

# Johnson Controls-Hitachi Air Conditioning India Ltd

REDUCE

CMP Rs2,313

Target Rs2,374

Upside 2.6%

## Good recovery but priced in; maintain REDUCE

### Result Highlights

- ✓ **Quarter summary** – JCHAC delivered lower than expected revenue growth of 34% yoy. Favorable base helped company to achieve best growth in cooling products segment among peers. Gross margins contracted only 92bps which can be attributed to low cost inventory that company would have been carrying given slower pick up in 9MFY21.
- ✓ **RAC segment makes a comeback** – Cooling products segments which largely consist of RAC has made a comeback in 4Q after underperforming industry in 9MFY21. Operating leverage and increased efficiencies have led to margin improvement.
- ✓ **Commodity inflation impact** – Gross margins contracted by 92bps to 38% on back of steep increase in commodity prices. Company has been able to manage increase in commodity prices better than peers on better product mix and increased localization.
- ✓ **Market share** – As per our channel checks JCHAC has managed to claw back some of the market share that it had lost in 9MFY21.

**Valuation and view** – 4Q was the first quarter of outperformance after underperforming for first three quarters of FY21. Company has managed to negate most of the impact of negative operating leverage by demonstrating cost control initiatives. Some of the cost reduction is expected to be structural and will be key catalyst for margin expansion going forward. We are building 170bps EBITDA margin expansion in our assumptions considering cost control and higher operating leverage.

**We believe JCHAC has strong parentage, brand presence and now with enhanced distribution, can regain its lost market share. However, we would be cautious and want to see consistent gain in market share and outperformance from the company in coming few quarters before turning positive on the company. We expect FY21-23E Revenue/EBITDA/PAT CAGR of 28%/50%/97% on a low base and arrive at our PT of Rs2374 valuing the company at 50x FY23 EPS. We maintain REDUCE rating as stock is richly valued at the current juncture.**

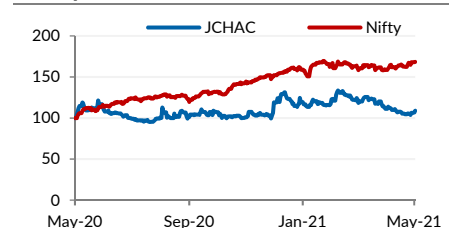
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	5,794	4,329	33.8	4,875	18.8
EBITDA	774	272	184.7	672	15.1
EBITDAM (%)	13.4	6.3		13.8	
Depreciation	210	167	25.8	236	(11.0)
Interest	19	14	36.4	36.6	(47.8)
Other income	36	12	195.1	16	124.1
PBT	581	103	464.3	416	39.8
Tax	136	24	473.1	108	26.1
Adjusted PAT	444	72	520.5	307	44.6
Reported PAT	444	72	520.5	307	44.6
PATM (%)	7.7	1.7		6.3	
EPS (Rs)	3.9	0.6		2.7	

### Stock data (as on May 25, 2021)

Nifty:	15,208
52 Week h/l (Rs)	2,940/1,980
Market cap (Rs/USD mn)	62,907/864
Outstanding Shares	27
6m Avg t/o (Rs mn):	60
Div yield (%):	NA
Bloomberg code:	JCHAC IN
NSE code:	JCHAC

### Stock performance



	1M	3M	1Y
Absolute return	-2.2%	-11.7%	8.9%

### Shareholding pattern (As of Mar'21 end)

Promoter	74.3%
FII+DII	16.6%
Others	19.1%

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	16,465	23,254	26,842
YoY Growth (%)	(25)	41	15
EBITDA	1,175	2,209	2,657
Margins (%)	7.1	9.5	9.9
PAT	331	1,039	1,291
YoY Growth (%)	(60)	214	24
ROE	3.7	13.4	14.5
ROCE	6.4	19.2	20.3
EPS	12.2	38.2	47.5
P/E	190.0	60.5	48.7
EV/EBITDA	52.5	28.0	23.2

### Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	12.2	38.2	47.5
EPS (Old)	12.2	37.2	48.5
% Change	NA	2.7	(2.1)

