28 April 2021

Symphony

Rating: **Sell**
Target Price: Rs1083
Share Price: Rs1219

Robust outlook, expanding our PE(x); premium valuations capture it

From challenges in FY21 and with issues regarding supply chains at its largest subsidiary in Australia sorted out, Symphony emerged stronger. Considering the robust outlook in its domestic and overseas operations we raise our FY22e/FY23e net income 1c3%/31% and expand our PE(x) from 30x to 35x FY23e earnings. We maintain our Sell rating on premium valuations, however, though with a higher TP of Rs 1,083 (earlier Rs 707).

Strong standalone and overseas subsidiaries bounce-back. Q4 FY21 (consolidated) revenue increased 36% y/y even as standalone revenue rose 38% y/y, while global subsidiaries reported 34% y/y growth. The EBITDA margin came at 24.8% as the gross margin returned to normal levels of 48.1%. Aided by a lower tax rate of 23%, net income was Rs630m.

Domestic operations outlook, robust for Q1 FY22; for subsidiaries in FY22. Despite regional lockdowns at end-Apr'21, the Q1 FY22 outlook for the domestic business remains robust. Channel partners have sufficient stocks, which could be cleared in May and Jun'21. Also, Symphony plans price hikes once demand stabilizes to pass on the impact of higher commodity prices. Supply-side issues for CIT Australia have been sorted out and orders from Bonaire, USA, can be catered to from India. This has brightened the margin outlook for this entity.

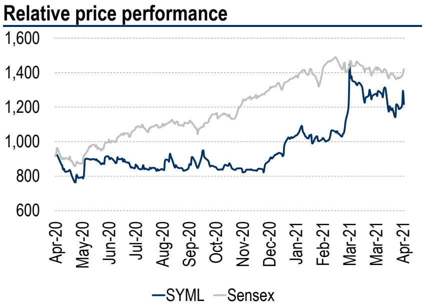
Outlook. After the Q4 FY21 results, we have raised our estimates, but maintain our Sell rating, though with a higher TP of Rs1,083 (35x FY23e EPS of Rs30.9). Our previous TP was Rs707 (30x FY23e EPS of Rs23.6). PE(x) expansion is primarily a function of (a) sound assurance regarding the domestic business in FY22 and (b) a turnaround at the Australian subsidiary, and supported by the robust outlook regarding exports to the USA. **Risks:** Any event that can impact export prospects to the American market, and a sharp decline in domestic demand are the key risks that would compel us to lower both earnings and PE(s) assigned.

Key data	SYML IN / SYMP.BO
52-week high / low	Rs1530 / 756
Sensex / Nifty	49734 / 14865
3-m average volume	$2.6m
Market cap	Rs85bn / $1145.3m
Shares outstanding	70m

Shareholding pattern (%)	Mar'21	Dec'20	Sep'20
Promoters	73.3	73.3	75.0
- of which, Pledged	-	-	-
Free float	26.7	26.7	25.0
- Foreign institutions	4.3	3.6	4.4
- Domestic institutions	10.2	10.6	10.4
- Public	12.2	12.5	9.6

Estimates revision (%)	FY22e	FY23e
Sales	15	15
EBITDA	26	38
EPS	13	31

Relative price performance



Source: Bloomberg

Key financials (YE: Mar)	FY19	FY20	FY21	FY22e	FY23e
Sales (Rs m)	8,436	11,026	9,000	11,322	14,064
Adj net income (Rs m)	1,163	1,855	1,140	1,534	2,164
EPS (Rs)	16.6	26.5	16.3	21.9	30.9
PE (x)	73.3	46.0	74.8	55.6	39.4
EV / EBITDA (x)	63.7	39.6	60.1	41.0	29.6
P/BV (x)	12.8	13.3	11.2	9.8	8.3
RoE (%)	17.5	29.0	15.0	17.6	21.1
RoCE (%) (post-tax)	13.2	22.9	12.5	15.1	18.4
RoIC (%) (post-tax)	21.3	37.1	20.0	25.9	35.1
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4

