

October 20, 2022

RESULT REPORT Q2 FY23 | Sector: Consumer Durables

Symphony Ltd

Margins impacted by few one-off's; reiterate BUY

Result Synopsis

Domestic business continues to see positive traction with better off-season revenue and optimism with new product launches. Company's consolidated revenue was lower than estimated as performance of Australian subsidiary Climate technologies was subdued and is expected to be more skewed towards Q3 and Q4 vis-à-vis earlier. Management expects the revenue for climate technologies to be made up in ensuing quarters as there supply to USA has been delayed and there is no cancellation of orders. Gross margins are largely stable and impact of lower commodity prices and price increase in Q1 will benefit in ensuing quarters. EBITDA margin was impacted on account of few one-offs which include incremental cost undertaken in market research, export to a Brazilian subsidiary on CIF basis leading to incremental freight expenses and higher warranty expenses. Domestic business is expected to continue its growth momentum, while, international business turnaround is expected to be gradual. Considering the above, we continue to maintain BUY rating as current stock price provides good entry point.

We expect a strong recovery in domestic air-cooling market to continue in FY23, now with lower commodity prices margins are set to improve and return to pre-covid levels. We expect FY22-24E growth trajectory of 17% revenue CAGR. Considering higher operating leverage, we estimate FY21-24E EBITDA and PAT CAGR of 26% each. We maintain BUY with the PT of Rs1,223 valuing it at 40x FY24EPS. Current CMP offers good entry point.

Result Highlights

- Quarter summary** – Domestic business saw growth of 40% yoy growth; while international geographies saw fattish revenue growth owing to delay in picking up orders from its Climate technologies.
- Margin** – Gross margin at 44.9% continues to remain in the stable band of 45-48%. It is now returning to pre-covid levels. EBITDA margin of 13.5% was lower as company had incurred additional one-time cost on incremental market research, sales and marketing, exports to Brazil leading to higher freight expenses and incremental warranty expenses.
- International business** – International business revenue has been flattish with EBIT loss of Rs100mn EBIT loss is on account of negative operating leverage as there is higher fixed cost in international business as compared to domestic business.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	2,740	3,014	NA	-9.1	NA	EBITDA margins were lower on account of few one-off related to market research, higher freight and warranty expense..
EBITDA	370	627	NA	-41.0	NA	
EBITDA Margin (%)	13.5	20.8	NA	-720 bps	NA bps	
Adjusted PAT	320	491	NA	-34.8	NA	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 880
Target Price	: Rs 1,223
Potential Return	: +39.0%

Stock data (as on October 20, 2022)

Nifty	17,564
52 Week h/l (Rs)	1215 / 828
Market cap (Rs/USD mn)	61922 / 748
Outstanding Shares (mn)	70
6m Avg t/o (Rs mn):	51
Div yield (%)	0.2
Bloomberg code:	SYML IN
NSE code:	SYMPHONY

Stock performance



	1M	3M	1Y
Absolute return	1.3%	-0.7%	-16.8%

Shareholding pattern (As of Sep'22 end)

Promoter	73.3%
FII+DII	15.2%
Others	11.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	1,223	1,223

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	24.4	30.6
EPS (Old)	25.0	30.6
% change	-2.4%	0.0%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	10,530	12,560	14,301
YoY Growth	17.0%	19.3%	13.9%
EBIDTA	1,750	2,185	2,774
YoY Growth	25.9	24.9	26.9
PAT	1,350	1,710	2,139
YoY Growth	18.6%	26.7%	25.1%
ROE	16.7	19.0	21.2
EPS	19.3	24.4	30.6
P/E	45.6	36.0	28.8
BV	122.7	136.1	152.9
EV/EBITDA	35.7	28.3	22.0

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	y/y %	q/q %	1HFY23	1HFY22	y/y %
Sales	2,200	2,050	3,840	3,290	2,740	24.5	(16.7)	6,030	4,500	34.0
EBITDA	390	300	820	340	370	(5.1)	8.8	710	490	44.9
EBITDA Margin %	17.7	14.6	21.4	10.3	13.5			11.8	10.9	
Depreciation	60	60	60	60	60	-	-	120	120	-
EBIT	330	240	760	280	310	(6.1)	10.7	590	370	59.5
EBIT Margin %	15.0	11.7	19.8	8.5	11.3			9.8	8.2	
Interest charges	20	30	20	20	20	-	-	40	40	-
Other Income	90	70	160	120	140	55.6	16.7	260	170	52.9
PBT	400	280	900	380	430	7.5	13.2	810	500	
Tax	100	70	260	90	110	10.0	22.2	200	140	42.9
Effective Tax Rate (%)	25.0	25.0	28.9	23.7	25.6			24.7	28.0	
PAT	300	210	640	290	320	6.7	10.3	610	360	69.4
PAT Margin %	13.6	10.2	16.7	8.8	11.7			10.1	8.0	
EPS (Rs)	4.3	3.0	9.1	4.1	4.6	6.7	10.3	8.7	5.1	69.4

