

**CMP: INR 762**

**Outlook: Positive**

**Stock Info**

BSE	500067
NSE	BLUESTARCO
Bloomberg	BLSTR
Reuters	BLUS.NS
Sector	Consumer Durables
Face Value (INR)	2
Equity Capital (INR cr)	38.52
Mkt Cap (INR cr)	14,687
52w H/L (INR)	820/489
Avg Yearly Volume (in 000')	111.7

**Shareholding Pattern %**

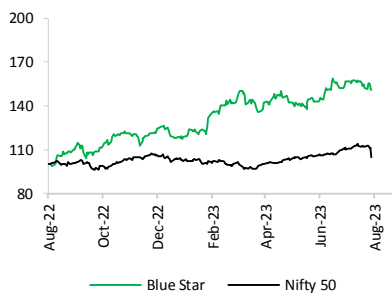
(As on Jun, 2023)

Promoters	38.91
DII	24.51
FII	11.06
Public & Others	25.54

**Stock Performance (%)**

	3m	6m	12m
BLUE STAR	6.1	12.3	51
NIFTY	1.4	3.1	4.5

**Blue Star vs Nifty**



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**Blue Star** reported numbers, Q1FY24 revenue stood at INR 2,226cr (+12.6% YoY/-15.2% QoQ); backed by growth across segments. Gross Profit stood at INR 494cr (+18.8% YoY/-19.2% QoQ); Gross margins improved by 116 bps YoY (down by 111 bps QoQ) to 22.2% vs 21% in Q1FY23. The margin improvement is mainly because of raw material cost increase in terms of sales. The raw material cost in terms of sales stood at 77.8% vs 79% in Q1FY23. EBITDA stood at INR 145cr (+17.6% YoY/-19.1% QoQ); EBITDA margin improved by 28 bps YoY (down by 31 bps QoQ) to 6.5% vs 6.2% in Q1FY23, because gross margins benefits were offset of increase in employee costs and other expenses. PAT stood at INR 83cr (+12.1% YoY/+53% QoQ); PAT margin contracted by 2 bps YoY to 3.7% (up by 167 bps QoQ) to 3.7% vs 3.8% in Q1FY23. Exceptional Items of INR 171cr excluded in Q4FY23.

**Key Highlights**

**Witnessed steady growth in unitary products despite unseasonal rain:** Unitary products revenue stood at INR 1,198cr (+6.3% YoY/-5.5% QoQ); EBIT Stood at INR 89cr (-2% YoY/-16.5% QoQ). EBIT margin contracted by 63 bps YoY (down by 98 bps QoQ) to 7.5% vs 8.1% in Q1FY23. Unitary products EBIT margin is expected around 8% to 8.5% in FY24. RAC's market share stood at 13.5% in Q1FY24. The company has gained market share marginally in Q1FY24. The company remains No.1 position in inverted ducted AC and 2<sup>nd</sup> Position in VRF and screw chillers. The capex is expected around INR 750cr for the next 3 years. The board has approved INR 1,000cr fundraising through QIP. In the Wada plant, 3 lakh RAC units are expected to reach 6 lakh units going forward. In the Sri City plant, the capacity expansion is for 3 phases. 1<sup>st</sup> phase capacity is around 3 lakh units and the total capacity is expected around 12 lakh units. RAC market is around 8mn units and expected to move to 10mn units in FY24 and 13mn units in FY25. Blue Star is targeting 1mn units in FY24; 1.2mn units/ 1.5mn units in FY25/26 respectively.

**EMP and Commercial AC witnessed continuous traction:** EMP & Commercial AC systems revenue stood at INR 949cr (+19.1% YoY/-24.2% QoQ); EBIT Stood at INR 67cr (+47.5% YoY/-32.8% QoQ). EBIT margin improved by 135 bps YoY (down by 90 bps QoQ) to 7% vs 5.7% in Q1FY23. EMP order inflow stood at INR 1,225cr (-10% YoY). The company witnessed healthy bookings from data centers and commercial buildings. Order inflow inquiries witnessed in Railway electrification and Metro railway sectors. In commercial AC, traction remains continued from the government, Industrial, healthcare, retail and educational sectors. Demand from Tier 3,4,5 cities is encouraging with the high value of orders.

