Symphony Limited

"Symphony Limited Q4 FY 2015 Results Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Symphony Limited Q4 FY 2015 results conference call, hosted by IIFL Institutional Equities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Renu Baid of IIFL Institutional Equities. Thank you and over to you Madam!

Renu Baid: Thank you Vivian. Good evening everyone. On behalf of IIFL Institutional Equities, I would like to welcome the management of Symphony to discuss their business strategy and outlook of post Q4 FY 2015 results. Representing the management, we have with us today, Mr. Nrupesh Shah, Executive Director, Mr. Bhadresh Mehta, CFO, Mr. C V Gandhi, Company Secretary, and Mr. Girish Thakkar, General Manager, Accounts & Finance. I would like to welcome Mr. Nrupesh Shah to share a few highlights regarding the quarter and also the recent acquisition before we start the Q&A session. Over to you Sir!

Nrupesh Shah: Thank you. I welcome all of you in conference call for the year and quarter ended June 30 2015. During my discussions and Q&A, it may contain certain forward-looking statements that setout anticipated results based on management plan and assumptions. Since these statements reflect our beliefs and assumption, which based on the ground realities, we expect the outcome to be close to the projections; however, the achievement of the results is subject to market risks, uncertainty, and even inaccurate assumptions.

Having said this, this time we have shared brand report immediately after the announcement of our financial performance for the year and quarter ended 2014-2015. The report is the result of our conviction that it is not only financial outperformance or performance alone that assures stakeholders, it is complete and consistent transparency instead. This report is also the result of a growing need for external stakeholders to be educated on the why behind the what, of our financial numbers. At Symphony, the performance of our last quarter can be described in a simple analogy 352 runs for one wicket but all out at 360 runs.

Now let me just give you some background. Our brand quantity-wise grew faster in the first three quarters of 2014-2015 than we had ever done in the past. Our brand quantity-wise de-grew in last quarter of 2014-2015 compared to our performance in the corresponding quarter of 2013-2014 but still our market share was the highest whether in first three quarters or in the last quarters. The net result Symphony brand grew by 17% in revenues and 18% in PAT during 2014-2015 on a standalone basis and it grew by 11% in the revenue and 10% in PAT on a consolidated basis but first I would like to highlight how we got to 352 runs for one wicket across the first three quarters.

To give you some sectoral background and increase in air conditioner prices widened the gap between air coolers and air conditioners and that overall strengthened the overall price value proposition for air cooling and accelerated consumption shift from unorganized to organized branded coolers strengthened organized sector as well as Symphony’s prospects. We launched new models in July 2014. We also launched exhaust fan models in window cooler as well as new models in centralized air cooling.

There was a sharp decline in crude oil prices, which helped to increase the operational margin. Of course, we got the benefit of that starting from third quarter. In respect of some of our initiatives, we offered separate models for e-retailers preventing undercutting of the prices and undue competition vis-à-vis traditional retails. The initiative strengthened the confidence of traditional trade channel, which contributes almost 90% of overall sales and despite that the e-commerce overall sales value increased more than 50%, the increased dealer coverage in line with our business plan and moving stocks seamlessly from distributors to dealers.

We could enroll many, many regional retail chains and activated the modern retain chain well before competition. We initiated an advertising campaign as early as January to enhance the awareness. This happened for the first time. Otherwise, we normally launch the ad campaign in March. So at the start of the last quarter, Symphony’s run rate was considerably higher,just to give a brief highlight. Total Gross Revenue in first nine months grew by 32%, EBITDA grew by

49%, PAT by 42% and when we just look set to post a record score, the fourth quarter resulted into Gross revenue of 133 Crores that is 13% decline on YoY and PAT of 22 Crores that is 32% degrowth on YoY.

To give you some specifics, during last quarter, Summer 2015 was delayed affecting the product offtake. There were unseasonal rains as well as hailstorm especially in South and Northern India. Sales revived in the month of May following a heat wave in Andhra Pradesh and parts of Western India. The multi-brand dealers could not invest fresh in Symphony stock as they were unable to divest competitors inventory. We engaged in a high-decibel advertising campaign and also addressing the fan users.

We increased our campaign budget to carve out a greater share of voice. We introduced for the first time a TV ad campaign even for centralized air-cooling, having received overwhelming response. We continuously monitored the stock to ensure that our distributors as well as dealers were able to liquidate their inventories and stock so that they are can stock afresh in subsequent quarters and we succeeded substantially in that respect. So, finally year as a whole, this is how we finished a challenging year.

The gross revenue increased from 548 Crores to 611 Crores, registering topline growth of 11%. EBITDA 164 Crores versus 140 Crores , registering 17% growth. PBT 160Crores versus 135 Crores that is 18% growth and at PAT level 116 Crores versus 106 Crores that is 10% growth translating into EPS of Rs.33 on face value of Rs.2.

Now coming to other business segments that is centralized air-cooling. Now we have a team in place across the country. We have appointed executives pan India. We introduced new PAC range of centralized air-cooling, which has received excellent response. Sales increase on YoY by more than 38% even though base was small and still in overall value terms it is a smaller value. Centralized air-cooling machine coverage exceeded more than 5 million CFM for the installations made during the year. We could install CAC products in 30 different commercial, industrial, and religious segments. We launched aggressive campaign in print media as well as television and we could implement the projects in some of the prominent establishments and companies.

