

October 27, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Durables

Johnson Controls-Hitachi Air Conditioning

Disappointing performance with continued market share loss; reiterate SELL

Result Synopsis

JCHAC continues with its disappointing performance with revenue declining 9.1%. Decline was on the lower base as Q2FY23 saw revenue decline of 22.4%. Gross margin although has improved on yoy basis, while it is still significantly lower than its historical levels of ~35%. 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 is losing its focus and its strategy on mass premium segment is backfiring. JCHAC continues to underperform players like Lloyd, LG, and Bluestar. As per media articles JCHAC had lost significant market share in Q1, and our channel checks suggest that it has further lost market share in Q2 and now has become fringe player vs earlier where company was one of the top 5 player in RAC market with strong brand presence. We feel it would be extremely difficult to gain market share and margin improvement looks to be tall ask. Considering lower margin profile and continued loss in market share we remain negative on the stock and reiterate our sell rating. JCHAC will have to make significant changes in its overall strategy to turnaround losing market share trend. We believe it is a long-drawn process and will have to wait and watch for management strategy and its implementation before we become constructive on the stock.

JCHAC has seen significant erosion of its market share. As per some media articles its market share has halved in Q1 and is further losing market share and has become fringe player vs one of the top 5 player in the RAC industry. JCHAC has been failing to protect its margin and simultaneously it is losing market share on consistent basis. Market share gains and improvement in profitability will need to be watched out for before we become constructive on the stock. We have cut our revenue estimates by 15% and 8% in FY24 and FY25 respectively, while our earnings estimate for FY25 is lower by 8% Given the headwinds company is facing, we continue to remain Sell the stock with a revised PT of Rs684.

Result Highlights

- Quarter summary** – JCHAC has once again disappointed with revenue significantly below our estimates with revenue declining 9.1% yoy. This decline is on back of significant decline it registered in the base quarter. In base quarter of Q2FY23 revenue decline by 22%.
- Margins** – Gross margin although has improved on yoy basis, it is nowhere close to the gross margins it used to do few years back. On EBITDA margin front negative operating leverage is resulting in EBITDA loss for the company.
- Market share** – Company after losing significant market share in Q1, has lost market share further in Q2 as well. JCHAC is now no longer featuring in top 5 company in RAC which earlier it used to be.
- 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 favors with large MBO's.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,802	4,152	NA	-32.5	NM	Continuous market share loss has resulted in poor performance
EBITDA	-436	-403	NA	NM	NM	
EBITDA Margin (%)	-15.6	-3.1	NA	NM bps	NM bps	
Adjusted PAT	-564	-549	NA	NM	NM	

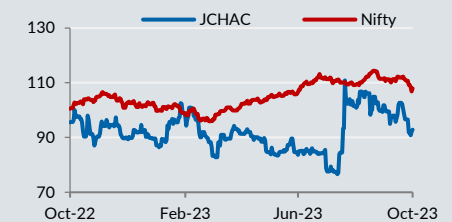
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 1,140
Target Price	: Rs 684
Potential Return	: -40.4%

Stock data (as on October 27, 2023)

Nifty	19047
52 Week h/l (Rs)	1393/938
Market cap (Rs/USD mn)	30772/370
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	60
Div yield (%)	NA
Bloomberg code:	JCHAC
NSE code:	JCHAC

Stock performance



	1M	3M	1Y
Absolute return	-8.8%	17.9%	-2.8%

Shareholding pattern (As of Sep'23 end)

Promoter	74.3%
FII+DII	9.6%
Others	16.2%

Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	684	741

Δ in earnings estimates

	FY24e	FY24e
EPS (New)	-31.2	19.5
EPS (Old)	-5.1	21.2
% change	NM%	-8%

Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	23,844	21,604	25,900
YoY Growth	10.4%	-9.4%	19.9%
EBIDTA	-188	-410	1,321
YoY Growth	-119.5	118.1	-421.8
PAT	-821	-849	531
YoY Growth	-609.6%	3.3%	-162.6%
ROE	-9.5	-13.8	8.8
EPS	-18.8	-31.2	19.5
P/E	-56.1	-33.7	53.9
BV	242.4	211.2	230.8
EV/EBITDA	-158.6	-73.9	22.9

