

# Blue Star Ltd.

**Nifty** 78,886  
**Sensex** 24,155

### Key Stock Data

**CMP** ₹1609.05/-  
**Target Price** ₹1,820 (+12.6%)  
**Market Cap (₹bn)** ₹332.8  
**52W High/Low** ₹1,898/₹702  
**Shares o/s (mn.)** 205.6  
**NSE Code** BLSTR:IN  
**BSE Code** BLUESTARCO  
**Bloomberg** 500067

### Shareholding Pattern Jun'24 (%)

**Promoters** 36.5  
**DIs** 23.6  
**FIs** 17.1  
**Public & Others** 22.9

Particulars	FY21	FY22	FY23
<b>Revenues</b>	42,636	60,456	79,773
<b>EBITDA</b>	2,398	3,465	4,928
<b>EBITDA Margin(%)</b>	5.6	5.7	6.2
<b>Net Profit</b>	1,004	1,677	4,005
<b>EPS (₹)</b>	4.9	8.2	19.5
<b>DPS (₹)</b>	14.0	10.0	12.0
<b>RoE (%)</b>	11.3	16.4	30.0
<b>RoCE (%)</b>	11.5	19.4	25.3
<b>P/E (x)</b>	331.0	198.2	83.0
<b>EV/EBITDA (x)</b>	139.5	96.9	68.4
<b>P/BV (x)</b>	37.4	32.6	24.9

Particulars	FY24	FY25E	FY26E
<b>Revenues</b>	96,854	117,486	141,279
<b>EBITDA</b>	6,649	8,990	12,053
<b>EBITDA Margin(%)</b>	6.9	7.7	8.5
<b>Net Profit</b>	4,150	6,033	8,287
<b>EPS (₹)</b>	20.2	29.3	40.3
<b>DPS (₹)</b>	7.0	10.0	12.0
<b>RoE (%)</b>	15.9	21.2	23.9
<b>RoCE (%)</b>	22.4	27.3	30.7
<b>P/E (x)</b>	80.1	55.1	40.1
<b>EV/EBITDA (x)</b>	49.8	34.3	25.2
<b>P/BV (x)</b>	12.7	10.8	8.8

Source: Company, Way2Wealth

### Relative Performance

RETURN(%)	1 YR	3YR	5 YR
<b>BLSTR</b>	117.7	295.1	362.8
<b>Nifty 50</b>	23.0	48.6	117.4
<b>Sensex</b>	19.5	45.0	109.9

Source: Company, Way2Wealth

### JAYAKANTH KASTHURI

Tel: +9122 - 4019 2914

[jayakanthk@way2wealth.com](mailto:jayakanthk@way2wealth.com)

### Summary

**BLSTR's Q1FY25 revenue was at ₹28.7bn (+28.7% YoY & -13.9% QoQ) due high demand for UCP and Commercial AC system products. EMPS/UCP segment's revenue grew by 9.5%/44.3% YoY to ₹10.4bn/₹17.3bn as there was high demand from RAC in Apr-May'24. There was EBITDA margin expansion of 179bps YoY and 103bps QoQ to 8.3% as RM cost was stable resulting in PAT at ₹1.7bn (v/s ₹833.5mn and ₹1.61bn QoQ). Due to intense heatwave, demand far exceeded supply leading to capacity constraints, else sales and PBT could have been higher by ~₹2bn and ~₹200mn, respectively. RAC industry growth in Apr-May'24 was at 70% but in Jun'24 it was 10-15% YoY. FY25 Margin guided at 7.5-8% with topline growth of 20-25%.**

**UCP segment margins for the quarter improved due to volume growth, which enhanced operating leverage. Demand exceeded inventory plans of the business and while the company met most of the excess requirement through an increase in production, it still lost some opportunities. The company has maintained its market share at 13.75% in Q1FY25 and intends to further scale it up to 15% by FY25 end with a focus on penetrating Tier 3, 4, 5 towns along with an increase in market share in the North. Management expects RAC industry to grow +30% in FY25. The Commercial Refrigeration market, which mainly comprises deep freezers, water coolers and modular cold rooms also witnessed good traction across all segments and grew at a very reasonable rate. BIS-related regulatory changes for water coolers announced in Mar'24 had an adverse impact on the product's sales. Margin outlook of 8.5-9%.**

