

BUY
 TP: Rs 1,300 | ▲ 18%

BLUE STAR

| Consumer Durables

| 31 January 2024

Purple patch continues; maintain BUY

- Strong topline growth of 25% YoY in Q3 aided by festive season sales; margin expansion continues
- At 35%, UCP division grew ahead of peers and gained market share; EMP continued to deliver strong growth
- We raise FY24-FY26 EPS 14-22% on strong summer demand potential and rising market share; TP rises to Rs 1300 (vs. Rs 1,100) – retain BUY

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Robust quarter: BLSTR reported a strong topline of Rs 22.4bn in Q3FY24, surpassing Rs 20bn for the first time in any December quarter. The company saw double-digit growth in all segments and EBITDA margin expansion of 44bps QoQ and 110bps YoY on the back of robust festive demand in room air conditioning (RAC) and commercial refrigeration products together with benefits of scale. Other income shot up 150% on higher treasury income during the quarter. Adj. PAT came in at Rs 1bn, growing 72% YoY.

UCP outperforms peers: Backed by strong volume growth, the company’s unitary cooling products (UCP) revenue grew 35.5% YoY to Rs 9.5bn, maintaining its lead over peers VOLT (21.4% YoY) and Lloyd (7.5% YoY) for the quarter. Segmental EBIT margin contracted marginally by 30bps YoY to 7.1%, whereas VOLT reported 90bps YoY expansion to 8.3%. Market share for Q3 was 13.75% compared to 13.5% in Q2 and 13.25% a year ago. Management anticipates a strong summer season this year and is targeting market share of 15% by FY25.

EMP fares well: The electro-mechanical projects (EMP) vertical did well during the quarter with 18% YoY topline growth to Rs 11.8bn, as manufacturing and data centres continue to fuel demand. Management expects a faster pace of execution ahead of elections. The division’s order book stood at Rs 60.4bn at the end of Q3, providing revenue visibility for ~24 months.

Maintain BUY: BLSTR’s UCP business continues to grow apace, staying ahead of competitors and gaining market share. The EMP business derives benefits from a robust order book and strong industry tailwinds. Following the sustained all-round outperformance in Q3, we increase our FY24/FY25/FY26 EPS estimates by 22%/14%/14%. We continue to value the stock at a 40x P/E multiple – ~15% premium to the 3Y average – and roll valuations forward to Dec’25E, yielding a revised TP of Rs 1,300 (vs. Rs 1,100). The company remains our top pick in the AC space – BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BLSTR IN/Rs 1,100
Market cap	US\$ 2.6bn
Free float	61%
3M ADV	US\$ 3.6mn
52wk high/low	Rs 1,120/Rs 603
Promoter/FPI/DII	39%/11%/25%

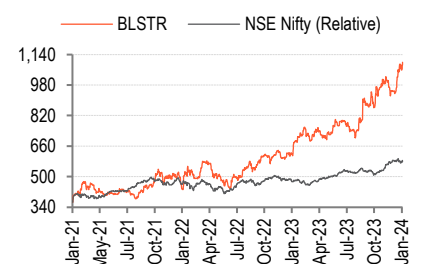
Source: NSE | Price as of 30 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	79,773	94,690	1,10,673
EBITDA (Rs mn)	4,928	7,225	8,883
Adj. net profit (Rs mn)	2,601	4,255	5,237
Adj. EPS (Rs)	13.5	22.1	27.2
Consensus EPS (Rs)	13.5	18.8	25.0
Adj. ROAE (%)	22.1	21.3	18.3
Adj. P/E (x)	81.5	49.8	40.5
EV/EBITDA (x)	43.0	29.3	23.9
Adj. EPS growth (%)	55.1	63.6	23.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	22,412	17,942	24.9	18,904	18.6	63,576	53,474	18.9
EBITDA	1,554	1,047	48.4	1,227	26.6	4,230	3,136	34.9
EBITDA Margin (%)	6.9	5.8	110bps	6.5	44bps	6.7	5.9	78.9
Depreciation	235	156		230		693	621	
Interest	102	139		177		459	366	
Other Income	127	52		130		350	242	
PBT	1,343	804	67.0	950	41.4	3,429	2,391	43.4
Tax	339	216		243		884	629	
Adjusted PAT	1,004	584	71.8	707	41.9	2,545	1,752	45.2
Reported PAT	1,004	584	71.8	707	41.9	2,545	1,752	45.3
Adj. PAT Margin (%)	4.5	3.3	120bps	3.7	70bps	4.0	3.3	70bps
EPS (Rs)	5.2	3.1	70.8	3.7	41.9	13.2	9.2	44.4

