

Johnson Controls-Hitachi Air Conditioning India

05 August 2021

Reuters: JCHA.BO; Bloomberg: JCHAC IN

Results below expectations; trimming margin forecasts

Johnson Controls-Hitachi Air Conditioning India (JCH-IN) posted revenue of Rs4.9bn in 1QFY22, up 82.5% YoY on a low base but 18% below our estimate. Cooling Products segment's revenue jumped by 87% YoY to Rs4.8bn (96.6% of total sales) while Design & Development segment's sales grew by 8.9% YoY to Rs171mn (2.8% of total sales). Gross margin declined by 420bps YoY to 30.9%, likely due to commodity cost pressures. EBITDA in 1QFY22 stood at Rs47mn (vs a negative EBITDA of Rs221mn in 1QFY21), led by lower employee costs (flat YoY at Rs453mn), leading to higher operating leverage. EBITDA margin stood at 1%, below our estimate of 9.6%. JCH-IN reported a net loss of Rs109mn, below our estimate of a net profit of Rs284mn. Our channel checks suggest that the company did not take price hikes in 1QFY22 whereas competition did hike prices. However, it has taken ~7-8% price hike at the start of July 2021. This bodes well for profitability for the rest of FY22, in our view. JCH-IN is a key beneficiary of the shift in government policies to promote AC manufacturing in India by making imports costlier. JCH-IN possess backward-integrated manufacturing capabilities, India-specific R&D set-up, supply chain support from group companies and a Global Development Centre (GDC) offering design & development services (for both India as well as global needs). Given the lower-than-expected performance in 1QFY22, we cut our earnings estimates for FY22E/FY23E by 30%/11%. Our earnings cut largely reflects trimming of margin expectations in FY22E/FY23E. We maintain Accumulate rating on the stock with a revised target price (TP) of Rs2,200 (Rs2,500 earlier) based on P/E of 40x FY23E earnings.

Lock-down affects performance, no price hike in 1QFY22: Although the company grew by 87% YoY in Cooling Products, it has declined at a CAGR of 28% from the 1QFY20 base. Our channel checks suggest that sales have picked up in July'21 given the extended summer season and we believe that this growth momentum will continue with the vaccination program gaining pace. With two consecutive summer seasons lost (2020-2021), we believe that the next summer season will be crucial for the company now. We factor in 36% growth for FY22 in the Cooling Products business. Our channel checks also suggest that competition was ahead in taking price hikes to mitigate raw material inflation whereas JCH-IN did not take any price hike in 1QFY22. It has taken a price hike of ~Rs1,000 in Window ACs and ~Rs1,500-2,000 price hike in Split ACs, starting July'21. We did not notice any significant discounting from the company in order to liquidate the inventory. We expect the Cooling Products segment to report revenue CAGR of 27% over FY21-FY23E on account of healthy volume growth, aided by: (1) foray into the mass market segment (2) expansion of distribution channels and (3) scale-up of exports.

Capital employed increased in the quarter: The capital employed for Cooling Products rose to Rs5.2bn (vs. Rs4.7bn in 1QFY21), which indicates that the trade channel has built inventory of Room ACs. Design & Development segment's capital employed was flattish YoY/QoQ at Rs1.3bn.

Outlook: Strong product portfolio, premium brand image, healthy market share (12% in AC), strong global parentage, core focus on domestic manufacturing, favourable government policies promoting indigenisation and healthy growth prospects of the AC industry will support JCH-IN's premium valuation. We expect 28% revenue CAGR, 56.5% EBITDA CAGR and 112% PAT CAGR over FY21-FY23E (partly led by higher other income and lower tax rate).