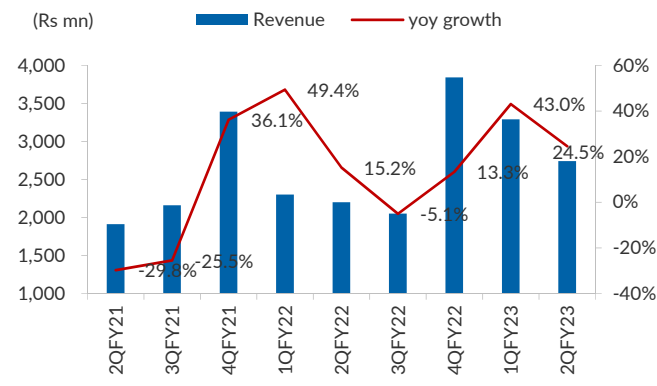
Source: Company, YES Sec

Exhibit 3: Segmental Performance

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	y/y %	q/q %	1HFY23	1HFY22	y/y %
Air cooling and other appliances	2,220	2,050	3,950	3,370	2,770	24.8	(17.8)	6,140	4,530	35.5
Corporate funds	70	70	50	40	110	57.1	175.0	150	140	7.1
Total Sales	2,290	2,120	4,000	3,410	2,880	25.8	(15.5)	6,290	4,670	34.7
PBIT										
Air cooling and other appliances	350	250	860	360	340	(2.9)	(5.6)	700.0	400	75.0
PBIT %	15.8	12.2	21.8	10.7	12.3			11.4	8.8	
Corporate funds	70	60	60	40	110	57.1	175.0	150	140	7.1
PBIT %	100.0	85.7	120.0	100.0	100.0			100.0	100.0	
Total PBIT	420	310	920	400	450	7.1	12.5	850	540	57.4
Finance Costs	20.0	30.0	20.0	20.0	20.0	-	-	40.0	40	-
Less: Taxes	100	70	260	90	110	10.0	22.2	200	140	42.9
PAT	300	210	640	290	320	6.7	10.3	610	360	69.4

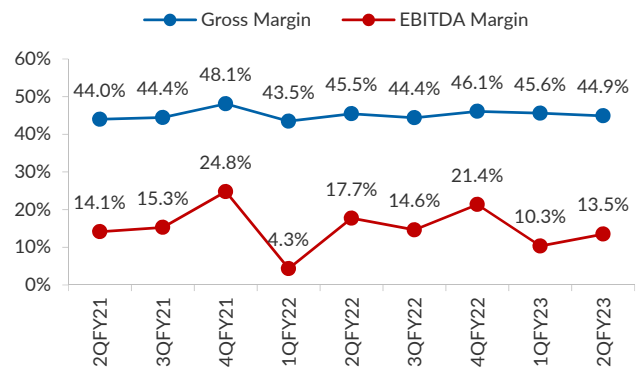
Source: Company, YES Sec

Exhibit 4: Domestic business continues to see strong traction while international business was flat for the quarter



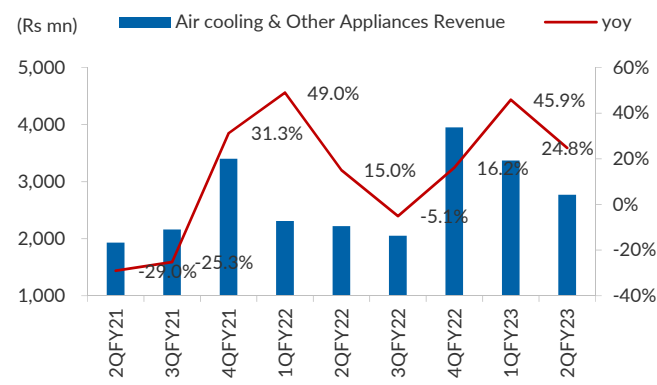
Source: Company, YES Sec

Exhibit 5: EBITDA margins were lower on account of few one-offs



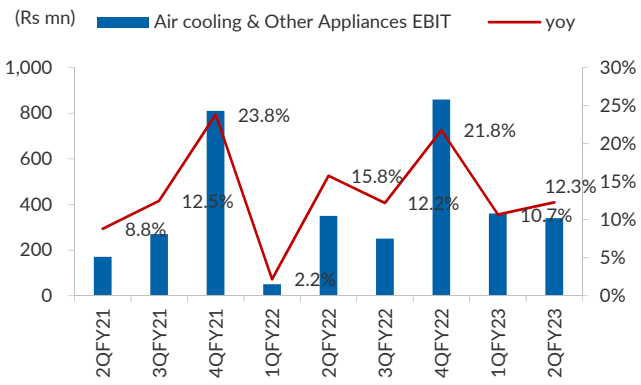
Source: Company, YES Sec

Exhibit 6: Growth in domestic business have resulted in overall growth for air-cooling



