

# Symphony Limited

**BUY**

INDUSTRY	APPLIANCES
<b>CMP (as on 22 Jun 2018)</b>	<b>Rs 1,446</b>
<b>Target Price</b>	<b>Rs 2,059</b>
Nifty	10,822
Sensex	35,690
KEY STOCK DATA	
Bloomberg	SYML IN
No. of Shares (mn)	70
MCap (Rsbn)/(US\$ mn)	101/1,491
6m avg traded value (Rs mn)	81
STOCK PERFORMANCE (%)	
<b>52 Week high / low</b>	<b>Rs 2,213/1,152</b>
	<b>3M 6M 12M</b>
Absolute (%)	(16.2) (18.9) 5.9
Relative (%)	(24.3) (24.1) (8.1)
SHAREHOLDING PATTERN (%)	
Promoters	75.00
FIs & Local MFs	7.51
FPIs	7.15
Public & Others	10.34
Source : BSE	

**Naveen Trivedi**  
naveen.trivedi@hdfcsec.com  
+91-22-6171-7324

**Siddhant Chhabria**  
siddhant.chhabria@hdfcsec.com  
+91-22-6171-7336

## Financially prudent deal

Symphony has signed an agreement to acquire 95% stake in Australia-based Climate Technologies Ltd (CT). The deal EV is ~Rs 2.01-2.21bn (A\$ 40-44mn). At FY18P earnings, the deal is valued at EV/sales of 0.73-0.80x, EV/EBITDA of 7.3-7.8x and P/E of 9-10x. We expect this deal will add ~4% to Symphony's EPS in FY19E (9m consol impact) and ~5% for FY20/FY21E.

- This is a prudent deal (EPS and RoCE accretive), though operational benefits (like cross-selling) may not accrue immediately. There can be several benefits such as technology, skills, entry into newer markets and lowering seasonality.
- The deal is in line with Symphony's strategy version 3.0 announced recently. Symphony has a track record of strategic acquisitions (Mexico, China and now Australia, the largest of the lot) at price points that offer value to existing shareholders from day one. This transaction gives us confidence that management is prudent on capital allocation.
- CT's revenue mix consists of air coolers (Packaged) at 55%, heaters 40% and air conditioners 5-6%. Australia contributes 88% of revenues and the rest is from USA (started operations 2 years ago). CT has 30% and 25% market share in air coolers and ducted gas heaters in Australia. In air coolers, CT is the no. 2 player after Seeley, as per Symphony, and is growing faster than Seeley (last 3 years).
- The strategic rationale of the deal is (1) Earnings accretive and healthy RoCE/RoE business at reasonable valuation, (2) Australia has a complementary seasonality that evens out with Indian seasonality, (3) Leveraging its Chinese

acquisition GSK's commercial cooler expertise and product design, (4) Cross share of knowledge and technology, (5) Scope for margin improvement through better sourcing for CT.

- As competition continues to intensify, Symphony has rolled out a new strategic plan (**version 3.0**). The focus is on product differentiation (tech-rich coolers) and not on price discounting. A pan-India sales force is driving the industrial cooling business and is likely to add to order book. The global opportunity is also being addressed, as is visible from the latest acquisition, which gives it a footprint in Australia in addition to the US and China.
- Our bullishness on Symphony is based on (1) Rising demand for coolers in India driven by growing disposable incomes, cheaper financing options and increasing up-country penetration of electricity, (2) A large unorganised domestic market, (3) Consistent and successful product innovation by Symphony, (4) Growing distribution reach (40k dealers targeted vs. 30k now) over the next two years and (5) Untapped opportunities in RoW addressed play via acquisitions.
- At 45x June-20 EPS, our TP is at Rs 2,059 (earlier 1,949). Maintain BUY.

### Financial Summary

(Rs mn)	FY17	FY18P	FY19E	FY20E	FY21E
Net Revenue	7,680	7,983	11,687	14,776	17,038
EBITDA	2,009	2,193	3,113	3,905	4,498
APAT	1,691	1,926	2,423	3,070	3,598
EPS (Rs)	24.2	27.5	34.6	43.9	51.4
P/E (x)	59.6	52.3	41.6	32.8	28.0
EV/EBITDA (x)	48.6	44.0	31.2	24.4	20.7
Core RoCE (%)	106.9	89.9	67.6	59.2	63.1

