



“Symphony Limited Q3 FY20 Earnings Conference Call”

February 07, 2020



MANAGEMENT: **MR. ACHAL BAKERI - CHAIRMAN & MANAGING DIRECTOR, SYMPHONY LIMITED**
MR. NRUPESH SHAH - EXECUTIVE DIRECTOR, SYMPHONY LIMITED
MR. BHADRESH MEHTA - GLOBAL CFO, SYMPHONY LIMITED
MR. MILIND KOTECHA - IR & TREASURY, SYMPHONY LIMITED

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



Moderator: Ladies and gentlemen, good day, and welcome to the Symphony Limited Q3 FY20 Earnings Conference Call hosted by HDFC Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Naveen Trivedi. Thank you and over to you.

Naveen Trivedi: Good afternoon everyone. On behalf of HDFC Securities, I would like to welcome the management of Symphony Limited to discuss post 3Q FY20 result. We have with us the senior management of Symphony Limited represented by Mr. Achal Bakeri – Chairman & Managing Director, Mr. Nrupesh Shah - Executive Director, Mr. Bhadresh Mehta - Global CFO, Mr. Milind Kotecha - IR & Treasury. I would now handover the call to the management for their comments. Thank you and over to you sir.

Achal Bakeri: Good afternoon everybody and welcome to Symphony's quarterly conference call. The normal safe harbor rules apply. I won't repeat them. If we were to talk about the broad outlook, last quarter I spoke at length very granular detail about Symphony as well as the three subsidiaries. I think I will not go through all of that again. What I would say is that all the new products that were introduced last quarter have been very well received and the market is very enthusiastic about that and the result of that is visible in the sales growth that we have witnessed in the quarter ending in December. The market is also very bullish about the prospects for the cooler industry in general because the winter was fairly good and all winter consumer durables such as heaters, water heaters and room heaters had a very good run and the market has pretty much exhausted the inventory. So the expectations are also of a good summer and the market is sitting on very low inventory of winter products. So that potents very well for summer products in general.

As far as the overall sentiment in the market is concerned, I would say that despite all the noise that we hear about a slowdown, what we feel, at the ground level is that nobody, none of our channel partners have actually shown, registered any de-growth in sales. So all of them, no matter whether it is in rural Uttar Pradesh or metropolitan, Karnataka or the NCR region or anywhere across the country, this is I would say fairly wide spread. The channel has not really given any significant downturn in sales. So as far as coolers are concerned, we believe that if the summer is not even exception, but it is just a normal summer, we should see a fairly good growth growing forward.

So all in all, I would say, Symphony in India is looking good. As far as our international subsidiaries are concerned, Australia we have had decent growth. Again Nrupesh bhai will take us through all the numbers in detail. But the Climate Technologies in Australia, IMPCO in Mexico; both have registered good topline growth. Our subsidiary in China GSK Keruilai has registered de-growth on account of the slowdown in China because of the trade war and probably this would also be impacted because of the coronavirus going on at the moment. But

overall, the Chinese subsidiary is a relatively small subsidiary. So apart from that, I would say, the other two subsidiaries have shown good growth and all in all the numbers are in front of you. Now I request Nrupesh bhai to walk us through the numbers. Thank you very much.

Nrupesh Shah:

Good evening. So to take you through numbers, on standalone basis for the quarter ended Dec-19, revenue from operations is up from Rs. 159 Cr in Dec-18 to Rs. 207 Cr in Dec-19, in fact it is up, even vis-à-vis Sept-19 quarter. So YoY it has reached at a 30% growth. Coming to gross margin, it is at 49% in Dec-19 quarter up from 47% in Sept-19 quarter. The main reason for increase in topline and gross margin percentage are overwhelming response for launch of new models across the range, much better operating efficiency and model mix.

Coming to standalone PBT, it stands at Rs. 77 Cr in Dec-19 quarter versus Rs. 57 Cr in Dec-18 quarter. It translates into PBT margin of 35% in Dec-19 quarters versus 34% in Dec-18 quarter and 34% in Sept-19 quarter. Standalone PAT stands at Rs. 58 Cr in Dec-19 quarter versus Rs. 43 Cr in Dec-18 quarter and Rs. 57 Cr in Sept-19 quarter. PAT margin stands at 27% in Dec-19 quarter, almost in line with Sept-19 quarter.

