Symphony Limited
Q1 FY2021 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day, and welcome to the Symphony Limited Q1 FY2021 Earnings Call hosted by Equirus Securities. As a reminder all participant lines will be in the listen-only mode. 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 "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manoj Gori. Thank you, and over to you, Sir!

Manoj Gori: Good evening, everyone. On behalf of Equirus Securities, I would like to welcome the management of Symphony Limited to discuss Q1 FY2021 results. We have with us the senior management of Symphony Limited represented by Mr. Achal Bakeri, Chairman and Managing Director; Mr. Nrupesh Shah, Executive Director; Mr. Bhadresh Mehta, Global CFO; and Mr. Milind Kotecha, IR and Treasury. I would now hand over the call to the management for their comments. Thank you, and over to you, Sir!

Achal Bakeri: Thank you very much, Equirus for arranging this call, and thank you very much to all the participants for being here this afternoon. The quarter that ended in June 2020 for Symphony was for obvious reasons dismal quarter, which is best forgotten. It is probably the lowest sales in this quarter over a decade. But the way we see it, the worst is behind us. The current quarter and the quarters to come up to March 2021 will be much better than the last quarter although they will not match the performance of the same quarters in the previous year. Even as a year as a whole, we will certainly fall short of the previous year because basically not got any sales, practically no sales in the quarter ended in June.

Moreover, there is significant inventory lined with the channel, most of which will only get exhausted in the next summer, which will be in the first quarter of the following financial year. So, although, this financial year will see a dip in topline over the previous year, however, in terms of profitability, we will be able to maintain it and in terms of margin. But basically, I would say that this last quarter has vindicated our twin strategies of an asset-light variable cost business model, and that of geographical diversification, let me explain what I mean. Because of our asset-light variable cost model, despite such a dismal sales of topline of barely Rs.40 Crores, we have ended the quarter at more or less at broken even.

Although, of course, we had other income to sort of cushion that, so operationally we have a minor loss, which could have been far worse as in the case of several other companies, had this been a fully vertically integrated manufacturing company. So, it is at times like these that certainly the benefit of our business model of an asset-light variable cost model helps. Moreover, also our strategy of international and geographical diversification has helped, as is seen in the numbers where the standalone sales of Symphony India is down by 75% over the same quarter previous year, whereas that at the consolidated level, it is down by 47% and the international subsidiaries together are down by just about 12% or 13%.

In fact, the sales of international subsidiaries together are significantly higher than that of the standalone India revenue and because we have the revenue going forward, there is a possibility of the bottomline also following. So in the last quarter, where India's revenue shrunk dramatically Australia's revenue was more or less on track with the previous year in fact at a marginal growth over the previous year. Mexico had a drop from June onwards, was doing all right until May, but from June onwards had a major fall. USA has done much better than the previous year although on a lower base and China is more or less the same as the previous year so sum total, as I said, the revenue from these international subsidiaries is significantly more than the revenue from India.

Going forward with the measures that the company is undertaking, the bottomline would also be significantly better of the international subsidiaries than it has been in the past. In fact, even this quarter, in the June quarter, especially in Australia, the bottomline would have been significantly better, were it not for the fact that because of supply chain disruptions, we were compelled to buy products either locally, which we were normally sourcing from overseas so buying locally at a significantly higher cost as well as we had to air freight some international components from international sources and we also had to incur high labor costs so were it not for these factors, the bottomline too would have been significantly better.

Net-net, what I am saying is that because of the revenue from the international subsidiaries, at least all in all, total revenue has still not really fallen off the cliff as much as India standalone revenues have and like I said, going forward, once our various measures to improve profitability, especially in our Australian subsidiary are in place, then the bottomline will also be significantly better.

To sum it up, I will say that we are fairly optimistic about the future. We have received fairly good response from our trade partners. Although it is nowhere close to what it was in the previous years, but considering the situation, in fact, I would say that the response has been significantly good and as far as the company's basic core proposition is concerned, it remains unchanged. The prospects for the air cooler category as a whole remain unchanged. They are as good as they were in the past, if there is a good summer, we will sell.

As far as the company’s innovation engine goes, that keeps on churning out new products, new products will get added even in the current year, trading channel expansion will continue to happen and marketing and brand building will also continue to happen. So whereas this year, as a whole, will witness sort of a reduction from the previous year, but we will still remain a profitable company and this will be at the worst, I would say, is a year that we would all like to forget. From next year onwards, once we are able to put this whole COVID situation behind us, Symphony should be back on track. With that, I hand over to my colleague, Nrupesh Bhai.

