January 25, 2023

RESULT REPORT Q3 FY23 | Sector: Consumer Durables

Johnson Controls-Hitachi Air Conditioning

Market share loss drags revenue; maintain Neutral

Reco	:	**NEUTRAL**
CMP	:	Rs 1,101
Target Price	:	Rs 1,149
Potential Return	:	+4.4%

Result Synopsis

JCHAC has once again registered poor set of performance with revenue coming significantly below ours and consensus estimates. Gross margin although has improved on sequential basis, it remains significantly below it normalized margin. We feel that this gross margin contraction is on account of intense competition in RAC space where other companies have become super aggressive. Our channel checks suggest JCHAC's aggression in the mass premium segment (multiple new SKU launches) which is 70% of the RAC industry volumes is not yielding results as it is losing market share to players like Lloyd, LG, and Blue star. JCHAC has been losing market share as well as margins in this super competitive environment. We feel it would be difficult to gain market share and improve upon the margins at the same time in this hyper competitive RAC market. Considering lower margin profile, we continue to remain neutral on the stock as stock price has already corrected. We will turn positive once we see visible signs of some market share gains.

JCHAC has increased its distribution presence to tier 2,3,4 cities, however they have lost the favour of MBO's. Recently company has changed its strategy and is now looking for higher volumes. JCHAC has been failing to protect its margin and simultaneously grow its market share. Market share gains and improvement in profitability will need to be watched out for before we become constructive on the stock. We have revised our estimated downwards and now expect FY22-25E revenue/EBITDA/PAT CAGR of 17%/32%/91% on the lower base. Given the headwinds company is facing, we continue to remain Neutral the stock with a revised PT of Rs1,149 now valuing it at 35x rolling forward valuation multiple.

Result Highlights

- **Quarter summary –** JCHAC has once again registered revenue significantly below ours and street estimates with revenue declining 10% yoy. Gross margin although have expanded 325bps on sequential basis, it is still significantly below its normalized levels.
- **Margins –** Company continues to register loss in its cooling segment, with loss of Rs204mn in Q3, while in design and development which consist of projects business, has seen margins of 11% contraction of 921bps.
- **Distribution –** Company has been expanding its distribution reach and now with increasing SKUs of mass premium RACs, it is aggressively looking to improve its reach in tier 3,4,5 cities and towns.
- **Market Buzz** – As per our channel checks, JCHAC is losing its focus and market share, while its concentration on mass premium segment is not yielding any result and company is now losing favour with large MBO's.

Exhibit 1: Actual vs estimates

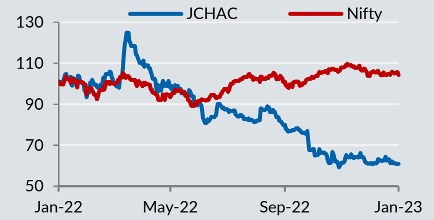
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	5,183	5,691	5,756	-8.9	-9.9	Market share loss has resulted in poor performance
EBITDA	-20	114	211	NM	NM	
EBITDA Margin (%)	*-0.4*	*2.0*	*3.6*	*NM bps*	*NM bps*	
Adjusted PAT	-262	-41	18	NM	NM	

Source: Company, YES Sec

Stock data (as on January 25, 2023)

Nifty	17,892
52 Week h/l (Rs)	2271 / 1063
Market cap (Rs/USD mn)	29937/367
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	19
Div yield (%):	NA
Bloomberg code:	JCHAC IN
NSE code:	JCHAC

Stock performance



	1M	3M	1Y
Absolute return	0.0%	-10.4%	-39.7%

Shareholding pattern (As of Dec'22 end)

Promoter	74.3%
FII+DII	12.6%
Others	13.1%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,149	1,418

Δ in earnings estimates

	FY24e	FY24e
EPS (New)	24.1	41.5
EPS (Old)	35.5	-
% change	-32.2%	NA

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	25,286	29,730	34,159
YoY Growth	17.1%	17.6%	14.9%
EBIDTA	405	1,516	2,220
YoY Growth	-58.1	274.8	46.4
PAT	-313	655	1,129
YoY Growth	-294.1%	-309.5%	72.3%
ROE	-2.5	8.8	13.6
EPS	-1.8	24.1	41.5
P/E	-599.0	45.5	26.4
BV	260.6	284.7	326.2
EV/EBITDA	73.6	19.3	12.8

