

High input cost drags margin...

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)

Q4FY22 Results: The company reported a mixed bag performance in Q4FY22 with revenue growth partially offset by lower EBITDA margin.

- Revenue increased ~13% YoY to ₹ 384 crore supported by 18% revenue growth in the standalone business to ₹ 251 crore
- Gross margin declined ~200 bps YoY (up 170 bps QoQ) due to higher raw material costs and limited price hikes. This, coupled with higher ad costs dragged EBITDA margin down by 342 bps YoY to 21.4%
- PAT was flat at ₹ 64 crore YoY tracking lower EBITDA margin

What should investors do? Price performance has stayed muted underperforming the index in the last five years (from ₹ 1424 in May 2017 to ₹ 1160 in May 2022).

- We maintain our **HOLD** rating on the stock

Target Price & Valuation: We value Symphony at 35x P/E on FY24E EPS with revised target price of ₹ 1215/share.

Key triggers for future price performance:

- The air cooler industry is dominated by unorganised players (70-75% 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, urbanisation & 1.7 crore new houses under PMAY will augment growth in the Indian air cooler market
- Strong demand of cooling products from Australia and the US will drive revenue growth of overseas subsidiaries

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

- Havells aims to increase its town penetration and launch premium products. We believe a revival in the real estate sector will help drive incremental demand of consumer products where Havells is a major player
- BUY with a target price of ₹ 1345



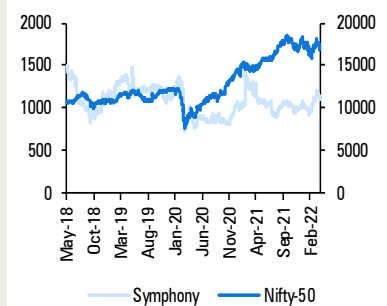
Particulars

Particulars	Amount
Market Cap (₹ Crore)	8,003.1
Total Debt (FY22) (₹ Crore)	221.0
Cash&Inv (FY22) (₹ Crore)	401.0
EV (₹ Crore)	7,823
52 week H/L (₹)	1214 / 890
Equity capital (₹ Crore)	14.0
Face value (₹)	2.0

Shareholding pattern

(in %)	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	73.3	73.3	73.3	73.3	73.3
FI	4.3	4.2	4.3	4.3	4.5
DII	10.3	9.6	9.5	10.0	10.1
Others	12.1	12.9	12.9	12.4	12.2

Price Chart



Recent event & key risks

- **Key Risk:** (i) Market share gains by organised players (ii) Delay in passing on high input prices

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22E)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	844.0	1103.0	900.0	1039.0	1.3%	1282.9	1558.9	22.5%
EBITDA	132.0	212.0	139.0	161.0	-0.9%	233.5	307.1	38.1%
EBITDA Margin (%)	15.6	19.2	15.4	15.5		18.2	19.7	
PAT	91.0	182.0	107.0	121.0	-1.3%	182.8	243.4	41.8%
EPS (₹)	13.0	26.0	15.3	17.3		26.1	34.8	
P/E(x)	87.9	44.0	74.8	66.1		43.8	32.9	
Price/Book value (x)	12.0	12.5	10.5	9.5		10.4	9.0	
RoE (%)	16.2	29.0	14.9	14.4		23.6	27.4	
RoCE (%)	18.7	28.8	15.2	15.9		24.5	29.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Consolidated revenues increased ~13% YoY to ₹ 384 crore led by standalone revenue growth of 18% YoY to ₹ 251 crore. Export revenues increased ~2x to ₹ 81 crore helped drive standalone revenue growth in Q4. The overseas revenue grew albeit at a slower pace of ~5% due to lower offtake in China. We believe revenue growth was largely driven by volume
- Consolidated gross margin declined 200 bps YoY mainly due to lower gross margin on standalone business. Standalone gross margins dipped 660 bps YoY due to higher raw material prices. Increasing competition and high inventory in the channel restricted company to take price hikes
- Consolidated EBITDA margin declined 342 bps YoY to 21.4%. PAT at ₹ 64 crore was flat on a YoY basis, tracking lower EBITDA margin

