

**HOLD**

TP: Rs 1,200 | ▲ 10%

**BLUE STAR**

| Consumer Durables

| 06 May 2022

## Gunning for market share

- Good quarter with strong room AC sales due to harsh summer and pent-up demand in target markets, aided by its broad product portfolio
- Calibrated price hikes owing to market share focus led to gross margin pressure as the company battles RM inflation
- We assume coverage with HOLD and a TP of Rs 1,200; VOLT a better play on the RAC penetration theme, in our view

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**Strong Q4 sets the tone for upcoming summer season:** BLSTR's Q4FY22 revenue increased 40% YoY to Rs 22.5bn on the back of strong growth across its three segments. Gross margin declined 120bps YoY to 20.6% as the company was unable to completely pass on the increased raw material prices. EBIT margin improved 55bps YoY to 5.3% as the lower gross margin was more than offset by strong operating leverage. Net income grew 12% YoY to Rs 762mn.

**Marginal market share gains in FY22:** BLSTR has improved its market share by 25bps in FY22, from 13% in FY21, aided by an enhanced product portfolio which is doing well. Moreover, these products are already compliant with the energy label changes expected in July. The company also maintained its #2 position in screwed chillers and VRF and its #1 rank in ducted air conditioning.

**Focus on mass market remains:** BLSTR has taken calibrated price hikes of ~10% in FY22 as it tried to focus on market share gains. It continues to revamp its distribution and target sales in tier 3/4/5 cities. As the 10% price hike was not enough to negate raw material inflation, the company took another 2-3% hike in Apr'22.

**HOLD, TP Rs 1,200:** The current severe summer season augurs well for the AC and refrigeration industry as a whole. However, we expect ongoing supply constraints and heightened raw material inflation to suppress BLSTR's margins. We believe that VOLT is suitably placed to negate the inflation and supply shortage, given its market leadership in ACs and superior margin profile. We value BLSTR at 40x FY24E EPS, a 16% premium to its 5Y average, for a TP of Rs 1,200 and assume coverage with HOLD. We prefer VOLT in this space.

Key positives include above-expected market share gains and key downside risks include RM inflation (leading to a drop in demand), increased competition and slower growth in infrastructure projects.

## Key changes

Target	Rating
▼	▼

Ticker/Price	BLSTR IN/Rs 1,092
Market cap	US\$
Free float	61%
3M ADV	US\$ 1.9mn
52wk high/low	Rs 1,225/Rs 758
Promoter/FPI/DII	39%/12%/22%

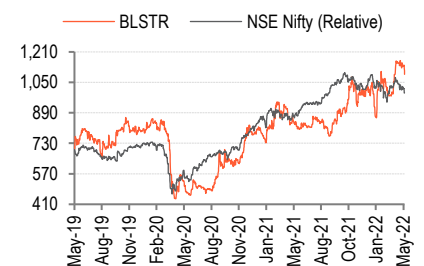
Source: NSE | Price as of 5 May 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	60,456	70,203	80,924
EBITDA (Rs mn)	3,465	4,362	5,027
Adj. net profit (Rs mn)	1,677	2,531	2,790
Adj. EPS (Rs)	17.4	26.3	29.0
Consensus EPS (Rs)	27.7	35.2	34.7
Adj. ROAE (%)	17.6	23.7	23.9
Adj. P/E (x)	62.7	41.6	37.7
EV/EBITDA (x)	30.3	24.2	21.2
Adj. EPS growth (%)	148.8	50.9	10.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