On a consolidated basis for 9-months ending Dec-19, revenue from operations stands at Rs. 854 Cr while gross margin stands at 47% while PBT to gross revenue margin is at about 20%. Absolute amount wise PBT stands at Rs.179 Cr versus Rs. 116 Cr for 9 months ending Dec-18. Consolidated PAT margin is 16% (9M Dec-19) that is Rs. 142 Cr versus Rs. 88 Cr (9M Dec-19) and Rs. 91 Cr for FY2018-19.

In terms of efficacy of capital employed (monthly average) on a standalone basis, we maintained very tight capital efficiency and for the Dec-19 quarter, the capital employed (monthly average) stands at negative Rs. 56 Cr and for 9M Dec-19 it stands at negative Rs. 43 Cr. Hence PBIT percentage on capital employed for the Dec-19 quarter and 9M Dec-19 stands at infinite.

On consolidated basis, Capital employed on the core business (air cooling and other appliances) stands at Rs. 174 Cr, which translates into PBIT percentage on capital employed of 90%.

The board of directors in today's meeting has decided to pay total dividend of Rs. 20 per (Rs. 2 as interim dividend and Rs. 18 as special dividend) share on the face value of Rs. 2. Dividend total payout including DDT is going to be Rs. 169 Cr. This is in addition to Rs. 25 Cr of dividend payout already made in last two quarters leading to total dividend payout in 9-months Rs. 194 Cr. So this will take care of not only our current year shareholder reward policy but also backlog of previous years and hence we will be very much in line with our stated shareholder reward policy of rewarding shareholder's with 50% PAT.

Coming to specifics on subsidiary companies, Symphony AU Australia including Climate Technologies for Dec-19 quarter, turnover stands at Rs. 91 Cr while PAT is up from Rs. 4 Cr (Dec-18 quarter) to Rs. 8 Cr (Dec-19 quarter). As far as IMPCO is concerned, there has been a

loss up from Rs. 2 Cr (Dec-18 quarter) to Rs. 4 Cr (Dec-19 quarter), loss is mainly, in line with earlier year, on account of intercompany purchase of air coolers from Symphony India as well as GSK China. The profit thereon of Rs. 9 Cr has been deducted and set off from consolidated numbers and that sale happens mostly in March quarter and in subsequent quarter and that profit will be realized in subsequent two quarters.

On 9 months ending Dec-19, Symphony AU has registered topline of Rs. 212 Cr with EBITDA of Rs. 20 Cr versus Rs. 9 Cr (6M Dec-18). PAT is of Rs. 10 Cr versus Rs. 4 Cr (6M Dec-18) For IMPCO, EBITDA is of Rs. 3 Cr (9M Dec-19) versus Rs. 5 Cr (9M Dec-18). PAT is 0 (9M Dec-19) versus Rs. 4 Cr (9M Dec-18). For GSK, the sales are down from Rs. 47 Cr (9M Dec-18) to Rs. 37 Cr (9M Dec-19) and EBITDA is negligible in absolute amount and hence at a PAT is negative Rs. 4 Cr (9M Dec-19), this is mainly on account of reduction in topline due to trade war. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, couple of things I would like to ask from the Climate Technologies. Summer has been strong then why it has not translated into the topline growth for Climate Technologies?

Nrupesh Shah: So as I said, for 9-months Climate Technologies topline is Rs. 212 Cr while for previous year, of course consolidated numbers were for 6-months because we acquired effective from July 2018 and hence for previous year 6-months (Jul-18 to Dec-18) it was Rs. 141 Cr. But even if we compare 9-months to 9-months the topline growth is almost about 10%-11%.

Manoj Gori: Okay. Because when I look at the Q3 numbers, it is roughly Rs. 91 Cr versus Rs. 85 Cr.

Nrupesh Shah: That is right. So that is for the quarter December.

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

Renu Baid: Sir, my first question is just asking regarding the impact of this coronavirus on the GSK operations because not only it would impact GSK but also supplies to IMPCO. So in your view what has been the impact so far and what could be the material hit on both the entities and is there a sourcing coming in from China for our India supply chain as well from these entities or not, if you can elaborate a bit more on this?

