

7 February 2020

Symphony

Strengthening new levers without losing domestic dominance

Rating: **Buy**

Target Price: ₹1,678

Share Price: ₹1,360

Symphony continues to dominate domestic air-coolers and remains the alpha in this category despite competition from several domestic peers with well-developed brands and distribution networks. Its dominance can be attributed to continuous innovation and product upgrading, replicated by its peers. After continuous domination in its core business, it is strengthening its new growth levers: (a) expanding across commercial applications of air-cooling in India targeted mainly at small and medium enterprises (b) expanding its operations across global markets via acquisitions, in Australia, China and Mexico and (c) targeting super-niche markets such as cooling-solutions data centres, which can propel its globalisation initiatives and are key monitorables ahead.

Robust performance. Q3 FY20 consolidated revenue rose 21% y/y; the EBITDA margin expanded 550bps y/y to 23.4%. Despite higher taxes, PAT increased 38% y/y to ₹510m.

Outlook & Valuation. Post-Q3 FY20 results, we have revised our estimates, and upgrade the stock to a Buy with a target of ₹1,678 at 35x FY22e EPS of ₹48 (our earlier target based on FY21e EPS was ₹996). We now model revenue and PAT clocking CAGRs over FY20-22 of 26% and 28% respectively, resulting in the RoCE expanding from 32% in FY20 to 39% in FY22. At the CMP ₹1,360 stock trades 37x / 28x its revised EPS of ₹37 & ₹48. Considering its robust cash balance of ₹6.5bn at end-Q2 FY20, the company announced a special dividend of ₹18 a share. With this, the uncertainties pertaining to the share buyback program, which was being considered, have been done away with. Key monitorables would be the coming hot summers which is the primary driver of air-coolers domestically and a turnaround in subsidiaries, now being overhauled by Symphony based on its requirements.

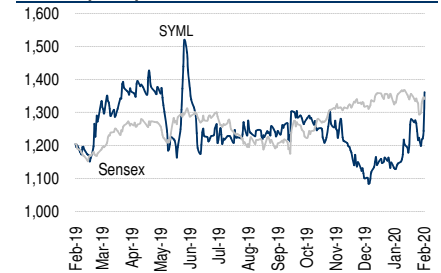
Risks: An erratic summer and unseasonal rainfall.

Key data	SYML IN / SYMP.BO
52-week high / low	₹1063 / 828
Sensex / Nifty	41142 / 12098
3-m average volume	\$2.7m
Market cap	₹175bn / \$2447.8m
Shares outstanding	186m

Shareholding pattern (%)	Dec'19	Sep'19	Jun'19
Promoters	75.0	75.0	75.0
- of which, Pledged	-	-	-
Free float	25.0	25.0	25.0
- Foreign institutions	6.4	6.5	6.5
- Domestic institutions	9.2	9.1	9.0
- Public	9.4	9.4	9.5

Estimates revision (%)	FY20e	FY21e
Sales	20.2	32.6
EBITDA	20.2	35.5
EPS	21.9	29.9

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY18	FY19	FY20e	FY21e	FY22e
Sales (₹ m)	7,983	8,436	12,374	15,546	19,584
Net profit (₹ m)	1,926	916	2,046	2,585	3,353
EPS (₹)	27.5	15.5	29.3	37.0	47.9
PE (x)	49.4	87.7	46.5	36.8	28.4
EV / EBITDA (x)	43.4	73.0	39.3	28.9	21.6
PBV (x)	15.6	14.3	14.6	11.3	8.6
RoE (%)	35.8	17.0	31.1	34.6	34.5
RoCE (%)	47.5	21.6	31.6	37.6	39.1
Dividend yield (%)	0.3	0.3	1.9	0.7	0.7
Net debt / equity (x)	0.0	0.2	0.3	0.0	-0.2

