

Back on the fast lane

Symphony continued its strong momentum in 2Q after a sharp recovery in summer-19. 2Q performance was in-line with expectations and further builds our confidence for a robust 2HFY20 show. We remain bullish on Symphony given its sharp recovery in domestic biz and scope to tap new opportunities (industrial and commercial cooling, portable coolers in Aus and US). We maintain estimates and value Symphony at 45x Sep-21 EPS. We believe the stock will re-rate owing to consistent outperformance vs. appliance cos. We maintain BUY with TP of Rs 1,812.

HIGHLIGHTS OF THE QUARTER

- Domestic revenues grew by 33% (vs. exp. of 34%) in an off-seasonal quarter owing to low channel inventory and favorable base. Trade confidence is high owing to clearing of the channel inventory in Summer-19 after witnessing high inventory pressure over the last 2 years. We expect >30% growth in domestic biz in 2HFY20E.
- After a gap of 2 years, co. has returned to new launches in residential, commercial and industrial coolers. Co has developed industrial coolers for Indian conditions and is now manufacturing in India (shorter lead time) vs. earlier imports from China and Mexico.
- Standalone gross margins were down by 350bps to 47% (exp +82bps) owing to inferior product mix. Co expects

product mix to be richer in 2HFY20 and does not anticipate deterioration in GM profile. We expect 50.2% GM in FY20E. Tight cost control led to 7% growth in other expense. As a result, EBITDA margins expanded by 88bps to 31.3% (exp 32.1%). EBITDA grew by 36% to Rs 610mn (exp Rs 633mn).

- RoW sales (31% mix of consol.) grew by 1% in an off-seasonal quarter. Co is now gearing up for summer in Australia and is launching Symphony range of portable coolers (pilot in 2019). These coolers will also be launched in US in Home Depot, Lowe's and Amazon. We expect CT to turnaround after initial integration issues.

STANCE

Summer 2019 confirms our thesis that Symphony will deliver strong performance if summer is hot. Organised air cooler market (27/35% volume/value mix) will deliver 15% CAGR 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 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)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	1,950	1,480	31.8	1,600	21.9	7,983	8,440	11,525	13,368	15,535
EBITDA	610	450	35.6	240	154.2	2,193	1,320	2,567	3,106	3,664
APAT	570	369	54.5	260	119.2	1,924	1,078	2,090	2,567	3,070
Diluted EPS (Rs)	8.1	5.3	54.5	3.7	119.2	27.5	15.4	29.9	36.7	43.9
P/E (x)						44.6	79.6	41.1	33.4	28.0
EV / EBITDA (x)						37.2	62.6	31.8	25.8	21.4
Core RoCE (%)						89.9	31.9	51.0	57.6	63.6

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

INDUSTRY	APPLIANCES
CMP (as on 13 Nov 2019)	Rs 1,227
Target Price	Rs 1,812
Nifty	11,840
Sensex	40,116
KEY STOCK DATA	
Bloomberg	SYML IN
No. of Shares (mn)	70
MCap (Rs bn) / (\$ mn)	86/1,191
6m avg traded value (Rs mn)	31
STOCK PERFORMANCE (%)	
52 Week high / low	Rs 1,589/951
	3M 6M 12M
Absolute (%)	(0.2) (1.5) 27.4
Relative (%)	(7.0) (8.5) 12.1
SHAREHOLDING PATTERN (%)	
	Jun-19 Sep-19
Promoters	75.00 75.00
FIs & Local MFs	8.95 9.10
FPIs	6.51 6.46
Public & Others	9.51 9.44
Pledged Shares (% of total shares)	- -
Source : BSE	

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Symphony has launched 7 new SKUs in domestic air coolers and relaunched 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.

New launches

Diet 3D (Residential) – Launched in 4 SKUs



Source: Company, HDFC sec Inst Research

Movicool (Commercial) – Portable coolers



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

Domestic revenues grew by 32% (-21% in 2QFY19; exp 34%). Exports growth was flat.

GM was down by 350 bps to 47.2% owing to inferior product mix

Tight control in costs led to 36% growth in EBITDA

Lower taxes resulted in 55% growth in APAT to Rs 570mn vs. exp of Rs 510mn

Quarterly Financials (Standalone)

