Symphony

BSE SENSEX	S&P CNX
27,977	8,591

Bloomberg	SYML IN
Equity Shares (m)	35.0
M.Cap.(INR b)/(USD b)	86.3 / 1.3
52-Week Range (INR)	2632 / 1642
1, 6, 12 Rel. Per (%)	1/-2/31
12M Avg Val (INR M)	65
Free float (%)	25.0

Financials & Valuations (INR b)

Y/E June	2016	2017E	2018E
Net Sales	4.5	7.8	9.6
EBITDA	1.4	2.4	3.1
PAT	1.1	1.9	2.4
EPS (INR)	31.3	53.3	68.2
Gr. (%)	-5.6	70.5	27.8
BV/Sh (INR)	91.1	98.7	121.2
RoE (%)	33.8	56.2	62.0
RoCE (%)	33.9	56.3	62.1
P/E (x)	78.8	46.2	36.2
P/BV (x)	27.1	25.0	20.3

Estimate change
TP change
Rating change

CMP: INR2,465 TP: INR1,909(-23%) Sell

Top line up robustly, PAT below estimates

Strong sales growth due to extended summer: Revenues (standalone) grew 38% YoY to INR1,526m in 1QFY17 (v/s estimate of INR1,608m), mainly driven by volume growth, with management also clarifying that there was no major price increase. Growth was also supported by new models launched over the past year. EBITDA margin expanded 740bp YoY to 25.6% on account of better operating efficiency and economies of scale. EBITDA grew 93% YoY to INR390m in the quarter. PAT posted 39% YoY growth to INR311m. Management highlighted that Symphony air coolers continues to be the market leader with a share of 50%.

Performed well across categories: Management highlighted that the performance was impressive across regions, with south and east particularly outperforming other regions. Additionally, the company continued to maintain its market share, despite increasing competitive intensity. The centralized air cooling segment also registered robust growth, catering to a wide range of customers. Management is hopeful that the 6th pay commission award to 10m central government employees will further drive its growth.

IMPCO and MKE performance in line with internal expectations: According to management, the company launched certain models from its MKE portfolio in India, which saw good demand. Some models from its Indian portfolio were also launched in China.

Valuation and view: The introduction of GST will aid faster conversion from unorganized to organized sector as the price gap will reduce. We expect sales/PAT CAGR of 47%/48%, given FY16 was a nine-month period. Given rich valuations (36x FY18E EPS) and fact that Symphony is a single-product company, we maintain our **Sell** recommendation with a target price of INR1,909, 28x FY18E EPS.

Quarterly Performance (INR Million)

Y/E June	FY15	FY16			FY17				FY17E	FY17	Var
(Standalone)	4Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		1QE	(%)
Net Sales	1,108	1,145	1,625	1,379	1,526	1,420	2,015	1,710	7,764	1,608	-5
YoY Change (%)	-26.5	11.5	7.3	0.3	37.8	24.0	24.0	24.0	57.0	45.2	
Total Expenditure	906	805	1,021	800	1,136	1,002	1,308	1,011	5,319	1,111	
EBITDA	202	340	604	579	390	418	707	699	2,446	497	-22
Margins (%)	18.2	29.7	37.2	42.0	25.6	29.4	35.1	40.9	31.5	30.9	
Depreciation	7	7	7	7	8	10	12	13	44	8	
Interest	0	0	1	0	0	2	2	2	6	2	
Other Income	95	72	70	53	49	64	70	75	269	60	
PBT before EO expense	289	405	666	625	432	470	763	759	2,665	548	-21
Extra-Ord expense	0	0	0	0	0	0	0	0	0	0	
PBT	289	405	666	625	432	470	763	759	2,665	548	-21
Tax	66	117	188	160	120	141	229	228	800	164	
Rate (%)	23.0	28.9	28.3	25.5	27.9	30.0	30.0	30.0	30.0	30.0	
Minority Interest & Profit/l	0	0	0	0	0	0	0	0		0	
Reported PAT	223	288	477	465	311	329	534	531	1,866	383	-19
Adj PAT	223	288	477	465	311	329	534	531	1,866	383	-19
YoY Change (%)	-32.0	32.9	32.5	27.4	39.9	14.5	12.0	14.2	70.5		
Margins (%)	20.1	25.1	29.4	33.7	20.4	23.2	26.5	31.1	24.0	23.8	

