



# SVS Securities Private Ltd.

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## Hitachi Home & Life Solutions (India)

Rs 124

*Cool scrip in hot weather*

Sensex: 18,450

Nifty: 5,553

### FINANCIAL SUMMARY

	SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEP.	PBT	TOTAL TAX	PAT	EPS (RS) *
1303 (12P)	930.86	5.0	46.96	1.60	48.56	6.24	42.32	18.39	23.93	6.46	17.47	6.3
1203 (12)	798.09	3.7	29.15	0.87	30.02	8.91	21.11	18.32	2.79	-0.47	3.26	1.2
1103 (12)	764.01	7.7	58.69	4.67	63.36	7.37	55.99	16.05	39.94	10.61	29.33	10.6
1003 (12)	688.09	8.8	60.61	9.70	70.31	1.51	68.80	11.78	57.02	10.88	46.14	16.7
0903 (3)	522.64	6.5	33.76	3.62	37.38	2.67	34.71	7.99	26.72	5.65	21.07	7.6

\* On post rights equity of Rs 27.55 crore; Face value of Rs 10 each. (P): Projections. Figures in Rs crore. Source: Capitaline Databases

Hitachi Home & Life Solutions (India) Ltd (HHLISIL) is a 69.90% subsidiary of Hitachi Appliance Inc, Japan. HHLI manufactures various kinds of Room Air-conditioners, Commercial Air-conditioners, Chillers and is also into trading of VRF Systems, Rooftops and Refrigerators.

It has a strong nationwide distribution consisting of 5 regional offices, 21 branch offices and over 200 exclusive sales and service dealers and over 2000 sales points 33 company owned service centres (HCS) and 600 other service points including multi brand S&S and franchisees. HHLISIL also has a company owned and operated 24x7 customer care centre.

#### Strong parent

Hitachi Home & Life Solutions, Inc. controls 69.90% equity in HHLISIL.

At the global level, parent company Hitachi Home and Life Solutions Inc., Japan and another Hitachi Company namely the Hitachi Air-conditioning Systems Company Ltd., Japan merged effective from April 1, 2006. While Hitachi Home & Life Solutions Inc., Japan was basically concentrated on the Consumer Electronics and Appliances; Hitachi Air-conditioning Systems Company Ltd. is a leader in AC industry specifically in Ductables and Chillers. Hence the merger offers HHLISIL with the possibility of taking the best from both the arms. While HHLISIL will continue to get support in terms of new products in Home Appliances category, it also has additional knowledge base in its parent company of Commercial Air-conditioning business. The company thus stands to benefit from this increased knowledge base and support.

#### One of the top high-end A/C companies

With total installed capacity of 230,000 units a year, HHLISIL is amongst the top AC companies in India focused on high-end airconditioners charging a premium over the competitors. Apart from Home Air Conditioners and Commercial Air Conditioners, it has established its presence in Refrigerators and Washing Machines, DVD recorders and video gadgets.

#### Aims at larger market share in the near future

The home appliances industry (only Air conditioners and Refrigerators) is estimated to be around Rs 14650 crore. Room Air conditioners contribute to around Rs 6300 crore and Refrigerators contribute Rs 8350 crore.

The demand of Split Air conditioners is continuously increasing and the price gap between a Window and a Split Air conditioner has shrunk in recent years. Today,



### STOCK DATA

BSE Code	:	523398
BSE Group	:	B
NSE Code	:	HITACHIOM
Bloomberg	:	HTHL IN
Reuters	:	HITA.BO
Par Value	:	Rs 10
52-week High/Low	:	Rs 172 / Rs 99
Sector	:	Air conditioners

### SHAREHOLDING PATTERN \*

Category	% of equity
Foreign	: 0.32
Institutions	: 1.25
Non Promoter	
Corporate Holding	: 8.56
Promoters	: 69.9
Public & Others	: 19.97
Totals	: 100

\* as on 31<sup>st</sup> December 2012  
Source: Capitaline Databases



the Split Air conditioners contribute to more than 74% of Room Air conditioner market.

In the Room Air conditioner category it has about 8% market share in terms of sales volume. It is aiming to capture 10% market in terms of sales volume which will translate into 12% in value terms. The company has expanded its network and is present in more than 300 towns with approx. 2000 sales points.

The company plans to launch exclusive Air conditioner models to each Distribution Channel i.e. Direct Dealer network, Distributor network, Modern Trade, Construction industry and Institutions.

The company has the mass-premium Air conditioner range, called 'Kaze' in the Split and the Window Air conditioners segment. The 'Kaze' range will help the company to reach the middle level income group who want a quality product and at the same time Value for their money.

A range of Split Air conditioner models, called 'Sugoi' and 'Kampa' were launched exclusively for distribution network to widen the Air conditioner range and spread the availability across the country. The company has also launched its popular Split Air conditioner models 'ACE Followme', 'ACE Cutout' and 'i-Tec' with refreshing looks.

Presently, the company's Split Air conditioners range comprises of 38 models, with capacities ranging from 1.0 Tr. to 3.5 Tr. The Window Air conditioners range includes 17 models within 1.0 Tr. to 2.0 Tr. capacities.

**Air conditions are no more unaffordable**

Products that were once beyond the reach of the middle class Indian are now affordable to many. From a luxury item image, Air conditioners are now treated as a necessity. The reduction of the price gap between the Split Air conditioner and Window Air conditioner has fuelled the growth of the Split Air conditioner segment.

Room Air conditioner penetration in India is still around 3% only. Middle income level population is growing; their average income levels and aspirations are rising. Retailers are marketing their goods more aggressively by providing easy financing options to the consumers by partnering with banks.