**EMPS segment growth was supported by bookings and enquiries across categories. EBIT margin stood at 9.9% (+290 bps YoY) primarily due to favorable mix. Order inflow for the quarter stood at ₹14.6bn (+20% YoY). Ordering momentum in manufacturing, data centers, and infrastructure remains strong and is expected to remain strong going forward as well.. Tenders in railway electrification remained buoyant. Commercial air conditioning business witnessed enhanced demand from education, manufacturing, and retail segments, driving revenue growth during the quarter. Products launched: State-of-the art chiller for data centers (estimated revenue of ₹10-15bn to the company) and brine chillers. As per the management the government orders are likely to see finalisation in coming months. The order book witnessed growth of 13.5% YoY to ₹60.8bn. The focus is on timely execution of profitable orders and free cash flow generation. International business saw subdued demand due to geopolitics which still carries the uncertainties. Margin outlook of 8-8.5%.**

**Strategic priorities are to grow faster than market, invest more in R&D, improve margin led by supply chain effectiveness and prudent capital allocation. Strategy for USA and Europe market is to provide best quality and specification products. Not launching their brand but focus is on OEMs sales. Few of the products in heating and air are approved by OEMs. Exports sales in FY25 are unlikely to grow much, expecting 7-8% growth in FY25.**

### Q1FY25 Result Highlights

➤ **Strong growth in the UCP & Commercial AC systems – Blue Star Q1FY25 revenue was at ₹28.7bn (+28.7% YoY & -13.9% QoQ) due high demand for UCP and Commercial AC system products. EMPS/UCP segment's revenue grew by 9.5%/44.3% YoY to ₹10.4bn/₹17.3bn as there was high demand from RAC in Apr-May'24. There was EBITDA margin expansion of 179bps YoY and 103bps QoQ to 8.3%. as RM cost was stable resulting in PAT at ₹1.7bn (v/s ₹833.5mn and ₹1.61bn QoQ). Due to intense heatwave, demand far exceeded supply leading to capacity constraints, else sales and PBT could have been higher by ~₹2bn and ~₹200mn, respectively. RAC industry growth in Apr-May'24 was at 70% but in Jun'24 it was 10-15% YoY. FY25 growth for RAC industry is likely at 25-30%. Supply chain issues persist for key input materials such as copper (expected to ease in 6 months), compressors (18 months), and electronics. The company has retained its RAC market share at 13.75%. With rising input costs and ocean freight, it undertook price hike of 3% from Jun'24. Commercial refrigeration products' market grew at 15% led by deep freezers, storage water coolers and modular cold rooms. The management is focused on cost control through scale, value engineering and indigenisation. FY25 Margin guided at 7.5-8% with topline growth of 20-25%.**

- **Intense heatwave led to RAC surge** – UCP segment grew 44.3% YoY with 168 bps YoY expansion in EBIT margin to 9.1%. The margins for the quarter in this segment improved due to volume growth, which enhanced operating leverage. Demand exceeded inventory plans of the business and while the company met most of the excess requirement through an increase in production, it still lost some opportunities. The company has maintained its market share at 13.75% in Q1FY25 and intends to further scale it up to 15% by FY25 end with a focus on penetrating Tier 3, 4, 5 towns along with an increase in market share in the North. Management expects RAC industry to grow +30% in FY25. The Commercial Refrigeration market, which mainly comprises deep freezers, water coolers and modular cold rooms also witnessed good traction across all segments and grew at a very reasonable rate. BIS-related regulatory changes for water coolers announced in Mar'24 had an adverse impact on the product's sales which has now normalised as per the management. Margin outlook of 8.5-9%.
- **EMPS segment revenue came in at ₹10.4bn (+9.5% YoY & -31% QoQ)** as growth was supported by bookings and enquiries across categories. EBIT margin stood at 9.9% (+290 bps YoY) primarily due to favorable mix. Order inflow for the quarter stood at ₹14.6bn (+20% YoY). Ordering momentum in manufacturing, data centers, and infrastructure remains strong and is expected to remain strong going forward as well. There was also an uptick in enquiries from the healthcare and retail sectors. Tenders in railway electrification remained buoyant. Commercial air conditioning business witnessed enhanced demand from education, manufacturing, and retail segments, driving revenue growth during the quarter. Demand from Tier 3 and 4 cities remained strong, with significant orders for ducted systems and VRF systems from these markets. Products launched: State-of-the art chiller for data centers (estimated revenue of ₹10-15bn to the company) and brine chillers. Expecting huge surge in demand for chillers going forward. As per the management the government orders are likely to see finalisation in coming months. The order book witnessed growth of 13.5% YoY to ₹60.8bn. The focus is on timely execution of profitable orders and free cash flow generation. International business saw subdued demand due to geopolitics which still carries the uncertainties. Margin outlook of 8-8.5%.
- **Professional Electronics and Industrial Systems (PEIS) segment revenues grew 23.5% YoY to ₹968.6mn with margin contraction of 346bps YoY (-220 bps QoQ) to 9.9%** as most of the product categories are performing well, supply chain disruptions and cost overruns in the MedTech business impacted profitability.
- Strategic priorities are to grow faster than market, invest more in R&D, improve margin led by supply chain effectiveness and prudent capital allocation. Strategy for USA and Europe market is to provide best quality and specification products. Not launching their brand but focus is on OEMs sales. Few of the products in heating and air are approved by OEMs with export booking likely in Q4FY25. Exports sales in FY25 are unlikely to grow much, expecting 7-8% growth in FY25.
- Capex in Q1FY25/FY25 at ₹350mn/₹4.5bn. Over next two years at ₹7.5-8bn will be spent.
- Cash currently is ₹10bn as strong summer led to significant cash collection and release of working capital. Towards end of FY25, cash will normalize to ₹3.5-4bn post ₹4.5bn capex raw material and along with inventory build up for next summer.

