



# Symphony

Sector: Consumer Durable

## Q3FY16 Result Update

CMP: ₹ 2,439

*"Season benefits yet to show; Highest EBITDA per cooler"*

Recommendation: BUY

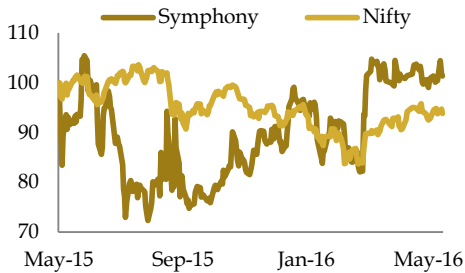
### Market statistics

Current stock price (₹)	2,439
Shares O/S (cr.)	3.5
Mcap (₹ cr)	8,486
52W H/L (₹)	2,614/1,642
6m avg. volume	24,791
Bloomberg	SYML IN

### Shareholding pattern

Promoters	75.00
Domestic Institution	8.23
Foreign Institution	3.77
Non-institution	13.00
of which more than 1%	
Matthews India Fund	3.34
Axis Mutual Fund Trustee Limited	
A/c Axis Long Trem Equity Fund	1.89

### Symphony vs Nifty



### Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
ROE (%)	34.4	46.3	43.8
ROCE (%)	40.6	54.3	51.9
P/B (x)	26.4	19.8	15.2
P/E (x)	76.6	42.9	34.6
EPS (₹)	31.3	56.0	69.4
EV/OCF (x)	102.9	35.3	33.3

\* FY16 is 9M financials

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Symphony reported standalone net sales of ₹1,379mn (up 10.9% YoY) as compared to our expectation of ₹1,550mn (24.7% YoY). Overall volume growth was 8.6% to 230,897 coolers during the quarter. India business (80% of total) registered slow 10.4% YoY growth to ₹1,089mn while Exports business reported 9.8% growth. Symphony registered 17.6% & 15.2% YoY sales & volume growth during 9MFY16.

Gross Margin moved up sharply by 392bps YoY to 58.7%. Employee expense has increased by 20% while other expenses were down by 25%. Hence, EBITDA Margin has expanded by stellar 775bps YoY to 42% - highest of all time. India business EBIT grew by 24% while Exports EBIT has increased by 18%. PAT saw a growth of 28.2% YoY to ₹465mn as compared to our expectation of ₹468mn.

#### Modest volume growth of 8.6% in Q3FY16, expects healthy volumes in Q1FY17.

Symphony's moderate volume growth of 8.6% in Q3FY16 was also due to higher volumes during H1FY16. Symphony registered 17.6% & 15.2% YoY sales & volume growth during 9MFY16. Symphony enjoys its strength of pre-booking of Air Cooler sales in the non-seasonal quarters and enjoys market share in excess of 90% in Q1 & Q2. Management is very confident of restoring back to strong volume growth in the June quarter and we also believe season benefits would be displayed strongly in the June quarter as the summer so far is at its best level.

#### EBITDA grew by strong 36% YoY; Highest EBITDA per cooler at ₹2,500

Symphony's Gross & EBITDA Margin continues to expand during Q3FY16 driven by operating efficiency and benign raw material prices. Gross Profit/Cooler and EBITDA/Cooler has improved by 9.4% & 25.2%YoY and stood at ₹3,505/Cooler & ₹2,506/Cooler, respectively during the quarter. Domestic EBIT expanded by 515bps and stood at 45.7% while Exports EBIT expanded sharply by 326bps and stood at 44.8% during the quarter. Management guided that EBITDA margins would be maintained going ahead.

#### Aggressive distribution expansion suggests Symphony's long term game plan

Symphony has been aggressively adding dealers & distributors in the last few quarters to set a platform for larger opportunities in the coming years. Dealers & Distributors were higher by 60% & 15% as compared to last year. Distributors buy Symphony's air cooler in the non-season quarters, now Symphony is trying to push dealers to display Symphony's air cooler even in the non-seasonal quarters. This could expand the target market for Symphony and marriage season can also create additional sales at the dealer level.