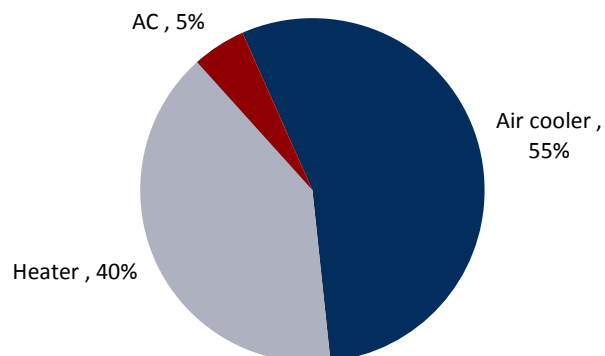
Source: Company, HDFC sec Inst Research

## CT Business Details

### Business in brief

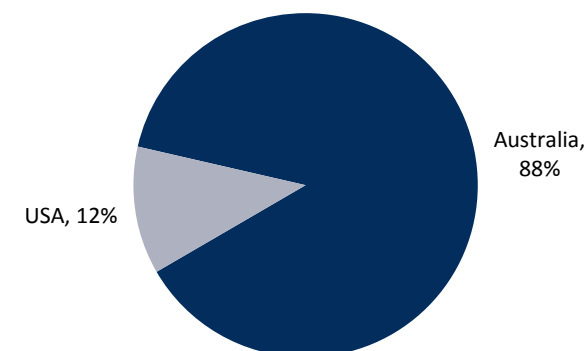
- Headquartered in Adelaide, South Australia
- CT manufactures and markets evaporative air coolers, ducted gas heaters and other cooling products
- Facilities in Salisbury (South Australia) and Assembly operation in Las Vegas (USA). Commissioned Nevada (US) facility in FY17
- The company has iconic brands like Bonaire (64 yrs) and Celair (46 yrs)
- CT has 30% and 25% market share in the domestic Australian evaporative air coolers and ducted gas heater market
- Relationships with 40 Austrilan builders (added 25 in last 5 years) and 50 premier dealers
- Workded with top 3 customers across 8.3 years; 70% of top 20 direct customers across 15 years
- Multi-channel distribution network (specialised HVAC dealers, hardware, retailers, trade wholesalers, etc)
- US presence through Home Depot relationship (2200 stores in US, Canada and Mexico), respected as innovator by Home Depot in its business space
- US mkt is \$ 250-300mn or Rs 17-20bn.
- Nevada utilisation to improve to 60-90%. Nevada facility is semi-automated and scope to do fully automated
- Revenue Mix: Air cooler (Packaged) - 55%, Heaters - 40% and Air conditioners 5-6%
- CT posted 9% revenue and 130% EBITDA CAGR during the last 3 years

### Revenue Mix (FY18P)



Source: Company, HDFC sec Inst Research

### Geographical Revenue Mix (FY18P)



Source: Company, HDFC sec Inst Research

## Product Range

<b>Bonaire Evaporative Coolers</b> 	<b>Summer Breeze. The Value Choice</b> 	<b>Bonaire Pinnacle Solar</b> 
<b>Bonaire Durango Mobile Cooler</b> 	<b>Durango Evaporative Window Air Conditioner</b> 	<b>Choice of Controllers</b> 
<b>Bonaire MB4 Heaters</b> 	<b>Bonaire MB5 Heaters</b> 	<b>Bonaire MB3 Heaters</b> 

[Link to Brochure for Air Cooler](#)
[Link to Brochure for Heater](#)

## Running Cost of CT's Ducted Evaporative Cooler vs. Other Cooling Products



Source: Company

## Deal details

- The acquisition is at an EV of ~Rs 2,010-2,210mn (A\$ 40-44mn). The maximum EV of A\$ 44mn is based on achieving A\$ 5.5mn EBITDA in FY18. In our calculation, we assumed the deal value at the

maximum value. The deal is expected to close by 1<sup>st</sup> July. Therefore, we have taken 9M financial of CT in the consolidation with Symphony for FY19.

FY18P Financial	A\$ mn	Rs mn (A\$/INR of 50.19)	Deal Valuation at A\$ 44mn
Revenue	55.0	2,760	0.80x
EBITDA	5.5	276	8.00x
PAT	4.5	226	9.78x
EBITDAM	10.0%	10.0%	
NPM	8.2%	8.2%	

Source: Company, HDFC sec Inst Research

FY18P Financial	A\$ mn	Rs mn (@ A\$/INR 50.19)
Gross Block	5	251
Working Capital	11	552
Total Assets	16	803
Net Worth	16	803
Debt	-	-
RoCE (%)	28%	
RoE (%)	28%	
Working Capital (Days)	73	

Source: Company, HDFC sec Inst Research

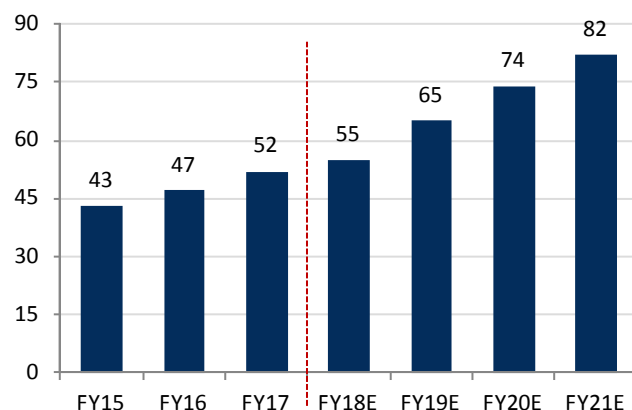
*CT has tax benefits in FY18 on account of accumulated losses in one division. Post the acquisition, Symphony would have to pay as per 30% tax rate. Therefore, with interest cost and higher taxes would impacted net earnings growth in FY19E*

## Impact on Symphony

- The deal would increase the revenues from RoW to 36% as compared to 21% of our FY19 estimates. The EBIT mix from RoW would increase to 16% as

compared to 11% of our FY19 estimates. We expect this deal would add EPS by ~4% for FY19E (CT is for 9M) and ~5% for FY20/FY21E for Symphony.

### CT Revenue Guidance



Source: Company, HDFC sec Inst Research

### CT Profit & Loss

A\$ Mn	FY18P	FY19E	FY20E	FY21E
<b>Revenue</b>	<b>55.0</b>	<b>65.0</b>	<b>74.0</b>	<b>82.0</b>
YoY Gr. (%)	5.8%	18.2%	13.8%	10.8%
<b>EBITDA</b>	<b>5.5</b>	<b>6.5</b>	<b>7.4</b>	<b>8.2</b>
<b>EBITDA Margin (%)</b>	<b>10.0%</b>	<b>10.0%</b>	<b>10.0%</b>	<b>10.0%</b>
YoY Gr. (%)		18.2%	13.8%	10.8%
Depreciation	0.3	0.3	0.4	0.4
Interest	-	1.3	1.3	1.3
<b>PBT</b>	<b>5.2</b>	<b>4.8</b>	<b>5.7</b>	<b>6.5</b>
Tax rate		30.0%	30.0%	30.0%
Tax	0.7	1.5	1.7	2.0
<b>PAT</b>	<b>4.5</b>	<b>3.4</b>	<b>4.0</b>	<b>4.6</b>
<b>NPM (%)</b>	<b>8.2%</b>	<b>5.2%</b>	<b>5.4%</b>	<b>5.6%</b>