Coming to international business, we have reported year as a whole marginal degrowth of 5% over previous year. IMPCO degrew following a delayed summer. Average July temperature were lower than the previous year but as of now despite delayed summer in the subsequent months, we have almost made up for the degrowth at IMPCO, political disturbances especially Northern African countries and Middle East countries affected the offtake; however, we have added four countries to the customer list and commercial and industrial cooler exports we did even in Saudi Arabia. So during the quarter our brand investment was in excess of 22 Crores versus 14 Crores during the corresponding quarter of the previous year, registering almost 50% increase and year as a whole brand investment crossed 32 Crores versus 22 Crores year before. This translated into Symphony share of voice of 81% up from 71% year before in the air cooler sector, which is obviously the highest in the sector by far. Symphony's estimated market shares during the year in value terms have increased from 50% to 55% of the Indian organized air cooler market during 2014-2015.

Coming to some specific financial parameters. Number of air coolers sold on standalone basis crossed 7,83,000 coolers up from 7,07,000 coolers during the year registering 11% growth while on a consolidated basis 8,09,000 versus 7,40,000 registering 9% growth. While during the quarter declined from 2,13,000 to 1,68,000 on a standalone that is a decline of 21%.

About average realization domestic market and international business put together, average realization on standalone increased from 6299 to 6470 while on consolidated basis up from 7049 to 7109. About gross margin percentage for the year on standalone gross margin has increased from 57.0% to 57.9% and on consolidated basis up from 57.2% to 58.7%. While for the quarter that is June 30, 2015 gross margin increased from 61.0% to 61.9%. Sales and marketing percentage increased mainly on account of high-decibel ad campaign from 20.40% to 21.80% on a standalone and for the quarter up from 26% to 35% and on consolidated basis up from 18.7% to 20.4%.

About EBITDA percentage up from 29.3% to 30.1% on standalone and on for the quarter down from 30% to 22%, while PAT percentage for the year was maintained at the same level that is 21.2% to 21.3% and for the quarter down from 21.3% to 16.7%.

Coming to capital employed, we have succeeded in maintaining our asset light, capital light, working capital light business model. So in the home appliances that is air cooling business on a standalone basis capital employed was just 44 Crores versus 38 Crores and on consolidated basis 82 Crores up from 81 Crores. While corporate funds, which is mainly surplus in the form of treasury up from 195 to 246 Crores and this translates into return percentage on capital employed that is PBIT on home appliances 165% versus 154% and on a consolidated basis 114% versus 106%.

As many of you may recollect we have a stated dividend policy whereby at least 50% of the PAT to be announced by way of dividend, so year as a whole total dividend is 700% out of which 200% was interim half yearly dividend and final dividend is 500% translating into Rs.10 dividend on face value of Rs.2. So this will be about 59 Crores of dividend distribution including dividend distribution tax. So now about the prospects, we continue to be highly optimistic about the prospects of air-cooling industry and Symphony in particular for many good reasons.

One is obviously global warming. Secondly India will continue to become more prosperous. India's monthly per capita income is increasing steadily and touch Rs.7378 in 2014-2015 rising 10% over last year. Indians will continue to place a premium on interior comfort and cooler is the third most utilized product after refrigerators and television. The income ownership market in India will grow faster than ever and to talk particularly about Symphony it continues to innovate and will continue having a strong brand, good distribution and we will keep on enhancing and complete focus on the category, which will drive the growth.

We are confident to generate CAGR growth of 20% to 25% in medium-to-long-term. Exceptional high or low degrowth in one quarter is just an aberration. It does not change medium-to-long-term prospects at all.

Now talking about acquisition, Symphony is acquiring 100% equity of Munters Keruilai, China. To give a brief background about Munters, it is a market-leading brand in China producing energy savings and environment friendly, evaporative air coolers under the brand Keruilai. MKE came into existence into 2011 as a joint venture merger between Donggua Keda Electrical Mechanical(KEDA) and a Swedish Company Munters. Subsequently, Munters acquired 100 percent equity of MKE. This company was originally incorporated in 2004 and originally there were four co-promoters of Chinese origin from whom Munters acquired in 2011.

About the Munters, it is a global leader in the air treatment industry specializing in the development of humidity and climate control technology. It is headquartered in Sweden. Munters is a multi-product company with the turnover of approximately 450 million Euro and Munters is a part of Nordic capital whose asset under management is in excess of 11 billion Euros. There are several strengths of MKE. One is outstanding R&D, second is a premium product, third is the test center. Test center was build in accordance with the US and Australian quality standards, the only kind of its facility in Asia. It has close to 3.5 lakhs square feet of manufacturing facility but its real estate is on a leased base in Dongguan City, which seems very well with Symphony's philosophy. It employs more than 140 competent and experienced employees with sales and marketing functions spread across several countries. It is well-established brand and it enjoys an asset light business model with zero debt and no significant contingent liability.

