

CMP	: INR 878
Reco	: HOLD ↓
Target	: INR 930 ↑
Target Price Change	: 6%
Target 1HFY26E (P/E)	: 42
EPS Change FY24/ 25	: No Change

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Market data	
Sensex	: 63,875
Sector	: Industrials
Market Cap (INR bn)	: 181.9
Market Cap (USD bn)	: 2.185
O/S Shares (mn)	: 205.6
52-wk HI/LO (INR)	: 955/553
Avg. Daily Vol ('000)	: 185
Bloomberg	: BLSTR IN

Source: Bloomberg

	FY24e	FY25e	FY26e
EPS (INR)	20.4	27.8	35.2
P/E (x)	43.1	31.6	25.0
P/BV (x)	11.3	9.4	7.5
EV/EBITDA (x)	25.7	19.7	15.9
Dividend Yield (%)	1.1	1.1	1.1

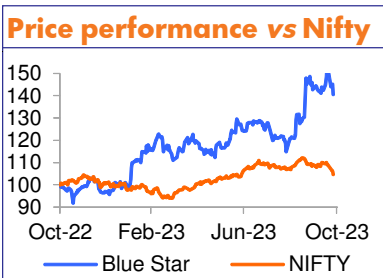
Source: Company, Antique

Returns (%)				
	1m	3m	6m	12m
Absolute	1	13	20	43
Relative	4	17	14	37

Source: Bloomberg

Shareholding pattern	
Promoters	: 39%
Public	: 61%
Others	: 0%

Source: Bloomberg



Source: Bloomberg Indexed to 100

2QFY24 RESULT REVIEW

Blue Star

Marginal outperformance on the operational front; premium valuations; downgrade to HOLD

Blue Star's 2QFY24 operational performance was marginally ahead of our expectations supported by robust performance in the UCP segment. Blue Star has been able to gain market share and register market-leading growth in the RAC segment. With current market share of 13.5%, Blue Star expects to achieve 15% market share in the RAC business segment and margin to be in the range of 8.5%-9.0%. Additionally, the EMP business outlook remains healthy with the company diversifying its presence from the traditional building markets to areas like data centers, factories, and metro rail. It also plans to become a significant player in the overseas market like Europe and North America. We believe Blue Star's strategy will help deliver ahead-of-market performance in the years to come, however, given the premium valuations we downgrade the stock to HOLD with a revised SoTP target price of INR 930 on 1HFY26E, valuing the UCP business at 42x.

Operational performance a tad better, driven by better than estimated UCP performance

Blue Star's results were marginally ahead of our expectations supported by better than estimated performance in the UCP segment. Blue Star booked revenue of INR 18.9 bn (+20% YoY) ahead of our estimate of INR 18.6 bn supported by better than estimated revenue booking in the UCP segment (INR 7.3 bn; +39% YoY; est. of INR 6.6 bn). Operating profit for the quarter stood at INR 1.2 bn (+43% YoY), outperforming our expectation of INR 1.1 bn as operating margin stood ahead of our estimate at 6.5% (+90 bps YoY; est. of 6.2%), supported by improved revenue mix during the quarter. PAT stood at INR 708 mn (+66% YoY), ahead of our estimate of INR 605 mn.

UCP segment outperforms; EBIT margin guidance stands at 8.5%-9.0%

Blue Star's UCP segment revenue stood at INR 7.3 bn (+39% YoY), ahead of our estimate of INR 6.6 bn; EBIT margin of 8.4% (+230 bps YoY) stood meaningfully ahead of our estimate at 6.5% supported by operating leverage. Blue Star has been able to improve its market share to 13.5% and has been able to grow ahead of the industry, which reported 30% growth for the quarter. Blue Star intends to further scale up its market share to 15% by FY25 end with a focus on penetrating Tier 2, 3, 4 towns along with an increase in market share in the Northern region. Incrementally, expansion of the conventional distribution channel and increased e-commerce share in revenue has also helped Blue Star scale-up growth. The company is optimistic of the coming festive season and believes the industry can still grow at 10%-15% in FY24 with a guidance of 15%-20% growth for FY24.

