"Symphony Limited
Q3 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Symphony Limited Q3 FY2019 earnings conference call hosted by Kotak Securities Limited. As a reminder all participant 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. I now hand the conference over to Mr. Aditya Mongia from Kotak Securities Limited. Thank you and over to you, Sir!

Aditya Mongia: Thanks Stanford and welcome everyone to the Q3 FY2019 Results Conference Call of Symphony Limited. Today, from the management side, we have Mr. Nrupesh Shah, Executive Director; Mr. Bhadresh Mehta, the CFO; Mr. Girish Thakkar, Senior GM, Accounts and Finance; Mr. Mayur Barvadiya, Company Secretary; and Mr. Milind Kotecha, Senior Associate, IR and Treasury. Without further delay, I would request the management for their initial remarks, off which we can start the Q&A session. Over to you, Sir!

Nrupesh Shah: Yes. Thank you and good evening. I accord a very warm welcome to this analyst conference call to review December quarter and nine months standalone as well as consolidated performance. In my initial remarks as well as in Q&A, there may be certain forward-looking statements and estimates, which may or may not turn out to be accurate on account of variety of reasons like market environment, market dynamics, weather or even inaccurate estimates or management outlook. The actual result, performance or achievements may vary materially.

Symphony has maintained asset-light, capital-light and negligible working capital business model despite back-to-back, two disappointing summers. So that is the strength of the product, brand and product range. We are quite focused on efficacy of core capital deployment, leading to impressive return on capital employed despite quite challenging environment. Of our market share in domestic business in December quarter as well as in last six months would have been easily around 90% that too with 100% advance.

The performance of two subsidiary companies, IMPCO Mexico and GSK China are on track, while the performance of Climate Technologies Australia is slightly below our estimate due to delayed summer in Australia. But in January 2019, it is catching up the fills rapidly. The integration of Climate Technologies is going on quite smoothly and it is in full swing. It is on expected line. We have initiated some strategic measures to enhance and improve performance and profitability of Climate Technologies, which should yield the results in medium term.

Now coming to specific financials for December quarter and YTD. On a standalone basis, October to December, income from operations stand at Rs.159 Crores versus Rs.218 Crores during December 2017 quarter, but up by about 7% vis-à-vis Sept-18 quarter. As far as EBITDA is concerned, it stands at Rs.58 Crores, up from Rs.48 Crores during Sept-18 quarter and EBITDA percentage to revenue during Dec-18 quarter stands at about 34%, while PAT on standalone basis during Dec-18 quarter is Rs.43 Crores versus Rs.67 Crores for December 2017, but up from Rs.34 Crores of September 2018 quarter. And PAT to gross revenue percentage stands at about 25%.

Coming to capital employed (monthly average) in core business, i.e. air-cooling and other appliances, on a standalone basis, it stands at about Rs.75 Crores, translating into EBIT percentage on capital employed (monthly average) during the Dec-18 quarter without annualizing is at about 63%. Coming to specific performance of Climate Technologies. In rupee terms, the gross revenue for six months as we acquired the company with effect from July 1, 2018, gross revenue is about Rs.141 Crores. EBITDA stands at about Rs.9 Crores while finance charges and depreciation put together about Rs.5 Crores and PBT as well as PAT stand at about Rs.4 Crores.

While on overall consolidated basis, for nine months, that is April to December 2018, income from operations stand at about Rs.609 Crores versus Rs.621 Crores of April to December 2017. EBITDA is about Rs.127 Crores, compared to Rs.216 Crores (Apr-17 to Dec-17) and EBITDA percentage to gross revenue stand at about 20% while PAT on consolidated basis is about Rs.88 Crores. During the Dec-18 quarter, the consolidated PAT is Rs. 37 Crores and standalone PAT is Rs.43 Crores, consolidated PAT is down mainly on account of: intercompany sales, which will be finally sold by respective subsidiary companies, mostly in March quarter and hence profitability is deferred to that extent.

As far as domestic business is concerned, in last six months, more than 85% of distributors have lifted the goods with 100% advance. Not only that thousands of retail dealers as well as some of the large organized retailers have also bought with 100% advance. So with that, I open the floor for question-and-answer.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone. So my first question is on, if you can give us some idea about how do you see the channel inventory in the domestic business? And considering now we are very close to the season time, what is the status of the inventory versus the normal season time prior to the season time? Are you very confident that if the summer will pick up from March onwards, So the similar kind of offtake will be visible in the primary numbers?

Achal Bakeri: The inventory in the channel actually varies from market to market. But in some markets, it is sort of normal, what we would expect to see in at this time of the year, but in some markets, it is still very high. So how the current quarter fares and what we will - what kind of sellout happens in the current quarter, really, time will tell. We are expecting that the summer should be on schedule. And if all goes well, then by end of March, much of the sellout should happen. And replenishing should also happen.

