

**“Symphony Limited Results Conference Call”
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with

Trust financial consultancy Services private Limited



COMPANY REPRESENTATIVES

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Moderator: Ladies and gentlemen good day and welcome to the Symphony Limited Q1 FY12 Results Conference call hosted by Trust Financial Consultancy Services Private Limited. As a reminder for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Nrupesh Shah of Symphony Limited. Thank you. And over to you, sir.

Nrupesh Shah: Thank you. This is Nrupesh Shah from Symphony Limited. Along with me there are my other colleagues, Bhadrash Mehta -- Vice President, Finance, Mr. Chandrakant Gandhi, our Company Secretary and Head of Legal and our other senior colleagues. So, I am delighted to addressing our first ever quarterly analyst conference call.

Our conference call or any discussion may contain forward-looking information and statements and we do not guarantee that they will be realized or they will be accurate even though we believe that we are prudent in our assumption, so we disclaim about any of our forward-looking statements.

Now coming to our first quarter results, ladies and gentlemen, our first quarter of course as all of you maybe aware Q1 and Q2 are as such off-season for us and in first quarter we have registered a gross revenue of about 30 crores Vs. 24 crores of corresponding quarter of last year, registering 24% revenue growth. EBITDA, it is 695 lakhs Vs. 392 lakhs registering 77% growth. And in terms of the percentage it is 24% of the gross revenue versus. 17% last year and PAT wise it is 440 lakhs Vs. 237 lakhs. So, in absolute amount registering 85% growth.

As we have been in a position to liquidate substantial inventory and also realize the receivable, our cash bank and liquid investments are almost doubled to what we were having as on 30th June '11 and our weighted average realization of Air Cooler sale price in the first quarter has been 4,557 Vs. 4,604, almost at the same level.

Coming to our very specific sales break-up details, in the first quarter there has been a decline in the sales of geysers because we have focused late and we have hardly got new, geysers manufactured, so, in geysers there is a decline in sales from 317 lakhs to 125 lakhs. In Air Cooler which is our bread and butter and main product, the increase in sale is from 19.29 crores to 26.81 crores, that is about 39% increase in sales value, This is despite the fact that

last summer was weak and still we have been in a position to achieve this healthy and air cooler sales value growth. But again, we need to keep in mind that there is an increase in profitability on account of foreign exchange fluctuation gain of 250 lakhs, out of which 234 lakhs is on account of unrealized foreign exchange gain on export receivables and loans and advances granted to the subsidiaries.

Again, heartening point of our performance is material consumption percentage, that is raw material consumption plus increase or decrease in stock. We have succeeded in maintaining at the same level, that is at 48%. But if we consider the operational profitability that is excluding foreign exchange fluctuation there is slight decline, the reason being in the current quarter and the last quarter of the last year we have enrolled many people in domestic sales, in industrial and heavy duty air cooler segment and also in international business. Now, we are having a much larger international business team and also having our own people in about 7 countries, and that is why cost of employees have increased by 46% from 257 lakhs to 376 lakhs. Similarly, in selling and distribution and other expenses, there is an increase again on account of increase in headcount and also on account of holding the inventory because of which there is increase in rental cost as well as CFA commission.

Coming to very quantitative aspect, total Air Cooler sales quantity wise, in the first quarter we have sold about 58,800 Air Coolers Vs. 41,900 of last year. That is quantity wise the growth is about 40% and break-up of domestic market and export market wise, we have registered sales of about 48,000 Air Coolers in domestic market Vs. 35,000 last year, and in export market it is about 10,900 Vs. 6,800 last year.

In the first quarter we have come up with two new models in the Desert category which are called as a Storm category and they can cool much larger capacity of the area; one is about 700 Sq. Ft. having MRP of about Rs. 12,000 and another model is again Storm Large having cooling capacity of about 1,000 Sq. Ft. and MRP of about Rs. 15,000. We have already started booking of these products but actual delivery in sales will start from November.

Again, first quarter being an off-season and other than Symphony, most of other players are not in a position to sell, so our market share in the first quarter is more than 70%. Same was the case last year also in the first quarter but year as a whole our market share was about 45%.

About future outlook, industry is growing by 30% and we expect that healthy industry growth should continue and accordingly, we should continue our growth momentum. In terms of the distribution network, we expect number of distributors to increase from 550 to 800 plus in next

12-18 months' time and a number of retail dealers to increase from 10,200 to 20,000 plus, again in 12-18 months' time.

About future revenue and profitability, we expect company should reach to top-line of around 500 crores by June 2013 and we feel that in current scenario, profitability margin should be maintained at the current level.

I am done with my brief presentation and numbers and details. We will be delighted to take your questions.

Moderator: Thank you very much sir. We will now begin the question and answer session. Participants who wish to ask a question may press '*' and '1' on their touchtone telephone. If you wish to remove yourself from the question queue you may press '*' and '2.' Participants are requested to use handsets only while asking a question. The first question from the line of Nayan Mehta from 21st Century Shares. Please go ahead.

Nayan Mehta: Sir, I just wanted if you can provide the consolidated numbers for the same.

