

Gradual recovery in the domestic business ...

Symphony's standalone and overseas business has seen a gradual recovery on a QoQ basis, however YoY recovery was still ~74% of previous year. According to company, the trade sentiments in the domestic markets were positive and company has witnessed stock out situation in some of the geographies. The inventory level is normalised with channel partners and the company expects good volume offtake from Q4FY21 onwards. On the subsidiaries front, Climate Technologies Australia performance remained impacted due to supply issues & lower operating leverage. The management expects a turnaround of Australian subsidiary from Q4FY21 supported by various initiatives (such as changing sourcing destination from China to India) taken by the management. The other two subsidiaries, GSK China and Impco Mexico performance in terms of topline remain impacted due to pandemic, however company has taken various cost optimisation measures in the subsidiaries. This would help company to improve profitability, going forward. We slightly tweaked our earnings estimates upward by ~2%, 6% for FY22E, FY23E respectively

Improvement in sales on a QoQ basis

The domestic and overseas business sales were up by 12% and 14% on a QoQ basis supported by improved demand post opening up of economy. For the 9MFY21, consolidated revenue was down by 34% YoY to ₹ 561 crore mainly due to domestic business which were significantly impacted due to lockdown in the peak season. Management expects a strong recovery for domestic and overseas markets in Q4FY21 amid low base, refilling of channel inventory and market share gains due to supply disruptions. The unorganized players (70% of Industry size) has witnessed severe supply disruptions and hence likely to lose market share when season picks up.

Lower profitability of Australian subsidiary drags overall margin

Despite various challenges, company has maintained its standalone gross margin same as Q3FY20 level (improved by 100 bps QoQ). On a consolidated basis, the gross margin was lower by ~350 bps YoY due to ongoing supply issues in Australia. Lower volume and higher fixed costs dragged consolidated EBITDA margin down by ~800 bps YoY at 15%. According to management, the company has taken various initiatives to rationalise cost at subsidiaries level which would start showing results in the coming quarters.

Valuation & Outlook

We continue to like Symphony for its leadership position in the domestic air cooler market and its capital efficient working model. However, margin recovery and sustainability of market share in the upcoming summer season will be key variable to watch. We rollover our valuation on FY23E and change our rating from BUY to HOLD, with revised target price of ₹ 1090 (valuing 27x FY23E EPS).

Key Financial Summary

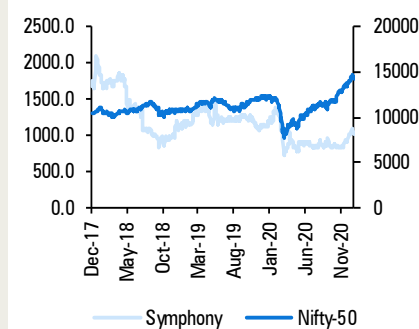
(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	(CAGR20-23E)
Net Sales	844.0	1103.0	820.4	1188.0	1456.9	9.7
EBITDA	132.0	212.0	110.8	253.1	339.5	17.0
EBITDA Margin (%)	15.6	19.2	13.5	21.3	23.3	
PAT	91.0	182.0	91.9	208.3	279.8	15.4
EPS (₹)	13.0	26.0	13.1	29.8	40.0	
P/E(x)	76.1	38.1	75.3	33.2	24.8	
Price/Book value (x)	10.4	10.8	12.1	11.3	9.6	
Mcap/sales (x)	8.2	6.3	8.4	5.8	4.8	
RoE (%)	16.2	29.0	17.1	34.1	38.7	
RoCE (%)	18.7	28.8	16.7	35.7	41.8	

Source: Company, ICICI Direct Research



Particulars	Amount
Market Cap (₹ Crore)	6,925.7
Total Debt (FY20) (₹ Crore)	174.0
Cash&Inv (FY20) (₹ Crore)	325.0
EV (₹ Crore)	6,775
52 week H/L (₹)	1407 / 690
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Price Chart



Key risk to our call

- **Downside risk:** Continuous losses from the overseas subsidiaries in future
- **Upside risk:** Better than expected volume growth in the domestic and overseas markets (We estimate volume CAGR of 6% in FY20-23)