Achal Bakeri: As far as supplies from GSK to whether it is Australia or India or Mexico are concerned those supplies have already happened for the coming season. So there is not much at stake over there but however our subsidiary happens to be in Southern China which is in Guangdong province and that is not really been affected by the coronavirus which is up in Central part of China in Wuhan. So fortunately none of our people have been infected nor their families have been infected at Keruilai. Then that leaves us to the second part of your question which is what about component supplies to India. Lot of our supplies for the coming, let us say for the

coming couple of months or 2-3 months have already been received. So there is no immediate issue of whatsoever. And we believe that by the time we need to place fresh orders, the situation should be under control. Most of suppliers also happened to be in parts of China which are unaffected. So we really don't foresee this to have any material impact on Symphony. Upcoming season for Symphony India is being completely taken care.

Renu Baid: Yeah exactly. So at least from a summer perspective there is no impact on the supply chain or the product sourcing whatsoever in any part for the India portfolio?

Achal Bakeri: That is right.

Renu Baid: Okay. And by that time we see summers hitting in the US, anyway through Australia etc. the supply chain should by then get back in place?

Achal Bakeri: Yes. For US, the dispatches have sort of been done and for Australia of course now the next summer is many months away almost like 8-10 months away. So we expect that things to have stabilized by then.

Renu Baid: Okay, sure. Second if you can also elaborate a bit more in terms of, on the quality of growth that we have seen in this quarter in terms of which particular segments did we see growth and how are the growths in terms of the end channels. So how would the trade grow versus the modern retail format etc. And overall you mentioned that there is improved optimism on the summer and off take from the interactions with channel partners. So if you can elaborate a little more on that side would be helpful.

Achal Bakeri: Well, as far as modern retail is concerned, that sales will happen in the current quarter. So bulk of what happened in the previous quarters, the one that ended in December has happened to the general trade and the sales growth that we are talking about is again primarily for the household coolers. Industrial coolers have also grown but again the base is small and the numbers are small. The sentiment across the general trade across the country is fairly positive. There is all this noise that one hears about the slowdown and all of that, but that has not been evidenced on the ground and the winter was strong, so the heater sales has been good. Many of the channel partners are common between cooling products and heating products and so they are fairly up, have witnessed good sales. So all-in-all, the sentiment is fairly positive.

Nrupesh Shah: And this is couple with launch of new models across the range, in the residential range and even ducted cooler, has really given us an edge.

Renu Baid: Gross margins are broadly flattish, just 50 basis points QoQ. We had mentioned that we were expecting gross margin to comeback to healthy levels, close to 50% levels by the end of the year. So you think those numbers would be broadly there or overall it would be a volume driven mix that will drive EBITDA margin improvement?

- Achal Bakeri:** I think in the current quarter the margins should show an improvement over the previous quarter.
- Renu Baid:** Okay. But for the year as whole, by the time we end the year or by next year do we see gross margins broadly coming back to that 50% levels or probably these, closely to 50 is what is more realistic as a number to look at it?
- Achal Bakeri:** I would say 50ish is what we should be looking at.
- Nrupesh Shah:** For 9-months on a standalone basis, our gross margin is 49%. Normally in March quarter, one because of the price increase and secondly also on account of launch of new models, we expect gross margins should be better than current quarter or first 9-months.
- Achal Bakeri:** So for the year as a whole, we are talking about in the vicinity of 50%-51% types.
- Moderator:** Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.
- Nitin Arora:** Just dwelling back to Australia subsidiary, it will be good if you can quantify what happened in this quarter rather than in the 9-months because your Q3-Q4 journey is a heavier quarter in terms of weightage about 55% to 60% as what you guided. So what is really going wrong there, in terms of sales, even EBITDA is somewhat not even able to achieve the previous numbers of what the other management had. So if you can quantify on that, that would be helpful and I will take the second question after that.
- Nrupesh Shah:** For 9-months the topline stands at about Rs. 212 Cr and last year for 6 months (Jul-18 to Dec-18) it was Rs. 141 Cr. While EBITDA stands at Rs. 20 Cr versus Rs. 9 Cr for the previous year 6-months (Jul-18 to Dec-18) and PBT from operations that is before interest on acquisition loan stands at Rs. 12 Cr versus Rs. 7 Cr, while PAT stands at about Rs. 10 Cr versus Rs. 4 Cr. So this translates into gross profit margin of 46% versus 43% of previous year while PAT margin is at about 5% versus 3% and EBITDA margin is 9% versus 7%. And, I think given in earlier two quarters it has been shared that we have initiated series of strategies whereby part of the benefit has reflected in these numbers we have already got the benefit but annual financial benefit should be on the same numbers, anything in the range of around 5 million Australian Dollar.
- Nitin Arora:** So this quarter was Rs. 91 Cr versus last year previous quarter of, if you can share that number?
- Nrupesh Shah:** Rs. 85 Cr same quarter last year.
- Nitin Arora:** So that is almost like a flat growth in an environment which is very heavy quarter in terms of sales in Australia

