



“Symphony Limited Q3 FY2021 Earnings Conference Call”

January 22, 2021



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Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY2021 Earnings Call of Symphony, hosted by Emkay Global Financial Services. As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask the questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Naval Seth of Emkay Global. Thank you, and over to you, Sir!

Naval Seth: Thank you. Good evening, everyone. I would like to welcome the management and thank them for giving us this opportunity. We have with us today Mr. Achal Bakeri, Chairman and Managing Director; Mr. Nrupesh Shah, Executive Director; Mr. Bhadrash Mehta, Global CFO; and Mr. Milind Kotecha, IR and Treasury. I would now hand over the call to the management for their opening remarks. Over to you, gentlemen!

Achal Bakeri: Thank you. This is Achal Bakeri here. Good afternoon, and welcome to all the participants. We really appreciate your being here and your interest and participation in this call. I will request my colleague, Nrupesh Shah, the Executive Director, Corporate Affairs, to take us through the results. After that, all of us will respond to the Q&A. Over to you, Nrupesh Bhai! Thank you.

Nrupesh Shah: Thank you, Achal Bhai. Welcome all the participants to December Q3 and YTD Financial review. Usual disclaimer statement applies.

To start with, we will take you through some major financials for the quarter and 9 months, standalone as well as consolidated. For the December quarter, on a standalone basis, revenue from operations stand at Rs. 124 Crores versus Rs.207 Crores in December 2019, that is a down by about 40%. While on a consolidated basis, for 9 months, it stands at Rs. 561 Crores versus Rs. 854 Crores, down by about 34%.

On a standalone basis, gross profit margin stands at 49.15%, improvement of 0.28% Y-O-Y and 0.88% improvement Q-to-Q. EBITDA margin percentage is at about 34% (Q3FY21) versus 30% in September quarter (Q2FY21) that is improvement of almost 4% Q-to-Q. At PAT level, it stands at about Rs. 35 Crores in Q3FY21 versus Rs.27 Crores in September quarter (Q2FY21) and Rs.58 Crores Q3FY20. PAT percentage stands at 26% in Q3FY21, about 3.4% improvement Q-to-Q and almost in line with December 2019 quarter.

On a consolidated basis for 9 months, PAT stands at about Rs. 44 Crores versus Rs.142 Crores (9M FY20). In terms of the capital employed (monthly average), for the quarter, on



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a standalone basis, it is negative by Rs.3 Crores, again proving the efficacy of the asset-light, capital-light business model.

In terms of the PBIT percentage on capital employed on Air cooling and other appliances on a standalone basis for the quarter, it is infinite, in line with December 2019 quarter and September 2020 quarter, while on a consolidated basis, it stands at about 11% for the quarter. Treasury stands at that about Rs.557 Crores.

In terms of the revenue breakup, on consolidated basis for 9 months, about Rs. 257 Crores has been generated from India sales, while Rs. 304 Crores from rest of the world, including sales by subsidiaries and exports from India so almost 54% of the sales have been generated from rest of the world.

I am happy to inform that despite COVID-19 challenges, despite challenging summer and lockdown, on a consolidated basis, there is a reduction in the inventory from Rs. 105 to Rs. 99 Crores, while on a standalone basis, it stands at Rs. 36 Crores. So, there is absolutely no overstocking at the level of the company. In fact, in some of the models, considering the collection received during the quarter, there has been a stock out position.

Coming to subsidiary companies, Symphony AU, that is Climate Technology, for 9 months, the topline is up by 1%. However, profitability is impacted on account of higher input costs, local purchases instead of imports and increased freight costs and the labor cost. But now considering various initiatives, which we had initiated in the past, in March quarter, it seems to be a turnaround quarter in terms of the business model, of rationalization as well as revenue optimization.

For IMPCO Mexico, sales impacted for 9 months due to COVID. However, there is an improvement in gross profit margin percentage as well as contribution margin percentage on account of various initiatives. About GSK China, again, sales were impacted due to COVID, but there has been improvement in gross profit margin percentage as well as contribution margin percentage.

As of now, we are witnessing very strong trade sentiments across the market, including rural as well as semi-urban demand. In fact, in December quarter, Y-o-Y, the trade collection was higher than December 2019, and it was more than our own internal estimate and expectation. Because of higher collection and due to certain supply chain and production constraints, there has been good amount of unbilled sales, which we will bill in current month and current quarter.



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There has been substantial increase in input costs, mainly plastic as well as metal. However, as mentioned earlier, there has been a slight improvement in the gross profit margin percentage, and we are confident to maintain it on account of launch of series of new models, good model mix, operating efficiency, cost rationalization and some price increase across the board. With this, we open the floor for question answer. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thank you for the opportunity. You indicated that there were some sales which would be accounted during the current month and next month. But just wanted to understand like whether there was any prebuying that could have been possible during the current quarter, given that there are risks for the price increases, and many of the other categories did witness some pre-buying, especially in the cooling product categories any lights on that?

Achal Bakeri: Are you referring to prebuying that could have happened before December?

Manoj Gori: December quarter. Yes.

Achal Bakeri: Well, not much because our price increase indication was given very late. So, it would not have really affected our booking in December and the price increases have been basically made effective January 1. And it was not declared beforehand that we are going to be doing that. So, it could not have been significant. Most of the collection had come much before that, orders had come much before that.

Manoj Gori: Sir, if you can quantify, what would have been the blended pricing that we would have taken?

Achal Bakeri: Well, blended price increase, again, it varies from model to model. And we would not really like to get into that for competitive reasons.

