

Blue Star (India) (BLSTR)

Consumer Durables | NBIE Conference Note

BUY

CMP: Rs1,898 | Target Price (TP): Rs2,180 | Upside: 15%

August 21, 2025

Strongly riding the B2B momentum

Key Points

- We hosted Nikhil Sohoni, CFO of Blue Star. During the interaction, he highlighted that demand in the EMPS segment has remained strong, while the UCP segment struggled, primarily due to weak performance in the RAC category. Management expects margins in the short term to remain in the range of 8-9% with meaningful improvement expected over the longer term.
- **UCP:** Blue Star reported margin contraction in the UCP segment this quarter. However, for the full year, the management is guiding for 5-10% growth, backed by expectations of a strong festive season, BEE efficiency changes, and the potential GST rate cut. Looking ahead, they believe operating leverage will play a key role in driving margin improvement.
- **In the RAC** segment, Blue Star's market share gains were driven by product diversification. The company continues to perform well in South India with its premium offerings, while its presence in North India remains modest with a single-digit share. To address demand across regions, Blue Star leverages manufacturing units in both North and South India to ensure nationwide availability.
- We have strong confidence in Blue Star's business model, especially its disciplined focus on profitability and free cash flow generation. We **upgraded the stock after its Q4FY25 results (note)** as we believed the weak summer season was already priced in. Since then, the stock has rallied ~20%. We continue to believe Blue Star is well placed to ride the RAC industry tailwinds with its B2B businesses also showing strong growth momentum. Backed by strong fundamentals and long-term growth drivers, we maintain our BUY rating with an SOTP-based TP of Rs2,180. This implies a blended P/E of 48x on FY27E earnings, in line with its 3Y average and at a ~5% premium to its 5Y average. We believe this valuation fairly reflects key strengths: (1) ~24% EPS CAGR over FY25-27E, and (2) ~19% post-tax RoCE by FY27E. In our view, Blue Star remains a solid long-term compounding story.

Margins stability with growth tailwinds: Blue Star expects near-term margins to hold at 8-9% with gradual improvement over the long run. Management highlighted that excess inventory will be cleared through steady sales in Q2 and Q3, rather than heavy discounting, while its ISD strategy continues to strengthen sales execution, visibility, and brand recall. For growth, the management is guiding for 5-10% RAC expansion this year, supported by festive demand and operating leverage, alongside 10-15% CAGR in commercial ACs and ~10% growth in commercial refrigeration. We believe Blue Star is well-placed to capitalize on these tailwinds with its diversified portfolio and disciplined approach to margins providing resilience and long-term compounding potential.

Expanding global and domestic reach: Blue Star continues to strengthen its exports business, supplying custom-designed heat pumps to a major OEM in the US. Management is also in active discussions with multiple clients across the US and Europe for future heat supplies. They highlighted that Blue Star remains competitive against China in the commercial air conditioning space, though competition is tougher in the RAC segment. To capture new growth, the company also plans to expand commercial AC sales into tier-2, tier-3, and tier-4 cities in India.

Est Change	No change
TP Change	Upwards
Rating Change	No change

Company Data and Valuation Summary

Reuters:	BLUS.BO
Bloomberg:	BLSTR IN Equity
Mkt Cap (Rsbn/US\$bn):	396.3 / 4.5
52 Wk H / L (Rs):	2,417 / 1,521
ADTV-3M (mn) (Rs/US\$):	1,326.9 / 15.4
Stock performance (%) 1M/6M/1yr:	4.4 / 0.6 / 12.9
Nifty50 performance (%) 1M/6M/1yr:	(0.2) / 0.2 / 1.1

