

RESULTS

REVIEW

Symphony Ltd.

On strong footing

HOLD

Analyst

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Nifty: 5,648; Sensex: 18,578

CMP	Rs399
Target Price	Rs383
Potential Upside/Downside	(4)%

Key Stock Data

Sector	Consumer Durables
Bloomberg / Reuters	SYML IN / SYMP.BO
Shares o/s (mn)	35
Market cap. (Rs mn)	13,956
Market cap. (US\$ mn)	264
3-m daily average vol.	49,788

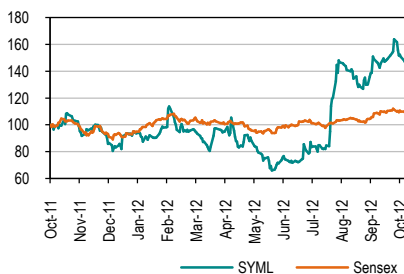
Price Performance

52-week high/low	Rs473/173		
	-1m	-3m	-12m
Absolute (%)	(0)	98	47
Rel to Sensex (%)	(0)	89	37

Shareholding Pattern (%)

Promoters	75.0
FII/IRIs/OCBs/GDR	0.7
MFs/Banks/FIs	0.4
Non Promoter Corporate	11.8
Public & Others	12.1

Relative to Sensex



Source: Capitaline

Summary

Symphony Ltd. reported revenue de-growth of ~16% YoY, in-line with expectation, due to postponement of sales to Q2FY13 (as the company plans to launch new models). OPM declined significantly due to lower revenues. APAT increased by ~57% YoY and was better than estimate due to no tax provision and higher other income. The management has guided for a strong Q2FY13, due to a high unexecuted order book of Rs 403.6 mn for which full advance has been received from dealers/distributors. Maintain HOLD with a target price of Rs383 (14x FY14).

Result Highlights

- Revenue de-growth of ~16% YoY, in-line with expectation

Symphony reported revenue de-growth of ~16% YoY due to air-cooler volume de-growth of ~13% YoY (domestic volume down by ~10% YoY; export volume de-growth of ~29% YoY). Decrease in domestic air cooler volume is due to delay in supply, as the management plans to introduce new models in the upcoming season (FY13). These new models would be delivered from Q2FY13. The delay in air-cooler supply will not affect sales for FY13 as the major selling time period is Jan-June to end consumer. During the quarter, the company received air cooler orders of Rs603 mn (up 242% YoY). For all these orders the company has received full advance payment.

- OPM at ~1%, lower than expected

Symphony reported OPM of ~1%, decline of ~990 bps YoY due to lower revenue during the quarter. As Symphony's revenues are cyclical, OPM's vary significantly QoQ. We estimate standalone OPM to remain flat in FY13 at ~27.5%.

- APAT growth of ~57% YoY, better than estimate, due to no tax provisioning

APAT increased ~57% YoY due to no tax provisioning and higher other income. Tax provisioning was not done during the quarter as other income primarily was from tax free bonds and also revenue from SEZ is tax free. However, for FY13, the company has guided for ~28% tax rate. Other income increased ~133% YoY due to high cash on books as on 30th June, 2012.

- Strong order book to enable high growth

Symphony has an unexecuted domestic order book of Rs403.6 mn (up ~1988% YoY) for ~72000 cooler units (up ~1791%) as on 30th September, 2012. These orders will be executed during Q2FY13 and it has received full advance payment for it. These orders are primarily from dealers/distributors as they exhausted their air-cooler inventory in the previous quarter due to unexpected demand. The strong order book to be executed for which the company has received full advance provides visibility in earnings for FY13. We have factored ~25% YoY growth in domestic business for FY13.

- Outlook and Valuation

Symphony had a tepid quarter in a seasonally dull quarter due to delay in delivery of air coolers as the company plans to introduce new models in the upcoming season. Going ahead, with a strong order book, we expect Symphony to post robust Q2FY13 despite it too being a seasonally dull quarter. We continue to be positive on the future growth prospects and the space in which the company operates. Symphony currently trades at a PER and EV/EBIDTA of 14.6x and 9.8x FY14E. We continue to maintain **HOLD** with a target price of Rs383 (14x FY14E).

Key risks: A weak summer season.

Table: Financial snapshot (Y/E - June)

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	P/E (x)	EV/EBITDA (x)	RoE (%)	RoCE (%)
FY11	2,905	687	23.7	506	14.5	27.6	20.1	46.8	51.9
FY12	3,184	782	24.6	538	15.4	25.9	16.6	33.8	40.8
FY13E	3,951	989	25.0	788	22.5	17.7	12.4	38.4	41.4
FY14E	4,739	1,187	25.0	956	27.3	14.6	9.8	37.4	39.9

Source: Company; IDBI Capital Research

Table: Quarterly snapshot (Standalone)

(Rs mn)