Manoj Gori: Right. Sir, on subsidiary part, if you look at, obviously, the sales have improved on a Y-o-Y basis but again, when we look at the EBITDA level, there was some pressure and especially even on the gross margin front. So, can you throw some light on that? And what would be the outlook on the same?

Achal Bakeri: I think Nrupesh Bhai already explained. Maybe Nrupesh Bhai, you can reiterate?

Nrupesh C. Shah: EBITDA margin percentage for subsidiaries, one in Climate Technology, and second IMPCO, have been impacted, especially in Climate Technology, one on account of local



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buying instead of imports, also substantial increase in the freight costs and labor costs on account of COVID-19. But now we have resolved those issues. And on account of various initiatives, starting March 2021 quarter itself, we should reap the benefits, and we are expecting March 2021 quarter to be a turnaround quarter for Climate Technology. As far as IMPCO Mexico is concerned, gross profit margin percentage and contribution margin percentage has seen an improvement. However, there has been provision for the bad debt of about Rs.7.2 Crores because one of the large, organized retailers went bankrupt due to COVID and hence, EBITDA has taken a hit over there.

Manoj Gori: That was very helpful. Thanks a lot. Wish you all the best.

Moderator: Thank you. The next question is from the line of Manish Agarwal from Edelweiss Broking Limited. Please go ahead.

Manish Agarwal: Sir, two questions from my end. Firstly, on the domestic inventory side if I remember correctly, last quarter, we had mentioned that around 40% of sales is with channel. So basically, we mentioned that our inventory almost has been drawn down quite a lot. So, any commentary on what would be the trade channel inventory as of our domestic market? Sir, the second question is on the gross margins for Climate Technology. So, you mentioned about the issues about the import restrictions and everything, which is impacting the gross margin. So, Sir, has the import restriction been eased out there or so that we can expect the gross margin going back to the earlier levels? Or it will be just something like an internal value engineering in the near term?

Achal Bakeri: As far as Climate Technology is concerned, it was more about availability of imports because of supply chain issues. There was no freight coming in or rather no containers coming in from China. Everything was locked. So, we had to either air freight components or buy them locally at several x the cost. And the other question was about the inventory. The inventory liquidation will start happening sometime from next month end and onwards because the summer has not arrived yet and consumer offtake of coolers has not begun yet. So inventory, in fact, would have increased because of the additional purchases from the company by the dealers.

Nrupesh C. Shah: But to give a different perspective in respect of inventory, of course, as on June 30, that is end of the season, trade was left with 40% - 45% of inventory. But as there has been a reduced offtake by the trade during September and December quarter, so if we compare the total trade inventory as on January 31, 2021, Y-o-Y, it will be in line with or slightly less than what it was as on January 2020 or even January 2019. So, end season trade inventory is more than offset by the reduced offtake by the trade during these two quarters.



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- Manish Agarwal:** That is helpful. Thank you.
- Moderator:** Thank you. We will move on to the next question that is from the line of Onkar Ghugardare from Shri Consultancy. Please go ahead.
- Onkar Ghugardare:** Instead of rising sales from your subsidiaries, there has been quite a lot of pressure on your consolidated profit and loss statement, and standalone has been better. So, what do you think about the performance of the subsidiaries going forward?
- Nrupesh C. Shah:** Yes. So, we already answered that. So, one was a major question mark on Climate Technology, but starting this March 2021 quarter itself, one is further improvement in topline as well as substantial improvement in bill of material and various other costs, we will witness the improvement and in fact, March 2021 quarter itself is expected to be a turnaround quarter. Not only that, on account of Climate Technology, we have got a market access to U.S. as well as Australia, and larger shipments are expected to materialize from Symphony India to both U.S. as well as Australia. We have already the confirmed order. In fact, some of those were expected to be billed in December quarter, but due to nonavailability of containers, we could not bill. But in current quarter, they will be billed.
- Onkar Ghugardare:** Yes. What about the rest of the subsidiaries?
- Achal Bakeri:** Also, in continuation, I think we must also recognize that there will be margin that Symphony India will retain on all the business that it sells all the coolers or export that it does to its subsidiaries. So that margin would not have been generated if the subsidiary did not exist. So, while we look at the subsidiary's performance on a standalone basis, we must look at the whole thing in totality. As we had explained once in, I think in one of our previous quarter conference calls, that our subsidiary in Mexico, which we had acquired about 11 years ago for a little over Rs.3.5 Crores, has over the last 11 years, given us a cumulative, total net profit after tax of Rs.111 Crores, and generated turnover also of about \$134 million in the last 11 years. So now this profit I am talking about is the end-to-end profit. Now had this company not existed, this profit would not have also existed. So, we must recognize that there is margin that Symphony retains. So as Nrupesh Bhai said, what these acquisitions have provided us access to those markets and so there is a margin that Symphony retains and then sales to the subsidiary, which in turn sells in their local market. Talking about the other subsidiary yes carry on Nrupesh Bhai.
- Nrupesh C. Shah:** Yes. So about other subsidiary for IMPCO as well as GSK, as I said earlier, Y-o-Y there is degrowth in topline on account of COVID. However, we have succeeded in improving the gross profit as well as contribution margin percentage. And in IMPCO, we would have been



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positive had it not been the provision for the bad debt. In GSK China, the year has not been good. And in fact, last year itself, that is in 2019-2020, we have already made the provision for impairment of equity as well as goodwill. However, down the line, we are optimistic, not only financially, but there are many, many strategic benefits due to China presence.