Shareholding	3QFY25	4QFY25	1QFY26
Promoters	36.5	36.5	36.5
DII's	22.3	23.2	23.4
FII's	18.4	16.9	16.2
Others	22.9	23.5	23.9
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY24	FY25	FY26E	FY27E
Net Sales	96,854	119,677	141,968	167,264
Growth YoY (%)	21.4	23.6	18.6	17.8
Gross Margin (%)	23.7	24.2	25.2	25.5
EBITDA	6,649	8,759	10,619	13,013
EBITDA Margin (%)	6.9	7.3	7.5	7.8
Adj. PAT	4,150	5,784	7,269	8,921
Adj. PAT YoY Growth (%)	45.0	39.4	25.7	22.7
Adj. EPS (Rs)	20.2	28.1	35.4	43.4
RoCE (%)	18.0	18.6	18.1	18.4
ROE (%)	21.1	20.8	20.2	20.2
RoIC (%)	23.1	24.8	27.4	29.9
P/E	94.0	67.5	53.7	43.7
EV/EBITDA	58.0	43.8	35.4	28.8
P/BV	15.0	12.7	9.4	8.4

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Key Links–

[1QFY26 Results](#); [1QFY26 Press Release](#)

Please refer to the disclaimer towards the end of the document.

Exhibit 1: Change in Our Estimates

Description (Rsmn)	Changes in Estimates					
	FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)
Net Sales	141,968	141,968	-	167,264	167,264	-
EBITDA	10,619	10,619	-	13,013	13,013	-
EBITDA Margin (%)	7.5	7.5	0 bps	7.8	7.8	0 bps
Adj. PAT	7,269	7,269	-	8,921	8,921	-
Adj. EPS (Rs)	35.4	35.4	-	43.4	43.4	-

Source: Company, Nirmal Bang Institutional Equities Research

Conference Meet Highlights

Segment 1 – EMPS

- Blue Star management reported that Segment 1 performed well with growth in both value and volumes.
- Blue Star stated that EMPS project growth was higher, which supported stronger margins.
- Management maintained Segment 1 margins in the range of 7-7.5%, supported by services and CAC.

Segment 2 – UCP

- Blue Star noted that Segment 2 saw margin contraction, mainly due to weak performance in the RAC segment.
- Management aims to manage costs in Segment 2; operating leverage is expected to improve margins over time.
- Blue Star highlighted that Q2 will be critical with the festive season expected to drive margin improvement.
- Management guided for 5-10% RAC growth for the full year, noting that a weak Q1 is often followed by a stronger festive season.
- Blue Star expects Q2 and Q3 to also perform better if consumer sentiment remains positive.

Room air conditioners (RAC)

- Management attributed RAC market share gains to product diversification.
- Blue Star remains strong in South India due to its premium product preference, while performance in North India has been weaker, which is dominated by affordable, single-digit share products.
- Management stated that manufacturing units in both North and South India ensure product availability across the country.

US and export business

- Blue Star supplies custom-designed heat pumps to a major OEM in the US.
- Management is in discussions with multiple clients in the US and Europe for heat pump supplies.
- Blue Star does not plan to introduce its own brand in the US market.
- Management said the company is competitive against China in commercial air conditioning but not in RAC.

Inventory and supply chain/backward integration

- Blue Star currently holds 30 days of excess inventory compared to the average of 45 days.
- Management expects Q2 and Q3 to see strong sales before the new BEE rating norms take effect, helping reduce excess inventory.
- Blue Star imports compressors, motors, and other electrical components that contribute 60% of production needs, with 40% built in-house.
- Management has short-term strategies for sourcing, medium-term tie-ups for compressors, and will evaluate long-term build vs. outsource options.
- Blue Star has no plans to manufacture compressors but will ensure adequate stock to support volume growth.

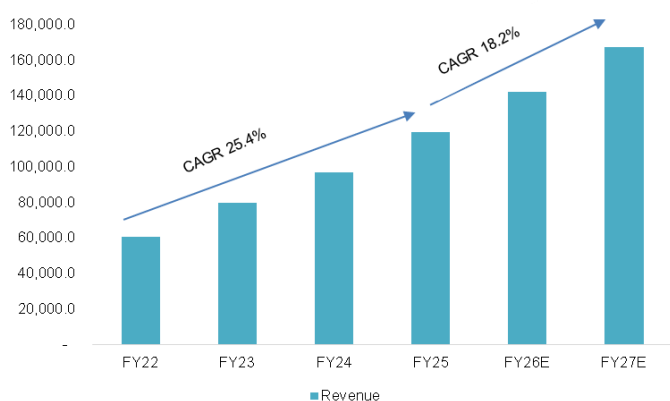
Commercial air conditioning and refrigeration

- Management expects the commercial air conditioning industry to clock 10-15% CAGR.
- Blue Star plans to expand commercial AC sales in tier-2, tier-3, and tier-4 cities.
- Blue Star targets annual growth of 10% in commercial refrigeration.

