

Lower volume offtake dents profitability

Symphony's standalone performance remained subdued with a decline in topline by 11% YoY (I-direct estimate: +7% YoY). We believe this was largely led by similar quantum of volume de-growth during the period. The EBITDA margin decline of ~220 bps YoY was higher than our estimate of ~140 bps decline, mainly due to a sharp decline in gross margin (declined 550 bps YoY). The company reiterated there would be a demand revival in FY20E supported by fresh dealer offtake (as channel inventory built during FY19 has completely been cleared). PAT includes exceptional items of ₹ 20 crore, which is provision against investment made in IL&FS.

Volume offtake remains poor in Q4FY19

Symphony continuously witnessed lower volume offtake mainly due to extended winter and low demand from its dealers (due to higher inventory level). This, along with rising competition, has restricted the company from taking a price hike during Q4FY19 and FY19. However, inventory at the dealer's level was completely cleared in FY19. The company witnessed fresh demand from its channel partners. We model standalone volume CAGR of ~18% in FY19-21E and topline growth of 20% during the same period. On the subsidiary front, the financial performance in FY19 has shown an improvement with a reduction in losses in GSK China and increase in profitability of Impco Mexico. We model revenue CAGR of 21% for overseas subsidiaries with full impact of Climate Technology on topline. Hence, consolidated revenue may record revenue CAGR of ~20% in FY19-21E.

Margin pressure continues

The EBITDA margin remained under pressure in FY19 largely due to lower gross margin. We model improvement in consolidated EBITDA margin (at 23-24% in FY20E-21E against ~16% recorded in FY19) led by a recovery in domestic performance (at ~29% in FY20E-21E against ~26% recorded in FY19) and better profitability from overseas business.

Valuation & Outlook

Symphony's domestic performance was hit by lower volume offtake and pricing pressure owing to rising competition in the organised segment. The standalone revenue CAGR of ~20% in FY19-21E would be largely on the lower base. We also believe it will be difficult for the company to maintain EBITDA margin at 31-32% (clocked in FY17-18) in the wake of rising competition and largely would settled be in the range of ~29%. Sluggishness in the domestic performance (contributed ~80% to the FY18 topline) and consolidated topline growth largely driven by overseas business on a lower base would result in a slow recovery in EBITDA margin. We maintain our target price and our **HOLD** rating on the stock.



Particulars

Particulars	Amount
Market Capitalization (₹ Crore)	8,129.0
Total Debt (FY19) (₹ Crore)	187.0
Cash & Inv (FY19) (₹ Crore)	326.0
EV (₹ Crore)	7,990
52 week H/L (₹)	1580 / 811
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Key Highlights

- Marred by seasonality and spillover impact of inventory turned into lower volume
- The management guided at a revival in demand post April 2019. The target is to maintain gross margin at 50%
- Overseas subsidiary witnessed an improvement in annual performance
- Maintain our **HOLD** recommendation on the stock

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	(CAGR 19-21E)
Net Sales	764.8	798.2	844.0	1062.1	1222.7	20.4
EBITDA	198.6	219.2	132.0	239.0	291.1	48.5
EBITDA Margin (%)	26.0	27.5	15.6	22.5	23.8	
PAT	166.3	192.5	91.0	162.5	221.0	55.8
EPS (₹)	23.8	27.5	13.0	23.2	31.6	
P/E(x)	48.9	42.2	89.3	50.0	36.8	
Price/Book value (x)	17.5	13.3	12.2	12.2	11.1	
Mcap/sales (x)	10.6	10.2	9.6	7.7	6.6	
RoE (%)	35.8	31.5	16.2	27.0	30.3	
RoCE (%)	48.0	41.3	18.7	30.4	34.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	138.0	166.5	155.4	-11.2	159.0	-13.2	Lower volume offtake on account of extended winter and higher inventory at dealers level dented sales
Other Income	10.0	11.3	9.2	8.9	10.0	0.0	
Raw Material Exp	71.0	75.2	71.4	-0.5	81.0	-12.3	Gross margin declined 520 bps YoY
Employee Exp	13.0	14.1	12.8	1.8	14.0	-7.1	
Selling & Dis. Exp	4.0	1.1	6.9	-41.8	1.0	NM	
Other Exp	9.0	25.3	14.8	-39.4	15.0	-40.0	
EBITDA	41.0	50.8	49.5	-17.2	48.0	-14.6	
EBITDA Margin (%)	29.7	30.5	31.9	-217 bps	30.2	-48 bps	Sharp decline in gross margin took a toll on EBITDA margin
Depreciation	1.0	1.8	1.1	-9.1	1.0	0.0	
Interest	0.0	0.0	0.0	NA	0.0	NA	
Exceptional items	20.0	0.0	0.0	NA	0.0	NA	Exceptional loss due to provision made against investment in IL&FS
PBT	30.0	60.3	57.6	-47.9	57.0	-47.4	
Total Tax	11.0	19.5	15.7	-29.8	14.0	-21.4	
PAT	19.0	40.7	41.9	-54.7	43.0	-55.8	Lower sales, decline in margin and other income translated into a sharp decline in PAT

