# "Symphony Limited
Q3 FY2022 Earnings Conference Call"

January 25, 2022

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**Moderator**: Ladies and gentlemen good day and welcome to the Q3 FY2022 earnings conference call of symphony limited hosted by Batlivala & Karani Securities India Private 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 Mr. Kunal Sheth from B&K Securities. Thank you and over to you, Sir!

**Kunal Sheth**: Thank you Jacob and I would like to welcome the management of Symphony Limited on the call and would like to thank them for giving us this opportunity and I also sincerely wish that everybody in the Symphony Limited family safe and healthy. From the management today we have Mr. Achal Bakeri, Chairman & Managing Director of Symphony Limited; Mr. Nrupesh Shah, Executive Director - Corporate Affairs; and Mr. Amit Kumar, Executive Director & Group CEO. Sir, I would request you to give us some opening remarks post which we will open the floor for a Q&A session. Over to you, Sir!

**Achal Bakeri**: Thank you very much. This is Achal Bakeri. A warm welcome to all of you and thank you for your interest and participation in this conference call. My colleague Nrupesh Shah will give his commentary on the financial performance after which myself, Nrupesh Shah and Amit Kumar will respond to any questions that you may have. Thank you very much. Over to Nrupesh bhai!

**Nrupesh Shah**: Yes, thank you Achal bhai. I welcome all the participants in these nine months and December Q3 Investor Conference Call. Customary safe harbor rule applies; hope all the participants are safe and healthy. So for nine months on a consolidated basis, the sales stands at 653 Crores versus 560 Crores year before registering topline growth of 17% out of which sales in India amounts to about 341 Crores while overseas sales including exports from India and sales by respecting overseas subsidiaries put together is 312 Crores. So in nine months the ratio is about 52%, 48% between domestic sales and overseas sales.

Coming to profit after tax for nine months PAT is up from 44 Crores to 57 Crores up by 29% versus topline growth of 17%. About gross margin percentage on consolidated basis stands at 44% slightly up from last year mainly on account of improved performance of overseas subsidiaries and also EBIDTA is up from 12% to 15%. For quarter ended December the console sales is down from 216 Crores to 204 Crores that is down by 5% while PAT stands at 21 Crores down from 27 Crores.

Coming to standalone financials: The standalone top line stands at 388 Crores for nine months versus 275 Crores last year while for quarter ended December it is 145 Crores versus 123 Crores and PAT stands at 68 Crores for nine months versus 63 Crores and for the quarter ended December it is 29 Crores versus 35 Crores. The company has declared a second interim dividend of 50% that is Re.1 per share for December quarter on a face value of Rs.2 total amounting to Rs.7 Crore this is in addition to September quarter interim dividend of Rs.2 per share amounting to Rs.14 Crores totaling for 9 months Rs.3 per share that is 150% and absolute amount wise about 21 Crores.

For nine months the consolidated gross profit and EBITDA margin percentage as well as quarterly consolidated gross profit and EBITDA margin percentage are almost in line with last year and we expect it to be maintained that way for current year as a whole. However standalone gross profit margin percentage and EBITDA margin percentage are lower on account of couple of reasons the company has purposefully and strategically not taken any major price increase and on top of it, it has taken various initiatives to support the trade channel as many of them are sitting on large inventory.

Essentially to ensure the improved performance during ensuing quarters including summer of 2022. Moreover during quarter there has been sales to Climate Technology which as it was guided earlier the gross profit margin percentage is lower on standalone as part of the profit in fact, part is being retained at the level of Climate Technology and because of these reasons the gross profit margin percentage and contribution are lower vis-à-vis last year and we have also incurred certain expenses for various initiatives related to D2C, Large Space Venti-Cooling that is LSV and some of the initiatives related to exports to USA and all these expenses have been treated as a revenue expenses even though the benefits of most of those expenses will accrue down the line. Even in March quarter we expect these initiatives and strategy likely to continue basically trade handholding as well as by and large maintaining current level of pricing in the interest of growth as well as larger summer sales and subsequent growth.

Coming to subsidiary companies for IMPCO nine months sales is up from 49 Crores to 66 Crores that is back to pre-COVID level and profit before tax is 7 Crores for nine months versus negative 6 Crores for December 2020 that is a swing of 13 Crores and this has been achieved mainly on account of massive price hike which IMPCO has taken almost 30% and still it has maintained the gross momentum.

