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A Spectacular Journey

A world leader in evaporative air coolers, Symphony focuses on innovative design to create better and eco-friendly products for domestic and industrial customers in 60 countries across the globe. At Symphony, design-driven innovation and green engineering is a sustainable competitive advantage. The company delivers market-leading products with engineering and design innovation, improved energy conservation, distinctive styling and customer-centric design. Excerpts from the interview:

Could you brief us about the company's journey over the past five years?

It has been a spectacular journey over the past five years. The company focused aggressively on its strategy of 'single product and multi-market' and 'an asset-light business model' whereby it reaped rich dividends. Symphony has today emerged as not only India's number one air cooler company by far with a 50 per cent organised market share, but also as the world's largest air cooler company with presence in over 60 countries. The company can proudly claim that it is

perhaps the only Indian 'multinational' company which has the distinction of selling an Indian brand in so many countries.

Symphony has witnessed multi-fold growth in the last five years with 37 per cent compounded annual growth rate (CAGR) in revenues and 30 per cent CAGR in profits with cash reserves currently standing in excess of ₹200 crore and market capitalisation in excess of ₹7,500 crore. From sales of ₹190 crore and net profit of ₹37 crore in 2009-10, Symphony's sales have grown to ₹532 crore and the PAT stood at ₹106 crore for the year ended June 30, 2014. The share price has witnessed an impressive growth too - from ₹7 per share in January 2009 when it got deregistered from BIFR to over ₹2,150 currently - around 300-fold increase in the wealth of its shareholders.

Five years ago we committed ourselves to a growth strategy, both organic and inorganic, to evolve our product portfolio to meet the changing needs of our millions of customers worldwide. This strategy was

built around three primary objectives: 1) accelerating our innovation investment to create enhanced product features and customer value; 2) reducing components and costs and improving execution in our value chain; 3) developing eco-friendly products that reduce energy consumption and release no harmful by-products during use.

Backed by design innovation, Symphony now has a strong portfolio of different products, solutions and intellectual property, both in the domestic and industrial air-cooling segment.

During these last five years we completely turned around the operations of the loss-making Mexican company, IMPCO Air Coolers, which we had acquired in 2008 to focus on high growth industrial and cooling (I&C) industry. Through this acquisition of the world's oldest industrial air cooling company in Mexico, which was founded by the inventor of air coolers, Symphony sees huge market potential in the unexplored market segment of industrial air coolers both in the

international and Indian markets.

It is an exciting time for the air-cooling industry. As an industry leader, Symphony enjoys a distinct advantage. In India, with rising per-capita income, increased rural and lifestyle spending, and growth of organised retail, Symphony is poised to capitalise on brand premium, volume growth, value-addition and cost-efficiency. This will translate into superior returns for our shareholders and other stakeholders. Worldwide, our company's products have been endorsed by global giants, namely General Electric (Illinois, USA), Wal-Mart Stores (Nevada, USA), Lear Corporation (USA), Jamarat Complex (Saudi Arabia) and more than 100 supermarkets in Mexico. The company also possesses the largest number of trademarks and registered designs in the international air cooler industry with 108 trademarks, 49 registered designs, seven copyrights and eight patents.

What is your perspective on value-creation for your different stakeholders?

At Symphony, the sole objective is to create a leadership brand through innovation in design and eco-friendly products for customers across the globe. Conducting business responsibly, acting ethically and working towards environment-friendly green products are core to our philosophy of wealth creation in a transparent, respectable and sustained manner. Our Board of Directors is accountable to stakeholders - shareholders, investors, customers, employees, business associates and society at large - in meeting mutually agreed goals.

As Indian companies go global and international investors start participating in the Indian growth story, good governance and transparent business conduct is becoming equally important vis-a-vis financial performance. At Symphony, we are committed to conduct ourselves in an ethical, transparent and truthful manner in line with local and global best practices. Integrity of purpose, accountability of action and commitment to a clear conscience and intent is the key to our business conduct. Good governance is a continuous and evolving process at Symphony and we are committed to

practice, adapt and deliver on international best practices on a regular basis.

How have things with a new government at the centre?

The new government has come with a clear majority in parliament and the promise of 'Minimum Government, Maximum Governance' to take the growth story of India to greater heights. The government has shown its commitment and vision for development of all sections of society. The first few steps such as 'Make in India', 'Digital India', 'Swach Bharat', infrastructure development, implementation of GST from April 2016, reduction of corporate tax from

that we encountered were varied. Some suggested that it might be a better idea to once and for all shut this business of manufacturing lifestyle appliances and move to the more predictable (if conventional) family business of real estate development. This brings me to the first rule.

At a time when most people had given up on the company, just a small handful of individuals kept the faith. 'There is no problem with the product' they would say, 'It is just that we are working on the right thing in the wrong way.' So at a time when we were passing through our lowest ebb

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30 to 25 per cent, fiscal discipline, inflation control and reduction in interest rates are in the right direction. Positive changes in the Indian economy may take another year or two to materialize fully, but the stock markets have shot up to new heights since the election results were announced last year.

What are the challenges faced and strategies adopted by you for emerging among the top value-creating companies today?

We have adapted different rules and strategies, as outlined below.

