

# Symphony Limited

## Company Description

Symphony Limited manufactures and sells consumer durable products in India. The company provides domestic, commercial, and industrial air coolers across various models under the Symphony name. The company also provides storage and instant water heaters under the Sauna name. In addition, Symphony Limited holds intellectual property comprising 8 patents, 49 designs, 108 trademarks, and 7 copyrights. The company also exports its products to approximately 60 countries. It offers its products through a network of approximately 750 distributors and approximately 15,000 dealers across India. The company was formerly known as Symphony Comfort Systems Limited and changed its name to Symphony Limited in March 2010. Symphony Limited was founded in 1988 and is based in Ahmedabad, India. The Company's subsidiaries include Sylvan Holdings Pte. Ltd., Singapore, (Sylvan) and Symphony Air Coolers Inc. USA. Sylvan.

## Q1FY14 Result Analysis

Symphony Ltd, India's first branded window range air cooler manufacturer, has reported a 597% increase in profit after tax (PAT) and 180% in income for the first quarter ended September 30, 2013. Income stood at Rs 77.21 crore (Rs 27.50 crore), while net profit stood at Rs 14.32 crore (Rs 2.05 crore). The growth is on account of buoyancy and strong performance across all business verticals. Net profit margin stood at 19% in Q1 FY 13-14 against 7% in Q1 FY 12-13. The company has corporate funds which include liquid investments (like bank FD, mutual fund investments, bonds, NCD etc.) of Rs 147.78 crore as of Q1 FY14.

## Investment Rationale

### Domestic volume growth remains robust

The company witnessed a three-fold jump in sales on account of higher volumes due to the base impact of last year. However, this is also a reflection of the fact that the company's strategy to offer higher discounts in a lean season has resulted in a boost in sales in the quarter. The company has maintained ~42% organised market share. It has also launched a window range of air-coolers with the metal body mainly competing with the unorganised segment. We expect the company to continue to maintain domestic volume growth of ~16% in FY14E.

| In Rs. Cr.        | FY12 | FY13 | FY14E | FY15E |
|-------------------|------|------|-------|-------|
| Net Sales         | 313  | 378  | 464   | 544   |
| Growth (%)        | 7.9  | 20.5 | 22.8  | 17.2  |
| EBITDA            | 74   | 92   | 107   | 125   |
| EBITDA Margin (%) | 23.5 | 24.3 | 23.0  | 23.1  |
| Net Profit        | 53   | 60   | 80    | 97    |
| PAT Margin (%)    | 16.9 | 15.9 | 17.3  | 17.9  |
| EPS (Rs)          | 15.2 | 17.2 | 23.0  | 27.8  |

Consensus Estimate: Bloomberg

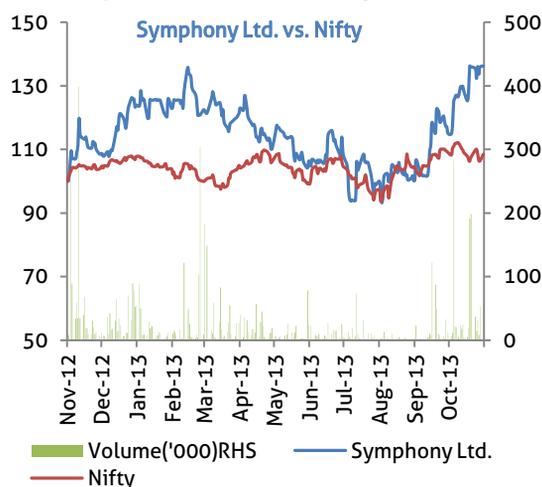
November 29, 2013

|                  |         |
|------------------|---------|
| Recommendation   | Buy     |
| Target price     | Rs. 500 |
| Closing price    | Rs. 405 |
| Potential upside | 23%     |

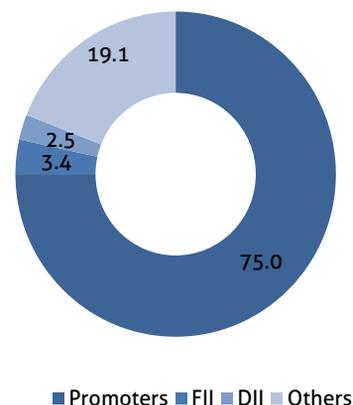
### Company Information

|                                 |              |
|---------------------------------|--------------|
| BSE Code                        | 517385       |
| NSE Code                        | SYMPHONY     |
| Bloomberg Code                  | SYML IN      |
| ISIN                            | INE225D01027 |
| Market Cap (Rs. Cr)             | 1,376        |
| Outstanding shares(Cr)          | 3.50         |
| 52-wk Hi/Lo (Rs.)               | 418 / 263    |
| Avg. daily volume (1yr. on NSE) | 24950        |
| Face Value(Rs.)                 | 2            |
| Book Value                      | 64           |

