Symphony

BUY

Back with a bang!

Symphony's 1Q performance was a blowout, even beat our aggressive estimates. 1Q performance has proved the naysayers wrong about the relevance of air coolers (in the era of fast growing RAC) and Symphony's market share loss. Growth visibility for FY20E is high despite slowdown in macros owing to low channel inventory and new launches. We maintain our estimates and value Symphony at 45x Jun-21 EPS, arriving at a TP of Rs 1,686. Maintain BUY.

HIGHLIGHTS OF THE QUARTER

- Domestic revenues grew by 128% (vs. exp. of 80%) owing to a harsh summer, market share gains and favorable base. Consumer offtake was healthy across markets and channels in India. Adjusting for soft base, domestic revenues still grew by strong 35% vs. 1QFY18. As per management, they held back ~Rs 150-200mn of potential sales to avoid any pileup of inventory in trade prior to the new season. Channel inventory is now at historical lows and dealer sentiments are positive (seen high inventory pressure over the last 2 years).
- After a gap of 2 years, co. has launched 7 SKUs and re-launched 7 SKUs in the domestic residential coolers. Trade sentiments are positive (unlike other appliances categories), hence pre-booking for new launches is robust. July off-season sales have grown at a healthy pace. We expect ~30% growth for domestic business over 2Q-4QFY20.
- Standalone gross margins were down by 443bps to 50% (at par with last 3 quarters) owing to higher promotions and product mix. We expect promotions to moderate for the rest of the year. A&P spend (up 47%) was at a 5 year high, led to 15% EBITDAM (exp 21%). A&P spends are concentrated in 1Q, hence FY20 margins are expected to converge towards 30% during off-season.
- RoW sales (49% mix of consolidated) grew by 80% driven by acquisition of CT Australia. However, CT's performance was muted owing to integration challenges post the acquisition. Co. is gearing up for launch of Symphony residential air coolers in Australia and North America via CT's distribution network.

STANCE

Summer 2019 confirms our thesis that Symphony will always delivered strongly if the season has no disruption. Organised air cooler market will deliver healthy growth despite rising affluence towards RAC. Symphony's constant focus on product innovation and superior franchise with distributors will make the company competitive.

With trade inventory now at historical low levels, Symphony will enjoy off-season stocking, opportunity to launch tech-rich coolers and benefit from a favorable base. Besides, its international performance will improve given the various initiatives undertaken.

Financial Summary (Consolidated)

YE March (Rs mn)	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	1,600	790	*102.5*	1,380	*15.9*	7,983	8,440	11,712	13,734	15,970
EBITDA	240	10	*2,300.0*	410	*(41.5)*	2,193	1,320	2,610	3,172	3,769
APAT	260	50	*420.0*	330	*(21.2)*	1,924	1,078	2,047	2,497	3,002
Diluted EPS (Rs)	3.7	0.7	*420.0*	4.7	*(21.2)*	27.5	15.4	29.2	35.7	42.9
P/E (x)						46.0	82.1	43.2	35.4	29.5
EV / EBITDA (x)						38.4	64.7	32.3	26.2	21.6
Core RoCE (%)						89.9	31.9	49.9	55.6	61.5

Source: Company, HDFC sec Inst Research Note: Quarterly numbers are standalone

INDUSTRY	APPLIANCES
CMP ***(as on 01 Aug 2019)***	**Rs 1,264**
Target Price	**Rs 1,686**
Nifty	10,980
Sensex	37,018
KEY STOCK DATA	
Bloomberg	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / ($ mn)	88/1,282
6m avg traded value (Rs mn)	44

STOCK PERFORMANCE (%)			
52 Week high / low		**Rs 1,589/812**	
	3M	6M	12M
Absolute (%)	(7.5)	5.0	16.3
Relative (%)	(2.4)	3.5	17.7

SHAREHOLDING PATTERN (%)		
	Mar-19	**Jun-19**
Promoters	75.00	75.00
FIs & Local MFs	8.64	8.95
FPIs	6.67	6.51
Public & Others	9.69	9.51
Pledged Shares (% of total shares)	-	-

Source : BSE

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Symphony has launched 7 new SKUs in domestic air coolers and relaunced 7 SKUs

All the new air coolers are 30% more efficient in cooling owing to 3 side cooling and new fan blades

Diet 3D has a pop-touchscreen with 3 side cooling pads which enhances cooling

The new Sumo has 3 side cooling pad which enhances cooling efficiency

Symphony has launched commercial air coolers which are portable. These air coolers will be manufactured in India and are GM accretive to co.

New launches

Diet 3D (Residential) – Launched in 4 SKUs

Source: Company, HDFC sec Inst Research

SumoXL (Residential)– Launched in 3 SKUs

Source: Company, HDFC sec Inst Research

Movicool (Commercial) – Portable coolers

Source: Company, HDFC sec Inst Research

Movicool (Commercial) – Portable coolers

Source: Company, HDFC sec Inst Research

Domestic revenues grew by 128% (-41% in 1QFY19). Exports grew by -14% impacted by inter-segment sales (GSK China)

GM was down by 443 bps to 50% owing to product mix and higher promotions

ASP spend was at a 5 year high as co focused on driving volumes

A&P spends are concentrated in 1Q, hence FY20 margins are expected to converge towards 30% during off-season

APAT grew by 420% to Rs 260mn vs. our exp of 240mn

Quarterly Financials (Standalone)

