NIRMAL BANG
a relationship beyond broking

Institutional Equities

Blue Star (India) (BLSTR)

Consumer Durables | 4QFY24 Result Update

ACCUMULATE

CMP: Rs1,448 | Target Price (TP): Rs1,435 | Downside: 1%

May 03, 2024

Continues to positively surprise us

Key Points

- Both topline and EBITDA margin were above our estimates by 8% and 41bps respectively, due to higher-than-anticipated growth in RAC.
- Blue Star improved its RAC market share by 25bps in FY24 to 13.75%, with RAC volume at 1mn+ units. While there was no price hike in 4QFY24 and YTD 1QFY25 (and no massive price disruption as well), strong volume growth is expected in 1QFY25 too, on the back of strong summers.
- While total order booking de-grew by ~2% YoY in FY24, upward traction in manufacturing and data centre + pick up in infra cycle are expected to pump up order book growth in FY25. Currently, the company is focused on expediting the speed of execution of its order book & collection of dues.
- We draw high comfort in its business model due to its strategy of chasing profitability and FCF, presence in high growth Comm. Refrigeration and high quality order booking from EMPS. **While we remain structurally positive on long term prospects, the stock has had a good price run-up in recent months (~55%+ YTDCY24). As a result, we believe that the share is currently fairly priced, and therefore, maintain ACCUMULATE with SOTP-based TP of Rs1,435 (42x blended PE on FY26E EPS). Nonetheless, we believe it is a long term compounder, and therefore, it should be accumulated at every dip.**

4QFY24 performance update: Topline growth of 26.8% YoY was due to strong performance across segments – UCP (up 34.8% YoY – led by volume growth on the back of affordable products introduced + 80-months comprehensive warranty issued), and EMPS (up 20.3% YoY). While gross margin expanded by 42bps YoY, it compressed by similar bps QoQ due to the rise in raw material prices. EBITDA margin expanded by 44bps YoY on account of favourable product mix.

1QFY25 expected to be a strong quarter for RAC: As per management, primary sales for RAC in March'24 grew by 40% YoY on volume basis. April'24 clocked in stronger growth at ~65-75% volume-wise, while secondary & tertiary sales grew by 70-90% volume-wise in the same period. April was the peak month in terms of best sales, and May is expected to deliver lower growth due to enough inventory being pushed in the channel in April + most growth being frontloaded in April itself. The RAC industry is expected to clock in ~25%+ value growth in 1QFY25. We expect Blue Star to beat industry growth by ~350-400bps.

Trial orders in process for CAC – a positive: Blue Star is in the phase of developing, testing and getting approval for Europe & North American markets. The trial orders are being executed currently, and we expect some export revenue booking in 2HFY25. We believe this could be the alpha generator as export market in CAC has better opportunities compared to RAC and Blue Star will be able to leverage its domestic expertise for international markets too.

Others: Management's focus in FY25 would be to maintain and improve UCP margins – by not getting into price discounting, thus, ensuring prudent cash flow management. Its focus will also be on effecting talent management.

Est Change	No change
TP Change	Upward
Rating Change	No change

Company Data and Valuation Summary

Reuters:	BLUS.BO
Bloomberg:	BLSTR IN Equity
Mkt Cap (Rsbn/US$bn):	297.7 / 3.6
52 Wk H / L (Rs):	1,514 / 693
ADTV-3M (mn) (Rs/US$):	510.0 / 6.1
Stock performance (%) 1M/6M/1yr:	7.4 / 49.0 / 101.3
Nifty50 performance (%) 1M/6M/1yr	1.6 / 3.6 / 23.1

