

July 30, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Johnson Controls-Hitachi Air Conditioning

**Strong revenue, margin disappoints; downgrade to SELL**

## Result Synopsis

JCHAC has delivered superlative performance with significant beat on the revenue front. Revenue grew 75.6% yoy albeit on low base, however growth was ahead of our estimates by 25% respectively. Gross margin has seen marginal expansion of 44bps yoy, however on sequential basis it has contracted by 506bps. EBITDA margin at 5.7% has also contracted by 487bps on sequential basis. EBITDA at Rs566mn has been lower than estimates as EBITDA margin has been low despite the strong revenue growth that company has reported. Our channel checks suggest JCHAC has managed to stem its market loss and is getting aggressive with change in top management. 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 second 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 downgrade the stock to SELL with PT of Rs1,774 valuing of 35x FY26EPS 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. The open offer price of Rs1,642 to acquire 25.75% is lower than our target price.

JCHAC has seen significant erosion of its market share, its market share has halved in FY24, however with its strong performance in Q4 and follow up performance in Q1FY25, 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 7.5%. we downgrade the stock to SELL as stock price has seen significant appreciation in recent past.

## Result Highlights

- Quarter summary** – JCHAC has registered strong performance with revenue coming higher than ours and consensus estimates by growing at 76% yoy. JCHAC has managed to beat our revenue estimates by 26%.
- Margins** – Gross margin has marginally improved on yoy basis, while on sequential basis it has contracted by 506bps. EBITDA margin at 5.7% has been lower given the strong revenue growth. Gross margins ahs dragged EBITDA margin.
- Market share** – Company after losing significant market share in FY24, has managed to stem its market share loss, and would have slightly increased its 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	9,960	7,929	NA	25.6	NA	JCHAC has delivered strong growth indicating market share gains
EBITDA	566	898	NA	-37	NA	
EBITDA Margin (%)	5.7	11.3	NA	-560 bps	NA bps	
Adjusted PAT	362	556	NA	-35.0	NA	

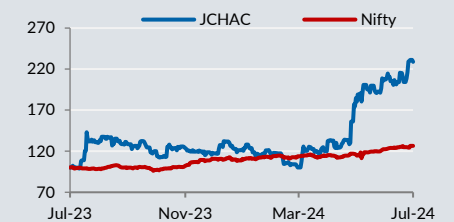
Source: Company, YES Sec

Reco	: SELL
CMP	: Rs 2,178
Target Price	: Rs 1,774
Potential Return	: -18.5%

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

Nifty	24857
52 Week h/l (Rs)	2269/938
Market cap (Rs/USD mn)	59865/715
Outstanding Shares (mn)	27
6m Avg t/o (Rs mn):	122
Div yield (%)	NA
Bloomberg code:	JCHAC IN
NSE code:	JCHAC

## Stock performance



	1M	3M	1Y
Absolute return	10.3%	72.1%	128.6%

## Shareholding pattern (As of Mar'24 end)

Promoter	74.3%
FII+DII	9.2%
Others	16.5%

## Δ in stance

(1-Yr)	New	Old
Rating	SELL	BUY
Target Price	1,774	1,559

## Δ in earnings estimates

	FY25e	FY26e
EPS (New)	30.0	50.7
EPS (Old)	22.9	44.5
% change	31.0%	13.9%

## Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	19,187	27,136	31,236
YoY Growth	-19.5%	41.4%	15.1%
EBIDTA	-13	1,628	2,249
YoY Growth	-93.1	-12624.4	38.1
PAT	-757	816	1,378
YoY Growth	-7.8%	-207.8%	68.9%
ROE	-7.9	13.1	18.8
EPS	-8.1	30.0	50.7
P/E	-268.8	72.6	43.0
BV	214.4	244.4	295.1
EV/EBITDA	-4500.1	35.7	25.3