Particulars	1QFY20	1QFY19	YoY (%)	4QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Revenue	**1,600**	**790**	***102.5***	**1,380**	***15.9***	**5,240**	**6,874**	***(23.8)***
Material Expenses	800	360	*122.2*	710	*12.7*	2,610	3,199	*(18.4)*
Employee Expenses	130	110	*18.2*	130	-	530	520	*1.9*
ASP Expenses	280	190	*47.4*	40	*600.0*	250	309	*(19.2)*
Other Operating Expenses	150	120	*25.0*	90	*66.7*	500	644	*(22.3)*
EBITDA	**240**	**10**	***2,300.0***	**410**	***(41.5)***	**1,350**	**2,202**	***(38.7)***
Depreciation	10	10	-	10	-	40	42	*(4.1)*
EBIT	**230**	**-**	***na***	**400**	***na***	**1,310**	**2,160**	***(39.4)***
Other Income	110	60	*83.3*	100	*10.0*	390	403	*(3.2)*
Interest	-	-	*na*	-	*na*	-	7	*na*
Exceptional	-	-	*na*	(200)	*na*	(240)	-	
PBT	**340**	**60**	***466.7***	**500**	***(32.0)***	**1,640**	**2,556**	***(35.8)***
Tax	80	10	*700.0*	110	*(27.3)*	390	719	*(45.8)*
PAT	**260**	**50**	***420.0***	**390**	***(33.3)***	**1,010**	**1,837**	***(45.0)***
APAT	**260**	**50**	***420.0***	**330**	***(21.2)***	**1,179**	**1,837**	***(35.8)***
EPS (Adjusted)	**3.7**	**0.7**	***420.0***	**4.7**	***(21.2)***	**16.9**	**26.2**	***(35.8)***

Source: Company, HDFC sec Inst Research

Margin Analysis (Standalone)

% of Net sales	1QFY20	1QFY19	YoY (bps)	4QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses	50.0	45.6	*443*	51.4	*(145)*	49.8	46.5	*328*
Employee Expenses	8.1	13.9	*(580)*	9.4	*(130)*	10.1	7.6	*255*
ASP Expenses	17.5	24.1	*(655)*	2.9	*1,460*	4.8	4.5	*27*
Other Operating Expenses	9.4	15.2	*(581)*	6.5	*285*	9.5	9.4	*18*
EBITDA Margin (%)	15.0	1.3	*1,373*	29.7	*(1,471)*	25.8	32.0	*(627)*
Tax Rate (%)	23.5	16.7	*686*	22.0	*153*	23.8	28.1	*(435)*
APAT Margin (%)	16.3	6.3	*992*	28.3	*(1,201)*	19.3	26.7	*(745)*

Source: Company, HDFC sec Inst Research

Domestic revenues grew by 128% (vs. exp. of 80%) owing to a harsh summer, market share gains and favorable base.

Consumer offtake was healthy across markets and channels in India. Adjusting for soft base, domestic revenues still grew by strong 35% vs. 1QFY18

Segmental Quarterly (Standalone)

(Rs mn)	1QFY20	1QFY19	*YoY (%)*	4QFY19	*QoQ (%)*	FY19	FY18	*YoY (%)*
Revenue (Rs mn)								
Domestic	1,480	650	*127.7*	1,200	*23.3*	4,670	6,213	*(24.8)*
Export	120	140	*(14.3)*	180	*(33.3)*	570	661	*(13.7)*
Total	**1,600**	**790**	***102.5***	**1,380**	***15.9***	**5,240**	**6,874**	***(23.8)***
Revenue Mix (%)								
Domestic	93	82		87		89	90	
Export	8	18		13		11	10	
Total	**100**	**100**		**100**		**100**	**100**	
EBIT (Rs mn)								
Domestic	300	10	*2,900.0*	230	*30.4*	1,210	2,336	*(48.2)*
Export	40	50	*(20.0)*	70	*(42.9)*	190	227	*(16.4)*
Total	**340**	**60**	***466.7***	**300**	***13.3***	**1,400**	**2,563**	***(45.4)***
EBIT Margin (%)								
Domestic	20.3	1.5	*1,873*	35.8	*(1,553)*	25.9	37.6	*(1,168)*
Export	33.3	35.7	*(238)*	38.9	*(556)*	33.3	34.4	*(105)*
Total	**21.3**	**7.6**	***1,366***	**36.2**	***(1,495)***	**26.7**	**37.3**	***(1,056)***

Source: Company, HDFC sec Inst Research

CT Aus Rev/EBITDA/PAT was at Rs 690/10/-10mn in 1QFY20

GSK China Rev/EBITDA/PAT was at Rs 160/10/-10mn.

IMPCO Rev/EBITDA/PAT was at Rs 510/70/60mn

In the first year of acquisition CT Aus witnessed a weak summer and integration challenges. Similar to other acquisitions co is working on value engineering to enhance margins and growth

Quarterly Financials (Consolidated)

Particulars (Rs mn)	1QFY20	1QFY19	YoY Gr. (%)	4QFY19	QoQ Gr. (%)	FY19	FY18	YoY Gr. (%)
Net Revenue	**2,920**	**1,460**	***100.0***	**2,350**	***24.3***	**8,440**	**7,980**	***5.8***
Material Expenses	1,590	740	*114.9*	1,350	*17.8*	4,530	3,850	*17.7*
Employee Expenses	270	170	*58.8*	280	*(3.6)*	1,030	720	*43.1*
ASP Expenses	310	190	*63.2*	60	*416.7*	330	330	*-*
Other Operating Expenses	370	190	*94.7*	370	*-*	1,230	880	*39.8*
EBITDA	**380**	**170**	***123.5***	**290**	***31.0***	**1,320**	**2,200**	***(40.0)***
Depreciation	60	20	*200.0*	30	*100.0*	100	70	*42.9*
EBIT	320	150	*113.3*	260	*23.1*	1,220	2,130	*(42.7)*
Other Income	120	60	*100.0*	110	*9.1*	390	540	*(27.8)*
Interest	30	-	*na*	30	*na*	70	20	*na*
PBT	**410**	**210**	***95.2***	**340**	***20.6***	**1,540**	**2,650**	***(41.9)***
Tax	80	10	*700.0*	110	*(27.3)*	390	720	*(45.8)*
PAT	**330**	**200**	***65.0***	**30**	***1,000.0***	**910**	**1,930**	***(52.8)***
Adjustment	110	-	*na*	250	*na*	168	-	*na*
APAT	**440**	**200**	***120.0***	**280**	***57.1***	**1,078**	**1,930**	***(44.1)***
EPS	4.7	2.9	*65.0*	0.4	*1,000.0*	13.0	27.6	*(52.8)*