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	9MFY23	9MFY22	y/y %
Sales	5,756	6,942	10,103	3,082	5,183	-10.0	68.1	18,368	14,649	25.4
EBITDA	466	395	137	-539	-20	-104.2	-96.4	-422	570	(174.0)
EBITDA Margin %	8.1	5.7	1.4	-17.5	-0.4			-2.3	3.9	
Depreciation	181.5	180.8	181.9	188.9	196.0	8.0	3.8	567	541	4.9
EBIT	284	214	-45	-728	-216	-175.7	-70.4	-989	30	(3,440.2)
EBIT Margin %	4.9	3.1	-0.4	-23.6	-4.2			-5.4	0.2	
Interest charges	18	23	19	15	16	-13.1	8.2	50	69	(27.3)
Other Income	12.4	29.7	38.8	27.4	30.4	145.2	10.9	97	51	89.8
PBT	279	214	-26	-700	-348	-225.0	-50.2	-1,074	12	(9,045.8)
Tax	72.4	56.9	-6.1	-170.0	-86.6	-219.6	-49.1	-263	8	(3,556.6)
Effective Tax Rate (%)	26.0	26.6	23.6	24.3	24.9			24.5	63.3	
PAT	206	157	-20	-530	-262	-226.9	-50.6	-811	4	(18,527.3)
PAT Margin %	3.6	2.3	-0.2	-17.2	-5.0			-4.4	0.0	
EPS (Rs)	7.6	5.8	-0.7	-19.5	-9.6	-226.9	-50.6	-30	0	(18,527.3)

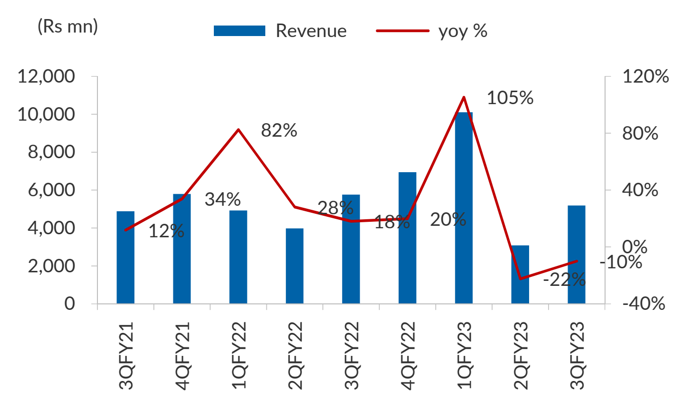
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	y/y %	q/q %	9MFY23	9MFY22	y/y %
Cooling Products for comfort and commercial use	5,642	6,849	9,981	2,961	5,093	(9.7)	72.0	18,034	14,341	(7.4)
Design and Development Services	192	159	186	187	168	(12.8)	(10.1)	540	543	(42.8)
Less: Intersegment	78	67	64	65	78	0.3	20.6	206	235	(22.7)
Total Sales	5,756	6,942	10,103	3,082	5,183	(10.0)	68.1	18,368	14,649	(8.9)
Segment Results										
Cooling products for comfort and commercial use	258	226	-29	-724	-204	(178.8)	(71.9)	-957	6	(202.8)
Design and Development Services	38.8	17.9	22.8	23.5	18.4	(52.6)	(21.7)	65	74	(49.3)
Less: Finance costs	18.3	22.9	19.2	14.7	15.9	(13.1)	8.2	50	69	(6.5)
Less: Exceptional items	0.0	7.4	0.0	-15.6	147.2	#DIV/0!	(1,043.6)	132	0	#DIV/0!
Total PBT	279	214	-26	-700	-348	(225.0)	(50.2)	-1,074	12	(260.3)
PBIT Margins (%)						(bps)	(bps)			(bps)
Cooling Products for comfort and commerical use	4.6%	3.3%	-0.3%	-24.5%	-4.0%	(857)	2,046	(5.3)	0.0	(8)
Design and Development Services	20.2%	11.2%	12.3%	12.6%	11.0%	(921)	(162)	12.0	13.7	(1)
Total PBT	4.8%	3.1%	-0.3%	-22.7%	-6.7%	(1,156)	1,597	(5.8)	0.1	(11)

