

Blue Star

Summer demand to set up recovery; maintain BUY

Blue Star reported a modest 4.2% y/y revenue growth in Q3FY26, as UCP reflected early signs of operational stabilisation despite weak seasonal demand due to tight inventory control and cost discipline. The company also indicated modest market share gains in Q3FY26. The management's disciplined approach for order intake, prioritising return on capital over volume, focus on enhancing earnings quality reduce downside risk in EMP segment. With expected recovery in RAC demand led by strong summers and sustained project momentum, the outlook appears to be bright. We maintain BUY rating on the stock with a 12-mth TP of Rs2,188 (from Rs2,178 earlier), valuing it at 44x FY28e EPS of Rs50.

Steady Quarter: Revenue grew by 4.2% y/y in Q3FY26, as the EMP revenue rose 8.6% y/y while the UCP revenue declined 0.9% y/to Rs11.5bn (Lloyd down 6% y/y) reflecting a muted demand scenario. Professional electronics revenue fell 7% y/y to Rs749m. Gross margin contraction by 157bps weighed on EBITDA margin that expanded by just 9bps y/y to 7.5%. Both staff cost other expenses declined 4.5%/7.3% y/y in Q3FY26. Notably, UCP margin expanded by 32bps to 8%. PAT declined by 39% y/y to Rs807m, due to one-time exceptional loss of Rs560m owing to New Labour Codes.

Summer-led Recovery: Blue Star entered Q4FY26 and likely to enter FY27 with a healthier inventory position, with company-level RAC inventory of ~5-6 weeks vs. industry levels of ~8-10 weeks. This disciplined inventory approach significantly reduces the risk of discount-led margin erosion and positions the company to benefit from a demand recovery without compromising its pricing power. The management has guided for ~8.5% EBIT margin in UCP segment Q4FY26 with ~10% price hike to offset higher input cost.

Outlook and Valuation: Considering modest quarterly performance and guidance, we tweak our EPS estimate by ~10%. We expect revenue/earnings to clock 14/21% CAGR over FY25-28e. We maintain BUY rating on the stock with a 12-mth TP of Rs2,188 (from Rs2,178 earlier), valuing it at 44x FY28e EPS of Rs50. **Key Risks:** (a) Weak consumer demand; (b) inability to gain market share amid stiff competition; (c) volatile commodity prices; (d) significant delay in executing projects leading to lower project margin and strained balance sheet.

Key Financials (Y/E Mar)(Rs m)	FY24	FY25	FY26e	FY27e	FY28e
Sales	96,854	119,677	128,817	149,738	175,631
Adj.net income	4,150	5,788	6,252	7,968	10,225
EPS (Rs)	20.2	28.2	30.4	38.8	49.7
PE (x)	90.7	65.0	60.2	47.2	36.8
EV / EBITDA (x)	55.9	42.2	38.7	30.5	24.1
P/BV (x)	14.4	12.3	11.1	9.5	8.0
RoE (%)	15.9	18.9	18.4	20.2	21.6
RoCE (%) (post-tax)	15.2	17.2	16.5	18.3	19.7
RoIC (%) (post-tax)	22.8	24.6	24.0	28.3	32.8
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.3

Source: Company, Anand Rathi Research

Rating: **BUY**

Target Price (12-mth): Rs.2,188

Share Price: Rs.1,830

Key Data	BLSTR IN / BLUS.BO
52-week high / low	Rs2270 / 1521
Sensex / Nifty	82270 / 25321
Market cap	Rs369bn
Shares outstanding	206m

Shareholding Pattern (%)	Dec'25	Sep'25	Jun'25
Promoters	36.5	36.5	36.5
- of which, Pledged	-	-	-
Free Float	63.5	63.5	63.5
- Foreign Institutions	14.7	16.1	16.2
- Domestic Institutions	26.8	25.3	23.4
- Public	22.1	22.1	23.9

Estimates Revision (%)	FY26e	FY27e	FY28e
Sales	(5.5)	(8.1)	(11.7)
EBITDA	(8.7)	(7.5)	(8.9)
Net Income	(10.4)	(9.9)	(11.2)

