

Weak demand, high inflation drag performance...

About the stock: Symphony is the world's largest manufacturer of air coolers with a presence in over 60 countries and provides air cooling products in the residential, industrial and commercial segments.

- Symphony is the market leader in the air-cooling business with a strong distribution network of ~30,000+ dealers, ~1000+ distributors and ~1000+ authorised service centres across the country
- Asset light business model with strong RoE and RoCE of ~20% and ~21%, respectively (average in the past three years)

Q3FY22 Results: The company reported a disappointing Q3 performance amid weak demand and delays in price hikes.

- Revenue declined ~5% YoY to ₹ 205 crore due to lower volume offtake by dealers and lower price hikes
- Gross margin declined ~110 bps QoQ (flat on a YoY basis) due to higher raw material costs. This, coupled with low operating leverage, dragged EBITDA margin down by 309 bps QoQ (65 bps YoY) to 14.6%
- PAT declined 22% YoY to ₹ 30 crore tracking lower sales and EBITDA

What should investors do? Price performance has stayed muted underperforming index in the last five years (from ₹ 1323 in January 2017 to ₹ 1020 in January 2022).

- We maintain our HOLD rating on the stock

Target Price & Valuation: We roll over valuation on FY24E and value Symphony at 25x P/E on FY24E EPS with revised target price of ₹ 975/share.

Key triggers for future price performance:

- The air cooler industry is dominated by unorganised players (70-75% of total industry). We believe organised players would gain market share due to their strong balance sheet and robust supply chain network
- Increased rural electrification, urbanisation & 1.7 crore new houses under PMAY will augment growth in the Indian air cooler market
- Industrial air-cooling market is worth ~₹ 10,000 crore. Symphony being the only branded player in this segment is poised to take advantage of it

Alternate Stock Idea: We like Havells in the consumer appliances space.

- Havells aims to increase its town penetration and launch premium products. We believe a revival in the real estate sector will help drive incremental demand of consumer products where Havells is a major player
- BUY with a target price of ₹ 1515

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	FY24E	4 Year CAGR (FY20-24E)
Net Sales	844.0	1103.0	900.0	4.2%	1056.1	1380.9	1658.4	10.7%
EBITDA	132.0	212.0	139.0	-8.5%	172.1	263.7	352.4	13.5%
EBITDA Margin (%)	15.6	19.2	15.4		16.3	19.1	21.3	
PAT	91.0	182.0	107.0	-10.4%	128.5	202.6	273.5	10.7%
EPS (₹)	13.0	26.0	15.3		18.4	29.0	39.1	
P/E(x)	78.4	39.2	66.7		55.6	35.2	26.1	
Price/Book value (x)	10.7	11.2	9.4		10.0	9.0	7.6	
RoE (%)	16.2	29.0	14.9		18.0	25.6	29.1	
RoCE (%)	18.7	28.8	15.2		20.2	28.5	33.3	

Source: Company, ICICI Direct Research



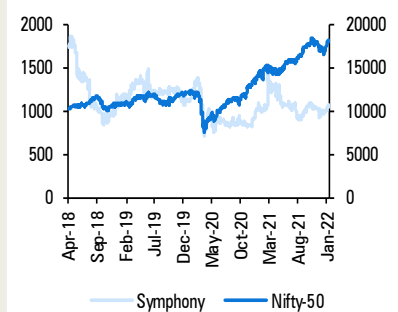
Particulars

Particulars	Amount
Market Cap (₹ Crore)	7,135.6
Total Debt (FY21) (₹ Crore)	184.0
Cash&Inv (FY21) (₹ Crore)	364.0
EV (₹ Crore)	6,956
52 week H/L (₹)	1530 / 890
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	73.3	73.3	73.3	73.3	73.3
FII	3.6	4.3	4.2	4.3	4.3
DII	11.0	10.3	9.6	9.5	10.0
Others	12.1	12.1	12.9	12.9	12.4

Price Chart



Recent event & key risks

- **Key Risk:** (i) Market share gains by organized players (ii) Delay in passing on high input prices

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Key takeaways of recent quarter & conference call highlights

Q3FY22 Results:

