GEOJIT

RETAIL EQUITY RESEARCH

Symphony Ltd.

Consumer Electronics

BSE CODE: 517385 **NSE CODE:** SYMPHONY
Bloomberg CODE: SYML:IN **SENSEX:** 31,771

BUY

Rating as per Mid Cap 12 Month investment period

CMP Rs. 1,234 **TARGET** Rs. 1,418 **RETURN** 15%

17th August 2017

Product differentiation – a key competitive moat

Established in 1988, Symphony is a leading air cooler manufacturing company in India. The company provides a wide range of air coolers for residential, commercial and industrial use.

- Symphony is the largest air cooler manufacturer with a market share of ~50% in the organised market in India, a testimony of its strong brand equity.
- Symphony enjoys a strong R&D advantage, thereby enabling the company to launch more than 40 new products in the last six years.
- Its asset light business model has enabled the company to sustain its EBITDA margin level above 20% and ROCE above 40% over the years.
- Introduction of premium range of air coolers will prove to be margin accretive in the long run. Hence, we estimate EBITDA margin of 27.6%/ 28% in FY18E/19E.
- Revenue/PAT to grow at 20%/22% CAGR over FY17-19E due to uptick in volume growth.
- We value the stock at 40x FY19E EPS arriving at a target price (TP) of Rs. 1,418.

Symphony is well placed to benefit from shift towards organized segment

Domestic air cooler segment is largely fragmented with about 70-80% of sales accounted for by the unorganised players. The implementation of GST will provide a level playing field to the organised players in the industry. This will lead to shift in demand from the unorganised to the branded products. Symphony, being the largest air cooler manufacturer with a market of share of ~50% in the organised market in India coupled with consistent innovation will stand to benefit from this shift.

A debt free asset light business model

The company has maintained a healthy balance sheet over the years given huge cash flow from operations and zero debt on its books. Further Symphony's asset light business model (wherein the company outsources 100% of its domestic production to OEMs) has enabled the company to sustain its EBITDA margin level above 20% and ROCE above 40% over the years. Further, we expect the cashflows to strengthen going ahead led by strong profitability (cumulative operating cash flows above Rs300cr over FY17-19E) and minimal capex & working capital requirement. The robust balance sheet provides Symphony the financial flexibility to leverage any future growth opportunities.

Innovation: A key growth strategy for Symphony

Consistent innovation remains the key mantra of growth for Symphony. Its strong R&D has enabled the company to launch more than 40 new products in the last six years (10 new products launched in FY17). Thus, the company has a broad-based product portfolio catering to the requirement of different set of customers. Further, the product differentiation strategy has enabled the company in building a strong brand equity and provides a key competitive edge over peers.

Robust distribution network

Over the years the company has strengthened its distribution network supported by its robust product portfolio. Currently, the company has more than 30,000 retailers and over 1,000 distributors spread across the country. This has helped the company in bolstering its market share. The company is further looking to expand its reach in the growing rural market. In FY17, the company appointed exclusive rural India dealers to drive its growth. Currently the company is present across 4,500 centres in rural India as compared to 4,000 in FY16. Further the company is aggressively expanding its presence in the modern trade through large format stores, retail chains, e-commerce portals and TV shopping channels.

Valuations:

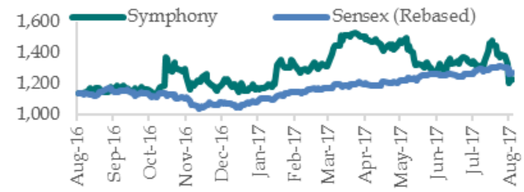
Symphony's leadership position and consistent new product launches lend strong revenue growth visibility. As a result, we expect consolidated revenue/PAT to grow at a CAGR of 20%/22% over FY17-19E. The stock currently trades at 41.9x/34.8x FY18E/19E EPS. We value the stock at 40x FY19E EPS arriving at a target price (TP) of Rs. 1,418.