Relative Price Performance



Source: Bloomberg

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Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Net revenues	96,854	119,677	128,817	149,738	175,631
Growth (%)	21.4	23.6	7.6	16.2	17.3
Direct costs	73,920	90,743	97,030	112,040	130,536
SG&A	16,285	20,174	22,260	25,738	30,118
EBITDA	6,649	8,759	9,527	11,960	14,977
EBITDA margins (%)	6.9	7.3	7.4	8.0	8.5
- Depreciation	976	1,284	1,314	1,450	1,630
Other income	474	750	644	928	1,142
Interest expenses	581	488	599	662	662
PBT	5,567	7,737	8,258	10,776	13,826
Effective tax rates (%)	25.7	24.6	26.0	26.0	26.0
+ Associates/(Minorities)	11	-13	-6	-6	-6
Net income	4,150	5,913	5,688	7,968	10,225
Adjusted income	4,150	5,788	6,252	7,968	10,225
WANS	206	206	206	206	206
FDEPS (Rs)	20.2	28.2	30.4	38.8	49.7
FDEPS growth (%)	69.3	39.5	8.0	27.5	28.3
Gross margins (%)	23.7	24.2	24.7	25.2	25.7

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	411	411	411	411	411
Net worth	26,101	30,650	33,933	39,496	47,315
Debt	1,666	1,994	2,894	2,894	2,894
Minority interest	26	26	30	30	30
DTL / (Assets)					
Capital employed	27,793	32,670	36,856	42,419	50,239
Net tangible assets	10,713	14,224	15,362	16,709	18,106
Net intangible assets	1,122	1,631	1,631	1,631	1,631
Goodwill					
CWIP (tang. &intang.)	1,081	734	800	800	800
Investments (strategic)	179	179	179	179	179
Investments (financial)	2,489	4,141	4,348	4,566	4,794
Current assets (excl. cash)	46,825	57,346	61,747	71,262	83,037
Cash	3,774	4,319	6,338	9,217	14,000
Current liabilities	38,390	49,905	53,549	61,946	72,310
Working capital	8,435	7,441	8,198	9,316	10,728
Capital deployed	27,793	32,670	36,856	42,419	50,239
Contingent liabilities	2,241	2,020	-	-	-

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	5,572	7,849	7,695	10,776	13,826
+ Non-cash items	1,448	1,489	1,269	1,184	1,150
Oper.prof. before WC	7,020	9,338	8,964	11,960	14,977
- Incr. / (decr.) in WC	-2,765	-516	-756	-1,118	-1,412
Others incl. taxes	-1,363	-1,816	-2,001	-2,802	-3,595
Operating cash-flow	2,892	7,006	6,207	8,040	9,970
- Capex (tang. + intang.)	-4,359	-3,686	-2,518	-2,798	-3,027
Free cash-flow	-1,467	3,320	3,689	5,242	6,943
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	-1,158	-1,439	-2,056	-2,056	-2,056
+ Equity raised	10,000	-	-	-	-
+ Debt raised	-4,157	432	900	-	-
- Fin investments	-1,012	-1,113	-207	-217	-228
- Misc. (CFI + CFF)	-1,080	-645	-307	-89	124
Net cash-flow	1,294	619	2,019	2,879	4,783

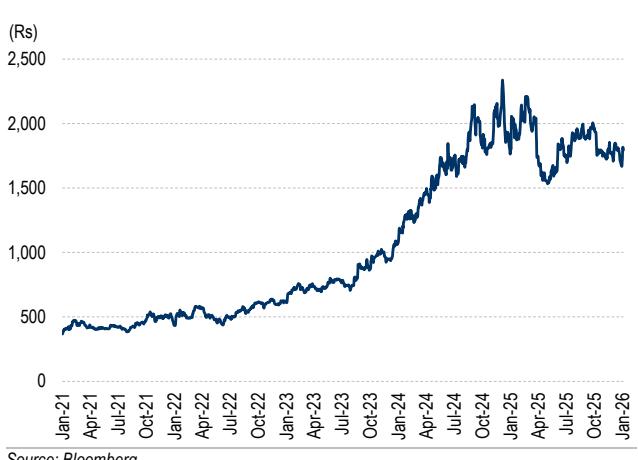
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis

Y/E Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	90.7	65.0	60.2	47.2	36.8
EV / EBITDA (x)	55.9	42.2	38.7	30.5	24.1
EV / Sales (x)	3.8	3.1	2.9	2.4	2.1
P/B (x)	14.4	12.3	11.1	9.5	8.0
RoE (%)	15.9	18.9	18.4	20.2	21.6
RoCE (%) (post-tax)	15.2	17.2	16.5	18.3	19.7
RoIC (%) (post-tax)	22.8	24.6	24.0	28.3	32.8
DPS (Rs)	7.0	9.0	10.0	10.0	10.0
Dividend yield (%)	0.4	0.5	0.5	0.5	0.5
Dividend payout (%) - incl. DDT	34.7	32.0	32.9	25.8	20.1
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.3
Receivables (days)	74	60	60	60	60
Inventory (days)	53	66	66	66	66
Payables (days)	99	105	105	105	105
CFO :PAT %	69.7	121.0	99.3	100.9	97.5

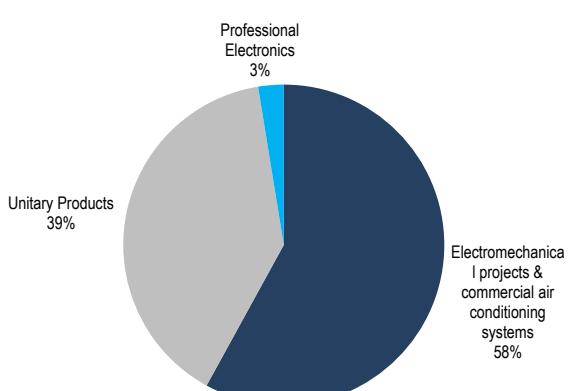
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Revenue Break-up (Q3FY26)



Source: Company

Fig 7 – Quarterly Financial Summary

(Rs m)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	y/y (%)	q/q (%)
Income	18,904	22,412	33,278	28,654	22,760	28,074	40,190	29,823	24,224	29,253	4.2	20.8
RM costs	14,218	16,995	25,386	21,886	16,737	21,224	30,896	22,842	18,030	22,574	6.4	25.2
Employee expenses	1,733	1,853	2,297	1,978	2,200	2,342	2,669	2,324	2,272	2,234	-4.6	-1.7
Other expenses	1,726	2,011	3,176	2,411	2,329	2,415	3,830	2,657	2,087	2,238	-7.3	7.2
EBITDA	1,227	1,554	2,419	2,378	1,493	2,094	2,794	2,000	1,834	2,207	5.4	20.3
Depreciation	230	235	283	280	300	350	354	414	434	459	31.1	5.8
Interest	177	102	122	76	65	159	188	101	169	221	38.7	30.6
Other income	130	127	124	238	185	87	240	161	100	119	36.1	18.7
PBT (post-extraordinary items)	950	1,343	2,138	2,259	1,314	1,797	2,492	1,646	1,332	1,083	-39.7	-18.7
Tax	243	339	544	573	350	465	548	424	334	271	-41.8	-18.9
Adj. net income	707	1,005	1,605	1,688	962	1,326	1,936	1,210	990	807	-39.2	-18.5
EPS (Rs)	3.4	4.9	7.8	8.2	4.7	6.4	9.4	5.9	4.8	3.9	-39.2	-18.5
As % of total income											y/y (bps)	q/q (bps)
Raw material costs	75.2	75.8	76.3	76.4	73.5	75.6	76.9	76.6	74.4	77.2	156.9	273.6
Gross margins	24.8	24.2	23.7	23.6	26.5	24.4	23.1	23.4	25.6	22.8	(156.9)	(273.6)
Employee costs	9.2	8.3	6.9	6.9	9.7	8.3	6.6	7.8	9.4	7.6	(70.6)	(174.4)
Other expenses	9.1	9.0	9.5	8.4	10.2	8.6	9.5	8.9	8.6	7.7	(95.0)	(96.6)
EBITDA margin	6.5	6.9	7.3	8.3	6.6	7.5	7.0	6.7	7.6	7.5	8.7	(2.6)
PBT margin	5.0	6.0	6.4	7.9	5.8	6.4	6.2	5.5	5.5	3.7	(269.9)	(179.5)
Effective tax rates	25.5	25.3	25.5	25.3	26.7	25.9	22.0	25.8	25.1	25.0	(89.9)	(8.2)
PAT margins	3.7	4.5	4.8	5.9	4.2	4.7	4.8	4.1	4.1	2.8	(196.7)	(134.2)
Revenue segmentation												
EMPC	10,772	11,823	15,068	10,390	14,284	15,624	19,682	14,125	16,642	16,962	8.6	1.9
Unitary products	7,295	9,554	17,089	17,295	7,670	11,644	19,602	14,994	6,938	11,542	-0.9	66.4
Professional electronics	837	1,035	1,121	969	805	806	906	704	644	749	-7.1	16.4
Total	18,904	22,412	33,278	28,654	22,760	28,074	40,190	29,823	24,224	29,253		
Segmental EBIT												
EMPC	653	967	1,125	1,030	1,192	1,187	1,499	1,116	1,471	1,147		
Unitary products	616	679	1,414	1,580	539	948	1,645	875	427	977		
Professional electronics	122	152	136	96	52	62	88	76	62	68		
EBIT (%)												
EMPC	6.1	8.2	7.5	9.9	8.3	7.6	7.6	7.9	8.8	6.8	(83.9)	(208.2)
Unitary products	8.4	7.1	8.3	9.1	7.0	8.1	8.4	5.8	6.2	8.5	32.0	230.3
Professional electronics	14.6	14.7	12.1	9.9	6.4	7.7	9.7	10.8	9.6	9.1	142.8	(46.7)