Naveen Trivedi: Yes, so considering last two quarters are domestic business, we have done like around Rs.300 Crores kind of a sell to the channel. That also indicates that the dealer and distributors have faith in Symphony brand and the air cooler as a category also. So considering this fact and now, you are saying some markets; you have already seen a normal inventory. If you can also give us some idea about South, because South is one market where, generally, summer starts and you may start seeing some benefits of the same in the fourth quarter. Can you give us some idea about how the channel inventory is there in the Southern markets?

Achal Bakeri: Naveen, within the South as well, it varies from sort of submarket-to-submarket. It is difficult to make a generalization, but I would say that in Southern larger markets, the inventory is close to normal. Nothing to be alarmed about, but there are still some markets like Karnataka, where the inventory is extremely high.

Naveen Trivedi: Fair point Sir. And considering there is a delay in the winter in many of the markets, but in the Southern markets, some of the distributors were saying that they are optimistic from a summer point of view and AC and air-cooler both side, they are saying that March onwards, things should be healthy. So are you also getting the same vibes from your channel, to understand that the offtake will start from March onwards and there is no such asset delay in the summer time especially the Southern market?

Achal Bakeri: Yes, we are also getting similar feelers. But at the same time, I do not think we should get carried away. I think we should sort of rely on what really happens when it happens.

Nrupesh Shah: Even then, we need to keep our fingers crossed.

Naveen Trivedi: Okay and just one thing on the revenue side, like last time you had given some guidance about at least we can expect a quarter-on-quarter improvement in revenues, which we have seen in this quarter. May be for the fourth quarter, if you want to give any guidance and like in a directionally, if you can give any comment?

Achal Bakeri: I would refrain from doing that, Naveen.

Naveen Trivedi: Just last question. I have a couple of more questions, but last question on the gross margin side. So this quarter, we have seen a sharp dip in the gross margin. How much it is attributed to the raw material increase and how much is it attributed to the product mix?

Nrupesh Shah: No, gross margin during the quarter on a standalone basis stands at about 48.90% versus 50.30% in Sept-18 quarter. So all in all, it is close to 140 bps. Of course, vis-à-vis previous year, it is down by more than 5%. Of course, part of it is on account of increasing in input costs, but very difficult to really quantify.

Achal Bakeri: I think it is also more of function of the product mix and market mix.

Naveen Trivedi: Fair point, sir. So I have a couple of more questions. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Arjun Asher from Envision Capital. Please go ahead.

Arjun Asher: I wanted to know, what is the percentage of our total revenues coming from China and how has the experience been in that country so far?

Nrupesh Shah: So China for nine months, top line was at about Rs.47 Crores versus Rs.34 Crores in previous year.

Arjun Asher: And this would be representative of the trend of growth you have had in the region so far?

Nrupesh Shah: Current year has been better. Current year, if we consider the accounting year, which is January 1, 2018 to December 31, 2018 in GSK China, growth has been about 20%. In the past, there was no growth. Not only that, for the first time in nine months, not only at EBITDA level, but at a PAT level, there is a marginal profit also.

Arjun Asher: Okay. And overall what would be your outlook for the next 3 to 5 years? Because if we model this, last year, due to weather, how confident are we of getting back to the growth rates that we have had in the recent past at the company level?

Achal Bakeri: At the company level, as in consolidated or were you talking about China again?

Arjun Asher: No, this is for China.

Achal Bakeri: It is for China, okay. No, I think for China, let me give you a little bit background. So we acquired the company with effect from January 1, 2016. In the first year of acquisition, which is from January 1, 2016 to December 31, 2016, although the revenue decreased, we were able to reduce the loss by 50% over that of 2015. Once again, in the year 2017, we were able to reduce the loss, another 50% from 2016 despite the reduction in sales. In 2018, there was a 20% growth of the top line vis-à-vis 2017. And we have also broken even in 2018. So as far as the curve of the bottom line is concerned, it has been steadily going up for the last three years. As far as the curve of the top line is concerned, it dipped, continued to dip for two years and in 2018, it changed direction upwards. So we believe that we are now on a path of steady growth in China. So in current year, as well as in the years to come again, barring something unforeseen, we should see a period of steady growth of the top line and the bottom line.

Arjun Asher: Okay. I am sorry; the weather part of my question was pertaining to the entire company itself. So if we ignored this year due to the weather, whatever happened, how confident are we are getting back to the momentum, which we had, in the recent past?

Achal Bakeri: Of that. We are very confident internally. That we have been, I would say, buffeted by two consecutive back-to-back years of tepid summer. But other than that, I think there is no inherent other factors within the company or external in the market, which should prevent us from going back onto the sort of the growth numbers that we historically had.