#### Outlook & Valuation

Despite Symphony's quarter performance gets volatile, however, the company always maintains healthy growth rate on an annual basis for the past several years. We expect robust growth during Q1FY17 backed by strong summer and favorable base of last year. Besides, Symphony can maintain healthy 20% sales growth for the next several years with several catalysts in its business.

We like Symphony for its structural strength like (1) Promising growth for branded air cooler market, (2) Symphony's strong leadership in the branded market, (3) Consistent addition of products/ segments, (4) Aggressive marketing efforts (5) Strong operational margin (6) Big opportunity in the centralized cooling, (7) Lowering down seasonality, (8) Huge International opportunities and (9) Focus on asset light business model. With several catalysts in the business, it gives us confidence that company can sustain robust earnings growth in the coming years. The stock trades at a P/E of 42.9x & 34.6x of FY17 & FY17 estimated EPS. **We maintain BUY rating.**



## Conference Call Highlight

- ❖ **Positive outlook:** (1) Many part of India have shown strong growth during April-May 2016 months hence June quarter volume growth can be robust (2) Maintaining EBITDA Margins at current levels (3) Robust growth in Centralized Air coolers to continue (4) New launches from In-house and cross leveraging products from Chinese subsidiary to accelerate sales growth (5) Aims to achieve >15% volume CAGR for the next 3-5 years' timeframe in the domestic market.
- ❖ **Symphony continues to gain market share despite increased competition:** Air coolers has always been dominated by the unbranded players but management is not seeing any competitive pressure from the branded players. Symphony's market share has expanded in the branded space despite the entry of new players. Volume market share improved from 40% in FY15 to 45% in FY16 while value market share increased from 45% to 52% in FY16.
- ❖ **Positive response of new launches:** Management mentioned that they have launched Kerulai Air coolers in the Indian market and they are getting good response from the customers. Wall mount Air Coolers are also getting traction and management stated that they have applied for global patent for same. Currently, Symphony has 30+ models ranging from ₹5,000 to ₹21,000 air coolers. Newly launched wall mount air cooler named 'Cloud' is priced at ₹15,000.
- ❖ **Strong margin to continue:** Symphony's Gross Margin expanded by 392bps due to better mix & softening of input prices & operating efficiency. Management foresees further improvement in operational efficiency going ahead. Symphony's EBITDA margin improved by 775bps to 42% in Q3FY16 on account of benign input prices, economies of scale & lower other expenses. Management guided that current EBITDA margins levels would be maintained going ahead.
- ❖ **Both traditional channel & modern trade doing well:** Management mentioned that modern trade channel has shown volume growth of 65% and now forms 15% of total sales while traditional channel has shown double digit sales growth for FY16.
- ❖ **Process of transforming IMPCO into asset lite model is on track; Complete turnaround is expected in 12-15 months:** Management mentioned restructuring process in IMPCO is on track and 35-38% of real estate is monetized contributing ₹120mn in this quarter. Management guided that entire process would be completed in 12-15 months' timeframe.
- ❖ **Robust growth in Centralized air-cooling:** Centralized air cooling posted robust growth of 70% during the quarter. Centralized air cooling forms 13-14% of consolidated sales in FY16. Management sees huge opportunity in this segment and signifies as long term growth driver.