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	36.5	36.5	36.5
DIIs	25.2	24.8	24.7
FIIs	14.9	15.4	15.9
Others	23.4	23.3	22.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rs Mn)	FY23	FY24	FY25E	FY26E
Net Sales	79,773	96,854	1,19,235	1,42,898
Growth YoY (%)	31.6	21.4	23.1	19.8
Gross Margin (%)	22.5	23.7	24.5	25.0
EBITDA	4,928	6,649	8,590	10,649
EBITDA Margin (%)	6.2	6.9	7.2	7.5
Adj. PAT	2,862	4,150	5,520	6,965
Adj. PAT Margin (%)	3.6	4.3	4.6	4.9
Adj. PAT YoY Growth (%)	70.7	45.0	33.0	26.2
Adj. EPS(Rs)	13.9	20.2	26.8	33.9
ROCE (%)	23.9	24.2	25.4	28.4
ROCE (Post-Tax) (%)	17.3	18.0	19.0	21.3
ROE (%)	34.1	21.1	20.8	24.1
P/E	104.0	71.7	53.9	42.7
EV/EBITDA	61.1	44.5	34.6	27.7
P/B	22.4	11.4	11.1	9.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links–

4QFY24Results; 4QFY24PressRelease

Please refer to the disclaimer towards the end of the document.

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Exhibit 1: 4QFY24 Consolidated Performance

Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	4Q24	FY23	FY24
Net Sales	**19,770**	**15,823**	**17,942**	**26,238**	**22,260**	**18,904**	**22,412**	**33,278**	**79,773**	**96,854**
YoY Change (%)	*87.9*	*27.6*	*19.1*	*16.4*	*12.6*	*19.5*	*24.9*	*26.8*	*31.6*	*21.4*
Gross Profit	**4,156**	**3,667**	**4,021**	**6,112**	**4,938**	**4,686**	**5,417**	**7,892**	**17,957**	**22,934**
Margin (%)	*21.0*	*23.2*	*22.4*	*23.3*	*22.2*	*24.8*	*24.2*	*23.7*	*22.5*	*23.7*
EBITDA	**1,233**	**856**	**1,047**	**1,792**	**1,450**	**1,227**	**1,554**	**2,419**	**4,928**	**6,649**
YoY Change (%)	*192.0*	*21.1*	*15.6*	*25.3*	*17.6*	*43.3*	*48.4*	*35.0*	*42.2*	*34.9*
Margin (%)	*6.2*	*5.4*	*5.8*	*6.8*	*6.5*	*6.5*	*6.9*	*7.3*	*6.2*	*6.9*
Depreciation	220	245	156	227	228	230	235	283	848	976
Interest	106	121	139	181	180	177	102	122	547	581
Other Income	105	86	52	67	94	130	127	124	309	474
Extraordinary Items	-	-	-	1,708	-	-	-	-	1,708	-
PBT (bei)	**1,012**	**576**	**804**	**1,450**	**1,136**	**950**	**1,343**	**2,138**	**3,842**	**5,567**
PBT	**1,012**	**576**	**804**	**3,158**	**1,136**	**950**	**1,343**	**2,138**	**5,550**	**5,567**
Tax	263	149	216	918	302	243	339	544	1,547	1,429
ETR(%)	*26.0*	*25.9*	*26.9*	*29.1*	*26.6*	*25.5*	*25.3*	*25.5*	*27.9*	*25.7*
Reported PAT	742	426	584	2,241	834	706	1,007	1,587	4,096	4,137
Adj. PAT	**742**	**426**	**584**	**849**	**834**	**706**	**1,007**	**1,587**	**2,862**	**4,137**
YoY Change (%)	*485.1*	*34.9*	*22.6*	*11.3*	*12.3*	*66.0*	*72.4*	*86.9*	*70.4*	*44.5*
Adj. EPS	**3.9**	**2.2**	**3.0**	**4.4**	**4.3**	**3.4**	**4.9**	**7.7**	**13.9**	**20.1**

