



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
+ Positive		= Neutral	- Negative

## What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

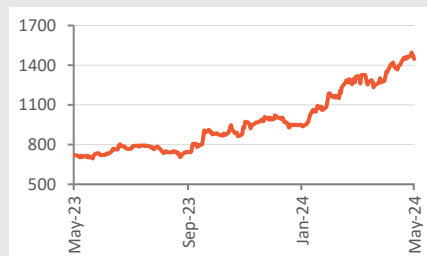
## Company details

Market cap:	Rs. 29,763 cr
52-week high/low:	Rs. 1,512 / 693
NSE volume: (No of shares)	0.90 lakh
BSE code:	500067
NSE code:	BLUESTARCO
Free float: (No of shares)	5.9 cr

## Shareholding (%)

Promoters	36.5
FII	15.9
DII	24.7
Others	22.9

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	7.3	24.8	48.9	101.2
Relative to Sensex	7.3	21.8	34.1	80.5

Sharekhan Research, Bloomberg

## Blue Star Ltd

## Demand growth momentum to continue

## Capital Goods

## Sharekhan code: BLUESTARCO

## Reco/View: Buy



CMP: Rs. 1,448

Price Target: Rs. 1,670



Upgrade



Maintain



Downgrade

## Summary

- Blue Star's consolidated revenues came in marginally higher than consensus estimates, led by strong growth in unitary products. OPM marginally lagged, while net earnings came in better than expectations.
- The company targets over 20% y-o-y revenue growth in the EMP and unitary product divisions, with PBIT margins in the range of 7-7.5% and 8-8.5%, respectively, for FY2025.
- April 2024 continues to see strong growth momentum due to rising temperatures. We expect Q1FY2025 to be strong for the industry in general and the company in particular.
- We maintain Buy with a revised PT of Rs. 1,670, increasing our valuation multiple owing to a strong earnings growth trajectory over the next 2-3 years.

Blue Star reported 26.8% y-o-y growth in its consolidated revenue at Rs. 3,328 crore (marginally higher than consensus estimates), led by 35% y-o-y growth in unitary products revenue, while EMP/professional electronics and industrial systems segments reported 20%/8% y-o-y revenue growth, respectively. The company reported consolidated OPM at 7.3% (up 44bps y-o-y), which was a tad lower than consensus estimates (PBIT margin in EMP and professional electronics and industrial systems declined 45bps y-o-y and 705bps y-o-y, respectively). Overall, consolidated operating profit was up 35% y-o-y at Rs. 242 crore. Strong revenue growth and improvement in OPM led to PBT and adjusted net profit growth of 46% y-o-y and 86% y-o-y to Rs. 214 crore and Rs. 160 crore, respectively. The company's carried-forward order book grew 12.3% y-o-y to Rs. 5,697 crore in Q4FY2024. The company targets over 20% y-o-y revenue growth in both EMP and unitary product divisions with PBIT margins in the range of 7-7.5% and 8-8.5%, respectively, for FY2025. The company continues to invest in manufacturing capacities, R&D, sales and distribution, and digitisation.

## Key positives

- Unitary products revenue increased 34.8% y-o-y with PBIT margin expansion of over 120 bps q-o-q to 8.3%. EMP revenue increased 20.3% y-o-y.
- Carried-forward order book grew 12.3% y-o-y to Rs. 5,697 crore, while the outstanding order book in the EMP segment was up 11.6% y-o-y to Rs. 4,344 crore.

## Key negatives

- Professional electronics and industrial systems saw over 7 ppts y-o-y contraction (down 258bps q-o-q) in PBIT margin to 12.1%.
- Order inflows in EMP declined by 7.8% y-o-y to Rs. 1,227 crore due to the slowdown in commercial buildings and some infrastructure project demand.

## Management Commentary

- March month saw a surge in demand (primary sales would have grown by 40% y-o-y). In April, primary sales grew 65-70% y-o-y (secondary sales are estimated to have grown by 70-90% y-o-y). April month might see the peak versus the general trend of the peak season between the last week of April to the first week of May.
- Q1FY2025 can see 30-40% y-o-y growth. For FY2025, the EMP segment may see over 20% y-o-y revenue growth with 7-7.5% PBIT margins, while unitary products may see over 20% y-o-y revenue growth with 8-8.5% PBIT margins. Management expects to maintain its PBT margin of 8.5% in unitary products in FY2025.
- The company did not undertake any price increase during Q4FY2024 and Q1FY2025. Exports are expected to see ramp-up after at least 18 months. The U.S. market is expected to pick up after the elections.