Source: Company

Nirav Vasa
Research Analyst
+91 22 6626 6807
niravvasa@rathi.com

Surbhi Lodha
Research Analyst
+912917105573
surbhilodha@rathi.com

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Net revenues (Rs m)	8,436	11,026	9,000	11,322	14,064
Growth (%)	*5.7*	*30.7*	*-18.4*	*25.8*	*24.2*
Direct costs	4,530	5,833	4,970	6,040	7,386
SG & A	2,585	3,078	2,640	3,271	3,937
EBITDA	**1,321**	**2,116**	**1,390**	**2,011**	**2,741**
EBITDA margins (%)	*15.7*	*19.2*	*15.4*	*17.8*	*19.5*
- Depreciation	99	212	210	238	246
Other income	389	547	310	400	525
Interest expenses	69	107	110	100	95
PBT	1,302	2,305	1,380	2,073	2,925
Effective tax rates (%)	*29.7*	*21.1*	*18.3*	*26.0*	*26.0*
+ Associates / (Minorities)	-	-	-	-	-
Net income	923	1,815	1,070	1,534	2,164
Adjusted income	1,163	1,855	1,140	1,534	2,164
WANS	70	70	70	70	70
FDEPS (Rs / sh)	16.6	26.5	16.3	21.9	30.9
FDEPS growth (%)	*(39.6)*	*59.4*	*(38.5)*	*34.6*	*41.1*
Gross margins (%)	*46.3*	*47.1*	*44.8*	*46.7*	*47.5*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
Share capital	140	140	140	140	140
Net worth	6,661	6,392	7,590	8,704	10,239
Total debt	1,879	1,732	1,840	1,600	1,600
Minority interest	34	43	50	55	60
Lease liabilities		282	260	260	260
Deferred tax liability / (Asset)	-134	68	-30	-30	-30
Capital employed	**8,438**	**8,516**	**9,710**	**10,589**	**12,129**
Net tangible assets	896	1,355	1,370	1,104	957
Net Intangible assets	105	487	560	570	570
Goodwill	1,431	1,360	1,610	1,610	1,610
Investments (strategic)	1,866	1,134	1,590	1,590	1,590
Investments (financial)	2,719	2,987	3,250	3,600	4,250
Current assets (excl. cash)	3,236	3,114	3,380	3,675	4,503
Cash	262	206	350	811	1,539
Current liabilities	2,076	2,126	2,400	2,370	2,891
Working capital	1,160	988	980	1,305	1,613
Capital deployed	**8,438**	**8,516**	**9,710**	**10,589**	**12,129**
Contingent liabilities	2,558	2,481			

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
PBT	1,302	2,305	1,310	2,073	2,925
+ Non-cash items	33	-14	-70	-62	-184
Oper. prof. before WC	1,334	2,291	1,240	2,011	2,741
- Incr. / (decr.) in WC	505	-155	-10	-162	-308
Others incl. taxes	-444	-567	-340	-539	-760
Operating cash-flow	1,396	1,569	890	1,310	1,673
- Capex (tang. + intang.)	-2,016	-335	-150	-145	-100
Free cash-flow	-620	1,234	740	1,165	1,573
Acquisitions					
- Div.(incl. buyback & taxes)	-376	-2,062	-80	-420	-630
+ Equity raised	-	-	-	-	-
+ Debt raised	1,623	-147	-150	-240	-
- Fin investments	-670	926	-470	-350	-650
- Misc. (CFI + CFF)	117	(8)	170	305	435
Net cash-flow	74	(56)	210	461	728

