

# Johnson Controls Hitachi AC India (JCHAC)

Consumer Durables | 3QFY24 Result Update

**Under Review**

**CMP: Rs1,147 | Target Price (TP): NA | Upside: NA**

**January 30, 2024**

## Disappointing performance continues

### Key Points

- Revenue stood at Rs3.0bn (down 42.2% YoY) and EBITDA margin stood at -1.1% vs -0.4% in 3QFY23. Adj. net loss stood at Rs142mn vs Adj. net loss of Rs114mn in 3QFY23.
- Our channel checks have not been encouraging. The company has been struggling in terms of pricing wars seen across majority of players in the RAC space.
- We believe that maintaining market share will be a challenge for JCHAC due to heightened competitive intensity in RAC industry. We further expect margin pressure to persist in near to medium term. We continue to maintain 'Under Review' rating on JCHAC as we seek to better understand its business.

**3QFY24 performance update:** Revenue declined by 42.2% YoY to Rs3bn. While gross margin improved by 972bps YoY due to easing commodity cost pressures, EBITDA margin stood at (-)1.1% vs (-)0.4% in 3QFY23 due to operating leverage. In 3QFY24, JCHAC booked an exceptional loss of Rs130mn on account of termination benefits, which are payable to employees/workers due to realignment/reorganisation/voluntary retirement scheme. JCHAC reported an adj. net loss of Rs142mn vs adj. net loss of Rs114mn in 3QFY23. Cooling Products segment's revenue declined by 43.6% YoY to Rs2.9bn. Cooling Products reported margin of (-)6.9% vs (-) 4.0% in 3QFY23. Design & Development segment's revenue grew by 2.7% YoY to Rs172mn and margin improved by 297bps YoY to 13.9%.

**Channel checks for JCHAC disappointing:** Despite an unseasonal quarter for RAC, JCHAC's peers have not reported decline in RAC segment. While we don't have a break-down of the divisions or any qualitative comments from management, our channel checks suggest that JCHAC has been facing intense competition in RAC and may have lost market share. Furthermore, our channel checks suggest that JCHAC may have entered into pricing wars for RAC without cutting costs. Overall for RAC, while 1HFY24 ended with high inventory in the channel due to lower-than-expected sales, rising temperatures and festivities helped lift demand and led to liquidation of inventory to normal levels.

**Maintaining market share will be difficult:** Overall competitive intensity across the RAC industry has increased as brands have been aggressively focusing on increasing market share. We expect this heightened competitive intensity to persist over the near to medium term as we expect brands to only focus on topline growth to receive PLI benefits. Hence, we believe that maintaining market share will be a challenge for JCHAC.

**Capital employed position:** Cooling Products segment's capital employed declined to Rs2.9bn at the end of 3QFY24 vs Rs4.3bn at the end of 3QFY23. Design & Development segment's capital employed increased moderately to Rs1.17bn at the end of 3QFY24 vs Rs1.15bn at the end of 3QFY23. Overall, ROCE stood at (-)12.9% with ROCE for Cooling Products at (-)27.1% and for Design & Development at 8.2%.

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Est Change	NA
TP Change	NA
Rating Change	NA

### Company Data and Valuation Summary

Reuters:	HITA.BO
Bloomberg:	JCHAC IN Equity
Mkt Cap (Rsbn/US\$m):	31.2 / 375.2
52 Wk H / L (Rs):	1,393 / 938
ADTV-3M (mn) (Rs/US\$):	57.4 / 0.7
Stock performance (%) 1M/6M/1yr:	2.7 / 20.3 / 8.1
Nifty 50 performance (%) 1M/6M/1yr:	(0.6) / 13.3 / 21.9

Shareholding	1QFY24	2QFY24	3QFY24
Promoters	74.3	74.3	74.3
DII's	10.1	9.1	8.9
FII's	0.6	0.5	0.5
Others	15.1	16.2	16.4
Pro pledge	0.0	0.0	0.0

