

Johnson Controls-Hitachi Air Conditioning India

23 May, 2023

Reuters: JCHA.BO; Bloomberg: JCHAC IN

Weak quarter; Expect muted 1QFY24

Johnson Controls-Hitachi Air Conditioning India (JCHAC) reported a disappointing 4QFY23 performance, with revenue down 21.1% YoY at Rs5.5bn. Cooling Products segment's revenue declined by 21.7% YoY to Rs5.4bn (96.7% of total sales). Design & Development segment's sales improved by 14.1% YoY to Rs182mn (3.3% of total sales). Gross margin expanded by 330bps YoY to 31.5%, most likely due to easing commodity cost pressures. EBITDA came in at Rs234mn, down 40.8% YoY. EBITDA margin contracted by 142bps YoY to 4.3%. Cooling Products segment's EBIT margin contracted sharply by 239bps YoY to 0.9%. Design & Development segment's EBIT margin expanded by 87bps YoY to 12.1%. For 4QFY23, JCHAC reported an exceptional expense of Rs24mn mainly on account of termination benefits paid/payable to employees due to realignment/reorganization in certain areas. JCHAC reported adj. net profit of Rs14mn in 4QFY23, down 91.7% YoY. We believe that demand moderated in March'23 on account of weak consumer sentiment and unseasonal rains after pick-up in mid-Feb'23. We expect demand to remain muted in 1QFY23 on account of unseasonal rains, weak consumer sentiment and high channel inventory across the industry. Margin headwinds for JCHAC are likely to persist over the near term. We continue to maintain 'Under Review' rating on JCHAC as we seek to better understand the company's business.

Weak performance in 4QFY23: JCHAC revenue grew by 26.5% over the 4QFY20 base. Muted demand trends of 3QFY23 continued in 4QFY23 on account of implementation of new BEE norms from 1st July, 2022, weak consumer sentiment amid persistent inflationary pressures and unseasonal rains. Demand remained muted in January'23 before picking up pace from mid-Feb'23. It again slumped in March'23 on account of unseasonal rains. Channel inventory across the industry continued to be higher. Further, unseasonal rains continued to play a spoilsport, particularly in Northern India. We expect weakness to continue in 1QFY23 as well. Overall, the RAC industry has witnessed a 3-year volume CAGR of 5.3% over FY20-FY23 whereas JCHAC's Cooling Products segment has reported a 3-year revenue CAGR of (3.1%). We believe that maintaining market share will be a challenge for JCHAC as competitive intensity is slated to rise.

Margin pressure persists: EBITDA margin declined by 142bps YoY to 4.3% in 4QFY23, most likely due to operating deleverage. Gross margin stood at 31.5% in 4QFY23 vs 28.2% in 4QFY22 and 39.4% in 4QFY20. EBITDA margin slumped to (0.8%) in FY23 vs 7.8% in FY20 on account of commodity cost pressures, supply chain constraints, higher freight costs, currency depreciation and operating deleverage. EBIT margin for the Cooling Products segment slumped to (3.3%) in FY23 from 6.7% in FY18.

Capital employed position and Net Working Capital Days: Capital employed for the Cooling Products segment declined to Rs4.6bn in 4QFY23 from Rs5.5bn in 4QFY22. Design & Development segment's capital employed declined to Rs1.2bn in 4QFY23 from Rs1.3bn in 4QFY22. Overall, total capital employed declined to Rs6.6bn in 4QFY23 from Rs7.4bn in 4QFY22. NWC days declined to 82 days at the end of FY23 vs 94 days at the end of FY22. Inventory days/Debtor days/Creditor Days stood at 177 days/49 days/145 days at the end of FY23 vs 199 days/70 days/175 days at the end of FY22.

