

## Consumer Durable | Q1FY24 Result Update

## Satisfactory Q1, growth plans in place

- Blue Star's Q1FY24 revenue was ahead, profitability was in line with estimates. Unitary Products segment grew 6% driven by strong traction in commercial refrigeration business. EMP & CAC segment saw healthy 19% growth.
- While RAC industry de-grew 10% in Q1 due to unseasonal rain, decline in RAC sales for Blue Star was much lesser. MS in RAC was maintained at 13.5%.
- Unitary products declined 60bps to 7.5% in Q1. However, management maintained margin guidance of 8-8.5% in the segment for FY24E. Focus on value engineered products, cost control measures and scale improvement will drive profitability going ahead.
- With healthy order inflow and execution pace in EMP segment, expected demand revival in RAC during festive season, and strong backward integration plans, growth prospects for Blue Star remain promising. We have revised our FY24/25E EPS estimates to Rs 19/25 resp. Maintain Buy with a revised TP of Rs 888 (35x FY25E EPS).

## Revenue ahead, EBITDA and PAT in line with estimates

Revenue came in at Rs 22.3bn, up 12.6% YoY. A 40bps/50bps increase in staff/other costs was completely offset by 120bps decrease in RM costs. Consequently, EBITDA margin expanded 30bps to 6.5%. EBITDA stood at Rs 1.5bn, up 17.6% YoY. RPAT increased 12.1% YoY to Rs 834mn in Q1FY24. C/F order book grew 37% YoY to Rs 53.6bn as of Jun'23.

## Capex plans in place

Blue Star will be raising Rs 10bn primarily in equity (QIP), majorly to fund its Sri City plant expansion, and for the partial repayment of debt. It has earmarked cumulative capex of Rs 7.5bn over the next 3 years, with the majority to be incurred in FY24 and FY25. Sri City capacity (spread across 20 acres) will have a total capacity of 1.2mn units upon completion of Phase-III. Phase I has capacity of ~0.3mn units and Phase-II is expected to commence by March'24. An additional 40 acre capacity for Commercial ACs, referred to as Sri City 2 for both export and domestic demand will commence after Phase-III.

## Q1FY24 Result (Rs Mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)
Revenue	22,260	19,770	12.6	26,238	(15.2)
Total Expense	20,810	18,537	12.3	24,447	(14.9)
EBITDA	1,450	1,233	17.6	1,792	(19.1)
Depreciation	228	220	3.4	227	0.3
EBIT	1,222	1,013	20.7	1,565	(21.9)
Other Income	94	105	(10.6)	67	41.4
Interest	180	106	69.5	181	(0.4)
EBT	1,136	1,012	12.3	3,158	(64.0)
Tax	302	263	14.8	918	(67.1)
RPAT	834	743	12.1	2,253	(63.0)
APAT	834	743	12.1	861	33.6
			(bps)		(bps)
Gross Margin (%)	22.2	21.0	116	23.3	(111)
EBITDA Margin (%)	6.5	6.2	28	6.8	(31)
NPM (%)	3.7	3.8	(2)	8.6	(484)
Tax Rate (%)	26.6	26.0	58	29.1	(245)
EBIT Margin (%)	5.5	5.1	37	6.0	(47)

CMP	Rs 762
Target / Upside	Rs 888 / 16%
NIFTY	19,517

## Scrip Details

Equity / FV	Rs 385mn / Rs 2
Market Cap	Rs 147bn
	USD 1.8bn
52-week High/Low	Rs 820/ 489
Avg. Volume (no)	153,786
Bloom Code	BLSTR IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	6	51
Rel to NIFTY (%)	(3)	(2)	37

## Shareholding Pattern

	Dec'22	Mar'23	Jun'23
Promoters	38.8	38.8	38.9
MF/Banks/FIs	24.6	25.1	24.5
FIs	11.0	10.5	11.1
Public / Others	25.6	25.7	25.5

## Valuation (x)

	FY23A	FY24E	FY25E
P/E	56.2	40.4	30.5
EV/EBITDA	30.2	24.0	19.1
ROE (%)	34.1	23.9	24.6
RoACE (%)	16.8	20.2	21.2

## Estimates (Rs bn)

	FY23A	FY24E	FY25E
Revenue	79.8	94.7	110.4
EBITDA	4.9	6.2	7.8
PAT	2.6	3.6	4.8
EPS (Rs.)	13.6	18.9	25.0

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## Mixed Segment Performance

