1 December 2022

Symphony

Rating: **Buy**
Target Price: Rs1194
Share Price: Rs919

Outlook robust for CY23; maintaining a Buy

Rising mercury levels could brighten Symphony's fortunes. The inflationary contextin the USA and Australia and rising logistics cost could dampen prospects of overseas subsidiaries and are key monitorables. Keen competition from peers with strong brands and marketing networks in summer of CY23 would also be an important factor to watch.

Growth in lean season supported by standalone operations.Q2 FY23 consolidated revenue rose 25% y/y as standalone revenue rose 54% y/y to Rs2.15bn and revenue from global subsidiaries was 26% lower y/y at Rs590m. Lower revenue from global subsidiaries can be attributed to deferred revenue by CIT, its Australian entity which exports to the USA and caters to its local market. The EBITDA margin was 422bps lower y/y on the 56bp gross margin compression y/y led by upgrading several SKUs and higher freight costs (biggest cost element in other expenses) and Rs60m market research expenses. PAT increased 7% y/y as other income rose 56% y/y. The Q2FY23 tax rate was 26% (25% a year ago).

H2FY23 outlook still strong. Q2 is a lean season for durables. The outlook for H2FY23 looks strong as channel partners are not loaded with surplusstocks and advance collection from them is good. Deferred revenue for CIT is expected to be booked in H2FY23 and is an important monitorable.

Outlook & Valuation. Post Q2FY23, our FY23e and FY24e revenue are intact. However, we lower FY23EBITDA margin 14% and FY24, 19%. At the CMP, the stock trades at 29x/23x the FY24e FY25e EPS of Rs31.4/40.1.We retain our Buy rating with a TP of Rs1,194, 30x FY25e EPS of Rs40.1 (earlier Rs1,347, 35x FY24e EPS of Rs38.5). The PEcut is in line with the companies we cover. **Risks:** Keener competition and aggressive pricing by well establishedall-India brands can curtail growth. Rising inflation in America (export destination via global subsidiaries) can be a risk reducing growth of overseas subsidiaries.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rsm)	8,998	10,391	13,824	16,837	20,832
Adj net income (Rsm)	1,145	1,203	1,731	2,199	2,808
Adj EPS (Rs)	15.4	17.2	24.8	31.4	40.1
PE (x)	59.9	53.4	37.1	29.2	22.9
EVEBITDA (x)	45.0	38.9	28.4	21.9	16.8
PBV (x)	8.5	7.7	6.8	6.3	5.5
RoE (%)	15.1	14.3	18.4	21.5	24.1
RoCE (%) (post tax)	9.9	9.0	12.9	15.9	18.6
RoIC (%) (post tax)	15.8	14.3	19.1	23.7	29.0
Net debt/equity (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)

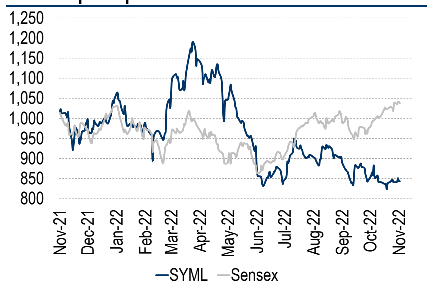
Source: Company, Anand Rathi Research

Key data	SYML IN / SYMP.BO
52-week high / low	Rs1215 / 821
Sensex / Nifty	63284 / 18813
3-m average volume	$0.5m
Market cap	Rs64bn / $790.5m
Shares outstanding	70m

Shareholding pattern (%)	Sep'22	Jun'22	Mar'22
Promoters	73.3	73.3	73.3
- of which, Pledged	-	-	-
Free Float	26.8	26.8	26.8
- Foreign Institutions	4.0	4.3	4.5
- Domestic Institutions	11.3	10.9	10.1
- Public	11.6	11.5	12.2

Estimates revision (%)	FY23e	FY24e
Sales	1	(2)
EBITDA	(14)	(19)
Net Income	(14)	(18)