Under Review

Sector: Consumer Durables

CMP: Rs1,091

Target Price: NA

Downside: NA

NBIE Research

institutional.research@nirmalbang.com
+91-022 6273 8111

Key Data

Current Shares O/S (mn)	27.2
Mkt Cap (Rsbn/US\$mn)	29.7/358.4
52 Wk H / L (Rs)	1,837/1,005
Daily Vol. (3M NSE Avg.)	27,479

Price Performance (%)

	1 M	6 M	1 Yr
JCH-IN	(3.9)	(0.9)	(39.1)
Nifty Index	3.4	(0.7)	13.8

Source: Bloomberg

Y/E March (Rsmn)	4QFY20	4QFY22	3QFY23	4QFY23	Change over 4QFY20	YoY (%)	QoQ (%)
Net revenues	4,329	6,942	5,183	5,476	26.5	(21.1)	5.7
Raw material costs	2,607	4,982	3,863	3,751	43.9	(24.7)	(2.9)
Staff costs	478	508	510	475	(0.6)	(6.4)	(6.9)
Other expenses	973	1,057	829	1,016	4.5	(3.9)	22.6
Total expenditure	4,057	6,547	5,202	5,242	29.2	(19.9)	0.8
EBITDA	272	395	(20)	234	(14.0)	(40.8)	NA
EBITDA margin (%)	6.3	5.7	(0.4)	4.3	-	-	-
Depreciation	167	181	196	186	11.1	2.8	(5.2)
Interest costs	14	23	16	25	81.4	10.9	59.7
Other income	12	30	30	23	88.6	(21.9)	(23.7)
Exceptional items	(8)	(7)	(147)	(24)	-	-	-
PBT	95	214	(348)	22	(77.1)	(89.8)	NA
Tax	24	57	(87)	32	35.3	(43.4)	NA
PAT	72	157	(262)	(10)	NA	NA	NA
Adj. PAT	79	164	(114)	14	(82.8)	(91.7)	NA
Adj. PAT margin (%)	1.8	2.4	(2.2)	0.2	-	-	-
Adj. EPS (Rs)	2.9	6.0	(4.2)	0.5	(82.8)	(91.7)	NA

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

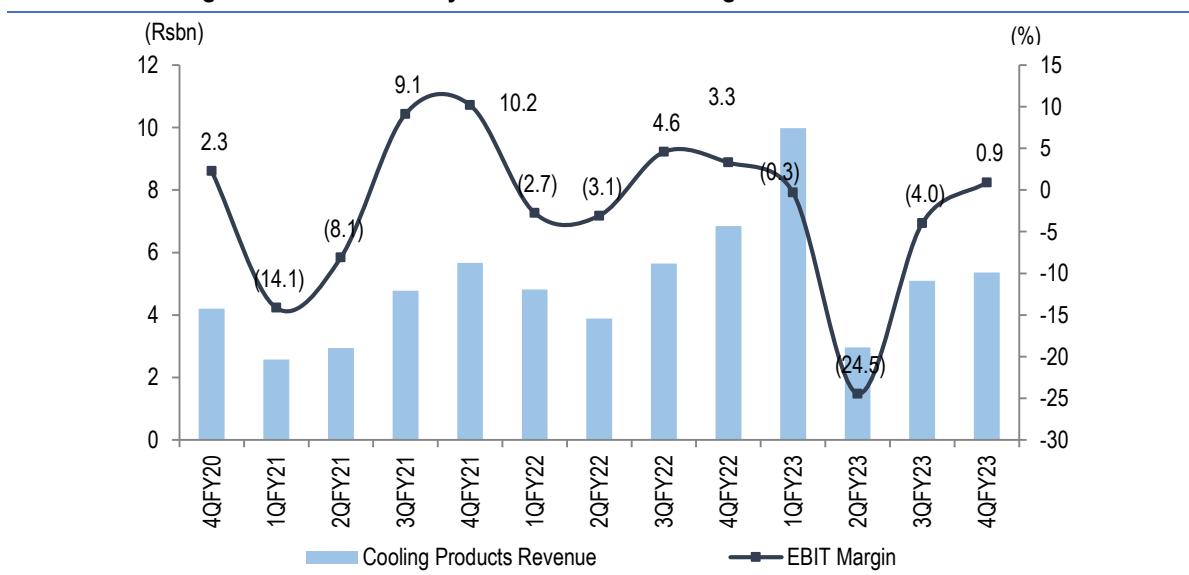
Y/E March (Rsmn)	FY19	FY20	FY21	FY22	FY23
Revenues	22,413	21,974	16,465	21,590	23,844
EBITDA	1,638	1,722	1,175	965	(189)
Adj. PAT	859	843	260	169	(666)
Adj. EPS (Rs)	31.6	31.0	9.6	6.2	(24.5)
EPS growth (%)	(14.2)	(1.9)	(69.2)	(35.1)	NA
EBITDA margin (%)	7.3	7.8	7.1	4.5	(0.8)
P/E (x)	34.5	35.2	114.1	175.9	(44.5)
P/BV (x)	4.8	4.3	4.1	4.0	4.5
EV/EBITDA (x)	19.1	18.0	24.2	30.9	NA
RoCE (%)	15.2	13.9	5.9	3.2	(12.4)
RoE (%)	14.0	12.2	3.6	2.3	(10.1)

