



“Symphony Limited Q4 Financial Year 2014  
Earnings Conference Call”

August 01, 2014



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**Moderator:** Ladies and gentlemen, good day and welcome to the Symphony Q4 FY 2014 Results Conference Call, hosted by Motilal Oswal Securities Limited. As a reminder, all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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. Niket Shah from Motilal Oswal Securities Limited. Thank you and over to you Mr. Shah.

**Niket Shah:** Thank you so much. Good afternoon everyone. We at Motilal Oswal are extremely pleased to hold the Q4 FY 2014 Earnings Concall for Symphony Limited. Today, we have Mr. Nrupesh Shah, Executive Director, Mr. Bhadresh Mehta, CFO, Mr. Girish Thakkar, GM Finance and Mr. Chandrakant Gandhi, the Company Secretary of Symphony Limited with us. I would request Mr. Nrupesh Shah to give a brief update on the quarter and the growth going forward and post that we can open the floor for the Q&A session. Over to you Nrupesh Shah!

**Nrupesh Shah:** Welcome to all of you in the annual consolidated & standalone Q4 financial review. Along with me, I have my colleagues, Mr. Bhadresh Mehta, CFO, Mr. Girish Thakkar, General Manager Accounts and Mr. Mittal Shah, Senior Manager Accounts.

During our opening remarks, question and answer and otherwise there may be some forward-looking statement or estimates, which may or may not turn out to be correct on account of external factors, competitive scenario, weather factors, etc.

We have already shared our detailed financial along with data sheet and analysis of some of the major parameter, which is readily available with you. Having said that, our consolidated revenue for the year 2013-2014 has registered growth of 38%. It had been Rs.546 Crores versus Rs.395 Crores.

Our total air cooler volume sales have been 7.41 lakhs versus 5.75 lakhs, registering volume growth of 29%. In domestic market, air cooler industry growth for the year 2013-2014 was about 12% to 15% while organized factor register higher growth of about 15% to 20%.

Our growth on standalone basis in volume terms has been much more impressive, it has been about 37% including exports. Obviously, it is substantially higher than industry growth. We have again succeeded in maintaining our market leadership and during the year we would have commanded market share in excess of 50% in organized market and our profit share would have been easily in excess of 70%.



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Our share of voice i.e. advertisement and sales promotion, talking about TV commercial was more than 65%. We had aggressive internet and social media campaign, which succeeded well. We had successful tie up with several e-commerce website including Amazon, eBay, Flipkart, Snapdeal etc.

Coming to some of the major highlights of domestic residential air cooler, the new models launched during the year have been very well received and accepted and they have also helped in not only maintaining but improving the profitability. The contribution of top three models in terms of the sales value reduced from 47% to about 40% in asset top three model, no other model account for more than 10% of the turnover so that really speaks well in terms of penetration of respective model.

Modern trade contributed about 12% of the domestic sales and sales of modern trade has grown in excess of 46% over previous year. Our way forward in respect of domestic sales, we propose to establish separate robust distribution channel for window category of air coolers. We proposed to enhance the distribution network substantially in terms of number as well as in terms of upgrading the quality.

We propose to appoint many more direct dealers of course as per Symphony's philosophy, new models will be launched during the year and there will be upgradation of existing models in domestic market as well as some specific models even for exports.

Coming to international business, we have registered good growth in international business. In fact it has contributed substantially in growth of profitability; however, political turmoil in Middle East especially Egypt, Syria and Iraq to some extent affected the sales in those respective countries.

Coming to step down subsidiary of Impco, in Mexico & in U.S. in respect of Symphony Plastic Residential Coolers they have registered almost 40% growth. Symphony has become now exclusive supplier of air cooler for Wal-Mart, Home Depot in Mexico.

Now in Mexico in respect of the distribution network Impco has established presence in more than 2500 stores in the country. During 2012-2013, if you analyze standalone performance and consolidated performance, Impco in fact contributed negatively in excess of 2.5 Crores but in the current year without write back of taxation provision, Impco has contributed positively of about 45 lakhs. So to that extent it has seen some turnaround.

During the year in Impco, there has been write back of taxation provision of earlier year to an extent of 7.27 Crores. This is on account of a tax which is called as an IETU tax in Mexico that is linked with cash flow tax as a part of taxation reforms in Mexico, IETU tax



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has been completely abolished and whatever deferred IETU tax was there which was mainly provided in last five years is no more liable to be paid and hence there is write back in that respect.

Coming to centralized air cooling virtually year 2013-2014 was the first year of full fledged operations and internal team was in play, network was in play, advertisement and sales promotion has been really taken off. In respect of number of customer types or projects, we could execute about 148 projects versus 98 projects a year before.

Across the industry and in various segments including in railway, tool room, religious segment, bottling plant, warehouses, and various other segments Symphony have established its presence including some of the marquee names. Generally, the air cooling is having tremendous potential; however, still we have a very small value in terms of the sales as conveyed in the past where we really see long term potential over a period of 5 to 10 years, to scale it up substantially.