Arjun Asher: Sure. And a final question, our pricing in Australia vis-à-vis competition?

Achal Bakeri: How is pricing?

Arjun Asher: Yes, how is our pricing like, for our brand?

Achal Bakeri: Australia is a fairly mature market. We have basically three players in the market and our company enjoys about a 35% market share. And pricing of our product is sort of relatively premium, but then there all the three companies operate at a similar pricing philosophy. So there isn't any company which is significantly premium or any company, which is significantly a value driver. I think more or less, all companies operate within a narrow band of pricing.

Arjun Asher: That is it from my side. Thanks a lot.

Moderator: Thank you. The next question is from the line of Prithvi Raj from Unifi Capital. Please go ahead.

Prithvi Raj: Sir, for Climate Technologies, the PAT has been only Rs.4 Crores for the first 6 months. And March being the seasonally best quarter, how do we see ending up this year?

Nrupesh Shah: So for Climate Technologies, March is peak season and starting January, I think the part of the loss sale for December quarter is catching up. Historically, March quarter has been in line with December quarter for Climate Technologies.

Prithvi Raj: So we might see around Rs.4 Crores to Rs.5 Crores kind of PAT, even for March quarter?

Nrupesh Shah: As such, last year, that is March 2018 quarter, in rupee term, its top line was about Rs.64 Crores and its PAT was about of Rs.2 Crores. Let us see how it works out in current quarter.

Prithvi Raj: Okay, that is helpful, Sir. And on the Mexico, can you share the revenue and PAT number for this quarter?

Nrupesh Shah: For IMPCO Mexico and GSK as such, December quarter is absolutely off-season. Hardly any sales happen, but nevertheless for Mexico, for December quarter, top line was just about Rs.3 Crores. In fact, previous year, it was just about Rs.1 Crore. For GSK China, top line was about Rs.11 Crores versus Rs.7.5 Crores previous year.

Prithvi Raj: And during last quarter, you were giving some incentives for the dealers in the India business. So are we still continuing it or it is over?

Achal Bakeri: it is not something that we give on an ad hoc basis in one quarter and not on another quarter. This is part of a sustained dealer incentive program that we have every year. So we had it last quarter. We have something else going on in the current quarter. Maybe we will have yet something else in the next quarter. Again, that is not something, which is out of the normal. That is something, which very much we look on an ongoing basis.

Prithvi Raj: Sir, during this year, how has the distribution reach performed, in the sense, have you gotten deeper this year compared to last year, in terms of number of selling points? Is there any internet survey that you rate as to how many points you have been able to reach and have you been able to penetrate the Tier-2, Tier-3 in a much better fashion this year?

Achal Bakeri: Normally, that penetration happens, actually in the summer. And we normally measure it in the end of the summer. Sometime by about July or so, we are able to collate that data. So it is a little premature to be able to opine on that at this moment.

Prithvi Raj: Your advertising spends, Sir. Would that start from Q4 itself or you will do it Q1?

Achal Bakeri: Yes. It will start towards the end of the current quarter.

Prithvi Raj: Any number, Sir, that you will be able to guide us?

Achal Bakeri: On the ad spend?

Prithvi Raj: Yes, Sir.

Achal Bakeri: Well, it is normally in line with the previous year.

Prithvi Raj: Excellent, thank you Sir.

Moderator: Thank you. The next question is from the line of Kunal Sheth from B&K Securities. Please go ahead.

Kunal Sheth: Good afternoon Sir and thank you for the opportunity. Sir, I just wanted to get a sense on how has the unorganized market behave post the GST. What I essentially want to understand is that in terms of market share, we have been hearing from a lot of other players, that air coolers is one of the segment they want to focus on. So essentially, has unorganized market lost share or there are some players in organized market who are losing share?

Achal Bakeri: Post-GST, contrary to our expectations, the unorganized sector has not been affected. So the unorganized sector, there I would say has continued like before, in like in the pre-GST era. And we believe with E-way bill coming in force, I think there should be some effect on that going forward. But it is not that it is the unorganized sector is going to completely vanish. They will morph and they will continue as before.

Kunal Sheth: Okay. Then Sir, so basically, we have maintained our market share. Because last two years were bad in terms of weather, but if you look at probably two-year share, we have more or less maintained our market share. Right, Sir?

Achal Bakeri: That is correct.

Kunal Sheth: So is there any player in the organized market, probably someone like Kenstar who has lost market share because of lack of focus, because as you have said, because the unorganized market has not shrunk as expected?

Achal Bakeri: No, the overall market has shrunk last year.

Kunal Sheth: Okay and Sir, secondly, could you please give us some sense on new product pipeline that you are likely to introduce in the next probably six months, in terms of differentiated products?

