

**HOLD**

TP: Rs 1,840 | ▲ 1%

**BLUE STAR**

Consumer Durables

08 August 2025

**Soft Q1; inventory correction on festive uptick, BEE reset**

- **Topline beat Street/ our estimates, EMP sustains growth momentum offsetting decline in Unitary products**
- **Management sees 10-15% unitary products growth; expects >1month inventory to clear on festive demand and BEE reset (Jan-26)**
- **Cut estimates, introduce FY28E, roll forward to June'26 TP with a 47x multiple to arrive at TP of Rs 1,840; downgrade to HOLD**

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**Topline beats estimate; EMP offset decline in UCP:** Blue Star reported a better-than-expected Q1 performance, with revenue /EBITDA 12%/15% above our estimates (+4%/-16% consensus). Revenue rose 4% YoY to Rs 40bn, driven by strong 36% YoY growth in the electro-mechanical projects segment, offsetting 13% YoY decline in UCP segment. Gross margin marginally contracted 20bps YoY to 23.4% while EBITDA margin contracted significantly 160bps YoY/25bps QoQ. Adjusted PAT at Rs 1.2bn (-28% YoY/-38% QoQ) came in at 11% ahead of estimates.

**Growth momentum continues in EMP & commercial AC:** The segment reported revenue growth of 36% YoY (ahead of our estimates) as both projects as well as commercial ACs reported robust growth. Project business saw strong order finalisation driven by continued demand from factories and data centre market segments. Current order book in the project business stands at Rs 50.8bn (+11.5% YoY). Commercial AC business delivered robust growth. ERIS continued its market leadership in the VRF and ducted systems. EBIT margin contraction of 200bps YoY to 7.9%.

**Unitary products' growth disappoints; optimistic on recovery in remaining quarters:** Segment revenue declined 13% YoY on a high base, outperforming our estimate of a 14% drop. Management indicated a 25–30% YoY industry decline, implying market share gains (14.2% in Jun'25 vs 14% in Mar'25). Commercial refrigeration saw strong growth, led by processed food and pharma demand. EBIT margin contracted 330bps YoY/260bps QoQ to 5.8% on weak operating leverage. Management remains optimistic on recovery, supported by festive demand and the BEE rating reset, expects 10-15% YoY growth in FY26.

**Revise estimates, downgrade to HOLD:** We cut FY26–27E EPS by 4–6%, due to UCP weakness and build in lower growth despite management's 10–15% YoY guidance. With elevated inventory levels, we remain cautious. We introduce FY28E, roll forward to June'26 with a 47x multiple to arrive at TP of Rs 1,840; downgrade to HOLD on limited upside.

**Key changes**

Target	Rating
▼	▼

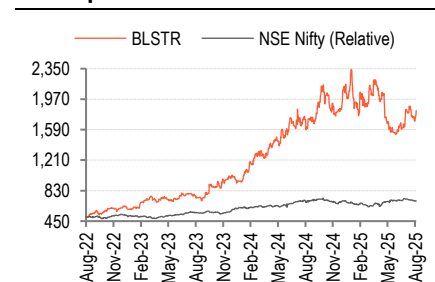
Ticker/Price	BLSTR IN/Rs 1,828
Market cap	US\$ 4.0bn
Free float	61%
3M ADV	US\$ 15.5mn
52wk high/low	Rs 2,417/Rs 1,521
Promoter/FPI/DII	39%/11%/25%

