

Symphony

BSE SENSEX	S&P CNX
25,774	7,891
Bloomberg	SYML IN
Equity Shares (m)	35.0
M.Cap.(INRb)/(USDb)	85.3 / 1.3
52-Week Range (INR)	2614 / 1642
1, 6, 12 Rel. Per (%)	0/13/16
Avg Val, INRm/ Vol m	83
Free float (%)	25.0

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	4.9	8.3	10.3
EBITDA	1.4	2.5	3.2
PAT	1.1	1.9	2.5
EPS (INR)	31.3	54.5	70.1
Gr. (%)	-5.6	74.3	28.5
BV/Sh (INR)	91.1	99.9	124.3
RoE (%)	33.8	57.1	62.5
RoCE (%)	33.9	57.2	62.6
P/E (x)	78.0	44.7	34.8
P/BV (x)	26.8	24.4	19.6

Estimate change



TP change



Rating change



CMP: INR2,440 TP: INR1,752(-28%)

Sell

4QFY16 results below estimates; Strong summer to drive sales in FY17

Sales growth in 4QFY16 fails to generate excitement: Symphony's revenue (standalone) for 4QFY16 grew by 11% YoY to INR1,529m (vs. our estimate of INR1,719m), led largely by a volume growth of 9% YoY. Domestic revenue grew by 11% YoY, while exports rose by 10% YoY. EBITDA margin expanded by 710bp YoY to 37.9% on account of lower raw material prices, better operational efficiency and economies of scale. PAT for the quarter grew by 27% YoY to INR465m. According to the management, Symphony remains the leader in the air coolers market, though the growth for the quarter was below its expectation due to lower dealer off take.

Launch of new innovative products: Symphony launched two new models during the quarter, which included 'Cloud' – wall-mounted air cooler similar to a split AC and 'iPure' – air cooler with in-built air purifier. 'Cloud' is priced at INR15,000 MRP while all its current offerings (30+ models) are in the price range of INR5,900 to INR21,000. The company plans to gradually explore international markets and is open to having a separate distribution channel.

North and Central regions expected to pick up in 1QFY17: Management has highlighted that the South and East regions witnessed a robust growth in the quarter, with some territories even posting a triple-digit growth, while the North and Central regions are expected to pick up in 1QFY17 on account of the strong heat wave. Additionally, the company has also secured orders for new Keruilai models launched under the centralized AC segment.

Valuation and view: Symphony's sub-optimal sales growth in 4QFY16 was below expectation despite a strong summer across India. In order to factor in the lower than expected sales growth, we are lowering our revenue growth estimates for FY17/FY18 by 13%/16%, while our PAT estimates for FY17/FY18 are down by 3%/5% after factoring in our estimated EBITDA margin expansion. Given the stock's rich valuation (35x FY18E EPS) and considering that Symphony is a single product company, we maintain our Sell recommendation with a target price of INR1752, thus valuing the stock at 25x FY18E EPS.

Quarterly Performance

Y/E June (Standalone)	FY15				FY16			(INR Million)			
	1Q	2Q	3Q	4Q	2Q	3Q	4Q	FY15	FY16*	FY16	Var
Net Sales	1,027	1,514	1,375	1,237	1,291	1,820	1,529	5,789	4,947	1,719	-11
YoY Change (%)	42.5	31.4	21.4	-17.9	25.7	20.2	11.2	8.7	-14.5	25.0	
Total Expenditure	789	1,034	951	1,038	951	1,216	950	4,459	3,587	1,152	
EBITDA	238	481	424	199	340	604	579	1,330	1,360	567	2
Margins (%)	23.2	31.7	30.8	16.1	26.4	33.2	37.9	23.0	27.5	33.0	
Depreciation	6	4	4	7	7	7	7	41	43	18	
Interest	4	2	0	0	0	1	0	6	2	2	
Other Income	77	41	88	97	72	70	53	320	209	150	
PBT before EO expense	305	516	507	289	405	666	625	1,603	1,524	697	-10
Extra-Ord expense	0	0	0	0	0	0	0	0	-125	0	
PBT	305	516	507	289	405	666	625	1,603	1,649	697	-10
Tax	89	156	142	66	117	188	160	444	465	174	
Rate (%)	29.1	30.2	28.0	23.0	28.9	28.3	25.5	27.7	28.2	25.0	
Minority Interest & Profit/l	0	0	0	0	0	0	0			0	
Reported PAT	216	360	365	223	288	477	465	1,159	1,184	523	-11
Adj PAT	216	360	365	223	288	477	465	1,159	1,094	523	-11
YoY Change (%)	60.5	45.9	32.3	-32.0	33.0	32.5	27.4	8.7	-5.6	43.2	
Margins (%)	21.1	23.8	26.6	18.0	22.3	26.2	30.4	20.0	22.1	30.4	

