

## **Transcript**

# "Symphony Limited Conference Call"



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MR BHADRESH MEHTA, CFO; AND

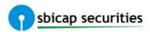
MR GIRISH THAKKAR.

## **Presentation Session**

**Moderator:** Good afternoon ladies and gentlemen. I am Moumita, moderator for this conference. Welcome to the conference call of March quarter and nine months F14 of Symphony. We have with us today Mr Jatin Damania of SBICAP Securities and the management team of Symphony Limited. At this moment, all participant lines are in listen-only mode. Later, we will conduct a Q&A session. At that time, if you have any question, please press \* and 1 on your telephone keypad. Please note that this conference is recorded. I would now like to handover the floor to Mr Jatin Damania, Research Analyst from SBICAP Securities. Please go ahead, sir.

Jatin Damania: Thank you Moumita. Good afternoon ladies and gentlemen. On behalf of SBICAP Securities, I welcome you all to the post-result conference call of Symphony Limited for the quarter ended March 2014. Today, from the management side, we have with us Mr Nrupesh Shah, Executive Director; Mr Bhadresh Mehta, CFO; and Mr Girish Thakkar. I request Mr Nrupesh Shah to give the opening remarks and then the floor will be open for Q&As. Over to you, sir.

Nrupesh Shah: Thank you. I welcome all of you to Symphony's quarterly and nine months ended conference call. I thank SBICAP for organizing this conference call. Let me start with giving an overview of the nine months and this quarterly performance. The new models launched during the year were Window, Diet and Ninja. On top of this, Window model have been received extremely well. Sales from modern retail promises excellent opportunity. And in first nine months, sales from modern retail have already surpassed that of 2012-13. As many of you may have noted, Symphony has gone for aggressive sales promotion and advertisement campaign with a release in print, electronic, online or other medium and that was also received very well. During last quarter, we noticed that in some of the models, especially Winter, HiCool and Storm, there were rampant copying, especially in the Northern India and we resorted to strong legal actions and that has



really yielded some results. Furthermore, during the quarter, we received a positive order from VAT Tribunal. This is in connection with a contingent liability of Rs44cr as it was reported during 2012–13.

Coming to international market, it is doing very well and it is expected to register robust growth in terms of sales quantity and profitability. South Africa and Latin American markets seem to be highly potential over and above the existing international market, even in respect of residential cooler and sales to Impco. As you may recollect, in the 2012–13, there was a one-time correction. But in the current year, again sales to Impco has revived and has surpassed sales quantity of 50,000 coolers. Even at the level of Impco, there have been some new tie-ups in respect of modern trade, especially large-format stores.

Coming to centralized air cooling business segment, number of dealers have been increased further. Yield size has been further enhanced. Some of the prestigious orders exhibited during this quarter are industrial projects of Havells, Yamaha, Tibetan Homes Foundation and Wagh Bakri. Further, the company has started focusing on various segments of centralized air cooling like railway segment, pump rooms, logistics and warehousing, religious segments, etc. Of course, having said that, still absolute value-wise it is a very small amount and we expect this segment to perform and contribute substantially enough in long term.

Coming to specific financials, in the current quarter, gross revenue has been Rs116cr up from Rs87cr, registering 32% growth. In nine months, it has been Rs313cr vs Rs207cr registering 51% gross revenue growth in nine months. Coming to number of air coolers sold, in three months, it has been 1,87,000 domestic and export put together vs 1,41,000, registering growth of 34%, while in nine months total number of air coolers sold are 4,94,000 vs 3,47,000 growth of 42% quantity-wise.

PBT for the quarter has been Rs35.5cr vs Rs26.90cr, registering 32% growth and for nine months it has been about Rs90cr vs Rs56cr, registering a growth of 61%. Effective rate of income tax remained at 24% vs 25% during the quarter and YTD for the first nine months, effective rate of income tax has been 26% vs 27% in the previous year for the first nine months. PAT during this quarter has been Rs27cr vs Rs18cr, registering a PAT growth of about 50% and for nine months it has been Rs66cr vs Rs37cr, registering a PAT growth of 80%. In terms of PAT percentage to gross revenue, it has been 23% during the quarter against 20% in the corresponding quarter of previous year, and during the nine months PAT percentage has increased from 18% to 21%.

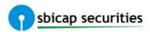
Coming to some important financials on segments, about primary segment, capital employed in home appliances during nine months has been Rs132cr and EBIT percentage on home appliances capital employed has been at 83%, up from 58%. Coming to secondary segment in the respect of geographical sales spread, domestic sales during the quarter was Rs92cr, up from Rs72cr, and during nine months, Rs264cr, up from Rs178cr. And during the quarter exports registered sales of about Rs 22cr vs Rs13cr during the quarter and during the nine months Rs37cr vs Rs19cr, while EBIT on domestic sales stood at Rs27cr vs Rs23cr. In the export, it stood at about Rs8cr Vs Rs4cr. The company has registered highest ever PAT during this quarter. This day, I will open the session for Q&A. Thank you.

#### **Q&A Session**

**Moderator:** Ladies and gentlemen, we will now begin the Q&A session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn. If you would like to withdraw your request, you may do so by pressing \* and 1 again.

The first question comes from Mr Bhavin Shah from GeeCee Investments. Please go ahead.

**Bavin Shah:** Good evening sir, and congrats on the great numbers. Sir, basically the question is on exports. If we could get to know the sustainability of volume growth in the market that you all are present in and how is the predictability going



to be over the next couple of years in exports. And my second question is, has anything really categorically changed in the first nine months compared to last year in the working capital side? Thanks so much.