### Financial and Valuation Summary

Particulars (Rs Mn)	FY20	FY21	FY22	FY23
Net Sales	21,974	16,465	21,590	23,844
Growth YoY (%)	-2.0	-25.1	31.1	10.4
Gross Margin (%)	36.4	37.3	30.2	25.0
EBITDA	1,722	1,175	965	(189)
EBITDA Margin (%)	7.8	7.1	4.5	(0.8)
Adj. PAT	843	260	169	(666)
Adj. PAT Margin (%)	3.8	1.6	0.8	(2.8)
Adj. PAT YoY Growth (%)	(1.9)	(69.2)	(35.1)	(495.1)
Adj. EPS (Rs)	31.0	9.6	6.2	(24.5)
ROCE (%)	13.9	5.9	3.2	-12.4
ROCE (Post-Tax) (%)	9.8	4.5	2.3	-9.3
ROE (%)	12.2	3.6	2.3	-10.1
P/E	37.0	120.0	184.9	-46.8
EV/EBITDA	18.9	25.5	32.4	-171.7
P/B	4.5	4.3	4.2	4.7

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links – [3QFY24 Results](#)

Please refer to the disclaimer towards the end of the document.

## Exhibit 1: 3QFY24 Consolidated Performance

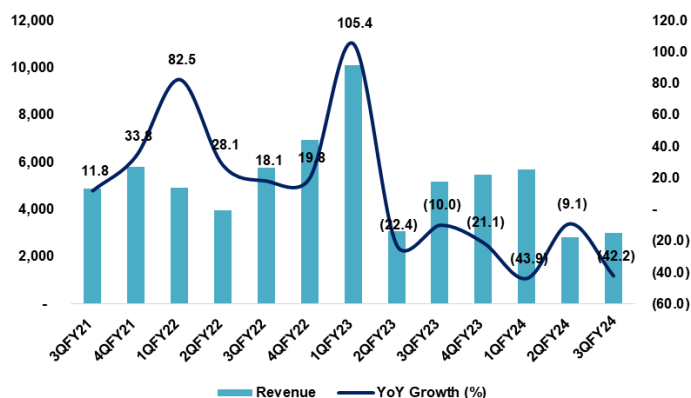
Particulars (Rsmn)	1Q23	2Q23	3Q23	4Q23	1Q24	2Q24	3Q24	FY23
<b>Net Sales</b>	<b>10,103</b>	<b>3,082</b>	<b>5,183</b>	<b>5,476</b>	<b>5,672</b>	<b>2,802</b>	<b>2,996</b>	<b>23,844</b>
YoY Change (%)	105.4	(22.4)	(10.0)	(21.1)	(43.9)	(9.1)	(42.2)	10.4
<b>Gross Profit</b>	<b>2,234</b>	<b>684</b>	<b>1,319</b>	<b>1,725</b>	<b>1,465</b>	<b>764</b>	<b>1,054</b>	<b>5,963</b>
Margin (%)	22.1	22.2	25.5	31.5	25.8	27.3	35.2	25.0
<b>EBITDA</b>	<b>137</b>	<b>(539)</b>	<b>(20)</b>	<b>234</b>	<b>(360)</b>	<b>(436)</b>	<b>(32)</b>	<b>(188)</b>
YoY Change (%)	188.6	NA	NA	(40.8)	NA	NA	NA	NA
Margin (%)	1.4	(17.5)	(0.4)	4.3	(6.3)	(15.6)	(1.1)	(0.8)
Depreciation	182	189	196	186	164	158	165	753
Interest	19	15	16	25	46	51	50	75
Other income	39	27	30	23	29	19	24	120
Extraordinary Items	-	16	(147)	(24)	-	(121)	(130)	(156)
<b>PBT (bei)</b>	<b>(26)</b>	<b>(716)</b>	<b>(201)</b>	<b>46</b>	<b>(541)</b>	<b>(626)</b>	<b>(223)</b>	<b>(896)</b>
<b>PBT</b>	<b>(26)</b>	<b>(731)</b>	<b>(54)</b>	<b>70</b>	<b>(541)</b>	<b>(504)</b>	<b>(94)</b>	<b>(741)</b>
Tax	(6)	(170)	(87)	32	(131)	(183)	(82)	(231)
ETR (%)	NA	NA	NA	46.1	NA	NA	NA	NA
Reported PAT	(20)	(530)	(262)	(10)	(410)	(564)	(271)	(821)
<b>Adj. PAT</b>	<b>(20)</b>	<b>(546)</b>	<b>(114)</b>	<b>14</b>	<b>(410)</b>	<b>(443)</b>	<b>(142)</b>	<b>(666)</b>
YoY Change (%)	NA	NA	NA	(91.7)	NA	NA	NA	NA
<b>Adj. EPS</b>	<b>(0.7)</b>	<b>(20.1)</b>	<b>(4.2)</b>	<b>0.5</b>	<b>(15.1)</b>	<b>(16.3)</b>	<b>(5.2)</b>	<b>(24.5)</b>

