

Transcript

Conference Call of Symphony Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Dennis, moderator for this conference. Welcome to the conference call of Symphony Limited. We have with us today Mr. Nrupesh Shah, Executive Director and Mr. Bhadresh Mehta, VP – Finance. At this moment, all participants are in listen only mode. Later, we will conduct a question and answer session. At that time, if you have a question, please press * and 1 on your telephone key pad. Please note this conference is recorded. I would now like to hand over the floor to Mr. Girish Solanki. Please go ahead, sir.

Girish Solanki: Hello. Sorry to keep you all waiting. This is Girish here from Anand Rathi. Let us directly begin the conference call of 2Q FY12 Symphony Limited. Over to you, sir.

Nrupesh Shah: Sorry for the slight delay, because of some technical hitch. I am Nrupesh Shah, Executive Director of Symphony and along with me there are Mr. Bhadresh Mehta, Vice President – Finance, our company Secretary and Legal Head, Mr. Chandrakant Gandhi and our DGM – Accounts, Mr. Girish Thakkar and Hasmukh Patel. Welcome to our analyst's conference call, I heartily welcome all of you on behalf of Symphony. There may be some forward looking statements or estimates, but we are not taking any assurance about fulfilling all of them. They are merely on the basis of best possible estimates.

Coming to our first half year performance, it has been 87 crores of Gross Revenue versus 79 crores of corresponding period, registering a revenue growth of 11 crores. And in last quarter, that is December quarter the gross revenue has been about 58 crores versus 55 crores, registering revenue growth of 5%. About EBITDA, in absolute amount for six months it has been 22.75 Cr versus 19.75 Cr, registering a growth of 15%. And in last quarter it is at the PAT level of 15.80 crores. EBITDA margin to gross revenue has remained 26% in half year versus 25% and in last quarter it has been 27% versus 29% of the corresponding period of previous year. Profit before tax has been 21.70 crores versus 18.84 crores and for December quarter it has been 15.31 crores versus 15.34 crores. As far as effective rate of income tax is concerned, because of our successful execution of SEZ operations, effective income tax rate has come down from 33% to 28%, resulting into PAT for the half year of 15.71 crores versus 12.69 crores, resulting into PAT growth of 24% in the first half and in December quarter PAT has been 11.30 crores versus 10.31 crores, registering PAT growth of 10%.

As far as inventories are concerned, as it was conveyed as on June 2011, we have been in a position to liquidate almost entire inventory lying as on June 2011 and

we are almost at par with December 2010 in terms of inventory and that too

after fresh production and procurement of about 1,15,000 air coolers during the period. Inventory comprises of, apart from finished product, about 4½ crores worth of raw material and WIP in our SEZ. And our cash and bank balances and liquid investment have gone up sharply from 25.71 crores as on December 2010 to 52.46 crores as on December 2012. Of course, against that we have availed some PCFC facilities of 15 crores, for the interest arbitrage.

About the average realization of the air cooler, in domestic market, average realization of the air cooler has been Rs.5,124 versus Rs.4,849, registering almost 6% average realization growth. And in last quarter, it has been 5,336 versus 4,875, registering almost 10% growth. And in exports, the realization has been almost flat at about 3,208 versus 3,419 and in last quarter 3,038 versus 3,067. This is mainly on account of price rise and also on account of better product mix and also introduction of some new models, where net realization is much higher. So, these are about the numbers and financial performance.

As far as the markets are concerned, you would have seen that in export market we have been in a position to register a robust growth. Of course, the base was small. But, in first six months we have exported more than 40,000 air coolers versus 12,000 air coolers in the corresponding period of previous year. As far as domestic market is concerned, in absolute value it is flat, but in terms of the numbers there is slight reduction. This is mainly because, in Northern India and in Western India, the demand and uptake has been quite robust. But, in Southern India and in Eastern India, in Southern India in fact in about four States there is really a slow down. And as far as next six months are concerned where we will really register the substantial business, we maintain our growth outlook in domestic market as well as export market and we expect to end the year with 30% increase in top line. And as far as distribution and dealer network is concerned, we are on target of achieving distributor increase from 550 to 800 plus and number of dealers increase from 10,200 to 20,000 plus in about next twelve months. And presence in cities and towns, again we should be on target in terms of number of cities and towns up from 3,100 to 5,000 plus in about next twelve months time. And as far as the competition is concerned, of course in first six months most of our competitors don't do much of the business, but we expect some new entrants to enter in air cooler market, probably two to three new players. So, with this I open the floor for question & answer. Thank you.

Question and Answer Session

Moderator:

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

I request the participants to press * and 1 for the questions.

The first question comes from, Mr. Kiran Cheda from Value Quest Research.

Kiran Cheda:

Hello sir. Sir, I wanted to know about the inventory that was accumulated last time and in the last call you had stated that the inventory will be cleared and it will be normal inventory by December end. So, what is the situation sir?

Nrupesh Shah:

Will you please repeat your question, it was not audible?