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY20	YoY (%)	Q2FY20	QoQ (%)	Comments
Revenue	216.0	290.0	-25.5	191.0	13.1	Consolidated revenue de-growth was dragged by domestic market. Domestic sales declined by 44% YoY while sales of overseas subsidiaries increased by ~4% YoY
Other Income	9.0	10.0	-10.0	8.0	12.5	
Raw Material Exp	120.0	151.0	-20.5	107.0	12.1	Gross margin declined by 345 bps YoY mainly due to lower gross margin of Climate Technology (impacted by higher purchase cost owing to supply disruption)
Employee Exp	27.0	27.0	0.0	26.0	3.8	
Selling & Dis. Exp	1.0	4.0	-75.0	3.0	-66.7	
Other Exp	35.0	40.0	-12.5	28.0	25.0	
EBITDA	33.0	68.0	-51.5	27.0	22.2	
EBITDA Margin (%)	15.3%	23.4%	-817 bps	14.1%	114 bps	Lower gross margin and higher fixed costs drags the EBITDA margin
Depreciation	6.0	3.0	100.0	5.0	20.0	
Interest	2.0	2.0	0.0	4.0	-50.0	
PBT	34.0	73.0	-53.4	19.0	78.9	
Total Tax	7.0	22.0	-68.2	4.0	75.0	
PAT	27.0	51.0	-47.1	15.0	80.0	Bottomline de-growth is largely tracking lower sales and EBITDA margin

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	1261.6	1188.0	(5.8)	1507.8	1456.9	(3.4)	We tweak our revenue estimate downward for FY22E-FY23E considering current quarter performance.
EBITDA	248.5	253.1	1.8	319.7	339.5	6.2	
EBITDA Margin %	19.7	21.3	160bps	21.2	23.3	210bps	Build in margin recovery from FY22E onwards
PAT	203.6	208.3	2.3	263.9	279.8	6.0	
EPS (₹)	29.1	29.8	2.3	37.7	40.0	6.1	

Source: Company, ICICI Direct Research

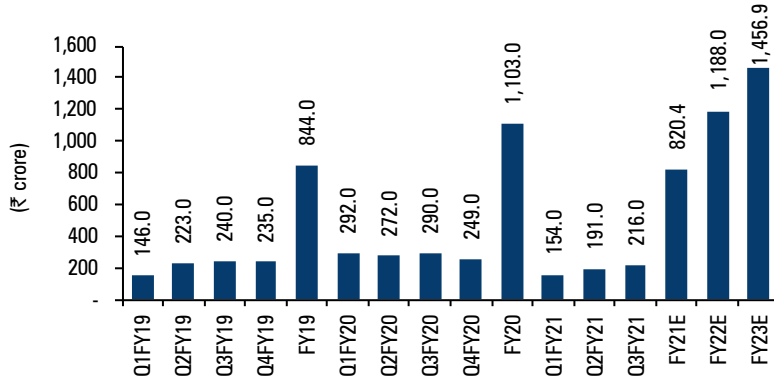
Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Volume Growth (%)	30.1	-25.8	39.0	19.7	32.0	17.1	We model volume CAGR of 6% from FY20-23E
Realisation Growth (%)	0.6	1.1	3.0	2.5	4.3	2.5	