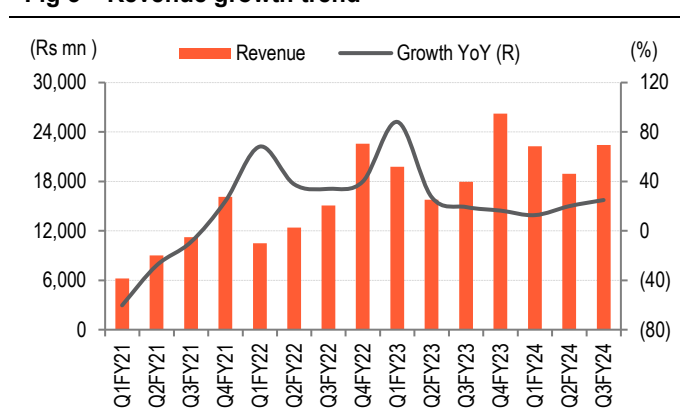
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

Particulars (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Revenues													
Electro-Mechanical Projects and Packaged AC systems	5,855	7,800	5,052	7,234	8,299	11,399	7,934	9,591	10,030	12,526	9,491	10,772	11,823
YoY growth (%)	(22.8)	18.1	61.7	33.8	41.7	46.2	57.0	32.6	20.9	9.9	19.6	12.3	17.9
Professional Electronics & Industrial Systems	454	498	414	616	667	776	527	924	862	1,035	784	837	1,035
YoY growth (%)	(20.1)	16.6	7.0	44.5	46.8	55.9	27.2	49.9	29.3	33.4	48.9	(9.4)	20.1
Unitary Cooling Products	4,930	7,818	5,054	4,547	6,097	10,367	11,242	5,248	7,050	12,677	11,985	7,295	9,554
YoY growth (%)	17.3	31.1	83.9	42.7	23.7	32.6	122.5	15.4	15.6	22.3	6.6	39.0	35.5
EBIT													
Electro-Mechanical Projects and Packaged AC systems	341	485	200	465	524	758	452	607	717	992	666	653	967
Margin (%)	5.8	6.2	4.0	6.4	6.3	6.7	5.7	6.3	7.1	7.9	7.0	6.1	8.2
Professional Electronics & Industrial Systems	83	72	56	98	128	143	59	138	110	198	105	122	152
Margin (%)	18.2	14.5	13.4	16.0	19.1	18.5	11.2	14.9	12.7	19.2	13.4	14.6	14.7
Unitary Cooling Products	388	621	218	233	388	721	911	324	518	1,070	893	616	679
Margin (%)	7.9	7.9	4.3	5.1	6.4	7.0	8.1	6.2	7.4	8.4	7.5	8.4	7.1