Source: Company

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Net revenues (₹ m)	7,983	8,436	12,374	15,546	19,584
Growth (%)	4.4	5.7	46.7	25.6	26.0
Direct costs	3,853	4,530	7,322	8,987	11,250
SG&A	1,937	2,585	2,586	3,256	4,017
EBITDA	2,193	1,321	2,466	3,303	4,318
EBITDA margins (%)	27.5	15.7	19.9	21.2	22.0
- Depreciation	68	99	191	202	213
Other income	541	389	420	450	470
Interest expenses	18	69	105	105	105
PBT	2,648	1,542	2,590	3,446	4,470
Effective tax rate (%)	27.3	29.7	21.0	25.0	25.0
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,926	916	2,046	2,585	3,353
Adjusted income	1,926	1,085	2,046	2,585	3,353
WANS	70	70	70	70	70
FDEPS (₹ / sh)	27.5	15.5	29.3	37.0	47.9
FDEPS growth (%)	15.8	(43.7)	88.6	26.3	29.7
Gross margins (%)	51.7	46.3	40.8	42.2	42.6

Fig 3 – Cash-flow statement (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
PBT	2,648	1,542	2,590	3,446	4,470
+ Non-cash items	68	99	191	202	213
Oper. prof. before WC	2,716	1,401	2,781	3,648	4,683
- Incr. / (decr.) in WC	-476	310	-458	-400	-509
Others incl. taxes	-1,246	-706	-859	-1,207	-1,483
Operating cash-flow	994	1,004	1,464	2,042	2,692
- Capex (tang. + intang.)	-762	-467	-305	-200	-200
Free cash-flow	232	537	1,159	1,842	2,492
Acquisitions					
- Div. (incl. buyback & taxes)	-379	-379	-2,190	-700	-700
+ Equity raised	-	-	-	-	-
+ Debt raised	63	1,623	72	-	-
- Fin investments	-639	-215	100	-100	-100
- Misc. (CFI + CFF)	479	(1,254)	506	345	365
Net cash-flow	(244)	312	(353)	1,387	2,057

Source: Company

Fig 5 – Price movement


Source: Bloomberg

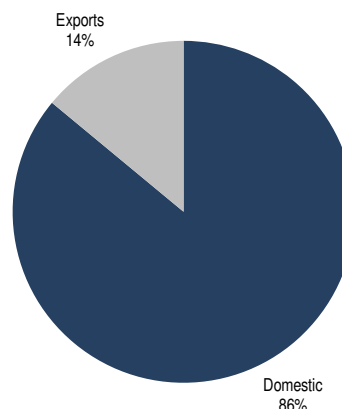
Fig 2 – Balance sheet (₹ m)

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
Share capital	140	140	140	140	140
Net worth	6,116	6,661	6,517	8,402	11,055
Debt	256	1,879	1,950	1,950	1,950
Minority interest	-	34	34	34	34
DTL / (Assets)	89	-134	57	57	57
Capital employed	6,461	8,438	8,558	10,443	13,096
Net tangible assets	719	896	910	808	695
Net intangible assets	60	47	47	47	47
Goodwill	39	1,431	1,431	1,431	1,431
CWIP (tang. & intang.)	-	58	58	58	58
Investments (strategic)	4,224	4,585	4,585	4,785	4,985
Investments (financial)	-	-	-	-	-
Current assets (ex cash)	2,298	2,960	4,197	5,249	6,587
Cash	226	538	185	1,572	3,629
Current liabilities	1,105	2,076	2,855	3,507	4,337
Working capital	1,194	884	1,342	1,741	2,250
Capital deployed	6,461	8,438	8,558	10,443	13,096
Contingent liabilities	2,534	2,534	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20e	FY21e	FY22e
P/E (x)	49.4	87.7	46.5	36.8	28.4
EV / EBITDA (x)	43.4	73.0	39.3	28.9	21.6
EV / Sales (x)	11.9	11.4	7.8	6.1	4.8
P/B (x)	15.6	14.3	14.6	11.3	8.6
RoE (%)	35.8	17.0	31.1	34.6	34.5
RoCE (%) - after tax	47.5	21.6	31.6	37.6	39.1
RoIC	36.9	16.0	26.0	31.1	37.7
DPS (₹ / sh)	4.5	4.5	26.0	10.0	10.0
Dividend yield (%)	0.3	0.3	1.9	0.7	0.7
Dividend payout (%) - incl. DDT	19.7	41.4	107.0	27.1	20.9
Net debt / equity (x)	0.0	0.2	0.3	0.0	-0.2
Receivables (days)	28	45	45	45	45
Inventory (days)	36	52	50	50	50
Payables (days)	27	56	55	55	55
CFO : PAT %	52	93	72	79	80

