Johnson Controls-Hitachi Air Conditioning India

29 May, 2022

Reuters: JCHA.BO; Bloomberg: JCHAC IN

4QFY22 Result Update

Margin pressure offsets topline growth

Johnson Controls-Hitachi Air Conditioning India (JCH-IN) posted revenue of Rs6.9bn in 4QFY22, up 19.8% YoY. The topline was below our estimate by 9.5%, but above consensus estimate by 7.4%. Cooling Products segment's revenue jumped by 20.8% YoY to Rs6.85bn (97.7% of total sales). Design & Development segment's sales declined marginally by 2% YoY to Rs159mn (2.3% of total sales). Gross margin contracted by 1060bps YoY to 28.2%, most likely due to commodity cost pressures. EBITDA in 4QFY22 stood at Rs395mn, down 48.9% YoY. EBITDA margin stood at 5.7%, down 770bps YoY, below our/consensus estimate of 7.5%/11.6%. Cooling Products/Design & Development segment's EBIT margins declined by 690bps/140bps YoY to 3.3%/11.2%. The company reported PAT of Rs164mn in 4QFY22, down 64.7% YoY. The PAT was below our/consensus estimate of Rs309mn/Rs416mn. JCH-IN is a key beneficiary of the shift in government policies to promote AC manufacturing in India by making imports costlier. JCH-IN possesses backward-integrated manufacturing capabilities, India-specific R&D set-up, supply chain support from group companies and a Global Development Centre (GDC) offering design & development services (for both India as well as global needs). We maintain Accumulate rating on JCH-IN with a revised target price (TP) of Rs1,790 (Rs2,080 earlier) based on P/E of 35x FY24E earnings. For FY23E/FY24E, we have raised our revenue estimates by 5.5%/6.8%, but cut our EBITDA margin estimates by 320bps/180bps. Consequently, we have cut our Adj. PAT estimates by 40%/13.9% for FY23E/FY24E.

Strong performance expected in 1QFY23: JCH-IN has grown by 60.4% over the 4QFY20 base. After two consecutive summer seasons were washed out due to COVID-19, RAC industry has witnessed strong growth in 1QFY23. We expect the Cooling Products segment to report revenue CAGR of 22.4% over FY22-FY24E on the back of healthy volume growth, aided by: (1) foray into the mass market segment (2) expansion of distribution channels and (3) scale-up of exports. Although we expect the company to be able to clock good growth going forward, maintaining market share will be a challenge going forward as competitive intensity is slated to rise going forward.

Expect margins to improve going forward: EBITDA margin contracted by 770bps YoY to 5.7% in 4QFY22 mainly due to commodity cost pressures (raw material costs were up 40.7% YoY). However, going forward, we expect EBITDA margin to improve by 390bps over FY22-FY24E on account of softening raw material prices, larger scale, sustenance of partial cost savings and favorable government policies towards local manufacturing.

Capital employed increased: Capital employed for Cooling Products rose to Rs5.53bn in 4QFY22 from Rs4.39bn in 4QFY21. Design & Development segment's capital employed declined to Rs1.26bn in 4QFY22 from Rs1.36bn in 4QFY21.

Outlook: Strong product portfolio, premium brand image, healthy market share (12% in AC), strong global parentage, core focus on domestic manufacturing, favourable government policies promoting indigenisation and healthy growth prospects of the AC industry will support JCH-IN's premium valuation. We expect 23.8%/70%/187.2% revenue/EBITDA/Adj. PAT CAGR over FY22-FY24E on low base.

ACCUMULATE

Sector: Consumer Durables

CMP: Rs1,735

Target Price: Rs1,790

Upside: 2.1%

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Key Data

Current Shares O/S (mn)	27.2
Mkt Cap (Rsbn/US$mn)	47.7/614.4
52 Wk H / L (Rs)	2,375/1,667
Daily Vol. (3M NSE Avg.)	14,352

Price Performance (%)

