

January 30, 2024

**RESULT REPORT Q3 FY24** | Sector: Consumer Durables

# Johnson Controls-Hitachi Air Conditioning

## Market share loss continues; reiterate SELL

### Result Synopsis

JCHAC continues with its disappointing performance with revenue declining 42%. Decline was on the favorable base as Q3FY24 saw revenue decline of 10%. Gross margin has seen significant improvement of 972bps on yoy basis. We feel that this gross margin expansion is on account of change in strategy of moving towards the premium end as against the earlier focus of mass premium segment. Our channel checks suggest JCHAC continues to see market share erosion. JCHAC continues to underperform players like Lloyd, LG, and Bluestar. As per media articles JCHAC had lost significant market share in 1HFY24, and our channel checks suggest that it has further lost market share in Q3 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 change in strategy will take time to give the desired result and company will have to continuously monitor it to be successful. Although we may only see the tangible benefits of the new strategy from 2HFY26. We believe the change in strategy 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 remain Sell on the stock, we will become constructive once we see some signs of improvement.

JCHAC has seen significant erosion of its market share. As per some media articles its market share has halved in 1HFY24 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. Implementation in the strategy will have to be watched out closely. FY24 is expected to be washout year for JCHAC. Gross margins if maintained at the current levels can lead to significant improvement in profitability. we continue to remain Sell the stock with a revised PT of Rs919 valuing the company at 1x price to sales on FY26 estimates.

### Result Highlights

- Quarter summary** – JCHAC has once again disappointed with revenue significantly below our estimates with revenue declining 42% yoy. This decline is on back of decline it registered in the base quarter. In base quarter of Q3FY23 revenue decline by 10%.
- Margins** – Gross margin has significantly improved in Q3. The company has registered gross margins of 35.2% expansion of 972bps. The company continues to register EBITDA loss on negative operating leverage
- Market share** – Company after losing significant market share in 1H, has lost market share further in Q3 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 again focusing on the premium end. We believe it's the right strategy as they would be playing to its strength, and it can create niche for itself.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,996	5,399	NA	-44.5	NM	Continuous market share loss has resulted in poor performance
EBITDA	-32	-31.5	NA	NM	NM	
EBITDA Margin (%)	-1.1	-0.6	NA	NM bps	NM bps	
Adjusted PAT	-271	-196	NA	NM	NM	

Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 1,147
Target Price	: Rs 919
Potential Return	: -19.3%

### Stock data (as on Jan 30, 2024)

Nifty	21522
52 Week h/l (Rs)	1393/938
Market cap (Rs/USD mn)	31626/381
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	67
Div yield (%):	NA
Bloomberg code:	JCHAC IN
NSE code:	JCHAC

### Stock performance



	1M	3M	1Y
Absolute return	2.7%	5.8%	8.1%

### Shareholding pattern (As of Dec'23 end)

Promoter	74.3%
FII+DII	9.4%
Others	16.4%

### Δ in stance

(1-Yr)	New	Old
Rating	SELL	SELL
Target Price	919	684

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	5.2	15.1
EPS (Old)	19.5	NA
% change	-73%	NA%

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	19,256	22,994	25,138
YoY Growth	-19.2%	19.4%	9.3%
EBIDTA	-116	690	1,056
YoY Growth	-38.6	-697.1	53.1
PAT	-621	142	410
YoY Growth	-24.4%	NM%	189.0%
ROE	-9.9	2.3	6.5
EPS	-22.8	5.2	15.1
P/E	-49.9	218.3	75.6
BV	219.6	224.8	239.9
EV/EBITDA	-280.1	47.6	31.0