Margins and strategic outlook

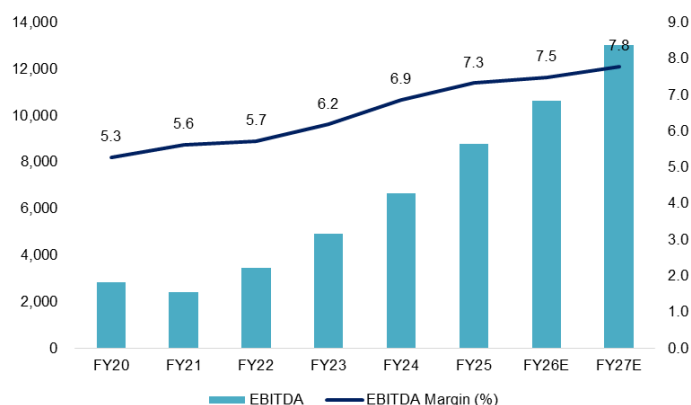
- Blue Star expects short-term margins to remain around 8-9% with a long-term margin improvement outlook.
- Management clarified that excess stock will not be cleared through heavy discounting; instead, Q2 and Q3 sales performance will dictate inventory clearance.
- Management places strong emphasis on the ISD strategy, which drives sales, increases visibility, builds brand recall, and justifies continued investment.

Exhibit 2: We expect Blue Star to deliver revenue CAGR of ~18% from FY25-FY27E



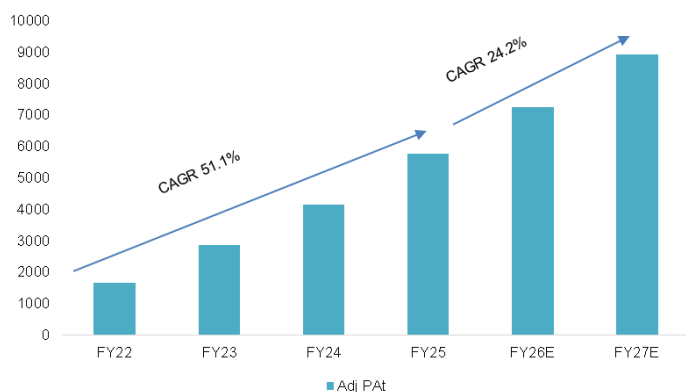
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 3: EBITDAM to expand by ~50bps by FY27E



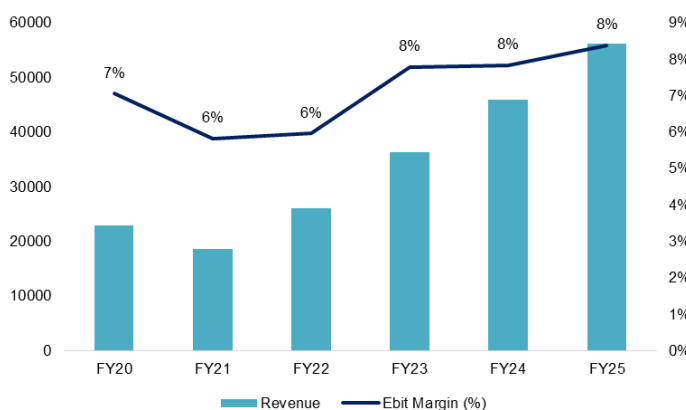
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: We expect Blue Star to deliver a PAT CAGR of ~24% from FY25-FY27E



