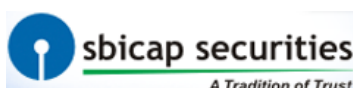




“Symphony Limited
Q2 FY2020 Earnings Conference Call”

November 13, 2019



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Moderator: Ladies and gentlemen good day and welcome to the Symphony Limited Q2 FY2020 earnings conference call hosted by SBICAP Securities. As a reminder all participant lines will be in listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “*” then “0” on your touchtone phone. Please note this conference call is being recorded. I now hand over to Mr. Abhineet Anand from SBCAP Securities. Thank you and over to you Sir!

Abhineet Anand: Thanks, Ali. I welcome everyone to 2Q FY2020 post result Conference Call of Symphony. From the management, we have Mr. Achal Bakeri, Chairman and Managing Director; Mr. Nrupesh Shah, Executive Director; Mr. Bhadresh Mehta, Global CFO; and Mr. Milind Kotecha. Without further delay, I will hand over to the management for opening remarks. Over to you, Sir!

Achal Bakeri: All right. Thank you very much, Abhineet. A warm welcome to everyone to conference call. This is Achal Bakeri here. I thank SBICAP for arranging this conference call. The normal safe harbor terms apply. I am not going to repeat the whole thing.

I will begin with just a brief overview about the business, both India and overseas and after which my colleague, Nrupesh Shah will walk everybody through the numbers.

As far as India is concerned, as you would have seen in the current quarter as well, there has been a significant growth over the previous year. But as we all know, the previous year is no benchmark or no reference for us. So in a sense, we are back on track with the year before that, which is the year 2017 and 2018. This is, by and large, basically because we had a good summer. So since the quarter of April to June went out very well, so the channel inventory is pretty much exhausted, and we have been able to receive a fairly good off-season bookings and orders from the channel, as a result of which, in this quarter of July to September as well, we are -significantly higher than the previous year, but even a little higher than the year before that. Like I said, for us, more or less, we are back on track with 2017 and 2018.

We began the offseason, which really is a buildup to what happens in the next summer with introduction of new models, which were done about 3 months ago. So the models have been introduced to the channel. So we have a whole new range in our celebrated DiET series. Our DiET range, which was launched about 10 years ago, was really a trendsetter. And of course, looking at its success, the rest of the industry also followed suit with sort of lookalike models. So we felt an opportune moment for us to come up to take the whole



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range to another level. So we launched a new range of models, which we call DiET 3D. It has many distinguishing features, which I will not go through over here.

Similarly, we have also launched a whole new range of Sumo models. Now Sumo is also one of our flagship sub-brands, which goes back about 20 years, and it has seen several transformations over the last 20 years and this is, I would say, this year, what we have launched is the largest ever sort of transformation in this range.

So we have an all-new range of Sumo models, about 4 models in the range and so those have also been very well received by the trade. We have, again, a very popular sub brand called Winter, which has also been in existence for about 15 years, - and that has also been completely revamped and also has received a very good response.

Moreover, the rest of the models and ranges have also seen some refreshment or revamping or the other and all in all, the entire range of what we call household coolers has received a very good response.

So essentially, at Symphony, we sort of categorize our product range under 3 categories, the HC or household coolers, which is what I spoke about so far. The second is CC or commercial coolers and the third is IC or industrial coolers. So the DiET or the Winter or the Sumo that I spoke about were all formed a part of the household cooler range.

In commercial coolers, so far, we had been bringing in some models from our subsidiary in China and selling them over here. But looking at the potential, the sort of tested the potential or sort of evaluated the potential with models from China, but after having sort of understood the category and understood its potential, we decided to develop a range, which was specifically designed for the Indian market and so that had been in the works for the last 1.5 years.

Finally, last quarter, that range was introduced. That range is what we call Movicoool. That consists of 6 models, very high capacity models. Again, now commercial coolers are essentially very large portable coolers, - which can cool outdoor areas, banquette spaces, factories, warehouses, restaurants, so on and so forth.

So this Movicoool range that we have introduced, like I said, consists of 6 models of very large capacity. For the first time ever in India, we have also launched a model, which is a double-decker model. So this has one tank at the bottom, but 2 fans above that, so whereas the lower fan will give air in the immediate vicinity. The fan above will be able to deliver air to further distances. So this whole range has also been very well received in the market but of course, the real numbers and all will happen in the next summer.



