Stock Update

Result Update

MIRAE ASSET Sharekhan

Blue Star Ltd

Extended monsoon dampen Q2

Capital Goods	Sharekhan code: BLUESTARCO

Reco/View: Buy	⇔	CMP: Rs. 1,785	Price Target: Rs. 2,000	⇔

Summary

- Q2FY2026 revenue grew slightly by 6.4% to Rs. 2,422 crore, lagging our estimates. EMP segment led growth, compensated by a fall in UCP and professional segments.
- Operating profit fell 23% to Rs. 183 crore, with margins rising 100 bps. APAT grew just 2%, on lower other income and higher depreciation costs.
- Strong order enquiries were seen from factories, data centers and healthcare sector but order finalisation remains muted. GST 2.0 hit commercial AC business as well.
- Stock trades at 53x/44x its FY2027/FY2028 EPS, respectively. We retain our Buy rating and for a PT of Rs. 2,000.

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		⇔	

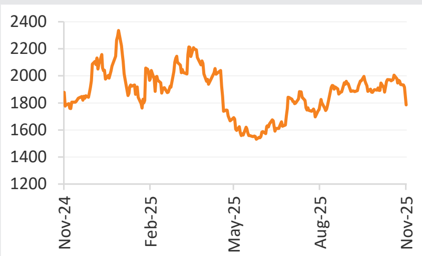
Company details

Market cap:	Rs. 36,701 cr
52-week high/low:	2,420/1521
NSE volume: (No of shares)	28.6 lakh
BSE code:	500067
NSE code:	BLUESTARCO
Free float: (No of shares)	12.96 cr

Shareholding (%)

Promoters	36.5
FII	16.1
DII	25.3
Others	22.1

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-5.8	-0.9	6.0	-5.0
Relative to Sensex	-7.7	-5.3	2.9	-8.6

Source: Mirae Asset Sharekhan Research, Bloomberg

RAC business was hit by unexpected tailwinds of extended rains. UCP segment clocked a decline of 10%, ideally lower as compared to peers. Secondary sales were strongly positive after September 22, post GST rate cuts. Energy label changes and new-year sales would drive the growth in H2. EMP segment grew strongly 17% driven by execution of projects from several sectors such as data centers and manufacturing. The Company witnessed strong order inquiries, on the back of continued demand from factories, data centers, and healthcare sectors but order finalizations were muted. Commercial Air Conditioning business demand was also deferred due to GST rate cuts, which came into effect on September 22, 2025. The company continues to maintain its market leadership in ducted systems and scroll chillers and ranks among top three in VRF and screw chillers. Consolidated revenues rose 6% y-o-y to Rs. 2,422 crore, led by 17% y-o-y growth in EMP revenues. Management is hopeful that momentum in RAC business will pick up aided by Christmas/ New-Year sales and on prebuying as an impact of change in energy norms effective January 2026. EMP segment orders stood at Rs 4,840 crore, down 3% y-o-y. The professional electronics and industrial systems segment's revenue fell 20% to Rs. 64 crore, impacted by a poor show by med-tech and data security businesses, but the industrial solutions business maintained strong growth momentum. Consolidated OPM at 7.6% (up 100 bps y-o-y). Consolidated operating profit/adjusted net profit declined 23% y-o-y/2% y-o-y to Rs. 183 crore/Rs. 99 crore.

Key positives

- EMP segment grew 17%, on faster execution of data centre and manufacturing segments' orders.
- Margins improved by 100 bps.

Key negatives

- Long monsoons hit RAC biz.
- Professional electronics segment declined by 20% due to subdued demand in medtech and data security business.

Management Commentary

- Marginal market remained strong amid monsoon headwinds. Company expects to garner 15% market share in the RAC segment by 2028.
- Strong order book for EMP and Commercial Air Conditioning products and the growing demand from manufacturing and data centre market segments will contribute to growth.

