

Transcript

Q1 FY2017-18 Earnings Conference Call of Symphony Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Anila, moderator for this conference call. Welcome to Symphony Limited Q1 FY18 results call, hosted by Trust Financial Consultancy Services. We have with us today Mr. Nrupesh Shah, Executive Director, Mr. Bhadresh Mehta, CFO, Mr. Girish Thakkar, GM, Accounts and Finance, and Mr. Mayur Barvadiya, Company Secretary. At this moment, all participants are in a listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone keypad. Please note that this conference is recorded. I now would like to hand over the call to Mr. Nrupesh Shah, Executive Director. Over to you sir.

Nrupesh Shah: Good evening. I welcome all of you to the conference call scheduled to review June 2017 Q1 FY2017-18 performance. At the outset, during my opening remarks and in response to some of the questions there may be forward-looking statements or some estimates, which may or may not turn out to be correct on account of external environment, incorrect assumptions or estimates. Having said that for the first time in the last five years, that is in 20 quarters, this is the second time when Symphony has registered degrowth in top line, but this time it is also coupled with significant lower profitability margin, but that is in line of our estimate and as it was shared while reviewing March 2017 performance.

First to deal with the top line performance, it is subdued growth or degrowth by 15% on account of bad summer, mainly on account of erratic rains in most parts of the country, which has impacted summer-related industry at large and cooling industry in particular. About lower profitability margin as it was shared during earlier quarter's discussion, we have come out with touch series of models, within all five models having path breaking features, but it was launched at introductory price and its overall demand was substantially higher than what we had estimated and that is the sole factor, which has contributed to lower profitability, but we are confident that just like June 2015 quarter, that is the last quarter of financial year 2014-2015 in which there was a degrowth of 19% on YoY, but we bounced back in September 2015 quarter wherein we grew by 24% plus on YoY and year as a whole 25%. We are quite confident and we reasonably estimate that in the ensuing quarters there will be a repeat performance in terms of the top line growth.

Coming to profitability, again starting current quarter, i.e. September 2017 quarter, we will be back to Symphony's normal profitability, which is pre-December 2016 profitability and we very much maintain as shared from time to time in the past CAGR growth of 20-25%. Having said that, again at the cost of repetition, in our kind of industry it's always possible, as it happened in June quarter, there may be a quarter or two or year wherein

there may be degrowth, subdued growth or exceptional growth, but we very much maintain a CAGR growth of 20-25% on account on innovative products, strong product pipeline, phenomenal distribution network, service after sales, and unparalleled brand in air cooling industry.

Coming to second aspect, profitability. With effect from 1st July, normally that is the cut-off date, on which we revise our yearly price unless there are some compelling reasons in between. We have substantially taken a price hike and with that our contribution margin, EBITDA margin will be back to pre-December 2016 quarter. Not only that, starting 1st July till date with respect of our off-season collection and booking, despite bad summer there has been excellent collection and robust growth.

Further to add to that, even though June quarter was not a good quarter, which in all respect June as well as March quarter we consider as an exceptional. We have very much not only maintained our market leadership, but despite a number of brand increase from 30 plus a couple of years before to now 70 plus, our market share in organized sector is now in excess of 50%, up from 40%.

Coming to GST, apart from rate benefit to us, we clearly see in medium to long term shift from unorganized sector to organized sector and that pace will certainly accelerate. On top of it starting from July itself we are really seeing ease of business and simplification mainly in respect of logistic efficiency, speed and rather than dealing with plethora of taxes to single taxation, i.e. one country one taxation. In June quarter as well as in trailing twelve months, in continuation of our strategy, there has been robust growth in distribution network including rural markets, traditional retail, as well as organized retail.

Now, we do have some dedicated rural distributors focused to certain cluster. Coming to organized retail now our presence is almost in all national and regional organized retailers and in fact our market share has improved dramatically in organized retail. In almost all the organized retail our market share is 60-90% despite many of them are having private labels and this tops almost competing brands.

