

# Blue Star Ltd.

Nifty	17,610
Sensex	59,932

**Key Stock Data**

CMP	₹1,329.6/-
Target Price	₹1,472 (+10.7%)
Market Cap (₹bn)	₹128.1
52W High/Low	₹1,338/₹858
Shares o/s (mn.)	96.3
NSE Code	BLSTR:IN
BSE Code	BLUESTARCO
Bloomberg	500067

**Shareholding Pattern Dec'22 (%)**

Promoters	38.8
DII's	24.6
FII's	11.0
Public & Others	25.6

(₹ mn)				
Particulars	FY19	FY20	FY21	FY22
Revenues	52,348	53,602	42,636	60,456
EBITDA	3,456	2,828	2,398	3,456
EBITDA Margin (%)	6.6	5.3	5.6	5.7
Net Profit	1,901	1,432	1,004	1,677
EPS (₹)	19.5	15.3	10.4	17.4
DPS (₹)	10.0	10.0	14.0	10.0
RoE (%)	21.8	17.5	12.0	17.6
RoCE (%)	26.7	21.2	16.8	19.8
P/E (x)	68.2	86.9	127.8	76.3
EV/EBITDA (x)	36.2	43.8	51.5	37.6
P/BV (x)	13.8	15.3	16.1	14.3

Particulars	FY23E	FY24E	FY25E
Revenues	75,879	88,654	104,211
EBITDA	5,073	6,682	8,102
EBITDA Margin (%)	6.7	7.5	7.8
Net Profit	3,096	4,186	5,671
EPS (₹)	32.1	43.5	58.9
DPS (₹)	14.0	16.0	18.0
RoE (%)	28.6	32.7	35.1
RoCE (%)	27.3	28.3	36.9
P/E (x)	41.4	30.6	22.6
EV/EBITDA (x)	25.2	18.9	15.4
P/BV (x)	11.4	9.1	7.0

Source: Company, Way2Wealth

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**Summary**

**BLSTR's Revenue/EBITDA/PAT grew 18.7%/15.6%/23% YoY. UCP/EMPS segment's revenue grew by 15.1%/20.5% YoY to ₹7bn/₹10bn. Gross margin expanded by 90bps YoY to 22.5%. EBITDA grew by 15.6% YoY to ₹1bn. EBITDA margin contracted by 16bps YoY to 5.9%. Capital employed is higher as company is geared up and has higher inventory of components and finished goods for upcoming summer season. Inventory is not as issue for the industry.**

**EMPS carry forward order book at the end of Q3FY23 was up 47.3% YoY at ₹48.62bn. Order inflow for Q3FY23 grew by 97.1% YoY to ₹16.8bn. In the Electro Mechanical Projects business, carry forward order book stood at ₹36.85bn (+59.5% YoY). The company witnessed healthy order inflows from all segments, including the Data Centers segment and the Factory segment. The company also booked significant orders in Railway Electrification segment in Q3FY23. In CAC business, demand from the Government, Industrial, Healthcare and Hospitality sectors continued to be encouraging. The company continued to maintain its No 1 position in Conventional AC & Ducted AC as well as Scroll Chillers and 2nd position in VRFs and Screw Chiller category. In international business, the company witnessed growth across all segments and categories. While EMPS EBIT margin increased to 7.2% in Q3FY23 mainly on account of change in product mix, it has maintained 6-6.5% margin guidance for FY23 for the EMPS segment.**

**Despite a lean quarter, RAC business recorded 15% YoY growth in Q3FY23. Company grew in line with the market and maintained its market share of 13.25% at the end of Q3FY23. The management is targeting market share of 15% by FY25. It highlighted that Sri City has commenced commercial production and expects the facility to contribute 15% to annual RAC FY23 sales. The commercial refrigeration business witnessed growth across all segments with a substantial increase in consumption levels. Witnessed strong demand from tier 3, tier 4 and tier 5 cities. Received major orders for cold storages from the logistics sector. The company continued to maintain its leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms. It has maintained 8-8.5% margin guidance for FY23 for the UCP segment.**

**Professional Electronics and Industrial Systems (PEIS) segment revenues grew +29.3%/-6.7% YoY/QoQ to ₹862.1mn witnessing strong demand for healthcare and data centers..**

**Q3FY23 Result Highlights**

➤ **Strong Q3FY23 performance led by both EMPS & UCP segment –** Blue Star Q3FY23 revenue was at ₹15.9bn (+18.7% YoY; +13.4% QoQ). UCP/EMPS segment's revenue grew by 15.1%/20.5% YoY to ₹7bn/₹10bn. Gross margin expanded by 90bps YoY to 22.5%. EBITDA grew by 15.6% YoY to ₹1bn. EBITDA margin contracted by 16bps YoY to 5.9%. EBIT margin for the UCP/EMPS segment improved by 100bps/90bps YoY to 7.4%/7.2%. PAT grew by 23% YoY to ₹584mn. The company has changed its depreciation policy from WDV to straight line method resulting in lower depreciation to the tune of ₹100mn. Capital employed is higher as company is geared up and has higher inventory of components and finished goods for upcoming summer season. Inventory is not as issue for the industry.