**Nrupesh Shah:** Thank you Bhavin. We have two segments of exports. One is export to North America through our step-down subsidiary company Impco and second is to the rest of the world. So, in the current year, there has been good growth in the exports to the rest of the world as it was last year. And as far as export to North America through our 100% subsidiary is concerned, last year it was negligible exports and in the current year as I said initially we have exported more than 50,000 units. Coming to India, there should be modest growth on YoY basis and to rest of the world we expect reasonable growth. So, on an average, in medium-to-long term, we expect export to grow in the range of 25% to 30% value-wise and by maintaining current profitability.

**Bhavin Shah:** Okay. Sir, on the working capital front, has there been any material changes that you are witnessing in the first nine months?

**Nrupesh Shah:** No. Whatever is our working capital business model, it is selling on advances or cash & Carry business model in domestic market where sales takes place through traditional channel, it continues absolutely as it is in retail and in modern retail there is a credit involved ranging from 30 days to 75 days.

Bhavin Shah: Okay, alright. Thank you so much sir. All the best.

Moderator: Thank you sir. Our next question comes from Mr Atul Mehra from Motilal Oswal Securities. Please go ahead.

**Atul Mehra:** Hi sir. Congratulations on a good set of numbers. Just a couple of questions. One was in terms of Impco sales. How has been Impco typically performing in the slow market, excluding the exports that we are doing. If you can just throw some light on that in terms of how Impco has done this year?

**Nrupesh Shah:** As far as Impco is concerned, imore than 80–90% of sales is generated in the last two quarters of the year that is the March quarter and June quarter. So, up to March, in the first nine months, it has done reasonably well. We need to see how it performs in June quarter.

**Atul Mehra:** That's right. And in terms of profitability, what is the kind of profitability we are expecting in Impco this year in terms of maybe EBIT margins or something of that sort?

Nrupesh Shah: In terms of EBITDA margin percentage-wise, it should be better than the last year.

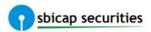
**Atul Mehra:** Right. And secondly in terms of domestic sales, how has Q4 now started off. I think it would be on similar lines or is it much better than what the current quarter has been?

**Nrupesh Shah:** In the month of April so far, we have registered very robust growth and robust sales. And we have a plan to register robust sales volume in the quarter. Having said that, last year in the month of May, we registered huge sales, so now the remaining two months depending upon the weather, we should perform.

**Atul Mehra:** Right. And just one question on the rest of the world exports. What would that percentage growth be this quarter in terms of exports to the rest of the world?

Nrupesh Shah: It would be in excess of 20%.

Atul Mehra: 20%; sure sir. And, one final one.



Nrupesh Shah: You should compare the numbers on YoY basis rather than comparing on QoQ.

Atul Mehra: Right. And in terms of tax rate, where do we see this stabilizing now?

**Nrupesh Shah:** It should be about 26%, because in the respect of effective tax rate, of course we have tax breaks. One, on account of SEZ operations for export, and secondly, as our facility has been only recognized as a government-recognized R&D facility. So, whatever R&D expenses are spent, on that we get extra weighted average deduction. And thirdly, some of the treasury income is tax free. So, it should be around 26–27% for the year as a whole and henceforth in the near future.

Atul Mehra: Right sir. That is it from my side. I will come back if I have more questions. Thanks a lot and all the best.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. The next question comes from Mr Anil Kini from Envision Capital. Please go ahead.

**Anil Kini:** Hi sir. The volume growth that we have seen in this quarter of 34% in domestic and export, can you just explain whether the industry has also grown at these levels or have we acquired market share?

Nrupesh Shah: Are you referring to centralized air cooling?

Anil Kini: In the domestic markets, in the air cooler market, the volume that you have shown.

**Nrupesh Shah:** In the domestic market, we have registered a good set of numbers. It is in excess of 19% quantity wise. And normally first two quarters or in first three quarters, we do have a significant market share. In fact, most of the competitors are more active starting post. February. So, the real market share to be measured twelve months as a whole rather than just the last quarter or the first nine months.

**Anil Kini:** Okay. Sir, the new Window air cooler that you have introduced, how has the response been and has this also contributed to the volume growth?

**Nrupesh Shah:** As I explained in my initial remarks, Window model as well as the new range of models launched during the year, including the Winter Diet, all have been received extremely well. And they have contributed in terms of the volume growth and also the higher profitability.

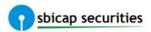
**Anil Kini:** Okay. Sir, we have seen lot of television ads and media digital ads coming from Symphony for the first time in a very aggressive manner, do you think this ad spend will continue and will it have any kind of negative impact going forward on the margins?

**Nrupesh Shah:** In fact this aggressive ad spend has really helped us and in the respect of the percentage of ad spends or sales promotion and marketing expenses, it should by and large remain at the same level as it was last year. The top line is increasing, percentage is going to remain the same, but that is really helping us in various aspects.

Anil Kini: Sir, you are not really seeing any kind of impact on margins?

Nrupesh Shah: Yeah, that's right.

Anil Kini: And now you are also spending this and advertising on the international markets as well?



**Nrupesh Shah:** In international market, it is very selective, where we already do have some base or where there is already reasonable size of the market.

Anil Kini: Okay. And one last thing. Can you explain a little bit on how the competitive scenario is after you being so aggressive on advertising spend and also introducing new models, how that competitive scenario is currently in the market? That will be all.

**Nrupesh Shah:** As of now, in the first nine months, we are doing much better than what we used to do in the past. As far as the competition is concerned, in the respect of many models, they are just trying to follow us. And if everything goes well, probably the year as a whole we should gain market share.

Anil Kini: Okay. So, you are not seeing any of the other competitors being aggressive as you are?

Nrupesh Shah: I think we are trying to be more aggressive.

Anil Kini: Wonderful sir. Thank you so much and all the best.

