

August 13, 2020

Strong domestic performance amid pandemic...

Symphony's consolidated Q1FY21 performance was mainly impacted by revenue loss for almost 40 days in domestic markets. Consolidated revenue fell ~47% YoY led by ~77% YoY fall in revenue of domestic business. However, overseas businesses were relatively less impacted and revenue fall was limited to only ~17% YoY during the pandemic. Profitability was largely impacted by a change in product mix, higher raw material prices (in Australia) due to disruption in supply and lower operating leverage. The management expects improvement in domestic performance, going forward, with ease in lockdown restrictions and inventory build-up by dealers post Q2FY21 (~60% of channel inventory has been liquidated). On the international front, business in Australia, China saw good demand recovery while Impco's performance was impacted by Covid-19 in June 2020 after a good start in April-May 2020. The management has further guided at maintaining gross margin despite a shortfall in revenue in FY21 largely impacted by washout Q1FY21. Further, its asset light model and various other cost optimisation measures (like travel & conveyance cost, legal & professional cost, etc) would further provide cushion to its bottomline, going forward. While we revise our FY21E, FY22E earnings estimate downside by 13%, 9%, respectively, we continue to maintain our positive stance on the stock considering its strong brand patronage and robust balance sheet (cash of ₹ ~400 crore with strong RoE/RoCE).

Less impact of pandemic on overseas business

Sharp fall in domestic revenue by 77% YoY was partly arrested by relative lower fall in overseas revenue by ~17% YoY. Hence, consolidated revenue fell ~47% YoY. While dealers managed to liquidate their inventory holding by ~60% in Q1FY21, management reiterated a demand recovery post lockdown relaxation. While we continue to expect H1FY21 to be challenging, recovery may start from H2FY21 onwards with lockdown restrictions easing. On domestic front, revenues may grow at 16% FY19-22E, driving overall 15% revenue CAGR in FY19-22E (with overseas revenue CAGR of 13%).

One-time cost drags gross margin

Consolidated gross margin was impacted by a change in product mix in the domestic business and sharp fall in gross margin of Climate Technologies' higher cost of purchase due to disruption in supply chain owing to lockdown for some time. Further, lower operating leverage dragged overall profitability during the period, leading to losses at the EBITDA level.

Valuation & Outlook

We maintain our positive stance on the stock given 1) market leadership position, 2) strong financials to tide over rough phase of FY21, 3) market share gain from unorganised market. We expect a strong recovery in FY22E led by domestic business. We maintain our **BUY** rating on the stock with a revised target price of ₹ 960.

Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	(CAGR19-22E)
Net Sales	798.2	844.0	1103.0	961.7	1285.4	15.1
EBITDA	219.2	132.0	212.0	166.4	266.1	26.3
EBITDA Margin (%)	27.5	15.6	19.2	17.3	20.7	
PAT	192.5	91.0	182.0	143.7	223.9	35.0
EPS (₹)	27.5	13.0	26.0	20.5	32.0	
P/E(x)	30.2	63.9	31.9	40.5	26.0	
Price/Book value (x)	9.5	8.7	9.1	9.3	9.1	
Mcap/sales (x)	7.3	6.9	5.3	6.0	4.5	
RoE (%)	31.5	16.2	29.0	23.0	35.1	
RoCE (%)	41.3	18.7	28.8	23.5	37.0	

Source: Company, ICICI Direct Research



Particulars

Particulars	Amount
Market Cap (₹Crore)	5,813.4
Total Debt (FY 20) (₹Crore)	174.0
Cash&Inv (FY 20) (₹Crore)	325.0
EV (₹Crore)	5,662
52 week H/L (₹)	1407 / 690
Equity capital (₹Crore)	14.0
Face value (₹)	2.0

Key Highlights

- Sharp fall in domestic business led by loss of revenue for almost 40 days
- Sharp gross margin contraction due to one-time cost and changing product mix
- Management confident of reviving domestic and overseas subsidiary performance with ease in lockdown restrictions
- Maintain BUY with revised target price of ₹ 960

