



## “Symphony Q1 FY15 Earnings Conference Call”

October 14, 2014

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**MANAGEMENT: MR. NRUPESH SHAH - EXECUTIVE DIRECTOR – SYMPHONY LIMITED**  
**MR. BHADRESH MEHTA – CFO**  
**MR. GIRISH THAKKAR – GM ACCOUNTS - SYMPHONY LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Symphony Limited Q1 FY'15 Earnings Conference Call hosted by Trust Financial. We have with us today Mr. Nrupesh Shah – Executive Director, Mr. Bhadresh Mehta – CFO and Mr. Girish Thakkar – GM Accounts. As a reminder all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing “\*” and then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Nrupesh Shah – Executive Director. Thank you and over to you Sir!

**Nrupesh Shah:** I welcome all of you to first quarter analyst conference call of Symphony for the year 2014-2015. During my initial remarks or even during question answer there may be certain forwarding looking statement or estimate which may be based on our best possible assumptions but they may, may not turn out to be correct on account of external factors or on account of even internal changes. Having said that we have posted one of the best quarterly performances that too during so called off-season period. Across business verticals and segment we have registered robust volume value growth and have also succeeded in increasing the EBITDA margin, operating margin as well as PAT margin.

Coming to specific segment wise performance first to start with domestic residential air cooler being the biggest segment, during the quarter we introduced couple of new models like Siesta „Window 70 XL, Window 41 XL and Ice Cube XL. They have set new benchmarks and have been received well by the trade . So far in last couple of years we had succeeded to break the seasonality at our distributor level but starting current year in the first quarter we have succeeded to some extent to break the seasonality at one more layer that is at the dealer level, almost 2000 dealers brought air coolers in a reasonable or large quantities from the distributors. Moreover on account of extended summer and also on account of several initiatives we witnessed a good amount of buying by retail customers especially during the month of July and August. In fact throughout the quarter we also witnessed service calls of large number which is again unprecedented and indicating consumers are buying and also using air coolers even during first quarter which is so called off-season.

Coming to international sales some interesting discussions are on in markets like Vietnam, Philippines, Brazil and Singapore but once we reach to a specific milestone we will bring further. During the quarter so far we received the single largest export order other than IMPCO market and that single order crossed \$1 million, shipment of that has partly taken place in first quarter and most of it will take place in the second quarter. For the first time during this quarter we had successful dealers meeting in Nepal and even in Nepal air cooler and especially Symphony air coolers are becoming more popular. So we saw all round buoyancy in International Residential Air cooler market.

Coming to Centralized Air cooling projects, we have exhibited the projects or projects in pipeline or in active enquiry stage across the segment whether it is engineering segment, railway, religious,



industrial, warehouses, railway etc., whatever journey we have begun in centralized air cooling in last two to three years we have strengthened it further, in respect of various activities and strategies. We have also focused on more and more promotional activities, seminars and advertisement promotion directly linked to centralized air cooling.

Now coming to specific numbers, during the quarter our gross revenue was Rs. 110 Crores, up from 78 Crores for corresponding quarter in last year, registering revenue growth of 41%. Number of units of air cooler sold, domestic market and international market put together about 1, 64, 000 compared to 1, 19, 000 registering robust volume growth of 38%.

Coming to PBT it stood at 30.49 Crores versus 19.53 Crores, this is after accounting for forex loss of 11 lakhs during the quarter versus forex gain of 84 lakhs during the previous year. The income tax of 8.86 Crores versus 5.21 Crores translating into effective rate of income tax of 29.1% versus 26.7% that is up by about 2.40% and absolute PAT numbers stood at 21.63 Crores versus 14.32 Crores registering a robust PAT growth of 51%.

Coming to primary segment wise capital employed and starting this quarter we have worked out capital employed based on monthly average capital employed in Home Appliances, capital employed was 103 Crores versus 54 Crores the difference is mainly on account of advances received. As far as corporate funds mainly in the form of the investments of Treasury 151 Crores versus 148 Crores and this translates in to EBIT percentage on home appliances segment for the quarter 206% versus 123%.