➤ **Health order inflows in EMPS across all segments –** Carry forward order book at the end of Q3FY23 was up 47.3% YoY at ₹48.62bn. Order inflow for Q3FY23 grew by 97.1% YoY to ₹16.8bn. In the Electro Mechanical Projects business, carry forward order book stood at ₹36.85bn (+59.5% YoY). The company witnessed healthy order inflows from all segments, including the Data Centers segment and the Factory segment. The company also booked significant orders in Railway Electrification segment in Q3FY23. In CAC business, demand from the Government, Industrial, Healthcare and Hospitality sectors continued to be encouraging. The company continued to maintain its No 1 position in Conventional AC & Ducted AC as well as Scroll Chillers and 2nd position in VRFs and Screw Chiller category. In international

business, the company witnessed growth across all segments and categories. The company witnessed strong demand for RACs and VRFs and ended the quarter with a healthy order book. The management highlighted that the pace of execution of projects in the Qatar business slowed down due to preparations and restrictions in the run up to the FIFA World Cup while operations in Malaysia continued to be impacted by slowdown in construction and order finalizations. While EMPS EBIT margin increased to 7.2% in Q3FY23 mainly on account of change in product mix, it has maintained 6-6.5% margin guidance for FY23 for the EMPS segment.

- **RAC maintained its market share in Q3FY23** – Despite a lean quarter, RAC business recorded 15% YoY growth in Q3FY23. Company grew in line with the market and maintained its market share of 13.25% at the end of Q3FY23. The management is targeting market share of 15% by FY25. It highlighted that Sri City has commenced commercial production and expects the facility to contribute 15% to annual RAC FY23 sales. The commercial refrigeration business witnessed growth across all segments with a substantial increase in consumption levels. Witnessed strong demand from tier 3, tier 4 and tier 5 cities. Received major orders for cold storages from the logistics sector. The company continued to maintain its leadership position in Deep Freezers, Storage Water Coolers and Modular Cold Rooms. It has maintained 8-8.5% margin guidance for FY23 for the UCP segment.
- **Professional Electronics and Industrial Systems (PEIS) segment revenues grew +29.3%/-6.7% YoY/QoQ to ₹862.1mn** witnessing strong demand for healthcare and data centers. The major orders bagged are from HDFC bank, Arcelor steel, BHEL, Nippon steel, ICICI bank and others. Prospects continues to remain promising

## View

Blue Star has been delivering above market expectation for past 5 quarters. All the segments continue to do well, and company is on course to achieve the internal target. Margins are expected to remain lower as the benefit of lower commodity prices are negated by INR appreciation. The company is maintaining guidance of EBITDA margin Of 8-8.5%. The company has received its first order in railway electrification. Company have bagged majority of orders from newly entered segment of railway electrification. The company has received order inflows from Infrastructure segment. Enquiries continue to remain strong with order finalization also happening. Order finalisations have resulted in strong order inflow with order book swelling to all time high. Company has been ordering inventory as it will have to execute the strong order book in coming time. Management expects strong traction to continue in project business as there is strong demand from infrastructure and capex related activity within office space witnessing. In the UCP segment the work done in expanding distribution and extending product portfolio into affordable segment is now bearing fruits resulting in traction in North which has been the weak area for the company. Given the improved pace of execution in project business and market share gains in RAC, we remain positive on the stock. **Hence, we continue to maintain ACCUMULATE stance with target price of ₹1470-1490 trading at 22.6x P/E FY25E EPS ₹58.9.**