Revision in earnings estimates – We have revised down our FY2026-FY2027 estimates factoring in the muted start of RAC for FY26.

Our Call

Valuation – Maintain Buy with a PT of Rs. 2,000: Blue Star is well-placed to leverage on the opportunities in the domestic RAC and the commercial cooling and refrigeration industry. The company also plans to explore exports opportunities in countries like the US and Europe. We expect the year to be blip; demand would revive once normalcy returns. We expect revenue/adjusted PAT to post a CAGR of ~14%/~10% over FY2025-FY2028E. At CMP, the stock trades at ~54x/45x its FY2027/FY2028 EPS, respectively. We maintain our Buy rating and value the company on segment-wise SOTP basis on September 2027 EPS for a PT of Rs. 2,000.

Key Risks

Rise in input costs could affect margins. Intense competition across segments is a key concern.

Valuation (Consolidated) Rs cr

Particulars	FY24	FY25	FY26	FY27E	FY28E
Net Sales	9,686	11,968	13,121	15,169	17,757
OPM (%)	6.9	7.3	7.2	7.3	7.4
Adjusted PAT	414	591	612	730	872
Adj. EPS (Rs.)	20.1	28.7	31.8	37.9	45.2
Growth (Y-o-y) %	48.5	43.0	10.5	19.3	19.4
P/E	88.8	62.1	56.2	48.2	40.4
P/B	14.1	12.0	10.7	9.5	8.2
EV/EBITDA	51.5	37.7	26.5	19.2	19.2
ROE (%)	21.0	20.8	18.8	19.8	20.4
ROCE (%)	26.2	27.2	25.1	26.3	27.2

Source: Company; Mirae Asset Sharekhan estimates

Key conference call highlights

- Revenues grew 6% as UCP business declined by 10%. EMP business showed a decent growth.
- EMP division's order book stands at Rs. 4,081 crore. Project business, data centers, and manufacturing have driven a 17% revenue growth. Decarbonisation and energy-saving products testing have been completed in international markets. It has guided for margins of 7-7.5%.
- **Unitary products:** The RAC business was impacted by seasonal headwinds. The RAC market's share stands slightly higher than 14% and the commercial refrigeration market's share stands at 30%. Management now targets to reach 15% over the coming years. Management expects UCP segment to be flat when compared to FY25.
- **Capex:** Blue Star plans to incur a capex of Rs. 250-350 crore for at least 2-3 years. The company plans to do capital expenditure for building manufacturing capacities, product development, and digitalisation.

Results (Consolidated) — Rs cr

Particulars	Q2FY26	Q2FY25	Y-o-y (%)	Q1FY26	QoQ (%)
Net Sales	**2,422**	**2,276**	**6.4**	**2,982**	**-18.8**
Operating profit	**183**	**149**	**22.6**	**200**	**-8.4**
Other Income	10	19	-45.9	16	-37.7
Interest	17	6	161.1	10	68.0
Depreciation	43	30	44.7	41	4.8
PBT	**133**	**131**	**1.1**	**165**	**-19.3**
Tax	33	35	-4.7	42	-21.3
Reported PAT	**99**	**96**	**2.3**	**121**	**-18.4**
Adjusted PAT	**99**	**96**	**2.3**	**121**	**-18.4**
Adj. EPS (Rs.)	4.8	4.7	2.3	5.9	-18.4
Margin			BPS		BPS
OPM (%)	7.6	6.6	99.9	6.7	85.4
NPM (%)	4.1	4.2	(16.4)	4.1	1.8
Tax rate (%)	25.1	26.7	(153.7)	25.8	(62.8)

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Bright long-term growth prospects, given the penetration of high-value consumer electronics