Achal Bakeri: We are talking about our 7% growth over the previous year in terms of topline which for a developed mature economy like Australia you know is I would say not too bad and in terms of EBITDA is up from Rs. 8 Cr to Rs. 14 Cr. So that is almost like a 75% increase on the EBITDA level. PBT is up from Rs. 4 Cr to Rs. 11 Cr, nearly twice.

Nitin Arora: Sales was something 55 AUD and it was expected it to go up to 70 AUD. So that was the range which was given at the time of the acquisition in the presentation. So it is not happening that way, so that is my question. I understand it is a small population country and at acquisition time also you said that the penetration is higher, so it is just because of that and the numbers which were given earlier was a little different because you said that you will start marketing towards the US and all.

Achal Bakeri: Yeah. The growth in US as well as other initiatives that we have taken will start showing results from say 2021 onwards. So we have plans which I had explained in the talk in the previous quarterly con-call. We expect value engineering itself to contribute about 5 million-6 million Australian Dollars for the bottom-line. So all that will show results in the next financial year. However, already in the current year itself for current summer, coolers from India have gone to Australia and have begun to be retailed in Australia. Coolers from China have gone to the US and will be retailed in the coming summer in the US. So this kind of cross selling opportunity which was something one of the reason why this company was acquired, have already begun to happen. So the various initiatives will start falling in place and will have a material impact in the next financial year.

Nitin Arora: Is it possible to give some color with respect to the secondary sales of coolers within this market or this is pure primary which is done in this quarter. Also, I understand this must be the primary, I am saying if you can give a little color on the secondary if you have, how that has responded?

Achal Bakeri: So we are comparing this year primary with previous year's primary. We don't have any visibility beyond that, neither for this year nor the previous quarter nor the previous year. So we are talking apples to apples.

Nitin Arora: Getting it, okay. Lastly sir on the supply chain perspective, if you can throw some light, how does the India, so just wanted to understand what you supply or what you get in terms of supply chain from overseas to India which let us say if corona extended which can impact, because you have already clarified that you are very well saved in terms of the summer season. But just want a little clarity what all gets in here and even if you talk in terms of percentage that will be helpful, that is my last question.

Achal Bakeri: So, some components at the moment comes from China but if the situation where to extend then we would be able to develop alternative sources locally. So it isn't as if we are tremendously dependent upon sourcing from China, there are other alternatives available to us.

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

Prithvi Raj: How is the traction in the commercial and industrial air coolers from the market, that is question number one. And then are we going to see higher marketing expenditure because of these products?

Achal Bakeri: So the new commercial and industrial cooler range which was introduced last quarter has been very well received. So I would say that the traction is very good. And the prospects for those ranges are beyond what we had expected. Although it will take time for everything to sort of bear fruit and the volumes to scale up, but the products have been very well received in the market place. And as far as ad spend and marketing spend are concerned, bulk of that will be actually spend in the next quarter, quarter beginning April, April-June quarter, that is the peak season. However there will be some advertising expense in the current quarter also which some advertising campaign will begin in March. But the bulk of it will be reflected in the next quarter and in terms of whether our ad spend is going to be significantly different from the previous year, I think that is still a work in progress. So that is, little premature to comment on. But it will more or less in terms of percentages being in line with what we have spent in the current year or we have spent in the previous year.

Prithvi Raj: Okay. And just on the India business, could you please help us on the market share numbers, I mean are we able to maintain the market share or is there any increase or decline in the market share numbers?

Achal Bakeri: At the country level I would say that our market share is absolutely intact and there would be pockets where our market share would be reaching like 80%-90% and there would be pockets where the market share maybe less than the average. But I would say as a country as a whole, our market share has been intact over the years.