**Professional electronics and Industrial systems backed by steady rise in corporate capex:** Professional electronics and Industrial systems revenue stood at INR 78cr (+48.9% YoY/-24.2% QoQ); backed by steady rise in corporate capex across segments. EBIT Stood at INR 10cr (+78.1% YoY/-47.1% QoQ). EBIT margin improved by 219 bps YoY (down by 579 bps QoQ) to 13.4% vs 11.2% in Q1FY23. NDT testing business witnessed traction in Q1FY24. The increased penetration and investments in the healthcare segment would create opportunities going forward.

**Outlook:** Blue Star has maintained a market of 13.5% in RAC and is expected to grow 10%-15% on top line in FY24. RAC margins are expected around 8%-8.5% in FY24. The company is targeting 1mn unit in FY24, while industry volumes are expected around 9mn to 10mn units in FY24. The capex of INR 750cr in the next 3 years would lead to additional revenue going forward. We have a positive outlook on the stock.

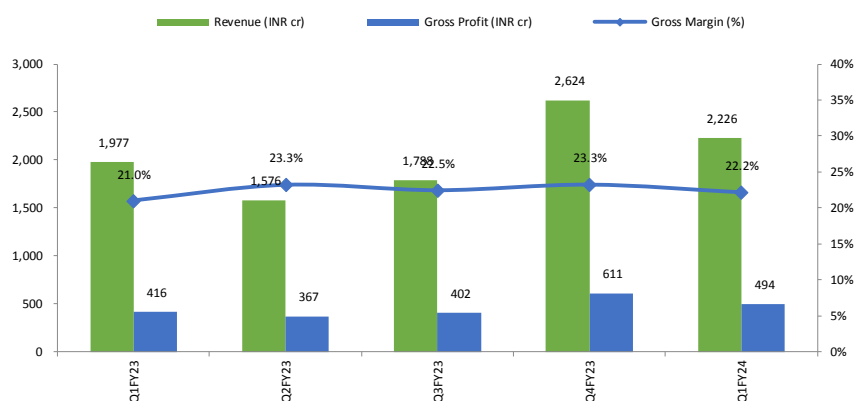
## Q1FY24 Results

## Income statement summary

Y/e 31 Mar (INR cr)	Q1FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Revenue	1,977	2,624	2,226	12.6%	-15.2%
Net Raw Materials	1,561	2,013	1,732	10.9%	-13.9%
Employee Cost	135	170	161	19.5%	-5.0%
Other Expenses	157	262	188	19.2%	-28.5%
<b>EBITDA</b>	<b>123</b>	<b>179</b>	<b>145</b>	<b>17.6%</b>	<b>-19.1%</b>
<b>EBITDA Margin (%)</b>	<b>6.2%</b>	<b>6.8%</b>	<b>6.5%</b>	<b>28 bps</b>	<b>-31 bps</b>
Depreciation	22	23	23		
Interest expense	11	18	18		
Other income	10.5	6.7	9.4		
Exceptional Items	-	-	-		
Share of profits associate & JV	(0)	1	-		
<b>Profit before tax</b>	<b>101</b>	<b>146</b>	<b>114</b>	<b>12.8%</b>	<b>-22.3%</b>
Taxes	26	92	30		
<b>PAT</b>	<b>74</b>	<b>54</b>	<b>83</b>	<b>12.1%</b>	<b>53.0%</b>
<b>PAT Margin</b>	<b>3.8%</b>	<b>2.1%</b>	<b>3.7%</b>	<b>-2 bps</b>	<b>167 bps</b>
Other Comprehensive income	4.5	(1.2)	(0.9)		
<b>Net profit</b>	<b>79</b>	<b>53</b>	<b>82</b>	<b>4.5%</b>	<b>54.7%</b>
<b>Net profit Margin (%)</b>	<b>4.0%</b>	<b>2.0%</b>	<b>3.7%</b>	<b>29 bps</b>	<b>167 bps</b>
<b>EPS (INR)</b>	<b>7.7</b>	<b>23.4</b>	<b>4.3</b>		