E: MOSL Estimates *9 months ended March 2016

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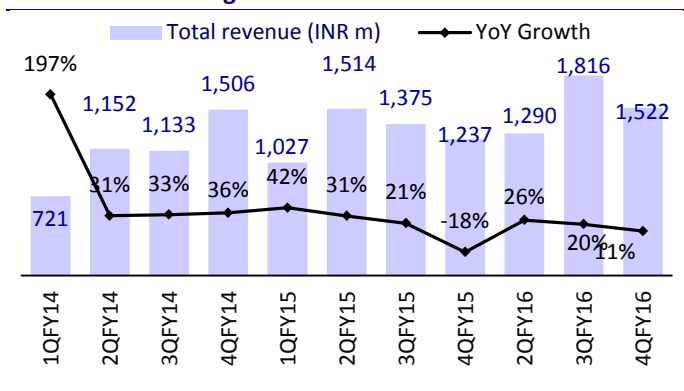
Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Results below estimates

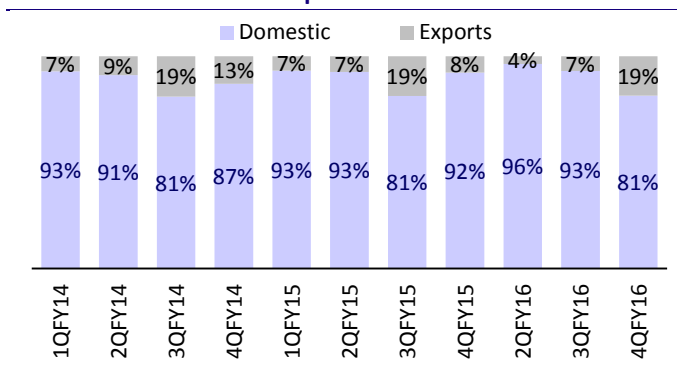
- Revenue (standalone) grew 11% YoY to INR1,529m (est. INR1,719m) largely led by volume growth of 9%. Domestic revenues grew 11% while exports grew 10%.
- EBITDA margins expanded 710bp YoY to 37.9% on account of lower raw material prices, better operational efficiency and economies of scale. PAT posted a 27% YoY growth to INR465m.
- The management highlighted that Symphony air coolers continues to be the market leader.
- Sales during the quarter were robust in South and East geographies with some territories posting 3digit growth.
- Modern trade posted growth of 65% and has surpassed sales from traditional channel in 9MFY16.

