Hitachi Home & Life Solutions

Performance Highlights

Y/E March (₹ cr)	2QFY2016	1QFY2014	% chg (yoy)	4QFY2014	% chg (qoq)
Net sales	**251**	**254**	***(1.2)***	**709**	***(64.6)***
EBITDA	(5)	16.3	*(128.0)*	87	*(105.3)*
EBITDA margin (%)	*(1.8)*	*6.4*	*(822)bp*	*12.2*	*(1402)bp*
Reported PAT	**(10.7)**	**9.1**	***(218.1)***	**46.5**	***(123.1)***

Source: Company, Angel Research

Hitachi Home & Life Solutions (India) Ltd (HHLS) reported a disappointing set of numbers for 2QFY2016. Although the decline in the top-line is of 1.2% on a yoy basis to ₹251cr, but the same is far lower than our expectation of ₹320cr. HHLS reported an EBITDA loss of ₹4.5cr for the quarter as against a positive EBITDA of ₹16.3cr in the same quarter last year. A jump of 387bp yoy and 398bp yoy in raw material cost and other expenses as a percentage of sales, respectively, led to an 822bp yoy decline in the EBITDA margin. As a result, HHLS reported a net loss of ₹10.7cr for the quarter as against a net profit of ₹9.1cr in the corresponding quarter of the previous year.

Favorable outlook for the room AC (RAC) segment to support growth: The domestic economy is now expected to improve, after having witnessed a phase of lackluster growth in the past few years. We believe that steady economic growth will lead to higher disposable incomes in the hands of the consumers, thus triggering higher demand for room ACs. Also the company will benefit from the improved demand from the commercial/institutional clients for its ductable ACs.

Strong technological support from parent: HHLS has been sourcing advanced technology from its Japanese parent which has enabled it to launch superior products in the Indian market. "Hitachi" enjoys a strong brand pull, which has helped the company to steadily grow its market share in India. As per HHLS, their market share in the room AC segment has improved from a mere 5.3% in FY2009 to 13.3% in FY2015. We expect the company to successfully leverage on both, the technical support and brand strength, to grow in India.

Outlook and valuation: We expect HHLS to post a 15.0% CAGR in revenue over FY2015-17E to ₹2,081cr. The EBITDA margin is expected to be at 8.8% in FY2017E. PAT is expected to post a CAGR of 8.1% over FY2015-17E to ₹91cr. At the current levels, the stock is trading at a PE of 40.2x its FY2016E earnings which we believe is expensive. **We maintain our Neutral view on the stock.**

Key financials

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E
Net sales	**1,100**	**1,573**	**1,779**	**2,081**
% chg	*18.3*	*43.0*	*13.1*	*17.0*
Net profit	**8**	**78**	**59**	**91**
% chg	*(47.8)*	*866.1*	*(23.8)*	*53.3*
EBITDA margin (%)	5.6	9.0	7.8	8.8
EPS (₹)	**3.0**	**28.6**	**21.8**	**33.4**
P/E (x)	454.5	47.0	61.7	40.2
P/BV (x)	15.2	11.7	10.0	8.1
RoE (%)	3.4	28.1	17.4	22.1
RoCE (%)	7.7	24.0	19.0	24.0
EV/Sales (x)	3.4	2.4	2.1	1.8
EV/EBITDA (x)	61.6	26.8	27.2	20.3

Source: Company, Angel Research

NEUTRAL

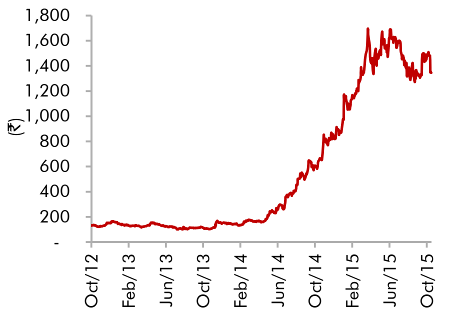
CMP	₹1,346
Target Price	-
Investment Period	-

Stock Info	
Sector	Cons. Durable
Market Cap (₹ cr)	3,659
Net Debt	134
Beta	1.1
52 Week High / Low	1,745 / 551
Avg. Daily Volume	25,009
Face Value (₹)	10
BSE Sensex	26,657
Nifty	8,066
Reuters Code	HITA.NS
Bloomberg Code	HTHL IN

