

Slow recovery on favourable base...

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)

Q1FY22 Results: Higher spends on advertisement and other expenditure in April 2021 impacted EBITDA margin.

- Revenue grew ~49% YoY to ₹ 230 crore (down ~32% QoQ)
- Better gross margins (up 452 bps YoY) helped turned EBITDA positive at 4.3% vs. -3.2% in Q1FY21. However, lower-than-expected EBITDA margin is mainly due to higher advertisement expense (3x jump YoY)
- PAT increased to ₹ 6 crore (3x jump YoY) supported by a favourable base

What should investors do? Symphony's price performance has remained muted underperforming the index in last five years (from ₹ 1201 in July 2016 to ₹ 1016 in July 2021).

- We maintain our HOLD rating on the stock

Target Price & Valuation: We value Symphony at ₹ 1050 (33x P/E on FY23E EPS).

Key triggers for future price performance:

- The air cooler industry is dominated by unorganised players (~70% 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 and urbanisation will augment growth in the Indian air cooler market. Residential air cooler industry will get a boost from ~1.7 crore new houses under PMAY
- Industrial air-cooling market is worth ~₹ 10,000 crore and Symphony being the only branded player in this segment stands to take advantage of it

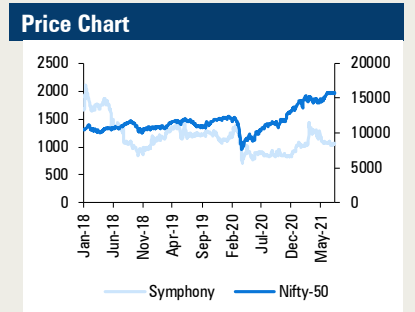
Alternate Stock Idea: We like Havells in the consumer appliances space

- Trigger for Havells' future revenue growth would be revival in the Lloyds revenues and improvement in margin
- BUY with a target price of ₹ 1345



Particulars	
Particulars	Amount
Market Cap (₹ Crore)	6,946.7
Total Debt (FY21) (₹ Crore)	184.0
Cash&Inv (FY21) (₹ Crore)	364.0
EV (₹ Crore)	6,767
52 week H/L (₹)	1530 / 803
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Shareholding pattern					
(in %)	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	75.0	75.0	73.3	73.3	73.3
FII	4.9	4.4	3.6	4.3	4.2
DII	10.1	10.6	11.0	10.3	9.6
Others	10.0	10.0	12.1	12.1	12.9



Recent event & key risks

- **Key Risk:** (i) High seasonality due to a niche market (ii) Delay in passing on high input prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 Year CAGR (FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Net Sales	844.0	1103.0	900.0	4.2%	1097.2	1379.5	7.7%
EBITDA	132.0	212.0	139.0	-8.5%	181.0	280.0	9.7%
EBITDA Margin (%)	15.6	19.2	15.4		16.5	20.3	
PAT	91.0	182.0	107.0	-10.4%	145.4	224.7	7.3%
EPS (₹)	13.0	26.0	15.3		20.8	32.1	
P/E(x)	76.3	38.2	64.9		47.8	30.9	
Price/Book value (x)	10.4	10.9	9.2		10.1	9.3	
RoE (%)	16.2	29.0	14.9		21.1	30.1	
RoCE (%)	18.7	28.8	15.2		22.1	31.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Revenue was up on a YoY basis by ~47%, aided by a low base and a stable performance by its overseas subsidiaries
- The gross margin was up ~400 bps YoY and EBITDA margin was up ~600 bps YoY but was still lower than its historical average due to higher spends on advertisement and sales expenditure in Q1FY22.
- PAT grew 3X on a YoY basis on a low base but fell sharply by ~90% QoQ
- The management indicated that FY22 would be better in terms of volume growth and profitability vs. FY21