During the year, the gross margin that is sales minus cost of raw material on a consolidated basis has increased from 55.70% to 57.20% showing the pricing power and also continues value engineering and tight cost control. Even during the quarter in respect of gross margin, it has increased from 60.60% during April to June 2013 to 61.0%; however, we maintained the market leadership, we have substantially increased for advertisements and sales promotion so even on higher value on a consolidated basis, it has increased from 17.90% to 18.70% and during the quarter on standalone basis it has increased from around 22.20% to about 25.90%.

In terms of absolute PAT on a consolidated basis, it has been about 106 Crores versus 60 Crores registering PAT growth of about 76% and PAT percentage to gross revenue has been 19.30% versus 15.20% a year before translating into EPS of Rs.30.22 versus Rs.17.19 on a face value of Rs.2. Symphony is having currently total investable surplus of treasury in excess of Rs.194 Crores versus Rs.139 Crores and obviously maintaining its debt free status.

Coming to PBIT percentage on home appliances capital employed, we have separately marked the capital employed in our home appliances; it has jumped from about 99% to 156%.

Coming to geographical segment sales spread in India, we increased the sales from 273 Crores to about 395 Crores while rest of the world including Mexico and North America and exports it has jumped from Rs.104 Crores to about Rs.138 Crores.



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Coming to inventory, despite increase in sales, inventory has reduced from about Rs.43 Crores to Rs.38 Crores on consolidated basis and the receivables have increased from Rs. 38 Crores to Rs.42 Crores. In fact during most part of the year on account of advances from the trade by and large, there was a negative working capital.

Again considering our business model and outsourced business model, there has been hardly an increase in the gross block and capex and in respect of working capital and capex, we expect our current business model to continue.

Our average realization on consolidated basis has increased by 9% up from Rs.6500 to Rs.7110. Coming to dividend, current year dividend payout ratio has been further increased around 44% to 50% and in terms of dividend percentage, final dividend has been 550% and total annual dividend has been doubled from 325% to 650%. That is Rs.13 per share against Rs.6.5 per share on a face value of Rs.2 and also it is our policy, we have decided to have a dividend payout of at least 50% barring unforeseen situations of business scenario changes. We have also decided to explore the possibility of setting up SEZ in Kutch obviously because of better logistic advantage apart from direct, indirect tax benefits and also for additional five year income tax break on export profit.

Having said that, I open it for question and answer. Thank you.

**Moderator:** Thank you very much. The first question is from the line of Ankit Kumar Jain from Equirus Securities. Please go ahead.

**Ankit Kumar Jain:** Thanks for the opportunity and congratulation on excellent set of numbers. Sir what kinds of the expansion plan you are looking at Kutch? I mean will this cater to purely exports or what kind of a capex we are planning to have? Second thing Sir, what is the outlook on the Impco standalone business, we have seen some improvement during current year, any guidance on that for future performance?

**Nrupesh Shah:** About need to be setup in Kutch of course, it is at exploratory stage but what we wish to do, we do not propose to make any investment in factory land and building. We propose to have it on a lease basis and in terms of investment in plant and machinery, it will be mainly assembly line etc., so we do not expect investment to be more than few millions of Rupees that is number one. Number two, the location would be close to port, so in terms of the logistic advantage, it will really help us and it will be also closer to our some of the vendors and apart from that it will also help us in direct and indirect benefit and at Surat as such out of five years, three years are already lapsed in respect of 100% income tax benefit. Here we expect that, we will have 100% income tax break for five more years and some of the new



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models, which we have developed and likely to be launched in the current year to start with, they will be launched from Kandla SEZ.

**Ankit Kumar Jain:** But the supply from Surat facility will also continue as far as export goes?

**Nrupesh Shah:** Sometime simultaneous Surat facility will also continue and new models will be launched from Kandla SEZ.

**Ankit Kumar Jain:** Sir Impco standalone business?

**Nrupesh Shah:** So in Impco we expect to continue posting a moderate growth but we have already tightened the belts further in respect of the cost control, better realization, and increasing the dealer and distribution network so that will continue to happen and we internally view the performance of Impco not only based on difference between consolidated and standalone performance but over and above that whatever residential air coolers are being exported from India to Impco obviously we generate a contribution of profitability here and that profitability is on account of Impco that is number one and number two centralized air cooling opportunities which has come to us is also on account of Impco. So we are absolutely very much confident about viability of the business.

**Ankit Kumar Jain:** Sir any further tax reversal, are also expected going ahead?

**Nrupesh Shah:** In fact in Mexico, there was major tax reform with effect from January 1, 2014 and as a part of that, this has been completed and that IETU tax has been abolished in all respect.

**Ankit Kumar Jain:** Sir everything has booked I mean during current year as far as reversal goes?

**Nrupesh Shah:** It has been not only booked but now onwards there is not going to be any IETU tax liability that is going to be beneficial to us.

**Ankit Kumar Jain:** Sir last question is one can allow I mean what kind of a new model we are planning to launch for next year as such. I mean any specific feature you are having in mind in terms of upgradation of existing models as such?

**Nrupesh Shah:** During the year, both will happen, upgradation of the existing models as well as new models and there will be specific new model even for export, about the feature and about other aspects as and when we launch them formally, you will come to know.

