



“Conference Call with Symphony Management”

March 24, 2020



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*IIFL Securities
March 24, 2020*

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

Renu Baid: Thank you Lizaan. Thank you everyone for dialing in. We have with us today the management of Symphony to discuss with us the recent business developments and the implications of COVID on the business. From the management, we have with us today, Mr. Achal Bakeri, Chairman and Managing Director, Mr. Nrupesh Shah, Executive Director, and Milind Kotecha, Manager Investor Relations and Treasury. Without taking much time, I would now like to hand over the call to Mr. Bakeri for his opening remarks thereafter we can start with the Q&A. Thank you and over to you Sir. Also, this call is scheduled for 30 minutes. Thank you.

Achal Bakeri: Thank you Renu. Good afternoon everybody. Thank you for being on this call. I will start off with an overview of the current quarter and the current financial year, both India and on international subsidiaries and then I will talk about what we expect next quarter and the next financial year to be like.

As far as the current quarter and the current financial year are concerned, we are more or less on track with what we had projected and had expected. So, we will be more or less at a similar level as in FY2017-18. So, as you all know that FY2018-19 was a bad year for us so there was a dip, but in the current financial year we are reverting back to the FY2017-18 numbers.

The year started off well with good summer of April to June quarter and followed by a very good off season collections, so every quarter we have been more or less on track with the financial year of FY2017-18. We would have lost some sales in Q4FY20 for the last one week or 10 days, which would have been about 10% or so more than what we will end up doing, but notwithstanding that I think we have been more or less on track with FY2017-18. So this is as far as India is concerned. As far as our subsidiaries are concerned, China was hit primarily first because of the trade war and followed by the COVID-19 issue in China, but China has sort of come back to normal so the results of that will be seen in the months to come, so as far as the year that will end up in March 2020. China has registered de-growth over the previous year and we will end the year with a bit of a loss in China.



*IIFL Securities
March 24, 2020*

As far as Mexico is concerned, there has been no disruption so far, and so Mexico has shown a reasonable growth over the previous year and we will also end the year at a reasonable level. As far as Australia is concerned, the COVID-19 is just now sort of affecting the market and more or less there too we are on track with what we had projected. At Symphony, we have not witnessed any major supply disruptions especially because in Symphony we make sure that we order whatever we need to order for the summer before the Chinese New Year, so much before January. Before the shutdown for the Chinese New Year, we had all our supplies ready, sort of all the components, which we import from China were dispatched and so we are very well covered. So we have not really seen any supply disruptions and neither have our facilities in Australia or Mexico have experience any sort of supply disruption so far for the same reason.

As far as the new financial year is concerned, from April onwards it is going to be a huge question across the world except China, which has now sort of getting back to normal. As far as India is concerned, I think all of us know what is going on. Things have suddenly escalated over the last weekend. Things were appearing to be sort of normal, up until Saturday but with Janata curfew and sort of lockdown in 70 districts, and Gujarat is now almost total lockdown since yesterday; the situation has overnight turned into something very different than what was expected up until Saturday.

So, how long this is going to last, is anybody's guess, but as far as the summer is concerned, the expectations are that summer is going to be there and the temperatures are expected to be reasonable and conducive for sales of coolers, but if the markets are not open and as you all know, all malls are shut, all the major retailers are shut, modern retail stores are shut, even the small dealers in small towns are shutting down, and even if they are open, the customers are not venturing out into showrooms. Online store like Amazon and Flipkart have sort of shutdown and maybe some of the grocery deliveries were going on, but as far as everything else is concerned, it is pretty much shutdown. So, it is not as if any other alternate channels of sales are open.

We had made arrangements for consumers to place order on call and the product will be delivered through our local dealer, if consumers do not wish to go out, but it appears that the logistics providers are also shutting down, so maybe that arrangement will also not sort of bear fruit. So, it all depends on how long lock-down is going to last. We all hope that so far India has seen about 300-odd cases and before this thing really gets out of control, spins out of control the government has taken strong action and we hope that by end of April or middle of April or so, this is contained and sort of life goes back to normal. If that were



*IIFL Securities
March 24, 2020*

the case, then we should be in a fairly good place because our material is out there with the distributors and dealers, our supply chain is pretty much stocked and as far as Symphony is concerned, most of our materials are paid for stocks, so that the channel would be very keen to unload Symphony stock first, over others. So, we would be in a fairly good place, but if this were to extend into let us say May or June then despite the summer and the consumers wanting some relief through coolers, they may not really be going out to buy coolers in which case, the material will remain with the dealers. Now that is an extreme situation. We really hope that it does not happen that this COVID-19 does not extend into May and June, but that is the worst case scenario. Internally, we have taken sort of measures, as we see some opportunity in these circumstances, where there is a directive by the government that people should not be in a closed environment where air is recirculated, so in this kind of a situation, air coolers are preferred because you can make your doors and windows open with an air coolers, in fact air coolers perform better when doors and windows are kept open so we have begun a campaign across the country on the press and television, in social media about this and so that is something which is at least registering.