Source: Company, Nirmal Bang Institutional Equities Research

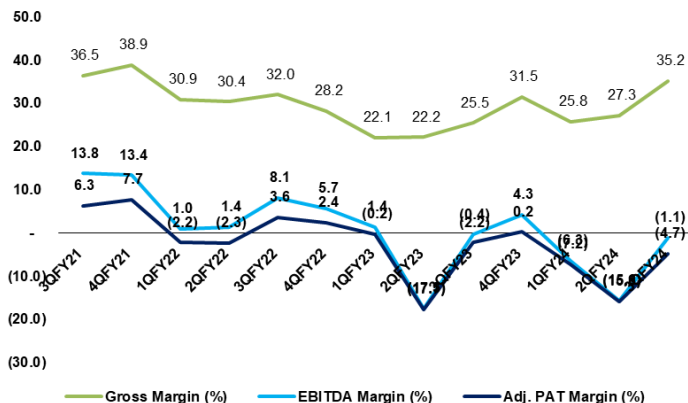
## Exhibit 2: 3QFY24 Segmental Performance

Particulars (Rsmn)	3Q23	2Q24	3Q24	YoY(%)	QoQ(%)	9MFY23	9MFY24	YoY(%)
<b>Net Sales</b>								
Cooling Products	5,093	2,654	2,872	(43.6)	8.2	18,034	11,086	(38.5)
Design and Development	168	226	172	2.7	(23.8)	540	605	12.1
<b>Sales Mix (%)</b>								
Cooling Products	96.8	92.2	94.3	-	-	97.1	94.8	-
Design and Development	3.2	7.8	5.7	-	-	2.9	5.2	-
<b>EBIT</b>								
Cooling Products	(204)	(603)	(197)	NA	NA	(957)	(1,318)	NA
Design and Development	18	29	24	30.4	(15.8)	65	75	15.6
<b>EBIT Margin (%)</b>								
Cooling Products	(4.0)	(22.7)	(6.9)	NA	NA	(5.3)	(11.9)	(658) bps
Design and Development	11.0	12.6	13.9	297 bps	132 bps	12.0	12.4	37 bps

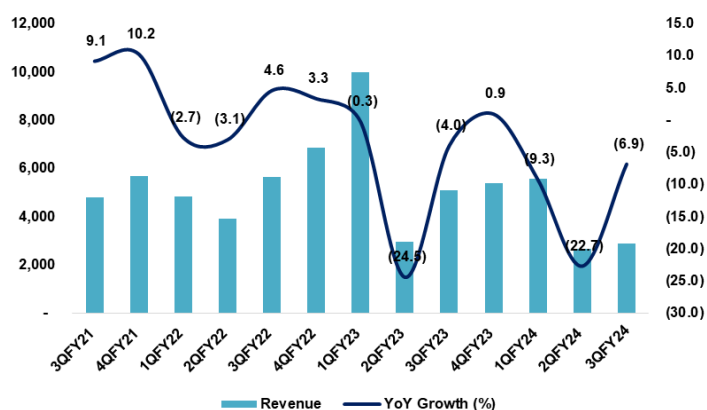
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: Revenue Trend**


