COMPANY UPDATE

SYMPHONY

Growth confidence reinstated

India Equity Research| Consumer Durables

We hosted Symphony's management at our recent investors' meet.

Key takeaways

- **Off-season recovery:** Post a bad Q1, Symphony (SYML) witnessed good off-season demand from dealers in July & August at higher prices (5-10%) and is holding very low inventory verus peers some of whom are holding 12-months of inventory.
- **Encouraging trend:** In coolers, there is visible shift from unorganised to organised. Many unorganised dealers have started approaching large organised players, including Symphony.
- **New product launches:** The new "Sense" range of air coolers were launched in August 2017. This air cooler comes with gesture control which senses hand movements.Along with touch range, the wall mounted "Cloud" cooler has also been introduced pan-India
- **OPM recovery to be on track:** SYML expects to regain pre-Dec'16 EBITDA margins of 35% and maintained its long term revenue growth guidance of 20-25%.
- **Untapped potential:** Mgmnt believes centralised air cooler market could equal centralised air-conditioning (AC) size of INR40bn. Currently, this segment accounts for 12% of consol revenues with margins similar to that of residential air coolers.
- **Company strategy:** SYML offers incentive to dealers purchasing products during off-season peirod. The earlier dealers purchased products during off-season the larger would be the incentive. Usually, price rises every fortnight from July so trade has an incentive to buy early.
- **Asset Light business diversified OEM's:** SYML gets its coolers from 11 factories of different OEM's located across the country. These OEM's also manufacture white goods for LG, Whirlpool, Samsung, etc., but they exclusively manufacture air coolers only for SYML

Outlook and valuations: Growth visibility; maintain 'BUY'

Despite the Q1 miss, SYML anticipates revenue ramp up led by robust product portfolio, product innovation and R&D. We attribute our conviction on SYML to its strong innovation prowess and capability to launch SKUs with solid impact over the years, driving industry-leading growth. This, in our view, is sustainable notwithstanding the new entrants. We maintain **'BUY/SO'** with target price of INR1789. **(refer** ***Consumer Durables - Home Run***).

Financials (Consol)

Year to March	FY16	FY17	FY18E	FY19E
Revenues (INR mn)	5,940	7,680	9,370	11,772
Growth (%)	*13.0*	*29.3*	*22.0*	*25.6*
EBITDA (INR mn)	1,632	1,976	2,574	3,360
Adjusted profit (INR mn)	1,351	1,656	2,178	2,779
Diluted EPS (INR)	19.3	23.7	31.1	39.7
Growth (%)	*16.5*	*22.6*	*31.5*	*27.6*
Diluted p/e (x)	67.4	55.0	41.8	32.8
ROAE (%)	90.2	68.7	56.1	57.1

EDELWEISS 4D RATINGS

Absolute Rating	**BUY**
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Low
Sector Relative to Market	Equalweight

MARKET DATA *(R: SYMP.BO, B: SYML IN)*

CMP	: INR 1,305
Target Price	: INR 1,789
52-week range (INR)	: 1,571 / 1,071
Share in issue (mn)	: 70.0
M cap (INR bn/USD mn)	: 91 / 1,425
Avg. Daily Vol.BSE/NSE('000)	: 47.5

SHARE HOLDING PATTERN (%)

	Current	Q4FY17	Q3FY17
Promoters *	75.0	75.0	75.0
MF's, FI's & BK's	5.4	5.2	4.9
FII's	7.5	7.6	7.8
Others	12.2	12.3	12.3

** Promoters pledged shares (% of share in issue) : NIL*

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	(1.9)	(8.3)	(6.4)
3 months	1.2	(5.0)	(6.2)
12 months	9.5	11.6	2.1

