

## Slow recovery in domestic business...

Symphony's consolidated Q2FY21 performance was mainly impacted by slow recovery in the domestic demand of air coolers. Consolidated revenue fell ~30% YoY led by ~44% YoY fall in revenue of domestic business. However, overseas businesses were relatively less impacted and revenue increased ~4% YoY during the pandemic led by Climate Technologies Australia. Profitability was largely impacted by higher raw material prices (in Australia) due to disruption in supply and lower operating leverage. The management expects a slight delay in recovery of primary sales YoY as dealer's focus remained on liquidating existing inventory (~40% of pre-Covid volume). On the international front, business in Australia saw improved demand with subsidiary sales up ~8% YoY in H1FY21. While Chinese business is on recovery mode, the Impco Mexico performance was impacted by bankruptcy filed by one of the key clients (contributed ~10% in Impco's topline). The management has further guided at maintaining gross margin despite a shortfall in revenue in FY21 largely impacted by weak H1FY21. Further, its asset light model and various other cost optimisation measures (like travel & conveyance cost, legal & professional cost, etc) would further provide cushion to EBITDA margin, going forward. While we revise our FY21E, FY22E earnings estimate downside by ~16%, ~9%, respectively, we continue to maintain our positive stance on the stock considering its strong brand patronage, robust balance sheet (cash of ₹ ~532 crore with strong RoE/RoCE).

## Late recovery in domestic business

The standalone revenue (~65% of total sales) witnessed a slow recovery (only 56% of pre-Covid level) as channel inventory remained higher in Q2FY21 (channel inventory at 40% of pre-Covid volume). We continue to expect a strong H2FY21 for domestic markets amid low base and refilling of channel inventory. On the international front, the revenue growth at 4% was led by Climate Technologies (Australia). We model, revenue CAGR of 11% in FY20-23E supported by ~12% and 10% revenue CAGR in the overseas and standalone business respectively.

## One-time cost drags gross margin

The EBITDA margin declined ~900 bps YoY mainly due to lower gross margin and operating de-leverage in the wake of slow volume offtake. We believe the EBITDA margin will improve, going forward, with intact domestic gross margin and improved plant utilisation across geographies.

## Valuation & Outlook

We expect a better H2FY21 compared to H1 led by refilling of trade inventory at the start of summer. We continue to like Symphony for its leadership position in the domestic air cooler market and a robust balance sheet condition. We reiterate our **BUY** rating on the stock and maintain target price of ₹ 960 (valuing 30x FY22E).

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	(CAGR20-23E)
Net Sales	844.0	1103.0	919.5	1261.6	1507.8	11.0
EBITDA	132.0	212.0	159.1	248.5	319.7	14.7
EBITDA Margin (%)	15.6	19.2	17.3	19.7	21.2	
PAT	91.0	182.0	121.1	203.6	263.9	13.2
EPS (₹)	13.0	26.0	17.3	29.1	37.7	
P/E(x)	63.7	31.8	47.8	28.4	21.9	
Price/Book value (x)	8.7	9.1	9.6	9.7	8.9	
Mcap/sales (x)	6.9	5.3	6.3	4.6	3.8	
RoE (%)	16.2	29.0	21.1	34.3	40.7	
RoCE (%)	18.7	28.8	22.2	35.7	44.2	

Source: Company, ICICI Direct Research



### Particulars

Particulars	Amount
Market Cap (₹ Crore)	5,792.4
Total Debt (FY20) (₹ Crore)	174.0
Cash&Inv (FY20) (₹ Crore)	325.0
EV (₹ Crore)	5,641
52 week H/L (₹)	1407 / 690
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

### Key Highlights

- Delay in recovery of secondary sales in domestic markets amid seasonality, pandemic related disruptions
- EBITDA margin stayed under pressure owing to one-time cost and supply related disruptions
- Management confident of reviving domestic, overseas subsidiary performance, going forward
- Reiterate our **BUY** rating, maintain target price at ₹ 960