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	154.0	292.0	-47.3	249.0	-38.2	Consolidated revenue de-growth largely led to loss of almost 40 days of sales in the domestic market due to lockdown. Domestic sales fell 77% YoY while international sales declined 17% YoY during Q1FY21
Other Income	8.0	12.0	-33.3	21.0	-61.9	
Raw Material Exp	94.0	159.0	-40.9	130.0	-27.7	Gross margin declined 660 bps YoY due to change in product mix (higher proportion of spares and parts) and lower gross margin of Climate Technology (impacted by one time of higher purchase cost owing to supply disruption)
Employee Exp	26.0	27.0	-3.7	29.0	-10.3	
Selling & Dis. Exp	7.0	31.0	-77.4	8.0	-12.5	
Other Exp	32.0	37.0	-13.5	39.0	-17.9	
EBITDA	-5.0	38.0	-113.2	43.0	-111.6	
EBITDA Margin (%)	-3.2%	13.0%	-1626 bps	17.3%	-2052 bps	Lower gross margin and higher fixed costs drag EBITDA margin
Depreciation	5.0	6.0	-16.7	6.0	-16.7	
Interest	2.0	3.0	-33.3	3.0	-33.3	
PBT	-4.0	41.0	-109.8	51.0	-107.8	
Total Tax	-6.0	8.0	-175.0	11.0	-154.5	
PAT	2.0	33.0	-93.9	40.0	-95.0	Sharp decline in PAT largely due to lower sales and operating profit

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	1048.9	961.7	(8.3)	1433.7	1285.4	(10.3)	We revise our FY21E-22E estimates factoring in Q1FY21 performance. We believe, dealers would start building inventory post ease in lockdown restriction
EBITDA	188.8	166.4	(11.9)	292.5	266.1	(9.0)	
EBITDA Margin %	18.0	17.3	-70bps	20.4	20.7	30bps	We expect margins to start recovering from FY22 onwards
PAT	165.7	143.7	(13.3)	245.6	223.9	(8.8)	
EPS (₹)	23.7	20.5	(13.3)	35.1	32.0	(8.8)	

Source: Company, ICICI Direct Research

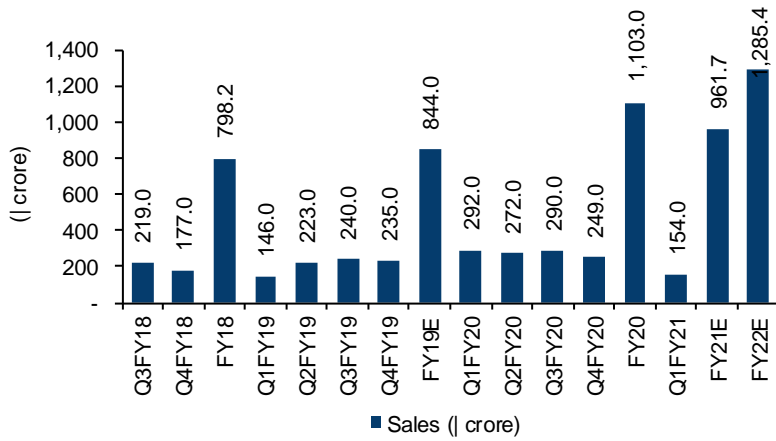
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Volume Growth (%)	7.3	30.1	-12.0	30.2	-5.1	33.2	Revised estimates considering Q1FY21 performance
Realisation Growth (%)	-1.4	0.6	-2.5	3.1	0.2	2.6	

