

Demand recovery drives performance

Symphony's strong consolidated performance in Q1FY20 came on the back of a low base, a demand revival in the domestic business and consolidation of Climate Technology, Australia. On the standalone front, fresh demand from dealers on account of strong summer vis-à-vis low base had translated to strong volume growth at ~100% for Symphony. However, gross margin remained under pressure (down 377 bps YoY on standalone basis) due to a change in mix and higher advertisement expenses restricting EBITDA margin expansion to 15% (vs. standalone annual average of 30%). The company reiterated strong volume growth and margin recovery in FY20E-21E led by leveraging dealer networks along with rationalisation of cost in the overseas and domestic markets.

Strong summer, low channel inventory push volume growth

After a dull standalone performance in FY19, the company started the year with strong volume growth in Q1FY20 supported by strong demand from its dealers. However, rising competition coupled with a change in product mix restricted any price hike in Q1FY20. On the subsidiary front, the financial performance of Impco and Climate Technology showed some improvement while GSK China slipped into negative in Q1FY20. The management has given a guidance of strong volume demand in the domestic business led by sustained dealer demand (due to low inventory at channel) and leveraging overseas dealer network of GSK and Climate Technology to push Symphony's brand in China, US and Australia. We model consolidated revenue CAGR of 21% in FY18-21E led by overseas business (with full impact of Climate Technology on topline). However, the domestic business is expected to record revenue CAGR of ~9% FY18-21E (changing base to eliminate the impact of seasonality).

Pressure in gross margin limits margin expansion

We believe consolidation of new business coupled with rising competitive intensity would keep gross margin lower at ~50% (down ~300 bps in last four years). This, coupled with rising proportion of low margin business in topline (i.e. overseas business contributes ~45% in topline) would keep overall EBITDA margin expansion under check.

Valuation & Outlook

We model revenue, earnings CAGR of 21%, 7%, respectively, in FY18-21E led by strong volume growth in the domestic business. Despite a strong recovery in Q1FY20, we believe consolidated EBITDA margins in the medium term would be under stress due to rising competition and consolidation of low margin business (consolidated EBITDA margin ~23% vs. standalone EBITDA margin of ~30%). Hence, we maintain **HOLD** rating on the stock with a revised target price of ₹ 1295 (valuing at 38x FY21E).

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	(CAGR 18-21E)
Net Sales	764.8	798.2	844.0	1178.3	1428.1	21.4
EBITDA	198.6	219.2	132.0	269.7	332.7	14.9
EBITDA Margin (%)	26.0	27.5	15.6	22.9	23.3	
PAT	166.3	192.5	91.0	160.7	238.3	7.4
EPS (₹)	23.8	27.5	13.0	23.0	34.1	
P/E(x)	52.6	45.4	96.1	54.4	36.7	
Price/Book value (x)	18.8	14.3	13.1	13.2	11.7	
Mcap/sales (x)	11.4	11.0	10.4	7.4	6.1	
RoE (%)	35.8	31.5	16.2	29.2	32.0	
RoCE (%)	48.0	41.3	18.7	34.0	39.0	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Capitalization (₹ Crore)	8,744.6
Total Debt (FY19) (₹ Crore)	187.0
Cash & Inv (FY19) (₹ Crore)	326.0
EV (₹ Crore)	8,606
52 week H/L (₹)	1575 / 811
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Key Highlights

- Low channel inventory in Q1 indicates sustained demand in the coming quarters
- Gross margin to remain at 50% (vs. last four year's average gross margin of 53%). The higher EBITDA margin for FY19 would be on account of rationalisation of advertisement and other expenditure
- Management confident of reviving overseas subsidiary performance by leveraging common dealer channels
- Maintain **HOLD** with revised target price of ₹ 1295

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Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	292.0	185.3	146.0	100.0	235.0	24.3	Low base, consolidation of new business and strong demand of cooling products in domestic markets drive volume growth in Q1FY20
Other Income	12.0	6.6	6.0	100.0	11.0	9.1	
Raw Material Exp	159.0	92.7	74.0	114.9	135.0	17.8	Decline in gross margin by ~377 bps YoY attributable to change in product mix and higher trade discounts
Employee Exp	27.0	29.7	17.0	58.8	28.0	-3.6	
Selling & Dis. Exp	31.0	5.6	19.0	63.2	6.0	NM	
Other Exp	37.0	24.1	19.0	94.7	37.0	0.0	
EBITDA	38.0	33.4	17.0	123.5	29.0	31.0	
EBITDA Margin (%)	13.0%	18.0	11.6%	137 bps	12.3%	67 bps	Sharp decline in gross margin completely offset by saving in employee cost and marketing expenses (as percentage of sales)
Depreciation	6.0	3.0	2.0	200.0	3.0	100.0	
Interest	3.0	3.0	0.0	NA	3.0	NA	
Exceptional items	0.0	0.0	0.0	NA	20.0	NA	Exceptional loss during Q4 FY19 was due to provision made against investment in IL&FS
PBT	41.0	34.0	21.0	95.2	14.0	192.9	
Total Tax	8.0	10.2	1.0	700.0	11.0	-27.3	
PAT	33.0	23.8	20.0	65.0	3.0	1,000.0	Strong operational performance helped drive PAT in Q1FY20

