

January 31, 2023

RESULT REPORT Q3 FY23 | Sector: Consumer Durables

Blue star Ltd

Strong growth momentum to continue; upgrade to BUY

Result Synopsis

BLSTR now has made a habit of beating consensus, Q3 is the 5th quarter in row where they have delivered positive surprise. All segments have contributed to its growth with all its verticals registering strong double-digit growth. Order-inflow continues to be robust with order-book swelling to Rs48bn which has been highest ever. Execution is expected to keep pace with inflows and backlog as there is pressure on execution from its customers. Company expects strong traction to continue in project business as there is strong demand from infrastructure and capex related activity with office space witnessing increased traction. On UCP front both RAC and commercial refrigeration has seen continued growth even in the lean season. BLSTR has been able to outperform its peers in terms of revenue as well as margins in challenging environment. The work done in expanding distribution and extending product portfolio into affordable segment is now bearing fruits resulting in traction in North which has been the weak area for the company. Given the improved pace of execution in project business and market share gains in RAC, we remain positive on the stock. We upgrade the stock to BUY as we foresee growth momentum and outperformance to continue without compromising on the profitability.

BLSTR is estimated to deliver strong double-digit CAGR revenue growth on back of improved execution of projects, market share gains in RAC and continued growth momentum in Commercial refrigeration. We now pencil in revenue/EBITDA/PAT CAGR of 21%/29%/42% over FY22-25E. We have increased our SoTP-based PT to Rs1,521 vs earlier Rs1,370 valuing Unitary products business at 45x rolling forward our valuation multiple.

Result Highlights

- Business update** – Company has been delivering above expectation result now for past 5 quarters. All the segments continue to do well, and company is on course to achieve the internal target.
- Margins** – Margins are expected to remain lower as the benefit of lower commodity prices are negated by INR appreciation. The company is maintaining guidance of EBITDA margin of 8-8.5%.
- EMPS** – Order book stood at Rs48.6bn growth of 47% YoY. Order inflow stood at Rs17bn has grown by 80% YoY. The company has received its first order in railway electrification. The company has received order inflows from Infrastructure segment. Company have bagged majority of orders from newly entered segment of railway electrification.
- Demand Outlook** – Enquiries continues to remain strong with order finalization also happening. Order finalization have resulted in strong order inflow with order book swelling to all time high. Company has been ordering inventory as it will have to execute the strong order book in coming time.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	17,882	17,230	NA	3.8	NA	
EBITDA	1047	1100	NA	-4.8	NA	Strong Order execution results in revenue beat
EBITDA Margin (%)	5.9	6.4	NA	-50 bps	NA bps	
Adjusted PAT	584	596	NA	-2.1	NA	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 1,228
Target Price	: Rs 1,521
Potential Return	: +23.9%

Stock data (as on Jan 31, 2023)

Nifty	17,662
52 Week h/l (Rs)	1288/836
Market cap (Rs/USD mn)	117402/1440
Outstanding Shares (mn)	96
6m Avg t/o (Rs mn):	104
Div yield (%)	0.8
Bloomberg code:	BLSTR IN
NSE code:	BLUESTARCO

Stock performance



Shareholding pattern (As of Dec'22 end)

Promoter	38.8%
FII+DII	35.6%
Others	25.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	1,521	1,370

Δ in earnings estimates

	FY24e	FY25e
EPS (New)	42.4	49.4
EPS (Old)	40.0	-
% change	5.7%	-

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenue	78,734	94,179	106,666
YoY Growth	30.2%	19.6%	13.3%
EBITDA	4,960	6,404	7,467
YoY Growth	43.2	29.1	16.6
PAT	2,991	4,086	4,761
YoY Growth	78.4%	36.6%	16.5%
ROE	27.7	33.1	33.5
EPS	31.1	42.4	49.4
P/E	39.5	28.9	24.8
BV	118.9	137.1	158.2
EV/EBITDA	24.4	18.8	16.0

