“Symphony Limited Q2 FY-21 Earnings Conference Call”

November 10, 2020

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MODERATOR: **MR. NAVEEN TRIVEDI – HDFC SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to the Symphony Limited Q2 FY21 Results Conference Call hosted by HDFC 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. Naveen Trivedi from HDFC Securities. Thank you and over to your sir.

Naveen Trivedi: Good afternoon, everyone. On behalf of HDFC Securities, I would like to welcome the management of Symphony Limited to discuss the post 2Q FY21 results. We have with us today the senior management of Symphony limited represented by 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.

Nrupesh Shah: Thank you Naveen. Good evening, I welcome all of you to Symphony's September quarter and half yearly conference call. In my opening remarks, and in Q&A, there may be forward looking statements and estimates and hence disclaimer statements do apply. The worldwide outbreak of COVID-19 has impacted the sales of the company severely since it hit during peak summer months in India, during which most of the secondary sales in India takes place and also to an extent partly impacted in other countries where Symphony exports. Despite strong summer temperature, generating very high demand for the company's products and also adequate availability of the products with the channel, the lock down in June quarter prevented the sales from taking place. Due to this unsold channel inventory, which will by and large get liquidated in the ensuing summer, purchases by the channel from the company in this quarter has been impacted and likely to remain muted for the rest of the year.

We in Symphony have initiated and taken series of initiatives and many of them are also in pipeline, they are in respect of new products and innovation, value engineering, enhancing operating efficiency and enhancement of dealer distribution network, especially in the rural and semi urban markets. But we will witness the meaningful impact of these initiatives in FY 21-22. Coming to specific financials of the quarter and half yearly on a standalone basis, the revenue from operations stood at Rs. 112 Cr versus Rs. 195 Cr in September-19 last quarter registering de-growth of 43%, gross margin in fact slightly improved up from 47% (Sep-19 quarter) to 48% (Sep-20 quarter) that too in such challenging environment without increasing the NRV but on account of some value engineering. The profit after tax for the quarter stood at Rs. 27 Cr versus Rs. 57 Cr (Sep-19 quarter) while for half year it stood at Rs. 28 Cr (6M Sep-20) versus Rs. 83 Cr (6M Sep-19) of previous year.

As far as capital efficacy is concerned, including capital employed in air cooler and other appliances on a standalone basis, it was a negative capital of Rs. 16 Cr (as on Sep-20) while Treasury stands at Rs. 564 Cr (as on Sep-20) versus Rs. 392 Cr as on 30th June 2020, but lower than previous year. As far as inventory (Standalone) is concerned as on 30th September 2020, the inventory is Rs. 29 Cr versus Rs. 41 Cr as on 31st March 2020. So, again despite challenging environment, we are not facing any issue at the level of company, one on account of the business model and secondly, the seamless supplies which we could make during September quarter from the inventory. Regarding Symphony Australia, the consolidated sales of Climate Technology Australia during half year ended September 20 is up by 8% despite COVID-19 impact. However, its profitability took a beating on account of higher input costs as it could not import some of the components and had to procure locally and had to resort to local purchases. Also, increasing freight costs mainly air freight and increased labor costs all these three on account of COVID-19.

Regarding IMPCO Mexico, the sales from the September quarter is slightly up. However, for half year it is lower, gross margin and contribution margin have improved due to various initiatives. However, IMPCO Mexico has provided for doubtful debts during the quarter amounting to Rs.7.20 Cr that is about 80% of the outstanding receivables from one of its top customers who has applied for bankruptcy in Mexican court. It happens to be large organized retailer something similar to the huge organize retailer of India. And that has been reflected as an exceptional item in the financial sheet. About GSK China, the sales is impacted during the half year as well as September quarter. However, gross margin and contribution margin percentage have improved again due to various initiatives. As far as Symphony India is concerned, we are reasonably confident to maintain last year operating margin percentage which was about 50% despite inventory lying with the channel.