The RAC segment has long-term structural growth triggers in terms of suitable demographics, rising per capita income, increasing urbanisation, low penetration levels, various financing options, and uninterrupted availability of power, which would help companies maintain a healthy growth trajectory in the long term. Penetration for RACs in India is at 14-16%, which is way behind the global average of 42%. This implies there is a significant growth opportunity for the AC industry. The industry grew at a healthy pace of ~14% and 16% in value and volume terms, respectively, over FY2015 to FY2020. However, FY2021 and FY2022 were impacted by the COVID-led lockdown. Hence, given the last two years' lower base and pent-up demand, the AC industry grew by 20-25% in FY2023. For FY2024, unseasonal rains have played spoilsport and, therefore, the industry is expected to grow at a moderate pace of 10-15%, although long-term growth triggers are intact for the industry. Further, commercial refrigeration adoption in India is only at a sub-5% level. However, the industry is expected to grow strongly, given rapid urbanisation, growth in pharmaceuticals and food & beverage industries, the opening of shops, malls and offices post the pandemic, and pick-up in construction activities. Blue Star, a leading player with a wide reach and range of ACs and commercial refrigeration products, will be one of the key beneficiaries. Further, the company is well poised to leverage its experience in electromechanical projects (EMPS) and commercial air-conditioning products, which are expected to witness healthy growth because of an increase in public and private capex in sectors such as infrastructure, metro rail, power, retail, and healthcare.

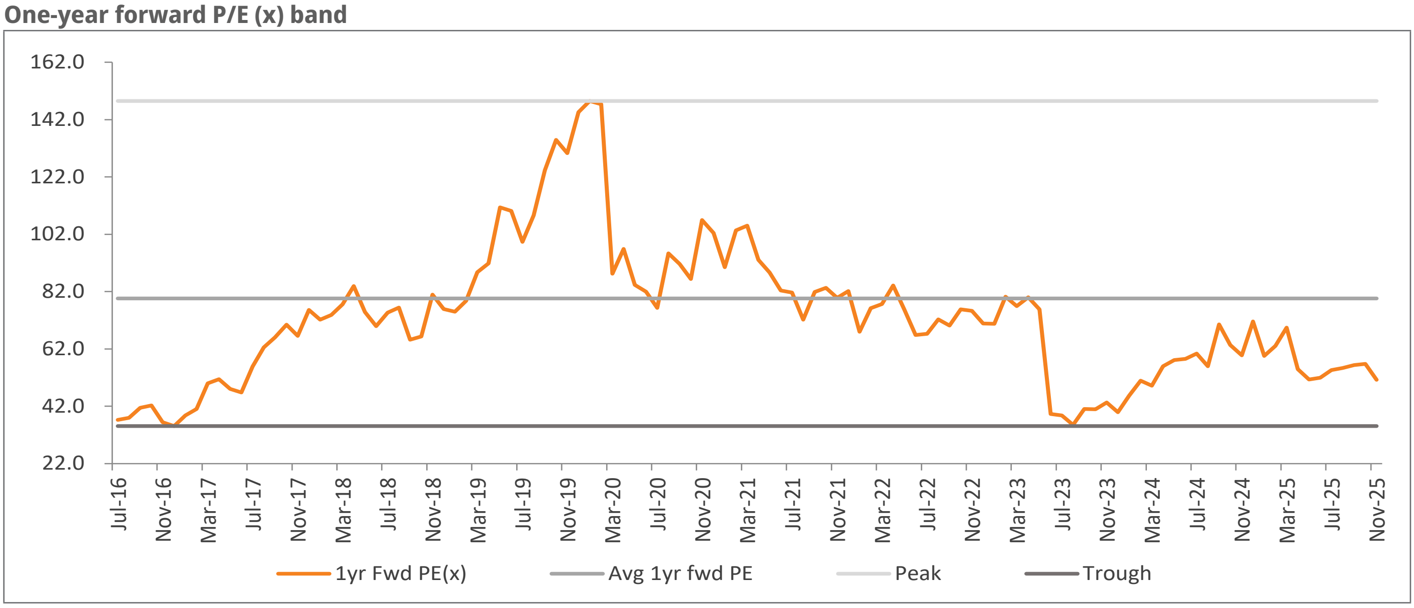
■ Company Outlook – Long-term growth opportunities intact

