KRChoksey INSTITUTIONAL

# Symphony Ltd.

RESULT UPDATE

31st October 2017

# Symphony Ltd.

**A Strong Come Back**

| CMP | Target | Potential Upside | Market Cap (INR Mn) | Recommendation | Sector |
|---|---|---|---|---|---|
| **INR 1,465** | **INR 1,700** | **16.0%** | **98,874** | **BUY** | **Consumer Durables** |

## Result highlights

Symphony Ltd posted its Q2FY18 results which were above our estimates. Net revenue for the quarter was at INR 1,842.5 Mn which grew by 22.5% YoY and 42% QoQ. Mainly due to growth from sale of new products. EBIDTA for Q2FY18 stood at INR 642 Mn with margins of 34.8% which was an increase of 1,986 bps QoQ and 77 bps YoY due to lower raw material and advertisement cost during the quarter. PAT for Q2FY17 stood at INR 506.7 Mn and PAT margin was at 27.5% which increased by 981 bps QoQ and 139 bps YoY.

### MARKET DATA

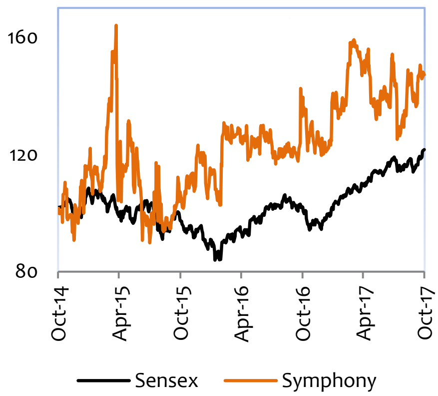
| | |
|---|---|
| Shares outs (Mn) | 70 |
| EquityCap (INR Mn) | 140 |
| Mkt Cap (INR Mn) | 98874 |
| 52 Wk H/L (INR) | 1571/1120 |
| Volume Avg (3m K) | 33.9 |
| Face Value (INR) | 2 |
| Bloomberg Code | SYML IN |

### KEY FINANCIALS

| Particulars (INR Mn) | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Net Sales | 5,788.9 | 5,940.2 | 8,977.8 | 9,021.5 | 10,785.4 |
| EBITDA | 1,322.5 | 1,631.5 | 2,909.3 | 2,648.7 | 3,244.0 |
| PAT | 1,159.1 | 1,475.4 | 2,715.9 | 2,059.2 | 2,520.1 |
| EPS | 33.1 | 21.1 | 38.8 | 29.4 | 36.0 |
| OPM | 22.8% | 27.5% | 32.4% | 29.4% | 30.1% |
| NPM | 20.0% | 24.8% | 30.3% | 22.8% | 23.4% |
| PE (x) | 30.2 | 56.4 | 39.4 | 49.6 | 40.5 |

Source: Company, KRChoksey Research

### SHARE PRICE PERFORMANCE




**Overwhelming Response for New Products:** Symphony Ltd has maintained its leadership position in Air Cooler category with value market share of around 50% to 52% of total organized market. At the same time Symphony is facing competition from many players that are entering into the Air Cooler category. It has reported Net Sales of INR 1,842.5 Mn in Q2FY18 which grew by 42% QoQ and 22.5% YoY. Volume growth for Q2FY18 remained in line with the top line growth due to overwhelming response received for the new products launched. Despite withdrawal of Introductory prices on the Touch series there was no negative impact on the product or on the top line. The average realization has improved during this quarter as compared to last quarter. To further increase the top line, Symphony will continue its practice of innovation and launching news products. During H1FY18 its revenue was INR 3,140 Mn with a growth of 3.6% YoY.

**Premium Products led to Margin Expansion:** EBITDA for Q2FY18 stood at INR 624 Mn which grew by 230.2% QoQ and 25.2% YoY with EBITDA margin of 34.8% which increased by 1,986 bps QoQ and 77 bps YoY mainly due to good response and high demand for premium products. PAT for Q2FY18 stood at INR 506.7 Mn and PAT margin was at 27.5% which saw an incline of 139 bps YoY and 981 bps QoQ. We expect that with GST benefiting the organized sector by reducing the operational cost, along with growing demand for premium products the company will maintain the margins at the same level going ahead. During H1FY18, EBITDA was at INR 836.4 Mn with margin of 26.6% and PAT was at INR 747.1 Mn with margin of 23.8%.