Nrupesh Shah: Thank you.

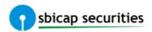
**Moderator:** Thank you sir. Our next question comes from Mr Siddharth Bhattacharya from Suyash Advisors. Please go ahead.

**Siddharth Bhattacharya:** Hello sir. Congratulations on a good set of numbers. I just wanted to understand that in our domestic industry, there is a very big unorganized sector compared to the organized sectors. So, I just wanted to understand what is the trend in conversion that is happening from the organized space to the unorganized space?

**Nrupesh Shah:** Our estimate, existing air cooler industry size in India is close to 6 million units, out of which organized sector contributes close to 1 million units. It means percentage-wise organized market is about 17–18% and about 80% is unorganized market. About five years ago, organized market was contributing less than 15% and more than 85% was unorganized market. Increasing aspiration levels, rising rural and semi-urban income, even in semi-urban and rural areas, people have moved from unorganized to organized for better products, performance and branding. So, we expect this trend to continue. And many, many years before, even in our sister industry that is the air conditioner industry, in the nineties, unorganized market was contributing more than 70%. And today that unorganized market has completely disappeared. So, maybe in a very, very long term, there is a possibility of that. Then, as and when goods and service tax, that is GST, will be introduced, probably some of the incentives which the unorganized sector is indirectly getting in respect of the evasion of the taxes, so even the price gap should further comes down, so that may also accelerate the profits.

**Siddharth Bhattacharya:** Got that. Sir, my second question is in terms of your product. I wanted to understand what is the accessibility of air coolers as a whole and also your products? In non-traditional markets, typically markets that have some humidity, where the climate is a bit humid like let's say Mumbai or Kolkata compared to Delhi, where the humidity is not that high and air coolers are fully acceptable, so I just wanted to understand what is your experience in these markets?

**Nrupesh Shah:** So, air coolers are extremely effective through dry and hot climate. And they are less effective in humid climate. So in a place like Delhi, we are selling more than 40,000 coolers. But, in a place like Mumbai, we sell about 12,000 to 14,000 coolers. But, in our air cooler in some of the models, there are features like humidity control, which reduces the humidity.



**Siddharth Bhattacharya:** Correct. Thanks. Thanks a lot sir.

Moderator: Thank you sir. The next question comes from Mr Ankit Kumar Jain from Equirus Securities. Please go ahead.

**Ankit Kumar Jain:** Thanks for the opportunity and congratulations for a good set of numbers. Sir, there has been a slight dip in the realization on QoQ as well as YoY basis. What has been the reason behind this?

**Nrupesh Shah:** Realization for export and domestic put together during the quarter is 5986 vs 6062. This is on account of substantial increase in export sales. And export sale is net of excise, VAT and many other taxes. So, if we really compare your domestic sales earned during the quarter, domestic sales realization per unit has grown by about 5% and in first nine months it has grown by about 11%. As far as the exports are concerned, per unit realization has slightly come down before. In the current year in terms of the sales mix, there is also large contribution by small and mid-sized units.

**Ankit Kumar Jain:** Okay. Sir, another question is on capital employed in home appliances segment. It has increased by nearly Rs45cr on QoQ basis.

**Nrupesh Shah:** That is right. Because, what happened in March quarter, we also held some inventory to take care of the seasonal requirement. And secondly, starting February sales through organized retail also starts, which doesn't happen by and large till December. So, receivables to organized retail is also part of capital employed as well as extra inventory build up during March quarter.

Ankit Kumar Jain: Okay, thanks a lot.

**Moderator:** Thank you sir. The next question comes from is Mr R Pattabiraman from Metro Investments. Please go ahead.

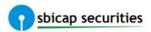
**R Pattabiraman:** Hello sir, congratulations to you for the excellent results. My first question is, I was just comparing the numbers of the previous quarter, which is the December quarter, which is an off period actually for our business. And the third quarter is more or less business quarter where I expected the sales to be more than the December quarter, but it is not so. Both the value as well as the numbers are more-or-less flat. Can you tell me what is the reason for this?

**Nrupesh Shah:** So, over the last couple of years we are trying to break out the seasonality. And that is really paying. Of course we are trying to break out the seasonality at the trade level. So, during the first quarter and second quarter, on account of various initiatives, including some of the marketing and sales initiatives, whereby they will get an opportunity to buy Symphony products at a lower price, and that is how they are being incentivized, that is number one. Number two, gradually even exports are also healthy, because in many regions of the world, their weather is quite opposite to Indian weather. So, combination of both is really helping us.

**R Pattabiraman:** Fine. And secondly, export to sales is coming out of our special export zone, the factory what we have built up. Can you tell me what is the capacity utilization of the factory now right now?

**Nrupesh Shah:** Currently capacity utilization is close to 60%. But, there in SEZ,it is more like assembling operation. So, if required, we can ramp up the operation.

**R Pattabiraman:** And one more thing. We must have lost some business because of these spurious products in Delhi now. Can you estimate how much we must have lost in sales because of that? And secondly, has it been completely totally fixed right now the problem?



Nrupesh Shah: No, I am not getting your question.

**R Pattabiraman:** You told me there are some spurious products that are being sold in Delhi with our brand and we must have lost some sales because of that, the company must have lost some sales. Can you estimate how much have been the loss in sales because of that?

**Nrupesh Shah:** It is very difficult to estimate the loss of sales on account of that, but certainly we would have lost some sales on account of copy of our products. But, we have taken some stringent actions, including court appointed commissioner and the Commissioner had seized their products. But, it would have affected the sales.

R Pattabiraman: Okay sir. That is all from my side. All the best to you.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. Our next question is from Mr Hitesh Tank from ICICI Direct. Please go ahead.