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

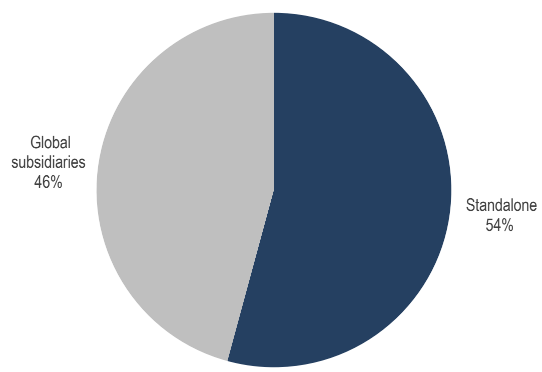
Year-end: Mar	FY19	FY20	FY21	FY22e	FY23e
P/E (x)	73.3	46.0	74.8	55.6	39.4
EV / EBITDA (x)	63.7	39.6	60.1	41.0	29.6
EV / Sales (x)	10.0	7.6	9.3	7.3	5.8
P/B (x)	12.8	13.3	11.2	9.8	8.3
RoE (%)	17.5	29.0	15.0	17.6	21.1
RoCE (%) - after tax	13.2	22.9	12.5	15.1	18.4
RoIC (%) – after tax	21.3	37.1	20.0	25.9	35.1
DPS (Rs / sh)	4.5	23.0	5.0	6.0	9.0
Dividend yield (%)	0.4	1.9	0.4	0.5	0.7
Dividend payout (%) - incl. DDT	41.1	106.8	32.7	27.4	29.1
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.3	-0.4
Receivables (days)	45	40	67	45	45
Inventory (days)	52	39	48	45	45
Payables (days)	56	38	53	45	45
CFO : PAT %	120	85	78	85	77

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – FY21 revenue break-up



Source: Company

Fig 7 – Financial performance

(Rs m)	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	% Y/Y	% Q/Q
Income	**2,920**	**2,720**	**2,900**	**2,490**	**1,540**	**1,910**	**2,160**	**3,390**	***36.1***	***56.9***
RM costs	1,590	1,430	1,510	1,300	940	1,070	1,200	1,760	*35.4*	*46.7*
Employee expenses	270	300	270	290	260	260	270	240	*-17.2*	*-11.1*
Other expenses	680	360	440	470	390	310	360	550	*17.0*	*52.8*
EBITDA	**380**	**630**	**680**	**430**	**(50)**	**270**	**330**	**840**	***95.3***	***154.5***
Depreciation	60	60	30	60	50	50	60	50	*-16.7*	*-16.7*
Interest	30	30	20	30	20	40	20	30	*0.0*	*50.0*
Other income	120	110	100	210	80	80	90	60	*-71.4*	*-33.3*
PBT	**410**	**650**	**730**	**550**	**(40)**	**190**	**340**	**820**	***49.1***	***141.2***
Tax	80	70	220	110	(60)	40	70	190	*72.7*	*171.4*
PAT	**330**	**580**	**510**	**440**	**20**	**150**	**270**	**630**	***43.2***	***133.3***
EPS (Rs)	4.72	8.29	7.29	6.29	0.29	2.14	3.86	9.01	*43.2*	*133.3*
As % of income									**bps Y/Y**	**bps Q/Q**
Gross margins	**45.5**	**47.4**	**47.9**	**47.8**	**39.0**	**44.0**	**44.4**	**48.1**	***29***	***8.2***
Employee costs	9.2	11.0	9.3	11.6	16.9	13.6	12.5	7.1	*-457*	*-43.4*
Other expenses	23.3	13.2	15.2	18.9	25.3	16.2	16.7	16.2	*-265*	*-2.7*
EBITDA margin	**13.0**	**23.2**	**23.4**	**17.3**	**-3.2**	**14.1**	**15.3**	**24.8**	***751***	***62.2***
Depreciation	2.1	2.2	1.0	2.4	3.2	2.6	2.8	1.5	*-93*	*-46.9*
Interest	1.0	1.1	0.7	1.2	1.3	2.1	0.9	0.9	*-32*	*-4.4*
Other income	4.1	4.0	3.4	8.4	5.2	4.2	4.2	1.8	*-666*	*-57.5*
PBT margins	**14.0**	**23.9**	**25.2**	**22.1**	**-2.6**	**9.9**	**15.7**	**24.2**		
Effective tax rate	19.5	10.8	30.1	20.0	150.0	21.1	20.6	23.2		
PAT margins	**11.3**	**21.3**	**17.6**	**17.7**	**1.3**	**7.9**	**12.5**	**18.6**		
Revenue from										
Standalone	1,600	1,950	2,070	1,540	400	1,120	1,240	2,120		
Overseas subsidiaries	1,320	770	830	950	1,140	790	920	1,270		
Y/Y (%)										
Standalone	*103*	*32*	*30*	*12*	*(75)*	*(43)*	*(40)*	*38*		
Overseas subsidiaries			*2*	*(2)*	*(14)*	*3*	*11*	*34*		
EBITDA										
Standalone	240	610	670	490	(80)	290	350	600		
Overseas subsidiaries	140	20	10	(60)	30	(20)	(20)	240		
EBITDA (%)										
Standalone	*15.0*	*31.3*	*32.4*	*31.8*	*(20.0)*	*25.9*	*28.2*	*28.3*		
Overseas subsidiaries	*10.6*	*2.6*	*1.2*	*(6.3)*	*2.6*	*(2.5)*	*(2.2)*	*18.9*		