Relative price performance



Source: Bloomberg

Nirav Vasa
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rsm)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues (Rs m)	8,998	10,391	13,824	16,837	20,832
Growth (%)	(18.4)	15.5	33.0	21.8	23.7
Direct costs	4,974	5,713	7,527	9,169	11,285
SG&A	2,634	3,071	4,113	4,863	5,927
EBITDA	**1,390**	**1,607**	**2,183**	**2,806**	**3,620**
EBITDA margins (%)	15.5	15.5	15.8	16.7	17.4
- Depreciation	214	242	273	289	305
Other income	314	399	525	550	575
Interest expenses	107	89	95	95	95
PBT	1,383	1,675	2,340	2,972	3,794
Effective tax rate (%)	18.1	27.9	26.0	26.0	26.0
+ Associates/(Minorities)	-	-	-	-	-
Net income	1,074	1,203	1,731	2,199	2,808
Adjusted income	1,145	1,203	1,731	2,199	2,808
WANS	70	70	70	70	70
FDEPS (Rs / sh)	15.4	17.2	24.8	31.4	40.1
FDEPS growth (%)	(40.8)	12.0	43.9	27.0	27.7
Gross margins (%)	44.7	45.0	45.5	45.5	45.8

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	140	140	140	140	140
Net worth	7,592	8,395	9,427	10,227	11,635
Total debt	1,840	2,215	1,200	1,200	1,200
Minority interest	47	53	60	60	60
Lease liabilities	260	221	260	260	260
DTL/(Asset)	-33	80	54	54	54
Capital employed	**9,706**	**10,964**	**11,001**	**11,801**	**13,209**
Net tangible assets	1,373	1,371	1,278	1,189	1,083
Net Intangible assets	554	549	569	569	569
Goodwill	1,614	1,631	1,631	1,631	1,631
Investments (Strategic)	1,593	1,688	1,688	1,688	1,688
Investments (Financial)	3,251	3,313	3,250	3,750	4,250
Current Assets	3,376	4,418	5,401	6,556	8,089
Cash	346	639	284	145	459
Current Liabilities	2,399	2,644	3,100	3,727	4,559
Working capital	976	1,774	2,301	2,829	3,530
Capital deployed	**9,706**	**10,964**	**11,001**	**11,801**	**13,209**
Contingent Liabilities	24	24	-	-	-

Fig 3 – Cash-flow statement (Rsm)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT	1,074	1,209	2,340	2,972	3,794
+ Non-cash items	163	486	(157)	(166)	(175)
Oper.prof. before WC	1,237	1,694	2,183	2,806	3,620
- Incr. / (decr.) in WC	(5)	(763)	(527)	(528)	(700)
Others incl. taxes	(345)	(363)	(608)	(773)	(987)
Operating cash-flow	887	568	1,048	1,505	1,933
- Capex (tang. + intang.)	(157)	(90)	(200)	(200)	(200)
Free cash-flow	730	478	848	1,305	1,733
Acquisitions					
- Div. (incl. buyback & taxes)	(76)	(496)	(700)	(1,399)	(1,399)
+ Equity raised	-	-	-	-	-
+ Debt raised	73	375	(1,015)	-	-
- Fin investments	(467)	58	63	(500)	(500)
- Misc. (CFI + CFF)	(121)	(122)	449	455	480
Net cash-flow	140	294	(355)	(139)	314