Exhibit 1: Revenue growth trend



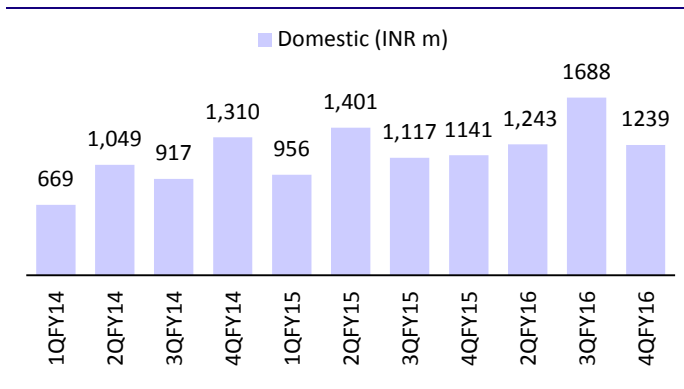
Source: MOSL, Company

Exhibit 2: Domestic and export mix



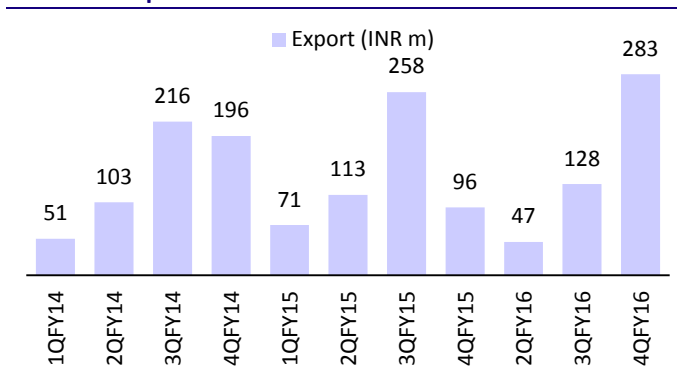
Source: MOSL, Company

Exhibit 3: Domestic revenue trend



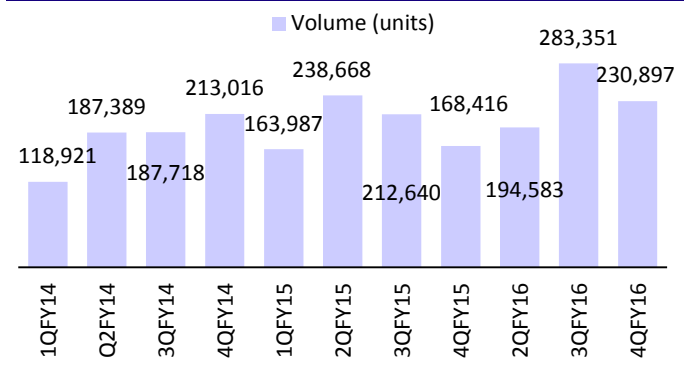
Source: MOSL, Company

Exhibit 4: Export revenue trend



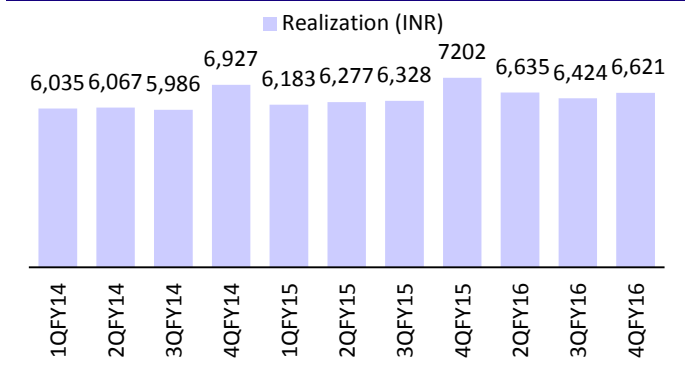
Source: MOSL, Company

Exhibit 5: Volumes trend



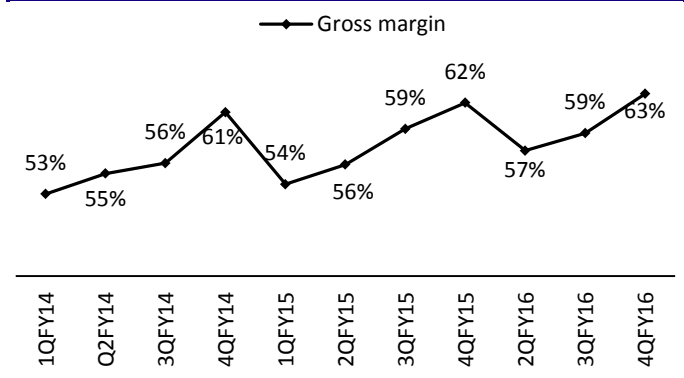
Source: MOSL, Company

Exhibit 6: Realizations trend



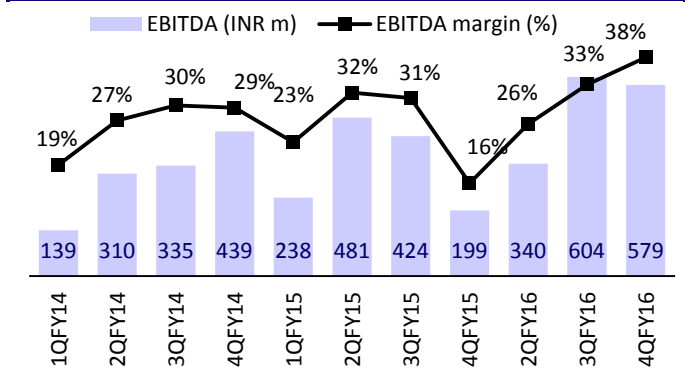
Source: MOSL, Company

Exhibit 7: Gross margin trend



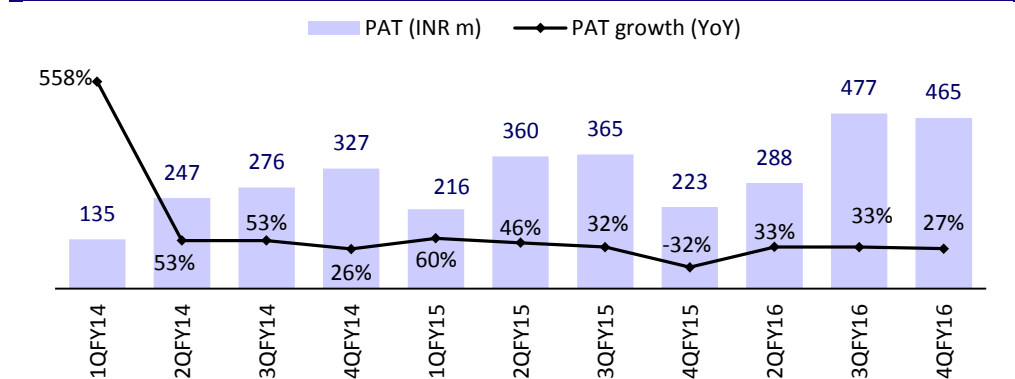
Source: MOSL, Company

Exhibit 8: EBITDA and margins trend



Source: MOSL, Company

Exhibit 9: PAT trend



Source: MOSL, Company

Launched new innovative products

- Symphony launched two new models during the quarter which included ‘Cloud’ – wall mounted air cooler similar to split AC and ‘iPure’ – air cooler with inbuilt air purifier.
- ‘Cloud’ has been launched at INR15,000 MRP while its total current offerings (30+ models) are in the price range of INR5,900 to INR21,000.
- It intends to gradually explore international markets and is open to have separate distribution channel.

Expect North and Central to post robust 1QFY17

- Management highlighted that during the last quarter South and East region posted robust growth with some territories posting 3digit growth while North and Central are expected to pick up in 1QFY17 on account of strong heat wave.
- Management expects 1QFY17 to be far better than 1QFY16 driven by domestic air cooler sales.
- In the international business, South East Asia is growing excellently well while the company is appointing new distributors in Russia and Uzbekistan.
- Additionally, the company has also secured orders for new models launched in Kerulai under centralized AC segment.

Other key highlights

- Impco and MKE posted revenue of INR300m during 9MFY16 with MKE consolidation for only 1quarter.
- Impco is gradually moving to asset light model with 35-38% of real estate being already monetized and expects to be fully asset light in next 12-18 months period.
- MKE's bulk of the business comes in June quarter and expects it to turnaround in medium term with Working capital requirement of ~INR350m while in FY17 requirement will be INR150-200m.
- The domestic air cooler market including organized and unorganized is 7m units growing at 10-12% annually. Of the total market, 20% is organized which is growing at 15% annually.
- Introduction of GST to expedite conversion of unorganized to organized market.
- High end models contribution in terms of value is in excess of 30%.