Coming to domestic sales:

We have taken some major initiatives in terms of enhancement of dealer and distribution network. The lockdown froze most of the secondary and territory sales during the season. There is heavy unsold inventory in the market and dealers as well as distributors. However, despite these negative sentiments, and more importantly, we managed to collect the advances from our distributors, and were able to enroll 75% of our distributor vis-à-vis our enrollment target for the period July-20 to June-21. The network was also strengthening with the enrollment of 47% of our direct dealer target. In the respect of the Movicool range, which we launched last year and is a path breaking product and has received excellent response, we are focusing on changing the perception of our commercial cooler range from a specialized range to one that can be bought off shelf. Both the verticals, household cooler segment as well as industrial cooler segment, hence forth will cross sell the range. Our digital campaign was launched in September end to generate the leads for this segment and is receiving good response.

Regarding exports to the rest of the world from Symphony India, the situation is fluid with all the customers are taking more time to decide. The expected orders in the quarter have been pushed to next quarter and possibly quantity will also be less. Our facility got audited for supplies to major retail chains, and we very soon hope to receive some of the major orders. However, in December-20 and March-21 quarter, exports to and through IMPCO Mexico and Climate Technologies are estimated to be quite robust. About Climate Technologies, there have been some delays in the shipments meant for launch of new models, despite delay in the shipments, despite delay in some of the supply chain issues on account of COVID, at this point of time, we are reasonably confident to hit the budgeted sales numbers for the current financial year FY21.

About IMPCO, fixed expenses were reduced by 24% versus last year and 15% vis-à-vis plan. The outlook for Mexican GDP growth for 2021 is now estimated to be 2.5% positive from a potential drop of 10%, which is likely to boost the business over there. Regarding GSK China, the exports have partially recovered in general, but appears a long way from attaining the normalcy. During September-20 quarter, the sales was substantially impacted in domestic market as well as international sales and RMB has sharply corrected about 8% in past one quarter, reducing the actual margins on export of the products. We launched new models including HC range and also through e-commerce channels in China, and that may lead to good growth of HC sales in the ensuing quarters. Thank you, with this we open floor for question answer.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: My question would be on the trade sentiment. So, obviously, as you highlighted in your opening remarks, and during previous con-calls, that inventory continues to remain extremely high across these channels. So, if we look at currently whatever advances that we have taken, so, if you can quantify what portion would have come from the existing network, what could have come from the new network. Second, going into December quarter when we look at the other product categories, especially have been doing extremely well and that is an obvious thing because of the seasonality that air coolers specifically are impacted. But how are the trade sentiments how they are approaching for the upcoming summer whether that will pick up in fourth quarter, like how do you see sale spending out or trade sentiments at least for the next summer point of view. Thanks.

Nrupesh Shah: So, about inventory, on an average 40% to 45% of the inventory is lying with trade at the end of the season, but it is dispersed and there are many pockets where the percentage of the inventory is high at 40% 45% in average, and there are many distributors where inventory is negligible or even lower. And it is to disperse this 40% - 45% inventory between distributors and retail dealers. And as of now, overall sentiments are low, but as we have witnessed in the past once summer is setting and season is approaching, normally it changes for positive and even in that respect also, we have planned series of initiatives without impacting the margin and in a way of course, this time it is on account of COVID but otherwise, in the past also whenever there was a bad season there used to be trade inventory, that we have always resolved we are very confident to repeat the same.

Manoj Gori: Right sir. Sir secondly, if we look at obviously, like rural has been doing far better, you also highlighted like you are focusing on semi urban and rural. So, currently what would be the mix of retail touch points, so urban, semi urban, and rural?