Achal Bakeri: Again, that is something, which we do every year. So there will always be something new that we will be introducing every year.

Kunal Sheth: Okay Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Good evening. Sir my first question is what is the current situation as you have a large vendor base? And given that you are running with a very lean inventory as of now at the company level, what is the order book situation of your vendors at this point in time? I just wanted to understand from a context that if the season pans out and suddenly we have seen in a season even 10, 15 days, the inventory really shuts out from the system. How fungible or how easy is to tell the vendor and start doing production at the other end? So just wanted to understand from that angle.

Achal Bakeri: The vendor, lead-time is fairly significant because a lot of components have to be managed from across the world. And I would say, the lead-time to get the final product would be at least maybe 100 days or so. So it is not as if we can arrange a purchase order and we can start getting coolers the next day. So our operations team has planned accordingly and as we speak, the vendors have significant orders and all OEMs are manufacturing at full capacity.

Nitin Arora: So given that today's situation also, when you have the inventory in the system and not yours only, I am saying from a company who is running the inventory at the company level as such, which is different from your situation at this point in time, so I wanted to understand when you say you are very confident, that hopefully everything goes right. The vendors, which you are running work with, you have given orders to them?

Achal Bakeri: Absolutely. We are not only giving - we have not only given orders, they are producing everyday, we are receiving inventory every day.

Nitin Arora: Okay and given that you have always been saying in the last two, three calls that you want to maintain the gross margin at the current levels. I just wanted to understand from an EBITDA margin perspective. Is it the same guidance, even for the EBITDA margin because last two quarters have been - you have been maintaining at 30%, but in Q1, where the ad spends were higher, but that is the nature of the business. So on an average, you still had 20%, 20.6%. So I just wanted to understand where this EBITDA margin would be sustainable for you going forward? Just need your guidance on that.

Nrupesh Shah: I think guidance is mainly in respect of gross margin percentage, which is hovering around 48%, 49%. As far as EBITDA is concerned, it is a function of top line and scale, because below gross margin, fixed overheads, by and large remain fixed and hence, EBIDTA margin may fluctuate. Say, for example, EBITDA margin, in Sept-18 quarter, was about 31% on stand-alone basis even though gross margin was higher. While in Dec-18 quarter, EBIDTA margin is higher by about 400bps mainly because product mix and also on account of economy of scale.

Nitin Arora: With respect to the competition, so there were few companies who runs different, different category, was about to launch their cooler portfolio in this season. But they have been saying that we are not able to launch it because there has been an extended winter in the west, and even north is having an extended winter. South has been started on the season, but still they are seeing, the distributors are not taking up the stock. So do you see a scenario that where the inventory is high in the system as well as in the company level. Some or the other players can disrupt prices in this season or you think, after two years, no player would go into that?

Achal Bakeri: There are two things. One is that he would be shooting himself in the foot. Second, we would able to match any pricing and we will still make a profit, although a smaller profit. So I think it will be unsustainable for competitors to try and go in that direction. So nobody in his right mind would actually want to do that.

Nitin Arora: Just one last bookkeeping question. If you can provide the EBITDA and the profit number of China and IMPCO Mexico for nine months or Q3, that would be great.

Nrupesh Shah: So do you want the numbers now?

Nitin Arora: Yes Sir, if you could provide that, that will be helpful.

Nrupesh Shah: So GSK China for Dec-18 ending nine months, top line is about Rs.47 Crores; EBITDA is Rs.2.66 Crores and PAT is Rs.36 lakhs versus previous year, Dec-17 ending nine months, figure of Rs.34 Crores; EBITDA was negative Rs.0.34 Crores and PAT was negative by Rs.2.5 Crores. Symphony Australia, there is no comparable figure of the previous year, but for the current year as I shared earlier, top line is at about Rs.141 Crores, EBITDA, Rs.9.23 Crores and PAT is about Rs.4.13 Crores. And IMPCO Mexico, top line for nine months is Rs.60 Crores down from Rs.64 Crores previous year and EBITDA is Rs.4.69 Crores previous year excluding exceptional income, EBITDA was about Rs.2 Crores and PAT stands at about Rs.3.94 Crores excluding exceptional income and previous year PAT; excluding exceptional income was about Rs.2 Crores.

Nitin Arora: Thank you very much.

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

Gaurang Kakkad: A couple of questions. Sir, firstly, on the gross margin, we had said that we will be, able to give gross margins at 50% plus levels. But still, we have slipped marginally to around 49% odd level this quarter. So has there been any incremental discounting or trade discounts or price cuts, which have happened during the last quarter?

Nrupesh Shah: So gross margin during the quarter on standalone basis is 48.9% versus 50.3%. So it is a function of product mix. It is a function of market mix. So you can assume there is something here and there, but at current level of gross profit margin, we should be in a position to sustain.

