

HOLD

TP: Rs 1,850 | ▲ 4%

BLUE STAR

Consumer Durables

07 November 2025

Short-term pain persists, long-term growth intact

- Ahead of our/ consensus estimates, revenue was in line while EBITDA was a beat (+18%), led by cost-saving measures
- EMP sustains growth momentum (+17% YoY), offsetting decline in unitary products (-10% YoY)
- Revise estimates, roll forward to Sep'26 TP with 47x multiple to arrive at TP of Rs 1,850; maintain HOLD

Vineet Shanker
Research Analyst
Amey Tupe
Research Associate
research@bobcaps.in

EBITDA beats on cost discipline: Blue Star delivered a stable Q2, with revenue at Rs 24.2bn (+6% YoY; in line with est.), supported by 17% YoY growth in Electro-Mechanical Projects & Commercial AC (EMP), which offset continuing softness in the Unitary Products (UCP) portfolio. EBITDA at Rs 1.8bn (+23% YoY) outperformed estimates by 18%, driven by operating cost rationalisation, lower A&P spends post a subdued summer, and better mix in EMP. EBITDA margin expanded ~100bps YoY to 7.6% (vs our est. 6.4%). Other income fell 46% YoY, moderating PBT growth to 1% YoY. Adjusted PAT came in at Rs 988mn (+3% YoY; 4% above est.).

EMP momentum sustains; commercial AC leadership intact: The segment revenue rose 17% YoY, aided by healthy execution in factories and data centres, while GST-related deferments affected mid-August to mid-September ordering. The company-maintained leadership in ducted systems, scroll chillers and remains among the top three in VRF and screw chillers. EBIT grew 23% YoY, with segment margin improving 50bps YoY to 8.8%, supported by favourable mix and stable execution. Order inflows remained muted (flat YoY), with management highlighting slower finalisation in infra and longer execution cycles. Carried-forward order book stands at Rs 71.2bn (+7.9% YoY).

UCP remains weak; inventory overhang to weigh near term: Segment revenue declined 10% YoY, impacted by extended monsoon, GST implementation lag (Aug 15-Sep 22), and sluggish festive demand. EBIT margin contracted 90bps YoY to 6.2%, reflecting weak operating leverage. management expecting a gradual unwind ahead of the Jan'26 energy-label transition; margin pressure is likely across the industry as pre-change stock is cleared.

Revise estimates, maintain HOLD: We cut FY27–28E EPS by 3–5%, due to UCP weakness. With elevated inventory levels, we remain cautious. We roll forward to Sep'26 with a 47x multiple to arrive at TP of Rs 1,850 (earlier June-26TP of Rs 1840); we maintain HOLD recommendation.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,786
Market cap	US\$ 3.9bn
Free float	61%
3M ADV	US\$ 10.2mn
52wk high/low	Rs 2,417/Rs 1,521
Promoter/FPI/DII	39%/11%/25%

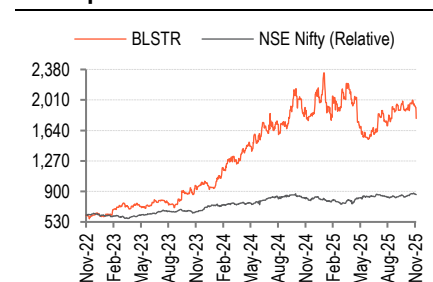
Source: NSE | Price as of 6 Nov 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,19,677	1,25,750	1,45,675
EBITDA (Rs mn)	8,759	8,555	10,271
Adj. net profit (Rs mn)	5,787	5,504	6,771
Adj. EPS (Rs)	30.0	28.6	35.1
Consensus EPS (Rs)	30.0	37.0	46.0
Adj. ROAE (%)	20.4	16.9	18.3
Adj. P/E (x)	59.4	62.5	50.8
EV/EBITDA (x)	39.3	40.2	33.5
Adj. EPS growth (%)	39.5	(4.9)	23.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly & H1FY26 performance