Shareholding Pattern (%)	
Promoters	74.3
MF / Banks / Indian FIs	7.6
FII / NRIs / OCBs	1.5
Indian Public / Others	16.7

Abs.(%)	3m	1yr	3yr
Sensex	(2.6)	(1.0)	44.0
HHLS	(8.7)	123.7	922.4

3 Year Price Chart



Milan Desai
+91- 22- 4000 3600 Ext: 6846
milan.desai@angelbroking.com

Exhibit 1: 2QFY2016 performance

Y/E March (₹ cr)	2QFY16	2QFY15	*yoy chg (%)*	1QFY15	*qoq chg (%)*	1HFY16	1HFY15	*% chg*
Net Sales	251	254	*(1.2)*	709	*(64.6)*	959	854	*12.3*
Net raw material	159	151	*5.2*	445	*(64.2)*	604	529	*14.2*
(% of Sales)	*63.5*	*59.7*	*387bp*	*62.8*		*63.0*	*61.9*	
Staff Costs	26	25	*2.5*	28	*(9.9)*	54	53	*1.8*
(% of Sales)	*10.2*	*9.8*	*37bp*	*4.0*		*5.6*	*6.2*	
Other Expenses	70	61	*15.1*	149	*(52.7)*	219	187	*17.2*
(% of Sales)	*28.1*	*24.1*	*398bp*	*21.0*		*22.9*	*21.9*	
Total Expenditure	255	237	*7.4*	622	*(59.0)*	877	769	*14.1*
EBITDA	(5)	16	*(128.0)*	87	*(105.3)*	82	85	*(3.4)*
EBITDA margin (%)	*(1.8)*	*6.4*	*(822)bp*	*12.2*	*(1402)bp*	*8.5*	*9.9*	*(139)bp*
Interest (incl. forex losses)	3	3	*2.2*	6	*(54.8)*	9	5	*86.8*
Depreciation	10	8	*28.4*	11	*(7.0)*	22	16	*36.0*
Other Income	0	3	*(85.2)*	0	*11.0*	1	4	*(82.8)*
PBT	(17)	8	*(316.3)*	70	*(124.9)*	52	68	*(23.6)*
(% of Sales)	*(6.9)*	*3.2*		*9.8*		*5.4*	*8.0*	
Tax	(7)	(1)	*525.0*	23	*(128.7)*	16	16	*0.8*
(% of PBT)	*38.2*	*(13.2)*		*33.2*		*31.5*	*23.9*	
Reported PAT	(11)	9	*(218.1)*	47	*(123.1)*	36	52	*(31.3)*
PATM	*(4.3)*	*3.6*		*6.6*		*3.7*	*6.1*	
Equity capital (cr)	23	23		23		23	23	
EPS (₹)	(4.7)	4.0	*(218.1)*	20.3	*(123.1)*	15.6	22.7	*(31.3)*

Source: Company, Angel Research

Exhibit 2: 2QFY2016 – Actual vs. Angel estimates

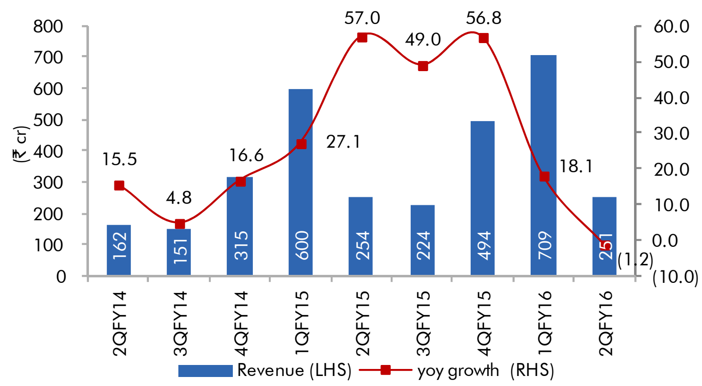
(₹ cr)	Actual	Estimate	*Variation (%)*
Net Sales	251	320	*(21.6)*
EBITDA	(4.5)	20.8	*(121.9)*
EBIDTA margin (%)	*(1.8)*	*6.5*	*(831)bp*
Adjusted PAT	(11)	6	*(267.5)*