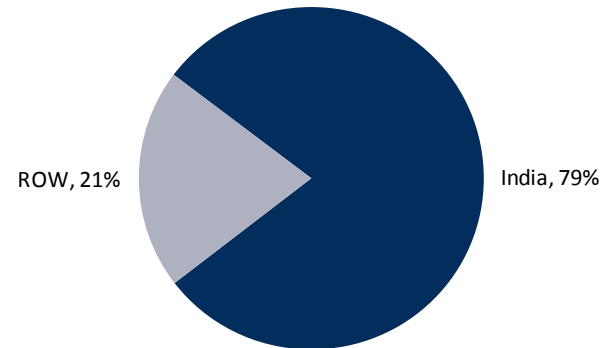
Source: Company, HDFC sec Inst Research

### Estimate Change

Particulars (Rs mn)	FY19E			FY20E			FY21E		
	Old	New	Chg (%)	Old	New	Chg (%)	Old	New	Chg (%)
Net Sales	9,362	11,687	24.8	11,248	14,776	31.4	13,128	17,038	29.8
EBITDA	2,805	3,113	11.0	3,485	3,905	12.1	4,047	4,498	11.2
APAT	2,322	2,423	4.3	2,907	3,070	5.6	3,409	3,598	5.5
EPS	33.2	34.6	4.3	41.5	43.9	5.6	48.7	51.4	5.5

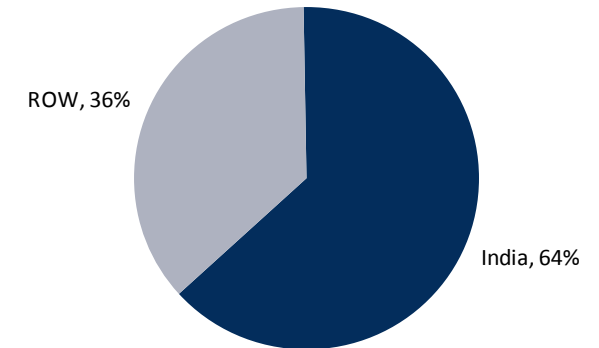
Source: Company, HDFC sec Inst Research

### Revenue Mix (before CT acquisition) – FY19E



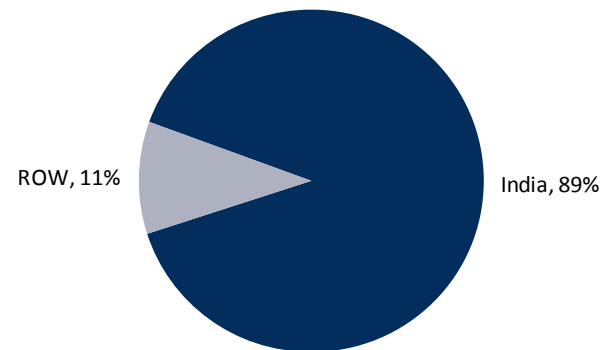
Source: Company, HDFC sec Inst Research

### Revenue Mix (after CT acquisition) – FY19E



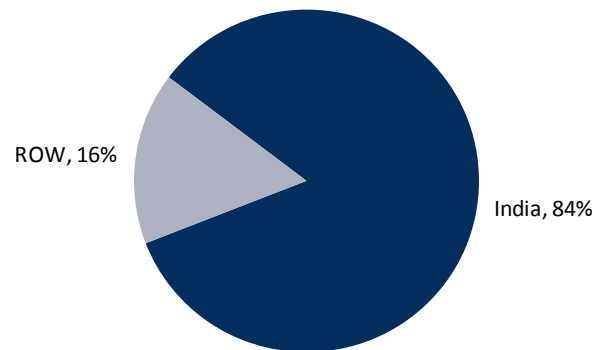
Source: Company, HDFC sec Inst Research

### EBIT Mix (before CT acquisition) – FY19E



Source: Company, HDFC sec Inst Research

### EBIT Mix (after CT acquisition) – FY19E



Source: Company, HDFC sec Inst Research

## Symphony's Renewed Strategy

### The three phases of Symphony's evolution

#### Version 1.0

1988-2006

- Launched coolers
- Diversified into various products
- Diversification affected viability

#### Version 2.0

2007-2018

- Specialised around coolers
- Turned the business around
- Scaled the business
- Enhanced global respect

#### Version 3.0

2019-

- Focus on transformation
- Launch technology-rich coolers
- Extend into industrial cooling solutions
- Expand international reach