**Ankit Kumar Jain:** Thanks a lot and all the best.



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- Moderator:** Thank you. The next question is from the line of Anil Kini from Envision Capital. Please go ahead.
- Anil Kini:** Thanks for taking my question. This is again coming back to the SEZ, which are the markets are you targeting to supply from this SEZ?
- Nrupesh Shah:** There will be some of the Middle East markets and North American markets from new SEZ.
- Anil Kini:** Are you seeing an increased traction in these markets because you are setting up a new SEZ and talking about new models from this SEZ?
- Nrupesh Shah:** We proposed some new models and that new models have been developed keeping in mind the potential and expectation of those markets, so we feel that can really increase the pace of export growth.
- Anil Kini:** Can you actually explain the potential that you are talking about in terms of numbers?
- Nrupesh Shah:** Very difficult to quantify that.
- Anil Kini:** Secondly Sir in terms of domestic market, how is the window air coolers done?
- Nrupesh Shah:** Window air coolers have been affected and as I conveyed earlier starting from current year we propose to have completely new set of distributor for window range of air coolers. In window range we have five models, last year some of the markets we had separate set of distributors but in current year we propose to have separate set of distributors almost throughout the country so that is possible only when there is good acceptance and good potential in terms of the volume and business viability not only for us but also for distribution network.
- Anil Kini:** Sir why would you need a separate set of distributors for window air coolers specifically?
- Nrupesh Shah:** We have separate set of distributors even for other range of air coolers and what we have experienced that really helped in terms of focus, not only by us but also by the distribution channel, it increases internal competitiveness and it increases the sales of the respective range of air cooler.
- Anil Kini:** Sir finally can you just give us some outlook on your export opportunity which new markets are you targeting, how is the export market showing for you at the existing international market?



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**Nrupesh Shah:** Currently we already have our presence in more than 60 countries so by and large it will be like increasing the focus and enhancing the sales in each of the existing market. That is number one. Number two, last year we could successfully tie up with some of the large format stores in South East Asia, South Africa, of course in North America, we already do have a good tie up, so increasing the tie up with some of the large format stores and also further enhancing the distribution network in terms of the quality of the distributor in terms of the number of distributors and also in terms of increasing the sales promotion and advertisement considered in the potential of each of the market but having said that some of the new models what we have planned targeted at exports there will be specifically for some of the Middle East markets and North American market.

**Anil Kini:** Thank you. All the best.

**Moderator:** Thank you. The next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

**Gaurav Maheshwari:** Congrats on great set of numbers. A couple of questions, first is would you be able to quantify what is the size of the centralized air cooling that you have done this year?

**Nrupesh Shah:** Centralized air cooling still I think we have just begun in a way year 2013-2014 was actually first full fledged year with a team in place, network in place with sales promotion and advertisement, but still in terms of the value it is nothing to write about it, having said that we have done successful installation of more than 148 projects and as we conveyed in the past about industrial air cooling, it will take time to reach to a sizeable number, we expect that in long-term over a period of five to 10 years, it should really reach to sizeable numbers and value even in the residential air coolers, we are at this stage after 26 years.

**Gaurav Maheshwari:** Any indicative number if you can give? Would you be able to give some light on the opportunity might be three years, five years on the line, what do you think that the business could be, could it be Rs.100 Crores plus business?

**Nrupesh Shah:** Let me just answer it slightly differently. Virtually as we have conveyed in the past, every factory, godown ,large commercial space even some of the interesting segment like railway, in the railway waiting room, running room, various religious segment have huge prospective market. Recently some of the colleagues were travelling in China and in China they know that there are many, many factories, could be more than 50% of the factories are centralized air cooled. Obviously in the factory it is just not possible to use the air conditioning one an account of the capital cost and secondly on account of the running cost. If not in the near future, maybe in the long term we are very optimistic that kind of scenario





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to be repeated over here. So may be in a period of five to 10 years, I think we can reach to a sizeable turnover may be in excess of 100 Crores.

**Gaurav Maheshwari:** How is the acceptance in India? Is there an acceptance towards setting a centralized air cooling for most of these factories or is it still breakthrough that you have to achieve in terms of thought process that most of the corporate would have?

**Nrupesh Shah:** Let me just give you name of some of the installations which we could do last year, it was in Havells, it was in Pepsi, it was in ISKON, it was in oil refinery, HPCL, it was in cement sector, Ultratech, in railway it was in some of the running rooms and some of the waiting rooms, in large godown of one of the logistic company, in aviation it was with BE aerospace and some of the cinema theatres, in some of the universities including Punjab University and Tibetan School so as such there has been acceptance and there has been good experience across the sector but it is more at a level of the concept selling.

**Gaurav Maheshwari:** What are the margins over there? Would it be equivalent to the domestic or would it be a higher margin?

**Nrupesh Shah:** It is at par with domestic residential coolers.

**Gaurav Maheshwari:** Just one clarification on the SEZ that you are setting up, so it is an incremental capacity over and above the Surat and both will continue simultaneously, the plan is not to shift the production to the Kandla SEZ at a later stage?

**Nrupesh Shah:** For sometimes both SEZ will continue functioning, so as I said earlier some of the new models which we proposed to launch specifically for exports to start with, they will be assembled and supplied from new SEZ, old models will keep on continuing being assembled and manufactured from old SEZ then may be in medium term also possibly everything may be moved from old SEZ to new SEZ.