Particulars	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY18	YoY (%)
Net Revenue	1,950	1,480	31.8	1,600	21.9	5,240	6,874	(23.8)
Material Expenses	1,030	730	41.1	800	28.8	2,610	3,199	(18.4)
Employee Expenses	150	150	-	130	15.4	530	520	1.9
ASP Expenses	10	10	-	280	(96.4)	250	309	(19.2)
Other Operating Expenses	150	140	7.1	150	-	500	644	(22.3)
EBITDA	610	450	35.6	240	154.2	1,350	2,202	(38.7)
Depreciation	20	10	100.0	10	100.0	40	42	(4.1)
EBIT	590	440	na	230	na	1,310	2,160	(39.4)
Other Income	110	70	57.1	110	-	390	403	(3.2)
Interest	-	-	na	-	na	-	7	na
Exceptional	-	(40)	na	-	na	(240)	-	
PBT	700	510	37.3	340	105.9	1,640	2,556	(35.8)
Tax	130	130	-	80	62.5	390	719	(45.8)
PAT	570	380	50.0	260	119.2	1,010	1,837	(45.0)
Adjustment	-	(11)		-		169	-	
APAT	570	369	54.5	260	119.2	1,179	1,837	(35.8)
EPS (Adjusted)	8.1	5.3	54.5	3.7	119.2	16.9	26.2	(35.8)

Source: Company, HDFC sec Inst Research

Margin Analysis (Standalone)

% of Net sales	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses	52.8	49.3	350	50.0	282	49.8	46.5	328
Employee Expenses	7.7	10.1	(244)	8.1	(43)	10.1	7.6	255
ASP Expenses	0.5	0.7	(16)	17.5	(1,699)	4.8	4.5	27
Other Operating Expenses	7.7	9.5	(177)	9.4	(168)	9.5	9.4	18
EBITDA Margin (%)	31.3	30.4	88	15.0	1,628	25.8	32.0	(627)
Tax Rate (%)	18.6	25.5	(692)	23.5	(496)	23.8	28.1	(435)
APAT Margin (%)	29.2	25.7	356	16.3	1,298	19.3	26.7	(745)

Source: Company, HDFC sec Inst Research

Low channel inventory and favorable base drove domestic revenue growth.

Domestic EBIT margin expansion was led by favorable op-lev, favorable base and cost control

Segmental Quarterly (Standalone)

(Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY19	FY18	YoY (%)
Revenue (Rs mn)								
Domestic	1,890	1,420	33.1	1,480	27.7	4,670	6,213	(24.8)
Export	60	60	-	120	(50.0)	570	661	(13.7)
Total	1,950	1,480	31.8	1,600	21.9	5,240	6,874	(23.8)
Revenue Mix (%)								
Domestic	97	96		93		89	90	
Export	3	4		8		11	10	
Total	100	100		100		100	100	
EBIT (Rs mn)								
Domestic	690	460	50.0	300	130.0	1,210	2,336	(48.2)
Export	10	10	-	40	(75.0)	190	227	(16.4)
Total	700	470	48.9	340	105.9	1,400	2,563	(45.4)
EBIT Margin (%)								
Domestic	36.5	32.4	411	20.3	1,624	25.9	37.6	(1,168)
Export	16.7	16.7	-	33.3	(1,667)	33.3	34.4	(105)
Total	35.9	31.8	414	21.3	1,465	26.7	37.3	(1,056)

Source: Company, HDFC sec Inst Research

2Q is an off-seasonal quarter for international geographies

CT Aus Rev/EBITDA/PAT was at Rs 520/30/30mn in 2QFY20

GSK China Rev/EBITDA/PAT was at Rs 130/0/-10mn.

IMPACO Rev/EBITDA/PAT was at Rs 150/-10/-20mn

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

Quarterly Financials (Consolidated)

Particulars (Rs mn)	2QFY20	2QFY19	YoY Gr. (%)	1QFY20	QoQ Gr. (%)	FY19	FY18	YoY Gr. (%)
Net Revenue	2,720	2,230	22.0	2,920	(6.8)	8,440	7,980	5.8
Material Expenses	1,430	1,150	24.3	1,590	(10.1)	4,530	3,850	17.7
Employee Expenses	300	290	3.4	270	11.1	1,030	720	43.1
ASP Expenses	20	40	(50.0)	310	(93.5)	330	330	-
Other Operating Expenses	340	320	6.3	370	(8.1)	1,230	880	39.8
EBITDA	630	430	46.5	380	65.8	1,320	2,200	(40.0)
Depreciation	60	30	100.0	60	-	100	70	42.9
EBIT	570	400	42.5	320	78.1	1,220	2,130	(42.7)
Other Income	110	90	22.2	120	(8.3)	390	540	(27.8)
Interest	30	10	na	30	na	70	20	na
PBT	650	480	35.4	410	58.5	1,540	2,650	(41.9)
Tax	70	130	(46.2)	80	(12.5)	390	720	(45.8)
PAT	580	310	87.1	330	75.8	910	1,930	(52.8)
Adjustment	-	28	na	110	na	168	-	na
APAT	580	338	71.6	440	31.8	1,078	1,930	(44.1)
EPS	8.3	4.4	87.1	4.7	75.8	13.0	27.6	(52.8)