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,149.1	1062.1	(7.6)	1,404.2	1222.7	(12.9)	We tweak our revenue estimates downside considering the slow pick-up in sales of overseas business
EBITDA	241.3	239.0	(0.9)	294.9	291.1	(1.3)	
EBITDA Margin %	21.0	22.5	151bps	21.0	23.8	281bps	We believe margin recovery from FY20E onwards supported by recovery in domestic performance
PAT	180.9	162.5	(10.2)	221.7	221.0	(0.3)	
EPS (₹)	25.9	23.2	(10.3)	31.7	31.6	(0.4)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume Growth (%)	1.4	16.9	21.2	14.6	29.8	20.3	As inventory at dealers level was completely cleared in India, we expect fresh demand to take off with rising temperature in India in FY19-21E. Symphony being a strong brand and leader in air cooler industry is likely to benefit from a shift in demand from unorganised to organised category
Realisation Growth (%)	2.0	-9.6	3.8	0.5	1.2	1.6	

Source: Company, ICICI Direct Research

Conference call highlights

- Large inventory witnessed at dealer's level during FY19 due to bad weather condition. However, fall in revenue by ~11% in Q4FY19 was lower than ~27% fall in revenue in 9MFY19. This was largely on account of a revival in demand from dealers as the inventory level has been completely cleared
- The channel partners have shown strong confidence on brand Symphony, which is evident from receipt of 100% advance of ₹ 300 crore during September–December 2018
- The company has launched ~16 new models in FY19 in the residential air cooler segments
- Symphony has strengthened its dealer and distribution network in the commercial, industrial cooling segment and launched new model 'Mobi cool' in the central air cooling segment
- Export revenue declined ~14% in FY19 mainly due to inventory pile up in three countries
- It is aiming to maintain gross margin in the range of ~50%
- India's residential air cooler industry size is ~7-8 million units with ~75% share still held by unorganised players
- In value terms, Symphony's market share declined from 50% in FY18 to 47-48% in FY19
- The company is planning a share buy up to ₹ 165 crore. The announcement is expected in the coming quarter
- The company is targeting FY20 sales of ₹ 270-280 crore, EBITDA of ₹ 30 crore and PAT of ₹ 23 crore for Climate Technologies

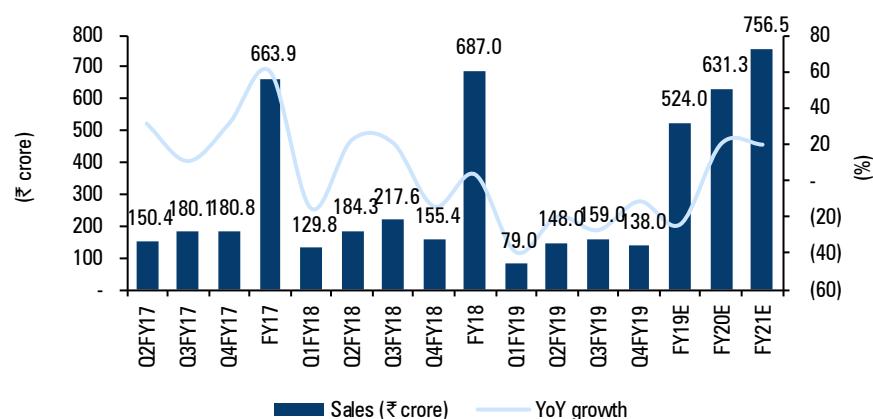
Exhibit 4: Improvement in performance of overseas subsidiaries