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ACCUMULATE

Sector: Consumer Durables

CMP: Rs2,264

Target Price: Rs2,200

Downside: 2.8%

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Key Data

Current Shares O/S (mn)	27.2
Mkt Cap (Rsbn/US\$mn)	61.5/829.1
52 Wk H / L (Rs)	2940/1980
Daily Vol. (3M NSE Avg.)	35,722

Price Performance (%)

	1 M	6 M	1 Yr
JCH-IN	0.0	(11.6)	9.8
Nifty Index	3.0	9.2	45.5

Source: Bloomberg

Y/E March (Rsmn)	1QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Net revenues	2,696	5,794	4,920	82.5	(15.1)	21,974	16,465	(25.1)
Raw material costs	1,750	3,541	3,398	94.2	(4.1)	13,974	10,317	(26.2)
Staff costs	440	481	453	3.0	(5.8)	1,745	1,673	(4.1)
Other expenses	727	997	1,022	40.4	2.4	4,533	3,301	(27.2)
Total expenditure	2,917	5,020	4,872	67.0	(2.9)	20,252	15,291	(24.5)
EBITDA	(221)	774	47	(121.4)	(93.9)	1,722	1,175	(31.8)
EBITDA margin (%)	(8.2)	13.4	1.0			7.8	7.1	
Depreciation	131	210	178	36.2	(15.3)	563	755	34.1
Interest costs	38	19	30	(20.7)	56.5	50	136	170.1
Other income	10	36	18	76.8	(51.8)	82	79	(3.1)
Exceptional items	71	-	0			(8)	71	
PBT	(309)	581	(143)	(53.6)	(124.7)	1,183	434	(63.3)
Tax	(77)	136	(34)	(55.9)	(125.0)	348	103	(70.3)
PAT	(231)	444	(109)	(52.8)	(124.6)	835	331	(60.4)
PAT margin (%)	(8.6)	7.7	(2.2)			3.8	2.0	
EPS (Rs)	(8.5)	16.3	(4.0)	(52.8)	(124.6)	30.7	12.2	(60.4)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

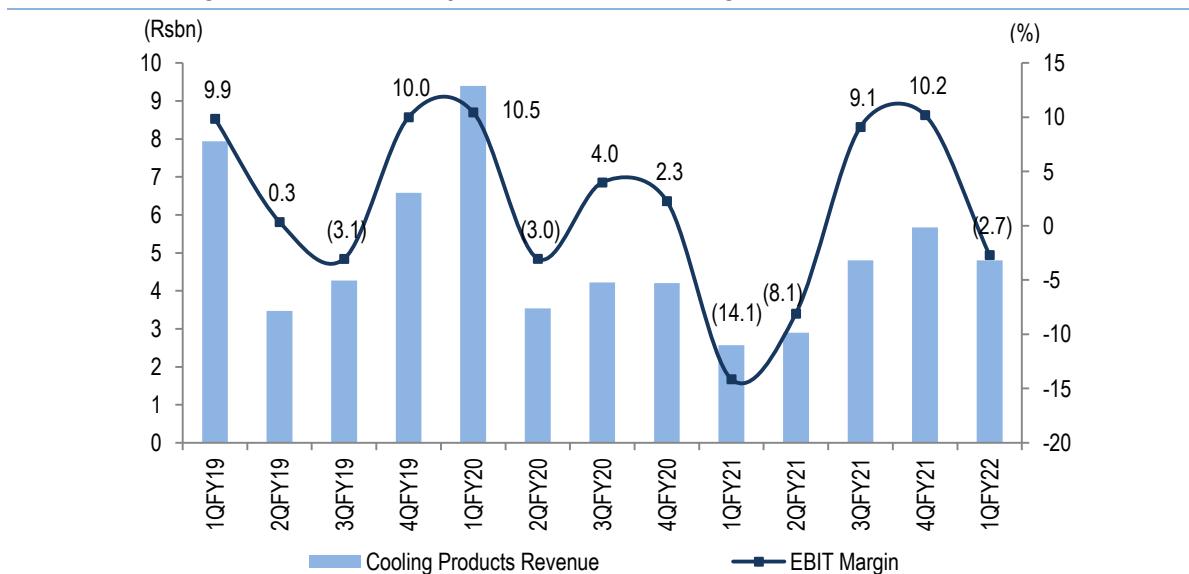
Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Revenues	22,413	21,974	16,465	22,724	26,985
EBITDA	1,638	1,722	1,175	1,849	2,877
PAT	859	835	331	749	1,491
EPS (Rs)	31.6	30.7	12.2	27.6	54.8
EPS growth (%)	(14.2)	(2.8)	(60.4)	126.3	99.0
EBITDA margin (%)	7.3	7.8	7.1	8.1	10.7
P/E (x)	71.6	73.7	186.0	82.2	41.3
P/BV (x)	10.0	8.9	8.5	7.9	6.8
EV/EBITDA (x)	38.6	36.6	51.4	32.7	20.7
RoCE (%)	15.2	13.9	5.9	13.3	21.9
RoE (%)	14.0	12.1	4.6	9.6	16.5