So with this I open the floor for question answer I wish all of you 'Happy Diwali' and 'Happy New Year' in advance.

**Moderator:** Thank you very much. We will now begin the question and answer session. Our first question is from the line of Atul Mehra from Motilal Oswal Securities. Please go ahead.

**Atul Mehra:** Sir Congratulations for the great set of numbers sir. Sir just couple of questions, one is in terms of this quarter we saw very strong growth so do we see this kind of really strong growth in terms of for the next three quarters as well or is this an impact of some amount of pre-booking which has happened during the quarter and hence the following quarters may not be as large in terms of growth?

**Nrupesh Shah:** It is a combination of various factors, one is variety of strategies we have initiated including de-risking the business by way of evening out seasonalities, so as I conveyed even at the level of dealers, we could, to some extent, break the seasonality. For the first time it happened that almost 2000 dealers bought reasonable quantity to large quantity of air coolers in the first quarter. Secondly of course it was also on account of delayed monsoon, thirdly is also partially on account of pre-season bookings but having said that we are witnessing wide buoyant sentiment and demand across the segment and the way in which even second quarter has commenced we can say that at least for



December quarter we are likely to register the strong growth. As far as yearly estimate is concerned, we don't give yearly guidelines but having said that our medium term to long term guidance of 20-25% CAGR growth remains by maintaining the profitability, in fact improved profitability margin of the current quarter but with that its possible that in some of the years as it happened last year may happen in the current year we don't know, there may be very high growth in some of the years and there may be low growth.

**Atul Mehra:** Right and secondly sir, if you can just throw some more light on large international order that you have received and going forward the trajectory on such kind of orders should we expect similar lines in terms of other orders coming in or how is that placed?

**Nrupesh Shah:** International order pipelines and enquiries are very strong, these are from traditional distribution network or even large permits to, so we do expect from various international markets good export order down the line.

**Atul Mehra:** Couple of other things, so one was I think in terms of IMPCO last year we were just into profit in terms of FY'14 as performance so this year in terms of what is the kind of expectation that we can have for growth as well as in terms of profitability for IMPCO?

**Nrupesh Shah:** As conveyed earlier and from time to time in IMPCO we do expect modest growth, so we don't expect any major miracle to happen there but it is on account of IMPCO number one, export in North America takes place, it is on account of IMPCO our presence in centralized air cooling has been made possible and thirdly whatever export to North America is made on which we also have different profitability in India, so it is also on account of IMPCO, but on IMPCO standalone basis there may be modest growth and still we have identified some areas of operation where there is a possibility of improving efficiency as well as further rationalizing the cost, that will happen.

**Atul Mehra:** Sir just one final question in terms of inorganic opportunity that we may be looking at in overseas market, so anything that we could look at may be over the next six months or nine months?

**Nrupesh Shah:** No we keep on looking at it but there is nothing specific target in mind.

**Moderator:** Thank you very much. The next question is from the line of Ganesh Radhakrishnan from Pristine Portfolio. Please go ahead.

**Ganesh R.:** Hi! Congratulations on the good set of numbers, I have two questions, one is on this big order that you talked about, is it on the home appliances or on the industrial segment?