	1 M	6 M	1 Yr
JCH-IN	(10.9)	(7.8)	(22.0)
Nifty Index	(4.4)	(3.7)	5.9

Source: Bloomberg

Y/E March (Rsmn)	4QFY20	4QFY21	3QFY22	4QFY22	Change over 4QFY20	YoY (%)	QoQ (%)
Net revenues	**4,329**	**5,794**	**5,756**	**6,942**	***60.4***	***19.8***	***20.6***
Raw material costs	2,607	3,541	3,914	4,982	*91.1*	*40.7*	*27.3*
Staff costs	478	481	486	508	*6.2*	*5.5*	*4.5*
Other expenses	973	997	891	1,057	*8.7*	*6.0*	*18.7*
Total expenditure	4,057	5,020	5,290	6,547	*61.4*	*30.4*	*23.7*
EBITDA	**272**	**774**	**466**	**395**	***45.4***	***(48.9)***	***(15.2)***
EBITDA margin (%)	***6.3***	***13.4***	***8.1***	***5.7***	**-**	-	-
Depreciation	167	210	182	181	*8.1*	*(14.0)*	*(0.4)*
Interest costs	14	19	18	23	*63.6*	*19.9*	*25.1*
Other income	12	36	12	30	*141.5*	*(18.2)*	*139.5*
Exceptional items	(8)	-	-	(7)			
PBT	95	581	279	214	*124.0*	*(63.2)*	*(23.3)*
Tax	24	136	72	57	*139.1*	*(58.3)*	*(21.4)*
PAT	72	444	206	157	*119.0*	*(64.7)*	*(24.0)*
Adj. PAT	**79**	**444**	**206**	**164**	**119.0**	**(64.7)**	**(24)**
Adj. PAT margin (%)	*1.8*	*7.7*	*3.6*	*2.4*	-	-	-
Adj. EPS (Rs)	**2.9**	**16.3**	**7.6**	**6.0**	***107.6***	***(63.0)***	***(20.4)***

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Revenues	21,974	16,465	21,590	27,966	33,093
EBITDA	1,722	1,175	965	1,845	2,788
Adj. PAT	843	260	169	764	1,391
Adj. EPS (Rs)	31.0	9.6	6.2	28.1	51.1
EPS growth (%)	*(1.9)*	*(69.2)*	*(35.1)*	*353.0*	*82.1*
EBITDA margin (%)	*7.8*	*7.1*	*4.5*	*6.6*	*8.4*
P/E (x)	56.6	183.4	282.7	62.4	34.3
P/BV (x)	6.9	6.6	6.4	5.8	5.0
EV/EBITDA (x)	28.5	39.5	49.5	25.4	16.6
RoCE (%)	*13.9*	*5.9*	*3.2*	*12.7*	*19.7*
RoE (%)	*12.2*	*3.6*	*2.3*	*9.4*	*14.6*

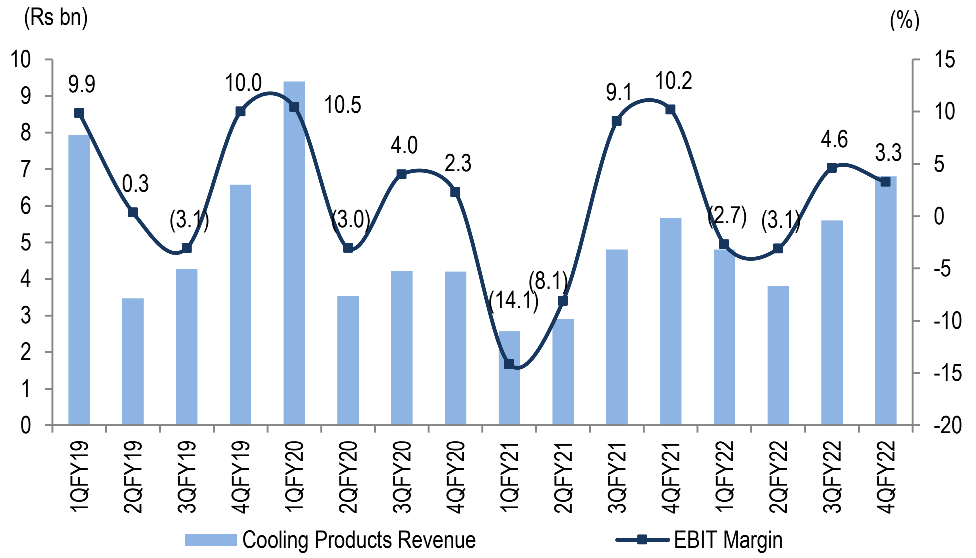
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise analysis