## CONSOLIDATED FINANCIALS

(₹ mn)								
PARTICULARS	Q3FY23	Q3FY22	YOY[%]	Q2FY23	QOQ[%]	9MFY23	9MFY22	YOY[%]
<b>Revenue from Operations</b>	<b>17,882.0</b>	<b>15,062.2</b>	<b>18.7</b>	<b>15,762.4</b>	<b>13.4</b>	<b>53,347.6</b>	<b>37,980.0</b>	<b>40.5</b>
Raw Material Consumed	12,094.2	10,247.3	18.0	10,375.4	16.6	34,046.6	23,098.0	47.4
Purchase of stock in trade	2,620.9	3,032.6	(13.6)	2,451.6	6.9	8,474.8	7,018.6	20.7
Stock Adjustment	(854.2)	(1,464.9)	(41.7)	(732.0)	(16.7)	(1,018.6)	(808.6)	(26.0)
RMC as a % of sales	77.5	78.4	(93)	76.7	78	77.8	77.2	63
Employee Expenses	1,446.4	1,253.3	15.4	1,422.2	1.7	4,217.1	3,630.9	16.1
Employee Exps as a % of sales	8.1	8.3	(23)	9.0	(93)	7.9	9.6	(166)
Other Expenses	1,527.6	1,088.0	40.4	1,389.3	10.0	4,491.6	3,005.9	49.4
Other Exps as a % of sales	8.5	7.2	132	8.8	(27)	8.4	7.9	51
<b>EBIDTA</b>	<b>1,047.1</b>	<b>905.9</b>	<b>15.6</b>	<b>855.9</b>	<b>22.3</b>	<b>3,136.1</b>	<b>2,035.2</b>	<b>54.1</b>
EBITDA Margins %	5.9	6.0	(16)	5.4	43	5.9	5.4	52
Other Income	51.6	133.8	(61.4)	85.5	(39.6)	242.2	294.5	(17.8)
Depreciation	155.5	224.5	(30.7)	244.7	(36.5)	620.6	629.3	(1.4)
<b>EBIT</b>	<b>943.2</b>	<b>815.2</b>	<b>15.7</b>	<b>696.7</b>	<b>35.4</b>	<b>2,757.7</b>	<b>1,700.4</b>	<b>62.2</b>
Interest	139.2	115.6	20.4	120.9	15.1	366.3	334.7	9.4
Exceptional items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>804.0</b>	<b>699.6</b>	<b>14.9</b>	<b>575.8</b>	<b>39.6</b>	<b>2,391.4</b>	<b>1,365.7</b>	<b>75.1</b>
Tax	216.4	227.5	(4.9)	148.9	45.3	628.7	452.6	38.9
Profit/(Loss) from Associates & JVs	(3.5)	3.6	(197.2)	(0.5)	600.0	(8.7)	4.2	(307.1)
Minority Interest	-	(0.7)	(100.0)	(0.9)	(100.0)	(1.9)	(1.8)	5.6
<b>Profit After Tax</b>	<b>584.1</b>	<b>475.0</b>	<b>23.0</b>	<b>425.5</b>	<b>37.3</b>	<b>1,752.1</b>	<b>915.5</b>	<b>91.4</b>
<b>EPS</b>	<b>6.1</b>	<b>4.9</b>		<b>4.4</b>		<b>18.2</b>	<b>9.5</b>	

Source: Company, Way2Wealth

## SEGMENTAL PERFORMANCE

(₹ mn)								
Particulars	Q3FY23	Q3FY22	YOY[%]	Q2FY23	QOQ[%]	9MFY23	9MFY22	YOY[%]
<b>REVENUES</b>								
Electro-Mech. Projects & Packaged AC Systems	10,000.9	8,298.5	20.5	9,590.7	4.3	27,525.9	20,584.9	33.7
% of Total	55.9	55.1	83	60.8	(492)	51.6	54.2	(260)
Unitary Cooling products	7,019.0	6,096.8	15.1	5,247.9	33.7	23,509.0	15,697.6	49.8
% of Total	39.3	40.5	(123)	33.3	596	44.1	41.3	274
Professional Electronics & Indus Sys.	862.1	666.9	29.3	923.8	(6.7)	2,312.7	1,697.5	36.2
% of Total	4.8	4.4	39	5.9	(104)	4.3	4.5	(13)
<b>Total Segment Revenue</b>	<b>17,882.0</b>	<b>15,062.2</b>	<b>18.7</b>	<b>15,762.4</b>	<b>13.4</b>	<b>53,347.6</b>	<b>37,980.0</b>	<b>40.5</b>
<b>EBIT</b>								
Electro-Mech. Projects & Packaged AC Systems	716.8	524.1	36.8	607.2	18.1	1,775.7	1,189.8	49.2
Margin %	7.2	6.3	85	6.3	84	6.5	5.8	67
Unitary Cooling products	516.3	387.8	33.1	324.0	59.4	1,753.6	838.1	109.2
Margin %	7.4	6.4	100	6.2	118	7.5	5.3	212
Professional Electronics & Indus Sys.	109.8	127.6	(13.9)	138.0	(20.4)	306.7	281.5	9.0
Margin %	12.7	19.1	(640)	14.9	(220)	13.3	16.6	(332)
<b>TOTAL</b>	<b>1,342.9</b>	<b>1,039.5</b>	<b>29.2</b>	<b>1,069.2</b>	<b>25.6</b>	<b>3,836.0</b>	<b>2,309.4</b>	<b>66.1</b>

Source: Company, Way2Wealth

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## Disclosure of Interest Statement in Blue Star Ltd. as on 03 February 2023

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
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