



“Symphony Limited Q2-HY1 Earnings Conference Call”

January 28, 2016



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MODERATOR: **MR. ABHINEET ANAND – RESEARCH ANALYST,
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Moderator: Ladies and gentlemen, good day and welcome to the Symphony Limited conference call hosted by SBI Cap Securities. 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. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhineet Anand from SBICAP, thank you and over to you sir.

Abhineet Anand: Welcome everyone to the conference call of Symphony Limited. I would like to thank the management of Symphony to give SBICAP Securities the opportunity for hosting this call. I will hand it over to the Symphony management for opening remarks and Q&A, over to you sir.

Nrupesh Shah: Thank you. Good evening and I welcome all of you to Q2 and HY1 conference call for the financial year 2015-2016. Along with me I have my colleagues Mr. Bhadrash Mehta – CFO, Company Secretary and Head Legal - Mr. Manan Bhavsar and Mr. Girish Thakkar – General Manager Accounts.

In my opening remarks as well as during our interactions there may be some forward-looking statement based on the best possible assumptions and estimates. However, they may, they may not turn out to be correct on account of external environment or even inaccurate exemptions or estimates. So with that let me take you through some qualitative aspects of the business.

In Domestic Business in the first six months we have seen wide buoyant demand across the geographies, across the models from hundreds of distributors and dealers. This has resulted into 23% growth in Domestic Sales whereby domestic sales is up from 210 crore to 259 crore in the first half of the year. During first half newly launched Window Model 70JET has been very well received.

About International Business: In the first half it was flattish at 17.5 crore versus 18.37 crore and year before. However, EBIT from International Business increased by 28% from about 5 crore to 6.34 crore. This has happened on account of better product, brand and pricing power despite many countries globally have seen huge currency depreciation vis-à-vis USD.

About Impco: As conveyed earlier we have already initiated necessary measures to convert it into asset light business model by outsourcing its manufacturing processes in line with our Indian business model. The first phase of that has been successfully implemented and that has led to part encashment of its real estate which has given a liquidity of about 13 crore and to that extent its debt to Sylvan Singapore has already come down.

About Munters Keruilai: We have successfully concluded the acquisition transaction and now it has become 100% wholly owned subsidiary of Symphony effective from 1st January, 2016. We have initiated the necessary measures to improve its operational performance and also integration process. January to March quarter will be the first quarter for Keruilai for consolidation. We have decided to launch its two new models in Domestic as well as International Business.



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Coming to Centralized Air Cooling: In the first half we have executed many prestigious orders across the verticals like Education, Factories, Food Processing, Showrooms, Real Estate, Textile Sector, etc. There has been a robust growth on YoY but on a small base.

The Company has in the first half and during last quarter benefitted by lower commodity price, better operational efficiency as well as value engineering which has led to improvement in gross margin by 330 bps and PAT margin by 220 bps.

During December 2015 quarter performance has been also a landmark in the sense that we have registered highest ever quarterly sales as well as PAT. We have announced interim dividend up from 200% to 250% in line with growth in Profit After Tax.

Coming to Specific Financials: The Gross Revenue during the quarter has increased from 140 crore to 169 crore while during first half it has increased from 239 crore to 291 crore. EBITDA during the quarter has grown from 52 crore to 67 crore that is a rise of 29% and in first half it has grown from 84 crore to 109 crore, rise of 30%. While EBITDA percentage to gross revenue now stands at 37.3% up from 35% in first half while during the last quarter up from 37.4 to 39.7%. The effective rate of Income Tax during first half has been 28.5%. PAT-wise during the quarter it stands at 48 crore versus 36 crore showing PAT growth of 32.5% and PAT percentage to Gross Revenue stands at 28.2% versus 25.8% and in first half PAT stands at 76.5 crores versus 58 crore and PAT percentage to Gross Revenue stands at 26.3% versus 24.1%. As far as primary segment in respect of Capital Employed, our core business that is Home Appliances is in line with our philosophy of asset light Working Capital light business model, Capital Employed has been just about Rs. 54 crore which has led to PBIT percentage on Home Appliances during the quarter 376% while for the first half 341% while Corporate Funds that is Treasury stands as on 31st December, 291 crore and that has given return of 6.9%.