Source: Company

Fig 6 – Q3 FY20 revenue break-up


Source: Company

Fig 7 – Financial performance - Standalone

(₹ m)	Q1 FY19	Q2 FY19	Q3 FY19	Q4 FY19	Q1 FY20	Q2 FY20	Q3 FY20	% Y/Y	% Q/Q
Income	790	1480	1590	1380	1600	1950	2070	30.2	6.2
RM costs	360	730	810	710	800	1,030	1,050	29.6	1.9
Employee expenses	110	150	140	130	130	150	140	0.0	-6.7
Other expenses	310	150	160	130	430	160	210	31.3	31.3
EBITDA	10	450	480	410	240	610	670	39.6	9.8
Depreciation	10	10	10	10	10	20	10	0.0	-50.0
Interest	-	-	-	-	-	-	-	-	-
Other income	60	70	100	100	110	110	110	10.0	0.0
PBT	60	510	570	500	340	700	770	35.1	10.0
Tax	10	130	140	120	80	130	190	35.7	46.2
PAT	50	380	430	380	260	570	580	34.9	1.8
EPS (₹)	0.71	5.43	6.15	5.43	3.72	8.15	8.29	34.9	1.8
As % of income								bps Y/Y	bps Q/Q
Raw material costs								-	-
Gross margin	54.4	50.7	49.1	48.6	50.0	47.2	49.3	22	209.6
Employee cost	13.9	10.1	8.8	9.4	8.1	7.7	6.8	-204	-92.9
Other expenses	39.2	10.1	10.1	9.4	26.9	8.2	10.1	8	194.0
EBITDA margin	1.3	30.4	30.2	29.7	15.0	31.3	32.4	218	108.5
Depreciation	1.3	0.7	0.6	0.7	0.6	1.0	0.5	-15	-54.3
Interest	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0	0.0
Other income	7.6	4.7	6.3	7.2	6.9	5.6	5.3	-98	-32.7
PBT margin	7.6	34.5	35.8	36.2	21.3	35.9	37.2	135	130.1
Effective tax rate	16.7	25.5	24.6	24.0	23.5	18.6	24.7	11	610.4
PAT margin	6.3	25.7	27.0	27.5	16.3	29.2	28.0	98	-121.1

Source: Company

Q3 FY20 Concall Highlights

- Growth for the quarter was supported by launch of products, which are well accepted by channel partners and expected to drive growth in Q4 FY20 as well. After attaining market leadership in residential coolers, the focus now is on creating new markets in commercial and industrial coolers in India. Earlier, these were imported from its Mexican and Chinese subsidiaries. At end-Q3 FY20, Symphony is adequately placed with regard to imports from China for commercial and industrial applications.
- Chinese operations of Symphony have been least impacted by the novel coronavirus in Q3 FY20 as manufacturing operations are mainly in southern China, which has been least impacted by the virus. However, exports of coolers from China were hit by the trade war with the USA.
- Data centres are one of the biggest markets globally for air-cooling and -conditioning, considering the heat generated by these installations. Symphony is in the process of catering to this super-niche market, which can increase its globalisation initiatives. Further updates related to this needs to be keenly watched.

Valuation

After the Q3 FY20 results we have revised our estimates and upgrade the stock to a Buy, with a target of ₹1,678, at 35x FY22e EPS of ₹48 (our earlier target was based on FY21e EPS of ₹996). After revising estimates, we now model revenue and PAT clocking CAGRs over FY20-22 of 26% and 28% respectively, resulting in the RoCE expanding from 32% in FY20 to 39% in FY22. At the CMP ₹1,360 stock trades 37x / 28x its revised EPS of ₹37 & ₹48.