Achal Bakeri:

In fact, even if you consider the trajectory before COVID hit, up to March 2019, the whole situation was very different. In 2019, our sales had begun to improve over 2018. 2018 was higher than 2017. We had broken even on a cash basis in 2019. Had COVID-19 not hit, by 2020, we would have had higher sales and certainly had turned the profit, and so too in 2021. So, the direction was already there towards higher sales and profitability in China. But because of COVID, the curve changed once again. And of course, in Mexico, we have already explained that it was primarily because of one major customer going bankrupt. Otherwise, the company would have still had a small profit and on top of that, of course, the net margins that Symphony has retained in India for the exports that it has done to Mexico.

Onkar Ghugardare:

The second question is on, what has been the performance currently? And what would be the performance going forward for the industrial segment? And just to add to that, what you would be doing in terms of the cash which you have currently? Thanks.

Achal Bakeri:

For the industrial segment, we are not disclosing the information separately about what are the sales. But it is not a significant sale, is what I can tell you. But last year, we had introduced the Made in India range. Before that, we were importing from our subsidiary in China and Mexico, but it was only last year that we began manufacturing in India. And it was supposed to have been its sort of breakout here. But again, because of COVID, the whole thing got pushed back. In the current summer, we will be launching a marketing campaign for the industrial and commercial coolers and with that situation, should be significantly different. But even now what we are witnessing is a significant change in the direction and sales of these coolers is much better than it was in the previous years. It is a matter of accelerating that trend, which we will be attempting to do with our marketing campaign. And about cash, we have declared a small dividend, which you may have seen. Of course, we will continue to sort of pay dividends. Other than that, we have no other plans. We have no acquisition plans. We do not even wish to make any acquisitions in the foreseeable future. So apart from dividend, there will be no other avenue for deploying the cash and our business model, as you would know, is such that it does not really require a significant capex for us to grow.



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Nrupesh C. Shah: It carries the stated shareholder reward policy of 50% of the PAT and that will be maintained, as it has been in the past.

Onkar Ghugardare: Okay. Just, as because there were some talks earlier regarding buyback and all, which you had talked about.

Nrupesh C. Shah: Yes. So, in 2019-2020, as such, we had passed enabling resolution of buyback. However, later, income tax laws changed. So instead of buyback, in March 2020, we declared special dividend and I think the payout was Rs. 194 Crores. So instead of buyback, we paid out through special dividend in March 2020.

Onkar Ghugardare: Yes. So, the resolution for buyback is out of the way now. It is not there?

Nrupesh C. Shah: Down the line, we may consider because, again, if they have changed the income tax laws. So now, ultimately, it is a question of the payout in the form of dividend or buyback or combination of both. Ultimately, that will be 50% payout.

Onkar Ghugardare: Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Thank you for the opportunity. My question was, in terms of the demand scenario, if you could comment. I do not know if you have already covered that aspect. But how are you looking at in terms of the demand? Because in one of the remarks, you said you have faced certain stock-outs in certain models. So, I just wanted to understand in terms of the demand, if one must take a perspective for this season, how do you look at this situation? Not compared to last year because last year, we had kind of a harrow washout, but if I compare from a 2-year perspective, Sir?

Achal Bakeri: The demand, I would say, is robust. The sentiment is very, very buoyant amongst our channel partners. In fact, not only the channel partners, even at the end consumer level right after Diwali during the period, the wedding season, there was very, very good sales in certain pockets, running into several thousands of coolers in certain pockets, specifically for the wedding even though it was peak winter. So, the sentiment is very buoyant. The demand is very robust. So, at that level, we see no cause for concern. In fact, we are quite optimistic and very positive about the way things are unfolding. And so, going forward, and there are also indications of an early summer, it is expected that February should be a hot month. So, we are really poised to sort of harness, whatever the market has in store for us.



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Achal Lohade: Right. In terms of the supply chain, like, how much of the sales are in-house? I would imagine bulk of it is outsourced. So, could you please comment in terms of the mix? And any issues you faced in terms of supply chain? And are you also seeing your competitors in the organized as well as unorganized facing supply chain issues?

Achal Bakeri: There is no manufacturing that happens in-house. It is 100% third party manufacturing. And yes, we have witnessed supply chain disruptions and first because of COVID during those months, then, of course, subsequently, even our imports are constrained by supply chain issues. Domestically, too, availability has been an issue. Exports have been an issue. Many of our shipments, which were supposed to happen in December have been deferred, are going now. So there has been huge supply chain disruption not only in India, but across the world, and that has affected us as well. Then to top it all, you had the farmer's agitation, which also choked all the supplies going in and out of NCR. And most of our local purchasing or sourcing happens in the NCR region. So, everything that could go wrong in the supply chain perspective has gone wrong, not only for Symphony, but for the entire industry. But our people had been resourceful and have been managing to the best possible. And we have not really, allowed much of, loss of sales. Maybe the sales have deferred. It is happening now, but that has not led to any loss of sales.

Achal Lohade: How much would be the deferred?

Nrupesh C. Shah: The year for March 2021, whatever issues were there on account of supply chain or even delayed billing that will be taken care. And year we do not expect any loss of sales on account of them.

Achal Bakeri: Moreover, most of the other players in this industry, they begin their manufacturing much, much later around now or around December, January, whereas we keep on manufacturing around the year. So, to that extent, too, we have been able to prime the channel as well as we have been able to do it in previous years. And that same may not be true for other players in the industry.

Achal Lohade: Understood. How much of our products are imported from China? What is the mix?

Achal Bakeri: No, the products are not imported, some components are imported.

Achal Lohade: Some components are imported. Understood.