Source: Company, Angel Research

Top-line disappoints; loss at EBITDA level

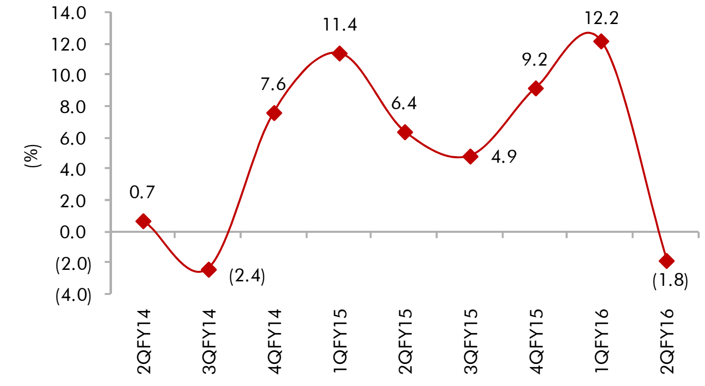
The top-line for 2QFY2016 declined by 1.2% yoy to ₹251cr, which is far below our expectation of ₹320cr. Industry reports suggest the room AC segment grew by ~5% in value terms during the quarter. HHLS's operating expenses during the quarter increased by 7.4% on a yoy basis to ₹255cr, resulting in an EBITDA loss of ₹5cr. The loss was due to a 387bp yoy increase in raw material costs as a percentage of sales to 63.5%, and 398bp yoy increase in other expenses as a percentage of sales to 28%. Employee expense grew by a marginal 37bp yoy to 10.2% of sales. On account of higher depreciation and lower other income, the company reported a net loss of ₹11cr while we had estimated a net profit of ₹6cr for the quarter.

Exhibit 3: Revenue trend



Source: Company, Angel Research

Exhibit 4: EBITDA Margins



Source: Company, Angel Research

Updates on Open offer, Change in parent company

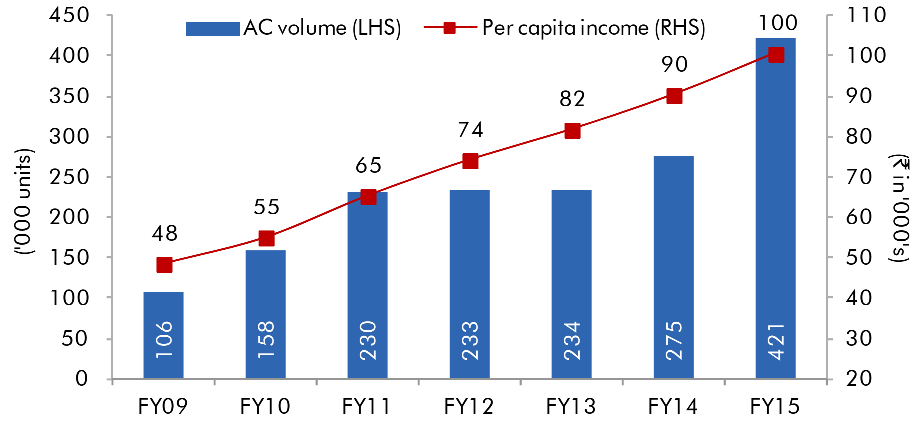
On January 14, 2015, HHLS's parent - Hitachi Appliances, had divested its stake in HHLS to a new proposed JV entity between Johnson Controls and Hitachi. Johnson Controls would own 60% and Hitachi would hold the balance 40% in the JV. On January 26, 2015, both the parties jointly made an offer to acquire 25.75% shares in HHLS at ₹821.38/share (against the then prevalent market price of HHLS of ₹1,133). Upon completion of global acquisition on October 1, 2015, Hitachi's share holding in HHLS was transferred to JCHAC India Holdco Ltd which is now being controlled by Johnson Controls-Hitachi Air Conditioning Holding (UK) Ltd (the global joint venture between the Hitachi group and Johnson Controls). The follow-up open offer was made on October 9, 2015 at ₹880.12/share.