Nrupesh Shah: So rural and semi urban contributes close to 60% of our domestic sales. And in your earlier question, there was another part it was regarding sales from existing dealer distributor and sales from new enrollment. So, almost 75% is from existing trade channel and about 20% to 25% is from new trade partners. So, as I highlighted in my opening remarks, despite challenging time, more than 75% of the distributors have given the advances. And in respect of the direct dealers, we have identified year-after-year even from direct dealers also we are collecting the advance and almost 47% of their direct dealers have also given advances. But having said that, of course, Y-o-Y it is very apparent there is a de-growth.

Manoj Gori: Right, agree to that. Sir, but last thing, as you highlighted in the opening remarks regarding export opportunities and all and obviously relatively the situation is better as it was few months back. So, should we expect like the sequentially there should be some improvement and then with summer setting in during fourth quarter, we would be able to see better visibility?

Nrupesh Shah: About exports there are two parts one about our established traditional export channel. As of now they are going slow and taking time in terms of crystallizing the order. And ones they crystallize the order, order quantity is likely to be lower. However, exports to and through IMPCO in Mexico and Climate Technologies in Australia and United States, seem to be quite robust in December-20 and March-21 quarter. So those exports may take place from Symphony India.

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

Renu Baid: The first question, just a clarification you mentioned 40% - 45% of the inventory is lying with the trade or was it 40 - 45 days of the inventory lying with the trade?

Nrupesh Shah: No, Renu in our kind of the business number of days really don't make the sense, so whatever inventory was sold to the trade pre-season out of which about 60% has been sold by the trade they are sitting on the remaining 40% of inventory.

Renu Baid: Correct, thanks for the clarification sir. Second, you did mention in terms of our commercial package air coolers, we have done quite a few initiatives in fact I had also attended one of the online sessions, if you can help elaborate, how is this model progressing in terms of assemble of the products and reducing dependency on external consultants or contractors to our extent, and what is the kind of response that we have received from that business?

Nrupesh Shah: So the response is excellent, product has been highly appreciated and again, as since last year we have started manufacturing again through outsourcing this model from India, there has been also cost reduction and that benefit is also being passed on despite maintaining the profitability margin. But in terms of the actual orders or in terms of the actual sales, we are likely to witness major growth only starting March quarter

Renu Baid: Okay. And for the cooler business if you look at the portfolio as in last year, post December we have seen softness. So, given the current environment where the advances also have been relatively soft, or do we expect second half of the year to be at least equal to last year or actually report some growth?

Nrupesh Shah: So as of now we have reasonable visibility for December quarter. And December quarter vis-à-vis September quarter seems to be better. But certainly, there will be double digit de-growth percentage Y-o-Y. As far as March quarter is concerned, it is going to be an evolving quarter, one in respect of how COVID-19 situation remains. And secondly, also in the respect of variety of initiatives, which we intend to take, how the trade and customers will respond to that, but we are keeping our fingers crossed for March quarter and it's too early as of now.

Renu Baid: And in terms of channel inventory if I remember the modern retail format was sitting with significant inventory post lockdown. So, when we mentioned that 60% of the inventory has moved out now, on relative scale how has the modern retail format done and with increasing trend towards e-com should we expect to that extent sales to be favorably impacted between March quarter?

Nrupesh Shah: See as far as modern trade is concerned, normally it is on a returnable basis. So, at the end of the season, if they are left with the inventory, we take it back. So modern retail stores are not sitting on any inventory and whatever was the sales return it is net off in respective quarter. So certainly, in the March quarter, they will not have any inventory baggage and depending upon the situation they should be in much better place in terms of placing the orders. And, in respect of e-commerce, same thing is applicable. Over a period of time we have firmly and substantially enhance our presence and reach through e-commerce and in that respect you may recollect that even during lockdown also, we were the only company not only air cooler industry, but in a entire consumer durable industry whereby we had launched online to offline sales which had really generated a phenomenal traction, but unfortunately due to supply chain constraints actually sales was minimal.