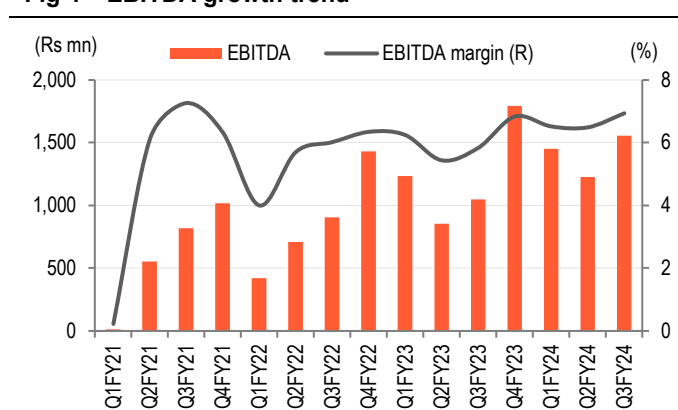
Source: Company, BOBCAPS Research

Fig 3 – Revenue growth trend



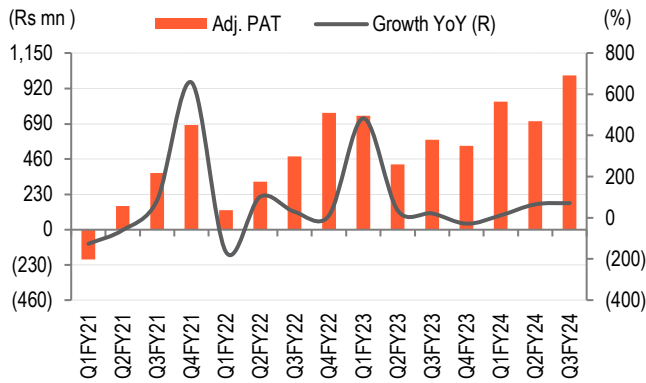
Source: Company, BOBCAPS Research

Fig 4 – EBITDA growth trend



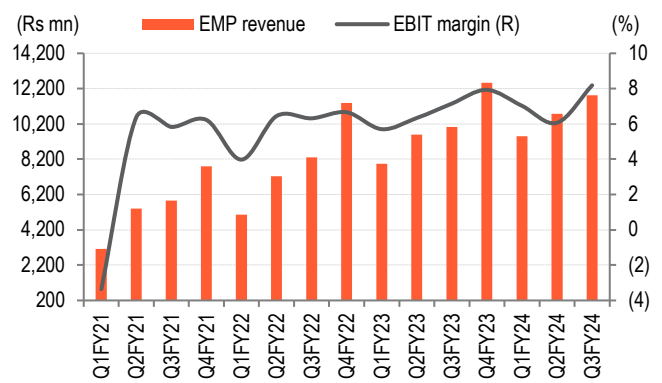
Source: Company, BOBCAPS Research

Fig 5 – Net profit trend



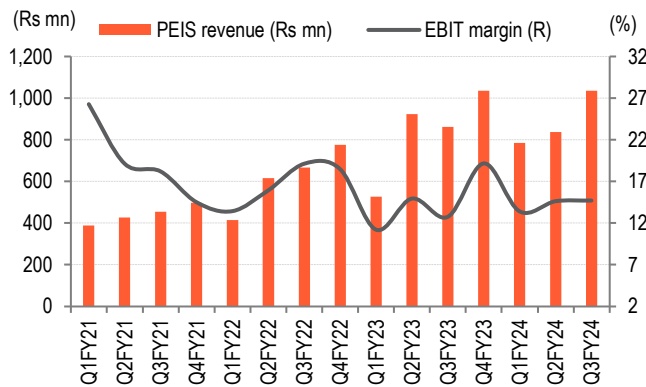
Source: BOBCAPS Research, Company

Fig 6 – EMP vertical growth trend



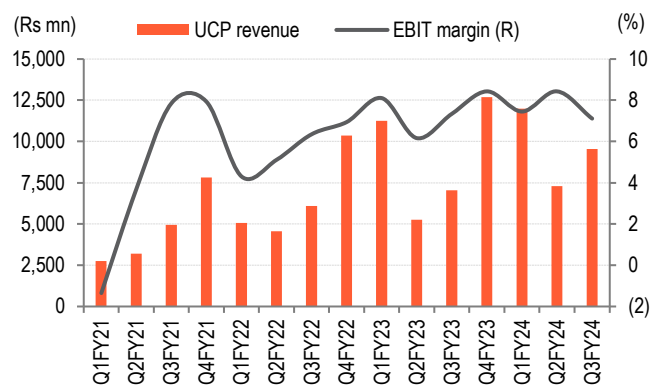
Source: BOBCAPS Research, Company

Fig 7 – PEIS vertical growth trend



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

Fig 8 – UCP vertical growth trend



Source: Company, BOBCAPS Research

Earnings call highlights

Electro-mechanical projects (EMP)

