



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

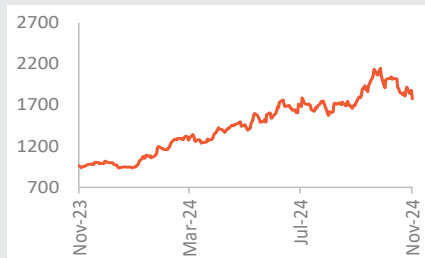
Company details

Market cap:	Rs. 34,281 cr
52-week high/low:	Rs. 2,198/901
NSE volume: (No of shares)	0.84 lakh
BSE code:	500067
NSE code:	BLUESTARCO
Free float: (No of shares)	12.96 cr

Shareholding (%)

Promoters	36.5
FII	18.1
DII	22.9
Others	22.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.0	9.7	27.3	85.7
Relative to Sensex	-4.5	8.9	19.7	62.1

Sharekhan Research, Bloomberg

Blue Star Ltd
Healthy performance

Capital Goods	Sharekhan code: BLUESTARCO		
Reco/View: Hold	↔	CMP: Rs. 1,779	Price Target: Rs. 1,950 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q2FY25 revenues grew by 20.4% to Rs 2,276 crore marginally exceeding our estimate of Rs 2,160 crore. Electromechanical projects (EMP) segment grew by 33% to Rs 1,428 crore on strong execution of orders from Data Centre and manufacturing industries.
- Operating profit rose by 22% to Rs 149 crore leading driving up margins by 7 bps. Adjusted PAT grew by 36% led by higher sales.
- Export sales are expected to increase gradually and Blue Star guided for a growth of only 7-8% in FY25.
- Stock trades at 42x/33x to FY26/FY27 EPS respectively. We retain our Hold rating and for a PT of Rs. 1,950 given premium valuations.

Consolidated revenues rose 20.4% y-o-y to Rs. 2,276 crore, led by 33% y-o-y growth in EMP revenue, while Unitary and professional electronics and industrial system segments reported a 5%/-4% y-o-y revenue growth. EMP segment 33% growth was aided by execution of high-growth sectors contracts such as data center/ manufacturing, etc, carrying higher margins. Unitary product segment had a marginal growth of 5%. RAC segment grew 25% (27% volume growth) but regulatory disruptions in water coolers (commercial refrigeration), impacted revenues & margins. Bluestar has maintained its market share of 13.75% in RAC segment and expects to reach 14% by FY25. Consolidated OPM improved to 6.6% (up 7 bps y-o-y), led by EMP (EBIT margin up 220bps y-o-y to 8.3%). Consolidated operating profit/net profit grew 22% y-o-y/36% y-o-y to Rs. 149 crore/Rs. 96 crore. The company's carried-forward order book is Rs. 5,037 crore.

Key positives

- EMP segment grew by 33% with EBIT margin improvement of 220 bps y-o-y.
- Carried-forward order book is Rs. 5,037 crore.
- RAC segment is continuing the Q1 trends and had a strong volume growth in Oct month also.

Key negatives

- Unitary products revenues rose marginally by 5% y-o-y, but EBIT margins declined by 140 bps y-o-y.

Management Commentary

- RAC segment under unitary products have growth by 25% maintaining the trends of Q1. Oct month RAC has seen 30% volume growth and a 28% revenue growth.
- Unitary products segment is facing regulatory challenges in water coolers and deep freezers expected to ease out from coming quarters.
- Expanded product range with launch of chillers for data center. The company expects huge demand for chillers and EMP going forward.
- Blue Star plans to incur capex at Rs. 250-350 crore for at least the next two to three years. The company plans to do capital expenditure for building manufacturing capacities, product development, and digitalisation.

Revision in estimates – We have retained FY2025-2026 estimates and introduce FY2027 estimates.

Our Call

Valuation – Hold with a PT of Rs. 1,950: Blue Star is well-placed to leverage on the opportunities in the domestic RAC and commercial cooling and the refrigeration industry. It also plans to explore exports opportunities in countries like the US and Europe. We expect revenue/adjusted PAT to post a CAGR of ~22%/~36% over FY2024-FY2027E. At the CMP, the stock trades at ~42x/33x to its FY26/27 EPS, respectively. Given premium valuations, we retain our Hold rating and value the company on segment-wise SOTP basis on FY26E EPS for a price target of Rs 1,950.

Key Risks

An increase in input costs could stress margins. Intense competition across segments is a key concern.

Valuation (Consolidated)

Valuations	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	7,977	9,686	11,973	14,490	17,536
OPM (%)	6.2%	6.9%	7.4%	8.0%	8.3%
Adjusted PAT	261	414	611	817	1,039
Adj. EPS	13.5	21.5	31.7	42.4	53.9
Growth (YoY) %	55.6	58.8	47.5	33.7	27.2
P/E	131.4	82.8	56.1	42.0	33.0
P/B	25.8	13.1	11.5	9.6	7.8
EV/EBITDA	67.2	48.1	35.1	26.6	20.8
ROE (%)	22.2%	21.0%	21.8%	24.9%	26.1%
ROCE (%)	25.7%	26.2%	28.3%	32.5%	34.3%

Source: Company; Sharekhan estimates