

October 23, 2024

RESULT REPORT Q2 FY25 | Sector: Consumer Durables

Johnson Controls-Hitachi Air Conditioning

Inline revenue growth, gross margin lower; reiterate SELL

Result Synopsis

JCHAC has continued to deliver superlative performance with strong industry leading growth for 3 quarters in a row. Revenue grew 41.5% marginally higher than estimates, while EBITDA loss has been 16% higher than anticipated. Lower gross margin has contributed in higher-than-expected EBITDA loss. Our channel checks suggest JCHAC has now started to regain its market share loss, however it's market share is way below its peak market share of ~12%. Our channel checks suggest JCHAC's sales force is back on the field and have been aggressively pushing for volumes to its dealers and distributors. We feel change in strategy will take time to give the desired result and company will have to continuously monitor it to be successful. This has been the third quarter of turnaround performance after many quarters of disappointments, we feel tangible benefits of the new strategy from 2HFY25. We believe the getting aggressive will arguer well for the company as it will be playing to its strength where it can provide quality and give more value to its consumers at the premium end. We continue to maintain SELL on the stock with revised PT of Rs2,151 now valuing of 45x FY27EPS as there has been significant appreciation in stock price in past 3 months and stock price will be more of the function of the news flow regarding Bosch group taking over JCHAC.

JCHAC has seen significant erosion of its market share, its market share has halved in FY24, however with its strong performance since Q4FY24 and follow up performance in 1HFY25, make us believe it would have regained some of its lost market share. However, there is a very long way to go before company regains its top 5 status in the RAC market which it had 4 years back with market share of 12%. we continue with SELL on the stock as stock price has seen significant appreciation in recent past.

Result Highlights

- Quarter summary** – JCHAC has registered strong performance with revenue coming marginal higher than our estimates, with revenue growing at 41.5% yoy. JCHAC has outperformed industry for 3rd quarter in a row.
- Margins** – Gross margin although has improved on yoy and sequential basis, while it is far lower than its historic gross margins. EBITDA loss has reduced by ~40% on strong revenue with operating leverage starting to play out.
- Market share** – Company after losing significant market share in FY24, has managed to stem its market share loss, and would it has again started to regain market share from lower levels.
- Market Buzz** – As per our channel checks, JCHAC has again become aggressive, and its sales force has been pushing volumes across the dealers and distributors and taking feedback about the product which was absent for past couple of years resulting in market share loss.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	3,963	3,897	NA	1.7	NA	
EBITDA	-266	-229	NA	-16.4	NA	JCHAC has delivered strong growth indicating market share gains
EBITDA Margin (%)	-6.7	-5.9	NA	-80 bps	NA bps	
Adjusted PAT	-300	-267	NA	-12.6	NA	

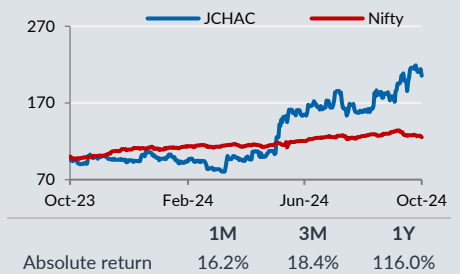
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 2,437
Target Price	: Rs 2,151
Potential Return	: -11.7%

Stock data (as on Oct 30, 2024)

Nifty	24436
52 Week h/l (Rs)	2620/951
Market cap (Rs/USD mn)	69087/822
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	163
Div yield (%):	NA
Bloomberg code:	JCHAC IN
NSE code:	JCHAC

Stock performance



Shareholding pattern (As of Sep'24 end)

Promoter	74.3%
FII+DII	8.8%
Others	16.9%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	2,151	1,774

Δ in earnings estimates

	FY26e	FY27e
EPS (New)	37.9	50.7
EPS (Old)	50.7	NA
% change	-25.2%	NA%

Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	26,900	30,962	35,606
YoY Growth	40.2%	15.1%	15.0%
EBIDTA	1,210	1,920	2,279
YoY Growth	-9411.4	58.6	18.7
PAT	503	1,030	1,300
YoY Growth	-166.5%	104.7%	26.2%
ROE	8.3	15.0	16.2
EPS	18.5	37.9	47.8
P/E	131.6	64.3	51.0
BV	232.9	270.8	318.6
EV/EBITDA	54.1	33.6	27.8