**Revision in estimates** – We have fine-tuned our net earnings estimates for FY2025-FY2026.

## Our Call

**Valuation – Maintain BUY with a revised PT of Rs. 1,670:** Blue Star is well placed to leverage on the opportunities in the domestic RAC and commercial cooling and the refrigeration industry. The company also plans to explore exports opportunities in countries like U.S. and Europe. The long-term growth momentum would continue, given sectoral tailwinds regarding soaring temperatures across India and changing consumer lifestyles. The EMPs segment's growth prospects are brighter, given the robust order book and continued traction in order inflows in domestic and international markets. We expect revenue/adjusted PAT to post a CAGR of ~19%/~30% over FY2024-FY2026E. At the CMP, the stock trades at ~40x its FY2026E EPS. We maintain our BUY rating on the stock with a revised price target (PT) of Rs. 1,670, increasing our valuation multiple owing to strong earnings growth over the next two years.

## Key Risks

An increase in input costs could put pressure on margins. Intense competition across segments is a key concern.

## Valuation (Consolidated)

	Rs cr			
Valuations	FY23	FY24	FY25E	FY26E
Net Sales	7,977	9,685	11,556	13,680
OPM (%)	6.2	6.9	7.2	7.6
Adjusted PAT	261	415	543	699
Adj. EPS	13.6	21.5	28.2	36.3
Growth (YoY) %	55.8	58.9	30.8	28.7
P/E	106.8	67.2	51.4	39.9
P/B	21.0	10.7	9.3	7.9
EV/EBITDA	55.0	39.1	30.1	23.6
ROE (%)	22.2	21.1	19.4	21.4
ROCE (%)	25.7	26.2	26.4	29.6

Source: Company; Sharekhan estimates

## Key conference call highlights

- ♦ **Outlook:** The company would continue to focus on margins, cash management, and talent acquisition during FY2025. The company remains optimistic on demand for Q1FY2025 in particular and FY2025 in general. The company would continue to invest in manufacturing capacities, R&D, sales and distribution, and digitisation. March month saw a surge in demand (primary sales would have grown by 40% y-o-y). In April, primary sales grew 65-70% y-o-y (secondary sales are estimated to have grown by 70-90% y-o-y). April month might see the peak versus the general trend of the peak season between the last week of April to the first week of May.
- ♦ **Guidance:** Q1FY2025 can see 30-40% y-o-y growth. For FY2025, the EMP segment may see over 20% y-o-y revenue growth with 7-7.5% PBIT margins, while unitary products may see over 20% y-o-y revenue growth with 8-8.5% PBIT margins. The company expects to maintain its PBT margin of 8.5% in unitary products in FY2025.
- ♦ **RAC:** The RAC market's size may double over the next three years. India can overtake China by 2045. The RAC segment is expected to see high growth over the next five years similar to what happened in China in 2005. The company targets 15% market share in RAC in FY2025 from 13.75% currently.
- ♦ **Pricing environment:** The company did not undertake any price increase during Q4FY2024 and Q1FY2025.
- ♦ **Exports:** Exports are expected to see ramp-up after at least 18 months. The U.S. market is expected to pick up after the elections.
- ♦ **Order inflows:** Lower order inflows during Q4FY2024 can be attributed to slowdown in commercial buildings and some infrastructure projects. The company may see pick-up post elections. Currently, manufacturing and data centres are driving demand. We expect order inflows to revive in Q2FY2025.
- ♦ **Q4FY2024 performance:** Consolidated revenue increased 26.8% y-o-y to Rs. 3,328 crore. Operating profit increased 35% y-o-y to Rs. 242 crore, with OPM of 7.3%, while PBT grew 46.4% y-o-y to Rs. 214 crore. The company's order book stands at a record high of Rs. 5,697.3 crore vs. Rs. 5,073.3 crore last year. Net cash balance stood at Rs. 456 crore as against net debt of Rs. 208 crore last year. During September 2023, the company completed fund raise of ~Rs. 1,000 crore.
- ♦ **Electromechanical Projects and Commercial Air Conditioning Systems:** The segment's revenue grew 20.3% to Rs. 1507 crore in Q4FY2024. The segment's results grew 13.4% to Rs. 113 crore (7.5% of revenue). Order inflows declined 7.8% y-o-y to Rs. 1,226.8 crore. The outstanding order book grew 11.6% y-o-y to Rs. 4,343.8 crore.
- ♦ **Unitary products:** The segment's revenue grew 34.8% y-o-y to Rs. 1,709 crore. The segment's result grew 32.2% y-o-y to Rs. 141 crore (8.3% of revenues). The company's market share increased to 13.75% from 13.5% last year.
- ♦ **Professional electronics and industrial systems:** The segment's revenue increased 8.3% y-o-y to Rs. 112 crore. The segment's results fell 31.6% y-o-y (12.1% of revenue).