### Change in Rating and TP

	Rating	TP
New	REDUCE	2,374
Old	REDUCE	2,426

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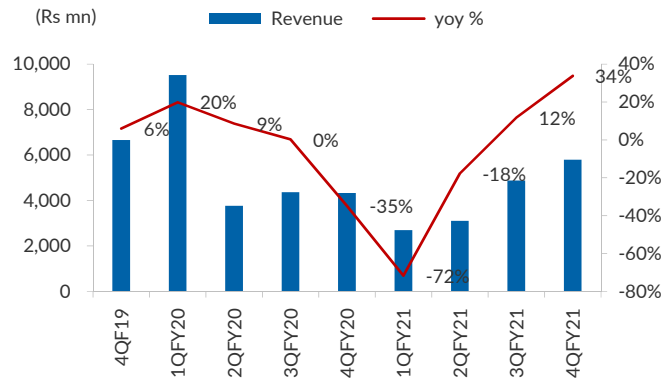
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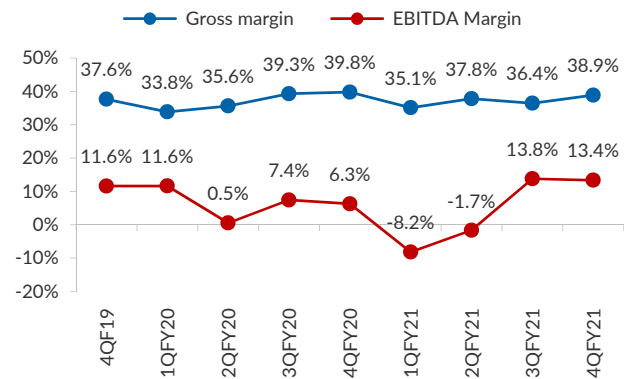
**CHARTS**