### View

Blue Star Q1FY25 performance was strong enabled by the intense heatwave leading to demand for cooling products and execution of high value orders in EMPS segment. The company has retained market share, is expanding its reach in the lucrative B2B segment, and building capacity to cater to the growing demand for cooling products as it is targeting 15% share by FY25. Its EMPS division is skillfully balancing the margins by focusing more on projects which enable free cash flow and robust W.C management. The industry is expected to grow strongly, given rapid urbanisation leading to demand for RAC, growth in pharmaceuticals, F&B, Healthcare, retail, manufacturing and Data centers with pick-up in construction activities. The management's strategic priorities are in the right direction of growing faster than the market, invest in manufacturing and R&D, improve margins and prudent capital allocation enabling it to become long term compounder. **Hence, we view it as ACCUMULATE with target price of ₹1800-1820 trading at 40.1x P/E FY26E EPS ₹40.3.**

**CONSOLIDATED FINANCIALS**

(₹ mn)								
PARTICULARS	Q1FY25	Q1FY24	YOY[%]	Q4FY24	QOQ[%]	FY24	FY23	YOY[%]
<b>Revenue from Operations</b>	<b>28,653.7</b>	<b>22,260.0</b>	<b>28.7</b>	<b>33,277.7</b>	<b>(13.9)</b>	<b>96,853.6</b>	<b>79,773.2</b>	<b>21.4</b>
Raw Material Consumed	16,257.1	12,472.6	30.3	21,015.9	(22.6)	57,328.6	50,201.4	14.2
Purchase of stock in trade	4,538.5	4,627.1	(1.9)	3,152.0	44.0	15,754.2	13,468.6	17.0
Stock Adjustment	1,090.5	222.3	(390.6)	1,217.6	10.4	836.9	(1,853.3)	145.2
RMC as a % of sales	76.4	77.8	(144)	76.3	10	76.3	77.5	(117)
Employee Expenses	1,978.3	1,611.7	22.7	2,297.3	(13.9)	7,494.8	5,914.4	26.7
Employee Exps as a % of sales	6.9	7.2	(34)	6.9	0.1	7.7	7.4	32
Other Expenses	2,411.0	1,876.3	28.5	3,175.9	(24.1)	8,789.7	7,114.3	23.5
Other Exps as a % of sales	8.4	8.4	(1)	9.5	(113)	9.1	8.9	16
<b>EBIDTA</b>	<b>2,378.3</b>	<b>1,450.0</b>	<b>64.0</b>	<b>2,419.0</b>	<b>(1.7)</b>	<b>6,649.4</b>	<b>4,927.8</b>	<b>34.9</b>
<b>EBITDA Margins %</b>	<b>8.3</b>	<b>6.5</b>	<b>179</b>	<b>7.3</b>	<b>103</b>	<b>6.9</b>	<b>6.2</b>	<b>69</b>
Other Income	237.7	94.0	152.9	123.9	91.8	474.2	308.7	53.6
Depreciation	280.2	227.9	22.9	283.2	(1.1)	976.1	847.8	15.1
<b>EBIT</b>	<b>2,335.8</b>	<b>1,316.1</b>	<b>77.5</b>	<b>2,259.7</b>	<b>3.4</b>	<b>6,147.5</b>	<b>4,388.7</b>	<b>40.1</b>
Interest	76.4	180.0	(57.6)	121.9	(37.3)	580.8	547.0	6.2