Coming to international business, during the last quarter and trailing 12 months there has been robust growth and sales in Europe. We could open up some new markets, especially in South America as well as African countries. However, due to challenging economic and political environment in Middle East and Saudi Arabia, which to some extent for international business is a cause of concern, also, coupled with that, strengthening of rupee, but considering our strong profitability and contribution margin we don't expect any major impact.

Coming to specific financials, our sales has been Rs. 129 crores (Jun-17), down from Rs. 152 crores (Jun-16), that is degrowth of about 15% while gross revenue was down from Rs. 158 crores (Jun-16) to Rs. 142 crores (Jun-17), that is reduced by about 10%. EBITDA, absolute number wise, down from Rs. 44 crores (Jun-16) to Rs. 32 crores (Jun-17), that is degrowth of 28% while EBITDA margin to gross revenue stood at 22.5% (Jun-17), down from 28.2% (Jun-16) that is reduction of almost 570 bps.

Coming to PAT level, PAT is down from Rs. 31.56 crores (Jun-16) to Rs. 24.04 crores (Jun-17), that is down by about 24% while PAT margin to gross revenue reduced from 20% (Jun-16) to 16.9% (Jun-17), that is 310 bps. Coming to segment result, our capital employed in air-cooling segment rose from Rs. 95 crores (Jun-16) to Rs. 171 crores

(Jun-17) mainly on account of two reasons. One, some inventory at the company level, but considering the robust booking what we have received and further trade response, we are quite confident to completely deal with and make the inventory zero in the month of August itself. Second, as on 30th June in line with our strong financial discipline as well as to get a decent margin there has been also hike in advances to the OEM. Coming to geographical segment, the revenue in India reduced from Rs. 134 crores (Jun-16) to Rs. 110 crores (Jun-17), that is down by 18% while rest of the world upped from Rs. 18 crores (Jun-16) to Rs. 20 crores (Jun-17), up by 8.3%.

So, with this, I open the floor for question and answers.

Question and Answer Session

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. If you have a question, please press * and 1 on your telephone keypad and wait for your turn to ask the question. If you would like to withdraw your request, you may do so by pressing * and 1 again.

We have the first question from Mr. Kunal Jaged from KR Choksy. Please go ahead.

Kunal Jaged: Thank you, sir, for giving me this opportunity. Sir, as you rightly said that this is the first time your June quarter results are disappointing, which is otherwise very promising...

Nrupesh Shah: By the way, second time in last five years. As such, in last five years, in two quarters there has been degrowth, one is June 2017 and before that it was June 2015.

Kunal Jaged: Yeah. So, sir, what went wrong with Symphony in this quarter in terms of top line and bottom line, except the bad summer, which is the reason you gave and whereas the other cooling product brands have reasonably done well despite considering the GST launch. The reason behind this I am asking is because in last few quarters you had made significant investment advertisement and branding, which was supposed to reap benefits, but unfortunately it is not evident in this quarter.

Nrupesh Shah: As I conveyed earlier to our understanding is purely on account of erratic summer, including unseasonal rains in many parts of the country and again, at the cost of repetition, to our understanding and as per the market report, across the territories we have collected for entire cooling industry the current quarter there has been degrowth purely on account of bad summer. But having said that, even in shrunk market we have succeeded in improving our market share, not only that. By and large it is Symphony's trade channel, which is not left with any inventory while most of the competitor's trade channel is sitting on huge inventory coupled with, as per the information available with us, many competitors and the trade channels are sitting on a stock, which is more than their annual or last six months sales, so that's number one.

Number two, about the profitability, again as I shared earlier, it is purely on account of Touch range in which we had launched five models and it was launched at introductory price, but coupled with introductory price we had estimated x amount of sales, but it received overwhelming response and it has impacted the profitability margin, but starting 1st July, one because of the product innovation, market response and considering the

pricing power we have already increased the price of touch range, model to model from 15-23% and in pre-season booking there is absolutely, even at higher price, no slow down in the collection where in trade has to book with 100% advance and that gives us the confidence why we should be back with a bang starting current quarter itself.