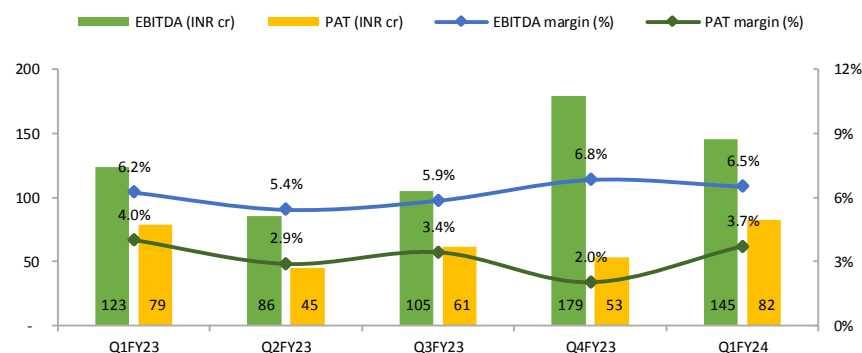
Source: Company Reports, Arihant Capital Research, Exceptional items are excluded in Q4FY23.

**Exhibit 1: Gross margins were improved by 116 bps YoY to 22.2% in Q1FY24 due to softening of raw material prices.**



Source: Company Reports, Arihant Capital Research

**Exhibit 2: EBITDA Margins improved by 28bps to 6.5% in Q1FY24, raw material cost benefits offset by increase in employee costs and other expenses.**



Source: Company Reports, Arihant Capital Research, Exceptional items are excluded in Q4FY23.

**Q1FY24 Concall Highlights**

***Blue Star is targeting 1mn RAC units, while industry volume is expected around 9mn – 10mn units in FY24.***

***RAC margins are expected around 8%-8.5% in FY24.***

***Capex is expected around INR 750cr over next 3 years.***

**Revenue**

- The RAC industry is expected to grow 10%-15% and the company is expected to grow same range in FY24.

**Margins**

- RAC margins are expected around 8% to 8.5% in FY24.

**Market share**

- RAC's market share stood at 13.5% in Q1FY24. The company has gained market share marginally in Q1FY24.
- The company remains No.1 position in inverted ducted AC and 2nd Position in VRF and screw chillers.

**Capex**

- The capex is expected around INR 750cr for the next 3 years. The board has approved INR 1,000cr fundraising through QIP.
- In the Wada plant, 3 lakh RAC units are expected to reach 6 lakh units going forward.
- In the Sri City plant, the capacity expansion is for 3 phases. 1st phase capacity is around 3 lakh units and the total capacity is expected around 12 lakh units.
- In Sri City plant has 20 acres and the company has acquired 40 acres of land for expansion.

**Industry volume and Blue Star target**

- RAC market is around 8mn units and expected to move to 10mn units in FY24 and 13mn units in FY25.
- China's domestic market size is around 90mn units.
- Blue Star is targeting 1mn units in FY24; 1.2mn units/ 1.5mn units in FY25/26 respectively. The company will evaluate the compressor plant once it reaches 2mn units.
- In India, the compressor market size is low and 60 to 70 types of compressors are there.

**Q1FY24 Concall Highlights****EMP**

- EMP order inflow stood at INR 1,225cr (-10% YoY). The company witnessed healthy bookings from data centers and commercial buildings. Order inflow inquiries witnessed in Railway electrification and Metro railway sectors.
- EMP order book stood at INR 4,038 (+45.4% YoY).
- Major orders received from IndusInd Bank- Chennai, Maruti Suzuki.