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Analyst

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## Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Sales	5,183	5,476	5,672	2,802	2,996	-42.2	6.9	11,468.9	18,368.2	(37.6)
EBITDA	-20	234	-360	-436	-32	61.5	-92.8	-827.1	-421.9	96.0
EBITDA Margin %	-0.4	4.3	-6.3	-15.6	-1.1			-7.2	-2.3	
Depreciation	196.0	185.8	164.0	158.0	165.3	-15.7	4.6	487.3	566.8	(14.0)
EBIT	-216	48	-524	-594	-197	-8.7	-66.9	-1,314.4	-988.7	32.9
EBIT Margin %	-4.2	0.9	-9.2	-21.2	-6.6			-11.5	-5.4	
Interest charges	16	25	46	51	50	213.8	-2.5	147.0	49.8	195.2
Other Income	30.4	23.2	28.7	19.3	23.5	-22.7	21.8	71.5	96.6	(26.0)
PBT	-348	22	-541	-747	-353	1.3	-52.8	-1,640.7	-1,073.5	52.8
Tax	-86.6	32.3	-130.8	-183.0	-81.6	-5.8	-55.4	-395.4	-262.7	50.5
Effective Tax Rate (%)	24.9	149.5	24.2	24.5	23.1			24.1	24.5	
PAT	-262	-11	-410	-564	-271	3.6	-51.9	-1,245.3	-810.8	53.6
PAT Margin %	-5.0	-0.2	-7.2	-20.1	-9.0			-10.9	-4.4	
EPS (Rs)	-9.6	-0.4	-15.1	-20.7	-10.0	3.6	-51.9	-45.8	-29.8	53.6

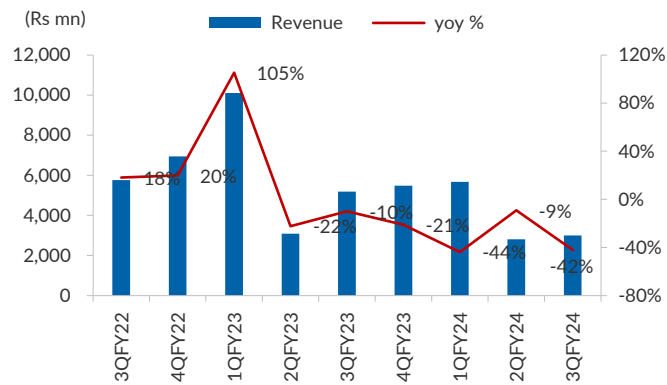
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	y/y %	q/q %	9MFY24	9MFY23	y/y %
Cooling Products for comfort and commercial use	5,093	5,365	5,560	2,654	2,872	(43.6)	8.2	11,086	18,034	(38.5)
Design and Development Services	168	182	207	226	172	2.7	(23.8)	605	540	12.1
Less: Intersegment	78	70	96	78	49	(37.5)	(37.6)	223	206	8.0
Total Sales	5,183	5,476	5,672	2,802	2,996	(42.2)	6.9	11,469	18,368	(37.6)
<b>Segment Results</b>										
Cooling products for comfort and commercial use	-204	49	-517	-603	-197	(3.0)	(67.3)	-1,318	-957	37.7
Design and Development Services	18.4	22.0	22.3	28.5	24.0	30.4	(15.8)	75	65	15.6
Less: Finance costs	15.9	25.5	45.9	51.2	49.9	213.8	(2.5)	147	50	195.2
Less: Exceptional items	147.2	24.0	0.0	121.3	129.5	(12.0)	6.8	251	132	90.6
Total PBT	-348	22	-541	-747	-353	1.3	(52.8)	-1,641	-1,074	52.8
<b>PBIT Margins (%)</b>										
						(bps)	(bps)			(bps)
Cooling Products for comfort and commercial use	-4.0%	0.9%	-9.3%	-22.7%	-6.9%	(287)	1,585	(11.9)	(5.3)	(658)
Design and Development Services	11.0%	12.1%	10.8%	12.6%	13.9%	297	132	12.4	12.0	37
Total PBT	-6.7%	0.4%	-9.5%	-26.7%	-11.8%	(506)	1,489	(14.3)	(5.8)	(846)