MARGIN ANALYSIS	2QFY20	2QFY19	YoY Chg (bps)	1QFY20	QoQ Chg (bps)	FY19	FY18	YoY Chg (bps)
Material Expenses	52.6	51.6	100	54.5	(188)	53.7	48.2	543
Employee Expenses	11.0	13.0	(198)	9.2	178	12.2	9.0	318
ASP Expenses	0.7	1.8	(106)	10.6	(988)	3.9	4.1	(23)
Other Operating Expenses	12.5	14.3	(185)	12.7	(17)	14.6	11.0	355
EBITDA Margin (%)	23.2	19.3	388	13.0	1,015	15.6	27.6	(1,193)
Tax Rate (%)	10.8	27.1	(1,631)	19.5	(874)	25.3	27.2	(185)
APAT Margin (%)	21.3	13.9	742	11.3	1,002	10.8	24.2	(1,340)

Source: Company, HDFC sec Inst Research

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)	2QFY20	2QFY19	YoY Gr. (%)	1QFY20	QoQ Gr. (%)	FY19	FY18	YoY Gr. (%)
Revenue								
Domestic	1,890	1,410	34.0	1,480	27.7	4,670	6,220	(24.9)
RoW	830	820	1.2	1,440	(42.4)	3,770	1,760	114.2
Total	2,720	2,230	22.0	2,920	(6.8)	8,440	7,980	5.8
Revenue Mix (%)								
Domestic	69%	63%		51%		55%	78%	
RoW	31%	37%		49%		45%	22%	
Total	100%	100%		100%		100%	100%	
EBIT								
Domestic	690	460	50.0	300	130.0	1,210	2,340	(48.3)
RoW	(10)	(10)	-	140	(107.1)	160	330	(51.5)
Total	680	450	51.1	440	54.5	1,370	2,670	(48.7)
EBIT Margin (%)								
Domestic	37%	33%	388	20%	1,624	26%	38%	(1,171)
RoW	-1%	-1%	1	10%	(1,093)	4%	19%	(1,451)
Total	25%	20%	482	15%	993	16%	33%	(1,723)
EBIT Mix (%)								
Domestic	101%	102%		68%		88%	88%	
RoW	-1%	-2%		32%		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

Particulars (Rs mn)	Consolidated					Particulars (Rs mn)	Standalone				
	FY15	FY16 (9M)*	FY17	FY18	FY19		FY15	FY16 (9M)*	FY17	FY18	FY19
Revenue						Revenue					
India	4,112	3,684	5,969	6,222	4,670	India	4,086	3,679	5,918	6,213	4,670
RoW	1,143	771	1,679	1,761	3,770	Export	537	469	721	661	570
Total	5,255	4,455	7,648	7,983	8,440	Total	4,623	4,149	6,639	6,874	5,240
EBIT (Inc. OI)											
India	1,437	1,510	2,216	2,334	1,210	India	1,428	1,506	2,216	2,336	1,210
RoW	181	16	134	332	160	Export	195	190	134	227	190
Total EBIT	1,618	1,526	2,350	2,666	1,370	Total EBIT	1,623	1,696	2,350	2,563	1,400
Revenue Growth (%)						Revenue Growth (%)					
India	18%	19%	22%	4%	-25%	India	17%	20%	21%	5%	-25%
RoW	-17%	-10%	63%	5%	114%	Export	-5%	17%	15%	-8%	-14%
Total	9%	13%	29%	4%	6%	Total	14%	20%	20%	4%	-24%
Revenue Mix (%)						Revenue Mix (%)					
India	78%	83%	78%	78%	55%	India	88%	89%	89%	90%	89%
RoW	22%	17%	22%	22%	45%	Export	12%	11%	11%	10%	11%
Total	100%	100%	100%	100%	100%	Total	100%	100%	100%	100%	100%
EBIT Margin (%)						EBIT Margin (%)					
India	35%	41%	37%	38%	26%	India	35%	41%	37%	38%	26%
RoW	16%	2%	8%	19%	4%	Export	36%	41%	19%	34%	33%
Total	31%	34%	31%	33%	16%	Total	35%	41%	35%	37%	27%
EBIT Growth (%)						EBIT Growth (%)					
India	25%	40%	10%	5%	-48%	India	25%	41%	10%	5%	-48%
RoW	-21%	-89%	546%	148%	-52%	Export	-9%	30%	-47%	70%	-16%
Total	18%	26%	16%	13%	-49%	Total	20%	39%	4%	9%	-45%
EBIT Mix (%)						EBIT Mix (%)					
India	89%	99%	94%	88%	88%	India	88%	89%	94%	91%	86%
RoW	11%	1%	6%	12%	12%	Export	12%	11%	6%	9%	14%
Total	100%	100%	100%	100%	100%	Total	100%	100%	100%	100%	100%