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Analyst

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## Exhibit 2: Quarterly snapshot (Standalone)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	5,672	2,802	2,996	7,718	9,960	75.6	29.0	19,187.0	23,844.4	(19.5)
EBITDA	-360	-436	-32	814	566	-257.2	-30.5	-13.1	-188.3	(93.0)
EBITDA Margin %	-6.3	-15.6	-1.1	10.5	5.7			-0.1	-0.8	
Depreciation	164.0	158.0	165.3	156.2	165.7	1.0	6.1	643.5	752.6	(14.5)
EBIT	-524	-594	-197	658	400	-176.4	-39.2	-656.6	-940.9	(30.2)
EBIT Margin %	-9.2	-21.2	-6.6	8.5	4.0			-3.4	-3.9	
Interest charges	46	51	50	19	15	-67.5	-22.8	166.3	75.2	121.1
Other Income	28.7	19.3	23.5	29.8	105.5	267.6	254.0	101.3	119.8	(15.4)
PBT	-541	-747	-353	651	491	-190.7	-24.6	-990.1	-1,051.9	(5.9)
Tax	-130.8	-183.0	-81.6	162.5	129.1	-198.7	-20.6	-232.9	-230.4	1.1
Effective Tax Rate (%)	24.2	24.5	23.1	25.0	26.3			23.5	21.9	
PAT	-410	-564	-271	488	362	-188.1	-25.9	-757.2	-821.5	(7.8)
PAT Margin %	-7.2	-20.1	-9.0	6.3	3.6			-3.9	-3.4	
EPS (Rs)	-15.1	-20.7	-10.0	18.0	13.3	-188.1	-25.9	-27.8	-30.2	(7.8)

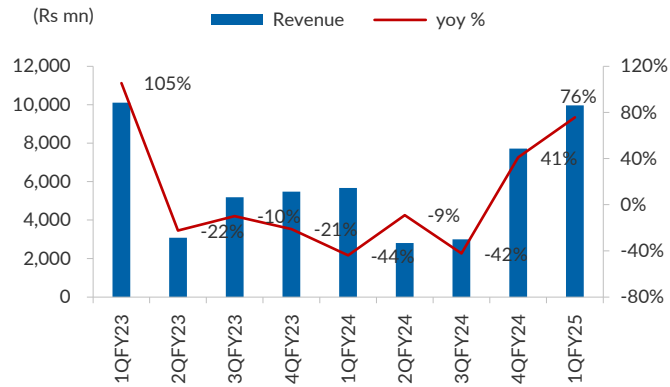
Source: Company, YES Sec

## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Cooling Products for comfort and commercial use	5,560	2,654	2,872	7,604	9,823	76.7	29.2	18,690	23,399	(20.1)
Design and Development Services	207	226	172	178	211	1.9	18.8	783	722	8.5
Less: Intersegment	96	78	49	63	75	(22.1)	17.7	286	276	3.6
Total Sales	5,672	2,802	2,996	7,718	9,960	75.6	29.0	19,187	23,844	(19.5)
<b>Segment Results</b>										
Cooling products for comfort and commercial use	-517	-603	-197	663	473	(191.4)	(28.6)	-655	-908	(27.9)
Design and Development Services	22.3	28.5	24.0	24.8	32.5	45.7	31.0	100	87	14.9
Less: Finance costs	45.9	51.2	49.9	19.3	14.9	(67.5)	(22.8)	166	75	120.8
Less: Exceptional items	0.0	121.3	129.5	17.7	0.0	NM!	(100.0)	269	156	72.6
Total PBT	-541	-747	-353	651	491	(190.7)	(24.6)	-990	-1,052	(5.9)
<b>PBIT Margins (%)</b>										
						(bps)	(bps)			(bps)
Cooling Products for comfort and commercial use	-9.3%	-22.7%	-6.9%	8.7%	4.8%	1,412	(390)	(3.5)	(3.9)	38
Design and Development Services	10.8%	12.6%	13.9%	13.9%	15.4%	462	144	12.7	12.0	70
Total PBT	-9.5%	-26.7%	-11.8%	8.4%	4.9%	1,446	(350)	(5.2)	(4.4)	(75)