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Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Sales	3,082	5,183	5,476	5,672	2,802	-9.1	-50.6	8,473.3	13,185.6	(35.7)
EBITDA	-539	-20	234	-360	-436	-19.1	21.1	-795.6	-402.4	97.7
EBITDA Margin %	-17.5	-0.4	4.3	-6.3	-15.6			-9.4	-3.1	
Depreciation	188.9	196.0	185.8	164.0	158.0	-16.4	-3.7	322.0	370.8	(13.2)
EBIT	-728	-216	48	-524	-594	-18.4	13.4	-1,117.6	-773.2	NM
EBIT Margin %	-23.6	-4.2	0.9	-9.2	-21.2			-13.2	-5.9	
Interest charges	15	16	25	46	51	248.3	11.5	97.1	33.9	186.4
Other Income	27.4	30.4	23.2	28.7	19.3	-29.6	-32.8	48.0	66.2	(27.5)
PBT	-700	-348	22	-541	-747	6.8	38.1	-1,288.0	-725.3	NM
Tax	-170.0	-86.6	32.3	-130.8	-183.0	7.6	39.9	-313.8	-176.1	NM
Effective Tax Rate (%)	24.3	24.9	149.5	24.2	24.5			24.4	24.3	
PAT	-530	-262	-11	-410	-564	6.5	37.5	-974.2	-549.2	NM
PAT Margin %	-17.2	-5.0	-0.2	-7.2	-20.1			-11.5	-4.2	
EPS (Rs)	-19.5	-9.6	-0.4	-15.1	-20.7	6.5	37.5	-35.8	-20.2	NM

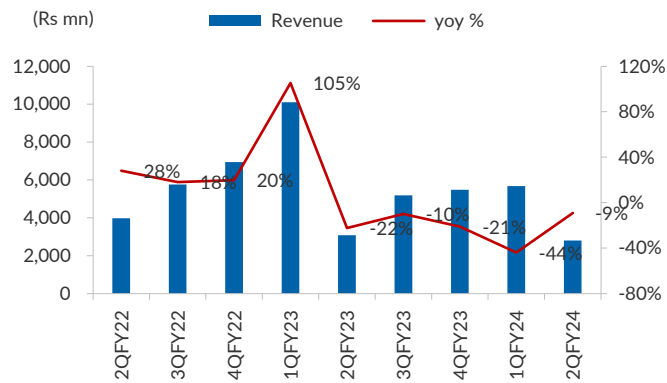
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	y/y %	q/q %	1HFY24	1HFY23	y/y %
Cooling Products for comfort and commercial use	2,961	5,093	5,365	5,560	2,654	(10.4)	(52.3)	8,214	12,942	(36.5)
Design and Development Services	187	168	182	207	226	21.1	8.9	433	372	16.4
Less: Intersegment	65	78	70	96	78	20.7	(18.6)	174	128	35.7
Total Sales	3,082	5,183	5,476	5,672	2,802	(9.1)	(50.6)	8,473	13,186	(35.7)
Segment Results										
Cooling products for comfort and commercial use	-724	-204	49	-517	-603	(16.7)	16.5	-1,120	-753	48.7
Design and Development Services	23.5	18.4	22.0	22.3	28.5	21.3	27.8	51	46	9.7
Less: Finance costs	14.7	15.9	25.5	45.9	51.2	248.3	11.5	97	34	186.4
Less: Exceptional items	-15.6	147.2	24.0	0.0	121.3	(877.6)	-	121	-16	(877.6)
Total PBT	-700	-348	22	-541	-747	6.8	38.1	-1,288	-725	77.6
PBIT Margins (%)										
						(bps)	(bps)			(bps)
Cooling Products for comfort and commercial use	-24.5%	-4.0%	0.9%	-9.3%	-22.7%	173	(1,342)	(13.6)	(5.8)	(782)
Design and Development Services	12.6%	11.0%	12.1%	10.8%	12.6%	2	186	11.7	12.4	(71)
Total PBT	-22.7%	-6.7%	0.4%	-9.5%	-26.7%	(397)	(1,713)	(15.2)	(5.5)	(970)