AAKASH FADIA

Analyst

aakash.fadia@ysil.in

+91 22 6885 0521



ARSHIA KHOSLA, Associate

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	9MFY23	9MFY22	y/y %
Sales	15,062	22,476	19,703	15,762	17,882	18.7	13.4	53,348	37,980	40.5
EBITDA	906	1430	1233	856	1047	15.6	22.3	3,136	2,035	54.1
EBITDA Margin %	6.0	6.4	6.3	5.4	5.9			5.9	5.4	
Depreciation	225	231	220	245	156	(30.7)	(36.5)	621	629	(1.4)
EBIT	681	1199	1013	611	892	30.8	45.9	2,516	1,406	79.0
EBIT Margin %	4.5	5.3	5.1	3.9	5.0			4.7	3.7	
Interest charges	116	129	106	121	139	20.4	15.1	366	335	9.4
Other Income	134	63	105	86	52	(61.4)	(39.6)	242	295	(17.8)
PBT	700	1132	1012	576	804	14.9	39.6	2392	1366	75.1
Tax	228	376	263	149	216	(4.9)	45.3	629	453	38.9
Effective Tax Rate (%)	32.5	33.2	26.0	25.9	26.9			26.3	33.1	
PAT	476	762	744	427	584	22.8	36.8	1755	917	91.3
PAT Margin %	3.2	3.4	3.8	2.7	3.3			3.3	2.4	
EPS (Rs)	4.9	7.9	7.7	4.4	6.1	22.8	36.8	18	10	91.3

Source: Company, YES Sec

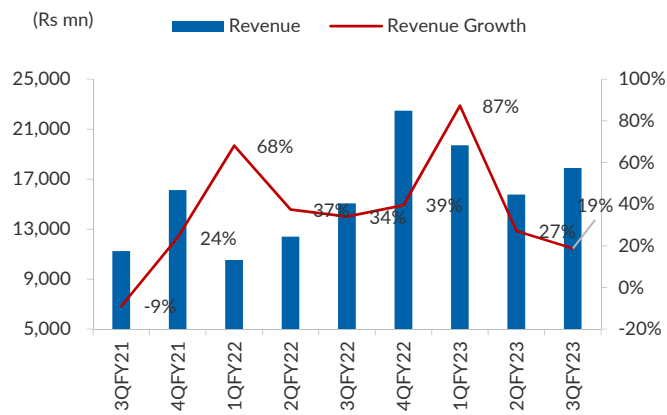
Exhibit 3: Segmental Performance

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
EMP & Packaged Air conditioner	8,299	11,360	7,934	9,591	10,001	20.5	4.3	27,526	20,585	33.7
Unitary Products	6,097	10,340	11,242	5,248	7,019	15.1	33.7	23,509	15,698	49.8
Professional Electronics and Industrial systems	667	776	527	924	862	29.3	(6.7)	2,313	1,698	36.2
Total Sales	15,062	22,476	19,703	15,762	17,882	18.7	13.4	53,348	37,980	40.5
PBIT										
EMP & Packaged Air conditioner	524.1	758.4	451.7	607.2	716.8	36.8	18.1	1,776	1,190	49.2
Unitary Products	387.8	720.5	911.3	324.0	518.3	33.7	60.0	1,754	838	109.2
Professional Electronics and Industrial systems	127.6	143.4	58.9	138.0	109.8	(13.9)	(20.4)	307	282	9.0
Total PBIT	1,040	1,622	1,422	1,069	1,345	29.4	25.8	3,836	2,309	66.1
Finance Costs	115.6	129.3	106.2	120.9	139.2	20.4	15.1	366	335	9.4
Unallocable expense	224	361	304	373	402	79.1	7.8	1,078	609	77.1
as % of sales	1.5	1.6	1.5	2.4	2.2			2.0	1.6	
Exceptional Items	0	0	0	0	0			0	0	
PBT	700	1132	1012	576	804	14.9	39.6	2,391	1,366	75.1
PBIT Margins (%)						(bps)	(bps)			(bps)
EMP & Packaged Air conditioner	6.3	6.7	5.7	6.3	7.2	85	84	6.5	5.8	67
Unitary Products	6.4	7.0	8.1	6.2	7.4	102	121	7.5	5.3	212
Professional Electronics and Industrial systems	19.1	18.5	11.2	14.9	12.7	(640)	(220)	13.3	16.6	(332)
Total PBIT	6.9	7.2	7.2	6.8	7.5	62	74	7.2	6.1	111