**Nrupesh Shah:** For residential air cooler.



- Ganesh R.:** Okay it is not for the industry.
- Nrupesh Shah:** No...no. otherwise also in centralized air cooling we are not having any significant presence in international market except IMPCO is selling in North America. Our focus is to establish this to a reasonable scale in India. Having said that when some direct orders are coming or direct enquiries are coming we entertain them but we don't have any focused efforts as of now of centralized air cooling export.
- Ganesh R.:** Sir on the treasury fund you seemed to have earned about 9% approximately this quarter and the quarter before that it was about 4 point something, so what has changed, your investments remains the same, in similar funds you are investing it, I am just wondering your return seems to have been doubled, any reasons for it?
- Nrupesh Shah:** Number one as we are giving them quarter after quarter some of the investments were and are being made in fixed maturity plans i.e. FMP Mutual fund and some of the investments is growth liquid fund. As per the accounting practice and accounting standard as and when those FMPs mature or as and when these growth mutual funds are ready income thereon can be booked, so in the previous year or previous quarter to that extent it was lower income, in the current quarter some of the FMPs have matured so to that extent in treasury there is a higher income. But as per the permissible method we have to work out the return on the income book during the quarter but having said that still there is a sizable treasury income which has not been booked which will be booked in the quarters to come or partly even may be next year considering the accounting standard practice.
- Ganesh R.:** Okay may be as a consequence of it your business model doesn't require large capital, am I right, so if it is so what is your long term plan using the Treasury funds because they are bringing in only sub 10% returns is it not better you know now that you have broken the seasonality and every quarter you see you know significant profit do you plan to distribute it to the shareholders in terms of quarterly dividends or is there a plan to capitalize some of the reserves like bonus shares etc., because I see there is a lot of cash sitting on it and bringing in lower rate of return?
- Nrupesh Shah:** Number one, say about four five years before our dividend payout ratio was small single digit which consistently we have increased and last year our dividend payout ratio was slightly in excess of 50%, not only that starting year 2013-2014 we have come out with dividend policy clearly stating that except unforeseen circumstances or contingency there will be dividend payout of at least 50%, . Coming to interim dividends starting last year for the first time we started with half yearly interim dividend. So hopefully that should continue and number three, we are open to inorganic growth but only related to air cooling industry either by way of the air cooler company or market access through acquisition or tie up with appropriate distribution channel, having said that in our kind of the industry there can be a mega acquisition so whatever our cash surplus or profitability is there we believe by and large that may be sufficient to take care of that, so essentially these are the plans.



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- Ganesh R.:** Okay so thank you very much. If time permits just one more question your export seems to have shown a little weaker growth compared to your domestic sale, any particular reason for it?
- Nrupesh Shah:** No actually whether domestic sales or export sales in the reality we don't measure quarter over quarter, it is more for the reporting purpose we have to report. We need to really see at least four quarters at least yearly but considering the export orders in pipeline and enquiries very robust and strong pipeline as of now.
- Moderator:** Thank you. The next question is from the line of Mr. R. Pattabiraman from Metro Investments. Please go ahead.
- R. Pattabiraman:** Hello! Congratulations for an excellent performance. Now in your presentation you mentioned some of the South East Asian countries like Vietnam and Indonesia, I could not follow what you actually said, have you got export orders from these countries.
- Nrupesh Shah:** What I had said is we have initiated some interesting discussions in terms of establishing the dealer distribution network or selling the residential air coolers in South East Asian countries I referred that. As of now there are now specific export orders and what I said once we have any further development in that respect we will come back to you.
- R. Pattabiraman:** Now one more question now, coming two quarters, I know that April to June quarter is a very robust quarter but how about this coming quarters this October to December or January to March do you expect that the season will be a tailwind?
- Nrupesh Shah:** As of now at the most I am in a position to convey about October to December quarter which seems to be quite promising. As far as yearly guidance or forecast is concerned we don't give yearly guidance, what we have given and we are giving is a medium to long term CAGR topline growth and maintaining current level of profitability.
- Moderator:** Thank you very much. The next question is from the line of Ankit Jain from Equirus Securities. Please go ahead.
- Ankit Jain:** Sir congratulations on a good set of numbers, couple of questions, sir first out of this 96-odd Crore of domestic sales you also mentioned that there is quite a lot of primary sales happened during the quarter, is this an entirely channel filling or if you bifurcate and some more details as such?
- Nrupesh Shah:** No that exact bifurcation is just not possible and can't work out but this is based on the market report, this is based on feedback given by our sales and marketing team and also marketing intelligence but if you want us to give the breakup of how much at a distributor level dealer level or retail sale, just not possible.