Blue Star has a strong brand and distribution network and is well-entrenched at both retail and institutional levels. The company is also becoming self-sufficient by commencing new manufacturing facilities in both RACs and commercial refrigeration, which would reduce dependency on imports and cost savings, led by backward integration. It will also help the company tap export markets. RAC and commercial refrigeration businesses are expected to gain traction gradually. The healthcare, pharma, and processed foods segments will continue to offer good opportunities for the commercial refrigeration business in the new normal. Increased awareness of building immunity will offer good water purifier business prospects. Digitisation and healthcare initiatives offer good prospects for professional electronics and industrial systems. Moreover, growth outlook for these categories is promising, considering the expansion plan of end-user industries such as food processing and cold-chain logistics providers, pharmaceutical manufacturers, and hospitals as well as large and medium-format modern retail stores.

■ Valuation – Maintain Buy with a PT of Rs. 2,000

Blue Star is well-placed to leverage on the opportunities in the domestic RAC and the commercial cooling and refrigeration industry. The company also plans to explore exports opportunities in countries like the US and Europe. We expect the year to be blip; demand would revive once normalcy returns. We expect revenue/adjusted PAT to post a CAGR of ~14%/~10% over FY2025-FY2028E. At CMP, the stock trades at ~54x/45x its FY2027/FY2028 EPS, respectively. We maintain our Buy rating and value the company on segment-wise SOTP basis on September 2027 EPS for a PT of Rs. 2,000.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

About company

Blue Star is India's leading air conditioning and commercial refrigeration company, with an annual revenue of over Rs. 5,000 crore, a network of 32 offices, five modern manufacturing facilities, and 3,880 channel partners. The company has over 7,500 stores for room air conditioners, packaged air conditioners, chillers, cold rooms, refrigeration products, and systems. Blue Star's integrated business model of a manufacturer, contractor, and after-sales service provider enable it to offer end-to-end solutions to its customers, which has proved to be a significant differentiator in the marketplace. The company has three business segments – electromechanical projects (EMP) and commercial air conditioning systems, unitary cooling products (UCP), and electronics and industrial systems (EIS), which contribute 50%, 46%, and 4% to FY2023 revenue, respectively. The company fulfils the cooling requirements of a large number of corporate, commercial as well as residential customers. Blue Star has also forayed into the residential water purifiers business with a stylish and differentiated range, including India's first RO+UV hot and cold-water purifiers as well as air purifiers and air coolers.

Investment theme

Structural growth visibility in the Indian white goods segment remains high due to favourable demographics (urbanisation, per capita GDP, and low AC ownership similar to China's levels in 1998-2000). Blue Star remains one of the key beneficiaries of rising AC penetration in India, led by its improving market share, impressive product profile, and strong service network. The company is well poised to grow, driven by its strategy of – 1) growing faster than the market, 2) improving profit by scale and backward integration, and 3) deepening distribution through conventional and e-commerce channels. We believe near to medium-term growth could moderate due to weakness in the RAC industry.

Key Risks

- Sharp rise in key raw-material prices poses a key challenge
- Intense competition

Additional Data

Key management personnel

Name	Designation
Ashok Advani	Chairman Emeritus
Suneel Advani	Chairman Emeritus
Vir Advani	Vice Chairman/MD
B. Thiagarajan	MD
Nikhil Sohoni	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Kotak Mahindra Asset Management Co	4.5
2	Axis Asset Management Co Ltd/India	3.45
3	SBI Funds Management Ltd	3.35
4	Vanguard Group Inc/The	2.57
5	Nippon Life India Asset Management	2.48
6	Norges Bank	1.43
7	ICICI Prudential Asset Management	1.41
8	GOVERNMENT PENSION FUND - GLOBAL	1.31
9	FIL Ltd	1.3
10	JPMorgan Chase & Co	1.22

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

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