Source: NSE | Price as of 7 Aug 2025

**Key financials**

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	1,19,677	1,32,327	1,52,335
EBITDA (Rs mn)	8,759	8,803	10,796
Adj. net profit (Rs mn)	5,787	5,681	7,155
Adj. EPS (Rs)	30.0	29.5	37.1
Consensus EPS (Rs)	30.0	37.0	46.0
Adj. ROAE (%)	20.4	17.4	19.2
Adj. P/E (x)	60.8	62.0	49.2
EV/EBITDA (x)	40.2	40.0	32.6
Adj. EPS growth (%)	39.5	(1.8)	25.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Q1FY26E	Variance (%)
Revenue	29,823	28,654	4	40,190	(26)	26,606	12
EBITDA	2,000	2,378	(16)	2,794	(28)	1,739	15
EBITDA Margin (%)	6.7	8.3	(159bps)	7.0	(25)	6.5	17bps
Depreciation	414	280		354		370	12
Interest	101	76		188		131	(23)
Other Income	161	238	(32)	240		216	(26)
PBT	1,646	2,259	(27)	2,492	(34)	1,454	13
Tax	424	573		548		366	16
Adjusted PAT	1,208	1,687	(28)	1,940	(38)	1,087	11
Exceptional item	-	-				-	
Reported PAT	1,208	1,687	(28)	1,940	(38)	1,087	11
Adj. PAT Margin (%)	4.1	5.9	(180bps)	4.8	(80bps)	4.1	(4bps)
EPS (Rs)	6.3	8.8	(28)	10.1	(37)	5.6	12

Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
<b>Segment revenue</b>					
Electro- Mechanical Projects and Packaged AC systems	14,125	10,390	36	19,682	(28)
Professional Electronics & Industrial Systems	704	969	(27)	906	(22)
Unitary Products	14,994	17,295	(13)	19,602	(24)
<b>EBIT</b>					
Electro- Mechanical Projects and Packaged AC systems	1,116	1,030	8	1,499	(26)
EBIT margin (%)	7.9	9.9	(200bps)	7.6	30bps
Professional Electronics & Industrial Systems	76	96	(20.6)	88	(12.9)
EBIT margin (%)	10.8	9.9	91bps	10	116bps
Unitary Products	875	1,580	(45)	1,645	(47)
EBIT margin (%)	5.8	9.1	(330bps)	8	(260bps)