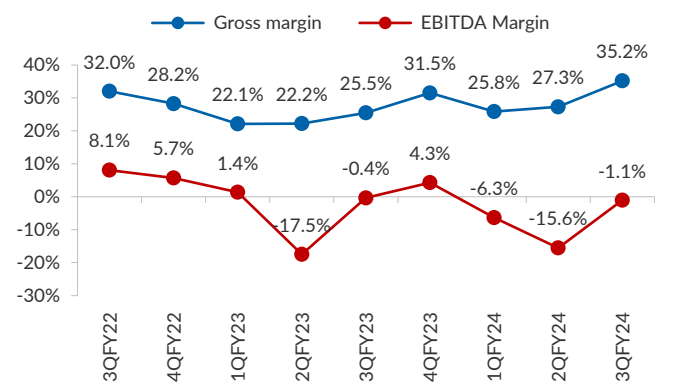
Source: Company, YES Sec

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



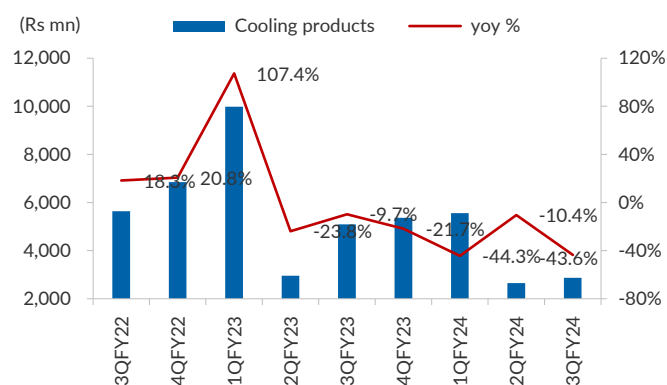
Source: Company, YES Sec

**Exhibit 5: Gross margin continues to remain at lower levels**



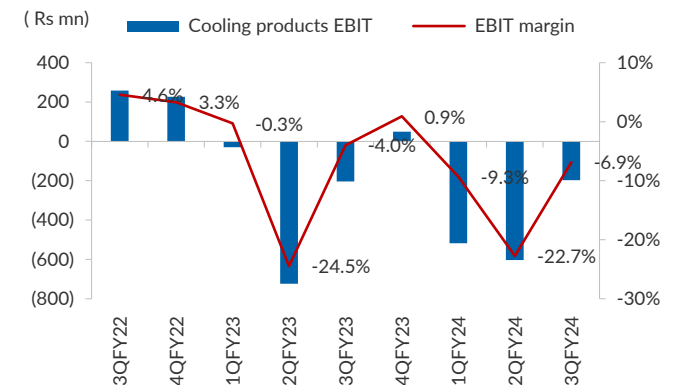
Source: Company, YES Sec

**Exhibit 6: RAC performance continues to be disappointing**



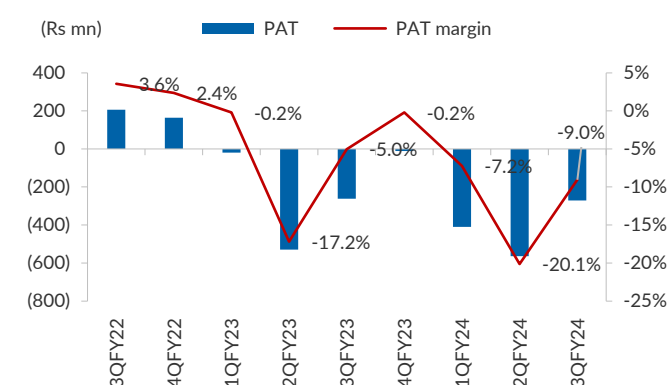
Source: Company, YES Sec

**Exhibit 7: Company continues to incur EBIT loss**



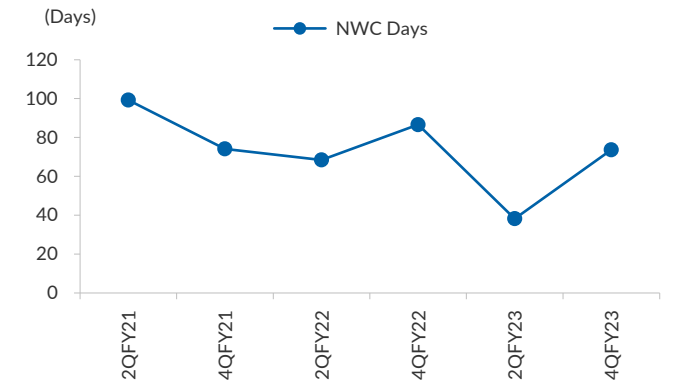
Source: Company, YES Sec

**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)	FY22	FY23	FY24E	FY25E	FY2^E
Equity capital	272	272	272	272	272
Reserves	7,127	6,320	5,699	5,841	6,251
Net worth	7,399	6,592	5,971	6,113	6,523
Debt	430	1,430	2,145	2,860	3,096
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	1,232	1,251	1,082	1,220	1,299
Total liabilities	9,060	9,273	9,198	10,193	10,918
Fixed Asset	3,376	3,501	3,580	3,617	3,610
Investments	9	9	9	9	9
Other Non-current Assets	1,407	1,387	1,318	1,339	1,317
Net Working Capital	3,964	4,157	3,513	4,220	4,626
Inventories	8,218	8,686	6,753	8,064	8,816
Sundry debtors	4,113	3,212	3,113	3,717	4,063
Loans and Advances	12	9	11	13	14