Valuation and View

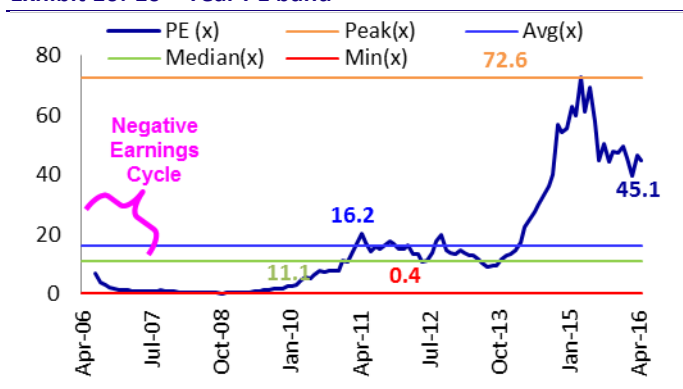
We value SYML at 25x FY18E EPS, which we believe is justified considering:

- **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:** 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 market 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

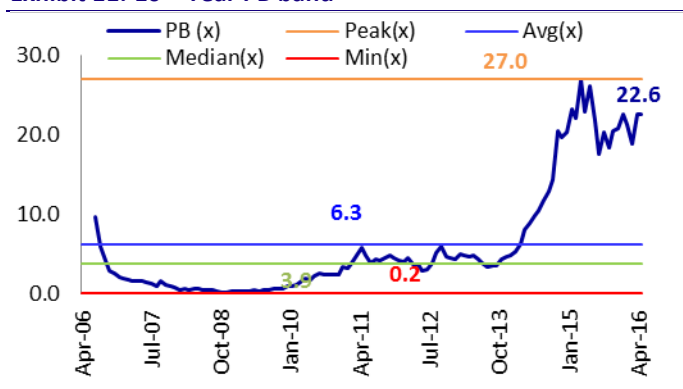
- Given the substantial run-up in stock price we believe valuations are rich at 35x FY18E EPS. We value the stock at 25x FY18E earnings and arrive at a target price of INR1,752. **Maintain Sell.**