Investment rationale

Favorable outlook for the RAC industry

With an imminent improvement in economic conditions, the disposable income levels of consumers in India are expected to improve, going forward. As per IMF estimates, the per capita income in India grew at a 11.7% CAGR over FY2009-15 to ₹1,00,463 in FY2015 while HHLS' room AC sales volume posted a 25.8% CAGR over the same period. We believe that the expected improvement in disposable incomes augurs well for HHLS' room AC sales, going forward. Moreover, industry reports suggest that the penetration levels of room ACs in India are lower compared to most developed and developing markets.

Exhibit 5: RAC sales volume for HHLS vs per capita income



Source: IMF, Angel Research

Apart from its premium range of products, the company has also diversified into the low-priced AC segment. In order to widen its reach in tier II & tier III cities, the company has expanded its distribution network to more than 4,000 outlets. Since tier-II and tier-III cities are expected to be the major contributors to the growth in the consumer durables segment going forward, revenue contribution from these segments would add to the company's top-line growth.

Strong technological support from parent

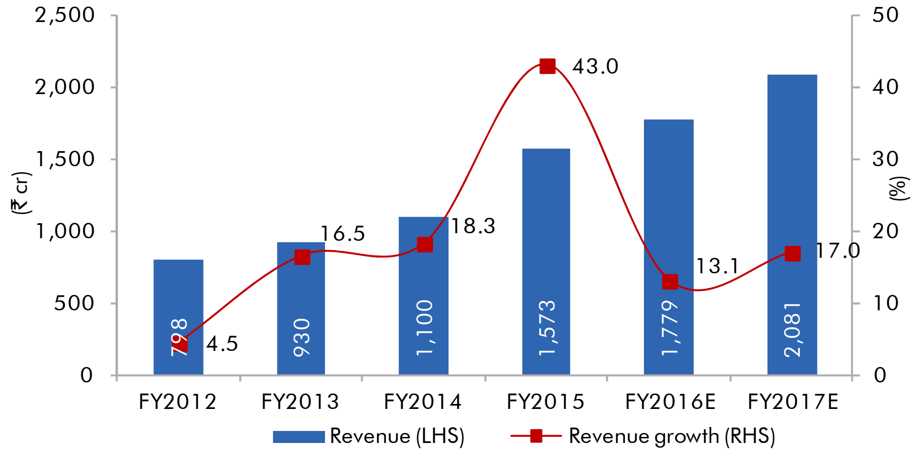
HHLS has been sourcing superior technology from its Japanese parent which has enabled it to create a strong presence in the room AC segment. HHLS continues to leverage on its strong parental roots in terms of R&D to launch superior products for the Indian market. This association and the brand pull have helped the company in steadily growing its market share in India. As per HHLS, its market share in the RAC segment has improved from mere 5.3% in FY2009 to 13.3% in FY2015.

Financials

Revenue to grow at a CAGR of 15.0% over FY2015-17E

The company's room AC segment has grown at more than twice the industry growth rate over the last five years. We expect HHLS' revenue to grow at a CAGR of 15.0% over FY2015-17E to ₹2,081cr in FY2017E.