Source: Company

FY21 Concall Highlights

- **Optimistic concerning Q1 FY22 despite regional lockdowns.** Apr'21 started with good demand prospects and channel partners were well-stocked. In the last week of the month however, regional lockdowns temporarily curtailed demand. Despite near-term uncertainty, management is optimistic about growth prospects for Q1 FY22. Since most sales are booked in Q4 and Q1 of a financial year, growth prospects for Q1 FY22 are quite important.
- **Another round of price hikes planned once demand stabilises.** Symphony expects to pass on the impact of rising commodity prices in Q1 FY22 once demand firms up. This should support gross margin expansion for FY22. The gross margin had slid ~200bps to 48.4%, vs averaging 50.8% (standalone operations) over FY17-19.
- **Commercial, industrial air-cooling prospects expected to brighten in FY22:** After becoming a leader in residential air-cooling, Symphony has been trying to expand into commercial and industrial air-cooling. Prospects for these are expected to brighten in FY22 as capex at small and medium-sized enterprises picks up.
- **NWC stretches at end-Q4 FY21, generates Rs740m free cash-flow despite challenging times:** NWC at end-Q4 FY21 was 63 days because of greater inventory and receivables days; these could contract once the situation improves. Despite challenging times, Symphony generated free cash-flow of Rs740m at end-Q4 FY21 (vs. Rs1.4bn a year ago). As a result, Treasury investments at end-FY21 were Rs5.03bn (vs. Rs4.08bn at the start of the year).

Fig 8 – NWC, stretched at end-Q4 FY21

Days	Q2 FY20	Q4 FY20	Q2 FY21	Q4 FY21
Inventory	34	39	32	48
Receivable	20	40	22	67
Payable	34	38	33	53
NWC	**21**	**41**	**21**	**63**
(Rs m)				
CFO		1,570		890
Capex		-170		-150
Free cash-flows		**1,400**		**740**

Source: Company

How global subsidiaries fared in FY21

- **CIT Australia to expand margins in FY22:** CIT Australia's FY21 revenue increased 17% y/y to Rs3.4bn. Its export revenue to the USA was Rs950m and can increase in FY22. Its EBITDA margin dipped 220bps to 4.5% because of (a) higher procurement costs as parts and products were procured from the local market when supply was struck by Covid-related disruptions, and (b) higher freight costs. The outlook for FY22 has, however, improved as (a) the order backlog from US customers is strong and (b) supplies to go from India.