- Kiran Cheda:** Sir, in the last quarter there were some excess inventory and in the concall you had stated that by December end the inventory will be cleared and that it will be , at normal levels ? So, what is the situation now?
- Nrupesh Shah:** In terms of the inventory, we are absolutely at a normal level and whatever inventory was lying as on 30th June 2011, we have been in a position to liquidate it completely. And right now we are sitting on inventory of about 1,13,000 air coolers, which is in fact absolutely at a normal level that too, most of this inventory is a fresh production or purchase.
- Kiran Cheda:** Okay sir. Thank you.
- Moderator:** Thank you sir. Next question comes from Ms. Grishma Shah from Envision Capital.
- Grishma Shah:** Good evening sir.
- Nrupesh Shah:** Yeah, good evening.
- Grishma Shah:** Sir, just wanted to know, would the tax rate continue at these levels for the rest of the year?
- Nrupesh Shah:** Yeah, I think by and large, we expect that our effective income tax rate should come down from 33% to around 28%. So, we see around 4 to 5% reduction in the effective income tax rate because of our SEZ operations.
- Grishma Shah:** Okay. And sir, two observations in the export front, , the export segment margins have expanded significantly if one has to look at it on a year on year basis. And also if you could explain us the geographies where we are seeing traction on the export front?
- Nrupesh Shah:** We see increase in export margin, because, Number one, with higher volume, there are economies of scale. And because of that, the overheads and expenses have been apportioned on a higher volume. Number two, because of better rupee realization due to depreciation of rupee. And thirdly, in terms of the geographies of exports, it is to North America, Middle East and Latin America. So, in first six months these have been the countries. And we expect export to grow substantially down the line.
- Grishma Shah:** Sir, which amongst the three have seen a higher growth and would these numbers we look at it in the current quarter, will include the India exports to the Impco unit?
- Nrupesh Shah:** Yeah, these numbers are inclusive of India export to Impco and out of total exports, almost 50% or more than 50% are to North America, about 10%-15% are to Middle East and remaining are in Latin America and other countries.
- Grishma Shah:** And sir, your outlook on the raw material prices now?
- Nrupesh Shah:** About raw material price, in our case, we expect that we should be in a position to maintain at the current level. And in fact year as a whole we expect that raw material percentage to weighted average realization should slightly come down. The reason being, as we approach to season, our realization keeps on increasing.

So, in terms of the percentage of the raw material consumption should in fact come down in the next two quarters.

Grishma Shah: Okay. And of the current quarter sales quantity roughly around 29,000, 50% of the sales would be to Impco, right?

Nrupesh Shah: Yes, absolutely.

Grishma Shah: Okay, thank you and good luck.

Nrupesh Shah: Yeah, thank you.

Moderator: Thank you ma'am. The next question comes from Mr. Paras Adenwala from Capital Portfolio Advisors.

Paras Adenwala: Could you give us a flavor of your working capital requirements? I was just looking at your past data and there have been instances where there has been negative working capital for a few years. But, in last year there has been some increase in the requirements. So, could you give us the latest flavor as to how the requirements are?

Nrupesh Shah: Sure. Let me first explain about the receivables cycle. About receivables in domestic trade as well as in international market, wherever we sell through trade channel, that is dealers and distributors, there is zero credit. And we work on 100% advances. But, wherever we sell through large format stores, we have to go by their credit terms, which range from 45 to 90 days. And in domestic market about 95% of the sales is on advance payment terms, where it is through dealers and distributors, then about 5% is through large format stores. In international business, about 40% is through large format store, then 60% is through dealers and distributors. So, you would have seen that as on December 2011, our receivables are about 7.60 crores that is 16 days of sales. Now coming to inventories, typically at the end of June, that is year end we do have very negligible inventory. Except June 2011, we were sitting on huge inventory, the reason being April to June was a bad summer and not only Symphony, but all summer related industries, whether air conditioning industry, refrigerator, beverages, ice cream really slowed down. And in anticipation of the summer, we had produced and procured substantial quantity. That's why we were sitting on a high inventory. But, as we just discussed earlier, as of now almost entire inventory we have been in a position to liquidate and whatever inventory right now we have, it is absolutely a normal level of inventory and that too it is mainly out of the fresh production and procurement.

Paras Adenwala: Okay. Could you tell what is the kind of credit that you get from your suppliers?

Nrupesh Shah: Yeah, from suppliers we get the credit in the range of 30 to 75 days. But, wherever the suppliers are proven and we do have an established track record, we prefer to pay them before the credit period if we get a decent discount from them.

Paras Adenwala: I see, okay. Could you give us a flavor of the competition? And what is your USP compared to your competition?

Nrupesh Shah: As far as competitors are concerned, Videocon group that is Kenstar brand is our closest competitor. In organized market we are having 45% market share and Kenstar is having about 35% market share, followed by Bajaj Electricals, having about 15% market share, followed by Khaitan, Maharaja and Usha and collectively three of them are having a market share of 5%. And we believe that in the current year two to three new consumer durable companies are likely to enter the market. Coming to USPs about Symphony, Symphony is like innovative company. It keeps on upgrading the features. It keeps on doing a value addition in respect of better cooling efficiency, better air throw and less electricity consumption. So, I would say that the number of models which Symphony keeps on launching every year, industry as a whole wouldn't have launched as many models in the last five years as a whole.

Paras Adenwala: Okay. And the break up between the organized market and the unorganized market?