- Consolidated revenues declined 5% YoY led by 14% revenue dip in the overseas business (~40% of revenue). The standalone revenue grew albeit at a slower pace of 5% due to lower volume offtake by dealers
- Consolidated gross margin declined 106 bps QoQ mainly due to lower gross margin on standalone business. Standalone gross margins dipped 500 bps QoQ due to higher raw material prices. Increasing competition and high inventory in the channel restricted company to take price hikes
- Consolidated EBITDA margin declined 310 bps QoQ (down by 65 bps YoY) to 14.6%. PAT declined by 22% YoY to 21 crore

Q3FY22 Earnings Conference Call highlights

- Demand Outlook:**
 - The trend sentiments in the domestic market are likely to remain low in Q4FY22 as well due to pandemic led restrictions and extended winter. However, the management sees strong pent up demand in the domestic markets with the start of summer and ease in lockdown restrictions
 - Large export orders (from US) are likely to be executed in Q4FY22 which will drive revenue of Australian subsidiary. This coupled with price hikes and cost optimisation initiatives will drive profitability of the overseas business
- Margins:**
 - The gross margin pressure is likely to continue in Q4FY22 as well due to delay in price hikes (in the domestic business). However, that is likely to be partially offset by price hikes in overseas regions
- Subsidiary performance:**
 - Climate Technology (Australia) revenues for 9MFY22 declined ~10% YoY to ₹ 197 crore. However, cost optimisation initiative helped company to report positive EBITDA of ₹ 7 crore (vs. loss of ₹ 7 crore during 9MFY21). The losses at bottomline narrowed down to ₹ 8 crore from ₹ 22 crore during 9MFY21
 - Impco's 9MFY22 revenues came in at ₹ 66 crore. It reported PAT of ₹ 7 crore during the same period
 - GSK China 9MFY22 revenues came in at ₹ 31 crore while EBITDA and PAT losses came in at ₹ 1 crore and ₹ 8 crore (due to higher interest cost), respectively, during the period. The management expects GSK to break even on EBITDA from Q4FY22 onwards

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	73,620	10428	13086	15406	18254	15	13	13	14	1040	1157	1392	1781	25	25	29	36	20	21	24	29	71	64	53	41
Crompton Greaves	26,326	4804	5338	6413	7319	15	14	15	14	617	569	727	822	34	36	42	42	32	28	33	32	43	46	36	32
Bajaj Electrical	13,253	4585	5050	5721	6338	7	7	9	9	189	237	377	438	15	19	25	24	11	15	20	19	70	56	35	30
Polycab	36,907	8792	11069	12489	14011	13	10	12	13	886	820	1031	1266	21	18	22	23	18	14	17	18	42	45	36	29
Symphony	7,136	900	1056	1381	1658	15	16	19	21	107	128	203	274	15	20	28	33	15	18	26	29	67	56	35	26
V guard	9,251	2721	3203	3792	4214	11	10	11	11	202	213	294	333	24	23	28	28	17	18	22	22	46	43	31	28
Voltas	39,291	7556	8459	9666	10963	8	9	10	10	529	656	833	1100	15	19	21	22	11	14	15	17	74	60	47	36

Source: ICICI Direct Research

We believe the Q4 demand of air coolers for Symphony will be impacted by extended winter and rising competition from leading FMEG peers. This is likely to keep EBITDA margin under pressure for Symphony in FY22. However, we do believe Symphony being a strong brand in the air cooler segment having pan India dealer network will see a healthy sales recovery from Q1FY23 after a peak season sales loss due to pandemic. We maintain our HOLD rating on the stock with revised target price of ₹ 975/share, valuing the company at 25x FY24E EPS.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	205.0	216.0	-5.1	220.0	-6.8	Standalone revenue increased 18% YoY led by higher export revenues. However, revenues from overseas subsidiaries declined by 14% YoY due to slow recovery in Australia & China
Other Income	7.0	9.0	-22.2	9.0	-22.2	
Raw Material Exp	114.0	120.0	-5.0	120.0	-5.0	Price hikes in the overseas business helped in recovery in gross margins but gross margins in the domestic business declined 540 bps YoY due to delay in price hikes
Employee Exp	30.0	27.0	11.1	28.0	7.1	
Selling & Dis. Exp	2.0	1.0	100.0	2.0	0.0	
Other Exp	29.0	35.0	-17.1	31.0	-6.5	
EBITDA	30.0	33.0	-9.1	39.0	-23.1	
EBITDA Margin (%)	14.6%	15.3%	-64 bps	17.7%	-309 bps	Low operating leverage and pricing pressure in the domestic business kept overall EBITDA margin under check
Depreciation	6.0	6.0	0.0	6.0	0.0	
Interest	3.0	2.0	50.0	2.0	50.0	
PBT	28.0	34.0	-17.6	40.0	-30.0	
Total Tax	7.0	7.0	0.0	10.0	-30.0	
PAT	21.0	27.0	-22.2	30.0	-30.0	PAT decline is largely tracking lower sales and EBITDA margin