**Gaurav Maheshwari:** Can you able to throw some light on the capacity of this new SEZ?

**Nrupesh Shah:** It is exploratory stage, for capacity the definition is difficult.

**Moderator:** Thank you. The next question is from the line of Virag Mehta from Value Quest Capital. Please go ahead.

**Virag Mehta:** You have answered most of the questions. One statement you made during your introductory remark was the advertisements spend increased from 18% to 19% for the full year, did I hear that right?



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**Nrupesh Shah:** That is right, so 18% to 19% is not just advertisement, it is advertisement, sales promotion, logistic and distribution cost all put together, but of course even in terms of advertisement and sales promotion also there has been different hike even in absolute amount.

**Virag Mehta:** Can you please quantify that?

**Nrupesh Shah:** In terms of advertisement and sales promotion, previous year that is 2012-2013 it was about Rs.16 Crores. It has been increased to Rs.26 Crores during the year in terms of rate and forwarding, these are up from about Rs.14 Crores to Rs.17 Crores.

**Virag Mehta:** This is very helpful. My other question was regarding the future branding strategy. Are we planning to tie up with any of the brand in brand ambassador as such, do we have any thought process in that regard?

**Nrupesh Shah:** As of now, our thought process is our product itself is a brand ambassador, so our product itself speaks about itself, so as of now we are clear we need not to have a brand ambassador in future depending upon the competitive scenario, we may rethink about it.

**Moderator:** Thank you. The next question is from the line of Vasavi Roman from Metro Investment. Please go ahead.

**Vasavi Roman:** Congratulations on excellent performance. My question is number one you said your market share for 2014 is about 50%?

**Nrupesh Shah:** In excess of 50%.

**Vasavi Roman:** Can you tell me from year 2013, how much it has grown?

**Nrupesh Shah:** Still we are in the process of compiling but as I conveyed in my introductory remarks, our estimate is air cooler industry as a whole has grown in the range of 12% to 15% and organized sector has grown at a high rate in the range of 15% to 20% and our growth rate has been substantially higher, so it should be anything in the range of 50% to 55% of organized market during the year in value terms.

**Vasavi Roman:** Secondly many companies who are in the electrical durable business they enter this air cooler business also, recently Orient they have entered this electrical durable business, they enter the air cooler business also, so when such threats from competitors are there, what type of strategy we have so that we can protect our market share that is what I want to know in terms of technology or in terms of competition, what are the competitive things we have?



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**Nrupesh Shah:** Number one for us in Symphony we eat, sleep and drink air cooler in the sense our 100% focus is on air cooler. We are into this industry now for more than 26 years, so keeping in mind customer expectation, customer needs, and trade channel expectation, we design, develop and supply the product. Secondly as air cooler is in our DNA and our focus is continuously to upgrade products. Most of the competitors by and large just copy what we do and along the upgradation of the model or launch of new model, our focus is also having really a value for money, so in our scheme of things better product, new model or better model does not mean increase in cost, so there is the engineering expertise as well as value engineering and on top of it, I think over a period of time we have continuously upgraded our service after sales, we have upgraded our service network and coupled with that Symphony branding.

**Vasavi Roman:** This is the last question which I am going to ask now, see in the treasury we nearly about Rs.190 Crores now, which we have invested in bonds like that, so you said we are going to invest a few millions for the SEZ, this huge amount in treasury bring down the return on invested capital, what is the need do you foresee to keep so much of money in the treasury?

**Nrupesh Shah:** Number one out of that almost one fourth is going to be distributed in the form of dividend because our final dividend is 550%, that is Rs.11 per share and dividend distribution tax there, so all in all about Rs.45 Crores, this is over and above the interim dividend which we had declared, so that is number one, number two as I conveyed in my introductory remarks as our policy we have decided to have dividend distribution of at least 50% on continuous basis bearing unforeseen situation or business scenario changes. Having said that, of course we are always keeping our eyes and ears open for international acquisition, not in respect of any diversification but in the same line or which can give us market access either through network of distribution and there maybe a deployment of funds there, if post our Impco acquisition, we have come across many such opportunities but either on account of business proposition or on account of valuation, it does not make the sense so we are not in hurry just to deploy the cash for the sake of it, so essentially these two are the outlet.

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

**Ankit Babel:** I just have one question, the current momentum is very strong and we have grown by 38% in this year, just wanted to know can this momentum be continued for at least next two years, can we have 30% plus growth for the next two years considering the fact that you are expanding your distribution network very aggressively and launching new products?

**Nrupesh Shah:** We are optimistic but having said that our guidance is, on medium-to-long term, we can grow on a consolidated basis at about 20% to 25% by maintaining current profitability



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margin. of course in some years there may be very higher growth and in some years, there may be lower growth but on CAGR basis, this is the kind of the guidance and growth we expect.

**Ankit Babel:** Thank you.

**Moderator:** Thank you. The next question is from the line of Sanjay Manyal from ICICI Direct. Please go ahead.

**Sanjay Manyal:** Just one question Sir, your average realization has increased by 9%, what could be the product mix in that and what is the actual price increase you have taken?

**Nrupesh Shah:** For price increase from model-to-model last year was ranging from 4% to 13%, 14% in domestic market and as far as international business is concerned, it was an account of rupee devaluation which helped us to some extent and secondly also better product mix also helped us.