Company Data	
Market Cap (cr)	Rs. 8,631
Enterprise Value (cr)	Rs. 8,422
Outstanding Shares (cr)	7.0
Free Float	25%
Dividend Yield	0.3%
52 week high	Rs. 1,571
52 week low	Rs. 1,075
6m average volume (lacs)	0.5
Beta	0.3
Face value	Rs2

Shareholding (%)	Q3 FY17	Q4 FY17	Q1 FY18
Promoters	75.0	75.0	75.0
FII's	6.3	6.6	6.8
MFs/Insti	6.3	6.1	6.1
Public	6.5	6.5	6.4
Others	5.9	5.8	5.7
Total	100.0	100.0	100.0

Price Performance	3mth	6mth	1 Year
Absolute Return	(17%)	(3%)	9%
Absolute Sensex	4%	12%	13%
Relative Return*	(21%)	(15%)	(4%)

*over or under performance to benchmark index

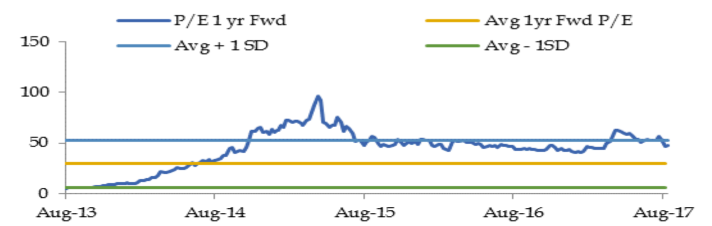


Y.E Mar (Rs cr)	FY17	FY18E	FY19E
Sales	768	915	1,109
Growth (%)	72.4	19.2	21.2
EBITDA	198	253	311
EBITDA Margins %	25.7	27.6	28.0
PAT Adj.	166	206	248
Growth (%)	54.6	24.3	20.5
Adj.EPS	23.7	29.4	35.4
Growth (%)	54.6	24.3	20.5
P/E	52.1	41.9	34.8
P/B	18.8	13.7	10.3
EV/EBITDA	43.5	34.0	27.6
ROE (%)	42.6	37.8	33.7
D/E	0.0	0.0	0.0

Valuations

Currently, Symphony is trading at a PE multiple of 42x FY18E and 35x FY19E earnings, which is above its historical average (last 5yr Avg. 1yr Fwd. P/E ~34x). Notably, the stock has re-rated over the last few years owing to a) consistent focus on new product launches leading to robust 50% market share in the organised air cooler market in India, b) building capability in industrial & commercial air cooling solutions through acquisitions and c) high brand recall. Furthermore, Symphony boasts of a strong balance sheet with healthy free cash flows, superior return ratios with RoEs in excess of 30% and zero debt on its books. This will act as a catalyst in leveraging any future growth opportunities. Hence, we assign a target multiple of 40x to FY19E EPS of Rs. 35.4 which is above its historical average and arrive at a target price of Rs. 1,418.

1 Yr fwd P/E band



Peer comparison

Company	Sales (cr)			EBITDA Margin %		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Symphony	768	915	1,109	25.7	27.6	28.0
Whirlpool	3,941	4,550	5,284	12.4	12.4	12.7
IFB	1,741	2,065	2,487	6.3	6.0	8.0

Company	P/E			ROE%		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Symphony	52.1	41.9	34.8	42.6	37.8	33.7
Whirlpool	48.1	37.8	31.2	23.4	23.1	22.8
IFB	85.8	42.6	23.4	11.5	13.0	20.0

Source: Bloomberg, Geojit Research

Investment Rationale

Wide distribution network

The company has a strong distribution network across the country with more than 30,000 retailers and over 1,000 distributors with adequate warehousing infrastructure in all strategic locations. This has helped the company in bolstering its market share. The overall retailer base of the company has almost doubled in last one year. In order to further strengthen its distribution network and to bolster its geographical presence the company is planning to expand its reach in rural India. In FY17, the company appointed exclusive rural India dealers to drive its growth. Currently the company is present across 4,500 centres in rural India as compared to 4,000 in FY16.

Further the company is aggressively expanding its presence in the modern trade through large format stores, retail chains, e-commerce portals and TV shopping channels. Currently, its market share in modern trade is ~60% and it constituted ~16% of the domestic turnover.

Continued focus on new product launches - a key competitive moat

Over the years Symphony has strengthened its leadership position in the air cooler industry by consistently focusing on new product development and innovation. This has not only helped the company in sustaining profitability but has also provided a strong competitive edge over peers (through product differentiation). Symphony introduced more than 30 new models in the last 5 years. Continuing this momentum, the company introduced 10 new models under i-Pure and Touch series during FY17. As a result, the company now offers more than 40 models of air coolers in the domestic market with a variety of features. The i-pure technology comes with multi-stage air purification filters which removes smell, dust and allergy particles. It has also launched next generation - Touch range of air coolers with cutting edge features like touch screen, voice assist, mosquito repellent, electronic humidity control and removable water tank.