Source: Company, Nirmal Bang Institutional Equities Research

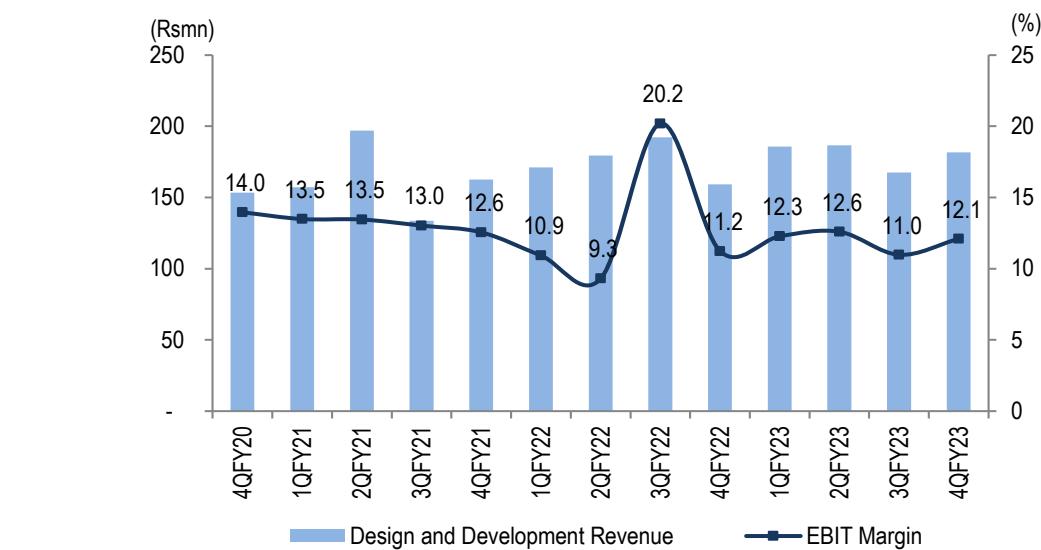
Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	4QFY20	4QFY22	3QFY23	4QFY23	Change over 4QFY20	YoY (%)	QoQ (%)
Revenues							
Cooling Products	4,201	6,849	5,093	5,365	27.7	(21.7)	5.3
Design and Development	153	159	168	182	18.5	14.1	8.4
Revenue mix (%)							
Cooling Products	96.5	97.7	96.8	96.7	-	-	-
Design and Development	3.5	2.3	3.2	3.3	-	-	-
EBIT (Rsmn)							
Cooling Products	96	226	(204)	49	NA	NA	NA
Design and Development	21	18	18	22	2.8	22.9	19.6
EBIT margin (%)							
Cooling Products	2.3	3.3	(4.0)	0.9	-	-	-
Design and Development	14.0	11.2	11.0	12.1	-	-	-