Nrupesh Shah: Yes. In quantity terms organized market would be 30% and unorganized market would be 70%. And in terms of value it should be almost 50%-50%. And in terms of the players in the organized market, there are thousands of unorganized players spread over the country.

Paras Adenwala: So, have you been able to increase the share of organized players in the last few years?

Nrupesh Shah: Certainly. In fact when Symphony entered air cooler market, there was nothing like organized market. It was 100% dominated by unorganized players. And then after of course other large companies also entered. But, growth of Symphony is on account of two reasons. Number one, increase in size of air cooler industry itself and secondly, because even in rural and semi-urban area, people do expect much better product performance and brand and that's how we are seeing gradual shift from unorganized to organized market.

Paras Adenwala: Okay. So, this increase in sales that you are talking about is it due to the shift or you are seeing actually the industry growing?

Nrupesh Shah: No, it is on account of both. We would say that, almost 60% to 70% growth is on account of increase in size of industry and 30% to 40% is on account of shift.

Paras Adenwala: Okay. And finally on your dividend payout policy, you are a cash rich company and I think it runs quite well in terms of your efficiencies. So, you keep on throwing out cash every year. So, any policy you have in terms of dividend payout?

Nrupesh Shah: Say last year our dividend payout was about 18%. And in our annual report of 2010-11, we also laid out our dividend policy. Over a period of time we would like to reach to 25% of dividend payout over a period of time.

Paras Adenwala: Okay, alright. I think that's pretty much it. In case there are some more questions, I will come back. Thank you very much.

Nrupesh Shah: Okay, thank you.

Moderator: Thank you sir. The next question comes from Mr. Nainesh Rajeni from TATA Mutual Fund.

Nainesh Rajeni: Good afternoon sir.

Nrupesh Shah: Yeah, good evening Nainesh.

Nainesh Rajeni: Just couple of questions. I am sorry; I wasn't able to attend the first part of the concall. Just wanted to understand your guidance in terms of margins. Now, you have also indicated that your competitive intensity is about to increase with new players entering the market. And I am assuming that the new players that you are talking about already have a significant distribution reach if you see the existing consumer durable players. If you take that into consideration, how secure or how comfortable you are with maintaining your margins and if not, till what levels you see the margins in this industry actually coming down to, because as you said there are no entry barriers, except for the reach or the dealer network. So, where exactly do you see the margins actually going down for us or do you see them maintaining at the current levels?

Nrupesh Shah: Sure. Number one, even currently our competitors whether Videocon group or Bajaj Electricals, Usha or Maharaja, they all are already having significant dealer and distribution network, because they are not only into air cooler, they are into host of other products. So, it's not like that new entrants merely because of the distribution network will have an edge; of course it will help them. Secondly, what we perceive and what we believe as it happened in air conditioning industry or many other consumer durable industries, we in fact welcome more and more players, the reason being, there will be more awareness about the product. And ultimately industry should actually expand. Say, in air conditioner industry, about 12-13 years before the size of industry was merely 3 lakh units. Today, it is in excess of 3½ million units. Now, in case of some of the old air conditioner players, percentage of market share wise it has declined, but in terms of the absolute value or volume, it has increased. So, this is as far as the supplier is concerned. So, we don't foresee any threat on that part. As far as the margins are concerned, whatever margin we are enjoying right now, it is not an industry margin. None of our competitors are close to our margins. It is because of Symphony's strategies, value engineering and various other initiatives. And we believe and we understand that we should be in a position to maintain our current level of margins comfortably.

Nainesh Rajeni: Okay, fair enough. Sir, just second thing, the current numbers that you have given are usually the stand alone numbers, so Impco numbers will not be reflected in these numbers, am I correct?

Nrupesh Shah: Absolutely.

Nainesh Rajeni: Okay. So, what was the performance of Impco in this particular quarter, if you could throw some light? Last year if I am not mistaken, for the full year they had done 57 crores of top line and 6 odd crores of bottom line. For this year, where do you expect the growth for Impco to be actually?

Nrupesh Shah: Sure. See, as far as Impco is concerned, in first two quarters, that is September and December, it is absolutely offseason. And they register hardly any business in first two quarters. So, in first two quarters it is mostly the overheads and expenses, because still our Symphony model of registering sales in offseason

hasn't yet taken place there. So, more than 90% of these sales takes place in last two quarters there that is number one. Number two, year as a whole that is by June 2012 we expect Impco to grow at least by 20%.

Nainesh Rajeni: So, if you compare H1 of this year versus H1 of last year, Impco's performance will be pretty much same or it's just in this particular year that Impco would have, that the first half was not that great? In last year first half was also was similar for Impco, can that be concluded?

Nrupesh Shah: Look, that way first half of the current year of Impco has been slightly better than last year. But, to us it is not really material, because it is still in totality very low business volume.

Nainesh Rajeni: Okay, fair enough. So, the 57 crores that was in June 2011 second half would have been more than 90% of that and that's what you expect this year with a 20% growth.

Nrupesh Shah: That's right.

Nainesh Rajeni: Fair enough. That's all from my end. If I have any other questions, I will come back. Thanks a lot and all the very best.

Nrupesh Shah: Yeah, thank you.

Moderator: Thank you sir. Next question comes from Ms. Kirti Dalvi from Enam Asset Management.