Source:Company,NirmalBangInstitutionalEquitiesResearch

Exhibit 2: 4QFY24SegmentalPerformance

Particulars (Rsmn)	4Q23	3Q24	4Q24	YoY(%)	QoQ(%)	FY23	FY24	YoY(%)
Net Sales								
EPAC	12,526	11,823	15,068	*20.3*	*27.4*	40,114	47,155	*17.6*
Unitary Products	12,677	9,554	17,089	*34.8*	*78.9*	36,251	45,922	*26.7*
PE&IS	1,035	1,035	1,121	*8.3*	*8.3*	3,348	3,777	*12.8*
Sales Mix (%)								
EPAC	*47.7*	*52.8*	*45.3*			*50.3*	*48.7*	
Unitary Products	*48.3*	*42.6*	*51.4*			*45.5*	*47.4*	
PE&IS	*3.9*	*4.6*	*3.4*			*4.2*	*3.9*	
EBIT								
EPAC	992	967	1,125	*13.4*	*16.4*	2,768	3,411	*23.2*
Unitary Products	1,070	679	1,414	*32.2*	*108.2*	2,823	3,603	*27.6*
PE&IS	198	152	136	*(31.6)*	*(10.8)*	505	515	*2.0*
EBIT Margin (%)								
EPAC	*7.9*	*8.2*	*7.5*	*(45) bps*	*(71) bps*	*6.9*	*7.2*	*33 bps*
Unitary Products	*8.4*	*7.1*	*8.3*	*(16) bps*	*117 bps*	*7.8*	*7.8*	*6 bps*
PE&IS	*19.2*	*14.7*	*12.1*	*(705) bps*	*(258) bps*	*15.1*	*13.6*	*(145) bps*

Source:Company,NirmalBangInstitutionalEquitiesResearch

Exhibit 3: Actual Performance vs NBIE & Consensus Estimates

4QFY24 (RsMn)	Actuals	Our Estimate	*Deviation (%)*	BBG Estimates	*Deviation (%)*
Net Sales	33,278	30,566	8.9	31,125	6.9
EBITDA	2,419	2,098	15.3	2,161	11.9
EBITDA Margin (%)	***7.3***	***6.9***	***41 bps***	***6.9***	***33 bps***
Adj. PAT	1,587	1,322	20.1	1,535	3.4

Source:Company,NirmalBangInstitutionalEquitiesResearch

Exhibit 4:Change in Our Estimates

Description	FY25E			FY26E		
(Rsmn)	Old	New	Change (%)	Old	New	Change (%)
Net Sales	1,14,669	1,19,235	4.0	1,36,576	1,42,898	4.6
EBITDA	8,776	8,590	(2.1)	10,891	10,649	(2.2)
EBITDA Margin (%)	***7.7***	***7.2***	***(45) bps***	***8.0***	***7.5***	***(52) bps***
Adj. PAT	5,557	5,520	(0.7)	7,137	6,965	(2.4)
Adj. EPS	27.0	26.8	(0.6)	34.7	33.9	(2.4)

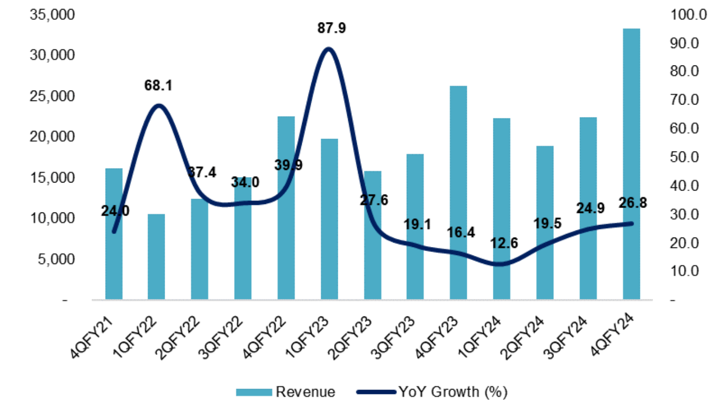
Source:Company,NirmalBangInstitutionalEquitiesResearch

Key Concall Highlights:

- At the end of 4QFY24, EMPS carry forward order book grew by 13.5% YoY to Rs54.66bn. Overall order book grew by 12.3% YoY to Rs56.97bn in FY24 from Rs50.73bn in FY23
- In the EMP business, order inflow stood at Rs12.27bn in 4QFY24 vs Rs13.30bn in 4QFY23, a decline of 7.8% YoY due to a slowdown in the commercial building construction sector and the union elections
- In EMPS business, while the commercial buildings segment continued to witness a slowdown and delay in order finalizations, orders from manufacturing & data centres remained healthy
- CAC continued to witness strong traction from OEMs, hospitals, offices, and educational institutions
- Blue Star continued to maintain a good position in Centrifugal Chillers, Screw Chillers and the VRF segment
- The management is looking at an 18-month timeline to ramp up its export business. Currently, it is executing trial orders in these markets. Meanwhile, the US market is expected to pick up post-elections; it is leveraging this slowdown to focus on product development. The company is also highlighting that it is not selling regular CAC, but rather decarbonization and energy efficiency products which require obtaining necessary approvals, navigating regulatory requirements, and building brand share
- Blue Star continues to maintain leadership position in deep freezers, modular cold room and storage water coolers
- The non-destructive testing business continued to gain traction due to the expansion of capacity related to the 'Make in India' initiative and the implementation of high-quality standards across industries. The Healthcare business is also benefiting due to the expansion of semi-rural healthcare infrastructure in the country and increased investments in the sector
- Capital employed increased to Rs21.6bn at the end of FY24 vs Rs15.4bn at the end of FY23, primarily owing to capital investments
- The company aims to gain market share in the affordable segment, particularly targeting Tier 3, 4, and 5 markets, where a significant portion of demand originates
- The diversification of product range, specifically with the introduction of affordable RAC, was the tailwind in surpassing the milestone of selling 1 million units.
- Primary sales of RAC in March 24 increased by 40% year-on-year in volume. The growth continued into April 2024, with primary sales showing even stronger growth ranging from ~65% to 75%. Furthermore, secondary and tertiary sales also saw substantial volume-wise growth of ~70% to 90% during the same period
- The RAC and Commercial Refrigeration divisions enjoy similar levels of profitability

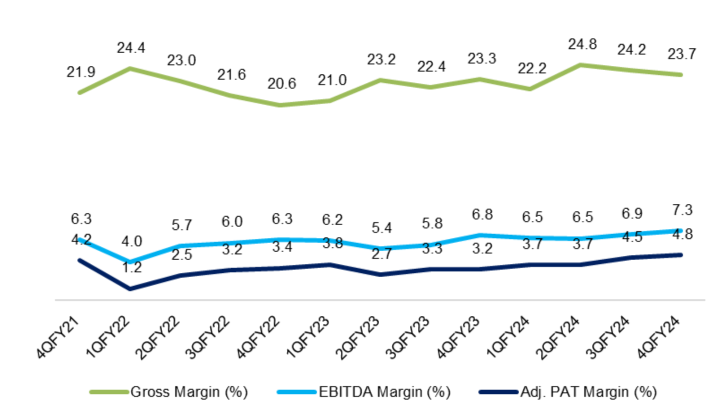
- Demand has remained strong in 1QFY25 and there have been no price increases between 4QFY24 and 1QFY25. There have also been no significant price disruptions in the market.
- Blue Star Ltd. is focussed on expanding its distribution network and enhancing its R&D and manufacturing capabilities to boost brand recognition. The company is recognized by the Government of India for its adoption of eco-friendly technologies, contributing to sustainable growth.

Exhibit 5: Revenue Trend



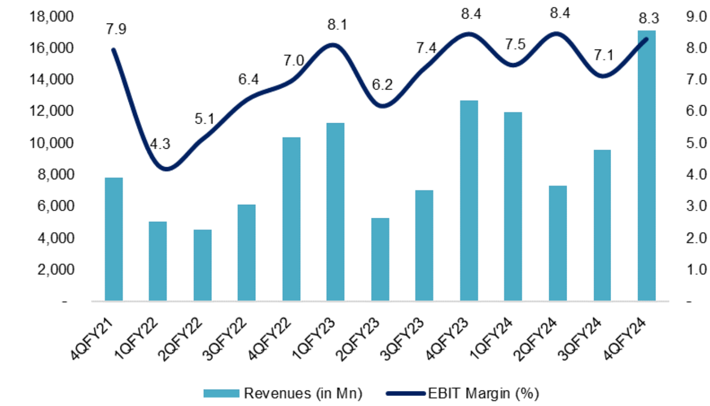
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Margin Trend