Exhibit 10: 10 – Year PE band



Source: MOSL, Company

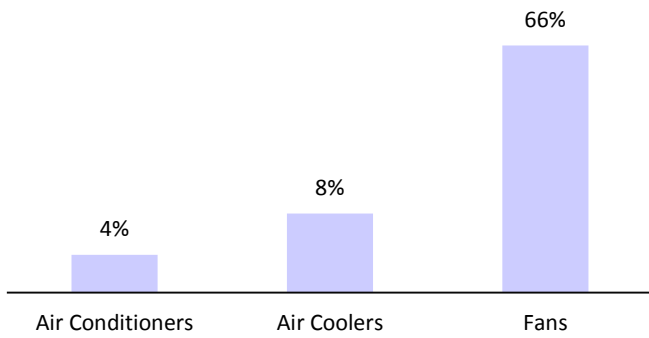
Exhibit 11: 10 – Year PB band



Source: MOSL, Company

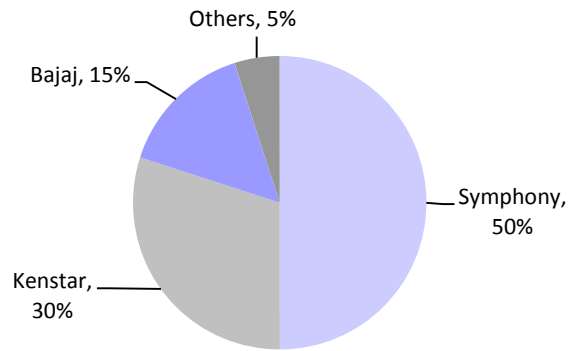
Story in charts

Exhibit 12: Market penetration



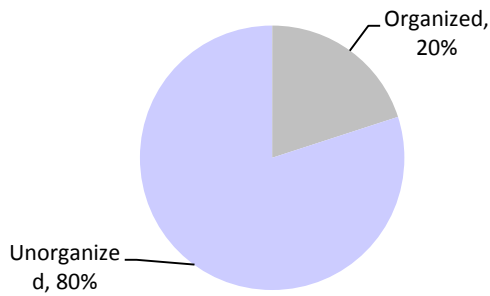
Source: MOSL, Company

Exhibit 13: Market share



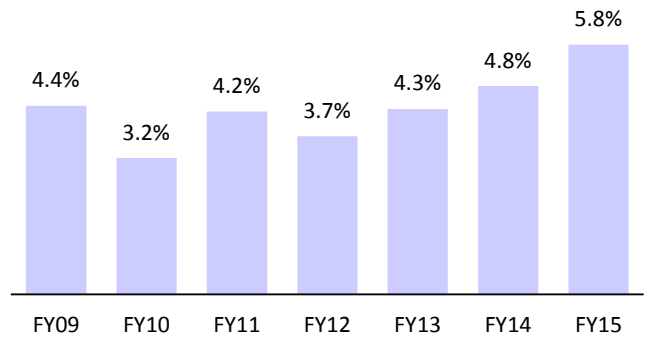
Source: MOSL, Company

Exhibit 14: Market distribution



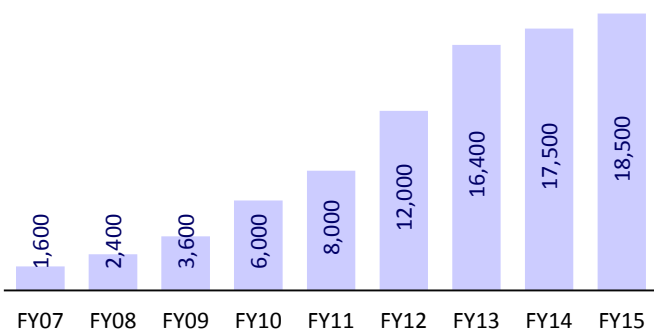
Source: MOSL, Company

Exhibit 15: Ad spends as a % of sales



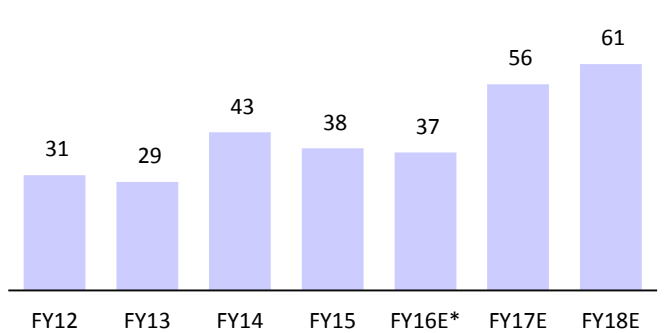
Source: MOSL, Company

Exhibit 16: Dealer network



Source: MOSL, Company

Exhibit 17: RoE (%)



Source: MOSL, Company

Key assumptions

Exhibit 18: 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	907,271	1,088,72
Exports coolers	24,168	74,398	101,061	127,159	114,360	79,713	119,966	139,161	120,910	183,783	220,540
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	1,091,05	1,309,26
Volume growth (Standalone)											
Domestic coolers		44%	72%	17%	0%	22%	34%	13%	-10%	52%	20%
Exports coolers		208%	36%	26%	-10%	-30%	50%	19%	-15%	52%	20%
Blended volume growth		69%	62%	19%	-4%	7%	37%	14%	-11%	52%	20%
Realization (INR per unit)											
	4,830	4,752	4,510	4,603	5,150	5,966	6,382	6,370	6,447	6,770	7,108
Sales (In m)											
Domestic cooler sales	626	947	1,530	1,883	2,025	2,690	3,947	4,616	4,170	6,465	8,146
Exports coolers sales	92	256	310	354	430	346	566	537	458	710	895
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	8,349	10,330
Sales Mix (%)											
Domestic cooler sales	85%	76%	80%	65%	65%	71%	74%	80%	84%	77%	75%
Exports coolers sales	13%	20%	16%	12%	14%	9%	11%	9%	9%	9%	9%
Impco / Others	2%	4%	3%	23%	22%	20%	15%	11%	6%	14%	12%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