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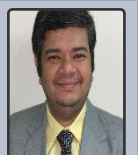


Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Sales	2,802	2,996	7,718	9,960	3,963	41.5	-60.2	13,922.4	8,473.3	64.3
EBITDA	-436	-32	814	566	-266	-38.9	-147.0	299.6	-795.6	(137.7)
EBITDA Margin %	-15.6	-1.1	10.5	5.7	-6.7			2.2	-9.4	
Depreciation	158.0	165.3	156.2	165.7	186.5	18.0	12.6	352.2	322.0	9.4
EBIT	-594	-197	658	400	-453	-23.8	-213.2	-52.6	-1,117.6	(95.3)
EBIT Margin %	-21.2	-6.6	8.5	4.0	-11.4			-0.4	-13.2	
Interest charges	51	50	19	15	14	-73.0	-7.4	28.7	97.1	(70.4)
Other Income	19.3	23.5	29.8	105.5	72.2	274.1	-31.6	177.7	48.0	270.2
PBT	-747	-353	651	491	-394	-47.2	-180.4	96.4	-1,288.0	(107.5)
Tax	-183.0	-81.6	162.5	129.1	-93.7	-48.8	-172.6	35.4	-313.8	(111.3)
Effective Tax Rate (%)	24.5	23.1	25.0	26.3	23.8			36.7	24.4	
PAT	-564	-271	488	362	-300	-46.7	-183.1	61.0	-974.2	(106.3)
PAT Margin %	-20.1	-9.0	6.3	3.6	-7.6			0.4	-11.5	
EPS (Rs)	-20.7	-10.0	18.0	13.3	-11.1	-46.7	-183.1	2.2	-35.8	(106.3)

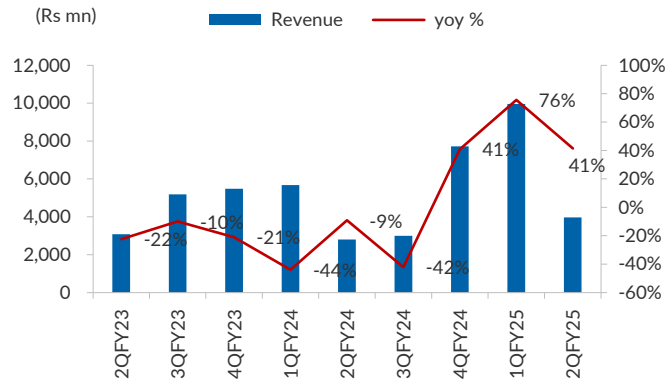
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	y/y %	q/q %	1HFY25	1HFY24	y/y %
Cooling Products for comfort and commercial use	2,654	2,872	7,604	9,823	3,830	44.3	(61.0)	13,653	8,214	66.2
Design and Development Services	226	172	178	211	201	(11.1)	(5.0)	412	433	(4.9)
Less: Intersegment	78	49	63	75	68	(12.9)	(9.0)	143	174	(18.0)
Total Sales	2,802	2,996	7,718	9,960	3,963	41.5	(60.2)	13,922	8,473	64.3
Segment Results										
Cooling products for comfort and commercial use	-603	-197	663	473	-403	(33.3)	(185.1)	71	-1,120	(106.3)
Design and Development Services	28.5	24.0	24.8	32.5	22.1	(22.5)	(32.0)	55	51	7.5
Less: Finance costs	51.2	49.9	19.3	14.9	13.8	(73.0)	(7.4)	29	97	(70.4)
Less: Exceptional items	121.3	129.5	17.7	0.0	0.0	(100.0)	NM	0	121	(100.0)
Total PBT	-747	-353	651	491	-394	(47.2)	(180.4)	96	-1,288	(107.5)
PBIT Margins (%)										
						(bps)	(bps)			(bps)
Cooling Products for comfort and commercial use	-22.7%	-6.9%	8.7%	4.8%	-10.5%	1,221	(1,532)	0.5	(13.6)	1,416
Design and Development Services	12.6%	13.9%	13.9%	15.4%	11.0%	(161)	(437)	13.3	11.7	152
Total PBT	-26.7%	-11.8%	8.4%	4.9%	-9.9%	1,672	(1,487)	0.7	(15.2)	1,589