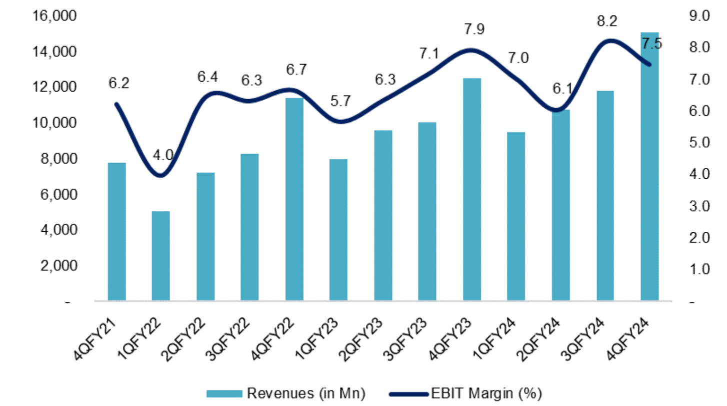
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: UCP Segment Trend



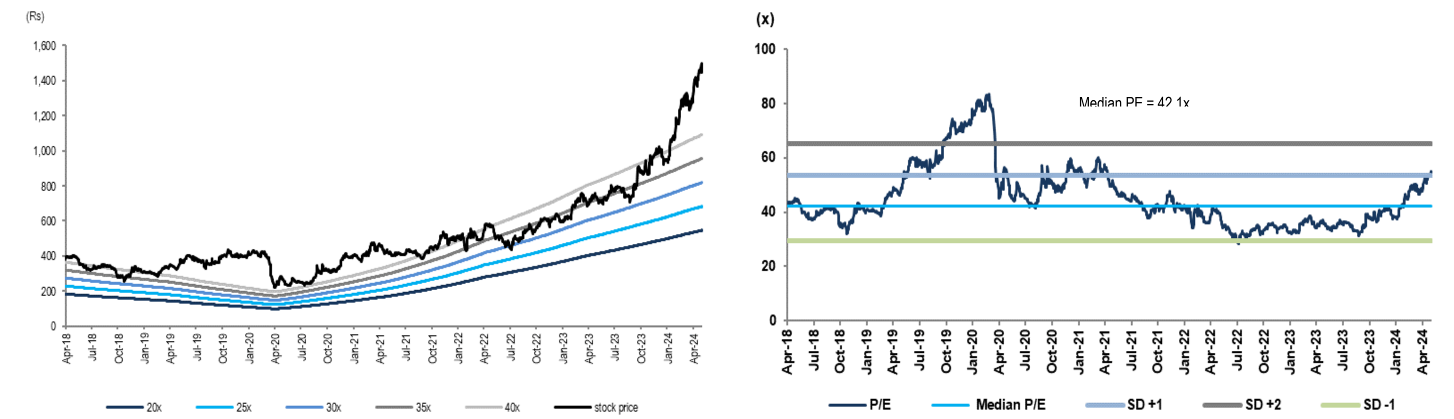
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: EMPS Segment Trend



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: One-Year Rolling Forward P/E Chart



Source: Bloomberg, Nirmal Bang Institutional Equities Research *Source: Bloomberg, Nirmal Bang Institutional Equities Research*

Financials

Exhibit 10: Income Statement

Y/E March (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	**60,641**	**79,773**	**96,854**	**1,19,235**	**1,42,898**
% Growth	42.2	31.6	21.4	23.1	19.8
Rm Costs	47,332	61,817	73,920	90,022	1,07,173
Gross Profit	13,309	17,957	22,934	29,213	35,724
Gross Margin (%)	***21.9***	***22.5***	***23.7***	***24.5***	***25.0***
Staff Cost	5,086	5,922	7,495	9,539	11,432
Other Expenses	4,759	7,107	8,790	11,083	13,644
EBITDA	**3,465**	**4,928**	**6,649**	**8,590**	**10,649**
% Growth	44.5	42.2	34.9	29.2	24.0
EBITDA Margin (%)	**5.7**	**6.2**	**6.9**	**7.2**	**7.5**
Other Income	357	309	474	350	350
Interest	464	547	581	425	400
Depreciation	860	848	976	1,143	1,295
Exceptional Items	0	1,708	0	0	0
Profit Before Tax	2,498	5,550	5,567	7,373	9,304
Tax	829	1,547	1,429	1,856	2,342
Reported Net Profit	1,677	4,005	4,150	5,520	6,965
Adj. Net Profit	**1,677**	**2,862**	**4,150**	**5,520**	**6,965**
Adj. PAT Margin	2.8	3.6	4.3	4.6	4.9
Adj. Eps (Rs)	**8.2**	**13.9**	**20.2**	**26.8**	**33.9**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Balance Sheet