**Hitesh Tank:** Hello, thank you for the opportunity and congratulations on a good set of numbers. Sir, my question is pertaining to the selling and marketing expenses during the quarter, which is showing a decline of around 100 bps on a YoY basis. First question is why that is so, because we are spending too much for the advertisement expenditure. And the second thing is that I didn't get the taxation part. During this quarter, the taxation was lower, so can you please throw some light on that?

**Nrupesh Shah:** So, during this quarter selling and distribution expenses have been about Rs19cr vs Rs15cr the year before. So, percentage-wise, it has gone up by about 26%, while sales have gone up by 33%. So, it has moved almost in that direction. As far as the nine months are concerned, selling and distribution expenses have been about Rs53cr vs Rs35cr, so it has grown by about 50%, while our gross revenue has grown about 51%. By and large, it is moving proportionate to increase in sales.

Hitesh Tank: Right. Percentage of sales I was talking, in our data sheet it is given, from 18%, it has become 17%.

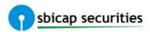
**Nrupesh Shah:** I think it is reduction of 1% and overall when we compare vis-à-vis sales or profitability, it is immaterial. And maybe it is increasing in volume or increasing value of the sales, even though the absolute amount wise we have a robust sales promotion and advertisement budget. Percentage wise there may be some movement 1–2% plus or minus in material cost.

Hitesh Tank: Okay. And what about tax rate sir, during this quarter?

**Nrupesh Shah:** Lower tax rate is on account of our SEZ operations at Surat. So, during the quarter, almost the entire export was through SEZ. So, that has been accounted as profit generated from export was close to Rs9–10cr was tax free. Secondly, Symphony's facilities are recognized by the Government of India in respect of R&D. It is a Government recognized R&D center. So, R&D expenditure is subject to 200% weighted reduction. Mainly on account of these two, plus some treasury income, which is maintained in the form of tax free income, so on account of that effective tax rate has come down to 4%.

**Hitesh Tank:** Okay. And sir, one last question, you said like around 25% kind of volume growth during this quarter for the domestic market, right sir?

Nrupesh Shah: March 2014?



Hitesh Tank: Q3 2014 I am talking, you said around 25% kind of volume growth for the domestic market, right?

**Nrupesh Shah:** So, total volume growth has been around 34%, domestic and export together, out of which domestic volume growth has been about 19%.

Hitesh Tank: Okay sir, thank you sir. That is all from my side.

Moderator: Thank you sir. The next question comes from Mr Hiren Dasani from Goldman Sachs. Please go ahead.

**Hiren Dasani:** Thank you. I just wanted to get your sense on the overall market. You said about 6 million units, if I am not wrong, in India?

Nrupesh Shah: That's right.

Hiren Dasani: And what would be comparable size of let's say the AC market in your estimate?

**Nrupesh Shah:** It is about 3.5 million units. The difference is in the air conditioner market, we have around half a million units, almost the entire market is by the organized sector, while in the case of the air cooler, even the market size is close to 6 million units, only 1 million is being contributed by the organized. So, for the organized player, growth is coming from, one, increase in size of the cake itself that has increased from 6 million units to about 10% to 15% growth. And on top of it, there is a rapid shift from unorganized to organized. And that is how organized market is growing even at a rapid pace.

**Hiren Dasani:** Sure. Any sense on how much of this 6 million is driven by the replacement or how much is like the new buying, any qualitative or quantitative sense on that?

**Nrupesh Shah:** Our estimate is 30–35% should be the replacement market.

**Hiren Dasani:** Okay. Thank you for that sir. The other question is if you can just break up in terms of the absolute unit for the quarter and for the nine months, the domestic and the export volumes, that would be great.

**Nrupesh Shah:** Earlier, we used to provide these details. But, we found that due to single product co. it puts us to disadvantage. The reason being we are the only company having presence in the air cooler, while our competitors are having presence into host of appliances. So, in respect of the domestic sales or export sales or per unit realization on various aspects, it becomes a one-way traffic. Entire information of Symphony is available to them. But, we don't have access to that information. And our marketing people, they are of the opinion that sometime in market place that puts us to disadvantage. That is how we have started giving combined figures of export and domestic.

Hiren Dasani: But, you are saying that the volume growth in domestic for the nine months is about 25%, is that correct.

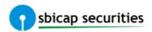
Nrupesh Shah: No, I said in the quarter. For the nine months, it is more than 33%.

**Hiren Dasani:** For nine months it is more than ,33% okay. And one question on the margins. Obviously, the EBITDA margins this quarter has been very strong. So what is your sense how they are likely to move going forward?

Nrupesh Shah: We expect to maintain our current level of contribution EBITDA margin at the same level; Hiren

Dasani: But, you do realize that they have improved substantially over the last nine months?

Nrupesh Shah: That's right. And we expect to maintain it at the current improved levels.



Hiren Dasani: The margins which are there for the full year?

Nrupesh Shah: That's right.

Hiren Dasani: Okay, thank you very much.

Nrupesh Shah: Thank you.

**Moderator:** Thank you sir. The next question comes from Mr Sachin Kasera from Lucky Securities Private Limited. Please go ahead.

**Sachin Kasera:** Good afternoon sir and congrats for a good set of numbers. I have 2–3 questions. One is that you mentioned that for the nine months the domestic realization is higher by 11%. Can you give some color, how much of that could be because of the product mix and how much could be attributed to price hike?

Nrupesh Shah: I think the price hike maybe about 7–8% and the remaining should be account of product mix.

**Sachin Kasera:** And sir, normally what is the trend that we follow in price hike. Is there a particular, like every season we take a price hike or on a quarterly basis, how do you monitor the pricing?