## Quarterly Performance (Standalone)

### Exhibit 1: Quarterly snapshot

Particulars (₹ mn)	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
<b>Gross Sales</b>	<b>1,133</b>	<b>1,506</b>	<b>1,027</b>	<b>1,514</b>	<b>1,375</b>	<b>1,237</b>	<b>1,290</b>	<b>1,816</b>	<b>1,522</b>
YoY Gr (%)	33.0	35.5	42.5	31.4	21.4	(17.9)	25.6	19.9	10.7
<b>Net Sales</b>	<b>1,133</b>	<b>1,506</b>	<b>919</b>	<b>1,355</b>	<b>1,244</b>	<b>1,105</b>	<b>1,144</b>	<b>1,621</b>	<b>1,372</b>
YoY Gr (%)	33.0	35.5	27.6	17.6	9.8	(26.6)	24.5	19.6	10.3
<b>Gross Profit</b>	<b>638</b>	<b>918</b>	<b>447</b>	<b>685</b>	<b>681</b>	<b>636</b>	<b>593</b>	<b>877</b>	<b>809</b>
YoY Gr (%)	33.6	37.4	16.2	8.3	6.8	(30.7)	32.6	28.0	18.8
Gross Margin (%)	56.3	61.0	48.6	50.5	54.8	57.4	51.8	54.0	58.7
Change (bps)	27bps	84bps	-478bps	-435bps	-152bps	-352bps	318bps	344bps	392bps
<b>EBITDA</b>	<b>328</b>	<b>439</b>	<b>239</b>	<b>481</b>	<b>426</b>	<b>202</b>	<b>340</b>	<b>604</b>	<b>579</b>
YoY Gr (%)	32.7	42.0	72.2	55.1	29.9	(54.0)	42.7	25.5	36.0
EBITDA Margin	28.9	29.1	25.9	35.5	34.2	18.2	29.7	37.2	42.0
Change (bps)	-7bps	133bps	670bps	857bps	530bps	-1,093bps	380bps	165bps	775bps
<b>Reported PAT</b>	<b>270</b>	<b>327</b>	<b>217</b>	<b>361</b>	<b>363</b>	<b>225</b>	<b>288</b>	<b>477</b>	<b>465</b>
YoY Gr (%)	49.8	26.4	51.7	45.8	34.4	(31.1)	32.5	32.3	28.2

Source: Company, Trust Net Sales adjusted for VAT from Q1FY15

## Segmental Analysis (Standalone)

### Exhibit 2: Segmental

	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
<b>Revenue</b>									
Domestic	917	1,310	849	1,242	986	1,009	1,097	1,493	1,089
Export	216	196	71	113	258	96	47	128	283
<b>Total</b>	<b>1,133</b>	<b>1,506</b>	<b>919</b>	<b>1,355</b>	<b>1,244</b>	<b>1,105</b>	<b>1,144</b>	<b>1,621</b>	<b>1,372</b>
<b>Revenue Gr. (%)</b>									
Domestic	26.6	38.0	26.8	18.3	7.5	(23.0)	29.3	20.2	10.4
Export	69.4	20.9	37.5	9.9	19.3	(51.1)	(33.7)	13.5	9.8
<b>Total</b>	<b>33.0</b>	<b>35.5</b>	<b>27.6</b>	<b>17.6</b>	<b>9.8</b>	<b>(26.7)</b>	<b>24.5</b>	<b>19.6</b>	<b>10.3</b>
<b>Revenue Mix (%)</b>									
Domestic	80.9	87.0	92.3	91.7	79.3	91.3	95.9	92.1	79.4
Export	19.1	13.0	7.7	8.3	20.7	8.7	4.1	7.9	20.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EBIT</b>									
Domestic	274	373	290	487	400	251	398	610	498
Export	81	84	18	32	107	38	7	56	127
<b>Total</b>	<b>355</b>	<b>457</b>	<b>309</b>	<b>518</b>	<b>507</b>	<b>289</b>	<b>405</b>	<b>666</b>	<b>625</b>
<b>EBIT Margin (%)</b>									
Domestic	29.8	28.5	34.2	39.2	40.6	24.9	36.2	40.9	45.7
Export	37.6	42.9	25.7	27.9	41.6	40.1	15.4	43.8	44.8
<b>Total</b>	<b>31.3</b>	<b>30.3</b>	<b>33.6</b>	<b>38.2</b>	<b>40.8</b>	<b>26.2</b>	<b>35.4</b>	<b>41.1</b>	<b>45.6</b>
<b>EBIT Change (bps)</b>									
Domestic	-195bps	-289bps	715bps	934bps	1,076bps	-361bps	203bps	168bps	515bps
Export	651bps	92bps	-247bps	-656bps	394bps	-280bps	-1,039bps	1,596bps	326bps
<b>Total</b>	<b>-37bps</b>	<b>-256bps</b>	<b>642bps</b>	<b>799bps</b>	<b>948bps</b>	<b>-417bps</b>	<b>182bps</b>	<b>286bps</b>	<b>476bps</b>
<b>EBIT Mix (%)</b>									
Domestic	77.1	81.6	94.1	93.9	78.9	86.7	98.2	91.6	79.7
Export	22.9	18.4	5.9	6.1	21.1	13.3	1.8	8.4	20.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>EBIT Growth (%)</b>									
Domestic	18.8	25.3	60.3	55.4	46.3	(32.8)	37.0	25.4	24.4
Export	104.8	23.5	25.5	(11.0)	31.7	(54.3)	(60.4)	78.4	18.4
<b>Total</b>	<b>31.5</b>	<b>25.0</b>	<b>57.7</b>	<b>48.6</b>	<b>43.0</b>	<b>(36.7)</b>	<b>31.2</b>	<b>28.6</b>	<b>23.2</b>