**Sanjay Manyal:** In your initial remarks, you mentioned something about digital sales in a sense sales from the Flipkart and eBay, what could be the proportion of the total revenue from that?

**Nrupesh Shah:** It is a part of the organized retail sales that is part of the large format sales and as I said now it contributes close to 12% of the domestic sales up from less than 3% three years before and vis-à-vis previous year, our sales from large format stores or the digital stores altogether registered about 46% increase but as of now I do not have exact separate breakup how much online of social media has contributed out of this organized retained sales.

**Sanjay Manyal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Akash Padiyal from SBI Securities. Please go ahead.

**Akash Padiyal:** Sir, two questions, one is regarding this advertisement cost that you have mentioned sales and distribution expenses, it has substantially increased whether this runrate will continue for the coming periods for the next year, but that is in the next financial year for you and the second thing is that can you please explain in balance sheet line items that is on the consolidated basis what we see that is particularly three items are mentioning none current investments and the other item is inventories and trade receivables and can you please explain on a consolidated basis and standalone basis, what is the traction that has happened in the year, so is there a severe difference between the two items in the consolidated standalone basis?



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- Nrupesh Shah:** Your first question was?
- Akash Padiyal:** Sir regarding the advertisement and sales promotion expenses, whether this will continue if you are planning to grow at more than 20% in the coming period?
- Nrupesh Shah:** **Considering our** business plan in respect of robust growth in domestic market as well as international market, advertisement and sales promotion expenses will increase in absolute amount but in terms of total percentage of the sales, it should be by and large the same because even volume and value will be higher but yes in absolute amount it will increase and it has really helped us.
- Akash Padiyal:** So you meant to say you will curtail the advertisement cost and the percentage of the sales that has been quoted in the current quarter or on yearly basis?
- Nrupesh Shah:** I think it is better to map it yearly basis, it will continue in the same level but having said that in absolute amount wise it will increase substantially.
- Akash Padiyal:** Coming to the balance sheet item just one explanation from the consolidated and the standalone figure that is item number related to noncurrent investment and the inventory and receivables how are the things different because inventory at standalone is Rs.22 Crores and it is Rs.38 Crores in consolidated basis and the receivable is just Rs.9.8 Crores on standalone basis and Rs.41.58 crores at consolidated basis.
- Nrupesh Shah:** Coming to noncurrent investment as for the accounting standards and accounting practice, whatever investment is there for more than a year is a noncurrent investment, so Rs.138 Crores or so on a consolidated basis and standalone about Rs.161 Crores, bulk of that is in the form of FMP, having a maturity in excess of 12 months and liquid growth mutual fund and the intention was to avail the taxation break on that of course, because of current year budget unless we continue investing for more than 36 months we will not get that but most of this noncurrent investment we can book the income only on maturity of that or only on redemption of it, so in the reality in fact income, which has accrued there on but on account of accounting standard, it is not a part of the other income so that is in fact substantial but it is nowhere part of other income, treasury income or total profitability. So that is as far as noncurrent investment. Coming to inventory, on standalone basis our inventory is about 22 Crores and on a consolidated basis it is about 39 Crores. So the differential is about the inventory in Impco, Mexico close to Rs.17 Crores and in Impco, Mexico unlike our standalone model where in standalone do have outsourced business model while in Mexico, it is completely vertically integrated manufacturing facility for centralized air cooling and metal cooler. So there is an inventory in the form of raw material, work-in-process and finished goods, but having said that last year, the inventory in Mexico was Rs.43 Crores



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minus Rs.18 Crores that is Rs.25 Crores and current year from Rs.25 or so, it has been reduced by way of better working capital management from Rs.25 Crores to about Rs.17 Crores.

Coming to trade receivable, yes trade receivables wise on the standalone, it is just about Rs.10 Crores. So here on a standalone basis, we have zero receivable from the trade, because our bulk of the sale is to dealers and distributors and there we work only on cash and carry over advance, but bulk of this is on account of sales to large format store that is Reliance or Croma or Big Bazaar etc., that is one part. Secondly export, even on export also, we work 100% either on advance or just on LC basis. So it is on account of this in fact by July 31, even bulk of the 9.84 Crores has been already recovered. Coming to Impco, Mexico, it is close to Rs.30 Crores, so there even on standalone basis even though its sales is lower than Symphony, its receivable are higher than Symphony, the reason being at the level of Impco most of the sales is through large organized retail which is in North America and , there is a credit of 45 to 90 days, but again bulk of these will be paid off by September and October.

**Akash Padiyal:**

Thank you.

**Moderator:**

Thank you. The next question is from the line of Vinit Sambre from DSP BlackRock. Please go ahead.

**Vinit Sambre:**

Good evening. Just a clarification in the initial remarks you mentioned about the air cooling industry growing back 12% to 15% and the organized category growing up 15% to 20%, so all these are in terms of volumes or by way of value?

**Nrupesh Shah:**

I think industry as a whole is about volume and value both. It is more in case of Symphony whereby because of the premium pricing, our value growth is more than volume growth.

**Vinit Sambre:**

What I am asking is the data which gave 12% to 15% for the industry is that volume data or value data?

**Nrupesh Shah:**

That is what I clarified. It is both. It is in fact volume as well as value, because for industry by and large there is not much of the price increase, so the growth is whether you have call it volume growth or value growth it is almost the same.

