

Blue Star (India) (BLSTR)

Consumer Durables | 1QFY25 Result Update

ACCUMULATE

CMP: Rs1,627 | Target Price (TP): Rs1,544 | Downside: 4%

August 07, 2024

Continues to positively surprise us

Key Points

- While topline was below our estimate by 7.6% due to lower-than-expected growth in EMPS, EBITDA margin was above our estimate by 88bps due to higher-than-anticipated margin growth in EMPS.
- Blue Star maintained its **RAC** market share in 1QFY25 at 13.75%. Volume growth in RAC ranged from 70% YoY in April, ~65% YoY in May and close to ~20% in June (on account of shortage). Industry volume growth was ~50-60%. Blue Star took a price hike of ~3% in RAC in June'24 – mainly a commodity cost + ocean freight cost pass through. Channel inventory remains under 30 days.
- Under **EMPS**, Upward traction in factories and data centre + pick up in infra cycle are expected to pump up order book growth in FY25. Currently, the company is focused on FCF generation and profitability, by expediting the speed of execution of its order book & collection of dues.
- We draw high comfort in Blue Star's business model due to its strategy of chasing profitability and FCF, presence in high growth Comm. Ref. and high-quality order booking from EMPS. While we remain structurally positive on long term prospects, the stock has run up ~65%+ YTD CY24. As a result, we maintain ACCUMULATE with SOTP-based TP of Rs1,550. This implies a blended PE of 42x on June'26E EPS and it is at ~10% discount to the 5-yr historical average PE multiple on 1-yr forward basis. We believe that the multiple is fair and adequately captures: (1) ~30% EPS CAGR over FY24-FY26E, and (2) post-tax RoCE of ~22% in FY26E. **Nonetheless, we believe it is a long term compounder, and therefore, it should be accumulated at every dip.**

1QFY24 performance update: Topline growth of 28.7% YoY was due to strong performance in UCP (up 44.3% YoY) – led by strong growth in RAC and Refrigeration products. While gross margin expanded by 144bps YoY on account of favourable product mix, EBITDA margin expanded by 179bps YoY on account of operating leverage benefits.

EMPS outlook remains strong; Margin improvement – a positive: Segment topline grew moderately by 9.5% YoY – on account of elections. Despite limited traction in the Commercial Building sector, robust bookings were seen from sectors such as Factories & Data Centers, mainly driven by PLI initiatives. There was also an uptick in enquiries from the Healthcare & Retail sectors. CAC business saw good demand from Education, Manufacturing & Retail sectors. Demand from Tier 3 & 4 cities remained strong, with significant orders for ducted systems & VRF. Blue Star launched state-of-the-art chillers for data centers and brine chillers, thus expanding its product portfolio. The introduction of these products is expected to help the company penetrate into newer markets. Alongside, a pick-up in infra projects + cut-short in the delay for order finalizations indicate a robust order book pipeline. EBIT margins improved 290bps YoY to 9.9% due to a favorable product mix – skewed towards own manufactured products in packaged AC.

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 4QFY25. 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.

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):	333.5 / 4.0
52 Wk H / L (Rs):	1,898 / 702
ADTV-3M (mn) (Rs/US\$):	805.0 / 9.6
Stock performance (%) 1M/6M/1yr:	(4.9) / 38.8 / 120.4
Nifty50 performance (%) 1M/6M/1yr:	(0.0) / 10.2 / 24.2

Shareholding	3QFY24	4QFY24	1QFY25
Promoters	36.5	36.5	36.5
DII's	24.8	24.7	23.6
FII's	15.4	15.9	17.0
Others	23.3	22.9	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	118,581	142,381
Growth YoY (%)	31.6	21.4	22.4	20.1
Gross Margin (%)	22.5	23.7	24.3	24.9
EBITDA	4,928	6,649	8,816	10,934
EBITDA Margin (%)	6.2	6.9	7.4	7.7
Adj. PAT	2,862	4,150	5,578	7,037
Adj. PAT Margin (%)	3.6	4.3	4.7	4.9
Adj. PAT YoY Growth (%)	70.7	45.0	34.4	26.2
Adj. EPS(Rs)	13.9	20.2	27.1	34.2
ROCE (%)	23.9	24.2	26.2	29.4
ROCE (Post-Tax) (%)	17.3	18.0	19.6	22.0
ROE (%)	34.1	21.1	21.0	24.4
P/E	116.9	80.6	60.0	47.5
EV/EBITDA	68.6	50.0	38.0	30.4
P/B	25.1	12.8	12.4	10.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links–