Kunal Jaged: Sir, my next question is regarding the new launches only. Sir, in last quarter it was 2.5 times more than your expectation, so in this quarter what was the performance of this new product, was it in the same line and what was the price point of this product in last quarter vis-à-vis this quarter, was it still at introductory prices or there is some price hike?

Nrupesh Shah: Our business cycle year is July to June, and when we talked, some time on 16th of May, we had a reasonable estimate about sales of Touch range, till that date for March Quarter and June quarter put together, of about 2.5 times to our estimates sales, that is number one. What was your second question?

Kunal Jaged: Price point.

Nrupesh Shah: Of course. So, starting mid of February we by and large didn't touch the price, so the price realization of Touch range was the same what it was prevalent in February or March, even in June quarter.

Kunal Jaged: Sir, it would be great if you can share the volume growth, what was the volume growth in this quarter?

Nrupesh Shah: Obviously because of reduction in the value there was no volume growth.

Kunal Jaged: Okay. And, sir, secondary sales during the quarter?

Nrupesh Shah: As I said, trade is hardly sitting on Symphony inventory and in fact whatever has been our sale, that is about Rs. 129 crores of all inclusive, in turn entire sale is secondary sale. Not only that, in the beginning of the quarter trade sits on some fully paid inventory, so by and large traders dispose that also, which is mostly not the case with most of the competitors.

Kunal Jaged: Okay. And, sir, you mentioned that there was a price hike, so by how much percent the price was increased?

Nrupesh Shah: So in Touch range we have taken a price hike in the range of 15-23%.

Kunal Jaged: 15-23%?

Nrupesh Shah: Yes. With that and with some other price correction in other models, we are reasonably confident that starting September quarter itself our contribution and EBITDA margin should be back to what it was pre-December 2016.

Kunal Jaged: Okay. That's it from my side. Thank you, sir.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. We have the next question from Renu Baid from IIFL. Please go ahead.

Renu Baid: Hi, good evening sir. A couple of questions from my side.

Nrupesh Shah: Yeah, good evening Renu.

Renu Baid: Sales it was expected, margins it was much heavier dent. On the pricing side you mentioned that you have taken about 15-23% price hike, so does this price hike factor in the savings on account of GST through your services and logistics or it is just first round of price increase?

Nrupesh Shah: I think by and large for the current year, unless there are some exceptional circumstances down the line, we are fine with the price revision.

Renu Baid: But have we seen the prices correcting for some of the other models largely because of GST benefits, both on the product itself as well as the entire supply chain and other services?

Nrupesh Shah: No, it is a mix of both. Depending upon the sales quantity, competition, product positioning, some of the models we might have taken modest price reduction, but I think it is an exception, either same price or marginal increase.

Renu Baid: Okay. And second you did mention that while your trade was able to clean up most of the inventory, but your competition did see a significant build up of inventory even now after the season was done, so what is your view with respect to the impact of this on the coming year or the next season because the trade is sitting there, so how do you think the market might behave with respect to demand as well as pricing for FY18?

Nrupesh Shah: See, even summer of June 2015 quarter was bad and we are seeing the repetition of that. In June 2015 quarter Symphony and air cooling industry saw a degrowth, in fact in that quarter, Symphony degrew by about 19% but in subsequent quarter, i.e. September 2015 quarter, our growth was 24% and subsequent 12 months as a whole our growth was almost 25%. By and large we expect for Symphony the same kind of trend, something here and there. This is purely on account of most of the competitors' products are really run of the mill, by and large copycat. It is only in case of Symphony there are huge innovations, product performance, features & esthetics and hence despite intense competition and many more branded players, we have not only maintained but succeeded in improving our market share across all the formats.

Renu Baid: But would you see at least for some of the base models pricing getting more aggressive with the competition because the products would be there in the market already.