₹ crore	Impco Mexico		GSK China		Climate Technologies
	FY19	FY18	FY19	FY18	9MFY19
Revenue	88	88	56	44	206
EBITDA	8	5	2	-2	-7
EBITDA Margin	9.1	5.7	3.6	-4.5	-3.4
PAT	7	4	-2	-5	-14

Source: Company, ICICI Direct Research

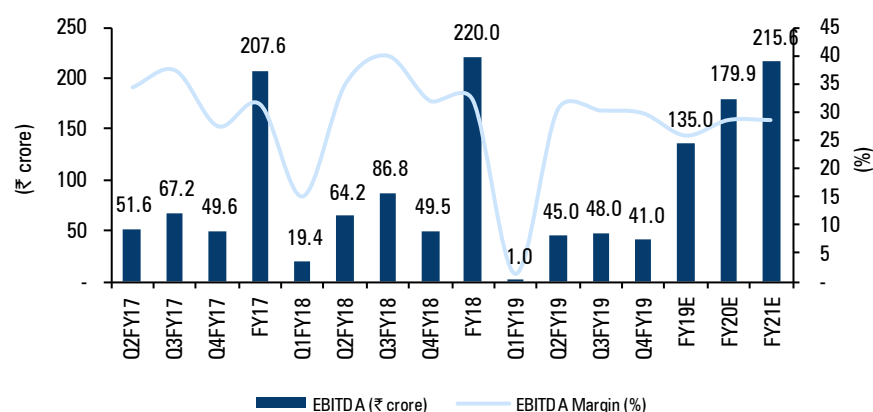
Financial story in charts

Exhibit 5: Standalone sales performance



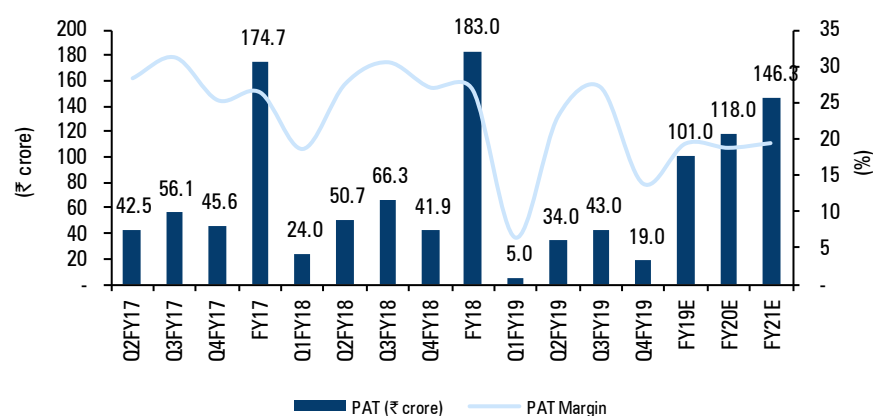
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



Source: Company, ICICI Direct Research

Figure 1 is a dual-axis chart showing the price of the S&P 500 index (left axis, \$) and the percentage of consensus with a HOLD recommendation (right axis, %) from October 2015 to May 2019. The price is shown as a light blue line, the direct target as a thick blue step function, the consensus target mean as a brown dotted line, and the percentage of consensus with a HOLD recommendation as dark blue diamonds. The price fluctuates around the consensus target mean, which is generally higher than the direct target. The percentage of consensus with a HOLD recommendation is mostly low, with a notable spike in early 2018.