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	H1FY26	H1FY25	YoY (%)	Q2FY26E	Variance (%)
Revenue	24,224	22,760	6	29,823	(19)	54,046	51,413	5	24,144	0
EBITDA	1,834	1,493	23	2,000	(8)	3,834	3,871	(1)	1,556	18
EBITDA Margin (%)	7.6	6.6	101bps	6.7	87	7.1	7.5	(44bps)	6.4	113bps
Depreciation	434	300		414		847	580		370	17
Interest	169	65		101		270	141		135	25
Other Income	100	185	(46)	161		261	423	(38)	220	(55)
PBT	1,332	1,314	1	1,646	(19)	2,978	3,573	(17)	1,271	5
Tax	334	350		424		758	923		320	4
Adjusted PAT	988	961	3	1,208	(18)	2,196	2,647	(17)	951	4
Reported PAT	988	961	3	1,208	(18)	2,196	2,647	(17)	951	4
Adj. PAT Margin (%)	4.1	4.2	(14bps)	4.1	0bps	4.1	5.1	(109bps)	3.9	14bps
EPS (Rs)	5.2	5.0	4	6.3	(18)	11.5	13.8	(16)	4.9	5

Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	H1FY26	H1FY25	YoY (%)
Segment revenue								
Electro- Mechanical Projects and Packaged AC systems	16,642	14,284	17	14,125	18	30,767	24,674	25
Professional Electronics & Industrial Systems	644	805	(20)	704	(9)	1,348	1,774	(24)
Unitary Products	6,938	7,670	(10)	14994	(54)	21,932	24,965	(12)
EBIT								
Electro- Mechanical Projects and Packaged AC systems	1,471	1,192	23	1,116	32	2588	2222	16
EBIT margin (%)	8.8	8.3	50bps	7.9	90bps	8.4	9.0	(60bps)
Professional Electronics & Industrial Systems	62	52	19.3	76	(19.0)	138	148	(6.6)
EBIT margin (%)	9.6	6.4	317bps	11	(123bps)	10.2	8.3	191bps
Unitary Products	427	539	(21)	875	(51)	1302	2120	(39)
EBIT margin (%)	6.2	7.0	(90bps)	6	30bps	5.9	8.5	(260bps)