Source: Company, Trust Net Sales adjusted for VAT from Q1FY15

**Key Operational Facts (Standalone)**

Particulars	Q3FY14	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16
Air Cooler Volume (No.)	187,718	213,016	163,987	238,668	212,640	168,416	194,583	283,351	230,897
YoY Gr. (%)	33.5	25.8	37.9	27.4	13.3	(20.9)	18.7	18.7	8.6
Average Realisation (Including VAT) (₹)	6,034	7,070	5,535	5,678	5,725	6,429	5,811	5,590	5,846
YoY Gr. (%)	(0.4)	7.7	(8.7)	(7.6)	(5.1)	(9.1)	5.0	(1.5)	2.1
Gross Profit/ Cooler (₹)	3,396	4,310	2,726	2,871	3,204	3,778	3,047	3,095	3,505
YoY Gr. (%)	0.1	9.2	(15.7)	(14.9)	(5.7)	(12.3)	11.8	7.8	9.4
EBITDA/ Cooler (₹)	1,745	2,060	1,454	2,017	2,002	1,197	1,749	2,131	2,506
YoY Gr. (%)	(0.6)	12.9	24.9	21.8	14.7	(41.9)	20.2	5.7	25.2

Source: Company, Trust Net Sales adjusted for VAT from Q1FY15



## Financials - Consolidated

### P&L Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Period	12M	12M	9M	12M	12M
<b>Net Revenues</b>	<b>5,327</b>	<b>5,259</b>	<b>4,453</b>	<b>7,186</b>	<b>8,755</b>
% Growth	40.9	(1.3)	12.9	21.0	21.8
Raw Material	2,235	2,526	2,013	2,839	3,458
Staff	417	462	423	697	719
Selling and Distribution Expenses	1,190	847	571	901	1,056
Other Expenses	228	102	83	360	543
Total Expenditures	4,070	3,937	3,090	4,796	5,777
<b>EBITDA</b>	<b>1,257</b>	<b>1,322</b>	<b>1,363</b>	<b>2,390</b>	<b>2,979</b>
% Growth	59	5	37	31	25
<b>EBITDA Margins (%)</b>	<b>23.6</b>	<b>25.1</b>	<b>30.6</b>	<b>33.3</b>	<b>34.0</b>
Other Income	138	336	208	357	419
Interest	1	6	2	-	-
Depreciation	38	41	43	45	49
<b>Profit Before Tax</b>	<b>1,356</b>	<b>1,611</b>	<b>1,651</b>	<b>2,702</b>	<b>3,349</b>
Provision for tax	296	454	465	743	921
Effective tax rate (%)	22	28	28	28	28
<b>Reported PAT</b>	<b>1,060</b>	<b>1,158</b>	<b>1,186</b>	<b>1,959</b>	<b>2,428</b>
% Growth	75.5	9.2	36.6	23.9	24.0
<b>Adjusted Net Profit</b>	<b>1,055</b>	<b>1,158</b>	<b>1,097</b>	<b>1,959</b>	<b>2,428</b>