Source: Bloomberg, Company, ICICI Direct Research

Rank	Name	Lat Filing Date	% O/S	Position (m)	Change (m)
1	Bakeri (Achal Anil)	31-03-2019	41.8%	29.26M	0
2	Sanskrit Tradecom Pvt. Ltd.	31-03-2019	17.8%	12.48M	0
3	Bakeri (Rupa Achal)	31-03-2019	10.1%	7.09M	-0.00M
4	Axis Asset Management Company Limited	31-03-2019	4.1%	2.88M	+0.01M
5	Bakeri (Achal Anil) HUF	31-03-2019	3.4%	2.40M	0
6	Matthews International Capital Management, L.L.C	31-12-2018	2.8%	1.99M	0
7	Bakeri (Pavan)	31-03-2019	1.7%	1.20M	0
8	UTI Asset Management Co. Ltd.	30-04-2019	1.7%	1.19M	-0.03M
9	HDFC Asset Management Co., Ltd.	31-03-2019	1.4%	1.01M	-0.02M
10	Rowenta Networks Pvt. Ltd.	31-03-2019	1.2%	0.86M	0

Source: Reuters. ICICI Direct Research

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Axis Asset Management Company Limited	+0.28M	+0.01M	UTI Asset Management Co. Ltd.	-0.59M	-0.03M
Schroder Investment Management (Singapore) Ltd.	+0.05M	+0.00M	Mahindra Asset Management Company Pvt. Ltd.	-0.28M	-0.02M
BlackRock Institutional Trust Company, N.A.	+0.06M	+0.00M	HDFC Asset Management Co., Ltd.	-0.37M	-0.02M
UTI International (Singapore) Pvt. Ltd.	+0.03M	+0.00M	Emirates NBD Asset Management Limited	-0.12M	-0.01M
BlackRock Asset Management Ireland Limited	+0.03M	+0.00M	Dimensional Fund Advisors, L.P.	-0.14M	-0.01M

Source: Reuters. ICICI Direct Research

(in %)	Jun'16	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19
Promoter	75.0	75.0	75.0	75.0	75.0	75.0
FII	6.7	7.5	7.2	6.2	8.9	6.7
DII	3.9	7.2	7.7	8.7	6.2	8.6
Others	14.5	10.4	10.2	10.2	9.9	9.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Net Sales	798.2	844.0	1062.1	1222.7
Growth (%)		5.7	25.8	15.1
Expenditure				
Increase / Decrease in stock	-1.7	-16.0	-16.0	-16.0
Raw Material Expenses	387.0	469.0	520.4	599.1
Marketing Expenses	32.8	33.0	63.7	61.1
Administrative Expenses	44.2	51.3	63.7	73.4
Employee Expenses	72.7	103.0	95.6	103.9
Total Operating Expenditure	579.0	712.0	823.0	931.6
EBITDA	219.2	132.0	239.0	291.1
Growth (%)		-39.8	81.1	21.8
Other Income	54.1	39.0	29.3	26.9
Interest	1.8	7.0	9.5	4.5
PBDT	271.6	164.0	258.8	313.5
Depreciation	6.8	10.0	9.0	10.4
PBT before Exceptional Items	264.8	154.0	249.7	303.1
Less: Exceptional Items	-	-	-	-
PBT	264.8	130.0	225.7	303.1
Total Tax	72.3	39.0	63.2	82.1
PAT	192.5	91.0	162.5	221.0

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	14.0	14.0	14.0	14.0
Reserve and Surplus	597.6	652.0	652.7	715.5
Total Shareholders funds	611.6	666.0	666.7	729.5
Deferred Tax Liability	8.9	6.0	6.0	6.0
Total Debt	25.6	187.0	177.0	147.0
Total Liabilities	646.1	863.0	853.7	886.6
Assets				
Total Gross Block	187.5	214.6	225.6	237.6
Less Total Accumulated Depreciation	109.7	119.7	128.7	139.1
Net Block	77.9	95.0	96.9	98.5
Goodwill on Consolidation	3.9	143.0	143.0	143.0
Other Investments	172.0	186.0	236.0	216.0
Liquid Investments	250.4	272.0	252.0	232.0
Inventory	79.6	119.0	148.4	167.5
Debtors	61.5	105.0	128.0	167.5
Other Current Assets	88.8	62.0	78.0	89.8
Cash	22.6	54.0	10.0	34.7
Total Current Assets	252.4	340.0	364.5	459.5
Creditors	58.4	130.0	168.8	187.6
Provisions	12.9	20.0	26.0	28.9
Other current liabilities	39.3	58.0	73.0	84.0
Total Current Liabilities	110.5	208.0	267.7	300.5
Net Current Assets	141.9	132.0	96.7	159.0
Total Asset	646.1	863.0	853.7	877.6