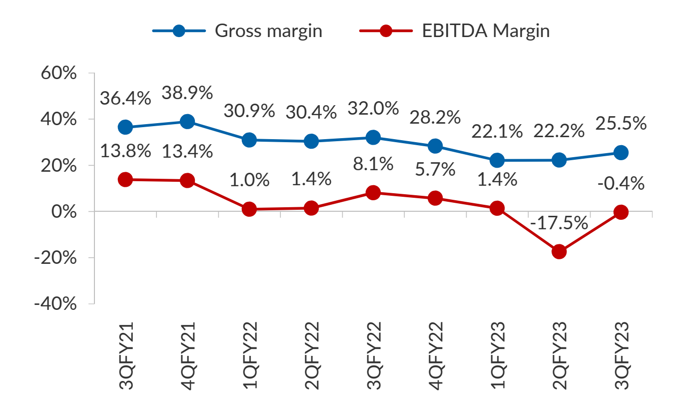
Source: Company, YES Sec

Exhibit 4: Market share loss in RAC have resulted in revenue decline



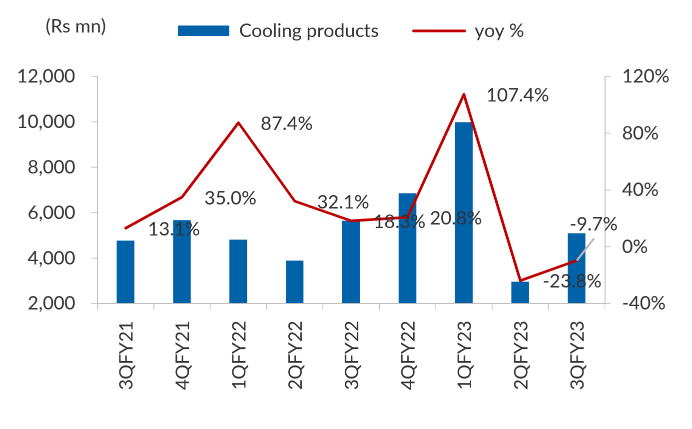
Source: Company, YES Sec

Exhibit 5: Gross margin continues to remain at lower levels



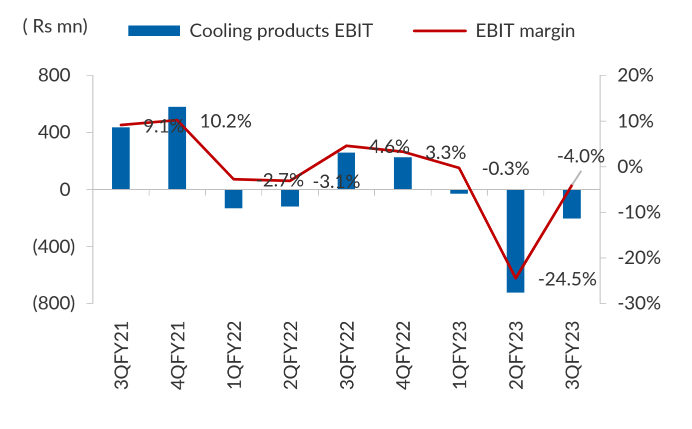
Source: Company, YES Sec

Exhibit 6: RAC performance continues to be disappointing



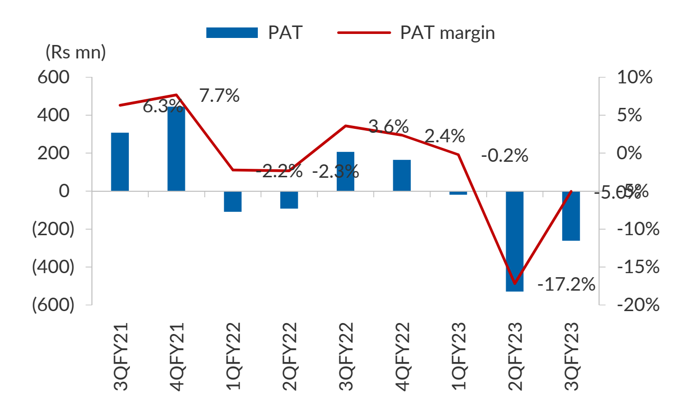
Source: Company, YES Sec

Exhibit 7: Company has registered EBIT loss



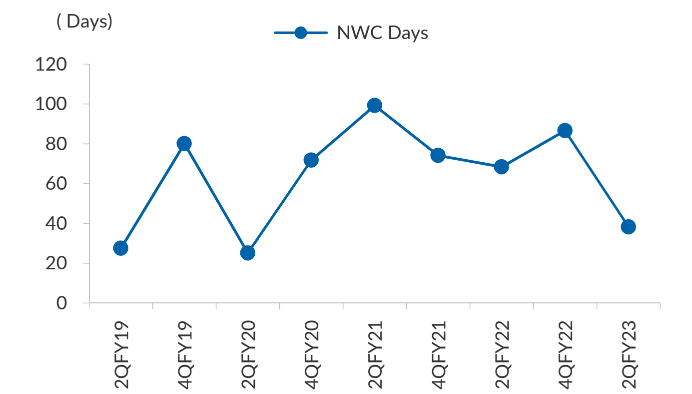
Source: Company, YES Sec

Exhibit 8: Negative operating leverage has resulted in net loss



Source: Company, YES Sec

Exhibit 9: Working capital has seen improvement



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity capital	272	272	272	272	272
Reserves	6,944	7,127	6,814	7,469	8,599
Net worth	7,216	7,399	7,086	7,741	8,871
Debt	0	430	387	348	314
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	1,420	1,232	1,370	1,536	1,702
Total liabilities	8,636	9,060	8,843	9,626	10,886
Fixed Asset	3,533	3,376	3,271	3,108	2,886
Investments	11	9	9	9	9
Other Non-current Assets	1,482	1,407	1,286	1,197	1,122
Net Working Capital	2,392	3,964	3,852	4,500	5,182
Inventories	7,042	8,218	8,036	9,448	10,856