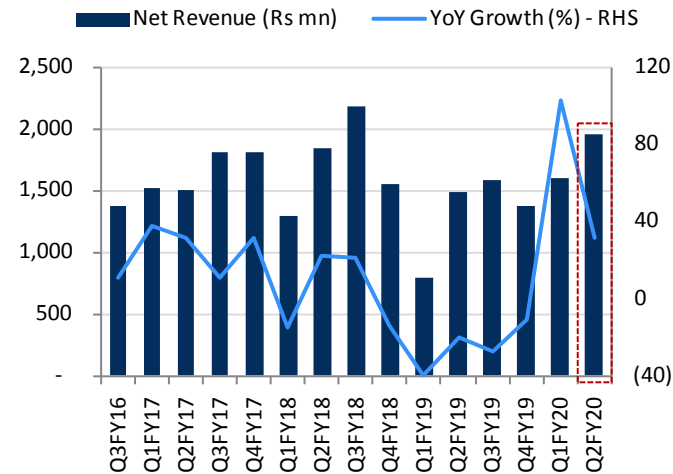
Source: Company, HDFC sec Inst Research

Gross margins have declined in FY19 owing to high channel inventory resulting in aggressive promotions. However, in 2QFY20 decline was led by inferior mix. We expect 50% GM in FY20E