Company's leadership position and product differentiation capabilities (through new product launches) will further widen market share with competitors going ahead.

Consistent innovations over the years

1988 Marketed the first branded plastic air cooler in India that resembled an air-conditioner	**1994** Introduced an air cooler with remote control	**2000** Unveiled e-flow technology for enhanced cooling	**2004** Equipped air coolers with four-side cooling for better performance	**2007** Launched air coolers with Power Saver Technology (PST)	**2009** Marketed Diet coolers with ergonomic design
2012 Unveiled the world's largest portable tower cooler – Storm	**2012** Received recognition from the Government of India for the R&D centre	**2014** Marketed India's first branded window coolers with all-weather composite plastic body	**2015** Introduced the world's first packaged air cooler range	**2016** Introduced, the world's 1st wall mounted cooler – '**Cloud**' and air cooler range with air purification – '**i-Pure**'	**2017** Introduced **Touch Range** with cutting-edge features like Touchscreen, Voice Assist, Mosquito Repellent, etc.

Source: Company, Geojit Research

Growing through inorganic route

In order to further strengthen its presence in the air cooler business, the company acquired Mexico based industrial air cooler company – Impco (2011). Impco specializes in manufacturing large metallic air coolers and provides customised centralised air cooling solutions for industrial use. The acquisition enabled Symphony to enter the centralised air cooling solutions business in India. As a result, Symphony has executed multiple large scale centralised air cooling solution projects across factories, religious institutions, warehouses and railway stations, among others. Further, Symphony leveraged Impco's relationship with large format stores like Wal-Mart, Sears, Home Depot, Lowes and Costco, among others, to sell its residential air coolers.

Strong opportunity in the centralised air cooling solutions

Opportunity and size		
Factories	Universities	The centralised air-conditioning market in India is estimated to be worth Rs. 40,000 million The value of the centralised air cooling market size is undefined (potentially >Rs. 40,000 million) Symphony is the only branded player in this segment
Warehouses	Lecture halls	
Shops and showrooms	Service stations	
Religious institutions	Offices	
Club houses	Poultry and dairy farms	
Residences	Departmental stores	
Lounges	Diesel generator rooms	
Canteens	Laundry	
Guest houses	Kitchens	
Banquet halls	Malls	

Source: Company, Geojit Research

….recovery in Impco aided by asset light model

To improve Impco's performance, the company is focusing on asset & capital light business model in line with Symphony's asset-light business model (wherein the manufacturing will be outsourced to third parties). As a result, Symphony has now completely turned around the performance of Impco and the subsidiary has turned profitable at the PAT level in FY17 apart from becoming debt free. Further Symphony is planning to monetise its real estate to fund its capex and R&D requirement. This will aid IMPCO to completely focus on sales, marketing & R&D and will further improve its profitability.

Foray into Chinese market with the acquisition of GSK

China is the world's second largest cooler market after India. In order to exploit growth opportunities in this region, the company acquired China's leading air cooler and one of the largest industrial coolers brand - Munters Keruilai Air Treatment Equipment (Guangdong) Co. Ltd. (MKE), China (now known as Guangdong Symphony Keruilai Air Coolers Co., Ltd, China) (GSK) in January 2016.

The acquisition has not only provided Symphony a deeper access to Chinese market but also facilitated access to ASEAN region as China enjoys Free Trade Agreements with most ASEAN countries. This will also provide advantage in terms of sourcing of raw materials for Symphony. Besides GSK has a strong R&D expertise which meets international quality standards. Post the acquisition the company has managed to bring down its losses significantly at the net level (from Rs20cr in 2015 to Rs11cr), thus displaying Symphony's strength of successfully integrating and aligning the operations. However, GSK's sales declined by 20% to Rs44cr in CY16 as the company exited unprofitable products and customers. We expect GSK to breakeven in the near future as Symphony is planning to launch some of its own brands in China under the local brand – Kerulilai. As a result, this will provide a fillip to its revenue growth from international operations.

Domestic air cooler industry to benefit from shift towards organized segment

The domestic air cooler segment is largely fragmented with about 70-80% of sales accounted for by the unorganised players. The implementation of GST will provide a level playing field to the organised players in the industry. This will lead shift in demand from the unorganised to branded products. Symphony, being the largest air cooler manufacturer with a market of share of ~50% in the organised market in India coupled with consistent innovation, will stand to benefit from this shift.