Year-end: June	Q1FY12	Q1FY13	YoY (%)
Net sales	287.8	243	(16)
Raw Material Cost	137.3	125	(9)
<i>as a % of sales</i>	<i>47.7</i>	<i>52</i>	
Employee Expenses	36.0	38	5
<i>as a % of sales</i>	<i>12.5</i>	<i>16</i>	
Other exp	83.1	77	(7)
<i>as a % of sales</i>	<i>28.9</i>	<i>32</i>	
Total operating expenses	256.4	241	(6)
<i>as a % of sales</i>	<i>89.1</i>	<i>99</i>	
EBITDA	31.4	2.5	(92)
<i>EBITDA margin (%)</i>	<i>10.9</i>	<i>1.028</i>	
Other income	13.7	32	133
Forex gains/(Loss)	25.1	(9)	
Interest	1.3	1	(54)
Depreciation	5.0	4	(20)
Profit/(loss) before tax	63.9	20.5	(68)
Tax	19.8	0.0	(100)
<i>Tax rate (%)</i>	<i>31.0</i>	<i>0.0</i>	
Reported Net profit	44.1	20.5	(54)
Adj. Net Profit	19.0	29.8	57

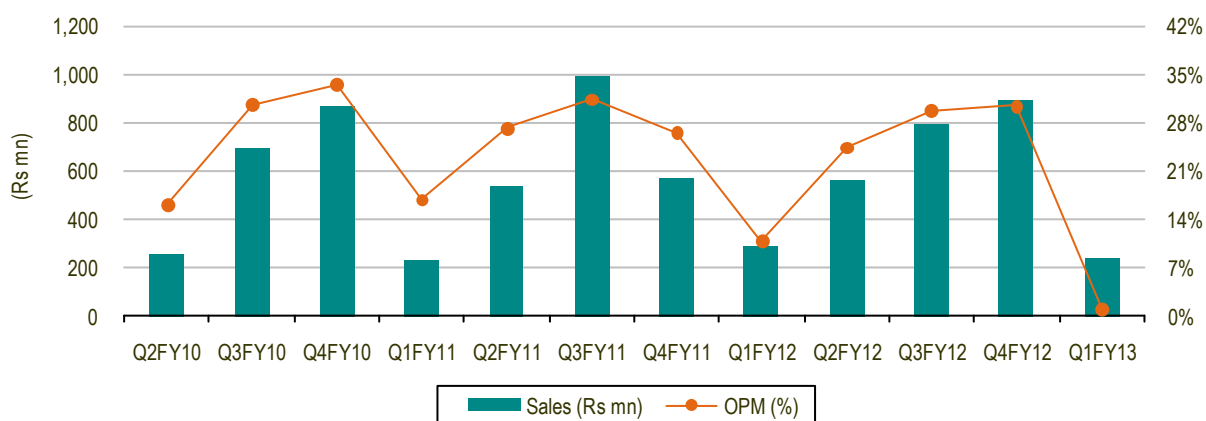
Source: Company; IDBI Capital Research

Table: Volume and realization (Standalone)

	Q1FY12	Q1FY13	YoY(%)
Volume (Nos)			
India	47,978	43,405	(10)
ROW	10,873	7,741	(29)
Total	58,851	51,146	(13)
Average Realization (Rs/pc)			
India	4,758	4,591	(4)
ROW	3,669	4,721	29
Average	4,557	4,611	1

Source: Company; IDBI Capital Research

Figure: Quarterly revenue and OPM



Source: Company; IDBI Capital Research

Company Background

Symphony Ltd. was founded by Mr. Achal Bakeri in 1988 at Ahmedabad. It is one of the major air cooler players in the country and has a 0.1 mn sq. ft. manufacturing facility at Thol, near Ahmedabad. It also has an assembly unit at a SEZ in Sachin (near Surat, Gujarat) for exports.

Symphony used to manufacture air coolers but in order to keep control over cost and to have large capacities it now outsources the manufacturing of air coolers to OEMs. It has a technical team at each of the OEM's in order to ensure that the quality parameters are met.

Symphony develops its own models, designs and prototypes of air coolers before giving it to OEM's for large scale manufacturing. It currently has 8 OEMs which manufacture air coolers and it own 8 patents, 49 designs, 108 trademarks and 7 copyrights.

Symphony had been referred to the BIFR in 2002 due to erosion of net worth. However, since then it has changed its business strategy and from being present in multiple product categories such as washing machines, water purifiers etc it now focuses primarily on air coolers.

Symphony has over the years built a comprehensive product portfolio of air coolers which thus helps it to meet the varied customer requirement. It has a product range for all categories of customers and is thus able to penetrate the entire strata of the market.

Symphony uses the distributor-dealer network to market its product in the country. It sells its product on cash to ~750 distributors which are spread across the breadth of the country. These distributors in turn undertake sales to ~14,000 dealers.

Beside the distributor-dealer network it also sells directly to large format stores such as Croma, Vijay Sales etc. Large format stores contribute to ~10% of sales and they are given a credit period of 45-90 days.

Symphony has also been focusing on the export market. It sells its product in the export markets through distributors. Symphony products are sold in ~60 countries such as USA, Mexico, Middle East etc. Exports contribute to ~16% of the domestic turnover.