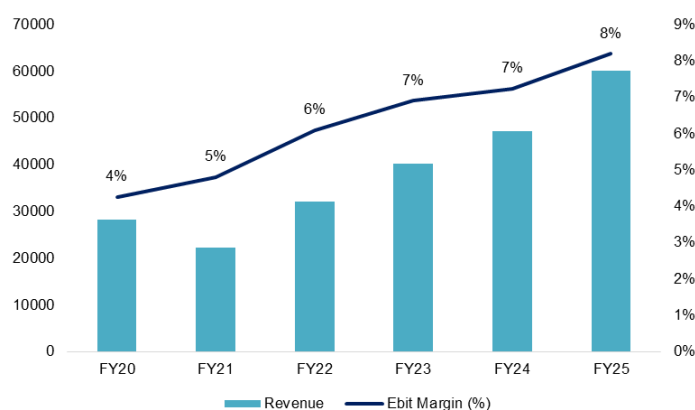
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: UCP segment trend



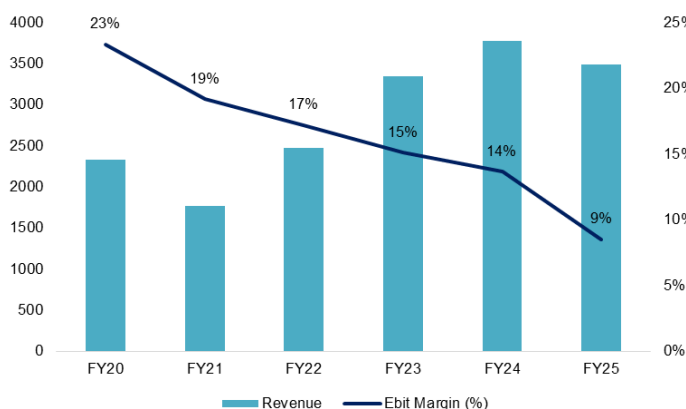
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: EMPS segment trend



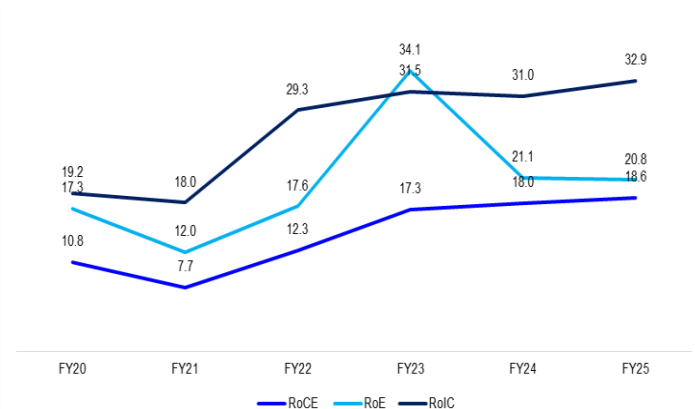
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 7: Professional segment



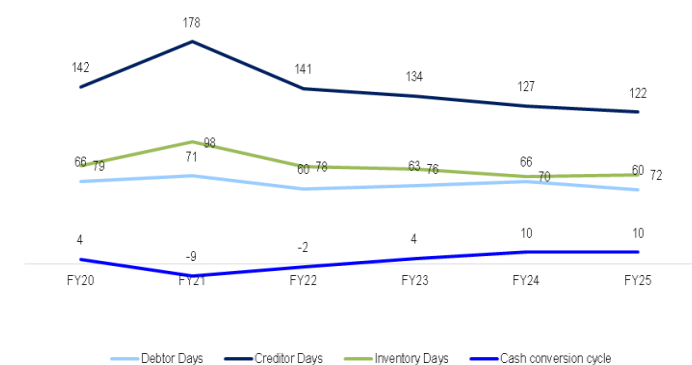
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 8: Return ratio