EMP segment underperforms our expectations, as margins disappoint

EMP segment revenue came in at INR 10.8 bn (+12% YoY), in line with our estimate of INR 11 bn. Growth in this segment was supported by demand revival and pick-up in the execution of projects in hand. EBIT margin stood at 6.1% (-20 bps YoY, est. of 6.8%) for the quarter and the guidance is to deliver a 6.5% EBIT margin for FY24. Order inflow for the quarter stood at INR 17.3 bn (+44% YoY) supported by order finalization in data center, factories, healthcare, and hospitality segments. Order book witnessed growth of 51% YoY and stands at INR 46.1 bn. Business momentum continues to remain strong and the focus is on timely execution of orders in hand and free cash flow generation.

Capex plan of INR 10 bn lined up post raising funds through QIP

Blue Star recently raised INR 10 bn with the intent to repay its debt and also to meet its capex requirement in setting up a RAC manufacturing unit, which will help it to scale up its capacity from 0.6 mn units to 1.2 mn units. Blue Star also intends to set up a sub-300 liter deep freezer plant in Wada, where it has 28% market share. The market (INR 25 bn market) is expected to grow at 25% CAGR for the next few years. Additionally, the company wants to continue its backward integration journey and also invest in R&D to cater to its increasing product portfolio.

Investment Summary

We are enthused by Blue Star's strategic plans to scale up its market share from the current 13.5% to 15% over the next few years, however, given the premium valuations, we downgrade the stock to HOLD with a SoTP TP of INR 930 (valuing its UCP business at 42x 1HFY26E EPS, and EMP and professional electronics segment each at 18x its 1HFY26E EPS).

Conference Call Highlights

UCP segment

- Demand for RAC witnessed a bounce back, margins improved due to the softening of commodity prices and efficient cost management.
- Latent demand arising out of a muted summer resulted in strong growth for RAC products.
- Market share was maintained at 13.5%.
- Commercial refrigeration business witnessed volume growth across major product categories.
- The company launched a new range of deep freezers during the quarter.
- Continues to maintain leadership in deep freezers, storage water coolers, and modular cold rooms.
- UCP expected to grow at 10%-15%, margin 8%-8.5% in FY24, and 8.5%-9.5% going ahead.
- Sri City is operational and operating at ~30% capacity utilization.
- 10% outsourced - window ACs primarily. Motors, compressors, certain electronic components, etc. will be outsourced.
- Market growth of 30% in UCP segment and the company witnessed growth of 39% during the quarter.
- Expect the commercial refrigerator business to grow at a 25% CAGR in the medium term.

EMP segment

- Order book stood at INR 60.1 bn, of which EMP was INR 46.1 bn (+51% YoY).
- Order inflow for the quarter stood at INR 17.7 bn (+47% YoY).
- Slowdown in commercial real estate continued, however, witnessed an uptick in enquiries in healthcare, hospitality, railway electrification, and metro railways.
- CAC witnessed traction from the government, industrial, and healthcare sectors coupled with increasing demand from the education and retail sectors.
- Continues to be the market leader in conventional and inverter ducted ACs as well as scroll chillers. Holds the 2nd position in VRF and screw chillers.
- Margin guidance of 6.5%.
- Confident of maintaining market leadership and continues to grow faster than the market. The company is not focused on market share but on profitability and on cash flows.
- The company is in the process of developing advanced products for the North America and Europe markets.
- Continued to witness healthy booking from factories and data centers driven by continued trust of the government. Office spaces, buildings, etc. are witnessing some delays.

Professional electronics

- With a steady rise in corporate capex across segments, witnessed growth across all lines of business.
- Non-destructive testing businesses continued to gain momentum. Increased penetration and investments in the healthcare segment by both the public and private sector continues to create opportunities for the healthcare business.
- Slowdown in data security business partially impacted revenue during the quarter.

Other key highlights

- Festival season has started off well with Onam and with Diwali coming up, witnessing strong demand as compared to last year.
- Capex plans of INR 6.5 bn in FY24 & FY25 together.
- Will continue to focus on investing in R&D, channel, manufacturing, and cost control initiatives.
- Fund raised to be used for the company's capex plans, which include a sub-300 liter deep freezer capacity in Wada, an increase in Sri City's capacity by 0.6 mn units along with the production of CAC products for domestic and international markets.
- The company wants to invest in manufacturing. More than 50% of CAC business/ deep freezers are imported from China. Transportation, allied costs, etc. are huge, so Blue Star wants to manufacture these in India at the same cost. The company wants to produce low-capacity deep freezers for the ice-cream industry. +20% CAGR growth expected. Domestic deep freezer market promises good potential. Current market share ~28% in the deep freezer category.
- Margin expansion witnessed on account of scale, portfolio realignment, cost management, and low advertising spend.
- Funds raised will be used to repay debt on an immediate basis; as and when capex is required over the course of the next two years, the company will raise it through debt.
- Expansion into the international market is towards CAC products currently and not RAC due to the strong position of China in the RAC market. In the CAC category, every other country has different standards and ratings, therefore the company will start with the European and North American markets. Won't be selling under the Blue Star brand, but through a local player in these markets.

