong B2B outlook
- **Guidance:** BLSTR reiterated its optimistic **UCP** EBIT margin guidance of 8-8.5% for FY23. In **EMP**, the government's infrastructure push (water, metro rail and power) is a key positive, though the company is adopting a cautious approach toward project bids. Management has guided for 20-25% revenue growth in EMP with a 6-6.5% operating margin in FY23.

In **commercial refrigeration**, the company expects to log a 20% CAGR over the next few years led by demand from the food processing and retail sectors, and is focused on holding on to its #1 position in freezers and cold rooms. **Air coolers** and **water purifiers** are yet to gain traction.

- **Price increases:** Management will review prices only by Jan'23 as it remains hopeful of supply chain normalisation on the back of a return to stability in China, currency depreciation, and commissioning of the Sri City plant as well as backward integration facilities.

- **Market share:** BLSTR believes low penetration in RACs will aid market share gains. The company is currently at 13.25% and targeting a share of 13.75% by FY23-end and 15%+ by FY24-end.
- **Distribution:** The distribution footprint is being expanded from 7,500 dealers to 10,000 by FY23-end.

Valuation methodology

Accounting for H1FY23 numbers, we trim FY23/FY24 EPS estimates marginally by 4.5%/0.3%. On rolling valuations forward to Sep'24E, our TP rises to Rs 1,350 (vs. Rs 1,100), based on an unchanged 38x P/E – a 13% premium to the five-year average.

BLSTR continues to focus on taking growth higher via tactical market share gains and margin expansion. We retain HOLD given limited upside potential, but now prefer BLSTR over VOLT (also rated HOLD, TP Rs 1,000) in light of the company's resilient performance in the cooling business during trying times, management's upbeat outlook and cushioning from robust EMP traction.

Fig 10 – Revision in estimates

Particulars (Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	69,965	80,341	70,045	80,432	(0.1)	(0.1)
EBITDA	4,074	4,995	4,225	5,008	(3.6)	(0.2)
PAT	2,369	2,772	2,481	2,781	(4.5)	(0.3)
EPS (Rs)	24.6	28.8	25.8	28.9	(4.5)	(0.3)
EBITDA Margin (%)	5.8	6.2	6.0	6.2	(20bps)	0bps

Source: Company, BOBCAPS Research

Key risks

Key risks to our estimates are:

- **Upside risks:** Aggressive market share gains
- **Downside risks:** Inability to maintain momentum in UCP, and below-guided growth

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	0.8	2,020	2,100	HOLD
Blue Star	BLSTR IN	1.4	1,223	1,350	HOLD
Crompton Greaves	CROMPTON IN	2.8	362	500	BUY
Dixon Technologies	DIXON IN	3.3	4,514	5,200	BUY
Havells India	HAVL IN	9.2	1,209	1,500	BUY
Orient Electric	ORIENTEL IN	0.7	263	310	HOLD
Polycab India	POLYCAB IN	5.0	2,729	3,300	BUY
V-Guard Industries	VGRD IN	1.3	255	250	HOLD
Voltas	VOLT IN	3.4	845	1,000	HOLD

Source: BOBCAPS Research, NSE | Price as of 4 Nov 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	42,636	60,456	69,965	80,341	93,276
EBITDA	2,398	3,465	4,074	4,995	6,687
Depreciation	923	860	866	1,312	1,330
EBIT	1,475	2,605	3,208	3,683	5,357
Net interest inc./(exp.)	(647)	(464)	(445)	(459)	(477)
Other inc./(exp.)	624	357	393	472	566
Exceptional items	0	0	0	0	0
EBT	1,452	2,498	3,156	3,696	5,446
Income taxes	471	829	795	931	1,372
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	26	11	11	11	11
Reported net profit	1,004	1,677	2,369	2,772	4,081
Adjustments	0	0	0	0	0
Adjusted net profit	1,004	1,677	2,369	2,772	4,081

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	16,049	20,417	11,501	13,207	15,333
Other current liabilities	5,301	8,448	9,777	11,227	13,034
Provisions	0	0	0	0	0
Debt funds	4,516	3,003	3,180	3,281	3,407
Other liabilities	223	324	370	421	484
Equity capital	193	193	193	193	193
Reserves & surplus	8,659	9,983	11,292	12,909	15,834
Shareholders' fund	8,852	10,176	11,485	13,101	16,027
Total liab. and equities	34,941	42,368	36,313	41,237	48,284
Cash and cash eq.	6,112	4,147	(10,360)	(11,320)	(12,831)
Accounts receivables	8,110	11,897	13,538	15,678	18,126
Inventories	8,824	11,442	14,951	16,187	19,363
Other current assets	5,549	7,348	8,503	9,764	11,336
Investments	0	0	0	0	0
Net fixed assets	3,836	4,328	5,962	6,651	7,321
CWIP	681	1,451	1,679	1,928	2,239
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	1,829	1,755	2,030	2,332	2,707
Total assets	34,941	42,368	36,305	41,221	48,260