**Commercial AC**

- In Commercial AC, 60% of the products sold were sourced from China. Around 7% of the cost for packaging and ocean freight and transportation were around 16%-17%.
- In commercial AC, traction remains continued from the government, Industrial, healthcare, retail and educational sectors. Demand from Tier 3,4,5 cities is encouraging with the high value of orders.

**Professional electronics and Industrial systems**

- NDT testing business witnessed traction in Q1FY24. The increased penetration and investments in the healthcare segment would create opportunities going forward.

**International Business**

- Demand from the middle east remains strong; Qatar's demand remains moderate and JV operations in Malaysia are slowly bouncing back.

**Region-wise growth**

- Tamilnadu region grew by 30% YoY and Kolkata region grew by 40% YoY in Q1FY24. Gujarat region grew by 30% YoY in Q1FY24.
- North region growth was impacted, while North East witnessed flat growth in Q1FY24.

**Other highlights**

- Capital employed increased from INR 1,018cr to INR 1,700cr in Q1FY24.
- RAC industry de-grew by 10% in Q1FY24.
- Gross debt stood at INR 600cr and net debt stood around INR 285cr.
- The company continues to invest in manufacturing capacity expansion for growth and improve profitability through localization.

## Financial Statements

## Income statement summary

Y/e 31 Mar (INR cr)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Revenue	4,385	4,639	5,235	5,360	4,264	6,064	7,977
Net Raw Materials	3,112	3,455	3,931	4,018	3,271	4,733	6,182
Freight and forwarding	57	74	87	84	68	84	107
Employee Cost	339	398	421	485	382	509	591
Other Expenses	654	447	448	491	303	391	604
<b>EBITDA</b>	<b>222</b>	<b>266</b>	<b>347</b>	<b>283</b>	<b>240</b>	<b>346</b>	<b>493</b>
<b>EBITDA Margin (%)</b>	<b>5.1%</b>	<b>5.7%</b>	<b>6.6%</b>	<b>5.3%</b>	<b>5.6%</b>	<b>5.7%</b>	<b>6.2%</b>
Depreciation	(61)	(64)	(75)	(88)	(92)	(86)	(85)
Interest expense	(38)	(29)	(48)	(29)	(65)	(46)	(55)
Other income	35	17	25	45	62	36	31
<b>Profit before tax</b>	<b>160</b>	<b>194</b>	<b>232</b>	<b>209</b>	<b>148</b>	<b>251</b>	<b>555</b>
Taxes	(37)	(49)	(42)	(65)	(47)	(83)	(155)
<b>PAT</b>	<b>123</b>	<b>144</b>	<b>190</b>	<b>144</b>	<b>101</b>	<b>168</b>	<b>401</b>
<b>PAT Margin (%)</b>	<b>2.8%</b>	<b>3.1%</b>	<b>3.6%</b>	<b>2.7%</b>	<b>2.4%</b>	<b>2.8%</b>	<b>5.0%</b>
Other Comprehensive income	(4)	(2)	(3)	2	2	3	9
<b>Net profit</b>	<b>119</b>	<b>142</b>	<b>187</b>	<b>146</b>	<b>103</b>	<b>171</b>	<b>410</b>
<b>EPS (INR)</b>	<b>6.2</b>	<b>7.4</b>	<b>9.7</b>	<b>7.6</b>	<b>5.3</b>	<b>8.9</b>	<b>21.3</b>