Nrupesh Shah: Of course, we are not having consolidated numbers. But what I can tell you about Impco Mexico Q1 and Q2 are absolute off-season and unlike India, still we have yet to initiate various strategies to register the sale in Q1 and Q2. So essentially Q3 and Q4, that is January to March '12 and April to June '12 should register around 85-90% of the sale. Q1 and Q2 are absolute off-season there.

Nayan Mehta: I missed out on the cash part on the balance sheet if you can just --?

Nrupesh Shah: Cash and cash equivalent are now almost twice the amount compared to what we had as on June '11, so it is close to 33 crores.

Moderator: Thank you. The next question is from the line of Nandeep Karande from Brics Securities. Please go ahead.

Nandeep Karande: Sir, I just had one question. Historically, when you give out your numbers your second half has been very strong throughout but last year we saw some of your revenues coming into first half, so the break-up was roughly 40-60. So, has there been any change in the way you book your revenues or has there been an impact of slow sales in the June quarter or there are some other strategies that you are adopting to get a good sales in first two quarters?

Nrupesh Shah: Part of your question has answered your question. Relatively, slow summer has resulted into low sales in Q4 of last year, that is how in the first six months registered 40% and last six months registered 60%. But apart from that, for last two, three years, Symphony is adopting various market strategies whereby it is trying to prepone the sales in domestic market and apart from that it is trying to spread its wings in international business also, that is how at least on a standalone basis, first two quarters are registering reasonable growth and a couple of years before first two quarters used to contribute hardly 10, 15% of the sale, now, they should contribute according to anything in the range of 25-35, 40% of the sales.

Nandeep Karande: Just to take it on forward, since you said Q4 was a bad quarter due to monsoon, I just want to understand that inventory levels that you are holding currently, how much is it in terms of volume terms?

Nrupesh Shah: As on June '11 we were holding close to 42 crores of inventory and now we are holding inventory worth of around 33 crores. And this is inclusive of some fresh production for some material and model mismatch.

Nandeep Karande: And sir just one more, just wanted to understand your business on the US side, what exactly is the kind of business that the Impco does and how are things on ground in terms of progress and revenue and profitability?

Nrupesh Shah: Impco is based out of Mexico, having its manufacturing facility in Monterrey in North Mexico and in turn Impco Mexico is having a subsidiary in US. They are mainly selling in North America, that is in Mexico and US and its 65% sales is out of centralized and heavy duty Air Cooler and remaining is from Room Coolers.

Nandeep Karande: And how are things looking on, in last six months or so, how is the progress with that subsidiary?

Nrupesh Shah: When we acquired that company it was almost in a hopeless state, it was incurring heavy losses on a much larger turnover, post-acquisition, we carried out major restructuring in terms of its cost structure, in terms of the product structure and whatever was non-profitable and non-remunerative business we curtailed some part of that and even in terms of the value engineering we have done a lot and that is how we would have absorbed that as on June '11 even on a standalone basis, Impco posted decent numbers.

Moderator: Thank you. The next question is from the line of Kirti Dalvi from Enam Asset Management Company. Please go ahead.

- Kirti Dalvi:** A few questions. You did mention that our inventory was as of 30th June around 42 crores. If I am not wrong it was 70-odd crores?
- Nrupesh Shah:** 70 crores was on consolidated basis, around 42 crores on a standalone basis and right now we are referring standalone numbers.
- Kirti Dalvi:** Second thing, so do you have any details on consol balance sheet?
- Nrupesh Shah:** We do not have details on consolidated balance sheet but as I mentioned earlier in Impco Mexico first two quarters, that is September quarter as well as December quarter hardly contribute anything, it just contributes to overhead. In terms of the business it is around 85-90% its businesses generated in third and fourth quarter.
- Kirti Dalvi:** And sir, our cash has improved so is it that we save only on the inventories or even our receivables have improved?
- Nrupesh Shah:** Both. It is on inventory as well as receivable.
- Kirti Dalvi:** Could you just give us the receivable figures as well?
- Nrupesh Shah:** Our receivables reduced from 15 crores as on 30th June '11 to about 4.65 crores.
- Kirti Dalvi:** And sir, if you could help us with a breakup on between residential as well as industrial and heavy duty Air Coolers?
- Nrupesh Shah:** Sure, about heavy duty and industrial Air Coolers that these are segment to which we have entered very recently in India. Till 31st of July we didn't even have separate set of people. Only in last two, three months we have created a separate wing. And we commenced installation of heavy duty machines with Baba Ramdev's Ashram a couple of months before. So, as of now, there is nothing significant.
- Kirti Dalvi:** Coming back to our production base like say OEM manufacturing, are there any plans to increase that capacity?
- Nrupesh Shah:** We did have just two OEMs three years before. And a number of OEMs increased to 6 last year and now we are having 8 OEMs. And total production capacity three years before of all OEMs put together was hardly 1 lakh pieces. Today, combined production capacity of OEMs is 1 million unit and this is over and above the SEZ unit with which we have come up having a

capacity of 2 lakh units and we are in a position to scale up the capacity if required so very quickly without any major CapEx.

Kirti Dalvi: Sir, in terms of these two OEMs we got it in this quarter?

Nrupesh Shah: Two OEMs we got it in current quarter that is right.

Kirti Dalvi: So, any further plans by say FY12 end, how many OEMs are, what kind of target capacity we are expecting?