In order to increase its presence in export markets Symphony has acquired 100% stake in IMPCO, a Mexico based company for ~ USD 0.65 mn. IMPCO has been in the air cooler industry for nearly six decades and has a significant presence in the USA and Mexico market. Also IMPCO has an established relationship with large format stores such as Wal Mart, Home Depot, Lowes etc.

The acquisition of IMPCO will help Symphony establish a presence in the USA and Mexico markets and also in large format stores which will thus boost export sales. Also, IMPCO has the capability of making industrial air coolers which Symphony does not possess.

Industrial air cooler is an untapped market in India and it can be used for providing cooling solutions for factories, offices and even large residential houses.

Symphony has a professional team and is managed by Mr. Achal Bakeri, who is the Chairman and Managing Director. The company has no plans to diversify into any other business as it sees high growth potential in the air cooler business.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: June	FY11	FY12	FY13E	FY14E
Net sales	2,905	3,184	3,951	4,739
Growth (%)	52.7	9.6	24.1	20.0
Operating expenses	(2,217)	(2,402)	(2,962)	(3,553)
EBITDA	687	782	989	1,187
Growth (%)	28.7	13.8	26.4	20.0
Depreciation	(53)	(49)	(52)	(53)
EBIT	634	734	937	1,134
Interest paid	(1)	(8)	(1)	(2)
Other income	118	14	159	196
Pre-tax profit	752	733	1,095	1,328
Tax	(246)	(202)	(307)	(372)
Effective tax rate (%)	32.7	27.5	28.0	28.0
Net profit	512	531	788	956
Adjusted net profit	506	538	788	956
Growth (%)	38.0	6.4	46.5	21.3
Shares o/s (mn nos)	35	35	35	35

Balance Sheet

(Rs mn)

Year-end: June	FY11	FY12	FY13E	FY14E
Net fixed assets	704	702	680	658
Investments	0	-	-	-
Other non-curr assets	-	-	-	-
Current assets	1,428	2,075	2,766	3,613
Inventories	697	429	434	497
Sundry Debtors	386	422	472	601
Cash and Bank	48	434	19	22
Loans and advances	179	170	191	234
Total assets	2,132	2,777	3,446	4,271
Shareholders' funds	1,525	1,891	2,449	3,126
Share capital	70	70	70	70
Reserves & surplus	1,455	1,822	2,379	3,056
Total Debt	2	79	2	2
Secured loans	2	74	2	2
Unsecured loans	-	4	-	-
Other liabilities	47	134	57	57
Curr Liab & prov	637	831	1,017	1,165
Current liabilities	560	752	940	1,088
Provisions	77	79	77	77
Total liabilities	607	886	997	1,145
Total equity & liabilities	2,132	2,777	3,446	4,271
Book Value (Rs)	37	54	63	83

Cash Flow Statement

(Rs mn)

Year-end: June	FY11	FY12	FY13E	FY14E
Pre-tax profit	752	733	1,095	1,328
Depreciation	783	49	52	53
Tax paid	(247)	(192)	(307)	(372)
Chg in working capital	(545)	291	105	(135)
Other operating activities	0	(0)	0	(0)
Cash flow from operations (a)	742	881	946	873
Capital expenditure	(1,357)	(47)	(30)	(30)
Chg in investments	30	0	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(939)	(550)	(1,060)	(640)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	1	77	(77)	-
Dividend (incl. tax)	(20)	(81)	(224)	(231)
Chg in minorities	-	-	-	-
Other financing activities	236	60	-	-
Cash flow from financing (c)	216	56	(301)	(231)
Net chg in cash (a+b+c)	19	387	(415)	3

Financial Ratios

Year-end: June	FY11	FY12	FY13E	FY14E
Adj. EPS (Rs)	14.5	15.4	22.5	27.3
Adj. EPS growth (%)	38.0	6.4	46.5	21.3
EBITDA margin (%)	23.7	24.6	25.0	25.0
Pre-tax margin (%)	25.9	23.0	27.7	28.0
ROE (%)	46.8	33.8	38.4	37.4
ROCE (%)	51.9	40.8	41.4	39.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.8	1.3	1.3	1.2
Leverage factor (x)	1.5	1.5	1.5	1.5
Net margin (%)	17.4	16.9	20.0	20.2
Net Debt / Equity (x)	(0.1)	(0.5)	(0.7)	(0.7)
Working Capital & Liquidity ratio				
Inventory days	88	49	40	38
Receivable days	49	48	44	46
Payable days	53	20	27	26

Valuation

Year-end: June	FY11	FY12	FY13E	FY14E
PER (x)	27.6	25.9	17.7	14.6
Price/Book value (x)	10.8	7.4	6.3	4.8
PCE (x)	25.0	23.8	16.6	13.8
EV/Net sales (x)	4.7	4.1	3.1	2.5
EV/EBITDA (x)	20.1	16.6	12.4	9.8
Dividend Yield (%)	0.5	1.4	1.4	1.7



Notes

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Key to Ratings**Stocks:**

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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