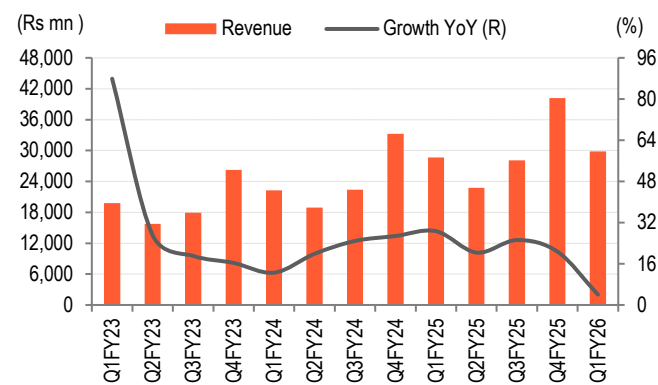
Source: Company, BOBCAPS Research

## Earnings Call Highlights

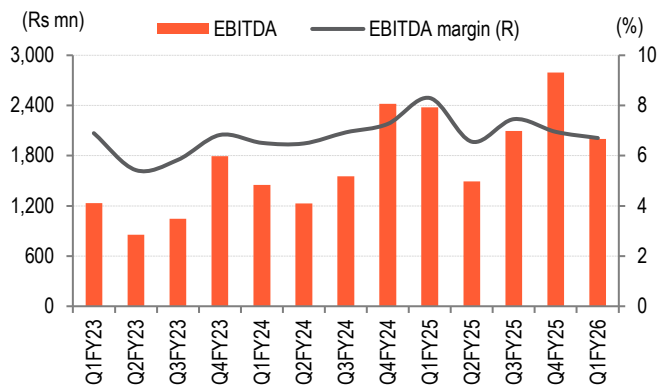
- Despite a disappointing summer, management reaffirmed confidence in the long-term prospects of the room AC (RAC) industry, projecting a ~19% CAGR over the next 5 years, with the current weakness seen as a temporary deviation.
- Management noted that the RAC industry declined ~30% YoY in Q1FY26 but emphasized that when viewed over the Jan-June period, the degrowth was in single digits due to strong pre-season stocking during January to March.
- RAC market share rose to ~14.2% in Q1FY26 (up 20bps YoY), driven by a wider product portfolio across price points, deeper distribution in Tier 3-5 towns, and focused counter-level execution under its “surgical strike” strategy.
- Management highlighted ~75 days of inventories (30 days above the normalised 45 days) at the channel as well as company level combined. However, management does not view this as concerning and expects the excess to clear by the festive season without resorting to price cuts, discounts, or promotional schemes.
- Management anticipates a demand revival starting with regional festivals (e.g., Onam, Independence Day sales) and expects strong buying in Q3FY26 ahead of the energy label norm change in Jan 2026. As such, regulatory shifts historically trigger pre-buying. While Q4FY25 had a high base due to restocking, Q3FY26 is expected to benefit from both festive seasonal momentum and regulatory transition effects,
- Margin declined to 5.8% in Q1FY26 vs 9.1% YoY, impacted by high fixed costs incurred ahead of the anticipated summer season, operating leverage loss on lower volumes, and continued spending on in-shop demonstrators, A&P, and e-waste compliance; full-year margin guidance is revised to 7–8%, assuming a normalised H2FY26.
- BLSTR does not currently manufacture compressors but is actively evaluating multiple options including sourcing from Indian suppliers, exploring CKD (completely knocked down) assembly models, and developing in-house designs through early-stage R&D. While no JV has been signed, the company is closely monitoring domestic capacity additions and import regulations. Importantly, compressor supply chain is secured for the next 12 months, with multiple sourcing options in place, and management does not foresee any near-term disruption.
- Management guides to achieve ~15% YoY growth in the electromechanical projects segment for FY26, driven by growth in infrastructure, data centres, factories, hotels, and hospitals, along with packaged AC systems like VRF and chillers
- Commercial refrigeration, which comes under segment 2 continued to grow, with ~10% of revenue contributed by quick commerce clients; however, management remains unconcerned about any slowdown in this segment due to strong, broad-based demand across pharmaceuticals, processed foods, QSR, Kirana modernisation, and cold-chain logistics.
- Professional Electronics & Industrial Systems witnessed pressure due to regulatory uncertainty in MedTech (ban on refurbished medical device imports) and continued

challenges in data security. However, industrial solutions saw steady growth driven by manufacturing and testing demand. Despite revenue decline, segment margins improved to 10.8% (vs 9.9%), supported by a favourable product and service mix.

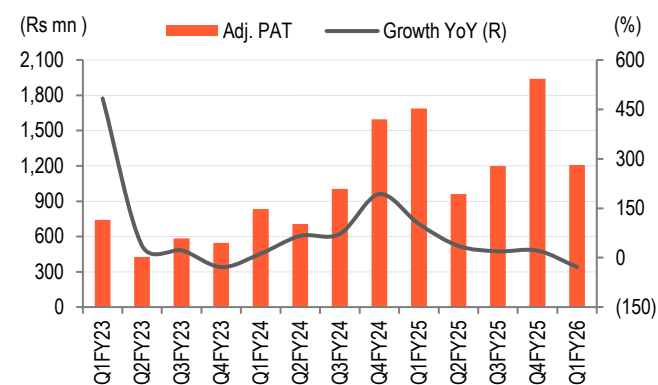
- Total exports contribute ~2% of Blue Star's revenue, with the US accounting for ~1%. While management acknowledged that tariff and exchange rate volatility may delay export scale-up, the near financial impact is expected to be minimal. The company continues to pursue an OEM-led international expansion strategy (not under the Blue Star brand) with a clear focus on two conditions: (1) it must not dilute RoCE (2) must not impact profitability.