Nrupesh C. Shah: But even for those Chinese imported components, we have made the standby arrangement and that too at competitive costs to procure locally. Not only that, even for supplies to



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Australia, starting next year, some of the local production that is in Australia, what they used to procure, or they used to procure from China, for that also, we have organized outsourcing from India and starting next year, even for Climate Technology, there will be substantial supplies from India which will not only improve supply chain, but will also should substantially add to the exports from Symphony India and also add to the profitability. And it is likely to be in terms of the profitability margin in line with our domestic sales and exports to rest of the world.

Achal Lohade: That is very helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Simran Bhatia from S&P Global. Please go ahead.

Simran Bhatia: Thank you for giving me the opportunity. Sir, I just want to ask because some of the questions have already been answered earlier. I was seeing your EBITDA margin trend, so I just want to ask that when we can see, means or a sort of upside in the EBITDA margins from the days of 19%, at least, which we used to enjoy earlier, not beyond that, but at least close to 18% - 17% any timeline? Or these margins have been bottomed out? Or it is still to be, means or it will remain flat going forward?

Nrupesh C. Shah: See, EBITDA margin is purely a function of the topline. So, on a standalone basis, as far as contribution margin percentage or gross profit margin percentage is concerned, despite COVID-19 challenges, despite end of season inventory lying with the trade, we have not only maintained, but we have slightly improved the gross profit margin percentage. And that too, in current quarter, there has been production for which there have been substantial higher input costs. So, after accounting for that, we have maintained that. About reduced EBITDA, again for the quarter, EBITDA percentage margin is in line with the last year. However, it could have been even better, had we maintained the topline. So, it is the function of about the improved sales, which should happen down the line. And as far as subsidiaries leading to overall consol gross profit margin percentage, as we said earlier, in Climate Technology, this March 2021 is going to be a turnaround quarter. And hence, it should improve starting March 2021 itself.

Simran Bhatia: Great. Sir, the demand which we are seeing in the market, what is your sense is that it is more of a pent-up demand going on or it is a robust demand we can see going forward based on the cash flows of the consumers? Or is it just a pent-up or it is just transitory; it means it is just for a short time? Means, what is the sense is in the market because in the newspapers, we are seeing the different articles day by day. Sometimes it is good,



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sometimes it is bad. So, it keeps on fluctuating from the past 5 - 6 months. So, what is the sense there that means about this demand by the consumers?

Nrupesh C. Shah: As far as customer sales or secondary sales are concerned for air coolers, most of the sales happen during the summer. So, to what extent there will be pent-up demand, we will come to know starting next month. However, trade sentiments across the geographies are quite robust and quite confident. And hence, in December quarter, unlike earlier two quarters, there has been also robust collection and current trends as well as the estimates seem to be quite positive.

Achal Bakeri: If we talk about the overall sentiment, not only coolers, but the general sentiment, then it is I would say, very buoyant and it does not appear to be transitory. It appears to be stemming from confidence in the present and in the future. So, I would say that overall, the economy, I think, is doing very well at the grassroots level, at least. We do not know what gets reflected eventually in the numbers for the country. But the overall sentiment is, I would say, buoyant.

Simran Bhatia: Great, Sir. Great. It is a great thing to listen from your end. Thank you. All the best for the future.

Moderator: Thank you. The next question is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: It has been a good quarter, and the recovery has been pretty good. So, can we say in the quarter 4, the sales have beaten down what we were in March of 2019? Sir, what I am trying to understand is, can we say that in the coming 2 quarters, which are our main quarters, say, the March and the June quarter, can we say that we will be down the previous high levels of March of 2019, like the ones that we had in FY 2019?

Nrupesh C. Shah: Right now, all indications are very positive. It should be certainly better than March 2020. On a consol basis, to give a precise comparison vis-à-vis March 2019, it is slightly premature, but we are quite optimistic.

Ronak Vora: From when do we see all our subsidiaries, say, IMPCO, GSK and Climate Technologies to be at least contributing to the bottom line of the company because that is where we are really facing issues in the past three years?

Nrupesh C. Shah: About IMPCO, it is already contributing to the profitability since many, many years, not only on standalone basis of IMPCO, but as Achal Bhai earlier explained, on account of



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exports from Symphony India to IMPCO, there is a substantial profitability Symphony India also. Current year also, had it not been the provision for write-off, it would have been profitable despite degrowth. So that is as far as IMPCO is concerned. GSK last year and current year, certainly, there has been an impact of COVID as well as China-U.S. trade war. However, we have taken certain measures and if normalcy restores, hopefully next year, it should at least break even and about Climate Technology, Australia, we have already shared that in March 2021 itself, we expect it to be a turnaround quarter in terms of the profitability as well as topline.

Achal Bakeri: The numbers of the last year, even the Climate Technologies had done much better. Was it not for COVID, it would not have been a drain on Symphony's resources, or it would have contributed to the Symphony bottom line as well in the current year?

Ronak Vora: Thank you.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir. I have two questions. So, my first question is, if you must quantify what the value of deferred sales was, both in the domestic market due to stock-outs and in the export market because of unavailability of containers there. So, what could be the value of deferred sales dipping from 3Q to 4Q?

Nrupesh C. Shah: We would not like to disclose the exact amount, but it will be into high double-digit percentage of the sales we have billed.

Renu Baid: The second question would be, in general, what we have seen as a trend in the last six months, most of the market leaders or brands with strong presence have gained market share, either from smaller regional brands or unorganized players, given that cooler as a category itself has almost 65% unorganized market. So, what would be the expectations? A, there is a base effect here, the season and prebuying off seasonal stocking of weak. So, when we look at the 2021 season, what are the expectations? Can we expect a significantly better than usual offtake because of potential market share gains from unorganized players? What would be your on-ground report in terms of status of many of these players who have been operating in the sector?