It may not be able to result in sales because like I said if the markets are shut and the consumers are not going out, there will be no sales, but at least we have taken this initiative. Moreover, another issue in case of air conditioners is of installation, so people do not want the technicians to come and install air conditioners in their homes, so that is another thing going in the favor of air coolers as it is a plug and play product, so you just go out buy things and start using it. So, that is another thing in our favour. So, these are two things, which sort of favour air coolers in Symphony over air conditioners.

As far as competition within the air cooler industry is concerned, if this COVID-19 situation were to extend into May and June then it might also see the exit of some of the newer players who would be badly hit because they would have a lot of inventory which would not have been sold and their dealers will also have inventory, for which the companies may not have received the money, so there might be some consolidation that this crisis may lead to this air cooler industry. So, that is as far as India is concerned.

As far as Australia is concerned, it is going into the winter months, in fact what we have seen now in Australia is that people are ordering more heaters because they are staying at home and they need the heating equipments, so in fact there is a bit of spurt in demand for our heaters in Australia. However, if Covid19 were to escalate in Australia and if there were to be a lockdown



*IIFL Securities
March 24, 2020*

and a shutdown in Australia, then our heaters which are central heaters and they need installation, so the customers may or may not allow technicians to come and install those heaters. But at least as of now there is a spurt in demand, and like I said, if Covid19 were to extend and were to escalate into a bigger situation, then we might not really see the full benefit of this spurt in demand.

As far as Mexico is concerned, there too so far things are fine, even manufacturing is going on, and the central government and the federal government in Mexico is actually shying away from taking any major steps because they do not want to hurt the economy, but the states are more aggressive in Mexico and they are taking some aggressive measures. Peak summer months in Mexico are May, June, July so if the Covid19 were to gloom over this months, then it will have impact on cooler market.

As far as China is concerned, most things are sort of going back to normal in China, most of our products in China are sold and backed by industries, installed in industries, so the industrial sector in China is going through a fair bit of pain because of the trade war and now Covid19, so, it remains to be seen how quickly industry sort of reorganize and start investing again, but the summer is yet to come in China and so the China the situation is a little different, but we are still hopeful that China should be in a better place than Mexico or Australia or India.

Nrupesh Shah: I think Achal bhai has given a fairly good overview about the current year, current quarter of domestic business as well as international business, just to add to that as far as gross profit margin is concerned in the current year and in the current quarter it is absolutely in line with what is was one year, two year or three years before, it is on account of variety of factors, number one, launch of new models which have been received really very well, and many of those models are having path breaking features and also performance and format and design. Number two, value engineering, economies of scale and operating efficiency. Otherwise, Achal Bhai has given a fairly good overview, so we can open it for question and answer if any.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: First of all, thank you to management for really taking out time and telling us what is really happening on the ground, so thanks a lot for that. Two questions, one on the overseas business, like China, Mexico, and Climate Technologies, Australia, Achal Bhai, do you anticipate any risk or any anticipation in terms of risks where how much cash flow support we need to do there if



*IIFL Securities
March 24, 2020*

everything goes worse, because we just started reading as you also highlighted Australia going for a five month shut down, these are all media reports or a three month shutdown, borders are getting sealed, just wanted to understand not from a sales point of view, but from supply chain and from a cash flow support point of view, do you see any anticipation there for the overseas business?

Achal Bakeri: I was saying that it depends on sales, if there are no sales, than there will be pain in the cash flow in Mexico, in Australia, in China. In India, it will not be so bad because we have a different business model and we have the cash resources, but as far as the other geographies are concerned, if there is a drop in sales and demand, in the next quarter, there will be cash flow pain but that is something which we will have to find a way around.

Nrupesh Shah: Just to add to that I think Mr. Arora, you said that there has been a lockdown and shutdown of the factories in Australia, as far the Climate Technologies is concerned, as of now it is fully functional, not only that it has been approved as an essential commodity and essential industry because most of the people are at home and these caters to their basic essential. So as far as Climate Technologies operations are concerned, it is absolutely unaffected as of now. I think if we really quantify financially even if it is going to be the worst at the most, we may have to fund to the extent of part of the overheads and some of the working capital requirements, which in totality we do not expect really material.