**Vinit Sambre:**

Just one more question, this 12% to 15% for the industry this year and organized category 15% to 20%, what was this last year?

**Nrupesh Shah:**

I think rather than giving it on a year-to-year basis, our estimate is in last five years on a CAGR basis, industry has grown almost at the same level. There might be some years



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where there is a lower growth, there are some years where there is a higher growth, so on CAGR basis in last five years, it has grown at this rate.

**Vinit Sambre:** The question was more to understand whether because of the heat factor as the industry grown at a higher rate that was what I was trying to understand?

**Nrupesh Shah:** Of course the where the year there is a high heat, the year in which there is a severe summer growth rate is high, the year in which summer is milder, growth rate is low and normally in a large country like us by and large what happens in some of the states there may be severe summer in some of the states there may be a mild summer. So normally by and large it gets offset, of course there maybe some exceptional year like 2011 when probably across the country it was not so good summer.

**Vinit Sambre:** Lastly one more thing is in terms of the presence in the domestic market, how do you access our presence? What do you think which are the geographies that we are still lacking and we would like to enhance our presence there?

**Nrupesh Shah:** Across the geographies, we do have good presence barring northeastern states where we have hardly any presence rather, but starting last year even in northeastern states we have started taking some steps and having said that I think in southern states, we feel that we need to improve our network substantially and there is a huge potential vis-à-vis our network.

**Vinit Sambre:** How is our presence in the Tier III and Tier IV small towns and districts, do you feel we have good presence there?

**Nrupesh Shah:** We do have presence in Tier II and Tier III towns and villages, but considering the demography and the geography of the country, there is a huge potential to grow there.

**Vinit Sambre:** That is from my side.

**Moderator:** Thank you. The next question is from the line of Sitaram Agarwal from Treeline Advisors from Hong Kong. Please go ahead.

**Sitaram Agarwal:** Thanks for taking my question. I just wanted to quickly understand, because I have not followed much who exactly are your key competitors and given the strong industry growth, how are they shipping up as in terms of ramping capacities in terms of ramping distribution network and how is the pricing shaping up compared to yours?

**Nrupesh Shah:** Our competitors in the organized sector are Kenstar, which is a Videocon Group Company, Bajaj Electricals part of Bajaj Group, apart of them it is Orient Fan, Maharaja, Khaitan and



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Usha. Apart from that in the last two, three years, couple of other players have also entered companies like Makoi and many others. In terms of the market share, value wise our share last year would have been in the range of 50% to 55% followed by Bajaj, which should be more or less like 25%, 27% followed by Kenstar should be about 23%, 24% and rest is all other players put together. Having said that to our estimate total size of air cooler industry, it is about or in excess of 6 million unit out of which organized market is last year would have been closed to 1.20 million units and remaining is organized market, so volume wise still organized and unorganized like 20:80 and value wise it should be about one-third and two-third.

**Sitaram Agarwal:** What kind of pricing difference do you think exists in between organized segment and the unorganized segment?

**Nrupesh Shah:** Pricing difference between organized and the unorganized is like 50 to 100 percentage, but that is one part. Having said that by and large unorganized market supplies metal coolers and even though from last year we have also launched metal coolers, but our bulk of the sales is plastic cooler so in terms of durability of the product, the noise level, airtrow, cooling efficiency, service after sales, distribution network, it is much, much better in the organized market and when it comes to the life of the air cooler by and large, metal coolers life is just five to seven years or even lower than that, while in case of the plastic coolers virtually it is 10 to 20 years wherein sometimes fan or motor may have to be replaced. So this is vis-a-vis unorganized market and vis-à-vis organized players. Symphony's air cooler price, it is premium pricing ranging from 5% to 12% varying from model-to-model.

**Sitaram Agarwal:** The other things from what I understand a lot of your production processes are outsourced, you do not have lot of capacity on the domestic side. So my estimate is that you have to outsource your technology, you have to share your technology with some of the smaller scale players who are doing the production process for you. So, under that scenario, how do you ensure that technology is not leaking out your business practices or not leaking out and how superior have to be like as the product quality of the competitors gone better in the last three, four, five years because of technology leaks or something like that?

**Nrupesh Shah:** Number one, our OEM suppliers are not like small time player, they are typically large molders, who work for some of the automobile companies, automobile accessories companies or other consumer durable companies. For many of them Symphony's business may be like 5% to 20% of course there are some vendors where we contribute bulk of the sale. In fact our almost all the OEMs or vendors, gross block is substantially higher than our gross block. Many of their turnover is substantially higher in hundreds of Crores. Number one, they are not small time players. Secondly they are not just assemblers; they are a large molder, so they are specialized in molding. Having said that we supply them moulds dye,





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design and specifications and they manufacture for and on behalf of Symphony and Symphony owns more than 100 IP rights including design registration, trademarks etc., and there have clear cuts agreements with them, but having said that again each of those vendors are like typical manufacturer who specialize in molding. But till last year some of the small kind players, none of our OEM or vendor, but some of the small kind player in Hyderabad or in Maharashtra and Delhi copied our some of the models and started marketing it. We took very stringent legal action and including we could get in all the cases favorable court order on the basis of our IP rights whereby not only their products, but also their inventory, but their factory premises got shifted and we are succeeding in that.