Kirti Dalvi: Good evening sir, few questions from my side. If I see our volume growth in the first half, though it's offseason for us, but the volume growth in the domestic market have gone down. Any particular reason you would assign to this?

Nrupesh Shah: Yeah, so as I explained in initial briefing, Northern India and Western India are seeing quite robust demand and growth. But, due to reasons still not known to us, in some of the Southern States and Eastern States, for the last two months or so we are seeing some slowdown. So, it's a combination of that.

Kirti Dalvi: But sir, would that slowdown is because of, particularly for our products or the industry per se?

Nrupesh Shah: No, we believe it is in general for consumer durable industry.

Kirti Dalvi: Okay. And sir, you did mention that the Impco is expected to grow something like 20%. So, our top line growth of 30%, would that be a consolidated guidance or would that be only standalone guidance you have given?

Nrupesh Shah: No, that would be a consolidated guidance.

Kirti Dalvi: Okay. And how is the margin scenario in Impco?

Nrupesh Shah: The Impco margin scenario wise, we expect it to continue at a level of last year.

Kirti Dalvi: Okay and sir just a question from the accounting purpose. If I see our exports for the FY 11 as per the annual report data, we show 22-23 crores kind of

exports, whereas the Impco, being our wholly owned subsidiary, it is showing 57-58 crores top line. So, if you could tell me how much is our international revenue, volume put together from the Impco?

- Nrupesh Shah:** No, let me just explain to you slightly differently. Our consolidated revenue was close to 300 crores as on June 2011, out of which, domestic sale was about 194 crores.
- Kirti Dalvi:** 194 crores domestic.
- Nrupesh Shah:** Domestic and close to 97-98 crores was rest of the world, including exports out of India and sales done by Impco.
- Kirti Dalvi:** Okay. So, when we show our segmental in our annual reports, it's on page number 141 if you can anytime see it, we show exports as 22-24 crores only.
- Nrupesh Shah:** Yeah, now let me just explain you. When we consolidate, the exports made by Symphony India to Mexico, we have to net it off. On a standalone basis our export was about 38-39 crores as on June 2011. And when we consolidate, the number has reduced from 38-39 to 22. So, 16-17 net off effect. And even at a consolidated level, whatever are the sales by Impco Mexico, again as per the consolidated standards, Impco has to net off the figure.
- Kirti Dalvi:** So, that means Impco is selling back to India, is it?
- Nrupesh Shah:** No, Impco is not selling back to India. In Impco's 57 crores turnover, whatever it has purchased from India worth of 16-17 crores and in turn sold, that is not reflected at the consolidated level. Whatever is the value addition at Impco's level over and above 16-17 crores that is a part of 57?
- Kirti Dalvi:** Okay. Fair enough. Just a question on the working capital and the consol balance sheet. What is our consol debt currently?
- Nrupesh Shah:** As of December we have availed packing credit facility by pledging our some of the fixed deposits. Before the packing credit facility, we get the rate of interest of only 2½%, on the same deposits we are getting rate of interest of 9.75%. But, that is purely against the fixed deposits. So, as such we are a debt free company on a standalone as well as consolidated level.
- Kirti Dalvi:** There is no incremental debt on our international subsidiary? So, whatever you are showing in your standalone balance sheet or Performa is the similar debt you have it on a consol?
- Nrupesh Shah:** Absolutely. In fact to take care of its funding requirement, we remit the funds from Symphony India to Mexico.
- Kirti Dalvi:** Sure. And sir, if you could give units wise or value wise current air coolers industry size, India and the growth you anticipate in the industry as well?

- Nrupesh Shah:** Sure. In terms of the domestic market, the total industry size is around 2 million units, out of which about 65%-70% is unorganized market and 30%-35% is organized market. And we expect industry to grow by more than 20%, that is air cooler industry as a whole and organized market to grow around 30%.
- Kirti Dalvi:** Sure. So, we will grow in line with the organized market?
- Nrupesh Shah:** That's what we expect.
- Kirti Dalvi:** Sure. Thanks a lot sir. Sorry, last question. What is our planned CAPEX for the current year as well as next year, if we have any plans?
- Nrupesh Shah:** In our business model we don't envisage any major CAPEX, except additional CAPEX of around 1½-2 crores and same should be the case next year, except we have purchased some property for our corporate office and towards corporate office over a period of 18 to 24 months time, we may have CAPEX of 8 to 10 crores on that.
- Kirti Dalvi:** Sure. And in terms of our vendor based installed capacity if I have to see, what it could be including our SEZ?
- Nrupesh Shah:** Pardon?
- Kirti Dalvi:** Installed capacity of the company?
- Nrupesh Shah:** Yes. We are having eight outsourced manufacturing facilities; over and above our SEZ and all put together the total capacity is about 1.2 million units.
- Kirti Dalvi:** Okay. And out of this, SEZ would be?
- Nrupesh Shah:** 2 lakh units.
- Kirti Dalvi:** Okay fine sir. Thank you very much and wish you good luck.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you ma'am. Next question comes from Mr. Arun Baid from IDBI Capital.
- Arun Baid:** Sir just wanted to understand, you said that your margins will be at same levels to current ones. Last year margins range used to be 27%-28%, not it's come to 24½% in this quarter. So, do you mean to say when you say margins will stay at the same levels, is it 24½% or 27% to 28%?
- Nrupesh Shah:** No, I mean to say we should be in a position to reach to a level of around 27% year as a whole.
- Arun Baid:** Same as FY11 basically, last year, right?
- Nrupesh Shah:** Right.
- Arun Baid:** And sir, Impco should have seen some improvement in margins, because that was expected. So, you said margins will be similar like last year.