Sundry creditors	7,210	7,087	5,803	6,930	7,576
Other current liabilities	1,496	1,330	1,099	1,287	1,395
Cash & equivalents	305	220	777	1,008	1,356
Total Assets	9,060	9,273	9,198	10,193	10,918

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	21,590	23,844	19,256	22,994	25,138
Operating profit	965	(188)	(116)	690	1,056
Depreciation	722	753	625	679	733
Interest expense	91	75	200	172	229
Other income	81	120	111	350	454
Profit before tax	232	(896)	(830)	190	548
Taxes	65	(231)	(209)	48	138
Minorities and other	-	-	-	-	-
Adj. profit	168	(666)	(621)	142	410
Exceptional items	(7)	(156)	-	-	-
Net profit	175	(510)	(621)	142	410

Source: Company, YES Sec

## Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	323	(821)	(630)	361	777
Depreciation	722	753	625	679	733
Tax paid	(65)	231	209	(48)	(138)
Working capital Δ	(1,572)	(193)	644	(707)	(405)
Other operating items					
Operating cashflow	(591)	(31)	847	286	967
Capital expenditure	(565)	(877)	(704)	(715)	(727)
Free cash flow	(1,156)	(909)	144	(430)	240
Equity raised	8	(297)	-	(0)	-
Investments	2	0	-	-	-
Debt financing/disposal	430	1,000	715	715	236
Interest paid	(91)	(75)	(200)	(172)	(229)
Dividends paid	-	-	-	-	-
Net Δ in cash	(913)	(85)	557	231	348

