

Blue Star (India) (BLSTR)

Consumer Durables | NBIE Conference Update

ACCUMULATE

CMP: Rs1,532 | Target Price (TP): Rs1,505 | Downside: 2%

June 05, 2024

Disciplined pricing to ensure margin protection

Key Points

- We hosted Mr. Nikhil Sohoni – CFO and Ms. Swati M Rane – Head of IR, Treasury & FP&A for the NBIE investor conference. Their commentary was quite bullish on the RAC space.
- While RAC volume grew strongly in both April'24 & May'24, both CAC and MEP businesses saw moderate growth mainly on account of slowdown in private capex amid general elections. Order book looks strong for 2QFY25 and 3QFY25.
- The management expects the RAC market to consolidate in the medium term, with top 5-6 players contributing ~80% to the total market share.
- We draw high comfort from its business model due to its strategy of chasing profitability and FCF, presence in high growth Commercial Refrigeration and high-quality order booking from EMPS. We remain structurally positive on its long-term business prospects. We believe it is a long-term compounder and therefore it should be accumulated at every dip. Currently, due to sharp run-up in the stock price, we have maintained ACCUMULATE with SOTP-based TP of Rs1,505 (44x blended PE on FY26E EPS).

RAC to drive growth in 1QFY25: As per management, primary sales of RAC in March'24 grew by 40% YoY on volume basis; April'24 = 70%+; May'24 = 60%+ and June'24 expected to be ~50%+. Hence, 1QFY25 volume growth is expected at 50-60% YoY (albeit on a low base). The recently launched affordable SKUs are expected to grow faster than premium SKUs. While April'24 saw raw material shortage, May'24 saw further challenges in terms of inflation in freight costs (especially overseas container charges + ocean freight cost) and a sharp rise in raw material prices. The management believes that a sustainable CAGR of ~15-20% (value-wise) can be achieved in RAC for the next 5 years. They also highlighted that they would maintain pricing discipline. While UCP topline growth guidance for 1QFY25 is at ~30-35% YoY (value-wise), Commercial Refrigeration's growth guidance is at ~15-20% YoY. RAC EBIT margin guidance stood at ~8.5%.

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. Domestically, the company is in the process of launching new VRF lite chillers.

Others: The 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 & continuing R&D for higher quality products with better sustainability. For MEP, the preference is to do short term projects of 2-3 years, mainly in the areas of Data Centres and Factories (no plan to enter Residential EPC business).

| | |
|---------------|-----------|
| Est Change | No Change |
| TP Change | Upward |
| Rating Change | No Change |

Company Data and Valuation Summary

| | |
|------------------------------------|--------------------|
| Reuters | BLUS.BO |
| Bloomberg | BLSTR IN Equity |
| Market Cap (Rsbn / US\$bn) | 315.4 / 3.8 |
| 52 Wk H / L (Rs) | 1,690 / 702 |
| ADTV-3M (mn) (Rs / US\$) | 689.6 / 8.3 |
| Stock performance (%) 1M/6M/1yr | 5.9 / 49.7 / 112.8 |
| Nifty 50 performance (%) 1M/6M/1yr | 0.6 / 1.0 / 21.6 |

| Shareholding | 2QFY24 | 3QFY24 | 4QFY24 |
|--------------|--------|--------|--------|
| Promoters | 36.5 | 36.5 | 36.5 |
| DII's | 25.2 | 24.8 | 24.7 |
| FII's | 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 (Rsmn) | 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 | 110.2 | 76.0 | 57.1 | 45.3 |
| EV/EBITDA | 64.7 | 47.1 | 36.7 | 29.4 |
| P/B | 23.7 | 12.1 | 11.7 | 10.2 |

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links – [4QFY24Results](#); [4QFY24PressRelease](#)

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

Exhibit 1: Change In Our Estimates

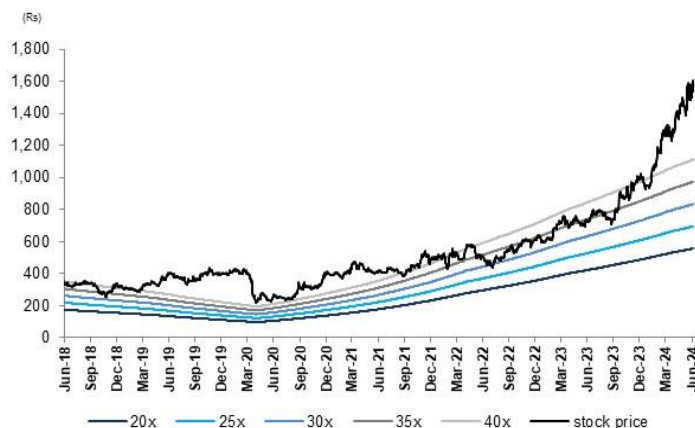
| Description (Rsmn) | FY25E | | | FY26E | | |
|--------------------------|------------|------------|--------------|------------|------------|--------------|
| | Old | New | Change (%) | Old | New | Change (%) |
| Net Sales | 1,19,235 | 1,19,235 | 0.0 | 1,42,898 | 1,42,898 | 0.0 |
| EBITDA | 8,590 | 8,590 | 0.0 | 10,649 | 10,649 | 0.0 |
| EBITDA Margin (%) | 7.2 | 7.2 | 0 bps | 7.5 | 7.5 | 0 bps |
| Adj. PAT | 5,520 | 5,520 | 0.0 | 6,965 | 6,965 | 0.0 |
| Adj. EPS | 26.8 | 26.8 | 0.0 | 33.9 | 33.9 | 0.0 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: One-year Rolling Forward P/E Chart



Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 3: 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 |
| 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 5: 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 |
| Capital WIP & 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 & provisions | 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 4: Cash Flow

| Y/E March (Rs Mn) | FY22 | FY23 | FY24 | FY25E | FY26E |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBIT | 6,443 | 5,327 | 4,270 | 9,157 | 12,320 |
| (Inc)/Dec in Working Capital | 1,131 | (4,203) | 3,302 | (268) | (2,734) |
| Cash Flow from Operations | 7,574 | 1,124 | 7,572 | 8,888 | 9,587 |
| Other Income | 1,892 | 1,685 | 2,533 | 2,000 | 2,000 |
| Depreciation | 373 | 396 | 476 | 595 | 701 |
| Tax Paid (-) | (1,913) | (1,709) | (2,377) | (2,671) | (3,473) |
| Net Cash from Operations | 6,803 | 277 | 6,857 | 8,089 | 8,444 |
| Capital Expenditure (-) | (870) | (2,245) | (3,450) | (2,900) | (2,300) |
| Net Cash after Capex | 5,934 | (1,968) | 3,407 | 5,189 | 6,144 |
| Interest Paid (-) | (259) | (296) | (559) | (543) | (521) |
| Dividends Paid (-) | (1,819) | (2,646) | (1,819) | (2,150) | (2,316) |
| Inc./Dec. in Total Borrowings | 826 | 2,728 | 973 | (680) | (500) |
| (Inc.)/Dec. in Investments | (5,667) | 5,107 | (3,951) | (2,200) | (2,200) |
| Cash from Financial Activities | (6,900) | 4,928 | (5,436) | (5,574) | (5,537) |
| Others | 2,082 | (1,603) | 3,462 | (5,646) | 0 |
| Opening Cash | 4,588 | 5,717 | 7,084 | 8,523 | 2,493 |
| Closing Cash | 5,717 | 7,084 | 8,523 | 2,493 | 3,100 |
| Change in Cash | 1,129 | 1,367 | 1,439 | (6,030) | 607 |

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: 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 | 188.1 | 110.2 | 76.0 | 57.1 | 45.3 |
| P/BV | 31.0 | 23.7 | 12.1 | 11.7 | 10.2 |
| EV/EBITDA | 91.6 | 64.7 | 47.1 | 36.7 | 29.4 |
| EV/Sales | 5.2 | 4.0 | 3.2 | 2.6 | 2.2 |
| 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 |

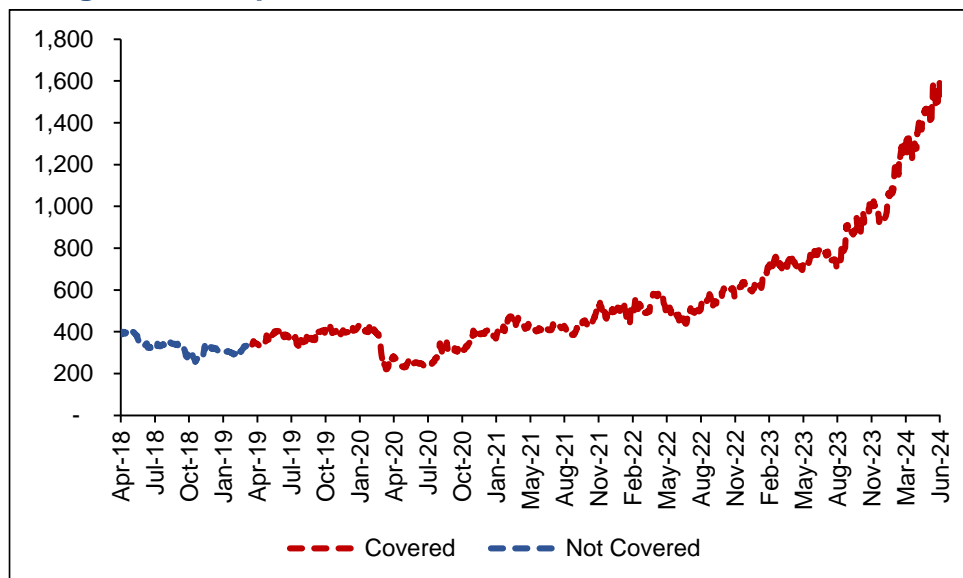
Source: Company, Nirmal Bang Institutional Equities Research

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 |
| 05 June 2024 | Accumulate | 1,532 | 1,505 |

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

Rating Track Graph



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