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

Financials

Exhibit 5: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21	FY22	FY23
Net sales	22,413	21,974	16,465	21,590	23,844
% growth	(0.8)	(2.0)	(25.1)	31.1	10.4
Raw material costs	14,439	13,974	10,317	15,060	17,881
Staff costs	1,652	1,745	1,673	1,774	1,836
Other overheads	4,685	4,533	3,301	3,792	4,316
Total expenditure	20,775	20,252	15,291	20,625	24,033
EBITDA	1,638	1,722	1,175	965	(189)
% growth	(17.6)	5.1	(31.8)	(17.8)	NA
EBITDA margin (%)	7.3	7.8	7.1	4.5	-0.8
Other income	154	82	79	81	120
Interest costs	27	50	136	91	75
Depreciation	442	563	755	721	753
Exceptional Items	-	-8	71	-7	-156
Profit before tax	1,324	1,183	434	226	-1,052
Tax	464	348	103	65	-231
Adj. PAT	859	843	260	169	(666)
PAT margin (%)	3.8	3.8	1.6	0.8	(2.8)
Adj. EPS (Rs)	31.6	31.0	9.6	6.2	(24.5)
% growth	(14.2)	(1.9)	(69.2)	(35.1)	NA

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21	FY22	FY23
EBIT	1,196	1,159	420	244	(941)
(Inc./dec. in working capital)	(1,775)	219	2,612	(1,894)	(79)
Cash flow from operations	(578)	1,379	3,032	(1,651)	(1,020)
Other income	154	82	79	81	120
Depreciation	442	563	755	721	753
Tax paid (-)	(492)	(324)	(111)	(77)	(30)
Net cash from operations	(474)	1,699	3,755	(926)	(178)
Capital expenditure (-)	(1,247)	(1,373)	(1,145)	(339)	(756)
Net cash after capex	(1,721)	326	2,610	(1,265)	(934)
Interest paid (-)	(27)	(50)	(136)	(91)	(75)
Dividends paid (-)	(49)	0	0	0	(41)
Inc./dec. in total borrowings	1,770	(309)	(1,587)	430	1,000
Inc./dec. in investments	0	1	0	2	0
Cash from financial activities	1,694	(358)	(1,723)	341	884
Others	(32)	(88)	73	12	(100)
Opening cash balance	358	299	179	1,223	307
Closing cash balance	299	179	1,223	307	221
Change in cash balance	(60)	(119)	1,043	(916)	(86)

Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21	FY22	FY23
Share capital	272	272	272	272	272
Reserves	5,858	6,613	6,947	7,127	6,320
Net worth	6,130	6,885	7,219	7,399	6,592
Borrowings	1,896	1,587	0	430	1,430
Deferred tax liabilities	-166	-142	-150	-162	-423
Total liabilities	7,860	8,330	7,069	7,667	7,599
Net block	2,157	3,799	4,162	3,788	3,764
Capital Work in Progress	941	64	91	83	111
Intangible Assets	153	198	115	119	55
Investments	12	11	11	9	9
Inventories	5,555	7,275	7,042	8,218	8,686
Debtors	4,484	2,546	2,641	4,113	3,212
Cash	299	179	1,223	307	221
Other non-current assets	404	522	497	631	536
Other current assets	1,219	1,105	494	509	871
Total current assets	11,961	11,626	11,897	13,778	13,525
Creditors	5,408	5,500	6,339	7,210	7,087
Other current liabilities & provisions	1,956	1,869	2,868	2,901	2,777
Total current liabilities	7,364	7,368	9,208	10,110	9,864
Net current assets	4,597	4,258	2,689	3,668	3,661
Total assets	7,860	8,330	7,069	7,667	7,599