Rule 1 of Symphonics: Trust Your Vision : There was no cash on the books, our products were considered me-too, our dealers had virtually given up on the brand and amusingly (now that I can afford to use the word) the only constant at the company was revenue invisibility. We didn't know where our sales and profits were coming from. At such a juncture, the kind of advices

and it appeared most convenient to cut losses and exit, intellect prevailed over emotion. The result is that we just stuck right on. We continued to believe that one of the first things that people aspired to own in life was a residential cooling product, ideal for a tropical country where harsh summer temperatures generally climbed in excess of 45 degrees Celsius in most parts of the country. So even as people were writing the air cooler off as down-market, we were convinced that there was a really large consuming population that were yet to buy their first cooling product and when they possessed the resources to do so, they wouldn't leap towards the air-conditioner but would take the tentative first step towards the air cooler instead. It was a tricky waiting game: would our patience run out faster than incomes rose? We didn't know; we just hung in there - and got lucky.

Rule 2 of Symphonics: Transform Your Handicaps into Opportunities

Interview

A decade ago, we had no cash and there was red on our books but we could see that a trickle-down in incomes was beginning to result in traction for air-coolers. We had some production capacity available so we addressed the increase in demand by producing air coolers within. The first big challenge transpired when we consumed this capacity and were now required to commission additional capacity. The normal thing would have been to utilise whatever scant accruals we had generated, mobilise a loan, and get some extra capacity going. It was at this point that we took another fundamental call - that we were not really a manufacturing company that also marketed air-coolers; we were principally an evangelistic air-cooler company whose principal focus was to market air-coolers.

The nuance helped clarify who we were within our own minds; the result was that the next time we were required to commission an expansion we took a fundamentally different stance. We refused. Instead, we outsourced. What was initially dismissed as a dangerous decision with people telling me that our vendors would hold us hostage and we would have no control over product quality proved to be an inflection point. We began to emerge as a fiercely market-driven company instead; the conventional obsession with 'What is the maximum that we can produce?' began to be replaced with 'How much more can we sell?' What was conventionally a focus on the day's run rate (how much did we roll off the second shift yesterday?) now evolved to 'what does the customer truly want?'

Rule 3 of Symphonomics: The Only Rule is to Break all Rules

Once we had seen through the worst, the quiet optimism at Symphony was that we could achieve virtually anything. No cockiness, no arrogance, no complacency - just a simple recognition that if we could have returned from the brink, then there was nothing that could faze us any longer. They say that when someone has had a near-death experience, the person can be transformed for life. This happened to us. We became more daring. We trusted our instinct. We scoffed at pessimism. We

distrusted the conventional. The result is that a new code was written into our DNA. We would push the envelope; we would explore the lateral. So over the years, we introduced a wider range of air-coolers. We created large AC-like air coolers, we launched premium air coolers, we put air coolers on castors, and then extended from the tried and tested residential air cooling space to central air-cooling solutions through an acquisition in Mexico.

The result is that our convention-disregarding company consistently reports annual revenue growth that is higher than the sectoral average. We did this in 2013-14 and, in doing so, reported a profit after tax that was ₹106 crore on a consolidated basis and ₹99 crore on a standalone basis, the highest in our existence. What gives me the biggest satisfaction is that we achieved this without any external borrowing or banking funds - an indication of our terms of trade and a validation of our precious Symphony brand.

Someone looking at our market capitalisation of ₹7,500 crore today will scarcely believe that we were just a ₹3 crore company a decade ago. The kind of value that the market has been willing to place on our capacity to sustain our growth has been far higher - 33 times our 2013-14 consolidated profit after tax - than the kind of value that we have created on our balance-sheet. Vindicating the argument that in the eventual run of things, our capacity to think different, lateral and contrarian in a consistent way will prove to be the biggest value-driver in a world where people find comfort in the safe, tried and tested.

Going forward, what will be your major growth-driving factors?

In India, for its residential coolers, Symphony intends to double the dealer network from 17,000 over the next 3-5 years and penetrate deeper into rural and smaller markets. It will also grow its distribution through the modern retail channel, including e-commerce portals like Amazon and Flipkart. Symphony will increase its thrust on the industrial business in India, including packaged coolers. The company

will focus on new segments in engineering, religious institutes, schools and colleges. The company will also enter the government sector with focus on PSUs like rail, defense, etc.

For its international business, Symphony will penetrate further into the 60-plus countries where it already has a presence and enter new nations too so as to increase its reach to over 100 countries in the future. An air cooler is seen as a green product and hence is gaining popularity globally. The company has started to leverage IMPCO's relationship with large format stores like Wal-Mart, Home Depot, Lowes, Sears, etc. and IMPCO has also opened large industrial opportunities in Americas given its past track record and history (being the world's first air cooling company).

What are the capex plans planned for the next couple of years?

Symphony leverages a unique and successful asset-light business model for its residential coolers in India and in-house lean manufacturing for its industrial coolers in Mexico to achieve sustainable and profitable growth. The company outsources all of its domestic production through tie-ups with nine OEMs, de-risking the company from an overt reliance on a single source, thereby enabling it to remain asset-light.

Symphony currently has manufacturing operations at two locations, Surat SEZ and Mexico. IMPCO's Mexico facility is used for manufacturing of industrial coolers while the unit in Surat SEZ mainly caters to residential coolers for the export markets. The company is setting up its third facility at Kandla SEZ in Gujarat for export markets, but that too will require very low capex.

Where do you see your company five years down the line in terms of topline and bottomline?

In the last five years we have managed strong revenue CAGR of 34 per cent and PAT CAGR in excess of 30 per cent. Going forward, on a larger sales and profits base we expect to post a growth of 20 to 25 per cent over the next 4-5 years.