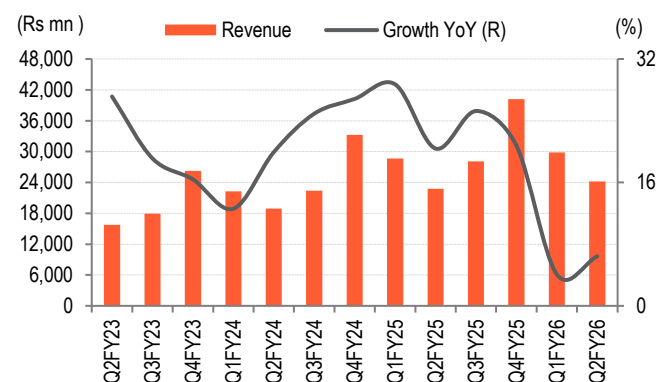
Source: Company, BOBCAPS Research

Earnings Call Highlights

- The quarter was impacted by a weak summer and the GST-induced disruption from mid-August to late-September, yet management reiterated that the long-term RAC trajectory remains firmly intact; when viewed over FY20–26, industry growth still trends in the mid-teens, with FY26 described as a one-off, weather-affected year.
- RAC industry volumes are estimated to have declined ~17% YoY in Q2FY26, while Blue Star's contraction was comparatively lower at ~12%. For H1FY26, the industry likely fell ~15% YoY versus Blue Star's ~10% decline, indicating incremental market-share gains on a volume basis.
- GST rate reduction (effective 22 Sept) disrupted trade flows for nearly five weeks; secondary sales improved sharply (~35% surge) immediately post-implementation but momentum faded again in October amid widespread rains, limiting festive-season traction and delaying inventory liquidation at both company and channel.
- Commercial Air Conditioning (within Segment 1) remained resilient; ducted systems, scroll chillers, and VRF continue to hold strong positions. Commercial Refrigeration grew in the 7–8% range, with demand expected to accelerate in H2 driven by GST cuts on food categories and capex expansion across QSR, food retail, pharma and kirana modernisation. Segment margins, however, softened YoY due to monsoon disruptions and product-mix impact.
- Electromechanical Projects saw steady execution in factories and data centres, though order inflow was subdued. Infra-linked projects (metro/airports/water) remain slow-moving, constraining available headroom for new order intake. Margin remains stable at 7–7.5%; focus remains on cashflow quality rather than chasing volume-led share gains
- Professional Electronics & Industrial Systems contracted YoY given regulatory uncertainty over refurbished MedTech imports. Industrial solutions and data-security portfolios performed steadily, aiding margin expansion to ~9.6% (vs 6.4% YoY) through product mix and expense rationalization.
- Data-centre MEP business continues to perform strongly, but proprietary liquid-cooling products remain under development; no meaningful financial contribution is expected in FY26 as field trials and partnerships are still underway.
- Combined inventory (company + channel) stands at ~65 days vs a normalised ~45 days; management highlighted this remains the core constraint for the remainder of the year. Production is being tightly regulated, but inventory may persist into February unless offtake picks up meaningfully in December–January. Excess stock could exert margin pressure across the industry as players attempt to clear pre-label-change inventory before 31 Dec 2025.
- Management expects Q3FY26 to benefit from: (i) GST-led price cuts, (ii) pre-buying ahead of the Jan'26 energy-label transition (expected 7–10% price uplift for new 5-star SKUs), and (iii) Christmas–New Year promotions. However, persistent rains keep the near-term outlook uncertain; Q4 recovery is now contingent on the six-week ordering window in Feb–Mar and the extent of inventory correction by December.

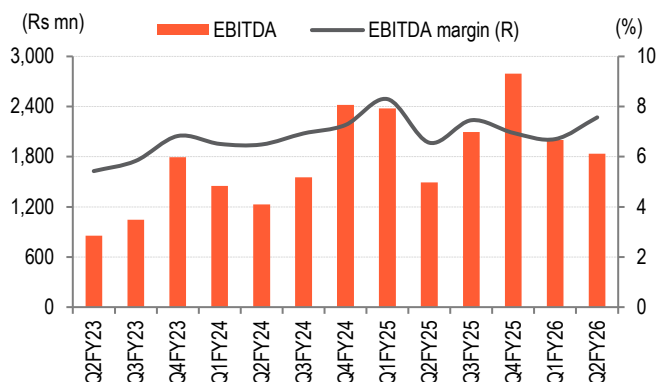
- Full-year growth guidance for the UCP/RAC business has been revised from the earlier +5% to a broad range of –15% to 0% YoY, with flat performance now viewed as an optimistic outcome.
- UCP margin improved sequentially despite a 10% YoY revenue decline, aided by curtailed A&P spends post a muted summer, cost-reduction initiatives, sharper manufacturing efficiencies, and selective procurement discounts. Full-year UCP margin expectation stands at 7-7.5% vs earlier 8-9% guidance, with management emphasising pricing discipline despite inventory-led pressures.
- Net borrowing stood at Rs 4.17bn vs net cash in the base period, driven by higher working capital (inventory), ongoing capex, and the normalisation of unusually strong FY25 cash flows. Year-end leverage trajectory depends on the liquidation in December and a pickup in Q4 seasonal demand.
- Market share gains continue across regions, with relatively stronger traction in the North owing to lower base penetration and expanded distribution, though overall demand softness is broad-based across geographies.
- Management reiterated a steady strategic direction, emphasising progress toward a 15% RAC market share by FY27, continued consolidation in commercial AC, disciplined project-order intake, and deeper digitalisation to enhance efficiency. The company also indicated that product development remains aligned with upcoming energy-label, refrigerant and technology transitions.

Fig 3 – Revenue growth trend



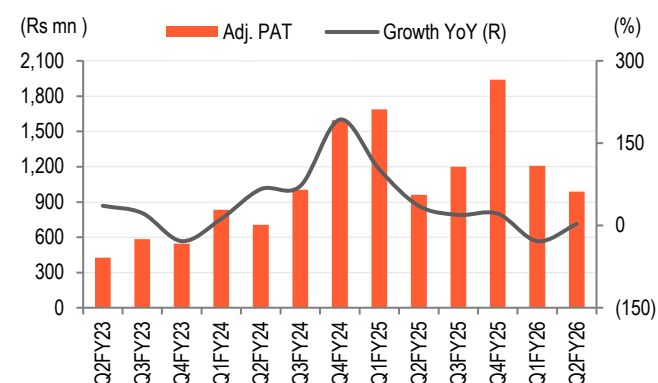
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