Q4FY22 Earnings Conference Call highlights

- Demand Outlook:**
 - The management believes a normalised summer and a strong export order (from US) will help drive consolidated revenue growth higher by ~40% compared to its pre-Covid 19 level sales.
 - Symphony India has clocked one the highest monthly sales for April 2022 led by a strong demand of air coolers and a normalised inventory level
- Margins:**
 - At the current level of inflation, the company expects its EBITDA margin to be in line with its historical EBITDA margin for India business
 - The company has increased its domestic sourcing of raw materials and, hence, is least likely to be impacted by supply disruption from China
- Subsidiary performance:**
 - Climate Technology (Australia) revenues for FY22 were up ~10% YoY to ₹ 371 crore. The EBITDA margin was higher by ~600 bps YoY to 10%, resulting a PAT of ₹ 11 crore up from ₹ 1 crore YoY
 - Impco's FY22 revenues came in at ₹ 103 crore up 37% YoY on relatively favourable base. The EBITDA margin improved 400 bps YoY to 13%. It reported PAT of ₹ 8 crore in FY22
 - GSK China reported a flattish revenue of ₹ 38 crore in FY22. The losses from the subsidiary have widened from ₹ 9 crore in FY21 to ₹ 10 crore in FY22

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Havells	78,175	10428	13056	14893	17783	15	13	12	14	1040	1109	1201	1666	25	24	26	35	20	20	22	29	75	71	65	47
Crompton Greaves	23,192	4804	5439	6204	7017	15	14	13	14	617	547	542	667	34	35	25	29	32	28	23	25	38	42	43	35
Bajaj Electrical	12,575	4585	4805	5356	6111	7	5	8	9	189	128	283	378	15	14	21	23	11	9	17	19	67	98	44	33
Polycab	36,791	8792	11069	12406	13990	13	10	10	12	886	820	866	1159	21	18	19	22	18	14	15	17	42	45	42	32
Symphony	8,003	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	75	66	44	33
V guard	8,968	2721	3345	3809	4232	11	10	10	11	202	199	243	300	24	23	25	27	17	17	19	21	44	45	37	30
Voltas	37,869	7556	8092	9806	11405	8	9	9	11	529	535	731	1029	15	17	19	22	11	11	14	17	72	71	52	37

Source: ICICI Direct Research

We believe, Symphony is likely to see revenue CAGR of 23% over FY22-24E supported by a favourable base and strong demand of cooling products due to intense summer. However, increasing competition, high input costs, restoration of advertisement expenses and rising contribution of low margin business will restrict EBITDA margin expansion for the company going forward. We maintain our HOLD rating on the stock with a revised target price of ₹ 1215/share, valuing the company at 35x FY24E EPS.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Revenue	384.0	339.0	13.3	205.0	87.3	Standalone revenue increased by 18% YoY led by higher export revenues. However revenues from overseas subsidiaries grew albeit a small pace of ~5% YoY due to slow offtake in China
Other Income	16.0	6.0	166.7	7.0	128.6	
Raw Material Exp	207.0	176.0	17.6	114.0	81.6	Price hikes in the overseas business and improved product mix helped sequentially recovery in gross margins. However cost pressure from the domestic business drags gross margin YoY
Employee Exp	29.0	24.0	20.8	30.0	-3.3	
Selling & Dis. Exp	21.0	14.0	50.0	2.0	950.0	
Other Exp	45.0	41.0	9.8	29.0	55.2	
EBITDA	82.0	84.0	-2.4	30.0	173.3	
EBITDA Margin (%)	21.4%	24.8%	-342 bps	14.6%	672 bps	Low gross margin and restoration of advertisement costs dragged overall EBITDA margin YoY
Depreciation	6.0	5.0	20.0	6.0	0.0	
Interest	2.0	3.0	-33.3	3.0	-33.3	
PBT	90.0	82.0	9.8	28.0	221.4	
Total Tax	26.0	19.0	36.8	7.0	271.4	
PAT	64.0	63.0	1.6	21.0	204.8	Higher sales growth was partially offset by lower EBITDA margin, resulting a flattish PAT on a YoY basis

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	1353.4	1282.9	(5.2)	1648.5	1558.9	(5.4)	We have cut our revenue estimate for FY23E-24E considering slow volume offtake in the domestic market in Q4FY22. We model consolidated revenue CAGR of 23% for FY22-24E supported by standalone revenue CAGR of 30% in the same period
EBITDA	231.4	233.5	0.9	346.2	307.1	(11.3)	
EBITDA Margin %	17.1	18.2	110bps	21.0	19.7	-130bps	We believe the EBITDA margin is likely to remain in the range of 18-20% (Vs historical margin range of 26-27%) due to higher advertisement costs and rising contribution of low margin business in the topline
PAT	178.8	182.8	2.2	269.0	243.4	(9.5)	
EPS (₹)	25.6	26.1	2.2	38.5	34.8	(9.5)	