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY22E			FY23E			FY24E Introduced	Comments
	Old	New	% Chg	Old	New	% Chg		
Revenue	1131.8	1056.1	(6.7)	1414.8	1380.9	(2.4)	1658.4	We cut our revenue estimate for FY22E onwards considering lower-than-expected volume offtake during Q4FY22 amid extended winter. We introduce FY24E estimates with revenue growth of 20% YoY
EBITDA	186.7	172.1	(7.8)	287.2	263.7	(8.2)	352.4	
EBITDA Margin %	16.5	16.3	-20bps	20.3	19.1	-120bps	21.3	We cut our margin estimate considering low gross margins amid delay in price hikes in the domestic markets. We also believe rising competition will also restrict Symphony to take any aggressive price hikes in the near term
PAT	142.3	128.5	(9.7)	231.4	202.6	(12.4)	273.5	
EPS (₹)	20.3	18.4	(9.7)	33.1	29.0	(12.4)	39.1	

Source: ICICI Direct Research

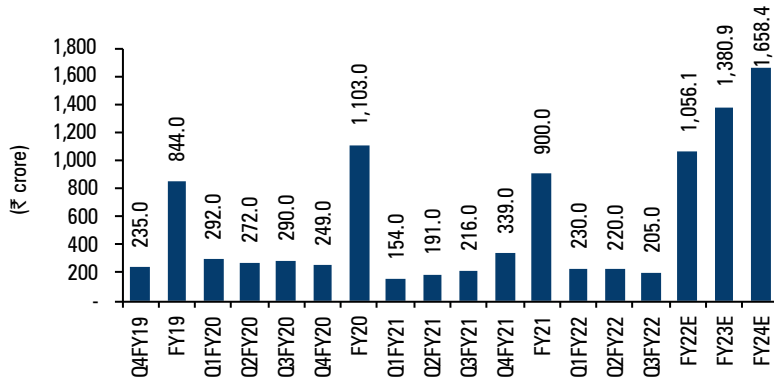
Exhibit 4: Assumptions

	Current			FY24E Introduced		Earlier		Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY22E	FY23E	
Volume Growth (%)	32.7	-9.3	5.7	36.7	18.2	22.1	21.0	We introduce FY24E estimate with volume CAGR of 12% in FY20-24E
Realisation Growth (%)	-1.4	-10.1	11.0	-4.3	1.6	2.6	3.3	