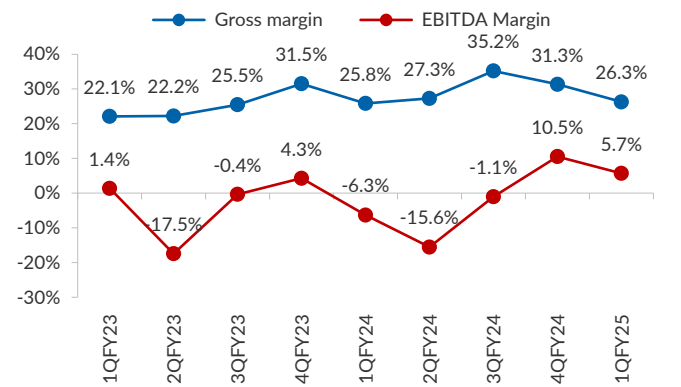
Source: Company, YES Sec

**Exhibit 4: Revenue growth was aided by favorable base**



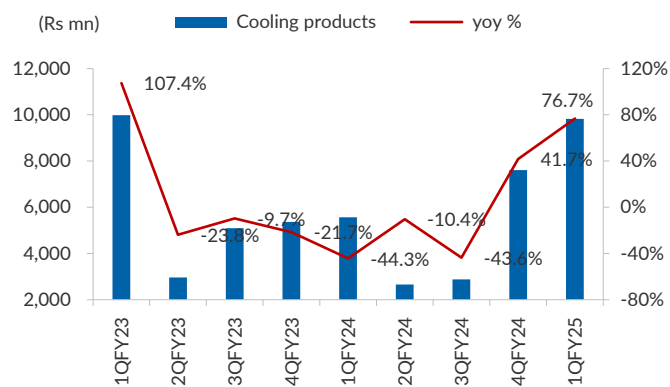
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**Exhibit 5: EBITDA margin has seen sharp improvement**