MARGIN ANALYSIS	1QFY20	1QFY19	YoY Chg (bps)	4QFY19	QoQ Chg (bps)	FY19	FY18	YoY Chg (bps)
Material Expenses	54.5	50.7	*377*	57.4	*(299)*	53.7	48.2	*543*
Employee Expenses	9.2	11.6	*(240)*	11.9	*(267)*	12.2	9.0	*318*
ASP Expenses	10.6	13.0	*(240)*	2.6	*806*	3.9	4.1	*(23)*
Other Operating Expenses	12.7	13.0	*(34)*	15.7	*(307)*	14.6	11.0	*355*
EBITDA Margin (%)	13.0	11.6	*137*	12.3	*67*	15.6	27.6	*(1,193)*
Tax Rate (%)	19.5	4.8	*1,475*	32.4	*(1,284)*	25.3	27.2	*(185)*
APAT Margin (%)	11.3	13.7	*(240)*	1.3	*1,002*	10.8	24.2	*(1,340)*

Source: Company, HDFC sec Inst Research

RoW growth was impacted by CT Aus acquisition

Co. is gearing up for launch of Symphony residential air coolers in Australia and North America via CT's distribution network (Rs 30bn combined market)

Segmental Quarterly (Consolidated)

Particulars (Rs mn)	1QFY20	1QFY19	*YoY Gr. (%)*	4QFY19	*QoQ Gr. (%)*	FY19	FY18	*YoY Gr. (%)*
Revenue								
Domestic	1,480	660	*124.2*	1,200	*23.3*	4,670	6,220	*(24.9)*
RoW	1,440	800	*80.0*	1,150	*25.2*	3,770	1,760	*114.2*
Total	**2,920**	**1,460**	***100.0***	**2,350**	***24.3***	**8,440**	**7,980**	***5.8***
Revenue Mix (%)								
Domestic	51%	45%		51%		55%	78%	
RoW	49%	55%		49%		45%	22%	
Total	**100%**	**100%**		**100%**		**100%**	**100%**	
EBIT								
Domestic	300	10	*2,900.0*	230	*30.4*	1,210	2,340	*(48.3)*
RoW	140	200	*(30.0)*	(60)	*(333.3)*	160	330	*(51.5)*
Total	**440**	**210**	***109.5***	**170**	***158.8***	**1,370**	**2,670**	***(48.7)***
EBIT Margin (%)								
Domestic	20%	2%	*1,876*	19%	*110*	26%	38%	*(1,171)*
RoW	10%	25%	*(1,528)*	-5%	*1,494*	4%	19%	*(1,451)*
Total	**15%**	**14%**	***68***	**7%**	***783***	**16%**	**33%**	***(1,723)***
EBIT Mix (%)								
Domestic	68%	5%		135%		88%	88%	
RoW	32%	95%		-35%		12%	12%	
Total	**100%**	**100%**		**100%**		**100%**	**100%**	

Source: Company, HDFC sec Inst Research

Symphony's Renewed Strategy

The three phases of Symphony's evolution

Version 1.0

1988-2006

- Launched coolers
- Diversified into various products
- Diversification affected viability

Version 2.0

2007-2018

- Specialised around coolers
- Turned the business around
- Scaled the business
- Enhanced global respect

Version 3.0

2019-

- Focus on transformation
- Launch technology-rich coolers
- Extend into industrial cooling solutions
- Expand international reach

Symphony at a glance

Consolidated

Particulars (Rs mn)	FY15	FY16 (9M)*	FY17	FY18	FY19
Revenue					
India	4,112	3,684	5,969	6,222	4,670
RoW	1,143	771	1,679	1,761	3,770
Total	**5,255**	**4,455**	**7,648**	**7,983**	**8,440**
EBIT (Inc. OI)					
India	1,437	1,510	2,216	2,334	1,210
RoW	181	16	134	332	160
Total EBIT	**1,618**	**1,526**	**2,350**	**2,666**	**1,370**
Revenue Growth (%)					
India	18%	19%	22%	4%	-25%
RoW	-17%	-10%	63%	5%	114%
Total	**9%**	**13%**	**29%**	**4%**	**6%**
Revenue Mix (%)					
India	78%	83%	78%	78%	55%
RoW	22%	17%	22%	22%	45%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Margin (%)					
India	35%	41%	37%	38%	26%
RoW	16%	2%	8%	19%	4%
Total	**31%**	**34%**	**31%**	**33%**	**16%**
EBIT Growth (%)					
India	25%	40%	10%	5%	-48%
RoW	-21%	-89%	546%	148%	-52%
Total	**18%**	**26%**	**16%**	**13%**	**-49%**
EBIT Mix (%)					
India	89%	99%	94%	88%	88%
RoW	11%	1%	6%	12%	12%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Standalone

Particulars (Rs mn)	FY15	FY16 (9M)*	FY17	FY18	FY19
Revenue					
India	4,086	3,679	5,918	6,213	4,670
Export	537	469	721	661	570
Total	**4,623**	**4,149**	**6,639**	**6,874**	**5,240**
India	1,428	1,506	2,216	2,336	1,210
Export	195	190	134	227	190
Total EBIT	**1,623**	**1,696**	**2,350**	**2,563**	**1,400**
Revenue Growth (%)					
India	17%	20%	21%	5%	-25%
Export	-5%	17%	15%	-8%	-14%
Total	**14%**	**20%**	**20%**	**4%**	**-24%**
Revenue Mix (%)					
India	88%	89%	89%	90%	89%
Export	12%	11%	11%	10%	11%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Margin (%)					
India	35%	41%	37%	38%	26%
Export	36%	41%	19%	34%	33%
Total	**35%**	**41%**	**35%**	**37%**	**27%**
EBIT Growth (%)					
India	25%	41%	10%	5%	-48%
Export	-9%	30%	-47%	70%	-16%
Total	**20%**	**39%**	**4%**	**9%**	**-45%**
EBIT Mix (%)					
India	88%	89%	94%	91%	86%
Export	12%	11%	6%	9%	14%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