Source: ICICI Direct Research

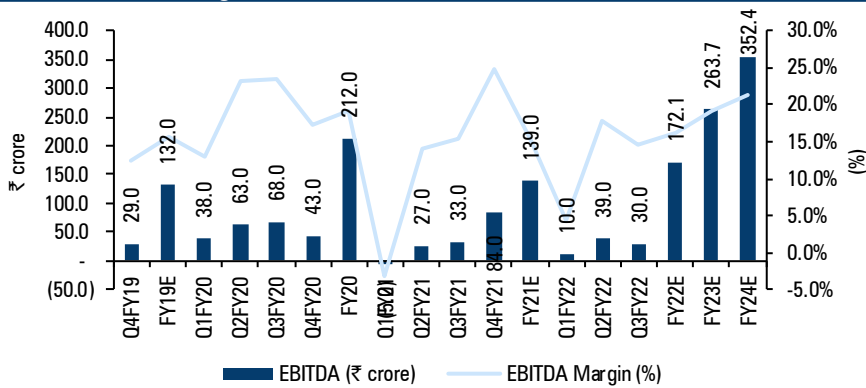
Financial story in charts

Exhibit 5: Consolidated sales performance



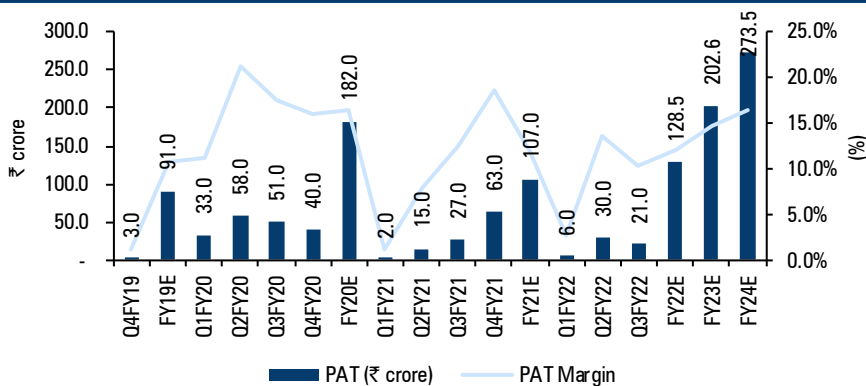
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Net Sales	900.0	1056.1	1380.9	1658.4	
Growth (%)		17.3	30.8	20.1	
Expenditure					
Increase / Decrease in stock	0.0	0.0	0.0	0.0	
Raw Material Expenses	497.0	586.1	759.5	903.8	
Marketing Expenses	25.0	37.0	55.2	66.3	
Administrative Expenses	136.0	142.6	165.7	192.4	
Employee Expenses	103.0	118.3	136.7	143.5	
Total Operating Expenditure	761.0	883.9	1117.1	1306.0	
EBITDA	139.0	172.1	263.7	352.4	
Growth (%)		23.8	53.2	33.6	
Other Income	31.0	35.7	41.0	47.1	
Interest	11.0	9.9	7.0	5.0	
PBDT	159.0	197.9	297.7	394.5	
Depreciation	21.0	24.3	27.6	29.9	
PBT before Exceptional Items	138.0	173.6	270.1	364.7	
Less: Exceptional Items	-	-	-	-	
PBT	131.0	173.6	270.1	364.7	
Total Tax	24.0	45.1	67.5	91.2	
PAT	107.0	128.5	202.6	273.5	

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Equity Capital	14.0	14.0	14.0	14.0	
Reserve and Surplus	745.0	701.3	777.7	925.0	
Total Shareholders funds	759.0	715.3	791.7	938.9	
Deferred Tax Liability	6.0	6.0	6.0	6.0	
Total Debt	184.0	154.0	144.0	134.0	
Total Liabilities	980.0	906.3	972.7	1109.9	
Assets					
Total Gross Block	353.7	366.7	376.7	386.7	
Less Total Accumulated Depreciation	161.7	186.0	213.6	243.4	
Net Block	192.0	180.7	163.1	143.2	
Goodwill on Consolidation	161.0	161.0	161.0	161.0	
Other Investments	160.0	180.0	200.0	220.0	
Liquid Investments	325.0	305.0	285.0	265.0	
Inventory	119.0	144.7	204.3	245.4	
Debtors	166.0	130.2	170.2	204.5	
Other Current Assets	43.0	58.4	76.4	91.7	
Cash	39.0	10.4	39.9	175.0	
Total Current Assets	367.0	343.6	490.8	716.5	
Creditors	130.0	173.6	208.1	249.9	
Provisions	21.0	31.7	38.0	45.6	
Other current liabilities	89.0	72.8	95.1	114.3	
Total Current Liabilities	240.0	278.1	341.2	409.8	
Net Current Assets	127.0	65.6	149.6	306.7	
Total Asset	980.0	906.3	972.6	1109.9	

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	107.0	128.5	202.6	273.5	
Depreciation	21.0	24.3	27.6	29.9	
Cash Flow before working capital cha	139.0	162.7	237.2	308.4	
Net Increase in Current Assets	-28.0	-5.3	-117.6	-90.6	
Net Increase in Current Liabilities	28.0	38.1	63.2	68.6	
Net cash flow from operating act.	139.0	195.5	182.7	286.3	
(Increase)/Decrease in Other Investments	-46.0	-20.0	-20.0	-20.0	
(Purchase)/Sale of Liquid Investments	-26.0	20.0	20.0	20.0	
(Purchase)/Sale of Fixed Assets	-30.0	-12.0	-10.0	-10.0	
Net Cash flow from Investing act.	-138.0	-12.0	-10.0	-10.0	
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0	
Inc / (Dec) in Loan Funds	10.0	-30.0	-10.0	-10.0	
Total Outflow on account of dividend	-42.1	-126.2	-126.2	-126.2	
Net Cash flow from Financing act.	12.0	-212.1	-143.2	-141.2	
Net Cash flow	13.0	-28.7	29.5	135.1	
Cash and Cash Equivalent at the beginni	26.0	39.0	10.4	39.9	
Cash	39.0	10.4	39.9	175.0	