**Fig 3 – Revenue growth trend**

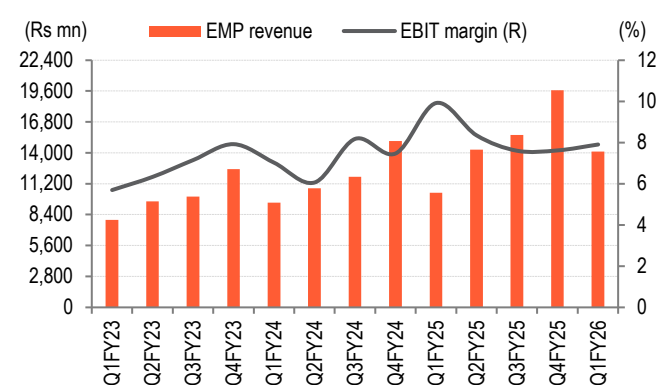
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA growth trend**

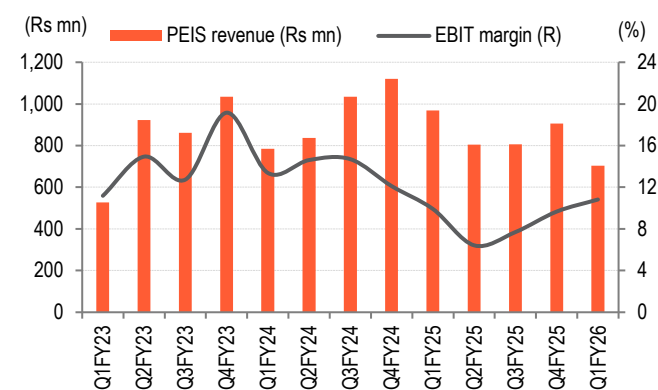
Source: Company, BOBCAPS Research

**Fig 5 – Profit trend**

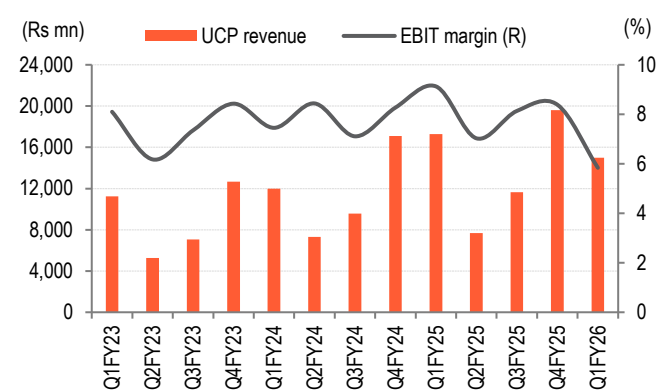
Source: Company, BOBCAPS Research

**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

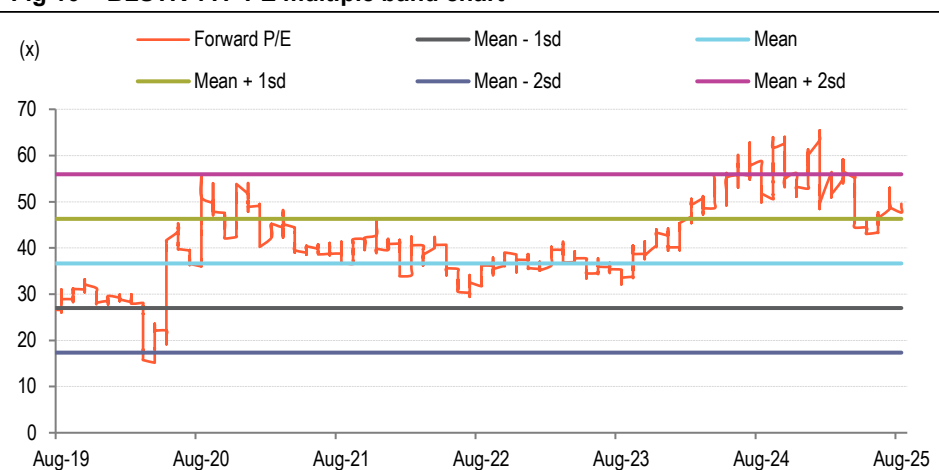
We cut FY26–27E EPS by 4–6% due to UCP weakness and build in lower growth despite management's 10–15% YoY guidance. With elevated inventory levels, we remain cautious. We introduce FY28E, roll forward to June'26 with a 47x multiple to arrive at TP of Rs 1,840; downgrade to HOLD on limited upside.