## Symphony at a glance

Particulars (Rs mn)	Consolidated				Particulars (Rs mn)	Standalone			
	FY15	FY16 (9M)*	FY17	FY18		FY15	FY16 (9M)*	FY17	FY18
<b>Revenue</b>					<b>Revenue</b>				
India	4,112	3,684	5,969	6,222	India	4,086	3,679	5,951	6,213
RoW	1,143	771	1,679	1,761	Export	537	469	721	657
<b>Total</b>	<b>5,255</b>	<b>4,455</b>	<b>7,648</b>	<b>7,983</b>	<b>Total</b>	<b>4,623</b>	<b>4,149</b>	<b>6,672</b>	<b>6,870</b>
<b>EBIT (Inc. other income)</b>					<b>EBIT (Inc. other income)</b>				
India	1,437	1,510	2,216	2,334	India	1,428	1,506	2,153	2,330
RoW	181	16	134	332	Export	195	190	246	229
<b>Total EBIT</b>	<b>1,618</b>	<b>1,526</b>	<b>2,350</b>	<b>2,666</b>	<b>Total EBIT</b>	<b>1,623</b>	<b>1,696</b>	<b>2,399</b>	<b>2,559</b>
<b>Revenue Growth (%)</b>					<b>Revenue Growth (%)</b>				
India	18%	19%	22%	4%	India	17%	20%	21%	4%
RoW	-17%	-10%	63%	5%	Export	-5%	17%	15%	-9%
<b>Total</b>	<b>9%</b>	<b>13%</b>	<b>29%</b>	<b>4%</b>	<b>Total</b>	<b>14%</b>	<b>20%</b>	<b>21%</b>	<b>3%</b>
<b>Revenue Mix (%)</b>					<b>Revenue Mix (%)</b>				
India	78%	83%	78%	78%	India	88%	89%	89%	90%
RoW	22%	17%	22%	22%	Export	12%	11%	11%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>EBIT Margin (%)</b>					<b>EBIT Margin (%)</b>				
India	35%	41%	37%	38%	India	35%	41%	36%	38%
RoW	16%	2%	8%	19%	Export	36%	41%	34%	35%
<b>Total</b>	<b>31%</b>	<b>34%</b>	<b>31%</b>	<b>33%</b>	<b>Total</b>	<b>35%</b>	<b>41%</b>	<b>36%</b>	<b>37%</b>
<b>EBIT Growth (%)</b>					<b>EBIT Growth (%)</b>				
India	25%	40%	10%	5%	India	25%	41%	7%	8%
RoW	-21%	-89%	546%	148%	Export	-9%	30%	-3%	-7%
<b>Total</b>	<b>18%</b>	<b>26%</b>	<b>16%</b>	<b>13%</b>	<b>Total</b>	<b>20%</b>	<b>39%</b>	<b>6%</b>	<b>7%</b>
<b>EBIT Mix (%)</b>					<b>EBIT Mix (%)</b>				
India	89%	99%	94%	88%	India	88%	89%	90%	91%
RoW	11%	1%	6%	12%	Export	12%	11%	10%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, HDFC sec Inst Research

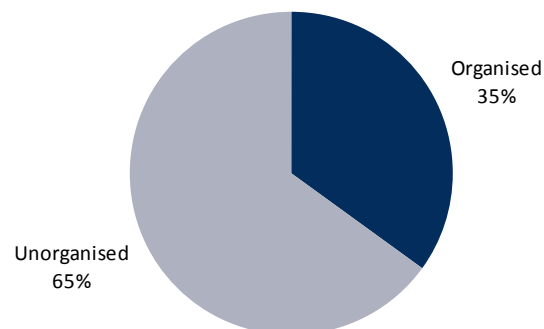


**Symphony maintained value market share of 50% in FY18 despite increased competitive intensity from Voltas and Crompton. We believe Kenstar and Bajaj lost market share in FY18**

**Symphony is the pioneer in developing the premium market (>Rs 10,000). It has the maximum SKU share in the premium segment. We expect premiumisation to continue since it is only ~4% of the total air cooler market**