**Nrupesh Shah:** Normally in respect of MRP, we take a call in the beginning of the year and unless there is exceptional situation, we don't resort to price change or hike during the year. So, depending upon the input cost and depending upon the competitive scenario and depending upon the business, normally in the beginning of the year we decide the MRP. And based on that the sales price to distributor and in turn the sales realization by distribution to dealer and normally is being fixed in the beginning of the year.

Sachin Kasera: When you say beginning of the year, do you mean the calendar year sir or your financial year?

Nrupesh Shah: Financial year.

Sachin Kasera: Your financial year.

Nrupesh Shah: That's right.

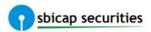
**Sachin Kasera:** If you see the last price hike that you would have taken would be somewhere around July-August of last year.

Nrupesh Shah: That's right.

**Sachin Kasera:** Okay. Secondly sir, you also mentioned on the call that we have been taking steps to reduce the seasonality of the business. So, if you look at the current management volumes, is it that they are also slightly better because of these initial steps that we are trying to take or it is all purely market sales?

**Nrupesh Shah:** I think it is both. One, reducing the seasonality and secondly, we believe that overall our sales itself should grow during the season and the year as a whole.

**Sachin Kasera:** Okay. Sir, any sense on, from the dealer level, what is the type of inventory they would have as on date or as on 31<sup>st</sup> March vis-à-vis last year, how are they placed?



**Nrupesh Shah:** As on 31<sup>st</sup> March many distributors would have been sitting on inventory. As of now that is almost end of April, as per the reports we received, most of the distributors and dealers have already sold off substantial inventory, having said that, there may be some distributors or dealers who might be left with some inventory.

**Sachin Kasera:** And if you were to just compare this vis-à-vis last year same time, this would be much better, right? This year is currently much better in terms of the inventory with dealers and distributors.

Nrupesh Shah: It is slightly better. I think even last year also during this time this was the situation.

Sachin Kasera: Okay. So, you are saying slightly better than last year. But, this is the dealer and distributor and not the retailer.

Nrupesh Shah: Retailer and dealer, both.

**Sachin Kasera:** Secondly sir, on the launch that we had done on the new product range which is your metal air coolers, what has been response and how that is going?

**Nrupesh Shah:** That has been received well. So, metal cooler, entire Window range of coolers, not only that, the new range of Diet and HiCool and Winter models which we launched, all have been received very well.

Sachin Kasera: Any number that you could share with us or what has the new range contributed in terms of numbers?

Nrupesh Shah: We don't give the break-up of range wise or model wise.

**Sachin Kasera:** Sure. At least from the industry side, can you give us some numbers for the nine months on how much have we done on the industrial coolers side?

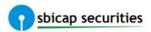
**Nrupesh Shah:** In terms of the absolute value, it is not substantial. But, what we have succeeded in some of the segment like logistics and warehouses we have exhibited good order. In some of the industrial projects we have exhibited good orders. And we have started focusing on specific segments, like religious segments, railway segments, pump room, engineering industry, warehouses and logistics. So, that is helping us. But, in absolute value wise, it is not substantial. As we are maintaining, we expect for the centralized air cooling segments will contribute substantial sales in the long term, over the period of 5–10 years. We also strongly believe that in the short term, the residential air cooler should contribute to the growth, in short term to the medium term that is in two to five years. In the medium to long term, it should be an international business which should contribute to the growth. And as far as the centralized air cooling is concerned, really in the long term, long term horizon; it should contribute to the growth.

Sachin Kasera: Currently it could be like 1%, 2% only of the sales growth...?

**Nrupesh Shah:** Negligible. I don't have readymade numbers, but it should be negligible on standalone basis. Of course at the Impco level, more than 50% of the revenue is from the centralized air cooling.

**Sachin Kasera:** Okay. And for the nine months sir, in the exports number can you just give a breakup how much was to Impco and how much was to ROW?

**Nrupesh Shah:** Again we don't give that breakup and I don't have that readymade number, but as I just said in my initial remarks, in the current year we have resumed our exports to North America Impco. And that has shown good increase. And the rest of the world increase has been in the excess of 16% value wise.



Sachin Kasera: Thank you so much sir.

Moderator: Thank you sir. The next question comes from Mr Kamlesh Kotak from Asian Markets. Please go ahead.

Kamlesh Kotak: Hello, good afternoon sir.

Nrupesh Shah: Good afternoon Kamlesh Bhai.

Kamlesh Kotak: Sir, just wanted to understand how much of our revenue comes through organized retail?

**Nrupesh Shah:** Number one, organized retail for nine months has already surpassed in terms of the absolute sale value wise last year's sales of corresponding period. Coming to value of the sales, I think in the first nine months in the domestic market, it would have contributed close to 7% of the sales.

Kamlesh Kotak: Which would be how much last year same period?

Nrupesh Shah: Nine months last year figure I don't have.,

**Kamlesh Kotak:** So, is this outgrowing the channel sales which we have through dealer distributor network or is it in the same pace?

Nrupesh Shah: As of now it is at the same pace.

**Kamlesh Kotak:** Okay. But, what would be our target in terms of the share of the organized sales versus the domestic dealer distributor sales in percentage terms, are we having some sense in that front?

**Nrupesh Shah:** No target in respect of percentage terms. It is more in respect of percentage of growth from organized retail vis-à-vis the last year. Last year whatever quantity we had sold through organized retail, we expect to grow by at least 50% in the current year.

Kamlesh Kotak: 50% in the organized segment.

Nrupesh Shah: In the organized segment YoY.

Kamlesh Kotak: Okay. And sir, you said the domestic industry is growing at 10%-15%, right?

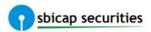
Nrupesh Shah: Domestic?

Kamlesh Kotak: Domestic industry as a whole.