- Revenue from EMP & CAC segment came in at Rs 9.5bn, an increase of 19.1% YoY with pickup in orders from data centers, metro-railways, infra sector and factories. EBIT margins expanded 130bps YoY to 7.0%. Management expects margin in this segment to sustain ~6.5-7%.
- UCP segment grew 6.3% YoY to Rs 12.0bn (vs +20% in Lloyd), held back by flattish demand in RAC owing to distressed summer, however commercial refrigeration and modular cold rooms business witnessed traction across categories. EBIT margins contracted 60bps to 7.5%.
- Professional Electronics segment grew 48.9% YoY to Rs 784mn mainly driven by strong demand for Healthcare solution. EBIT margin increased 220bps to 13.4%.

### Exhibit 1: Segment Highlights

Segmental Revenue( Rs mn)	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)
Electro-Mech.Projects & Packaged AC Systems	9491	7968	19.1	12526	(24.2)
Unitary Products	11985	11276	6.3	12677	(5.5)
Professional Electronics & Indus Systs.	784	527	48.9	1035	(24.2)
<b>Total</b>	<b>22,260</b>	<b>19,770</b>	<b>12.6</b>	<b>26,238</b>	<b>(15.2)</b>

EBIT					
Electro-Mech.Projects & Packaged AC Systems	666.2	451.7	47.5	992.1	(32.8)
Unitary Products	893.4	911.3	(2.0)	1069.5	(16.5)
Professional Electronics & Indus Systs.	104.9	58.9	78.1	198.3	(47.1)
Total segment result	1,665	1,422	17.1	2,260	(26.3)

EBIT Margin (%)			bps		bps
Electro-Mech.Projects & Packaged AC Systems	7.0	5.7	135	7.9	(90)
Unitary Products	7.5	8.1	(63)	8.4	(98)
Professional Electronics & Indus Systs.	13.4	11.2	219	19.2	(579)

Source: Company, DART

### Exhibit 2: Actual vs DART Estimates for Q1FY24

Particulars (Rs mn)	Actual	DART Est.	Var (%)	Comments
Sales	22,260	20,660	7.7	B2B segment performed better than our expectation
EBITDA	1,450	1,445	0.4	
EBITDA margins%	6.5	7.0	(48)	RM cost was higher than estimate
RPAT	834	861	(3.2)	
APAT	834	861	(3.2)	

Source: Company, DART

### Exhibit 3: Change in Estimates

Particulars (Rs mn)	FY24E			FY25E		
	New	Old	Chg.(%)	New	Old	Chg.(%)
Sales	94,668	91,656	3.3	1,10,450	1,06,504	3.7
EBITDA	6,221	6,099	2.0	7,839	7,648	2.5
EBITDA Margin %	6.6	6.7	(10 bps)	7.1	7.2	(10 bps)
PAT	3,635	3,586	1.4	4,815	4,602	4.6
EPS (Rs)	18.9	18.6	1.4	25.0	23.9	4.6

Source: Company, DART

We have increased FY24E/25E revenue estimates to factor in better than anticipated demand in RAC and healthy order book in B2B business. To factor in Q1 performance, we have marginally reduced our EBITDA margin estimates citing intense competition, and limited price hikes. It will be partially offset by logistics benefit from Sri City and operating leverage. With ramp up in production in Sri City plant, revenue is likely to increase at a faster pace FY25 onwards. In line with increase in EBITDA, we have increased our PAT estimates.

## Earnings Call KTAs

### RAC demand

- While the RAC industry de-grew ~10% during Q1FY24, Blue Star de-grew at the lower rate on account of significant contribution of B2B business
- In FY24, the RAC market size is expected to grow at a rate of 10-15% , BS is expected to grow at similar pace. In volume terms, Blue Star aims to grow, from 0.8mn in FY23 to 1mn units in FY24.
- Amid the distressed summer demand, only slight inventory pressures were witnessed owing to the localisation of the component eco system and supply chain. There were no significant changes in the working capital and asset turns remained unchanged. While dealers did not stock up and were cautious in their approach, some pockets may have higher than normal inventory.

### Unitary Products

- Major regions (like North) witnessed distressed summers, dampened by unseasonal rainfall resulting in flat RAC demand. However the commercial refrigeration (RF) business saw traction across categories from hospitality, pharma, processed foods, educational and commercial sectors.
- The modular cold rooms division saw demand from warehousing and logistics sectors apart from QSR and hospitality sectors.
- The company continued to maintain leadership position in deep freezers, storage water coolers, and modular cold rooms.
- In commercial refrigeration, some orders received during the quarter were from the New Parliament House, DHL & Nestle India.