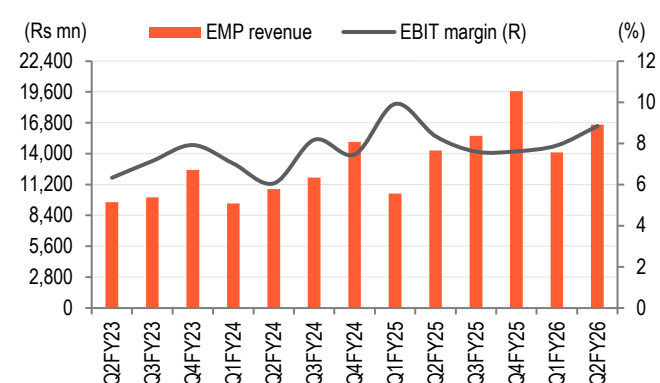
Source: Company, BOBCAPS Research

Fig 5 – Profit trend



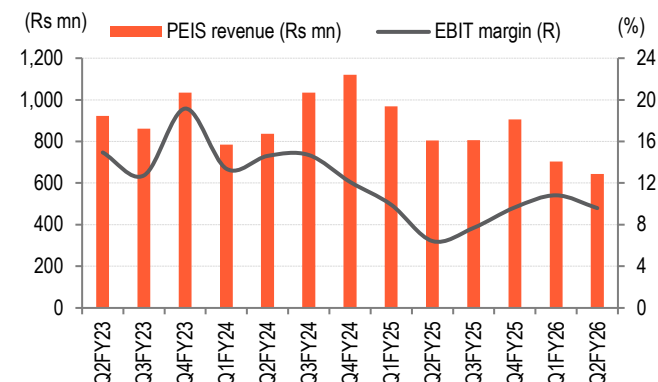
Source: Company, BOBCAPS Research

Fig 6 – EMP performance



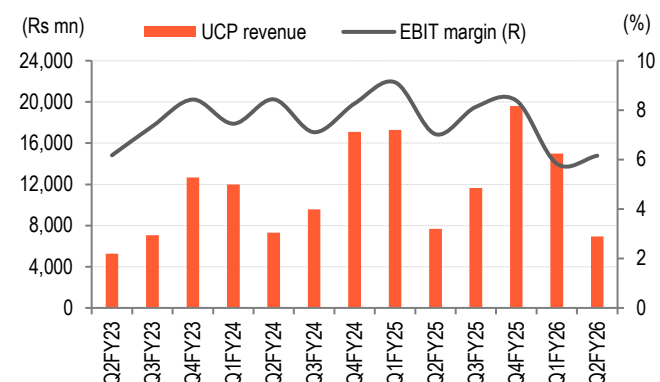
Source: Company, BOBCAPS Research

Fig 7 – PEIS performance



Source: Company, BOBCAPS Research

Fig 8 – UCP performance

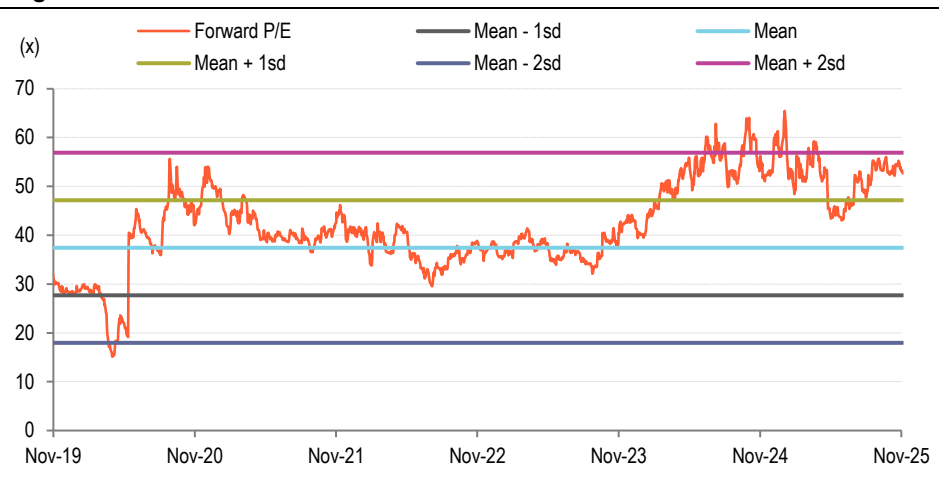


Source: Company, BOBCAPS Research

Valuation Methodology

We cut FY27–28E EPS by 3–5%, due to UCP weakness. With elevated inventory levels, we remain cautious. We roll forward to Sep'26 with a 47x multiple to arrive at TP of Rs 1,850 (earlier Jun-26TP of Rs 1840); we maintain HOLD.

Fig 9 – BLSTR 1YF P/E



Source: Company, BOBCAPS Research

Fig 10 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,25,750	1,45,675	1,67,808	1,32,327	1,52,335	1,74,216	(5.0)	(4.4)	(3.7)
EBITDA	8,555	10,271	12,475	8,803	10,796	12,851	(2.8)	(4.9)	(2.9)
EBITDA margin (%)	6.8	7.1	7.4	6.7	7.1	7.4	20bps	0bps	10bps
PAT	5,504	6,771	8,424	5,681	7,155	8,697	(3.1)	(5.4)	(3.1)

Source: BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	96,854	1,19,677	1,25,750	1,45,675	1,67,808
EBITDA	6,649	8,759	8,555	10,271	12,475
Depreciation	976	1,284	1,604	1,721	1,822
EBIT	5,673	7,475	6,950	8,550	10,652
Net interest inc./(exp.)	(581)	(488)	(454)	(490)	(531)
Other inc./(exp.)	474	750	863	992	1,141
Exceptional items	0	0	0	0	0
EBT	5,567	7,737	7,359	9,052	11,262
Income taxes	1,429	1,937	1,854	2,281	2,838
Extraordinary items	0	(125)	0	0	0
Min. int./Inc. from assoc.	5	(13)	0	0	0
Reported net profit	4,150	5,912	5,504	6,771	8,424
Adjustments	0	(125)	0	0	0