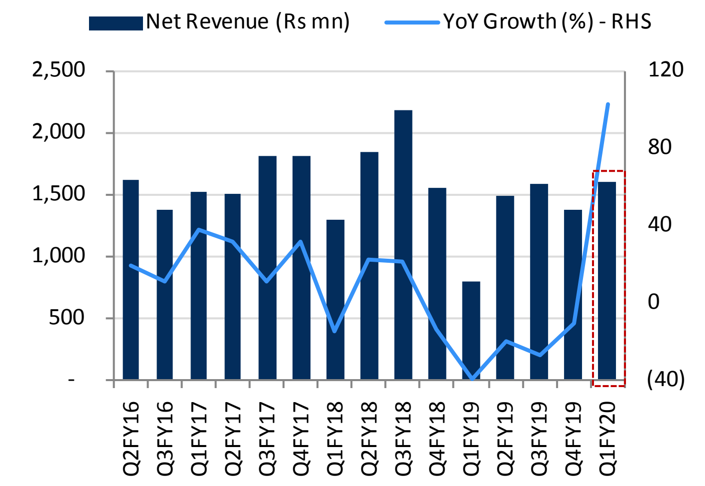
Source: Company, HDFC sec Inst Research

Gross margins have declined in FY19 and 1QFY20 owing to high channel inventory resulting in aggressive promotions

Symphony's EBITDA margins are the highest in consumer appliances category

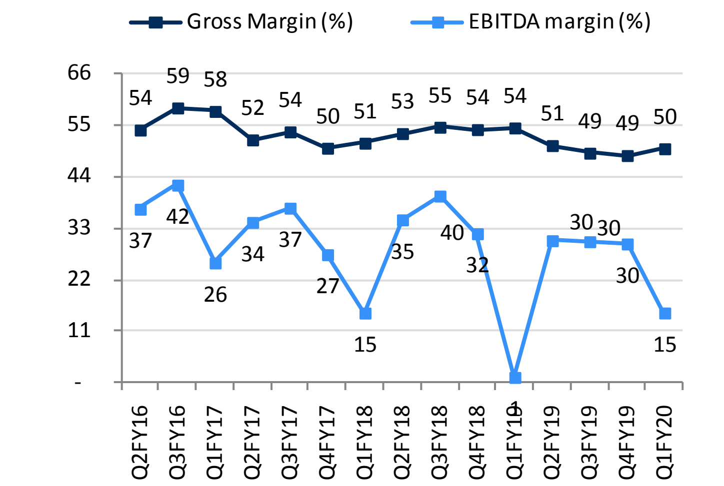
Quarterly Performance

Net Revenue



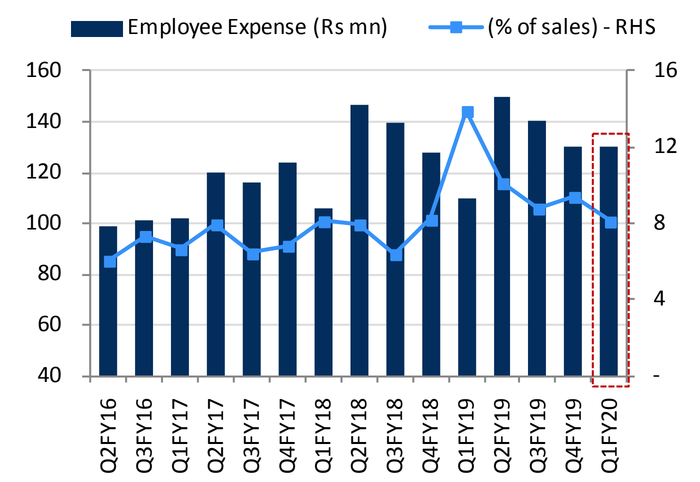
Source: Company, HDFC sec Inst Research

Gross Margin vs. EBITDA Margin



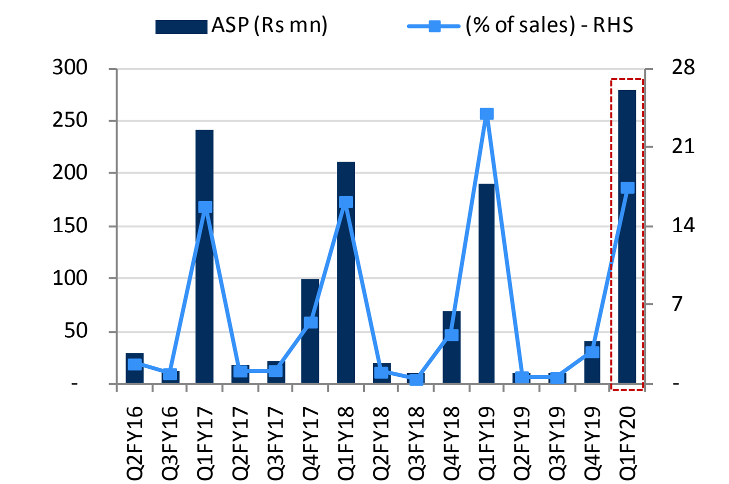
Source: Company, HDFC sec Inst Research

Employee Expense



Source: Company, HDFC sec Inst Research

ASP Expense



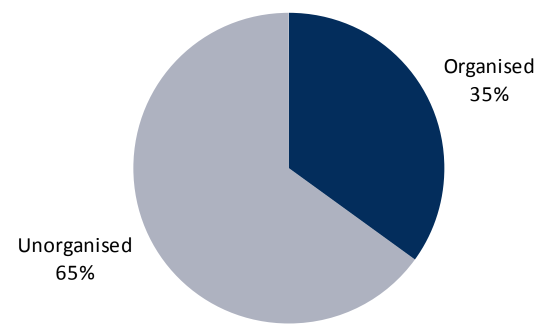
Source: Company, HDFC sec Inst Research

Symphony is the pioneer in developing the premium market (>Rs 10,000). It has the maximum SKU share in the premium segment. We expect premiumisation to continue since it is only ~4% of the total air cooler market