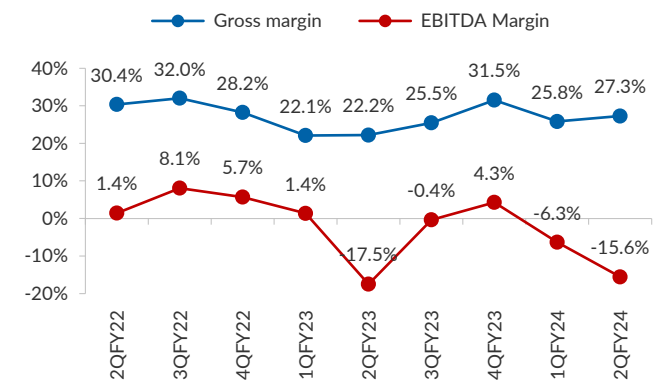
Source: Company, YES Sec

Exhibit 4: Significant market share loss in RAC have resulted in revenue decline



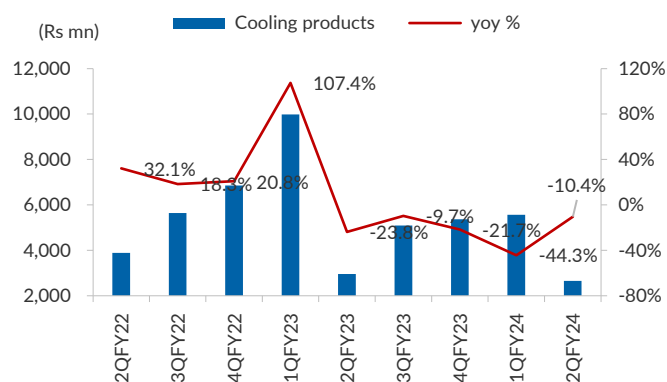
Source: Company, YES Sec

Exhibit 5: Gross margin continues to remain at lower levels



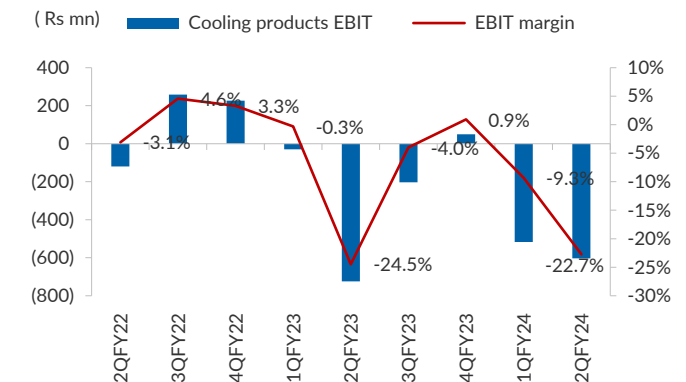
Source: Company, YES Sec

Exhibit 6: RAC performance continues to be disappointing



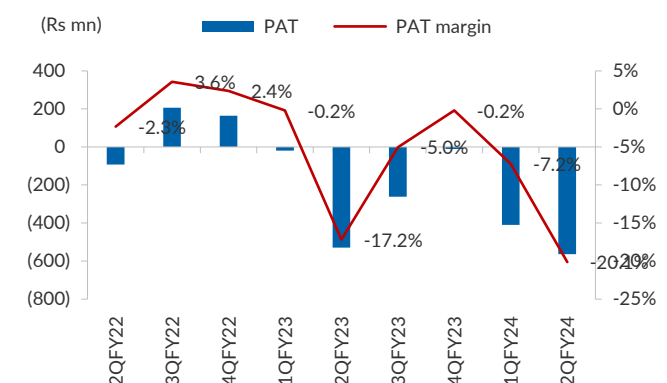
Source: Company, YES Sec

Exhibit 7: Company continues to incur EBIT loss



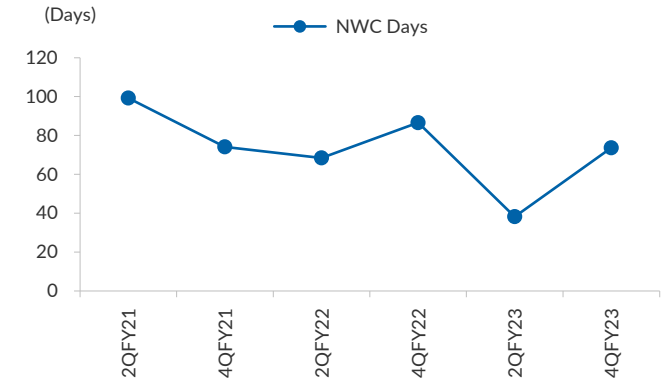
Source: Company, YES Sec

Exhibit 8: Negative operating leverage has resulted in net loss



Source: Company, YES Sec

Exhibit 9: Working capital continues to remain high



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	272	272	272	272	272
Reserves	6,944	7,127	6,320	5,471	6,002
Net worth	7,216	7,399	6,592	5,743	6,274
Debt	0	430	1,430	2,145	2,360
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	1,420	1,232	1,251	1,168	1,327
Total liabilities	8,636	9,060	9,273	9,057	9,961
Fixed Asset	3,533	3,376	3,501	3,487	3,425
Investments	11	9	9	9	9
Other Non-current Assets	1,482	1,407	1,387	1,175	1,085
Net Working Capital	2,392	3,964	4,157	3,954	4,763
Inventories	7,042	8,218	8,686	7,576	9,083
Sundry debtors	2,641	4,113	3,212	3,492	4,187