So with these opening remarks we can proceed for question answers. Thank you.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: My first question, since from this quarter we have stopped sharing the volume numbers would it be possible for you to throw some insights with respect to gross margin expansion and how volumes have performed in this particular quarter?

Nrupesh Shah: Volume growth during the quarter and in first half is about 19% while sales value growth is about 22%. Coming to expansion of gross margin as I conveyed in my opening remarks it has expanded due to mainly three reasons, one, on account of softening of commodity prices, secondly, better operational efficiency and third, value engineering.

Renu Baid: 19% is both for the second quarter as well as for the first half or only for the first half?



- Nrupesh Shah:** I think for the first half its about 19% and for the quarter is about 18.6 or 18.7%. First half as a whole it's about 19% and for last quarter it has been about 18.6% or so.
- Renu Baid:** So overall when we look at the gross margins I know it's not a very big quarter in terms of the revenue contribution or the business mix, but you think it would be sustainable range of margins because we are sustainably able to improve the EBITDA level margins, so what is your view on the profitability? Still there is leg room for expansion or probably we have ticked out?
- Nrupesh Shah:** I won't say whether there is a scope for expansion or not but we intend to maintain this margin. As commodity prices softened we haven't taken by and large any price increase so sales value is almost in line with volume growth unlike past when sales growth used to be higher by 5-10% vis-à-vis volume growth. And increase in operational profit is also on account of as I said better operational efficiency as well as value engineering which will keep on happening.
- Renu Baid:** Second, on Munters can you just throw some light, after the closure of the acquisition finally what is the advance support lent to this entity? And how would the tentative or I would say, the financials of this company stand as of end of CY15?
- Nrupesh Shah:** About financial year FY15 as we had shared at the time of acquisition it's likely to close December 2015 around topline of 50 crore and loss of about 9-10 crore. As far as we are concerned our consolidation will start effective from 1st January, 2016, so quarter of January to March who will be the first quarter and we maintain that in medium to long term we intend to turn around the company and at its peak Munters topline was 130 crore which was down and just 50 crore, so in medium to long term we will like to take the company at least to that level of topline and we have already initiated the necessary measures not only for integration but also improving its operational efficiency and some of the cost-cutting measures and we expect that there is a good potential in that respect. Not only that its R&D facility seems to be quite promising and even for our domestic market it can be used extensively and some of its models we are preparing to launch in domestic market as well as in international market.
- Renu Baid:** And these models would be in the mid segment of the market or the premium category?
- Nrupesh Shah:** It will be both.
- Renu Baid:** I think you just missed to mention the amount of advance that you have lent to this entity as you start the consolidation? What is the initial amount that you have lent as Working Capital support?
- Nrupesh Shah:** In medium term we expect that end to end it will need a financial support in the range of 30-40 crore.
- Renu Baid:** To start with what is the financial support.....?
- Nrupesh Shah:** To start with it should be about 10 crore.