Q1FY22 Earnings Conference Call highlights

- **Demand Outlook:**
 - Although Q1FY22 was a complete washout due to lockdowns the management believes the overall FY22 performance will be better than what the company achieved in the last three years
 - Exports are expected to increase and the management believes the exports contribution would be ~>₹ 100 crore in FY22
 - The management expects its Australian subsidiary Climate Technologies Pvt Ltd to witness a massive turnaround in FY22 and increase its contribution to topline
 - E-commerce sales through their D2C website have seen ~>100% growth and are set to grow at an even faster clip
- **Margins:**
 - The management expects standalone gross margins to return to their normalised levels of ~50% for FY22
- **New Product Launches:**
 - The company launched Duet 3D, Sumo, Hi-Flo and Duet I-s in their commercial air cooler and cooling fan segment for the Indian market
 - Launched a wide range of accessories in the industrial air coolers segment
 - Launched a wide variety of products for their subsidiaries in Australia, the US, China and Mexico
- Overall inventory levels are higher than usual due to nationwide lockdowns but some regions in the north and east have seen stock outs due to the heat wave
- New client additions for their industrial cooling segments include big names such as Big Basket, Delhivery and Hawkins

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Revenue	230.0	154.0	49.4	339.0	-32.2	Recovery in the domestic business, supported by favourable base, drives consolidated topline
Other Income	8.0	8.0	0.0	6.0	33.3	
Raw Material Exp	130.0	94.0	38.3	176.0	-26.1	Better mix and price hikes to offset input prices drive gross margin up 452 bps YoY
Employee Exp	29.0	26.0	11.5	24.0	20.8	
Selling & Dis. Exp	21.0	7.0	200.0	14.0	50.0	
Other Exp	40.0	32.0	25.0	41.0	-2.4	
EBITDA	10.0	-5.0	-300.0	84.0	-88.1	
EBITDA Margin (%)	4.3%	-3.2%	759 bps	24.8%	-2043 bps	Higher gross margins helped partial recovery in EBITDA margin
Depreciation	6.0	5.0	20.0	5.0	20.0	
Interest	2.0	2.0	0.0	3.0	-33.3	
PBT	10.0	-4.0	-350.0	82.0	-87.8	
Total Tax	4.0	-6.0	-166.7	19.0	-78.9	
PAT	6.0	2.0	200.0	63.0	-90.5	Bottomline growth was largely supported by favourable base

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	1187.3	1097.2	(7.6)	1493.7	1379.5	(7.6)	We cut our revenue estimate for FY22E-23E considering peak season sales loss in Q1FY22
EBITDA	252.0	181.0	(28.2)	348.0	280.0	(19.5)	
EBITDA Margin %	21.2	16.5	-470bps	23.3	20.3	-300bps	Higher A&P spends and low operating leverage to delay margin recovery in the FY22E
PAT	199.1	145.4	(27.0)	276.7	224.7	(18.8)	
EPS (₹)	28.5	20.8	(27.0)	39.5	32.1	(18.8)	

Source: ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY22E	FY23E	
Volume Growth (%)	32.7	-9.3	22.1	21.0	28.8	21.5	We model volume CAGR of ~10% in FY20-23E
Realisation Growth (%)	-1.4	-10.1	2.6	3.3	3.2	3.4	

Source: ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	1103.0	900.0	1097.2	1379.5
Growth (%)		-18.4	21.9	25.7
Expenditure				
Increase / Decrease in stock	0.0	0.0	0.0	0.0
Raw Material Expenses	583.0	497.0	603.5	751.8
Marketing Expenses	45.0	25.0	38.4	55.2
Administrative Expenses	150.0	136.0	159.1	165.5
Employee Expenses	113.0	103.0	115.2	126.9
Total Operating Expenditure	891.0	761.0	916.2	1099.5
EBITDA	212.0	139.0	181.0	280.0
Growth (%)		-34.4	30.2	54.7
Other Income	54.0	31.0	35.7	41.0
Interest	11.0	11.0	10.7	10.4
PBDT	255.0	159.0	206.0	310.6
Depreciation	21.0	21.0	21.9	26.2
PBT before Exceptional Items	234.0	138.0	184.1	284.4
Less: Exceptional Items	-	-	-	-
PBT	230.0	131.0	184.1	284.4
Total Tax	48.0	24.0	38.7	59.7
PAT	182.0	107.0	145.4	224.7