### Research Analyst

Sanjay Manyal  
sanjay.manyal@icicisecurities.com

Hitesh Taunk  
hitesh.taunk@icicisecurities.com

**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	YoY (%)	Q1FY20	QoQ (%)	Comments
Revenue	191.0	272.0	-29.8	154.0	24.0	Consolidated revenue de-growth largely led domestic market. Domestic sales declined by 44% YoY while sales of overseas subsidiaries increased by ~4% YoY
Other Income	8.0	11.0	-27.3	8.0	0.0	
Raw Material Exp	107.0	143.0	-25.2	94.0	13.8	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	26.0	30.0	-13.3	26.0	0.0	
Selling & Dis. Exp	3.0	2.0	50.0	7.0	-57.1	
Other Exp	28.0	34.0	-17.6	32.0	-12.5	
EBITDA	27.0	63.0	-57.1	-5.0	-640.0	
EBITDA Margin (%)	14.1%	23.2%	-903 bps	-3.2%	1738 bps	Lower gross margin and higher fixed costs drags EBITDA margin
Depreciation	5.0	6.0	-16.7	5.0	0.0	
Interest	4.0	3.0	33.3	2.0	100.0	
PBT	19.0	65.0	-70.8	-4.0	-575.0	
Total Tax	4.0	7.0	-42.9	-6.0	-166.7	
PAT	15.0	58.0	-74.1	2.0	650.0	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			FY23E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	961.7	919.5	(4.4)	1285.4	1261.6	(1.9)	1507.8	We tweak our revenue estimate for FY21E considering current quarter performance. We introduce FY23 estimates with revenue CAGR of 11% led by 12% revenue CAGR of overseas business and ~10% revenue CAGR of standalone business in FY20-23
EBITDA	166.4	159.1	(4.4)	266.1	248.5	(6.6)	319.7	
EBITDA Margin %	17.3	17.3	0bps	20.7	19.7	-100bps	21.2	We believe margin will start recovering from FY22E onwards
PAT	143.7	121.1	(15.7)	223.9	203.6	(9.1)	263.9	
EPS (₹)	20.5	17.3	(15.7)	32.0	29.1	(9.1)	37.7	

Source: Company, ICICI Direct Research

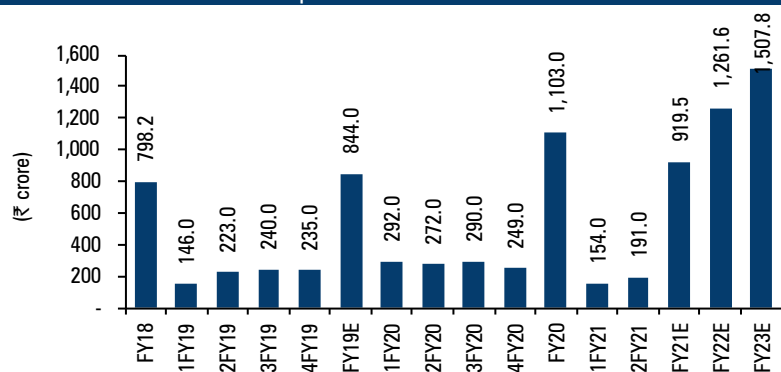
**Exhibit 3: Assumptions**

	Current			FY23E		Earlier		Comments
	FY20E	FY21E	FY22E	introduced	FY21E	FY22E		
Volume Growth (%)	30.1	-14.7	32.0	17.1	-12.0	30.2		Revise estimates considering Q2FY21 performance. Introduce FY23E estimates with consolidated volume CAGR of 10% in FY20-23E
Realisation Growth (%)	0.6	-4.6	4.3	2.5	2.5	3.1		