Exhibit 6: Revenue growth to be at 15.0% CAGR

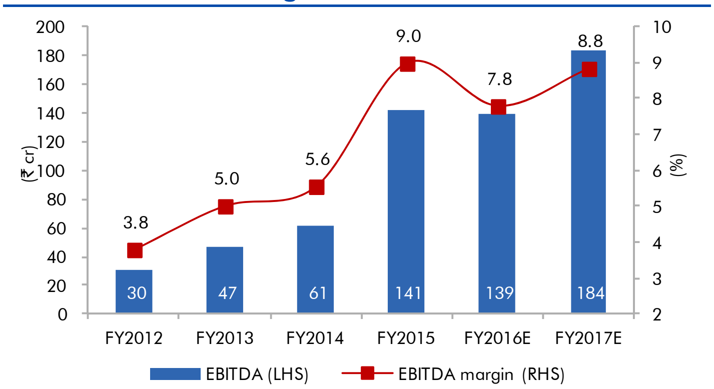


Source: Company, Angel Research

EBITDA margins to consolidate at 8.8%

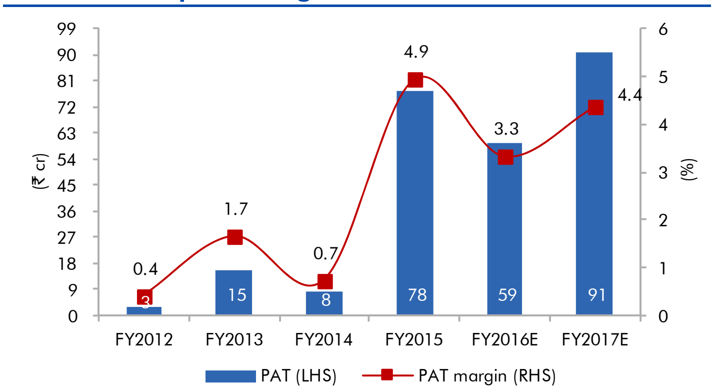
HHLS has relocated the manufacturing facilities in Jammu to its main plant at Kadi, Gujarat in order to centralise the production activity. With an exception of the current quarter, the benefits of this move are evident in the company's operating performance in the past few quarters. With improvement in volumes, we expect the EBITDA margin to be at 8.8% and net profit to be at ₹91cr in FY2017E.

Exhibit 7: EBITDA margin trend



Source: Company, Angel Research

Exhibit 8: Net profit margin trend

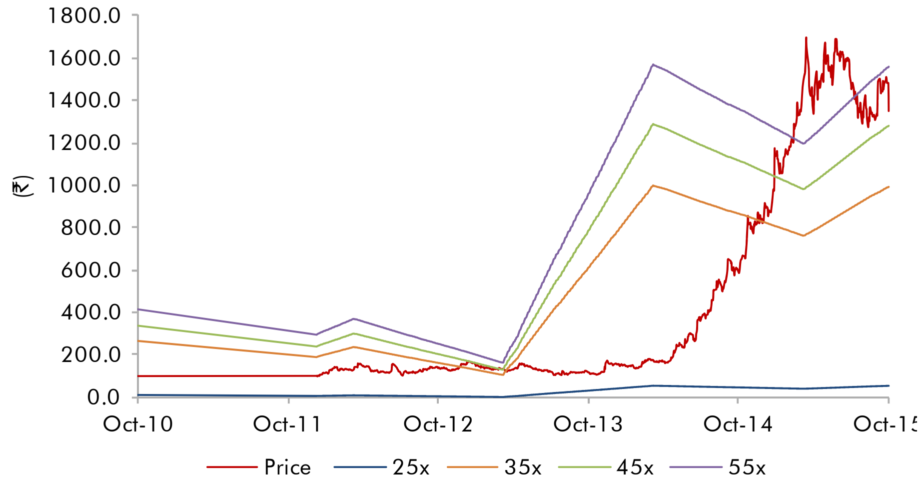


Source: Company, Angel Research

Outlook and valuation

We expect HHLS to post a 15.0% CAGR in revenue over FY2015-17E. The EBITDA margin is expected to be at 8.8% in FY2017E. PAT is expected to post a CAGR of 8.1% over FY2015-17E to ₹91cr. At the current levels, the stock is trading at a PE of 40.2x its FY2016E earnings, which we believe is expensive. **We maintain our Neutral view on the stock.**

Exhibit 9: One-year forward PE band



Source: Company, Angel Research

Exhibit 10: Relative valuation

	Year end	Sales (₹ cr)	OPM (%)	PAT (₹ cr)	EPS (₹)	ROE (%)	P/E (x)	P/BV (x)	EV/EBITDA (x)	EV/Sales (x)
HHLS	**FY2017E**	**2,081**	**8.8**	**91**	**33.4**	**22.1**	**40.2**	**8.1**	**20.3**	**1.8**
Blue Star	FY2017E	4,196	6.1	140	15.5	26.0	25.4	6.1	14.9	0.9
Voltas	FY2017E	6,413	8.9	463	14.1	18.0	20.2	3.4	15.4	1.3

Source: Angel Research, Bloomberg

Company Background

HHLS is part of a global joint venture between Johnson Controls of USA and Hitachi Ltd. HHLS was transferred into a global joint venture between Johnson Controls and Hitachi Air Conditioning Holding (UK) Ltd with the latter controlling HHLS indirectly. Johnson Controls indirectly holds 60% in HHLS while Hitachi Ltd owns the balance.