**Fig 1 – Quarterly and annual performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue (post indirect taxes)</b>	<b>22,476</b>	<b>16,116</b>	<b>39.5</b>	<b>15,062</b>	<b>49.2</b>	<b>60,456</b>	<b>42,636</b>	<b>41.8</b>
Cost of Revenue	(17,839)	(12,593)	41.7	(11,815)	51.0	(47,147)	(32,714)	44.1
<b>Gross Profit</b>	<b>4,637</b>	<b>3,522</b>	<b>31.7</b>	<b>3,247</b>	<b>42.8</b>	<b>13,309</b>	<b>9,922</b>	<b>34.1</b>
Gross Margin (%)	20.6	21.9	(122bps)	21.6	(93bps)	22.0	23.3	(126bps)
Employee Benefits Expense	(1,455)	(1,166)	24.8	(1,253)	16.1	(5,086)	(3,818)	33.2
Other Expense	(1,753)	(1,338)	31.0	(1,088)	61.1	(4,759)	(3,706)	28.4
Other Income	0	0	-	0	-	0	0	-
<b>EBITDA</b>	<b>1,430</b>	<b>1,018</b>	<b>40.4</b>	<b>906</b>	<b>57.8</b>	<b>3,465</b>	<b>2,398</b>	<b>44.5</b>
EBITDA margin (%)	6.4	6.3	4bps	6.0	35bps	5.7	5.6	11bps
Depreciation & Amortization	(231)	(249)	(7.2)	(225)	2.7	(860)	(923)	(6.8)
<b>EBIT</b>	<b>1,199</b>	<b>770</b>	<b>55.8</b>	<b>681</b>	<b>76.0</b>	<b>2,605</b>	<b>1,475</b>	<b>76.6</b>
EBIT margin (%)	5.3	4.8	56bps	4.5	81bps	4.3	3.5	85bps
Interest Income	0	0	-	0	-	0	0	-
Interest Expense	(129)	(134)	(3.6)	(116)	11.9	(464)	(647)	(28.3)
Dividend	0	0	-	0	-	0	0	-
Other Financial Items	63	398	(84.2)	134	(53.1)	357	624	(42.7)
Forex	0	0	-	0	-	0	0	-
<b>Total Financials</b>	<b>(67)</b>	<b>264</b>	<b>(125.2)</b>	<b>18</b>	<b>(465.9)</b>	<b>(107)</b>	<b>(24)</b>	<b>350.6</b>
<b>Income after financial items</b>	<b>1,132</b>	<b>1,033</b>	<b>9.6</b>	<b>700</b>	<b>61.9</b>	<b>2,498</b>	<b>1,452</b>	<b>72.1</b>
Margin (%)	5.0	6.4	(137bps)	4.6	39bps	4.1	3.4	73bps
Associate Income	7	10	(31.6)	4	86.1	11	26	(58.1)
Pretax income	1,139	1,043	9.2	703	62.0	2,509	1,478	69.8
Total Non-Recurring	0	0	-	0	-	0	0	-
<b>Reported Pretax</b>	<b>1,139</b>	<b>1,043</b>	<b>9.2</b>	<b>703</b>	<b>62.0</b>	<b>2,509</b>	<b>1,478</b>	<b>69.8</b>
Taxation	0	0	-	0	-	0	0	-
Total	(376)	(362)	3.9	(228)	65.5	(829)	(471)	76.0
% of pretax income before Associates	33	35	(5.2)	33	0.0	133	127	0.0
<b>Net income before minorities</b>	<b>763</b>	<b>681</b>	<b>12.0</b>	<b>476</b>	<b>60.3</b>	<b>1,680</b>	<b>1,007</b>	<b>66.9</b>
Minorities	(1)	(1)	(8.3)	(1)	57.1	(3)	(3)	(6.5)
<b>Net income after minorities</b>	<b>762</b>	<b>680</b>	<b>12.0</b>	<b>475</b>	<b>60.3</b>	<b>1,677</b>	<b>1,004</b>	<b>67.1</b>
Tax on non-core	0	0	-	0	-	0	0	-
<b>Core net income</b>	<b>762</b>	<b>680</b>	<b>12.0</b>	<b>475</b>	<b>60.3</b>	<b>1,677</b>	<b>1,004</b>	<b>67.1</b>
Net margin (%)	3.4	4.2	(83bps)	3.2	23bps	2.8	2.4	42bps