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- Ankit Jain:** Sir you mentioned about launch of some new models in the current year, if you can throw some more light in terms of positioning in terms of pricing and all for these models?
- Nrupesh Shah:** There will be exciting launch, interesting launch, specific details can be shared as and when we will launch them.
- Ankit Jain:** Oh! So they are yet to be launched.
- Nrupesh Shah:** They are yet to be launched some additional model but they are in pipeline and they will be launched in the current year.
- Ankit Jain:** Sir this \$1 million order which we have got that is for plastic body residential air coolers which we are going to export?
- Nrupesh Shah:** Absolutely.
- Moderator:** Thank you very much. The next question is from the line of Aksh Vora from Praj Financial. Please go ahead.
- Aksh Vora:** Congratulations on a good set of numbers. Sir just one question, the capital employed in home appliances gone up to 103 Crores so what is it on account of?
- Nrupesh Shah:** As I explained in my initial remarks our capital employed in home appliances is one whatever capex we have or whatever working capital, working capital is obviously very low but during the quarter we have also received some advances which remains yet to be executed to or to be sold so part of the difference is on account of that, which as per the accounting standard is capital employed we have to classify under that segment.
- Aksh Vora:** Can you quantify the amount if possible?
- Nrupesh Shah:** It is difficult to quantify and we are not into turnkey project business **Aksh Vora:** And the return on capital employed is also calculated on that basis right sir?
- Nrupesh Shah:** Absolutely, it is on entire 102.96 Crores.
- Moderator:** Thank you very much. The next question is from the line of Alok Ramachandran from SBI Cap Securities. Please go ahead.
- Alok R.:** Thank you sir for taking my question. I just wanted to know on this export order, can you give me some more clarity on whom is it from where this million dollar export is from and going ahead what are the possibilities that you are looking at and where as this order for?



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- Nrupesh Shah:** This order is from an African country and we initiated focused export in Africa just a couple of quarters before and it is yielding the result. As far as overall outlook of international business or export is concerned as I shared earlier there is a very strong pipeline and we are likely to see a robust performance in growth and even related to export there is likely to be some further exciting and interesting development which we will share time to time once it really materializes.
- Alok R.:** Okay, sir in the air cooling segment the volume growth is about nearly 38% or so, is there a bifurcation if you can give me in terms of the centralized air cooling segment and as well as the domestic air cooling segment can I have bifurcation on the same?
- Nrupesh Shah:** We had bifurcation earlier but for last one and one and half year we have stopped giving it and we will not share it the reason being in air cooler industry we are the only listed company. As far as our competitors are concerned they are not listed, not only that some of them who are listed for their air cooler is one of the products so what was happening whether in respect of the bifurcation and some of the related products it was more or less like becoming one way traffic that is information available from our side but about them it was not available in public domain, so our sales and marketing team didn't find it appropriate because it was some time putting us to a disadvantageous position.
- Alok R.:** Sir is the realization falling primarily on account of the volume that is going up right?
- Nrupesh Shah:** Per unit realization partly on account of price hike and partly also on account of sales mix.
- Alok R.:** What is the sales mix, if you can help me with that?
- Nrupesh Shah:** Model to model sales price has been increased from about 2% to 8%.
- Moderator:** Thank you. The next question is from the line of Kamlesh Kotak from Asian Market securities. Please go ahead.
- Kamlesh Kotak:** Hello! Sir just wanted to check what's the other expense that is shown a sharp increase from 3.4 Crores to 6.2 Crores what is it about anything one off in that?
- Nrupesh Shah:** We need to really check that up. I don't have immediate breakup available we can share this you after checking the breakup.
- Kamlesh Kotak:** What is the budget for this year selling and distribution expense that also if you can share?
- Nrupesh Shah:** As such hardcore advertisement and sales promotion expenses in the first quarter is negligible amount wise but year as a whole last year we had spent about 21 Crores and current year there will be an increase over that, the amount and percentage will be decided during course of the year not yet crystallized or finalized but there may be a decent amount on that.





**Kamlesh Kotak:** How much of the capex to be spent on this SEZ and also on the corporate office that we are building for this year?

**Nrupesh Shah:** As far as proposed Kandla SEZ is concerned again as per Symphony's philosophy we are not going to own it in terms of land, building and premises, it will be a leased facility, there would not be any investment in land and building. Coming to assembly lines and testing equipment and other facility our estimate is it would not be more than 2 to 3 million rupees, that is it, it is not going to be more than that. In fact even in our Surat Sachin SEZ even though it is our owned premises in name all in all inclusive of own property, even at that time Capex was Rs.35 million which just from the Income Tax saving we could recoup in the first year of operation. As far as our corporate office is concerned, I think it may be about 4-5 Crores additional, this is very tentatively but it may be something in vicinity of that.