Y/E March (Rsmn)	4QFY20	4QFY21	3QFY22	4QFY22	Change over 4QFY20	*YoY (%)*	*QoQ (%)*
Revenues							
Cooling Products	4,201	5,671	5,642	6,849	*63.0*	*20.8*	*21.4*
Design and Development	153	163	192	159	*3.9*	*(2.0)*	*(17.1)*
Revenue mix (%)							
Cooling Products	*96.5*	*97.2*	*96.7*	*97.7*	-	-	-
Design and Development	*3.5*	*2.8*	*3.3*	*2.3*	-	-	-
EBIT (Rsmn)							
Cooling Products	96	579	258	226	*136.8*	*(61.0)*	*(12.4)*
Design and Development	21	20	39	18	*(16.4)*	*(12.3)*	*(53.9)*
EBIT margin (%)							
Cooling Products	*2.3*	*10.2*	*4.6*	*3.3*	-	-	-
Design and Development	*14.0*	*12.6*	*20.2*	*11.2*	-	-	-

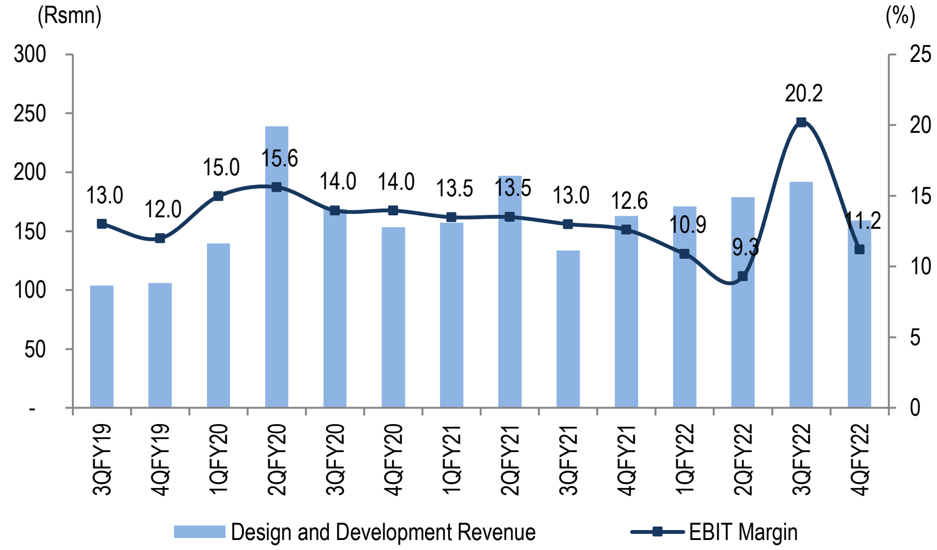
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Cooling Products – Quarterly revenue and EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Design and Development Segment – Quarterly revenue and EBIT margin trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Actual performance versus our estimates and Bloomberg consensus estimates

4QFY22	**Actual vs Estimates**				
(Rsmn)	**Actual**	**Our Estimate**	***Deviation (%)***	**Bloomberg cons. est.**	***Deviation (%)***
Revenue	6,942	7,673	*(9.5)*	6,463	*7.4*
EBITDA	395	576	*(31.4)*	749	*(47.2)*
EBITDA Margin (%)	***5.7***	***7.5***	***-***	***11.6***	***-***
PAT	164	309	*(46.9)*	416	*(60.5)*

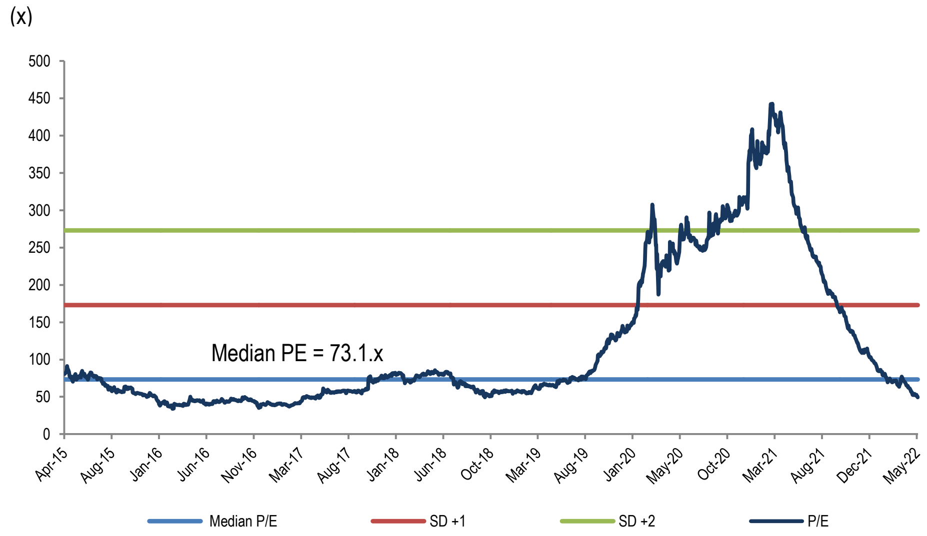
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 6: Change in our estimates