### EMP & CAC Segment

- Order book witnessed healthy additions from factories and data centres. There was an uptick in orders from hospitals and the hospitality sector while demand from commercial building was lower than anticipated.
- Inquiries and tenders in the railway electrification and metro railways continued in Q1FY24.
- The CAC business saw traction from Government, industrial, healthcare, education and retail.
- Leadership position maintained in conventional and inverted ducted ACs and scroll chillers, and #2 position in VRF & screw chillers. The company also received significant orders for the recently launched centrifugal chillers.
- The ongoing construction cycle has provided a healthy enquiry pipeline (like airport , healthcare, hospitality enquiries) with a number of orders under finalisation. The company continues to focus on acquiring high quality orders and higher profitability over market share gains in the segment. Blue star is also seeing traction in Tier 3, 4, 5 cities.
- Carried forward order book in EMP stood at Rs 40.4bn as on 30th June'23 vs Rs 27.8bn as on 30th June'22.
- In the EMP segment, major orders bagged in the quarter were from Indusl Bank and Maruti Suzuki. In the CAC segment, orders were from Foxconn Technology, IOCL and Mindspace Business Parks.

### International Business

- During the quarter, opportunities in the middle-east were upbeat with notable Government investments in Saudi Arabia. This led to strong demand in B2B across territories , as well as good RAC demand. Blue Star continued to witness order inflows from Qatar as well.
- JV in Malaysia is witnessing gradual revival after a prolonged conflicts and weak macroeconomic conditions in the country.
- Blue Star is in the initial stages of its operations in the EU and North American markets. While R&D and testing for international markets takes 12-16 months, some trial orders are underway for anchor customers. The pending order book comprises projects in the EMP and CAC businesses. A defined strategy is expected to develop in ~6 months.

### PE & IS Segment

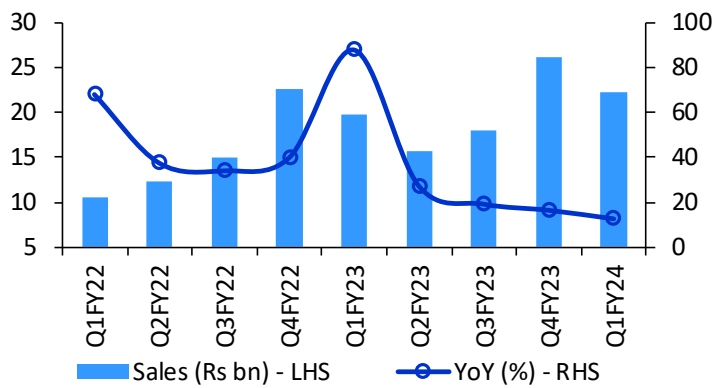
- The business benefitted from the rising capex across segments, increased penetration and investments in the healthcare business.
- The non-destructive testing business continued to gain momentum during the quarter

### Fund Raise

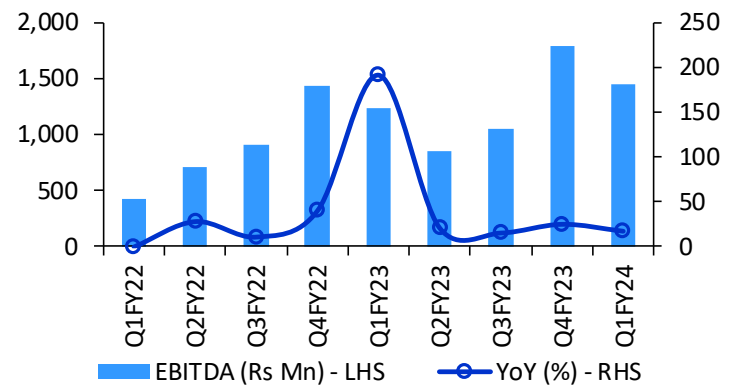
- Going ahead, the company aims to improve backward integration, expand its product portfolio and invest in R&D.
- Blue Star is raising Rs 10bn primarily in equity (QIP) to fund its future growth plans for the Sri City plant, general corporate purposes and for the partial retirement of debt.
- At present, gross debt stands at Rs 6bn and net debt is at Rs 2.8bn
- Company will follow optimum capital structure, not being over leveraged. Capital raise will not make Blue Star debt free, working capital financing will continue by way of debt.