*9 months ended March 2016

Source: Company, MOSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Net Sales	2,906	3,135	3,780	5,327	5,789	4,947	8,349	10,330
Change (%)	52.7	7.9	20.6	40.9	8.7	-14.5	68.8	23.7
EBITDA	692	726	788	1,261	1,330	1,360	2,505	3,202
EBITDA Margin (%)	23.8	23.2	20.9	23.7	23.0	27.5	30.0	31.0
Depreciation	53	49	39	38	41	43	44	45
EBIT	639	677	749	1,223	1,289	1,317	2,461	3,157
Interest	4	8	3	1	6	2	6	6
Other Income	122	63	167	138	320	209	269	350
Extraordinary items	0	0	0	-7	0	-125	0	0
PBT	756	733	912	1,353	1,603	1,399	2,724	3,501
Tax	244	201	311	296	444	465	817	1,050
Tax Rate (%)	32.3	27.5	34.1	21.9	27.7	33.2	30.0	30.0
Min. Int. & Assoc. Share	0	0	0	0	0	0	0	0
Reported PAT	512	531	602	1,057	1,159	934	1,907	2,451
Adjusted PAT	512	531	602	1,063	1,159	845	1,907	2,451
Change (%)	38.4	3.8	13.3	76.6	9.0	-27.1	125.7	28.5

Balance Sheet							(INR Million)	
Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Share Capital	70	70	70	70	70	70	70	70
Reserves	1,455	1,821	2,152	2,688	3,183	3,116	3,425	4,277
Net Worth	1,525	1,891	2,222	2,758	3,253	3,186	3,495	4,347
Debt	2	74	0	0	0	0	0	0
Deferred Tax	45	55	75	5	3	25	25	25
Total Capital Employed	1,572	2,021	2,298	2,763	3,256	3,211	3,520	4,372
Gross Fixed Assets	1,553	1,650	1,736	1,753	1,822	1,726	1,776	1,826
Less: Acc Depreciation	849	949	1,041	1,057	917	960	1,004	1,049
Net Fixed Assets	704	701	696	696	905	766	772	777
Capital WIP	0	1	36	82	0	0	0	0
Investments	117	620	988	1,986	2,423	1,623	1,623	1,623
Current Assets	1,311	1,455	1,443	1,168	1,105	1,796	2,318	3,371
Inventory	698	429	430	385	457	551	628	773
Debtors	386	422	377	416	327	469	572	708
Cash & Bank	47	226	447	57	76	465	757	1,471
Loans & Adv, Others	180	377	189	311	245	312	361	420
Curr Liabs & Provs	560	757	866	1,170	1,146	1,013	1,232	1,439
Curr. Liabilities	478	523	537	639	1,146	1,013	1,232	1,439
Provisions	82	234	329	530	0	0	0	0
Net Current Assets	750	698	578	-1	-42	783	1,085	1,933
Total Assets	1,572	2,021	2,298	2,763	3,286	3,211	3,520	4,372

Financials and Valuations

Ratios

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
Basic (INR)								
EPS	14.6	15.2	17.2	30.4	33.1	31.3	54.5	70.1
Cash EPS	16.2	16.6	18.3	31.5	34.3	32.5	55.8	71.3
Book Value	43.6	54.0	63.5	78.8	93.9	91.1	99.9	124.3
DPS	2.0	5.5	6.5	13.0	14.0	28.0	38.0	38.0
Payout (incl. Div. Tax.)	15.9	42.1	44.2	50.3	50.8	99.5	83.8	65.2
Valuation(x)								
P/E				83.5	76.6	81.1	46.5	36.2
Price / Book Value				32.2	27.0	27.9	25.4	20.4
EV/Sales				16.7	15.3	17.9	10.5	8.5
EV/EBITDA				70.4	66.7	64.9	35.1	27.3
Dividend Yield (%)				0.5	0.6	1.1	1.5	1.5
Profitability Ratios (%)								
RoE	42.8	31.1	29.3	42.7	38.4	33.8	57.1	62.5
RoCE	43.1	30.7	28.8	42.7	38.5	33.9	57.2	62.6
RoIC	50.4	38.1	49.4	130.5	130.7	99.0	152.2	182.8
Turnover Ratios (%)								
Asset Turnover (x)	1.8	1.6	1.6	1.9	1.8	1.6	2.4	2.4
Debtors (No. of Days)	48	49	36	28	21	35	25	25
Inventory (No. of Days)	88	50	42	26	29	41	27	27
Creditors (No. of Days)	60	61	52	44	37	36	24	23
Leverage Ratios (%)								
Net Debt/Equity (x)	-0.1	-0.4	-0.6	-0.7	-0.8	-0.7	-0.7	-0.7