There are >90 brands in the air cooler market with no MNC player

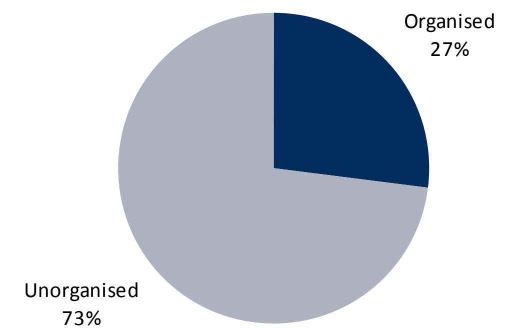
Air Cooler Industry

Air cooler Value Market Break-up (~Rs 35bn)



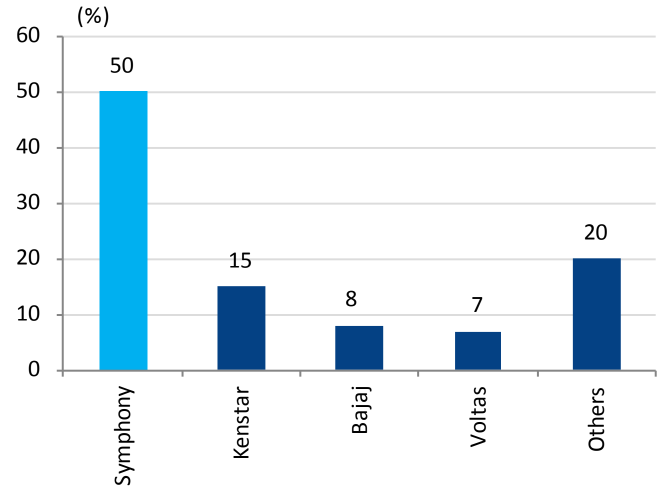
Source: Company, HDFC sec Inst Research

Air cooler Volume Market Break-up (~9mn units)



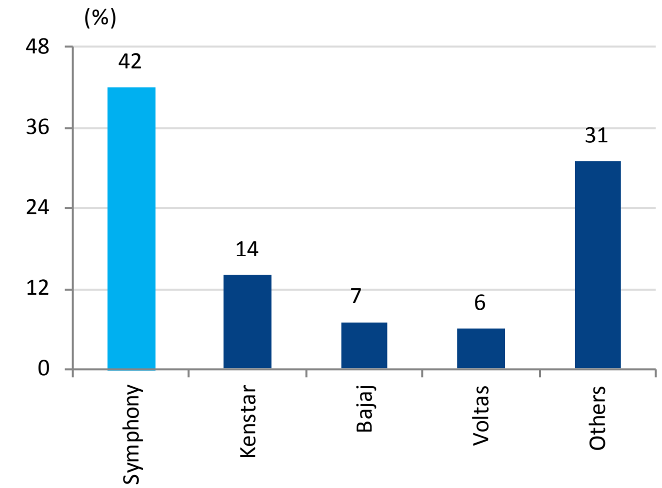
Source: Company, HDFC sec Inst Research

Branded Air Cooler Value Market Share



Source: Company, HDFC sec Inst Research

Branded Air Cooler Vol. Market Share



Source: Company, HDFC sec Inst Research

Assumptions

Standalone Segmental

Particulars (Rs mn)	FY14	FY15	FY16 (9M)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Revenue									
Domestic	3,946	4,085	3,679	5,918	6,213	4,670	6,882	8,313	10,040
Export	566	537	469	721	661	570	643	734	838
Total	**4,512**	**4,622**	**4,148**	**6,639**	**6,874**	**5,240**	**7,525**	**9,047**	**10,878**
Revenue Gr. (%)									
Domestic	44.5%	3.5%	20.1%	20.6%	5.0%	-24.8%	47.4%	20.8%	20.8%
Export	60.3%	-5.1%	16.5%	15.2%	-8.4%	-13.7%	12.8%	14.1%	14.1%
Total	**46.3%**	**2.4%**	**19.7%**	**20.0%**	**3.5%**	**-23.8%**	**43.6%**	**20.2%**	**20.2%**
Revenue Mix (%)									
Domestic	87%	88%	89%	89%	90%	89%	91%	92%	92%
Export	13%	12%	11%	11%	10%	11%	9%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT									
Domestic	1,141	1,428	1,506	2,216	2,336	1,210	2,382	2,908	3,527
Export	215	195	190	134	227	190	223	261	297
Total	**1,356**	**1,623**	**1,696**	**2,350**	**2,563**	**1,400**	**2,606**	**3,168**	**3,825**
EBIT Margin (%)									
Domestic	29%	35%	41%	37%	38%	30%	35%	35%	35%
Export	38%	36%	41%	19%	34%	33%	35%	36%	36%
Total	**30%**	**35%**	**41%**	**35%**	**37%**	**31%**	**35%**	**35%**	**35%**
EBIT Change (bps)									
Domestic	-67bps	604bps	597bps	-348bps	15bps	-739bps	442bps	36bps	15bps
Export	448bps	-168bps	418bps	-2,193bps	1,580bps	-105bps	136bps	81bps	0bps
Total	**2bps**	**506bps**	**577bps**	**-549bps**	**189bps**	**-678bps**	**413bps**	**40bps**	**14bps**
EBIT Mix (%)									
Domestic	84%	88%	89%	94%	91%	86%	91%	92%	92%
Export	16%	12%	11%	6%	9%	14%	9%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Growth (%)									
Domestic	41.3%	25.2%	40.6%	10.4%	5.4%	-48.2%	96.9%	22.0%	21.3%
Export	81.7%	-9.3%	29.9%	-47.2%	69.6%	-16.4%	17.5%	16.8%	14.1%
Total	**46.5%**	**19.7%**	**39.3%**	**3.9%**	**9.1%**	**-45.4%**	**86.1%**	**21.6%**	**20.7%**