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	1,062.1	1178.3	10.9	1,222.7	1428.1	16.8	Change in estimates reflecting Q1FY20 performance
EBITDA	239.0	269.7	12.8	291.1	332.7	14.3	
EBITDA Margin %	22.5	22.9	39bps	23.8	23.3	-51bps	We believe margin recovery from FY20E onwards supported by recovery in domestic performance
PAT	162.5	160.7	(1.1)	221.0	238.3	7.8	
EPS (₹)	23.2	23.0	(1.1)	31.6	34.1	7.8	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY20E	FY21E	
Volume Growth (%)	7.4	7.5	35.2	22.6	21.2	14.6	Strong volume growth would be attributable to low base and product push through overseas subsidiaries would help in driving overall volume growth
Realisation Growth (%)	-2.8	-1.6	3.2	1.7	3.8	0.5	

Source: Company, ICICI Direct Research

Conference call highlights

Consolidated

- Overall business performance of the company was boosted by a good summer & revival in demand for cooling products
- The company grew faster than its competitors during the current quarter. Thus, it is believed to have gained market share
- The management has guided that the company will restore its previous EBIDTA margin of 30%. This is largely on account of rationalisation of advertisement (~11% of cons. sales in Q1FY20) and other expenditure for FY20. The company has guided of annual advertisement expenditure to be in the range of ~4-6% of revenue.
- Symphony is planning to launch an array of new products including seven new models in the household cooler segment & three to four new models in the commercial segment. The new models would range from ₹ 8999 to ₹ 70,000
- Symphony is now planning to manufacture their industrial & commercial coolers locally. This would reduce 34% custom duty on imports from China & logistics cost thus improving margins
- The company expects good growth in the next quarter as the offseason booking in July is significantly higher than last year

Global Business

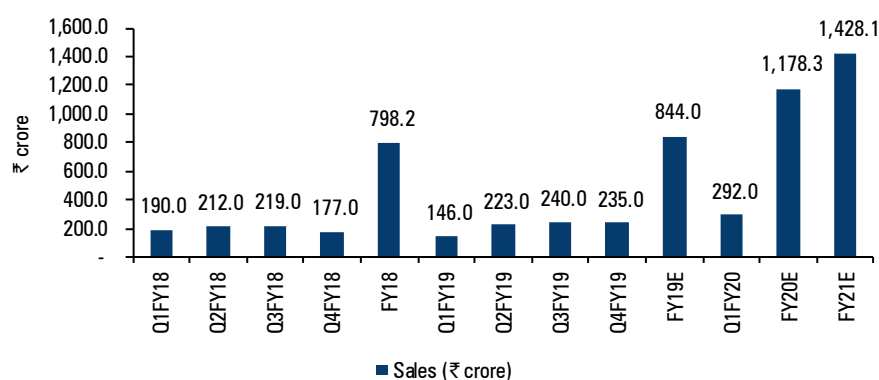
- IMPCO (Mexico) reported good double digit growth mainly due to a good summer. The company reported topline revenue of ₹ 51 crore, EBIDTA at ₹ 7 crore and PAT at ₹ 6 crore
- Symphony's newly acquired Australian subsidiary Climate Technologies reported revenue of ₹ 69 crore, with an EBIDTA of ₹ 3 crore and loss of ₹ 1 crore. This was largely due to the impact of interest on loan for acquisition, as stated by the management
- The company has undertaken several initiatives for cost & overhead reduction as well as sales enhancement in the Australian subsidiary
- Symphony is planning to launch its Indian products by leveraging Climate Technologies distribution in the Australia & US where market size of ~ ₹ 900 crore and ~ ₹ 2100 crore respectively.
- GSK China reported topline revenue at ₹ 16 crore, EBIDTA at ₹ 1 crore & loss of ₹ 1 crore
- Overall, the global business reported a topline of ₹ 132 crore with a PAT of ₹ 7 crore after factoring for intercompany adjustments of ₹ 3 crore