### MARKET INFO

| | |
|---|---|
| SENSEX | 33213 |
| NIFTY | 10335 |

**Valuations & Views:** A successful business model has turned Symphony into an asset-light, zero-debt company; which has enabled the business to generate very high RoE (42.6%) and RoCE (41.7%). Despite of weak season during April to June period there was good demand for Symphony air coolers including the new models of touch series which resulted into negative inventory for the company, we believe that the new touch series model is very well received by the market. The withdrawal of introductory prices in the touch series is key to bring the margins back on track. With its strong brand image company is building strong distribution network to penetrate into the rural markets which will lead to robust growth, we anticipate revenue to grow at CAGR of 16.8% and PAT to grow at CAGR of 24.1% between FY15 and FY19E. Currently the stock is trading at a P/E of 36.1x for FY19E EPS, we recommend **"BUY" rating on the stock with a target price of INR 1,700 representing an upside of 16.0%.**

### SHARE HOLDING PATTERN (%)

| Particulars | Sep 17 | Jun 17 | Mar 17 |
|---|---|---|---|
| Promoters | 75 | 75 | 75 |
| FIIs | 7.58 | 7.48 | 7.56 |
| DIIs | 5.51 | 5.36 | 5.19 |
| Others | 11.92 | 12.17 | 12.26 |
| Total | 100 | 100 | 100 |

**16.8%**

Revenue CAGR between FY15 and FY19E

**24.1%**

PAT CAGR between FY15 and FY19E

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# Symphony Ltd

**Q2FY18 Result Snapshot**

**Exhibit 1 Quarterly Income Statement (INR Mn)**

| Particulars | Q2FY18 | Q1FY18 | Q2FY17 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| **Net Sales & Other Operating Income** | **1842.5** | **1297.5** | **1504.3** | **42.0%** | **22.5%** |
| Total Expenditure | 1200.5 | 1103.1 | 991.7 | 8.8% | 21.1% |
| Cost of Raw Materials | 18.9 | 108.6 | 39.7 | -82.6% | -52.4% |
| Purchase of Finished Goods | 661.4 | 498.1 | 727.5 | 32.8% | -9.1% |
| (Increase) / Decrease In Stocks | 181.4 | 26.7 | -43.4 | 579.4% | -518.0% |
| Excise Duty | 0.0 | 0.0 | 0.0 | - | - |
| Employee Cost | 146.9 | 105.6 | 123.4 | 39.1% | 19.0% |
| Advertisement expense | 20.1 | 210.5 | 18.0 | -90.5% | 11.7% |
| Operating & Manufacturing Expenses | 171.8 | 153.6 | 126.5 | 11.8% | 35.8% |
| **EBIDTA** | **642.0** | **194.4** | **512.6** | **230.2%** | **25.2%** |
| EBITDA Margins (%) | 34.8% | 15.0% | 34.1% | 1986bps | 77bps |
| Depreciation | 10.6 | 10.1 | 9.2 | 5.0% | 15.2% |
| **EBIT** | **631.4** | **184.3** | **503.4** | **242.6%** | **-63.4%** |
| Other Income | 104.3 | 126.5 | 47.3 | -17.5% | 120.5% |
| Interest | 7.2 | 0.0 | 0.1 | - | - |
| **PBT** | **728.5** | **310.8** | **550.6** | **134.4%** | **32.3%** |
| Tax | 221.8 | 70.4 | 157.8 | 215.1% | 40.6% |
| PAT before Exceptional | 506.7 | 240.4 | 392.8 | 110.8% | 29.0% |
| PAT Margin (%) | 27.5% | 18.5% | 26.1% | 897bps | 139bps |
| Exceptional Items | 0.0 | -10.9 | 0.0 | - | - |
| **PAT after Exceptional** | **506.7** | **229.5** | **392.8** | **120.8%** | **29.0%** |
| PAT Margin (%) | 27.5% | 17.7% | 26.1% | 981bps | 139bps |
| EPS | 7.2 | 3.3 | 5.6 | 120.8% | 29.0% |

Source: Company, KRChoksey Research

**Exhibit 2: Quarterly Segmental Revenue (INR Mn)**

| Particulars | Q2FY18 | Q1FY18 | Q2FY17 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| Air Coolers | 1842.9 | 1301.4 | 1517.9 | 41.6% | -14.3% |
| Funds | 103.9 | 122.6 | 33.7 | -15.3% | 208.3% |
| **TOTAL** | **1946.8** | **1424.0** | **1551.6** | **36.7%** | **25.5%** |