Quarterly Performance (Consolidated)

Particulars (INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Total revenues (net)	18,904	15,762	19.9	22,260	(15.1)	41,164	35,533	15.8
RM	14,218	12,095	17.6	17,322	(17.9)	31,540	27,709	13.8
% of Sales	75.2	76.7	-152 bps	77.8	-261 bps	76.6	78.0	-136 bps
Staff cost	1,733	1,422	21.9	1,612	7.5	3,345	2,771	20.7
% of Sales	9.2	9.0	15 bps	7.2	193 bps	8.1	7.8	33 bps
Other operating expenses	1,726	1,389	24.2	1,876	(8.0)	3,603	2,964	21.5
% of Sales	9.1	8.8	32 bps	8.4	70 bps	8.8	8.3	41 bps
Total expenditure	17,677	14,907	18.6	20,810	(15.1)	38,487	33,444	15.1
EBITDA	1,227	856	43.3	1,450	(15.4)	2,677	2,089	28.1
EBITDA Margin (%)	6.5	5.4	106 bps	6.5	-2 bps	6.5	5.9	62 bps
Depreciation	230	245	(6.0)	228	1.0	458	465	(1.5)
Interest	177	121	46.0	180	(1.9)	357	227	57.0
Other income	130	86	51.6	94	37.9	224	191	17.3
PBT	950	576	65.0	1,136	(16.4)	2,086	1,319	58.1
Tax	243	149	62.9	302	(19.8)	545	412	32.2
Tax rate (%)	25.5	25.9	-32 bps	26.6	-108 bps	26.1	31.3	-512 bps
Minority Interest & Share in associates	0	(1)	NA	(0)	NA	0	(6)	NA
Reported net profit	708	426	66.3	834	(15.1)	1,541	1,169	31.8
Adjusted net profit	707	427	65.7	834	(15.2)	1,541	1,175	31.1
EPS (INR)	3.7	2.2	66.3	4.4	(15.1)	8.1	6.1	31.8

Source: Company, Antique

Segmental Performance

Particulars (INR mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Sales								
EMP & Services	10,772	9,591	12.3	9,491	13.5	20,263	17,558	15.4
Engineering products and services	837	924	(9.4)	784	6.7	1,621	1,451	11.8
Unitary cooling business	7,295	5,248	39.0	11,985	(39.1)	19,279	16,524	16.7
Total	18,904	15,762	19.9	22,260	(15.1)	41,164	35,533	15.8
EBIT								
EMP & Services	653	607	7.5	666	(2.0)	1,319	1,059	24.6
Engineering products and services	122	138	(11.4)	105	16.6	227	197	15.4
Unitary cooling business	616	324	90.2	893	(31.0)	1,510	1,235	22.2
Total	997	611	63.1	1,222	(18.4)	2,219	1,624	36.6
EBIT Margins (%)								
EMP & Services	6.1	6.3	-27 bps	7.0	-96 bps	6.5	6.0	48 bps
Engineering products and services	14.6	14.9	-33 bps	13.4	124 bps	14.0	13.6	44 bps
Unitary cooling business	8.4	6.2	227 bps	7.5	99 bps	7.8	7.5	35 bps
Total (%)	5.3	3.9	140 bps	5.5	-22 bps	5.4	4.6	82 bps

Source: Company, Antique

Balance Sheet

Particulars (INR mnn)	1HFY24	FY23	1HFY23
Shareholder's fund	23,522	13,307	10,454
Total Loans	8,473	6,411	7,798
Total LIABILITIES	32,028	19,749	18,283
Fixed Assets	11,307	9,422	7,483
Total Current Assets	42,401	43,008	34,841
Total Current Liabilities	28,501	34,242	25,829
Net current assets	13,900	8,766	9,012
TOTAL ASSETS	32,028	19,749	18,283

Working Capital (Days)