Renu Baid: Got it. And my last question was on the pricing side, we typically tend to fix up the pricing of the next season in July, August but this time commodity prices have headed Northwards beginning second quarter. So, in your view the pricing is good enough to take care of these cost escalations and ensure the gross margins are broadly at similar 51% levels as we move towards the season or you think there could be certain hiccups, because of the overall weak sentiment and inventory in the channel?

Nrupesh Shah: We have already witnessed starting June, prices of polymer and metal firming up and in September quarter in our operating margin percentage and input costs, it is already accounted for and post that Y-o-Y there is a slight improvement in operating margin percentage. So considering some of the value limiting initiatives what we have taken, they are likely to more than compensate the input cost increase.

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

Prithvi Raj: Sir on Climate Technologies, so before Symphony acquired, company was doing Rs. 220 Cr revenue Rs. 20 Cr PAT and we acquired, and we said we will sell Indian products there and we will use US markets, etc. But Climate Technologies was not shaping up the way we expected. Last year you were cleaning the process and all and this year it was a COVID hit. But assuming next year, if it is a normal year what is the revenue and the PAT target that company is expecting at Climate Technologies level?

Nrupesh Shah: Okay. So, your observation is perfectly correct. So, we expect that in next year, vis-à-vis is the year in which we acquired the top line should be higher by at least 30% to 40% if not more, that’s number one. Number two, we are getting very encouraging response from the trade partners of Climate Technology in Australia as well as in the United States towards Symphony range of residential air coolers, including some of the murky organized retailers, online as well as offline and that’s likely to witness robust exports from Symphony India in the current year. Last year, it was our trial order, current year we should see good response. As far as cost part is concerned in fact, we succeeded in reducing its overheads, so we succeeded in making some value engineering also meaningful value engineering. Unfortunately on account of COVID-19 due to reasons as I explained in my opening remarks, it was more than offset, but next year if it’s going to be a normal year, we should really see the healthy performance including gross profit margin percentage as well as PAT value.

Prithvi Raj: So, when we say healthy performance can we expect that at least the pre-acquisition number can be done?

Nrupesh Shah: Yes, we are hopeful.

Prithvi Raj: And second on the commercial air coolers you said, you have got a good feedback and all. So, what is company’s internal target, say three year or five year how much is the revenue target that company is having on the commercial side?

Nrupesh Shah: Our internal target and business plan is much bigger, highly ambitious and in that respect, house also in order, whether it is in respect of the product, whether it is in respect of value engineering, whether it is in the respect of manufacturing in India itself, and also establishing enabling trade channel and also good team. But crystallizing or specifying any numbers will be very difficult but considering a very low base and more importantly the kind of opportunity what it offers we are highly optimistic.

Prithvi Raj: But at least we would have looked at the industry size number, right. So, in your guess what can be the industry adjustable industry size for this commercial air cooler segment?

Nrupesh Shah: Commercial and industrial air cooler industry size should be at least about Rs. 4000 Cr. But in a way, it is also about the concept selling because there is an existing industrial air conditioning market, but potential application and usage of industrial and ducted air cooler should be far beyond that. So, market size wise and opportunity wise of course sky is the limit, but in respect of the actual number, action will be louder than words. So, let action and actual performance speak down the line.

Prithvi Raj: Final on this Mexico, do we expect any more write-offs from that customer?

Nrupesh Shah: Yes, Bhadresh?

Bhadresh Mehta: Since acquisition in last 11 years, this has happened for the first time. So, we did not have any bad debt in any of the 11 years ever and we do believe that, that all other customers are healthy, and all regular payments are coming through.

Nrupesh Shah: In other words, from all other customers we keep on receiving regular payments.

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

Jeetu Punjabi: I have a bigger picture question, in this COVID environment and whatever you all have been through in the last six months also, the factors on the demand side, are there any structural or very significant, permanent decisions you put to work saying that these few things now will be changed forever in a particular way or any new strategic opportunities that you're looking at, in a completely different way from what you are doing, so the point is any very significant decision you've taken, which you will see play out over the next year or two from our perspective?