Nrupesh Shah: Domestic sales volume in the first nine months has grown around 33.

**Kamlesh Kotak:** No, no sir, specific to the industry. I am not talking about our business. You mentioned that our business is 40%. Overall industry, cooler industry is growing at what rate?

**Nrupesh Shah:** I believe that overall air cooler industry is growing in the range of 10% to 15%. And organized air cooler industry is growing about 20%.



Kamlesh Kotak: So, that means all the organized players are gaining market share across.

**Nrupesh Shah:** Yes, there is a shift from unorganized to organized. And as Symphony is growing even rapidly, if everything goes well in the current year, we should gain market share, even in organized industry.

**Kamlesh Kotak:** Sure. And sir how big could be the opportunity for us in terms of the exports market and rest of the world as well as Impco put together. Can we see this kind of growth? Because, this quarter we have been phenomenal mainly because of the low-base of Impco. But overall wanted to understand how big is this opportunity for us for exports?

**Nrupesh Shah:** As per our estimate, international market size in terms of residential air cooler is close to 7 million units, either the existing market size or potential. And it is absolutely fragmented. So, there is no international or even national player. I believe there is a huge, huge opportunity for across the geographies whether it is South East Asia, whether it is Latin America, some of the European countries, there is really a huge opportunity. So, in a way I think whatever we are doing in exports currently, probably it is only the tip of the iceberg. But, again export is a segment where we can really do well over a period of time. So, we really see an excellent growth opportunity. That is why we said that in medium to long term that should be a big growth driver.

**Kamlesh Kotak:** Okay. And sir how is the order book as of now in the industrial coolers? Are we seeing that there is a good growth in terms of the visibility or the order book, can you give some color to your statement on that?

**Nrupesh Shah:** There is a reasonable good order book and there is a good visibility and a good acceptance across the segments in the industry air cooling.

Kamlesh Kotak: So, we have a visibility of what three-six months kind of a business or even beyond that?

Nrupesh Shah: About two months, three months.

**Kamlesh Kotak:** Two months, three months, okay. And lastly sir, how big the Window cooler market could be, because I think that was mainly catered to by the unorganized players till now, so any sense how that market can be for us?

**Nrupesh Shah:** As far as unorganized players are concerned, there is substantial sale in the Window segment. And current year on a trial basis we have tried to address it through the coolers and that has performed well. So, but other than just the Window segment for us, it is more like the metal cooler segment, because in unorganized player more than half the sale is coming from metal coolers. So, in the Window range we also launched two metal cooler models. And that is where we are trying to address. Of course there is going to be a huge difference between unorganized and the organized, because of the product, because of the performance and various other aspects.

Kamlesh Kotak: But, any color on what could be the size of that market sir, unit wise or value size?

Nrupesh Shah: Unit wise it should be about 2 million units.

Kamlesh Kotak: Of the overall 6 million units which you spoke.

Nrupesh Shah: yes of 6 million unit size.

Kamlesh Kotak: Okay. Right sir. Great sir, thank you very much.

Moderator: Thank you sir. Our next question is from Mr. Ankit Babel from Shubkam Ventures. Please go ahead.



**Ankit Babel:** Good afternoon sir. Sir, my first question is on your project business, which is basically the air cooling business, just wanted to understand whether its profitability in this business is better than your air cooler product business or it is lower than that?

Nrupesh Shah: As I understand you are referring to centralized air cooling or industrial cooling?

Ankit Babel: Exactly, which you do it on a project basis.

Nrupesh Shah: Sure. It is almost comparable to residential air cooler.

Ankit Babel: Okay. So, both are almost same at the level of

contribution level or operating profit level?.

Nrupesh Shah: Both are almost comparable.

**Ankit Babel:** And how is the working capital in this segment sir? Because, typically in EPC what we understand that from the receivables side and all those there are higher number of days and all those. So, is it the case in here also or working capital wise also both are same?

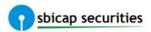
**Nrupesh Shah:** Industrial cooling also we have adopted as of now the same business model, what we are following in the residential cooler in respect of the credit. So of course, sometimes there is credit involved to large industries. In that case we book that project through dealer or distributor from whom we try to get the advance payment. But, coming to inventory, as of now as this industrial and metal coolers we are importing from Impco, so there is inventory by way of stocking comes in.. So, on receivables hardly any working capital and in terms of the inventory there is some working capital.

**Ankit Babel:** And sir since you have an experience of selling products and EPC would be a new business to you. Now, EPC involves actual or civil construction also. So, that you do in-house or you outsource it to some of the local contractors?

**Nrupesh Shah:** As far as Symphony is concerned, it is exclusively into supplying centralized air cooling solution. It is not involved in the construction of the factory or civil construction. So, many a times we get the order through other large contractors or some key project contractors who would have received an order. Or if we receive the order directly, we involve other contractor to execute that part. So, even installation part also is not being done by Symphony. For that we do have technical distributors who want to take that work.

**Ankit Babel:** Okay. Since you mentioned that in a very long term period, say in five to ten years this could be a big opportunity. So, any ballpark that this can be about 30%-40% of your sales in the next five years or something like that or how big can it be considering that your existing business is also growing fast?

**Nrupesh Shah:** No, what do we believe in the very long term, this can take us to anything ranging from Rs100–500cr over a period of five years to fifteen years. As far as the percentage of our total sales will contribute, we haven't budgeted our plans as yet, because we believe that the international business will also grow and residential air cooling will also grow. So, we are aiming at absolute sales value from centralized air cooling in long term. And for us long term is five to fifteen years.



Ankit Babel: Then in five years time you believe it can go to Rs100cr plus?

Nrupesh Shah: Should be.