- Nrupesh Shah:** See, last year itself Impco turned it around and its EBITDA margin was about 32%. We expect some incremental improvement. But, what I mean to say that we should be in a position to maintain at least last years margin in Impco, maybe better than that.
- Arun Baid:** Okay. Sir and you had said you would reach 500 crores on a consolidated level by FY13. So, we are on track on that, right sir?
- Nrupesh Shah:** That's right.
- Arun Baid:** And with the margins as same as at least 27-28 in India and same of Impco as last year, right?
- Nrupesh Shah:** Yes, around current level of margins.
- Arun Baid:** Yeah, thanks. Thanks a lot.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Anurag Purohit from Systematic.
- Anurag Purohit:** Hi. Thanks for taking my question. Just wanted to understand what kind of seasonality would be there in your inventory levels? As in what quarters the inventory would peak and in what quarters it would drop?
- Nrupesh Shah:** See, normally at the end of the year that is June end we should have least of the inventory. In December end and in March end, we should have the highest inventory, because we have to build up some inventory for the season. Except as it happened in April to June 2011, if season turns out to be bad, which is absolutely external reason and of course that happened after a gap of fourteen years, then we may have to see inventory even at the end of the year.
- Anurag Purohit:** Okay. So, how exactly you are able to reduce the inventory in six months, essentially because we are talking of a period of winter in six months? So, what actually draws the demand for inventory clearance in the last six months?
- Nrupesh Shah:** Certainly. For six months of course in domestic market it is offseason, but it is because of series of sales and marketing initiatives. Say in the month of September and October, in many parts of the country, temperature touches around 35. So, we call it as a first summer. And around that first summer, we have succeeded in making some reasonable sales, at least to a level of the dealers and distributors. That is number one. Number two, because of our constant and continuous focus on exports that also helps us in registering the reasonably good sales in the first two quarters. And thirdly, apart from that, even in monsoon season or winter season there are some attractive prices to the dealers and distributors vis-à-vis peak season. And that attracts them to purchase the coolers.
- Anurag Purohit:** Hello. My next question is regarding the movement in loans in advances, because that has also gone up in first half. So, is it again increase in our investment in the subsidiary which has led to this increase?

- Nrupesh Shah:** Yes. Loans and advances have essentially increased on account of additional loans and advances given to our subsidiary. That is number one. And partly also on account of some advance tax.
- Anurag Purohit:** Okay. And also there has been a drop in current liabilities on YoY basis. So, any particular reason in that as well?
- Nrupesh Shah:** Yes. It is essentially on YoY basis. As on December 2010 we had substantial advances received from dealers and distributors which as on December 2011 has reduced, so essentially that is the difference.
- Anurag Purohit:** Okay fine, thanks and all the best.
- Moderator:** Thank you sir. The next question comes from Mr. Pravesh Rawat from Crisil.
- Pravesh Rawat:** Hello.
- Nrupesh Shah:** Yeah, hi Pravesh.
- Pravesh Rawat:** Good evening sir.
- Nrupesh Shah:** Yeah, good evening.
- Pravesh Rawat:** Sir, I just want to understand your exports strategies. If we go through your annual report in FY11, then there are few Country Managers have been hired in the European market, in Vietnam, Philippines. So, what is the strategy over there and how it is in fact turning out over there? Are we seeing any traction in those markets?
- Nrupesh Shah:** Of course, those Country Managers have been appointed only for last couple of months that is about seven-eight months. And we are really seeing good interest there. Say in countries like Vietnam or in countries like Malaysia we have really registered good business. On top, specially in recent months we have also appointed Country Manager in Dubai and in Russia. Also, Country Manager is going to join in Brazil. And these are the markets where we feel that there is a tremendous potential.
- Pravesh Rawat:** Okay. But sir, now three more Country Managers we have hired. But, the employee cost it has not increased on Q-on-Q basis.
- Nrupesh Shah:** No, employee cost hasn't increased on Q-to-Q basis, because this Country Manager appointed in Russia and Dubai have joined only in the month of December.
- Pravesh Rawat:** Okay. And sir, my second question is regarding industrial coolers. It is included in our product portfolio. So, how much demand we are seeing in the India market and any strategy behind this?
- Nrupesh Shah:** About industrial coolers, in first six months we have executed about nine small to mid size projects. And as of now, we are at various levels of discussion for more than thirty projects. But, we believe that in medium term to long term, that's a very prospective market, because like every factory, home and large

commercial spaces are potential customers and virtually there is no competition at the national or international level in that segment.