Sundry debtors	2,641	4,113	4,364	5,131	5,896
Loans and Advances	16	12	12	14	15
Sundry creditors	6,339	7,210	7,274	8,552	9,826
Other current liabilities	1,247	1,496	1,668	1,989	2,273
Cash & equivalents	1,218	305	425	812	1,687
Total Assets	8,636	9,060	8,843	9,626	10,886

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	16,465	21,590	25,286	29,730	34,159
Operating profit	1,175	965	405	1,516	2,220
Depreciation	755	721	765	809	853
Interest expense	136	91	64	23	21
Other income	79	81	138	192	163
Profit before tax	363	233	(287)	876	1,509
Taxes	103	65	(105)	220	380
Minorities and other	-	-	-	-	-
Adj. profit	260	169	(181)	655	1,129
Exceptional items	(71)	(7)	(132)	-	-
Net profit	331	176	(50)	655	1,129

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before tax	499	324	(223)	899	1,530
Depreciation	755	721	765	809	853
Tax paid	(103)	(65)	105	(220)	(380)
Working capital ∆	2,138	(1,572)	112	(648)	(682)
Other operating items					
Operating cashflow	3,289	(591)	760	839	1,321
Capital expenditure	(492)	(564)	(660)	(646)	(631)
Free cash flow	2,797	(1,155)	100	194	690
Equity raised	-	7	(263)	0	-
Investments	0	2	-	-	-
Debt financing/disposal	(1,587)	430	(43)	(39)	(35)
Interest paid	(136)	(91)	(64)	(23)	(21)
Dividends paid	-	-	-	-	-
Net ∆ in cash	1,042	(914)	120	387	875