Source: Company, ICICI Direct Research

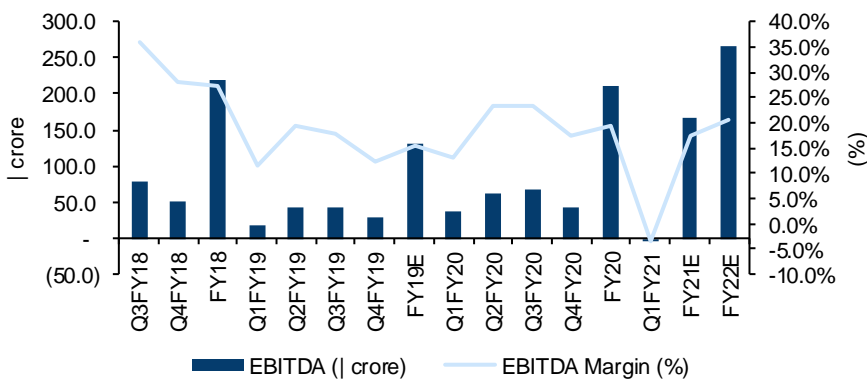
Financial story in charts

Exhibit 4: Consolidated sales performance



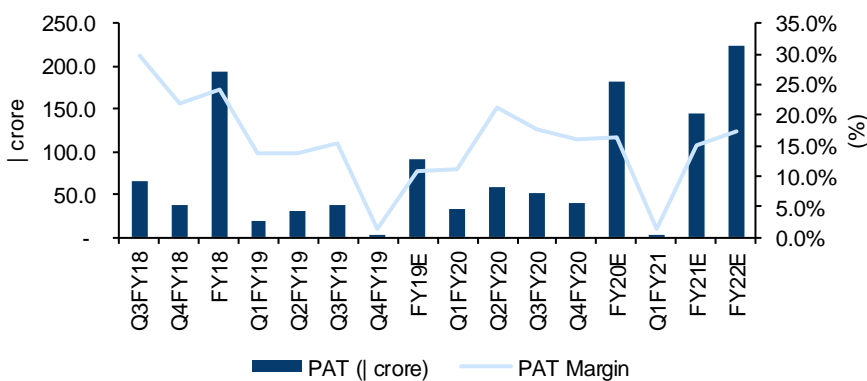
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: PAT trend

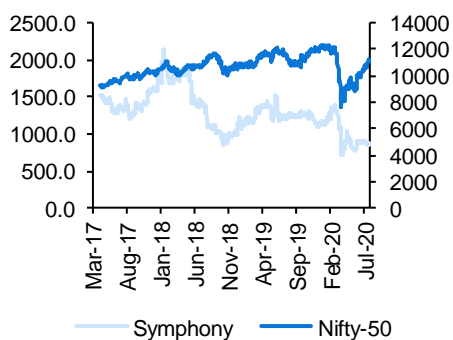


Source: Company, ICICI Direct Research

Key takeaways from conference call

- The management guided for demand recovery in the coming quarter although the year sales would be impacted due to loss of sales in Q1, the company will maintain the profitability (gross margin for FY21)
- The asset light model and diversification in other geographies (as international segment revenue was less impacted by pandemic) helped limit the fall in operating level despite witnessing such a big decline in sales
- Export of air cooler from India was disrupted during Q1FY21 due to various government restrictions
- There was marginal sales growth in Australia during Q1FY21, China sales were flat on a YoY basis. Mexico sales recovered in May but declined during June 2020 (on account of Covid-19). In totality, the revenue was higher than Indian sales
- Overseas profitability shrunk due to higher input costs, local purchases instead of imports, increased freight (mainly use of air-freight), and increased labour costs. However, the company believes this was a temporary phenomenon limited to the June quarter on account of Covid-19 and will normalise starting the September quarter due to various initiatives already implemented
- According to the management, the fundamentals of the domestic air cooler industry remain unchanged despite the strong and better season along with improved economic activities would drive the business, going forward. The company continues to launch new products in the current year and would do channel expansion despite the adverse impact of the pandemic on domestic business
- Standalone gross margin contraction is related to higher proportion of spare part sales, which have relatively low margin than the finished goods (air cooler gross margin remains intact at 50%). On the subsidiary front, Climate Technology gross margins were impacted by higher cost of purchase due to disruption in supply chain owing to lockdown for some time
- Post ease in restriction from lockdown trade channel manage to offload ~60% of inventory. The company launched online to offline sales strategy through which inquiries received from online have been forwarded to dealers
- On a standalone basis, the breakeven sales is expected to be ₹ 150 crore in FY21 i.e. ~20% of sales compared to the previous year. Considering the visible green shoots on the demand front, the company is confident of closing the year with profit on a standalone basis (against loss in Q1FY21)
- Cost rationalisation measures in the travelling & conveyance, legal, professional costs and freight would cushion profitability at the EBITDA level
- With significant cash on the books, the company is likely to maintain 50% dividend payout even for FY21
- The company does not foresee any impact of India China geopolitical tension on the business of its Chinese subsidiary
- The company level inventory was at ₹ 40 crore by the end of June 2020
- Higher capital employed during the quarter was mainly due to higher receivables (largely associated with modern trade and export business)
- The size of the US business should be half the size of Climate Technology in the next three to four years
- Symphony's market share remained intact despite a rise in competition over the last year