Source: Company, YES Sec

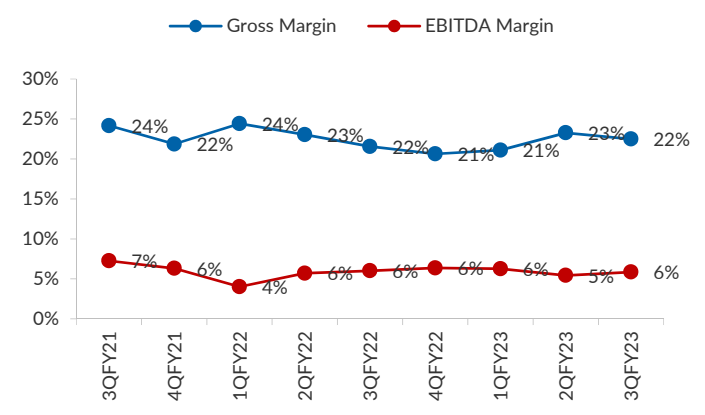
CHARTS

Exhibit 4: Strong growth across the segment resulted in better-than-expected revenue growth



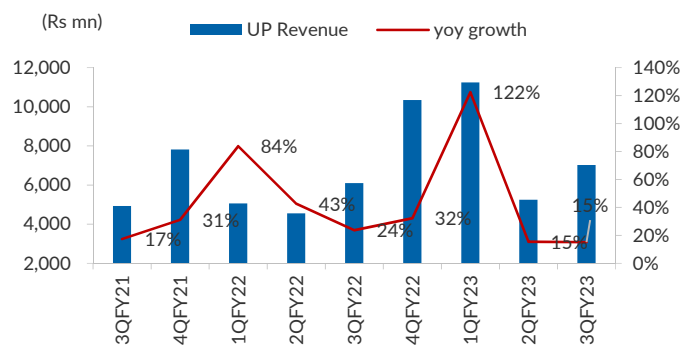
Source: Company, YES Sec

Exhibit 5: Gross margins have improved on stable raw material prices



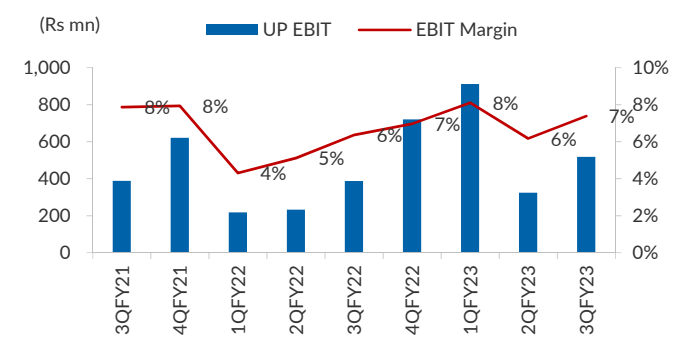
Source: Company, YES Sec

Exhibit 6: Growth is on back of channel filling ahead of summer season



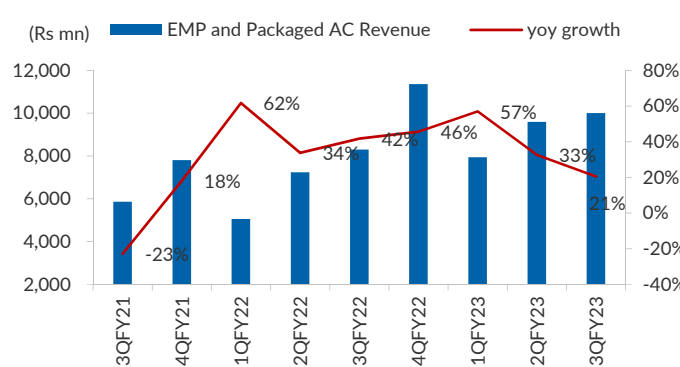
Source: Company, YES Sec

Exhibit 7: EBIT margins continues to improve



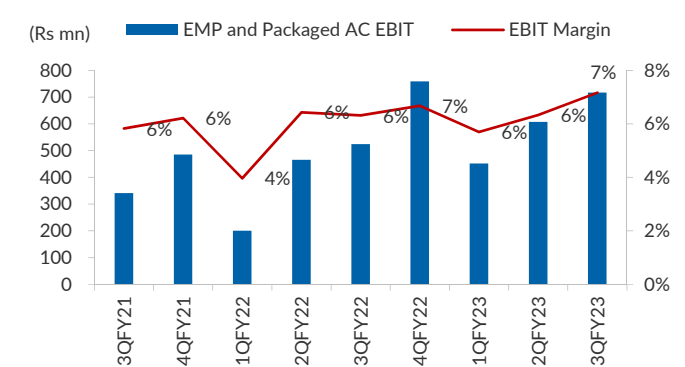
Source: Company, YES Sec

Exhibit 8: Improved execution and strong order inflows has resulted in strong growth in EMPS