Inventory	34	66	37
Debtors	31	71	32
Other Current assets	30	49	32
Trade Payables	46	116	50
Other current liabilities	22	37	27
Provisions	2	3	2
Net Working Capital (INR mn)	9,620	6,294	6,990
Net WC Days	24	29	21

Source: Company, Antique

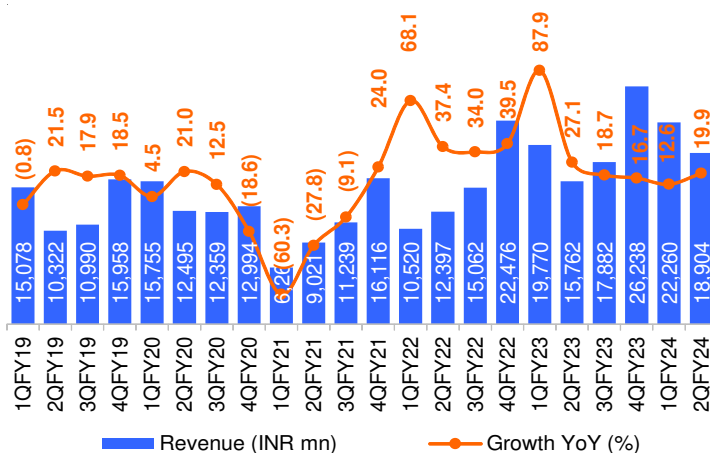
SOTP Valuation

Name of Segment	1HFY26E EPS	Multiple	Value/Share
Electro Mechanical Projects	13.4	18	242
Unitary Cooling Products	15.1	42	635
Professional Electronics	2.9	18	52
Total	31.5		930