Achal Bakeri: It is a good question. We believe that not only the unorganized players, but even many of the organized sector players have supply chain issues. And some of the smaller organized sector players have, even, I would say, close to folding up, shutting their doors. So, this will lead to consolidation and we should be the biggest beneficiaries of that when the season



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arrives and, like I said before, our manufacturing has been going on since July since the unlock and whereas for most of the other players in the category, they begin only production only very late just before the summer. So, they do not have access to the components that are required now. Everything is in short supply, and everything is very, very expensive. So, we had the benefit of manufacturing early at lower costs, which other players in the industry, whether it is organized or unorganized, will not enjoy. So, sum of all of that, it appears as if that by the time the season comes, we should be in a much better position than others.

Renu Baid: On the supply chain aspect, because if I remember, we used to import a significant share of the electronic components from China, maybe pumps as well. So as Nrupesh Bhai had mentioned, have you now fully localized or identified local vendors for these electronic complements? And you think this transition might retain or might sustain for longer? Or is this more of a transitory arrangement until the time we have the import restrictions or the international headwinds in terms of supply chain?

Achal Bakeri: No, this is more of a long-term initiative. So, this is not only to tide over the immediate supply chain issues. But this is part of our long-term sort of strategy to hedge our bets and not only rely on import sources. So, for all the key components, we are also developing and already have developed alternate sources within the country.

Nrupesh C. Shah: Renu, in terms of the quality, also in terms of the quantum, and importantly, even in terms of the cost, we have worked out such that it is going to be equally competitive and not only for Symphony India, but as we shared earlier, even for Climate Technology Australia, starting next year there, part of the sourcing, which used to happen from Australia as well as China, it will be replaced from Symphony India. So, in a way, we are becoming and will become more Atmanirbhar.

Renu Baid: No. I am sorry. The CT's sourcing will change to Symphony India? Or sourcing of supplier based out of India?

Nrupesh C. Shah: Yes. But it will be billed from Symphony India that will be a topline in Symphony India. And on that topline, we expect margin to be in line with our exports to rest of the world.

Achal Bakeri: We will not be supplying only components. I think that is what you are thinking, Renu.

Renu Baid: No. But Sir, just what I am trying to clarify is: a, we were anyway planning to supply our room air coolers to Australia. So that is known and established.



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- Achal Bakeri:** Which we are already doing. We have already begun.
- Renu Baid:** Correct. Yes. So, the point I am trying to clarify is the supply chain localization, which we have done in India versus China, those supply chain components also will be billed in the books of Symphony India and loaded with margins to CT in Australia? Or they would just the component sourcing system?
- Achal Bakeri:** No. We will not be supplying components from India to Australia. We will be supplying complete products from Symphony India as far as coolers go. For heater products, we will be supplying locally made components, but those were basically never made in China. They basically, the manufacturing from Australia is being offshored and brought to India. So, because of that, we will be supplying certain metal components from India with a margin.
- Renu Baid:** That manufacturing will be done through our vendor base in India?
- Achal Bakeri:** Correct.
- Nrupesh C. Shah:** So that vendor base has been already identified and organized end-to-end.
- Renu Baid:** So, this clarifies. Because the product range of India and CTL are different. So, I was just wondering how it offset and lastly, Sir, as in, you did share the broad comments for all the three internationals. In any way, can you share at least a 9-month headline numbers for all the three subsidiaries?
- Nrupesh C. Shah:** Renu, it will be unfair because we are publishing standalone and consolidated financials, but we gave a broad outline. So, it will be unfair to share selectively. Certainly, by March 2021, for every subsidiary company wise, there will be detailed financial breakup.
- Renu Baid:** Thank you so much for answering the question. All the best.
- Moderator:** Thank you. The next question is from the line of Vidhi Dedhia from Raedan Securities. Please go ahead.
- Vidhi Dedhia:** Pardon my ignorance, Sir, but just from a layman perspective, as an end user customer, could you help me draw the difference between an air cooler and an air conditioner. Why would one choose an air cooler over an air conditioner? Thank you.
- Achal Bakeri:** So, one would choose an air cooler over an air conditioner for, I would say, broadly 3, 4 reasons. One is that it consumes far less electricity than an air conditioner does to cool the same amount of space. Number two, it also costs less to cool the same amount, I mean the



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capital, or the capex is also lower for a like-to-like comparison product. Number three, it is portable. Number four, especially in these times when we are encouraged to keep our doors and windows open and live in ventilated spaces you cannot do that in an air conditioner, whereas you can do it in an air cooler. And number five, especially in dry climate, like, let us say, the interiors of Maharashtra, the entire Vidharbha belt or the entire Central India, the Gangetic Belt, Rajasthan, UP, all of those are dry and hot places. There, an air cooler, in fact, provides much better comfort than an air conditioner does because air conditioner, in fact, drains out whatever little humidity exists in the ambient conditions whereas an air cooler adds a little humidity, which feels very good onto the skin.

Vidhi Dedhia: Right, Sir. That was very helpful, and my second question is, do we see any structural shift from air conditioners to air coolers because of the above mentioned the reasons? Is that happening? I mean do you see that happening.