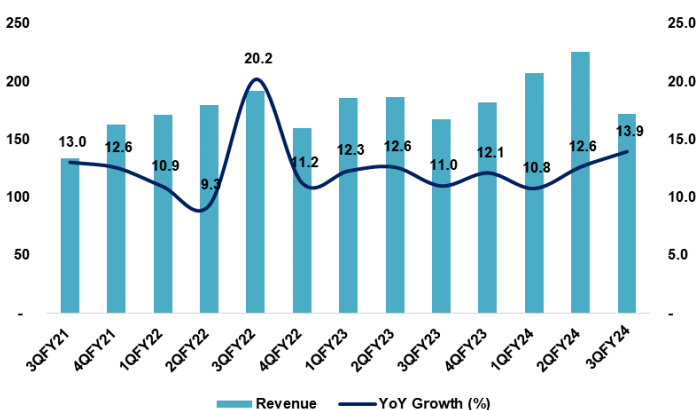
Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 4: Margin Trend**


Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 5: Cooling Products Segment Trend**


Source: Bloomberg, Nirmal Bang Institutional Equities Research

**Exhibit 6: Design & Development Segment Trend**


Source: Bloomberg, Nirmal Bang Institutional Equities Research

## Financials

### Exhibit 7: Income Statement

Y/E March (Rs Mn)	FY19	FY20	FY21	FY22	FY23
<b>Net Sales</b>	<b>22,413</b>	<b>21,974</b>	<b>16,465</b>	<b>21,590</b>	<b>23,844</b>
% Growth	(0.8)	(2.0)	(25.1)	31.1	10.4
Rm Costs	14,439	13,974	10,317	15,060	17,881
Gross Profit	7,974	8,000	6,149	6,531	5,963
<b>Gross Margin (%)</b>	<b>35.6</b>	<b>36.4</b>	<b>37.3</b>	<b>30.2</b>	<b>25.0</b>
Staff Cost	1,652	1,745	1,673	1,774	1,836
Other Expenses	4,685	4,533	3,301	3,792	4,316
<b>EBITDA</b>	<b>1,638</b>	<b>1,722</b>	<b>1,175</b>	<b>965</b>	<b>(189)</b>
% Growth	(17.6)	5.1	(31.8)	(17.8)	NA
<b>EBITDA Margin (%)</b>	<b>7.3</b>	<b>7.8</b>	<b>7.1</b>	<b>4.5</b>	<b>(0.8)</b>
Other Income	154	82	79	81	120
Interest	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)
Reported Net Profit	859	835	331	161	(822)
<b>Adj. Net Profit</b>	<b>859</b>	<b>843</b>	<b>260</b>	<b>169</b>	<b>(666)</b>
Adj. PAT Margin	3.8	3.8	1.6	0.8	(2.8)
<b>Adj. Eps (Rs)</b>	<b>31.6</b>	<b>31.0</b>	<b>9.6</b>	<b>6.2</b>	<b>(24.5)</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Balance Sheet

Y/E March (Rs Mn)	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
Total Loans	1,896	1,587	0	430	1,430
Deferred Tax Liability Net	(166)	(142)	(150)	(162)	(423)
<b>Liabilities</b>	<b>7,860</b>	<b>8,330</b>	<b>7,069</b>	<b>7,667</b>	<b>7,599</b>
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
Long-Term 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	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
<b>Total Assets</b>	<b>7,860</b>	<b>8,330</b>	<b>7,069</b>	<b>7,667</b>	<b>7,599</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Cash Flow