Fig 8 – Change in estimates

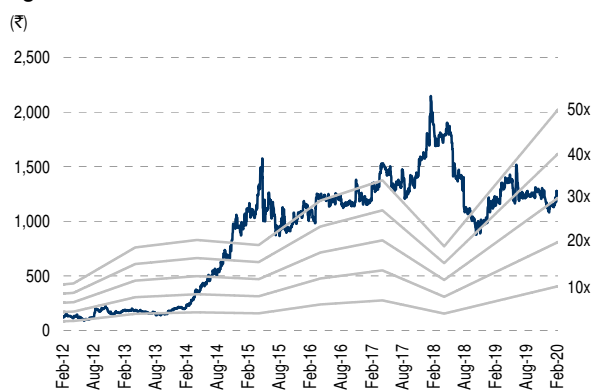
₹ m)	Revised estimates		Old estimates		Variance - (%)	
	FY20e	FY21e	FY20e	FY21e	FY20e	FY21e
Revenue	12,374	15,546	10,293	11,723	20.2	32.6
Y/Y (%)	47	26	22	14	-	-
EBITDA	2,466	3,303	2,051	2,438	20.2	35.5
EBITDA (%)	19.9	21.2	19.9	20.8	-	-
PAT	2,046	2,585	1,679	1,990	21.9	29.9
PAT (%)	16.5	16.6	16.3	17.0	-	-
EPS	29.3	37.0	24.0	28.5	21.9	29.7

Source: Anand Rathi Research

Considering its robust ₹6.5bn cash balance at end-Q2 FY20, Symphony announced a special dividend of ₹18 a share along with the normal dividend of ₹2. With this, uncertainties pertaining to the share-buyback program, which was being considered, have been done away with. Cash outgo from this transaction would be ~₹1.6bn (incl. the dividend-distribution tax), accounting for 25% of the outstanding cash balance.

Key monitorables would be very hot summers, which are the primary driver of air coolers in the domestic market and a turnaround of its subsidiaries, now being overhauled by Symphony based on its requirements

Fig 9 – PE Band



Source: Company, Anand Rathi Research

Fig 10 – SD range



Source: Company, Anand Rathi Research

Risks

- **Unseasonal rainfall.** Erratic summers and unseasonal rainfall continue to be an ongoing risk, and can severely hamper sales of air-coolers.
- **Forex exposure.** On the acquisition of IMPCO, GSK and Climate Technology, the company's forex exposure has increased.

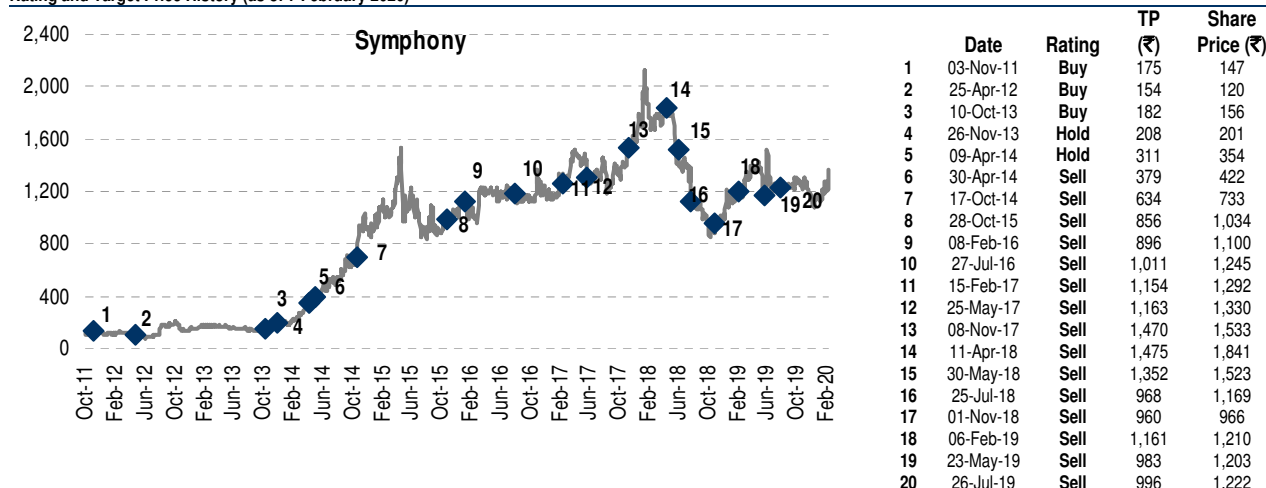
Appendix

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