- Pravesh Rawat:** And this sector is also unorganized?
- Nrupesh Shah:** Yes, very selective unorganized, because there are few of these fabricators who do the centralized air cooling. But, in terms of the product and technology, there is no match.
- Pravesh Rawat:** Correct. And sir, can you put out a number on revenue which we have realized from these nine projects which we have executed in this sector?
- Nrupesh Shah:** It has not been substantial, it was about 1.10 crores.
- Pravesh Rawat:** Okay. That's it from my side. Thanks a lot.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Nikhil Upadhya from Equirus.
- Nikhil Upadhya:** Hello.
- Nrupesh Shah:** Yeah, Mr. Upadhya.
- Nikhil Upadhya:** Yeah, hi sir. Sir one thing, basically on the inventory you told like currently we have around 1.3 lakh units of inventory of air coolers.
- Nrupesh Shah:** 1,13,000.
- Nikhil Upadhya:** 1.13. So, what was the subsequent numbers last year, like at the similar time?
- Nrupesh Shah:** Yeah, at the similar time last year inventory was 1,16,000 coolers, about 3000 coolers more than this.
- Nikhil Upadhya:** Okay. And secondly sir, like if we see the average realization in our domestic sales, our average realization has been almost flat. So, going forward what type of a price increase do we expect like we would be able to take with the competition increasing?
- Nrupesh Shah:** No, in fact in terms of the average price realization, if we talk about domestic market, in December quarter our realization has gone up by 10% per unit. To be very precise it has been 5336 in December 2012 versus 4875 of corresponding period of previous year. So, in this quarter it has gone up by 10% and if we see six months as a whole, six months as a whole the average realization in domestic market has been 5124 versus 4849, about 6% increase. And we expect our realization to be maintained at current level, what we have achieved in December quarter or in fact it should improve. It should improve actually as we move closer to the season.
- Nikhil Upadhya:** Okay. And lastly like sir, as we would be entering now, just two questions. One is like; you said that higher sale growth was coming from North and West as compared to South and East. So, as a percentage over the

first half, how much of our contribution would have come from North and West?

- Nrupesh Shah:** I would say that North and West together was more than 70%.
- Nikhil Upadhya:** Okay. And is this a trend which we have seen previously or this is for the first time?
- Nrupesh Shah:** No, this is the trend we are seeing only in the current year. So, it's like on the one end North and West there is enormous growth and in some of the Southern States and in East there is a slowdown.
- Nikhil Upadhya:** Okay. So, there we would have seen a fall in the sales as well as compared to the last year?
- Nrupesh Shah:** Yes.
- Nikhil Upadhya:** Okay. And sir, now we would be entering the peak season period. So, because the dealers of last year, they would also be sitting on some amount of inventory, which they had acquired during the last period. So, going forward are we going to give any discounts to the dealer or any margin increase to the dealer?
- Nrupesh Shah:** No. As on June 2011, in fact we were as a company were sitting on some inventory and barring few distributors here and there and that too, those number of distributors wouldn't be more than 6 or 7 and none of them were sitting on inventory as on June 2011 as far as Symphony is concerned. Right now because of whatever sales we have done in the first quarter and second quarter because of attractive pricing, obviously as it happens for last couple of years, they would be sitting on that inventory, but that is the fresh procured inventory last two quarters.
- Nikhil Upadhya:** Okay. Thanks and that's all from my side sir. Thanks.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you sir. The next question comes from Ms. Grishma Shah from Envision Capital.
- Grishma Shah:** Sir just a follow up, I wanted to know the effect of the rupee weakening to our export realizations? Would you be able to quantify or give us some perspective?
- Nrupesh Shah:** No, in first six months because of that we would have benefited by about 6%-7%.
- Grishma Shah:** On the margins?
- Nrupesh Shah:** On the margins of export.
- Grishma Shah:** Okay. And sir, what we see as forex gain during the quarter, is it more so because of our loans and advances...do the mark to market or is it more because of an ongoing operation?
- Nrupesh Shah:** No, it is mainly on account of loans and advances.
- Grishma Shah:** Okay. So, as the rates turn, this can also reverse?

- Nrupesh Shah:** Yes, it can.
- Grishma Shah:** Okay. And sir, if I understand, you were saying the realizations have improved in the domestic market, is it more because we would have introduced new products and we were able to pass on the prices?
- Nrupesh Shah:** Excuse me. It is on account of both. Number one, there has been across the board price increase and over and above that, we have introduced two new high end models. And those two new high end models, MRP of one model is about Rs.12,000 and another model's MRP is Rs.15,000. And for both the models we are seeing good interest from the trade.
- Grishma Shah:** Okay, fine. Thank you.
- Moderator:** Thank you ma'am. The next question comes from Ms. Kirti Dalvi from Enam Asset Management.
- Kirti Dalvi:** Just couple of follow up questions sir. If you could give us the revenue break up in terms of your geography, like North, West, East, South?
- Nrupesh Shah:** As I was saying, the North would have contributed about 38% to 40%, West would have contributed about 30% to 32% and South and East put together slightly less than 30%.
- Kirti Dalvi:** Okay. And sir, in my earlier question you had said that your installed base currently is 1.2 million units, but does that include even Impco's capacity as well?
- Nrupesh Shah:** No, this is only domestic capacity. And Impco doesn't have any capacity of room cooler. Impco's entire manufacturing facility is for centralized and heavy duty air coolers. And as of now, the capacity utilization of Impco is hardly 10%-12%.
- Kirti Dalvi:** Okay. And probably ours would be?
- Nrupesh Shah:** Ours in room cooler all put together is 1.2 million units.
- Kirti Dalvi:** No, no, capacity utilization sir?
- Nrupesh Shah:** We expect to have at least 60% to 65% of capacity Utilization. And in case of, SEZ our own unit, there is not much of the CAPEX. Also for outsourced manufacturing facilities, there is we don't have any CAPEX, except moulds and dyes given. So, it's not much of the CAPEX at our end. But, of course the total combined capacity is 1.2 million units. Current year, that utilization should be easily in excess of 60%.
- Kirti Dalvi:** Okay. When did we start our SEZ operations in full swing?
- Nrupesh Shah:** We commenced our SEZ in April 2011, but it started in full swing from September end.