Y/E March (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	193	193	411	411	411
Reserves	9,983	13,114	25,690	26,507	30,388
Net Worth	10,176	13,307	26,101	26,919	30,799
Minority Interest	30	32	26	26	26
Total Loans	4,778	5,776	1,666	4,000	4,000
Liabilities	**14,984**	**19,115**	**27,793**	**30,944**	**34,825**
Net Block	3,911	7,999	10,713	15,573	17,278
CWIP& Intangible Assets	1,940	1,423	2,203	500	500
Investments	1,623	1,481	2,668	2,668	2,668
Inventories	11,442	14,334	14,072	16,843	19,449
Debtors	11,897	15,488	19,526	21,017	23,700
Cash & Bank	2,697	2,433	3,774	4,058	6,851
Other Current Assets	9,340	11,235	13,155	13,506	16,383
Total Current Assets	35,376	43,490	50,526	55,423	66,383
Creditors	20,417	25,112	26,166	30,318	36,468
Other Current Liabilities	7,726	10,246	12,154	12,906	15,540
Total Current Liabilities	28,143	35,358	38,320	43,224	52,008
Net Current Assets	7,234	8,132	12,206	12,200	14,376
Deferred Tax Asset (Net)	276	79	3	3	3
Total Assets	**14,984**	**19,115**	**27,793**	**30,944**	**34,825**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Cash Flow

Y/E March (Rs Mn)	FY22	FY23	FY24	FY25E	FY26E
Ebit	2,605	4,080	5,673	7,448	9,354
(Inc)/Dec In Working Capital	(2,440)	(1,162)	(2,732)	290	617
Cash Flow From Operations	**165**	**2,918**	**2,941**	**7,737**	**9,971**
Other Income	357	309	474	350	350
Depreciation	860	2,556	976	1,143	1,295
Tax Paid (-)	(630)	(1,351)	(1,352)	(1,856)	(2,342)
Net Cash From Operations	**760**	**4,433**	**3,050**	**7,377**	**9,277**
Capital Expenditure (-)	(2,160)	(4,419)	(4,470)	(4,300)	(3,000)
Net Cash After Capex	**(1,399)**	**14**	**-1,420**	**3,077**	**6,277**
Interest Paid (-)	(464)	(547)	(581)	(425)	(400)
Dividends Paid (-)	(963)	(963)	(2,673)	(2,878)	(3,084)
Inc./(Dec.) In Total Borrowings	262	998	(4,110)	2,334	-
(Inc.)/Dec. In Investments	1,326	142	(1,187)	-	-
Cash From Financial Activities	**164**	**(367)**	**(8,339)**	**(970)**	**(3,484)**
Others	809	285	11,175	(1,824)	0
Opening Cash	3,322	2,697	2,433	3,774	4,058
Closing Cash	2,697	2,433	3,774	4,058	6,851
Change In Cash	(625)	(264)	1,341	284	2,793

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Key Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per Share (Rs)					
Adjusted EPS	8.2	13.9	20.2	26.8	33.9
Book Value	49.5	64.7	126.9	130.9	149.8
Valuation (X)					
P/E	177.5	104.0	71.7	53.9	42.7
P/BV	29.3	22.4	11.4	11.1	9.7
EV/EBITDA	86.5	61.1	44.5	34.6	27.7
EV/Sales	4.9	3.8	3.1	2.5	2.1
Return Ratio (%)					
RoCE	18.4	23.9	24.2	25.4	28.4
RoCE (Post-Tax)	12.3	17.3	18.0	19.0	21.3
RoE	17.6	34.1	21.1	20.8	24.1
RoIC	29.3	31.5	31.0	32.7	37.8
Profitability Ratio (%)					
EBITDA Margin	5.7	6.2	6.9	7.2	7.5
EBIT Margin	4.3	5.1	5.9	6.2	6.5
PAT Margin	2.8	3.6	4.3	4.6	4.9
Turnover Ratio					
Total Asset Turnover Ratio (X)	4.3	4.7	4.1	4.1	4.3
Debtor Days	60	63	66	71	66
Inventory Days	78	76	70	75	72
Creditors Days	141	134	127	135	135
Solvency Ratio (X)					
Net Debt-Equity	0.2	0.3	(0.1)	(0.0)	(0.1)
Debt-Equity	0.5	0.4	0.1	0.1	0.1