Source: Company, KRChoksey Research

**Exhibit 3: Quarterly Segmental EBIT (INR Mn)**

| Particulars | Q2FY18 | Q1FY18 | Q2FY17 | QoQ (%) | YoY (%) |
|---|---|---|---|---|---|
| Air Coolers | 632.5 | 188.8 | 517.5 | 235.0% | -63.5% |
| Corporate Funds | 103.2 | 122.0 | 33.2 | -15.4% | 210.8% |
| **Segment Total EBIT** | **735.7** | **310.8** | **550.7** | 136.7% | 33.6% |
| Less: Finance Cost | 7.2 | 0.0 | 0.1 | 0.0% | 0.0% |
| Less: Taxes | 221.8 | 70.4 | 157.8 | 215.1% | 40.6% |
| **Segment Total PAT** | **506.7** | **240.4** | **392.8** | **110.8%** | **29.0%** |

Source: Company, KRChoksey Research

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# Symphony Ltd

**Q2FY18 Result Snapshot**

**Exhibit 4: H1FY18 Income Statement (INR Mn)**

| Particulars | H1FY18 | H1FY17 | Y-o-Y |
|---|---|---|---|
| **Net Sales & Other Operating Income** | **3,140.0** | **3,030.4** | **3.6%** |
| **Total Expenditure** | **2,303.6** | **2,122.8** | **8.5%** |
| Cost of Raw Materials | 127.5 | 108.3 | 17.7% |
| Purchase of Finished Goods | 1,159.5 | 1,278.9 | -9.3% |
| (Increase) / Decrease In Stocks | 208.1 | -21.8 | -1054.6% |
| Employee Cost | 252.5 | 221.8 | 13.8% |
| Advertisement expense | 230.6 | 258.8 | -10.9% |
| Operating & Manufacturing Expenses | 325.4 | 276.8 | 17.6% |
| **EBIDTA** | **836.4** | **907.6** | **-7.8%** |
| **EBITDA Margins (%)** | **26.6%** | **29.9%** | **-331.3** |
| Depreciation | 20.7 | 16.0 | 29.4% |
| EBIT | 815.7 | 891.6 | -8.5% |
| Other Income | 230.8 | 146.4 | 57.7% |
| Interest | 7.2 | 0.1 | 7100.0% |
| PBT | 1,039.3 | 1,037.9 | 0.1% |
| Tax | 292.2 | 297.1 | -1.6% |
| PAT before Exceptional | 747.1 | 740.8 | 0.9% |
| PAT Margin (%) | 23.8% | 24.4% | -65.3 |
| **PAT after Exceptional** | **747.1** | **740.8** | **0.9%** |
| **PAT Margin (%)** | **23.8%** | **24.4%** | **-65.3** |
| **EPS** | **10.7** | **10.6** | **0.9%** |

Source: Company, KRChoksey Research

# Symphony Ltd

**Q2FY18 Concall Highlights:**

- The growth in revenue was mainly due to withdrawal of introductory prices in Touch Series Products w.e.f. 1st July,2017 and other new launches, this has resulted better realization during the quarter.
- The margins witnessed positive trend mainly due to the touch series models from which the introductory prices were withdrawn.
- The management mentioned that there was good demand for the symphony models and company ran out of stock during the quarter while other competitors were sitting with huge amount of inventory during the quarter.
- During the quarter the company also witnessed robust growth in pre-season sales booking with almost 100% billing in advance and the management expects the trend to continue.
- The company has also increased its rural distribution network mainly to focus on rural demand and penetrate the rural market.
- Symphony has around 45 residential models, 15 commercial models and 20 models of international brands. In total Symphony has around 75 to 80 models under its brand.
- However, in few models there was additional profitability due to GST, the rationalization has been done and benefits are extended to consumers accordingly. The blended tax rate before GST was 21-22% and the new tax rate will be 18% which effectively save around 3%. Post GST launch the management expects that there will be ease of doing business in terms of logistics and day-to-day operations.
- International business saw robust growth during the quarter mainly in Europe and South America. However, there were some challenges face due to rupee application and adverse geo-political environment in Middle East and some other parts of the world. The management expects the China business to break-even within next 2 to 4 years, however, the operational activities in China is going as per planned strategy.
- With this the management was confident that it will maintain a CAGR of 20-25% on medium to long term basis.