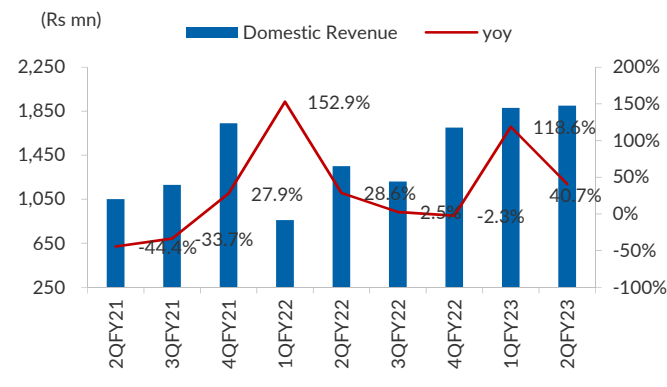
Source: Company, YES Sec

Exhibit 7: EBIT margins have inched up on better domestic performance



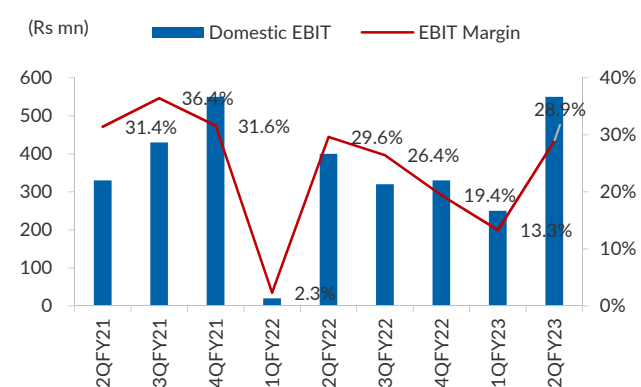
Source: Company, YES Sec

Exhibit 8: Domestic business continues to exude strong growth momentum



Source: Company, YES Sec

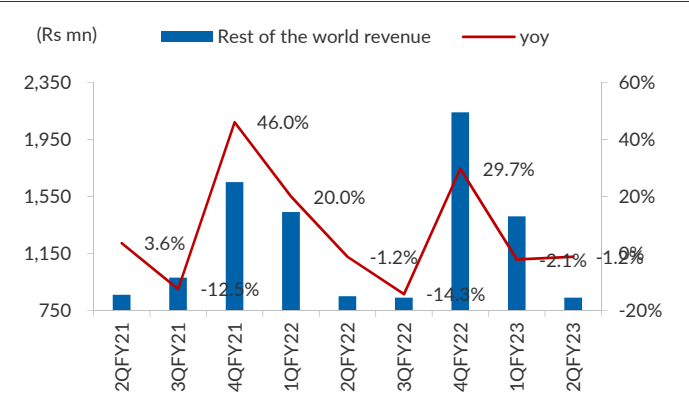
Exhibit 9: Domestic EBIT has bounced back



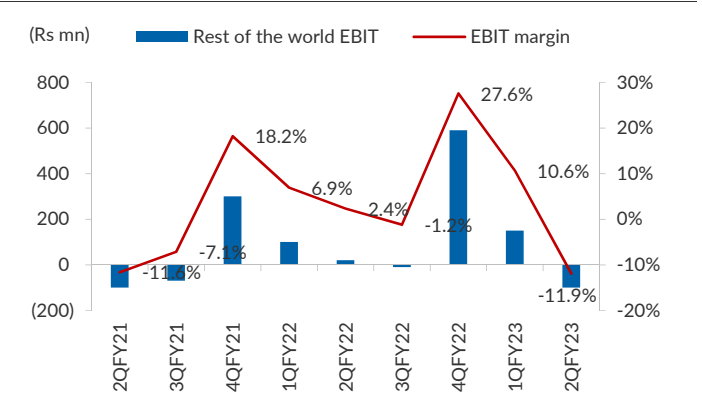
Source: Company, YES Sec

Exhibit 10: Subdued performance of climate technologies has resulted in marginal decline in international business