Nrupesh Shah: So, as I highlighted in my initial remarks, in terms of substantial enhancement of dealer and distribution network, a lot of work has been done and it should lead significant rise in sales down the line and especially the dealer distribution network has been placed and we are working out in many, many towns where we didn't have distributor, that's number one. Number two, of course rural and semi urban is offering a huge opportunity and even in that respect, also we have taken several initiatives and despite our cost model is quite competitive and still we have looked at it very closely. One in respect of the material costs and in respect of other variable costs especially and there also seems to be some meaningful, positive impact. And fortunately considering the kind of the business model what we follow as you know we are not wedded to any permanent manufacturing or labor related overheads. So not only in current year but down the line it is going to offer tremendous benefit. And hence, we are much more than convenience respect of our asset light, capital light and negative working capital business model that will continue.

Jeetu Punjabi: Right, it is very fair point. One more question on this, is there a need you feel from our portfolio perspective to add anything else that your portfolio of products that you need to see over the next few years, which will be significantly either a hedge to your base case or which you can leverage on very easily because of the bandwidth distribution?

Nrupesh Shah: No, we are more than convinced that the household air cooler segment and industrial air cooler segment and third segment is rest of the world is really offering huge runway and there are several untapped opportunities and can really be quite healthy, profitable growth. So, we would like to continue to focus on that.

Moderator: The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.

Nirav Vasa: I joined the call a bit late, so please pardon me if my question is repeated. Sir my question is, with regards to getting advanced from channel partners, as I understand that the channel partners, financial health is not that really very strong, I'm referring more towards the general trade partners and we typically have a proven business strategy of collecting advanced before shipping, and sometimes it's done a couple of months earlier. So, wanted to check in this trying scenario are we differentiating a bit in our approach, some liberal credit terms to be given or some arrangement for financing has been provided by our company or something like that?

Nrupesh Shah: As far as credit terms are concerned, or getting the advances are concerned, it remains unchanged and that's how it is continuing even in current environment. But we have taken various sales and marketing related initiatives to give adequate comfort to the trade partners. And that too, such as without impacting our gross profit margin percentage, which is clearly reflected even in our quarterly performance. Unfortunately, on account of competitive reasons, I won't be in a position to articulate what those specific steps up and hence despite stress in the trade, our trade partners vis-à-vis competition is reasonably comfortable much better than them and hence as I said earlier, almost +75% existing distributors have given advances, despite many of them sitting on inventory. Having said that, of course Y-o-Y the advances given is lower than previous financial year. Not only that, we are successfully ramping up our dealer distribution network, especially in untapped market and there also we are seeing quite enthusiastic response. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Ronak Vora from AUM Advisors. Please go ahead.

Ronak Vora: Sir can you help me with the percentage in terms of revenue for the customer who went bankrupt in Mexico for us?

Nrupesh Shah: Bhadresh, were they contributing, had they contributed about 10% to 12% of last year sales?

Bhadresh Mehta: Approximately Yes.

Ronak Vora: Okay. And was he the largest customer for us in Mexico?

Nrupesh Shah: One of the largest.

Ronak Vora: Okay. So, basically apart from the bankruptcy, you see at least 2% -, 2.5% growth in Mexico for current year, right?

Nrupesh Shah: That is right.

Ronak Vora: Okay. And if we remove that out from the numbers of bad debt provision, what kind of EBITDA margins do we look at in Mexico?

Bhadresh Mehta: For Mexico, we have been improving the EBITDA margin year-after-year, but this being the year of COVID, there was slight de-growth in the sales and actually due to that the EBITDA margin is impacted. But it is a temporary phenomenon as you know that because the overheads will continue and the top line is slightly lower than last year, hence the EBITDA has of course decreased.

Ronak Vora: Okay. So, can we say will do around 3% to 4% minimum, EBITDA margins this year also?

Bhadresh Mehta: It is difficult to say right now.