**Kamlesh Kotak:** When this Kandla SEZ will be up and running?

**Nrupesh Shah:** As of now we have made an application for approval of the appropriate authority. We expect that to be through and about in one to one and a half months and once that is done maybe in next couple of months probably two to four months time it should be operationalized.

**Kamlesh Kotak:** What would be the capacity there sir?

**Nrupesh Shah:** Starting it is 1, 20, 000 units but it can be changed as required.

**Kamlesh Kotak:** Current utilization at Surat SEZ would be how much?

**Nrupesh Shah:** Current utilization at Surat SEZ is about 60 to 70%.

**Moderator:** Thank you very much. The next question is in the line of Nitin Gosar from Religare Invesco. Please go ahead.

**Nitin Gosar:** Hi sir! good evening I am relatively new to this company, there will be a couple of historic question or basic question with regard to the segment and the company, could you help to understand what is the current household penetration level in this cooler industry?

**Nrupesh Shah:** So we have a complete pyramid of cooling appliances penetration in India whereby on top of that pyramid it is air conditioner ownership and close to 9 million houses that is about 3% of the household own air conditioner, below that it is air cooler ownership close to 25 million households that is about 9% of the households will have it and below that it is no cooling appliance, so neither air conditioner nor air cooler not even fan that is close to 35% of the household and base of the pyramid which is the largest that is households owning fans is close to 45 percentage of the households.



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- Nitin Gosar:** How much of your market not revenue is coming from North, West, East, South if you can?
- Nrupesh Shah:** We are not sharing the specific breakup on account of the confidentiality but let me answer it in a general way by and large we do have good geographical spread whether it is in respect of dealer distribution network or in respect of the sales and year after year depending upon various factors sometime North contribute the highest ,in some years South contributes the highest, in some years West contributes the highest. In North-east states we have relatively low presence.
- Nitin Gosar:** Okay my question was sir pertains to the industry, industry concentration with regard to North East West South and not .....
- Nrupesh Shah:** Industry concentration wise almost 40% in North India about 25 to 28% in Western India and remaining is almost equally distributed between Southern India and Eastern India.
- Nitin Gosar:** What would be your market share right now?
- Nrupesh Shah:** Air cooler industry as a whole totaling current market size is six million units out of which organized market is close to 1.2 million units and remaining 4.8 million units is unorganized market and the overall air cooler industry is growing at about 15% percentage organized sector is growing at about 20-22% and high growth rate of organized market is on an account of cake size of air cooler market is increasing and certainly even there is a shift from unorganized to organized. In about 1.2 million units and if we convert into value wise in organized market our market share is close to 50%.
- Nitin Gosar:** Last question would be pertaining to exports going forward as and when you explore the export potential, do you think you will be giving up on margins in order to garner more top line or it will be equally compensatory on the margins too?
- Nrupesh Shah:** If you look at our annual segment profitability between domestic business and export business at a PBIT level export is equally profitable at a PAT level in fact it is even more profitable the reason being export takes place from SEZ and as of now SEZ profits are 100% tax free.
- Nitin Gosar:** What could be the potential of the export market can it be equally big the way the Indian market or the organized Indian market is right now?
- Nrupesh Shah:** Yes it is equally big as per our estimate and based on various data available rest of the world excluding India and China air cooler industry slice is close to 7 million units. We are in fact serving a very small percentage of that. In a way we have just begun actually.
- Moderator:** Thank you very much. As there are no further questions I would now like to hand the floor over to Mr. Shah for closing comments. Over to you sir.



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**Nrupesh Shah:** Thank you very much for active participation, support and encouragement. I wish all of you once again 'Happy Diwali' in advance and 'Happy New Year' and 'Sal Mubharak'. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Trust Financial that concludes the conference call thank you for joining us you may now disconnect your lines.