**Sitaram Agarwal:** Thank you.

**Moderator:** Thank you. The next question is from the line of Prateek Poddar from ICICI Prudential. Please go ahead.

**Prateek Poddar:** Good afternoon Sir. You mentioned that the industry has been growing at around 15% to 20% CAGR and Symphony plans to outgrow this in the sense you are growing at some 20% to 25%, so this sector outperformance how will Symphony outgrow the sector, could you just highlight upon that a bit?

**Nrupesh Shah:** I think I have already answered this is slightly differently. Number one for Symphony of 100% focus is on air cooler category. As far as other competitors are concerned for them air cooler is one of the products. So, we keep on continuously upgrading, updating and innovating the products. We keep the consumer market and trade channel, very close to our eyes, and ears, and even in respect of the engineering capability, even in respect of the R&D, Symphony is the only air cooler company having government recognized R&D center and apart from that continuously enhancing the distribution network and branding, so it is a couple of those factors. In fact in case of competition, by and large, they just copy what we do including we have seen some instances whereby competition also copies our literature and our brochures including full stop and comma including we came across some instances whereby our literature says that Symphony's subsidiary also manufactures in North America and there literature says the same thing.

**Prateek Poddar:** I am still unable to understand that the industry is growing 20% and you are growing 25%, is there a premium pricing that helps you get this kind of value growth?

**Nrupesh Shah:** It is the premium pricing, second is innovation, third is much better product, fourth is the service after sales even of course air cooler consumes lower electricity vis-à-vis air conditioner, but our many models consume lower electricity vis-à-vis other players and have better aesthetics, better features. It is a combination of all that.



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- Prateek Poddar:** Sir in the past three years, how many new models would we have introduced? Could you talk about that a bit?
- Nrupesh Shah:** Our current range of models, none of the model is older than four years, for all 24 models have been either updated, upgraded or launched afresh in the last four years.
- Prateek Poddar:** Has the competition has the same old model, they are not upgrading in that?
- Nrupesh Shah:** No, they are upgrading some of them, but none of them have such a wide range of model and none of them have such kind of features or aesthetics or lot of superiority, or service after sales.
- Prateek Poddar:** For the next two, three years, any key road block or any key risk that you see in your business which you would like to highlight?
- Nrupesh Shah:** I think our kind of business is such, it is totally insulated from by and large an economy, so whether high GDP growth or low GDP growth , high interest rate or low interest rate, high fiscal deficit or low fiscal deficit does not affect much. Of course, if there is buoyancy in economy, GDP growth well, it helps to some extent, but seasonality is the factor. So if it is bad summer across the country as it happened in 2011 when we had only marginal growth of course still we maintained, because of products superiority and branding or profitability margin, so I think that is one factor and maybe if any such other unforeseen external factor comes into play.
- Prateek Poddar:** This time I mean if I am not wrong, the summers were extended is that the reason why we see such high growth in next year, the base would correct itself would that be a correct understanding?
- Nrupesh Shah:** This year, yes summer was extended, but at the same time from March to May in many parts of the country there were rains. It was turbulent summer. In fact only starting third week or fourth week of May as such summer sets in many parts of the country. So, of course ultimately here as a whole there has been industry growth, but it was also a turbulent summer, it was not uniform good summer and in fact until May end or June beginning most of the competitors had degrowth.
- Prateek Poddar:** Thank you so much and all the best.
- Moderator:** Thank you. The next question is from the line of Deep Maheshwari from Girik Capital. Please go ahead.



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**Deep Maheshwari:** Thanks for taking my question and congratulations on a good set of number Sir. Just a few questions any decisions on price hike for the next fiscal?

**Nrupesh Shah:** As of now we have decided varying from model-to-model, price hike up to 8% to 9%, it is not a uniform price hike, in some of the models there is no price hike and in some of the models it is 8% to 9% price hike considering various strategies, competitive scenario, positioning of the models considering that the business plan in terms of the sales volume, etc.

**Deep Maheshwari:** Residential cooler I believe would be 95% of the sale versus industrial if I am not wrong?

**Nrupesh Shah:** On consolidated basis residential would be close to 85% to 86% because in North America the sales by Impco majority of the sales are in industrial and dusted air cooler.

**Deep Maheshwari:** So you have seen a good growth in industrial in the Mexico and on the Impco side?

**Nrupesh Shah:** No, there it has been a marginal growth. Good growth has been there in Symphony residential air coolers.

**Deep Maheshwari:** Just one last question, any plans for any acquisition?

**Nrupesh Shah:** As I said earlier, we are open to acquisition mainly for the market access, customer acquisition, so yes we do have a robust dealer distribution network and we can do on our own and we are in terms of the brand, product or in terms of distribution network it does not make much of sense to have a local acquisition, but in international market there is a huge potential, huge scope to our estimate the residential air cooler market size internationally is in excess of 7 million units and we have badly begun, so whether it is Middle East, whether it is North America, whether it is Australia there is a huge, huge potential even in South East Asian Countries, and internationally also there are air cooler companies, of course they are like regional players or at the most national player and some of the air cooler company and distribution network suitable to our kind of products. If it is available we are open to it provided it is available at a fair price, then it makes business sense. In fact post Impco acquisition, we have come across many such opportunities but they have not made sense to us.