**Exhibit 2: Q4 has seen outperformance after 9 months of underperformance in FY21**



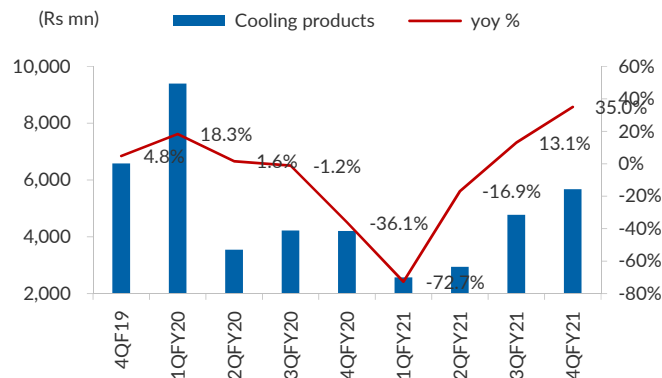
Source: Company, YES Sec - Research

**Exhibit 3: Costs controls and higher operating leverage have led to EBITDA margin improvement**



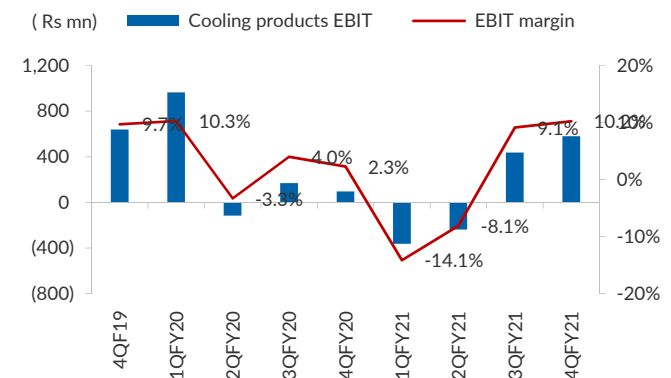
Source: Company, YES Sec - Research

**Exhibit 4: RAC has outperformed industry growth indicating market share gain**



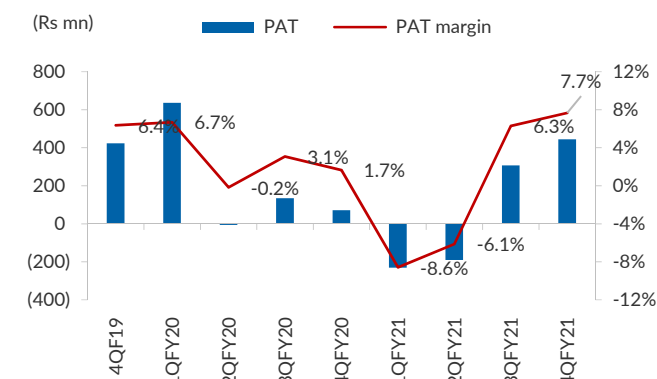
Source: Company, YES Sec - Research

**Exhibit 5: EBIT margins have improved on higher operating leverage**



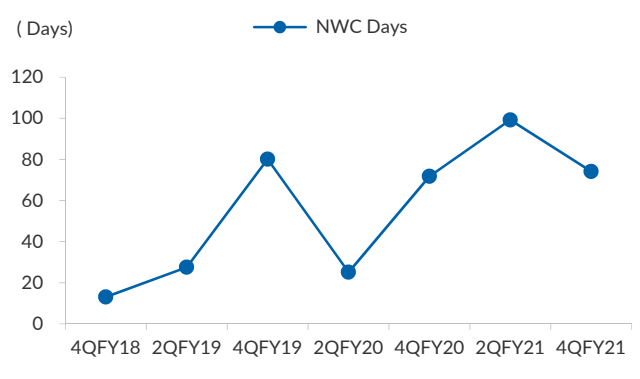
Source: Company, YES Sec - Research

**Exhibit 6: PAT continues to improve on higher EBITDA**



Source: Company, YES Sec - Research

**Exhibit 7: Working capital cycle continues to remain elevated**



Source: Company, YES Sec - Research

## FINANCIALS

### Exhibit 8: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	272	272	272	272	272
Reserves	5,858	6,613	6,944	7,984	9,274
Net worth	6,130	6,885	7,216	8,256	9,546
Debt	1,896	1,587	0	0	0
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	623	970	1,420	1,740	1,909
Total liabilities	8,650	9,443	8,636	9,995	11,455
Fixed Asset	3,251	3,796	3,533	3,366	3,130
Investments	12	11	11	11	11
Other Non-current Assets	570	929	1,482	2,479	3,154
Net Working Capital	4,520	4,530	2,392	3,043	4,049
Inventories	5,555	7,275	7,042	6,753	7,795
Sundry debtors	4,771	2,546	2,641	3,823	4,927
Loans and Advances	10	13	16	19	22
Sundry creditors	5,408	5,500	6,339	6,180	7,133
Other current liabilities	1,470	726	1,247	1,767	2,017
Cash & equivalents	296	176	1,218	1,097	1,111
Total Assets	8,649	9,443	8,636	9,995	11,455

### Exhibit 9: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	22,413	21,974	16,465	23,254	26,842
Operating profit	1,638	1,722	1,175	2,209	2,657
Depreciation	442	563	755	847	957
Interest expense	27	50	136	95	85
Other income	154	82	79	122	110
Profit before tax	1,324	1,191	363	1,389	1,725
Taxes	464	348	103	350	434
Minorities and other	-	-	-	-	-
Adj. profit	859	843	260	1,039	1,291
Exceptional items	-	8	(71)	-	-
Net profit	859	835	331	1,039	1,291

## Exhibit 10: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,351	1,241	499	1,484	1,810
Depreciation	442	563	755	847	957
Tax paid	(464)	(348)	(103)	(350)	(434)
Working capital Δ	(1,824)	(10)	2,138	(652)	(1,006)
Other operating items					
Operating cashflow	(496)	1,446	3,289	1,330	1,328
Capital expenditure	(1,247)	(1,108)	(492)	(680)	(721)
Free cash flow	(1,743)	338	2,797	650	606
Equity raised	(32)	(31)	-	-	0
Investments	0	1	0	-	-
Debt financing/disposal	1,770	(309)	(1,587)	-	-
Interest paid	(27)	(50)	(136)	(95)	(85)
Dividends paid	(49)	(49)	-	-	-
Net Δ in cash	(59)	(119)	1,042	(121)	14