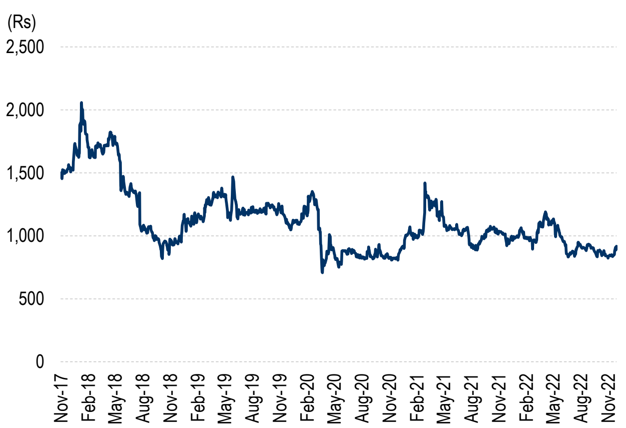
Source: Company, AnandRathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	59.9	53.4	37.1	29.2	22.9
EV / EBITDA (x)	45.0	38.9	28.4	21.9	16.8
EV / Sales (x)	6.9	6.0	4.5	3.7	2.9
P/B (x)	8.5	7.7	6.8	6.3	5.5
RoE (%)	15.1	14.3	18.4	21.5	24.1
RoCE (%) (Post tax)	9.9	9.0	12.9	15.9	18.6
ROIC (%) (Post tax)	15.8	14.3	19.1	23.7	29.0
DPS (Rs / sh)	5.0	9.0	10.0	20.0	20.0
Dividend yield (%)	0.5	1.0	1.1	2.2	2.2
Dividend payout (%) - incl. DDT	39.2	63.0	40.4	63.6	49.8
Net debt / equity (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)
Receivables (days)	67	73	65	65	65
Inventory (days)	48	61	55	55	55
Payables (days)	55	52	50	50	50
CFO : PAT %	77	47	61	68	69

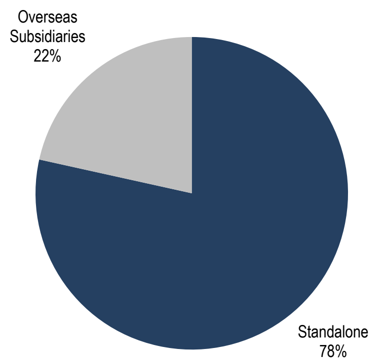
Source: Company, AnandRathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue break-up (Q2FY23)