Nrupesh Shah: An important part is, in 18-19, the year in which industry de-grew, industry de-growth was about ~ 36% and despite being market leaders Symphony's de-growth was 24%. This is despite entry of many new players.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Achal bhai, we completely understand, now the budget has taken one more hit and it is a difficult time when promoters in that situation want larger share sir, but I think what you did was right by not giving a larger dividend this year itself. Finally that buyback and that situation which we were looking for and now this larger dividend at least it helps to reduce some of the cash which we have on the balance sheet. So sir, at least in the light of the changes do we think there is a need to tinker with any of the dividend payout policy?

Achal Bakeri: What do you suggest, let me ask you directly. What are you leading to, what you want me to answer?

Mayur Parkeria: No, sir because it has absolutely become unfair when it gets taxed in your hand from the next year and instead of company paying the smallest percentage now it has shifted to a much larger share if it comes in the hand, so I was just thinking that will you look at changing any kind of dividend policy from the company's perspective? How you and board decide

Achal Bakeri: I think by and large we are committed to our stated shareholder reward policy of around 50%. Question is we have to find the most tax efficient way of doing that. So depending on what the tax regime is and how the government tinkers with it, we will have to adapt to that. So at the moment we felt that what we have done this year was the most end-to-end tax efficient. Next year is another story; we will see what happens next year. But in terms of the overall payout we are committed to a 50%. So this years' payout you were to consider then sort of makes up for the shortfall of the previous couple of years. So end-to-end we have restored the payout of about 50% for the last 3 years.

Mayur Parkeria: It will be heartening to know that you will continue with the 50% payout even in the next year, so it will be great news. Thanks.

Achal Bakeri: Absolutely because the money is sitting on the books of the company and there is no need, the company doesn't really need that cash and so yeah, we are absolutely committed to it, but we will have to find what is the most tax efficient end-to-end and like I said this year what we have done takes up for the shortfall of the previous years, so yeah.

Nrupesh Shah: And rather than just dividend payout policy, it is a shareholder reward policy. So it maybe in the form of dividend, it may be in the form of buyback, but end-to-end what makes most sense.

Achal Bakeri: So we are actually defining it as the shareholder reward policy. We are not really calling it as a dividend policy because one way or the other we are putting money back in the pockets of the shareholders. So that 50% payout will continue.

Mayur Parkeria: Nrupesh bhai, second question was mainly for you was, given the fact that now lot of cross transactions are happening within the subsidiary from China, Australia, India and Mexico, and when we look at the external sales on the segment side, rest of the world and the figure which Nrupesh bhai gives which are individual sales of the company, for the sake of understanding the numbers better, if you can give numbers which match those segments, external sales and it will help us to understand the real numbers behind it along with that. Just a thought that, you know because there is a fair bit of intersegment which moves around. And I think now, one should look at it purely from an integrated way. So if we match those numbers, it will help us to understand the margins then or figures better, sir.

Achal Bakeri: Before Nrupesh bhai answers that question, let me also explain and let me also state that, in one sense, intercompany sales is exactly the objective behind the acquisition. So whether it is

Mexico, the acquisition was really for market access of Symphony product in Mexico. And subsequently, with the acquisitions of Australia and China, Mexico is also providing access to its market to products from Australia and China. Likewise, the acquisition of Climate Technologies is providing an access for products from India and China to Australia and to the U.S. So in one sense, this cross-selling is exactly the objective behind the acquisitions done whenever they were done. So that's just a broad statement that I had wanted to make. Now Nrupesh bhai, maybe you can answer it specifically.

Nrupesh Shah:

Sure. So of course, we can give lot of information and lot of details. But our objective is to share precise information rather than sharing lot of information. So as you would have observed, starting this quarter, along with standalone and the consolidated financials, we have placed subsidiary company-wise significant financial information with qualitative statement, talking about what has been topline, what has been EBIDTA and/or PAT vis-à-vis previous year. That is number one. Number two, to answer your question about intercompany, again it is self-explanatory in the remarks. So it says that there is an impact of Rs. 9 Cr, and that impact is only in IMPCO and hence it has not been specified in other companies. So the Rs. 9 Cr profit has been reduced from consolidated financials. The reason being IMPCO has purchased the goods from Symphony India mainly and partly GSK China. But unless and until it realizes, which happens in March quarter and June quarter, we cannot reflect it in the profit in consolidated basis. So rather than giving lot other information, that precise, specific details with financials has been shared, but still your suggestion is welcome, if you can specify what more needs to be done.