## Exhibit 11: Du-pont analysis

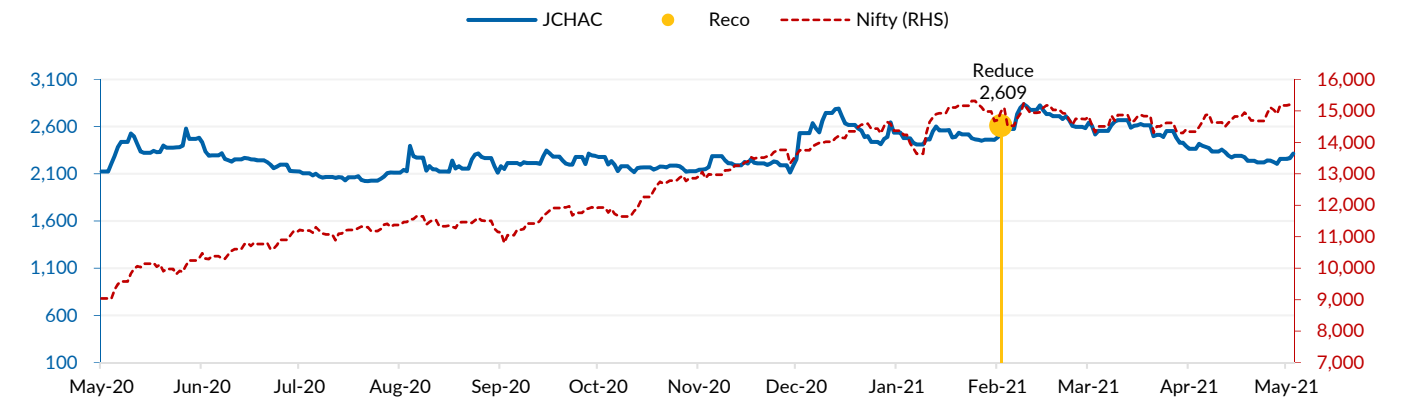
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.65	0.71	0.72	0.75	0.75
Interest burden (x)	0.98	0.96	0.73	0.94	0.95
EBIT margin (x)	0.06	0.06	0.03	0.06	0.07
Asset turnover (x)	1.59	1.39	1.02	1.34	1.37
Financial leverage (x)	2.46	2.42	2.29	2.24	2.20
RoE (%)	15.0	13.0	3.7	13.4	14.5

## Exhibit 12: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	3	(2)	(25.1)	41.2	15.4
Op profit growth	(18)	5	(31.8)	88.1	20.3
EBIT growth	(12)	(8)	(59.8)	197.5	22.0
Net profit growth	(14)	(2)	(69.2)	299.9	24.2
<b>Profitability ratios (%)</b>					
OPM	7.3	7.8	7.1	9.5	9.9
EBIT margin	6.0	5.6	3.0	6.4	6.7
Net profit margin	3.8	3.8	1.6	4.5	4.8
RoCE	20.0	15.0	6.4	19.2	20.3
RoNW	15.0	13.0	3.7	13.4	14.5
RoA	6.1	5.3	1.6	6.0	6.6
<b>Per share ratios</b>					
EPS	31.6	30.7	12.2	38.2	47.5
Dividend per share	1.8	1.5	-	-	-
Cash EPS	47.8	51.7	37.3	69.4	82.7
Book value per share	225.4	253.2	265.4	303.6	351.1
<b>Valuation ratios</b>					
P/E	73.2	75.3	190.0	60.5	48.7
P/CEPS	48.3	45.0	57.9	33.3	28.0
P/B	10.3	9.1	8.7	7.6	6.6
EV/EBIDTA	39.4	37.3	52.5	28.0	23.2
<b>Payout (%)</b>					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	6	6	-	-	-
Tax payout	35	29	28.4	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	78	42	58.5	60.0	67.0
Inventory days	90	121	156.1	106.0	106.0
Creditor days	88.1	91.4	140.5	97.0	97.0

**Recommendation tracker**



Source: Company, YES Sec – Research

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