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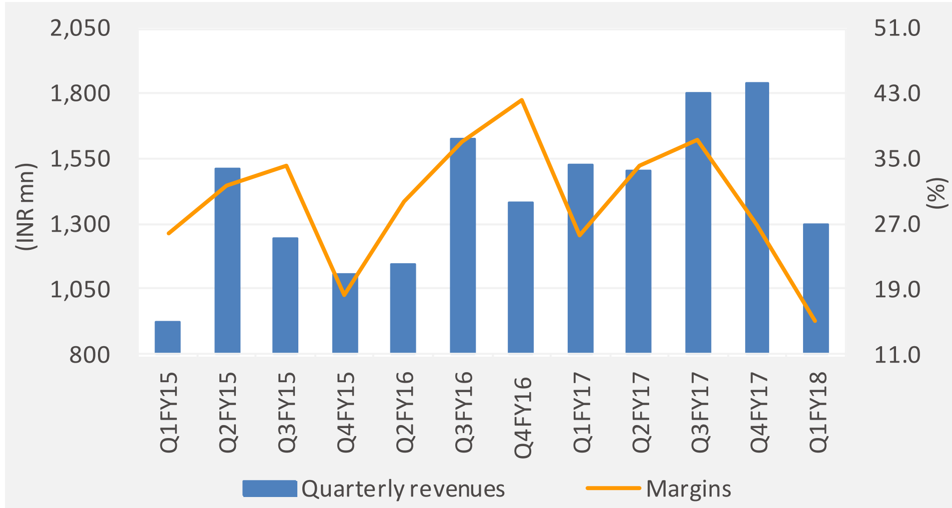
Chart 1: Quarterly trend of top line and Margins



Source: Company, Edelweiss research

Key takeaways

Key Highlights

- Q1FY18 was impacted by the introductory rate (discounted rate) for the touch range of coolers and erratic rain. Therefore, bottom line was affected for 2 quarters which the management believes will stabilise going forward.
- Management expects to regain historical 20-25% revenue growth levels.
- SYML gets its coolers from 11 factories of different OEM's located across the country. These OEM's also manufacture white goods for LG, Whirlpool, Samsung, etc., but exclusively manufacture air coolers only for SYML.
- The compnay witnessed good off-season demand from dealers and distributors and is holding very low inventory.
- SYML has effected a price hike of 5-10% across product cateogories.
- SYML has started witnessing some signs of shift happening from unorganised to organised. The unoragnised dealers have started getting in touch with the company, a trend that will continue going ahead.

Centralised air cooling solutions

- The market for centralised air cooling solutons is undefined and it may be bigger than the INR40bn indian central AC market
- Capital cost of centralised air cooling solutons is one-thirds the cost of central AC, whereas recurring cost is one-tenth the cost of the former.
- This segment accounts for 12% of consolidated revenues. Segment margins are similar to that of residential air coolers.
- The market for centralised air cooling solutons in China is huge and some factories in India have started implementing these solutions.

Competitive Intensity

- China is the largest air-cooler market in the world. Large factories in China have adopted centralsed air cooling solutions.
- Indian manufacturers can compete with the Chinese manufacturers on all fronts.

Other highlights

- SYML currently has 30,000 touch points across the country.
- The company has 250 sales staff.
- After-sales components account for 2% of sales and warranty cost is ~1% of sales.
- Management is not looking at inorganic opportunities in India.
- The dealers purchased products off season due to higher incentives. The price bumps up every fortnight from July. So, trade is incentivised to buy early as coolers were available at lowest prices, sometimes even lower than the carrying cost. Hence, they blocked capital from July to January of next year.
- All air coolers are manufactured in India.
- SYML focuses on residential air cooling in the international market, except in South-East Asia.

New Launches

- The new *"Sense"* range of air coolers were laucnhed in August 2017. This air cooler comes with gesture control, which senses hand movements and switches on/off.