Source: Company, BOBCAPS Research

**Fig 2 – Segment performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenue</b>								
Electro -Mechanical Projects	11,360	7,800	45.6	8,299	36.9	31,945	22,187	44.0
Unitary Products	10,340	7,818	32.3	6,097	69.6	26,038	18,683	39.4
Professional Electronics	776	498	55.9	667	16.4	2,474	1,726	43.3
<b>Segment Profit</b>								
Electro -Mechanical Projects	758	485	56.4	524	44.7	1,948	1,065	82.9
Unitary Products	721	621	16.1	388	85.8	1,559	1,088	43.2
Professional Electronics	143	72	98.6	128	12.4	425	338	25.7
<b>Segment Margin (%)</b>								
Electro -Mechanical Projects	6.7	6.2	46bps	6.3	36bps	6.1	4.8	130bps
Unitary Products	7.0	7.9	(97bps)	6.4	61bps	6.0	5.8	16bps
Professional Electronics	18.5	14.5	398bps	19.1	(65bps)	17.2	19.6	(241bps)

Source: Company, BOBCAPS Research

## Valuation methodology

BLSTR has posted robust Q4FY22 sales on the back of strong summer demand. However, this has already been captured in the recent stock rally. Despite the company's initiatives such as launching a fully revamped product portfolio consisting of mass premium ACs at lower price points, we believe the current inflationary environment will dent the demand recovery.

In our view, inflation will play spoilsport for margins across AC companies. VOLT, being the market leader and enjoying a superior margin profile, is likely to manage the inflation challenges better than peers – making it our preferred pick in the space. We assume coverage of BLSTR with a HOLD rating and a TP of Rs 1,200, set at 40x FY24E P/E, a 16% premium to its five-year average given the company's efforts to increase market share through revamped products and to deepen distribution.

**Fig 3 – Estimates Vs. Consensus**

(Rs mn)	BOBCAPS		Bloomberg		Variance (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	70.2	80.9	66.9	76.7	4.9	5.4
EBITDA	4.4	5.0	4.6	5.6	(5.0)	(10.5)
EBIT	3.4	4.0	3.8	4.7	(10.5)	(15.0)
Pretax Income	3.2	3.7	3.6	4.5	(11.6)	(16.9)
Net Income	2.5	2.8	2.6	3.4	(4.1)	(17.6)
EPS (Rs)	26.3	29.0	27.7	35.2	(5.2)	(17.8)

Source: BOBCAPS Research

## Key risks

Key upside risks to our estimates are:

- above-expected market share gains due to recently launched mass premium ACs, and
- above-expected growth due to a faster recovery in construction or a demand surge should prices fall.

Key downside risks to our estimates are:

- demand being impacted by pricing increases due to raw material inflation and/or a potential new Covid wave,
- intense competition leading to challenges in growing market share in the RAC and water cooler business, and
- delays in infrastructure rollout leading to slower growth in new orders for the EMP and HVAC businesses.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Amber Enterprises	AMBER IN	1.7	3,815	3,471	HOLD
Blue Star	BLSTR IN	1.4	1,092	1,200	HOLD
Crompton Greaves	CROMPTON IN	3.0	367	621	BUY
Dixon Technologies	DIXON IN	3.0	3,950	5,431	HOLD
Havells India	HAVL IN	10.3	1,249	1,500	BUY
Orient Electric	ORIENTEL IN	0.9	318	381	HOLD
Polycab India	POLYCAB IN	4.8	2,448	2,401	HOLD
V-Guard Industries	VGRD IN	1.2	211	321	BUY
Voltas	VOLT IN	5.0	1,157	1,271	HOLD
Whirlpool India	WHIRL IN	2.7	1,609	2,901	BUY