Mayur Parkeria:

Sir, I'll take this offline with you. Sir, last question from my side, Q3 has been good for us. On the standalone, revenue from India is up by 27% at Rs. 178 Cr. While Dec-19 quarter is up on Dec-18 quarter, we are still around 6% lower on the revenue from India when compared to Sep-19 quarter. So sir, just your color on that and how do you see that.

Nrupesh Shah:

I am yet to check that. But if you have analyzed, for 9-months ending Dec-19 vis-à-vis 9 months ending Dec-18, how does it stand?

Mayur Parkeria:

Sir, 9-months as a whole, we are almost 48% up. That is Rs. 515 Cr (9M Dec-19) versus Rs. 347 Cr (9M Dec-18). 9M Dec-17 was of Rs. 499 Cr and 9M Dec-19 is of Rs. 515 Cr, so marginally 3% up.

Nrupesh Shah:

That's right.

Mayur Parkeria:

Yes. But from the quarter perspective, is there anything to look forward, it doesn't still show that the peak is yet to be reached or depending a strong one or any color if you think it's normal, it's okay, it's fair enough.

Nrupesh Shah:

Rather than looking at quarter-to-quarter, more importantly, it is YTD and year as a whole. So at this point of time, we are reasonably confident and comfortable that year as a whole it

should be reasonable growth over FY18. Of course, vis-à-vis FY19 because FY19 is on a low base, but even vis-à-vis FY18, that should be a reasonable growth.

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

Nirav Vasa: My first question pertains to standalone business. Sir, we are a dominant player in the standalone, I can say, in the room air cooler segment. And in the last call, you had elaborated a decent plan of entering into commercial air cooling space as well. So would it be possible for you to share some updates on that? And any strategic milestone which you are targeting in FY '21 for this particular segment?

Achal Bakeri: I think we would refrain from making that statement at this stage. We will share with you that once we have better visibility ourselves.

Nirav Vasa: Sir, second question is, how do we intend to repay the loan that we have taken for acquisition? So can you help me with the repayment trajectory of that?

Nrupesh Shah: In that respect, we are absolutely clear. The acquisition loan will be taken care from the cash flow of Australian company.

Nirav Vasa: Got your point, Sir. My last question, do we have any product portfolio or expansion plans to enter into providing cooling solutions for data centers because that can be a really very big market?

Achal Bakeri: We already have some sort of key account management initiatives for data center. And so far, I would say, that's still work in progress. Nothing has happened so far, but you are right. That's one of the segments that we are actively pursuing along with several other.

Nirav Vasa: So that can be a global opportunity for us. Am I right?

Achal Bakeri: Absolutely.

Moderator: Thank you. The next question is from the line of Hitesh Taunk from ICICI Direct. Please go ahead.

Hitesh Taunk: Sir, just wanted to know, is it right to assume that most of the sales growth on a YoY basis has happened through the volume growth only? Or have you taken any price hike also?

Achal Bakeri: Some models, we have increased the price a little bit. Some models, we may have rationalized the price a little bit. But by and large, this has come from volume growth.

Hitesh Taunk: Okay. And the second question, Sir. You mentioned like for the Q4, generally, the gross margin happens to be higher than as compared to our 9-month. So were you planning to take a further price hike? Or would it be rather largely through the product mix only?