Source: Company, Antique

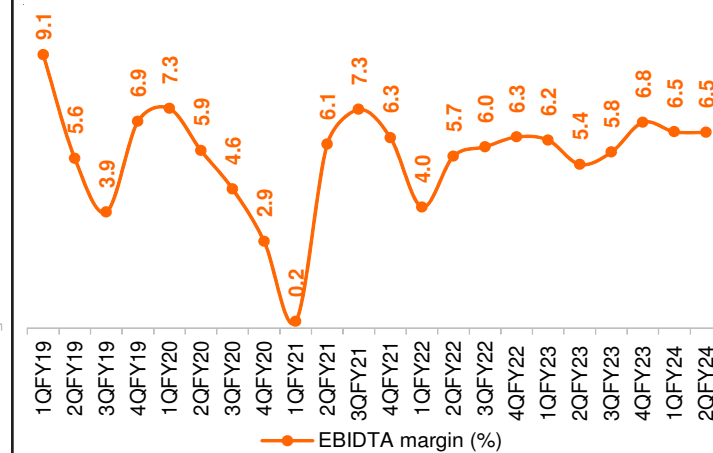
Story in Charts

Strong revenue growth backed by robust growth in the UCP segment



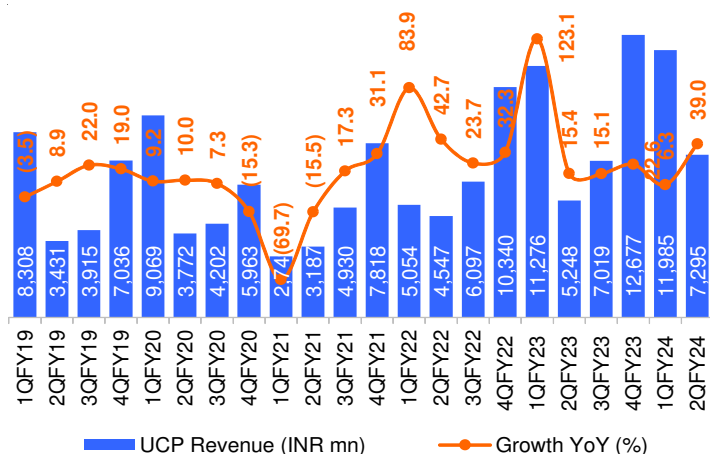
Source: Company, Antique

Margin improves 110 bps YoY supported by 20% revenue growth



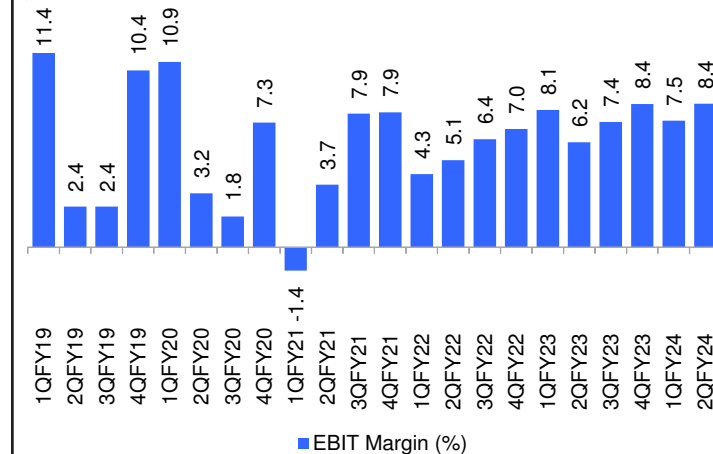
Source: Company, Antique

UCP segment revenue registers 39% YoY growth supported by pick-up in demand



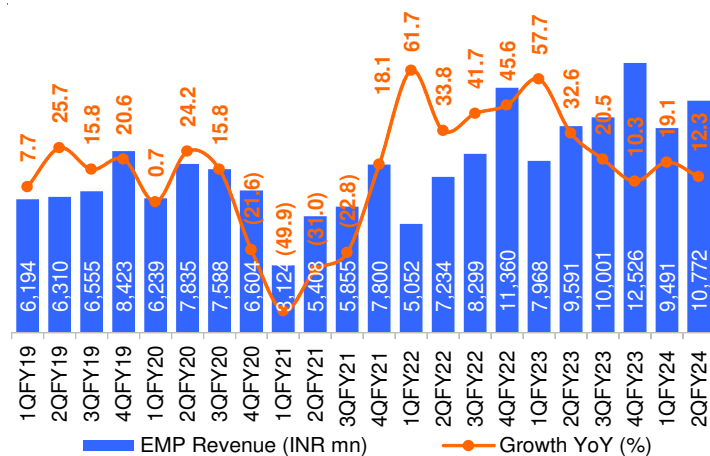
Source: Company, Antique

UCP segment margin expand by 120 bps, 8%-8.5% guidance maintained



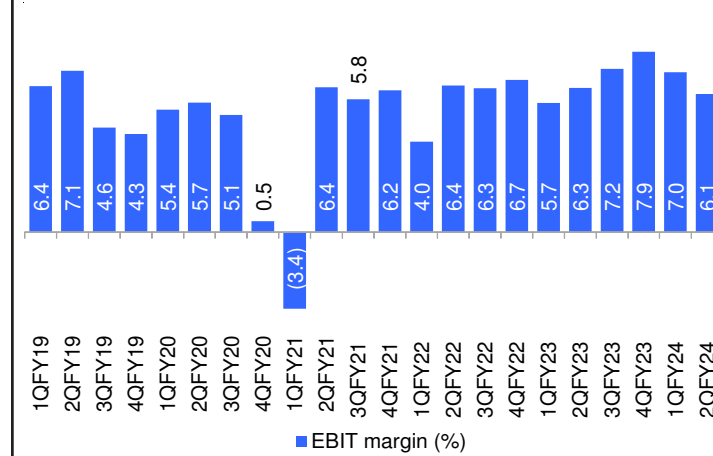
Source: Company, Antique

EMP business revenue growth of 12% YoY supported by a strong order book



Source: Company, Antique

EMP margin registers 20 bps YoY decline; maintains 6.5% target



Source: Company, Antique

Financials - Consolidated

Profit and loss account (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Net Revenue	60,641	79,773	96,556	114,540	134,802
Op. Expenses	57,176	74,845	89,808	105,863	124,154
EBITDA	3,465	4,928	6,748	8,677	10,648
Depreciation	860	848	1,181	1,291	1,401
EBIT	2,605	4,080	5,566	7,385	9,247
Other income	357	309	345	381	422
Interest Exp.	464	547	700	650	650
Reported PBT	2,498	5,550	5,211	7,116	9,019
Tax	829	1,547	1,313	1,793	2,273
Reported PAT	1,669	4,003	3,898	5,323	6,746
Minority Int./Profit (loss) From Asso.	(3)	(2)	(2)	(2)	(2)
Net Profit	1,677	4,005	3,926	5,351	6,774
Adjusted PAT	1,677	2,297	3,926	5,351	6,774
Adjusted EPS (INR)	8.7	11.9	20.4	27.8	35.2