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

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>53,602</b>	<b>42,636</b>	<b>60,456</b>	<b>70,203</b>	<b>80,924</b>
EBITDA	2,828	2,398	3,465	4,362	5,027
Depreciation	(880)	(923)	(860)	(991)	(1,072)
EBIT	1,948	1,475	2,605	3,372	3,955
Net interest inc./(exp.)	(215)	(545)	(362)	(472)	(499)
Other inc./(exp.)	367	192	255	255	255
Exceptional items	(40)	330	0	0	0
EBT	2,090	1,478	2,509	3,166	3,722
Income taxes	(653)	(471)	(829)	(631)	(928)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	26	23	8	7	6
<b>Reported net profit</b>	<b>1,433</b>	<b>1,004</b>	<b>1,677</b>	<b>2,531</b>	<b>2,790</b>
Adjustments	40	(330)	0	0	0
<b>Adjusted net profit</b>	<b>1,473</b>	<b>674</b>	<b>1,677</b>	<b>2,531</b>	<b>2,790</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	15,824	16,049	20,417	24,042	26,605
Other current liabilities	16,473	16,533	21,025	24,650	27,213
Provisions	0	0	0	0	0
Debt funds	4,489	4,516	4,778	4,778	4,778
Other liabilities	635	536	843	847	852
Equity capital	193	193	193	193	193
Reserves & surplus	7,631	8,659	9,983	10,973	12,029
Shareholders' fund	7,824	8,852	10,176	11,165	12,221
<b>Total liab. and equities</b>	<b>34,393</b>	<b>35,495</b>	<b>43,126</b>	<b>47,746</b>	<b>51,370</b>
Cash and cash eq.	2,939	6,112	2,697	3,641	3,044
Accounts receivables	8,377	8,110	11,897	12,502	14,411
Inventories	8,698	8,824	11,442	12,502	13,303
Other current assets	6,498	5,549	8,798	8,798	8,798
Investments	0	0	0	0	0
Net fixed assets	2,742	2,692	3,801	9,843	11,343
CWIP	0	0	0	0	0
Intangible assets	621	557	489	0	0
Deferred tax assets, net	818	475	276	276	276
Other assets	3,699	3,175	3,727	184	195
<b>Total assets</b>	<b>34,393</b>	<b>35,495</b>	<b>43,126</b>	<b>47,746</b>	<b>51,370</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>5,428</b>	<b>3,600</b>	<b>1,308</b>	<b>5,483</b>	<b>3,715</b>
Capital expenditures	(860)	(635)	(2,179)	(2,000)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	(128)	(1,832)	1,377	(986)	(1,067)
<b>Cash flow from investing</b>	<b>(988)</b>	<b>(2,467)</b>	<b>(802)</b>	<b>(2,986)</b>	<b>(2,567)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,128	(21)	217	0	0
Interest expenses	(311)	(395)	(411)	0	0
Dividends paid	(2,301)	(12)	(388)	(1,541)	(1,734)
Other financing cash flows	1,299	162	294	1,541	1,734
<b>Cash flow from financing</b>	<b>(185)</b>	<b>(267)</b>	<b>(287)</b>	<b>0</b>	<b>0</b>
<b>Chg in cash &amp; cash eq.</b>	<b>2,877</b>	<b>509</b>	<b>(250)</b>	<b>944</b>	<b>(597)</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,939</b>	<b>6,112</b>	<b>5,862</b>	<b>6,807</b>	<b>6,210</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	14.9	10.4	17.4	26.3	29.0
Adjusted EPS	15.3	7.0	17.4	26.3	29.0
Dividend per share	10.0	4.0	10.0	16.0	18.0
Book value per share	81.2	91.9	105.7	115.9	126.9

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	2.0	2.5	1.7	1.5	1.3
EV/EBITDA	38.1	44.7	30.3	24.2	21.2
Adjusted P/E	71.4	156.0	62.7	41.6	37.7
P/BV	13.4	11.9	10.3	9.4	8.6