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Then talking about industrial coolers, industrial coolers too, all these years, we had initially been bringing from our subsidiary in Mexico, then for the last 3 years, also from our subsidiary in China, but having also understood the market and understood the potential for this market, and for us to be able to take it to the next level, for us to be able to really scale up the business, we decided to, again, develop a range, which is specifically meant for Indian conditions. And that range had also been in development for the last couple of years and has finally been introduced last quarter.

Now these range basically, what we have - developed is something truly unique. We have, in fact, applied for a global patent. Typically, industrial coolers deliver air, either from the top or the side or the bottom and so you have different SKUs for top or side or bottom. So if you have different sizes, different capacities and each of them, if you have different discharge top, side and bottom, then you have those many SKUs that you have to not only produce, but store, as well as the channel also has to store so many SKUs. And at time, what happens is, there is demand for the SKU, which is not in stock.. And then you have in stock, what is not in demand. So you have these situations, which most people in the industry face worldwide, and we too faced for the last few years, while we were selling industrial coolers.

So when we began to develop this range, 2 years ago, we decided something truly unique, which is what I have said we have applied for a global patent. So we have developed a product which we call Universal. So the same product can be reconfigured with just - exchanging parts, so the top goes to the bottom and the bottom goes to the top and so the same product at the site, depending on requirements can be used for top or bottom or side discharge.

So we have developed this, what we call the universal range in 2 capacities, 20,000 and 25,000 CFM, essentially 2 models using many common parts, but you get 6 SKUs out of that. So for the channel as well as for the company, it reduces the complexity and the inventory that one has to hold. So this has also been very well received.

So this is broadly about the new models within the household cooler, commercial cooler and industrial cooler categories in India. This being the offseason there is nothing dramatic happening as far as the channel is concerned or as far as advertising and sales promotion is concerned, but the company does engage in various channel initiatives and that is something which goes around the year. So that is something which has also happened in the previous quarter.

So all in all, I would say, as far as the channel is concerned, notwithstanding the 2018 summer, which people have sort of pretty much forgotten, thanks to a very good 2019



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summer. The mood is pretty positive. Like I said before, the channel inventory is pretty much exhausted, and Symphony also made sure that the channel's inventory was exhausted even at the cost of some loss of sales by Symphony. So what I meant is, if say, in one town, someone has some excess inventory and in another town, someone needs more coolers. So rather than bill a fresh from Symphony, we would try and sell from one distributor to the other, thereby cleaning up the channel inventory.

So all of that helped a lot in establishing the cooler category, despite the seasonal vagaries, still a good business. And I think, all in all, the Symphony and channel connect is as good as it has ever been.

Talking about our international subsidiaries, Climate Technologies, which is, of course, our largest subsidiary, has seen sales being marginally up, but a significant improvement at its EBITDA level, primarily due to the various value engineering initiatives and overhead reduction initiatives initiated under Symphony management in the last 1.5 years since acquisition.

In fact, that is going to be a work in progress for the next couple of years. We are completely revamping the business model over there and that, in itself, regardless of the sales increase would also result in significant improvement at the EBITDA level. So there is the various value engineering projects and like I said a complete redesign of its business model. To a great extent, the business model will fall along the lines of Symphony, where it is going to be sort of asset-light and capital-light and there will be a fair degree of third-party manufacturing, whether not really in Australia, but in China or India. And so it will be a mix of Symphony's business model and their existing business model, but all in all, what I am trying to say is these will have a salutary effect on the bottom line going forward.

Over and above that, we have embarked on various initiatives to increase sales. The first of which is that Climate Technologies had in all these years, never sold - portable coolers within Australia. So beginning this quarter, we will be sending coolers from India to them, which they are now going to be in the summer, and their summer is now approaching or rather is almost upon them. This summer, they will be selling within Australia, so this will be like a trial sort of an order, the first year, just a few thousand coolers, but we expect that in the next 2, 3, 4 years, this should also become a significant sort of business, both for Climate Technologies as well as for Symphony.

Just as the acquisition of IMPCO gave Symphony access to the Mexican markets and because of IMPCO being there and having feet on the ground in one sense, the largest international customer for Symphony, similarly, we expect Climate Technologies also



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going forward to become a significant customer for Symphony and Australia to become a significant market for Symphony products, household cooler product exports from India.

Also because of Climate Technologies, we gained access to the U.S. market, through its subsidiary Bonaire-USA, and so far, again, in the USA, they never sold portable coolers. They had one large customer, which is Home Depot, which is the world's largest home improvement stores company. It is \$120 billion U.S. giant. So they had business with Home Depot, but with the addition of Symphony, India's range and Keruilai China's range in the summer of 2020, we will be opening up Lowe's, which is the second largest home improvement stores group within the USA, with a \$70 billion top line and also Amazon.