Exhibit 8: Key ratios

Y/E March	FY19	FY20	FY21	FY22	FY23
Per share (Rs)					
EPS	31.6	31.0	9.6	6.2	-24.5
Book value	225.4	253.2	265.5	272.1	242.4
Valuation (x)					
P/E	34.5	35.2	114.1	175.9	-44.5
P/BV	4.8	4.3	4.1	4.0	4.5
EV/EBITDA	19.1	18.0	24.2	30.9	-163.7
EV/sales	1.4	1.4	1.7	1.4	1.3
Return ratios (%)					
RoCE	15.2	13.9	5.9	3.2	-12.4
RoE	14.0	12.2	3.6	2.3	-10.1
RoIC	15.8	14.2	7.2	3.3	-12.8
Profitability ratios (%)					
EBITDA margin	7.3	7.8	7.1	4.5	-0.8
EBIT margin	5.3	5.3	2.5	1.1	-3.9
PAT margin	3.8	3.8	1.6	0.8	-2.8
Turnover ratios					
Total asset turnover ratio (x)	2.9	2.6	2.3	2.8	3.1
Fixed asset turnover ratio (x)	6.8	4.0	2.5	3.1	3.1
Debtor days	73	42	59	70	49
Inventory days	140	190	249	199	177
Creditor days	137	144	224	175	145

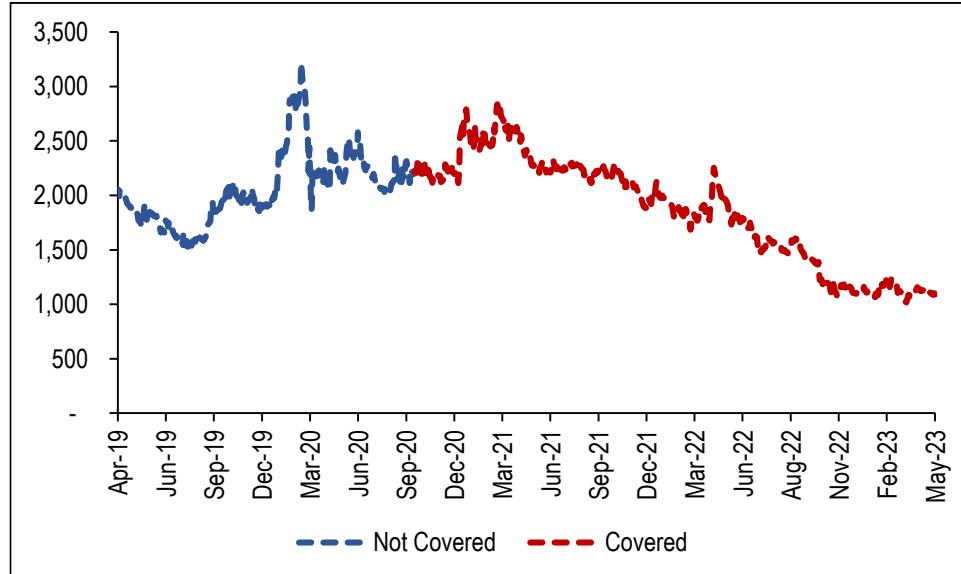
Source: Company, Nirmal Bang Institutional Equities Research

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
26 September 2021	Accumulate	2,172	2,200
29 October 2021	Accumulate	2,098	2,125
08 February 2022	Accumulate	1,791	1,860
21 February 2022	Accumulate	1,817	2,080
29 May 2022	Accumulate	1,753	1,790
05 August 2022	Accumulate	1,527	1,475
19 September 2022	Accumulate	1,564	1,670
20 October 2022	Under Review	1,393	-
26 January 2023	Under Review	1,101	-
23 May 2023	Under Review	1,091	-

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, NBIE Research, the research analyst and the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

DISCLAIMER

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name	Email Id	Direct Line	
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Krishnan Sambamoorthy	Head of Research	krishnan.s@nirmalbang.com	+91 22 6273 8210
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010