Achal Bakeri: No. Neither air conditioners nor air coolers are recent sort of innovations. They have all been around for 50, 100 years. So, there is a distinct, I would say, requirement for whether it is all 3 cooling devices, whether it is a fan or a cooler or an air conditioner. So, most homes will have fans in every room, they will have air conditioners in a few rooms, and maybe air coolers in some of the other rooms. Sometimes air conditioners and air coolers are used in the same room. They will use the air cooler during the day and maybe the air conditioner at night. So, they coexist. So really speaking, they serve to some extent, different requirements and they fulfill different requirements. So, they are not strictly interchangeable. So, they all have a market and a customer base of their own.

Nrupesh C. Shah: Vidhi, in respect of the runway for air cooler or the potential, existing penetration of air cooler is about 11%; air conditioner is about 6%. So, for air cooler demand, one is the replacement market of air cooler itself; and secondly, about 80% of the households are having fan or no cooling device at all. So, there is also a graduation, which happens.

Achal Bakeri: From a fan to a cooler.

Vidhi Dedhia: Thank you so much Sir. That was very helpful.

Moderator: Thank you. The next question is from the line of Hussain Kagzi from Ambit Capital. Please go ahead.

Hussain Kagzi: I wanted to get a sense with regards to the industrial category. So, you have said that it is quite small right now. But where do we see this category being five years down the line? I mean do we have any specific plans with regards to this segment even in terms of size.



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Achal Bakeri: Yes. Well, it is difficult to predict how this is going to grow and unfold. But we are convinced that the market is huge, the market is much bigger than coolers for the market for household coolers. And the reason why we believe that is that if you look at it, there are far number, far more number of spaces, whether it is industrial or commercial spaces in the country, which do not have any form of cooling. So, the market, theoretically, at least, is far, far bigger than what it could be for household coolers. That is also the case in many other countries, including a country like China or Vietnam. Unfortunately, so far, the concept is still a matter of selling the concept in the country and educating the users about the availability of this form of cooling. So, we are sort of at the stage where we still must sort of evangelize the concept. And that is what we have been doing for a while. And we have not really spent big bucks on it so far, but we intend to do that going forward, now that we have local manufacturing, and we know that our supply chain should be able to cope with whatever demand is generated. So, to cut a long story short, we believe that the market is enormous, and which is why we are committed to it, which is why we have invested in product and all of that and creating the distribution for that. So, we have the building blocks in place. And what we are going to be doing next is investing in the marketing and in consumer education.

Hussain Kagzi: That explains it well. I just wanted to get a sense about our manufacturing I know it is contract manufacturing but pardon my ignorance here. So, I just wanted to understand that even though you said that because despite raw material price hike, we will be able to maintain the gross margin by launching because of certain product hike, but still: a, one is like any fluctuation in the prices is borne by us and not the contract manufacturers.

Achal Bakeri: You are not clear. Your voice is cracking. Would you mind repeating your question, maybe speaking a little different way?

Hussain Kagzi: So, I just wanted to know, whether any price fluctuation, is this borne by us or is the contract manufacturer for the price fluctuations of raw materials? And second question was with regards to our debtor days. So, I mean how much is the outstanding debtor days for the dealers that we provide the material to?

Achal Bakeri: So again, the thing was not very clear, but I think I have got it. I will try and answer it. The cost increases have not been on account of the outsourced manufacturers, but on account of the raw material increases and increase in the logistic costs. So, was that your question? Does that answer your question?

Hussain Kagzi: That answers my question.



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- Moderator:** Thank you. The line for the participant has dropped off. We will move on to the next question that is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.
- Manjeet Buaria:** The first question was, just trying to triangulate the market size of air coolers, using the data points you have discussed on previous calls. If I take FY2018 as a good year roughly Rs. 700 Crores kind of standalone sales as a starting point, is it fair to assume that given we are 50% of the organized market, and the organized market is 50% of overall market, the industry would be closer to Rs. 2,800 Crores?
- Achal Bakeri:** In value terms, yes, yes, that should be about Rs. 3,500 – Rs. 4,000 Crores is what we believe. Because it is not exactly 50% of the total market in terms of value; it is, in fact, a little less than that. So, about Rs. 3,500 – Rs. 4,000 Crores is what we estimate. Now nobody knows for sure exactly how much it is, yes, but that is about our estimate.
- Manjeet Buaria:** Right, Sir. And then I have two follow-up questions linked to this point then. As you mentioned, this industry has been around for so many decades, right, and so have things like fans and ACs been around now. AC is kind of a multiple size of what we are today as an industry, right? AC probably would be north of Rs. 10,000 Crores or Rs. 12,000 Crores for sure. Fans obviously are much larger because it is kind of..
- Achal Bakeri:** Not in volume terms. Volume terms, air conditioners are less than air coolers sold in the country.
- Manjeet Buaria:** I get that Sir. I get that. But I was trying to understand because then given air coolers are so much affordable, right, why did not they pick up much faster, right, despite being around for so long? The industry Sir, it seems to be very small, despite it being around for so long, right, around Rs. 3,000 Crores, Rs. 3,500 Crores for activity like this.
- Achal Bakeri:** Well, it is a function of the economy to a great extent. And if you look at it, the penetration of air coolers is very low in our country. And that the same is true for most other categories in our country. The penetration is very, very low and as the income will rise, as disposable incomes increase, as aspirations increase, as propensity to spend increases, people's standard of living changes. So, people will keep on buying, whether it is an air cooler or an air conditioner or whatever other product. These are all products which are either lifestyle products or products which serve a need. So, people who were earlier content with living or sleeping in a hot room will gradually say, we do not want to, we need some sort of cooling device. So, it is a matter of changing habits as times go by.