So as we speak, our products are being readied for exports, both from India and from China, to Bonaire-USA for sales in the summer of 2020 through Lowe's and Amazon.

So once again, what I am trying to reiterate is that the acquisition has paved the way for Symphony's access into those markets and also for Climate Technologies and Bonaire to scale up their business with access to Symphony and Keruilai's range of models.

Coming to our subsidiary, which is the third largest subsidiary, IMPCO in Mexico, YTD sales has shown a healthy double-digit growth over the previous year. And going forward, also in 2020, we also expect the growth to continue.

Keruilai in China has actually seen a bit of a dip in local sales, because primarily, Keruilai sales is industrial coolers and because of the trade war between China and USA really no new factories are coming up, or existing factories are also slowing down on their investments. So because of that, there has been some impact on our business, which had otherwise for the last 3 years, the topline had been growing, and it had turned cash neutral last year. This year, we would have actually originally expected it to become cash positive. But this year, too, because of the reduction in sales at best we would be cash neutral.

We have also incorporated a subsidiary in Brazil, which is basically just a trading subsidiary which will import coolers from Symphony India and also Keruilai China and that subsidiary has begun operations. It had its sort of maiden business in the last month, actually, so that is in the current quarter,. But anyway, what I meant is that the business has begun. That subsidiary is now functional.

One more thing, which I should have mentioned earlier, was that because of Climate Technologies, and Bonaire's presence, we are also going to sell IMPCO's models in US. We test marketed that in the summer of 2019 and the products received a very good



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response. So IMPCO is going to be scaling up the sales of those models in the summer of 2020.

So the big picture over here is that, each of the subsidiaries is offering the other subsidiaries or the parent access to its market. So there will be a fair amount of cross-selling and the products are complementary. Although they are all air coolers, but they all come with different characteristics, different capacities and different applications.. There is very little overlap and because of which there is a lot of opportunity for cross-selling in each other's markets.

So in one sense, the sum of the parts is greater than the whole.

So with that, I think I have finished my broad overview, and I now request my colleague, Nrupesh Shah, our Executive Director, to walk you through the numbers. Thank you very much.

Nrupesh Shah:

Good morning to all. So I will cover standalone quarterly numbers vis-à-vis previous year and consolidated 6 monthly performance vis-à-vis previous year.

So on a standalone basis, income from operations from July to September 2019 stands at Rs.195 Crores versus Rs.148 Crores that is up by 32%. While EBITDA stands at about Rs.71 Crores versus Rs.48 Crores and showing healthy EBITDA margin of 34.4%, in line with FY2016-17 and FY2015-16.

Despite there is a marginal de-growth in operating margin percentage that is down from 50% to 47%. But one, on account of innovation; secondly, value engineering, thirdly, robust summer and good product mix, PBT margin has improved from 30% to 34%, resulting into PBT growth of 49% versus top line growth of 32%.

And in respect of income tax, we were covering under about 30% effective taxation on business income. So we have opted for 25.17% lower income tax regime, which has resulted into reversal of June quarter income tax and reversal of deferred tax liability upto March 2019 of about Rs.3.5 Crores, to that extent PAT is positive. This income tax reduction will lead to incremental PAT of about Rs.8 Crores to Rs.10 Crores per annum.

Again, coming back to capital employed in the core business, we are back to negative capital employed, which based on monthly average capital employed during September quarter, it is negative by Rs.58 Crores.



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Coming to consolidated numbers for 6 months, the comparison from April to September should be considered, keeping in mind Climate Technology was acquired effective July 1, 2018. So April to September 2018 includes Climate Technology numbers for one quarter i.e. September quarter.

So on a consolidated basis; the top line is Rs.369 Crores to Rs.564 Crores that is up by 53%, while EBITDA is up from Rs.71 Crores to Rs.123 Crores that is 75%, again, higher than top line growth. PBT margin on consolidated basis stands at about 18% versus 17% and PAT growth on a consolidated basis is 77%, up from Rs.51 Crores to Rs.91 Crores, of course, inclusive of reversal of some of the deferred taxation. For 6 months, consolidated capital employed, which includes Symphony India and all 4 subsidiaries is just about Rs.176 Crores.

As far as surplus funds in the form of treasury, excluding equity investments in subsidiary as on September 30, stands at Rs. 757 Crores.