Symphony perceives the opportunities like market access to China as well as international business. China seems to be second largest air cooler market after India, enhance international access and Munters owns almost 80 IP rights including 51 patents. So Symphony India should also benefit out of its R&D strengths and Symphony also sources directly, indirectly many components from China. So this acquisition should be helpful even in that respect.

Its peak turnover a couple of years before now from air cooler business was about 130 Crores. As on June 30 that is in first six months its topline was 37 Crores, EBITDA was negative by 4.60 Crores, PAT was negative by 7 Crores and networth about 8 Crores. Its net block is about 12.50 Crores and networking capital negative by 3.60 Crores.

The estimated turnover for the calendar year 2015 is expected to be 56 Crores. The consideration for the proposed acquisition is about 1.5 million RMB that is about only 1.5 Crores. Symphony is optimistic to turn it around in the medium-to-long-term following the infusion of working capital in the range of 15 to 35 Crores including funding of its losses. Symphony's proposed turnaround strategy will focus on market penetration internationally as well as China and cost optimization.

So with this we can have Q&A and I thank IIFL for organizing this conference call.

Moderator: Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abhishek Shah from Motilal Oswal. Please go ahead.

Niket Shah: This is Niket here from Motilal Oswal. Just have a few questions on the recent acquisition that you have done. Would it be possible to give us some more details about the acquisition in terms of how is the sales mix like between domestic and exports for MKE and any specific reasons why they are loss making to such a larger extent. So what is going wrong in their business and what can be the corrective action that you might take?

Nrupesh Shah: So it is domestic sales that is in China is about 30% and export is about 70% and its majority of the sale is in centralized air-cooling. As far as its current state of affairs are concerned till 2011, it was a profit making company till Munters acquired because at that time their core focus was on that but for Munters this is one of their many, many activities and essentially the lack of focus and lack of core competence resulted into degrowth.

Niket Shah: So is it the large amount of hit because of lower gross margin or other cost like employee cost and other expenditure being completely mismanaged?

Nrupesh Shah: No, it is because of the real scale of operations because just three four years before its peak turnover was 130 Crores and it was quite profitable and current year estimated turnover is just 56 Crores that is just 40% of its peak turnover.

Niket Shah: So our focus would essentially to be to ramp up the turnover or what we did in IMPCO is basically kind of reduced products, which are loss making and kind of really focus on newer product, which are more profitable?

Nrupesh Shah: It will be both.

Niket Shah: When do we expect this, at least MKE to be profitable on bottomline? This year the losses will be much higher right because its six month number of 7 Crores loss. So by the end of this year turnover of 56 Crores the losses might be 10 Crores or 15 Crores any specific number?

Nrupesh Shah: We do not have any specific numbers in mind because we signed this deal very recently but certainly losses will be higher than 7 Crores. As far as turnaround is concerned, it seems it should be turnaround in a medium-term-to-long-term.

Niket Shah: So safe to assume that it will take at least more than a 12-month period to at least become profitable or breaking even?

Nrupesh Shah: That is right but apart from profitability as I said there are many other strategic advantages out of this acquisition. Number one, very strong R&D facility, which meets with our international standard and only kind of its facility in whole of Asia, having more than 80 IP rights including 51 patents, having already established team in China as well as in some overseas markets and variable manufacturing facility and asset light business model very similar to Symphony India plus directly, indirectly our OEMs soruce many components from China so even in respect of the procurement it should be helpful and internationally it is the only Chinese branded company, which is known and more importantly for exports out of India, we have to approach the whole world while whole world goes to China to procure the material. So even in the respect of international presence and exports we are hopeful.

Niket Shah: What would be the synergies for the existing business with this acquisition, I mean there might be existing client base that this company might have and within export market also I presume they would have significant amount of access to newer doors. So what would be the synergy that would really accrue to the existing business that we run through some of the relationship that MKE might have?

Nrupesh Shah: About synergy, it is completely going to be an incremental business. Having said that our residential air coolers, of course, we need to explore, there is a possibility to export through this company to China and so far, our export or business in China is zero. Apart from that, through established marketing network, we will certainly like to explore international access and as of now, our centralized air coolers are not being exportedcurrently in China, the majority of the business of MKE is by exports of centralized air-cooling mainly in Southeast Asia.

Niket Shah: My second question was on the raw material part, as you mentioned that the raw materials really kind of come off for you guys, have you have any plans to take price reductions or in case if you are not taking price reduction does it mean that in case the air condition guys take a price reduction then the gap between the AC and air cooler might actually come down. Does that impact anytime in near future or a medium term?

Nrupesh Shah: We are considering nominal price increase. We are yet to decide it. So there is no question of price reduction and otherwise also gap between the air cooler price and air conditioner price is so wide even if on account of reduction in oil price or raw material price, air conditioner MRP comes down hypothetically, still we are quite comfortable.

Niket Shah: Would it be possible to give us the breakup of the consolidated volume between India versus Rest of the World?

Nrupesh Shah: I think in India we have sold about 6,61,000 air coolers up from 5,81,000 air coolers a year before and the rest of the volume is from Rest of the World. So on a consolidated level, our total volume is about 8,09,000 coolers up from 7,41,000 air coolers a year before .**Moderator**: Thank you. The next question is from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi: Thanks for the opportunity. Sir my question is related to acquisition. What is our estimate of the Chinese market size and how is the market in terms of organized and unorganized market?