HHLS manufactures and sells ACs and is engaged in the trading of refrigerators, washing machines and chillers. The company's manufacturing capacity at Gujarat has an installed capacity of of 2,30,000 units per annum. The company's air conditioners segment includes home ACs, commercial/ductable ACs and telecom ACs. The company operates in the mass premium segment.

Profit & Loss Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Gross sales	1,019	1,199	1,707	1,941	2,275
Less: Excise duty	89	100	134	162	194
Net Sales	930	1,100	1,573	1,779	2,081
Total operating income	930	1,100	1,573	1,779	2,081
% chg	*16.5*	*18.3*	*43.0*	*13.1*	*17.0*
Net Raw Materials	603	697	960	1,118	1,297
Personnel	65	82	114	123	141
Other	216	260	358	399	459
Total Expenditure	883	1,039	1,432	1,640	1,897
EBITDA	47	61	141	139	184
% chg	*53.8*	*31.1*	*131.3*	*(1.9)*	*32.7*
(% of Net Sales)	*5.0*	*5.6*	*9.0*	*7.8*	*8.8*
Depreciation	20	30	36	41	45
EBIT	26	31	105	97	139
% chg	*120.6*	*17.6*	*239.4*	*(7.5)*	*42.3*
(% of Net Sales)	*2.8*	*2.8*	*6.7*	*5.5*	*6.7*
Interest (incl. forex loss on ECB)	7	25	11	15	11
Other Income	2	6	7	4	6
(% of Net sales)	*0.2*	*0.5*	*0.5*	*0.2*	*0.3*
PBT	21	11	101	87	134
% change	*640.4*	*(45.5)*	*791.9*	*(13.7)*	*53.3*
Tax	5	3	23	28	43
(% of PBT)	*25.7*	*28.9*	*23.0*	*32.0*	*32.0*
PAT (reported)	15	8	78	59	91
Extraordinary (Exp.)/Inc.	0	-	-	-	-
ADJ. PAT	15	8	78	59	91
% chg	*371.7*	*(47.8)*	*866.1*	*(23.8)*	*53.3*
(% of Net Sales)	*1.7*	*0.7*	*4.9*	*3.3*	*4.4*
Basic EPS (₹)	6.7	3.0	28.6	21.8	33.4
Adjusted EPS (₹)	6.7	3.0	28.6	21.8	33.4
% chg	*371.7*	*(47.8)*	*866.1*	*(23.8)*	*53.3*

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
SOURCES OF FUNDS					
Equity Share Capital	23	27	27	27	27
Reserves & Surplus	159	213	286	340	427
Shareholders' Funds	236	240	313	367	454
Total Loans	166	125	140	133	119
Deferred Tax Liability	0	(1)	1	1	1
Other Long Term Liabilities	0	0	0	0	0
Long Term Provisions	14	28	33	37	43
Total Liabilities	416	392	486	538	618
APPLICATION OF FUNDS					
Gross Block	260	305	381	419	461
Less: Acc. Depreciation	82	110	138	179	224
Net Block	178	195	243	240	237
Capital Work-in-Progress	11	2	3	3	3
Goodwill	-	-	-	-	-
Investments	-	-	-	-	-
Long term Loans & adv	18	31	25	28	33
Other non current assets	0	-	-	-	-
Current Assets	625	532	808	883	1,057
Cash	72	22	6	23	51
Loans & Advances	28	29	27	31	36
Inventory	306	290	490	520	609
Debtors	165	188	284	308	361
Other current assets	55	1	1	1	1
Current liabilities	415	368	592	615	712
Net Current Assets	210	164	216	268	346
Misc. Exp. not written off	-	-	-	-	-
Total Assets	416	392	486	538	618