Further, we expect the domestic air cooler industry to sustain the growth momentum on the back of rising income levels (salary hikes from the seventh pay commission), lower cooler penetration level, increasing urbanisation, and strong aspirations of the Indian middle class.

Huge opportunities to capitalise upon

	Number of households (mn)	Households owning an air cooler (mn)	% penetration for air coolers
North	66.5	17.7	27%
East	61.8	1.1	2%
West	57.9	6.2	11%
South	60.2	2.0	3%

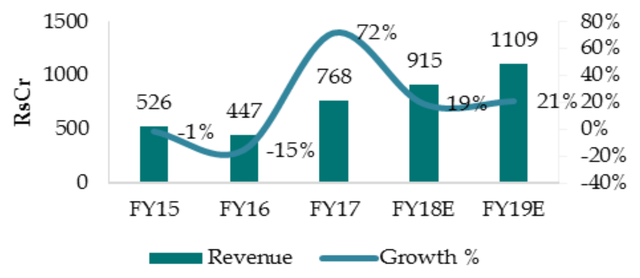
Source: Company, Geojit Research

Financials

New product launches and GST to drive sales going ahead

The company has witnessed a robust sales growth of 20% CAGR over FY12-17 led by robust growth in volumes (amid consistent new product launches). Further, the company is aggressively focusing on commercial and industrial sector in India thereby de-risking its business model. Further strong growth potential of the domestic air cooler industry on the back of implementation of GST, higher disposable income (salary hikes from the seventh pay commission), and increasing urbanisation. Company's leadership position and product differentiation capabilities (through new product launches) lends strong revenue growth visibility. Additionally, turnaround of its Chinese subsidiary will further drive growth going ahead. As a result, we factor revenue CAGR of 20% over FY17-19E.

Overall revenue to grow at 20% CAGR during FY17-19E



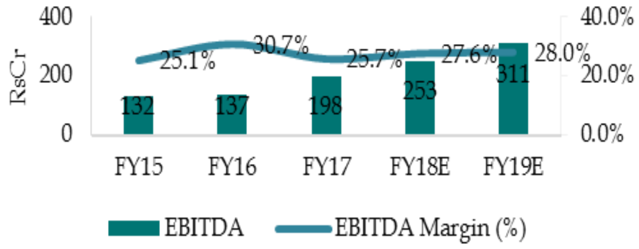
Source: Company, Geojit Research

Margin to stay elevated

Over the years the company has managed to sustain its EBITDA margin level above 20% due to its asset-light business model. This has enabled the company to report a lifetime high EBITDA margin of above 30% in FY16. Although the EBITDA margin weakened in FY17 to 25.7% largely on account of higher discounts offered on next generation air-cooler models coupled with higher advertising spends.

Going forward, we expect the benefit of operating leverage coupled with lower ad spend and withdrawal of discounts on premium models to aid in margin expansion. Hence, we estimate EBITDA margin of 27.6%/ 28% in FY18E/19E.

EBITDA to grow at 25% CAGR over FY17-19E

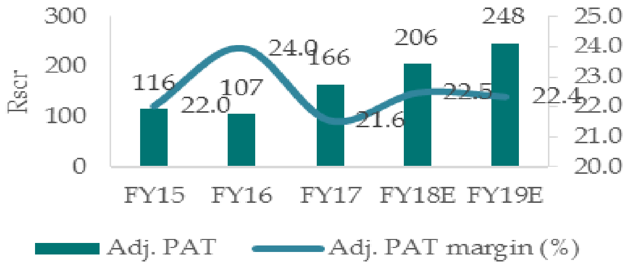


Source: Company, Geojit Research

PAT to grow by 22% CAGR over FY17-19E

Adjusted net profit grew robustly by 25% CAGR over FY12-17. Going ahead, we expect Adj. PAT to witness a CAGR of 22% largely in-line with robust operating performance.