Source: HDFC sec Inst Research

Volume growth and realisation growth are projected numbers between FY14-18

Standalone Sales Volume

Particulars	FY14P	FY15P	FY16P(9M)	FY17P	FY18P	FY19P	FY20E	FY21E	FY22E
Sales Volume									
India	590,416	673,432	612,873	926,219	975,698	727,772	1,062,515	1,264,393	1,504,627
ROW	116,628	110,279	95,958	143,866	135,871	107,441	121,191	136,946	154,749
Total	**707,044**	**783,711**	**708,831**	**1,070,085**	**1,111,569**	**835,213**	**1,183,706**	**1,401,339**	**1,659,377**
Sales Volume Gr (%)									
India	35.1%	14.1%	21.3%	13.3%	5.3%	-25.4%	46.0%	19.0%	19.0%
Export	46.3%	-5.4%	16.0%	12.4%	-5.6%	-20.9%	12.8%	13.0%	13.0%
Total	**36.8%**	**10.8%**	**20.6%**	**13.2%**	**3.9%**	**-24.9%**	**41.7%**	**18.4%**	**18.4%**
Air coolers - Realization									
India	6,683	6,066	6,003	6,389	6,368	6,417	6,477	6,574	6,673
Export	4,855	4,870	4,892	5,011	4,863	5,305	5,308	5,361	5,414
Total	**6,382**	**5,803**	**5,852**	**6,204**	**6,184**	**6,274**	**6,357**	**6,456**	**6,556**

Source: Company, HDFC sec Inst Research FY16 is of 9M, growth is adjusted for the same

Consolidated Segmental Assumption

Particulars (Rs mn)	Consolidated				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue					
India	6,222	4,670	6,882	8,313	10,040
RoW	1,761	3,770	4,830	5,421	5,930
Total	**7,983**	**8,440**	**11,712**	**13,734**	**15,970**
EBIT (Inc. other income)					
India	2,334	1,210	2,382	2,908	3,527
RoW	332	160	568	697	788
Total EBIT	**2,666**	**1,370**	**2,951**	**3,605**	**4,315**
PAT					
India	1,683	873	1,709	2,064	2,504
RoW	243	40	290	337	370
Total	**1,926**	**913**	**1,998**	**2,402**	**2,874**
Revenue Growth (%)					
India	4%	-25%	47%	21%	21%
RoW	5%	114%	28%	12%	9%
Total	**4%**	**6%**	**39%**	**17%**	**16%**
Revenue Mix (%)					
India	78%	55%	59%	61%	63%
RoW	22%	45%	41%	39%	37%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Margin (%)					
India	38%	26%	35%	35%	35%
RoW	19%	4%	12%	13%	13%
Total	**33%**	**16%**	**25%**	**26%**	**27%**
EBIT Growth (%)					
India	5%	-48%	97%	22%	21%
RoW	148%	-52%	255%	23%	13%
Total	**13%**	**-49%**	**115%**	**22%**	**20%**
EBIT Mix (%)					
India	88%	88%	81%	81%	82%
RoW	12%	12%	19%	19%	18%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
PAT Mix (%)					
India	87%	96%	86%	86%	87%
RoW	13%	4%	14%	14%	13%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Particulars (Rs mn)	Standalone				
	FY18	FY19	FY20E	FY21E	FY22E
Revenue					
India	6,213	4,670	6,882	8,313	10,040
Export	661	570	643	734	838
Total	**6,874**	**5,240**	**7,525**	**9,047**	**10,878**
EBIT (Inc. other income)					
India	2,336	1,210	2,382	2,908	3,527
Export	227	190	223	261	297
Total EBIT	**2,563**	**1,400**	**2,606**	**3,168**	**3,825**
PAT					
Export	1,680	873	1,709	2,064	2,504
Capital Employed	156	137	160	185	211
India	**1,837**	**1,010**	**1,869**	**2,250**	**2,715**
Revenue Growth (%)					
India	5%	-25%	47%	21%	21%
Export	-8%	-14%	13%	14%	14%
Total	**4%**	**-24%**	**44%**	**20%**	**20%**
Revenue Mix (%)					
India	90%	89%	91%	92%	92%
Export	10%	11%	9%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
EBIT Margin (%)					
India	38%	26%	35%	35%	35%
Export	34%	33%	35%	36%	36%
Total	**37%**	**27%**	**35%**	**35%**	**35%**
EBIT Growth (%)					
India	5%	-48%	97%	22%	21%
Export	70%	-16%	17%	17%	14%
Total	**9%**	**-45%**	**86%**	**22%**	**21%**
EBIT Mix (%)					
India	91%	86%	91%	92%	92%
Export	9%	14%	9%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
PAT Mix (%)					
India	91%	86%	91%	92%	92%
Export	9%	14%	9%	8%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Source: Company, HDFC sec Inst Research

Volume growth and realisation growth are projected numbers between FY15-18

China subsidiary broke-even in 3QFY19

We expect recovery in CT Aus revenues led by new launches (Symphony coolers) in Aus and US

Key Assumptions

	FY15	FY16 (9m)	FY17	FY18	FY19	FY20E	FY21E	FY22E
Standalone								
Volume Growth								
India	14.1	21.3	13.3	5.3	(25.4)	46.0	19.0	19.0
Export	(5.4)	16.0	12.4	(5.6)	(20.9)	12.8	13.0	13.0
Total	10.8	20.6	13.2	3.9	(24.9)	41.7	18.4	18.4
Realisaiton Growth								
India	(9.2)	(1.1)	6.4	(0.3)	0.8	0.9	1.5	1.5
Export	0.3	0.4	2.4	(3.0)	9.1	0.0	1.0	1.0
Total	(9.1)	0.8	6.0	(0.3)	1.5	1.3	1.5	1.5
Revenue Growth	2.5	19.7	20.0	3.5	(23.8)	43.6	20.2	20.2
Gross Margin (%)	52.9	54.9	53.3	53.5	50.2	54.8	56.1	56.1
Employee (%)	6.6	7.2	7.0	7.6	10.1	8.3	8.2	8.0
SG&A (%)	7.7	2.0	5.7	4.5	4.8	4.7	4.6	4.4
Other Expenses (%)	9.5	9.0	9.3	9.4	9.5	12.8	14.1	14.4
EBITDA Margin	29.1	36.7	31.3	32.0	25.8	29.0	29.3	29.3
Subsidiaries								
Revenue Growth								
IMPCO	-	(0.6)	24.0	9.1	(3.4)	5.0	5.0	5.0
MKE (China)	na	na	na	(8.0)	20.0	6.0	6.0	6.0
CT (Australia)					(0.5)	9.3	15.0	10.0
EBITDA Margin								
IMPCO	7.8	15.2	5.3	3.3	4.0	9.0	9.0	9.0
MKE (China)	na	na	(18.9)	(10.1)	(2.1)	3.0	5.0	5.0
CT (Australia)					-2.5	8.5	9.5	10.0

Source: Company, HDFC sec Inst Research

We raise our volumes by 5% owing to beat in 1Q and low channel inventory

We moderate our estimates for subsidiaries to factor integration challenges in AUS which resulted in 1% EPS cut.