Fig. 1: 'Sense' range of air coolers

Fig. 2: Cloud range of air coolers – Introduced pan India

Source: Company

Company Description

Symphony was established in 1988 with a portfolio comprising 1 air cooler model. Within 2-3 years, the company was able to match large multi-product competitors such as Crompton Greaves, Usha and Polar in the air-cooler category. Then, it decided to diversify into ACs, washing machines and other durables, but these products failed to attract consumers. By 2001, investors lost faith in the company, its net worth eroded and the stock became a penny stock. The company was referred to the Board for Industrial and Financial Reconstruction (BIFR) with debt of over INR500mn. However, post-2005, Symphony restructured its philosophy into 'One Product–Many Markets' and scaled up its international presence in 2009 when it acquired IMPCO (North America). In 2011, it started offering central air cooling solutions in India and established a foothold in all formats of modern retail in 2013. In 2015, the company acquired Munters Keruilai (China). In 2016, it launched the world's first wall mounted air cooler.

Investment Theme

Under penetration, high unorganised share entail growth potential - The domestic air cooler market is largely fragmented with unorganised players accounting for about 70% of volume and 63% value share. The branded air cooler industry is highly concentrated with the top 5 players accounting for more than ~90% market share. with Symphony being the leading player in the space (50% share by value). Of the 246.4mn households in India, mere ~28.0mn own air coolers, implying paltry 11% penetration. This entails humungous growth potential. We envisage penetration to increase to 25% by 2026 due to warmer temperatures, increase in the middle class and formalisation of the economy. Moreover, of all the consumer durable sectors, air coolers have one of the highest growth potential due to higher proportion of the unorganised segment.

R&D and innovation: Lends winner's edge - Symphony, since inception, has made R&D and innovation an integral part of its DNA. In 1993, it launched the Kaizen air cooler, which looked like an AC. Since then it has launched models that offer superior alternatives to conventional air coolers through aerodynamic design, power saving technology, uniform air inlet discharge, usage of high-grade non-conducting material and optimised body & component framework. The company has a global R&D centre recognised by the Government of India and has 108 trademarks, 49 registered designs, 7 copyrights and 8 patents—the largest in the international air coolers industry. Due to its product pull and brand, Symphony is able to garner dealer advances well ahead of the summer season - perhaps one of the few companies to do so.

Key Risks

- While Symphony has maintained its lead market share with sustained profitability, rising presence of large players like Voltas & Havells led by strong potential for market expansion could impact profitability given that Symphony has the highest absolute OPM levels across consumer durables industry.

- Uneven summer could impact the growth in the air coolers industry thereby impacting our growth assumptions for Symphony.

Financial Statements

Key assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macros				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.5	4.0	4.5
Repo rate (exit rate)	6.8	6.3	5.8	5.8
USD/INR (Avg)	65.0	67.5	66.0	66.0
Key financial assumptions				
Residential cooler organised grwth(%)	20.3	16.2	25.8	26.2
Symphony's sh. in organised mkt (%)	49.7	50.0	50.1	50.2
Depriciation as a % of FA	4.3	5.0	4.1	4.5
Tax rate (%)	26.5	29.1	28.5	28.5
Capex (INR mn)	24	106	200	201

Income statement (Consol) (INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Income from operations	5,940	7,680	9,370	11,772
Direct cost	2,667	3,644	4,333	5,421
Employee cost	537	687	833	998
Other expenses	1,105	1,373	1,630	1,993
Total operating expenses	4,309	5,704	6,796	8,412
EBITDA	1,632	1,976	2,574	3,360
Depreciation & amort.	54	71	76	83
EBIT	1,577	1,905	2,498	3,277
Interest expense	2	-	-	-
Other income	307	432	547	610
Profit before tax	1,883	2,338	3,046	3,887
Provision for tax	532	681	868	1,108
Reported profit	1,351	1,656	2,178	2,779
Less: Excep. Items (Net of Tax)	125			
Adjusted Profit	1,475	1,656	2,178	2,779
Equity shares outstand.(mn)	70	70	70	70
EPS (INR) basic	19.3	23.7	31.1	39.7
Diluted shares (mn)	70	70	70	70
Adjusted Diluted EPS	19.3	23.7	31.1	39.7
Adjusted Cash EPS	21.9	24.7	32.2	40.9
DPS	17.5	4.2	12.5	15.9
Dividend payout (%)	90.6	17.8	40.0	40.0