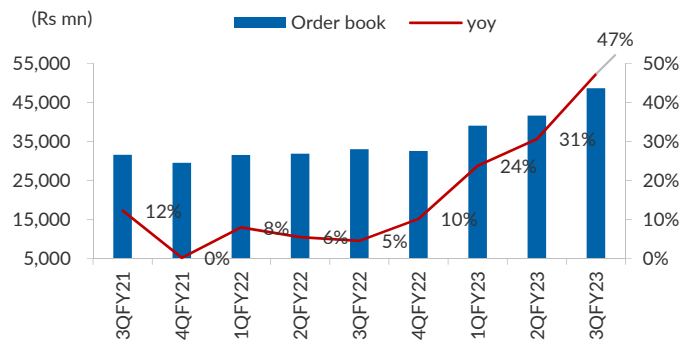
Source: Company, YES Sec

Exhibit 9: EBIT margins have been stable



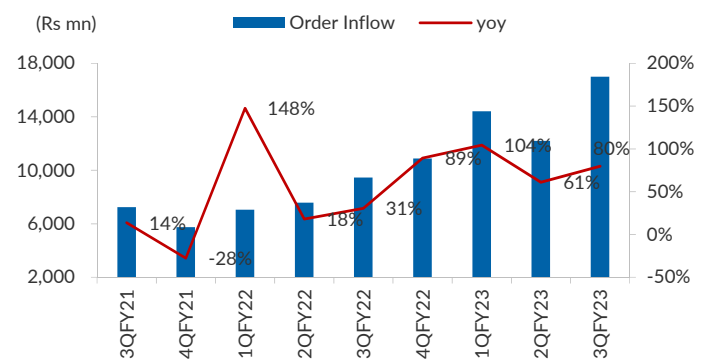
Source: Company, YES Sec

Exhibit 10: EMPS orderbook has grown to its highest ever



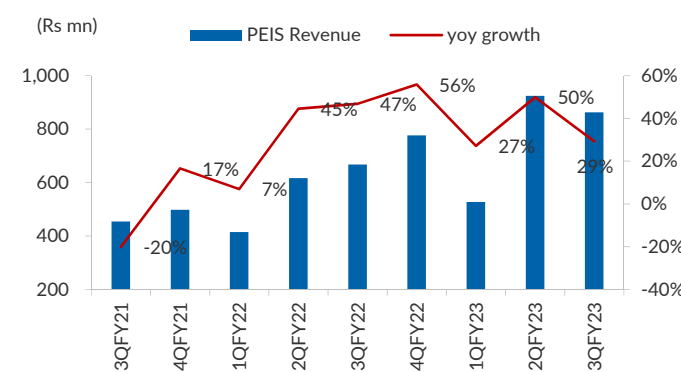
Source: Company, YES Sec

Exhibit 11: Order inflows remains strong



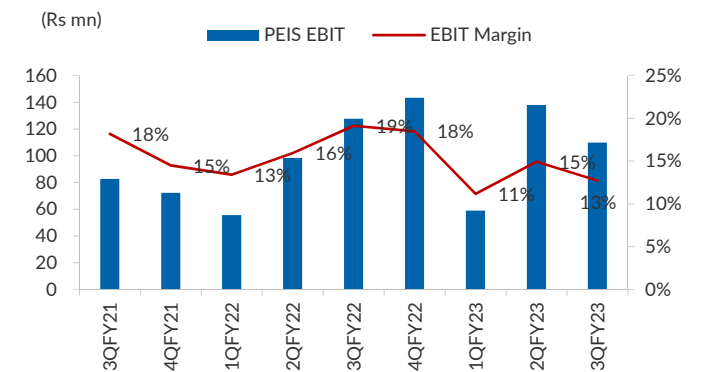
Source: Company, YES Sec

Exhibit 12: PEIS revenue growth remains healthy



Source: Company, YES Sec

Exhibit 13: PEIS margins are largely stable



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Business update** – Company has delivering above expectation result now for past 5 quarters. All the segments continues to do well and company is on course to achieve the internal target. Order execution continues to be encouraging. Enquires and order inflow from B2B side remains buoyant. **RAC industry is expected to grow by 15% in FY24 in value terms**
- **Inventory** – Capital employed is higher as company is geared up and has higher inventory of components and finished goods for upcoming summer season. Inventory is not as issue for the industry.
- **Margins** – Margins are expected to remain lower as the benefit of lower commodity prices are negated by INR appreciation. The company is maintaining guidance of EBITDA margin Of 8-8.5%.
- **Demand Outlook** – Enquires continues to remain strong with order finalization is happening. Order finalization have resulted in strong order inflow with order book swelling to all time high. Company has been ordering inventory as it will have to execute the strong order book in coming time.
- **EMPS** – Order book stood at Rs48.6bn growth of 47% yoy. order inflow stood at Rs17bn has grown by 80% yoy. The company has received its first order in railway electrification.

Company is getting orders from tier 2,3,4 cities and towns. The company has received order inflows from Infrastructure segment. All segments have contributed to order inflows. Company have bagged majority of orders from newly entered segment of railway electrification.