- Kirti Dalvi:** Okay. And in terms of the distributors, in your opening comments you did mention that you see your 10,000 dealers going up to something like 20,000, if I heard you right?
- Nrupesh Shah:** Absolutely.
- Kirti Dalvi:** So, exactly doubling your dealer's network?
- Nrupesh Shah:** That's right.
- Kirti Dalvi:** Okay sir. Thank you very much sir and wish you good luck.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you ma'am. The next question comes from Mr. Manoj Bagesar from Brics Securities.
- Manoj Bagesar:** Good evening sir. Thanks for taking my question. Sir, what is the demand scenario in terms of urban and rural market? And are you seeing any slowdown in urban or rural market?
- Nrupesh Shah:** No, overall demand in urban and especially rural and semi-rural area it is quite robust. But as I mentioned earlier, in some of the Southern States and in Eastern India, we are seeing slowdown.
- Manoj Bagesar:** Okay. That's it. That's all from my side. Thank you.
- Moderator:** Thank you sir. The next question comes from Mr. Kamlesh Kotak from Asian Market Securities.
- Kamlesh Kotak:** Hello.
- Nrupesh Shah:** Hi Kamlesh.
- Kamlesh Kotak:** Yeah, good afternoon sir.
- Nrupesh Shah:** Good afternoon.
- Kamlesh Kotak:** I wanted to understand, you just mentioned that the industrial segment is just at the nascent stage in India. Incrementally what kind of contribution we are seeing in terms of our total guidance of say maybe 500 crores revenue. Are we seeing any significant uptake from that side?
- Nrupesh Shah:** No, we expect industrial and heavy duty air coolers to contribute substantially over a period of time. And as of now, exact numbers in terms of the projects or value is very difficult to estimate, because it is at nascent stage.
- Kamlesh Kotak:** But, can it be scalable to the levels of the current business as we have in terms of the consumer appliances business?
- Nrupesh Shah:** In long term, we believe so.
- Kamlesh Kotak:** Is it something three to five years, as we can say substantial ramp up?

Nrupesh Shah: Yes, three to five years at least.

Kamlesh Kotak: And how is that market in other countries evolving?

Nrupesh Shah: See, just to give an example of North America, in GE factory, in DuPont factory, Symphony's subsidiary already installed centralized air coolers. Not only that, on a trial basis just in the last quarter, some of the new Wal-Mart stores have come up in Central America where there is a dry climate. So, few of these Wal-Mart stores are being centrally air cooled by Impco Mexico. And if Wal-Mart would be happy with that, down the line in Wal-Mart itself there is a scope. The point is, in factories, in go-downs where people want comfort at economy, the centralized air cooling and heavy duty air coolers are a good solution.

Kamlesh Kotak: So, are you also present in some other geographies or only in the US, any plans to go into other countries as well?

Nrupesh Shah: No, as of now in North America, because of Impco's presence and now Impco's coolers we have come to India.

Kamlesh Kotak: Hello, hello.

Moderator: Ladies and gentlemen, you are requested to stay on line while the management team of Symphony Limited is connected on the call.

We welcome the management team of Symphony Limited back into the call.

Kamlesh Kotak: Hello. So, I just wanted to know, do we have plans to enter into other major countries also?

Nrupesh Shah: Yeah. See, right now in Iraq we are discussing one order where basically there is a huge fruit and vegetable market. Now for fruit and vegetable market, it's not possible to use air conditioners. In fact it does require moisturization and humidity. So, on a selective basis, where there is a specific requirement in other countries we are discussing. But, as of now focus in that segment is North America and India.

Kamlesh Kotak: So, no marketing setup also has been or being planned in other countries?

Nrupesh Shah: Yes, in India we have established marketing network and we are ramping. In other countries as of now, no separate marketing network. Whatever existing marketing network, we have, through that we generate business.

Kamlesh Kotak: Alright sir, okay. Thank you very much.

Moderator: Thank you sir. The next question comes from Mr. Niket Shah from Edelweiss Securities.

Niket Shah: Yeah, good evening sir.

Nrupesh Shah: Hi Niket.