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- Nrupesh C. Shah:** Comfort value and utility value.
- Manjeet Buaria:** Right, Sir. Right. Sir, so basically, on this point, you are deviating a bit more. So effectively, I understand it is a habit change and probably, as you said, linked to incomes which people make, you need to be at certain economic level, then is it fair to assume as an industry, this is probably something which will grow at 10%, 12% kind of rate over longest periods of time given that is how incomes probably will spend up over time? And at least for the next 4, 5 years, that should be the long-term industry growth range?
- Achal Bakeri:** For the total industry, but you must recognize that of the total industry, about only about 75% is still dominated by unorganized sector. The share of the organized sector would grow disproportionate to the overall size of the industry.
- Manjeet Buaria:** I understand that Sir. I was just asking that, as in overall, would the assumption be roughly that the industry probably would be more like 10% - 12% growth industry? And I understand we will gain share, so we will grow much faster.
- Achal Bakeri:** No. But if you look at historical, the thing, it has been growing at about 15%, 20%. There have been times when it has grown even higher. It is more also linked to the summer and the season.
- Manjeet Buaria:** Sir. I will just get on to the next question. When you mentioned the penetration of fans in the country, air coolers in the country, ACs in the country, I was just wondering whether that is the right way to look because fans would be there even in very cold regions as a basic kind of room infrastructure and be there in very humid regions, where air coolers do not really work well. So, is that a like-for-like comparison when we look at penetration? Or should we adjust for the penetration number accordingly when we make a relative comparison?
- Achal Bakeri:** So, see, fan is, like you rightly said, a fan is part of your standard fixture of most homes and every room. But coolers are like air conditioners. People will use them where a fan is not enough, where you need cooling. See, a fan at the end of the day is it is not reducing the temperature. It is only churning the air, whereas an air cooler or an air conditioner reduces temperature. So, they will be found in homes which are areas which are hot and even not only dry because even in a place like Bombay, but we also sell significantly high quantities of air coolers, or a Chennai, or a Kerala or a Goa. So, it is not that the sales of air coolers are restricted to dry areas. Dry areas have much bigger markets, but even relatively humid areas also have significant sales of coolers. We sell coolers even in countries like Sri Lanka or the Philippines, which are islands and humid.



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- Manjeet Buaria:** Okay, Sir. Sir, one final question was the industrial and commercial air-cooling side. Is it possible to give a sense on what are typical order sizes in this segment? When you take on a project, is there a trend which you have seen in the past?
- Achal Bakeri:** No. First, we do not take projects. We produce the cooler, and we sell to our channel partners who, in turn execute projects. So, in your office in Bombay, if your management decides to say, move to a new office and air condition the whole office, it is not as if a Daikin, or a Mitsubishi or a Carrier is going to come and do the execution themselves. It will be some installation partner, some channel partner who will do the installation, buy the coolers or the air conditioners from the company and invoice to the client, to the customer. So, the same thing happens in our case. So, we sell our product...
- Manjeet Buaria:** Sir, I am going to interrupt you here. I am very sorry about this. I framed the question wrong, right? I guessed where you come from what I meant to ask was for any project, right, where our coolers go, is there a typical size in industrial and commercial air cooling? Or just to get a sense of how these scales, Sir?
- Achal Bakeri:** Okay, fine. So, it can be as small as Rs. 1 lakh or Rs. 1.20 lakh and be as high as Rs. 2.5 Crores, Rs. 3 Crores - Rs. 3.5 Crores.
- Manjeet Buaria:** Right. So basically, Sir, where I was trying to understand because for us in the past, you have indicated, obviously, over a period of time, right, it is still early days, but this is a category which can be as big as you know, probably our residential air cooling. And when I think about that from the ticket sizes, which you have just mentioned on a project, it seems like you will have to do almost kind of 600, 700 projects a year in terms to hit that number. Is that a fair assumption?
- Achal Bakeri:** That is a fair assumption that is a fair assumption, yes.
- Manjeet Buaria:** And Sir, typically in India, how many such projects which are addressable for us as the customer base takes place today just to get a sense of this overall market?
- Achal Bakeri:** Sorry, sorry?
- Manjeet Buaria:** So today in India, how many such projects typically, how many such projects take place in a year, I just want to understand what percent of the overall projects we will be **(audio cut)** 600, 700 projects a year?



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- Achal Bakeri:** No, we do not do projects, like I said. So, we have no idea about where they are going. So, we do not know how many projects are being done. We only know how many coolers are being sold to our channel partners.
- Moderator:** Thank you. We will move on to the next question that is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.
- Naveen Trivedi:** Sir, you had mentioned that new products will be launched close to the season time. Is there any update on the same?
- Achal Bakeri:** That is happening.
- Naveen Trivedi:** Okay. Maybe if you can just give us some sense about, is it happening in the premium side or mass premium side or tentative sort of a price point?
- Achal Bakeri:** I would not want to get into that.
- Naveen Trivedi:** Fair point. Just lastly, on the export side, since like lots of cross-selling opportunities have been emerging for our export business, but if I look at the last two, three years, our annual export sales are close to Rs. 55 Crores - Rs. 60-odd Crores. So, can we expect that over the next two to three years' timeframe, this number can become a significant number?
- Achal Bakeri:** This, in the next 2-3 years' timeframe, we expect this number to be significantly higher, not just percentage, but in multiples of this once all the Australia and the U.S. business kicks in.
- Naveen Trivedi:** Thank you.
- Moderator:** Thank you. The next question is from the line of Hiren Trivedi from Axis Securities. Please go ahead.
- Hiren Trivedi:** Just wanted one small question on the topline for FY 2021. So, you had earlier indicated that in some previous call that it would be probably like FY 2019. So, does that still hold good? Or is there some improvement over and above that? And secondly, how would you see the growth for FY 2022 with the expected normalcy returning in the business? And lastly, what would be your online sales out of the total sales?
- Nrupesh C. Shah:** No, I did not exactly get your question.
- Hiren Trivedi:** Yes, Sir, I was asking about the FY 2021 topline. So, in previous calls, you had indicated that it would be like somewhere in what had been achieved in FY 2019. So, does that still



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hold good? Or is there some improvement over and above that? And secondly, how would you see the growth for FY 2022 with the expected normalcy returning in the business? So, would it be, as indicated in the previous question that your coolers industry is growing at around, say, 15% to 20%, so would you be within that kind of growth for FY 2022? And lastly, the online sales, what is the percentage of online sales that you are currently having?