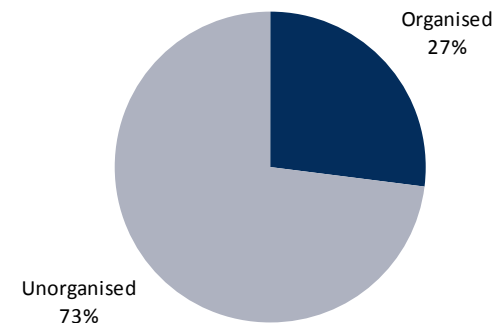
## Domestic Air Cooler Industry

### Air cooler Value Market Break-up (~Rs 35-40bn)



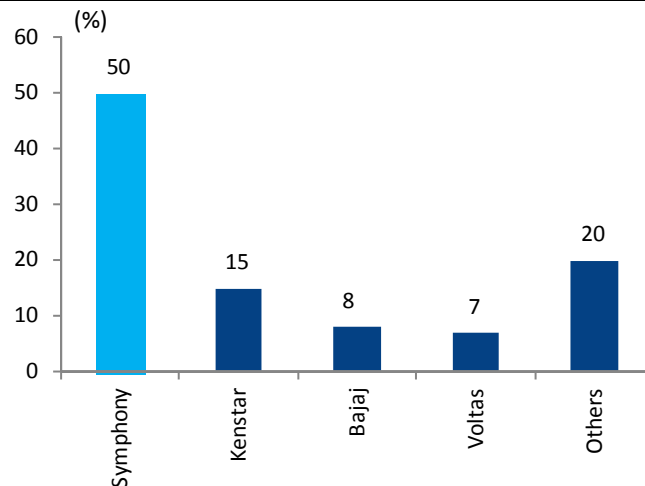
Source: Company, HDFC sec Inst Research

### Air cooler Volume Market Break-up (~9mn units)



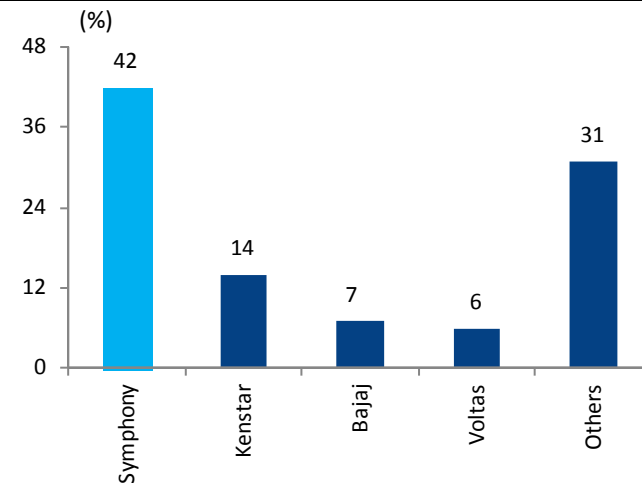
Source: Company, HDFC sec Inst Research

### Branded Air Cooler Value Market Share



Source: Company, HDFC sec Inst Research

### Branded Air Cooler Vol. Market Share



Source: Company, HDFC sec Inst Research

## Assumptions

### Standalone Segmental

Particulars (Rs mn)	FY13	FY14	FY15	FY16 (9M)	FY17	FY18	FY19E	FY20E	FY21E
<b>Revenue</b>									
Domestic	2,730	3,946	4,085	3,679	5,918	6,213	7,425	9,166	10,898
Export	353	566	537	469	721	657	778	893	1,010
<b>Total</b>	<b>3,083</b>	<b>4,512</b>	<b>4,622</b>	<b>4,148</b>	<b>6,639</b>	<b>6,870</b>	<b>8,203</b>	<b>10,059</b>	<b>11,908</b>
<b>Revenue Gr. (%)</b>									
Domestic	30.6%	44.5%	3.5%	20.1%	20.6%	5.0%	19.5%	23.4%	18.9%
Export	-13.8%	60.3%	-5.1%	16.5%	15.2%	-8.9%	18.4%	14.7%	13.1%
<b>Total</b>	<b>23.3%</b>	<b>46.3%</b>	<b>2.4%</b>	<b>19.7%</b>	<b>20.0%</b>	<b>3.5%</b>	<b>19.4%</b>	<b>22.6%</b>	<b>18.4%</b>
<b>Revenue Mix (%)</b>									
Domestic	89%	87%	88%	89%	89%	90%	91%	91%	92%
Export	11%	13%	12%	11%	11%	10%	9%	9%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>EBIT</b>									
Domestic	807	1,141	1,428	1,506	2,174	2,330	2,930	3,632	4,291
Export	119	215	195	190	246	229	309	356	403
<b>Total</b>	<b>926</b>	<b>1,356</b>	<b>1,623</b>	<b>1,696</b>	<b>2,419</b>	<b>2,559</b>	<b>3,239</b>	<b>3,988</b>	<b>4,694</b>
<b>EBIT Margin (%)</b>									
Domestic	30%	29%	35%	41%	37%	38%	39%	40%	39%
Export	34%	38%	36%	41%	34%	35%	40%	40%	40%
<b>Total</b>	<b>30%</b>	<b>30%</b>	<b>35%</b>	<b>41%</b>	<b>36%</b>	<b>37%</b>	<b>39%</b>	<b>40%</b>	<b>39%</b>
<b>EBIT Change (bps)</b>									
Domestic	1,083bps	-67bps	604bps	597bps	-420bps	78bps	195bps	16bps	-25bps
Export	633bps	448bps	-168bps	418bps	-645bps	78bps	482bps	18bps	4bps
<b>Total</b>	<b>990bps</b>	<b>2bps</b>	<b>506bps</b>	<b>577bps</b>	<b>-444bps</b>	<b>81bps</b>	<b>223bps</b>	<b>16bps</b>	<b>-23bps</b>
<b>EBIT Mix (%)</b>									
Domestic	87%	84%	88%	89%	90%	91%	90%	91%	91%
Export	13%	16%	12%	11%	10%	9%	10%	9%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>EBIT Growth (%)</b>									
Domestic	106.0%	41.3%	25.2%	40.6%	8.3%	7.2%	25.7%	23.9%	18.1%
Export	6.3%	81.7%	-9.3%	29.9%	-3.2%	-6.8%	34.8%	15.3%	13.2%
<b>Total</b>	<b>83.9%</b>	<b>46.5%</b>	<b>19.7%</b>	<b>39.3%</b>	<b>7.0%</b>	<b>5.8%</b>	<b>26.5%</b>	<b>23.1%</b>	<b>17.7%</b>

Source: HDFC sec Inst Research

*Volume growth and realisation growth are projected numbers between FY15-18*

### Standalone Sales Volume

Particulars	FY13A	FY14P	FY15P	FY16P(9m)	FY17P	FY18P	FY19E	FY20E	FY21E
<b>Sales Volume</b>									
India	437,061	590,416	673,432	612,873	926,219	975,682	1,131,995	1,344,125	1,559,185
Export	79,713	116,628	110,279	95,958	143,866	135,283	155,545	176,185	197,327
<b>Total</b>	<b>516,774</b>	<b>707,044</b>	<b>783,711</b>	<b>708,831</b>	<b>1,070,085</b>	<b>1,110,964</b>	<b>1,287,540</b>	<b>1,520,310</b>	<b>1,756,512</b>
<b>Sales Volume Gr (%)</b>									
India	22.2%	35.1%	14.1%	21.3%	13.3%	5.3%	16.0%	18.7%	16.0%
Export	-30.3%	46.3%	-5.4%	16.0%	12.4%	-6.0%	15.0%	13.3%	12.0%
<b>Total</b>	<b>9.5%</b>	<b>36.8%</b>	<b>10.8%</b>	<b>20.6%</b>	<b>13.2%</b>	<b>3.8%</b>	<b>15.9%</b>	<b>18.1%</b>	<b>15.5%</b>
<b>Aircoolers - Realization</b>									
India	6,246	6,683	6,066	6,003	6,389	6,368	6,560	6,819	6,990
Export	4,432	4,855	4,870	4,892	5,011	4,857	5,002	5,067	5,118
<b>Total</b>	<b>5,966</b>	<b>6,382</b>	<b>5,803</b>	<b>5,852</b>	<b>6,204</b>	<b>6,184</b>	<b>6,371</b>	<b>6,616</b>	<b>6,780</b>