Gaurang Kakkad: Okay. So 49% to 50% is something, which we are comfortable. So it will not slip down further from these levels?

Nrupesh Shah: That is right.

Gaurang Kakkad: Okay and secondly, on Climate Technologies, the FY2019 guidance, which was given in the previous quarter, was around Rs.300 Crores of revenues, Rs.35 Crores, Rs.40 Crores of EBITDA and Rs.25 Crores, Rs.30 Crores of PAT. So are we holding onto this guidance after this muted December quarter and a slight shift in the season? Given that we have done around Rs.9 Crores EBITDA in six months and Rs.4 Crores of profit in six months?

Achal Bakeri: That was for the financial year, for the financial year of July to June.

Nrupesh Shah: Correct.

Achal Bakeri: That has been the historical financial year of Climate Technologies.

Gaurang Kakkad: So that guidance remains, right? So we can do so around Rs.15 Crores odd EBITDA each quarter and Rs.10 Crores of profit each quarter is something, which can be done for Climate Technologies?

Achal Bakeri: For that period, whatever we have given guidance at time of acquisitions, more or less same.

Gaurang Kakkad: Okay and finally, on IL&FS, anything booked in this quarter? Any provisions?

Nrupesh Shah: No, in the current quarter, auditors did not deem it appropriate, considering the development that taking place and maturity of those preferred shares are starting from April, May 2021 to October 2022. So as of now, no further write-off, but further view will be taken at the year-end.

Gaurang Kakkad: Okay. Thanks a lot.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Thanks for taking my question Sir. Initially, I missed the numbers, sales, EBITDA and PAT numbers you have just given for the three subsidiaries. Can you please repeat?

Nrupesh Shah: So for nine months, that is April 1, 2018 to December 31, 2018, GSK China, Rs.47 Crores top line versus Rs.34 Crores previous year; EBITDA, Rs.2.66 Crores versus negative Rs.34 lakhs; and PAT, positive Rs.36 lakhs versus negative Rs.2.56 lakhs. As far as IMPCO Mexico is concerned, top line is about Rs.60 Crores versus Rs.64 Crores and EBITDA excluding exceptional item, current year is about Rs.4.69 Crores, previous year about Rs.2 Crores and PAT, current year about Rs.4 Crores, previous year about Rs.2 Crores. Symphony Australia, i.e. Climate Technologies, top line Rs.141 Crores, EBITDA 9.23 Crores and PAT about Rs.4.13 Crores. Just keep in mind, as CT acquisition has happened with that funding, this PAT is after accounting for Rs.3.07 Crores of financial charges for six months.

Pankaj Bobade: Six months or nine months, Sir?

Nrupesh Shah: We acquired Climate Technologies as on July 1 and hence consolidation is for six months, even though YTD is for nine months.

Pankaj Bobade: Okay, the numbers which you have given, they are for nine months or six months?

Nrupesh Shah: They are for six months because we can consolidate only post acquisition.

Pankaj Bobade: All right. Sir, I just wanted to understand what is the thought process for the management for all the subsidiaries though Australia is the recent one, the others are relatively older ones and we are still yet to replicate the success, which we have made in Indian markets.

Achal Bakeri: No. I would say China is three years old and as I explained before, when we acquired the company, the company was bleeding and we have been able to turn it around in the third year itself, so after two years. And we have also seen a 20% growth in China in the third year over the previous year. So I think China is on the growth track. As far as Mexico is concerned, we have completed 10 years post acquisition. And actually, if we look at it, we acquired the company for just about Rs.3.25Crores back in 2009. And for that kind of an acquisition, I think we have earned very well from that company. So in the last 10 years, we have done about $100 million worth of sales in Mexico. And end-to-end, we have earned about Rs.100 Crores in Mexico. So what IMPCO has earned and also what Symphony has earned in India on its sales to Mexico. So I think, all in all, it would be fair to say that Mexico has also been a very good success story. And bear in mind, that there is very small price that we paid for the acquisition. So, price that we paid for both the acquisitions, our downsides are limited and our upsides could be anything. And again, as Mexico has proven in 10 years, if you make Rs.100 Crores on Rs.325 lakhs, then the return on your investment is close to over 30 times.

Nrupesh Shah: And just to add to that because of acquisition of IMPCO Mexico, we could foray into centralized and ducted air cooler and that has opened up new revenue stream and we are very optimistic about that segment in the long term. And about GSK China, just three years before when we acquired it, annual loss was in excess of Rs.17 Crores. So in the third year itself, it is at a PAT level, slightly positive.

Achal Bakeri: You have to bear in mind that GSK, China was acquired for just Rs.1.55Crores.

Pankaj Bobade: Right, Sir. Now that these two acquisitions are in black and generating profits, going forward, do we see them contributing substantially to our consolidated revenues? I mean, shoulder to shoulder to the standalone operations?