**Exhibit 5: Revenue & Revenue growth**

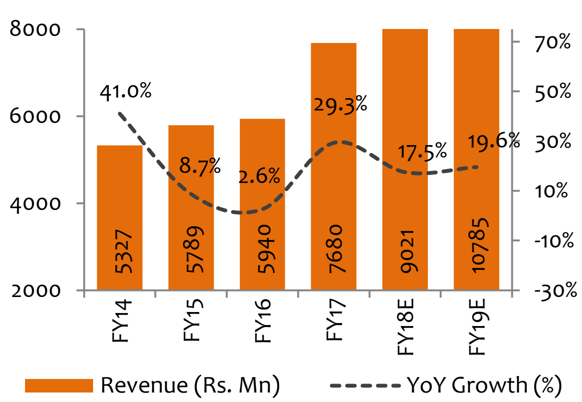



**Exhibit 6: EBITDA & EBITDA Margin**

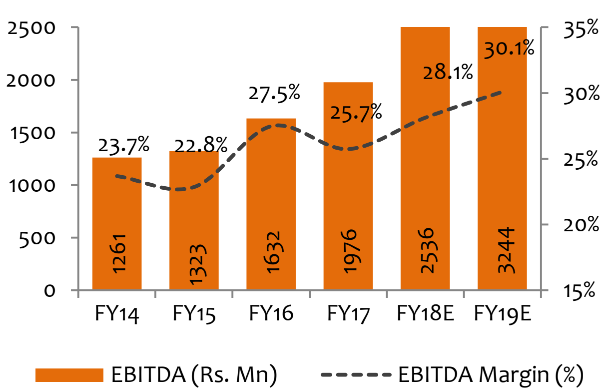



**Exhibit 7: PAT & PAT Margin**

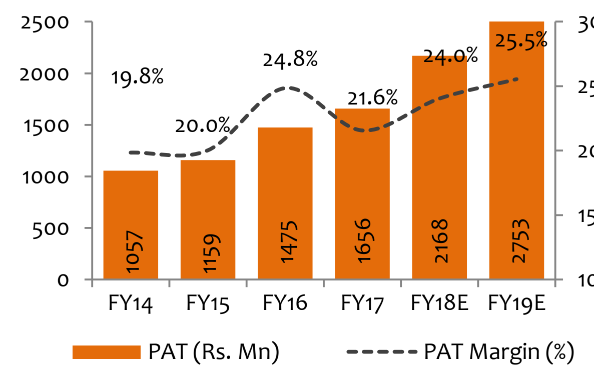
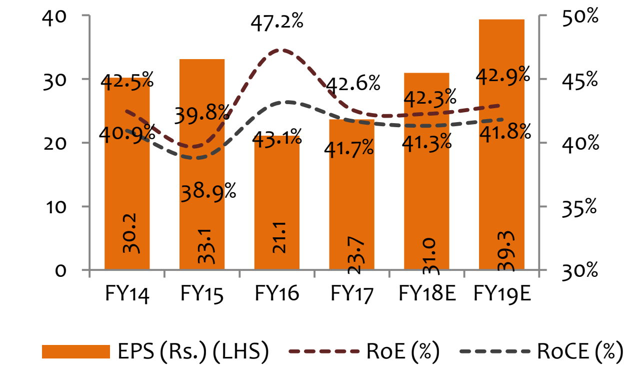