E: MOSL Estimates

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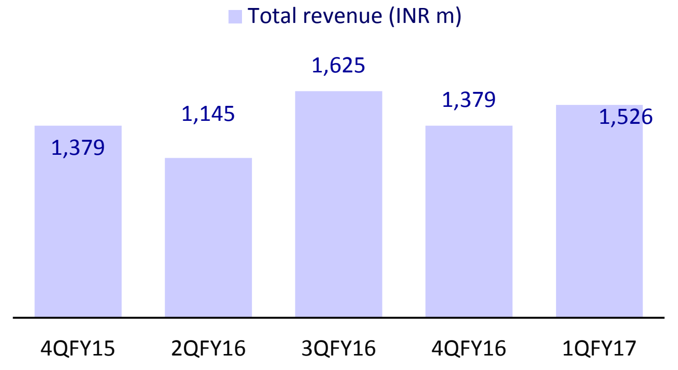
PAT below estimates

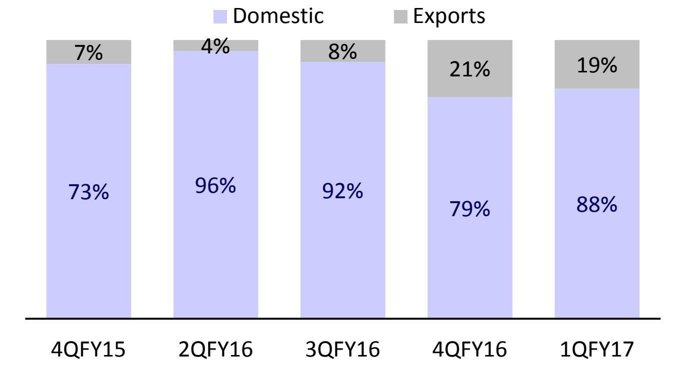
- Revenue (standalone) grew 38% YoY to INR1,526m (est. INR1,608m) mainly driven by volume growth as the management clarified that there was no major price increase.
- Growth was also contributed by new models launched in last one year. EBITDA margins expanded 740bp YoY to 25.6% on account of lower better operational efficiency and economies of scale.
- EBITDA grew 93% YoY to INR390m in 1QFY17. PAT posted a 39% YoY growth to INR311m. The management highlighted that Symphony air coolers continues to be the market leader with a share of 50%