Nrupesh Shah: Even during June quarter most of the competition resorted to price cut, discount, huge credit terms and all sorts of tactics and still they, as well as trade, are sitting on huge inventory, which is not the case with us. In fact, whatever

inventory we are sitting on, considering the pre-sales booking, entire inventory we will be liquidating latest by current month end.

Renu Baid: So, will it be possible for you to give some broad indication with respect to what could be the kind of inventory, which is left with the company, which you are looking to liquidate in the coming season, which is pending from the previous season, any broad indication?

Nrupesh Shah: Our inventory will be less than what we are going to sell in September quarter, so in fact in most of the models considering pre-season booking we are already sitting on negative inventory now, of course they might not have been billed, but based on the order we have received model wise, in many models we are sitting on negative inventory.

Renu Baid: Sure. And will it be possible for you to quantify that what kind of jump have we seen in our bookings in the recent, as in the pre-season booking that we have seen?

Nrupesh Shah: Sorry, I won't be in a position to divulge that, but what I can say is that it has registered a robust growth across the channels, across the geographies. Coupled with that, we have further intensified our distribution network and that's also helping.

Renu Baid: Right. My second and the last question was on the distribution network. If you can just help us give some numbers with respect to what is the kind of increase we have seen in the distribution this quarter and what is the targeted number for the end of the year, both in normal trade as well as modern trade. Thank you.

Nrupesh Shah: If you see in terms of distribution network, we consider year as a whole and for that again the business cycle is 1st July to 30th June, so automatically for us as on 1st July in our scheme of things number of distributors and dealers are zero. Base on the criteria of offtake, distributors and dealers are enrolled during the year, so considering that there had been significant growth during 1st July 2016 to 30th June 2017 in distributors as well as in dealers, coupled with that, now even in semi-urban and rural area we are penetrating faster. Of course, having said that still there is a huge potential, I would say that we have begun that. In absolute number there is a huge addition, but in terms of the numbers, due to competitive reasons, we don't divulge that.

Renu Baid: Totally sir. Understand. Thank you so much sir. All the best.

Moderator: Thank you ma'am. We have the next question from Manoj Gori from Equirus Securities. Sir, please go ahead.

Manoj Gori: Yeah, good evening sir. Thanks for the opportunity.

Nrupesh Shah: Yeah, good evening.

Manoj Gori: Sir, you have indicated about the prices moving to the normal level, just curious to know, when we were offering special introductory prices for

touch models and now when you turn to normal pricing so how easy it is for the dealers and distributors, obviously yours is a big brand, for the adaptability. Do you feel like there is some kind of resistance from their end to, again, looking at the prices moving to the normal level?

Nrupesh Shah: You are right. It's never easy. In fact, not only with trade, the resistance starts with the sales and marketing people itself within the company. But we were absolutely clear pre-March that considering the response we had to revise the price. So, we initiated necessary measures communication, articulated absolutely well in advance in March quarter itself, first, internally and secondly with the trade and as far as first we could successfully convince internally, in fact convincing to trade were easier.

Manoj Gori: Secondly, on GST transition, so for a company like Symphony, where normally dealers and distributors stock during July to December period, so even if there is some delay in, technology adoption and everything from the dealer and distribution level, so that won't be impacting because suppose if there is some delay in July, they would be obviously stocking in August, so is this understanding right, like, GST transition won't impact the volumes and the stocking at the dealer levels?

Nrupesh Shah: In fact, fortunately for us GST transition cut-off date exactly coincides with our business year and that too at customer level. At retail level as such September and December quarters are off season, so we don't envisage any issue.

Manoj Gori: Right sir. Okay sir. That's all sir. If I have any questions I will get back in the queue sir. Many thanks.

Nrupesh Shah: Sure.

Moderator: Thank you sir. We have the next question from Gaurang Kakkad from Haitong Securities. Please go ahead.

Gaurang Kakkad: Yeah, hi. Good evening sir.