Fig 9 – Robust Q4 FY21 revenue growth supported margin expansion

(Rs m)	Q4 FY20	Q4 FY21	FY20	FY21
Revenue	740	1,220	2,870	3,370
Gross profit	190	480	1,160	1,220
Gross Margin (%)	25.7	39.3	40.4	36.2
EBITDA	(10)	210	190	150
EBITDA (%)	(1.4)	17.2	6.6	4.5
PAT	(30)	160	60	10
PAT (%)	(4.1)	13.1	2.1	0.3

Source: Company

- **Prospects of debt repayment linked to CIT Australia's recovery.** End-Q4 FY21 outstanding gross debt was Rs1.84bn (comprising long-term loans of Rs1.4bn and working-capital loans of Rs440m). Debt on the books is in Australian dollars and is being serviced at 3.6% (in A$). The margin expansion expected in FY22 supported by stable operations brightens prospects of debt pre-payment and is the key monitorable. Debt repayment according to schedule is expected to begin from Jun'22.

Fig 10 – Outstanding gross debt overall has been a steady Rs1.8bn since Q2 FY20

(Rs m)	Q2 FY20	Q4 FY20	Q2 FY21	Q4 FY21
Short-term debt	1,200	720	1,310	1,400
Long-term debt	520	1,020	580	440
Total debt	1,720	1,740	1,890	1,840
Cash & Bank balance	6,510	3,250	4,830	3,640

(Source: Company)

- **Mexican subsidiary still impacted:** Revenue booking at the Mexican subsidiary slid 24% y/y to Rs750m mainly because of Covid-related disruptions. The EBITDA margin rose 390bps y/y as several measures were put in place. This subsidiary, severely affected by one of its largest customers filing for bankruptcy, booked a one-time hit of Rs72m.

Fig 11 – Covid-related disruptions hurt FY21 performance

(Rs m)	Q4 FY20	Q4 FY21	FY20	FY21
Revenue	320	250	1,000	750
Gross profit	100	100	300	280
Gross margins (%)	*31.3*	*40.0*	*30.0*	*37.3*
EBITDA	40	40	60	70
EBITDA (%)	*12.5*	*16.0*	*6.0*	*9.3*
PAT	30	30	30	20
PAT (%)	*9.4*	*12.0*	*3.0*	*2.7*

Source: Company

- **The China subsidiary continues to bleed as fixed costs get allocated on a lower revenue base.** The revenue for this entity dipped 7% y/y to Rs390m. Despite a Rs140m gross profit, it reported a Rs30m EBITDA loss as fixed costs were allocated on a lower revenue base. The performance of this subsidiary has been hit by the USA banning imports of air-coolers from China. Also, domestic sentiment is feeble.

Fig 12 – Allocation of fixed costs on lower revenue base results in EBITDA loss

(Rs m)	Q4 FY20	Q4 FY21	FY20	FY21
Revenue	50	100	420	390
Gross profit	20	30	150	140
Gross margins (%)	*40.0*	*30.0*	*35.7*	*35.9*
EBITDA	(20)	(10)	(30)	(30)
EBITDA (%)	*(40.0)*	*(10.0)*	*(7.1)*	*(7.7)*
PAT	(40)	(30)	(80)	(90)
PAT (%)	*(80.0)*	*(30.0)*	*(19.0)*	*(23.1)*

Source: Company

Valuation

We have increased our estimates, post-Q4 FY21, but maintain our Sell rating though with a higher TP of Rs1,083 (35x FY23e EPS of Rs30.9) earlier Rs707 (30x FY23e EPS of Rs23.6). Over FY21-FY23, we expect revenue and net income to register 25% and 38% CAGRs respectively, post-Q4 FY21 results.