- Moderator:** We will take the next question from the line of Kunal Jagda from Karvy. Please go ahead.
- Kunal Jagda:** Can you give some view on the customer take off and the inventory on the secondary level?
- Nrupesh Shah:** In first two quarter that is September quarter in December quarter there is hardly any customer take off. Having said that during September-October there is some secondary sales. So essentially in these two quarters there is a lifting with 100% advance by the trade. Most of the secondary sales or customer's sales takes place during March quarter and June quarter.
- Kunal Jagda:** So when do you expect the future customer take off?
- Nrupesh Shah:** Starting from February we expect to have customer take off.
- Kunal Jagda:** And this will last till the end of the financial year?
- Nrupesh Shah:** Normally it lasts up to May-June depending upon the region and weather.
- Kunal Jagda:** How do you look the Chinese slowdown vis-à-vis the Munter business?
- Nrupesh Shah:** It's too premature but in a way indirectly it has helped us because Chinese slowdown has led to softening of commodity prices whereby without resorting to price increase it has helped us in improving our profitability.
- Kunal Jagda:** Currently what is the stage of sell around of Munter? Can you give some view on that?
- Nrupesh Shah:** We have acquired the company on 1st January, just about three weeks before we have initiated the necessary measures to integrate it. We already identified some of the key areas to reduce its costs and improve the topline.
- Kunal Jagda:** You are planning to make it an asset light model so have you done that or is it still in the process?
- Nrupesh Shah:** I am not too clear about your question. Can you please repeat?
- Kunal Jagda:** In your last con call you said that you are also planning to make the Munter as an asset light model as similar lines of Symphony in India. So have you done that?
- Nrupesh Shah:** In the last conference call I had conveyed that Impco which was vertically integrated manufacturing facility we intend to convert into asset light business model and today also in my opening remarks reiterated that. That measures have been already initiated, in fact first phase of converting into asset light model by outsourcing certain procedures have already been successfully executed and that has enabled Impco to monetize part of its Real Estate. As far as Munter is concerned by and large it is having asset light business model and by and large it's having moulds and only assembling line.



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- Moderator:** We will take the next question from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.
- Chintan Modi:** My question is on competition. In the Domestic market we have companies like Voltas and Havells also getting into the cooler space, so can you throw some light on how you would look at this competition and what is our strategy on that?
- Nrupesh Shah:** As we have maintained, in fact we welcome the competition because Air Cooler penetration in a vast country like India is just about 8% and that too almost 80% of the market is by unorganized sector so with the entry of organized players it will only help in expanding the size of the cake. Not only that, it will accelerate piece of shift from unorganized to organized. Having said that we believe that we are having an edge as our complete focus is on air cooling, we are focusing on innovation, upgradation of the product and that's clearly reflected in our market leadership and also even currently and otherwise in the past there are large organized players with whom we successfully compete. So we are fully geared up for that and we expect to face them well.
- Chintan Modi:** In terms of pricing how have they placed the products compared to our products?
- Nrupesh Shah:** Vis-à-vis competitors pricing?
- Chintan Modi:** Yes.
- Nrupesh Shah:** Vis-à-vis competitors our prices are premiumly priced in the range of 5-12%. By and large competition fixes up the price lower than whatever is the Symphony's price, that's how it happens in organized sector. As far as unorganized sector is concerned there is no comparison not only in respect of the price even in respect of the product and service after sales.
- Moderator:** We will take the next question from the line of Pranoy Kurian from Centrum Broking. Please go ahead.
- Pranoy Kurian:** The first question on MKE, you said there was 9 crore loss, what is the EBITDA loss?
- Nrupesh Shah:** I don't recollect EBITDA number but we need to check it up and come back to you separately.
- Pranoy Kurian:** Could you give us an idea of Impco's numbers for nine-month FY16?
- Nrupesh Shah:** On a quarterly basis or during interim period we don't give subsidiary companies consolidated numbers, only at the year-end consolidated numbers are given. But having said that in September quarter and December quarter in Impco there is always a negligible sales because even at company level that most of the sales takes place during March quarter and June quarter.
- Pranoy Kurian:** Just getting back to your point on the unorganized sector. So obviously one problem is the GST, the Service Tax, the difference and that's why they can price their products much cheaper than

Symphony's. But other than that what else do we do to differentiate? Is there a big difference in after sales or between Symphony's and unorganized, is that a way to differentiate?

Nrupesh Shah: Major difference is about the quality of the inputs, quality of the air cooling, air throw, features, performance of the products, aesthetics, life of the product and service after sales. So in fact it's the whole package which is a differentiator vis-à-vis unorganized sector and by and large for unorganized sector which is made their coolers are made out of metal, the life is normally 3 to 5 years while in case of organized sector life is 10 years or more.