Adjusted net profit	4,150	5,787	5,504	6,771	8,424

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	26,166	34,276	39,620	45,897	52,871
Other current liabilities	10,731	12,745	13,391	15,513	17,870
Provisions	0	0	0	0	0
Debt funds	2,429	3,810	5,046	5,449	5,898
Other liabilities	755	1,094	1,094	1,094	1,094
Equity capital	411	411	411	411	411
Reserves & surplus	25,690	30,239	34,010	39,047	45,737
Shareholders' fund	26,101	30,650	34,421	39,458	46,149
Total liab. and equities	66,183	82,575	93,572	1,07,412	1,23,881
Cash and cash eq.	3,774	4,319	11,425	13,168	16,770
Accounts receivables	19,526	19,594	25,150	28,736	33,102
Inventories	14,072	21,492	19,293	23,148	26,665
Other current assets	13,029	17,723	17,324	20,069	23,118
Investments	0	0	0	0	0
Net fixed assets	9,800	12,342	13,237	14,016	14,694
CWIP	1,081	734	771	893	1,029
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	4,902	6,372	6,372	7,382	8,503
Total assets	66,183	82,575	93,572	1,07,412	1,23,881

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	2,892	6,881	10,141	6,705	8,645
Capital expenditures	(4,333)	(3,469)	(2,500)	(2,500)	(2,500)
Change in investments	(1,012)	(1,303)	0	0	0
Other investing cash flows	98	133	(37)	(1,132)	(1,257)
Cash flow from investing	(5,246)	(4,640)	(2,537)	(3,632)	(3,757)
Equities issued/Others	10,000	0	0	0	0
Debt raised/repaid	(4,392)	151	1,236	403	448
Interest expenses	0	0	0	0	0
Dividends paid	(1,960)	(1,773)	(1,734)	(1,734)	(1,734)
Other financing cash flows	0	0	0	0	0
Cash flow from financing	3,648	(1,622)	(498)	(1,330)	(1,286)
Chg in cash & cash eq.	1,294	619	7,106	1,743	3,602
Closing cash & cash eq.	3,774	4,319	11,425	13,168	16,770