**Deep Maheshwari:** Just one last question, what could be the dealer size and distributor size?



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**Nrupesh Shah:** On account of confidentiality since those kind of data are not available of competitors and we being the only air cooler company so starting last year, we have stopped providing those details.

**Deep Maheshwari:** That is all from my side. Thank you, all the best Sir.

**Moderator:** Thank you. The next question is from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

**Niket Shah:** Just one question Nrupesh Bhai, I wanted to know the new product launches that you are going to do for FY 2015 how much higher pricing will those products have as compared to the existing range of products that you have?

**Nrupesh Shah:** Rather than pricing I would define in terms of the contribution percentage or gross profit margin percentage, it would certainly be higher than the current margin, but how much and to what extent only as and when we launch them it will be exactly crystallized.

**Niket Shah:** Thanks that is only from my side. Best of luck.

**Moderator:** Thank you. The next question is from the line of Yash Choksi from JM Financial. Please go ahead.

**Achal Lohade:** Sir, couple of questions one on the industry front what would be the penetration level according to you for air coolers in the tier I, tier II towns?

**Nrupesh Shah:** Overall as a country penetration of air cooler is about 8% in terms of the households owns vis-à-vis the penetration of about 3% of air conditioner and about 40% of the fan, and in fact there are almost 30% to 35% of the household who do not have even fans.

**Achal Lohade:** The growth what you have seen is, is it largely driven by rural or both urban areas as well as rural and what would be the proportion?

**Nrupesh Shah:** It is across the geographies.

**Achal Lohade:** What would be the mix for us in terms of rural and urban broadly?

**Nrupesh Shah:** I think for us the definition of urban is cities and towns having population of more than 1 million and tier II towns are having population in the range of 5 to 10 lacs and less than 5 lakhs is tier III. In fact pure rural, rural that is small villages or most of the villages having a very small population and many of them do not have even sales points or dealer network, so what happens from tier II or from tier III, in fact rural demand takes place in terms of the



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consumption. If you say hardcore rural, rural not only for us but I think for most of the consumer driven appliances companies ,it is very difficult to measure, but having said that from tier I that cities having population of more than 1 million it is contributing in excess of 30% of our sales and tier 2 and tier 3 put together about 70%.

**Achal Lohade:** In terms of the size of the industry, sorry I missed that number, the size and what is the breakup in organized and unorganized?

**Nrupesh Shah:** Our estimate total air cooler industry size is in excess of 6 million units out of which organized sector would be in excess of 1.20 million units and unorganized is in excess of 4.8 million units, so quantity wise it is about 20:80 and value wise it would be one-third and two-third, that is one-third about organized and two-third about unorganized.

**Achal Lohade:** So there is a huge scope for actually gaining market share?

**Nrupesh Shah:** Absolutely, so seeing air conditioner industry about 15 years before, it was almost the same scenario. Now in air conditioner industry unorganized sector has almost vanished and here over a long period, I think that is what is likely to happen and we are seeing shift from unorganized to organized at least in last five to seven years and apart from that we believe that as and when GST will be launched it will accelerate that process on account of various reasons.

**Achal Lohade:** What would be the difference between the organized and unorganized guys pricing as such?

**Nrupesh Shah:** We have already answered that. It would be about 50% to 100% on account of various reasons and factors.

**Achal Lohade:** Just last question on the, since our products have largely plastic based what has been the raw material cost movement?. Have you seen a stable pricing or rising pricing scenario?

**Nrupesh Shah:** Our most of the raw material is linked with either oil price that is plastic or with the metal price and both have at least doubled over a period of last five years but on account of continuous innovation and value engineering despite increase in features robustness, increase of our raw material cost is disproportionately lower than increase in base raw material cost that is one of the USPs of Symphony. Secondly as I said in my introductory remark currently our sales over operating profit that is sales price minus raw material cost has increased on a consolidated basis, on a standalone basis, so that shows not only the pricing power, but also continues value engineering and tight cost control.



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**Achal Lohade:** Actually it was more from the pricing point of view not really from a margin point of view. My query was that in terms of have you seen an increase in pricing and competition getting squeezed because of that something like that?

**Nrupesh Shah:** So you mean to say, are we in a position to pass on the input cost increase?

**Achal Lohade:** No just the input cost increase? Has it increased or has it remained stable on a YOY basis?

**Nrupesh Shah:** Current year i.e.2014-15 there is no increase.

**Achal Lohade:** 2013-2014 vis-à-vis 2012-2013?

**Nrupesh Shah:** There was cost increase.

**Achal Lohade:** What would be broad percentage, broad percentage?

**Nrupesh Shah:** Over previous year about 4% to 5%.

**Achal Lohade:** 4% to 5%. Thanks so much Sir. Good luck.

**Moderator:** Thank you, ladies and gentlemen due to time constraint that was the last question. I would now like to hand the floor over to Mr. Nrupesh Shah for closing comments. Thank you.

**Nrupesh Shah:** Thank you very much for sparring your valuable time. With this, we close this conference call. We will meet again post September 30, 2014 for first quarterly review of the performance of the year 2014-2015. Thank you.

**Moderator:** Thank you on behalf of Motilal Oswal Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.