Source: Company

Earnings Concill – Key Takeaways

Unitary Cooling Products

- Early signs of operational stabilisation were reflected in Q3FY26 despite adverse seasonality. UCP revenue fell 0.9% y/y, as RAC returned to modest growth aided by channel filling ahead of new BEE norms. Production of new BEE-compliant RAC portfolio has begun, positioning the company well for the upcoming summer season.
- The segment delivered a notable improvement in profitability with EBIT margin expanding to 8.5% from 8.1% y/y led by disciplined inventory management and sustained cost optimisation initiatives.
- RAC business returned to modest growth after two negative quarters, aided by rationalisation of channel inventory ahead of the Jan-26 BEE energy label changes and tighter production planning, which helped avoid forced discounting.
- Profitability was further aided by structural cost actions undertaken since Q1FY26, including tighter control over variable marketing spends, sales incentives and supply chain efficiencies, enabling the company to protect margins despite weak volume. The company also indicated modest market share gain in Q3FY26, underlining the effectiveness of its pricing and channel strategy.
- The management cautioned that rising input cost (mainly copper), INR depreciation and higher compliance-related cost will warrant price hike, that will be ~10% net price hike to consumers in Q4FY26, even after accounting for GST cut to protect profitability.
- It indicated that channel and company inventory levels in RAC have moderated meaningfully following tighter production planning and pre-BEE inventory rationalisation with Blue Star's inventory estimated at ~5-6 weeks, materially lower than the broader industry at ~8–10 weeks. This disciplined approach has reduced the risk of forced discounting and aided margin stability during a weak demand period.
- Commercial Refrigeration business continued to remain weak, particularly in FMCG-linked categories i.e., ice-cream and cold-chain equipment with only storage water coolers showing relatively better traction. The management expects commercial refrigeration demand to recover mainly during the summer season and reiterated that structural growth drivers remain intact over the medium-term.
- The management reaffirmed its steady-state EBIT margin target of ~8.5% for the segment with Q4 and FY27 performance is likely to be driven by strength of summer season, pricing discipline and continued focus on cost control.

Electro-Mechanical Projects (EMP)

- EMP revenue rose by a robust 8.6% y/y in Q3FY26, aided by continued execution in factories, data centres and select commercial building projects, although overall performance was constrained by deferred order finalisations and a softer project awarding environment.
- Segmental margin fell to 6.8% from 7.6% y/y, mainly due to unfavourable mix from a higher proportion of lower-margin infrastructure projects and cost pressures as several large infra projects approach closure.