[1QFY25 Results](#); [1QFY25 Press Release](#)

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

Exhibit 1: 1QFY25 Consolidated Performance

Particulars (Rsmn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25E	3Q25E	4Q25E	FY24	FY25E
Net Sales	22,260	18,904	22,412	33,278	28,654	22,000	26,000	41,927	96,854	118,581
YoY Change (%)	12.6	19.5	24.9	26.8	28.7	16.4	16.0	26.0	21.4	22.4
Gross Profit	4,938	4,686	5,417	7,892	6,768	5,380	6,290	10,377	22,934	28,815
Margin (%)	22.2	24.8	24.2	23.7	23.6	24.5	24.2	24.8	23.7	24.3
EBITDA	1,450	1,227	1,554	2,419	2,378	1,490	1,700	3,248	6,649	8,816
YoY Change (%)	17.6	43.3	48.4	35.0	64.0	21.4	9.4	34.3	34.9	32.6
Margin (%)	6.5	6.5	6.9	7.3	8.3	6.8	6.5	7.7	6.9	7.4
Depreciation	228	230	235	283	280	292	262	279	976	1,113
Interest	180	177	102	122	76	164	134	249	581	623
Other Income	94	130	127	124	238	70	40	22	474	370
Extraordinary Items	-	-	-	-	-	-	-	-	-	-
PBT (bei)	1,136	950	1,343	2,138	2,259	1,105	1,344	2,742	5,567	7,450
PBT	1,136	950	1,343	2,138	2,259	1,105	1,344	2,742	5,567	7,450
Tax	302	243	339	544	573	276	336	690	1,429	1,875
ETR(%)	26.6	25.5	25.3	25.5	25.3	25.0	25.0	25.2	25.7	25.2
Reported PAT	834	706	1,007	1,587	1,684	828	1,007	2,059	4,137	5,578
Adj. PAT	834	706	1,007	1,587	1,684	828	1,007	2,059	4,137	5,578
YoY Change (%)	12.3	66.0	72.4	86.9	102.0	17.2	(0.1)	29.8	44.5	34.8
Adj. EPS	4.3	3.4	4.9	7.7	8.2	4.0	4.9	10.0	20.2	27.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: 1QFY25 Segmental Performance

Particulars (Rsmn)	1Q24	4Q24	1Q25	YoY(%)	QoQ(%)	3MFY24	3MFY25	YoY(%)
Net Sales								
EPAC	9,491	15,068	10,390	9.5	(31.0)	9,491	10,390	9.5
Unitary Products	11,985	17,089	17,295	44.3	1.2	11,985	17,295	44.3
PE&IS	784	1,121	969	23.5	(13.6)	784	969	23.5
Sales Mix (%)								
EPAC	42.6	45.3	36.3			42.6	36.3	
Unitary Products	53.8	51.4	60.4			53.8	60.4	
PE&IS	3.5	3.4	3.4			3.5	3.4	
EBIT								
EPAC	666	1,125	1,030	54.7	(8.4)	666	1,030	54.7
Unitary Products	893	1,414	1,580	76.9	11.7	893	1,580	76.9
PE&IS	105	136	96	(8.5)	(29.3)	105	96	(8.5)
EBIT Margin (%)								
EPAC	7.0	7.5	9.9	290 bps	245 bps	7.0	9.9	290 bps
Unitary Products	7.5	8.3	9.1	168 bps	86 bps	7.5	9.1	168 bps
PE&IS	13.4	12.1	9.9	(346) bps	(220) bps	13.4	9.9	(346) bps

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actual Performance vs NBIE & Consensus Estimates

1QFY25 (RsMn)	Actuals	Our Estimate	Deviation (%)	BBG Estimates	Deviation (%)
Net Sales	28,654	31,000	(7.6)	29,596	(3.2)
EBITDA	2,378	2,300	3.4	2,168	9.7
EBITDA Margin (%)	8.3	7.4	88 bps	7.3	97 bps
Adj. PAT	1,684	1,506	11.8	1,456	15.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in Our Estimates