Loans and Advances	16	12	9	9	8
Sundry creditors	6,339	7,210	7,087	6,511	7,806
Other current liabilities	1,247	1,496	1,330	1,217	1,433
Cash & equivalents	1,218	305	220	432	680
Total Assets	8,636	9,060	9,273	9,057	9,961

Source: Company, YES Sec

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	16,465	21,590	23,844	21,604	25,900
Operating profit	1,175	965	(188)	(410)	1,321
Depreciation	755	721	753	663	699
Interest expense	136	91	75	172	107
Other income	79	81	120	111	195
Profit before tax	363	233	(896)	(1,134)	710
Taxes	103	65	(231)	(285)	179
Minorities and other	-	-	-	-	-
Adj. profit	260	169	(666)	(849)	531
Exceptional items	(71)	(7)	(156)	-	-
Net profit	331	176	(510)	(849)	531

Source: Company, YES Sec

Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	499	324	(821)	(962)	817
Depreciation	755	721	753	663	699
Tax paid	(103)	(65)	231	285	(179)
Working capital Δ	2,138	(1,572)	(193)	203	(809)
Other operating items					
Operating cashflow	3,289	(591)	(31)	188	528
Capital expenditure	(492)	(564)	(877)	(648)	(637)
Free cash flow	2,797	(1,155)	(908)	(460)	(109)
Equity raised	-	7	(297)	0	(0)
Investments	0	2	0	-	-
Debt financing/disposal	(1,587)	430	1,000	715	215
Interest paid	(136)	(91)	(75)	(172)	(107)
Dividends paid	-	-	-	-	-
Net Δ in cash	1,042	(914)	(85)	212	248