Nrupesh Shah: Good evening, and welcome to this conference call and just to share and highlight of some of the key financials. On a consolidated basis, the revenue from operations from the quarter has been Rs.154

Crores, down from Rs.292 Crores while on a standalone basis it is down from Rs.160 Crores to Rs.40 Crores.

Gross margin percentage on a consolidated basis is down from 45% to 39% and on a standalone basis it is down from 50% to 46%. There are two reasons, one, on a standalone basis during the quarter, there has been disproportionate higher value of spare sales and on spares the contribution in gross profit margin is quite low. As far as, air cooler sales are concerned, the contribution in gross profit margin remains healthy as it was which in excess of 50% is. While on a consolidated basis, apart from the Symphony India specific reason, there was a onetime exceptional higher costs, particularly related to climate technologies, which was on account of COVID and the cost was higher, mainly due to increase in purchase costs, local purchases instead of imports and also higher freight costs, mainly air freight. However, we have succeeded in restricting these higher costs to June quarter and because of a variety of initiatives and measures, which we have taken, we are quite confident to restore to almost normalcy in respect of this cost.

As far as EBITDA is concerned, on a consolidated basis, it stands at about Rs.3 Crores versus Rs.49 Crores in June 2019 and at PAT level, it stands at about Rs.2 Crores versus Rs.33 Crores a year before. As far as capital employed (monthly average) is concerned, on a consolidated basis, it stands at Rs.320 Crores versus Rs.288 Crores, and there has been marginal increase in capital employed during the quarter due to higher amount of inventory as well as receivables, mainly in Symphony India. In fact, in overseas subsidiaries, the working capital has been further rationalized.

Coming to geographical segment wise revenue, revenue in India have been Rs.34 Crores, while revenue in the rest of the world has been Rs.120 Crores so rest of the world has contributed to 78% of the revenue during the quarter, which includes sales from overseas subsidiaries as well as exports and Treasury stands at about Rs.410 Crores as on June 30, 2020.

Now some of the highlights of June quarter in respect of the sales and performance, they were discussed in previous conference call. But as they pertain to June quarter, even at the cost of repetition, at a company level as well as at a trade level, there was negligible or zero sales during April and first 15 days of May month on account of lockdown. However, once lockdown was lifted, since mid of May and beginning of June, there were substantial sales and trade could offload almost 60% of the inventory. Not only that, some of the newly launched models during last couple of quarters was out of stock at our trade level as well as at a company level.

In fact, in the June quarter, the company launched online to offline sales and whereby the methodology was developed through which lakhs of consumers visited company's website, and many of them had confirmed the orders. However, on account of logistics constraints, there were sales of few thousands of air coolers from the dealer point and in respect of this online to offline sales initiative, this was unique, not only in air cooler industry but in entire consumer durable industry. Not only that, on account of guidelines issued by WHO as well as several state governments and Government of India, whereby open ventilation was recommended on account of pandemic, several high end AC customers had in fact switched over to air coolers.

Coming to international sales, there has been major reduction in terms of the exports from India, mainly on account of prevailing situation and many orders got canceled. However, as Achal Bhai said, even during current year which is queit challenging year, we are very confident to maintain, our gross profit margin as far as air coolers are concerned and we expect it to be in line with previous year.

In fact, on account of lockdown as well as slowdown, we have initiated several measures on cost side and few other initiatives and that should be sizable benefit once normalcy returns. Again, considering the business model and some of the initiatives, which we have taken, current year, that is financial year 2021, our breakeven sales is expected to be around Rs.150 Crores on a standalone basis, that is roughly 20% sales of the previous year sales, which was about Rs.720 Crores.

Of course, this is subject to advertisement and sales promotion, which may alter this figure and as Achal Bhai said due to off season collection we have received and the kind of visibility what we have, at least for current quarter as well as next quarter, certainly current year we will be in black. About subsidiary companies, their performance has been quite resilient despite COVID, all put together, their sales were down just by about 13% to 15% mainly on account of decline in sales in IMPCO, Mexico and GSK, China. However, profitability was lower substantially mainly on account of increased purchase costs and local purchases instead of imports, as I said earlier, as well as higher freight costs, mainly air freights. However, they have been already corrected and starting current quarter itself, we expect normalcy to return in respect of those costs. Thank you, and we can have questions, please.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Omkar Kulkarni from Shri Investment. Please go ahead.

Omkar Kulkarni: As you have mentioned that you will be maintaining the EBITDA, so how do you plan to maintain it like there would be significant reduction in sales so what measures are you taking to maintain the EBITDA?