Pranoy Kurian: How do you see this gap it is 80% right now so how do you see this gap closing? Will it take something like GST? What will it take to close this gap of unorganized players?

Nrupesh Shah: Introduction of GST should certainly help in narrowing the gap to some extent. The reason being many unorganized players currently evade the taxes and current burden of the taxes end-to-end including VAT and Excise Duty and Service Tax is about 23-24%. As it is being talked if GST is introduced in the range of 16-18% obviously to that extent even in respect of the taxation impact that will be a benefit and GST if it is introduced in a form as it is being talked about maybe for unorganized sector it may be difficult to evade most of those taxes. So to that extent it should help in narrowing down the gap. But even otherwise apart from that gap will continue because when it comes to a product performance comparison and service after sales it is comparison of orange versus apple.

Pranoy Kurian: Because the gap is so high, since 80% is quite a large number, so I am wondering is it a case of distribution, are we not distributed enough, the touch point still lot of room to grow there or is it a case that maybe we don't have a cheaper model? Is that a solution perhaps that we need a further lower-priced air cooler or something like that?

Nrupesh Shah: When Symphony entered into air cooler there was nothing like organized sector. Symphony was the first player in the organized sector. So at that point of time few decades before market was completely dominated by unorganized sector. About 4-5 years before organized sector in terms of the volume was contributing 10% and unorganized was contributing 90%. In 5 years volume-wise it has already shifted to 20-80 and value-wise it should be easily 30 or 35-65 or 70, so there is already a shift taking place.

Pranoy Kurian: With regards to distribution again is there a case of distribution that there is room to grow via setting up new outlets or reaching new outlets something like that?

Nrupesh Shah: We feel that there is scope of improving distribution and we keep on doing it on a continuous basis.

Moderator: We will take the next question from the line of Niket Shah from Motilal Oswal Securities. Please go ahead.

- Niket Shah:** Could you elaborate which channel of sales would have grown at a faster pace in the first half versus last year first half and specific to e-commerce, if possible?
- Nrupesh Shah:** Normally in the first half it's only a traditional channel because organized retail whether e-commerce or other organized retailers they buy only during March and June quarter.
- Niket Shah:** Second question on the raw material part of it you mentioned you had a significant amount of benefit along with the value engineering and operating efficiency. The major margin benefit is it safe to assume would have come from raw material cost, I mean the major would have been done by the raw material cost?
- Nrupesh Shah:** Raw material cost would have benefited a lot.
- Niket Shah:** Is it possible for you to give us a brief color on the Balance Sheet how would one really look at towards the end of this year because now it is actually a March ending company instead of June where most of your inventory gets liquidated depending on the season but this time I think we will see higher inventory and everything, so what should be the number of days that roughly you have during the end of March before you get into a season mode?
- Nrupesh Shah:** At the end of March certainly we will have inventory higher than what we have it either on 30th June or 31st December and at the same time Receivables, one, on account of sales to organized retail and also on account of sales to IMPCO it will be higher. But broadly it will be very much in line with which we always used to have as on the 31st March in the past. And vis-à-vis total Balance Sheet size it should not be substantially higher whereby color of the Balance Sheet will undergo a complete change. So what I mean to say, Treasury which right now we are having 291 crore, that's not going to vanish. There may be some difference one on account of Interim Dividend and partly on account of the Working Capital. So there may be some marginal difference.
- Niket Shah:** The models of Munters which you plan to introduce in India through obviously Symphony, I presume it is going to be branded as Symphony Coolers, right? Although it's a Munters product but it's branded as Symphony Cooler?
- Nrupesh Shah:** That's right.
- Niket Shah:** Which part of the product range are you still missing which Munters is going to address now?
- Nrupesh Shah:** As and when we launch we will inform.
- Niket Shah:** If I can ask one more question, you mentioned that there is a lot of value engineering and better operating efficiencies that you have got to do over a period of last maybe more than a couple of years now which is also containing. Could you elaborate that with a couple of case study examples if possible?