Sir can you just throw some light on the Chinese air cooler market how the market is growing and split between residential and commercial if any?

Nrupesh Shah: It seems total air cooler market size is in multimillions but we need to really estimate how much it maybe but it seems that it maybe second largest or third largest air cooler market next to India. In terms of the breakup between the residential and commercial almost equally divided just like India, Chinese air cooler market is also quite fragmented. There are a few large organized players and there are hundreds of small players.

Gaurav Sanghvi: So the split between organized and unorganized would be more or less equal to India or it would be more towards organized market?

Nrupesh Shah: We are yet to ascertain that but it seems it may be 70-30 or 75-25.

Gaurav Sanghvi: 70 unorganized and 30 more of organized.

Nrupesh Shah: That is right.

Gaurav Sanghvi: Sir in terms of if I just look at MKE numbers the networth of the company is around 8 Crores and as you mentioned it as some of the patent and all those things so just trying to understand we got it at very good price at Rs.1.5 Crores just wanted to understand because company has no debt, is there any contingent liability because this deal seems to be very attractive deal on the face of it from any company perspective?

Nrupesh Shah: Absolutely. We have carried out thorough financials, legal and management due diligence. Apparently there does not seem to be any significant contingent liability. Not only that, it is completely debt free company and coming to valuation, for Munters, this was non-core business and it was a non-focus area and as a group, they were very keen if Symphony acquire this company because they were looking at not only commercial consideration but they were more interested that if this company can be successfully turnaround and their existing employees interest by and large is taken care and that is how on top of good negotiations from our side could really help to get this deal through.

Gaurav Sanghvi: Sir just coming back to the domestic market so how is the inventory situation in general and what would be your estimate in terms of sales happen at the secondary level or would be the growth at secondary dealer level if you can just throw some light on that?

Nrupesh Shah: No, as you would have seen on a standalone level as on June 30, 2015 our inventory is about 25 Crores versus 22 Crores a year before.

Gaurav Sanghvi: Sir my question is more from the inventory at the dealer level?

Nrupesh Shah: Even at the dealer level as I covered in my initial remarks during April to June quarter, we were constantly tracking stock and movement of the goods, not only at the distributor level also at the dealer level and there is hardly any inventory left at distributor or dealer level and that has also helped us in having good offtake in the current quarter so far.

Gaurav Sanghvi: Sir my just last question if some of the AC companies are entering into air cooler market, so your view on the same and how is the competitive intensity in the market?

Nrupesh Shah: We welcome the competition. The reason being there is so much potential and we believe that will increase the awareness about the product in industry not only that, that will increase the size of organized sector and it will help in the rapid shift from unorganized to organized factor. Having said that we are not new to competition even current year also there are many, many players and in last three years many new players have entered despite that even on a larger base of market share of 50% during the year, we could increase our market share to 55%, moreover in the past apart from six, seven large organized players currently, many organized players had entered and some of them exited so it is quite helpful but we are quite confident that considering our core competence focused on the category and continued thrust on innovation, we should be doing well and we are confident to achieve 20%-25% growth on CAGR basis in medium to long-term.

Nrupesh Shah: Thank you very much and all the best.

Moderator: Thank you. The next question is from the line of Prannoy Kurian from Centrum Broking. Please go ahead.

Prannoy Kurian: Just getting back to the acquisition, is the focus of this acquisition on the Chinese market or is it mainly exports?

Nrupesh Shah: It is both.

Prannoy Kurian: But is this an industry that is growing in China, is this a high potential industry or are people going to shift and setup the ACs or something like that?

Nrupesh Shah: In China, centralized air cooling business is growing rapidly, many factories and commercial establishment are going for centralized air cooling. About residential air cooler by and large, market is stagnant, but along with that this company has reasonably good presence and established brand even in international markets, it is the only Chinese company having established, a known brand internationally in air cooler.

Prannoy Kurian: Even you said emerging market so is that mainly 70% is the emerging market so is that mainly Asia or Africa or what?

Nrupesh Shah: It is mainly Asia, but they do have some people based out of Sweden as well as Brazil, but we will decide what to do with them once we fully understand and integrate Chinese business with us.

Prannoy Kurian: I just need clarification on original deal with Munters, are there any payments of royalties or anything like that is still there left over from the original deal?

Nrupesh Shah: There is not going to be a single paisa of royalty or any other left out payment.

Prannoy Kurian: Just last question you said revenue CAGR 20%, 25% that is on the consolidated basis or the standalone?

Nrupesh Shah: On a consolidated basis and having said that we always clearly clarify some quarter or some year may register exceptionally high growth, some year or some quarter may register more growth, so we always estimate and give a guidance of CAGR growth for medium-to-long-term we do not give any guidance for the quarter or the year.

Prannoy Kurian: Thanks so much.

Moderator: Thank you. The next question is from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.

Deepak Narnolia: Good afternoon Sir. Actually you have given answer to this question in your earlier instance but still my question is regarding the market share in the organized segment you seem to have significantly high market share at 55% and now players like Voltas and Crompton Greaves have entered into the market, so what is your long-term view on this like, what gives the confidence that you will be able to maintain this kind of high market share?