Exhibit 11: Negative operating leverage has resulted in EBIT loss in international business



Source: Company, YES Sec



Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

1. Management Commentary -
 - Q2FY23 recorded the highest ever second quarter Standalone and Consolidated sales, up by 10% and 1% respectively vis-à-vis previous historical high.
 - Robust off-season collection, in line with pre-Covid period
 - Trade sentiment quite positive and buoyant.
 - Consolidated Gross Margin at (44.6%) lower by 80 bps on YOY basis and Standalone Gross Margin at (46.4%) lower by 150 bps on YOY basis due to
 - Value accretive product upgradation
 - Consolidated EBITDA (13.4%) and Standalone EBITDA (21.6%) lower by 450 bps and 340 bps resp. on YoY basis due to
 - 6 crore expense of Off-season incremental Market Research, Sales & Marketing expenses (2.2% of Consolidated Revenue and 2.1% of Standalone Revenue), having benefits long-term in nature
 - Export to Brazil leading to incremental freight expenses of ₹ 3 cr. (1.0% of Consolidated Revenue and 1.3% of Standalone Revenue)
 - Incremental warranty expenses (1.0% of Consolidated Revenue and 1.3% of Standalone Revenue) due to highest ever tertiary sales in the summer.
2. **A&P Expense** – High because old inventory was there and wanted to sell off that inventory. Last 2 years e-commerce is also being considered hence A&P spends also include that.
3. **Expansion** – Not looking for any inorganic growth, will only look for organic growth. Will be looking into regions like Latin America and middle east and north America.
4. **Other Subsidiaries** – Consistently doing well and utilizing the synergies really well.
5. **Dealers & Distribution** – Robust addition of distributors and dealers in 1H.
6. **Price Hikes** – Discount are being Substantially being taken back & by next summer they will be back with calibrated price hikes.
7. **Rest of the World** – The degrowth is because of climate technology level.
8. **Commercial Air Coolers** – Margin profile is better as compare to Non-Commercial Air Coolers.
9. **Room Air Coolers** – Coz of BLDC Fans coming up, the demand will be more for air coolers, and with the overall prices rising for fans and AC's, Air coolers price can also be increased.

FINANCIALS

Exhibit 12: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	140	140	140	140	140
Reserves	6,252	7,449	8,399	9,339	10,515
Net worth	6,435	7,639	8,589	9,529	10,705
Debt	1,732	1,840	2,210	2,418	2,597
Deferred tax liab (net)	68	60	140	140	140
Other non current liabilities	373	360	320	353	374
Total liabilities	8,608	9,899	11,259	12,440	13,816
Fixed Asset	3,202	3,530	3,087	2,994	2,892
Investments	4,121	4,840	5,000	5,000	5,000
Other Non-current Assets	47	140	110	120	128
Net Working Capital	984	990	1,810	2,193	2,515
Inventories	1,178	1,190	1,730	2,064	2,350
Sundry debtors	1,210	1,660	2,080	2,481	2,825
Loans and Advances	615	430	480	573	652
Sundry creditors	1,145	1,300	1,490	1,777	2,024
Other current liabilities	764	890	910	1,057	1,182
Cash & equivalents	254	399	1,252	2,134	3,280
Total Assets	8,608	9,899	11,259	12,440	13,816

Source: Company, YES Sec

Exhibit 13: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	11,026	9,000	10,530	12,560	14,301
Operating profit	2,116	1,390	1,750	2,185	2,774
Depreciation	212	212	240	247	256
Interest expense	107	110	90	98	106
Other income	547	310	400	445	445
Profit before tax	2,345	1,378	1,820	2,285	2,858
Taxes	487	240	470	575	719
Minorities and other	-	-	-	-	-
Adj. profit	1,858	1,138	1,350	1,710	2,139
Exceptional items	40	70	-	-	-
Net profit	1,818	1,068	1,350	1,710	2,139

Source: Company, YES Sec

Exhibit 14: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	2,452	1,488	1,910	2,383	2,964
Depreciation	212	212	240	247	256
Tax paid	(487)	(240)	(470)	(575)	(719)
Working capital Δ	(397)	(268)	(880)	(383)	(322)
Other operating items					
Operating cashflow	1,779	1,192	800	1,672	2,178
Capital expenditure	(981)	(539)	203	(154)	(154)
Free cash flow	798	652	1,003	1,518	2,024
Equity raised	(146)	449	230	0	-
Investments	756	(457)	(100)	-	-
Debt financing/disposal	(138)	116	370	208	179
Interest paid	(107)	(110)	(90)	(98)	(106)
Dividends paid	(1,940)	(321)	(630)	(769)	(962)
Net Δ in cash	(283)	145	853	882	1,147