Fig 13 – Change in estimates

	Actual	Revised est		Previous est		Variance (%)		CAGR (%)
(Rs mn)	FY21	FY22e	FY23e	FY22e	FY23e	FY22e	FY23e	FY21-FY23e
Revenue	**9,000**	**11,322**	**14,064**	**9,860**	**12,233**	**15**	**15**	**25**
Standalone	4,880	6,588	8,564	5,414	7,174	22	19	
Global Subsidiaries	4,120	4,734	5,499	4,446	5,059	6	9	
y/y (%)								
Standalone	(32)	35	30	20	33			
Global Subsidiaries	7	15	16	11	14			
EBITDA	**1,390**	**2,011**	**2,741**	**1,597**	**1,988**	**26**	**38**	**40**
Standalone	1,160	1,772	2,526	1,489	1,865	19	35	
Global Subsidiaries	230	239	214	108	123	121	74	
EBITDA (%)								
Standalone	24	27	30	28	26			
Global Subsidiaries	6	5	4	2	2			
Adj Net Income	**1,140**	**1,534**	**2,164**	**1,360**	**1,648**	**13**	**31**	**38**
Adjusted EPS	**16**	**22**	**31**	**19**	**24**	**13**	**31**	

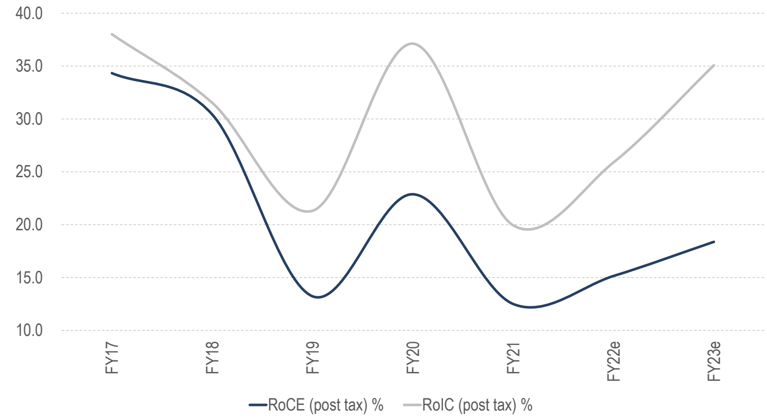
Source: Anand Rathi Research

The primary reason for greater earnings in FY22 and FY23 and the assigning of higher PEs(x) are (a) robust demand outlook for domestic operations despite regional lockdowns across India at end-Apr'21, (b) improving outlook for commercial and industrial air-cooling solutions as capex by small and medium-sized enterprises can pick up, (c) robust outlook for its Australian entity as orders from the American market are expected to increase and would now be manufactured in India.

The PE(x), based on 10-year trading history, is 40x. A further round of PE(x) expansion would depend on (a) margin expansion across subsidiaries, especially CIT, Australia, (b) normalisation of NWC, which was high at end-Q4 FY21 and (c) significant breakthroughs in commercial and industrial air-cooling, for which prospects are brightening in FY22.

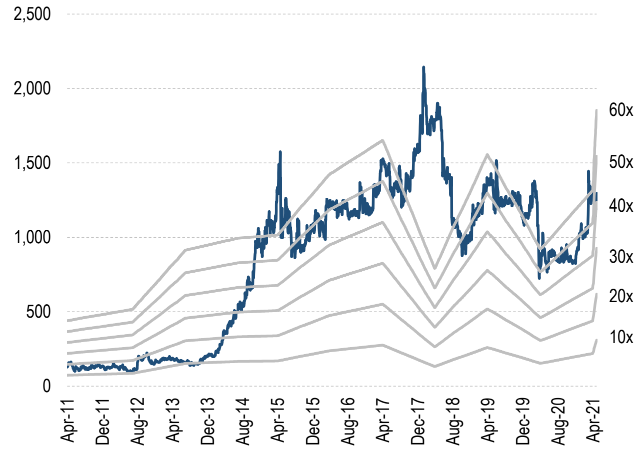
At the CMP of Rs1,219, the stock trades at 56x and 39x our FY22e and FY23e EPS of Rs21.9 and 30.9, respectively, as we expect 25% and 38% CAGRs over FY21-FY23 in revenue and net income, resulting in (post-tax) RoCE expanding from 12.5% in FY21 to 18.4%. Since the cash balance is high, the RoCE may be lower. The (post tax) RoIC could increase from 20% in FY21 to 35% in FY23. Since no major capex is required, free cash-flow could increase from Rs740m in FY21 to Rs1.57bn by FY23.