So as it was shared and conveyed earlier, we have decided to resort back to 50% payout ratio and starting current quarter, we have increased the dividend payout from 50% dividend to 100% that is Rs. 2 per share on a face value of Rs. 2.

Coming to break up between international sales and domestic sales domestic sales stands at about Rs.337 Crores in 6 months, that is about 60% of the total sales of Rs.564 Crores, while the rest of the sales stands at Rs. 227 Crores, that is about 40%.

So with that, we can go for question and answers.

Moderator:

Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid:

Congratulations for the strong results. My first question is on the domestic cooler market, in the offseason against a weak base and come back to 2 years back level of Rs.195 Crores and grown on that. So if we look in terms of the key drivers for this off take, how would one attribute? Are we seeing the dealer sentiment back to the old levels that they are willing to stock, so some insight on the demand off take, the kind of off-season ordering that you have seen? And within the mix, any particular trends that you would want to highlight from the SKUs on the same line?

Achal Bakeri:

Well, as I said, the sentiment is very positive again. So we have seen our off-season sales and orders as good as they were in 2017 or 2016. So that has been very positive and encouraging. In this last quarter, there has been some sort of a change in the model mix,



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which has been invoiced as a result of which, there would be a somewhat of a decrease in the gross margin, which may by the end of March, by the end of the year, may sort of change. So we do not read too much into the reduction in the margins. All in all, I would say the model mix has been really dependent more on what we have been able to invoice rather than what has been ordered because of our production, because of what we have produced or what we had in inventory. So broadly, we see the sentiment to be as good as in the past, the orders have also been very good, and the margins also are like I said, there has been no significant change at our level in terms of the pricing or discounts that we have offered.

Renu Baid: Sure. Sir 2 things, essentially here, a) there has been no material impact because of the overall liquidity constraint in the market or the general economy per se on your bookings or orders. And second, your comment on mix suggests that by the end of the year, probably, the gross margin should revert back to close to 50% level, the way it typically used to be. Am I right?

Achal Bakeri: Yes.

Renu Baid: You did mention in your opening remarks that even in Australia, some of the portable household coolers, which you are planning to, introduce, they are now broadly ready. So what kind of market should one estimate for Symphony India in terms of exports to the developed world, especially to Australia?

Achal Bakeri: We do not expect it to be a game changer because like I said before, what we are going to be doing is just trialing out some models to with some new customers because they do not even currently have a channel appropriate for this, so they are developing the channel for household coolers. So this is really going to be more of a trial this year. But next year and the year after and the year after that, we should see a significant increase. So like I said, for Symphony India, Mexico is the largest market, not because Mexico is a large market in itself, but because of IMPCO's presence over there similarly because Climate Technologies is based in Australia and is a subsidiary company of Symphony. So in one sense is a captive customer. So because of that, we should be able to see significant increase in sales in Australia, in the coming years, in 2, 3, 4 years.

Renu Baid: Yes. So from a 2- to 3-year perspective, the Australian market, can it be as large as Mexico or probably even exceed the Mexican market exposure that we have?

Achal Bakeri: We think we should at the moment assume it will be about as large as Mexico. If it exceeds, that will be nice.



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Renu Baid: Correct. And the third element would be again related to Bonaire; here we were waiting for certain approvals from the U.S. market to penetrate on that part of the geography with respect to the household air coolers segment there. So how are things developing there for the local U.S. market? And by when should we think that volume should start becoming material to capture some part of the pie there?

Achal Bakeri: Again, like I said that so far, what Climate Technologies had been selling in the U.S. were coolers to its one customer, which is Home Depot and that to only rooftop coolers. They never sold household portable coolers. Now because of the range, the access that Climate Technologies or Bonaire has to the range of Symphony India and Keruilai China, they will be introducing household coolers this year in the coming summer of 2020 not only to Home Depot but also to Lowe's and to Amazon. Now again, in 2020, it will be more like a trial year, but we still expect that by 2020, whether for Keruilai or for Symphony, the U.S. will become one of our largest markets, even in 2020 itself, but in the next 3, 4 years, this should be a significant market, maybe even bigger than Mexico or Australia for household coolers because the market inherently exists. It is just that Symphony never really had a significant presence and Climate Technologies was restricted more to the rooftop models. So now because the range exists and Climate Technologies has access to the range, they will be able to develop that market and those customers. So in the next 3 years, 4 years, we should see this business to be significantly scaled up.

Renu Baid: Probably that will also help the contribution from the subsidiaries to be meaningfully better than what we have seen in the last couple of years, to the overall consolidated performance?