Nrupesh Shah: Yeah, good evening.

Gaurang Kakkad: Yeah. So, sir, first thing, I think in the previous question you mentioned that there is no volume growth, so I suppose there will be volume decline, right, given that 15% of sales decline is there and I hope the realization hasn't declined by 15% because of this introductory pricing, so what will be the volume decline for the quarter?

Nrupesh Shah: Overall weighted average realization would be lower than that because our overall realization is weighted average of all models, but that realization reduction is only on account of Touch series, but our reduction in volume is lower than reduction in value.

Gaurang Kakkad: Okay. Right. But can you share the volume decline number, would it be, like, say, double digit or single digit, any indication?

Nrupesh Shah: A few years before we used to share volume coupled with many other details, but being one-way traffic, being we're the only listed limited company

in air cooling industry and on account of strong competitive reasons I am sorry we are unable to share that.

Gaurang Kakkad: Okay. No issues. And secondly, sir, on the GST benefits, so you indicated that there is 15-23% price increase on the introductory portfolio and most of the other models there is a slight price cut or prices have been maintained, so are we not looking to pass on the benefit of GST given that some of the competition is passing off around 6-7% GST benefit?

Nrupesh Shah: So, in that respect we have done whatever was required to maintain our old profitability margin, so wherever in the model there was additional profitability margin on account of GST, as I said earlier, to some extent we have rationalized.

Gaurang Kakkad: Okay. So, our competitiveness compared to the industry would not have changed, right, so if they have passed on some benefit...

Nrupesh Shah: Yeah, absolutely. When we work in such a fierce competitive market with everything we have to maintain that also and we do take due care of that.

Gaurang Kakkad: Right. And, sir, on the dealer inventory part you have said that you are sitting on low inventory whereas competition is higher inventory as compared to the average inventory that they have been holding. So, is there risk going forward in terms of market share given that dealers would want to clear off their inventory, which they are sitting on of the competitive brands and do you think it would risk our positioning in terms of sales and market share?

Nrupesh Shah: We don't envisage that. Number one, we have a track record and precedent even for June 2015 quarter where exactly the same thing had happened, but more importantly even in June quarter almost entire competition was offering the discount, credit terms in all kind of offers left and right, but in their case they have taken a much bigger hit, that's number one. Number two, considering the pre-season booking with 100% advance collection what we have received in first five weeks plus days on that trade response and market inputs we don't envisage that.

Gaurang Kakkad: Right sir. And, sir, finally last call you had mentioned that may be buyback is a better way than dividend in terms of distribution of cash, so any update on that?

Nrupesh Shah: No. We maintain that and at the right time, once board decides we will share.

Gaurang Kakkad: Okay. But has anything been discussed or there is nothing as of now, incremental?

Nrupesh Shah: If we would have decided something for sure we would have announced and conveyed today.

Gaurang Kakkad: Okay. Sure. Thanks a lot sir.

Moderator: Thank you sir. We have the next question from Mr. Manish Poddar from Renaissance. Please go ahead.

Manish Poddar: Can you just clarify what was the average pricing for the Touch series, let's say before this price increase to the average pricing, which you have of the residential cooler models?

Nrupesh Shah: No, I'm not getting your question.

Manish Poddar: I am just trying to understand how much do you charge the introductory price and how much is it different from the average pricing for your other models?

Nrupesh Shah: So, the introductory price was significantly lower than other models, which translates into significant lower profitability margin and per unit realization, but with the price increase, which we have done with effect from 1st July that will be taken care.

Manish Poddar: So could you quantify that?

Nrupesh Shah: No, I can't quantify that.

Manish Poddar: Forty-fifty percent, just broad range.

Nrupesh Shah: No, I can't quantify that.

Manish Poddar: Okay. And what is the blended price increase, which you have taken now in July?

Nrupesh Shah: Again, I won't be in a position to give you model to model, but in totality our pricing is such, whereby, entire model mix it will translate into the same kind of contribution or gross profit and EBITDA, which was at pre-December 2016 level.