Source: Company Reports, Aриhant Capital Research

## Balance sheet summary

Y/e 31 Mar (INR cr)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Equity capital	19	19	19	19	19	19	19.3
Reserves	738	774	854	763	866	998	1,311
<b>Net worth</b>	<b>757</b>	<b>793</b>	<b>873</b>	<b>782</b>	<b>885</b>	<b>1,018</b>	<b>1,331</b>
Minority Interest	1	2	2	2	3	3	3
Provisions	51	72	99	78	59	71	76
Debt	234	387	365	542	544	589	711
Other non-current liabilities	4	3	6	9	9	19	45
<b>Total Liabilities</b>	<b>1,047</b>	<b>1,256</b>	<b>1,345</b>	<b>1,414</b>	<b>1,500</b>	<b>1,700</b>	<b>2,166</b>
Fixed assets	244	274	281	274	269	306	706
Capital Work In Progress	22	18	31	56	68	145	61
Other Intangible assets	56	63	61	62	56	49	81
Investments	83	79	87	84	34	44	49
Other non current assets	177	205	210	292	241	282	247
<b>Net working capital</b>	<b>123</b>	<b>534</b>	<b>573</b>	<b>352</b>	<b>221</b>	<b>440</b>	<b>631</b>
Inventories	596	1,017	869	870	882	1,144	1,433
Sundry debtors	969	950	1,112	838	811	1,190	1,549
Loans & Advances	21	32	31	34	43	7	7
Other current assets	139	515	567	635	535	713	875
Sundry creditors	(1,177)	(1,533)	(1,535)	(1,582)	(1,605)	(2,042)	(2,511)
Other current liabilities & Prov	(426)	(448)	(471)	(443)	(445)	(571)	(722)
Cash	97	81	101	294	332	270	247
Other Financial Assets	247	1	-	-	279	164	144
<b>Total Assets</b>	<b>1,047</b>	<b>1,256</b>	<b>1,345</b>	<b>1,414</b>	<b>1,500</b>	<b>1,700</b>	<b>2,166</b>

Source: Company Reports, Aриhant Capital Research

## Financial Statements

## Cashflow summary

Y/e 31 Mar (INR cr)	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Profit before tax	160	194	232	209	148	251	555
Depreciation	61	64	75	88	92	86	85
Tax paid	(37)	(49)	(42)	(65)	(47)	(83)	(155)
Working capital Δ	(55)	(412)	(39)	222	131	(219)	(191)
<b>Operating cashflow</b>	<b>129</b>	<b>(203)</b>	<b>226</b>	<b>453</b>	<b>324</b>	<b>35</b>	<b>294</b>
Capital expenditure	(99)	(91)	(95)	(106)	(99)	(199)	(401)
<b>Free cash flow</b>	<b>30</b>	<b>(294)</b>	<b>131</b>	<b>347</b>	<b>225</b>	<b>(165)</b>	<b>(107)</b>
Equity raised	5	(22)	5	(4)	3	3	9
Investments	4	4	(8)	3	50	(10)	(5)
Others	159	210	(2)	(83)	(222)	81	23
Debt financing/disposal	(153)	154	(22)	178	2	45	123
Dividends paid	(2)	(86)	(115)	(230)	(1)	(39)	(96)
Other items	7	19	31	(18)	(20)	22	31
<b>Net Δ in cash</b>	<b>51</b>	<b>(16)</b>	<b>20</b>	<b>193</b>	<b>38</b>	<b>(63)</b>	<b>(22)</b>
<b>Opening Cash Flow</b>	<b>46</b>	<b>97</b>	<b>81</b>	<b>101</b>	<b>294</b>	<b>332</b>	<b>270</b>
<b>Closing Cash Flow</b>	<b>97</b>	<b>81</b>	<b>101</b>	<b>294</b>	<b>332</b>	<b>270</b>	<b>247</b>