Estimate Change

Air cooler volume change (Standalone)

Particulars	FY20E			FY21E		
	Old	New	*Chg (%)*	Old	New	*Chg (%)*
India	1,010,388	1,062,515	*5.2*	1,202,362	1,264,393	*5.2*
Export	132,188	121,191	*(8.3)*	149,372	136,946	*(8.3)*
Total	**1,142,576**	**1,183,706**	*3.6*	**1,351,734**	**1,401,339**	*3.7*

Source: HDFC sec Inst Research

Earnings Change (Consolidated)

Particulars (Rs mn)	FY20E			FY21E		
	Old	New	*Chg (%)*	Old	New	*Chg (%)*
Net Sales	11,668	11,712	*0.4*	13,645	13,734	*0.7*
EBITDA	2,662	2,610	*(2.0)*	3,230	3,172	*(1.8)*
APAT	2,075	2,047	*(1.4)*	2,529	2,497	*(1.3)*
EPS	29.6	29.2	*(1.4)*	36.1	35.7	*(1.3)*

Source: HDFC sec Inst Research

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Havells	405	648	NEU	694	12.7	14.7	18.3	51.2	44.2	35.3	33.0	27.4	21.8	26.7	26.4	31.4
Voltas	201	608	BUY	677	15.6	19.9	24.2	38.9	30.5	25.1	29.0	22.7	18.1	31.4	29.6	32.3
Crompton	143	228	BUY	304	5.9	7.2	8.4	38.4	31.9	27.2	24.4	20.5	17.6	39.4	43.0	48.5
V-Guard	97	228	BUY	261	4.1	5.5	6.9	56.2	41.3	33.1	43.6	31.5	25.4	21.1	27.4	31.1
Symphony	**88**	**1,264**	**BUY**	**1,686**	**15.4**	**29.2**	**35.7**	**82.1**	**43.2**	**35.4**	**64.7**	**32.3**	**26.2**	**31.9**	**49.9**	**55.6**
TTK Prestige	61	5,276	NR	7,388	138.7	157.9	184.7	38.0	33.4	28.6	20.2	17.4	14.6	21.6	21.9	23.5

Source: HDFC sec Inst Research

Income Statement (Consolidated)

Year End March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	**7,983**	**8,440**	**11,712**	**13,734**	**15,970**
Growth (%)	***3.9***	***5.7***	***38.8***	***17.3***	***16.3***
Material Expenses	3,853	4,530	5,752	6,555	7,622
Employee Expense	727	1,030	1,143	1,269	1,410
ASP Expense	560	583	809	949	1,104
Freight and forwarding	231	253	351	412	479
Other expenses	418	724	1,047	1,377	1,586
EBITDA	**2,193**	**1,320**	**2,610**	**3,172**	**3,769**
EBITDA Growth (%)	***9.1***	***(39.8)***	***97.7***	***21.5***	***18.8***
EBITDA Margin (%)	***27.5***	***15.6***	***22.3***	***23.1***	***23.6***
Depreciation	68	100	124	131	138
EBIT	**2,125**	**1,220**	**2,486**	**3,041**	**3,631**
Other Income (Inc. EO Items)	540	150	465	564	685
Interest	18	70	96	96	96
PBT	**2,647**	**1,300**	**2,855**	**3,509**	**4,219**
Tax	723	390	808	1,012	1,217
RPAT	**1,924**	**910**	**2,047**	**2,497**	**3,002**
Adjustment	-	(168)	-	-	-
APAT	**1,924**	**1,078**	**2,047**	**2,497**	**3,002**
APAT Growth (%)	***13.8***	***(44.0)***	***89.9***	***22.0***	***20.2***
Adjusted EPS (Rs)	**27.5**	**15.4**	**29.2**	**35.7**	**42.9**
EPS Growth (%)	***13.8***	***(44.0)***	***89.9***	***22.0***	***20.2***

Source: Company, HDFC sec Inst Research

Balance Sheet (Consolidated)

Year End March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	140	140	140	140	140
Reserves	5,994	6,398	7,770	9,424	11,414
Total Shareholders Funds	**6,134**	**6,538**	**7,910**	**9,564**	**11,554**
Long Term Debt	-	1,178	1,164	1,164	1,164
Short Term Debt	256	640	640	640	640
Total Debt	**256**	**1,818**	**1,804**	**1,804**	**1,804**
Net Deferred Taxes	89	60	60	60	60
Long Term Provisions & Others	23	70	77	85	93
TOTAL SOURCES OF FUNDS	**6,502**	**8,486**	**9,851**	**11,512**	**13,511**
APPLICATION OF FUNDS					
Net Block	818	2,113	2,109	2,106	2,097
CWIP	-	60	60	60	60
LT Loans & Advances	59	59	59	59	59
Other Non Current Assets	-	-	-	-	-
Total Non-current Assets	**877**	**2,232**	**2,228**	**2,225**	**2,216**
Inventories	796	1,190	1,249	1,474	1,743
Debtors	615	1,050	1,102	1,300	1,538
Other Current Assets	855	1,075	1,507	1,748	1,996
Cash & Equivalents	4,441	4,949	5,972	7,327	9,000
Total Current Assets	**6,707**	**8,264**	**9,830**	**11,850**	**14,277**
Creditors	633	1,300	1,365	1,610	1,904
Other Current Liabilities & Provns	449	710	843	952	1,078
Total Current Liabilities	**1,082**	**2,010**	**2,207**	**2,562**	**2,982**
Net Current Assets	**5,625**	**6,254**	**7,623**	**9,287**	**11,295**
TOTAL APPLICATION OF FUNDS	**6,502**	**8,486**	**9,851**	**11,512**	**13,511**