Source: Company, Nirmal Bang Institutional Equities Research

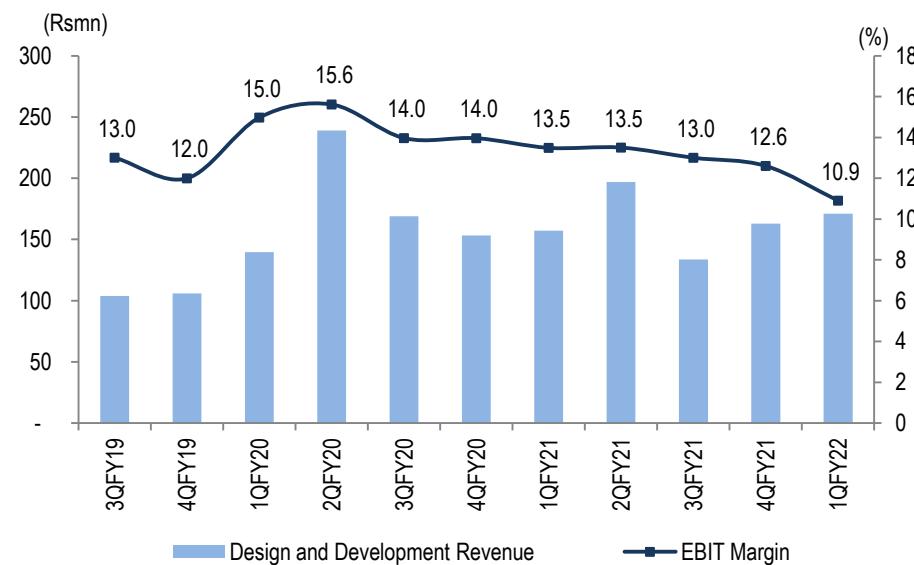
Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	1QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)	FY20	FY21	YoY (%)
Revenues								
Cooling Products	2,569	5,671	4,813	87.4	(15.1)	21,355	15,952	(25.3)
Design and Development	157	163	171	8.9	5.4	701	650	(7.2)
Revenue mix (%)								
Cooling Products	94.2	97.2	96.6			96.8	96.1	
Design and Development	5.8	2.8	3.4			3.2	3.9	
EBIT (Rsmn)								
Cooling Products	(363)	579	(132)	(63.7)	(122.8)	1,138	413	(63.7)
Design and Development	21	20	19	(11.8)	(8.3)	103	86	(17.2)
EBIT margin (%)								
Cooling Products	(14.1)	10.2	(2.7)			5.3	2.6	
Design and Development	13.5	12.6	10.9			14.7	13.1	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cooling Products – Quarterly revenue and EBIT margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Design and Development Segment – Quarterly revenue and EBIT margin trend


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates

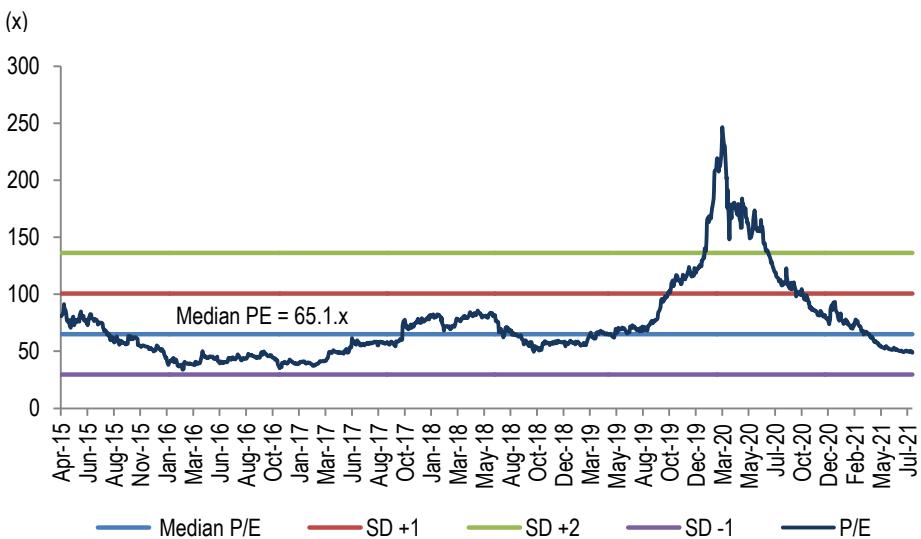
1QFY22(Rs mn)	Actual	Our estimate	Deviation (%)
Revenues	4,920	6,047	(18.6)
EBITDA	47	582	(91.9)
PAT	(109)	284	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