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	69.1	58.7	66.8	79.9	74.9
Interest burden (PBT/EBIT)	109.4	77.8	96.3	93.9	94.1
EBIT margin (EBIT/Revenue)	3.6	3.5	4.3	4.8	4.9
Asset turnover (Rev./Avg TA)	157.9	122.0	153.8	154.5	163.3
Leverage (Avg TA/Avg Equity)	4.1	4.2	4.1	4.3	4.2
Adjusted ROAE	17.8	8.1	17.6	23.7	23.9

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	2.4	(20.5)	41.8	16.1	15.3
EBITDA	(18.4)	(15.2)	44.5	25.9	15.2
Adjusted EPS	(21.5)	(54.2)	148.8	50.9	10.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	5.3	5.6	5.7	6.2	6.2
EBIT margin	3.6	3.5	4.3	4.8	4.9
Adjusted profit margin	2.7	1.6	2.8	3.6	3.4
Adjusted ROAE	17.8	8.1	17.6	23.7	23.9
ROCE	21.7	13.5	19.8	24.2	26.4
<b>Working capital days (days)</b>					
Receivables	57	69	72	65	65
Inventory	59	76	69	65	60
Payables	108	137	123	125	120
<b>Ratios (x)</b>					
Gross asset turnover	12.6	9.2	10.2	8.8	8.3
Current ratio	1.0	1.3	1.2	1.1	1.1
Net interest coverage ratio	9.1	2.7	7.2	7.2	7.9
Adjusted debt/equity	0.6	0.5	0.5	0.4	0.4

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

## Disclaimer

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

**BUY** – Expected return >+15%

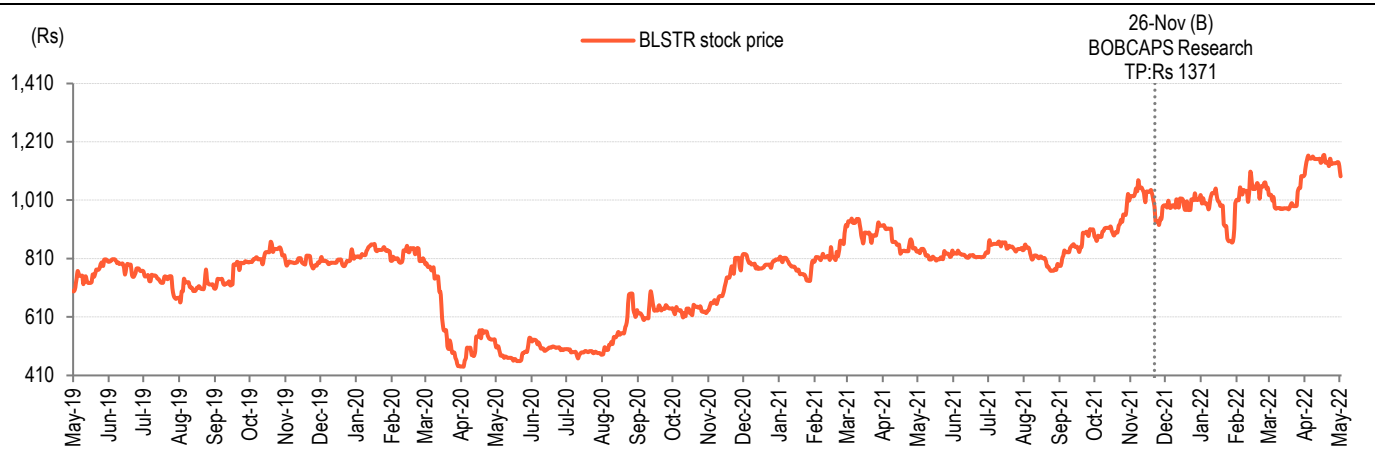
**HOLD** – Expected return from -6% to +15%

**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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