Nitin Arora: Thank you very much Sir. The second question is with respect to India, can you quantify what could be the channel inventory at this point in time, number one. Number two, what kind of measures you are taking to support your distributors, modern retail channel and how much generally is modern retail for you as a percentage of it? That is my last question.

Achal Bakeri: As of now there is a fair amount of material in the channel. We would not be able to quantify because we are at the beginning of the summer, so most of what has been bought in the previous months have all been sold in the next three months. Because of the delayed summer much or most of that would still be lying with the channel. That is one thing. In terms of support, there is no question of being able to do any support even if we were to wish to do something, so as of now, there is nothing special that we are doing, but once things reopen and once things sort of come back to normal and that time depending on the situation, depending on what will be the requirement, we will do whatever is required.

Nrupesh Shah: As it was beginning of the season, I think many distributors have also successfully placed good part of the inventory with the



*IIFL Securities
March 24, 2020*

dealers, so it is not like entire inventory is lying just with the distributors it has also gone to the next level.

- Achal Bakeri:** But basically, it is still within the channel.
- Nitin Arora:** Thank you.
- Moderator:** Thank you. The next question is from the line of Navin Trivedi from HDFC Securities. Please go ahead.
- Navin Trivedi:** Sir my question is with respect to you mentioned about in March you lost around 10% kind of revenues if you can just give us some thought process?
- Nrupesh Shah:** For the Q4FY20.
- Navin Trivedi:** If you can just give us some flavor about your January and February performance because typically these are times when the south market, you start building your inventories, so how has been the trend, pre-COVIDs time, I can understand the last three weeks time, but if you can just give us some flavor about that?
- Achal Bakeri:** Like I said, we are more or less on track with Q4 of FY2017-18. In the year as whole also it is more or less similar number as of FY2017-18. So, for Q4FY20, that 10% loss, was little bit additional, but notwithstanding that we will end the year with more or less similar levels of FY2017-18.
- Nrupesh Shah:** Also, for the quarter March 2020 even vis-à-vis March 2018 quarter topline wise, we should be in line with that despite this loss of about 10% of quarterly sales. Of course, there is going to be a growth over March 2019 quarter
- Navin Trivedi:** I just do not understand when you said the situation is more like 2017-2018, because that was a time when the season was very weak and our inventory was significantly high. If I look at now season has just started, it is delayed around 10 days, so when you are saying it is similar to 2017-2018 you are talking about only the fourth quarter or you are talking about the upcoming season?
- Achal Bakeri:** I am talking about fourth quarter and FY2019-20 year as a whole
- Navin Trivedi:** When you are saying the situation is like 2017-2018, you are saying about the upcoming season performance?
- Achal Bakeri:** No, we are comparing FY2019-20 performance with FY2017-18, i.e. April to March



*IIFL Securities
March 24, 2020*

- Navin Trivedi:** My next question is I think if my understanding is right, for air coolers peak season is in May, and for the consumer offtake point of view?
- Achal Bakeri:** No, in fact, it begins in March, and then goes on. It begins earlier in the south and then it is a little weaker in the north, but it begins in March and sort of signs off in June. So, the peak months I would say April and May for secondary sales.
- Moderator:** Thank you. The next question is from the line of Ronak Vora from AUM Fund Advisors. Please go ahead.
- Ronak Vora:** Where are we in terms of raw material procurement?
- Achal Bakeri:** In terms of raw material procurement, like I said in my opening remarks, so far, we had whatever material we needed, so as far as incoming supplies are concerned, I think there is not much of an issue. The manufacturing is all shutdown, so raw material is not much of an issue, but we have a lot of imported components those are on the way because China has reopened, but domestic supplier are shutdown, domestic manufacturing is shutdown, our OEMs are shut, so at this moment our production has gone to a halt.
- Ronak Vora:** Do we see like the imports coming on a normalized basis?
- Achal Bakeri:** They have already begun.
- Ronak Vora:** Thank you.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand over the conference over to Ms. Renu Baid for her closing comments.
- Renu Baid:** Thank you Lizaan. On behalf of IIFL I would like to thank the management for giving us the time and sharing the on-ground situation with investors. Thank you so much Sir. Any closing remarks from your end?
- Nrupesh Shah:** I believe vis-à-vis competition, we are much better placed and once situation normalizes I believe our edge over competition will in fact further enhance. Any industry is not run just for a week or for a month or for a couple of months, so we are really looking at a very, very bright future in the medium term to long-term and of course, in a couple of weeks if situation normalizes I think there is not much to lose, but we need to keep the fingers crossed. Thank you everybody for your participation and sparring your valuable time.



*IIFL Securities
March 24, 2020*

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