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	3,498	918	(10,666)	2,595	2,142
Capital expenditures	174	(2,179)	(2,500)	(2,000)	(2,000)
Change in investments	(2,791)	1,340	0	0	0
Other investing cash flows	232	166	(458)	(500)	(623)
Cash flow from investing	(2,385)	(673)	(2,958)	(2,500)	(2,623)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,968	654	177	101	126
Interest expenses	0	0	0	0	0
Dividends paid	(3,663)	(1,521)	(1,059)	(1,156)	(1,156)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(696)	(868)	(883)	(1,055)	(1,030)
Chg in cash & cash eq.	418	(623)	(14,507)	(960)	(1,511)
Closing cash & cash eq.	6,112	4,147	(10,360)	(11,320)	(12,831)

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	10.4	17.4	24.6	28.8	42.4
Adjusted EPS	10.4	17.4	24.6	28.8	42.4
Dividend per share	4.0	10.0	11.0	12.0	12.0
Book value per share	91.9	105.7	119.2	136.0	166.4

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	2.8	1.9	1.7	1.5	1.3
EV/EBITDA	49.1	34.0	28.9	23.6	17.6
Adjusted P/E	117.4	70.2	49.7	42.5	28.9
P/BV	13.3	11.6	10.3	9.0	7.3

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	69.1	67.1	75.1	75.0	74.9
Interest burden (PBT/EBIT)	98.4	95.9	98.4	100.3	101.7
EBIT margin (EBIT/Revenue)	3.5	4.3	4.6	4.6	5.7
Asset turnover (Rev./Avg TA)	11.1	14.0	11.7	12.1	12.7
Leverage (Avg TA/Avg Equity)	0.5	0.5	0.6	0.5	0.5
Adjusted ROAE	12.0	17.6	21.9	22.6	28.0

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	(20.5)	41.8	15.7	14.8	16.1
EBITDA	(15.2)	44.5	17.6	22.6	33.9
Adjusted EPS	(31.9)	67.1	41.2	17.0	47.2
Profitability & Return ratios (%)					
EBITDA margin	5.6	5.7	5.8	6.2	7.2
EBIT margin	3.5	4.3	4.6	4.6	5.7
Adjusted profit margin	2.4	2.8	3.4	3.5	4.4
Adjusted ROAE	12.0	17.6	21.9	22.6	28.0
ROCE	11.2	14.9	19.4	20.0	24.7
Working capital days (days)					
Receivables	69	72	71	71	71
Inventory	76	69	78	74	76
Payables	137	123	60	60	60
Ratios (x)					
Gross asset turnover	5.8	7.6	7.1	6.7	6.6
Current ratio	1.3	1.2	1.2	1.2	1.2
Net interest coverage ratio	2.3	5.6	7.2	8.0	11.2
Adjusted debt/equity	0.5	0.3	0.3	0.3	0.2

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

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

BUY – Expected return >+15%

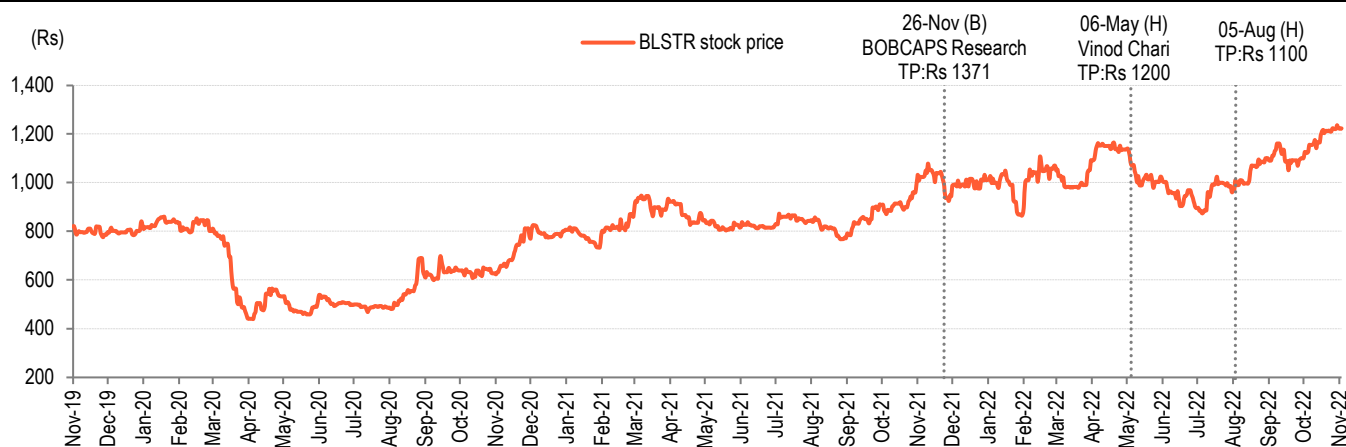
HOLD – Expected return from -6% to +15%

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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