Source: Company, ICICI Direct Research

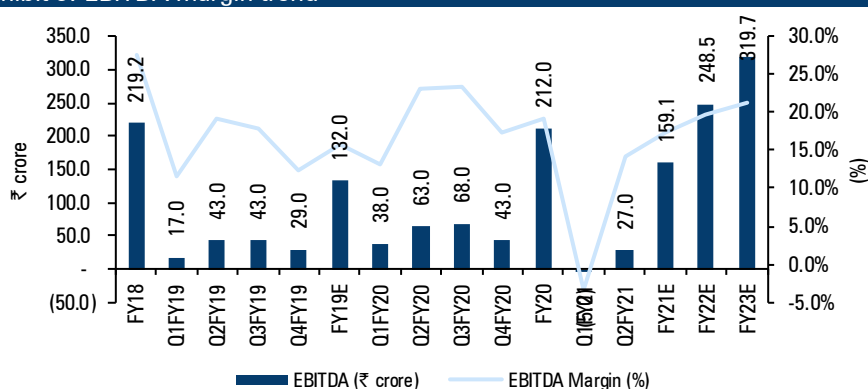
## Financial story in charts

**Exhibit 4: Consolidated sales performance**



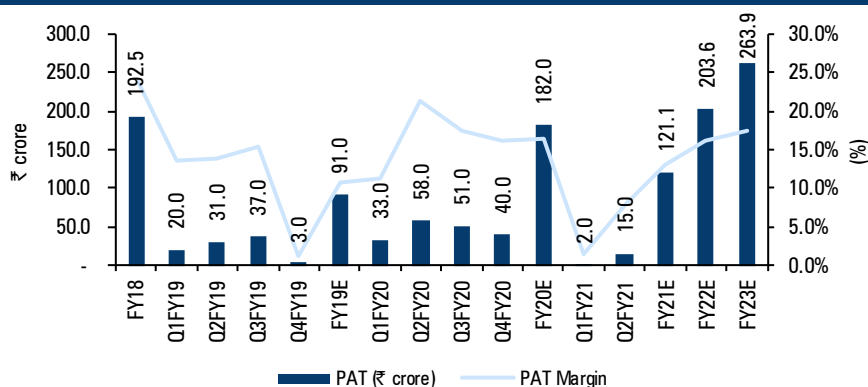
Source: Company, ICICI Direct Research

**Exhibit 5: EBITDA margin trend**



Source: Company, ICICI Direct Research

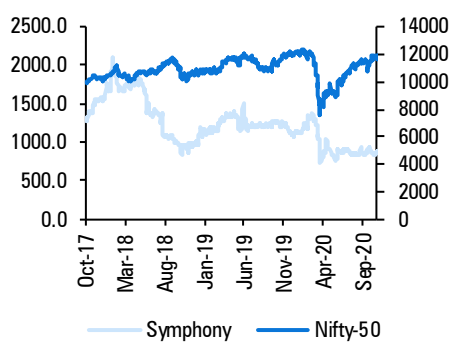
**Exhibit 6: PAT trend**



Source: Company, ICICI Direct Research

## Key takeaways from conference call

- The management has guided for demand recovery in the coming quarter that would be better QoQ but YoY it would be a double digit decline due to higher trade inventory in the channel. The company sees a better March quarter if there are no pandemic related lockdowns
- Nearly 60% of trade inventory is liquidated post reopening of the economy. However, 40% of inventory still with trade channel
- The inventory was at ₹ 29 crore by the end of September 2020 against ₹ 41 crore by the end of September 2019
- Export of air cooler from India was up ~17% during Q2FY21 post ease in lockdown restrictions
- Australian subsidiary recorded revenue growth of ~8% YoY in H1FY21, despite Covid-19 impact. However, its profitability was impacted due to increased input cost associated to supply related issues and higher employee cost. The company expects ~30-40% topline growth over FY19.
- The company received an encouraging response from trade partners of Climate Technologies for Symphony's residential air cooler range. The company expects a good export order from these channels, going ahead
- Impco Mexico performance improved in Q2FY21 with improved gross margin. However, EBITDA margin impacted due to one-time cost of ₹ 7.2 crore due to bankruptcy filed by one of its key clients. The bankrupt customer contribution in Impco's topline was ~10%
- While the gross margin and contribution margin of GSK China has improved, sales were impacted by pandemic and slow recovery in demand
- Despite various challenges, standalone business gross margin is likely to be strong in FY21 at a same level of last year FY21
- Rural and semi urban contributes ~60% of domestic sales
- The company received ~75% advances from existing trade channel while 25% advances came from new channel partners
- Export from Impco and Climate Technologies seems to be robust in the December and March quarter