Nrupesh Shah: When we say the profitability margin it is in respect of the gross profit margin percentage, which on a standalone basis in air cooler is around 50%. EBITDA will certainly be a function of the topline, what we have achieved. However, one, on account of business model and secondly, even in current quarter, you would have observed that in respect of other costs, it is almost half vis-à-vis previous year, that is down from Rs.15 Crores to about Rs.7 Crores, one on account of freight cost, which is, of course, a sort of variable cost. But apart from that, other indirect fixed costs like traveling and conveyance and legal and professional costs, we have also seen significant reduction but because of our outsourced business model, we are not married to blue-collar employees or large factory overheads.

Omkar Kulkarni: In view of the current situation, you are still having around Rs.400 Crores of cash on the books so how do you plan to use that? Would you be reducing the dividend payout? Or like would you like to maintain it because there has not been any interim dividend, but you have given a large dividend last year?

Nrupesh Shah: Yes, so in March quarter, we have announced a bumper onetime dividend, which vis-à-vis last year profit, it was in excess of 100% payout and as we have maintained in the past year, as a whole, we will like to stick to at least 50% payout but obviously, in June quarter, it was not appropriate considering uncertainties as well as the performance, to declare the dividend.

Omkar Kulkarni: So overall, you will be maintaining the 50% dividend payout, which you have already alluded to?

Nrupesh Shah: That is right so total payout, we are saying will be around 50%.

Omkar Kulkarni: Okay. Thank you.

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

Manish Agarwal: Sir, the first question is on the Mexico subsidiary. In the initial commentary, you mentioned that June as a month saw a sharp dip in the sales out there? So the first question is there some issue going on in the subsidiary or the country?

Achal Bakeri: Because of COVID.

Manish Agarwal: So April and May were good, but June saw a dip because of the COVID issue?

Achal Bakeri: Yes. COVID hit them a little later that is why.

Manish Agarwal: Okay. Sir, the second question is on the Chinese subsidiary. Sir, we have already taken some markdown last quarter and obviously with India China skirmishes are going on so is there any possibility that we will be looking at, maybe selling off the subsidiary because it is still a loss-making subsidiary so any thoughts or color on that?

Achal Bakeri: The subsidiary actually had broken even a year before in FY2018-19. But because of the trade war, and COVID, our sales took a dip, and we ended in a loss. Otherwise, the year before that we had already broken even. In the FY2019-20, we would have actually made a profit but because of the trade war and because of COVID, instead of a profit, we had a small loss. But in the current year, we expect to at least breakeven, and the India-China issue I do not think has much bearing on businesses because there are hundreds of Indian companies operating in China and Chinese companies operating in India so I think as far as those are concerned, things are going on all right.

Manish Agarwal: Okay.

Nrupesh Shah: In fact, in respect of contribution percentage during June 2020 quarter, GSK China as well as IMPCO Mexico, both have registered some improvement even in respect of the gross margin and contribution margin percentage.

Manish Agarwal: Sir, one question on the standalone entity, Sir, you mentioned that the inventory still remains high in the domestic market. Sir, if you could throw some numbers, maybe what would be the trade inventory right now, may be a one-month or two-month inventory that we see in the trade right now?

Achal Bakeri: No, it is difficult to quantify in terms of months. First of all, we do not even know because it is dispersed over thousands of retailers across the country so it is, frankly, anybody's guess how much it is, but it could be in the region of about 40% of last year sales is still lying unsold with the channel is our guesstimate. But nobody knows for sure.

Manish Agarwal: That is helpful Sir. Thank you.

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

Renu Baid: Sir the first question, which I was asking, I think you mentioned difficult to quantify inventory, but what is the kind of inventory in your view would be there across most brands as well as including Symphony, would it be similar at 50%, 40% or more and how would that compare with the previous year because previous year also, there were similar issues of inventory being there in the channel, but at least it was mobilized?

Achal Bakeri: So again, we really do not know how much inventory of our competitors is lying with the channel. But we believe it should be more than ours for various reasons. And in terms of comparison with the previous year of FY2018-19, again, I would say this is somewhat similar inventory with FY2018-19.

Renu Baid: Sure.

Nrupesh Shah: Second part of your question was inventory with the company. Of course, as on June 30, 2020 inventory with the company was higher than previous year. But we expect it to be normalized and mostly in some of the models, we will be out of stock in September quarter itself.

Renu Baid: What is the value of the inventory that was sitting today?

Nrupesh Shah: Yes so company level inventory is nonissue.

Renu Baid: But what is the value?

Nrupesh Shah: As on June 30, 2020 the value of inventory was close to Rs.34 Crores or so.

Renu Baid: And in your opening remarks, you also mentioned that the capital employed also includes receivables which in the standalone books. Typically, we have this cash-and-carry model of business, so these receivables will be pertaining to the modern retail format? Or what is the quantum and the risk related to these receivables to take on books?