Source: ICICI Direct Research

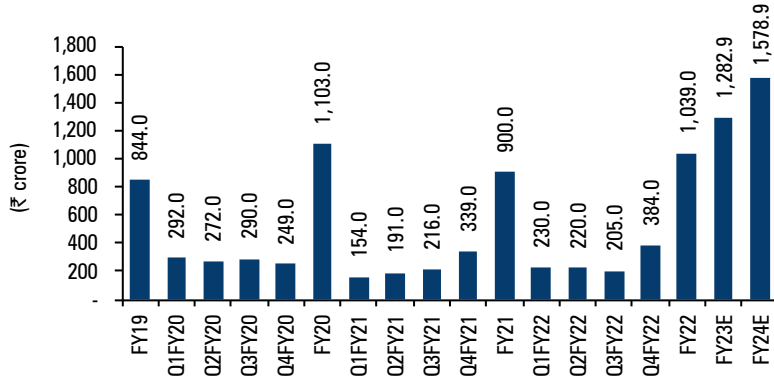
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Volume Growth (%)	32.7	-9.3	14.5	20.9	19.2	33.9	19.9	We model revenue CAGR of 23% over FY22-24E supported by volume CAGR of 21%
Realisation Growth (%)	-1.4	-10.1	0.8	2.1	1.9	-4.3	1.6	

Source: ICICI Direct Research

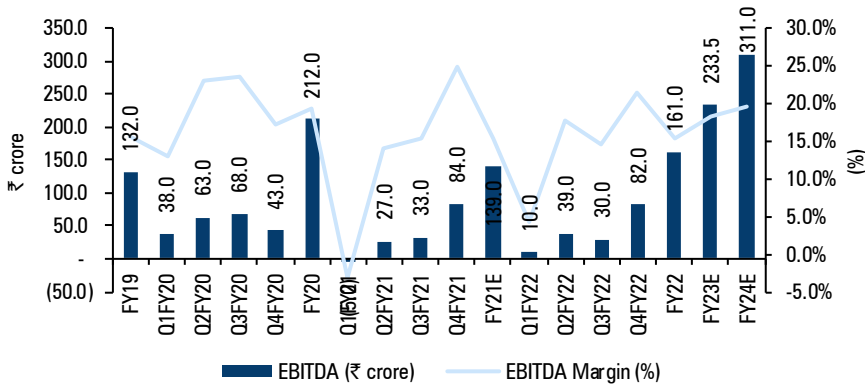
Financial story in charts

Exhibit 5: Consolidated sales performance



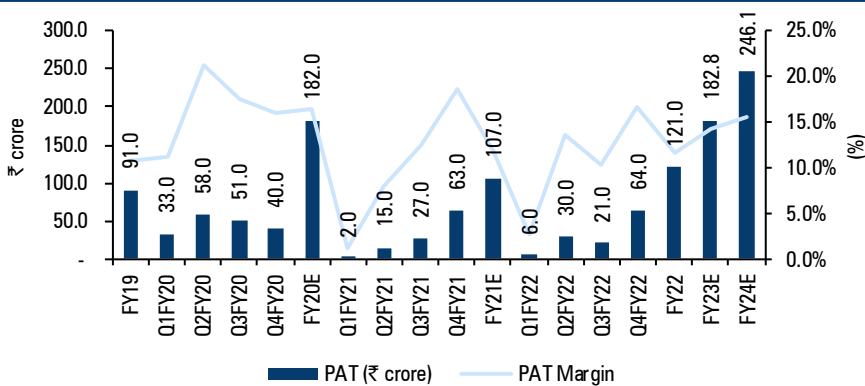
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 7: PAT trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	900.0	1039.0	1282.9	1558.9
Growth (%)		15.4	23.5	21.5
Expenditure				
Increase / Decrease in stock	0.0	0.0	0.0	0.0
Raw Material Expenses	497.0	571.0	692.8	834.0
Marketing Expenses	25.0	46.0	55.2	67.0
Administrative Expenses	136.0	145.0	179.6	218.2
Employee Expenses	103.0	116.0	121.9	132.5
Total Operating Expenditure	761.0	878.0	1049.4	1251.8
EBITDA	139.0	161.0	233.5	307.1
Growth (%)		15.8	45.0	31.5
Other Income	31.0	40.0	46.0	52.9
Interest	11.0	9.0	10.2	7.4
PBDT	159.0	192.0	269.3	352.6
Depreciation	21.0	24.0	25.7	28.1
PBT before Exceptional Items	138.0	168.0	243.7	324.6
Less: Exceptional Items	-	-	-	-
PBT	131.0	168.0	243.7	324.6
Total Tax	24.0	47.0	60.9	81.1
PAT	107.0	121.0	182.8	243.4