Nrupesh Shah: As of now, we are not targeting to increase any OEMs. We feel that to take care of June '12 requirement, current number of OEMs and capacity is adequate.

Kirti Dalvi: So 1.2 million approximately is currently your capacity?

Nrupesh Shah: The total capacity.

Kirti Dalvi: So, there is not much CapEx happening this year as well?

Nrupesh Shah: That is right. And even otherwise also, if we keep on adding OEMs in our business model it does not require any major CapEx.

Kirti Dalvi: So we are on target for the current year what we were saying earlier 30-odd per cent growth for the current year, it is pretty much achievable given the current plans?

Nrupesh Shah: What I said was industry is growing at 30% and we expect to grow industry at that level and if industry is doing at that level we should maintain our growth momentum.

Moderator: Thank you. The next question is from the line of Kiran Vora from Mayur Share Broking. Please go ahead.

Kiran Vora: Sir, I would again come to the inventory. As you say on June '11 where the inventory of 42 crores and as of now also we have only disbursed around 25% of the inventory. So we are still holding 75% of the inventories. And also we are giving a discount of around 25%, I was seeing the advertisement on the TV, so will this affect our margins bottom-line?

Nrupesh Shah: Number one, in absolute value you are right, we have reduced our inventory by 25%. Our total material consumption is close to 13 crores. So, it is also like that. For some of the models we wanted to keep adequate stock, in some of the models we have procured fresh inventory.

Number two, you would have seen that our material consumption percentage that is increase/decrease in stock and consumption of raw material both put together, first quarter of last year and first quarter of current year both are 48%, along at the same level. What you are referring is a 25%, that is our current TV ad campaign going on for the month of October, that is essentially out of the dealer and distributor margin. So dealers and distributors are getting decent discount in the first and second quarter which has reflected in our performance and they have to pass on this discount to the customers, so no way that is affecting our realization. But if at all, it may help in secondary sales.

Kiran Vora: I would like to know more about the Impco and the future prospect of Impco, if you can give some idea, what are the future plans and how you are planning to expand overseas?

Nrupesh Shah: About Impco, it is having excellent set up for industrial and heavy duty Air Coolers, I think one of the best technology and production facility. Manufacturing 100% in-house quite opposite to our Indian model and in that category it is doing extremely well, product wise in North America. Number one, we have already launched that product category in India in which we were absent and till we reach to a critical mass we will like to continue to import industrial and heavy duty Air Coolers from Impco, Mexico and sell over here. Number two, Impco's US and Mexico, 30, 35% sale is out of Room Coolers, that is the coolers which we sell over here and we are increasing the trade network over there and we are planning to have a healthy growth in that product category in North America.

Moderator: Thank you. The next question is from the line of Grishma Shah from Envision Capital. Please go ahead.

Grishma Shah: I just wanted to know two things; one, we had close to 1.66 lakh units in terms of our inventory at your end. So can you also specify now at the quarter end how much are we holding on to?

Nrupesh Shah: Roughly, 1,20,000 units.

Grishma Shah: And what are the plans do you know then to sell this off, are we targeting the export market more aggressively, how are you planning to --?

Nrupesh Shah: Plans are to do the normal business as we are doing and we expect that in November-December our inventory should be at a normal level. It does not require anything special.

Grishma Shah: Sir, the other question is related to your consolidated results at the end of the year for you the financial year, your inventory was close to 70 crores in the June quarter end. Now that there

was a substantial increase there. And if I look at the year-end results from the standalone basis also you had an increase in inventory which was due to the delayed summer. So now I do not understand the reason for increase in the consolidated inventory if you could help me with that?

Nrupesh Shah: At a consolidated level on June '11 Impco was holding inventory worth of 28 crores comprising of industrial Air Coolers as well as Room Coolers and at Impco level, considering their business model, there is a normal level of inventory and that is how it will continue maybe a few crores here and there. So, at Impco level in terms of the inventory it will continue in that way and about receivables for Symphony on a standalone basis whether in domestic market or in an export market, whenever it is to the dealers and distributors we sell on cash and only through modern trade or organized retail we sell on credit terms as per their norms. In respect of Impco, their credit norms are normally in the range of 45-90 days because their most of the sales take place through modern trade. So in their case also, they will continue the kind of receivable they are having.

Grishma Shah: The other question is the other expenditure during quarter has almost doubled if one has to look at the YoY basis, could you help us why that has increased?

Nrupesh Shah: Number one as I mentioned earlier we have increased the headcount substantially especially in domestic market, international business and also on service front apart from few technical people. So, the overhead is related to them other than salaries such as overhead is related to traveling, communication and other expenses, that is part one. And part two, some rental costs for holding the inventory because as of now we are holding some higher inventory, rental costs is also on higher side, so a combination of these factors has resulted into almost 100% increase in other expenditure.

Grishma Shah: And have we produced anything from our new SEZ unit?

Nrupesh Shah: Yes, we have produced but not much. The reason being most of the exports what we made in the current quarter we deem it appropriate to liquidate out of our own inventory. So we have produced very few units from SEZ but starting from November, we expect SEZ to be substantial quantity and as of now, SEZ has already started producing around 500 units a day.

Grishma Shah: Sir, considering that we have 1.2 lakh number of inventory still with us, why are we manufacturing these 500 units from the SEZ, is there an order or something or these are different models that we need to manufacture?