Y/E March (Rs Mn)	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)
<b>Cash Flow From Operations</b>	<b>(578)</b>	<b>1,379</b>	<b>3,032</b>	<b>(1,651)</b>	<b>(1,020)</b>
Other Income	154	82	79	81	120
Depreciation	442	563	755	721	753
Tax Paid (-)	(492)	(324)	(111)	(77)	(30)
<b>Net Cash From Operations</b>	<b>(474)</b>	<b>1,699</b>	<b>3,755</b>	<b>(926)</b>	<b>(178)</b>
Capital Expenditure (-)	(1,247)	(1,373)	(1,145)	(339)	(756)
<b>Net Cash After Capex</b>	<b>(1,721)</b>	<b>326</b>	<b>2,610</b>	<b>(1,265)</b>	<b>(934)</b>
Interest Paid (-)	(27)	(50)	(136)	(91)	(75)
Dividends Paid (-)	(49)	-	-	-	(41)
Inc./(Dec.) In Total Borrowings	1,770	(309)	(1,587)	430	1,000
(Inc.)/Dec. In Investments	0	1	0	2	0
<b>Cash From Financial Activities</b>	<b>1,694</b>	<b>(358)</b>	<b>(1,723)</b>	<b>341</b>	<b>884</b>
Others	(32)	(88)	73	12	(100)
Opening Cash	358	299	179	1,223	307
Closing Cash	299	179	1,223	307	221
Change In Cash	(60)	(119)	1,043	(916)	(86)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 10: Key Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23
<b>Per Share (Rs)</b>					
Adjusted EPS	31.6	31.0	9.6	6.2	(24.5)
Book Value	225.4	253.2	265.5	272.1	242.4
<b>Valuation (X)</b>					
P/E	36.3	37.0	120.0	184.9	(46.8)
P/BV	5.1	4.5	4.3	4.2	4.7
EV/EBITDA	20.0	18.9	25.5	32.4	(171.7)
EV/Sales	1.5	1.5	1.8	1.4	1.4
<b>Return Ratio (%)</b>					
RoCE	15.2	13.9	5.9	3.2	(12.4)
RoCE (Post-Tax)	9.9	9.8	4.5	2.3	(9.3)
RoE	14.0	12.2	3.6	2.3	(10.1)
RoIC	15.8	14.2	7.2	3.3	(12.8)
<b>Profitability Ratio (%)</b>					
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)
<b>Turnover Ratio</b>					
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	73.0	42.3	58.5	69.5	49.2
Inventory Days	140.4	190.0	249.1	199.2	177.3
Creditors Days	136.7	143.7	224.3	174.7	144.7
<b>Solvency Ratio (X)</b>					
Debt-Equity	0.3	0.2	0.0	0.1	0.2
Interest Coverage	44.5	23.1	3.1	2.7	(12.5)

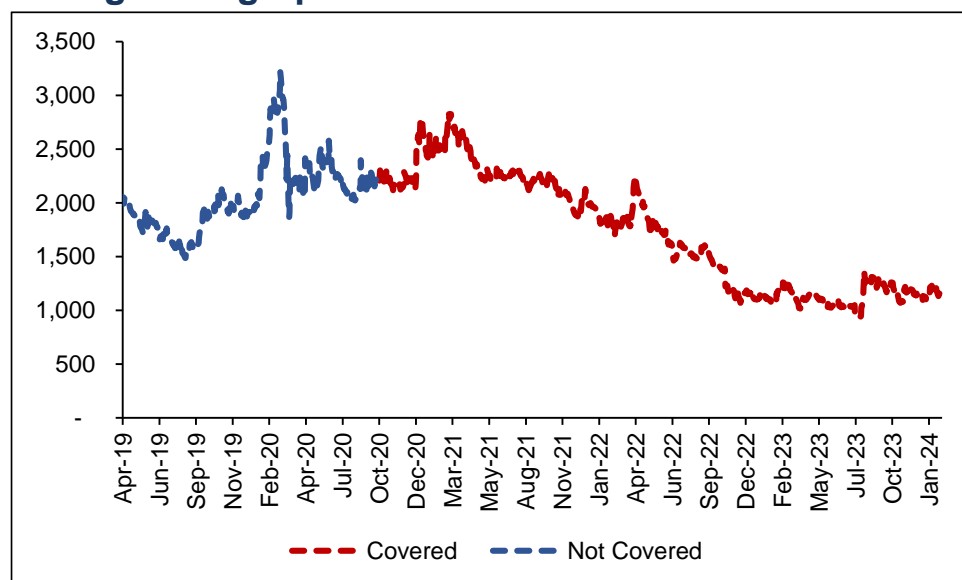
Source: Company, Nirmal Bang Institutional Equities Research

## 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	-
26 July 2023	Under Review	1,050	-
27 October 2023	Under Review	1,144	-
30 January 2024	Under Review	1,145	-

Coverage was transferred to Natasha Jain with effect from 1<sup>st</sup> July 2023

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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