(Rs mn) Y/E March	Old		New		Deviation (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	21,488	25,501	22,724	26,985	5.8	5.8
EBITDA	2,168	3,018	1,849	2,877	(14.7)	(4.7)
PAT	1,073	1,679	749	1,491	(30.2)	(11.2)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: PE chart


Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	22,413	21,974	16,465	22,724	26,985
% growth	(0.8)	(2.0)	(25.1)	38.0	18.7
Raw material costs	14,439	13,974	10,317	14,452	17,135
Staff costs	1,652	1,745	1,673	1,772	1,997
Other overheads	4,685	4,533	3,301	4,650	4,976
Total expenditure	20,775	20,252	15,291	20,875	24,108
EBITDA	1,638	1,722	1,175	1,849	2,877
% growth	(17.6)	5.1	(31.8)	57.4	55.6
EBITDA margin (%)	7.3	7.8	7.1	8.1	10.7
Other income	154	82	79	102	162
Interest costs	27	50	136	120	120
Depreciation	442	563	755	831	926
Exceptional Items	-	-8	71	0	0
Profit before tax	1,324	1,183	434	1,001	1,993
Tax	464	348	103	252	502
PAT	859	835	331	749	1,491
PAT margin (%)	3.8	3.8	2.0	3.3	5.5
EPS (Rs)	31.6	30.7	12.2	27.6	54.8
% growth	(14.2)	(2.8)	(60.4)	126.3	99.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
EBIT	1,196	1,159	420	1,018	1,950
(Inc./dec. in working capital)	(1,775)	219	2,612	(442)	(104)
Cash flow from operations	(578)	1,379	3,032	576	1,846
Other income	154	82	79	102	162
Depreciation	442	563	755	831	926
Tax paid (-)	(492)	(324)	(111)	(252)	(502)
Net cash from operations	(474)	1,699	3,755	1,257	2,433
Capital expenditure (-)	(1,247)	(1,373)	(1,145)	(1,159)	(1,200)
Net cash after capex	(1,721)	326	2,610	99	1,233
Interest paid (-)	(27)	(50)	(136)	(120)	(120)
Dividends paid (-)	(49)	0	0	(136)	(272)
Inc./dec. in total borrowings	1,770	(309)	(1,587)	0	0
Inc./dec. in investments	0	1	0	0	0
Cash from financial activities	1,694	(358)	(1,723)	(256)	(392)
Others	(32)	(88)	73	0	0
Opening cash balance	358	299	179	1,223	1,066
Closing cash balance	299	179	1,223	1,066	1,907
Change in cash balance	(60)	(119)	1,043	(157)	841

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22E	FY23E
Share capital	272	272	272	272	272
Reserves	5,858	6,613	6,947	7,560	8,779
Net worth	6,130	6,885	7,219	7,832	9,051
Borrowings	1,896	1,587	0	0	0
Deferred tax liabilities	(166)	(142)	(150)	(150)	(150)
Total liabilities	7,860	8,330	7,069	7,682	8,901
Gross block	3,299	5,504	6,622	7,822	9,022
Depreciation	1,142	1,705	2,460	3,291	4,217
Net block	2,157	3,799	4,162	4,532	4,805
Capital Work in Progress	941	64	91	50	50
Intangible Assets	153	198	115	115	115
Investments	12	11	11	11	11
Inventories	5,555	7,275	7,042	5,939	6,572
Debtors	4,484	2,546	2,641	3,113	3,697
Cash	299	179	1,223	1,066	1,907
Other non-current assets	404	522	497	568	810
Other current assets	1,219	1,105	494	1,295	1,565
Total current assets	11,961	11,626	11,897	11,981	14,551
Creditors	5,408	5,500	6,339	5,939	7,042
Other current liabilities & provisions	1,956	1,869	2,868	3,068	3,589
Total current liabilities	7,364	7,368	9,208	9,007	10,631
Net current assets	4,597	4,258	2,689	2,974	3,920
Total assets	7,860	8,330	7,069	7,682	8,901