**Ankit Babel:** And existing it is what, Rs10–15cr?

Nrupesh Shah: About that much or maybe even slightly lower than that.

Ankit Babel: And this year you would be doing around Rs10cr or less than that?

Nrupesh Shah: On a consolidated basis it is more than Rs50cr.

Ankit Babel: Pardon sir?

Nrupesh Shah: On a standalone basis it is less than Rs10cr. On a consolidated basis it is more than Rs50cr.

Ankit Babel: So that Rs100cr you are talking on a consolidated or standalone basis.

Nrupesh Shah: Consolidated

basis.

Ankit Babel: Okay fine, thank you sir. Thank you so much sir.

Nrupesh Shah: Thank you.

**Moderator:** Thank you sir. The next question comes from Mr. Harshit Shah from Motilal Oswal Securities. Please go ahead.

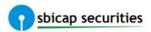
**Harshit Shah:** Hi sir. Congratulations for a good set of numbers. Sir, I just had one question that we had some advances to Impco through our Singapore subsidiary at around Rs31cr. And you had said that once the sales to Impco is revised, this will come down, so just wanted to check if it has come down.

**Nrupesh Shah:** It should come down partly by June and partly by October-November, because for Impco till June, it is a fixed season. And at a level of Impco, it is a working capital oriented business, unlike our standalone business. Because, most of the sale is through organized retail, where credit is involved and apart from that in metal cooler and centralized air cooling, completely vertically integrated in-house manufacturing. So, whether it is in respect of raw material, WIP or finished goods, there is a working capital oriented business. So, this working capital should come down partly by June and partly by September-October.

Harshit Shah: Okay, thanks.

Moderator: Thank you sir. The next question comes from Mr Anuj Jain from Value Quest Capital. Please go ahead.

**Anuj Jain:** Congratulations sir for a good set of numbers. Sir, can you provide the sales break up between residential and industrial segment for both domestic and export?



**Nrupesh Shah:** As of now we are not giving that break up. But, as I said earlier, in the residential centralized air cooling is contributing very small value, less than Rs10cr. As far as the consolidated level is concerned, last year that is accounting year 2012-13; it had contributed close to 15% of the sales. That is absolute value wise it would be about Rs56–57cr, because at the level of Impco, more than 50% of the sale is industrial and centralized air cooling.

Anuj Jain: Okay, okay. And the remaining sales of Impco is like what we are exporting from India to Impco residential coolers?

**Nrupesh Shah:** One is that and even in residential range also, it is manufacturing some metal coolers. So it is both, but mainly plastic coolers being exported from India.

Anuj Jain: Okay, thanks sir. Thank you.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. The next question comes from Mr. Suhrid Deorah from SNS Ventures. Please go ahead.

Mr. Deorah, please go ahead.

Mr. Deorah, please go ahead with your question.

Nrupesh Shah: Can we go to the next question please?

Moderator: Yes sir. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone question.

Sir, next we have Mr Suhrid Deorah from SNS Ventures. Please go ahead.

**Suhrid Deorah:** Sorry about that. I have two questions to you. First question, the comparable model for residential coolers, what is the estimate of the price versus competitors in organized or unorganized?

Nrupesh Shah: I am not getting your question.

**Suhrid Deorah:** Within residential cooler, what is your estimate of the over competitors in the organized players or unorganized players?

Nrupesh Shah: Sorry, I am not getting your question.

Suhrid Deorah: If the Symphony dealer is selling for let's say Rs6000.

Nrupesh Shah: Probably you may be too close to your speaker phone. So, if you can be better audible.

Suhrid Deorah: Okay, is this better now?

Nrupesh Shah: It is slightly better.

**Suhrid Deorah:** Okay, my question is, if a Symphony cooler sells for about Rs6000, what do you think a competitor cooler would sell from an unorganized or organized competitor on average?



**Nrupesh Shah:** As far as organized players are concerned, Symphony air coolers are premium priced ranging from 8% to 15%. As far as unorganized players are concerned, there is no comparison. It would be anything ranging from 50% to 100%. But, along with that there is a much better value proposition which is in respect of durability of the product, performance, noise level, service after sales, features etc.

**Suhrid Deorah:** Okay, thank you. I understand. And my second question, for industrial cooling, could you talk about your positioning on a comparison standpoint? Who do you compete with? What is the size of the market for unorganized and organized player?

**Nrupesh Shah:** In industrial air cooling there is no organized company as of now. And there is no company having a national or major regional footprint. It is quite fragmented. So, there are several local players who are supplying industrial or centralized air cooling. They are more like a fabricator.

**Suhrid Deorah:** Okay. Would you be doing direct sales or through some distribution channels?

Nrupesh Shah: Again in fact it is very difficult to hear you.

**Suhrid Deorah:** Are the competitors who are unorganized, do they have similar distribution channel where they target for industrial cooling or do they have direct sales?

**Nrupesh Shah:** We have both. We have already some dealers who can sell to industry. We have also tied up with the consultants and contractors and also the architects, so that is one channel. And from that direct sales. So that is both the channels.

Suhrid Deorah: Okay fine, thank you. That is all from me.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. The next question comes from Mr Aksh Vora from Praha Investments. Please go ahead.

**Aksh Vora:** Yeah sir, just wanted to know only one question, what will be the distribution reach currently and where do you see in the next two years the distribution reach to reach at what level?

**Nrupesh Shah:** In Symphony scheme of things, in the beginning of the year we have zero distributors and zero dealers. So, they are not like, whomsoever has been appointed, they are the distributor or the dealer. We do have certain criteria and exact number of quantity and payments to be made to be eligible as a distributor and a dealer. So, actual number we should come to know by end of the year that is by 30<sup>th</sup> June 2014. As far as the last year was concerned, we had about 750 distributors and around 16000 retail dealers spread over the country.