- Nrupesh Shah:** Number one, we found that in some of the models there was access usage of plastic. So we could fine-tune that. We could find out alternative usage of some of the components in terms of its basic raw material. Thirdly, on account of economy of scale we could also develop vendors just to cater our product and in some of the end components we could design the product which can exactly suit our requirement. But having said that it was always important that even though we reduced the cost, value proposition our quality or performance should always improve, so it's a ticklish combination but we have succeeded in that. And on top of that with economy of scale also leads to some cost-saving.
- Niket Shah:** What will be the investment in Munter from a next one-year perspective till the time the first penny of profit is generated from Munter, if you can just give us a broad sense on that?
- Nrupesh Shah:** As I conveyed earlier we expect that in medium term that is over a period of 2-4 years' total investment including its Working Capital requirement and funding its losses we expect 30-40 crore over a period of time and in year one we expect anything in the range of 10-20 crore, by and large that much amount of cash will be in fact monetized by Impco itself.
- Niket Shah:** Last two years we have seen rainfall being slightly more erratic and weak and I presume that would have benefited us in some format. Most of the forecasting agencies are actually projecting a very strong monsoon in FY17, any thoughts on that? Are going to go with lesser inventory? Projecting weather is very difficult but most of the forecasting agencies are projecting a very strong monsoon next year, so does it really impact us or there are mediums to just kind of negate that impact?
- Nrupesh Shah:** I think intensity of monsoon or weak or strong monsoon really doesn't impact as much as heat impacts us.
- Moderator:** We will take the next question from the line of Manoj Gori from Equirus. Please go ahead.
- Manoj Gori:** I have two questions, one thing you just discussed like some of the regions in South and in fact some of the dealers in the north have indicated that winters are very short currently and summers should pan out well, so do you expect the same thing and light on the same?
- Nrupesh Shah:** There may be some positive impact but really what does matter during summer months if it's a very high temperature and without any disruption in the sense in between if there are no showers it really helps us.
- Manoj Gori:** Last time as you indicated about the dealer enrolments so during the quarter any status on the dealer enrolments?
- Nrupesh Shah:** It is in line with our expectations and business plan.
- Moderator:** We will take the next question from the line of Kamlesh Kotak from Asian Market. Please go ahead.



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- Kamlesh Kotak:** Wanted to understand have you taken any price revision in this quarter because of volume growth is lower than the sales growth, because the commodity price already being low so is it a function of the better value proposition or its the price increase that may be considered?
- Nrupesh Shah:** In the last quarter as well as in the first half we haven't by and large taken any price increase the reason being even at the current price level on account of softening of commodity prices and value engineering we have succeeded in increasing our margin, that's all. By and large sales growth in terms of the value is in line with almost volume growth, slightly higher than that.
- Kamlesh Kotak:** There is more coming from more features or better value products is it?
- Nrupesh Shah:** Better value products, some of them centralized air cooling solutions; also slightly change in the product mix, etc.
- Kamlesh Kotak:** Any color on the volume growth per se in the exports market?
- Nrupesh Shah:** Export market it's very difficult to give any indication for a quarter for a year but in medium to long term as we have maintained in the past we are quite optimistic, there is a huge potential. Not only that, even this at acquisition of Chinese company to an extent should also help us because some of its products are quite known and established in overseas market and on top of its China is having specialized trade agreements with South Asian countries so to that extent it should be helpful.
- Kamlesh Kotak:** Any specific countries or geographies where we show some traction in exports?
- Nrupesh Shah:** Some of the south-east Asian countries and some of the Middle East countries showing good result.
- Kamlesh Kotak:** How has been the volume uptick in centralized air-conditioning, how many projects or any color on that?
- Nrupesh Shah:** YoY in centralized air cooling in terms of the value growth has been in excess of 50% but still it was on a very small base so obviously it's bound to be that way but we have to see it again in executing the projects for some of the prestigious and known clients and across industry verticals and segments.
- Kamlesh Kotak:** Any color on the number of execution projects you may have undertaken during the last 6 months?
- Nrupesh Shah:** That figure we are not diluting.
- Kamlesh Kotak:** How many vendors do we have as of now? Have we expanded that as well in terms of our outsourcing model?
- Nrupesh Shah:** We do have 9 outsourced manufacturing facilities in addition to 2 SEZ facilities for exports.