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

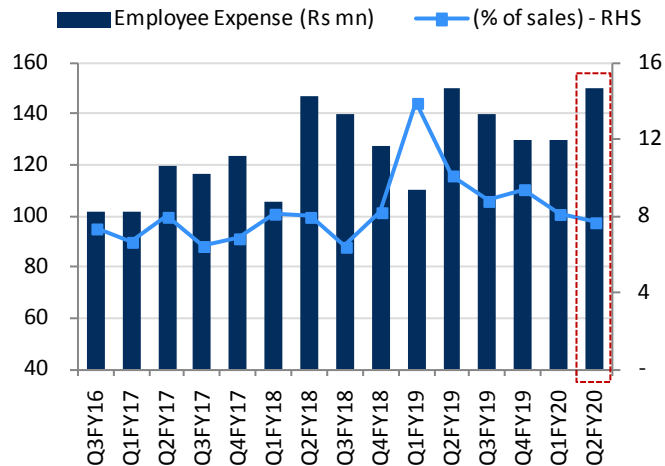
Quarterly Performance

Net Revenue



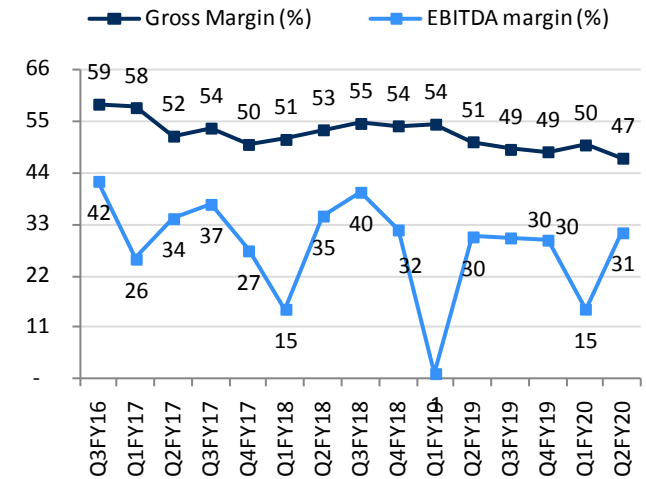
Source: Company, HDFC sec Inst Research

Employee Expense



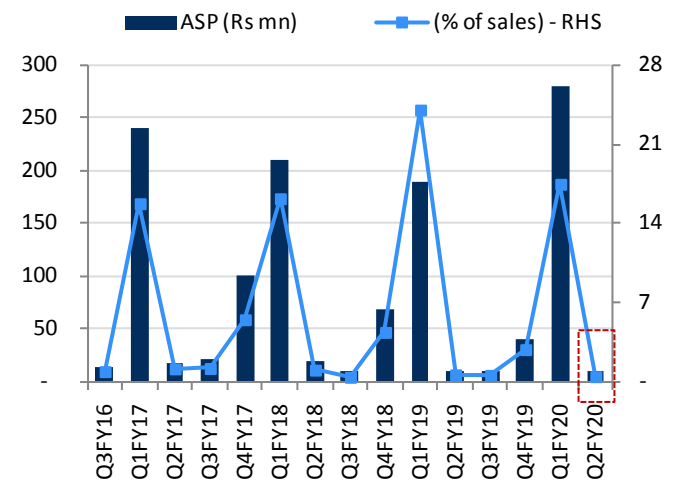
Source: Company, HDFC sec Inst Research

Gross Margin vs. EBITDA Margin



Source: Company, HDFC sec Inst Research

ASP Expense



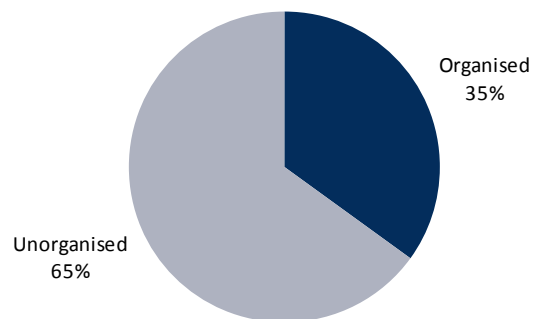
Source: Company, HDFC sec Inst Research

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

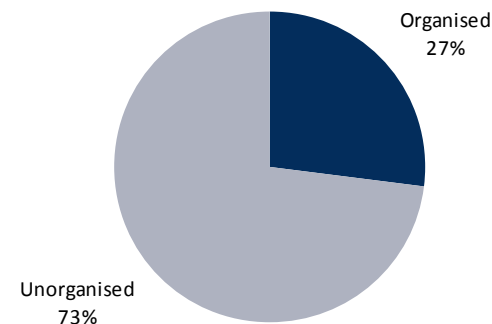
Air Cooler Industry

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



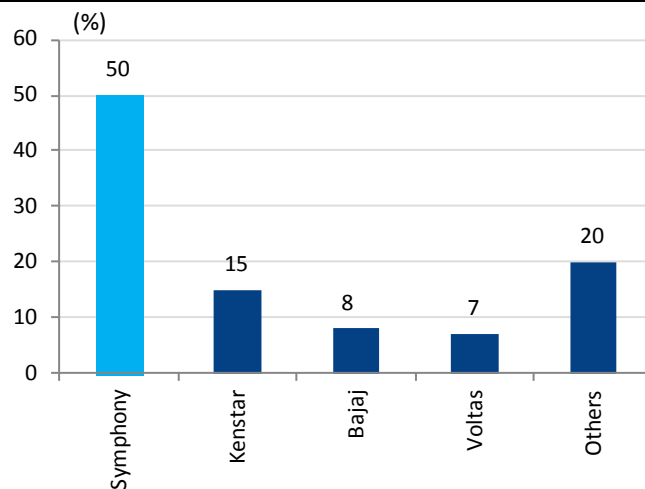
Source: Company, HDFC sec Inst Research

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



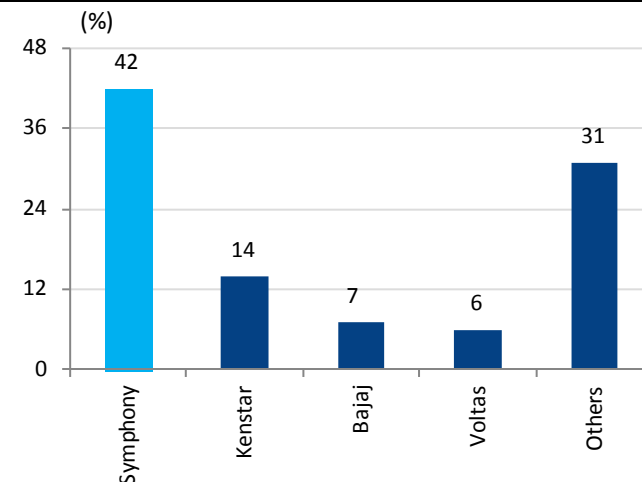
Source: Company, HDFC sec Inst Research

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	6,875	8,234	9,862
Export	566	537	469	721	661	570	637	727	830
Total	4,512	4,622	4,148	6,639	6,874	5,240	7,512	8,961	10,691
Revenue Gr. (%)									
Domestic	44.5%	3.5%	20.1%	20.6%	5.0%	-24.8%	47.2%	19.8%	19.8%
Export	60.3%	-5.1%	16.5%	15.2%	-8.4%	-13.7%	11.7%	14.1%	14.1%
Total	46.3%	2.4%	19.7%	20.0%	3.5%	-23.8%	43.4%	19.3%	19.3%
Revenue Mix (%)									
Domestic	87%	88%	89%	89%	90%	89%	92%	92%	92%
Export	13%	12%	11%	11%	10%	11%	8%	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	2,363	2,884	3,469
Export	215	195	190	134	227	190	221	258	294
Total	1,356	1,623	1,696	2,350	2,563	1,400	2,584	3,142	3,763
EBIT Margin (%)									
Domestic	29%	35%	41%	37%	38%	30%	34%	35%	35%
Export	38%	36%	41%	19%	34%	33%	35%	35%	35%
Total	30%	35%	41%	35%	37%	31%	34%	35%	35%
EBIT Change (bps)									
Domestic	-67bps	604bps	597bps	-348bps	15bps	-739bps	417bps	66bps	15bps
Export	448bps	-168bps	418bps	-2,193bps	1,580bps	-105bps	135bps	81bps	0bps
Total	2bps	506bps	577bps	-549bps	189bps	-678bps	390bps	67bps	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%	95.3%	22.1%	20.3%
Export	81.7%	-9.3%	29.9%	-47.2%	69.6%	-16.4%	16.3%	16.8%	14.1%
Total	46.5%	19.7%	39.3%	3.9%	9.1%	-45.4%	84.5%	21.6%	19.8%