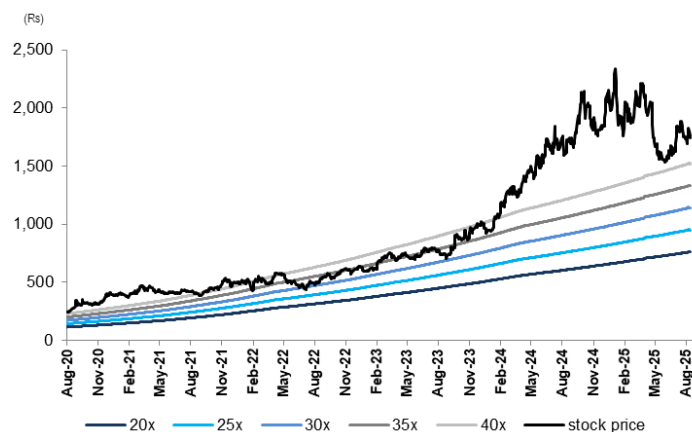
Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash conversion cycle stable at 10 days

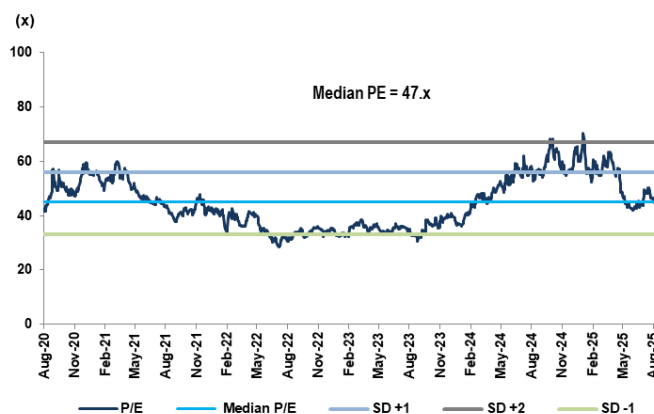


Source: Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 10: One-year rolling forward P/E



Source: Bloomberg, Nirmal Bang Institutional Equities Research



Source: Bloomberg, Nirmal Bang Institutional Equities Research

Financials

Exhibit 11: Income Statement

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Net Sales	79,773	96,854	119,677	141,968	167,264
% growth	31.6	21.4	23.6	18.6	17.8
Gross Profit	17,957	22,934	28,933	35,776	42,652
Gross Margin (%)	22.5	23.7	24.2	25.2	25.5
Staff cost	5,922	7,495	9,189	11,357	13,381
% of sales	7.4	7.7	7.7	8.0	8.0
Other expenses	7,107	8,790	10,985	13,800	16,258
% of sales	8.9	9.1	9.2	9.7	9.7
EBITDA	4,928	6,649	8,759	10,619	13,013
% growth	42.2	34.9	31.7	21.2	22.6
EBITDA margin (%)	6.2	6.9	7.3	7.5	7.8
Depreciation	848	976	1,284	1,280	1,373
EBIT	4,080	5,673	7,476	9,339	11,641
Interest	547	581	488	419	553
Other income	309	474	750	790	830
PBT (bei)	3,842	5,567	7,738	9,709	11,918
PBT	5,550	5,567	7,863	9,709	11,918
ETR	27.9	25.7	24.6	25.2	25.2
PAT	4,005	4,150	5,909	7,269	8,921
Adj PAT	2,862	4,150	5,784	7,269	8,921
% growth	70.7	45.0	39.4	25.7	22.7