Manish Poddar: Okay. Just to frame this question the other way, what is the price increase, which you have taken blended versus what was the price increase, which you have taken generally in the last three to five years?

Nrupesh Shah: I don't think it is going to help you in any respect. We have taken the requisite price increase because we do deal with more than 42 models in the residential cooler apart from about many, many models in package cooler and centralized air cooling, so there is no point in discussing model to model, but we have taken such a price increase considering the appropriate model mix we will be maintaining our profitability margin at pre-December 2016 level.

Manish Poddar: Okay. Just one small thing, could you comment on the profitability of the rest of the world business?

Nrupesh Shah: Pardon?

Manish Poddar: Could you comment on the profitability of the rest of the world business and why is that down year-over-year?

Nrupesh Shah: So, one is rupee appreciation and second is some impact on account of economic and political condition in Middle East.

Manish Poddar: So, would you, let's say, when you're saying 20-25% growth, is that a similar rate, which you factor in for the rest of the world or how does that happen internally?

Nrupesh Shah: No, we expect 20-25% growth for company as a whole, on a stand-alone basis. Having said that some segments grow at a higher pace, some segments may grow at a lower pace.

Manish Poddar: Okay sir. No worries. Thanks.

Moderator: Thank you sir. We have the next question from Mr. Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Yeah, hi, good afternoon everyone.

Nrupesh Shah: Good afternoon.

Naveen Trivedi: Sir, my question is on the Touch series, because since last two quarters we are losing our gross margin because of the new introductory thing, can you just give us some more color about how big is the Touch series for us as of now and what level basically we are losing our margins?

Nrupesh Shah: Sure. So, coming to Touch series we launched in all five models and let me give you some more light about the features of the Touch series. So, as the name suggests it is really a next generation cooler where we have made the buttons redundant, which is not the case in all other air cooler models of ours or even competition. This is the cooler, which talks back to the customer. It is the cooler, which sonically repels the mosquitoes. The cooler also reminds the customer about the next service date and it electronically controls the humidity coupled with it comes with a removable water tank and many such other path breaking features. Plus, this is the cooler along with i-Pure range, which we launched year by, almost all the distributors and dealers, that is the trade channel they themselves classify it as digital product and not electrical product. So, in terms of the perception and branding that is also a significant difference. Am I answering your question?

Naveen Trivedi: Yeah, yeah. So, if I see the MRP for the 80 liters of touch it is around 15,000 during this last summer, so when we are saying 15-23% hike on these models, so these are the MRP based hike we are taken or the hike has been at the distributor level only?

Nrupesh Shah: Increase in MRP coupled with increase in net realization at a company level.

Naveen Trivedi: Okay. So, this introductory was both for customer as well as the distributor?

Nrupesh Shah: Absolutely.

Naveen Trivedi: Okay. So, can you share some number on the touch part, may be in terms of volume or in terms of value or let say 15% price hike now that you're taking on that path, on the touch part only, will we be at company level margin going ahead?

Nrupesh Shah: With this price hike, we are absolutely in line with margin of other base models in residential range. As far as volume share is concerned I won't be able to divulge the numbers but it is easily in double-digit percent of the total volume.

Naveen Trivedi: Okay. Fair point sir. Sir, the last thing on the GST, now implementation is already there, now the full benefit I think assuming there will be benefit in terms of unbranded to branded we might see from the next season onwards. Maybe your comments on that part sir?

Nrupesh Shah: You are absolutely right, because otherwise also in the last five-seven years in air cooling industry we have seen clearly a shift from unorganized to organized, that was so far on account of rising income level, awareness, aspiration, aspiration for better product and branded product, etc. But now on account of GST it is estimated that shift should be accelerated, but we need to wait and watch exactly how that shift really takes place and how long does it take.

Naveen Trivedi: Fair point because air cooler is one of the category where unbranded component is significantly high.

Nrupesh Shah: True.