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	1,062,655	1,253,933	1,479,641
ROW	116,628	110,279	95,958	143,866	135,871	107,441	120,324	135,966	153,642
Total	707,044	783,711	708,831	1,070,085	1,111,569	835,213	1,182,980	1,389,900	1,633,283
Sales Volume Gr (%)									
India	35.1%	14.1%	21.3%	13.3%	5.3%	-25.4%	46.0%	18.0%	18.0%
Export	46.3%	-5.4%	16.0%	12.4%	-5.6%	-20.9%	12.0%	13.0%	13.0%
Total	36.8%	10.8%	20.6%	13.2%	3.9%	-24.9%	41.6%	17.5%	17.5%
Air coolers - Realization									
India	6,683	6,066	6,003	6,389	6,368	6,417	6,469	6,566	6,665
Export	4,855	4,870	4,892	5,011	4,863	5,305	5,293	5,346	5,399
Total	6,382	5,803	5,852	6,204	6,184	6,274	6,350	6,447	6,546

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

Consolidated Segmental Assumption

Consolidated						Standalone					
Particulars (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E	Particulars (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Revenue						Revenue					
India	6,222	4,670	6,875	8,234	9,862	India	6,213	4,670	6,875	8,234	9,862
RoW	1,761	3,770	4,650	5,134	5,673	Export	661	570	637	727	830
Total	7,983	8,440	11,525	13,368	15,535	Total	6,874	5,240	7,512	8,961	10,691
EBIT (Inc. other income)						EBIT (Inc. other income)					
India	2,334	1,210	2,363	2,884	3,469	India	2,336	1,210	2,363	2,884	3,469
RoW	332	160	551	668	760	Export	227	190	221	258	294
Total EBIT	2,666	1,370	2,914	3,551	4,229	Total EBIT	2,563	1,400	2,584	3,142	3,763
PAT						PAT					
India	1,683	873	1,758	2,146	2,581	Export	1,680	873	1,758	2,146	2,581
RoW	243	40	294	344	378	Capital Employed	156	137	164	192	219
Total	1,926	913	2,052	2,490	2,958	India	1,837	1,010	1,922	2,338	2,800
Revenue Growth (%)						Revenue Growth (%)					
India	4%	-25%	47%	20%	20%	India	5%	-25%	47%	20%	20%
RoW	5%	114%	23%	10%	11%	Export	-8%	-14%	12%	14%	14%
Total	4%	6%	37%	16%	16%	Total	4%	-24%	43%	19%	19%
Revenue Mix (%)						Revenue Mix (%)					
India	78%	55%	60%	62%	63%	India	90%	89%	92%	92%	92%
RoW	22%	45%	40%	38%	37%	Export	10%	11%	8%	8%	8%
Total	100%	100%	100%	100%	100%	Total	100%	100%	100%	100%	100%
EBIT Margin (%)						EBIT Margin (%)					
India	38%	26%	34%	35%	35%	India	38%	26%	34%	35%	35%
RoW	19%	4%	12%	13%	13%	Export	34%	33%	35%	35%	35%
Total	33%	16%	25%	27%	27%	Total	37%	27%	34%	35%	35%
EBIT Growth (%)						EBIT Growth (%)					
India	5%	-48%	95%	22%	20%	India	5%	-48%	95%	22%	20%
RoW	148%	-52%	245%	21%	14%	Export	70%	-16%	16%	17%	14%
Total	13%	-49%	113%	22%	19%	Total	9%	-45%	85%	22%	20%
EBIT Mix (%)						EBIT Mix (%)					
India	88%	88%	81%	81%	82%	India	91%	86%	91%	92%	92%
RoW	12%	12%	19%	19%	18%	Export	9%	14%	9%	8%	8%
Total	100%	100%	100%	100%	100%	Total	100%	100%	100%	100%	100%
PAT Mix (%)						PAT Mix (%)					
India	87%	96%	86%	86%	87%	India	91%	86%	91%	92%	92%
RoW	13%	4%	14%	14%	13%	Export	9%	14%	9%	8%	8%
Total	100%	100%	100%	100%	100%	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	18.0	18.0
Export	(5.4)	16.0	12.4	(5.6)	(20.9)	12.0	13.0	13.0
Total	10.8	20.6	13.2	3.9	(24.9)	41.6	17.5	17.5
Realisation Growth								
India	(9.2)	(1.1)	6.4	(0.3)	0.8	0.8	1.5	1.5
Export	0.3	0.4	2.4	(3.0)	9.1	(0.2)	1.0	1.0
Total	(9.1)	0.8	6.0	(0.3)	1.5	1.2	1.5	1.5
Revenue Growth	2.5	19.7	20.0	3.5	(23.8)	43.4	19.3	19.3
Gross Margin (%)	52.9	54.9	53.3	53.5	50.2	50.2	51.1	51.1
Employee (%)	6.6	7.2	7.0	7.6	10.1	8.0	7.9	7.6
SG&A (%)	7.7	2.0	5.7	4.5	4.8	4.8	4.8	4.8
Other Expenses (%)	9.5	9.0	9.3	9.4	9.5	8.3	8.8	9.2
EBITDA Margin	29.1	36.7	31.3	32.0	25.8	29.1	29.6	29.5
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)	2.7	12.0	12.0
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 maintain our estimates and expect 2HFY20 earnings growth to be robust.