Exhibit 1: Revenue growth trend



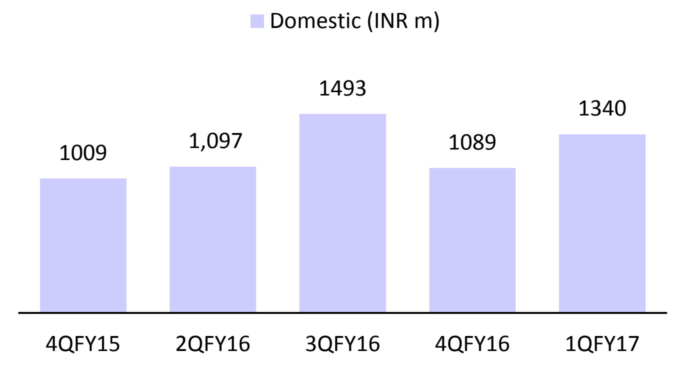
Source: MOSL, Company

Exhibit 2: Domestic and export mix



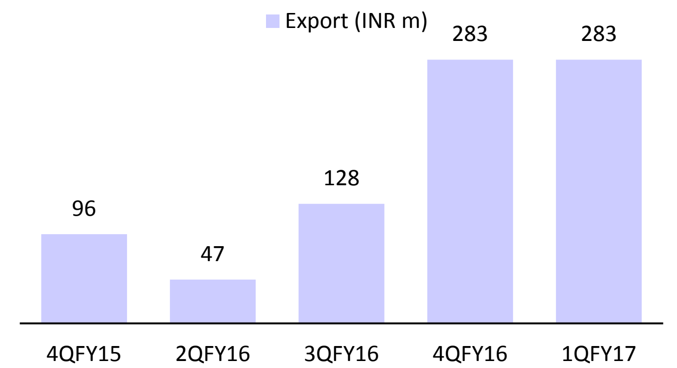
Source: MOSL, Company

Exhibit 3: Domestic revenue trend



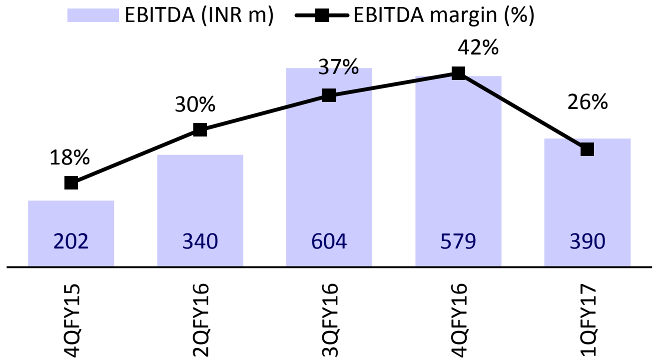
Source: MOSL, Company

Exhibit 4: Export revenue trend



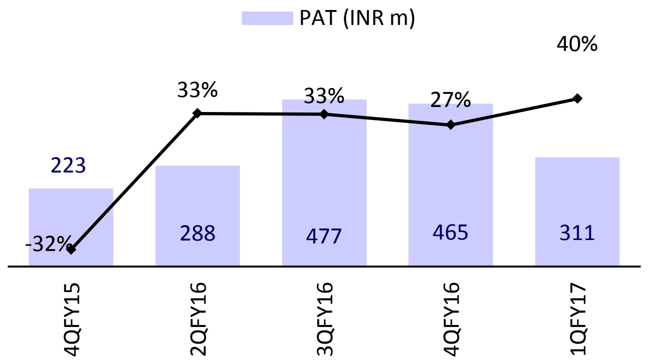
Source: MOSL, Company

Exhibit 5: EBITDA and margins trend



Source: MOSL, Company

Exhibit 6: PAT and PAT growth



Source: MOSL, Company

Performed well across categories

- The management highlighted that the performance was good across all the regions with South and East particularly performing better compared to other regions.
- Additionally, the company continued to maintain its market share despite increasing competitive intensity. The Centralized air cooling segment also registered robust growth catering to wide range of customers.
- The management is quite hopeful that 6th pay commission award to 10m employees will further drive growth going ahead.

Other key highlights

- Management highlighted that there were certain models launched from MKE portfolio into India which has been received well while certain models were also launched from Indian portfolio into China.
- Introduction of GST to expedite conversion of unorganized to organized market.

Valuation and View

We value SYML at 28x FY18E EPS, which we believe is justified considering:

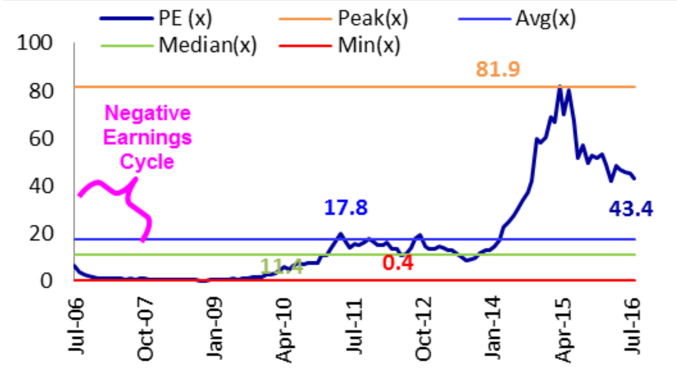
- **Huge untapped opportunity:** High and rising temperature levels are leading to greater demand for cooling solutions. While 54% (143m households) of Indian households live in hot and dry climatic conditions and 4% live in moderate climatic conditions, only about 8% own Air Coolers thereby providing huge opportunity for growth. Considering lower cost of ownership vs Air Conditioners (70% lower capital costs / 90% lower running costs), Air Coolers are the mass market option for Indian consumers.
- **Market to shift from unorganized to organized sector:** Consumer up-trading is shifting demand towards organized players in a number of Consumer categories led by key reasons like: (1) rising income and aspiration levels, (2) greater quality/brand awareness, and (3) reducing taxation differences. Large part of the cooler industry is unorganized at 80% (4m units) which makes the market potential for organized players (1m units) even larger.
- **SYML enjoys leadership with 50% market share:** SYML is the pioneer in the industry and commands a 50% market share followed by Kenstar (35%), Bajaj Electricals (15%), and Usha. It commands 10-12% pricing premium over competitors, due to consistent product innovation and strong brand equity.

- **Strong return ratios:** SYML reports strong return on capital with core standalone RoCE standing at ~53%. High margins (~23%) coupled with 100% outsourcing and 100% advance from distributors on domestic sales helps SYML to earn high returns on its capital employed. SYML has chosen to focus on its key strengths - innovation, marketing and brand building. We expect SYML to continue reporting strong RoCE on the back of its strong business model.