Source: Company, HDFC sec Inst Research

### Consolidated Segmental Assumption

Particulars (Rs mn)	Consolidated				Particulars (Rs mn)	Standalone			
	FY18	FY19E	FY20E	FY21E		FY18	FY19E	FY20E	FY21E
<b>Revenue</b>					<b>Revenue</b>				
India	6,222	7,425	9,166	10,898	India	6,213	7,425	9,166	10,898
RoW	1,761	4,261	5,610	6,139	Export	657	778	893	1,010
<b>Total</b>	<b>7,983</b>	<b>11,687</b>	<b>14,776</b>	<b>17,038</b>	<b>Total</b>	<b>6,870</b>	<b>8,203</b>	<b>10,059</b>	<b>11,908</b>
<b>EBIT (Inc. other income)</b>					<b>EBIT (Inc. other income)</b>				
India	2,334	2,930	3,632	4,291	India	2,330	2,930	3,632	4,291
RoW	332	565	785	870	Export	229	309	356	403
<b>Total EBIT</b>	<b>2,666</b>	<b>3,496</b>	<b>4,417</b>	<b>5,161</b>	<b>Total EBIT</b>	<b>2,559</b>	<b>3,239</b>	<b>3,988</b>	<b>4,694</b>
<b>PAT</b>					<b>PAT</b>				
India	1,742	2,084	2,579	3,047	Export	1,672	2,084	2,579	3,047
RoW	184	263	354	389	Capital Employed	157	220	253	286
<b>Total</b>	<b>1,926</b>	<b>2,347</b>	<b>2,933</b>	<b>3,435</b>	<b>India</b>	<b>1,830</b>	<b>2,303</b>	<b>2,831</b>	<b>3,333</b>
<b>Revenue Growth (%)</b>					<b>Revenue Growth (%)</b>				
India	4%	19%	23%	19%	India	4%	20%	23%	19%
RoW	5%	142%	32%	9%	Export	-9%	18%	15%	13%
<b>Total</b>	<b>4%</b>	<b>46%</b>	<b>26%</b>	<b>15%</b>	<b>Total</b>	<b>3%</b>	<b>19%</b>	<b>23%</b>	<b>18%</b>
<b>Revenue Mix (%)</b>					<b>Revenue Mix (%)</b>				
India	78%	64%	62%	64%	India	90%	91%	91%	92%
RoW	22%	36%	38%	36%	Export	10%	9%	9%	8%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>EBIT Margin (%)</b>					<b>EBIT Margin (%)</b>				
India	38%	39%	40%	39%	India	38%	39%	40%	39%
RoW	19%	13%	14%	14%	Export	35%	40%	40%	40%
<b>Total</b>	<b>33%</b>	<b>30%</b>	<b>30%</b>	<b>30%</b>	<b>Total</b>	<b>37%</b>	<b>39%</b>	<b>40%</b>	<b>39%</b>
<b>EBIT Growth (%)</b>					<b>EBIT Growth (%)</b>				
India	5%	26%	24%	18%	India	8%	26%	24%	18%
RoW	148%	70%	39%	11%	Export	-7%	35%	15%	13%
<b>Total</b>	<b>13%</b>	<b>31%</b>	<b>26%</b>	<b>17%</b>	<b>Total</b>	<b>7%</b>	<b>27%</b>	<b>23%</b>	<b>18%</b>
<b>EBIT Mix (%)</b>					<b>EBIT Mix (%)</b>				
India	88%	84%	82%	83%	India	91%	90%	91%	91%
RoW	12%	16%	18%	17%	Export	9%	10%	9%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>PAT Mix (%)</b>					<b>PAT Mix (%)</b>				
India	90%	89%	88%	89%	India	91%	90%	91%	91%
RoW	10%	11%	12%	11%	Export	9%	10%	9%	9%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, HDFC sec Inst Research

**Volume growth and realisation growth are projected numbers between FY15-18**

**We model China business will be break-even by the end of FY20**

## Key Assumptions

	FY15	FY16 (9m)	FY17	FY18P	FY19E	FY20E	FY21E
<b>Standalone</b>							
Volume Growth (%)							
India	14.1	21.3	13.3	5.3	16.0	18.7	16.0
Export	(5.4)	16.0	12.4	(6.0)	15.0	13.3	12.0
Total	10.8	20.6	13.2	3.8	15.9	18.1	15.5
Realisaiton Growth (%)							
India	(9.2)	(1.1)	6.4	(0.3)	3.0	4.0	2.5
Export	0.3	0.4	2.4	(3.1)	3.0	1.3	1.0
Total	(9.1)	0.8	6.0	(0.3)	3.0	3.8	2.5
Revenue Growth (%)	2.5	19.7	20.0	3.5	19.4	22.6	18.4
Gross Margin (%)	52.9	54.9	53.3	53.4	55.4	56.1	56.1
Employee (%)	6.6	7.2	7.0	7.6	7.5	7.2	7.2
SG&A (%)	7.7	2.0	5.7	4.4	4.6	4.4	4.4
Other Expenses (%)	9.5	9.0	9.3	9.4	9.2	10.5	11.1
EBITDA Margin (%)	29.1	36.7	31.3	32.0	34.2	34.0	33.4
<b>Subsidiaries</b>							
Revenue Growth (%)							
IMPCO	-	(0.6)	24.0	11.7	3.0	3.0	3.0
MKE (China)	na	na	na	1.0	3.0	3.0	3.0
CT (Australia)					18.2	13.8	10.8
EBITDA Margin (%)							
IMPCO	7.8	15.2	5.3	6.0	7.0	8.0	8.0
MKE (China)	na	na	(18.9)	(15.0)	(9.0)	1.0	1.0
CT (Australia)					10.0	10.0	10.0