Nrupesh Shah: Yes, so, higher capital employed was one on account of higher receivables, mainly modern retail and partly export. In export also, there were receivables on our subsidiary company, receivables which have been subsequently recovered. Also higher capital employed was on account of these higher inventories, which we just mentioned.

Renu Baid: Correct and Sir now, the second part of the question is, we have this typical pattern of starting the bookings during off-season. I understand the market is not such that one would have anticipated similar kind of dealer events and off-season booking happening through, but based on whatever little assessment and interaction you had with the channel partners, what is the filler in terms of the order booking that we are seeing?

Achal Bakeri: So order booking is, I would say, soft on track with the previous year of FY2018-19.

Renu Baid: So would this be comparable to financial 2019 in terms of overall order booking or there would have been substantial contraction of 50%, 60% or so?

Achal Bakeri: There is a contraction from FY2018-19, but not a huge contraction.

Renu Baid: Okay. Right so basically, as a business strategy, so should one look at probably just like any other normal seasonal products now, one would anticipate the bookings to pick up only towards third quarter once we are closer to the season and the pandemic issues are broadly behind by then? Or at least under control?

Achal Bakeri: Yes, you can say that.

Renu Baid: Sure and Sir, my last question is, if you can help us quantify what are the exact cost actions that you have initiated, both in the standalone business as well as in Climate Technology to reduce the fixed overheads and improve profitability?

Achal Bakeri: Most of the cost initiatives are not towards fixed overheads, but on the cost of goods sold, I am talking about as a standalone level. We have taken several measures to reduce overheads in Australia, China and Mexico and of course, there, too, we have taken measures to reduce the cost of goods sold and so in Australia, our overhead from the year before will be down by about 30%. In China also, will be down by about 20% - 25%. Mexico, so maybe about 10% - 12% but the major impact will be on cost of goods sold. Now again, all of that will not be visible immediately because it will be effective only on what is produced and not on the inventory, and that too in a phased manner so a lot of these steps will bear fruit over the next 12 months or so.

Renu Baid: Sure and last question to Nrupesh, Sir. Will it be possible to share subsidiary wise, at least the turnover as well as EBITDA or PBT numbers?

Nrupesh Shah: So right now, I do not have them, I will share with you separately.

Renu Baid: Done no problem Sir. Thank you so much and all the best.

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

Abhishek Ghosh: Sir, first question is in terms of the vendor through whom we source, how is their financial health and other things? Because in light of no business and other things? And are you extending any kind of help to them so how should we look at from that perspective?

Achal Bakeri: Most of our suppliers are OEMs, as we call them, have financially quite healthy and sound, some of them are very, very large multinational companies so there are a couple of them which are relatively not as healthy. But we are not really extending any kind of support to them. We do not really need to do that.

Abhishek Ghosh: Okay and Sir, do you believe that since the competition also sources from a lot of these vendors so sourcing from them in a season because one season has completely got washed so given this scenario, how is the competition looking like because typically tend to make after such a season so how are you looking at the competitive landscape? I know it is a bad season, but I am trying to understand the competitive landscape from that perspective.

Achal Bakeri: Your voice was cracking in between, but talking about from a sourcing perspective, ours and competition's sources are not the same. Our sources are not common. Our OEMs are exclusive as far as Symphony is concerned.

Abhishek Ghosh: Yes I too understand...

Nrupesh Shah: Second part of the question was competitive scenario.

Achal Bakeri: So competitive scenario, I would say that what is happened to us I am sure that our competitors have faced much greater pain than we have as far as coolers go in the last quarter, and going forward too, we really, I would say, time will tell, but we think that some of them might be under severe stress as far as the cooler business is concerned with inventory lying, and some of them would have receivables from the trade so there would be a fair amount of, I would say, mess that they might have to deal with.

Abhishek Ghosh: Sure and Sir, just one last question from my side. In terms of the industrial coolers, what is the state there and how should we look at that part of the business?

Achal Bakeri: So as far as industrial coolers are concerned, we have invested in the previous year in developing a whole range of products, and it was this summer of 2020, where the products would have really been able to sort of demonstrate their performance in the market. But unfortunately, because of COVID, that did not happen. Even going forward, now because this is as far as industries are concerned, this is like a capex, although it is a small capex, so people are sort of hesitant to sort of commit, so even the inquiries that were there in our funnel before COVID have all sort of slowed down, so it is going to be a challenge for that vertical too. Again, as far as the company is concerned, the investments are made, the product is there. Now we will use this time to educate the channel, impart training, expand the channel and do all of that, so that we are place for next summer.

Abhishek Ghosh: Okay so essentially, what you are saying is, we will continue to invest, but probably it will be a little delayed uptick in the overall industrial coolers is what the sense is, right?

Achal Bakeri: That is correct.