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

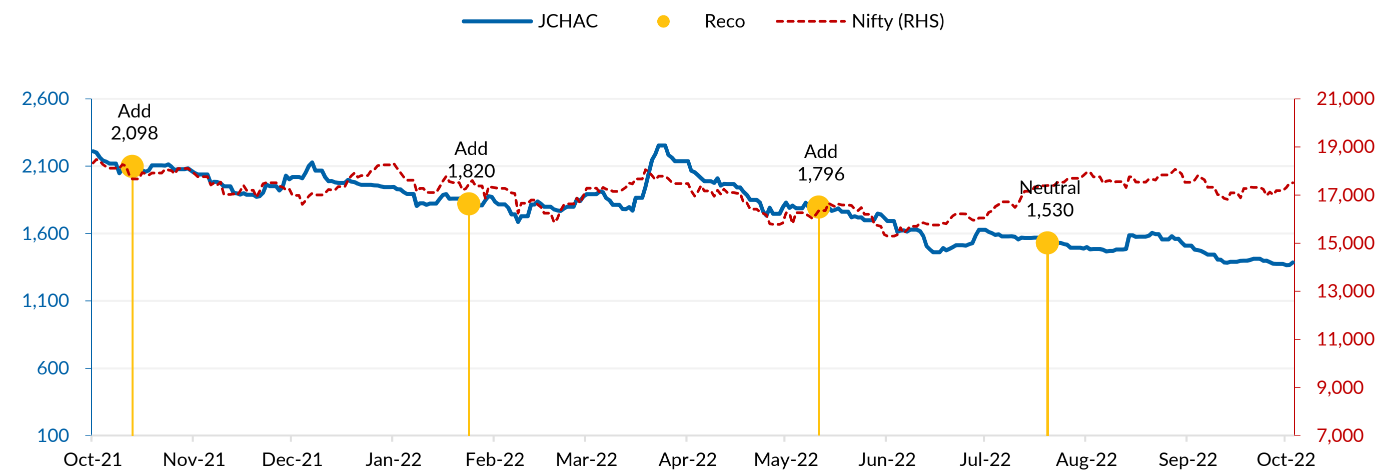
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.72	0.72	0.63	0.75	0.75
Interest burden (x)	0.73	0.72	1.29	0.97	0.99
EBIT margin (x)	0.03	0.02	(0.01)	0.03	0.04
Asset turnover (x)	1.02	1.26	1.41	1.55	1.56
Financial leverage (x)	2.29	2.35	2.48	2.59	2.63
RoE (%)	3.7	2.3	(2.5)	8.8	13.6

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(25.1)	31.1	17.1	17.6	14.9
Op profit growth	(31.8)	(17.8)	(58.1)	274.8	46.4
EBIT growth	(59.8)	(34.9)	(168.6)	(503.9)	70.2
Net profit growth	(69.2)	(35.1)	(207.6)	(461.4)	72.3
Profitability ratios (%)					
OPM	7.1	4.5	1.6	5.1	6.5
EBIT margin	3.0	1.5	(0.9)	3.0	4.5
Net profit margin	1.6	0.8	(0.7)	2.2	3.3
RoCE	6.4	4.3	(2.9)	11.6	17.7
RoNW	3.7	2.3	(2.5)	8.8	13.6

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	1.6	1.0	(1.0)	3.4	5.2
Per share ratios					
EPS	12.2	6.5	(1.8)	24.1	41.5
Dividend per share	-	-	-	-	-
Cash EPS	37.3	32.7	21.5	53.9	72.9
Book value per share	265.4	272.1	260.6	284.7	326.2
Valuation ratios					
P/E	90.0	169.3	(599.0)	45.5	26.4
P/CEPS	27.4	33.8	65.9	20.3	15.0
P/B	4.1	4.0	4.2	3.8	3.4
EV/EBIDTA	24.3	31.0	73.6	19.3	12.8
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	28.4	27.7	36.7	25.2	25.2
Liquidity ratios					
Debtor days	58.5	69.5	63.0	63.0	63.0
Inventory days	156.1	138.9	116.0	116.0	116.0
Creditor days	140.5	121.9	105.0	105.0	105.0

Recommendation Tracker



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