Achal Bakeri: Absolutely. Like I said, Australia is anyway meaningful in terms of topline, in bottom-line also because of value engineering projects, business model revamping there is going to be a significant improvement in its EBITDA and the bottom-line and of course, on top of that, the additional business that it will generate because of the household coolers, that itself will just add to improving that bottom line.

Nrupesh Shah: So just to add to that, of course, in absolute number, international subsidiaries we add, but at the same time, in domestic business and Symphony India is also looking forward a robust growth in medium term. So in terms of absolute numbers, both will register good growth and in terms of percentage-wise, we made in and at about 50-50 or 60-40.

Renu Baid: Right. So just Sir, last 2 questions. A, on this note, how would one want to guide for this year and next year in terms of growth for Symphony India? And second would be more of a bookkeeping question, if you can help where the individual subsidiaries, revenue, EBITDA numbers or PBT, PAT, it would be helpful to just match the performance on a quarterly basis?



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- Nrupesh Shah:** As far as current year or next year is concerned, of course, we have a good visibility for December quarter and December quarter seems to be quite robust for Symphony India, including topline as well as overall profitability margin. Secondly, in respect to your earlier question, even though operating margin or gross margin has slightly reduced, but more importantly and our focus is on maintaining or improving EBITDA margin which is now around 34%. So even in that respect, considering variety of initiatives, we are confident to maintain around that level of EBITDA margin in current year as well as next year. And as far as March or June quarter or a year is concerned, it will have more to do with summer. But again, we feel, at this point of time, reasonably confident.
- Renu Baid:** Right. Just probably a 40% plus growth for the full year should be reasonable that is on a standalone basis 40%, 45%?
- Achal Bakeri:** Over the previous year, yes.
- Renu Baid:** Yes, because last year's base was depressed and first half, you grew nearly 55%, 56%?
- Achal Bakeri:** Yes. So by and large what you can assume is that in FY2020, we will revert back to the numbers of the year before.
- Renu Baid:** Thank you so much Sir. All the best.
- Moderator:** Thank you. The next question is from the line of Nirav Vasa from Anand Rathi. Please go ahead.
- Nirav Vasa:** Thank you for the opportunity. My first question pertains to the new business segments that we are trying to cater in the domestic market that is commercial and the industrial segment. So Sir, would it be possible for you to share some kind of color with regards to the market potential across both the segments and what kind of growth levels can we expect on sustainable basis, maybe because we are getting into this newer markets. So at initial level growth might be very, very high. But what can be the growth can we see on sustainable basis?
- Achal Bakeri:** A very general question. I mean difficult to answer, to be honest because like you yourself said the initial years, we will see great growth. But after that, what it will be it is a little too premature for us to speculate. I really wish we had an answer. Because it is such a blue sky saying that at this point, we could be completely taken by surprise positively. So at this point, it is difficult to answer.



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Nrupesh Shah: Sorry to interrupt, in the respect of commercial range of air cooler, the major initiative, which has been taken earlier on a trial basis, we used to import from China and sell it here, which used to attract custom duty, and there used to be also a long lead time. So considering the response and potential starting current year, we are getting it manufactured in India itself, which has helped substantially in respect of not only custom duty, but also cost in response time and lead time and hence, it is also witnessing very buoyant response.

Nirav Vasa: Get your point, Sir. Now in the industrial segment, as we have started the trial marketing, and we are trying to test the market which are the industries if you can share where we are doing this kind of trial testing on marketing? Or what are the industries which we are trying to get ready initial phase?

Achal Bakeri: See, these products are new. And for the first time, they will be made in India, but we have been selling similar products like I said in my initial remarks, which we brought in from Mexico first and then China later. So we have done more than 2,000 or more - installations, I do not mean 2,000 coolers. I mean 2,000 projects, where our coolers have been installed, and they cut across the range of industries, engineering, pharma, textiles, educational segments, religious segments, movie theaters, that cuts across all kinds of segments.

Nirav Vasa: Get your point. Sir, my last question would be, as I understand, after becoming a dominant player, we are increasingly focusing on newer geographies. So like any other new geography that we intend to cater now maybe like Middle Eastern countries or some other countries where we intend to expand our presence, maybe either through some acquisition or by getting some channel partners who can do actually our exports and manage our brand or work on it there?