Nrupesh Shah: Number one, for us air cooler is the only product. We sleep, eat, and drink air cooler. We completely understand not only the technology, and the product but also the market psyche and customer requirement so essentially complete focus is on the category. For current or emerging competition, it is one of the products,that is number one. Number two, Symphony is and will continue to be an innovative company. We have on our drawing board, models to be launched for next couple of years and we are sure some of them will be not only in the respect of aesthetics but feature wise or even in terms of the market positioning wise will be quite path breaking and we have well-established brand as well as distribution, which we also continuously increase. On top of it, current year our advertisement spend was almost 32 Crores up from 22 Crores a year before and still share of mind in air cooler industry was 81% versus 71% a year before.

Deepak Narnolia: Share of mind means?...

Nrupesh Shah: Share of mind, that is our share in total advertisement spend in air cooler industry was 81% and even if we talk about cooling industry as a whole, I think our share of mind is in double digit.

Deepak Narnolia: So how is the distribution channel different for air conditioning and air-cooling as such, because Voltas has come into this segment aggressively so how is the distribution channel is different in these two products, is it just similar or we have to develop a new distribution channel?

Nrupesh Shah: Some of them are common distributors and dealers and some of them are uncommon including electrical and electronic chain of dealers or retailers do not sell much of air conditioner but some of them may be common.

Deepak Narnolia: Particularly in rural areas I think?

Nrupesh Shah: It may be both, rural as well as urban. As far as distributors are concerned, of course they are exclusive distributors to Symphony. Distributors do not sell any competing brand of air cooler.

Deepak Narnolia: So any ballpark idea sir what would be the percentage of exclusive dealership or the people who are only selling these air coolers as such, any ballpark idea?

Nrupesh Shah: No we do not have any ballpark idea.

Deepak Narnolia: Just if you can give me Sir the unorganized market in air cooler in percentage term?

Nrupesh Shah: It is about 80%.

Deepak Narnolia: 80% of market is unorganized.

Nrupesh Shah: Unorganized.

Deepak Narnolia: Thank you Sir.

Moderator: Thank you. The next question is from the line of Ankit Jain from Equirus. Please go ahead.

Ankit Jain: Thanks for the opportunity. Good evening Sir. How do you compare this centralized air cooler manufacturing capability of MKE with IMPCO?

Nrupesh Shah: As far as IMPCO is concerned, so far it was or is vertically integrated manufacturing facility while about MKE just like Symphony India it is asset light model and they are only into assembling and most of the components they outsource, so in a way there is no comparison of MKE with IMPCO but they are having a well-established brand in China as well as internationally.

Ankit Jain: Sir what has exactly gone into deterioration in IMPCO standalone performance as such for the current year?

Nrupesh Shah: Delayed summer.

Ankit Jain: So because of that actually margins have also gone in red as far as IMPCO standalone goes?

Nrupesh Shah: That is right.

Ankit Jain: Sir what is the increase in the distribution network for the last year?

Nrupesh Shah: There has been a good improvement in distribution network whether in terms of number of dealers or in terms of organized retail or even regional retail but we would not be in our position to share exact number of dealers on account of competitive reason.

Ankit Jain: Thank you sir and all the best.

Moderator: Thank you. The next question is from the line of Achal Lohade from JM Financial. Please go ahead.

Achal Lohade: Good evening Sir. Thank you for the opportunity. Sorry at the cost of repetition just wanted to get a sense in terms of the market size in terms of value as well as volume for us in India?

Nrupesh Shah: No I did not get your questions.

Achal Lohade: For the residential cooler, what would be the market size in terms of value for the organized market and then I can extrapolate that in the total size?

Nrupesh Shah: It should be about 800 Crores or so organized and air cooler industry as a whole domestic market size should be close to 3000 Crores.

Achal Lohade: What would be the difference in terms of pricing for the organized and unorganized according to you Sir?

Nrupesh Shah: 50% to 100%.

Achal Lohade: So our pricing would be 50% to 100% premium to unorganized sector is that right understanding Sir?

Nrupesh Shah: Absolutely.

Achal Lohade: You talked about some players had come in the past and exited do you remember by any chance the name of those players?

Nrupesh Shah: Some of the competitors?

Achal Lohade: Some players had entered into the air cooler market earlier and also exited just wanted to know the names if you remember by any chance?

Nrupesh Shah: It would not be fair for me to convey publicly but it is known in the business circle, which are the large organized companies, which had entered and withdrawn, and there are many of them including some known names, there are also some companies, which had exited, entered, and again exited.

Achal Lohade: Just last question in terms of the pricing for the different capacities models, are we at the top end or are we at the mid level how is our pricing vis-à-vis the other players in the market Sir?

Nrupesh Shah: Symphony's pricing is 5% to 15% premium pricing vis-à-vis organized players.

Achal Lohade: Thank you so much.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from Trust Group. Please go ahead.

Naveen Trivedi: Good evening to all of you. Sir my question is on the secondary sales growth although earlier participant has already asked about this thing but can you just throw some light about was it a positive growth during the quarter?

Nrupesh Shah: Can you please repeat the question?

Naveen Trivedi: I am saying the secondary sales growth as you said this time your focus more was in the dealer inventory so how was the growth during the quarter at the secondary level?