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

Manjeet Buaria: Just following it up on bad debt, given it was such a large customer of 10% - 11% will it come as a surprise to you the bankruptcy or you were aware that they have been struggling with their business?

Nrupesh Shah: No, in fact this was like one of the very large and reputed and very old large organized retailer until March, April it was doing pretty well, but on account of COVID in fact, its sales reduced dramatically. And as you know, in reasonably developed market, such of the organized retailer work on a wafer thin margin, and hence it collapse otherwise, of course had we known, there would not have been outstanding to this extent.

Manjeet Buaria: Alright sir. Sir my second question was on the supply chain issues we faced in Australia on certain components. Are these imported mainly from China or from some other geography?

Nrupesh Shah: Partly from China and to a small extent, we have also started from India, but you might be aware that post COVID shipment is usually getting delayed, and freight cost have increased and that really impacted.

Manjeet Buaria: And Sir given the geopolitical tensions between Australia and China, are there any import duties except post COVID there may impact you and you may have to create a new supply chain or that is nothing to worry about right now?

Nrupesh Shah: No, I don’t think there is anything to worry about it. And in fact, we are also that way will not be over dependent on China. We are already in the process of developing alternate supply chain in India itself and in fact, some of the models which Climate Technologies used to manufacture locally, starting current year itself, they are going to be supplied and manufactured from India.

Moderator: Thank you. The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Sir, my question is, what is our market share in India in the organized sector. Number two, what is the return on equity in the normal course, means excluding COVID effect what should be the return on equity and return on capital employed, that is all.

Nrupesh Shah: So, last year I believe our return on equity was close to 28% and in normal situation it should be in-line with that, as far as return on capital employed is concerned we publish segment wise financials and our primary segment is capital employed in the air cooler and appliances and year as a whole, we need to deploy at a net level negligible capital in air cooler segment in Symphony India. On a consolidated basis, it is running into Rs. 100 - Rs. 250 Cr and hence the year as a whole, it translates into triple digit percentage return on core capital employed, but when we define it as a core capital employed excluding Treasury. In Treasury it is investment only into AAA and related instruments, where return is in-line with the market return.

Shanti Patel: Okay, fine. Our market share in India sir?

Nrupesh Shah: So, our market share in India in an organized market is close to 50% and it is estimated to remain in the vicinity of that.

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

Hussain Kagzi: Sir, can you help with subsidiary wise sale for the quarter like you would generally provide for every quarter for Mexico, Australia, and GSK?

Nrupesh Shah: On a quarterly basis, we publish standalone and consolidated financials. So, company wise, I do not have figures handy. But the broadly speaking, in Climate Technologies in 6M Sep-20 sales have increased by about 8%compared to 6M Sep-19. In IMPCO Mexico, there has been a de-growth for 6m Sep-20, however, in Sep-20 quarter there has been a marginal growth. In GSK China, there has been a significant de-growth. Though in IMPCO Mexico and GSK China we have succeeded in improving operating performance by improving the operating margin percentage as well as contribution margin percentage. In Climate Technologies on account of reasons as I mentioned earlier, its profitability has been impacted.

Hussain Kagzi: Right. And sir just wanted to get a rough indication if you could provide what would be our cash level, cash position at this moment on the balance sheet, net cash position?

Nrupesh Shah: So, as on 30th September, as I stated in my initial remarks, the Treasury investment was Rs. 564 Cr, but partly it is on account of advances received and in sales yet to materialize.

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

Hiren Trivedi: Part of my question is answered, only I wanted to find out what is your take on the subsidiaries performance going forward for the full year in Climate Technologies, IMPCO and GSK China.

So, would it be at the same levels or do you see any growth coming in terms of revenue from all the three subsidiaries, any guidance on that or anything that could help us understand better?