### Other Highlights

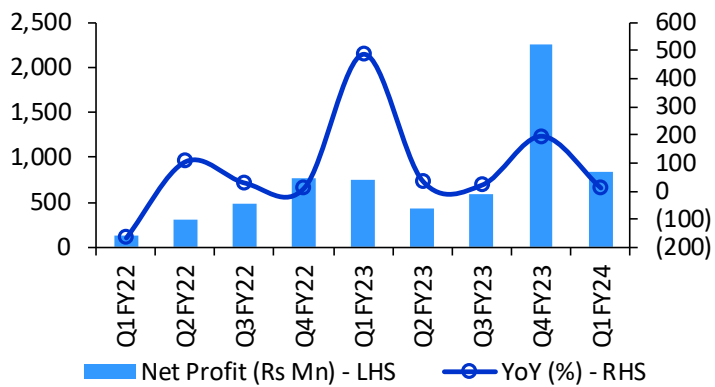
- Net borrowing stood in Jun'23 was at Rs 2.8bn vs net cash of Rs 0.8bn as of June'22
- At current, sub-optimal RAC industry size (~8-10mn units), compressor manufacturing is unviable and dependence on global compressor manufacturers is more feasible. In addition, the production of complex and varied range of compressors (~60-70 varieties) for a small industry is unviable. Management stated that for Blue Star to consider this business, it would have to first achieve ~2mn units (from ~0.8mn at present).

**Exhibit 4: Sales & YoY Growth (%)**


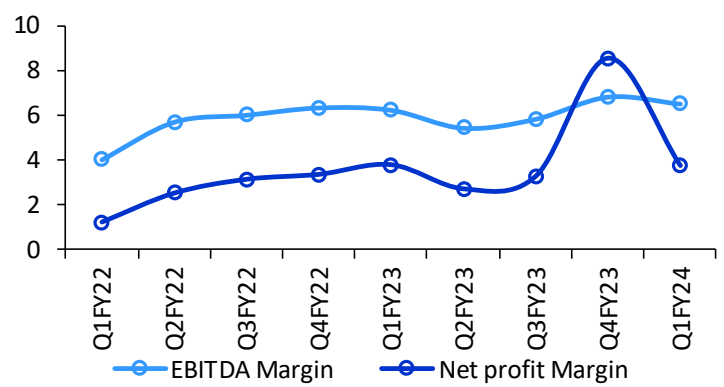
Source: Company, DART

**Exhibit 5: EBITDA & YoY Growth (%)**


Source: Company, DART

**Exhibit 6: Net Profit and YoY Growth (%)**


Source: Company, DART

**Exhibit 7: EBITDA and Net Profit Margins (%)**


Source: Company, DART

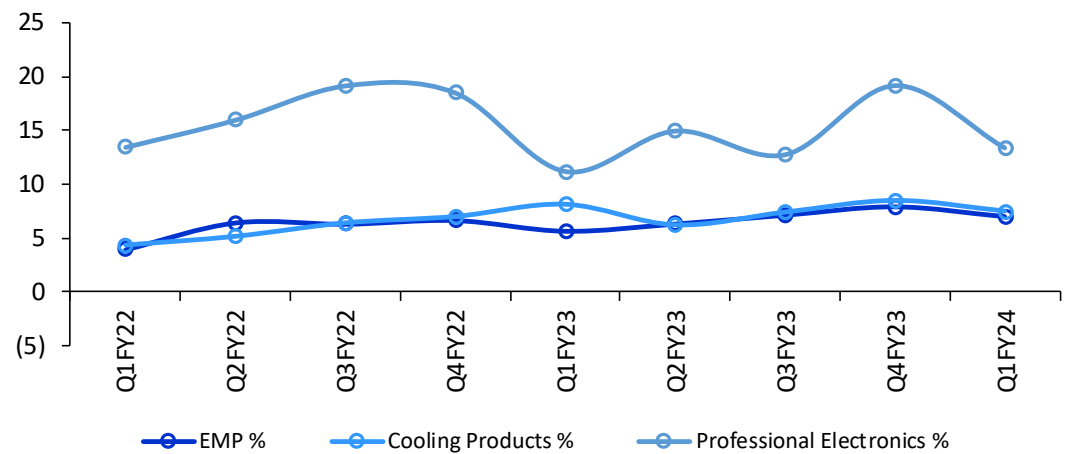
**Exhibit 8: Trend in Copper Prices (US\$/MT)**