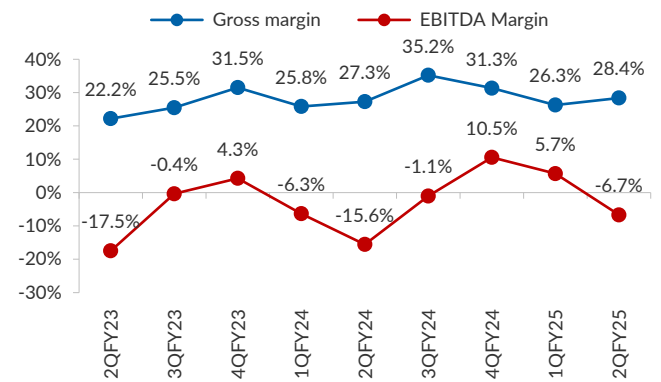
Source: Company, YES Sec

Exhibit 4: Revenue growth was aided by favorable base



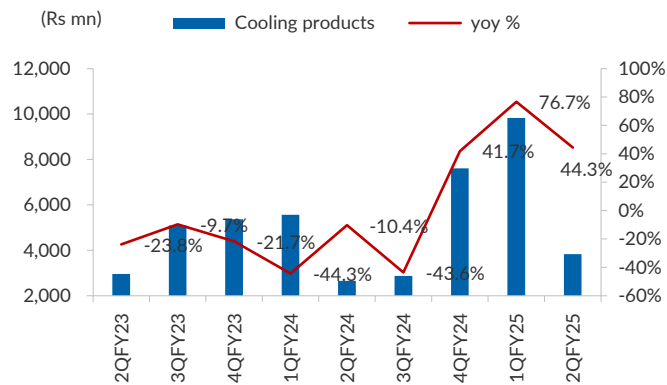
Source: Company, YES Sec

Exhibit 5: EBITDA margin has seen sharp improvement



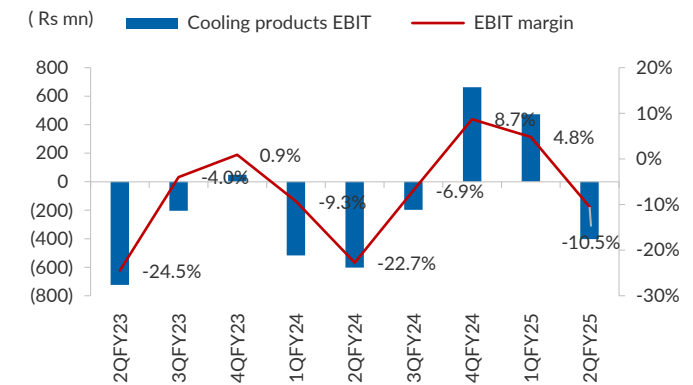
Source: Company, YES Sec

Exhibit 6: RAC performance has seen significant improvement



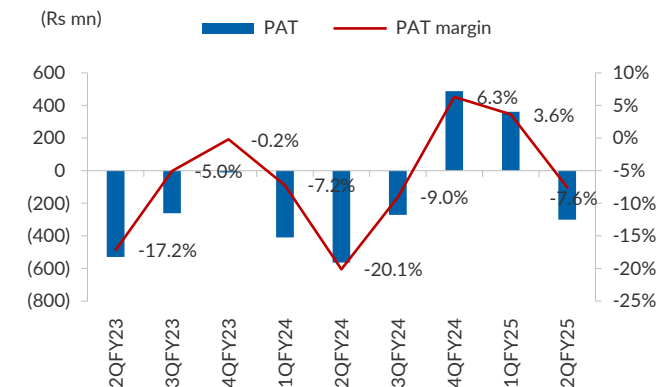
Source: Company, YES Sec

Exhibit 7: EBIT losses have come off sharply on yoy basis



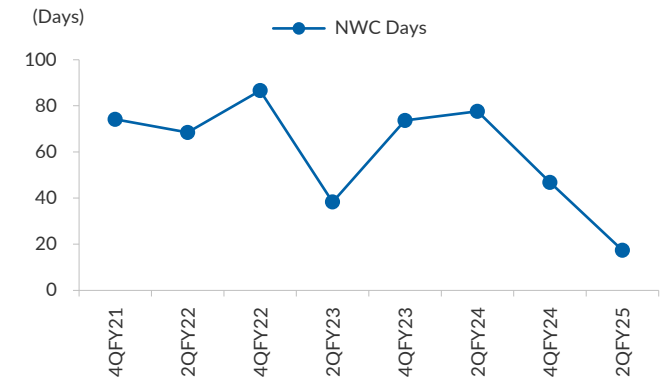
Source: Company, YES Sec

Exhibit 8: PAT growth has been lower than estimated



Source: Company, YES Sec

Exhibit 9: Working capital has come down sharply



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Equity capital	272	272	272	272	272
Reserves	6,320	5,558	6,061	7,092	8,392
Net worth	6,592	5,830	6,333	7,364	8,663
Debt	1,430	0	0	0	0
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	1,251	1,060	1,347	1,499	1,672
Total liabilities	9,273	6,890	7,680	8,862	10,335
Fixed Asset	3,501	3,377	3,414	3,398	3,328
Investments	9	9	9	9	9
Other Non-current Assets	1,387	1,559	1,653	1,678	1,697
Net Working Capital	4,157	1,227	1,778	2,067	2,397
Inventories	8,686	6,561	9,198	10,587	12,175
Sundry debtors	3,212	3,788	5,311	6,113	7,030