Source: Company, YES Sec

## Exhibit 13: Du-pont analysis

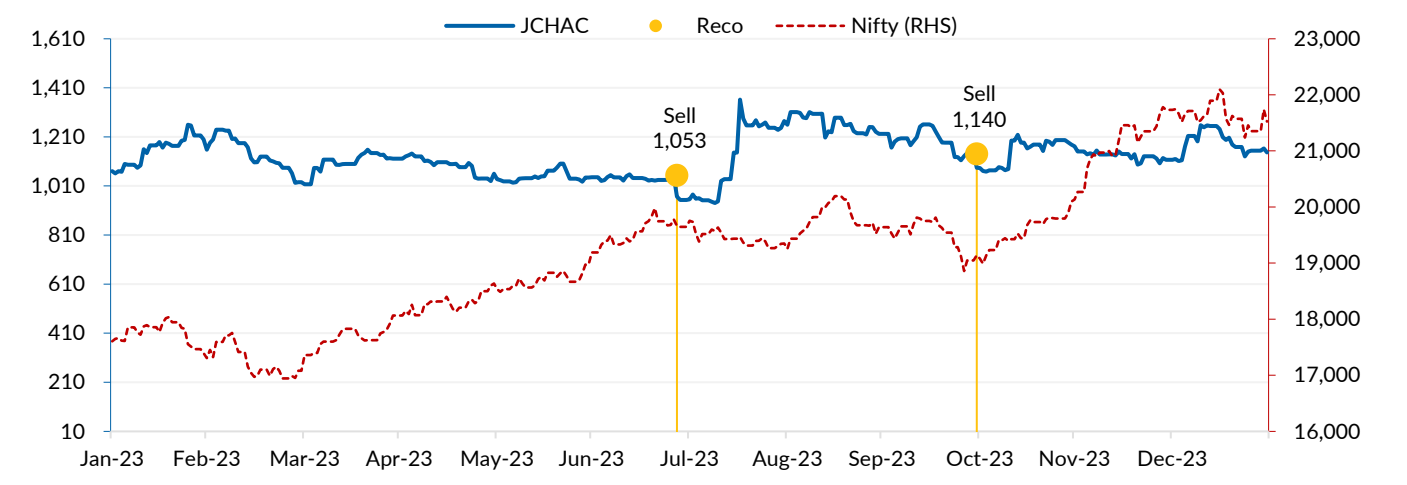
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.72	0.74	0.75	0.75	0.75
Interest burden (x)	0.72	1.09	1.32	0.53	0.71
EBIT margin (x)	0.01	(0.03)	(0.03)	0.02	0.03
Asset turnover (x)	1.26	1.33	1.13	1.32	1.30
Financial leverage (x)	2.35	2.56	2.72	2.88	3.06
RoE (%)	2.3	(9.5)	(9.9)	2.3	6.5

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>					
Revenue growth	31.1	10.4	(19.2)	19.4	9.3
Op profit growth	(17.8)	(119.5)	(38.6)	(697.1)	53.1
EBIT growth	(35.1)	(353.8)	(23.3)	(157.4)	115.0
Net profit growth	(35.5)	(497.3)	(6.7)	(122.9)	189.0
<b>Profitability ratios (%)</b>					
OPM	4.5	(0.8)	(0.6)	3.0	4.2
EBIT margin	1.5	(3.4)	(3.3)	1.6	3.1
Net profit margin	0.8	(2.8)	(3.2)	0.6	1.6
RoCE	4.3	(10.4)	(7.8)	4.2	8.4
RoNW	2.3	(9.5)	(9.9)	2.3	6.5

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
RoA	1.0	(3.7)	(3.6)	0.8	2.1
<b>Per share ratios</b>					
EPS	6.4	(18.8)	(22.8)	5.2	15.1
Dividend per share	-	-	-	-	-
Cash EPS	32.7	3.2	0.1	30.2	42.0
Book value per share	272.1	242.4	219.6	224.8	239.9
<b>Valuation ratios</b>					
P/E	177.1	(60.8)	(49.9)	218.3	75.6
P/CEPS	35.3	-453.3	8451.4	38.0	27.3
P/B	4.2	4.7	5.2	5.1	4.8
EV/EBIDTA	32.2	(171.1)	(280.1)	47.6	31.0
<b>Payout (%)</b>					
Dividend payout	-	-	-	-	-
Tax payout	27.8	25.7	25.2	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	69.5	49.2	59.0	59.0	59.0
Inventory days	138.9	133.0	128.0	128.0	128.0
Creditor days	121.9	108.5	110.0	110.0	110.0

## Recommendation Tracker



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**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

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