Description (Rsmn)	FY25E			FY26E		
	Old	New	Change (%)	Old	New	Change (%)
Net Sales	119,235	118,581	(0.5)	143,682	142,381	(0.9)
EBITDA	8,693	8,816	1.4	10,978	10,934	(0.4)
EBITDA Margin (%)	7.3	7.4	14 bps	7.6	7.7	4 bps
Adj. PAT	5,523	5,578	1.0	7,099	7,037	(0.9)
Adj. EPS	26.9	27.1	1.0	34.5	34.2	(0.9)

Source: Company, NirmalBang Institutional Equities Research

Key Concall Highlights:

- The cost of manufacturing is decreasing on the back of reducing commodity prices, scale and value engineering
- The management highlighted that the focus continues to be towards driving profitability and cash flows rather than market share
- At the end of 1QFY24, EMP&CAC segment carry forward order book grew by 14.8% YoY to Rs58.6bn. Order booking for the quarter was Rs14.6bn. Capital employed for the quarter was Rs8.9bn
- The management highlighted that order booking happened for factories and data centres. Order inquiry remains strong from healthcare and retail
- International business remained subdued due to focus on product portfolio expansion
- Expects revenue of ~Rs15bn for the next 2-3 years. The margin guidance for the segment remains ~7.5%
- The Unitary Product segment witnessed a topline growth of 44.3% to Rs17.3bn. The capital employed for the segment remains Rs6.7bn vs Rs7bn in 1QFY24
- The management highlighted that Blue Star's market share in room AC ~13.75%.
- RAC business grew by 70% in April, 70% in May and 20% in June. The management believes that such demand growth could not be anticipated. Expected revenue loss in failure to meet such demand was ~Rs2.5bn
- The Refrigeration business expected to see a topline CAGR of 15% in the mid-term
- In the EMPS business, while the commercial buildings segment continued to witness a slowdown and delay in order finalizations, orders from manufacturing & data centres remained healthy
- The management stated industry growth for the quarter was ~50% and expected inventory levels would have been ~30 days. Label changes as per new energy norms required from 1st Jan'26
- The company took average price hikes of ~3%. This was mainly commodity pass through and freight costs
- The management highlights that consumer demand is expected to be strong in upcoming quarters and expects industry growth of ~25%
- 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
- Blue Star continues to maintain leadership position in deep freezers, modular cold room and storage water coolers

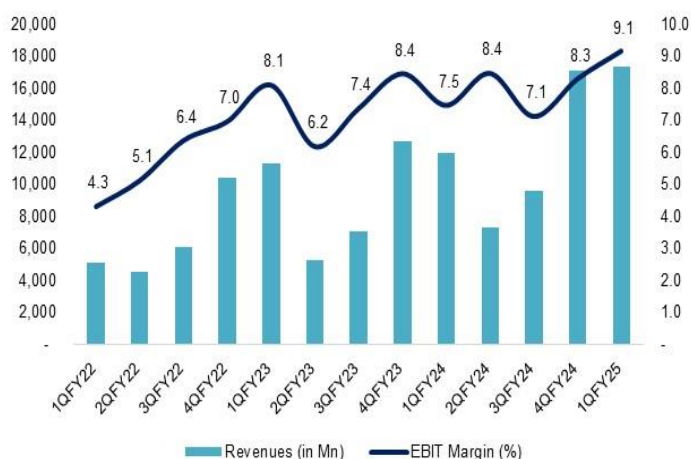
- International revenue to remain muted, expects growth of ~6%
- Capex guidance for the year ~Rs4.5bn and total capex for 2-3 years ~Rs7.5bn
- The non-destructive testing business continued to gain traction due to the expansion of capacity related to the 'Make in India' initiative and the implementation 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
- 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
- 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