- Commercial air-conditioners has gained traction from every segment the company is present in. Blue star is number 1 in ducted air-conditioner and chillers, number 2 in VRF and screw chillers. On international front demand for refrigeration in middle east has remained strong. Demand is strong from healthcare and hospitality. The company has received orders from municipal corporation for Screw chillers. Qatar has seen slow down as construction activity as FIFA world cup was underway. Malaysia is slowing down on less construction activity.
- **Unitary Products** -Blue-star RAC has grown by 15% despite subdued demand with market share at 13.25%. Inventory building from the channel for the upcoming summer has been encouraging.
- Commercial refrigeration space has witnessed good traction from retail and Pharma. Company continues to remain leader in Deep freezers, storage coolers and modular cold storage. Company has attained leadership position in deep freezers and storage water coolers. The company has received orders from Reliance retail, Dr Reddys, Hatsun agro etc. Company has entire range of commercial refrigeration products and BLSTR remains largest player with high market share each and every product category.
- **PEIS:** There has been strong demand for healthcare and data centers. The major orders bagged are from HDFC bank, Arcelor steel, BHEL, Nippon steel, ICICI bank and others. Prospects continues to remain promising.
- **Depreciation** - The company has change its depreciation policy from WDV to straight line method resulting in lower depreciation to the tune of Rs100mn
- **Water purifier** - Water purifier has not being doing well.
- **Sri city Plant** - Sri-city plant has started its commercial production and new products will be delivered from the Sri-city plant. Sri-city plant will produce all the three categories affordable, affordable premium and premium.
- **Focus** - The company will focus on North India, the Hindi speaking belt to make further inroads. The company is targeting 15% market share and expect to grow faster than the industry but not at the cost of profitability.
- **Unallocated expense** - Unallocated expenses are higher as company has incurred expense on improving productivity.