Nrupesh Shah: So, at this point of time, as far as Climate Technologies and IMPCO are concerned, it seems that top line wise year as a whole we don't foresee de-growth. As far as the profitability is concerned, IMPCOs profitability should be better than last year, subject to effect of the right off what we have done. As far as Climate Technology is concerned, still some impact of disrupted supply chain, high freight costs should continue, but that negative impact should be lower than what we have witnessed in first six months and in terms of the top line, in next two quarters it should register some growth also vis-à-vis previous year.

Hiren Trivedi: Sir, about China?

Nrupesh Shah: China is already impacted and at least for the current year, even though we have taken some initiatives, but does not seem to be promising. And in that respect, you might be aware that in previous financial year that is 19-20 the equity investments, what we have made in GSK, China and goodwill there on has been already impaired and provided for.

Moderator: Thank you. The next question is from the line of Omkar Kulkarni from Shree Investment. Please go ahead.

Omkar Kulkarni: Yes, my question was regarding, you had earlier planned for buyback so what is the current status on that?

Nrupesh Shah: After that, a lot of water has flown and in lieu of buyback in March quarter we have already given special dividend. And hence last year against profit of about Rs.182 Cr, the payout was about Rs. 194 Cr including DDT, because on account of changes in income tax law on buyback, it was not making much of the sense and hence, we decided to have a straight payout last year. And baring current year, which is an exceptional year. Our payout policy is very clear in any form there will be 50% payout of the profit.

Omkar Kulkarni: And given though current circumstances, where do you see overall revenue and margin growth for the next two years. Because if you already look at it, excluding this climate technology acquisition, there has not been much of a growth in your revenue and profits?

Nrupesh Shah: No forget about growth, there has been a de-growth. And as I repeatedly said there has been a de-growth and current year as a whole, not only next quarter but year as a whole there is going to be a de-growth on a standalone basis. And about Climate Technologies and IMPCO just five, seven minutes before I already shared.

Omkar Kulkarni: Mainly, my question was regarding not this year, about next year or two?

Nrupesh Shah: No. So next year or two, we should be back to our robust growth which we used to register three, four years before and enabling preparations, enabling strategies and measures have been already taken. But we will witness the positive effects of that including robust growth in the sales and profitability in FY21-22 unless COVID or such pandemic situation worsen.

Omkar Kulkarni: No, why I asked this question was because, you have been promising to have 25% kind of growth, but it hasn't been delivered in last three, four years?

Nrupesh Shah: That is true, so that is what I said that in last three, four years so the growth should be back to what it was three, four years before.

Omkar Kulkarni: And what would be the CAPEX for that?

Nrupesh Shah: And as far as last three - four years are concerned, you might be aware that after bad summer of FY18 and FY19 we were back to normal in FY19-20, In FY19-20 we were back to normal in terms of the top line, in terms of the market share and also in terms of the profitability. And current year, hadn't there been COVID, considering the summer, considering the availability of the product, considering the demand, current year could have been a good year, but we are going to miss that and what was your next part?

Omkar Kulkarni: No, I was asking about that only what would be the catalyst for the kind of growth you are talking about?

Nrupesh Shah: Catalyst is going to be one overall Industry size itself. Second is the growth of the industry. Thirdly, the kind of the model, the kind of the innovation what we are making, and we have in the pipeline. Last year itself the number of new models what we have launched are far more than entire competition would have launched in last five years and whole trade, including many competitors are also appreciating. Fourthly, robust marketing networking. Fifthly, coupled with that continuous value engineering. And, in respect of the subsidiary company where especially Climate Technologies, of course it is not performing up to the mark. But again, these initiatives which have been taken should either result next starting next year.

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

Manoj Gori: Sir, one question I would like to ask, where you'd have answered that many times in the past, but if I look at over the last five, six years there have been few issues for the industry as a whole, not as Symphony specific. So other than climatic issues or current year, we have been facing COVID issues, what are the other challenges that the industry might be witnessing, which is resulting in relatively tepid or muted growth for the industry as a whole?