- Order inflows fell 16.5% y/y to Rs1.45bn, while the OB moderated to Rs4.7bn (down 7.2% y/y), reflecting muted project finalisations during FY26 and management's deliberate selective bidding, particularly in low-margin, long-gestation infrastructure projects.
- The management indicated that while near-term growth in EMP and Commercial AC Systems business will remain moderated, demand fundamentals across factories, data centres, hospitals and select commercial buildings remain structurally healthy, with inquiry momentum improving into Q4 and early FY27.
- The management has guided for a conservative ~8-10% growth in FY27, reflecting a lower opening OB and continued selective bidding to prioritise RoCE over volume growth.
- Segmental margin is likely to remain in ~6.5-7% range in the near-term, as infra project closures and higher labour cost weigh on profitability, with a gradual improvement over FY27, as the mix shifts towards higher-margin factory, data centre and commercial building projects.
- Sustained investment in manufacturing, hyperscale data centres and healthcare infrastructure shall aid growth in the medium-term.

Professional Electronics and Industrial Systems

- Segmental revenue fell 7.1% y/y to Rs749m in Q3FY26, due to regulatory uncertainty in med-tech business, which continued to delay customer decisions with high 143bps margin aided by stronger performance in industrial solutions, driven by demand from steel and automotive sectors, while data security solutions remained stable.
- The management expects near-term growth to remain selective until med-tech regulatory clarity improves, with steady support from industrial capex and data security, positioning the segment for gradual recovery.

Fig 8 – UCP EBIT Margin Targeted at 8.5% in FY27

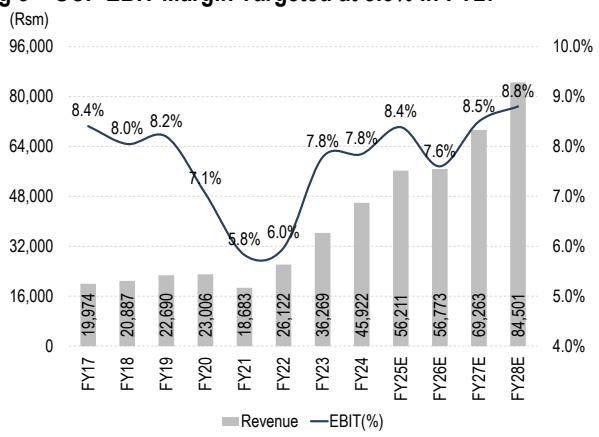
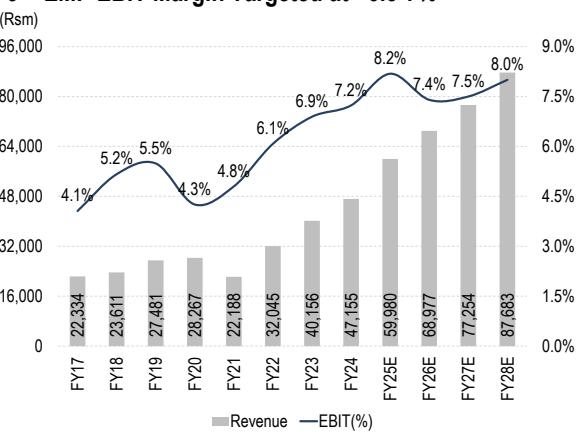


Fig 9 – EMP EBIT Margin Targeted at ~6.5-7%



Source: Company, Anand Rathi Research

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Outlook and Valuation

We expect a better Q4FY26 and FY27 for the company, driven by a normal-to-strong summer season, positive traction in RAC volume and disciplined channel inventory management. The planned ~10% net price hike to offset commodity inflation and INR depreciation, along with structurally improved cost control is expected to support sustainable guided ~8.5% EBIT margin in UCP segment, delivering strong operating leverage. While EMP segment is guided to growth by a conservative ~8-10%, improving enquiry momentum and a shift towards higher-quality segments i.e., factories, data centres and healthcare should support medium-term growth and margin resilience.

Factoring in Q3FY26 performance and guidance, we tweak our EPS estimates by 10/10/11% for FY26/27/28e. The company will continue to invest in R&D, manufacturing and digitalisation, prudently allocating capital. We expect its revenue/earnings to clock 14/21% CAGR over FY25-28e.