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	21.5	30.7	28.6	35.1	43.7
Adjusted EPS	21.5	30.0	28.6	35.1	43.7
Dividend per share	7.0	9.0	9.0	9.0	9.0
Book value per share	135.5	159.1	178.7	204.8	239.6

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	3.6	2.9	2.7	2.4	2.0
EV/EBITDA	51.7	39.3	40.2	33.5	27.6
Adjusted P/E	82.9	59.4	62.5	50.8	40.8
P/BV	13.2	11.2	10.0	8.7	7.5

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	74.5	74.8	74.8	74.8	74.8
Interest burden (PBT/EBIT)	98.1	103.5	105.9	105.9	105.7
EBIT margin (EBIT/Revenue)	5.9	6.2	5.5	5.9	6.3
Asset turnover (Rev./Avg TA)	9.9	9.7	9.5	10.4	11.4
Leverage (Avg TA/Avg Equity)	0.5	0.4	0.4	0.4	0.3
Adjusted ROAE	21.1	20.4	16.9	18.3	19.7

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	21.4	23.6	5.1	15.8	15.2
EBITDA	34.9	31.7	(2.3)	20.1	21.5
Adjusted EPS	59.6	39.5	(4.9)	23.0	24.4

Profitability & Return ratios (%)

EBITDA margin	6.9	7.3	6.8	7.1	7.4
EBIT margin	5.9	6.2	5.5	5.9	6.3
Adjusted profit margin	4.3	4.8	4.4	4.6	5.0
Adjusted ROAE	21.1	20.4	16.9	18.3	19.7
ROCE	18.9	19.5	15.8	16.9	18.2

Working capital days (days)

Receivables	74	60	73	72	72
Inventory	53	66	56	58	58
Payables	99	105	115	115	115

Ratios (x)

Gross asset turnover	6.5	6.7	6.0	6.2	6.5
Current ratio	1.3	1.3	1.3	1.3	1.3
Net interest coverage ratio	9.8	15.3	15.3	17.4	20.1
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

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

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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BUY – Expected return >+15%

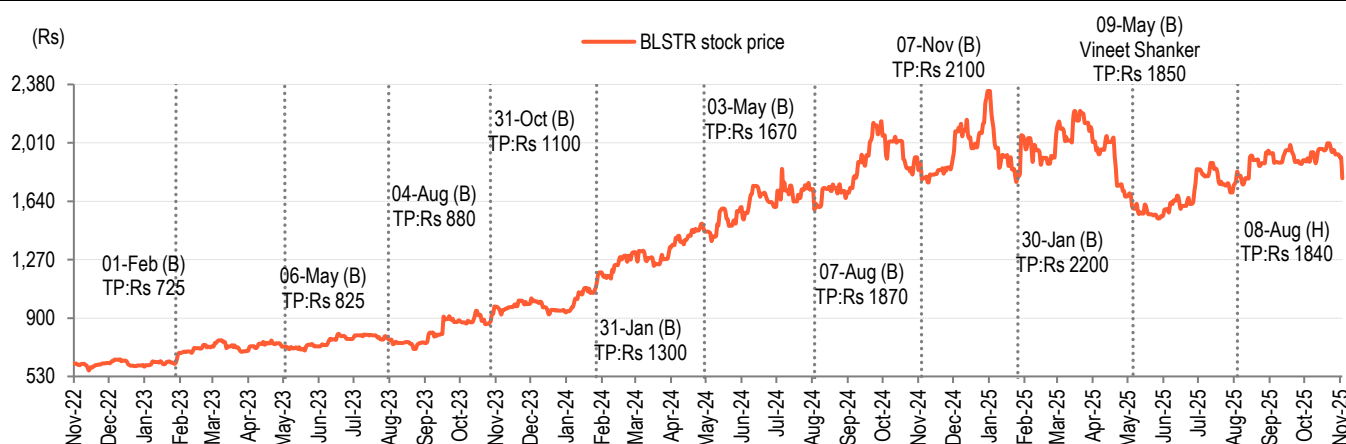
HOLD – Expected return from -6% to +15%

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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