Source: Company, Nirmal Bang Institutional Equities Research

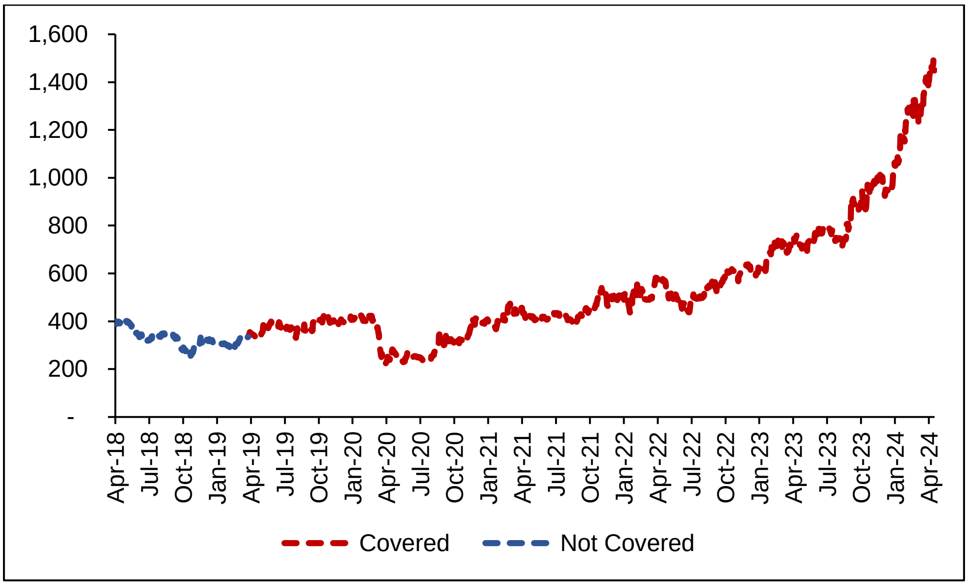
Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
29 March 2019	Buy	335	408
9 April 2019	Buy	343	408
6 May 2019	Buy	349	418
9 July 2019	Buy	367	418
14 August 2019	Buy	354	418
23 September 2019	Buy	398	483
7 October 2019	Buy	403	483
15 November 2019	Buy	406	485
9 January 2020	Buy	413	485
31 January 2020	Buy	416	485
26 March 2020	Buy	258	428
9 April 2020	Buy	252	428
13 May 2020	Buy	235	273
9 July 2020	Buy	245	273
8 August 2020	Buy	249	288
23 September 2020	Accumulate	324	335
9 October 2020	Accumulate	316	335
29 October 2020	Accumulate	314	330
7 January 2021	Accumulate	401	420
31 January 2021	Buy	368	438
9 April 2021	Buy	456	438
10 May 2021	Accumulate	422	425
05 August 2021	Accumulate	429	410
26 September 2021	Accumulate	449	445
30 October 2021	Accumulate	480	475
03 February 2022	Accumulate	498	488
21 February 2022	Accumulate	525	523
08 May 2022	Accumulate	536	600
07 August 2022	Buy	496	600
19 September 2022	Buy	568	670
06 November 2022	Buy	612	705
1 February 2023	Buy	615	708
22 March 2023	Accumulate	724	755
6 May 2023	Accumulate	717	770
05 August 2023	Accumulate	762	745
31 October 2023	Buy	874	1,015
30 December 2023	Buy	945	1,100
31 January 2024	Accumulate	1,099	1,215
03 May 2024	Accumulate	1,448	1,435

Share price has been adjusted for 1:1 Bonus

Coverage was transferred to Natasha Jain with effect from 1st July 2023

Rating Track Graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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