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	15.3	18.4	29.0	39.1
Cash EPS	18.3	21.8	32.9	43.4
BV	108.5	102.2	113.2	134.2
DPS	6.0	18.0	18.0	18.0
Operating Ratios				
EBITDA Margin	15.4	16.3	19.1	21.3
PAT Margin	12.5	12.2	14.7	16.5
Return Ratios				
RoE	14.9	18.0	25.6	29.1
RoCE	15.2	20.2	28.5	33.3
RoIC	22.3	30.3	41.6	52.9
Valuation Ratios				
EV / EBITDA	50.0	40.5	26.4	19.4
P/E	66.7	55.6	35.2	26.1
EV / Net Sales	7.7	6.6	5.0	4.1
Div Yield (%)	0.6	1.8	1.8	1.8
Market Cap / Sales	7.9	6.8	5.2	4.3
Price to Book Value	9.4	10.0	9.0	7.6
Turnover Ratios				
Asset turnover	0.9	1.2	1.4	1.5
Debtor Days	2.5	2.9	3.7	4.3
Creditor Days	52.7	60.0	55.0	55.0
Inventory Days	48.3	50.0	54.0	54.0
Solvency Ratios				
Current Ratio	2.2	1.6	1.8	1.8
Quick Ratio	1.4	0.9	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,147	3,870	Buy	3,01,797	33.4	32.4	46.5	58.2	94.1	97.3	67.7	54.0	61.2	63.1	45.4	36.4	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	727	845	Hold	70,606	7.4	7.7	10.1	12.9	98.1	94.8	72.1	56.3	59.2	58.1	45.9	36.5	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	573	630	Hold	30,880	10.2	9.0	13.3	15.6	55.9	63.5	43.2	36.7	36.1	40.5	28.6	24.2	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,589	2,640	Hold	1,31,469	22.2	23.3	29.1	35.2	116.7	111.0	88.9	73.6	78.0	72.9	60.1	50.3	23.8	21.6	26.1	30.5	20.2	18.3	21.9	25.5
Bajaj Electricals (BAJELE)	1,157	1,280	Buy	13,253	16.5	20.7	32.9	38.3	70.1	55.8	35.1	30.2	44.5	37.1	25.3	22.4	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1
Crompton Greaves(CROGR)	420	525	Buy	26,326	9.8	9.1	11.6	13.1	42.7	46.3	36.2	32.0	35.0	34.4	27.5	24.2	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3
Havells India (HAVIND)	1,180	1,515	Buy	73,620	16.7	18.5	22.3	28.6	70.8	63.6	52.9	41.3	46.2	42.9	35.9	28.3	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,475	3,000	Buy	36,907	59.4	55.0	69.2	84.9	41.7	45.0	35.8	29.1	32.4	32.3	23.9	19.6	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	1,020	975	Hold	7,136	15.3	18.4	29.0	39.1	66.7	55.6	35.2	26.1	50.0	40.5	26.4	19.4	15.2	20.2	28.5	33.3	14.9	18.0	25.6	29.1
V-Guard Ind (VGUARD)	216	310	Buy	9,251	4.7	5.0	6.9	7.8	45.8	43.5	31.4	27.8	28.8	28.8	22.4	19.6	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8
Voltas Ltd (VOLTAS)	1,188	1,375	Hold	39,291	16.0	19.8	25.2	33.3	74.3	59.9	47.1	35.7	60.6	52.6	41.7	34.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,139	3,900	Buy	10,576	24.7	44.0	82.2	106.9	127.0	71.3	38.2	29.4	47.8	36.7	21.7	17.0	7.7	10.8	17.0	19.4	5.2	8.9	14.3	15.8
Dixon Technologies (DIXTE)	4,552	5,990	Buy	26,652	27.3	45.8	84.8	116.4	166.9	99.4	53.7	39.1	93.0	58.3	34.9	26.0	23.5	31.2	40.1	39.1	21.7	31.0	39.5	37.2
Supreme Indus (SUPIND)	2,056	2,625	Buy	26,117	77.0	72.3	82.3	93.4	26.7	28.5	25.0	22.0	19.7	20.9	18.0	15.7	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	2,112	2,375	Hold	42,426	20.3	23.3	30.6	38.3	103.9	90.7	69.0	55.1	65.2	57.8	44.9	36.5	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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