- Nrupesh Shah:** The orders on which we are sitting for that we do not have much of the inventory.
- Grishma Shah:** So that you will have to manufacture and this will be specifically going to Impco side?
- Nrupesh Shah:** It is to Impco and apart from Impco some other export business also.
- Moderator:** Thank you. The next question is from the line of Ruchak Mehta from Parag Parikh Financial. Please go ahead.
- Karthik:** This is Karthik. Sir, just wanted to know a couple of things; first of all I understand we are exporting 80-82% of our Coolers from the domestic market we get the revenue and from export is around 18-20%. So how are the margins in both the segments?
- Nrupesh Shah:** In terms of the percentage our margin is almost the same. The export is low the reason being in export it is not subject to excise duty, VAT and other cess.
- Karthik:** So margins in exports are a little bit higher?
- Nrupesh Shah:** Percentage wise it is almost the same. In absolute amount it is slightly lower.
- Karthik:** But considering the brand what we have do we not get brand premium in India compared to export markets?
- Nrupesh Shah:** In Export market also our 100% sales take place under Symphony brand only. We do not sub-brand or we do not supply to OEMs in export.
- Karthik:** And within India if you can just guide me like how much is coming from rural, Tier II, Tier III, IV cities and from urban side in terms of volumes?
- Nrupesh Shah:** Do not have exact breakup as of now, but we believe that we call Tier I that is the cities having a population of 1 million plus, almost 30% and rest is from Tier II, III, IV.
- Karthik:** And rural?
- Nrupesh Shah:** Tier III, IV I understand is rural.
- Karthik:** And are we done with most of the recruitment, have you already added people or are you --?

- Nrupesh Shah:** Done with most of the recruitment but in international business we may add some more people in few more countries. So in international business probably we will add couple of more people.
- Karthik:** And sir just wanted to know what is our net ForEx exposure, like we are exporting as well as we must be importing some of the component, so net-net or else --?
- Nrupesh Shah:** As of now, our export receivables plus loans and advances even minus import payable should be in the range of \$6-7 million is a net receivable, net-net inclusive of loans and advances.
- Karthik:** And the last question sir, on the industrial cooler side, if you can just throw some light what are the applications that you have given some idea about that you sold it to Baba Ramdev, so majorly heavy duty cooler industrial applications are derived from which segment per se?
- Nrupesh Shah:** As terminology suggest, industrial air coolers can be used in various industries. Number one, there are some specific industries which does require moisture or humidification like some of the textile applications, dyes and chemicals, etc. And secondly, it is also for the general comfort whereby this is a much economical substitute to air conditioning for better working conditions. So for that matter, any and every industry or a factory is a prospective customer. About the large commercial space, that is large halls or warehouses or some of the commercial space, there are also the target customers. And third is the large residential houses whereby where we can have heavy duty centralized air-cooling and as of now there are a couple of local players which cater into the domestic market.
- Karthik:** Sir, I understand that we are very strong into Room Coolers and we just entered into industrial side in India per se. And in overseas market it is almost reverse. Like they are very strong into this industrial side and just 35% of the revenue comes from the room coolers. So it is a complimentary to each other. So, what is your strategy in the domestic market going ahead particularly for the industrial coolers side like what sort of growth you are targeting and what sort of strategies you are adopting for that?
- Bhadresh Mehta:** In the domestic market we are targeting good growth for industrial coolers but as we have just begun, it will take some time to pick up. So until that we will have to wait and watch for the industrial coolers to make a good big numbers. But there is far bigger potential lying for the industrial coolers in India that is what we believe, We have created our team and we are basically tuning up them and we have good number of enquiries from the market in this regard.

- Moderator:** Thank you. The next question is from the line of Rishi Gupta from CRISIL. Please go ahead.
- Rishi Gupta:** It is Rishi Gupta. First of all in terms of exports, our exports have grown by close to 57%. What percentage of exports is to Impco?
- Bhadresh Mehta:** Exports to Impco is nearly 40% of the total exports.
- Rishi Gupta:** Vis-à-vis last year same quarter?
- Bhadresh Mehta:** Almost similar.
- Rishi Gupta:** In terms of production level what kind of production level are we currently having or what kind of coolers are we producing?
- Bhadresh Mehta:** As far as exports are concerned, for various coolers in different countries we do not have much stock of those kind of coolers and they are being manufactured. As far as domestic coolers are concerned, some of the models for which we have good quantities we selectively produce them based on the need.
- Rishi Gupta:** So are you producing primarily the products for exports? So is that being done from the SEZ or the OEMs itself --?
- Bhadresh Mehta:** Basically, whatever inventory we have, for those models we do not produce much, we have slowed down the production for those kind of inventories, but there are some new models also, like "Storm" : that is, Storm 70 and Storm 100, for which we have also good enquiries and for that the production is in full swing.
- Rishi Gupta:** In terms of our receivables and loans and advances to Impco, what would be the current outstanding number?
- Bhadresh Mehta:** It is approximately 24 crores.
- Rishi Gupta:** When do we basically foresee this coming back especially the loans and advances, do we foresee --?
- Bhadresh Mehta:** Approximately about 2-3 years' time. It all depends on how fast the Impco can grow. We are tuning up Impco and we are hopeful that same should come within this time-frame.