Abhishek Ghosh: Okay Sir thank you so much and all the best.

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

Hussain Kagzi: So I just had one question regarding the international subsidiaries, I missed your first 2 minutes, so maybe if you highlighted them, if you could repeat so you had said that mostly for most of them the sales would be almost flat as last year so are we expecting the same scenario? Or is there any change in that in terms of sales and profitability for the 3 subsidiaries?

Achal Bakeri: For sure, our Australia and Mexican subsidiaries will be profitable, although reduced profitability, our Chinese subsidiary may breakeven, may have a slight profit or we even have a small loss. But again, the numbers of the Chinese subsidiary are inconsequential in the larger scheme of things. Even at the consolidated level, the company will be profitable. Like I said, Mexico, we will have a small profit. Australia, will also have a profit and so profitability is not going to be an issue again because of the business model. Mexico already has the asset-light variable cost model. Australia is in the process of adopting that model, and will take two years for the entire model to be in place, but that is the direction in which it is headed so profitability is not going to be an issue. I mean, it will be a small profit, but it would not be a loss.

Hussain Kagzi: And in revenue terms, I guess it will be almost like slightly 5% to 10% only and Sir, we import to U.S. through one of these subsidiaries so is it the Australian subsidiary or the Mexican subsidiary that we import to?

Achal Bakeri: No, it is a step down subsidiary of the Australian company.

Hussain Kagzi: Thank you.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Sir, in your press release, you mentioned that certain strategies taking the advantage of slowdown will result in sizable benefits going ahead so what are the strategies you are trying to highlight? And what all benefits you expect?

Nrupesh Shah: So as it was mentioned earlier, mainly in respect of the bill of material, also on account of the value engineering, and some major initiatives, and actually on account of slow in the business, and on account of this lockdown, we have initiated them. Very difficult to quantify specific strategy, also on account of competitive reasons, but there are a couple of initiatives and once normalcy returns, it should substantially help in respect of rationalizing the variable costs and thereby helping the profitability margin. And as far as subsidiary companies are concerned, as Achal Bhai mentioned earlier, across the subsidiary companies including overheads and also bill of material costs, several steps have been taken.

Naveen Trivedi: Okay and with respect to channel inventory, like you mentioned about it is very difficult to quantify. But considering North has seen a better summer this time, I assume that your inventory in the North region will be relatively lesser versus the other market so if you can just highlight the stress level with respect to inventories, and you mentioned that the trade behavior was better than the FY2019 so can we expect that during this time, the liquidation of the inventory will be as in this last time?

Achal Bakeri: Again, it varies not only by region, but more by the entity, so there might be a distributor in the North who will have zero inventory, but there again, might be another one in the same city who might be sitting on inventory. And the same is true for the rest of the country so we really do not know to what level there is inventory lying and where because once it leaves our godown and our distributors warehouses after that, we have no visibility of what has happened to that and so as far as, as I said before, this year looks more like the year FY2018-19 than anything else, maybe even a little shade less than FY2018-19.

Naveen Trivedi: Okay. Just lastly you see this progress in U.S. You mentioned that this quarter you are seeing good traction in U.S. Just slightly longer-term question, what kind of revenues do you expect from U.S. over the next 2 to 3 years time frame?

Achal Bakeri: I mean we have ambitious plans for the U.S., and we believe that the U.S. should be something like equal to half of the Australian sales in maybe in 3 or 4 years' time. Because the market exists, and our market share is very small so it is just a matter of market share acquisition. And the potential is very much there. And we have the presence, we have the customer relationships. We have the brand recognition.

Naveen Trivedi: Okay that is all from my side and all the very best.

Moderator: Thank you. The next question is from the line of Jeetu Panjabi from EM Capital Advisors. Please go ahead.

Jeetu Panjabi: Good to see you guys fighting at this time and chugging away, so two broad questions. One, in this road map to normalization, and I am assuming the virus fades out, hopefully, by the end of the year. What time line would you put to a normalization of the business and what metrics would you use to calibrate that and around that also, what do you think will be the one of the biggest challenges in this normalization?

Achal Bakeri: Jeetu, good to hear from you. We are all sort of keeping our fingers crossed at the vaccine is rolled out before the year is over and if that be the case then from February, March onwards, the temperatures will pick up across the country. Inventory will get exhausted in the channel, and we should be back to normal so of course, everything depends on when this COVID goes. But other than that, if the COVID situation is behind us by before the next summer, then we are in good shape. Now in the worst case, even if it lingers into next summer, as long as there is no lockdown, and we do not expect there to be a lockdown like we had last summer, we should do all right. There might be some glitches of supply chain and issues like that some channel partners may not be able to keep their stores open. But that would not be something in all pervasive kind of a situation. It will not be a lockdown like in the summer of 2020 and so regardless of what happens, I think summer of 2021 even if there is no vaccine, and COVID continues, even then the summer of 2021 should be much better than the summer of 2020.