- Performance:** BLSTR's EMP segment revenue grew 17.9% YoY in Q3FY24, with EBIT margin expansion of 110bps YoY to 8.2%. Project execution was on track and the business saw healthy order finalisations from factories and data centres but observed a slowdown in commercial buildings and delayed infrastructure tenders. In commercial air conditioning, demand was visible in the industrial, healthcare, education and retail sectors, with a significant uptick in tier-3/4 cities.
- Order book:** The company closed Q3 with a Rs 60.4bn order book and is looking to execute orders worth ~Rs 45bn in the next 24 months. Management expects manufacturing and data center sector demand to continue for the foreseeable future, along with strong traction in the light commercial infrastructure and large infrastructure sector. The infrastructure sector may see an increased pace of execution given the upcoming elections, with new project finalisations likely to occur from July-August.

Unitary cooling products (UCP)

- **Performance:** UCP revenue was strong at Rs 9.6bn, growing 35.5% YoY in Q3, albeit with a slight 30bps YoY contraction in EBIT margin to 7.1%. The festive season supported the company's strong revenue growth, largely making up for a slower Q1. Margin slippage for the quarter likely stemmed from discounts during the festive period, partially offset by stable raw material costs and new launches.
- **Peer comparison:** BLSTR grew faster than its peers in the Indian UCP market, with VOLT and Lloyd growing 21.4% and 7.5% YoY respectively. EBIT margin, however, was better for VOLT at 8.3% (+90bps YoY).
- **Market share:** BLSTR clocked a 13.75% market share in Q3FY24, up 25bps QoQ and 50bps YoY. The company is strong in the south, east and west but sees scope for improvement in the northern region, where the market share differential compared to other regions is ~200bps.
- **Summer season:** Management expects strong summer demand this year, likely peaking in March instead of April, with an 8-8.5% margin during the period. It estimates that the UCP industry will grow at ~16% in FY24 and the company will grow at ~20%.
- **Industry dynamics:** Pricing in the UCP market is relatively stable at present, as opposed to the volatility seen in the past 12 months. Additionally, ~50% of sales include financed products, which indicates first-time buyers in the RAC segment. BLSTR expects the market to shift to smaller ACs for buyers of second units.
- **Commercial cooling:** BLSTR's commercial refrigeration products posted significant growth as growing investments in the warehousing and logistics sectors are driving demand for cold rooms. The new energy-labelled freezers are gaining traction.
- **Capacity utilisation:** The Sri City plant was at 80% utilisation while the Himachal plant ran at almost full capacity in Q3. Management does not expect capacity to be a constraint to growth in the upcoming summer season.
- **International business:** BLSTR is witnessing good growth in the Middle East and Africa and is in the testing/approval phase for markets in Europe and North America for its heating and cooling products.

Professional electronics and industrial systems (PEIS)

- PEIS revenue grew 20% YoY with EBIT margin gains of 200bps YoY to 14.7%.
- The segment was fuelled by continued traction in the non-destructive testing business and increasing investments in domestic healthcare infrastructure, fostering growth in its healthcare business.

Other highlights

- **Capex:** BLSTR expects to incur capex of Rs 2.5bn-3bn per annum for the next three years.
- **Geopolitical stability:** The ongoing conflicts in the Middle East and their impact on the Red Sea shipping route are concerns for the company, as this may affect exports and/or margins in the international business.

Valuation methodology

BLSTR remains our top pick in the air conditioning space. The company has gained market share, is expanding its reach in the lucrative B2B segment, and building capacity to cater to the growing demand for cooling products. Its UCP division is deftly balancing margins with growth while the EMP business benefits from a robust order backlog and strong industry tailwinds.

Following the all-round outperformance in Q3FY24 along with an optimistic outlook for the short and medium term, we increase our FY24/FY25/FY26 EPS estimates by 22%/14%/14%. We continue to value the stock at a P/E multiple of 40x – ~15% premium to the three-year average – and roll valuations over to Dec'25E, arriving at a revised TP of Rs 1,300 (vs. Rs 1,100).

In our view, BLSTR's ability to balance margins and market share better than listed peers, as evidenced in recent quarters, should help it maintain P/E multiples at a premium to the historical average. We thus position it as a relative BUY among the RAC pack.