Achal Bakeri: I think China has that potential, but it will be a while before that potential is realized because remember that we have just done barely about Rs.54 Crores in 2018. So for that Rs.54 Crores to be Rs.540 Crores up to grow tenfold, so it will take a while, but it certainly has that potential and it is certainly something which we expect to happen.

Pankaj Bobade: And that advertisement spends which we have mentioned, are they restricted only to the domestic market or they would be used for the subsidiaries too?

Achal Bakeri: All three subsidiaries have their on advertising means and their own advertising budgets. Whatever advertisements are created in India are for the Indian market and each of those subsidiaries create their own advertising, which are relevant for their markets.

Pankaj Bobade: Thanks a lot.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Investment Managers. Please go ahead.

Manjeet Buaria: Thank you Sir for taking my question. My question was around Climate Technologies, you mentioned that you had 35% volume share in that market. I just wanted to understand who the largest player is and what their volume share, first question is. The second question, Sir, which I wanted to understand, was, in India what really helped us was disproportionate share of the profit pool of this industry and that helped us to reinvest into innovation and grow our business. In Australia, how do we think about this reinvestment if you do not have a disproportionate share and everybody is equally strong?

Achal Bakeri: So in Australia, in terms of air coolers, we would have the largest market share in value terms. We do not know much about the volumes of the other players, but I think at 35%, there are other two competitors, which are sort of more or less shoulder to shoulder, but we still have a slightly higher market share than our competitors. And in terms of profitability, we know that one of the other players is in financial difficulty in Australia because of other investments and diversifications. So I think in terms of the profit pool, we have probably a higher share of the profit pool within Australia.

Manjeet Buaria: Okay, Sir. And could you, sir, give us the names of these two peers in Australia?

Achal Bakeri: It will be not appropriate for us to sort of name them. You can Google them, and you will know in a minute.

Manjeet Buaria: Okay. Sir and one question I had on China, just, as you were mentioning over time it has a potential to become as big as India. Again, I just wanted to understand, in China, how the market structure is like? I remember at some point, it was mentioned that it is a fragmented market. So how is that landscape changing over time?

Achal Bakeri: The landscape is not changing. It remains very fragmented, but the market is very large, which is why we are optimistic about being able to scale up in the years to come.

Manjeet Buaria: Okay Sir. Thank you.

Moderator: Thank you. The next question is from the line of Deepan Mehta from Elixir Equities. Please go ahead.

Deepan Mehta: Sir, kind of big picture question. Basically, your growth slowed down significantly in FY2017-18. And FY2018-19 will be a negative year in history of the company and also because both for valid reasons. So going forward, is it going to be like this only that you will grow whenever there is a good summer by, you are seeing double-digit growth rates and whenever there is a bad summer, and your profitability will come down. What is that there is a high degree of volatility in your earnings as compared to secular structural growth rates, each were there up to FY2017. And are you comfortable with that scenario where there is high degree of volatility in your earning? And if not, then what steps are you taking to ensure that there is secular growth in terms of over the next four, five years or so?

Achal Bakeri: Good question, but what you have seen in 2018 is not an aberration. This is something, which we have seen even earlier in the 90s. So in the seasonal business, if the season is weak, is muted, then you will see a direct impact on the sales, whether it is a cooling device or a heating device. So this is nothing abnormal we have not seen this in the past. So I think this is basically part of the process of any seasonal business. You will get a time, you will come across a period when sales may be flat or negative, but then things go back on track to one's normalcy when climatic conditions resumes.

Deepan Mehta: Okay. Sir, second question is, what is the big picture, will we be doing only air coolers five years from now also? Or do you have any plans to get into a new product category because it is certainly the dependency on a single product does increase the risk factor?

Achal Bakeri: But we believe that we are fairly well insulated ourselves - first of all, we sell round the year. So it is not that our sale to our customers happens only in the summer. The sales of our customers does happen only in the summer, but our sales to our customers happens pretty much around the year, number one. Number two, because of the exports that we do from India, we are also not dependent on any one market, albeit that the exports as a percentage of revenue is not significant. But at the same time, we believe those 10 years ago, it was much lower than it is now and 10 years from now, the exports will be much higher than it is from where it is today. And thirdly, our international subsidiaries are also one way of hedging our bets; we have feet on the ground and presence in different geographies. So I think the sum of total of all of these helps us in insulating ourselves from any sort of abnormal events in any single market.