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

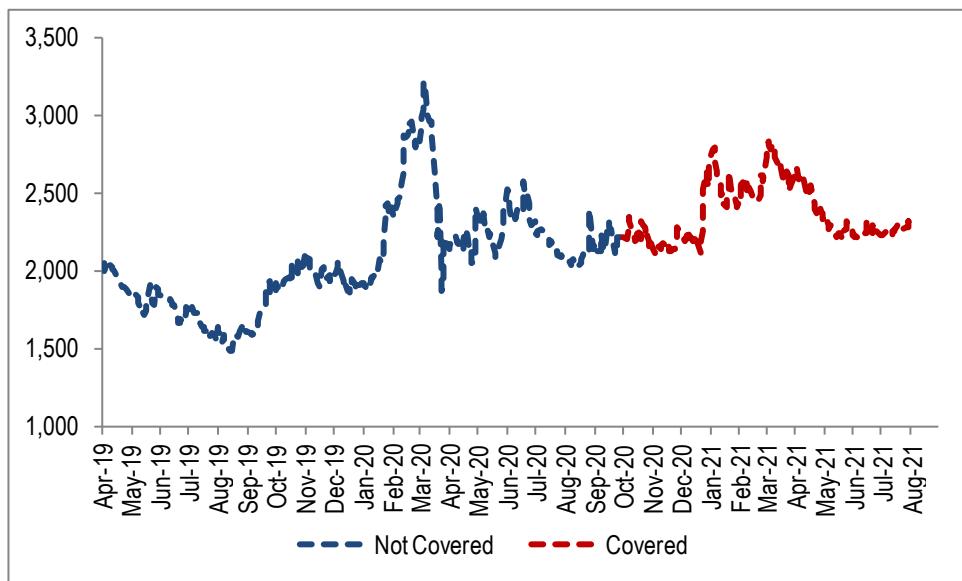
Y/E March	FY19	FY20	FY21	FY22E	FY23E
Per share (Rs)					
EPS	31.6	30.7	12.2	27.6	54.8
Book value	225.4	253.2	265.5	288.0	332.9
Valuation (x)					
P/E	71.6	73.7	186.0	82.2	41.3
P/BV	10.0	8.9	8.5	7.9	6.8
EV/EBITDA	38.6	36.6	51.4	32.7	20.7
EV/sales	2.8	2.9	3.7	2.7	2.2
Return ratios (%)					
RoCE	15.2	13.9	5.9	13.3	21.9
RoE	14.0	12.1	4.6	9.6	16.5
RoIC	15.8	14.2	7.2	15.4	27.9
Profitability ratios (%)					
EBITDA margin	7.3	7.8	7.1	8.1	10.7
EBIT margin	5.3	5.3	2.5	4.5	7.2
PAT margin	3.8	3.8	2.0	3.3	5.5
Turnover ratios					
Total asset turnover ratio (x)	2.9	2.6	2.3	3.0	3.0
Fixed asset turnover ratio (x)	6.8	4.0	2.5	2.9	3.0
Debtor days	73	42	59	50	50
Inventory days	140	190	249	150	140
Creditor days	137	144	224	150	150
Solvency ratio (x)					
Debt-Equity	0.3	0.2	0.0	0.0	0.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
1 October 2020	Buy	2,175	2,500
9 October 2020	Buy	2,290	2,500
29 October 2020	Buy	2,125	2,500
7 January 2021	Accumulate	2,698	2,915
9 February 2021	Accumulate	2,485	2,815
9 April 2021	Accumulate	2,612	2,815
25 May 2021	Accumulate	2,316	2,500
05 August 2021	Accumulate	2,264	2,200

Rating track graph



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BUY > 15%

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