Annual Report takeaways

- FY19 has been an extremely challenging year for Symphony with decline in margins and fragmentation of industry market share
- The company, in the wake of increased competition, is now planning to focus on value & volume combined as opposed to their earlier strategy of focusing only on value & premium segments
- Share of global business increased from 17% in FY16 to 45% in FY19
- According to an estimate by company, the domestic air cooling market is projected to grow at a CAGR of 12.2% between 2018 and 2024, ensuring steady growth for the segment
- During the year, revenue from operation of international business was ₹ 57.49 crore. There was a decline of 12.52% due to a substantial amount of carry forward inventory by International distributors in South East Asia and Southern Europe due to relatively weak season in these regions.
- Even though FY19 was a challenging year, Symphony commanded market share of 51%.
- During the year, Impco (Mexico) successfully initiated manufacturing at two OEM factories. This has helped IMPCO in optimising its team size (reducing fixed costs), apart from becoming further asset light
- The company incurred ~₹ 9 crore in R&D expenditure at the consolidated level for FY19 compared to ~₹ 4 crore in FY18
- The company introduced its products in over 10 new countries during FY19
- The company has a network of 1000 exclusive dealers as on FY19

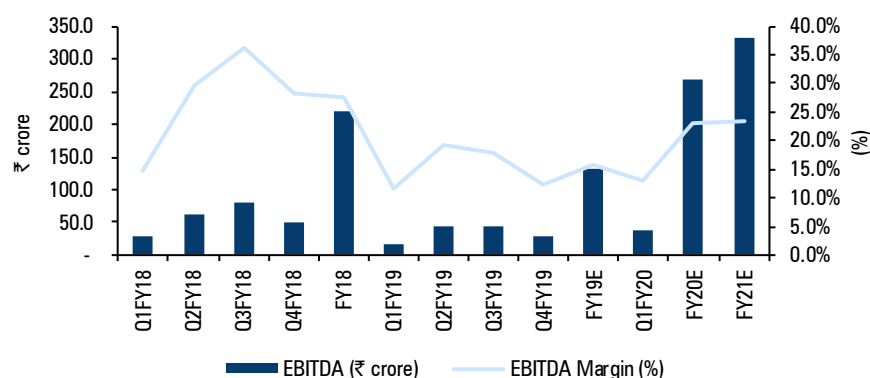
Financial story in charts

Exhibit 4: Consolidated sales performance



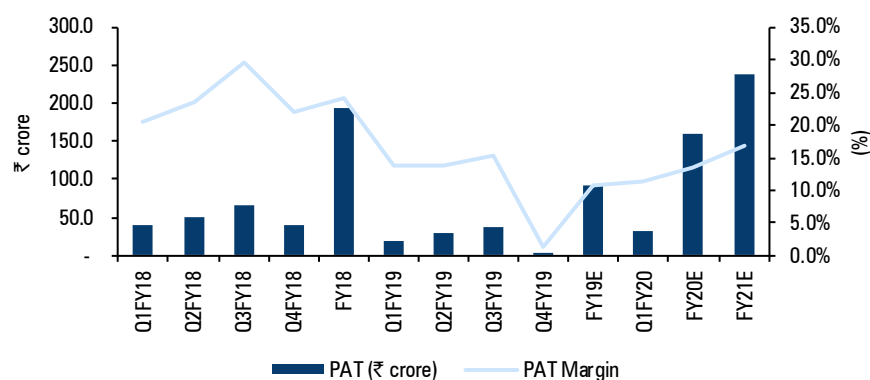
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend

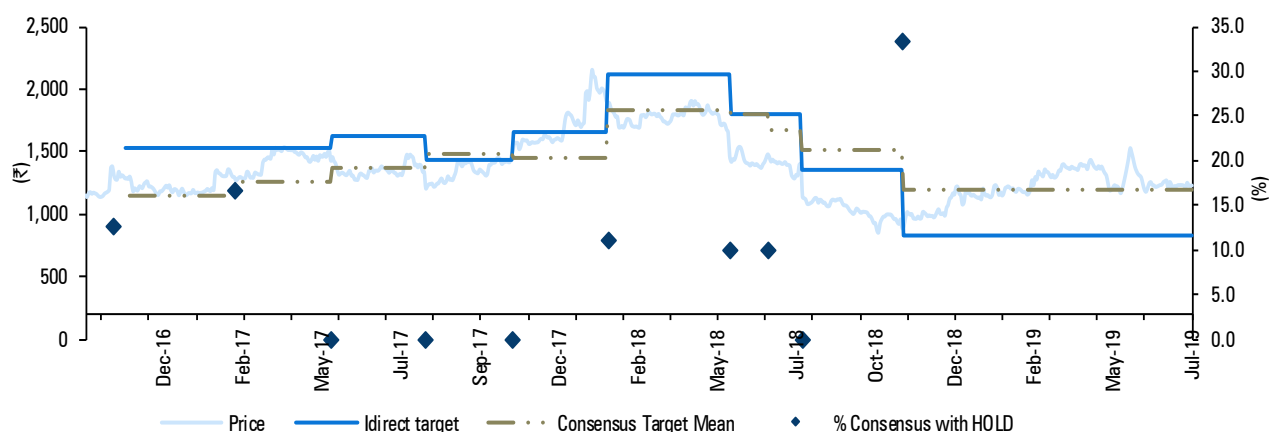


Source: Company, ICICI Direct Research

Exhibit 6: PAT trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S Position (m)	Change (m)
1	Bakeri (Achal Anil)	30-06-2019	41.8%	29.26M
2	Sanskrit Tradecom Pvt. Ltd.	30-06-2019	17.8%	12.48M
3	Bakeri (Rupa Achal)	30-06-2019	10.1%	7.09M
4	Axis Asset Management Company Limited	30-06-2019	4.7%	3.29M
5	Bakeri (Achal Anil) HUF	30-06-2019	3.4%	2.40M
6	Matthews International Capital Management, L.L.C	31-03-2019	2.8%	1.99M
7	Bakeri (Pavan)	30-06-2019	1.7%	1.20M
8	UTI Asset Management Co. Ltd.	30-06-2019	1.5%	1.04M
9	HDFC Asset Management Co., Ltd.	30-06-2019	1.4%	1.01M
10	Rowenta Networks Pvt. Ltd.	30-06-2019	1.2%	0.86M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Axis Asset Management Company Limited	+1.07M	+0.06M	UTI Asset Management Co. Ltd.	-0.04M	-0.00M
Gupta (Jayesh)	+0.17M	+0.01M	Emirates NBD Asset Management Limited	-0.03M	-0.00M
Schroder Investment Management (Singapore) Ltd.	+0.17M	+0.01M	State Street Global Advisors (US)	-0.01M	-0.00M
BlackRock Institutional Trust Company, N.A.	+0.05M	+0.00M	Emirates NBD Asset Management Limited	-0.12M	-0.01M
UTI International (Singapore) Pvt. Ltd.	+0.03M	+0.00M	Dimensional Fund Advisors, L.P.	-0.14M	-0.01M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar'18	Jun'18	Sep'18	Dec'18	Mar'19	Jun'19
Promoter	75.0	75.0	75.0	75.0	75.0	75.0
FII	7.5	7.2	6.2	8.9	6.7	6.5
DII	7.2	7.7	8.7	6.2	8.6	9.0
Others	10.4	10.2	10.2	9.9	9.7	9.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Net Sales	798.2	844.0	1178.3	1428.1
Growth (%)		5.7	39.6	21.2
Expenditure				
Increase / Decrease in stock	0.0	-16.0	0.0	0.0
Raw Material Expenses	385.3	469.0	577.4	699.8
Marketing Expenses	32.8	33.0	70.7	85.7
Administrative Expenses	44.2	51.3	58.9	71.4
Employee Expenses	72.7	103.0	106.0	128.5
Total Operating Expenditure	579.0	712.0	908.6	1095.4
EBITDA	219.2	132.0	269.7	332.7
Growth (%)		-39.8	104.3	23.4
Other Income	54.1	39.0	43.9	44.8
Interest	1.8	7.0	12.5	11.3
PBDT	271.6	164.0	301.1	366.1
Depreciation	6.8	10.0	23.6	25.7
PBT before Exceptional Items	264.8	154.0	277.5	340.4
Less: Exceptional Items	-	-	-	-
PBT	264.8	130.0	229.5	340.4
Total Tax	72.3	39.0	68.9	102.1
PAT	192.5	91.0	160.7	238.3