Common size metrics- as % of net revenues

Year to March	FY16	FY17	FY18E	FY19E
Direct cost	44.9	47.4	46.2	46.1
Employee cost	9.0	8.9	8.9	8.5
Other expenses	18.6	17.9	17.4	16.9
Operating expenses	72.53	74.3	72.5	71.5
Depreciation& amortisation	0.9	0.9	0.8	0.7
EBITDA margins	27.5	25.7	27.5	28.5
Net profit margins (adj.)	22.7	21.6	23.2	23.6

Growth metrics (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	13.0	29.3	22.0	25.6
EBITDA	23.2	21.1	30.3	30.5
PBT	16.7	24.2	30.3	27.6
Adjusted Profit	16.5	22.6	31.5	27.6
EPS	16.5	22.6	31.5	27.6

Balance sheet				(INR mn)
As on 31st March	**FY16**	**FY17**	**FY18E**	**FY19E**
Equity capital	70	140	140	140
Reserves & surplus	3,116	4,450	5,582	7,028
Shareholders funds	3,186	4,590	5,722	7,168
Short term borrowings	0	193	193	193
Total Borrowings	0	193	193	193
Long Term Lia. & Provisions	67	27	27	27
Deferred Tax (Net)	25	45	45	45
Sources of funds	**3,278**	**4,855**	**5,988**	**7,433**
Gross block	1,890	1,996	2,196	2,397
Depreciation	1,155	1,225	1,301	1,384
Net block	736	771	895	1,013
Capital work in progress	30	0	0	45
Total Fixed Assets	766	771	895	1,058
Goodwill on Consolidation	39	39	39	39
Non Current Investments	1,617	967	967	967
Current Investments	6	1,862	1,862	1,862
Inventories	551	773	919	1,150
Sundry debtors	469	523	638	802
Cash and cash equivalents	464	466	1,358	2,499
Loans and advances	246	526	579	637
Other current assets	67	61	61	61
Total curr.assets (ex cash)	1,332	1,883	2,197	2,650
Trade payable	838	1,041	1,238	1,549
Other CL & Short Term Provis.	108	91	91	91
Total CL & provisions	946	1,133	1,329	1,640
Net Current Assets (ex cash)	386	751	868	1,009
Uses of funds	**3,278**	**4,855**	**5,988**	**7,433**
Book value per share (INR)	46	66	82	102

Free cash flow				(INR mn)
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Reported Profit	1,351	1,656	2,178	2,779
Add: Depreciation	54	71	76	83
Interest (Net of Tax)	1.5	-	-	-
Add: Others	(613)	(1,161)	(781)	(893)
Less:Changes in working cap.	(82)	(364)	(117)	(141)
Operating cash flow	876	930	1,589	2,111
Less: Capex	(24)	(106)	(200)	(201)
Free cash flow	900	1,036	1,789	2,312

Cash flow metrics				(INR mn)
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Operating cash flow	876	930	1,589	2,111
Financing cash flow	(1,461)	(102)	(1,045)	(1,334)
Investing cash flow	715	1,006	347	364
NET CASH FLOW	129	1,834	891	1,141
Capex	(24)	(106)	(200)	(201)

Profitability & liquidity ratios				
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
ROAE (%)	47.2	42.6	42.2	43.1
ROACE (%)	90.2	68.7	56.1	57.1
Inventory (days)	69	66	71	70
Debtors (days)	24	24	23	22
Payable (days)	97	94	96	94
Cash conversion cycle	(4)	(4)	(2)	(2)
Current ratio	1.4	1.7	1.7	1.6
Gross Debt/EBITDA	0.0	0.1	0.1	0.1