Exhibit 14: SoTP Valuation on FY25E PAT estimates

PAT (Rs mn)	Target multiple (x)	Rs mn
EMP and Packaged Air-conditioner	25	51,116
PEIS	20	7,912
UP	45	87,447
Total MCAP (Rs mn)		146,475
Number of Shares (mn)		96
Target Price (Rs)		1,521

FINANCIALS

Exhibit 15: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	193	193	193	193	193
Reserves	8,659	9,983	11,261	13,006	15,038
Net worth	8,852	10,176	11,454	13,198	15,230
Debt	4,516	4,778	4,086	2,933	2,214
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	223	351	418	474	520
Total liabilities	13,591	15,305	15,958	16,605	17,965
Fixed Asset	4,551	5,860	6,371	6,736	6,954
Investments	2,951	1,682	1,682	1,682	1,682
Other Non-current Assets	1,327	1,503	1,874	2,188	2,441
Net Working Capital	1,441	3,525	4,596	5,493	6,209
Inventories	8,824	11,442	14,902	17,825	20,189
Sundry debtors	8,110	11,897	15,494	18,534	20,991
Loans and Advances	1,394	221	288	344	390
Sundry creditors	16,049	20,417	26,590	31,805	36,023
Other current liabilities	5,371	6,793	8,626	10,182	11,450
Cash & equivalents	3,322	2,734	1,434	506	677
Total Assets	13,591	15,305	15,958	16,605	17,965

Source: Company, YES Sec

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	42,636	60,456	78,734	94,179	106,666
Operating profit	2,398	3,465	4,960	6,404	7,467
Depreciation	923	860	798	944	1,090
Interest expense	647	464	499	235	177
Other income	624	357	323	224	153
Profit before tax	1,452	2,498	3,987	5,449	6,352
Taxes	471	829	1,003	1,372	1,599
Minorities and other	(23)	(8)	(8)	(8)	(8)
Adj. profit	1,004	1,677	2,991	4,086	4,761
Exceptional items	-	-	-	-	-
Net profit	1,004	1,677	2,991	4,086	4,761

Source: Company, YES Sec

Exhibit 17: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	2,099	2,962	4,485	5,684	6,530
Depreciation	923	860	798	944	1,090
Tax paid	(471)	(829)	(1,003)	(1,372)	(1,599)
Working capital Δ	(1,575)	(802)	(1,071)	(897)	(716)
Other operating items					
Operating cashflow	975	2,191	3,208	4,359	5,305
Capital expenditure	(362)	(2,169)	(1,309)	(1,309)	(1,309)
Free cash flow	613	22	1,900	3,050	3,996
Equity raised	410	610	-	(0)	0
Investments	10	(14)	-	-	-
Debt financing/disposal	27	262	(692)	(1,154)	(718)
Interest paid	(647)	(464)	(499)	(235)	(177)
Dividends paid	(385)	(963)	(1,713)	(2,341)	(2,729)
Net Δ in cash	382	(587)	(1,300)	(928)	172