- Achal Bakeri:** See, actually, our prices go up as we come closer to the season. So in general, our prices in the current quarter would be higher than the prices of the previous quarter. That is the Symphony sort of way, that's been the Symphony practice over the years. So that will be one. And secondly, of course, there will be a model mix, which will impact the price, which only time will tell.
- Hitesh Taunk:** Okay. Sir, next question is pertaining to your opening remarks on water heater. Sir, how much it is of the topline in standalone?
- Achal Bakeri:** We are not into water heaters. What I had meant was that, many of our channel partners sell heater and room heaters. And basically there is a good winter and their majority inventory of water heaters and winter products has been exhausted. So they have more investable resources for cooling products for summer.
- Hitesh Taunk:** So what about other appliances then? It is written in the results, sir, in your result note. It is written as air cooler and other appliances. So what does other appliances implies to?
- Achal Bakeri:** In Australia, historically, the company has been selling both coolers as well as heaters; both water heater and room heaters. It also sells conventional air conditioner, which it buys from China and sells under its own brand. It used to be also a master distributor in Australia for YORK air conditioners. So it has air coolers, room heaters and air conditioners in its product mix.
- Hitesh Taunk:** Okay. And sir, last question is pertained to IMPCO. Can you share the IMPCO 9-month revenue number?
- Achal Bakeri:** Nrupesh bhai did mention it, but if he can repeat.
- Nrupesh Shah:** So our 9-month topline in INR is up from Rs. 60 Cr to Rs. 68 Cr. EBIDTA is down from Rs. 5 Cr to Rs. 3 Cr. PAT is negligible versus Rs. 4 Cr of previous year.
- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.
- Manoj Gori:** Sir just wanted to understand. So there is a lot of uncertainty and limited visibility for the room AC market for the upcoming summer season, especially because of the current scenario in China. So if there are any supply-related issues for room AC market, what could be a possible impact on air coolers for us and for the industry as a whole?
- Achal Bakeri:** I already clarified that. Renu asked that same question. And I conveyed that as far as modern retail is concerned, bulk of its supplies from China for the coming summer have already been secured or already given.
- Manoj Gori:** Yes, sorry to interrupt you, but I was coming to like what positive impact it could have, if any, because your room AC market might be impacted. So your customers might be inclined to buy

more air coolers. Or what would be a scenario for us, whether it would be an exponential growth opportunity for air cooler market? So I'm referring to that. So I do understand that you are well equipped.

Nrupesh Shah: No, no, so we are well equipped. We will be more than keen to fill that gap if that opportunity arises.

Moderator: Thank you. The next question is from the line of Nandan Vartak from Wealth Managers India. Please go ahead.

Nandan Vartak: So my question is on Australia. Will the unfortunate fire instance in Australia have impact on Climate Technologies operations in any way, be that air cooler or room heater segment of the business?

Achal Bakeri: Nothing at the moment, no. It has not really affected us.

Nrupesh Shah: The bushfire was in Sydney. Sydney is quite north of the Adelaide. And Sydney is not a major market for us. So our market in Australia is quite different vis-à-vis where bushfire has occurred.

Moderator: Thank you. The next question is from the line of Raj Mohan, an individual investor. Please go ahead.

Raj Mohan: You have often in recent past indicated to the industrial and commercial coolers being where you were at the residential category 30 years back. Though you have talked about it in the call, are you seeing any change in the high-frequency indicators in these segments showing any signs of splitting? And where do you see the segment as a percentage of total revenue on the next 3 years?

Achal Bakeri: Mr. Raj Mohan, I really wouldn't hazard a guess at this moment because at this moment it is anybody's guess. The potential is enormous. But there is a lot of market education that we have to do because we don't have a culture of industrially cold spaces in the country. But as we have gained in other parts of the world, as you will see in Australia or the U.S. or even in China or even in a place like Vietnam. So it is a question of actually being able to educate the market and generate that kind of interest and demand. In an abstract form, I would say that every un-air condition premise in the country is a potential application for air coolers. So that number is far greater than the residential coolers. So long term the potential, I would say, could be much greater than residential coolers as our own factory in China has experienced, where the predominant sales comes from industrial coolers. But how and when that will that happen is something which, at this moment, I have no answer to. It's something that we are working on. It's a genie. It's something that we have to unlock. And we are working on unlocking it but how and when it will happen is difficult for me to say at this point in time.

Raj Mohan: Okay. But then as you would have already embarked on this educative journey, are you seeing incremental high-frequency indicators turning more favorable? And the trajectory that it is gaining is as per your envisaging how it will be?

Achal Bakeri: Absolutely. So far, we were bringing in industrial products from our China subsidiary and from our Mexican subsidiary. And the whole import model had its own constraints on demand-supply mismatches and costs and logistics and all of that. But now that we have begun to manufacture some of the key products in India, those constraints will cease to exist. And we will be able to focus on market development and demand generation. And that has already happened in the last quarter. And we have already begun to see sort of significant interest in this category. And I would say the next year will be something where the full impact of that will be visible, because the products were introduced just about 3-4 months ago and for it to snowball into something meaningful will take a while.