Source: Company, HDFC sec Inst Research

## Income Statement (Consolidated)

Year End March (Rsmn)	FY17	FY18P	FY19E	FY20E	FY21E
<b>Net Revenues</b>	<b>7,680</b>	<b>7,983</b>	<b>11,687</b>	<b>14,776</b>	<b>17,038</b>
<b>Growth (%)</b>	<b>29</b>	<b>4</b>	<b>46</b>	<b>26</b>	<b>15</b>
Material Expenses	3,644	3,853	5,399	6,730	7,761
Employee Expense	687	727	808	899	1,001
ASP Expense	653	560	853	1,079	1,244
Freight and forwarding	241	231	339	429	494
Other expenses	445	418	1,175	1,734	2,039
<b>EBITDA</b>	<b>2,009</b>	<b>2,193</b>	<b>3,113</b>	<b>3,905</b>	<b>4,498</b>
<b>EBITDA Growth (%)</b>	<b>11</b>	<b>9</b>	<b>42</b>	<b>25</b>	<b>15</b>
<b>EBITDA Margin (%)</b>	<b>26.2</b>	<b>27.5</b>	<b>26.6</b>	<b>26.4</b>	<b>26.4</b>
Depreciation	69	68	98	103	109
<b>EBIT</b>	<b>1,940</b>	<b>2,125</b>	<b>3,015</b>	<b>3,802</b>	<b>4,390</b>
Other Income (Inc. EO Items)	432	541	481	615	771
Interest	0	18	68	84	84
<b>PBT</b>	<b>2,372</b>	<b>2,648</b>	<b>3,428</b>	<b>4,333</b>	<b>5,077</b>
Tax	681	723	1,005	1,262	1,479
<b>RPAT</b>	<b>1,691</b>	<b>1,926</b>	<b>2,423</b>	<b>3,070</b>	<b>3,598</b>
Adjustment	-	-	-	-	-
<b>APAT</b>	<b>1,691</b>	<b>1,926</b>	<b>2,423</b>	<b>3,070</b>	<b>3,598</b>
<b>APAT Growth (%)</b>	<b>15.9</b>	<b>13.9</b>	<b>25.8</b>	<b>26.7</b>	<b>17.2</b>
<b>Adjusted EPS (Rs)</b>	<b>24.2</b>	<b>27.5</b>	<b>34.6</b>	<b>43.9</b>	<b>51.4</b>
<b>EPS Growth (%)</b>	<b>15.9</b>	<b>13.9</b>	<b>25.8</b>	<b>26.7</b>	<b>17.2</b>

Source: Company, HDFC sec Inst Research

## Balance Sheet (Consolidated)

Year End (March)	FY17	FY18P	FY19E	FY20E	FY21E
<b>SOURCES OF FUNDS</b>					
Share Capital - Equity	140	140	140	140	140
Reserves	4,450	5,996	7,786	9,971	12,430
<b>Total Shareholders Funds</b>	<b>4,590</b>	<b>6,136</b>	<b>7,926</b>	<b>10,111</b>	<b>12,570</b>
Long Term Debt	-	-	1,205	1,205	1,205
Short Term Debt	193	256	256	256	256
<b>Total Debt</b>	<b>193</b>	<b>256</b>	<b>1,460</b>	<b>1,460</b>	<b>1,460</b>
Net Deferred Taxes	45	89	89	89	89
Long Term Provisions & Others	27	23	25	28	31
<b>TOTAL SOURCES OF FUNDS</b>	<b>4,855</b>	<b>6,504</b>	<b>9,501</b>	<b>11,688</b>	<b>14,150</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	810	818	2,375	2,398	2,417
CWIP	-	-	-	-	-
LT Loans & Advances	43	59	59	59	59
Other Non Current Assets	1	-	-	-	-
<b>Total Non-current Assets</b>	<b>854</b>	<b>877</b>	<b>2,434</b>	<b>2,457</b>	<b>2,476</b>
Inventories	773	796	933	1,121	1,309
Debtors	523	615	721	867	1,012
Other Current Assets	543	855	1,640	1,910	2,171
Cash & Equivalents	3,294	4,443	5,028	6,824	8,911
<b>Total Current Assets</b>	<b>5,134</b>	<b>6,709</b>	<b>8,323</b>	<b>10,722</b>	<b>13,401</b>
Creditors	609	633	742	892	1,041
Other Current Liabilities & Provns	523	449	515	600	687
<b>Total Current Liabilities</b>	<b>1,133</b>	<b>1,082</b>	<b>1,257</b>	<b>1,492</b>	<b>1,728</b>
<b>Net Current Assets</b>	<b>4,001</b>	<b>5,627</b>	<b>7,066</b>	<b>9,231</b>	<b>11,674</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>4,855</b>	<b>6,504</b>	<b>9,501</b>	<b>11,688</b>	<b>14,150</b>