Balance sheet (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Share Capital	193	193	193	193	193
Reserves & Surplus	9,983	13,114	14,728	17,768	22,231
Networth	10,176	13,307	14,921	17,961	22,423
Debt	4,778	5,776	7,000	6,500	6,500
Minority Interest	30	32	57	57	57
Net deferred Tax liabilities	(276)	(79)	(79)	(79)	(79)
Capital Employed	14,708	19,035	21,899	24,438	28,901
Gross Fixed Assets	9,017	14,126	16,126	17,626	19,126
Accumulated Depreciation	4,689	5,537	6,718	8,010	9,411
Capital work in progress	1,523	833	833	833	833
Net Fixed Assets	5,851	9,422	10,241	10,449	10,548
Investments	1,673	1,481	1,481	1,481	1,481
Non Current Investments	1,673	1,481	1,481	1,481	1,481
Current Assets, Loans & Adv.	35,327	43,007	54,988	65,665	70,209
Inventory	11,442	14,333	19,840	23,536	27,699
Debtors	11,897	15,488	15,872	18,829	18,829
Cash & Bank balance	2,697	2,473	4,483	5,753	5,953
Loans & advances and others	9,290	10,713	14,793	17,548	17,548
Current Liabilities & Provisions	28,143	34,876	44,810	53,157	53,157
Liabilities	20,656	25,321	32,890	39,016	39,016
Provisions	7,486	9,555	11,920	14,141	14,141
Net Current Assets	7,184	8,131	10,177	12,508	16,872
Application of Funds	14,708	19,034	21,899	24,438	28,901

Per share data

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
No. of shares (mn)	193	193	193	193	193
Diluted no. of shares (mn)	193	193	193	193	193
BVPS (INR)	52.8	69.1	77.5	93.3	116.4
CEPS (INR)	13.1	25.2	26.4	34.3	42.3
DPS (INR)	10.0	10.0	10.0	10.0	10.0

Source: Company Antique

Cash flow statement (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	2,705	4,040	5,239	7,144	9,047
Depreciation & amortization	860	848	1,181	1,291	1,401
Interest expense	464	547	700	650	650
(Inc)/Dec in working capital	(2,358)	(1,171)	(36)	(1,061)	(4,163)
Tax paid	(829)	(1,547)	(1,313)	(1,793)	(2,273)
CF from operating activities	842	4,425	5,771	6,231	4,662
Capital expenditure	(1,352)	(5,109)	(2,000)	(1,500)	(1,500)
Inc/(Dec) in investments	1,276	192	-	-	-
CF from investing activities	(866)	(4,218)	(2,000)	(1,500)	(1,500)
Inc/(Dec) in share capital	1,958	1,437	-	-	-
Inc/(Dec) in debt	230	998	1,224	(500)	-
Dividend Paid	(2,311)	(2,311)	(2,311)	(2,311)	(2,311)
CF from financing activities	(602)	(430)	(1,762)	(3,461)	(2,961)
Net cash flow	(626)	(223)	2,009	1,270	201
Opening balance	3,322	2,696	2,473	4,483	5,753
Closing balance	2,696	2,473	4,483	5,753	5,953

Growth indicators (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Revenue	42.2	31.6	21.0	18.6	17.7
EBITDA	44.5	42.2	36.9	28.6	22.7
Adj PAT	67.1	36.9	70.9	36.3	26.6
Adj EPS	67.1	36.9	70.9	36.3	26.6

Valuation (x)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	100.8	73.6	43.1	31.6	25.0
P/BV (x)	16.6	12.7	11.3	9.4	7.5
EV/EBITDA (x)	49.1	34.8	25.7	19.7	15.9
EV/Sales (x)	2.8	2.2	1.8	1.5	1.3
Dividend Yield (%)	1.1	1.1	1.1	1.1	1.1

Financial ratios

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
RoE (%)	17.6	19.6	27.8	32.5	33.5
RoCE (%)	21.4	26.0	28.9	33.5	36.3
Asset/T.O (x)	5.7	6.9	6.3	6.0	6.2
Net Debt/Equity (x)	0.5	0.4	0.5	0.4	0.3
EBIT/Interest (x)	6.4	8.0	8.4	11.9	14.9

Margins (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
EBITDA Margin (%)	5.7	6.2	7.0	7.6	7.9
EBIT Margin	4.3	5.1	5.8	6.4	6.9
PAT Margin	2.8	2.9	4.1	4.7	5.0

Source: Company Antique

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