Description	**Old**		**New**		***Variation (%)***	
(Rsmn)	**FY23E**	**FY24E**	**FY23E**	**FY24E**	***FY23E***	***FY24E***
Revenue	26,507	30,992	27,966	33,093	*5.5*	*6.8*
EBITDA	2,589	3,151	1,845	2,788	*(28.8)*	*(11.5)*
EBITDA Margins (%)	***9.8***	***10.2***	***6.6***	***8.4***	***-***	***-***
PAT	1,273	1,616	764	1,391	*(40.0)*	*(13.9)*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: PE chart



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 8: Income statement

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Net sales	**21,974**	**16,465**	**21,590**	**27,966**	**33,093**
% growth	*(2.0)*	*(25.1)*	*31.1*	*29.5*	*18.3*
Raw material costs	13,974	10,317	15,060	18,178	21,179
Staff costs	1,745	1,673	1,774	2,097	2,449
Other overheads	4,533	3,301	3,792	5,846	6,676
Total expenditure	20,252	15,291	20,625	26,121	30,304
EBITDA	**1,722**	**1,175**	**965**	**1,845**	**2,788**
% growth	*5.1*	*(31.8)*	*(17.8)*	*91.1*	*51.2*
EBITDA margin (%)	***7.8***	***7.1***	***4.5***	***6.6***	***8.4***
Other income	82	79	81	100	100
Interest costs	50	136	91	91	91
Depreciation	563	755	721	833	938
Exceptional Items	-8	71	-7	0	0
Profit before tax	1,183	434	226	1,021	1,859
Tax	348	103	65	257	468
Adj. PAT	**843**	**260**	**169**	**764**	**1,391**
PAT margin (%)	*3.8*	*1.6*	*0.8*	*2.7*	*4.2*
Adj. EPS (Rs)	**31.0**	**9.6**	**6.2**	**28.1**	**51.1**
% growth	*(1.9)*	*(69.2)*	*(35.1)*	*353.0*	*82.1*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
EBIT	1,159	420	244	1,012	1,850
(Inc.)/dec. in working capital	219	2,612	-1,894	430	-528
Cash flow from operations	**1,379**	**3,032**	**-1,651**	**1,442**	**1,322**
Other income	82	79	81	100	100
Depreciation	563	755	721	833	938
Tax paid (-)	-324	-111	-77	-257	-468
Net cash from operations	**1,699**	**3,755**	**-926**	**2,118**	**1,892**
Capital expenditure (-)	-1,373	-1,145	-339	-1,167	-1,200
Net cash after capex	**326**	**2,610**	**-1,265**	**951**	**692**
Interest paid (-)	-50	-136	-91	-91	-91
Dividends paid (-)	0	0	0	-41	-41
Inc./(dec.) in total borrowings	-309	-1,587	430	-430	0
Inc./(dec.) in investments	1	0	2	0	0
Cash from financial activities	**-358**	**-1,723**	**341**	**-562**	**-132**
Others	-88	73	12	29	41
Opening cash balance	299	179	1,223	307	725
Closing cash balance	179	1,223	307	725	1,326
Change in cash balance	-119	1,043	-916	418	601