Source: Company, ICICI Direct Research

Exhibit 13: 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	650.8	730.9
Total Shareholders funds	611.6	666.0	664.8	744.9
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	851.8	902.0
Assets				
Total Gross Block	187.5	214.6	225.6	237.6
Less Total Accumulated Depreciation	109.7	119.7	143.2	169.0
Net Block	77.9	95.0	82.4	68.7
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	164.6	195.6
Debtors	61.5	105.0	142.0	195.6
Other Current Assets	88.8	62.0	86.6	104.9
Cash	22.6	54.0	13.2	68.0
Total Current Assets	252.4	340.0	406.4	564.2
Creditors	58.4	130.0	187.2	219.1
Provisions	12.9	20.0	28.8	33.7
Other current liabilities	39.3	58.0	81.0	98.1
Total Current Liabilities	110.5	208.0	297.0	351.0
Net Current Assets	141.9	132.0	109.4	213.2
Total Asset	646.1	863.0	851.8	901.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	192.5	91.0	160.7	238.3
Depreciation	6.8	10.0	23.6	25.7
Cash Flow before working capital cha	201.1	108.0	196.7	275.3
Net Increase in Current Assets	-42.6	-56.2	-107.2	-102.9
Net Increase in Current Liabilities	-5.0	97.5	89.0	53.9
Net cash flow from operating act.	153.5	149.4	178.5	226.3
(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	-184.4	-199.5
Net Cash flow	-24.4	31.5	-40.8	54.8
Cash and Cash Equivalent at the beginning	47.0	22.6	54.0	13.2
Cash	22.6	54.0	13.2	68.0

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
EPS	27.5	13.0	23.0	34.1
Cash EPS	28.5	14.4	26.3	37.7
BV	87.4	95.2	95.0	106.5
DPS	5.4	5.4	22.6	22.6
Operating Ratios				
EBITDA Margin	27.5	15.6	22.9	23.3
PAT Margin	24.1	12.8	16.5	16.7
Return Ratios				
RoE	31.5	16.2	29.2	32.0
RoCE	41.3	18.7	34.0	39.0
RoIC	52.0	29.3	49.7	58.1
Valuation Ratios				
EV / EBITDA	38.8	65.9	32.4	26.1
P/E	45.4	96.1	54.4	36.7
EV / Net Sales	10.6	10.3	7.4	6.1
Div Yield (%)	0.4	0.4	1.8	1.8
Market Cap / Sales	11.0	10.4	7.4	6.1
Price to Book Value	14.3	13.1	13.2	11.7
Turnover Ratios				
Asset turnover	1.2	1.0	1.4	1.6
Debtor Days	4.3	3.9	5.2	6.0
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 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E
Asian Paints (ASIPAI)	1,504	1,550	Hold	144,234	23.0	27.1	33.1	65.3	55.6	45.5	37.7	31.9	26.8	30.4	32.7	34.6	23.2	24.7	26.2
Astral Polytechnik (ASTPOL)	1,228	1,250	Hold	14,705	16.5	20.9	27.9	74.5	58.7	44.0	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	359	470	Hold	3,664	18.9	21.4	26.3	19.0	16.8	13.7	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	648	720	Hold	40,429	12.7	14.2	17.8	51.1	45.6	36.4	34.3	30.1	23.7	25.3	27.9	30.1	18.7	20.1	21.5
Kansai Nerolac (KANNNR)	417	470	Hold	22,473	8.7	9.8	11.8	48.1	42.6	35.2	30.8	27.0	21.9	20.2	21.8	23.8	13.6	14.8	16.0
Pidilite Industries (PIDIND)	1,210	1,335	Buy	62,029	18.8	18.1	22.8	64.2	66.8	53.1	42.6	34.3	28.4	29.6	32.3	34.0	22.7	24.5	25.6
Essel Propack (ESSPRO)	133	136	Hold	4,179	6.2	6.7	7.9	21.5	19.8	16.7	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,051	1,215	Buy	13,351	35.3	38.9	47.0	29.8	27.0	22.4	17.3	14.9	12.5	25.0	27.8	29.6	18.7	21.4	22.4
Symphony (SYMLIM)	1,250	1,295	Hold	8,745	13.0	23.0	34.1	96.1	54.4	36.7	39.2	65.9	32.4	41.3	18.7	34.0	31.5	16.2	29.2
V-Guard Ind (VGUARD)	229	230	Hold	9,748	3.9	5.0	5.7	58.8	45.8	40.2	53.2	45.0	33.9	23.7	23.7	29.1	17.7	18.4	22.1
Voltas Ltd (VOLTAS)	608	646	Hold	20,109	15.5	27.2	23.8	39.1	22.3	25.6	28.1	29.4	14.9	19.8	17.3	27.4	14.8	12.7	21.0
Time Techno (TIMTEC)	78	101	Hold	1,764	9.0	10.6	12.5	8.7	7.4	6.2	6.2	5.7	5.2	14.9	15.0	15.8	12.2	12.1	12.9

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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