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	107.0	121.0	182.8	243.4
Depreciation	21.0	24.0	25.7	28.1
Cash Flow before working capital cha	139.0	154.0	218.6	278.9
Net Increase in Current Assets	-28.0	-101.0	-73.1	-112.3
Net Increase in Current Liabilities	28.0	14.0	70.6	42.6
Net cash flow from operating act.	139.0	67.0	216.0	209.2
(Increase)/Decrease in Other Investments	-46.0	-10.0	0.0	0.0
(Purchase)/Sale of Liquid Investments	-26.0	-6.0	80.0	-80.0
(Purchase)/Sale of Fixed Assets	-30.0	-24.0	-20.0	-20.0
Net Cash flow from Investing act.	-138.0	-26.0	60.0	-100.0
Inc / (Dec) in Equity Capital	0.0	0.0	0.0	0.0
Inc / (Dec) in Loan Funds	10.0	37.0	-10.0	-10.0
Total Outflow on account of dividend	-42.1	-75.7	-168.3	-126.2
Net Cash flow from Financing act.	12.0	-10.0	-272.1	-143.6
Net Cash flow	13.0	31.0	3.9	-34.4
Cash and Cash Equivalent at the beginning	26.0	39.0	70.0	73.9
Cash	39.0	70.0	73.9	39.5

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	14.0	14.0	14.0	14.0
Reserve and Surplus	745.0	828.0	758.8	876.0
Total Shareholders funds	759.0	842.0	772.8	890.0
Deferred Tax Liability	6.0	14.0	14.0	14.0
Total Debt	184.0	221.0	211.0	201.0
Total Liabilities	980.0	1116.0	1036.8	1144.0
Assets				
Total Gross Block	353.7	378.7	398.7	418.7
Less Total Accumulated Depreciation	161.7	185.7	211.3	239.4
Net Block	192.0	193.0	187.3	179.3
Goodwill on Consolidation	161.0	163.0	163.0	163.0
Other Investments	160.0	170.0	170.0	170.0
Liquid Investments	325.0	331.0	251.0	331.0
Inventory	119.0	173.0	210.9	260.5
Debtors	166.0	208.0	232.0	281.9
Other Current Assets	43.0	48.0	59.3	72.0
Cash	39.0	70.0	73.9	39.5
Total Current Assets	367.0	499.0	576.0	653.9
Creditors	130.0	149.0	193.3	226.4
Provisions	21.0	26.0	33.7	39.5
Other current liabilities	89.0	79.0	97.5	101.3
Total Current Liabilities	240.0	254.0	324.6	367.2
Net Current Assets	127.0	245.0	251.4	286.7
Total Asset	980.0	1116.0	1036.8	1144.0

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	15.3	17.3	26.1	34.8
Cash EPS	18.3	20.7	29.8	38.8
BV	108.5	120.4	110.5	127.2
DPS	6.0	10.8	24.1	18.0
Operating Ratios				
EBITDA Margin	15.4	15.5	18.2	19.7
PAT Margin	12.5	11.6	14.2	15.6
Return Ratios				
RoE	14.9	14.4	23.6	27.4
RoCE	15.2	15.9	24.5	29.0
RoIC	22.3	22.2	32.9	40.0
Valuation Ratios				
EV / EBITDA	56.3	48.6	33.8	25.5
P/E	74.8	66.1	43.8	32.9
EV / Net Sales	8.7	7.5	6.1	5.0
Div Yield (%)	0.5	0.9	2.1	1.6
Market Cap / Sales	8.9	7.7	6.2	5.1
Price to Book Value	10.5	9.5	10.4	9.0
Turnover Ratios				
Asset turnover	0.9	0.9	1.2	1.4
Debtor Days	2.5	2.7	3.2	3.7
Creditor Days	52.7	52.3	55.0	53.0
Inventory Days	48.3	60.8	60.0	61.0
Solvency Ratios				
Current Ratio	2.2	2.5	2.2	2.3
Quick Ratio	1.4	1.5	1.3	1.3