Nrupesh Shah: I think that is very difficult to measure.

Naveen Trivedi: But if your assessment is right was it a positive growth this quarter at this secondary level or maybe if you can say something on the offtake side?

Nrupesh Shah: At a customer level during summer months overall there was a degrowth, so considering our strategy of preseason sales we could register a decent increase in standalone gross revenue of almost 17% but to the best of our knowledge most of our organized competitors have degrown year as a whole. This was in the last quarter.

Naveen Trivedi: What about the quarter Sir?

Nrupesh Shah: The quarter I think all the competitors have registered degrowth and this is on part of most of them have negligible sales during off-season.

Naveen Trivedi: Sir can you comment on how has been post Q4 performance in the last one and a half month how has been the trend and how pre-booking model has been successful in the current environment?

Nrupesh Shah: It is a good offtake in line of our business plan and expectation.

Naveen Trivedi: The guidance of general run rate is that we generally do 15%, 20% volume growth so that run rate is still to some extent is maintaining?

Nrupesh Shah: No, so we never give a guidance for the quarter or for the year irrespective of the offtake for one month or otherwise so that guidance is for medium-to-long-term and having said that in some quarter or some year there maybe exceptional high growth or degrowth.

Naveen Trivedi: If you can share the number for advances for one and a half months?

Nrupesh Shah: We cannot share the figure.

Naveen Trivedi: Sir you mentioned the market share of 55% this year, can you also give us some idea about, what about other key players market share during the quarter or during the year?

Nrupesh Shah: We are yet compiling the figures.

Naveen Trivedi: Sir in the acquisition that we have done, was there any local player also participating for this acquisition?

Nrupesh Shah: To the best of our knowledge there was one other interested company but as a seller, they were more keen to sell to us due to the reason I explained earlier.

Naveen Trivedi: But any rational that maybe you assess any reasoning that why other players was not interested because you think as it is more one of the key branded player in the market so there can be other players also interested in that?

Nrupesh Shah: As I said the seller was more interested to sell to Symphony due to the confidence on Symphony to turnaround the company, to take the company to a newer level and hence, we could get the bargain deal.

Naveen Trivedi: So at 130 Crores peak sales, how was it with the margin profile of the company if you can share?

Nrupesh Shah: It was close to 9% PAT.

Naveen Trivedi: That is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investment. Please go ahead.

Bharat Shah: Hi Nrupesh. Not really business question just one comment. Earlier somebody asked you about the difference between you and the competitors many of new ones are entering and you replied began with that you eat, drink, and sleep about air cooler. So, I make one modification I thought probably you sleep, breath and feel the air cooler, eating, and drinking is a little tougher.

Nrupesh Shah: So I wanted to add this by some participant good you added that.

Bharat Shah: All the best to you.

Moderator: Thank you. The next question is from the line of Gaurav Maheshwari from Unilazer Ventures. Please go ahead.

Gaurav Maheshwari: Sir just wanted to understand this centralized cooling part of the business so IMPCO will continue to market and sell the central air-cooling in North America and India, is that the way you just want to be or the India part also would be taken care of by this Chinese company that we acquired?

Nrupesh Shah: As of now about centralized air cooling we will continue the way in which we are currently operating, but we need to really examine Chinese opportunities and if there are some complimentary or additional model which can help us here as well as for export, of course we will do that.

Gaurav Maheshwari: But this MKE primarily does only the centralized air-cooling right?

Nrupesh Shah: Their majority of the business is in centralized air-cooling but they also have brand in residential air-coolers and also have some sales from residential air coolers.

Gaurav Maheshwari: So they will continue both the businesses going ahead and from Symphony India, do we expect to give them per se market under their brand in China on the residential air-cooling side?

Nrupesh Shah: No we are open to both, exporting from India under our brand as well as under their brand in China and vice versa.

Gaurav Maheshwari: Sir in terms of we have been trying to expand internationally in order to reduce the seasonality so which are the countries that we would have added in last one year which would help us reduce the seasonality to certain extent?

Nrupesh Shah: Unfortunately, due to competitive reasons we would not be in a position to share it, which we used to share earlier.

Gaurav Maheshwari: Not even the country level Sir?

Nrupesh Shah: Yes, that is what I am saying.

Gaurav Maheshwari: One last question in terms of inorganic opportunities you would be still open to acquire similar companies going ahead or this is one and you would like to consolidate and then move on?

Nrupesh Shah: Yes in the near future, we will like to focus and devote our time and efforts on strengthening MKE, so certainly not in the near future as of now.

Gaurav Maheshwari: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Torang Kakkar from Religare Capital Market. Please go ahead.

Torang Kakkar: Good evening Sir. Most of my questions have been answered, just a bit on the acquisition. I think I understand that it has been a non-core business for them and so the topline from 130 odd Crores is down to somewhere around 56 Crores but what is our estimate in terms of growth as to how much do we think we can grow this business may be over the medium term?

Nrupesh Shah: In medium term we targeted to reach at least to a level where they were three years before.

Torang Kakkar: So maybe somewhere around 130 Crores in three to five years period?

Nrupesh Shah: That is what we estimate.