Achal Bakeri: Well, we are, in one sense, present in almost every geography, and in each of those geographies, there is potential for scaling up and that has been an ongoing process so far and will remain an ongoing process going forward so again, nothing dramatically different. Like I said, the only big thing is that we have now taken major strides in developing the Brazilian market by establishing our own company over there, which we will warehouse and be able to sell coolers locally. That will help us in scaling up significantly. Other than that, whether it is the Middle East or Southeast Asia or Europe or Latin America, we are there. We are already present in most countries of any substance, and we will only scale up there.

Nirav Vasa: Thank you, very much Sir.

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



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- Naveen Trivedi:** Congratulation on a strong recovery in the first half. Sir, my question is on considering, first half you have done a robust recoveries and even in the second quarter, our domestic businesses grown by 33%. So if you can comment about how the trade inventory is there? Is it like at par with the average or is it lower than the average?
- Achal Bakeri:** Trade inventory is now fairly clean, which is why we have seen this robust growth in the off-season, because last summer, everybody pretty much sold out whatever they had and if there was, like I said if someone had some excess inventory and someone else needed something, so rather than the company invoicing to them, we made sure that the one with the inventory sold to the one who needed additional inventory. So by doing that, we sort of made sure that the channel is very clean.
- Naveen Trivedi:** Considering in the last quarter commentary, you were saying that the inventory is historically low and I think as you just reasoned that even if I look at your numbers in Q2, it seems that the inventory levels are still lower than your average you can deliver during the second quarter.
- Nrupesh Shah:** Last quarter or end of June quarter, which was end of season. So end of season in the trade, there was negligible or 0 inventory vis-à-vis June 2017 or June 2018. And hence, that has really led to very robust collection in off-season. Secondly, as of now, whatever trade has lifted, by and large, it is meant for summer season. So as per the normal trade practice, they sit on this inventory for a couple of months, but they get this at a very decent price. But as far as we are concerned, it is with 100% advance. So obviously, at this point of time, there may be some inventory, which is in line with earlier years. But it is absolutely normal.
- Naveen Trivedi:** Fair point and with respect to your gross margin, I can understand that last season was bad. There was an adverse market mix and the product mix was there. I just need to understand that considering this quarter our margins has gone down. Has it led to some technical promotions to improve the sentiments of the trade, so that third quarter onwards we may see a jump up in the gross margin? Or do you think that only in the season time, the margin will improve?
- Achal Bakeri:** No. this is, by and large, because of the model mix. Model mix, that to not which has been ordered from us, but which we have been able to produce and deliver. So it is really more a function of that. There has been no significant change as far as Symphony's selling price or discount structure are concerned.
- Nrupesh Shah:** By March, by the end of the year, this may change also, so one should not read too much into this at this point. And despite that what matters the most that is about the EBITDA margin. So despite that having an EBITDA margin in excess of 34%, in line with one of the



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best EBITDA margin of earlier years that itself indicates and shows that robustness of the business model and a variety of initiatives, so as I mentioned earlier, in the respect of EBITDA margin of about 34%, we feel it should be maintained around that level and if gross margin improves, it may further improve. Not only that at level of profit after tax that is spent due to reduction in income tax, it is going to be even higher.

Naveen Trivedi:

Nice one, Sir. Just lastly, considering Australian seasonal will start, can we expect that the trade inventory there is normalized this season, considering last season, last season was the first season post acquisition. Do you think this season, trade inventory side, it is absolutely normal prior to the season? And the kind of 8% to 9% kind of a guidance, EBITDA margin guidance, which we had given during the time of acquisitions, those are the numbers, is it still doable in this season?

Achal Bakeri:

Okay. First of all, as far as trade inventory over there is concerned, it is very much normal. There, the product range is not such that trade buys a lot of inventory before the season and may get left with a lot of inventory if the season is not good. That does not happen in Australia because the nature of the business is different than India, number one. Number two, as far as our initial estimates or projections that we had given at the time of acquisition, would be very much something that we will deliver. The first year was different. But going forward, we will absolutely be able to deliver what we had expected a year and a half ago.

Naveen Trivedi:

Thank you. All the best to you.

Moderator:

Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora:

Sir, I just wanted to get a color how we look at because when we acquired a company, which was making Rs.17 Crores, Rs.18 Crores EBITDA which actually turned a loss making. Is it possible to throw some color where we stand in terms of our guidance, what is our EBITDA, I think it would be an EBITDA loss if I am not wrong in this quarter. If you can throw some light on the subsidiary performances, that would be helpful?