Source: Company, YES Sec

Exhibit 13: Du-pont analysis

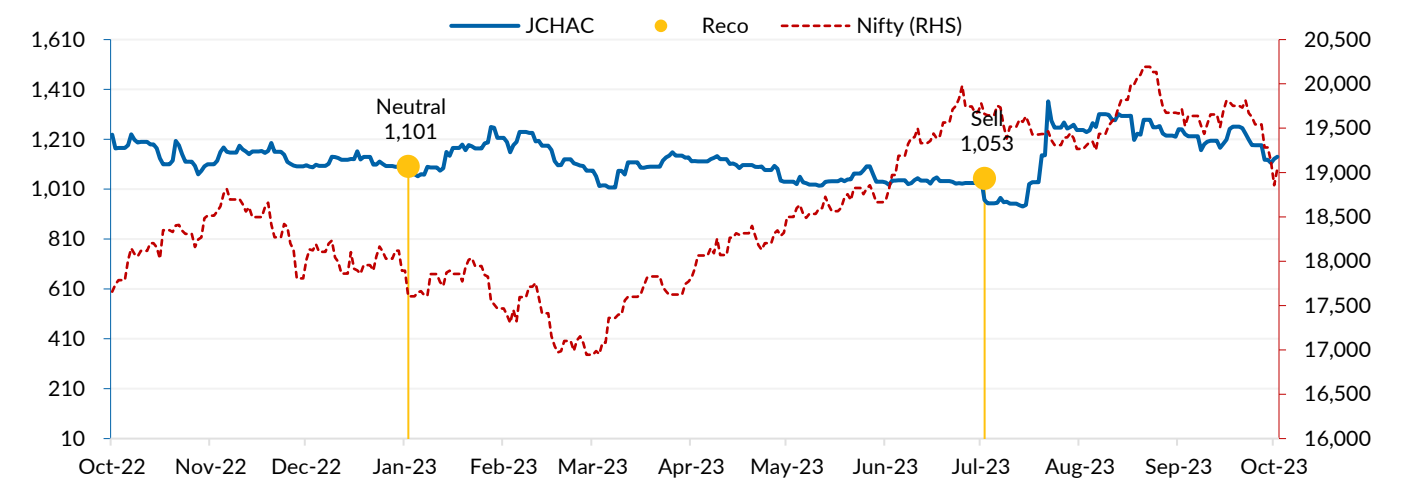
Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	0.72	0.72	0.74	0.75	0.75
Interest burden (x)	0.73	0.72	1.09	1.18	0.87
EBIT margin (x)	0.03	0.02	(0.03)	(0.04)	0.03
Asset turnover (x)	1.02	1.26	1.33	1.24	1.42
Financial leverage (x)	2.29	2.35	2.56	2.83	3.03
RoE (%)	3.7	2.3	(9.5)	(13.8)	8.8

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Growth matrix (%)					
Revenue growth	(25.1)	31.1	10.4	(9.4)	19.9
Op profit growth	(31.8)	(17.8)	(119.5)	118.1	(421.8)
EBIT growth	(59.8)	(34.9)	(353.0)	17.2	(184.9)
Net profit growth	(69.2)	(35.1)	(494.9)	27.5	(162.6)
Profitability ratios (%)					
OPM	7.1	4.5	(0.8)	(1.9)	5.1
EBIT margin	3.0	1.5	(3.4)	(4.5)	3.2
Net profit margin	1.6	0.8	(2.8)	(3.9)	2.1
RoCE	6.4	4.3	(10.4)	(12.1)	9.9
RoNW	3.7	2.3	(9.5)	(13.8)	8.8

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	1.6	1.0	(3.7)	(4.9)	2.9
Per share ratios					
EPS	12.2	6.5	(18.8)	(31.2)	19.5
Dividend per share	-	-	-	-	-
Cash EPS	37.3	32.7	3.2	(6.8)	45.2
Book value per share	265.4	272.1	242.4	211.2	230.8
Valuation ratios					
P/E	93.6	176.1	(60.8)	(36.5)	58.4
P/CEPS	28.7	35.3	-453.3	-167.6	25.4
P/B	4.3	4.2	4.7	5.4	5.0
EV/EBIDTA	25.4	32.2	(171.1)	(79.7)	24.7
Payout (%)					
Dividend payout	-	-	-	-	-
Tax payout	28.4	27.7	25.7	25.2	25.2
Liquidity ratios					
Debtor days	58.5	69.5	49.2	59.0	59.0
Inventory days	156.1	138.9	133.0	128.0	128.0
Creditor days	140.5	121.9	108.5	110.0	110.0

Recommendation Tracker



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