Torang Kakkar: Near term like may be next one year do we think it will grow or it should remain somewhere around these levels?

Nrupesh Shah: It is too premature to say as of now.

Torang Kakkar: May be in terms of the market as a whole, in terms of the China market what is the growth rate in the centralized air-cooling part?

Nrupesh Shah: It is in double digit.

Torang Kakkar: I think just a bit on the decline in terms of sales so this 130 Crores to 56 Crores, would it be largely driven due to China market or even the exports would have seen a similar kind of a decline?

Nrupesh Shah: Essentially for Munters, air cooler was not in their DNA and they were managing this company remotely by sitting in Sweden so it was complete lack of focus and handholding of the company which resulted into that, and that is how there was a degrowth in domestic market as well as international business of MKE.

Torang Kakkar: So it will be almost a similar kind of a decline across the geographies?

Nrupesh Shah: True.

Torang Kakkar: Maybe in terms of acquisition the entire team and everything will continue with the Munters team so all the 140 professionals and employees would stay on board?

Nrupesh Shah: Yes, that is what an agreement is.

Torang Kakkar: Would we be deputing someone from the India team to look into it or it will be largely the management will continue to run the business, how would it be?

Nrupesh Shah: By and large current management will continue but just like IMPCO there will be substantial inputs, guidance and

Symphony philosophy to be exported over there, so from different department, people will be in constant touch with the counterparts.

Torang Kakkar: That is all. All the best and congratulations for the acquisition.

Moderator: Thank you. The next question is from the line of Sidharth Mohata from Principal India. Please go ahead.

Sidharth Mohata: Just one question would you be on a just directional basis be able to say and quantify that the growth in net export plus the industrial cooling side would more than offset whatever by way of competition you will lose on the base business?

Nrupesh Shah: That is what we expect not only that despite competition in domestic business, we expect robust growth in domestic business in short-term to medium-term.

Sidharth Mohata: Just one more if I can, in your opinion how much positivity can probably lets say by mistake if GST goes through then what kind of addition can we have in volume, incremental volume we are already guiding for 20%-25%?

Nrupesh Shah: Volume and value put together we expect CAGR growth of 20%, 25% which will include change of product mix, further shifting favor of high-value models including centralized air cooling so this 20%, 25% is value growth, so obviously volume growth will be lower than that.

Sidharth Mohata: No, the question is because they could not have taken into account more favorable tailwind from our GSTs, in your opinion can GST only add to this.

Nrupesh Shah: As we have conveyed in the past, GST will certainly accelerate the shift from unorganized to organized and that will certainly help the organized sector including Symphony and it is very much possible that this growth may increase on account of GST because one of the major reasons are price difference between organized and unorganized is on account of the taxes which is about 30%, 35% of the sales price.

Sidharth Mohata: Perfect Sir that is all from my end all the best.

Moderator: Thank you. We have a follow on question from the line of Deepak Narnolia from Antique Stock Broking. Please go ahead.

Deepak Narnolia: You mentioned that the air cooler market has declined in FY 2014-2015?

Nrupesh Shah: I have not said that. In Q4, there has been a degrowth but year as a whole on standalone basis our topline has grown by 17% and on consolidated about 11%.

Deepak Narnolia: No but I am not talking about only Symphony I am talking about the industry, you mentioned that probably you have gained market share and other players have lost some market share correct?

Nrupesh Shah: That is right.

Deepak Narnolia: So market seems to be have declined in FY 2015 if I am not wrong.

Nrupesh Shah: No I would say that market also in last quarter has declined but year as a whole there has been a marginal increase.
Deepak Narnolia: But if I see air conditioning growth, it was 20% after two years, for two years air conditioning market has remained flat and this year it has grown by 20% so why this much of difference in air cooler trend and AC trend is that some market is shifting to air conditioning or something like that?

Nrupesh Shah: One of the reason is, in air conditioner they are substantial project-driven business as well as commercial establishment-related business. In air cooler especially in the residential category very small percentage in project business as well as business category and that explains the difference. So whenever there is a project driven or business category business that degrowth is not felt much despite bad summer.

Deepak Narnolia: So you mean to say that AC business has grown this year on the back of higher commercial real estate activity something like that?

Nrupesh Shah: Yes, that can be one of the year, but as per the figures and some of the reports, which have come to, air conditioner industry as a whole has not grown more than air cooler industry.

Deepak Narnolia: So 20% all the companies have mentioned that 20% growth in FY 2015 and you are mentioning that there is a marginal growth in FY 2015 in the air coolers?

Nrupesh Shah: Because there is not an apple-to-apple comparison. For them, March 2015 was year-end and we are talking about June 2015 as a year-end. So if we really compare July 2014 to June 2015, air cooler industry and air conditioner industry by and large have grown almost at the same level.

Deepak Narnolia: If you compare for March 2015 to March 2016 and April 2014 to March 2015.

Nrupesh Shah: July 2013 to June 2015

Deepak Narnolia: Okay, for both the products?

Nrupesh Shah: That is right.

Deepak Narnolia: The discrepancy can be due to the period of comparison you mean to say?

Nrupesh Shah: That is right.

Deepak Narnolia: Thank you Sir.