- Nrupesh Shah:** And just to add to that after acquisition, we have made Impco also completely debt-free company. So right now whatever funding we have done to Impco essentially is our working capital funding. Otherwise, on a net worth level, Impco is already a surplus. So essentially if Impco's top-line increases substantially, probably there maybe a working capital funding requirement and our loans and advances to Impco does carry interest rate as applicable under transfer pricing guideline of income tax.
- Rishi Gupta:** Sir, in terms of foreign currency movement, the US dollars has appreciated quite a bit, so would that be a beneficial to Impco considering the facilities outside US?
- Nrupesh Shah:** In fact, vis-à-vis US dollar Mexican Peso has strengthened.
- Moderator:** Thank you. The next question is from the line of Kiran Chheda from Value Quest Research. Please go ahead.
- Kiran Chheda:** Sir, the guidance of 500 crores that you have given, is that on standalone basis or on the consolidated basis?
- Nrupesh Shah:** It is on a consolidated basis.
- Kiran Chheda:** And sir what margin around do you expect on this?
- Nrupesh Shah:** We expect that by and large the same margin what we achieved in '10-11 we should be in a position to maintain at that level barring unforeseen circumstances.
- Kiran Chheda:** And in this quarter you have published standalone results and as you said and I understand that the Mexican subsidiary does not have any business to talk about, but going forward, in Q3 and Q4, what would be our strategy, would we be publishing the standalone results or the consolidated because that would be a substantial part of the --?
- Nrupesh Shah:** Till that is what look appropriate that in one quarter we publish standalone in other quarter we publish consolidated that too considering seasonality of the business of Impco Mexico and that too their books of accounts are maintained in Spanish and again to be translated in English. So believe that it is very appropriate if we consolidate them on a yearly basis.
- Moderator:** Thank you. The next question is from the line of Jehan Bhadha from Dara Shaw & Company. Please go ahead.

Jehan Bhadha: Sir what are the industry dynamics in terms of organized versus unorganized market share and what is the trend? And secondly, I also read some media reports that Air Cooler industry is declining every year for the past few years mainly because of people migrating to ACs, so, what are your comments on this, both the things?

Nrupesh Shah: To answer your second question first, we are happy with the report so that probably competitors will come but in reality that is not true.

Jehan Bhadha: And on the organized and unorganized market share?

Nrupesh Shah: And secondly, we do have some statistics and figures which on the contrary show that over a period of last couple of years the ratio between air-conditioner sales and air cooler sales is in the favor of air cooler. So, that does not seem to be a correct logic. And industry performance and our own performance of the last couple of years also probably prove that. Number two, the industry dynamics in respect of organized and unorganized market when Symphony ventured into air cooler, 100% market was dominated by unorganized market, there was no organized player, As of now, value wise, organized and unorganized market is almost 50-50% and quantity wise, organized market is contributing about 30, 35% and Symphony market share in organized market is close to 45%.

Jehan Bhadha: And when you said that the industry is growing at 30%, so you would have referred to the organized market, right?

Nrupesh Shah: Absolutely. And 30% is on account of increase in size of it and also on account of gradual shift from unorganized to organized, on account of both.

Moderator: Thank you. The next question is from the line of Deepak Agarwal from Impetus Advisors. Please go ahead.

Deepak Agarwal: Just wanted to confirm this 500 crores estimate that you gave that is a consolidated right?

Nrupesh Shah: It is consolidated.

Deepak Agarwal: You mentioned that for the Impco Q1, Q2 are off-season, but I remember from earlier conversation is that the peak season for Impco is June to August.

Nrupesh Shah: Peak season for Impco is February to June and peak season for Symphony standalone is February to May. And also there is some tapering of their sale in the month of July for Impco.

About sales in the month of July and August the countries like South Africa or Latin American countries and Australia it is a season and in our exports sales very well reflected.

Deepak Agarwal: What is the time during which the working capital requirement peaks at Impco?

Nrupesh Shah: Impco's peak working capital requirement should be during the month of January to July.

Deepak Agarwal: That is a huge period, that is a six-month period.

Nrupesh Shah: Seven months period.

Deepak Agarwal: No, no, some point in time it was peaking na?

Nrupesh Shah: No, so it is like before commencement of the season and at the end of the season also the reason being before commencement of the season meant for raw material, meant for inventory and at the end of the season or by end of the season again because of the....

Deepak Agarwal: I understand that, that before the season it will be inventory and at the end of the season it will be probably receivables. The total net working capital when does it that peak? Because you are funding the net working capital of Impco you would be knowing that, right?

Nrupesh Shah: So right now our total exposure to Impco in terms of the loans and advances is 21 crores. As of 30th June was close to 26, 27 crores and at its peak it was at 28 crores.

Deepak Agarwal: So almost more or less constant throughout the period?

Nrupesh Shah: 21-28 crores.

Deepak Agarwal: At the end of the season in the June maybe after two, three months when you receive your receivables, so that will be probably September-October?

Nrupesh Shah: Yes, right. Right now which is at

Deepak Agarwal: After that would you need a huge working capital there?

Nrupesh Shah: Yeah if you say that 21, 22 crores or 28 crores is a huge working capital, answer is yes. Supported by corresponding receivables and inventory, much more than that.