PAT to grow at 22% CAGR over FY17-19E

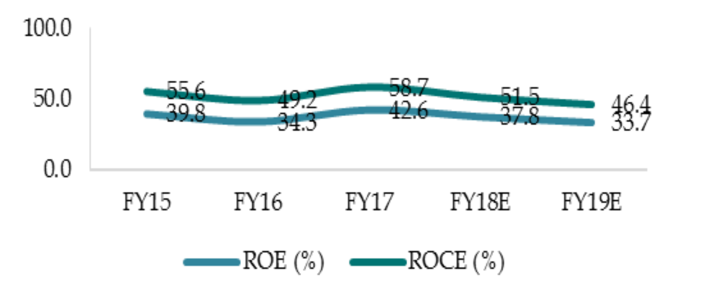


Source: Company, Geojit Research

Healthy balance sheet strength

The company has maintained a healthy balance sheet over the years given huge cash flow from operations and zero debt on its books. Symphony operates on a cash & carry business model. Further the company follows an asset-light manufacturing model wherein the company outsources its domestic production to OEMs and purely focuses on innovation and marketing of air coolers. This has enabled the company in enhancing its operational efficiency and augment its sales. As a result, the company has been able to sustain its ROCE above 40% over the years. We expect the company to generate cumulative operating cash flows of more than Rs300cr over FY17-19E led by uptick in margins and effective control on working capital requirement. The robust balance sheet provides Symphony the financial flexibility to leverage any future growth opportunities.

RoE to remain above 30%, led by strong free cash flow generation

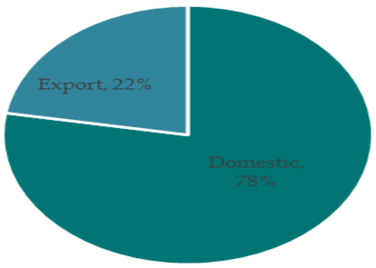


Source: Company, Geojit Research

Symphony Ltd: Business overview

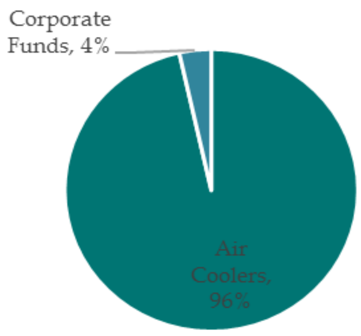
Established in 1988, Symphony is the largest air cooler manufacturer with a market of share of ~50% in the organised market in India. The company provides a wide range of air coolers for residential, commercial and industrial use. The company markets its products across more than 60 countries including US, UK, Ireland, the UAE, Saudi Arabia, Spain, South Africa, South East Asia and Australia, among others. It offers a wide product range across residential air coolers, packaged air coolers and central air coolers. It has a strong network presence with more than 30,000 retailers and over 1,000 distributors.

Symphony's sales break-up



Source: Company, Geojit Research

Segment mix



Source: Company, Geojit Research

Key Risks:

- Dependence on single product.
- Increasing competition.
- Adverse exchange rate movement.

Consolidated Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Sales	**525**	**446**	**768**	**915**	**1,109**
% change	-1.3%	-15.2%	72.4%	19.2%	21.2%
EBITDA	**132**	**137**	**198**	**253**	**311**
% change	6.4%	3.7%	44.0%	27.8%	23.0%
Depreciation	4	4	7	7	8
EBIT	**128**	**133**	**191**	**245**	**303**
Interest	1	0	0	0	0
Other Income	34	21	43	45	47
PBT	**161**	**154**	**234**	**290**	**350**
% change	18.6%	-4.8%	52.2%	24.3%	20.5%
Tax	45	46	68	85	102
Tax Rate (%)	28.1%	30.3%	29.1%	29.1%	29.1%
Reported PAT	**116**	**120**	**166**	**206**	**248**
Adj*	-	12	-	-	-
Adj PAT	**116**	**107**	**166**	**206**	**248**
% change	8.1%	-7.6%	54.6%	24.3%	20.5%
No. of shares (cr)	7.0	7.0	7.0	7.0	7.0
Adj EPS (Rs)	**16.6**	**15.3**	**23.7**	**29.4**	**35.4**
% change	-45.9%	-7.6%	54.6%	24.3%	20.5%
DPS (Rs)	7.0	12.5	3.8	4.1	4.5

Balance Sheet

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Cash	8	46	47	56	80
Accounts Receivable	33	47	52	62	76
Inventories	46	55	77	87	104
Other Cur. Assets	25	31	59	69	83
Investments	242	162	283	423	573
Gross Fixed Assets	160	189	185	195	210
Net Fixed Assets	68	74	77	80	87
CWIP	-	3	-	-	-
Intangible Assets	0	4	4	4	4
Def. Tax (Net)	(2)	(2)	(5)	(5)	(5)
Other Assets	2	0	0	0	0
Total Assets	**421**	**420**	**594**	**776**	**1,002**
Current Liabilities	108	101	116	127	142
Provisions	-	-	-	-	-
Debt Funds	-	-	19	19	19
Other Liabilities	7	-	-	-	-
Equity Capital	7	7	14	14	14
Reserves and Surplus	299	312	445	616	826
Shareholder's Fund	306	319	459	630	840
Minority Interest	-	-	-	-	-
Total Liabilities	**421**	**420**	**594**	**776**	**1,002**
BVPS (Rs)	43.8	45.6	65.6	90.1	120.1