Source: Company, ICICI Direct Research

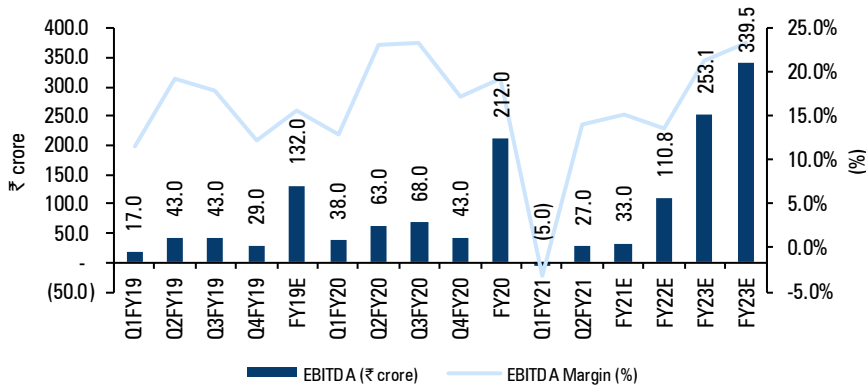
Financial story in charts

Exhibit 4: Consolidated sales performance



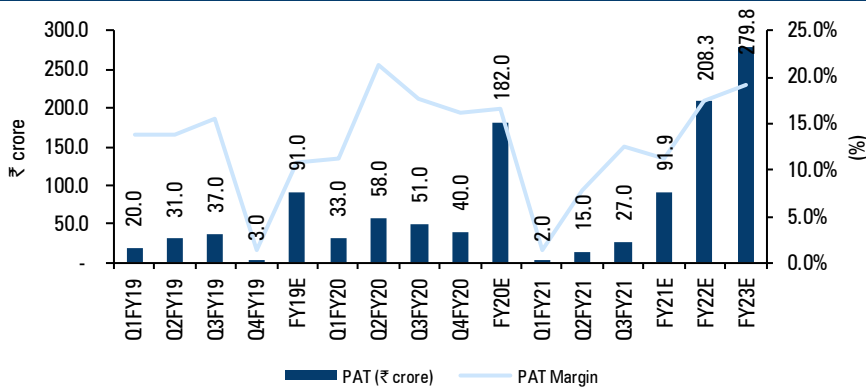
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 6: PAT trend



Source: Company, ICICI Direct Research

Key takeaways from conference call

- Unorganized players (~70% of industry) are likely to face supply chain disruption due to import ban from China. Company is confident on improving market share once the season starts from next month onwards
- Despite various challenges during FY21, company managed to reduce 9MFY21 inventory on a consolidated basis from ₹ 105 crore to ₹ 99 crore. Standalone inventory stood at ₹ 36 crore, indicating gradual reduction in inventory level
- Climate Technologies Australia reported a revenue growth of 1% YoY in 9MFY21, while profitability impacted due to supply issues, higher freight cost and increased labour costs. The company looks confident to turnaround the business in Q4FY'21
- Company will shift its sourcing from China to India for Climate Technologies, which would help a substantial savings on raw material cost front
- Impco Mexico sales were impacted due to pandemic and bankruptcy by one of the key clients. However, gross margin of the business remained intact.
- GSK China sales were also impacted due to pandemic; however, company has taken various initiatives to rationalise the cost
- Trade collection during the month of Dec'20 was higher as compared to Dec'19, showing improved sentiments among dealers especially from rural and semi urban regions
- The company has witnessed substantially price increase in the raw material prices such as plastics and steel. However, company has taken price hikes to negate the impact of increasing input prices
- No major capex in the coming years, and the company would maintain dividend payout at 50%.