Source: Company, YES Sec

Exhibit 15: Du-pont analysis

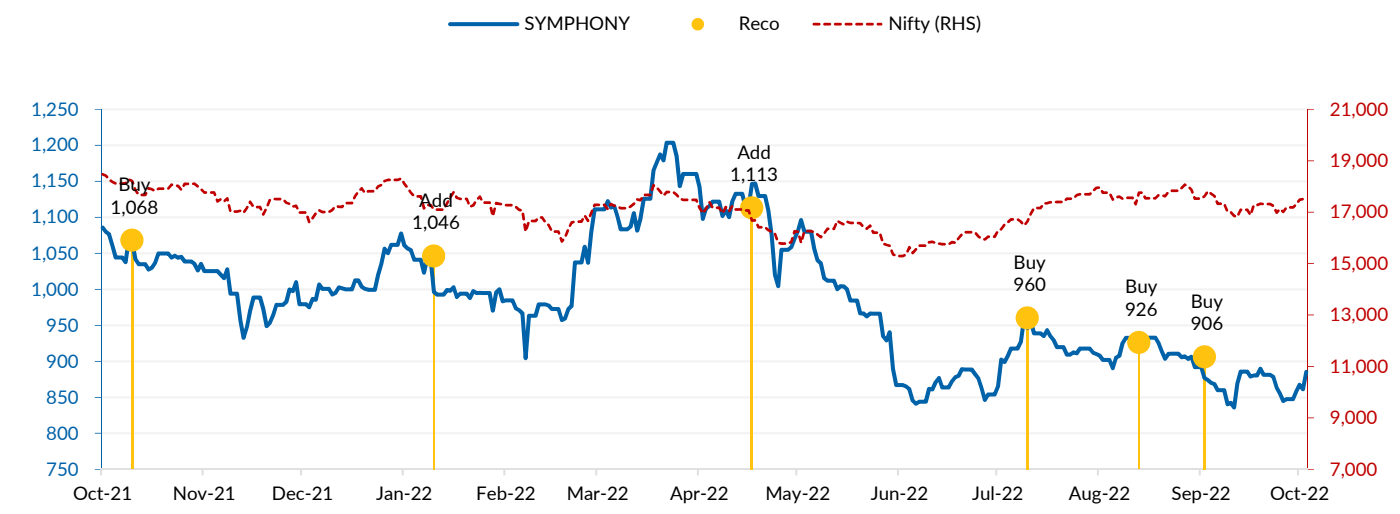
Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	0.79	0.83	0.74	0.75	0.75
Interest burden (x)	0.96	0.93	0.95	0.96	0.96
EBIT margin (x)	0.22	0.17	0.18	0.19	0.21
Asset turnover (x)	1.03	0.79	0.81	0.86	0.88
Financial leverage (x)	1.64	1.63	1.61	1.62	1.62
RoE (%)	28.5	16.3	16.7	19.0	21.2

Exhibit 16: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	30.7	(18.4)	17.0	19.3	13.9
Op profit growth	60.2	(34.3)	25.9	24.9	26.9
EBIT growth	52.2	(39.3)	28.3	24.8	24.3
Net profit growth	60.7	(38.7)	18.6	26.7	25.1
Profitability ratios (%)					
OPM	19.2	15.4	16.6	17.4	19.4
EBIT margin	22.2	16.5	18.1	19.0	20.7
Net profit margin	16.8	12.6	12.8	13.6	15.0
RoCE	29.3	16.9	18.8	21.0	23.5
RoNW	28.5	16.3	16.7	19.0	21.2

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
RoA	17.4	10.0	10.4	11.7	13.1
Per share ratios					
EPS	26.6	16.3	19.3	24.4	30.6
Dividend per share	23.0	4.6	9.0	11.0	13.7
Cash EPS	29.6	19.3	22.7	28.0	34.2
Book value per share	92.0	109.1	122.7	136.1	152.9
Valuation ratios					
P/E	33.9	57.7	45.6	36.0	28.8
P/CEPS	30.3	48.1	38.7	31.5	25.7
P/B	9.6	8.1	7.2	6.5	5.8
EV/EBIDTA	29.8	45.4	35.7	28.3	22.0
Payout (%)					
Dividend payout	104	28.2	46.6	45.0	45.0
Tax payout	21	17.4	25.8	25.2	25.2
Liquidity ratios					
Debtor days	40	67.3	72.1	72.1	72.1
Inventory days	39	48.3	60.0	60.0	60.0
Creditor days	37.9	52.7	51.6	51.6	51.6

Recommendation Tracker



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