Cash flow

Y.E March (Rs cr)	FY15A	FY16A	FY17A	FY18E	FY19E
Pre-tax profit	**161**	**165**	**234**	**290**	**350**
Depreciation	4	4	7	7	8
Changes in W.C	17	(21)	(44)	(20)	(29)
Others	(29)	(19)	(34)	(45)	(47)
Tax paid	(49)	(41)	(68)	(85)	(102)
C.F.O	**104**	**89**	**95**	**148**	**180**
Capital exp.	(21)	(18)	(10)	(10)	(15)
Change in inv.	(29)	53	(79)	(140)	(150)
Other invest.CF	13	35	23	45	47
C.F - investing	**(37)**	**70**	**(65)**	**(105)**	**(118)**
Issue of equity	-	-	-	-	-
Issue/repay debt	-	-	19	-	-
Dividends paid	(52)	(145)	(24)	(35)	(38)
Other finance.CF	(14)	(0)	(0)	(0)	(0)
C.F - Financing	**(66)**	**(145)**	**(5)**	**(35)**	**(38)**
Chg. in cash	1	13	25	9	24
Closing cash	8	46	47	56	80

Ratios

Y.E March	FY15A	FY16A	FY17A	FY18E	FY19E
Profitab. & Return					
EBITDA margin (%)	25.1	30.7	25.7	27.6	28.0
EBIT margin (%)	24.4	29.7	24.8	26.8	27.3
Net profit mgn.(%)	22.0	24.0	21.6	22.5	22.4
ROE (%)	39.8	34.3	42.6	37.8	33.7
ROCE (%)	55.6	49.2	58.7	51.5	46.4
W.C & Liquidity					
Receivables (days)	22.7	38.4	24.9	24.9	24.9
Inventory (days)	53.1	76.0	60.6	59.1	58.6
Payables (days)	37.0	58.5	39.0	39.0	39.0
Current ratio (x)	1.0	1.8	2.0	2.2	2.4
Quick ratio (x)	0.6	1.2	1.4	1.5	1.7
Turnover &Levg.					
Gross asset T.O (x)	3.1	2.6	4.1	4.8	5.5
Total asset T.O (x)	1.3	1.1	1.5	1.3	1.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV/Net Sales (x)	16.4	19.3	11.2	9.4	7.7
EV/EBITDA (x)	65.2	62.6	43.5	34.0	27.6
P/E (x)	74.5	80.6	52.1	41.9	34.8
P/BV (x)	28.2	27.1	18.8	13.7	10.3

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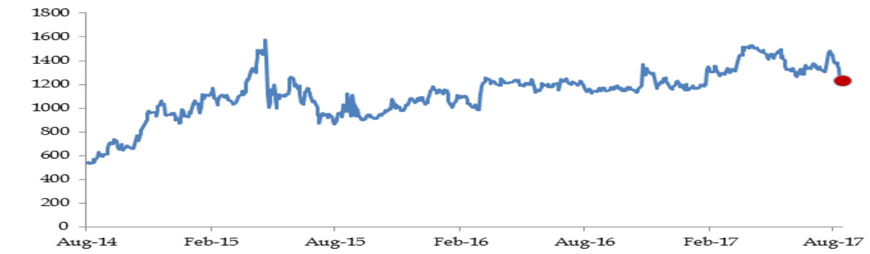
Recommendation Summary



Source: Bloomberg, Geojit BNP Paribas Research

Dates	Rating	Target
17-August-2017	BUY	1,418

Large Cap Stocks;		
Buy	**-**	**Upside is 10% or more.**
Hold	**-**	**Upside or downside is less than 10%.**
Reduce	**-**	**Downside is 10% or more.**

Mid Cap and Small Cap;		
Buy	**-**	**Upside is 15% or more.**
Accumulate*	**-**	**Upside between 10% - 15%.**
Hold	**-**	**Absolute returns between 0% - 10%.**
Reduce/Sell	**-**	**Absolute returns less than 0%.**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.
* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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ABHIJIT KUMAR DAS

Digitally signed by ABHIJIT KUMAR DAS
Date: 2017.08.17 11:50:04 +05'30'