Exhibit 7: Historical price chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	75.0	75.0	75.0	75.0	75.0
FII	6.5	6.5	6.4	5.3	4.9
DII	8.9	9.1	9.2	10.2	10.1
Others	9.6	9.4	9.4	9.6	10.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Net Sales	844.0	1103.0	961.7	1285.4	
Growth (%)		30.7	-12.8	33.7	
Expenditure					
Increase / Decrease in stock	0.0	0.0	0.0	0.0	
Raw Material Expenses	453.0	583.0	509.7	668.4	
Marketing Expenses	33.0	45.0	27.9	48.8	
Administrative Expenses	123.0	150.0	147.1	180.0	
Employee Expenses	103.0	113.0	110.6	122.1	
Total Operating Expenditure	712.0	891.0	795.3	1019.3	
EBITDA	132.0	212.0	166.4	266.1	
Growth (%)		60.6	-21.5	59.9	
Other Income	39.0	54.0	47.5	54.6	
Interest	7.0	11.0	8.0	9.0	
PBDT	164.0	255.0	205.9	311.7	
Depreciation	10.0	21.0	24.0	28.3	
PBT before Exceptional Items	154.0	234.0	181.9	283.4	
Less: Exceptional Items	-	-	-	-	
PBT	130.0	230.0	181.9	283.4	
Total Tax	39.0	48.0	38.2	59.5	
PAT	91.0	182.0	143.7	223.9	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Equity Capital	14.0	14.0	14.0	14.0	
Reserve and Surplus	652.0	625.0	609.5	623.1	
Total Shareholders funds	666.0	639.0	623.5	637.1	
Deferred Tax Liability	6.0	7.0	7.0	7.0	
Total Debt	187.0	174.0	144.0	114.0	
Total Liabilities	863.0	852.0	806.5	790.1	
Assets					
Total Gross Block	214.6	322.7	336.7	348.7	
Less Total Accumulated Deprec	119.7	140.7	164.7	193.0	
Net Block	95.0	182.0	172.0	155.7	
Goodwill on Consolidation	143.0	136.0	136.0	136.0	
Other Investments	187.0	114.0	94.0	114.0	
Liquid Investments	272.0	299.0	279.0	259.0	
Inventory	119.0	118.0	144.9	176.1	
Debtors	105.0	121.0	131.7	140.9	
Other Current Assets	62.0	61.0	53.2	71.1	
Cash	54.0	26.0	44.0	70.8	
Total Current Assets	340.0	326.0	373.8	458.9	
Creditors	130.0	115.0	158.1	211.3	
Provisions	20.0	21.0	28.9	38.6	
Other current liabilities	58.0	76.0	66.3	88.6	
Total Current Liabilities	208.0	212.0	253.2	338.5	
Net Current Assets	132.0	114.0	120.6	120.4	
Total Asset	863.0	852.0	806.5	790.1	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Profit after Tax	91.0	182.0	143.7	223.9	
Depreciation	10.0	21.0	24.0	28.3	
Cash Flow before working capital cl	108.0	214.0	175.7	261.2	
Net Increase in Current Assets	-56.2	-14.0	-29.8	-58.2	
Net Increase in Current Liabilities	97.5	4.0	41.2	85.2	
Net cash flow from operating ac	149.4	204.0	187.1	288.2	
(Increase)/Decrease in Other Invest	-15.0	73.0	20.0	-20.0	
(Purchase)/Sale of Liquid Investmen	-21.6	-27.0	20.0	20.0	
(Purchase)/Sale of Fixed Assets	-33.1	-104.0	-12.0	-12.0	
Net Cash flow from Investing ac	-235.8	1.0	28.0	-12.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	161.5	-13.0	-30.0	-30.0	
Total Outflow on account of dividend	-37.5	-196.2	-168.3	-210.3	