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Kamlesh Kotak: Second SEZ is already operational?

Nrupesh Shah: It is operational with effect from April 2015.

Kamlesh Kotak: With what capacity?

Nrupesh Shah: It's about 100,000 units which can be scaled up if required at nominal CAPEX.

Kamlesh Kotak: This is at Kandla I guess, right?

Nrupesh Shah: That is at Kandla.

Kamlesh Kotak: In all how much value we can look at in terms of monetizing at Impco, the assets part of it?

Nrupesh Shah: At Impco level about 13 crore of assets have been monetized and that much amount of loan which it was owing to our Singapore company has been already paid off. So in a way its borrowing is almost half to what it used to be. And Phase 1 of outsourcing facility in Impco has already materialized and we expect remaining assets to monetize as well as outsourcing to materialize in next 18-21 months' time whereby by and large if Impco should be in the respect of the investment completely free for us.

Kamlesh Kotak: The outsourcing arrangement we made for them also would be in the same territory?

Nrupesh Shah: Yes it will be in the same territory.

Kamlesh Kotak: Exactly on the lines of our Indian model?

Nrupesh Shah: Mostly most of its outsourced facilities will be in fact in the same city. Here we have located at various places but there it will be in the same city.

Moderator: We will take the next question from the line of Nilesh Wagle from Suyash Advisors. Please go ahead.

Nilesh Wagle: Of late there has been a lot of discussion about quality of air in a lot of Metro cities and so on. I was wondering if air purifier as a product has market potential, is interesting to you in terms of being adjacent to what we already have, either as a new product or say incorporating features of an air purifier in our existing air coolers, is that an opportunity for you?

Nrupesh Shah: You have a point and that can be an opportunity. We will evaluate it appropriately.

Nilesh Wagle: But currently nothing on the table or in terms of immediate plan that has been devised by the Company to address this?



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- Nrupesh Shah:** As of now we don't have anything but once we complete our evaluation and come out with that in that line we will immediately inform the market.
- Nilesh Wagle:** Second question, in your assessment on the competitive environment amongst organized players in air coolers compared to say a year ago would you say the competitive intensity today is lower or higher?
- Nrupesh Shah:** It is higher.
- Nilesh Wagle:** But we have not seen any erosion of market share or pressure on prices due to higher competitive intensity?
- Nrupesh Shah:** Not so far.
- Moderator:** We will take the next question from the line of Kamlesh Kotak from Asian Market. Please go ahead.
- Kamlesh Kotak:** How much is our Ad and Marketing Spend in the light of increasing competition, any indication on that?
- Nrupesh Shah:** See, even otherwise also in last 4 years our Advertisement and Sales Promotion Expenses have almost tripled in absolute amount but when it comes to percentage of the sales it stands at about 4% and we feel that in the past also in fact that was more than what we should have spent, or to put it other way, even if we had incurred less than that by and large there would not have been any major change in our sales volume. So just by increase in competition or its intensity there may not be any significant change in our Sales Promotion and Advertisement.
- Kamlesh Kotak:** It would broadly remain in the same band of around 4-4.5% of Revenue?
- Nrupesh Shah:** We don't target vis-à-vis sales, we target and decide what is our annual business plan in terms of the quantity and value of sales and accordingly we decide appropriately.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Abhineet Anand for closing comments.
- Abhineet Anand:** I would like to thank all the participants and also the Symphony management for the opportunity given to SBICAPS. Thanks.
- Moderator:** Thank you. On behalf of SBI that concludes this conference. Thank you for joining us and you may now disconnect your lines.