Maintain Sell

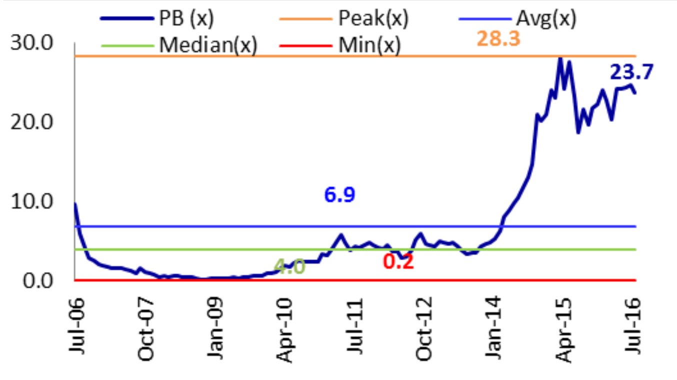
- Given the substantial run-up in stock price we believe valuations are rich at 36x FY18E EPS. We value the stock at 28x FY18E earnings and arrive at a target price of INR1,909. Maintain **Sell**.

Exhibit 7: 10-year P/E band



Source: MOSL, Company

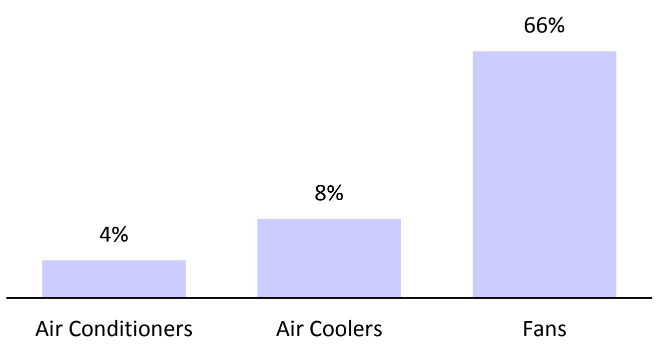
Exhibit 8: 10-year P/B band



Source: MOSL, Company

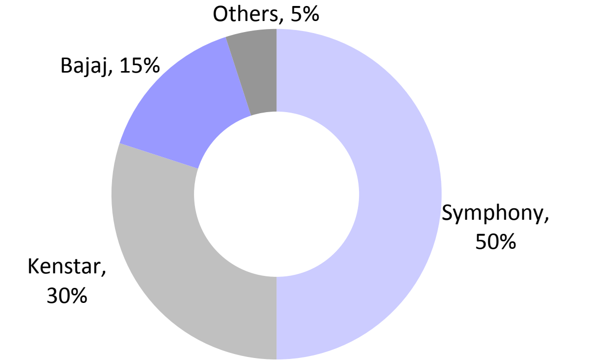
Story in charts

Exhibit 9: Market penetration



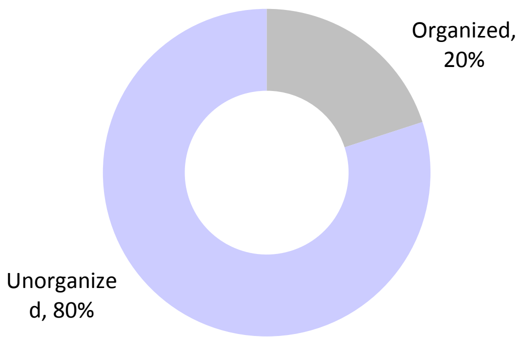
Source: MOSL, Company

Exhibit 10: Market share



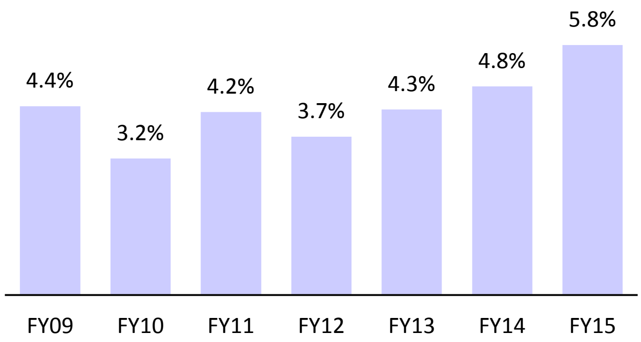
Source: MOSL, Company

Exhibit 11: Market distribution



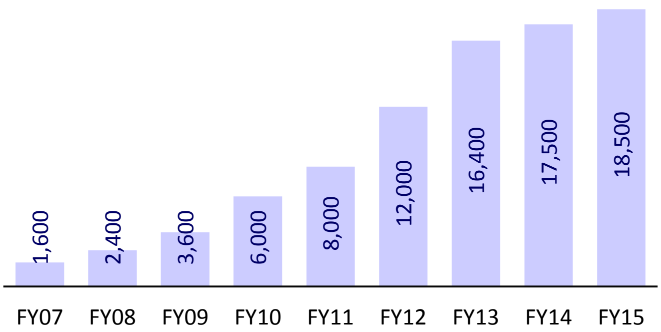
Source: MOSL, Company

Exhibit 12: Ad spends as % of sales



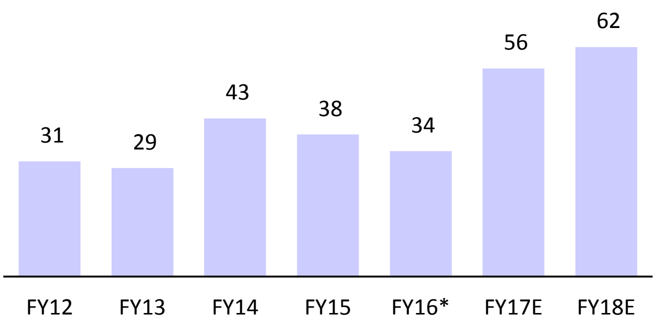
Source: MOSL, Company

Exhibit 13: Dealer network



Source: MOSL, Company

Exhibit 14: RoE (%)



*FY16 was 9M period Source: MOSL, Company

Key assumptions

Exhibit 15: Key assumptions

	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16*	FY17E	FY18E
Quantity sold (Standalone)											
Domestic coolers	124,455	178,678	306,979	358,778	358,305	437,060	587,078	751,460	596,889	955,022	1,146,026
Exports coolers	24,168	74,398	101,061	127,159	114,360	79,713	119,966	139,161	120,910	193,456	232,147