Source: Company, YES Sec

Exhibit 18: Du-pont analysis

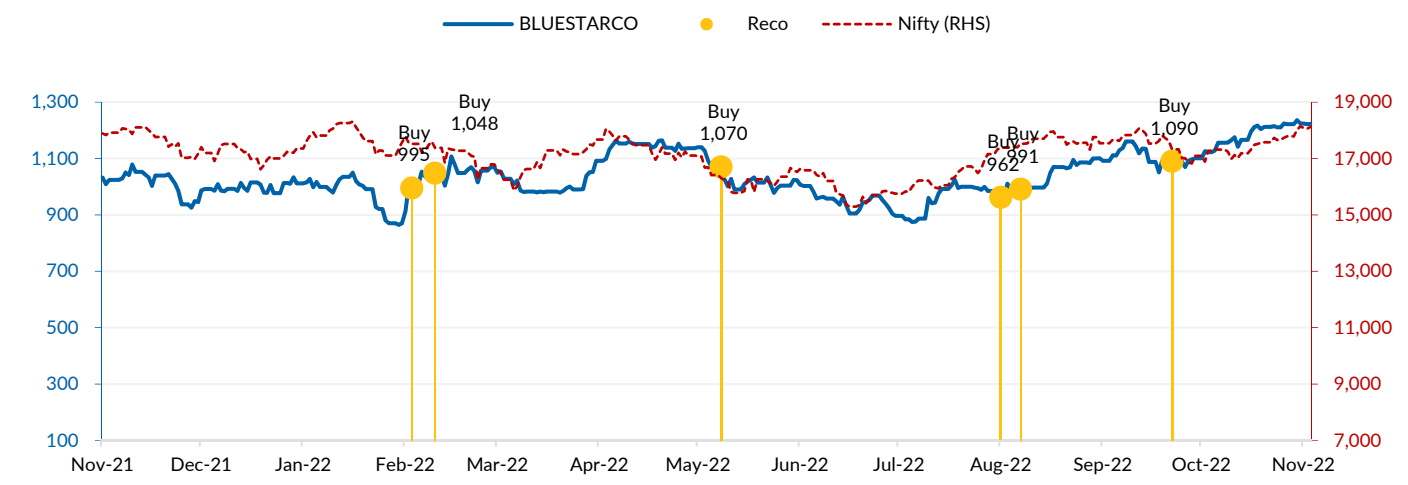
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.69	0.67	0.75	0.75	0.75
Interest burden (x)	0.69	0.84	0.89	0.96	0.97
EBIT margin (x)	0.05	0.05	0.06	0.06	0.06
Asset turnover (x)	1.22	1.54	1.66	1.69	1.69
Financial leverage (x)	4.19	4.13	4.40	4.52	4.43
RoE (%)	12.0	17.6	27.7	33.1	33.5

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(20.5)	41.8	30.2	19.6	13.3
Op profit growth	(15.2)	44.5	43.2	29.1	16.6
EBIT growth	(12.4)	41.1	51.4	26.7	14.9
Net profit growth	(31.9)	67.1	78.4	36.6	16.5
Profitability ratios (%)					
OPM	5.6	5.7	6.3	6.8	7.0
EBIT margin	4.9	4.9	5.7	6.0	6.1
Net profit margin	2.4	2.8	3.8	4.3	4.5
RoCE	16.3	20.9	29.4	35.9	38.9
RoNW	12.0	17.6	27.7	33.1	33.5

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	2.9	4.3	6.3	7.3	7.6
Per share ratios					
EPS	10.4	17.4	31.1	42.4	49.4
Dividend per share	4.0	10.0	17.8	24.3	28.3
Cash EPS	20.0	26.3	39.3	52.2	60.8
Book value per share	91.9	105.7	118.9	137.1	158.2
Valuation ratios					
P/E	117.8	70.5	39.5	28.9	24.8
P/CEPS	61.4	46.6	31.2	23.5	20.2
P/B	13.4	11.6	10.3	9.0	7.8
EV/EBIDTA	49.8	34.7	24.4	18.8	16.0
Payout (%)					
Dividend payout	38.4	57.4	57.3	57.3	57.3
Tax payout	32.4	33.2	25.2	25.2	25.2
Liquidity ratios					
Debtor days	69.4	71.8	71.8	71.8	71.8
Inventory days	75.5	69.1	69.1	69.1	69.1
Creditor days	137.4	123.3	123.3	123.3	123.3

Recommendation Tracker



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Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member
Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL:
IN-DP-653-2021 | MERCHANT BANKER: INM000012227 | RESEARCH
ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 |
Sponsor and Investment Manager to YSL Alternates Alpha Plus Fund (CAT
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AMFI ARN Code - 94338.

Details of Compliance Officer: Name: Aditya Goenka,
Email id: compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

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Name of the Research Analyst : Aakash Fadia, Arshia Khosla

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