- Deepak Agarwal:** I am just trying to understand once your season ended in June for Impco, after that you must have realized your receivables by now, then why Impco need such a 21 crores working capital now?
- Nrupesh Shah:** Number one, it is already sitting on some inventory and still it is sitting on some receivable.
- Deepak Agarwal:** And how does the management sitting in India track the performance, how do you make your MIS from them when the language is Spanish?
- Nrupesh Shah:** The CFO is based out of Mexico knows English and Spanish. CEO based out of there knows English and Spanish and other senior people in accounts and finance, that is number one. In respect of the periodicity of the MIS we do have our own Symphony Padta system whereby number one, we do have some critical daily MIS which we call as a one pager MIS and apart from that on the basis of some weekly and monthly MIS it is being tracked. And about the financial and accounting control, it is completely, we who exercise that control.
- Deepak Agarwal:** So if the management here in India gets regular MIS, why cannot investors get quarterly update on what is happening at Impco?
- Nrupesh Shah:** Investors can get it. There is no issue about it. ---The point is we consolidated Impco when our 100% acquisition took place only in the month of April. So, in a way past acquisition this is only a second quarter. Number two, Spanish will not be published language. Number three, as we understand considering its seasonality it does not make much of the point to consolidate, but we are still open to it, let us see how it goes.
- Deepak Agarwal:** What is the enterprise value at which we acquired Impco?
- Nrupesh Shah:** We acquired Impco all in all, equity value was about \$6.5 lakh, that is 3.5 crores, over and above that if you add loans and advances it is worth of 21 crores now and 28 crores as on 30th June, so that close to 26, 27 crores and company is already sitting on inventory and receivable of more than that, over and above that having a net worth of close to 20 crores.
- Deepak Agarwal:** I would like to know when you sold the 51% stake in the SPV what is the.....
- Nrupesh Shah :** We bought 51%. Earlier, we were holding 49%.
- Deepak Agarwal Q:** I am talking about the time when you sold 51% in the SPV and then later on you bought it 51%.

- Nrupesh Shah :** That is not true, that is what I am saying.
- Nrupesh Shah:** We did not sell anything. Initially, our holding was 49% and 51% by some financial investor based out of Singapore and over and above that from day one we had also subscribed to optionally convertible preference share. So in the month of April to June 2011 we also exercised our option to convert this preference share into equity and over and above that 51% of the equity we fully bought out. Of course, it was a thinly capitalized company.
- Deepak Agarwal:** The SPV the Sylvan Capital Holding that was earlier 100% owned by Symphony, but later on it become 49% after the –
- Nrupesh Shah:** Two other co-investors were roping who invested 51%. We did not sell off anything, that is what I am saying.
- Deepak Agarwal:** Obviously, for the 51% how much did it bring in to the investors?
- Nrupesh Shah:** Oh 51%, I need to go back to the figures, I need to check up that.
- Deepak Agarwal:** Okay. At what price did you buy the 51%?
- Nrupesh Shah:** It was very small amount. We bought something around \$25,000.
- Deepak Agarwal:** 51% stake in Sylvan you bought for \$25,000?
- Nrupesh Shah:** The reason being Sylvan was a very thinly capitalized company having a paid up share capital of \$10,000.
- Deepak Agarwal:** That does not matter. Because you -?
- Nrupesh Shah:** It does matter, the reason being –
- Deepak Agarwal:** When you acquire 51% Sylvan you are actually acquiring Impco.
- Nrupesh Shah:** Thin capital of \$10,000, over and above that we had subscribed to its 100% optionally convertible preference share worth of \$6,40,000 and optionally convertible preference share was 100% subscribed to by Symphony. So the point was in the month of April 2011 number one, we bought over that 51%, the reason being co-investors were also supposed to provide the finance of loans and advances to Impco and those people wanted back that fund and we were having that liquidity. So at that time, we could get good deal from them and at the same time

we exercised our option of converting preference share into equity and that is how our holding is 100%.

Moderator: Thank you. The next question is from the line of Utsav Mehta from Derivium Tradition. Please go ahead.

Utsav Mehta: Hi, most of my questions have actually been answered. Just a couple of quick questions. Our margins if I exclude the foreign exchange gain or loss actually seems to have decreased YoY, it was 20% last year, it is 15% this year, is it going to be then the standard at which we will operate or do you expect us to go back to 20%?

Nrupesh Shah: You are absolutely right, but we look at it this way. Number one, if you see material consumption that is total of decrease or increase in stock and consumption of raw material both put together, YoY that percentage is almost the same. Number two, as we discussed earlier, we have added many headcounts in domestic market, industrial and heavy duty machine segment as well as international business. And because of that our employee cost has increased almost 50% and of course those benefits we should receive over a period of one year and more so in a couple of years. And corresponding to that even other expenses have also grown up. And again first quarter being overall off season or low quarter the impact of increase in employee cost and other expenses is higher than what it is normally supposed to be.

Utsav Mehta: Right, so what you are saying is we should gradually go back higher up once we get operating leverage out of these expenses?

Nrupesh Shah: Right. So we expect that in fact, not over a period of time, I think a year as a whole itself by and large we should be at the same level.

Utsav Mehta: The tax that we are paying works out to be around 31, 32% if I am not mistaken. Why so high or am I missing out something over here?