Source: Company

Fig 7 – Quarter Financial Summary

(Rsm)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	% YoY	% QoQ
Total Income	**2,720**	**2,900**	**2,490**	**1,540**	**1,910**	**2,160**	**3,390**	**2,300**	**2,200**	**2,050**	**3,840**	**3,290**	**2,740**	***24.5***	***-16.7***
RM Costs	1,430	1,510	1,300	940	1,070	1,200	1,760	1,300	1,200	1,140	2,070	1,790	1,510	***25.8***	***-15.6***
Employee Exp	300	270	290	260	260	270	240	290	280	300	290	290	330	***17.9***	***13.8***
Other Exp	360	440	470	390	310	360	550	610	330	310	660	870	530	***60.6***	***-39.1***
EBITDA	**630**	**680**	**430**	**(50)**	**270**	**330**	**840**	**100**	**390**	**300**	**820**	**340**	**370**	***-5.1***	***8.8***
Dep	60	30	60	50	50	60	50	60	60	60	60	60	60	***0.0***	***0.0***
Interest	30	20	30	20	40	20	30	20	20	30	20	20	20	***0.0***	***0.0***
Other income	110	100	210	80	80	90	60	80	90	70	160	120	140	***55.6***	***16.7***
PBT	**650**	**730**	**550**	**(40)**	**260**	**340**	**820**	**100**	**400**	**280**	**900**	**380**	**430**	***7.5***	***13.2***
Tax	70	220	110	(60)	40	70	190	40	100	70	260	90	110	***10.0***	***22.2***
Reported PAT	580	510	440	20	220	270	630	60	300	210	640	290	320	***6.7***	***10.3***
Adj PAT	580	510	400	20	290	270	630	60	300	210	640	290	320	***6.7***	***10.3***
EPS (INR)	8.29	7.29	6.29	0.29	3.15	3.86	9.01	0.86	4.29	3.00	9.05	4.21	4.65		
As % Total Income														***bps YoY***	***bps QoQ***
Gross margin	47.4	47.9	47.8	39.0	44.0	44.4	48.1	43.5	45.5	44.4	46.1	45.6	44.9	*-56*	*-70*
Employee cost	11.0	9.3	11.6	16.9	13.6	12.5	7.1	12.6	12.7	14.6	7.6	8.8	12.0	*-68*	*323*
Other expenses	13.2	15.2	18.9	25.3	16.2	16.7	16.2	26.5	15.0	15.1	17.2	26.4	19.3	*434*	*-710*
EBITDA margin	23.2	23.4	17.3	-3.2	14.1	15.3	24.8	4.3	17.7	14.6	21.4	10.3	13.5	*-422*	*317*
Depreciation	2.2	1.0	2.4	3.2	2.6	2.8	1.5	2.6	2.7	2.9	1.6	1.8	2.2	*-54*	*37*
Interest	1.1	0.7	1.2	1.3	2.1	0.9	0.9	0.9	0.9	1.5	0.5	0.6	0.7	*-18*	*12*
Other income	4.0	3.4	8.4	5.2	4.2	4.2	1.8	3.5	4.1	3.4	4.2	3.6	5.1	*102*	*146*
PBT margin	23.9	25.2	22.1	-2.6	13.6	15.7	24.2	4.3	18.2	13.7	23.4	11.6	15.7	*-249*	*414*
Effective tax rate	10.8	30.1	20.0	150.0	15.4	20.6	23.2	40.0	25.0	25.0	28.9	23.7	25.6	*58*	*190*
PAT margin	21.3	17.6	17.7	1.3	11.5	12.5	18.6	2.6	13.6	10.2	16.7	8.8	11.7	*-196*	*286*
Revenue segments															
Standalone	1,950	2,070	1,540	400	1,120	1,240	2,120	1,040	1,400	1,450	2,510	2,080	2,150		
Overseas Subsidiaries	770	830	950	1,140	790	920	1,270	1,260	800	600	1,330	1,210	590		
y/y (%)															
Standalone	32	30	12	(75)	(43)	(40)	38	160	25	17	18	100	54		
Overseas Subsidiaries		2	(2)	(14)	3	11	34	11	1	(35)	5	(4)	(26)		
EBITDA															
Standalone	610	670	490	(80)	290	350	600	-	350	310	480	270	460		
Overseas Subsidiaries	20	10	(60)	30	(20)	(20)	240	100	40	(10)	340	70	(90)		
EBITDA (%)															
Standalone	31.3	32.4	31.8	(20.0)	25.9	28.2	28.3	-	25.0	21.4	19.1	13.0	21.4		
Overseas Subsidiaries	2.6	1.2	(6.3)	2.6	(2.5)	(2.2)	18.9	7.9	5.0	(1.7)	25.6	5.8	(15.3)		

Source: Company

Q2 FY23 con-call takeaways

CY23 summer's outlook looks bright with clearance of inventory in the off season. Robust off-season performance and positive trade sentiment led to strong domestic growth in line with pre covid levels. Secondary sales in Q2 were much higher than primary that resulted in clearance of the built up inventory over the last two years. Low channel inventory leads to a positive sentiment for the domestic business. Both commercial and industrial air coolers are growing categories and have registered robust sales among all the verticals Strong demand prospects augurs well for Symphony as it is one of the pioneers in domestic air-cooling. The outlook for domestic business is bright owing to decent visibility across its sales channels, across regions.

Plans price hikes in coming months. Symphony during Q2 upgraded its 4 range of air coolers, which includes 20+ SKUs. This value accretive decision impacted the gross margins, for which the company now plans gradual price increases in coming months. With all the old inventory cleared, Symphony seems to be better placed than its peers which operate in fans, where channel partners are loaded with high-cost inventory. Also, new BEE norms being implemented for fans from 1st Jan will result in price increase and hikes expected for ACs as well will certainly help Symphony hike pricesof its models.