Geysers / Others	6,208	8,310	14,291	15,095	10,675	409	0	0	0	0	0
Total units sold	**154,831**	**261,386**	**422,331**	**501,032**	**483,340**	**517,182**	**707,044**	**890,620**	**717,799**	**1,148,478**	**1,378,174**
Volume growth (Standalone)											
Domestic coolers		44%	72%	17%	0%	22%	34%	13%	-10%	60%	20%
Exports coolers		208%	36%	26%	-10%	-30%	50%	19%	-15%	60%	20%
Blended volume growth		69%	62%	19%	-4%	7%	37%	14%	-11%	60%	20%
Realization (INR per unit)	**4,830**	**4,752**	**4,510**	**4,603**	**5,150**	**5,966**	**6,382**	**6,370**	**6,447**	**5,738**	**6,025**
Sales (In m)											
Domestic cooler sales	626	947	1,530	1,883	2,025	2,690	3,947	4,616	4,170	5,938	7,482
Exports coolers sales	92	256	310	354	430	346	566	537	458	652	822
Impco / Others	15	51	62	668	679	740	814	632	307	1,174	1,289
Total	**733**	**1,254**	**1,902**	**2,904**	**3,134**	**3,776**	**5,327**	**5,785**	**4,935**	**7,764**	**9,592**
Sales Mix (%)											
Domestic cooler sales	85%	76%	80%	65%	65%	71%	74%	80%	84%	76%	78%
Exports coolers sales	13%	20%	16%	12%	14%	9%	11%	9%	9%	8%	9%
Impco / Others	2%	4%	3%	23%	22%	20%	15%	11%	6%	15%	14%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

*9 months ended March 2016, Realisation for FY17 and 18 has been adjusted net of VAT and CST