Nrupesh Shah:

Okay. So for half year ending September 2019, IMPCO's top line stands at Rs.65 Crores versus Rs.57 Crores in September 2018. EBITDA stands at about Rs.6 Crores versus Rs.7 Crores. PAT stands at Rs.4 Crores versus Rs. 6 Crores. Coming to GSK, China, topline is down from Rs.36 Crores to Rs.29 Crores, partly because of commercial coolers, earlier which Symphony India used to import from GSK and partly on account slowdown in China, as mentioned earlier, hardly any new factories are coming up, so it had impact



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industrial segment. EBITDA level, it stands at positive Rs.1 Crore and at PAT level it is negative Rs.2 Crores.

Coming to Symphony Australia, it is Rs. 121 Crores for 6 months ending Sep-19. While for the quarter, it is Rs. 52 Crores (Sep-19) versus Rs. 56 Crores (Sep-18). Previous year, our consolidated numbers for Australia for 6 month ending Sep-18 was about Rs. 56 Crores because April to June quarter was not consolidated.

Coming to EBITDA for 6 months, it is Rs.6 Crores (6 months ending Sep-19) versus Rs.1 Crores (Sep-18 quarter). There is an interest cost on acquisition loan of Rs.3 Crores, depreciation of about Rs.6 Crores and there is some reversal of deferred taxation, so at a PAT level, it is positive Rs.2 Crores versus Rs. 0 crore. At a cash level, it is positive of Rs.7.4 Crores and before acquisition interest cost, it is positive of about Rs.10.7 Crores.

Obviously, when we publish standalone numbers and consolidated numbers, consolidated numbers take into account these numbers, plus intercompany transactions.

Nitin Arora:

When we acquired this company, we stated high-growth guidance. Where do you look at now, considering that we are only in the single-digit EBITDA back? So do you see that there are still 2, 3 quarters more, where you will see this EBITDA and then you might start growing in a 2 Crores population in Australia? Or do you think it's more or largely done, and you can see the summer season itself and can bring you to the double-digit EBITDA side? That is my last question.

Achal Bakeri:

As far as the Australian market is concerned, the bulk of the growth will come from the introduction of household portable coolers from India, which it had never sold. There already is a market in Australia for those coolers, but CT had never been present in those markets, in that category. So it will by and large growth will come from that. Secondly, whatever, in its existing product portfolio of coolers, heaters and air conditioners, there will be some organic growth in the sort of the low double-digits, but the real opportunity for us is the U.S., where I said, the market is large and our presence is very small. So the real opportunity for growth is in the U.S. So this is as far as sales are concerned. We have various value engineering and overhead reduction initiatives in progress. In fact, we are revamping its complete business model because of which, at the EBITDA level, it should do much better. The growth in EBITDA will be much better than the growth in top line. And the impact we expect to be in next year of about AUD 6 million to AUD 8 million, just the impact of value engineering and overhead reduction.



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- Moderator:** Thank you. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead. Sir, it seems participant line is disconnected. We will just move to the next question, which is from the line of Neelesh Wagle from Suyash Advisors. Please go ahead.
- Neelesh Wagle:** Sir, you have done well this year to get back to the peak of FY2018, and that is very commendable. My question relates to the opportunity in the CC and IC parts of your business. We have been waiting for a long time for the Industrial businesses to scale up for you to penetrate the large market opportunity that exists. This is the first time I heard you very excited about innovation done in these segments, patents you are filing, the SKU program and all of that. So when should we expect, say, next 2 years, that the CC and IC businesses start generating meaningful delta for the overall business? Otherwise, currently, as I understand, Symphony essentially remains largely an HC company. Is that a fair assumption?
- Achal Bakeri:** Your assumption is absolutely fair. So far, we are largely an HC company. And in the next 2 years, we do expect the CC and the IC business substantially more meaningful.
- Neelesh Wagle:** This number of HC and IC would currently be less than 5% and by when do you expect this to be say 20% of revenues?
- Nrupesh Shah:** It is certainly more than 5%, and considering a variety of initiatives, which we have undertaken and also some new range of models in commercial as well as IC we have launched, hopefully, in the medium term, it should reach to that level.
- Neelesh Wagle:** By medium term, you would say 5 years?
- Achal Bakeri:** No, 2 or 3 years, let us say, 3 years.
- Moderator:** Thank you. The next question is from the line of Mayur Parkeria from Wealth Managers. Please go ahead.
- Mayur Parkeria:** Congratulations on good set of numbers to the entire team. So Nrupesh bhai, before I go to the question, just one small clarification. The published results of consolidated segments, it seems there is some error in the capital employed number. So just wanted to clarify because the assets are Rs.551 Crores and the liabilities are Rs.571 Crores, but capital employed is showing Rs.100 Crores positive.
- Nrupesh Shah:** At a consolidated level, capital employed includes acquisition loan taken. But at the same time, on a stand-alone level, we do have advances received from the trade, so you would have observed that on a stand-alone level, there is a negative capital employed of Rs.58



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Crores, it is based on monthly opening and closing capital employed numbers. If you wish to understand, workings can be shared by Girish bhai or Bhadresh bhai offline.