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Equity Capital	14.0	14.0	14.0	14.0
Reserve and Surplus	625.0	745.0	718.2	816.7
Total Shareholders funds	639.0	759.0	732.2	830.7
Deferred Tax Liability	7.0	6.0	6.0	6.0
Total Debt	174.0	184.0	154.0	144.0
Total Liabilities	852.0	980.0	923.2	1011.7
Assets				
Total Gross Block	322.7	353.7	366.7	376.7
Less Total Accumulated Depreciation	140.7	161.7	183.6	209.8
Net Block	182.0	192.0	183.1	166.8
Goodwill on Consolidation	136.0	161.0	161.0	161.0
Other Investments	114.0	160.0	180.0	200.0
Liquid Investments	299.0	325.0	305.0	285.0
Inventory	118.0	119.0	150.3	204.1
Debtors	121.0	166.0	135.3	170.1
Other Current Assets	61.0	43.0	60.7	76.3
Cash	26.0	39.0	22.8	75.3
Total Current Assets	326.0	367.0	369.1	525.8
Creditors	115.0	130.0	180.4	207.9
Provisions	21.0	21.0	32.9	38.0
Other current liabilities	76.0	89.0	75.6	95.1
Total Current Liabilities	212.0	240.0	288.9	340.9
Net Current Assets	114.0	127.0	80.2	184.9
Total Asset	852.0	980.0	923.1	1011.6

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	182.0	107.0	145.4	224.7
Depreciation	21.0	21.0	21.9	26.2
Cash Flow before working capital cha	214.0	139.0	178.0	261.3
Net Increase in Current Assets	-14.0	-28.0	-18.3	-104.2
Net Increase in Current Liabilities	4.0	28.0	48.9	52.0
Net cash flow from operating act.	204.0	139.0	208.7	209.1
(Increase)/Decrease in Other Investments	73.0	-46.0	-20.0	-20.0
(Purchase)/Sale of Liquid Investments	-27.0	-26.0	20.0	20.0
(Purchase)/Sale of Fixed Assets	-104.0	-30.0	-12.0	-10.0
Net Cash flow from Investing act.	1.0	-138.0	-12.0	-10.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	-13.0	10.0	-30.0	-10.0
Total Outflow on account of dividend	-196.2	-42.1	-126.2	-126.2
Net Cash flow from Financing act.	-233.0	12.0	-212.9	-146.6
Net Cash flow	-28.0	13.0	-16.2	52.5
Cash and Cash Equivalent at the beginning	54.0	26.0	39.0	22.8
Cash	26.0	39.0	22.8	75.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	26.0	15.3	20.8	32.1
Cash EPS	29.0	18.3	23.9	35.9
BV	91.3	108.5	104.7	118.7
DPS	28.0	6.0	18.0	18.0
Operating Ratios				
EBITDA Margin	19.2	15.4	16.5	20.3
PAT Margin	16.8	12.5	13.3	16.3
Return Ratios				
RoE	29.0	14.9	19.9	27.0
RoCE	28.8	15.2	21.1	29.1
RoIC	41.5	22.3	32.1	44.4
Valuation Ratios				
EV / EBITDA	32.1	48.7	37.4	24.0
P/E	38.2	64.9	47.8	30.9
EV / Net Sales	6.2	7.5	6.2	4.9
Div Yield (%)	2.8	0.6	1.8	1.8
Market Cap / Sales	6.3	7.7	6.3	5.0
Price to Book Value	10.9	9.2	9.5	8.4
Turnover Ratios				
Asset turnover	1.3	0.9	1.2	1.4
Debtor Days	3.4	2.5	3.0	3.7
Creditor Days	38.1	52.7	60.0	55.0
Inventory Days	39.0	48.3	50.0	54.0
Solvency Ratios				
Current Ratio	2.2	2.2	1.6	1.8
Quick Ratio	1.3	1.4	0.9	1.0