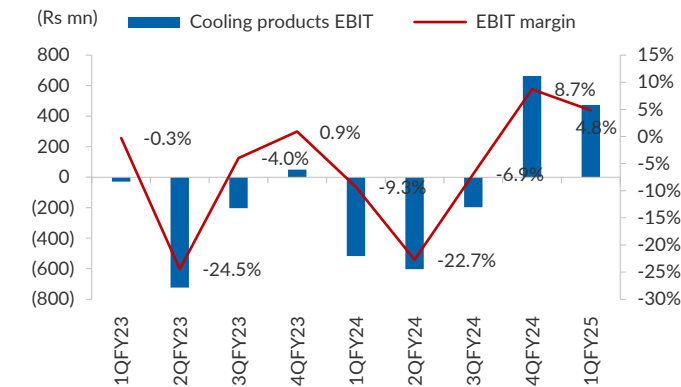
Source: Company, YES Sec

**Exhibit 6: RAC performance has seen significant improvement**



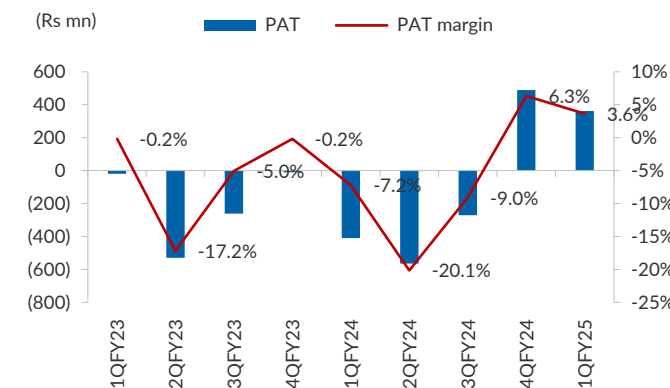
Source: Company, YES Sec

**Exhibit 7: EBIT margin has come off sharply on sequential basis**



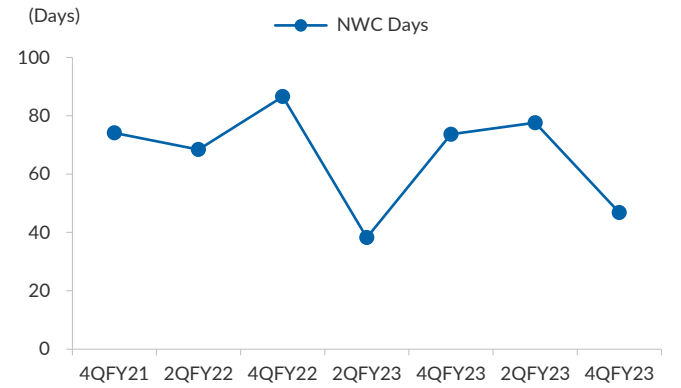
Source: Company, YES Sec

**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)	FY22	FY23	FY24	FY25E	FY2^E
Equity capital	272	272	272	272	272
Reserves	7,127	6,320	5,558	6,374	7,752
Net worth	7,399	6,592	5,830	6,646	8,024
Debt	430	1,430	0	0	0
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	1,232	1,251	1,060	1,356	1,509
Total liabilities	9,060	9,273	6,890	8,002	9,533
Fixed Asset	3,376	3,501	3,377	3,414	3,398
Investments	9	9	9	9	9
Other Non-current Assets	1,407	1,387	1,559	1,657	1,682
Net Working Capital	3,964	4,157	1,227	1,795	2,087
Inventories	8,218	8,686	6,561	9,279	10,680
Sundry debtors	4,113	3,212	3,788	5,358	6,167
Loans and Advances	12	9	5	12	13
Sundry creditors	7,210	7,087	7,890	11,159	12,845
Other current liabilities	1,496	1,330	1,432	1,969	2,246
Cash & equivalents	305	220	718	1,127	2,358
Total Assets	9,060	9,273	6,890	8,002	9,533

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	21,590	23,844	19,187	27,136	31,236
Operating profit	965	(188)	(13)	1,628	2,249
Depreciation	722	753	644	712	780
Interest expense	91	75	166	150	135
Other income	81	120	101	324	508
Profit before tax	232	(896)	(722)	1,090	1,842
Taxes	65	(231)	(233)	274	464
Minorities and other	-	-	-	-	-
Adj. profit	168	(666)	(489)	816	1,378
Exceptional items	(7)	(156)	(268)	-	-
Net profit	175	(510)	(220)	816	1,378

Source: Company, YES Sec

## Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	323	(821)	(555)	1,240	1,977
Depreciation	722	753	644	712	780
Tax paid	(65)	231	233	(274)	(464)
Working capital Δ	(1,572)	(193)	2,930	(568)	(291)
Other operating items					
Operating cashflow	(591)	(31)	3,251	1,109	2,002
Capital expenditure	(565)	(877)	(520)	(749)	(764)
Free cash flow	(1,156)	(909)	2,732	360	1,238
Equity raised	8	(297)	(542)	-	-
Investments	2	0	0	-	-
Debt financing/disposal	430	1,000	(1,430)	-	-
Interest paid	(91)	(75)	(166)	(150)	(135)
Dividends paid	-	-	-	-	-
Net Δ in cash	(913)	(85)	498	409	1,231