## Results (Consolidated)

Particulars	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Net Sales	3,328	2,624	26.8	2,241	48.5
Operating profit	242	179	35.0	155	55.7
Other Income	12	7	86.3	13	-2.2
Interest	12	18	-32.5	10	19.0
Depreciation	28	23	24.6	23	20.6
PBT	214	316	-32.3	134	59.1
Tax	54	92	-40.7	34	60.4
EO items	-	171		-	
Reported PAT	160	225	-29.0	100	59.2
Adjusted PAT	160	86	85.9	100	59.2
Adj. EPS (Rs.)	8.3	4.5	85.9	5.2	59.2
Margin			BPS		BPS
OPM (%)	7.3	6.8	44.0	6.9	33.6
NPM (%)	4.8	8.6	(378.1)	4.5	32.4
Tax rate (%)	25.5	29.1	(361.3)	25.3	19.8

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – Bright long-term growth prospects, given the penetration of high-value consumer electronics

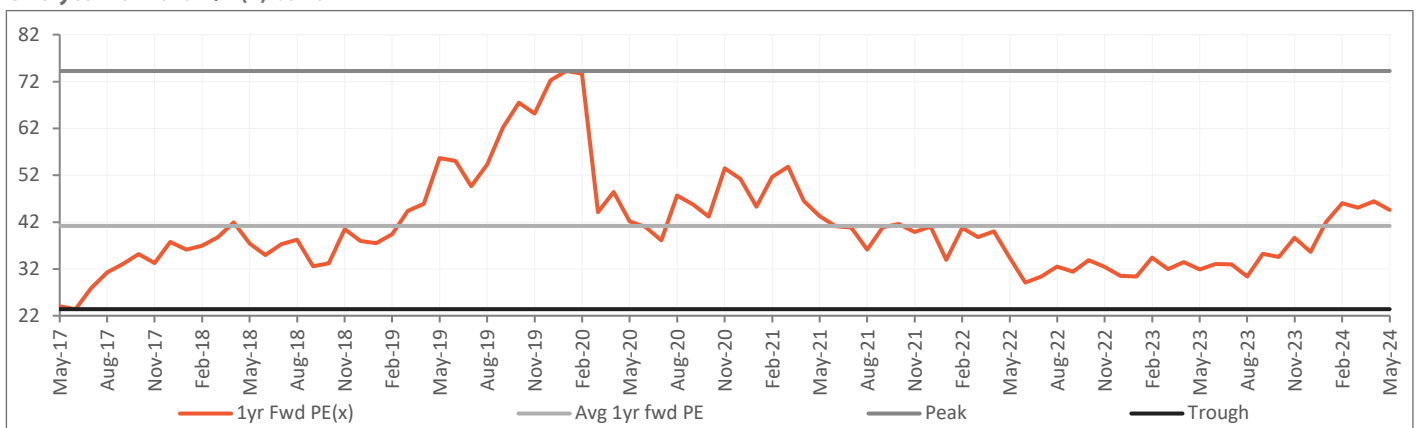
The AC segment has long-term structural growth triggers in terms of suitable demographics, rising per capita income, increasing urbanisation, low penetration levels, various financing options, and uninterrupted availability of power, etc., which would help companies maintain a healthy growth trajectory in the long term. RAC penetration level in India is at 14-16%, which is way behind the global average of 42%. This implies there is a significant growth opportunity for the AC industry. The industry grew at a healthy pace of ~14% and 16% in value and volume terms, respectively, over FY2015-FY2020. However, FY2021 and FY2022 were adversely impacted due to COVID-led lockdown. Hence, given the last two years' lower base and pent-up demand, the AC industry grew by 20-25% in FY2023. For FY2024, unseasonal rains have played spoilsport and, therefore, the industry is expected to grow at a moderate pace of 10-15%, although long-term growth triggers are intact for the industry. Further, commercial refrigeration adoption in India is only at a sub-5% level. However, the industry is expected to grow strongly, given rapid urbanisation, growth in pharmaceuticals and food and beverage industries, the opening of shops, malls and offices post the pandemic, and pick-up in construction activities. Blue Star, a leading player with a wide reach and range of ACs and commercial refrigeration products, will be one of the key beneficiaries. Further, the company is well poised to leverage its experience in electromechanical projects (EMPS) and commercial air-conditioning products, which are expected to witness healthy growth because of an increase in public and private capex in sectors such as infrastructure, metro rail, power, retail, and healthcare.