Nrupesh Shah: No, it is high, the reason being we are 100% tax paying company and still in the current quarter we have not received any major benefit out of SEZ. So, even our export, most of them has been from non- SEZ, starting from current month, then next month, our SEZ dispatch will start and through that we will get some tax break, otherwise, normal income tax is applicable on the profit is 30% income tax 5% is surcharge and 3% is education cess, so all put together close to 31.80% is the effective tax bracket.

- Utsav Mehta:** And just one final question. Actually it is two part. Can you just tell me from which states our majority of our sales come from?
- Nrupesh Shah:** As far as our sales is concerned except Northeastern state, our sales is almost uniformly spread throughout the country, barring the areas which are coastal areas like Mumbai or Chennai or Kolkata, other than that sale is almost uniformly spread out.
- Utsav Mehta:** So, there was a huge inventory build-up due to the early monsoon this time for most air-conditioning and air cooling companies, so from what I have read and from what I have gathered there is essentially a lot of fight to offload inventory, so is there going to be a discernible increase in our selling and distribution expenses?
- Nrupesh Shah:** No, I think first quarter which is the most off season, still you would have observed that we are not prone to any such state and we do not expect that to happen at all at least with us.
- Utsav Mehta:** And even despite the rains in October and November you do not see any slow down in the coming quarter?
- Nrupesh Shah:** In the month of October and November, otherwise also it is off-season, As such only from last year we have started our ad campaign to have a secondary sale. So, whatever secondary sale takes place in the month of October and November, in fact, it is the extra sales since some sales is already happening.
- Utsav Mehta:** But not as much as expected I would be guessing?
- Nrupesh Shah:** No, in fact, it is almost on the line of expectation but October-November sales cannot be and are not at par with February to May sales. It is lower than that.
- Moderator:** Thank you. The next question is from the line of Dhruvesh Sanghvi from Equity Master. Please go ahead.
- Dhruvesh Sanghvi:** Hi, my name is Dhruvesh Sanghvi. About the segment margins that you have given it shows 14% and 25% for the domestic and exports. Both being high, that is above 14%, the total margin still comes out to be 9%, I do not know how this is coming.
- Nrupesh Shah:** Are you referring in segment vis-à-vis domestic margin 343 lakhs and export margin 97 lakhs and that percentage vis-à-vis sales value, are you referring that?
- Dhruvesh Sanghvi:** Yes.

Nrupesh Shah: So let me clarify this, 97 lakhs export margin as we already put in note about 34 lakhs is on account of export receivables, foreign exchange fluctuations, so if we exclude that then we will have actual operational margin. Similarly, in domestic margin, 343 lakhs is again inclusive of about 2 crores worth of exchange fluctuations positive for the loans and advances given. So as you would have observed in Item No. 3 foreign exchange fluctuation gain or loss 250 lakhs is a positive foreign exchange fluctuation, the breakup of which is around 2 crores on account of the loans and advances given which forms a part of the segment profit domestic profit.

Dhruvesh Sanghvi: My question is this 440 lakhs number is our PAT number which is also shown on the first page of the results. So, if I just take that 440 lakhs, the margin is around 15% or so.

Nrupesh Shah: 440 lakhs divided by 2878.

Dhruvesh Sanghvi: Yeah, that becomes 15% but when I consider the segmental results, both the numbers are above 15%. I am missing something but I do not know what, maybe --

Bhadresh Mehta: Whatever you are referring is correct no, you are not missing anything, See , the domestic as a percentage to the domestic sales is 13%, in case of export, it is 24% but the weightage is much small than the domestic. So between 13 and 24, the average will lie toward 13. Thus overall 15%, is the correct one.

Dhruvesh Sanghvi: Second thing most of the foreign exchange gain or loss that has come is because of the loans and advances I understand or the Rupee has depreciated suddenly just in the last one month, but is it on account of the higher creditors days given out in the export market or just the most part is given to the --?

Nrupesh Shah: Mainly it is on account of loans and advances. I would say that more than 70% is on account of loans and advances and less than 30% is on account of export receivables.

Dhruvesh Sanghvi: And just the request I think even that was the concern shared by some in that it would help greatly if the consolidated results are also given with the quarterly results.

Nrupesh Shah: Okay, we take the note of the concern.

Moderator: Thank you. The next question is from the line of Nirmal Shah from Sandstone. Please go ahead.