**Exhibit 8: EPS, RoE & RoCE**




Source: Company, KRChoksey Research

# Symphony Ltd

**FY18 Snapshot**

**Exhibit 9: Income Statement (INR Mn)**

| Particulars | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **Net Sales & Other Operating Income** | **5,788.9** | **5,940.2** | **8,977.8** | **9,021.5** | **10,785.4** |
| **Total Expenditure** | **4,466.4** | **4,308.7** | **6,068.5** | **6,372.8** | **7,541.4** |
| Cost of Raw Materials | 528.8 | 608.9 | 912.7 | 944.4 | 1,075.3 |
| Purchase of Finished Goods | 1,969.7 | 2,052.2 | 2,913.2 | 3,148.1 | 3,763.6 |
| (Increase) / Decrease In Stocks | -111.5 | 5.6 | -181.6 | -103.3 | -39.6 |
| Employee Cost | 449.0 | 536.6 | 687.1 | 764.5 | 914.0 |
| Operating & Manufacturing Expenses | 1,630.4 | 1,105.4 | 1,737.1 | 1,619.0 | 1,828.0 |
| **EBIDTA** | **1,322.5** | **1,631.5** | **2,909.3** | **2,648.7** | **3,244.0** |
| EBITDA Margins (%) | 22.8% | 27.5% | 32.4% | 29.4% | 30.1% |
| Other Income | 319.9 | 307.3 | 558.6 | 330.5 | 388.2 |
| Depreciation | 41.0 | 54.2 | 70.5 | 78.5 | 82.5 |
| **EBIT** | **1,601.4** | **1,884.6** | **3,397.4** | **2,900.6** | **3,549.8** |
| Interest | 5.8 | 2.1 | 0.3 | 0.3 | 0.3 |
| EBT before exceptional Item | 1,595.6 | 1,882.5 | 3,397.1 | 2,900.3 | 3,549.5 |
| Exceptional Items | 0.0 | -124.7 | 0.0 | 0.0 | 0.0 |
| **EBT after exceptional Item** | **1,595.6** | **2,007.2** | **3,397.1** | **2,900.3** | **3,549.5** |
| Tax | 436.5 | 531.8 | 681.2 | 841.1 | 1,029.3 |
| **PAT** | **1,159.1** | **1,475.4** | **2,715.9** | **2,059.2** | **2,520.1** |
| PAT Margin (%) | 20.0% | 24.8% | 30.3% | 22.8% | 23.4% |
| **EPS** | **33.1** | **21.1** | **38.8** | **29.4** | **36.0** |

Source: Company, KRChoksey Research

# Symphony Ltd

**Exhibit 10: Balance Sheet (INR Mn)**

| Particulars | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | | | |
| Share Capital | 70.0 | 70.0 | 140.0 | 140.0 | 140.0 |
| Reserves and Surplus | 2,992.2 | 3,116.2 | 5,509.9 | 6,473.8 | 7,814.3 |
| ***Net Worth*** | **3,062.1** | **3,186.2** | **5,649.8** | **6,613.7** | **7,954.3** |
| *Non-Current Liabilities* | | | | | |
| Long-Term Borrowings | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Deferred Tax Liabilities (Net) | 18.6 | 24.9 | 45.0 | 45.0 | 45.0 |
| Other Long-term Liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-Term Provisions | 71.1 | 67.0 | 27.4 | 76.5 | 91.4 |
| **Total Non-Current Liabilities** | **89.7** | **91.9** | **72.4** | **121.5** | **136.4** |
| *Current Liabilities* | | | | | |
| Short-Term Borrowings | 0.0 | 0.0 | 192.9 | 192.9 | 192.9 |
| Trade Payables | 398.8 | 495.8 | 609.5 | 569.2 | 648.1 |
| Other Current Liabilities | 185.2 | 342.1 | 431.8 | 586.4 | 701.1 |
| Short-Term Provisions | 491.4 | 107.9 | 91.4 | 135.3 | 161.8 |
| **Total Current Liabilities** | **1,075.4** | **945.8** | **1,325.6** | **1,483.9** | **1,703.9** |
| ***Total*** | **4,227.2** | **4,223.9** | **7,047.8** | **8,219.0** | **9,794.6** |
| ***ASSETS*** | | | | | |
| Tangible Assets | 680.2 | 701.6 | 714.1 | 746.8 | 781.1 |
| Intangible Assets | 2.8 | 34.1 | 57.2 | 45.8 | 33.8 |
| Capital Work-in-Progress | 0.0 | 30.1 | 0.0 | 0.0 | 0.0 |
| **Total Fixed Assets** | **682.9** | **765.7** | **771.3** | **792.6** | **814.9** |
| Goodwill on Consolidation | 0.7 | 39.2 | 38.7 | 0.0 | 0.0 |
| Non-Current Investments | 1,315.6 | 1,616.7 | 966.9 | 1,466.9 | 1,966.9 |
| Deferred Tax Assets (Net) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Long-Term Loans and Advances | 16.2 | 27.4 | 42.9 | 39.6 | 40.7 |
| Other Non-Current Assets | 0.0 | 0.9 | 0.8 | 0.8 | 0.8 |
| **Total Non-Current Assets** | **2,015.4** | **2,450.0** | **1,820.6** | **2,299.9** | **2,823.4** |
| *Current Assets* | | | | | |
| Current Investments | 1,107.4 | 6.2 | 1,861.5 | 2,361.5 | 2,861.5 |
| Inventories | 457.0 | 550.7 | 773.3 | 765.1 | 920.4 |
| Trade Receivables | 326.7 | 468.7 | 523.1 | 616.1 | 736.5 |
| Cash and Cash Equivalents | 75.1 | 463.9 | 1,526.0 | 1,665.4 | 1,853.5 |
| Short-Term Loans and Advances | 166.5 | 218.5 | 483.3 | 451.1 | 539.3 |
| Other Current Assets | 79.0 | 65.9 | 60.0 | 60.0 | 60.0 |
| **Total Current Assets** | **2,211.7** | **1,773.9** | **5,227.2** | **5,919.1** | **6,971.2** |
| **Total** | **4,227.2** | **4,223.9** | **7,047.8** | **8,219.0** | **9,794.6** |