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct Consumer Discretionary universe

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,100	3,645	Buy	2,97,290	33.4	32.0	41.4	57.9	92.7	96.7	74.9	53.5	60.3	62.3	49.7	36.2	29.6	27.9	32.8	40.4	25.0	23.2	27.6	33.5
Berger Paints (BERPAI)	687	755	Hold	66,721	7.4	8.7	9.6	12.5	92.7	79.1	71.6	54.8	55.9	49.6	45.2	35.4	24.9	27.7	29.1	33.9	21.3	23.1	24.0	27.7
Kansai Nerolac (KANNER)	457	505	Hold	24,629	10.8	9.0	10.6	13.5	42.2	50.9	43.2	33.8	27.8	31.9	27.1	21.7	18.2	15.5	17.1	20.2	14.3	12.0	13.1	15.3
Pidilite Industries (PIDIND)	2,324	2,575	Hold	1,18,013	22.2	23.9	25.9	33.2	104.8	97.2	89.9	69.9	70.0	63.1	59.9	47.6	23.8	22.1	23.5	29.5	20.2	18.6	19.9	25.0
Bajaj Electricals (BAJELE)	1,098	1,100	Hold	12,575	16.5	11.2	24.7	33.0	66.5	97.9	44.5	33.3	42.3	48.4	29.9	23.6	15.1	14.0	21.0	23.3	10.7	9.2	16.5	18.6
Crompton Greaves(CROGR)	370	440	Hold	23,192	9.8	8.7	8.6	10.6	37.6	42.4	42.8	34.8	30.7	30.3	28.7	23.8	34.4	35.2	25.2	29.3	31.9	27.7	23.3	24.9
Havells India (HAVIND)	1,253	1,345	Buy	78,175	16.7	17.8	19.3	26.7	75.2	70.5	65.1	46.9	49.2	46.6	43.5	32.1	24.9	24.2	25.9	34.7	20.1	20.4	21.8	29.2
Polycab India (POLI)	2,467	2,800	Buy	36,791	59.4	55.0	58.1	77.7	41.5	44.8	42.5	31.7	32.3	32.2	28.1	21.4	20.8	18.3	19.2	22.1	17.9	14.5	14.7	17.1
Symphony (SYMLIM)	1,144	1,215	Hold	8,003	15.3	17.3	26.1	34.8	74.8	66.1	43.8	32.9	56.3	48.6	33.8	25.5	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	209	252	Buy	8,968	4.7	4.6	5.7	7.0	44.4	45.2	37.0	29.9	27.9	27.3	24.0	19.4	23.9	23.1	24.8	27.5	16.7	16.7	18.9	21.1
Voltas Ltd (VOLTAS)	1,145	1,305	Hold	37,869	16.0	16.2	22.1	31.1	71.6	70.8	51.8	36.8	58.3	52.5	43.0	30.2	15.0	17.2	18.7	22.1	10.6	11.4	14.1	17.2
Amber Enterprises (AMBER)	3,691	4,330	Buy	12,436	24.7	45.7	76.4	104.5	149.3	80.8	48.3	35.3	56.2	40.1	27.2	21.2	7.7	11.1	15.2	18.0	5.2	9.2	13.4	15.6
Dixon Technologies (DIXTE)	3,810	5,700	Buy	22,612	27.3	35.9	78.5	110.9	139.7	106.0	48.5	34.4	78.9	55.0	30.3	22.3	23.5	27.4	39.9	39.7	21.7	26.4	39.9	38.3
Supreme Indus (SUPIND)	1,994	2,320	Buy	25,329	77.0	76.2	78.8	92.7	25.9	26.2	25.3	21.5	19.1	20.0	19.1	15.7	33.1	25.9	25.2	26.7	30.9	25.2	24.3	25.1
Astral Ltd (ASTPOL)	2,066	2,165	Hold	41,501	20.3	24.9	27.5	33.9	101.7	83.0	75.0	60.9	63.7	53.6	49.5	40.8	27.5	29.6	28.8	30.3	21.5	23.0	22.3	23.3

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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