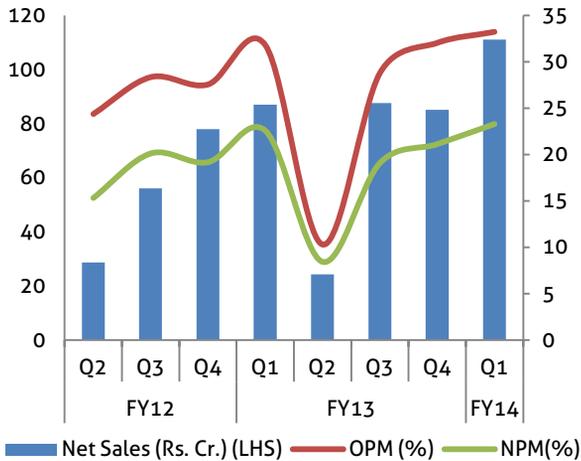
### Relative performance chart (one year)



### Share holding pattern as on 30.09.2013



## Margin Trend (%)



## Strong long term growth drivers; in place

The Indian air cooler industry size is estimated at ~ Rs 2,000 crs. Organized sector accounts for ~ 25% of the total industry and we expect share of organized industry to expand given shift in favor of branded / quality products led by improved standard of living and rising disposable incomes. Further, air coolers given their low energy intensity and high affordability are attractive for Tier 1 / Tier II / Rural customers which will act as a strong driver for their growth over air conditioners, especially in the lower income families. Symphony – with its leadership position is well placed to capture long term growth potential. Symphony enjoys a leading position in the industry. Shift from the unorganized to organized market along with rising rural incomes and better affordability in terms of lower price points for coolers than ACs has been driving high growth for organized players. Rising temperatures and lower running costs also boost demand. Symphony is the largest company in the sector with ~30% market share in the organized market coupled with a strong brand recall. It has a strong distribution network of 450-500 distributors and 7,000 dealers.

## New branch in Abu Dhabi

The company has started a new branch in Abu Dhabi to cater to the markets of Middle East and North Africa (MENA) region. Market believes that this would boost export volumes, going forward and have modeled 7% volume growth in FY14E and FY15E each.

## Management expects growth of ~25%-30% in the medium term

Symphony management believes over the medium term they can grow at ~25%-30% due to their strong product portfolio and addition of new products with enhanced features. The company has in Q1FY14 entered the window air cooler market which is largely unorganized and has a big market (~0.8-1mn pieces). It has launched 5 new models of window air-coolers in Q1FY14 and expects this product to deliver strong growth going ahead. The management has guided to maintain its OPM going ahead due to the recent price increases (~5%-15%) undertaken in Q1FY14.

## Recent Development

- The company has successfully executed and commissioned a pilot project of central air cooling, the first of several locations of the Dutch-owned 'Makro' chain of super markets in Colombia, South America.
- The Company has tied up with Carrefour in Indonesia for selling Symphony Air coolers through our local distributor. Carrefour, headquartered in France, is the world's 2<sup>nd</sup> largest retail group having one of the largest retail chains in Indonesia.
- Symphony Limited has decided to open a branch in United Arab Emirates (UAE).

- The company has launched new models of air coolers with advanced technology and distinctive features to cater different needs of customers in the domestic and overseas markets.
- To cope up with the inflationary effect on cost of materials and various overheads, the company has resorted to upward revision of 5% to 15% over the present M.R.P. depending upon the model of air cooler. With this revision in pricing, the company is confident to sustain its profitability during the year 2013-14.

### Key Risk

- Slowdown in economy
- Technology risk – Shift towards ACs from coolers
- A weak summer season

### Outlook & Valuation

Symphony has increased prices in a range 5-15% in the month of September and if summers pan out well, we believe FY14 will be a good year for the Company as even exports have higher probability to rebound in coming year. With strong brand leadership, variable business model, large external opportunity and high ROI's, we believe long term growth picture of Symphony remains intact. Given leadership position in the domestic air cooler industry (~ 30% market share), healthy growth track record (38% Revenue and PAT CAGR over FY08- FY13), strong growth potential, asset light business model, healthy return ratios – (>40% ROCE), robust operating & free cash flow generation, net cash balance sheet, healthy dividend payout and attractive valuations at 16.7x FY15E. At the current market price, the stock is trading at 17.6x its FY14E EPS of Rs. 23.0 and 14.5x its FY15E EPS of Rs. 27.8. We recommend 'BUY' on the stock with a target price of Rs. 500, arrived at 27.9x FY15E EPS which implies potential upside of ~24% to the CMP from long term (1 year) perspective.

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