Naveen Trivedi: Thank you so much and all the best sir.

Nrupesh Shah: Pleasure.

Moderator: Thank you sir. The next question comes from Onkar Kulkarni from Individual Investor. Please go ahead.

Onkar Kulkarni: Yeah. Hello?

Nrupesh Shah: Hello?

Onkar Kulkarni: Just wanted to know what is the status of the Cloud, newly launched. Is it now pan India basis, the distribution?

Nrupesh Shah: Sure. So, coming to Cloud, again, last year we had test marketed in few more cities and geographies in the country and the test marketing phase is over. We have successfully passed through that and you will be very pleased to know that based on the customer feedback and our actual survey, we found that more than 90% of the Cloud, wall-mounted air coolers, have been installed in the drawing room, more like a status symbol for most of the customers. In the current year, we have already launched almost across the country, barring few markets.

Onkar Kulkarni: Okay. So, it has already been launched all over the country.

Nrupesh Shah: That's right.

Onkar Kulkarni: And we have seen that you have taken price increases, so will that not impact, like, the demand scenario, too much of price increase will dent the demand?

Nrupesh Shah: No. So, I think to ensure that demand doesn't get impacted and still the robust sales continues we have envisaged this almost four-five months before, so we had already taken necessary corrective actions, communication and enabling strategies internally as well as externally and I think it is really paying.

Onkar Kulkarni: Okay. And just one more suggestion from my side, from the next time whenever you reveal the details of the conference call on the website of stock exchanges it would be helpful if you provide the concall numbers and all the details on the exchange website and Symphony's website.

Nrupesh Shah: We will share your feedback with the board of directors, but ultimately it is for the board of directors to decide on this, but nevertheless I will share your feedback.

Onkar Kulkarni: Yeah. Okay. Thanks a lot.

Moderator: Thank you sir. We have the next question from Mr. Kamlesh Kotak from Asian Market. Please go ahead.

Kamlesh Kotak: Good evening sir.

Nrupesh Shah: Yeah, good evening.

Kamlesh Kotak: Sir, just wanted to understand the GST impact. Has it been rate neutral for us and how the competition is now responding to the new environment?

Nrupesh Shah: So far certainly GST rate is lower than earlier rate, so there is reasonable benefit.

Kamlesh Kotak: What are the rate difference, previously and now sir?

Nrupesh Shah: Now it is 18% and earlier all-in-all for us the weighted average impact, inclusive of excise duty and VAT and service tax and plethora of other taxes was close to 21%, so there is a reduction in excess of 3% but coupled with that in our kind of industry it significantly helps in terms of improving the logistic efficiently, in terms of the speed, in terms of the delivery and rationalizing our logistic network and substantial simplification. We will get the benefit of that in medium to long term because for 29 states we had to deal with 29 different plethora of VAT taxes, service tax, turn over tax, purchase tax, octroi, which is completely redundant with this.

So, in terms of compliance there will be a simplification, but having said that, as it is a major reform, for sure in the medium term there will be some hiccup in terms of the filing of the return but we expect that that is purely a temporary issue and we do expect ultimately in the medium terms this should accelerate the shift from unorganized to organized.

Kamlesh Kotak: So, have things been largely normalized for dealer distribution and vendors through July?

Nrupesh Shah: Yes, yes. In that respect, it is normalized and in our trade, I think even though it was an off-season, starting 1st July itself it was uninterrupted business and collection and billing for us as well as for our most of the distributors. The advantage with us is during this time by and large we have to deal with only the trade channels, so the trade channel has a breathing time to set their house in order, but as per the feedback most of the distributors are also coping up with it very well.

Kamlesh Kotak: Okay. Secondly, sir, you mentioned about the price increase, now typically if the dealers were to know that there is going to be a price increase from July there should have been pre-buying by them, why that is being reflected in the volume despite the season being week, if they are anticipating a price increase they should have booked more in June before the price increase was contemplated.