### ■ Company Outlook – Long-term growth opportunities intact

Blue Star has a strong brand strength and distribution network and is well entrenched at both retail and institutional levels in terms of its distribution network. The company is also becoming self-sufficient by commencing new manufacturing facilities in both RACs and commercial refrigeration, which would reduce its dependency on imports and cost savings, led by backward integration. It will also help the company tap export markets. The RAC and commercial refrigeration businesses are expected to gradually gain traction. Healthcare, pharma, and processed foods segments will continue to offer good opportunities for the commercial refrigeration business in the new normal. Increased awareness of building immunity will offer good water purifier business prospects. Digitisation and healthcare initiatives offer good prospects for professional electronics and industrial systems. Moreover, the growth outlook for these categories is promising, considering the expansion plan of end-user industries such as food processing and cold-chain logistics providers, pharmaceutical manufacturers, and hospitals as well as large and medium-format modern retail stores.

■ **Valuation – Maintain BUY with a revised PT of Rs. 1,670:** Blue Star is well placed to leverage on the opportunities in the domestic RAC and commercial cooling and the refrigeration industry. The company also plans to explore exports opportunities in countries like U.S. and Europe. The long-term growth momentum would continue, given sectoral tailwinds regarding soaring temperatures across India and changing consumer lifestyles. The EMPS segment's growth prospects are brighter, given the robust order book and continued traction in order inflows in domestic and international markets. We expect revenue/adjusted PAT to post a CAGR of ~19%/~30% over FY2024-FY2026E. At the CMP, the stock trades at ~40x its FY2026E EPS. We maintain our BUY rating on the stock with a revised price target (PT) of Rs. 1,670, increasing our valuation multiple owing to strong earnings growth over the next two years.

### One-year forward P/E (x) band



Source: Sharekhan Research

## About company

Blue Star is India's leading air conditioning and commercial refrigeration company, with an annual revenue of over Rs. 5,000 crore, a network of 32 offices, five modern manufacturing facilities, and 3,880 channel partners. The company has over 7,500 stores for room ACs, packaged air conditioners, chillers, cold rooms, refrigeration products, and systems. Blue Star's integrated business model of a manufacturer, contractor, and after-sales service provider enables it to offer end-to-end solutions to its customers, which has proved to be a significant differentiator in the marketplace. The company has three business segments – electromechanical projects (EMP) and commercial air conditioning systems, unitary cooling products (UCP), and electronics and industrial systems (EIS), which contribute 50%, 46%, and 4% to FY2023 revenue, respectively. The company fulfils the cooling requirements of a large number of corporate, commercial as well as residential customers. Blue Star has also forayed into the residential water purifiers business with a stylish and differentiated range, including India's first RO+UV hot and cold-water purifiers as well as air purifiers and air coolers.

## Investment theme

Structural growth visibility in the Indian white goods segment remains high due to favourable demographics (urbanisation, per capita GDP, and low AC ownership similar to China's levels in 1998-2000). Blue Star remains one of the key beneficiaries of rising AC penetration in India, led by its improving market share, impressive product profile, and strong service network. The company is well poised to grow, driven by its strategy of – 1) growing faster than the market, 2) improving profit by scale and backward integration, and 3) deepening distribution through conventional and e-commerce channels. We believe near to medium-term growth could moderate due to weakness in the RAC industry.

## Key Risks

- ♦ Sharp rise in key raw-material prices poses a key challenge
- ♦ Intense competition

## Additional Data

### Key management personnel

Ashok Advani	Chairman Emeritus
Suneel Advani	Chairman Emeritus
Vir Advani	Vice Chairman/MD
B. Thiagarajan	MD
Nikhil Sohoni	CFO

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ASHOK M ADVANI FAMILY PVT TRUST	11.63
2	SBI Funds Management Ltd	7.69
3	SMA FAMILY PVT TRUST	7.64
4	Kotak Mahindra Asset Management Co	5.87
5	Axis Asset Management Co Ltd/India	3.07
6	Vanguard Group Inc/The	2.38
7	SNA FAMILY TRUST	2.24
8	NSA FAMILY TRUST	2.24
9	GOVERNMENT PENSION FUND - GLOBAL	1.94
10	Norges Bank	1.91

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research



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