Source: Company, ICICI Direct Research

Exhibit 8: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP			M Cap			EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating	(₹ Cr)	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	3,063	3,665	Buy	2,93,742	33.4	39.5	50.4	91.6	77.5	60.8	61.5	53.2	42.4	25.0	27.6	30.7	29.6	32.6	36.8			
Astral Polytechnik (ASTPOL)	2,052	1,915	Hold	30,916	20.3	21.8	29.3	101.0	94.2	70.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9			
Amber Enterprises (AMBEN)	3,020	3,130	Buy	9,497	24.7	45.7	88.2	122.2	66.0	34.2	38.8	27.5	16.5	7.7	11.5	18.3	5.2	9.2	15.2			
Bajaj Electricals (BAJELE)	1,142	1,280	Buy	12,983	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6			
Berger Paints (BERPAI)	849	835	Hold	82,455	7.4	9.3	12.3	114.6	91.6	69.1	64.7	56.2	43.5	24.9	28.3	34.6	21.3	24.3	28.4			
Crompton Greaves(CROGR)	467	480	Buy	29,281	9.8	9.2	11.9	47.5	51.0	39.3	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2			
Dixon Technologies (DIXTEC)	4,531	4,635	Buy	26,529	27.3	54.8	95.8	166.1	82.7	47.3	81.5	47.2	28.6	23.5	35.8	46.4	21.7	35.0	40.8			
EPL (ESSPRO)	243	275	Hold	7,667	7.7	9.2	11.4	31.4	26.3	21.3	13.5	12.2	10.2	16.2	17.6	20.6	14.8	16.3	18.7			
Havells India (HAVIND)	1,162	1,345	Buy	72,497	16.7	18.8	24.3	69.7	61.3	47.8	44.9	40.9	31.8	24.9	25.6	31.1	20.1	21.3	25.7			
Kansai Nerolac (KANNER)	617	655	Buy	33,251	9.9	12.1	14.4	62.6	50.9	42.9	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6			
Moldtek Packaging (MOLPLA)	520	600	Buy	1,442	16.5	20.8	28.0	31.6	25.0	18.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1			
Pidilite Industries (PIDIND)	2,321	2,035	Hold	1,17,860	22.2	26.3	31.8	104.7	88.2	73.0	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2			
Polycab India (POLI)	1,858	2,100	Hold	28,138	59.4	59.2	77.7	31.8	31.9	24.3	23.3	21.5	16.6	21.9	21.1	24.2	18.5	16.5	18.5			
Supreme Indus (SUPIND)	2,093	2,450	Buy	26,587	77.0	64.1	75.9	27.3	32.8	27.6	20.2	23.0	18.8	33.1	25.1	25.9	30.9	23.4	23.5			
Symphony (SYMLIM)	993	1,050	Hold	6,947	15.3	20.8	33.0	64.9	47.8	30.9	48.7	37.6	24.3	15.2	22.1	31.8	14.9	21.1	30.1			
Time Techno (TIMTEC)	83	100	Buy	1,877	4.8	8.5	10.8	17.4	9.7	7.7	6.5	5.2	4.4	8.7	12.1	13.7	5.7	9.7	11.3			
V-Guard Ind (VGUARD)	254	320	Buy	10,879	4.7	5.5	7.3	59.0	50.4	38.1	37.3	35.4	27.3	23.9	25.1	29.0	16.7	19.2	22.5			
Voltas Ltd (VOLTAS)	1,026	1,150	Buy	33,933	16.0	21.2	28.9	64.2	48.5	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1			

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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