Estimate Change

Earnings Change (Consolidated)

Particulars (Rs mn)	FY20E			FY21E		
	Old	New	Chg (%)	Old	New	Chg (%)
Net Sales	11,490	11,525	0.3	13,341	13,368	0.2
EBITDA	2,554	2,567	0.5	3,093	3,106	0.4
APAT	2,080	2,090	0.5	2,554	2,567	0.5
EPS	29.7	29.9	0.5	36.5	36.7	0.5

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 (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Havells	421	674	BUY	738	12.7	13.9	18.4	53.3	48.7	36.6	34.4	33.1	25.4	26.7	25.0	31.7
Voltas	232	702	BUY	742	15.6	19.8	24.3	44.9	35.4	28.9	34.1	26.5	22.6	31.4	29.8	31.1
Crompton	162	259	BUY	339	5.9	7.6	9.0	43.6	34.3	28.8	27.7	24.9	21.0	39.4	45.2	51.8
V-Guard	99	233	NEU	242	4.1	5.1	6.3	57.4	45.7	36.9	44.6	32.7	27.5	21.1	26.4	29.0
Symphony	86	1,227	BUY	1,812	15.4	29.9	36.7	79.6	41.1	33.4	62.6	31.8	25.8	31.9	51.0	57.6
TTK Prestige	83	5,958	NR	8,316	138.7	166.0	193.4	43.0	35.9	30.8	27.6	25.2	21.4	21.5	24.5	25.3

Source: HDFC sec Inst Research

Note: TP for TTK Prestige is our fair value as we don't have active coverage

Income Statement (Consolidated)

Year End March (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	7,983	8,440	11,525	13,368	15,535
Growth (%)	3.9	5.7	36.5	16.0	16.2
Material Expenses	3,853	4,530	6,188	7,048	8,191
Employee Expense	727	1,030	1,143	1,269	1,410
ASP Expense	560	583	796	924	1,073
Freight and forwarding	231	253	346	401	466
Other expenses	418	724	485	620	730
EBITDA	2,193	1,320	2,567	3,106	3,664
EBITDA Growth (%)	9.1	(39.8)	94.5	21.0	18.0
EBITDA Margin (%)	27.5	15.6	22.3	23.2	23.6
Depreciation	68	100	124	131	138
EBIT	2,125	1,220	2,443	2,975	3,526
Other Income (Inc. EO Items)	540	150	471	577	703
Interest	18	70	96	96	96
PBT	2,647	1,300	2,818	3,455	4,133
Tax	723	390	728	889	1,064
RPAT	1,924	910	2,090	2,567	3,070
Adjustment	-	(168)	-	-	-
APAT	1,924	1,078	2,090	2,567	3,070
APAT Growth (%)	13.8	(44.0)	93.9	22.8	19.6
Adjusted EPS (Rs)	27.5	15.4	29.9	36.7	43.9
EPS Growth (%)	13.8	(44.0)	93.9	22.8	19.6

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	7,814	9,537	11,595
Total Shareholders Funds	6,134	6,538	7,954	9,677	11,734
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	9,895	11,626	13,692
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	1,247	1,462	1,717
Debtors	615	1,050	1,100	1,290	1,515
Other Current Assets	855	1,075	1,467	1,678	1,924
Cash & Equivalents	4,441	4,949	6,056	7,517	9,267
Total Current Assets	6,707	8,264	9,871	11,947	14,422
Creditors	633	1,300	1,362	1,597	1,875
Other Current Liabilities & Provns	449	710	842	949	1,072
Total Current Liabilities	1,082	2,010	2,205	2,546	2,947
Net Current Assets	5,625	6,254	7,666	9,400	11,475
TOTAL APPLICATION OF FUNDS	6,502	8,486	9,895	11,626	13,692