**Increasing share of organised retail to boost sales**

While there are established distribution networks in both rural and urban India, the presence of well-known brands and organized sector is increasing. Shopping malls are becoming increasingly common not only in Indian cities but also many towns.

This will have a positive impact on the consumer durables industry, as organised retailing would not only streamline the supply chain, but also facilitate increased demand, especially for high-end and branded products.

**Cool performance**

For the quarter ended December 2012, sales jumped 34% to Rs 143.71 crore. OPM improved from -7.1% to -2.5% which saw loss at the OP level falling 53% to Rs 3.56 crore.

Loss at the PBT level was lesser by 33% to Rs 9.29 crore and loss at the net profit level stood at Rs 6.39 crore against Rs 9.95 crore (up 36%).

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For the nine months ended December 2012, sales grew 17% to Rs 659.63 crore. OPM improved from 2.2% to 4.0% which saw OP growing 94% to Rs 26.35 crore.

PBT stood at Rs 10.10 crore against a loss of Rs 5.68 crore and net profit stood at Rs 7.51 crore against a loss of Rs 4.10 crore.

**Rights issue**

The company will offer 4599882 shares of Rs 10 each (issue price of Rs 130) on a rights basis to its existing shareholders aggregating to Rs 59.80 crore. The ratio has been fixed at 1:5 (1 share for every 5 shares held).

The record date for the company's rights issue was 6 March 2013.

**Rebuilds the entire plant of 35000 square meters in record 165 days**

The company's sales in the first half of current year were adversely affected due to fire at its plant. However the entire plant has been rebuilt and it will accelerate its sales growth going forward.

In January 2013 HHLIL inaugurated its re-constructed air-conditioner manufacturing unit 2 at Kadi (Gujarat) near Ahmedabad. plant was entirely gutted in a major fire incident happened on 18 July 2012.

The facility is spread on a plot of 85000 square meter with approximately 35000 square meter of industrial shed, re-built in a record time of only five & half months. The plant has the capacity to produce 600000 units (230000 units in single shift) per year.

**Strengthening Rupee against the Yen to benefit the company substantially**

In December 2012 quarter, Yen stood at around 1.5 versus the Rupee. Yen has now depreciated to 1.77. Thus importers like HHLIL (more than 50% of raw materials and components are imported, mainly from Japan) whose costing is ultimately linked to yen will get huge benefit.

The company's OPM had crashed from 8.8% in FY 2010 to 3.7% in FY 2012, mainly due to depreciation of rupee against Japanese Yen and forex losses. However due to measures taken by Japan, Yen has seen a vertical fall against US dollar even as rupee has remained largely stable against the US dollar. As a result over the past few months rupee has appreciated almost 20% against Yen. Effectively in March 2013, Rupee may end up 20% against yen not only on q-o-q basis but even on y-o-y basis. This will help the company regain margins significantly.

**Bright outlook**

Room Air Conditioner penetration is very low at approx 3% in the country. It is expected to grow in future.

Middle income level population is growing their average income levels are rising. Smaller towns are showing encouraging growth. These towns are very critical, as the next round of growth will come from them.

From Jan 2012 onwards BEE has made the star rating system more stringent, which means the EER of all star ratings has gone up. Therefore to qualify to be a 5 star Air conditioners the minimum EER is now 3.3, which was 3.1 earlier. Hitachi offers higher EERs in all the models therefore it can easily adopt to the new system.

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The company is set to fully capitalise on rupee appreciation against yen in the upcoming summer season.

### Valuation

In FY 2013, we expect the company to register sales and net profit of Rs 930.86 crore and Rs 17.47 crore. On ex-rights equity of Rs 27.55 crore and face value of Rs 10 per share, EPS works out to Rs 6.3. The share price trades at Rs 124. P/E works out to 19.7.

The next two quarters should prove to be bumper for the company due to substantial benefits of rupee appreciation against yen and recent commissioning of the refurbished plant in the main summer season.

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### HITACHI HOME & LIFE SOLUTIONS (INDIA): RESULTS

	1212 (3)	1112 (3)	VAR. (%)	1212 (9)	1112 (9)	VAR. (%)	1203 (12)	1103 (12)	VAR. (%)
Sales	143.71	107.15	34	659.63	562.24	17	798.09	764.01	4
OPM (%)	-2.5	-7.1		4.0	2.4		3.7	7.7	
OP	-3.56	-7.57	53	26.35	13.60	94	29.15	58.69	-50
Other income	0.26	0.32	-19	1.38	0.67	105	0.87	4.67	-81
PBIDT	-3.30	-7.25	54	27.73	14.27	94	30.02	63.36	-53
Interest	1.66	2.15	-23	4.20	6.36	-34	8.91	7.37	21
PBDT	-4.96	-9.40	47	23.53	7.91	198	21.11	55.99	-62
Dep.	4.33	4.56	-5	13.43	13.59	-1	18.32	16.05	14
PBT	-9.29	-13.96	33	10.10	-5.68	LP	2.79	39.94	-93
Total Tax	-2.90	-4.01	-28	2.59	-1.58	PL	-0.47	10.61	-104
PAT	-6.39	-9.95	36	7.51	-4.10	LP	3.26	29.33	-89
EPS (Rs) *	#	#		#	#		1.2	10.6	

\* On post rights equity of Rs 27.55 crore; Face value of Rs 10 each. (P): Projections PL: Profit to Loss LP: Loss to Profit. Figures in Rs crore. Source: Capitaline Databases

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