*Note: FY16 is 9M financials and FY16 & FY17 growth numbers are adjusted*

### Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	70	70	70	70	70
Reserves & surplus	2,688	3,210	3,115	4,162	5,470
<b>Shareholders' funds</b>	<b>2,758</b>	<b>3,280</b>	<b>3,185</b>	<b>4,232</b>	<b>5,540</b>
Total Debt	-	-	-	-	-
Others	78	74	70	85	100
<b>Capital Employed</b>	<b>2,836</b>	<b>3,353</b>	<b>3,255</b>	<b>4,316</b>	<b>5,640</b>
Net fixed assets	779	906	793	897	999
Cash & Cash Eq.	57	71	451	1,041	1,522
Net Current Assets (Ex-cash)	(16)	(61)	361	78	170
Investments	1,986	2,423	1,622	2,272	2,922
Others	30	15	27	27	27
<b>Total Assets</b>	<b>2,836</b>	<b>3,353</b>	<b>3,255</b>	<b>4,316</b>	<b>5,640</b>



### Cash Flow

₹ mn (Y/E Mar)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	1,353	1,611	1,651	2,702	3,349
Depreciation	38	41	43	45	49
Total Tax Paid	(374)	(454)	(465)	(743)	(921)
Chg in working capital	1	60	(435)	283	(91)
Other operating activities	(114)	6	2	-	-
<b>Cash flow from oper (a)</b>	<b>904</b>	<b>1,265</b>	<b>796</b>	<b>2,287</b>	<b>2,386</b>
Capital Expenditure	(94)	(168)	70	(150)	(150)
Chg in investments	(998)	(437)	801	(650)	(650)
Other investing activities	497	-	-	-	-
<b>Cash flow from inv.(b)</b>	<b>(596)</b>	<b>(605)</b>	<b>871</b>	<b>(800)</b>	<b>(800)</b>
<b>Free cash flow</b>	<b>810</b>	<b>1,097</b>	<b>866</b>	<b>2,137</b>	<b>2,236</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-
Interest paid	(1)	(6)	(2)	-	-
Dividend (incl. Tax)	(292)	(581)	(1,037)	(912)	(1,120)
Other financing activities	(38)	(2)	(4)	15	15
<b>Cash flow from fin. (c)</b>	<b>(330)</b>	<b>(588)</b>	<b>(1,043)</b>	<b>(897)</b>	<b>(1,105)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(21)</b>	<b>72</b>	<b>624</b>	<b>590</b>	<b>481</b>

### Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	42.8	45.5	45.2	39.5	39.5
Manpower Cost/Sales (%)	7.8	8.8	9.5	9.7	8.2
A&P Cost/Sales (%)	4.8	6.4	5.0	5.0	5.0
Revenue Growth (%)	40.9	(1.3)	12.9	21.0	21.8
EBITDA Margins (%)	23.6	25.1	30.6	33.3	34.0
Net Income Margins (%)	19.8	22.0	24.6	27.3	27.7
ROCE (%)	43.0	38.2	40.6	54.3	51.9
ROE (%)	38.2	35.3	34.4	46.3	43.8

### Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	30.1	33.1	31.3	56.0	69.4
P/E (x)	24.4	60.5	76.6	42.9	34.6
BV (₹)	78.8	93.7	91.0	120.9	158.3
P/BV (x)	9.3	21.3	26.4	19.8	15.2
EV/EBITDA (x)	18.9	51.1	60.1	33.8	26.7
Fixed assets turnover ratio (x)	6.8	5.8	5.6	8.0	8.8
Net Debt/Equity (x)	(0.0)	(0.0)	(0.1)	(0.2)	(0.3)
EV/Sales (x)	4.5	12.8	18.4	11.2	9.1

Note: FY16 is 9M financials



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