Source: Company, DART

**Exhibit 9: Trend in Aluminum Prices (US\$/MT)**


Source: Company, DART

**Exhibit 10: Segment EBIT Margin (%)**



Source: Company, DART

## Financial Performance

### Profit and Loss Account

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>60,641</b>	<b>79,773</b>	<b>94,668</b>	<b>110,450</b>
<b>Total Expense</b>	<b>57,176</b>	<b>74,845</b>	<b>88,446</b>	<b>102,611</b>
COGS	47,332	61,817	72,731	84,055
Employees Cost	5,086	5,914	7,479	9,167
Other expenses	4,759	7,114	8,236	9,388
<b>EBIDTA</b>	<b>3,465</b>	<b>4,928</b>	<b>6,221</b>	<b>7,839</b>
Depreciation	860	848	920	1,000
<b>EBIT</b>	<b>2,605</b>	<b>4,080</b>	<b>5,301</b>	<b>6,839</b>
Interest	464	547	614	529
Other Income	357	309	284	276
Exc. / E.O. items	0	1,708	0	0
<b>EBT</b>	<b>2,498</b>	<b>5,550</b>	<b>4,972</b>	<b>6,586</b>
Tax	829	1,547	1,336	1,770
RPAT	1,677	4,005	3,636	4,816
Minority Interest	(8)	(2)	1	1
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>APAT</b>	<b>1,677</b>	<b>2,612</b>	<b>3,636</b>	<b>4,816</b>

### Balance Sheet

(Rs Mn)	FY22A	FY23A	FY24E	FY25E
<b>Sources of Funds</b>				
Equity Capital	193	193	385	385
Minority Interest	30	32	32	32
Reserves & Surplus	9,983	13,114	16,750	21,565
<b>Net Worth</b>	<b>10,176</b>	<b>13,307</b>	<b>17,135</b>	<b>21,951</b>
Total Debt	4,778	5,776	5,977	5,546
Net Deferred Tax Liability	(276)	(79)	(79)	(79)
<b>Total Capital Employed</b>	<b>14,708</b>	<b>19,035</b>	<b>23,065</b>	<b>27,449</b>

### Applications of Funds

Net Block	4,289	8,710	9,845	11,045
CWIP	1,451	609	609	609
Investments	1,734	1,584	1,929	2,072
<b>Current Assets, Loans &amp; Advances</b>	<b>35,376</b>	<b>43,008</b>	<b>50,246</b>	<b>56,956</b>
Inventories	11,442	14,334	16,962	19,679
Receivables	11,897	15,488	17,637	20,274
Cash and Bank Balances	2,697	2,473	1,992	1,064
Loans and Advances	302	206	516	607
Other Current Assets	9,039	10,508	13,139	15,332
<b>Less: Current Liabilities &amp; Provisions</b>	<b>28,143</b>	<b>34,876</b>	<b>39,564</b>	<b>43,232</b>
Payables	20,417	25,112	29,567	31,773
Other Current Liabilities	7,726	9,764	9,996	11,459
<i>sub total</i>				
Net Current Assets	7,234	8,132	10,682	13,723
<b>Total Assets</b>	<b>14,708</b>	<b>19,035</b>	<b>23,065</b>	<b>27,449</b>