Fig 14 – Return ratio's to expand in FY22 and FY23



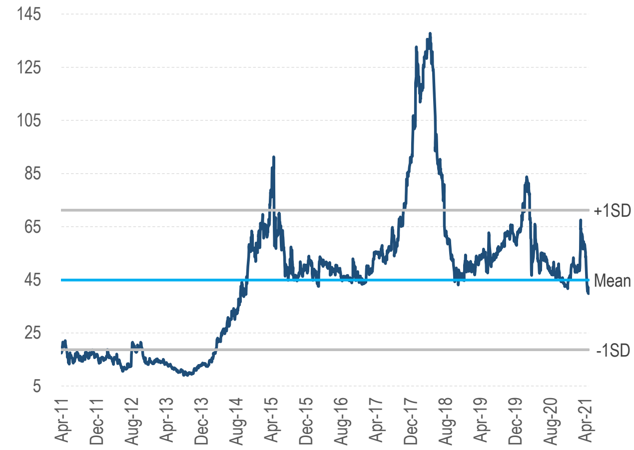
Source: Bloomberg, Anand Rathi Research

Fig 15 – 10 year average PE(x) is around 40x



Source: Bloomberg, Anand Rathi Research

Fig 16 - Stock trades marginally below its mean



Source: Bloomberg, Anand Rathi Research

Key risks to our higher FY22 and FY23 earnings are (a) a steep drop in domestic demand, (b) trade restrictions, which would curb exports of air-coolers to America.

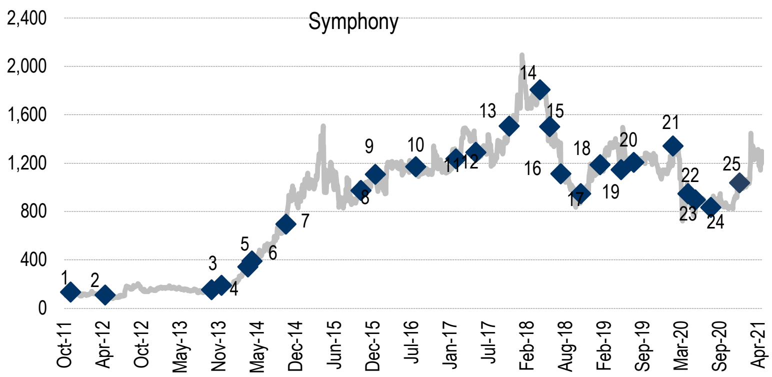
Appendix

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 28 April 2021)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	03-Nov-11	Buy	175	147
2	25-Apr-12	Buy	154	120
3	10-Oct-13	Buy	182	156
4	26-Nov-13	Hold	208	201
5	09-Apr-14	Hold	311	354
6	30-Apr-14	Sell	379	422
7	17-Oct-14	Sell	634	733
8	28-Oct-15	Sell	856	1,034
9	08-Feb-16	Sell	896	1,100
10	27-Jul-16	Sell	1,011	1,245
11	15-Feb-17	Sell	1,154	1,292
12	25-May-17	Sell	1,163	1,330
13	08-Nov-17	Sell	1,470	1,533
14	11-Apr-18	Sell	1,475	1,841
15	30-May-18	Sell	1,352	1,523
16	25-Jul-18	Sell	968	1,169
17	01-Nov-18	Sell	960	966
18	06-Feb-19	Sell	1,161	1,210
19	23-May-19	Sell	983	1,203
20	26-Jul-19	Sell	996	1,222
21	07-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

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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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ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.