Source: Company, MOSL

Financials and Valuations

Consolidated - Income Statement								(INR Million)
Y/E June	FY11	FY12	FY13	FY14	FY15	FY16*	FY17E	FY18E
Gross Revenues	2,906	3,136	3,780	5,327	5,789	4,456	7,764	9,592
Less: Excise Duty	0	2	0	0	0	0	0	0
Net Sales	**2,906**	**3,135**	**3,780**	**5,327**	**5,789**	**4,456**	**7,764**	**9,592**
Change (%)	52.7	7.9	20.6	40.9	8.7	-23.0	74.3	23.5
Total Expenditure	2,214	2,409	2,992	4,066	4,459	3,096	5,319	6,484
% of Sales	76.2	76.8	79.1	76.3	77.0	69.5	68.5	67.6
EBITDA	**692**	**726**	**788**	**1,261**	**1,330**	**1,360**	**2,446**	**3,108**
Margin (%)	23.8	23.2	20.9	23.7	23.0	30.5	31.5	32.4
Depreciation	53	49	39	38	41	43	44	45
EBIT	**639**	**677**	**749**	**1,223**	**1,289**	**1,317**	**2,402**	**3,063**
Int. and Finance Charges	4	8	3	1	6	2	6	6
Other Income - Rec.	122	63	167	138	320	209	269	350
PBT bef. EO Exp.	**756**	**733**	**913**	**1,360**	**1,603**	**1,524**	**2,665**	**3,407**
EO Expense/(Income)	0	0	0	7	0	-125	0	0
PBT after EO Exp.	**756**	**733**	**912**	**1,353**	**1,603**	**1,649**	**2,665**	**3,407**
Current Tax	213	196	296	295	448	465	800	1,022
Deferred Tax	31	6	15	1	-4	0	0	0
Tax Rate (%)	32.3	27.5	34.1	21.9	27.7	28.2	30.0	30.0
Reported PAT	**512**	**531**	**602**	**1,057**	**1,159**	**1,184**	**1,866**	**2,385**
PAT Adj for EO items	**512**	**531**	**602**	**1,063**	**1,159**	**1,094**	**1,866**	**2,385**
Change (%)	38.4	3.8	13.3	76.6	9.0	-5.6	70.5	27.8
Margin (%)	17.6	16.9	15.9	20.0	20.0	24.6	24.0	24.9
Less: Mionrity Interest	0	0	0	0	0	0	0	0
Net Profit	**512**	**531**	**602**	**1,063**	**1,159**	**1,094**	**1,866**	**2,385**
No of fully diluted shares (Mn - FV: Rs10)	35.0	35.0	35.0	35.0	35.0	35.0	35.0	35.0
Adj EPS	**14.6**	**15.2**	**17.2**	**30.4**	**33.1**	**31.3**	**53.3**	**68.2**

***9 months ended March 2016**

Consolidated - Balance Sheet								
Y/E June	FY11	FY12	FY13	FY14	FY15	FY16*	FY17E	FY18E
Equity Share Capital	70	70	70	70	70	70	70	70
Reserves	1,455	1,821	2,152	2,688	3,214	3,116	3,383	4,170
Net Worth	**1,525**	**1,891**	**2,222**	**2,758**	**3,284**	**3,186**	**3,453**	**4,240**
Deferred Liabilities	45	55	75	5	3	25	25	25
Total Loans	2	74	0	0	0	0	0	0
Capital Employed	**1,572**	**2,021**	**2,298**	**2,763**	**3,286**	**3,211**	**3,478**	**4,265**
Gross Block	1,553	1,650	1,736	1,753	1,822	1,804	1,854	1,904
Less: Accum. Deprn.	849	949	1,041	1,057	917	960	1,004	1,049
Net Fixed Assets	**704**	**701**	**696**	**696**	**905**	**844**	**850**	**855**
Capital WIP	0	1	36	82	0	0	0	0
Total Investments	**117**	**620**	**988**	**1,986**	**2,423**	**1,623**	**1,623**	**1,623**
Curr. Assets, Loans&Adv.	**1,311**	**1,455**	**1,443**	**1,168**	**1,105**	**1,796**	**2,239**	**3,217**
Inventory	698	429	430	385	457	551	584	717
Account Receivables	386	422	377	416	327	469	532	657
Cash and Bank Balance	47	226	447	57	76	465	762	1,422
Loans and Advances	180	377	189	311	245	312	361	420
Curr. Liability & Prov.	**560**	**757**	**866**	**1,170**	**1,146**	**1,013**	**1,194**	**1,391**
Account Payables	478	523	537	639	586	491	500	615
Provisions	82	234	329	530	561	522	694	776
Net Current Assets	**750**	**698**	**578**	**-1**	**-42**	**783**	**1,044**	**1,825**
Appl. of Funds	**1,572**	**2,021**	**2,297**	**2,763**	**3,286**	**3,211**	**3,478**	**4,264**