Mayur Parkeria: My next question was relatively more on the CC rather than industrial coolers because that was a segment which we have launched now. And so if you can give some more qualitative color, Achal bhai, as to how you are seeing the market response to that because that is one which and will there be some cannibalization to some extent from the IC in the medium term, till people go to the IC can CC be a substitute for that? And how is the sales and marketing shaping up? Which are the more focused areas in the near term in the next 1 year for CC and how you are looking at it?

Achal Bakeri: There are products available for commercial coolers, but they're all unorganized sector. So these are all big metal coolers somebody will order and will be tailor-made for some factory or something like that. So while the market exists and there are unorganized sector players in the category, there is nobody in the organized sector. So our range is expected to cater to those kinds of requirements.

Now as far as IC is concerned, and you talked about cannibalization, it is a fair point. There could be some cannibalization, but at the same time, the capacities are different and what they deliver is also different. So there could be some cannibalization. But really, it does not matter because as long as it is a Symphony that is being sold.

Mayur Parkeria: All right. But the supply chain will be completely different for this compared against the dealers, distributors and even for CC, I am not talking of IC, but even for CC?

Achal Bakeri: In CC, there may be some overlap with the household cooler channel. There could be some overlap because some of them in some traditional markets also sell such coolers, but there will also be some overlap with the IC channels. So there will be some overlap with both channels as far as CC is concerned.

Mayur Parkeria: In China, the e-commerce means, we had more feet on the ground as far as residential coolers in China was concerned and even partnering through e-commerce player in China. Wasn't China supposed to be fairing a little better than the reported numbers?

Achal Bakeri: In e-commerce, in China, we also had some sort of leadership issues over there. But we have a new team in place over there and now in the last 2 months and hopefully, they would be able to sort of fulfill our expectations going forward. But yes, in China, we too are disappointed. We had expected the business to be much better than it is, no denying that. By and large because of some sort of people issues, that seems to be something which is uniquely Chinese, where there are sort of the stability and those kinds of issues.



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Moderator: Mayur, I am sorry to interrupt. We request you to come back in queue for follow-up questions. The next question is from the line of Manoj Gori from Equirus Securities. Please go ahead.

Manoj Gori: Sir, I want to just touch on one thing. So you have spoken a lot on competition in domestic market for long, but if you look at earlier commentary that you used to talk like your competitors are not able to sell or are not able to do much volumes during off-season, especially September and December quarter. But recently, there have been few competitors who have been doing that, so any view from your end on this competition like how it can pan out?

Achal Bakeri: Yes, up until now, our competitors were going around and telling the channel that why are you investing in off-season, why are you blocking up your capital and your warehousing space in the off-season. So they were, in fact, trying to dissuade people from this and trying to sell what Symphony does. But obviously, our channel understands that this is something which is important if one has to remain in the business. And so our competitors' claims were not resonating with the channel. That is when the competitors also realized that they also need to sort of do something similar. So they have attempted to do something similar. And they may have also sold something in the off-season.

But then again, their channel is different from our channel in the sense that it is not that their sales is coming at the cost of Symphony sales. Their distributors are different entities than ours and ours are different from theirs. So if they have managed to do some off-season bookings, which we know is not remotely close to what we have done is something which then is really does not affect Symphony in any significant manner.

Manoj Gori: So despite all such activities our market share continues to remain intact?

Achal Bakeri: Absolutely.

Manoj Gori: So if you look at last quarter we had a very positive start from July onwards despite the subdued environment. So same is the trend during October as well, for the first half of November?

Achal Bakeri: Yes, the macro has not changed significantly in the last 3 months. But our outlook remains the same as well, has not changed either.

Moderator: Thank you. That was the last question. I now hand the conference over to Mr. Abhineet Anand for closing comments. Please go ahead.



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Abhineet Anand: I would like to thank the management for giving SBICAP Securities the opportunity to hold this call. And I would like to thank all the participants who participated for the call. Thank you.

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