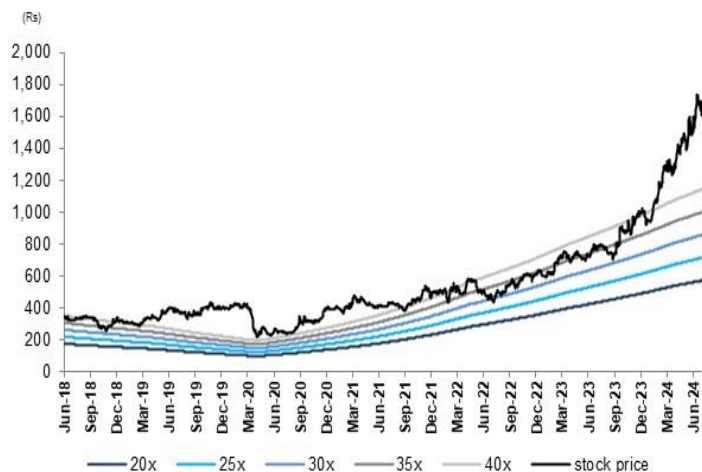
Exhibit 7: UCP Segment Trend


Source: Bloomberg, Nirmal Bang Institutional Equities Research

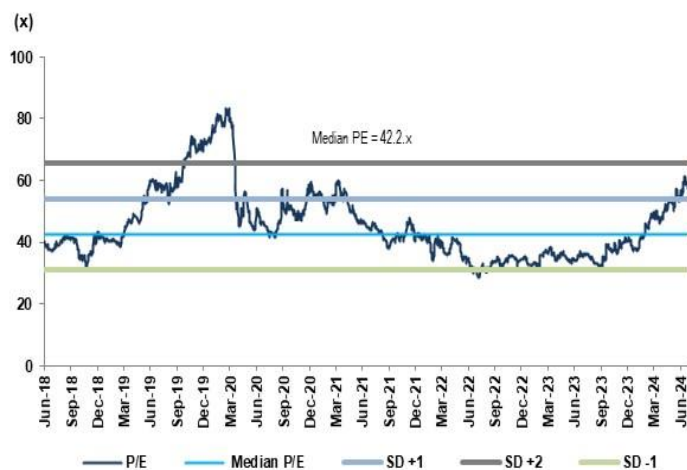
Exhibit 8: EMPS Segment Trend


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	118,581	142,381
% Growth	42.2	31.6	21.4	22.4	20.1
Rm Costs	47,332	61,817	73,920	89,766	106,928
Gross Profit	13,309	17,957	22,934	28,815	35,453
Gross Margin (%)	21.9	22.5	23.7	24.3	24.9
Staff Cost	5,086	5,922	7,495	9,368	11,391
Other Expenses	4,759	7,107	8,790	10,631	13,128
EBITDA	3,465	4,928	6,649	8,816	10,934
% Growth	44.5	42.2	34.9	32.6	24.0
EBITDA Margin (%)	5.7	6.2	6.9	7.4	7.7
Other Income	357	309	474	370	320
Interest	464	547	581	623	600
Depreciation	860	848	976	1,113	1,254
Exceptional Items	0	1,708	0	0	0
Profit Before Tax	2,498	5,550	5,567	7,450	9,401
Tax	829	1,547	1,429	1,875	2,366
Reported Net Profit	1,677	4,005	4,150	5,578	7,037
Adj. Net Profit	1,677	2,862	4,150	5,578	7,037
Adj. PAT Margin	2.8	3.6	4.3	4.7	4.9
Adj. Eps (Rs)	8.2	13.9	20.2	27.1	34.2

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	26,565	30,313
Net Worth	10,176	13,307	26,101	26,976	30,724
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	31,002	34,750
Net Block	3,911	7,999	10,713	14,603	16,850
CWIP& Intangible Assets	1,940	1,423	2,203	2,000	2,000
Investments	1,623	1,481	2,668	2,668	2,668
Inventories	11,442	14,334	14,072	16,817	19,400
Debtors	11,897	15,488	19,526	20,953	23,594
Cash & Bank	2,697	2,433	3,774	3,633	5,776
Other Current Assets	9,340	11,235	13,155	13,465	16,310
Total Current Assets	35,376	43,490	50,526	54,868	65,080
Creditors	20,417	25,112	26,166	30,271	36,375
Other Current Liabilities	7,726	10,246	12,154	12,870	15,476
Total Current Liabilities	28,143	35,358	38,320	43,140	51,851
Net Current Assets	7,234	8,132	12,206	11,727	13,229
Deferred Tax Asset (Net)	276	79	3	3	3
Total Assets	14,984	19,115	27,793	31,002	34,750