Source: Company Reports, Arianth Capital Research

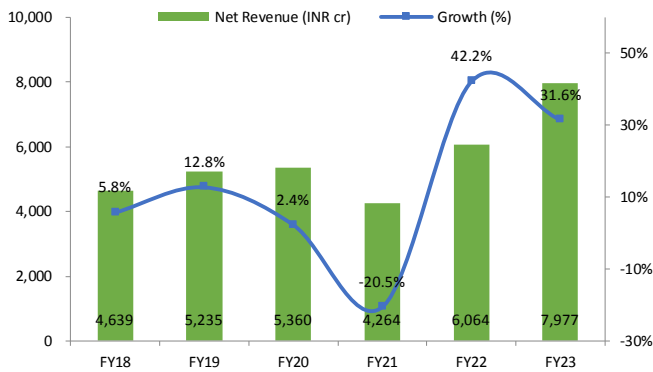
## Ratio analysis

Y/e 31 Mar	FY17	FY18	FY19	FY20	FY21	FY22	FY23
<b>Growth matrix (%)</b>							
Revenue growth	15.5%	5.8%	12.8%	2.4%	-20.5%	42.2%	31.6%
Op profit growth	3.5%	19.6%	30.3%	-18.4%	-15.2%	44.5%	42.2%
<b>Profitability ratios (%)</b>							
OPM	5.1%	5.7%	6.6%	5.3%	5.6%	5.7%	6.2%
Net profit margin	2.8%	3.1%	3.6%	2.7%	2.4%	2.8%	5.0%
RoCE	14.4%	14.2%	18.8%	12.0%	9.9%	12.5%	20.9%
RoNW	17.8%	18.6%	22.9%	17.4%	12.1%	17.7%	29.0%
RoA	11.8%	11.5%	14.2%	10.2%	6.7%	9.9%	15.3%
<b>Per share ratios (INR)</b>							
EPS	6.2	7.4	9.7	7.6	5.4	8.9	21.3
Dividend per share	0.1	4.5	6.0	11.9	0.1	2.0	5.0
Cash EPS	9.6	10.8	13.8	12.0	10.0	13.2	25.2
Book value per share	39.6	41.3	45.3	40.6	46.0	52.8	69.1
<b>Valuation ratios (x)</b>							
P/E	122.6	103.1	78.4	100.4	142.3	85.7	35.8
P/CEPS	79.2	70.3	55.3	63.3	76.1	57.8	30.2
P/B	19.2	18.5	16.8	18.8	16.6	14.4	11.0
EV/EBITDA	65.7	55.9	42.9	52.5	61.9	43.2	30.6
<b>Payout (%)</b>							
Dividend payout	1.5%	59.9%	60.6%	160.2%	1.2%	23.1%	24.1%
Tax payout	22.9%	25.5%	18.1%	31.3%	31.9%	33.0%	27.9%
<b>Liquidity ratios</b>							
Debtor days	75	76	72	66	71	60	63
Inventory days	66	85	88	79	98	78	76
Creditor days	99	113	115	112	145	116	111
WC Days	42	48	45	33	24	22	28
<b>Leverage ratios (x)</b>							
Interest coverage	4.3	7.0	5.7	6.6	2.3	5.6	7.5
Net debt / equity	0.2	0.4	0.3	0.3	0.2	0.3	0.3
Net debt / op. profit	0.6	1.2	0.8	0.9	0.9	0.9	0.9

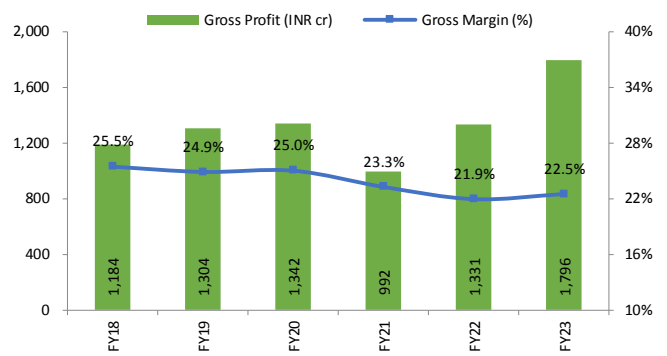
Source: Company Reports, Arianth Capital Research