Exceptional items	-	-	-	-	NA	-	1,708.1	(100.0)
<b>PBT</b>	<b>2,259.4</b>	<b>1,136.1</b>	<b>98.9</b>	<b>2,137.8</b>	<b>5.7</b>	<b>5,566.7</b>	<b>5,549.8</b>	<b>0.3</b>
Tax	572.6	302.4	89.4	544.2	5.2	1,428.5	1,546.8	(7.6)
Profit/(Loss) from Associates & JVs	0.8	-	-	3.5	(77.1)	4.9	4.0	22.5
Minority Interest	0.8	(0.2)	500.0	8.3	90.4	6.4	(2.3)	378.3
<b>Profit After Tax</b>	<b>1,688.4</b>	<b>833.5</b>	<b>102.6</b>	<b>1,605.4</b>	<b>5.2</b>	<b>4,149.5</b>	<b>4,004.7</b>	<b>3.6</b>
<b>EPS</b>	<b>8.2</b>	<b>4.3</b>		<b>7.8</b>		<b>20.2</b>	<b>19.5</b>	
<b>Adjus. PAT</b>	<b>1,688.4</b>	<b>833.5</b>	<b>102.6</b>	<b>1,605.4</b>	<b>5.2</b>	<b>4,149.5</b>	<b>2,296.6</b>	<b>80.7</b>
<b>Adjus. EPS</b>	<b>8.2</b>	<b>4.3</b>		<b>7.8</b>		<b>20.2</b>	<b>11.2</b>	

Source: Company, Way2Wealth

**SEGMENTAL PERFORMANCE**

(₹ mn)								
Particulars	Q1FY25	Q1FY24	YOY[%]	Q4FY24	QOQ[%]	FY24	FY23	YOY[%]
<b>REVENUES</b>								
Electro-Mech. Projects & Packaged AC Systems	10,389.9	9,491.2	9.5	15,068.3	(31.0)	47,154.6	40,156.3	17.4
% of Total	36.3	42.6	(638)	45.3	(902)	48.7	50.3	(165)
Unitary Cooling products	17,295.2	11,984.5	44.3	17,088.8	1.2	45,922.0	36,269.3	26.6
% of Total	60.4	53.8	652	51.4	901	47.4	45.5	195
Professional Electronics & Indus Sys.	968.6	784.3	23.5	1,120.6	(13.6)	3,777.0	3,347.5	12.8
% of Total	3.4	3.5	(14)	3.4	1	3.9	4.2	(30)
<b>Total Segment Revenue</b>	<b>28,653.7</b>	<b>22,260.0</b>	<b>28.7</b>	<b>33,277.7</b>	<b>(13.9)</b>	<b>96,853.6</b>	<b>79,773.1</b>	<b>21.4</b>
<b>EBIT</b>								
Electro-Mech. Projects & Packaged AC Systems	1,030.3	666.2	54.7	1,125.3	(8.4)	3,410.9	2,767.8	23.2
Margin %	9.9	7.0	290	7.5	245	7.2	6.9	34
Unitary Cooling products	1,580.3	893.4	76.9	1,414.3	11.7	3,603.1	2,823.1	27.6
Margin %	9.1	7.5	168	8.3	86	7.8	7.8	6
Professional Electronics & Indus Sys.	96.0	104.9	(8.5)	135.7	(29.3)	515.0	505.0	2.0
Margin %	9.9	13.4	(346)	12.1	(220)	13.6	15.1	(145)
<b>TOTAL</b>	<b>2,706.6</b>	<b>1,664.5</b>	<b>62.6</b>	<b>2,675.3</b>	<b>1.2</b>	<b>7,529.0</b>	<b>6,095.9</b>	<b>23.5</b>

Source: Company, Way2Wealth

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**Disclosure of Interest Statement in Blue Star Ltd. as on 09 August 2024**

Name of the Security	Blue Star Ltd.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	No
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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