Global subsidiaries to perform better. Symphony is launching new models and also exploring new sales channels including large format stores, ecommerce and D2C across global subsidiaries. Management believes that CIT's performance will be more skewed to December and March quarter, delivering a better performance on a y/y basis. It is also positive on IMPCO's performance for the full year. Symphony had shipped its moulds and dyes from India to its global subsidiaries in Mexico and Australia to support contact-manufacturing locally that will take care of high logistics costs, which lower commercial viability of exports from India. Also considering geo political situation in China, Symphony is evaluating to take over the benefits of GSK China. In H1FY23 GSK China has break even at EBITDA levels. Symphony intends to enter D2C and e-com portals in Southeast Asia and Latin America whereby, its initial response is good including its sales to Brazil. This would help in higher pricing than in conventional channels and is an important monitorable. Global economic headwinds are likely to have an impact on demand especially in United States and may be in Australia that need to be keenly watched.

Outlook and Valuations

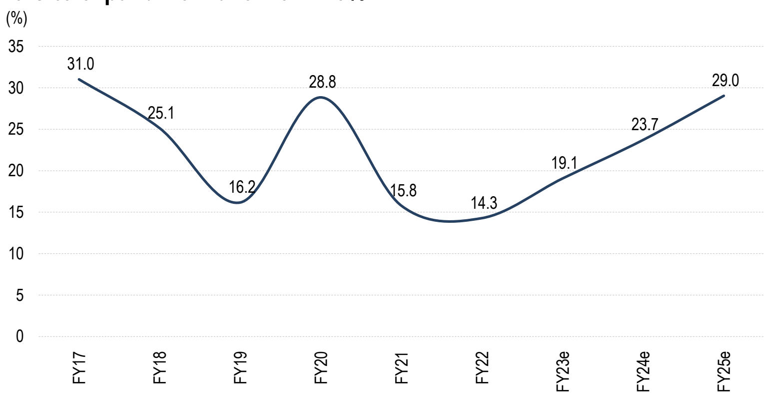
Post Q2FY23, our revenue estimate for FY23 and FY24 are intact. However, we lower EBITDA margins by 14% for FY23 and 19% for FY24. The cut in estimates is done to factor in the impact of high freight costs and pricing pressure from overseas subsidiaries as exports to the USA drive revenue growth. The outlook for domestic operations which cater to the Indian market looks robust for the summer of CY23 because of rising mercury levels. As we introduce FY25 earnings, we model revenue/net income to record CAGRs of 26% and 33% over FY22-25. This can result in RoIC (post tax) expanding to 29% in FY25 from a low of 14.3% in FY22.

Fig 8 – Estimate revision

	Revised estimates			Previous estimates			Variation (%)		
(Rs m)	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Revenue	13,824	16,837	20,832	13,747	17,167	Not introduced earlier	1	(2)	Not applicable
y/y (%)	33	22	24	32	25				
EBITDA	2,183	2,806	3,620	2,540	3,461		(14)	(19)	
EBITDA (%)	16	17	17	18	20				
PAT	1,731	2,199	2,808	2,004	2,692		(14)	(18)	
EPS	24.8	31.4	40.1	28.6	38.5		(13)	(18)	

Source: Company, Anand Rathi Research

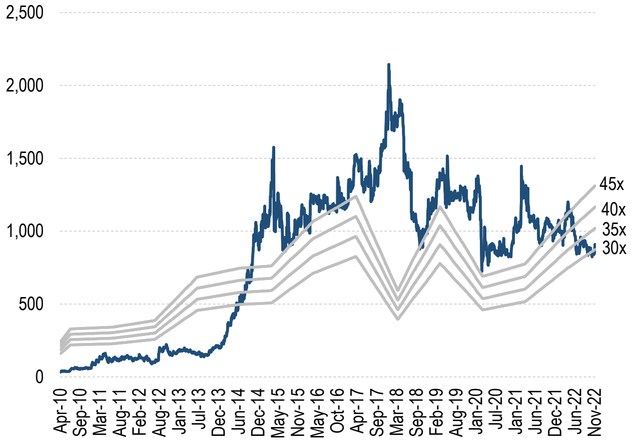
Fig 9 – RoIC to expand from a low of 14.3% in FY22