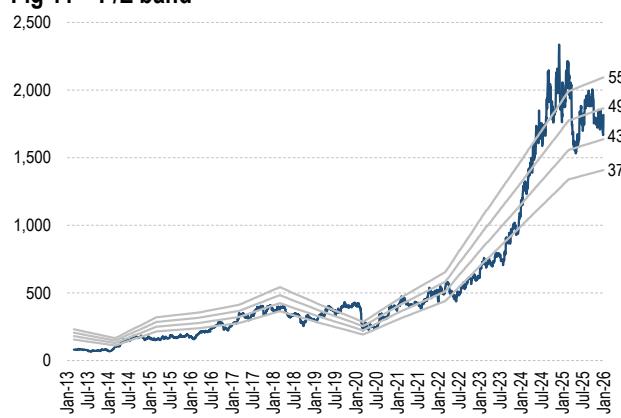
Fig 10 – Change in Estimates

(Rs m)	New Estimates			Old Estimates			Change (%)		
	FY26e	FY27e	FY28e	FY26e	FY27e	FY28e	FY26	FY27	FY28
Revenue	128,817	149,738	175,631	136,268	162,973	198,916	(5.5)	(8.1)	(11.7)
y/y (%)	8	16	17	14	20	22			
EBITDA	9,527	11,960	14,977	10,430	12,927	16,448	(8.7)	(7.5)	(8.9)
EBITDA (%)	7.4	8.0	8.5	7.7	7.9	8.3			
Adj net Income	6,252	7,968	10,225	6,974	8,846	11,510	(10.4)	(9.9)	(11.2)
Adj net Income (%)	4.9	5.3	5.8	5.1	5.4	5.8			
EPS	30.4	38.8	49.7	33.9	43.0	56.0	(10.4)	(9.9)	(11.2)

Source: Anand Rathi Research

We maintain BUY rating on the stock with a 12-mth TP of Rs2,188 (from Rs2,178 earlier), valuing it at 44x FY28e EPS of Rs50.

Fig 11 – P/E band



Source: Bloomberg, Anand Rathi Research

Fig 12 – Mean PE(x) is 40x



Source: Bloomberg, Anand Rathi Research

Key Risks

- Weak consumer demand.
- Inability to gain market share amid stiff competition.
- Volatile commodity prices.
- Undue delay in executing projects leading to lower project margin and strained balance sheet.

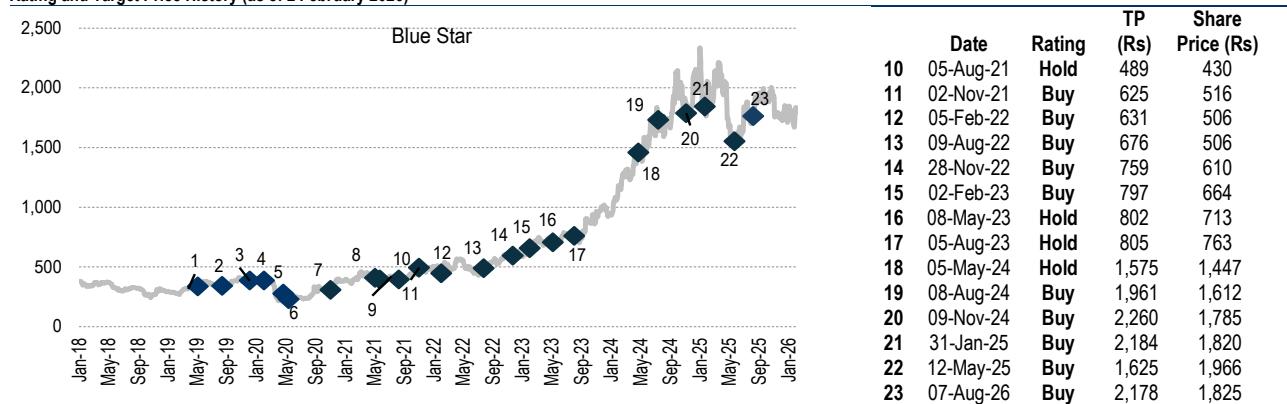
Appendix

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Rating and Target Price History (as of 2 February 2026)



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