Operating ratios				
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Fixed assets turnover (x)	11.2	10.2	11.2	12.3
Total asset turnover(x)	1.8	1.9	1.7	1.8
Equity turnover(x)	1.9	2.0	1.8	1.8

Valuation parameters				
Year to March	**FY16**	**FY17**	**FY18E**	**FY19E**
Diluted EPS (INR)	19.3	23.7	31.1	39.7
Y-o-Y growth (%)	*17*	*22.6*	*31.5*	*27.6*
CEPS (INR)	21.9	24.7	32.2	40.9
Diluted P/E (x)	67.4	55.0	41.8	32.8
Price/BV(x)	28.6	19.8	15.9	12.7
EV/Sales (x)	15.0	11.7	9.5	7.5
EV/EBITDA (x)	54.6	45.5	34.6	26.1
Dividend Yield (%)	1.3	0.3	1.0	1.2

Peer comparison valuation

	Market cap	Diluted P/E (X)		P/B (X)		ROAE (%)	
Name	**(USD mn)**	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Symphony	1,425	41.9	32.8	15.9	12.7	42.2	43.1
Havells India	4,814	41.5	33.2	8.3	7.3	21.3	23.5
Voltas	2,746	29.5	26.1	4.7	4.1	16.8	16.7
Median	-	41.5	32.8	8.3	7.3	21.3	23.5
AVERAGE	-	37.6	30.7	9.6	8.1	26.8	27.8

Source: Edelweiss research

Additional Data

Directors Data

Mr. Achal Bakeri	Chairman and Managing Director	Mr. Nrupesh Shah	Executive Director
Mr. Vijay R Joshi	Chief Operating Officer	Mr. Bhadresh Mehta	Chief Financial Officer
Mr. Jonaki Bakeri	Non Executive Director	Mr. Dipak Palkar	Independent Director
Mr. Satyen Kothari	Independent Director	Mr. Naishadh Parikh	Independent Director
Mr. Darshan Patel	Independent Director		

Auditors - Deloitte Haskins & Sells

**as per last annual report*

Holding – Top10

	Perc. Holding		Perc. Holding
Bakeri achal anil	45.26	Bakeri rupa achal	10.14
Oras investments pvt	9.21	Paratam investments	8.63
Axis asset managemen	3.43	Matthews intl capita	3.17
Rowenta networks pvt	2.85	Bakeri pavan anil	1.72
Uti asset management	1.02	Vanguard group	0.63

**in last one year*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
06 Apr 2017	Neelam Professionals LLP	Sell	15000.00
05 Apr 2017	Neelam Professionals LLP	Sell	15000.00
30 Mar 2017	Neelam Professionals LLP	Sell	45000.00
06 Mar 2017	Nrupesh Shah Family Trust	Buy	200000.00
06 Mar 2017	Nabab Consultants LLP	Sell	200000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Bajaj Electricals	HOLD	SP	M	Crompton Greaves Consumer Electrical	BUY	SO	L
Finolex Cables	BUY	SO	L	Havells India	BUY	SO	L
KEI Industries	BUY	SO	L	Symphony	BUY	SO	L
V Guard Industries	HOLD	SP	L	Voltas	BUY	SO	L
Whirlpool of India	BUY	SO	M				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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Coverage group(s) of stocks by primary analyst(s): Consumer Durables

Bajaj Electricals, Crompton Greaves Consumer Electrical, Finolex Cables, Havells India, KEI Industries, Symphony, V Guard Industries, Voltas, Whirlpool of India

Recent Research

Date	Company	Title	Price (INR)	Recos
30-Aug-17	**KEI Industries**	Solid operational start; *Result Update*	260	Buy
11-Aug-17	**Symphony**	Temporary setback dents Q1; prospects sanguine; *Result Update*	1205	Buy
09-Aug-17	**Finolex Cables**	Sustaining niche in commoditised space; *Result Update*	490	Buy

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution* * 1stocks under review	161	67	11	240

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	156	62	11

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart

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