- Niket Shah:** Hi. Sir, just one question....primarily just wanted to know what are the inventory levels at your dealers or the trade side.
- Nrupesh Shah:** No, as I mentioned in one of the earlier answers, as on June 2011 for Symphony coolers, there were hardly any significant inventory at the level of dealer or distributor. Out of our 550 distributors, barring five-seven distributors, none of them were carrying any significant inventory. So, right now whatever dealers or distributors would be carrying inventory that is mostly on account of the recent purchase.
- Niket Shah:** Okay. Sir just one more question. The discount offer that we had run I think in this particular quarter, has that got over or is still continuing?
- Nrupesh Shah:** See, it's like that, in the month of July we offer the maximum discount. And as every month passes, discount reduces. So, even in the month of December also, there would be a discount in January or February also there would be a discount. But, that discount would be less than the month of December.
- Niket Shah:** Okay, but there is no over and above the discount that we generally give, because of this offseason take off?
- Nrupesh Shah:** No, what you mean to ask over and above...?
- Niket Shah:** I mean to say that I think there was some 25% discount on certain select products that we used to run initially for a month or so?
- Nrupesh Shah:** Essentially again that is not any extra discount, that is actually the portion between the MRP and the purchase price of dealer and distributor and from that dealer and distributor can comfortably pass on that.
- Niket Shah:** Okay, okay, got the point. Sir, just one last question, just wanted to know what is your hedging strategy going forward? Do you plan to hedge everything or you are absolutely open?
- Nrupesh Shah:** See, as far as exports are concerned, now by pledging some of the (FDs) we have availed PCFC facility. So, through PCFC, automatically dollar rate gets locked. As far as our loans and advances given to subsidiaries are concerned, about 30% to 40% has been hedged, hence balance we have kept it open. Now, for that 60% to 65%, shortly we will decide whether to hedge it or still to keep it open.
- Niket Shah:** Okay. Then how much is the current investment that we have done in Impco in absolute value terms?
- Nrupesh Shah:** In absolute value terms if I talk about the loans and advances given to Impco, it is close to 31 crores as on 31st December.
- Niket Shah:** And that is increased on a YoY basis or on quarter on quarter basis, how does it move?
- Nrupesh Shah:** No, both. On YoY, as well as on quarter to quarter, there is an increase.
- Niket Shah:** Okay. And do you expect that to come down significantly as Impco season starts in Q3 and Q4?

- Nrupesh Shah:** No, in fact by March quarter, considering the business plan of Symphony it is likely to go up further. By June also it may remain at increased level, but by September, they normally realize most of the receivables, it should come down.
- Niket Shah:** Thanks a lot.
- Nrupesh Shah:** In the meantime it is likely to increase.
- Niket Shah:** Yeah, okay, got the point. Thanks so much sir.
- Nrupesh Shah:** Yeah, thank you.
- Moderator:** Thank you sir. The next question comes from Ms. Reema Modi from IFCI Financials.
- Reema Modi:** Hello sir. I have just one question on your numbers. Sales numbers to institutions in big houses institutional houses like the ones which you mentioned abroad, like tying up with fruit and vegetable market and something like that which you could do in India and then godowns in India?
- Nrupesh Shah:** You mean to say centralized air cooler business or finished products?
- Reema Modi:** Yeah, centralized.
- Nrupesh Shah:** Centralized air cooler and heavy duty air cooler, as I mentioned earlier, in first six months we have executed about ten orders and that value has been about 1.10 crores. And right now we are in discussion for more than thirty other projects, including some of the large projects.
- Reema Modi:** Sir, can you throw a number to the project size in totality?
- Nrupesh Shah:** Right now, we don't make any size, because they are merely at a discussion level, we don't know which will materialize and which will not materialize.
- Reema Modi:** Okay. And sir, this online portal has picked up wherein sales through online channel has been gaining traction through Flipkart and other sites which all sell consumer durable online. What is your call on that and where do you see the growth happening in terms of revenue?
- Nrupesh Shah:** We also do have some sales. But, in totality still it is insignificant. But, we certainly estimate down the line that has to go up.
- Reema Modi:** Okay. And sir, are you providing any discount compared to your retail sales which happens on the ground level, or it's only same pricing structure which you follow?
- Nrupesh Shah:** No, it is almost at the same pricing structure, for that there is no special discount.
- Reema Modi:** Okay, thank you sir.
- Moderator:** Thank you ma'am. I request the participants to press * and 1 for the questions.

The next question comes from Ms. Nandita Mehta from JM Financial.

Nandita Mehta: Hello sir just a small question on your geysers. We have actually seen a rise in the number of units that have been sold and we have even seen a slight rise, we have even seen a significant rise in your revenues. So, what are looking? Are you looking at changing your strategy here or are we getting into this on a slightly aggressive basis?

Nrupesh Shah: No, as far as geysers are concerned, of course in last quarter there has been slight increase in quantity. But, in totality still it is insignificant and we expect it to continue the same way.

Nandita Mehta: So, we wouldn't look at a kind of ramping up that part of the business?

Nrupesh Shah: Probably our entire focus is air cooler and air cooler.

Nandita Mehta: Okay sir, thank you sir.

Moderator: Thank you ma'am. There are no further questions. Now, I hand over the floor to Mr. Girish Solanki for closing comments.

Girish Solanki: I would like to thank the management for taking their time out. Thanks a lot Nrupesh and Bhadresh.

Nrupesh Shah: Yeah, thank you very much.

Girish Solanki: Yeah, thanks a lot.

Nrupesh Shah: Girish, thank you very much.

Girish Solanki: Take care, take care sir. Thanks a lot.

Moderator: Ladies and gentlemen, this concludes your conference for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you and have a pleasant day.

Note:

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