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	2,818	3,455	4,133
Non-operating & EO Items	-	-	-	-	-
Interest Expenses	18	70	96	96	96
Depreciation	68	100	124	131	138
Working Capital Change	(437)	(74)	(298)	(266)	(316)
Tax Paid	(723)	(390)	(728)	(889)	(1,064)
OPERATING CASH FLOW (a)	1,573	1,006	2,012	2,528	2,988
Capex	(76)	(1,456)	(120)	(128)	(129)
Free Cash Flow (FCF)	1,497	(450)	1,892	2,400	2,859
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	1,781	2,304	2,763
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	107	461	750
EO Items, Others	1	(29)	-	-	-
Closing Cash & Equivalents	218	369	476	937	1,687

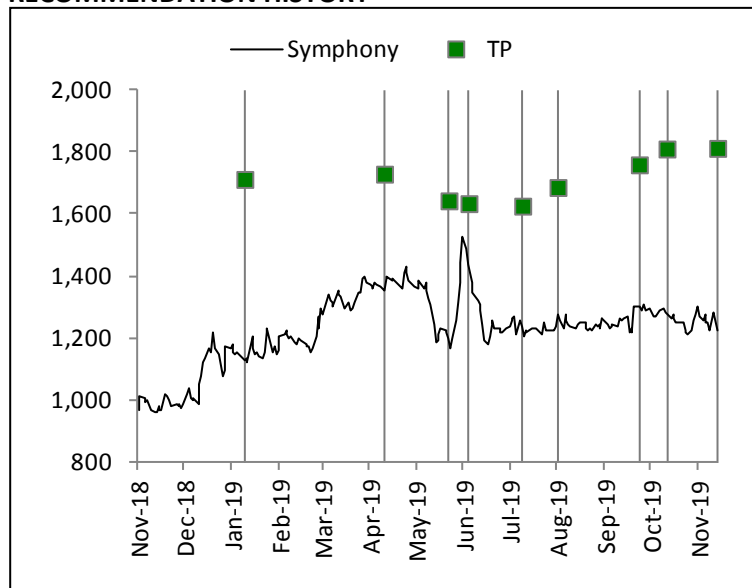
Source: Company, HDFC sec Inst Research

Key Ratios (Consolidated)

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	51.7	46.3	46.3	47.3	47.3
EBITDA Margin	27.5	15.6	22.3	23.2	23.6
EBIT Margin	26.6	14.5	21.2	22.3	22.7
APAT Margin	24.1	12.8	18.1	19.2	19.8
RoE	35.9	17.0	28.8	29.1	28.7
RoIC (or Core RoCE)	89.9	31.9	51.0	57.6	63.6
RoCE	34.7	15.3	23.9	24.8	25.1
EFFICIENCY					
Tax Rate (%)	27.3	30.0	25.8	25.7	25.7
Fixed Asset Turnover (x)	3.7	3.5	4.5	4.8	5.2
Inventory (days)	36.4	51.5	39.5	39.9	40.3
Debtors (days)	28.1	45.4	34.9	35.2	35.6
Other Current Assets (days)	39.1	46.5	46.5	45.8	45.2
Payables (days)	28.9	56.2	43.2	43.6	44.1
Other Current Liab & Provns (days)	20.5	30.7	26.7	25.9	25.2
Cash Conversion Cycle (days)	54.1	56.4	51.0	51.4	51.9
Net D/E (x)	(0.7)	(0.5)	(0.5)	(0.6)	(0.6)
Interest Coverage (x)	119	17	25	31	37
PER SHARE DATA (Rs)					
EPS	27.5	15.4	29.9	36.7	43.9
CEPS	28.5	16.8	31.6	38.5	45.8
Dividend	4.5	6.0	8.0	10.0	12.0
Book Value	87.6	93.4	113.6	138.2	167.6
VALUATION					
P/E (x)	44.9	80.1	41.3	33.7	28.1
P/BV (x)	14.1	13.2	10.9	8.9	7.4
EV/EBITDA (x)	37.5	63.1	32.0	26.0	21.5
EV/Revenues (x)	10.3	9.9	7.1	6.0	5.1
OCF/EV (%)	1.9	1.2	2.4	3.1	3.8
FCF/EV (%)	1.8	1.0	2.3	3.0	3.6
Dividend Yield (%)	0.4	0.5	0.6	0.8	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
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
22-Sep-19	1,310	BUY	1,759
11-Oct-19	1,276	BUY	1,810
14-Nov-19	1,227	BUY	1,812

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

INSTITUTIONAL RESEARCH
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