Source: Company, HDFC sec Inst Research

Cash Flow Statement (Consolidated)

Year ending March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	2,647	1,300	2,855	3,509	4,219
Non-operating & EO Items	-	-	-	-	-
Interest Expenses	18	70	96	96	96
Depreciation	68	100	124	131	138
Working Capital Change	(437)	(74)	(339)	(301)	(326)
Tax Paid	(723)	(390)	(808)	(1,012)	(1,217)
OPERATING CASH FLOW (a)	**1,573**	**1,006**	**1,927**	**2,423**	**2,910**
Capex	(76)	(1,456)	(120)	(128)	(129)
Free Cash Flow (FCF)	*1,497*	*(450)*	*1,808*	*2,295*	*2,781*
Investments	(1,412)	(356)	(1,000)	(1,000)	(1,000)
Non-operating Income	-	-	-	-	-
INVESTING CASH FLOW (b)	**(1,487)**	**(1,812)**	**(1,120)**	**(1,128)**	**(1,129)**
Debt Issuance/(Repaid)	63	1,563	(14)	-	-
Interest Expenses	(18)	(70)	(96)	(96)	(96)
FCFE	*1,542*	*1,043*	*1,697*	*2,199*	*2,685*
Share Capital Issuance	-	-	-	-	-
Dividend	(380)	(506)	(675)	(844)	(1,012)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	**(335)**	**987**	**(785)**	**(940)**	**(1,108)**
NET CASH FLOW (a+b+c)	**(249)**	**181**	**23**	**355**	**673**
EO Items, Others	1	0	(0)	0	(0)
Closing Cash & Equivalents	218	369	392	747	1,420

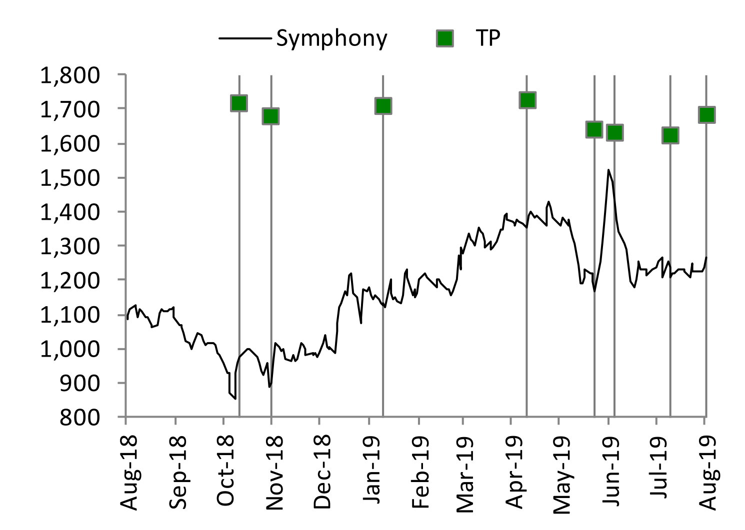
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	51.7	46.3	50.9	52.3	52.3
EBITDA Margin	27.5	15.6	22.3	23.1	23.6
EBIT Margin	26.6	14.5	21.2	22.1	22.7
APAT Margin	24.1	12.8	17.5	18.2	18.8
RoE	35.9	17.0	28.3	28.6	28.4
RoIC (or Core RoCE)	89.9	31.9	49.9	55.6	61.5
RoCE	34.7	15.3	23.4	24.3	24.8
EFFICIENCY					
Tax Rate (%)	27.3	30.0	28.3	28.8	28.8
Fixed Asset Turnover (x)	3.7	3.5	4.5	4.9	5.4
Inventory (days)	*36.4*	*51.5*	*38.9*	*39.2*	*39.8*
Debtors (days)	*28.1*	*45.4*	*34.3*	*34.6*	*35.1*
Other Current Assets (days)	*39.1*	*46.5*	*47.0*	*46.5*	*45.6*
Payables (days)	*28.9*	*56.2*	*42.5*	*42.8*	*43.5*
Other Current Liab & Provns (days)	*20.5*	*30.7*	*26.3*	*25.3*	*24.6*
Cash Conversion Cycle (days)	54.1	56.4	51.5	52.1	52.4
Net D/E (x)	(0.7)	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	119	17	26	32	38
PER SHARE DATA (Rs)					
EPS	27.5	15.4	29.2	35.7	42.9
CEPS	28.5	16.8	31.0	37.5	44.9
Dividend	4.5	6.0	8.0	10.0	12.0
Book Value	87.6	93.4	113.0	136.6	165.1
VALUATION					
P/E (x)	46.0	82.1	43.2	35.4	29.5
P/BV (x)	14.4	13.5	11.2	9.3	7.7
EV/EBITDA (x)	38.4	64.7	32.3	26.2	21.6
EV/Revenues (x)	10.6	10.1	7.2	6.0	5.1
OCF/EV (%)	1.9	1.2	2.3	2.9	3.6
FCF/EV (%)	1.8	1.0	2.1	2.8	3.4
Dividend Yield (%)	0.4	0.5	0.6	0.8	0.9

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
10-Oct-18	928	BUY	1,720
31-Oct-18	887	BUY	1,682
9-Jan-19	1,134	BUY	1,712
10-Apr-19	1,359	BUY	1,729
23-May-19	1,200	BUY	1,643
4-Jun-19	1,486	BUY	1,634
9-Jul-19	1,237	BUY	1,626
2-Aug-19	1,264	BUY	1,686

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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Disclosure:

We, **Naveen Trivedi, MBA & Siddhant Chhabria, PGDBM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We 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.

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Any holding in stock –No

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