Cash Flow Statement

Y/E Mar	2011	2012	2013	2014	2015	2016	2017E	2018E
(INR Million)								
Adjusted EBITDA	692	726	788	1,261	1,330	1,360	2,505	3,202
Non cash opr. exp (inc)	99	20	61	16	168	0	0	0
(Inc)/Dec in Wkg. Cap.	-540	284	60	1	176	-431	-10	-133
Tax Paid	-257	-187	-241	-374	-491	-465	-817	-1,050
Other operating activities	0	0	0	0	0	0	0	0
CF from Op. Activity	-6	843	668	904	1,183	464	1,677	2,019
(Inc)/Dec in FA & CWIP	-223	-38	-67	-94	-140	96	-50	-50
Free cash flows	-229	805	601	810	1,043	560	1,627	1,969
(Pur)/Sale of Invt	388	-503	-368	-998	-447	800	0	0
Others	17	-357	284	128	78	209	269	350
CF from Inv. Activity	182	-898	-151	-965	-508	1,105	219	300
Inc/(Dec) in Net Worth	0	0	0	0	0	0	0	0
Inc / (Dec) in Debt	1	73	-74	0	0	0	0	0
Interest Paid	-4	-8	-3	-1	-6	-2	-6	-6
Divd Paid (incl Tax) & Others	-153	169	-218	-330	-651	-1,178	-1,598	-1,598
CF from Fin. Activity	-157	234	-296	-330	-656	-1,180	-1,604	-1,604
Inc/(Dec) in Cash	19	179	221	-391	19	389	292	714
Add: Opening Balance	28	47	226	447	57	76	465	757
Closing Balance	47	226	447	57	76	465	757	1,471

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

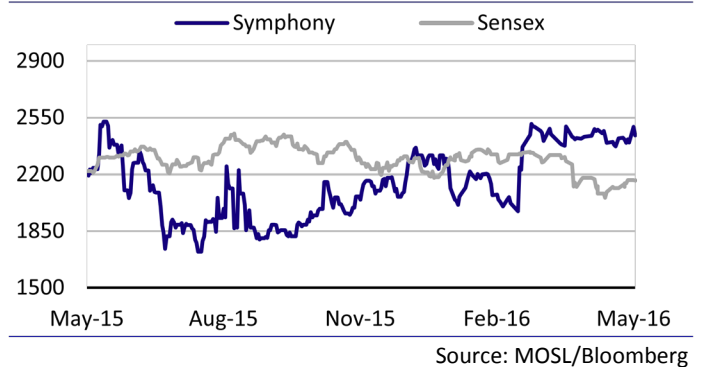


Exhibit 2: Shareholding pattern (%)

	Dec-15	Sep-15	Dec-14
Promoter	75.0	75.0	75.0
DII	6.5	3.0	2.2
FII	5.2	8.1	4.9
Others	13.3	13.9	17.9

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Mathews India Fund	3.3
Rowenta Networks Pvt Ltd.	2.9
Axis Mutual Fund Trustee Limited A/c Axis Mutual Fund A/c Axis Long Trem Equity Fund	1.9

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

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY16	31.3	34.5	-9.3
FY17	54.5	52.8	3.2
FY18	70.1	67.0	4.6

Source: Bloomberg

NOTES

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