**Aksh Vora:** Okay. And sir, if I am not wrong you had set a target to reach around 20,000 or 40,000 dealers in two years span of time, right?

**Nrupesh Shah:** In a medium term, typically two to five years of time

Aksh Vora: Okay. Thanks. Thanks a lot.

**Moderator:** Thank you sir. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone keypad.



Next question comes from R Pattabiraman from Metro Investments. Please go ahead.

**R Pattabiraman:** Hello sir. I wish to know that during these nine months how much of amount has been spent on capital expenditure?

**Nrupesh Shah:** Our business model is such that we don't require much of the CAPEX, because most of our domestic sale is generated through outsourced business model. We do have nine outsourced manufacturing facility and it is increasing in volume and increasing in geographical sales. If required we can always appoint or work out more OEMs. And as far as capital expenditure is concerned, it is mainly in the form of the moulds and dies. So, on an average yearly CAPEX may be about Rs3–5cr, not more than that. Having said that our work for office building is going on, so on office building during the current year and in the next year, all put together there maybe CAPEX of about Rs10cr.

R Pattabiraman: Okay sir, thank you.

Nrupesh Shah: Thank you.

Moderator: Thank you sir. We have the next question from Mr Ankit Babel from Shubkam Ventures. Please go ahead.

Ankit Babel: Sir, do you have any acquisition targets in your mind?

**Nrupesh Shah:** We are open to acquisition, especially international acquisition, mainly for market access, as we did it for Impco. Couple of opportunities has come to us and we keep on examining them. But then we are very clear that just to deploy surplus cash, we will not go for acquisition. So, one is business wise and secondly, valuation and commercially it has to make a sense. So, we are open to commercial acquisition mainly for market access.

**Ankit Babel:** So, how big the ticket sizes could be, since we are targeting only the market access, so it should not be a very big ticket size?

**Nrupesh Shah:** You are right. In our industry it can't be any major acquisition. It can be small size to mid size acquisition. And by and large our cash surplus and our profitability should take care of that.

**Ankit Babel:** No, actually where I was coming in from that if I estimate your numbers for the next two years, now you have been growing at 25%-30%, then maintaining your margins, your CAPEX requirements and working capital requirements are very low. So, you will have a cash balance of around Rs200–300cr two years down the line. Is there a thought to increase the dividend payout say in the next two years? Why don't you have any acquisition target?

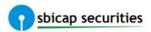
**Nrupesh Shah:** So, that is what exactly we are doing. Four years before our dividend payout ratio was in signle digit, three years before it increased to I believe about 20% plus, year before we increased to about 42% and last year it was about

44%. And on top of it in the current year, in the first six months we declared a interim dividend of 100%. So, of course there are only two outlets of cash distribution, one is acquisition and second is dividend.

**Ankit Babel:** Okay. So, you are clear that you will not keep surplus cash in your balance sheet, in excess of what is required basically?

Nrupesh Shah: So, increase in dividend payout is a continuous process and that is happening and it will happen.

Ankit Babel: Okay, thank you so much sir.



**Moderator:** Thank you sir. Ladies and gentlemen, if you have any questions please press \* and 1 on your telephone keypad.

Nrupesh Shah: It is about 01:10, so if we can close it in the next five minutes or so please.

Moderator: Sure sir. The next question comes from Disha Seth from Anvil Share & Stock Broking. Please go ahead.

**Disha Seth:** Good afternoon sir. Sir, congratulations on a good set of numbers. Sir, on the long term considering the exports and industrial air coolers plus our residential coolers, what will be the growth target like going five to seven years and what would be our margin guidance?

**Nrupesh Shah:** It has been explained time and again that on long term basis our growth will be more than the industry's growth And even as of now also it is ahead of the industry. Industry is growing at about 10% to 15%, Symphony is growing at about 20%-25% or more. And this will continue to happen.

Disha Seth: And sir margins would be sustained?

**Nrupesh Shah:** Margins also, Symphony is, we are also having a premium pricing and better margin and we expect that that will continue.

Disha Seth: Okay. Sir, that's it from my side.

Nrupesh Shah: Thank you.

**Moderator:** Thank you sir. Our last question for the day is from Mr Krishna Kumar. He is an individual investor. Go ahead please.

**Krishna Kumar:** Congratulations sir on the good set of numbers. I just have a query on the modern retail sales. So, you said that already it has surpassed the full year sales 2013 for the nine months. So, what is the growth rate that you are expecting from the modern retail for the next two to three years? Will it be the same or you are expecting to moderate?

Nrupesh Shah: Your name please?

Krishna Kumar: Krishna Kumar.

**Nrupesh Shah:** As I conveyed earlier, on last year sales value modern retail we expect to grow by about 50% in the current year.

Krishna Kumar: So, for the next two to three years we are expecting the same rate or any moderation will come?

**Nrupesh Shah:** I think modern retail should register very robust growth. But, still about the next year or two years then after we have not made our business plans. So, for the next two years what will be the growth plan I can't say, but it should be a robust growth.

Krishna Kumar: Okay, thank you.

Nrupesh Shah: Thank you.



Moderator: Thank you sir. Now, I hand over the floor to Mr Jatin Damania for closing comments. Go ahead sir.

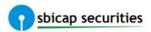
**Jatin Damania:** Thank you Moumita. Thank you. I would like to thank the management of the Symphony Limited for giving us the chance to hold the call and as well as the participants for participating in the event. Mr Nrupesh, would you like to give out any closing remarks?

Nrupesh Shah: Thanks for participating and thanks for your suggestions. Wishing all of you all the best.

**Moderator:** Thank you sir. 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 good day everyone.

Note:

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



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