Loans and Advances	9	5	11	13	15
Sundry creditors	7,087	7,890	11,062	12,732	14,642
Other current liabilities	1,330	1,432	1,953	2,227	2,541
Cash & equivalents	220	718	826	1,711	2,905
Total Assets	9,273	6,890	7,680	8,862	10,335

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Revenue	23,844	19,187	26,900	30,962	35,606
Operating profit	(188)	(13)	1,210	1,920	2,279
Depreciation	753	644	712	780	848
Interest expense	75	166	150	135	121
Other income	120	101	324	372	428
Profit before tax	(896)	(722)	673	1,377	1,737
Taxes	(231)	(233)	169	347	437
Minorities and other	-	-	-	-	-
Adj. profit	(666)	(489)	503	1,030	1,300
Exceptional items	(156)	(268)	-	-	-
Net profit	(510)	(220)	503	1,030	1,300

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Profit before tax	(821)	(555)	822	1,512	1,859
Depreciation	753	644	712	780	848
Tax paid	231	233	(169)	(347)	(437)
Working capital Δ	(193)	2,930	(552)	(289)	(330)
Other operating items					
Operating cashflow	(31)	3,251	813	1,657	1,939
Capital expenditure	(877)	(520)	(749)	(764)	(778)
Free cash flow	(909)	2,732	64	893	1,161
Equity raised	(297)	(542)	(0)	-	0
Investments	0	0	-	-	-
Debt financing/disposal	1,000	(1,430)	-	-	-
Interest paid	(75)	(166)	(150)	(135)	(121)
Dividends paid	-	-	-	-	-
Net Δ in cash	(85)	498	108	885	1,194