- Nirmal Shah:** Can you just repeat the air coolers volumes I just missed the opening part in terms of domestic and exports?
- Nrupesh Shah:** Our total air coolers volume is about 58,800 units in last quarter Vs. 41,900 last year. Out of which about 48,000 in domestic market Vs. 35,000 last year. Export about 10,800 Vs. 6,800 last year.
- Moderator:** Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth. Please go ahead.
- Umesh Gupta:** Just have a couple of questions; first, are there any plans to diversify in any other products consisting the seasonality and dependence of the monsoon on our product range?
- Nrupesh Shah:** We understand and we foresee that , Air Cooler industry whether in domestic market or international market have a tremendous potential and tremendous untapped market. And for many, many years to go we can really do well, that is number one. Number two, Air Cooler is in our DNA and we understand it very well. And Number three, in the past we had tried unsuccessfully to diversify into other product category and whatever maybe the reason we could not succeed. So we will not like to lose our focus and we will like to continue on Air Cooler at least in a foreseeable future.
- Umesh Gupta:** And the second was on the industry dynamics, if I just was looking in terms of the price difference between AC and Air Cooler, the starting AC is probably somewhere around Rs. 11,000-odd, whereas the branded Air Cooler is about Rs. 7,000, 8,000, is that right? So the price difference is actually narrowing over the years whether the advancement in technology of AC or whether they are reducing prices, so with this lower price do you think there is any threat to the Air Cooler industry or you think that going forward the prices of Air Cooler will also come down if the AC prices keep on coming down and that in turn will lead to lower realization for you?
- Nrupesh Shah:** Number one, we need to make the comparison of the Air Cooler and Airconditioner for the comparable cooling solution. In a sense, if it is 11,000-12,000 air conditioner, I understand it is for 1 Ton Airconditioner. 1 ton Airconditioner cools about 100 sq. ft. of area and when you talk about Air Cooler of 7,000, 8,000 at MRP level, that normally cools a size of around 300 ft. So number one that itself is a difference. Now, there are Air Coolers which can cool about 100 ft. They are in the personal cooler category and those prices are anything in the range of Rs. 4,000-5,000. So, the price difference is almost like 1/3, but that is not the sole reason of buying

Air Cooler. Apart from that very important reason is the recurring cost in terms of the electricity consumption. Comparable Air Coolers vis-à-vis Airconditioner consumes only 7-10% of the electricity. So the normal 1, 1.5 ton Air Cooler should consume if it is being used 8 hours a day, monthly around Rs. 2,000 of electricity bill and for comparable usage of Air Cooler it is anything in the range of Rs. 100-200. So that is another major difference irrespective of their capital cost.

Umesh Gupta: And what is the current breakup of revenue in terms of Air Cooler and other products like Geysers?

Nrupesh Shah: We are predominantly an Air Cooler company and always 95% plus turnover is from Air Cooler and that too in this quarter as I mentioned in my opening remarks even on a very low base of geyser our sales in the geyser has declined because of lack of focus. So, it is almost like 97, 98% sales from Air Cooler.

Umesh Gupta: So what do you mean by the competitive intensity in the industry because many of the other consumer companies, the trend is to get into all kind of products. I would not name the company but you must be knowing your competitors and the emerging competitors which are getting into all kinds of products. So what do you feel of the competitive intensity in the industry and your market share or whatever the realization coming down or the margins for that matter?

Nrupesh Shah: Number one, as of now, I will say in an organized market there are at least six players. So apart from us, there is a Kenstar, which is a Videocon group company commanding almost 30, 35% market share, there is a Bajaj Electrical, commanding about 10-15% market share, and three other large organized players including Usha, Khaitan and Maharaja, three put together is having about 5% market share. So it is not like that there is a monopoly. That is number one. Number two in the past, you name the domestic consumer durable companies, all of them at one point of time or other point of time have entered into Air Cooler market and they have exited. It includes Crompton & Greaves, Salora, Onida and many other consumer durable companies and at one point of time Philips was there. That is number two. Number three, we believe that if more players come in fact it is good for the industry, there is a quite resemblance in the state with precedence of Airconditioner industry, say the just 10-12 year before in Airconditioner industry there was a four or five players and as we understand at that time the Airconditioner market size was only 3 lakh units. Today, after entry of all these Korean players and many other companies, Airconditioner market in industry has really boomed and

the industry size almost 3-4 million units. So, ultimately more players also helps in increasing the size of the cake .

Moderator: Thank you. The final question is from the line of Nayan Mehta from 21st Century Shares. Please go ahead.

Nayan Mehta: What is the kind of sales we generated out of the SEZ if you can just give some color so that we can and what could be our overall tax rate for FY12? I understand Q1 has been the full tax almost and probably Q2 onwards will you see some change in that?

Nrupesh Shah: I could not hear your first part of the question.

Nayan Mehta: I am asking from the SEZ you said from October-November onwards you will be dispatching a lot of goods so from between November till next June, what kind of sales we inverted out of it, for example, if you grow at 25-30% as per the industry growth from your current 290 crores base of FY11, so, the additional 80, 90 crores whatever is generated what could be coming from the SEZ?

Nrupesh Shah: We expect that starting from October-November, almost 80% of our exports should be out of SEZ. And that should effectively bring down our income tax rate by a couple of percentage.

Nayan Mehta: And last is, last year we paid about Rs. 10 a share in dividend and according to my calculation somewhat 19% dividend payout, so will we be at least maintaining that going forward the next two years or will we be increasing it further?

Nrupesh Shah: Of course, it is too premature because even for the year '10-11 dividend distribution is yet to take place but still let me answer your question. I think as a policy way forward we would like to maintain and probably if everything goes well we would like to increase the dividend payout ratio.

Moderator: As there are no further questions, I would now like to hand the floor over to Mr. Nrupesh Shah for closing comments.

Nrupesh Shah: Thank you, gentlemen. It was very nice interactive session and we also got good inputs and hopefully again we would interact with all of you at the end of the second quarter results. Thanks a lot. Wishing you all of you Happy Diwali and Happy New Year on behalf of me and our entire Symphony team.

Moderator: Thank you very much sir. On behalf of Trust financial consultancy Services private Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