Raj Mohan: No. That's fairly helpful considering the limitations you have in visualizing how it will play out. Next question is you talked about gross margins earlier. Based on our strategy, do you feel the mix changes and the geographical changes that are going to play out in the next few years has the potential to result in a secular improvement in your gross margins in the next, say, 1 year to 3 years or around this 50ish percent kind of gross margins is where you see us holding on, and largely our growth will be driven by volumes?

Achal Bakeri: I should say you should bet on the latter that there will be more volume growth, and the margins will remain in the neighborhood of 50%. So we don't really think that there will be a significant uptick in that, but it will play within a narrow band of 50%.

Nrupesh Shah: And what happens, as you know, even the gross margin may remain the same around 50%, but with increase in topline, normally operating efficiency improves and economies of scale also come into play, so that normally leads to improvement in EBIDTA margin and hence net-net profitability. So that is what we are really focusing on.

Raj Mohan: Understand. Then you have talked about material contribution from US in terms of potential with the Climate Technologies providing you with more retail space from the erstwhile Home Depot to Lowe's and Amazon. Will we see this playing out from this US summer itself, which will lead to any material improvement in your products being available in more shelves? And how much will US as a percentage of total sales contribute over the next 3 years?

Nrupesh Shah: If I have understood your question correctly, of course, when we acquired, we had market access to Home Depot on account of CT. But current year, Climate Technologies has also tied up with Lowe's and Amazon USA. And apart from Climate Technologies' products, Symphony's and GSK's products are also going to be stored in them. And of course, as it happens with such large organized retailers, it takes 1 or 2 season really to scale up substantially.

Achal Bakeri: So to give you an example. Climate Technologies had never sold portables in the US because it was not a part of their portfolio. But because now they have access to Symphony and Keruilai's portfolio, for the first summer of 2020 itself, something like we have received a PO for 11,000 units from Home Depot. Now that itself, I would say, is a significant breakthrough. In the larger scheme of things, 11,000 coolers may not be a huge number, but it signals the potential going forward. If in the first year itself, if we can get a PO for something like that, that itself I would say is fairly good. Likewise, in Australia, coolers that have gone from India number to I think about 3,000 or 4,000. So for Climate Technologies, like I said, doesn't have portables in its portfolios, they have never sold portables neither in the US nor in Australia. But because it had access to Symphony's portfolio, it has also offered them to retailers in Australia. So that itself is, I would say, a sign of things to come.

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

Hiren Trivedi: I just had one question on the launch of models across your cooling category. So you mentioned in the last quarter you had launched some 4 new models in the household coolers and commercial coolers. So you launched moving cooler full range. So in this quarter, is this continuing that you have received good response on the trade for those models? Or have you introduced new models? Or you have refurbished some old models? Sir, can you throw more light on that?

Achal Bakeri: We actually launched 6-7 models in commercial coolers. We have launched 2 models in industrial coolers, and we have launched 8 models in household coolers, and we have revamped 6 existing models. So 6 models revamped, 8 new models, so totally 14 in household coolers, 6 in commercial and 2 in industrial. So that is more than what the rest of the market has done together. So the response that we have received is outstanding, and the market is very enthused with the performance of the new product.

Hiren Trivedi: And also like these would be somewhere with a bit of a better margin profile?

Achal Bakeri: Sure. Yes.

Moderator: Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Sir, just a small question. You briefly talked about some numbers on the US side, how it is shaping up. I remember some of your previous calls like the US market was around Rs. 2,200 Cr. Was it the right number?

Achal Bakeri: Yes, About USD 3 million.

Mayur Parkeria: Yes. So sir, in number term in household coolers, will you be in a position to say what kind of number does that market do in volume terms, just to understand how?



*Symphony Limited
February 07, 2020*

- Achal Bakeri:** We do have it somewhere, but I don't have it right away. So I won't be able to accurately answer your question.
- Mayur Parkeria:** Okay, fine Sir. Let's hope that sometime later you will give it to us.
- Achal Bakeri:** Sure.
- Moderator:** Thank you. Ladies and gentlemen, as there are no further questions, I now hand the conference over to Mr. Naveen Trivedi for closing comments.
- Naveen Trivedi:** Yes. Thank you, everyone, for participating in this call. Achal bhai, Nrupesh bhai, any closing comments you want to from your side?
- Achal Bakeri:** I just want to thank everyone for their questions and for their interest in Symphony.
- Moderator:** Thank you. Ladies and gentlemen, on behalf of HDFC Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.