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	7,703	9,681
(Inc)/Dec In Working Capital	(2,440)	(1,162)	(2,732)	337	641
Cash Flow From Operations	165	2,918	2,941	8,040	10,322
Other Income	357	309	474	370	320
Depreciation	860	2,556	976	1,113	1,254
Tax Paid (-)	(630)	(1,351)	(1,352)	(1,875)	(2,366)
Net Cash From Operations	760	4,433	3,050	7,651	9,533
Capital Expenditure (-)	(2,160)	(4,419)	(4,470)	(4,800)	(3,500)
Net Cash After Capex	(1,399)	14	(1,420)	2,851	6,033
Interest Paid (-)	(464)	(547)	(581)	(623)	(600)
Dividends Paid (-)	(963)	(963)	(2,673)	(2,878)	(3,290)
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)	(1,168)	(3,890)
Others	809	285	11,175	(1,824)	0
Opening Cash	3,322	2,697	2,433	3,774	3,633
Closing Cash	2,697	2,433	3,774	3,633	5,776
Change In Cash	(625)	(264)	1,341	(141)	2,143

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	27.1	34.2
Book Value	49.5	64.7	126.9	131.2	149.4
Valuation (X)					
P/E	199.5	116.9	80.6	60.0	47.5
P/BV	32.9	25.1	12.8	12.4	10.9
EV/EBITDA	97.1	68.6	50.0	38.0	30.4
EV/Sales	5.6	4.2	3.4	2.8	2.3
Return Ratio (%)					
RoCE	18.4	23.9	24.2	26.2	29.4
RoCE (Post-Tax)	12.3	17.3	18.0	19.6	22.0
RoE	17.6	34.1	21.1	21.0	24.4
RoIC	29.3	31.5	31.0	33.5	38.0
Profitability Ratio (%)					
EBITDA Margin	5.7	6.2	6.9	7.4	7.7
EBIT Margin	4.3	5.1	5.9	6.5	6.8
PAT Margin	2.8	3.6	4.3	4.7	4.9
Turnover Ratio					
Total Asset Turnover Ratio (X)	4.3	4.7	4.1	4.0	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

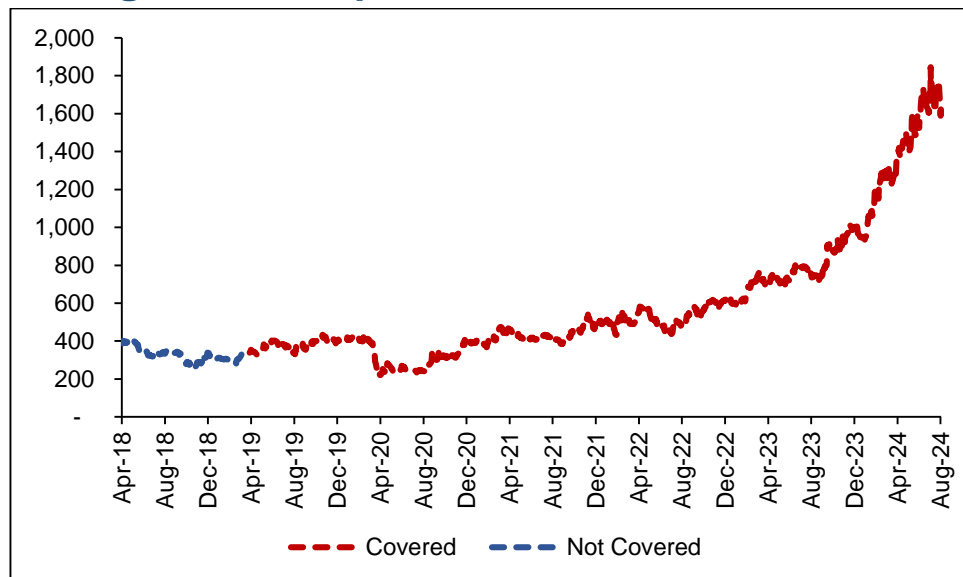
Rating Track

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
07 August 2024	Accumulate	1.627	1,544

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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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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