Fig 9 – Revised estimates

Particulars (Rs mn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Sales	94,690	1,10,673	1,25,018	92,035	1,07,564	1,21,504	2.9	2.9	2.9
EBITDA	7,225	8,883	10,461	6,668	8,140	9,473	8.3	9.1	10.4
PAT	4,255	5,237	6,372	3,476	4,564	5,596	22.4	14.7	13.9
EPS (Rs)	22.1	27.2	33.1	18.0	23.7	29.1	22.4	14.7	13.7
EBITDA Margin (%)	7.6	8.0	8.4	7.2	7.6	7.8	40bps	50bps	60bps

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- inability to expand UCP market share amidst rising industry competition, and
- weakness in the EMP order book.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Blue Star	BLSTR IN	2.6	1,100	1,300	BUY
Crompton Greaves	CROMPTON IN	2.3	295	330	BUY
Havells India	HAVL IN	9.9	1,295	1,600	BUY
KEI Industries	KEII IN	3.4	3,062	3,120	HOLD
Orient Electric	ORIENTEL IN	0.5	210	240	HOLD
Polycab India	POLYCAB IN	7.9	4,314	5,200	BUY
Syrma SGS	SYRMA IN	1.3	597	560	HOLD
V-Guard Industries	VGRD IN	1.5	290	300	HOLD

Source: BOBCAPS Research, NSE | Price as of 30 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	60,456	79,773	94,690	1,10,673	1,25,018
EBITDA	3,465	4,928	7,225	8,883	10,461
Depreciation	860	848	1,058	1,231	1,383
EBIT	2,605	4,080	6,167	7,653	9,078
Net interest inc./(exp.)	(464)	(547)	(711)	(1,098)	(1,095)
Other inc./(exp.)	357	309	370	445	533
Exceptional items	0	0	0	0	1
EBT	2,498	3,842	5,826	6,999	8,516
Income taxes	829	1,243	1,573	1,764	2,146
Extraordinary items	0	(1,400)	0	0	0
Min. int./Inc. from assoc.	11	4	4	4	4
Reported net profit	1,677	4,001	4,255	5,237	6,372
Adjustments	0	(1,400)	0	0	0
Adjusted net profit	1,677	2,601	4,255	5,237	6,372

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	20,417	25,112	29,834	34,870	39,389
Other current liabilities	8,448	8,358	9,921	11,595	13,098
Provisions	0	0	0	0	1
Debt funds	3,003	6,620	7,900	9,980	10,950
Other liabilities	324	595	699	810	911
Equity capital	193	193	411	411	411
Reserves & surplus	9,983	13,114	26,213	30,295	35,511
Shareholders' fund	10,176	13,307	26,624	30,706	35,922
Total liab. and equities	42,368	53,991	74,978	87,961	1,00,270
Cash and cash eq.	4,147	2,473	13,453	16,851	20,128
Accounts receivables	11,897	15,488	18,510	21,561	24,396
Inventories	11,442	14,334	17,468	20,151	22,913
Other current assets	7,348	10,211	12,121	14,167	16,003
Investments	0	0	0	0	1
Net fixed assets	4,328	8,813	10,255	11,525	12,642
CWIP	1,451	609	723	845	955
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	1
Other assets	1,755	2,062	2,448	2,861	3,232
Total assets	42,368	53,991	74,978	87,961	1,00,270

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	918	2,474	3,531	5,396	6,342
Capital expenditures	(2,179)	(1,821)	(2,500)	(2,500)	(2,500)
Change in investments	1,340	342	0	0	0
Other investing cash flows	166	(337)	(394)	(422)	(379)
Cash flow from investing	(673)	(1,817)	(2,894)	(2,922)	(2,879)
Equities issued/Others	0	0	219	0	0
Debt raised/repaid	654	717	1,281	2,080	969
Interest expenses	0	0	0	0	1
Dividends paid	(1,521)	(1,627)	8,844	(1,156)	(1,156)
Other financing cash flows	0	0	0	0	1
Cash flow from financing	(868)	(911)	10,343	925	(184)
Chg in cash & cash eq.	(623)	(254)	10,980	3,398	3,279
Closing cash & cash eq.	4,147	2,473	13,453	16,851	20,128