Jeetu Panjabi: Okay, great. Now second question is a broader question. Typically, there is an old saying that never waste the crisis, right and betting case in point exactly that you guys are superbly run, have a great business model, have executed beautifully over the last few years, what is the low-hanging fruit in terms of new opportunities and/or acquisitions and/or doing something completely different to monetize this crisis or to take advantage of this crisis and come out stronger, better or do something bigger beyond it?

Achal Bakeri: Well, we have really scratched our heads to see if there are opportunities here that we can cash in on. But other than the excess time that we all have, which we are devoting to cost rationalization or manufacturing cost or cost of goods sold rationalization, as I spoke about earlier. Other than that, we are not really doing anything very different. In terms of opportunity, I would say, in Australia, we have been presented with an opportunity to grow our business because people are locked up at home, they had their winters going on and so our heater sales were very strong because of that. But other than that, if you think that we are going to be doing something very dramatically different that or some dramatic acquisitions or something, nothing like that is actually on the anvil.

Jeetu Panjabi: Okay that is candid admission and you do not see any brands that are available in India that you think you could feed and build around over time from an acquisition standpoint?

Achal Bakeri: No, there are, but then whether there is synergy with them, we get of an acquisition offer every week, but we have to see whether they make sense. There has to be synergy. There has to be opportunity, and we have so far not come across anything which offers any of those.

Jeetu Panjabi: Okay thank you.

Moderator: Thank you. The next question is from the line of Devanshu Sampat from Yes Securities. Please go ahead.

Devanshu Sampat: So I had a specific question regarding your commercial like the Movicool range that we have launched relatively recently so just wanted to understand things. Firstly, is it something that is manufactured locally? Or is it in China?

Achal Bakeri: It is entirely manufactured locally. Till last year, we were bringing it in from our company in China. But then based on the technology of the Chinese company, we developed a range of products, which we are now manufacturing in India so we decided to go ahead and make those investments to save on freight costs, to save on customs duties and to overall improve our profitability, so basically, to cut a long story short, those coolers are being made in India now since last year.

Devanshu Sampat: Okay so just a long-term sort of question here again. Just to get a view on this so a few years from now, I mean, would we be targeting the commercial space and would it be a larger market in India or a size for us in India? Are we looking at exports as well to grow this business?

Achal Bakeri: We are looking at both. I mean, international markets, we are certainly present in, but these have been produced in India because the Indian market is very large and of course, we will begin to offer them internationally too, normally whenever we introduce a new product for the first year or 2, we do not export it. We only sell it locally so if there are any teething troubles, we sort of iron them out and only then do we export them so going forward, we will begin to offer them to our international customers. And the market globally is also very large. In fact, for the next summer, it has been offered in Australia and in the U.S. markets as well.

Devanshu Sampat: Yes so I want to actually dig a bit more into this. From what I understand, we have air cooler companies like Portacool, which is an American brand. All these kind of companies provide their dealers with additional funds or budgets to sort of support the advertising and promotions locally so is that something that we will also be required to do over time?

Achal Bakeri: We do that. We have been doing that historically. It is all built into the pricing. We give them a sort of a marketing budget as a percentage of sales, which if they spend and then we reimburse. It is not something that we have not done in the past. It is something that we are doing across countries.

Devanshu Sampat: Okay and when it comes to the credit period that we give them, are we looking to stick to the way we function right now? Or is something that we can dilute a bit to be a bit more competitive globally.

Achal Bakeri: Dilute what?

Devanshu Sampat: In terms of the credit days that we give them?

Achal Bakeri: Internationally?

Devanshu Sampat: Yes.

Achal Bakeri: No, internationally, we do not give credit.

Nrupesh Shah: It is mainly again letter of credit that is LC. It is an assured payment, but in books of account until that amount is recovered it is reflected as receivable so we wish to stick to that and it is not only in respect of international business, even in respect of centralized and ducted air cooler, even though many of the customers may be large corporate, even to them also, we have found the ways and means whereby we need not to have receivables so in some such cases, we deal through the trade partner, and they grant the credit, but we receive 100% advance.

Devanshu Sampat: So now that we are manufacturing in India will there be a substantial price difference or advantage that we have versus, say, a similar type of powered cooler that is available in the markets that we are targeting specifically? Or will the price points largely be the same, like, say, around $200 or something of that sort?

Achal Bakeri: See the price point varies from market to market so U.S. product could be more expensive. We might be offering the same product in, let us say, the Middle East at a lower price so it really depends on the market.