**Exhibit 7: Historical price chart**


Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 8: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	75.0	75.0	75.0	75.0	75.0
FII	6.5	6.4	5.3	4.9	4.4
DII	9.1	9.2	10.2	10.1	10.3
Others	9.4	9.4	9.6	10.0	10.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1103.0	919.5	1261.6	1507.8
Growth (%)		-16.6	37.2	19.5
Expenditure				
Increase / Decrease in stock	0.0	0.0	0.0	0.0
Raw Material Expenses	583.0	487.3	656.0	769.0
Marketing Expenses	45.0	26.7	47.9	57.3
Administrative Expenses	150.0	140.7	176.6	196.0
Employee Expenses	113.0	105.7	132.5	165.9
Total Operating Expenditure	891.0	760.4	1013.0	1188.2
EBITDA	212.0	159.1	248.5	319.7
Growth (%)		-25.0	56.2	28.6
Other Income	54.0	37.8	43.5	50.0
Interest	11.0	13.6	9.0	6.9
PBDT	255.0	183.3	283.0	362.7
Depreciation	21.0	23.0	25.2	28.6
PBT before Exceptional Items	234.0	160.3	257.7	334.1
Less: Exceptional Items	-	-	-	-
PBT	230.0	153.3	257.7	334.1
Total Tax	48.0	32.2	54.1	70.2
PAT	182.0	121.1	203.6	263.9

Source: Company, ICICI Direct Research

Exhibit 11: 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	586.9	580.2	633.8
Total Shareholders funds	639.0	600.9	594.2	647.8
Deferred Tax Liability	7.0	7.0	7.0	7.0
Total Debt	174.0	144.0	114.0	84.0
<b>Total Liabilities</b>	<b>852.0</b>	<b>783.9</b>	<b>747.2</b>	<b>770.8</b>
Assets				
Total Gross Block	322.7	336.7	348.7	360.7
Less Total Accumulated Depreciation	140.7	163.7	188.9	217.6
Net Block	182.0	173.0	159.8	143.1
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	138.6	172.8	206.5
Debtors	121.0	126.0	155.5	185.9
Other Current Assets	61.0	50.9	69.8	83.4
Cash	26.0	23.7	7.5	34.8
Total Current Assets	326.0	339.0	405.6	510.7
Creditors	115.0	151.1	207.4	247.9
Provisions	21.0	27.6	37.9	45.3
Other current liabilities	76.0	63.4	86.9	103.9
Total Current Liabilities	212.0	242.1	332.2	397.0
Net Current Assets	114.0	96.9	73.4	113.6
<b>Total Asset</b>	<b>852.0</b>	<b>783.9</b>	<b>747.2</b>	<b>770.8</b>