Source: Company, YES Sec

## Exhibit 13: Du-pont analysis

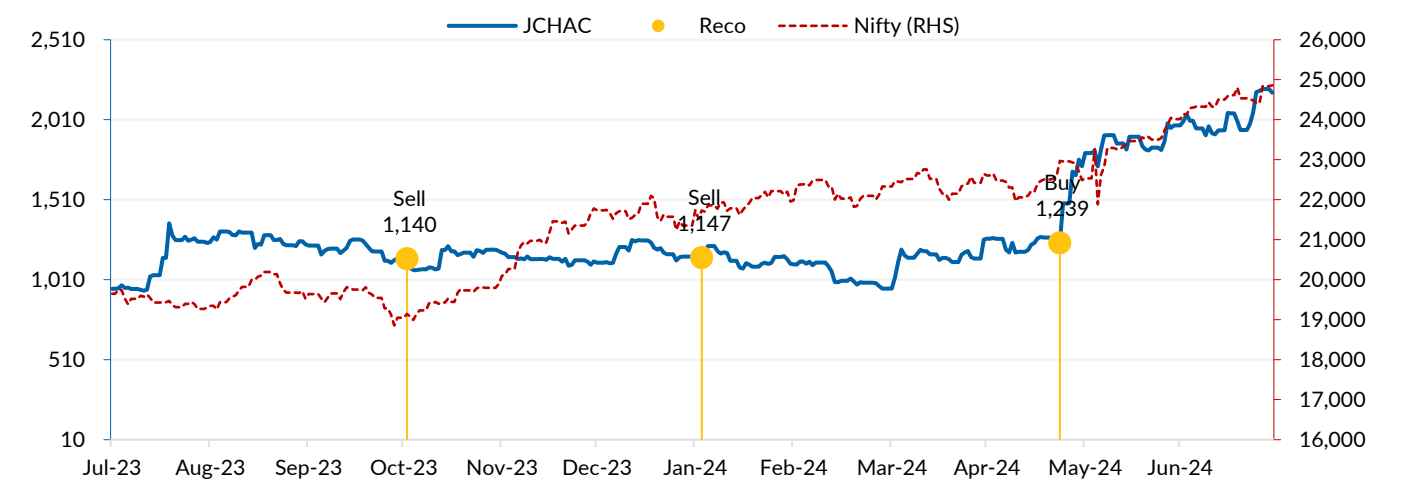
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.72	0.74	0.68	0.75	0.75
Interest burden (x)	0.72	1.09	1.30	0.88	0.93
EBIT margin (x)	0.01	(0.03)	(0.03)	0.05	0.06
Asset turnover (x)	1.26	1.33	1.11	1.42	1.33
Financial leverage (x)	2.35	2.56	2.77	3.06	3.19
RoE (%)	2.3	(9.5)	(7.9)	13.1	18.8

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	31.1	10.4	(19.5)	41.4	15.1
Op profit growth	(17.8)	(119.5)	(93.1)	NM	38.1
EBIT growth	(35.1)	(353.8)	(32.4)	(323.4)	59.4
Net profit growth	(35.5)	(497.3)	(26.6)	(267.0)	68.9
<b>Profitability ratios (%)</b>					
OPM	4.5	(0.8)	(0.1)	6.0	7.2
EBIT margin	1.5	(3.4)	(2.9)	4.6	6.3
Net profit margin	0.8	(2.8)	(2.5)	3.0	4.4
RoCE	4.3	(10.4)	(8.0)	19.9	26.9
RoNW	2.3	(9.5)	(7.9)	13.1	18.8

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	1.0	(3.7)	(2.8)	4.3	5.9
<b>Per share ratios</b>					
EPS	6.4	(18.8)	(8.1)	30.0	50.7
Dividend per share	-	-	-	-	-
Cash EPS	32.7	3.2	5.7	56.2	79.4
Book value per share	272.1	242.4	214.4	244.4	295.1
<b>Valuation ratios</b>					
P/E	6.4	(18.8)	(8.1)	30.0	50.7
P/CEPS	-	-	-	-	-
P/B	32.7	3.2	5.7	56.2	79.4
EV/EBIDTA	272.1	242.4	214.4	244.4	295.1
<b>Payout (%)</b>					
Dividend payout	-	-	-	-	-
Tax payout	27.8	25.7	32.3	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	69.5	49.2	72.1	72.1	72.1
Inventory days	138.9	133.0	124.8	124.8	124.8
Creditor days	121.9	108.5	150.1	150.1	150.1

## Recommendation Tracker



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- (b) Providing research reports to major U.S. institutional investors, and effecting transactions in the subject securities with or for those investors;
- (c) Soliciting and effecting transactions with or for U.S. institutional investors or major U.S. institutional investors through a "chaperoning broker-dealer"; and
- (d) Soliciting and effecting transactions with or for registered broker-dealers, banks<sup>3</sup> acting in a broker or dealer capacity, certain international organizations, foreign persons temporarily present in the U.S., U.S. citizens resident abroad, and foreign branches and agencies of U.S. persons.

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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1	Research Analyst or his/her relative's or YSIL's financial interest in the subject company(ies)	No
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3	Research Analyst or his/her relative or YSIL has any other material conflict of interest at the time of publication of the research report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
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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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