***9 months ended March 2016;** E: MOSL

Financials and Valuations

Ratios

Y/E June	FY11	FY12	FY13	FY14	FY15	FY16*	FY17E	FY18E
Basic (INR)								
EPS	**14.6**	**15.2**	**17.2**	**30.4**	**33.1**	**31.3**	**53.3**	**68.2**
Cash EPS	16.2	16.6	18.3	31.5	34.3	32.5	54.6	69.5
BV/Share	43.6	54.0	63.5	78.8	93.9	91.1	98.7	121.2
DPS	2.0	5.5	6.5	13.0	14.0	28.0	38.0	38.0
Payout (%)	15.9	42.1	44.2	50.3	50.8	99.5	85.7	67.0
Valuation (x)								
P/E			143.4	81.1	74.4	78.8	46.2	36.2
Cash P/E			134.6	78.3	71.9	75.8	45.2	35.5
P/BV			38.8	31.3	26.3	27.1	25.0	20.3
EV/Sales			22.7	16.2	14.9	19.3	11.0	8.8
EV/EBITDA			108.9	68.4	64.8	63.1	35.0	27.3
Dividend Yield (%)			0.3	0.5	0.6	1.1	1.5	1.5
Return Ratios (%)								
RoE	42.8	31.1	29.3	42.7	38.4	33.8	56.2	62.0
RoCE	43.1	30.7	28.8	42.7	38.5	33.9	56.3	62.1
RoIC	50.4	38.1	49.4	130.5	130.7	99.0	151.7	185.4
Working Capital Ratios								
Asset Turnover (x)	1.8	1.6	1.6	1.9	1.8	1.4	2.2	2.2
Inventory (Days)	87.6	50.0	41.5	26.4	28.8	45.1	27.4	27.3
Debtor (Days)	48	49	36	28	21	38	25	25
Creditor (Days)	60	61	52	44	37	40	24	23
Working Capital Turnover (Days)	88	55	13	-4	-7	26	13	15
Growth (%)								
Sales	52.7	7.9	20.6	40.9	8.7	-23.0	74.3	23.5
EBITDA	29.5	4.9	8.6	60.0	5.5	2.3	79.8	27.1
PAT	38.4	3.8	13.3	76.6	9.0	-5.6	70.5	27.8
Leverage Ratio (x)								
Current Ratio	2.3	1.9	1.7	1.0	1.0	1.8	1.9	2.3
Debt/Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

***9 months ended March 2016**

Consolidated - Cash Flow Statement

Y/E June	FY11	FY12	FY13	FY14	FY15	FY16*	FY17E	FY18E
NP / (Loss) Before Tax and EO Items	756	733	913	1,353	1,596	1,524	2,665	3,407
Depreciation	53	49	39	38	41	43	44	45
Interest & Finance Charges	-3	-20	-61	-59	6	-207	-263	-344
Direct Taxes Paid	257	187	241	374	491	465	800	1,022
(Inc)/Dec in WC	-540	284	60	1	176	-431	36	-121
CF from Operations	**9**	**858**	**709**	**959**	**1,327**	**464**	**1,682**	**1,965**
CF from Operating incl EO	**-6**	**843**	**668**	**904**	**1,183**	**464**	**1,682**	**1,965**
(inc)/dec in FA	-223	-38	-67	-94	-140	96	-50	-50
Free Cash Flow	**-229**	**805**	**601**	**810**	**1,043**	**560**	**1,632**	**1,915**
Others	17	-357	284	128	78	209	269	350
CF from Investments	**182**	**-898**	**-151**	**-965**	**-508**	**1,105**	**219**	**300**
(Inc)/Dec in Debt	1	73	-74	0	0	0	0	0
Interest Paid	-4	-8	-3	-1	-6	-2	-6	-6
Dividend Paid	-18	-68	-219	-342	-610	-1,178	-1,598	-1,598
CF from Fin. Activity	**-157**	**234**	**-296**	**-330**	**-656**	**-1,180**	**-1,604**	**-1,604**
Inc/Dec of Cash	**19**	**179**	**221**	**-391**	**19**	**389**	**297**	**660**
Add: Beginning Balance	28	47	226	447	57	76	465	762
Closing Balance	**47**	**226**	**447**	**57**	**76**	**465**	**762**	**1,422**

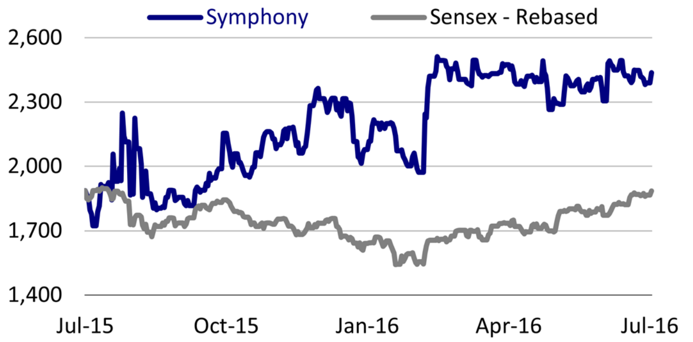
***9 months ended March 2016;** E: MOSL

Corporate profile

Company description

SYML is the largest Air Cooler company in India, with 50% share (40% volume market share) in the domestic organized market, followed by Kenstar (35%), Bajaj Electricals (15%), and Usha, among others. It commands 10-12% pricing premium over competitors, demonstrating its strong brand equity. SYML has a wide range of Air Coolers like Diet (three models), Desert (three models), Room (four models) and Personal (three models). Its pan India network consists of 800+ distributors who in turn have 16,400+ retail dealers. Its international network is spread across 60 countries including USA, Mexico, Middle East, Europe, Africa, and South East Asia.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	75.0	75.0	75.0
DII	3.9	8.2	3.8
FII	8.3	3.8	5.6
Others	12.9	13.0	15.6