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY20	FY21	FY22	FY23E	FY24E
Share capital	272	272	272	272	272
Reserves	6,613	6,947	7,127	7,879	9,270
Net worth	6,885	7,219	7,399	8,151	9,542
Borrowings	1,587	0	430	0	0
Deferred tax liabilities	-142	-150	-162	-162	-162
Total liabilities	**8,330**	**7,069**	**7,667**	**7,989**	**9,379**
Net block	3,799	4,162	3,788	4,155	4,417
Capital Work in Progress	64	91	83	50	50
Intangible Assets	198	115	119	119	119
Investments	11	11	9	9	9
Inventories	7,275	7,042	8,218	7,968	9,284
Debtors	2,546	2,641	4,113	3,831	4,533
Cash	179	1,223	307	725	1,326
Other non-current assets	522	497	631	699	827
Other current assets	1,105	494	509	1,119	1,324
Total current assets	11,626	11,897	13,778	14,342	17,294
Creditors	5,500	6,339	7,210	7,470	8,704
Other current liabilities & provisions	1,869	2,868	2,901	3,216	3,806
Total current liabilities	7,368	9,208	10,110	10,686	12,509
Net current assets	4,258	2,689	3,668	3,656	4,785
Total assets	**8,330**	**7,069**	**7,667**	**7,989**	**9,379**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

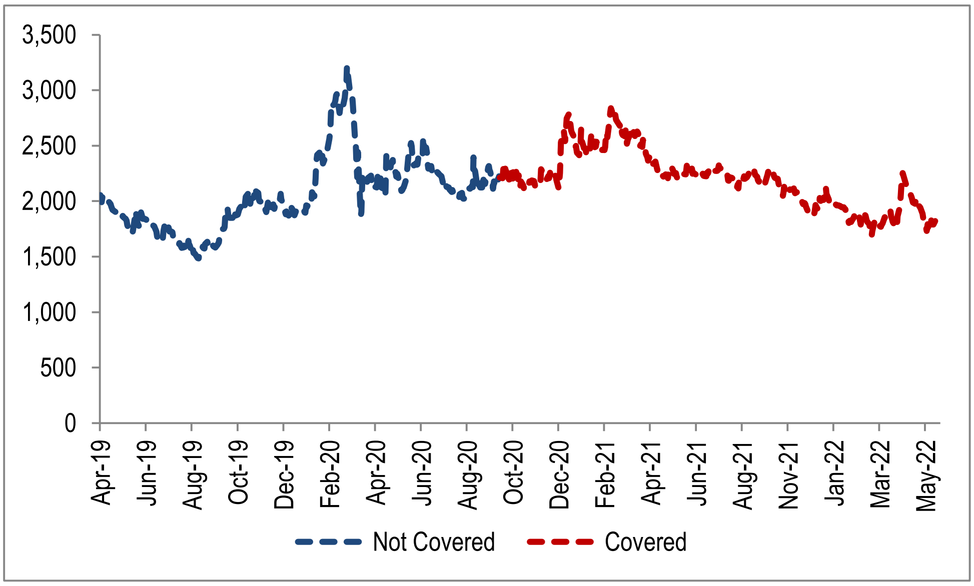
Y/E March	FY20	FY21	FY22	FY23E	FY24E
Per share (Rs)					
EPS	31.0	9.6	6.2	28.1	51.1
Book value	253.2	265.5	272.1	299.8	350.9
Valuation (x)					
P/E	56.6	183.4	282.7	62.4	34.3
P/BV	6.9	6.6	6.4	5.8	5.0
EV/EBITDA	28.5	39.5	49.5	25.4	16.6
EV/sales	2.2	2.8	2.2	1.7	1.4
Return ratios (%)					
RoCE	13.9	5.9	3.2	12.7	19.7
RoE	12.2	3.6	2.3	9.4	14.6
RoIC	14.2	7.2	3.3	14.0	23.0
Profitability ratios (%)					
EBITDA margin	7.8	7.1	4.5	6.6	8.4
EBIT margin	5.3	2.5	1.1	3.6	5.6
PAT margin	3.8	1.6	0.8	2.7	4.2
Turnover ratios					
Total asset turnover ratio (x)	2.6	2.3	2.8	3.5	3.5
Fixed asset turnover ratio (x)	4.0	2.5	3.1	3.4	3.5
Debtor days	42	59	70	50	50
Inventory days	190	249	199	160	160
Creditor days	144	224	175	150	150

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price	Target price (Rs)
1October 2020	Buy	2,175	2,500
9 October 2020	Buy	2,290	2,500
29 October 2020	Buy	2,125	2,500
7January 2021	Accumulate	2,698	2,915
9February 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

Rating track graph



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