Nrupesh Shah: No actually as we have always maintained in the past, the major challenge can be weather, but in that respect also, now about 45% of the top line is generated from the rest of the world, including exports and from overseas subsidiaries. As you can witness even though in Symphony India there has been a de-growth, at least Climate Technologies and IMPCO there has not been de-growth. As we have successfully done with IMPCO Mexico, for Climate Technologies, in two - three years' time, it should be very robust profitable engine and that is part one. Part two is about industrial and commercial air cooler in a way, it is non-seasonal and again we have talked a lot about it, and it is a good opportunity. And thirdly, in fact we are deepening our dealer and distribution network in rural and semi urban area. Of course, country is so vast and so much opportunity and potential are there, so, whatever we do, there is always going to be runway in that respect.

Bhadresh Mehta: Manoj, just to supplement that, we have by and large de-risked our company, our business to a great extent in all respects excluding the seasonality . We are asset-light, working capital-light non-dependent on single supplier, non-dependent on single customer, non-dependent on single geography, so multi-geography, multi-product, and multi-sourcing. So, all kind of risk we have derisked ourselves, plus we do not have any interest rate risk or credit risk because we have no bank borrowing limits But for the situation like COVID which one could not have predicted.

Manoj Gori: I completely agree. So, obviously from a company's perspective you have taken number of initiatives and obviously, like in terms of operational performance you have de-risk yourself by entering into new markets, but the question was more towards industry side, like when I look at air coolers as a industry so, maybe even six, seven years back this industry was roughly around 7.5, 8 million units and even today when we talk to channel partners like it still remains around those levels. And however branded player might have increased from roughly around 15% to 20%, 25% today, so, just trying to understand, what are the challenges that the industry as a whole might be witnessing and obviously accordingly we have been also focusing on the other markets where we can actually drive our growth on a sustainable basis. So just the question was on those, like on the domestic market in specific?

Nrupesh Shah: So, considering the current penetration of air cooler just about 14% and air conditioner penetration about 6%. Certainly, irrespective of all these hiccups, there is certainly a huge, huge runway, there is no doubt about it. Say about 8 to 10 years before the air cooler penetration was about 6% - 7% and air conditioner penetration was about 3%. So on a CAGR basis, certainly there is going to be a good growth and this is not only our estimate, this is based on our several interactions across the markets, across the trade partner, and also of a deep understanding of the market. Unfortunately, in last four years, there have been two bad summers and the current year has been a COVID, but that's more like an exception. But more importantly, if you can read the fine print, despite so many players have entered, our market share has remained un-impacted, not only that our gross profit margin percentage on a standalone basis is hovering around the same percentage what it was, and that we are very confident to maintain, and in a way we also need to see that, in a way such kind of the seasonality is also an entry barrier, it's in fact a moot. Many, many players may enter in the market, but facing them successfully tackling the supply chain, successfully withstanding such seasonality and still maintaining that kind of market share by itself is a challenge and hence it is in a way a deterrent also and that's also driving the high profitability. Have it been too straightforward, probably there would have been still many more players and profitability margin would not have been this much.

Manoj Gori: No, I completely agree with that, the company is taking efforts and over sustainable basis, like you have been able to maintain your market share along with strong profitability. So this it was on the industry specific. So yes, that's all thanks a lot sir and wish you all the best.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand over the conference over to Mr. Naveen Trivedi for his closing comments.

Naveen Trivedi: Thank you, everyone for participating in this call. Nrupesh any closing comments from your side?

Nrupesh Shah: Naveen thank you very much. Thank you to Naveen and HDFC Securities for hosting this conference call. And thanks to all the participants for sparing their valuable time. Wishing all of you Happy Diwali and remain safe and healthy. Thank you.

Bhadresh Mehta: Thank you.

Moderator: Thank you. Ladies and gentlemen on behalf of HDFC Securities, that concludes this conference call. Thank you for joining us and you may now disconnect your lines. Thank you.