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
MATTHEWS INDIA FUND	3.3
ROWENTA NETWORKS PRIVATE LIMITED	2.9
AXIS MUTUAL FUND TRUSTEE LIMITED A/C AXIS MUTUAL FUND A/C AXIS LONG TERM EQUITY FUND	2.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Achal Bakeri	Chairman & Managing Director
Nrupesh Shah	Executive Director
Manan Bhavsar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Darshan Patel	Dipak Palkar
Jonaki Bakeri	Naishadh Parikh
Satyen Kothari	

*Independent

Exhibit 6: Auditors

Name	Type
Ashwin Shah	Secretarial Audit
Deloitte Haskins & Sells	Statutory
Shah & Dalal	Statutory

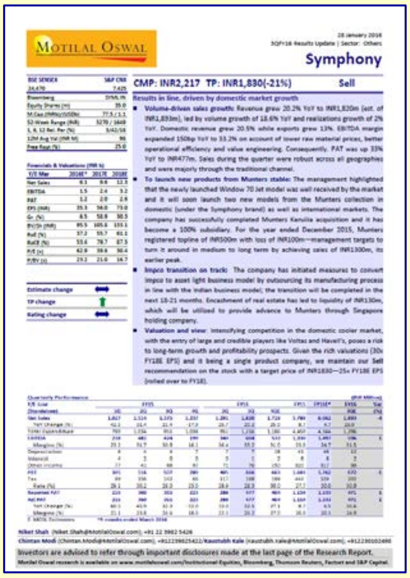
Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

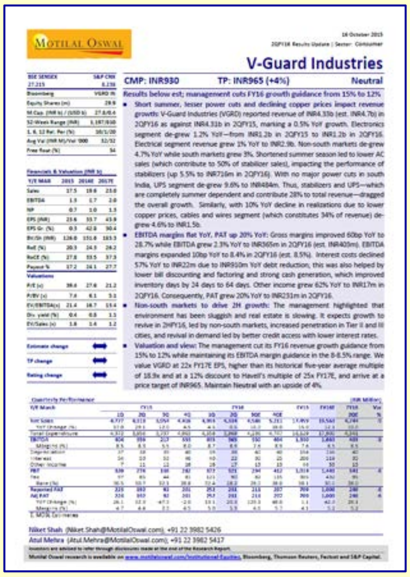
EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	53.3	54.6	-2.4
FY18	68.2	65.5	4.1

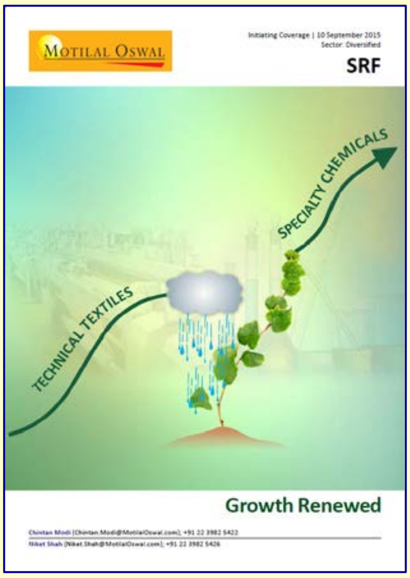
Source: Bloomberg

SYMPHONY GALLERY

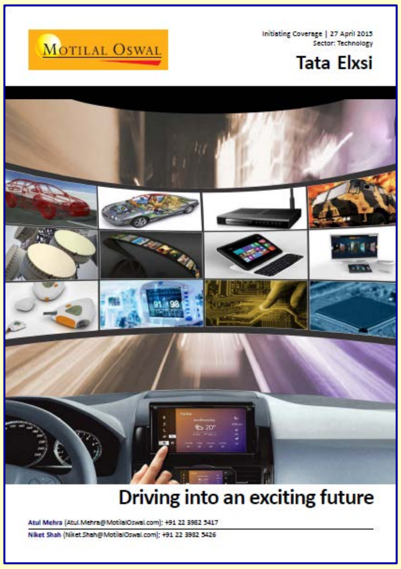


OTHER COMPANIES





OTHER COMPANIES



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