Devanshu Sampat: Okay and even within this, can the spare parts consumable business become a sizable chunk over time? Or we do not see that I mean it can be the local parts can be available, so this cannot become a big thing for us?

Achal Bakeri: No, there will be no local parts available. Those parts will have to come from the company.

Devanshu Sampat: Okay so that can possibly be a larger portion than was the current blend is right now?

Achal Bakeri: Yes.

Devanshu Sampat: Okay that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Manjeet Buaria from Solidarity Advisors Private Limited. Please go ahead.

Manjeet Buaria: I had two questions. One, I just wanted to understand from a consumer behavior perspective, how long do consumers stayed before they switch out of their older cooler models into newer ones just in terms of replacement, if you have any data around that from your studies internally?

Achal Bakeri: Unfortunately, no, we do not have data about whether they are going into the replacement market or into first-time buyers. But many of our cooler customers are not first time cooler buyers. They may have a cooler, this might be another cooler that they are buying. Many are repeat customers. They might not be replacing their old cooler, but they are certainly repeating buying a Symphony cooler for the second or the third time. Now whether they are disposing off their old cooler or not, we do not know but so there are many, many repeat customers for sure.

Manjeet Buaria: Sir, my second question was a bit more long-term perspective. Now while at Symphony, we really get to partner with a great team and a great brand and a great product. What happens or at least seems to be happening is there is one element which is completely outside our control and that is if something goes wrong in the summer months, whether it be weather or whether it be a really one-off situation like COVID, but it really sets back the entire year for us. Now even if we think about this over a more 5, 10-year perspective, how does the team think internally in terms of how can you offset this, where there are no years where we suddenly go to almost nil sales in the most critical period of our annual sales and we have tried something like acquisitions overseas. But in context of the Indian size, they are really small to offset that so unless we become a multi-product company or we really get a very big acquisition somewhere else, is it really possible you can avoid such situations?

Achal Bakeri: Well, so like you rightly said, one thing that we have done is this international diversification through acquisitions. The other thing that we are doing is exporting from India. The third thing that we are doing is offering trade off-season discounts so that we have round the year sales even in the off-season months. When the consumer may not be buying, but the channel buys from us because of the extra discounts that we give to them now these are the 3 things that we are already currently doing, getting into another product entirely is something which we have done that in the past, and we do discuss that many times, internally. But unless it is a market adjacency, it is something that we would really not venture into because we do not think that it is in our long term interest, unless it is an adjacency.

Manjeet Buaria: And Sir, we really appreciate that focus. But then I am just trying to understand will the implication of that be that we will have to live with this volatility at periodic intervals and as a management team you have aligned to that fact that the volatility is something which is just a part and parcel and I am coming from the fact that India is such a big business, and India will definitely keep growing much faster than anything overseas, which we are trying to do so the over and above of India will really be there irrespective of what you are trying to do overseas. And even in context of, let us say, U.S., for example, becomes half of Australia in 3, 4 years, just in terms of percentage contribution on the profitability level, it is not going to be that meaningful.

Achal Bakeri: Well, yes, I would say that to some extent, this volatility or the perception of volatility is also like an entry barrier, is a moat, and we have been able to weather it or manage it over the years so not every company has been able to sort of surf this wave.

Manjeet Buaria: Actually they are partnering with Symphony, I was just getting this, the broader question go out there, because that is something we have to tackle in the longer run so just wanted to understand where you were coming from this?

Nrupesh Shah: Because of this seasonal factor, many, many companies in the past have entered in air cooling business and many of them, including some large consumer durable companies have exited and apart from all other products, in a way because of industrial and commercial air cooler, which is more like enterprise solution, is also going to help us in medium-term to derisk in that respect.

Achal Bakeri: Of course, we do sell heaters in Australia, which have helped our sales this year, the fact that Australian subsidiary sales has grown a little bit over the previous year, Y-o-Y is also because of the growth in heater sales so that does exist too in Australia and locally, of course, as Nrupesh Bhai said, the industrial and commercial coolers also will overtime help us even out the seasonality.

Nrupesh Shah: That was helpful. Thank you.

Moderator: Thank you. The next question is from the line of Mythili Balakrishnan from New Mark Capital. Please go ahead.

Mythili Balakrishnan: Just a couple of questions. First of all thanks for the opportunity. I wanted to understand from you that while our current supply chain depends a lot on outsourced vendors. Given this COVID crisis and from a longer-term perspective, do you think that, that is something that will continue? Or do you think that you might want to look to change that over a period of time?

Achal Bakeri: Do you mean to say change to captive manufacturing?

Mythili Balakrishnan: Yes.