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	192.5	91.0	162.5	221.0
Depreciation	6.8	10.0	9.0	10.4
Cash Flow before working capital cha	201.1	108.0	181.1	235.8
Net Increase in Current Assets	-42.6	-56.2	-68.4	-70.4
Net Increase in Current Liabilities	-5.0	97.5	59.7	32.8
Net cash flow from operating act.	153.5	149.4	172.4	198.2
(Increase)/Decrease in Other Investments	-67.0	-14.0	-50.0	20.0
(Purchase)/Sale of Liquid Investments	-63.8	-21.6	20.0	20.0
(Purchase)/Sale of Fixed Assets	-9.1	-33.1	-5.0	-12.0
Net Cash flow from Investing act.	-136.3	-235.8	-35.0	28.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	6.2	161.5	-10.0	-30.0
Total Outflow on account of dividend	-37.9	-37.5	-158.2	-158.2
Net Cash flow from Financing act.	-41.6	117.9	-181.4	-192.7
Net Cash flow	-24.4	31.5	-44.0	33.6
Cash and Cash Equivalent at the beginning	47.0	22.6	54.0	10.0
Cash	22.6	54.0	10.0	34.7

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
EPS	27.5	13.0	23.2	31.6
Cash EPS	28.5	14.4	24.5	33.1
BV	87.4	95.2	95.3	104.3
DPS	5.4	5.4	22.6	22.6
Operating Ratios				
EBITDA Margin	27.5	15.6	22.5	23.8
PAT Margin	24.1	12.8	16.9	18.1
Return Ratios				
RoE	31.5	16.2	27.0	30.3
RoCE	41.3	18.7	30.4	34.7
RoIC	52.0	29.3	46.7	51.3
Valuation Ratios				
EV / EBITDA	35.9	63.5	35.3	30.1
P/E	42.2	89.3	50.0	36.8
EV / Net Sales	9.9	9.9	7.9	6.9
Div Yield (%)	0.5	0.5	1.9	1.9
Market Cap / Sales	10.2	9.6	7.7	6.6
Price to Book Value	13.3	12.2	12.2	11.1
Turnover Ratios				
Asset turnover	1.2	1.0	1.2	1.4
Debtor Days	4.3	3.9	4.7	5.1
Creditor Days	26.7	56.2	58.0	56.0
Inventory Days	36.4	51.5	51.0	50.0
Solvency Ratios				
Current Ratio	3.2	1.9	1.8	2.0
Quick Ratio	2.1	1.1	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,390	1,600	Buy	133,301	23.1	26.9	31.8	60.3	51.6	43.7	36.0	30.4	25.3	30.0	32.0	32.5	23.2	24.6	24.6
Astral Polytechnik (ASTPOL)	1,225	1,250	Hold	14,669	16.5	20.9	27.9	74.3	58.5	43.9	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	557	525	Hold	5,684	18.9	21.4	26.3	29.5	26.0	21.2	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	745	800	Buy	46,481	14.1	17.3	20.4	53.0	43.0	36.5	37.2	28.8	24.0	29.4	31.0	31.1	22.2	22.7	22.5
Kansai Nerolac (KANNNR)	431	455	Hold	23,227	8.7	9.7	11.3	49.7	44.6	38.1	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,208	1,335	Buy	61,927	18.5	22.0	26.1	65.3	54.8	46.3	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	132	136	Hold	4,147	6.2	6.7	7.9	21.3	19.7	16.6	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,044	1,075	Buy	13,262	35.3	39.3	44.8	29.6	26.6	23.3	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,153	1,110	Hold	8,066	13.0	23.2	31.6	88.6	49.6	36.5	35.9	63.5	35.3	41.3	18.7	30.4	31.5	16.2	27.0
V-Guard Ind (VGUARD)	209	205	Hold	8,897	3.3	4.2	5.1	63.0	49.8	40.6	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	582	605	Hold	19,249	15.5	18.3	21.9	37.5	31.8	26.6	27.5	28.8	22.7	19.8	17.3	19.9	14.8	12.7	15.1
Time Techno (TIMTEC)	87	80	Hold	1,967	8.8	10.8	12.7	9.9	8.0	6.9	5.4	5.3	4.7	14.9	14.7	15.5	12.2	12.2	13.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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