Net Cash flow from Financing ac	117.9	-233.0	-197.1	-249.4	
Net Cash flow	31.5	-28.0	17.9	26.9	
Cash and Cash Equivalent at the beg	22.6	54.0	26.0	44.0	
Cash	54.0	26.0	44.0	70.8	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Per Share Data					
EPS	13.0	26.0	20.5	32.0	
Cash EPS	14.4	29.0	24.0	36.0	
BV	95.2	91.3	89.1	91.1	
DPS	5.4	28.0	24.1	30.1	
Operating Ratios					
EBITDA Margin	15.6	19.2	17.3	20.7	
PAT Margin	12.8	16.8	14.9	17.4	
Return Ratios					
RoE	16.2	29.0	23.0	35.1	
RoCE	18.7	28.8	23.5	37.0	
RoIC	29.2	41.5	34.8	58.3	
Valuation Ratios					
EV / EBITDA	43.0	26.7	33.9	21.0	
P/E	63.9	31.9	40.5	26.0	
EV / Net Sales	6.7	5.1	5.9	4.4	
Div Yield (%)	0.6	3.4	2.9	3.6	
Market Cap / Sales	6.9	5.3	6.0	4.5	
Price to Book Value	8.7	9.1	9.3	9.1	
Turnover Ratios					
Asset turnover	1.0	1.3	1.2	1.6	
Debtor Days	3.9	3.4	2.9	3.7	
Creditor Days	56.2	38.1	60.0	60.0	
Inventory Days	51.5	39.0	55.0	50.0	
Solvency Ratios					
Current Ratio	1.9	2.2	1.8	1.6	
Quick Ratio	1.1	1.3	1.0	0.8	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	1,797	1,900	Hold	1,72,332	29.0	21.8	32.6	62.0	82.6	55.0	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	1,070	1,120	Hold	16,121	16.6	15.0	23.3	64.6	71.5	46.0	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM)	1,654	1,980	Buy	5,201	52.2	18.4	63.7	31.7	90.0	26.0	18.1	27.6	13.2	14.3	7.0	17.4	14.5	5.3	15.5
Bajaj Electricals (BAJEL)	445	495	Buy	5,059	0.0	4.1	14.8	NM	108.7	30.1	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	550	570	Hold	53,416	6.8	6.0	10.0	81.4	91.8	54.9	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7
Essel Propack (ESSPRC)	276	270	Buy	8,708	6.7	7.0	9.5	41.1	39.3	29.1	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	603	630	Hold	37,621	11.7	8.0	14.4	51.3	75.2	41.9	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	482	510	Buy	25,976	9.9	7.9	11.8	48.5	60.7	40.8	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,364	1,595	Buy	69,264	22.1	17.8	28.0	61.7	76.5	48.8	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	840	950	Buy	12,506	51.4	42.2	55.4	16.3	19.9	15.2	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPINC)	1,233	1,245	Hold	15,662	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1
Symphony (SYMLIM)	830	960	Buy	5,806	26.0	20.5	32.0	31.9	40.4	25.9	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	42	Hold	882	7.5	3.2	9.0	5.2	12.3	4.3	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7
V-Guard Ind (VGUARD)	160	210	Buy	6,853	4.3	3.6	5.2	37.0	44.6	30.8	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	604	635	Buy	19,976	15.8	9.5	21.4	38.3	63.6	28.2	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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