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	182.0	121.1	203.6	263.9
Depreciation	21.0	23.0	25.2	28.6
Cash Flow before working capital cha	214.0	157.7	237.9	299.5
Net Increase in Current Assets	-14.0	-15.4	-82.8	-77.7
Net Increase in Current Liabilities	4.0	30.1	90.1	64.8
<b>Net cash flow from operating act.</b>	<b>204.0</b>	<b>172.4</b>	<b>245.2</b>	<b>286.6</b>
(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	-12.0
<b>Net Cash flow from Investing act.</b>	<b>1.0</b>	<b>28.0</b>	<b>-12.0</b>	<b>-12.0</b>
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-13.0	-30.0	-30.0	-30.0
Total Outflow on account of dividend	-196.2	-168.3	-210.3	-210.3
<b>Net Cash flow from Financing act.</b>	<b>-233.0</b>	<b>-202.8</b>	<b>-249.4</b>	<b>-247.3</b>
Net Cash flow	-28.0	-2.3	-16.2	27.3
Cash and Cash Equivalent at the beginning	54.0	26.0	23.7	7.5
<b>Cash</b>	<b>26.0</b>	<b>23.7</b>	<b>7.5</b>	<b>34.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios ₹ crore				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per Share Data</b>				
EPS	26.0	17.3	29.1	37.7
Cash EPS	29.0	20.6	32.7	41.8
BV	91.3	85.9	84.9	92.6
DPS	28.0	24.1	30.1	30.1
<b>Operating Ratios</b>				
EBITDA Margin	19.2	17.3	19.7	21.2
PAT Margin	16.8	13.8	16.1	17.5
<b>Return Ratios</b>				
RoE	29.0	21.1	34.3	40.7
RoCE	28.8	22.2	35.7	44.2
RoIC	41.5	33.7	52.3	63.3
<b>Valuation Ratios</b>				
EV / EBITDA	26.6	35.4	22.7	17.5
P/E	31.8	47.8	28.4	21.9
EV / Net Sales	5.1	6.1	4.5	3.7
Div Yield (%)	3.4	2.9	3.6	3.6
Market Cap / Sales	5.3	6.3	4.6	3.8
Price to Book Value	9.1	9.6	9.7	8.9
<b>Turnover Ratios</b>				
Asset turnover	1.3	1.2	1.7	2.0
Debtor Days	3.4	2.7	3.6	4.2
Creditor Days	38.1	60.0	60.0	60.0
Inventory Days	39.0	55.0	50.0	50.0
<b>Solvency Ratios</b>				
Current Ratio	2.2	1.8	1.6	1.6
Quick Ratio	1.3	1.0	0.9	0.9

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)	2,181	2,440	Buy	2,09,158	29.0	28.9	35.9	75.3	75.6	60.8	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,240	1,260	Hold	18,682	16.6	15.0	23.3	74.8	82.9	53.3	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBER)	2,262	2,600	Buy	7,113	52.2	23.7	75.1	43.3	95.3	30.1	22.9	33.2	14.7	14.3	7.2	17.0	14.5	5.3	14.3
Bajaj Electricals (BAJELE)	533	585	Buy	6,060	-0.9	11.8	17.1	NM	45.0	31.2	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	650	675	Hold	63,128	6.8	7.8	9.7	96.2	83.6	67.3	59.6	52.2	44.0	26.6	26.9	30.3	24.7	23.8	25.7
EPL (ESSPRO)	255	270	Buy	8,045	6.7	7.0	9.5	38.0	36.3	26.9	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	815	835	Buy	50,848	11.7	14.1	16.4	69.4	57.8	49.7	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	520	605	Buy	28,024	9.9	10.3	12.0	52.3	50.7	43.2	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,571	1,850	Buy	79,775	22.1	22.7	27.8	71.1	69.3	56.5	50.6	49.7	40.9	31.0	28.2	30.9	26.1	23.2	24.9
Polycab India (POLI)	928	1,040	Buy	13,816	51.4	58.4	62.9	18.0	15.9	14.8	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,407	1,695	Buy	17,873	36.8	44.9	47.8	38.2	31.3	29.4	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	828	960	Buy	5,792	26.0	17.3	29.1	31.8	47.8	28.4	26.6	35.4	22.7	28.8	22.2	35.7	29.0	21.1	34.3
Time Techno (TIMTEC)	38	47	Hold	859	7.5	3.4	9.4	5.1	11.2	4.1	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	168	210	Buy	7,195	4.3	3.7	5.3	38.9	45.4	31.7	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	753	845	Hold	24,904	15.8	12.3	22.6	47.8	61.2	33.3	36.0	53.8	29.0	19.5	12.8	20.1	13.0	9.1	15.3

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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