Source: Company, Anand Rathi Research

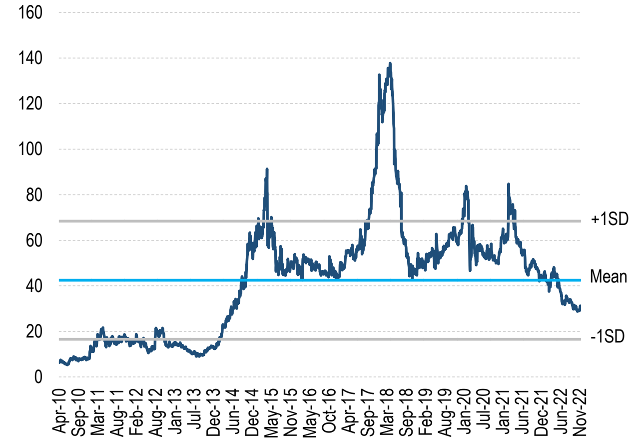
At the CMP, the stock trades at 29x/23xthe FY24e/FY25e EPS of Rs31.4 /40.1.We maintain our Buy rating with a TP of Rs1194 (30x FY25e EPS of Rs40.1), earlier TP being Rs1347 (35x FY24e EPS of Rs38.5). The cut in PEx is in line with those of the companies we cover.

Fig 10 – PE(x) is around 30x



Source: Company, Anand Rathi Research

Fig 11 – Stock trades below its mean PE of 42x



Source: Company, Anand Rathi Research

Key risks

- Impact of keener competition from brands like Voltas, Blue Star, Crompton Greaves consumer, Orient electric etc across domestic operations is an important monitorable. Aggressive pricing by well established brands with pan India presence can impact growth and is a risk factor to watch out for.
- Rising inflation across American market, where exports are targeted via global subsidiaries can be a risk as it can lower growth for overseas subsidiaries.
- Exponential increase in logistics cost which has been ~9% of gross profit between FY19-22 (14% of Q2FY23's gross profit of Rs 1.23 bn) can dent EBITDA margins and compel us to lower profit estimates for FY23-FY25.

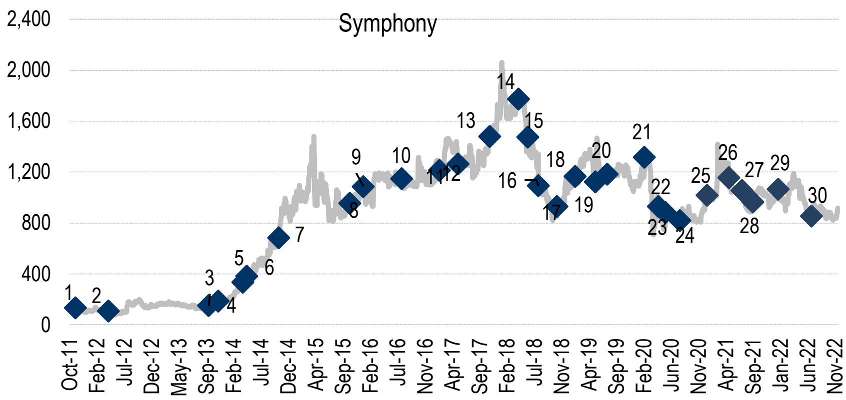
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 1 December 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
16	25-Jul-18	Sell	968	1,169
17	1-Nov-18	Sell	960	966
18	6-Feb-19	Sell	1,161	1,210
19	23-May-19	Sell	983	1,203
20	26-Jul-19	Sell	996	1,222
21	7-Feb-20	Buy	1,678	1,360
22	22-Apr-20	Hold	1,163	943
23	31-May-20	Hold	968	897
24	14-Aug-20	Sell	713	840
25	25-Jan-21	Sell	707	991
26	28-Apr-21	Sell	1,083	1,219
27	26-Jul-21	Hold	1,083	1,030
28	27-Oct-21	Buy	1,427	1,068
29	26-Jan-22	Buy	1,358	1,046
30	26-Jan-22	Buy	1,358	1,046
31	27-Jul-22	Buy	1,347	947

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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