Source: Company, HDFC sec Inst Research

## Cash Flow Statement (Consolidated)

Year ending March (Rs mn)	FY17	FY18P	FY19E	FY20E	FY21E
Reported PBT	2,337	2,648	3,428	4,333	5,077
Non-operating & EO Items	(387)	-	-	-	-
Interest Expenses	0	18	68	84	84
Depreciation	71	68	98	103	109
Working Capital Change	(390)	(437)	(852)	(366)	(354)
Tax Paid	(682)	(723)	(1,005)	(1,262)	(1,479)
<b>OPERATING CASH FLOW ( a )</b>	<b>949</b>	<b>1,574</b>	<b>1,737</b>	<b>2,892</b>	<b>3,437</b>
Capex	(68)	(76)	(1,656)	(126)	(128)
Free Cash Flow (FCF)	880	1,499	81	2,766	3,309
Investments	(788)	(1,412)	(350)	(1,000)	(1,000)
Non-operating Income	204	-	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(652)</b>	<b>(1,487)</b>	<b>(2,006)</b>	<b>(1,126)</b>	<b>(1,128)</b>
Debt Issuance/(Repaid)	193	63	1,205	-	-
Interest Expenses	(0)	(18)	(68)	(84)	(84)
FCFE	1,073	1,543	1,218	2,682	3,225
Share Capital Issuance	-	-	-	-	-
Dividend	(240)	(380)	(633)	(886)	(1,139)
Others	-	-	-	-	-
<b>FINANCING CASH FLOW ( c )</b>	<b>(47)</b>	<b>(335)</b>	<b>504</b>	<b>(970)</b>	<b>(1,223)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>250</b>	<b>(248)</b>	<b>235</b>	<b>796</b>	<b>1,086</b>
EO Items, Others	(248)	1	-	-	-
Closing Cash & Equivalents	466	219	455	1,251	2,337

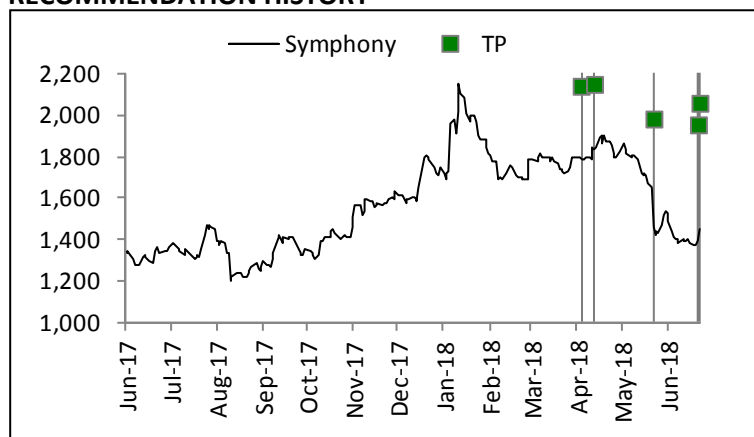
Source: Company, HDFC sec Inst Research

## Key Ratios (Consolidated)

	FY17	FY18P	FY19E	FY20E	FY21E
<b>PROFITABILITY (%)</b>					
GPM	52.5	51.7	53.8	54.5	54.4
EBITDA Margin	26.2	27.5	26.6	26.4	26.4
EBIT Margin	25.3	26.6	25.8	25.7	25.8
APAT Margin	22.0	24.1	20.7	20.8	21.1
RoE	43.5	35.9	34.5	34.0	31.7
RoIC (or Core RoCE)	106.9	89.9	67.6	59.2	63.1
RoCE	42.4	34.7	31.3	29.9	28.6
<b>EFFICIENCY</b>					
Tax Rate (%)	28.7	27.3	29.3	29.1	29.1
Fixed Asset Turnover (x)	3.9	3.7	4.9	5.7	6.1
Inventory (days)	36.8	36.4	29.1	27.7	28.0
Debtors (days)	24.9	28.1	22.5	21.4	21.7
Other Current Assets (days)	25.8	39.1	51.2	47.2	46.5
Payables (days)	29.0	28.9	23.2	22.0	22.3
Other Current Liab & Provns (days)	24.9	20.5	16.1	14.8	14.7
Cash Conversion Cycle (days)	33.6	54.1	63.7	59.4	59.2
Net D/E (x)	(0.7)	(0.7)	(0.5)	(0.5)	(0.6)
Interest Coverage (x)	5,915	119	45	45	52
<b>PER SHARE DATA (Rs)</b>					
EPS	24.2	27.5	34.6	43.9	51.4
CEPS	25.1	28.5	36.0	45.3	53.0
Dividend	4.5	4.5	7.5	10.5	13.5
Book Value	65.6	87.7	113.2	144.4	179.6
<b>VALUATION</b>					
P/E (x)	59.6	52.3	41.6	32.8	28.0
P/BV (x)	21.9	16.4	12.7	10.0	8.0
EV/EBITDA (x)	48.6	44.0	31.2	24.4	20.7
EV/Revenues (x)	12.7	12.1	8.3	6.5	5.5
OCF/EV (%)	1.0	1.6	1.8	3.0	3.7
FCF/EV (%)	0.9	1.6	1.4	2.9	3.5
Dividend Yield (%)	0.3	0.3	0.5	0.7	0.9

Source: Company, HDFC sec Inst Research

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
4-Apr-18	1,796	BUY	2,141
12-Apr-18	1,789	BUY	2,150
23-May-18	1,460	BUY	1,983
21-Jun-18	1,397	BUY	1,949
25-Jun-18	1,446	BUY	2,059

### Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period



**Disclosure:**

We, **Naveen Trivedi, MBA & Siddhant Chhabria, PGDBM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

**Any holding in stock –No**

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

**Disclaimer:**

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

**HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066**

**Compliance Officer: Binkle R. Oza Email: [complianceofficer@hdfcsec.com](mailto:complianceofficer@hdfcsec.com) Phone: (022) 3045 3600**

**HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193**

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