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

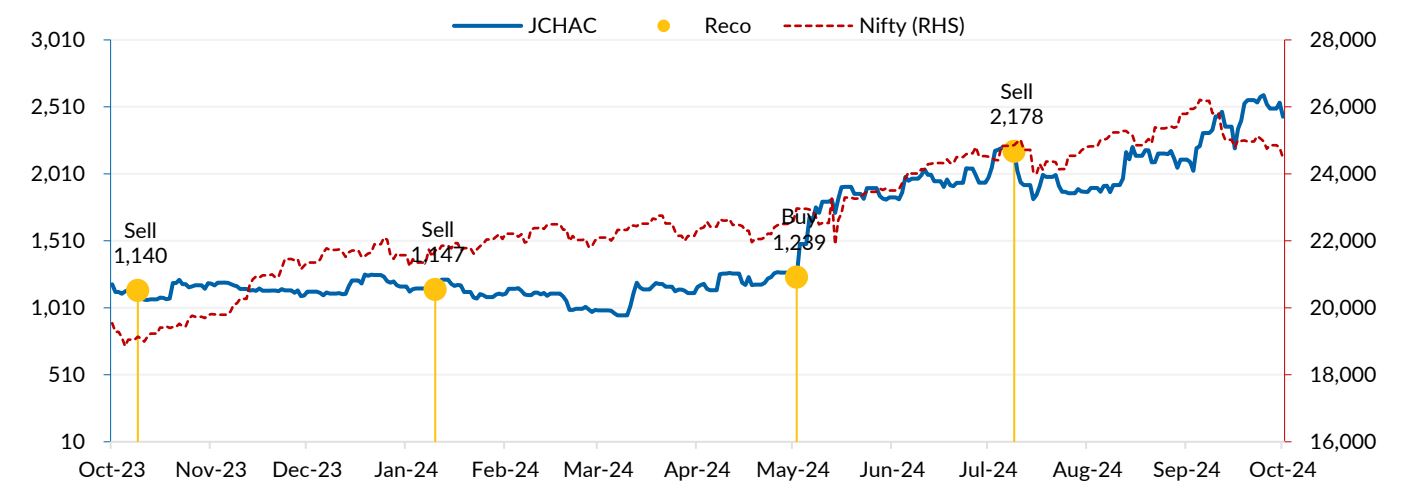
Y/e 31 Mar (Rs mn)	FY23	FY24	FY25	FY26E	FY27E
Tax burden (x)	0.74	0.68	0.75	0.75	0.75
Interest burden (x)	1.09	1.30	0.82	0.91	0.93
EBIT margin (x)	(0.03)	(0.03)	0.03	0.05	0.05
Asset turnover (x)	1.33	1.11	1.42	1.36	1.35
Financial leverage (x)	2.56	2.77	3.11	3.33	3.28
RoE (%)	(9.5)	(7.9)	8.3	15.0	16.2

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
Growth matrix (%)					
Revenue growth	10.4	(19.5)	40.2	15.1	15.0
Op profit growth	(119.5)	(93.1)	(9,411.4)	58.6	18.7
EBIT growth	(353.8)	(32.4)	(248.1)	83.8	22.9
Net profit growth	(497.3)	(26.6)	(203.0)	104.7	26.2
Profitability ratios (%)					
OPM	(0.8)	(0.1)	4.5	6.2	6.4
EBIT margin	(3.4)	(2.9)	3.1	4.9	5.2
Net profit margin	(2.8)	(2.5)	1.9	3.3	3.7
RoCE	(10.4)	(8.0)	13.5	22.1	23.2
RoNW	(9.5)	(7.9)	8.3	15.0	16.2

Y/e 31 Mar	FY23	FY24	FY25	FY26E	FY27E
RoA	(3.7)	(2.8)	2.7	4.5	4.9
Per share ratios					
EPS	(18.8)	(8.1)	18.5	37.9	47.8
Dividend per share	-	-	-	-	-
Cash EPS	3.2	5.7	44.7	66.6	79.0
Book value per share	242.4	214.4	232.9	270.8	318.6
Valuation ratios					
P/E	(129.9)	(300.8)	131.6	64.3	51.0
P/CEPS	-963.1	-583.3	54.5	36.6	30.8
P/B	10.1	11.4	10.5	9.0	7.6
EV/EBIDTA	(358.5)	(5,041.8)	54.1	33.6	27.8
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	25.7	32.3	25.2	25.2	25.2
Liquidity ratios					
Debtor days	49.2	72.1	72.1	72.1	72.1
Inventory days	133.0	124.8	124.8	124.8	124.8
Creditor days	108.5	150.1	150.1	150.1	150.1

Recommendation Tracker



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In adopting Rule 15a-6, the SEC sought "to facilitate access to foreign markets by U.S. institutional investors through foreign broker-dealers and the research that they provide, consistent with maintaining the safeguards afforded by broker-dealer registration." [Rule 15a-6 Adopting Release at 54 FR 30013; see also Registration Requirements for Foreign Broker-Dealers, Exchange Act Release No. 25801 (June 14, 1988), 53 FR 23645 (June 23, 1988)].

DISCLOSURE OF INTEREST

Name of the Research Analyst : Aakash Fadia

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

Analyst signature

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