Achal Bakeri: Not at all, that is something which is completely against our philosophy, in fact, this current situation itself is the validation of our strategy of an asset-light variable cost business model and so resorting to captive manufacturing would go against everything that we believe in.

Mythili Balakrishnan: I just wanted to check with you that we are seeing a kind of a big disruption with COVID, with the lockdowns, and stuff like that. I just wanted to check with you that, do you think that your vendor system, which you have built out, is robust enough to sort of handle these kinds of disruptions? Or do you think that it does have an impact in terms of your own ability to supply products in the marketplace?

Achal Bakeri: Okay so thing is that, we have OEMs who supply, who assemble the final product. But then there are Tier 2, Tier 3, Tier 4 suppliers, so the supply chains, in today's day and age are fairly extensive and global. There is disruption, so there are maybe some components which are being imported by us directly or by our suppliers, some raw materials are also are imported so there have been disruptions of all kinds and so no amount of centralization of manufacturing would have helped overcome that, in fact, would have actually made the situation worse. It is because the supply is so dispersed and at every level there are alternatives. We are not dependent on any one supplier for anything so it is a diversification of supplier base, which also helps us in, at times, especially like these.

Mythili Balakrishnan: Got it. I also wanted to ask you a little bit about the unorganized as well as your own market share in the market and given the certain competitors might exist. I just wanted to get a sense from you that are you seeing that some of the unorganized players might be exiting the market, some even the larger organized players might be looking to exit given the situation in the market? Or do you think that you are not seeing that kind of a situation right now?

Achal Bakeri: The thing is that there have been a lot of new entrants in the market, and most of them have taken away market share from the erstwhile #2, 3, 4 players so as far as Symphony is concerned, the market share has not changed. As far as the breakup between organized and unorganized too, there has not been a significant change in the last one year.

Mythili Balakrishnan: Got it so it is still around 35% organized and 65% unorganized.

Achal Bakeri: Yes, give or take.

Mythili Balakrishnan: Got it. I also wanted to check with you on your Australia acquisition. This is an acquisition that you have spent more money than what we have on the Mexico or the Chinese team and so revenues are really not been in line with what our initial expectations were so just wanted to get a sense from you on what do you think is the longer-term trend there a more like given the current situation and given what you have learned, obviously, about the business. Where do you see this headed and what are the key drivers for this business? Including the USP's and what are your views on this?

Achal Bakeri: The Australian market is not going to grow at 30%, 40% ever unless we get into new products. But we will certainly be able to turn around the company and make it profitable so that there is a respectable sort of return on capital employed that it generates but most importantly the Australian subsidiary is also giving us access to the U.S. market, which we spoke about a little while ago and the growth opportunity is more in the U.S. markets than in the Australian market. The U.S. market will be served by the Australian subsidiary. And so the company as a whole will grow, but not in the Australian market as much as in the U.S. market.

Mythili Balakrishnan: Got it. In terms of exports in general to countries which are a little more India like, which has this kind of an arid weather or you have not really seen that pick up in a very large way so I just wanted to get a sense from you, do you think that can change with or is it more like a cultural aspect of people preferring air conditioners in those markets for example, the Middle East or Egypt, North Africa, those kind of markets?

Achal Bakeri: No. Globally, the market for air coolers is quite large. But either you have local players or there are imports from China. It is a very, very fragmented industry so I would say we would be probably the largest exporter of coolers in the world at this very small level. We will be exporting more than any Chinese company would be exporting but then we also compete with a lot of local manufacturers everywhere, especially in the Middle East and Southeast Asia and so the markets exist and also what has happened to us is in the past, we have developed Middle East markets and then in the last few years, we have had this issue of the political situation, the ISIS and all of that so some of our major markets, especially Egypt, Iraq all suffered a setback so it has been a sort of game of snakes and ladders, especially in the Middle East so which is why the acquisitions have helped us in making inroads into new markets so were it not for the acquisition in Australia, we would have never sold what we are going to sell or were it not for the acquisition in Mexico, we would have never sold what we are selling in Mexico and so on and so forth.

Nrupesh Shah: Acquisitions are also giving us an opportunity of market access for Symphony residential air cooler so even though Climate Technology was manufacturing and selling air coolers, but the kind of residential air cooler range what we have, they were not present in to that so starting last year, we have started supplying to local Australian market and because of that, for Symphony residential air cooler, we have got an access even in U.S. and same is the case even for IMPCO.

Mythili Balakrishnan: Got it. I just wanted to check with this. Thank you.

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

Achal Bakeri: Thank you for participating and thanks Equirus for organizing the call. Thank you.

Nrupesh Shah: Thank you.

Moderator: Thank you. On behalf of Equirus Securities, that concludes today's conference call. Thank you for joining us and you may now disconnect your lines.