Deepan Mehta: You are right, Sir. But exports in global subsidiaries and projects are growing just about equal to or lower than your core domestic retail business. So we need to grow that three, four times, the retail business to make a material difference even in three, four years' time. So, that is not visible, whether it is in the group subsidiaries, whether it is in Mexican or Australia or China or projects. You try to do all these four, five things to try and get yourself from the core business of selling air coolers in the retail space. But so far, three, four years down the line, the strategy has not, at least, shown any material impact on the performance. And the way it is going also, it does not seem that for next five years also, it will have the contribution that 30%-40% of your revenues and profits coming from non-air coolers, domestic air coolers.

Achal Bakeri: I would say that in domestic air coolers also there are two segments: one is industrial cooler segment or central air-cooling segment. Now that is growing fairly rapidly and that is relatively less prone to seasonal fluctuations. So in one sense, what you have said is true, I agree. However, transitioning to what I assess is a process. It is not something, which will happen overnight, I agree with you over there. But in directionally, we are on that path.

Deepan Mehta: Thank you very much and all the best Sir.

Bhadresh Mehta: Just to add one thing, in terms of the exports, of course, it has increased in past 10 years, the margins are better than the domestic businesses because we get the tax break.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Thanks for the opportunity Sir. Just wanted to understand if I look at the subsidiary numbers, so definitely during the quarter, it seems like there was maybe around Rs.2 Crores of loss, EBITDA loss for IMPCO. And so accordingly, if I am not able to figure out like what is the difference between your standalone and your consolidated EBITDA, which shows approximately Rs.5 Crores of loss because if I look at Climate Technologies, it again shows profit. So, just trying to understand on that front.

Nrupesh Shah: Okay. So nine months as a whole, standalone PAT is at about Rs.82 Crores while consolidated PAT is at about Rs.88 Crores. That is number one. Number two, for December quarter, standalone PAT is at about Rs.43 Crores and consolidated PAT is about Rs.37 Crores. So the difference of Rs.6 Crores as I explained in my initial remarks mainly on account of intercompany sales made during the quarter, but when we consolidate the accounts, number one, the top line has to be net off not only that the air coolers we just sold to subsidiary company or other group company, that profit is also to be net off. So essentially, the difference of about Rs.6 Crores is on account of that and by and large, that should be monetized and should be reflected mostly in March quarter.

Manoj Gori: So this is largely to do with Climate Technologies, if I am not wrong?

Nrupesh Shah: No, in fact, in Climate Technologies, there are hardly any intercompany transactions. It is between Symphony India and IMPCO Mexico as well as IMPCO Mexico and GSK China. It is among these three companies.

Manoj Gori: That is all Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: This treasury fund, has been you given to any - other than liquid or FD?

Nrupesh Shah: So as of now, our treasury is mainly bank fixed deposits, overnight funds, tax free bonds, arbitrage funds and preference shares and very small amount in form of ICD to very reputed companies for a short tenure, which is less than 2%-3% of total treasury.

Ravi Naredi: Okay and Sir, other expenses rise to Rs.35 Crores versus Rs.21 Crores, what is the reason, Sir?

Nrupesh Shah: No, it is mainly on account of Climate Technologies, because CT numbers are only for current year six months while in previous year, it was not there.

Ravi Naredi: Okay, thank you Sir.

Moderator: Thank you. The next question is from Omkar Kulkarni, an individual investor. Please go ahead.

Omkar Kulkarni: Yes, there has been a significant rise in cost of material consumed from Rs.15 Crores to Rs.85 Crores. What is the reason for that? Consolidated I am talking.

Nrupesh C. Shah: Yes, just a moment. So on consolidated basis or even on stand-alone basis, for inventory, you will need to consider two items, Item 2a and Item 2b. 2a is cost of material consumed, and 2b is purchase of stock in trade. For outsource business model, we need to consider that. And third is 2c that is change in inventories. So all three you need to net it off. So three items put together, there is not much of the difference. For current year nine months, it is about Rs.318 Crores and previous year put together, it was about Rs.301 Crores.

Omkar Kulkarni: So I mean, is this one-off factor or like...

Nrupesh Shah: No. So I am just repeating. There are three items: Item 2a, b and c. 2a is a cost of material consumed, 2b is a purchase of stocking trade and 2c is change in inventory vis-à-vis opening balance. So December 2018, total material consumed whether through manufacturing or through outsource business model amounts to Rs.318 Crores while previous year, it was Rs.301 Crores. You can just sum up these three items.

Omkar Kulkarni: Okay. Yes, another question is intercompany transfer you just now said. So that has affected your profit by Rs.7 Crores, Rs.8 Crores that means it should be reflecting another Rs.7 Crores, Rs.8 Crores should be reflecting in the last quarter?

Nrupesh Shah: Most of it is in March quarter. And if there is any balance, in June quarter.

Omkar Kulkarni: Okay and the company have been talking about rewarding shareholders apart from dividend because the dividend payout has been going down. So what is your thinking on this Rs.450 Crores-Rs.500 Crores of cash, which you are holding?