**Story in Charts**

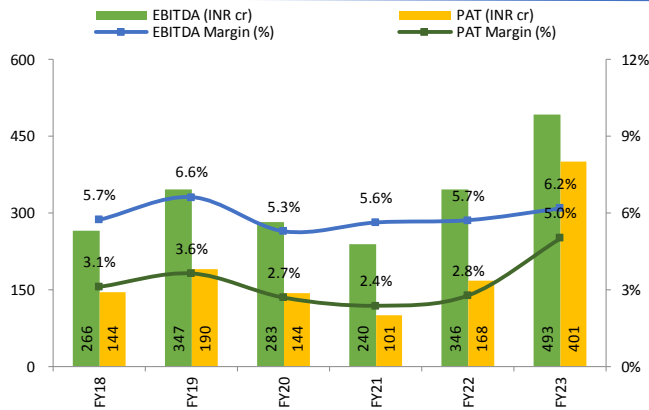
**Exhibit 3: Revenue grew at a CAGR 11.5% over the period of FY18-23.**



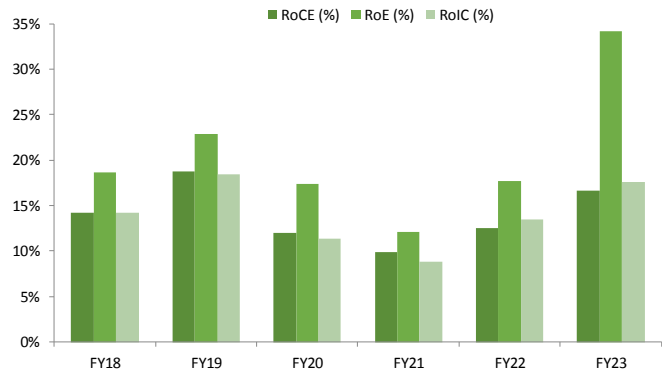
**Exhibit 4: Gross margins maintained above 20% over the period of FY18-23.**



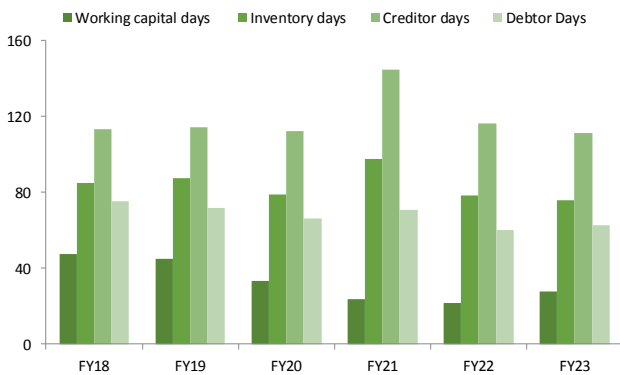
**Exhibit 5: Margins improved over the period of FY18-23. Unitary products margins are expected to be 8% to 8.5% in FY24.**



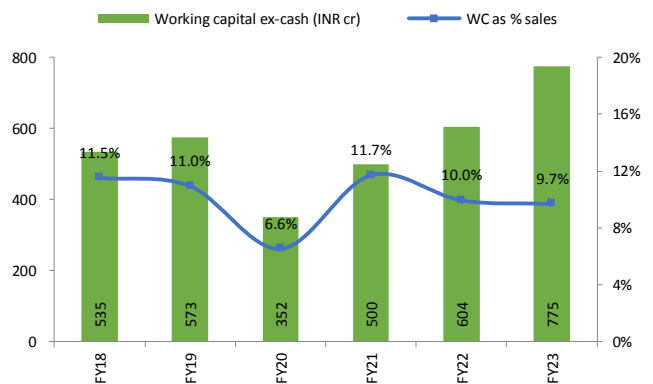
**Exhibit 6: Return ratios improved over the period of FY18-23.**



**Exhibit 7: Working capital days improved over the period of FY18-23.**



**Exhibit 8: Working capital as % of sales maintained over the period of FY18-23.**



Source: Company Reports, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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