Nrupesh Shah: So, we knew this point, so our strategy was such pre-March and pre-June, we made necessary preparation internally and externally without really announcing the price hike and really without announcing exactly what is going to be the impact, but we made all necessary ground work whereby in certain brand it gets accepted seamlessly.

Kamlesh Kotak: And just in extension of that point, sir, typically July onwards is your off season, so you tend to give discount to dealer distributor, right?

Nrupesh Shah: True.

Kamlesh Kotak: In the face of that this time you're asking them to have higher pricing because of the price increase, so how that is going to disrupt or impact the demand or how the feedback has been from dealer distribution network?

Nrupesh Shah: Sure. So, one is the feeler but most importantly the action. So, in terms of the action it is now almost six weeks since new business year has started for us and we received substantial advances during this time and in that respect there has been very robust demand, including Touch range absolutely in line with our business plan, so whatever strategy and communication and other groundwork, which we had done earlier it has really paid off and it is unimpacted, despite price increase.

Kamlesh Kotak: So, the price increase also would go with some discount also, right, during the off-season that you may generally.

Nrupesh Shah: Yes, but in the past also that always used to be. So, what we need to consider is, our NRV in September 2017 versus September 2016 versus year as a whole, so I think that is well taken care.

Kamlesh Kotak: Okay. Secondly, sir, can you share some thoughts on how the commercial and industrial segment must have grown in this quarter, how has been the traction there?

Nrupesh Shah: That is the segment in which we have registered, in June quarter and trailing 12 months, significant growth, almost in triple-digit percent. We have successfully executed many projects across the industry, it is growing and we are continuously revamping our distribution network, our team. In medium to long term certainly we are buoyant and along with that its sub-segment that is package air cooling is also doing well. In fact, we would have shared this earlier, in package air cooling considering the volume we already started outsourcing locally, earlier we use to get package air cooler manufactured in Impco, Mexico, but now it makes economics sense and hence that is being now manufactured locally.

Kamlesh Kotak: Which earlier used to be coming from Impco, right?

Nrupesh Shah: Yes, right, but all other large models of centralized air cooling very much come from Impco.

Kamlesh Kotak: So, you said this quarter also that business has grown triple digit?

Nrupesh Shah: I don't have the numbers for quarter-to-quarter, exact number, but for the quarter also there has been a significant growth.

Kamlesh Kotak: Okay, which means that other business has degrown significantly in the overall number when it is declining.

Nrupesh Shah: There has been a degrowth, but still, Mr. Kotak, in centralized air cooling absolute value wise it is not that significant, you know, otherwise also in terms of the segment reporting requirement on a stand-alone basis if sales cross 10% we have to report it separately, so very clearly it is less than 10% of the gross revenue, isn't it?

Kamlesh Kotak: Sure, sure. Right. Lastly, sir, how many models do we now have, any new model launch put together, how many models we have on offer?

Nrupesh Shah: In fact, I have also stopped counting but I'm guessing easily it is around 45 models in the residential cooler along with that even in centralized air cooling as well as package air coolers, so all put together easily around 60 and these are in addition to the models, which are made and sold in Impco, Mexico. Some of the metal coolers are being outsourced in Mexico and being sold over there and even in GSK China also for their export as well as local market, so all put together our bouquet of models should be easily around 75-80.

Kamlesh Kotak: Okay. Great sir. Thank you very much. That's it.

Nrupesh Shah: Pleasure.

Moderator: Thank you sir. There are no further questions. I now would like to hand over the floor to Mr. Nrupesh Shah for closing comments. Over to you sir.

Nrupesh Shah: Thank you very much for patiently hearing and also, I thank Trust Group for holding this conference call for June quarter. Thank you and wishing all of you Happy Independence Day.

Moderator: Thank you sir. Wishing you the same. Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may all disconnect your lines now. Thank you and have a good day everyone.

Note:

1. This document has been edited to improve readability.
2. Blanks in this transcript represent inaudible or incomprehensible words.