Source: Company, KRChoksey Research

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# Symphony Ltd

**Exhibit 11: Cash flow statement (INR Mn)**

| Particulars | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Net profit before tax | 1,595.6 | 2,007.2 | 3,397.1 | 2,900.3 | 3,549.5 |
| Depreciation | 41.0 | 54.2 | 70.5 | 78.5 | 82.5 |
| Financial Charges | 5.8 | 2.1 | 0.3 | 0.3 | 0.3 |
| Dividend Received | -31.1 | -76.7 | 0.0 | -330.5 | -388.2 |
| Cash from operating activities | 1,527.2 | 1,655.4 | 3,103.5 | 2,806.8 | 3,113.9 |
| Direct Taxes Paid | -491.4 | -409.8 | -681.2 | -841.1 | -1,029.3 |
| Net cash from operating activities (A) | 1,035.9 | 1,245.6 | 2,422.3 | 1,965.7 | 2,084.5 |
| Net cash used in investing activities (B) | -368.1 | 714.6 | 644.3 | -730.6 | -716.6 |
| Net cash flow from / (used in) financing activities (C) | -657.4 | -1,461.1 | -2,099.7 | -1,095.6 | -1,179.9 |
| Net increase / (decrease) in cash | 10.3 | 499.0 | 966.8 | 139.4 | 188.1 |
| Cash and cash equivalents at the beginning of the year | 49.8 | 60.1 | 559.2 | 1,526.0 | 1,665.4 |
| Cash and cash equivalents at the end of the year | 60.1 | 559.2 | 1,526.0 | 1,665.4 | 1,853.5 |

Source: Company, KRChoksey Research

**Exhibit 12: Ratio Analysis**

| INR | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| EPS (Rs.) | 17.2 | 30.2 | 33.1 | 21.1 | 38.8 |
| DPS (Rs.) | 6.5 | 13.0 | 14.0 | 13.0 | 12.0 |
| BVPS (Rs.) | 63.5 | 78.8 | 87.5 | 91.1 | 80.7 |
| PE (x) | 23.4 | 14.4 | 30.2 | 56.4 | 39.4 |
| P/BV (x) | 6.3 | 5.5 | 11.4 | 13.1 | 18.9 |
| EV/EBITDA (x) | 17.2 | 12.0 | 26.4 | 25.2 | 36.3 |
| EV/Sales (x) | 3.6 | 2.8 | 6.0 | 6.9 | 11.8 |
| EBITDA Margin (%) | 20.9% | 23.7% | 22.8% | 27.5% | 32.4% |
| EBIT Margin (%) | 24.3% | 25.5% | 27.7% | 31.7% | 37.8% |
| Net Profit Margin (%) | 15.9% | 19.8% | 20.0% | 24.8% | 30.3% |
| Dividend Payout Ratio (%) | 37.8% | 43.0% | 42.2% | 61.6% | 30.9% |
| Net Debt/Equity (x) | -0.2 | 0.0 | 0.0 | -0.1 | -0.2 |
| RoE (%) | 29.2% | 42.5% | 39.8% | 47.2% | 61.5% |
| RoCE (%) | 27.7% | 40.9% | 38.9% | 43.1% | 60.4% |

Source: Company, KRChoksey Research

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# Symphony Ltd

| Symphony Ltd | | | | Rating Legend | |
|---|---|---|---|---|---|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 31-Oct-17 | 1,465 | 1,700 | BUY | Buy | More than 15% |
| 10-Aug-17 | 1,202 | 1,448 | BUY | Accumulate | 5% – 15% |
| 12-Jul-17 | 1,350 | 1,448 | BUY | Hold | 0 – 5% |
| 17-May-17 | 1,419 | 1,653 | BUY | Reduce | -5% – 0 |
| | | | | Sell | Less than – 5% |

**ANALYST CERTIFICATION:**

We, Nirvi Ashar (B.com, MBA), research analyst and Kunal Jagda (B.com, MBA), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

**Terms & Conditions and other disclosures:**

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