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	8.7	20.8	22.1	27.2	33.1
Adjusted EPS	8.7	13.5	22.1	27.2	33.1
Dividend per share	5.0	6.0	6.0	6.0	6.0
Book value per share	52.8	69.1	138.2	159.4	186.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.5	2.7	2.2	1.9	1.7
EV/EBITDA	61.2	43.0	29.3	23.9	20.3
Adjusted P/E	126.4	81.5	49.8	40.5	33.3
P/BV	20.8	15.9	8.0	6.9	5.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	67.1	67.7	73.0	74.8	74.8
Interest burden (PBT/EBIT)	95.9	94.2	94.5	91.5	93.8
EBIT margin (EBIT/Revenue)	4.3	5.1	6.5	6.9	7.3
Asset turnover (Rev./Avg TA)	14.0	9.1	9.2	9.6	9.9
Leverage (Avg TA/Avg Equity)	0.5	0.8	0.5	0.4	0.4
Adjusted ROAE	17.6	22.1	21.3	18.3	19.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	41.8	32.0	18.7	16.9	13.0
EBITDA	44.5	42.2	46.6	23.0	17.8
Adjusted EPS	67.1	55.1	63.6	23.1	21.7
Profitability & Return ratios (%)					
EBITDA margin	5.7	6.2	7.6	8.0	8.4
EBIT margin	4.3	5.1	6.5	6.9	7.3
Adjusted profit margin	2.8	3.3	4.5	4.7	5.1
Adjusted ROAE	17.6	22.1	21.3	18.3	19.1
ROCE	14.9	17.9	17.5	16.1	16.4
Working capital days (days)					
Receivables	72	71	71	71	71
Inventory	69	66	67	66	67
Payables	123	115	115	115	115
Ratios (x)					
Gross asset turnover	7.6	7.1	6.3	6.3	6.2
Current ratio	1.2	1.1	1.3	1.3	1.4
Net interest coverage ratio	5.6	7.5	8.7	7.0	8.3
Adjusted debt/equity	0.3	0.5	0.3	0.3	0.3

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%

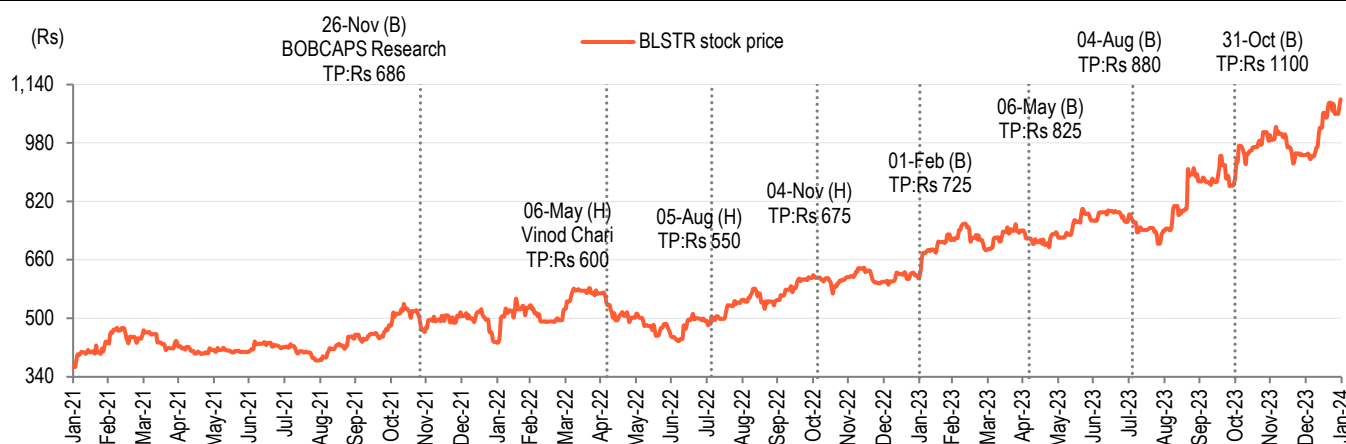
HOLD – Expected return from -6% to +15%

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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