Nrupesh C. Shah: So, for March 2021, on a consol basis, it should be, by and large, in line with FY 2019, that is number one. As far as 2021-22 is concerned, subject to reasonable summer, we do expect quite decent growth on standalone as well as consol basis by maintaining the current level of profitability margin. And of course, in terms of EBITDA margin percentage as scale increase, it should improve. And for March 2021 quarter, as we said earlier, on standalone as well as on a consol basis, we do expect a significant traction and much better quarter. We expect the quarter to be almost normal in terms of the business.

Hiren Trivedi: Right Sir and what about the online sales, that initiative that you had started?

Nrupesh C. Shah: So, our organized retail sales or large-format retail sales, which includes online sales, is about 15%. But we would not like to give the breakup between the large organized retail versus e-commerce. But certainly, it is getting traction. And year-by-year, it is registering very healthy growth.

Hiren Trivedi: Thank you.

Moderator: Thank you. The next question is from the line of Rahul from Haitong Securities. Please go ahead/

Rahul Gajare: I have got a couple of questions. You did indicate inventory levels are better and now more manageable. Is it possible you could highlight the advances received till December? And how does it compare to the same period last year in value terms. Is that something that you can comment on?

Nrupesh C. Shah: So about absolute number of advances we received during the off season, we do not disclose or share with. What is reported is the amount billed or sold, which is already reflected in our financials. However, to give some broader idea, in December 2020 quarter, the overall trade collection has been almost comparable to December 2019 quarter.

Rahul Gajare: Okay. The collection was like last year?

Nrupesh C. Shah: That is right.



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Rahul Gajare: Sir, my second question is, in the consumer durable appliances, there has been a steady shift that we have seen from unorganized to organized. Given high share of unorganized players in the coolers industry, have you seen similar shift in air cooler, especially in the backdrop of events like supply chain disruption, which is slightly difficult for unorganized players to manage compared to a large player like Symphony to manage.

Nrupesh C. Shah: So irrespective of these reasons, there has been a continued shift from unorganized to organized. Say, about 7 - 8 years before, volume-wise, organized industry was contributing 10% to 15% of the total volume and unorganized about 85%. Now it stands at about 25%, 75%. Even the industry itself has grown substantially. So, on account of increased aspirational level, rising income, more and more awareness, availability of the product even in rural and semi-urban market, there has been a shift. And the reasons what you mentioned or even earlier shared, I think they should further add to shift from unorganized to organized.

Rahul Gajare: Sir, my last question is, Mexico has been a great example of generating tremendous value for the stakeholders. You set up a subsidiary in Brazil. Can you throw some light on the opportunity there, the size of the market, competitive intensity? Some thoughts on how will you want to take the Brazil market?

Achal Bakeri: Okay. So, it is a large market. Brazil is a very complicated market to operate in. So, the typical export model did not work for us, which we tried for many years. So, we were not able to scale up in the typical export model in Brazil because of various tax and those kinds of complications, which is why we have established a subsidiary, which imports from India and then distributes locally because we believe that the market is substantial. And we are importing coolers into Brazil, both from India and from China, some of the industrial coolers from China, some of the household coolers and commercial coolers from India. And it is a large country and one of the largest economy in Latin America. So, we believe that over time, we should be able to develop it into a significant business. And it has been one of our larger export markets even from India. But like I said, the potential is much higher, and we felt that by having feet on the ground, we can scale up much sooner, which is why we did that.

Bhadresh Mehta: With a small base, we already broken even.

Achal Bakeri: Yes.

Moderator: Thank you. The next question is from the line of Ankit from Subhkam Ventures. Please go ahead.



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- Ankit:** Sir, just a confusion, which I want a clarification on. Sir, you mentioned that the current quarter, that is Q4 FY 2021, so your revenues would be better than Q4 FY 2020 on a standalone basis?
- Nrupesh C. Shah:** No, we have not quantified the number. But as we say, considering the overall sentiment traction and kind of the trade interest, we are quite optimistic.
- Ankit:** Okay. And Sir, assuming that the season is normal, so is it fair to assume for us that next year would be better than FY 2020?
- Achal Bakeri:** Yes, you can assume that.
- Ankit:** On a standalone basis?
- Achal Bakeri:** On a standalone basis, yes, it will be safe to assume that. It should be at least equal to FY 2020.
- Ankit:** Okay. At those levels, I mean, will we be back to those 30% kind of margins that we used to do at EBITDA level?
- Achal Bakeri:** Absolutely. Because our EBITDA, as Nrupesh Bhai explained before, is a function of the topline. Nothing else has changed.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Nrupesh C. Shah:** Thank you, all the participants for sparing your valuable time and thanks to Emkay for hosting this conference call. Stay safe. Thank you.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference call. Thank you for joining us. You may now disconnect your lines. Thank you.