

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 1QFY24 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 1QFY24 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.

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

Under Review

Sector: Consumer Durables

CMP: Rs1,091

Target Price: NA

Downside: NA

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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

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)

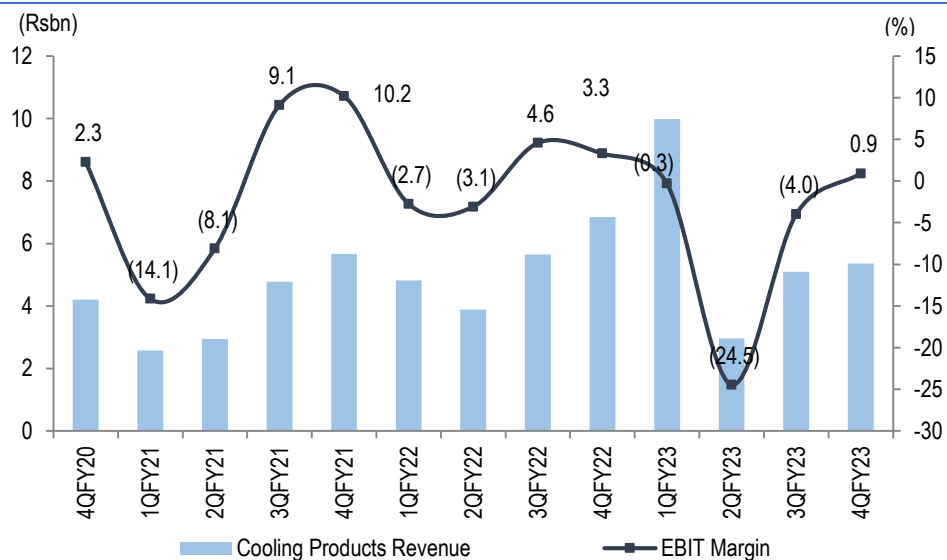
Source: Company, Nirmal Bang Institutional Equities Research

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	-	-	-

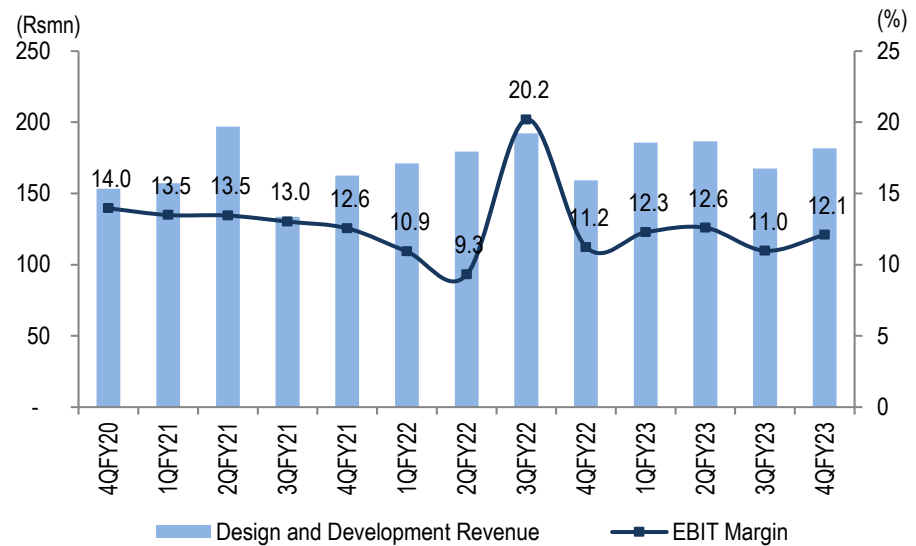
Source: Company, Nirmal Bang Institutional Equities Research

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

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

Source: Company, Nirmal Bang Institutional Equities Research

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

Exhibit 8: Key ratios

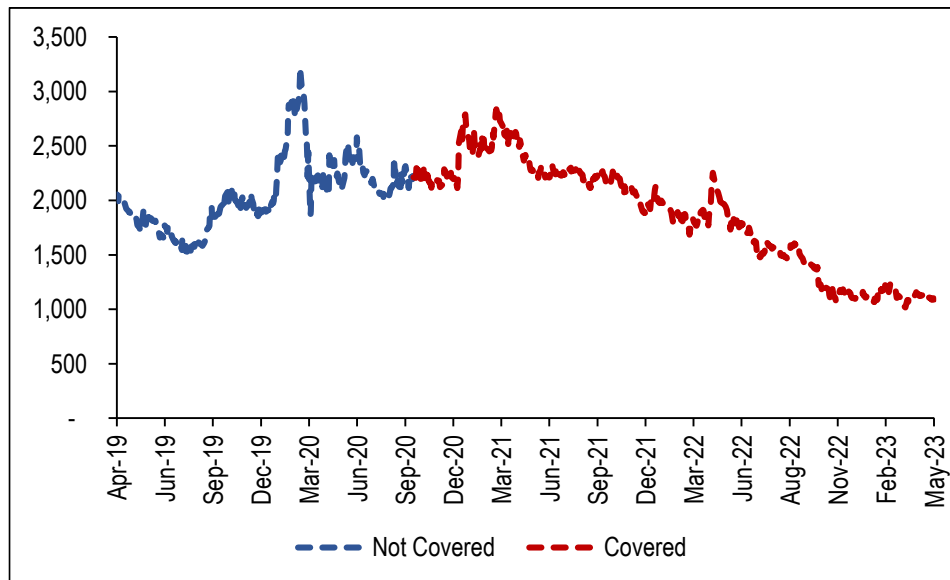
Y/E March	FY19	FY20	FY21	FY22	FY23
Per share (Rs)					
EPS	31.6	31.0	9.6	6.2	-24.5
Book value	225.4	253.2	265.5	272.1	242.4
Valuation (x)					
P/E	34.5	35.2	114.1	175.9	-44.5
P/BV	4.8	4.3	4.1	4.0	4.5
EV/EBITDA	19.1	18.0	24.2	30.9	-163.7
EV/sales	1.4	1.4	1.7	1.4	1.3
Return ratios (%)					
RoCE	15.2	13.9	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

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



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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