

HITACHI HOME AND LIFE SOLUTIONS
CMP: Rs 136
July 19th, 2008
"BUY"

BSE Code	523398
NSE Code	HITACHIHOM

Key Data

Sensex	13635
52 week H/L (Rs)	180/93
July Month H/L (Rs)	138/107
Market Cap (Rs Cr)	312.37
Avg. daily vol. (6m)	19333
Face Value (Rs)	10

Source: Capitaline

Shareholding Pattern (%)

Promoters	69.90
Institution	0.02
Foreign holding	1.69
Non-Promoter Corp. Holding	7.87
Public & Others	20.50

Source: Capitaline

**One-Year Performance:
(Rel. to Sensex)**

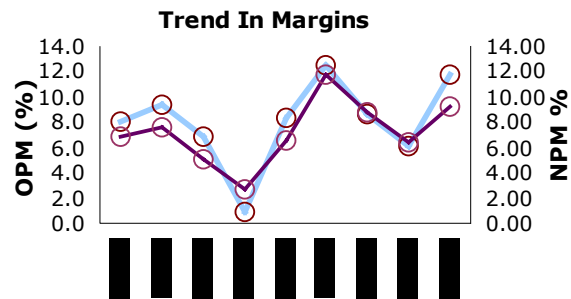

Source: Capitaline

We have recommended Hitachi Home at Rs112 on Thursday (17th July) with a **"Buy"** rating.

BUSINESS & BACKGROUND

Hitachi Home & Life Solutions (India) (HHLI) is a niche player in manufacturing and trading of range of Air conditioners in India and selected markets outside India. While the range of Room Air conditioners and packaged Air conditioners being manufactured in India, the company source the higher end of Air conditioning systems like Chillers, Self Contained Roof Top AC and Set Free from its affiliated companies worldwide. It is also engaged in the business of trading for Refrigerators and Washing Machines.

For FY08 company posted 38% growth in Revenues, favourable product mix and coupled with increase in prices of products to premium segment led to significant increase in margins. We believe the growth trajectory in terms of profitability to continue for atleast over next 1 – 2 years.


Key Investment Positives
Innovative & Technology Based Solutions

The market for air conditioners in India grew by 25% in terms of volumes for 2007-08, which is expected to grow by 23-25% for 2008-09. It will provide a huge opportunity to players like Hitachi with an enriched product portfolio to cater to different preferences of people. The company has adopted innovative technology route by constantly developing and introducing new models along with upgrading existing ones in all categories like in Split Air conditioners segment as ACE (Auto Humidity Control) targeting to the current changing lifestyles.

Moreover, commercial establishments as Retail Chains, IT/ITES sectors, BPOs, Call Centres, Malls comprises of demand for Ductable split ACs wherein company provides line of innovative products as "Takumi" called "Consultants Friendly and Architects Delight" to cater to higher income level segment. The market for this segment is of Rs. 3600 crores and is growing at the rate of 25% annually. Company has grown by 29% in Ductable and 40% in SFC business over last year.

Niche player targeting premium customers by way of Brand Building

Company has been consistently pursuing the brand building activities to ensure premium association with the brand. Company has always been far ahead than the competition in introducing newer concepts and features in air conditioning. Moreover, HHLI is using innovative medium for communications and take initiatives like "World Cinema Film Clubs" to engage with a high-end audience for the slew of premium products.

Diversifying to other Home solutions products

HHLI is also engaged in manufacturing and trading of Refrigerators and Washing machines. Over last two years company has added technologically driven products and constant enrichment of portfolio resulting into higher growth for the company.

More recently, Hitachi Home Electronics Asia, as part of its global launch, introduced ultra thin LCD and plasma televisions to target the burgeoning population of millionaires in the country for the premium offering priced between Rs 83,000 and Rs 1,45,000. Company is planning to spend an initial investment of Rs 10 crore this year to promote the new product category. To better target niche audiences, HHLI is also in advanced talks with Palador Pictures (promoters of World Cinema in India) to jointly set up film clubs, which will promote the category of World Cinema across India in over 30 premium private member clubs and corporate campuses. These clubs will also promote company's Ultra thin plasma televisions and even thinner LCD televisions.

Market Dynamics changing in Favour

Some of the favourable macro factors to push up demand

- Increased disposable income as budget 2008-09 allows increase in the exemption limits of personal income tax, which will lower the effective tax outgo for individuals.
- Also Due to Six Pay commission the affordability level will rise, as salary of government employees will increase

- Consumer Durable component of Index of Industrial Production (IIP) posted a markable growth of above 5% for previous two months as against negative growth for most of the months in FY07. However, the trend in growth of IIP numbers differ from the sales trend of leading household appliances companies, the total weightage given to the four major appliances is just around 16%, which does not represent true picture. Overall the consumer durable segment has been reporting decent growth of above 14%.

Concerns

Rise in input costs of Raw material especially of Aluminium, Copper and Sheet metal can have adverse effect on margins

China is one of the biggest exporters of Air conditioners to India, cheap Chinese products making inroads to India results in price war. However, company being the focused player for niche segment likely to be at lower comparative disadvantage.

Valuation

HHLI with strong parentage and, technology-based solutions is among top players in industry commanding a price premium of 25-40%. With change in business and higher share of commercial Air conditioning HHLI is expected to benefit from high growth in additional segments as infrastructure, telecom, healthcare, power and hospitality. Company is also looking forward to leverage impending boom in cold chain infrastructure. Moreover, Company's plans to enter LCD television market will help to leverage upon existing strengths of parent company. HHLI targets to enjoy more than 50% market share in this niche high-end segment over next three years.

Looking at the valuation with comparable peers, the stock is available at a better valuation in all the parameters. At CMP of Rs136, the stock is trading at 8x its FY08 EPS of Rs18. We recommend "**BUY**" rating on the stock.

Peer Group Comparison:

Particulars	Voltas	Hitachi	Blue Star	Fedders Lloyd	Godrej Consumer
Net Sales	3044.54	446.91	2233.04	348.35	887.59
OPM	8.22	10.36	10.5	8.39	20.85
NPM	6.17	9.45	7.8	5.24	16.69
EPS	5.68	18.4	19.35	5.93	6.56
P/E	22.19	7.39	18.14	7.92	18.3
Market Cap/Sales	1.36	0.62	1.41	0.41	2.71

Financial Highlights

Particulars	FY06	FY07	FY08	Growth (%)
Net Sales	289.1	365.8	505.6	38.2
Total Expenses	246.0	310.2	407.9	
Operating Profit	23.2	30.0	56.7	89.1
Other Income	5.2	6.2	10.7	
Interest	2.9	3.2	2.2	
Depreciation	4.6	4.5	7.6	
PBT	15.7	22.2	46.9	111.0
Tax	0.8	2.9	4.6	
PAT	14.9	19.3	42.3	118.7
Extraordinary item	-0.7	-0.1	-	
Adjusted PAT	15.6	19.4	42.3	117.3
Equity	23.0	23.0	23.0	
EPS	6.8	8.5	18.4	
Margin (%)				
OPM	8.03	8.19	11.21	
NPM	5.38	5.32	8.36	

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RATING INTERPRETATION

Buy Expected to appreciate more than 20% over a 12-month period
Accumulate Expected to appreciate up to 20% over a 12-month period
Hold Expected to remain in a narrow range
Avoid Expected to depreciate up to 10% over a 12-month period
Exit Expected to depreciate more than 10% over a 12-month period

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