Moderator: Thank you. The next question is from the line of Sangeeta Tripathi from Sharekhan. Please go ahead.

Sangeeta Tripathi: Good evening Sir. Thanks for the opportunity. There has been lot of discussion with respect to the new competitors coming into the business and you still feel very confident of putting a 20% to 25% growth for the medium-to-long-term perspective that is what you have been feeling. Now this confidence is fair enough. What I need to understand is now talking about the topline growth that is fair enough that there will be transition from unorganized market to organized market butmy question is more on the profitability front. The kind of margin that we are seeing for Symphony at this point in time, do you think there will be a margin dilution in a medium-to-long-term perspective with new competition coming into play, your advertisement spend, your other fixed cost, the kind of spending that you have done over the last two to three years, this kind of margins would not be sustainable or do you feel confident of having this kind of margins for medium-to-long-term perspective, your thoughts on that?

Nrupesh Shah: We are reasonably confident to maintain the margin even in June quarter, the quarter in which there was a degrowth of the sales, our gross margin, increased from 61.0% to 61.9% in June,15 Qtr and year as a whole our gross margin increased from 57% to 57.9% on a standalone basis.

Sangeeta Tripathi: Sir, I understand the gross margin. I was more concerned about the operating profit margin wherein you will have to do a lot of advertisement more than what you are doing years ago andwith competition coming in to play your advertisement cost, your basic infra cost and also you have not taken any price cuts. With competition coming into play probably some pressure on the pricing can also happen in a medium-term perspective not currently or in the short-term but over a period of time, how do you see the margin profile panning out in let us say three to four years' timeframe?

Nrupesh Shah: Say in the current year also our sales and marketing percentage increased from 20% to almost 22% the year as a whole so it went up almost by 2% and despite that our EBITDA margin as well as PBT margin has increased so that is also not only the function of absolute increase in sales and advertisement expenses but it is also the function of the economy of the sale and volume. Not only that even currently or even in the past also, we do not have a monopoly in air cooler industry. Even in organized sector, there are more than half a dozen well-established companies and some of them in terms of the topline or distribution-wise are even larger than us and in the past, also there was a competition but the point is as conveyed earlier, one because of the core competence, second is focus and third about the innovation and fourthly, we believe that we quite understand the category as well as the market.

Sangeeta Tripathi: So you feel confident that the current level of margin of around 22% to 25% on an average basis you will be able to maintain for the medium-term perspective?

Nrupesh Shah: That is right.

Sangeeta Tripathi: Thank you.

Moderator: Thank you. There is a follow on question from the line of Niket Shah from Motilal Oswal. Please go ahead.

Niket Shah: Nrupesh Bhai, I just wanted to get some sense on our IMPCO performance, over last two years there has been a constant decline and we were under restructuring mode in IMPCO so just update on that and specifically any reason why we are making losses in IMPCO?

Nrupesh Shah: As I said earlier, in IMPCO there has been a delayed summer.

Niket Shah: But I am saying that in last three four years, you have seen constant reduction in sales, also reduction in terms of profitability?

Nrupesh Shah: No in the year 2013-2014 vis-à-vis 2012-2013, there was no reduction in sales, but this year, it is only on account of delayed summer and as of first week of August most of that degrowth has been almost made up in the month of July and in the first week of August.

Niket Shah: What would be our investment now in IMPCO, the standalone investment in IMPCO?

Nrupesh Shah: About 23 Crores, which at its peak was 44 Crores and this includes capital investment of 3 Crores.

Niket Shah: The restructuring that we had in IMPCO is on track that was supposed to happen in phases of this in terms of those parts?

Nrupesh Shah: It is absolutely on track so first phase of outsourcing that include identifying OEMs at the level of IMPCO has already happened and as conveyed earlier in next two to three years' time, we expect complete outsourcing to materialize and we should be in a position to monetize its fixed assets including valuable real asset and from that, our investment should be completely recouped not only that IMPCO should be sitting on its surplus to take care of its working capital and whereby it will be in a position to focus on sales, marketing and innovation, so it will be an asset light business in line of India and not only that by doing that, its below the line item that is the depreciation, interest and exchange fluctuation will be reduced substantially which will help in improving the financial performance too.

Niket Shah: One more question on the new product launches, would it be possible for you to give us a sense in terms of what would be the revenue contribution from product launch in last one year, a rough cut range just to sense at how well the new performance have been respected by the market and in terms of contribution to the overall revenues?

Nrupesh Shah: Whatever products we have launched in last two years, I think it would be contributing at least 25% and even otherwise also none of the products are older than four years**.Niket Shah:** Thanks so much and all the best for the quarter.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the floor over to Ms. Renu Baid for closing comments.

Renu Baid: Thank you Sir. Thank you everyone for being on the call. We would sincerely like to thank the management of Symphony for sharing the time and giving IIFL the opportunity to host the call. Nrupesh Bhai would you like to give any closing comments before we call out the call?

Nrupesh Shah: Thanks to all the participants and thanks to IIFL for hosting this conference call. Thank you.

Renu Baid: Thank you so much Sir. Thank you everyone.

Moderator: Thank you. On behalf of IIFL Institutional Equities that concludes this conference. Thank you for joining us you may now disconnect your lines.