E – Estimates

### Important Ratios

Particulars	FY22A	FY23A	FY24E	FY25E
<b>(A) Margins (%)</b>				
Gross Profit Margin	21.9	22.5	23.2	23.9
EBIDTA Margin	5.7	6.2	6.6	7.1
EBIT Margin	4.3	5.1	5.6	6.2
Tax rate	33.2	27.9	26.9	26.9
Net Profit Margin	2.8	5.0	3.8	4.4
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	78.1	77.5	76.8	76.1
Employee	8.4	7.4	7.9	8.3
Other	7.8	8.9	8.7	8.5
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.5	0.4	0.3	0.3
Interest Coverage	5.6	7.5	8.6	12.9
Inventory days	69	66	65	65
Debtors days	72	71	68	67
Average Cost of Debt	10.0	10.4	10.4	9.2
Payable days	123	115	114	105
Working Capital days	44	37	41	45
FA T/O	14.1	9.2	9.6	10.0
<b>(D) Measures of Investment</b>				
AEPS (Rs)	8.7	13.6	18.9	25.0
CEPS (Rs)	13.2	18.0	23.7	30.2
DPS (Rs)	2.0	5.0	6.0	6.0
Dividend Payout (%)	23.1	36.9	31.8	24.0
BVPS (Rs)	52.8	69.1	89.0	114.0
RoANW (%)	17.6	34.1	23.9	24.6
RoACE (%)	15.4	16.8	20.2	21.2
RoAIC (%)	24.1	28.6	28.2	28.8
<b>(E) Valuation Ratios</b>				
CMP (Rs)	762	762	762	762
P/E	87.6	56.2	40.4	30.5
Mcap (Rs Mn)	146,848	146,848	146,848	146,848
MCap/ Sales	2.4	1.8	1.6	1.3
EV	147,479	148,853	149,405	149,758
EV/Sales	2.4	1.9	1.6	1.4
EV/EBITDA	42.6	30.2	24.0	19.1
P/BV	14.4	11.0	8.6	6.7
Dividend Yield (%)	0.3	0.7	0.8	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	42.2	31.6	18.7	16.7
EBITDA	44.5	42.2	26.3	26.0
EBIT	76.6	56.6	29.9	29.0
PBT	72.1	122.2	(10.4)	32.5
APAT	67.1	55.8	39.2	32.5
EPS	67.1	55.8	39.2	32.5

E – Estimates

## Cash Flow

Particulars	FY22A	FY23A	FY24E	FY25E
<b>Profit before tax</b>	<b>2,605</b>	<b>4,080</b>	<b>5,300</b>	<b>6,838</b>
Depreciation & w.o.	860	848	920	1,000
Net Interest Exp	357	309	284	276
Direct taxes paid	(390)	(926)	(1,336)	(1,770)
Change in Working Capital	(2,322)	(2,075)	(3,031)	(3,969)
Non Cash	(277)	83	1,349	1,157
<b>(A) CF from Operating Activities</b>	<b>833</b>	<b>2,319</b>	<b>3,487</b>	<b>3,532</b>
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(2,172)	(2,169)	(2,055)	(2,200)
<b>Free Cash Flow</b>	<b>(1,339)</b>	<b>150</b>	<b>1,432</b>	<b>1,332</b>
(Inc.) / Dec. in Investments	1,335	255	(344)	(143)
Other	0	0	0	0
<b>(B) CF from Investing Activities</b>	<b>(837)</b>	<b>(1,914)</b>	<b>(2,400)</b>	<b>(2,343)</b>
Issue of Equity/ Preference	0	0	193	0
Inc. / (Dec.) in Debt	230	998	201	(432)
Interest exp net	(464)	(663)	(614)	(529)
Dividend Paid (Incl. Tax)	(388)	(964)	(1,156)	(1,156)
Other	0	0	0	0
<b>(C) CF from Financing</b>	<b>(621)</b>	<b>(629)</b>	<b>(1,376)</b>	<b>(2,117)</b>
Net Change in Cash	(625)	(224)	(288)	(928)
<b>Opening Cash balances</b>	<b>3,322</b>	<b>2,697</b>	<b>2,473</b>	<b>1,992</b>
<b>Closing Cash balances</b>	<b>2,697</b>	<b>2,473</b>	<b>1,992</b>	<b>1,064</b>

E – Estimates

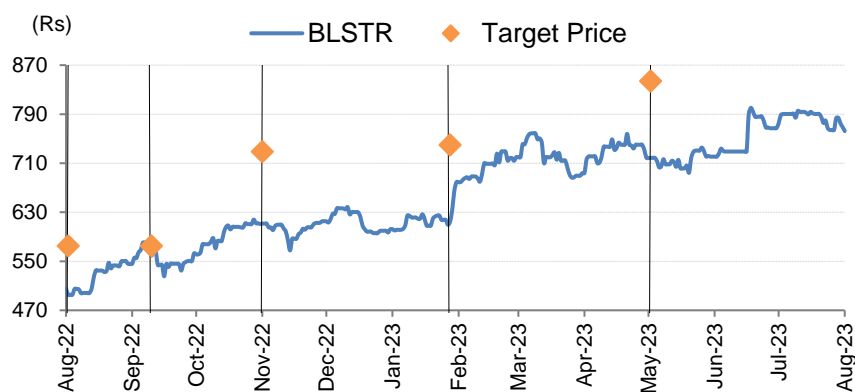
## Notes

## DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-22	Accumulate	575	495
Sep-22	Accumulate	575	559
Nov-22	BUY	729	612
Jan-23	BUY	740	614
May-23	BUY	844	719

\*Price as on recommendation date

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