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1103.0	820.4	1188.0	1456.9
Growth (%)		-25.6	44.8	22.6
Expenditure				
Increase / Decrease in stock	0.0	0.0	0.0	0.0
Raw Material Expenses	583.0	455.3	617.8	750.3
Marketing Expenses	45.0	14.8	38.0	58.3
Administrative Expenses	150.0	131.3	154.4	174.8
Employee Expenses	113.0	108.3	124.7	134.0
Total Operating Expenditure	891.0	709.6	935.0	1117.5
EBITDA	212.0	110.8	253.1	339.5
Growth (%)		-47.8	128.5	34.1
Other Income	54.0	37.8	43.5	50.0
Interest	11.0	10.0	9.0	7.6
PBDT	255.0	138.6	287.5	381.8
Depreciation	21.0	22.2	23.8	27.7
PBT before Exceptional Items	234.0	116.4	263.7	354.1
Less: Exceptional Items	-	-	-	-
PBT	230.0	109.4	263.7	354.1
Total Tax	48.0	17.5	55.4	74.4
PAT	182.0	91.9	208.3	279.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	14.0	14.0	14.0	14.0
Reserve and Surplus	625.0	557.8	597.8	709.3
Total Shareholders funds	639.0	571.7	611.8	723.3
Deferred Tax Liability	7.0	7.0	7.0	7.0
Total Debt	174.0	144.0	114.0	104.0
Total Liabilities	852.0	754.7	764.8	866.3
Assets				
Total Gross Block	322.7	336.7	348.7	358.7
Less Total Accumulated Depreciation	140.7	162.8	186.6	214.3
Net Block	182.0	173.8	162.1	144.4
Goodwill on Consolidation	136.0	136.0	136.0	136.0
Other Investments	114.0	94.0	114.0	134.0
Liquid Investments	299.0	279.0	259.0	239.0
Inventory	118.0	123.6	162.7	215.5
Debtors	121.0	112.4	146.5	179.6
Other Current Assets	61.0	45.4	65.7	80.6
Cash	26.0	1.5	26.6	92.2
Total Current Assets	326.0	282.9	401.6	567.9
Creditors	115.0	134.9	195.3	219.5
Provisions	21.0	24.6	35.7	40.1
Other current liabilities	76.0	56.5	81.9	100.4
Total Current Liabilities	212.0	216.0	312.8	360.0
Net Current Assets	114.0	66.9	88.7	207.9
Total Asset	852.0	754.8	764.8	866.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	182.0	91.9	208.3	279.8
Depreciation	21.0	22.2	23.8	27.7
Cash Flow before working capital cha	214.0	124.0	241.1	315.1
Net Increase in Current Assets	-14.0	18.6	-93.5	-100.8
Net Increase in Current Liabilities	4.0	4.0	96.8	47.2
Net cash flow from operating act.	204.0	146.7	244.4	261.5
(Increase)/Decrease in Other Investments	73.0	20.0	-20.0	-20.0
(Purchase)/Sale of Liquid Investments	-27.0	20.0	20.0	20.0
(Purchase)/Sale of Fixed Assets	-104.0	-12.0	-12.0	-10.0
Net Cash flow from Investing act.	1.0	28.0	-12.0	-10.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-13.0	-30.0	-30.0	-10.0
Total Outflow on account of dividend	-196.2	-168.3	-168.3	-168.3
Net Cash flow from Financing act.	-233.0	-199.1	-207.3	-185.9
Net Cash flow	-28.0	-24.5	25.1	65.6
Cash and Cash Equivalent at the beginning	54.0	26.0	1.5	26.6
Cash	26.0	1.5	26.6	92.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	26.0	13.1	29.8	40.0
Cash EPS	29.0	16.3	33.2	43.9
BV	91.3	81.7	87.5	103.4
DPS	28.0	24.1	24.1	24.1
Operating Ratios				
EBITDA Margin	19.2	13.5	21.3	23.3
PAT Margin	16.8	11.9	17.5	19.2
Return Ratios				
RoE	29.0	17.1	34.1	38.7
RoCE	28.8	16.7	35.7	41.8
RoIC	41.5	22.7	54.6	63.0
Valuation Ratios				
EV / EBITDA	32.0	61.3	26.7	19.7
P/E	38.1	75.3	33.2	24.8
EV / Net Sales	6.1	8.3	5.7	4.6
Div Yield (%)	2.8	2.4	2.4	2.4
Market Cap / Sales	6.3	8.4	5.8	4.8
Price to Book Value	10.8	12.1	11.3	9.6
Turnover Ratios				
Asset turnover	1.3	1.1	1.6	1.7
Debtor Days	3.4	2.4	3.4	4.1
Creditor Days	38.1	60.0	60.0	55.0
Inventory Days	39.0	55.0	50.0	54.0
Solvency Ratios				
Current Ratio	2.2	1.8	1.6	1.8
Quick Ratio	1.3	1.0	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,596	3,010	Hold	2,48,956	32.8	39.9	46.3	79.1	65.0	56.1	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,661	1,260	Hold	25,025	20.7	25.5	27.8	80.1	65.1	59.8	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,492	2,830	Buy	7,836	23.7	75.1	90.0	105.0	33.2	27.7	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7
Bajaj Electricals (BAJELE)	760	585	Buy	8,640	11.8	17.1	23.0	NM	44.5	33.0	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	773	675	Hold	75,074	7.8	9.7	11.7	99.4	80.1	65.8	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	429	440	Buy	26,898	8.3	10.2	11.6	51.5	42.2	37.1	31.6	26.2	23.6	32.2	36.1	38.9	28.4	29.4	30.3
EPL (ESSPRO)	252	280	Hold	7,951	8.0	8.9	11.2	31.3	28.2	22.6	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4
Havells India (HAVIND)	1,122	1,255	Hold	70,002	16.1	17.8	22.9	69.8	63.0	48.9	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	651	605	Buy	35,084	10.3	12.0	14.0	63.4	54.1	46.5	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7
Pidilite Industries (PIDIND)	1,735	1,850	Buy	88,103	22.7	27.8	31.9	76.6	62.4	54.4	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3
Polycab India (POLI)	1,278	1,040	Buy	19,027	58.1	62.9	74.4	22.0	20.3	17.2	13.3	11.3	9.2	21.4	23.2	25.1	18.2	18.0	19.2
Supreme Indus (SUPIND)	1,725	1,695	Buy	21,912	44.9	47.8	54.9	38.4	36.1	31.4	22.7	21.9	18.2	23.3	22.5	24.3	22.3	21.2	21.6
Symphony (SYMLIM)	990	1,090	Hold	6,926	13.1	29.8	40.0	75.3	33.2	24.8	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	51	43	Hold	1,153	7.5	4.0	9.1	6.8	12.8	5.6	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	231	210	Buy	9,893	3.7	5.3	6.2	62.7	43.4	37.2	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	934	845	Hold	30,891	12.3	22.6	29.8	75.9	41.3	31.4	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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