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Balance Sheet

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
Share capital	193	411	411	411	411
Reserves	13,114	25,690	30,239	41,055	46,276
Net worth	13,307	26,101	30,650	41,466	46,687
Short-term Loans	4,159	1,666	1,994	3,250	3,250
Long-term Loans	1,617	-	-	-	-
Total Loans	5,776	1,666	1,994	3,250	3,250
Net Debt	3,344	(2,108)	(2,262)	(10,286)	(10,952)
Other non-current liabilities	-	-	-	-	-
Total Equity & Liabilities	19,115	27,793	32,670	44,742	49,963
Gross Block	12,353	16,043	20,837	25,702	29,202
Depreciation	4,354	5,330	6,614	7,893	9,266
Net Block	7,999	10,713	14,224	17,809	19,936
CWIP	1,423	2,203	2,365	2,000	2,000
Other non-current assets	-	-	-	-	-
Investments	1,481	2,668	4,321	4,321	4,321
Trade receivables	15,488	19,526	19,594	23,656	27,534
Inventories	14,334	14,072	21,492	19,424	25,610
Cash & Cash Equivalents	2,433	3,774	4,256	13,536	14,202
Other Current assets	11,235	13,155	16,236	16,353	19,327
Total Current assets	43,490	50,526	61,577	72,968	86,673
Trade payables	25,112	26,166	34,276	36,420	44,264
Other current liabilities	10,246	12,154	15,495	15,891	18,658
Total current liabilities	35,358	38,320	49,771	52,310	62,922
Total Assets	19,115	27,793	32,670	44,742	49,963

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Cash Flow

Y/E March (Rsmn)	FY23	FY24	FY25	FY26E	FY27E
PBT	3,842	5,567	7,738	9,709	11,918
Depreciation	2,556	976	1,409	1,280	1,373
Other adjustments	2	11	(17)	3	3
Change in Working capital	(1,162)	(2,732)	882	428	(2,428)
Tax paid	(1,351)	(1,352)	(1,888)	(2,444)	(3,000)
Operating cash flow	4,433	3,050	8,611	9,396	8,419
Capital expenditure (-)	(4,419)	(4,470)	(4,957)	(4,500)	(3,500)
Free cash flow	14	(1,420)	3,654	4,896	4,919
Other investing activities	-	-	-	-	-
Investing cash flow	(4,419)	(4,470)	(4,957)	(4,500)	(3,500)
Issuance of share capital	-	219	-	-	-
Movement of Debt	998	(4,110)	327	1,256	-
Dividend paid (incl DDT)	(963)	(2,673)	(2,673)	(3,290)	(3,701)
Other financing activities	(402)	(1,774)	(2,140)	(419)	(553)
Financing cash flow	(367)	(8,339)	(4,486)	(2,453)	(4,253)
Net change in cash flow	(353)	(9,758)	(831)	2,443	666
Opening cash	2,697	2,433	3,774	4,256	13,536
Closing cash	2,433	3,774	4,256	13,536	14,202

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Key Ratios

Y/E March	FY23	FY24	FY25	FY26E	FY27E
Per Share (Rs)					
EPS	13.9	20.2	28.1	35.4	43.4
Book value	64.7	126.9	149.1	201.7	227.1
DPS	10.0	13.0	13.0	16.0	18.0
Valuation (x)					
P/Sales	4.89	4.03	3.26	2.75	2.33
EV/EBITDA	79.6	58.0	43.8	35.4	28.8
P/E	136.3	94.0	67.5	53.7	43.7
P/BV	29.3	15.0	12.7	9.4	8.4
Return ratio (%)					
RoCE	17.3	18.0	18.6	18.1	18.4
RoCE (Pre- Tax)	23.9	24.2	24.7	24.1	24.6
RoE	34.1	21.1	20.8	20.2	20.2
RoIC	22.8	23.1	24.8	27.4	29.9
Profitability ratio (%)					
Gross Margin	22.5	23.7	24.2	25.2	25.5
EBITDA margin	6.2	6.9	7.3	7.5	7.8
PAT margin	3.6	4.3	4.8	5.1	5.3
Liquidity ratios (%)					
Current ratio	1.2	1.3	1.2	1.4	1.4
Quick ratio	0.8	1.0	0.8	1.0	1.0
Solvency ratio (x)					
Net Debt-equity	0.3	(0.1)	(0.1)	(0.2)	(0.2)
Turnover ratio					
Fixed Asset turnover ratio (x)	4.7	4.1	4.0	3.7	3.5
Debtor days	63	66	60	66	65
Inventory days	76	70	72	72	81
Creditor days	134	127	122	135	140
Net Working capital days	4	10	10	3	6