Nrupesh Shah: So as we have publicly announced and also articulated in our annual report, there is a shareholder reward policy and as a part of that, it is dividend as well as share buyback. So at appropriate time, as and when board deems appropriate, it may resort to share buyback as it is much more tax-efficient payout.

Omkar Kulkarni: You have been mentioning that from last 1-1.5 year, I guess, and the reason you are stating that?

Nrupesh Shah: Yes. So at appropriate time, board should consider it. By the way, last year, around this time, we made acquisition of Climate Technologies. So probably, board did not deem it appropriate to consider it. And also summer was not good.

Omkar Kulkarni: Okay, so as of now, there is no proposal? I mean, of course, you cannot...

Nrupesh Shah: If there was any proposal, it would have been announced.

Omkar Kulkarni: That is correct. Okay, thank you.

Moderator: Thank you. The next question is from the line of Abhishek Gosh from DSP Mutual Fund. Please go ahead.

Abhishek Gosh: Thanks for the opportunity Sir. Just to understand that point clear, whatever we have transferred to the subs and because of that the consolidated profit is looking lower to that extent. So in the fourth quarter, end of Q1 FY2020, only to the extent of that Rs.5 Crores or Rs.7 Crores, whatever is in amount, will get reversed, to that extent, for consolidated, is that a right assumption? Because...

Nrupesh Shah: Yes, that is number one. And number two, if there are further intercompany transactions in normal course of business, export from Symphony India to IMPCO Mexico or IMPCO to GSK or vice versa, and if there is any unsold inventory as on March 31, as per accounting standard and IFRS, even that needs to be net off, which is a normal practice.

Abhishek Gosh: Correct. So one thing, the transfer pricing that happens to the subs is with some amount of margin, right? So to that extent, it is not that the sub is keeping all the profit today and whenever it will sell, at that time, we will realize it that is not the case. In standalone, the profit has already been realized to that extent. Is that a right assumption?

Nrupesh Shah: So whatever is exported from Symphony India to subsidiary company, which is mainly to IMPCO Mexico, yes, in Symphony India, that profit is reflected, but when we consolidate, if there is any unsold inventory, whether by - at IMPCO Mexico or even intercompany between GSK and IMPCO, that has to be net off...

Abhishek Gosh: Yes, which is reflected in consolidated minus standalone numbers, right?

Nrupesh Shah: Yes, standalone will be inclusive of profit generated on sales to subsidiary company even though they may be sitting on that stock, which has been also historical practice and as per conventional accounting standard.

Achal Bakeri: Okay Sir. Thank you so much for answering my question.

Moderator: Thank you. The next question is from the line of Arjun Ashar from Envision Capital. Please go ahead.

Arjun Asher: So far, the design of your products is the most visible differentiating factor for your product, for your air coolers vis-à-vis competition, and it has worked out well for you so far. Do not you think your sense of design will translate well into other appliance products as well because we have shied away from expanding beyond air coolers?

Achal Bakeri: That is true. We can very well extend our design capabilities, which actually emanates from our understanding of consumer requirements to other products and we have done that in the distant past. So it is not as if we are averse to doing that, but now that we are really, I would say, discovered the potential of this category, not only within the country but internationally. We believe that it is in our best interest to focus all our energies and all our effort on to this category. Having said that, I will never say never. You never know how things will be different in the future. But as of now, we do not intend to diversify the product range.

Nrupesh Shah: And there are also business and commercial reasons because in all three segments, that is residential air cooler in domestic market, international business as well as centralized air cooler. In the medium to long term, on a CAGR basis, we see a huge opportunity, and as we are focused, we are in a position to generate much better profitability and maintaining much disciplined business model.

Arjun Asher: Thank you.

Moderator: Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, just one thing I wanted to clarify. Please correct me if I am wrong. So maybe around, like some time back, like during some of the calls or interaction, I think management has commented like our market share was close to 43%, 45% because, today, if I am not wrong, you did mention about 35%.

Achal Bakeri: No that 35% is in Australia. Our market share in India, probably in the summer of 2018, has increased a little bit over the previous year.

Manjeet Buaria: Okay. So it would be hovering around 45%?

Achal Bakeri: Yes, may be more in terms of value.

Manoj Gori: Yes, obviously, volume would be relatively lower than that. That is the only thing I wanted to clarify. Thanks a lot Sir.

Achal Bakeri: You are welcome. And also this market share is on the organized sector. Remember that.

Manoj Gori: Right, I agree.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand the conference over to the management for closing comments.

Nrupesh Shah: Thanks to Kotak Securities for hosting this conference call and also thanks to investor community, analyst and fund managers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, on behalf of Kotak Securities that concludes this conference. Thank you for joining us. You may now disconnect your lines.