Cash Flow Statement

Y/E March (₹ cr)	FY2013	FY2014	FY2015	FY2016E	FY2017E
Profit before tax	21	11	101	87	134
Depreciation	20	30	36	41	45
Change in Working Capital	(22)	(4)	(69)	(34)	(50)
Other income	56	23	12	(4)	(6)
Direct taxes paid	(8)	(3)	(25)	(28)	(43)
Cash Flow from Operations	**68**	**58**	**55**	**62**	**80**
(Inc.)/Dec. in Fixed Assets	(44)	(37)	(76)	(38)	(42)
(Inc.)/Dec. in Investments	-	-	-	-	-
(Inc.)/Dec. In L.T loans & adv	(1)	(13)	6	(3)	(5)
Balances in current/ credit/ FD	0	20	(20)	-	-
Interest received	2	6	7	4	6
Others	(69)	(28)	12	-	-
Cash Flow from Investing	**(113)**	**(51)**	**(71)**	**(37)**	**(41)**
Issue of Equity	-	-	-	-	-
Inc./(Dec.) in loans	67	(41)	15	(7)	(13)
Inc. /(Dec.) in long term provision	3	14	5	4	6
Dividend Paid (Incl. Tax)	(5)	(5)	(5)	(5)	(4)
Others	49	(24)	(14)	-	-
Cash Flow from Financing	**114**	**(56)**	**0**	**(8)**	**(11)**
Inc./(Dec.) in Cash	69	(50)	(16)	17	29
Opening Cash balances	**3**	**72**	**22**	**6**	**23**
Closing Cash balances	**72**	**22**	**6**	**23**	**51**

Key Ratios

Y/E March	FY2013	FY2014	FY2015	FY2016E	FY2017E
Valuation Ratio (x)					
P/E (on FDEPS)	237.2	454.5	47.0	61.7	40.2
P/CEPS	102.8	96.1	32.2	36.5	26.9
P/BV	15.5	15.2	11.7	10.0	8.1
Dividend yield (%)	0.1	0.0	0.0	0.0	0.0
EV/Sales	4.0	3.4	2.4	2.1	1.8
EV/EBITDA	80.6	61.6	26.8	27.2	20.3
EV / Total Assets	10.4	9.6	7.8	7.0	6.0
Per Share Data (₹)					
EPS (Basic)	6.7	3.0	28.6	21.8	33.4
EPS (fully diluted)	6.7	3.0	28.6	21.8	33.4
Cash EPS	15.5	14.0	41.8	36.9	50.1
DPS	1.8	1.5	1.5	1.5	1.5
Book Value	103.0	88.3	115.1	135.1	167.0
Dupont Analysis					
EBIT margin	2.8	2.8	6.7	5.5	6.7
Tax retention ratio	0.7	0.7	0.8	0.7	0.7
Asset turnover (x)	3.3	3.0	3.3	3.5	3.7
ROIC (Post-tax)	7.0	6.0	17.0	12.9	16.7
Cost of Debt (Post Tax)	3.2	14.5	6.3	7.5	6.3
Leverage (x)	0.4	0.4	0.4	0.3	0.1
Operating ROE	8.6	2.4	21.5	14.5	18.3
Returns (%)					
ROCE (Pre-tax)	8.3	7.7	24.0	19.0	24.0
Angel ROIC (Pre-tax)	9.8	9.8	24.9	19.7	25.8
ROE	7.6	3.4	28.1	17.4	22.1
Turnover ratios (x)					
Asset Turnover	3.6	3.6	4.1	4.2	4.5
Inventory / Sales (days)	113	99	91	104	99
Receivables (days)	61	63	66	63	63
Payables (days)	151	138	122	137	137
WC (ex-cash) (days)	39	43	41	47	47
Solvency ratios (x)					
Net debt to equity	0.4	0.4	0.4	0.3	0.1
Net debt to EBITDA	2.0	1.7	0.9	0.8	0.4
Interest Coverage	3.7	1.2	9.2	6.7	12.5

Research Team Tel: 022 - 39357800 E-mail: research@angelbroking.com Website: www.angelbroking.com

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Pvt. Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement	**HHLS**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):	*Buy (> 15%)*	*Accumulate (5% to 15%)* *Reduce (-5% to -15%)*	*Neutral (-5 to 5%)* *Sell (< -15)*