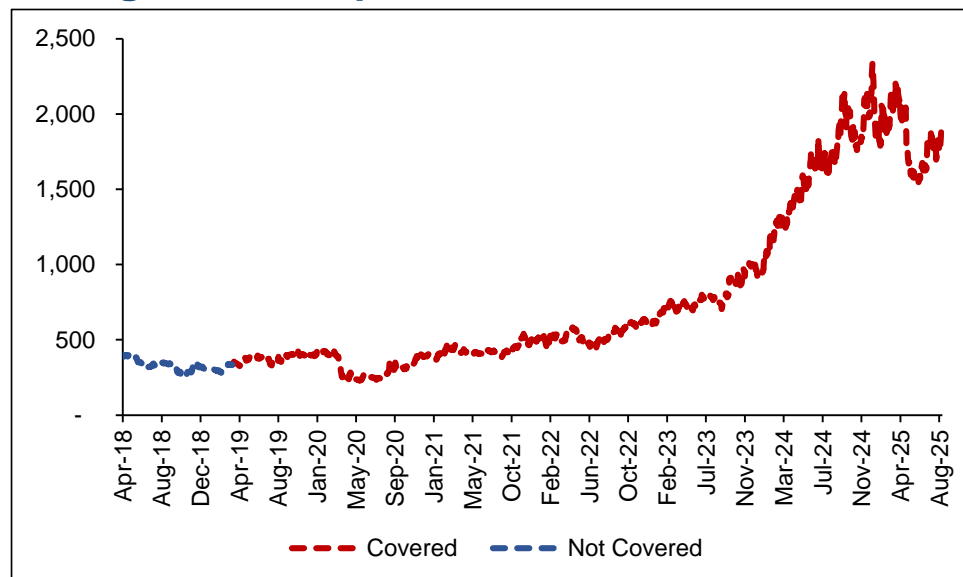
Source: Company, Nirmal Bang Institutional Equities Research

Rating Track

Date	Rating	Market price (Rs)	Target price (Rs)
29 March 2019	Buy	335	408
9 April 2019	Buy	343	408
6 May 2019	Buy	349	418
9 July 2019	Buy	367	418
14 August 2019	Buy	354	418
23 September 2019	Buy	398	483
7 October 2019	Buy	403	483
15 November 2019	Buy	406	485
9 January 2020	Buy	413	485
31 January 2020	Buy	416	485
26 March 2020	Buy	258	428
9 April 2020	Buy	252	428
13 May 2020	Buy	235	273
9 July 2020	Buy	245	273
8 August 2020	Buy	249	288
23 September 2020	Hold	324	335
9 October 2020	Hold	316	335
29 October 2020	Hold	314	330
7 January 2021	Hold	401	420
31 January 2021	Buy	368	438
9 April 2021	Buy	456	438
10 May 2021	Hold	422	425
05 August 2021	Hold	429	410
26 September 2021	Hold	449	445
30 October 2021	Hold	480	475
03 February 2022	Hold	498	488
21 February 2022	Hold	525	523
08 May 2022	Hold	536	600
07 August 2022	Buy	496	600
19 September 2022	Buy	568	670
06 November 2022	Buy	612	705
1 February 2023	Buy	615	708
22 March 2023	Hold	724	755
6 May 2023	Hold	717	770
05 August 2023	Hold	762	745
31 October 2023	Buy	874	1,015
30 December 2023	Buy	945	1,100
31 January 2024	Hold	1,099	1,215
03 May 2024	Hold	1,448	1,435
07 August 2024	Hold	1,627	1,544
13 October 2024	Hold	2,019	1,925
07 November 2024	Hold	1,774	1,725
26 December 2024	Hold	1,798	1,915
30 January 2025	Hold	1,798	1,995
09 May 2025	Buy	1,608	1,961
8 August 2025	Buy	1,822	2,105
21 August 2025	Buy	1,898	2,180

Share price has been adjusted for 1:1 Bonus

Rating Track Graph



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Stock Ratings Absolute Returns

BUY > 15%

HOLD -5% to 14%

SELL < -5%

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