**Fig 9 – Revised estimates**

(Rs mn)	New			Old			Change (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	1,32,327	1,52,335	1,74,216	1,35,379	1,57,053	NA	(2.3)	(3.0)	NA
EBITDA	8,803	10,796	12,851	9,075	11,342	NA	(3.0)	(4.8)	NA
Margin (%)	6.7	7.1	7.4	6.7	7.2	NA	(10bps)	(10bps)	NA
PAT	5,681	7,155	8,697	5,933	7,602	NA	(4.3)	(5.9)	NA

Source: BOBCAPS Research

**Fig 10 – BLSTR 1YF PE multiple band chart**



Source: Company, BOBCAPS Research

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Total revenue</b>	<b>96,854</b>	<b>1,19,677</b>	<b>1,32,327</b>	<b>1,52,335</b>	<b>1,74,216</b>
EBITDA	6,649	8,759	8,803	10,796	12,851
Depreciation	976	1,284	1,604	1,721	1,822
EBIT	5,673	7,475	7,198	9,076	11,029
Net interest inc./(exp.)	(581)	(488)	(466)	(503)	(542)
Other inc./(exp.)	474	750	863	992	1,141
Exceptional items	0	0	0	0	0
EBT	5,567	7,737	7,595	9,565	11,627
Income taxes	1,429	1,937	1,914	2,410	2,930
Extraordinary items	0	(125)	0	0	0
Min. int./Inc. from assoc.	5	(13)	0	0	0
<b>Reported net profit</b>	<b>4,150</b>	<b>5,912</b>	<b>5,681</b>	<b>7,155</b>	<b>8,697</b>
Adjustments	0	(125)	0	0	0
<b>Adjusted net profit</b>	<b>4,150</b>	<b>5,787</b>	<b>5,681</b>	<b>7,155</b>	<b>8,697</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	26,166	34,276	41,692	47,996	54,890
Other current liabilities	10,731	12,745	14,092	16,222	18,553
Provisions	0	0	0	0	0
Debt funds	2,429	3,810	5,179	5,584	6,027
Other liabilities	755	1,094	1,094	1,094	1,094
Equity capital	411	411	411	411	411
Reserves & surplus	25,690	30,239	34,186	39,607	46,570
Shareholders' fund	26,101	30,650	34,597	40,018	46,982
<b>Total liab. and equities</b>	<b>66,183</b>	<b>82,575</b>	<b>96,654</b>	<b>1,10,915</b>	<b>1,27,546</b>
Cash and cash eq.	3,774	4,319	11,236	13,387	17,344
Accounts receivables	19,526	19,594	26,465	30,050	34,366
Inventories	14,072	21,492	20,302	24,207	27,684
Other current assets	13,029	17,723	18,230	20,986	24,001
Investments	0	0	0	0	0
Net fixed assets	9,800	12,342	13,237	14,016	14,694
CWIP	1,081	734	811	934	1,068
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	4,902	6,372	6,372	7,335	8,389
<b>Total assets</b>	<b>66,183</b>	<b>82,575</b>	<b>96,654</b>	<b>1,10,915</b>	<b>1,27,546</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
<b>Cash flow from operations</b>	<b>2,892</b>	<b>6,881</b>	<b>9,859</b>	<b>7,065</b>	<b>8,936</b>
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	(78)	(1,086)	(1,188)
<b>Cash flow from investing</b>	<b>(5,246)</b>	<b>(4,640)</b>	<b>(2,578)</b>	<b>(3,586)</b>	<b>(3,688)</b>
Equities issued/Others	10,000	0	0	0	0
Debt raised/repaid	(4,392)	151	1,369	405	443
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
<b>Cash flow from financing</b>	<b>3,648</b>	<b>(1,622)</b>	<b>(364)</b>	<b>(1,329)</b>	<b>(1,291)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,294</b>	<b>619</b>	<b>6,917</b>	<b>2,150</b>	<b>3,957</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,774</b>	<b>4,319</b>	<b>11,236</b>	<b>13,387</b>	<b>17,344</b>

### Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	21.5	30.7	29.5	37.1	45.1
Adjusted EPS	21.5	30.0	29.5	37.1	45.1
Dividend per share	7.0	9.0	9.0	9.0	9.0
Book value per share	135.5	159.1	179.6	207.7	243.9

### Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	3.6	2.9	2.7	2.3	2.0
EV/EBITDA	52.9	40.2	40.0	32.6	27.4
Adjusted P/E	84.8	60.8	62.0	49.2	40.5
P/BV	13.5	11.5	10.2	8.8	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	105.5	105.4	105.4
EBIT margin (EBIT/Revenue)	5.9	6.2	5.4	6.0	6.3
Asset turnover (Rev./Avg TA)	9.9	9.7	10.0	10.9	11.9
Leverage (Avg TA/Avg Equity)	0.5	0.4	0.4	0.4	0.3
Adjusted ROAE	21.1	20.4	17.4	19.2	20.0

### Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
<b>YoY growth (%)</b>					
Revenue	21.4	23.6	10.6	15.1	14.4
EBITDA	34.9	31.7	0.5	22.7	19.0
Adjusted EPS	59.6	39.5	(1.8)	25.9	21.6

### Profitability & Return ratios (%)

EBITDA margin	6.9	7.3	6.7	7.1	7.4
EBIT margin	5.9	6.2	5.4	6.0	6.3
Adjusted profit margin	4.3	4.8	4.3	4.7	5.0
Adjusted ROAE	21.1	20.4	17.4	19.2	20.0
ROCE	18.9	19.5	16.2	17.6	18.5

### 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	6.3	6.5	6.7
Current ratio	1.3	1.3	1.3	1.3	1.3
Net interest coverage ratio	9.8	15.3	15.4	18.1	20.3
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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**BUY** – Expected return >+15%

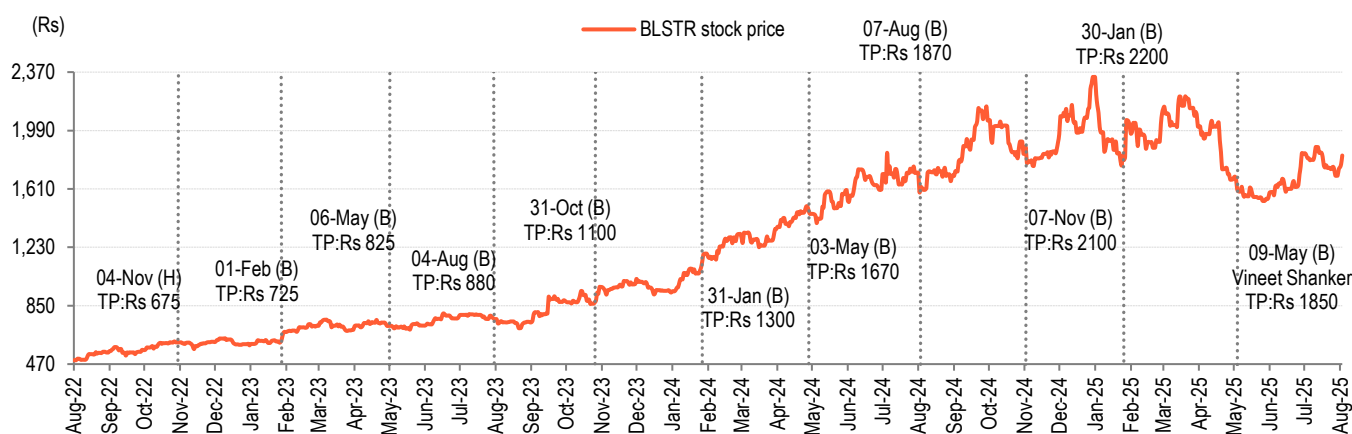
**HOLD** – Expected return from -6% to +15%

**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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