Coming to climate technology for nine months the sales amounts to about 197 Crores versus 215 Crores that is down by about 10% despite that EBIDTA is positive 7 Crores versus negative 7 Crores in last year, but PAT is negative 8 Crores versus negative 22 Crores. However, I wish to draw your attention that Climate Technology's performance is highly skewed towards March quarter especially in current year.

Year as a whole Climate Technology, we are quite optimistic and confident that will register not only healthy EBIDTA but also decent profit after tax that too after providing interest on acquisition loan. This has become possible mainly on account of variety of value engineering and other initiatives which were taken by Symphony India and on top of it the robust sales of residential range of air cooler from Symphony India to United States.

As of now we have the clear visibility that in current year that is 2021- 22 the sales to USA mainly of Symphony range of residential air coolers will be about 160 Crores versus approx. 100

Crores last year, Before we acquired climate technology in the year 2017- 18 the Climate Technology, sales to US was about 36 Crores. And as these air coolers are being manufactured and supplied from India overall profitability margin is quite healthy and mainly it is retained at a level of Climate Technology.

Even for next year that is 2022 23 there is a clear visibility of robust growth in US business mainly for Symphony range of residential air cooler and the growth is likely to be in line with year 2021 22. However, Climate Technology has not taken price increase for domestic sales unlike IMPCO Mexico. Thank you.

With this I open it for question and answer.

**Moderator**: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

**Renu Baid**: Good evening, Sir. My first question is regarding the domestic portfolio in the standalone business if you knock out exports then probably for the first time in the history December quarter has seen a sequential decline versus the September quarter. So can you share inputs in terms of what has led to this drop is it purely negative sentiments from the trade to stock a significant stock which is already lying with them from the previous season and how do we foresee the impact of that in the coming March quarter. That is the first question.

**Nrupesh Shah**: No, so you are absolutely right Renu. This is mainly on account of high level of inventory of air coolers with the trade not only of Symphony but also of peers and hence as of now they are holding that by decision and hence as I shared in my remarks, we have taken various initiatives for their hand holding and intentionally even though we could have very well taken the price increase and hardly it would have impacted the sales of current quarter, but we have kept it on hold.

**Renu Baid**: Sir basically are we expecting that this volume accretion should kickoff somewhere towards Feb, March once the channel starts to restock again or do you believe the restocking trend this time could be more towards the end of March or April only once the season is finally at the door.

**Achal Bakeri**: Renu it all depends on when the temperatures begin to rise. We have seen in the past by February we see a good temperature rise, if that were to happen then there would be a sort of liquidation of channel inventory and there would be replenishment. However, I would also urge you to look at not just this quarter look at the overall nine months period there will be some sort of timing issue some products would have not been able to be billed in the last quarter because of logistics reasons and trades sort of inability or unwillingness to lift up material despite them having paid for it. So, there are those kinds of issues so I would actually be look at it more from a long-term perspective of the nine-month period perspective rather than the quarter specific perspective.

**Renu Baid**: Got it. Secondly on the gross margin side if I broadly look at almost a 500-basis point compression the gross margins on a sequential basis that is almost in line with the overall EBIT margin drop that we have seen in the India sales on the standalone basis. So while this seems to be entirely because of mix, you also mention incremental cost headwinds and investments that you have done in the LSV and other portfolio. So only for understanding perspective can you help us understand what percentage of the gross margins or how many bps was because of inflationary headwind because of change in sales mix and other investments the special incentives which you have extended to the channel?

**Achal Bakeri**: So, there are two primary reasons one is if you were to compare with the same period of 2019 then in 2019 or in normal year as you would know that Symphony's sales realizations are the highest in the April to June quarter then they are the lowest in the July to September quarter and then they begin to creep up again from month-after-month up to June. Now for the last two summers because of the pandemic we really did not get significant sales in the first quarter of the April to June quarter. So the quarter in which our realizations are the highest is the quarter in which we did the lowest sales in the last two years that would have a significant impact on the overall sort of gross margin and contribution for the entire year. So that is one, secondly as was explained by Nrupesh bhai and as we all know there have been severe inflationary pressure on all commodities and our input costs have gone up significantly and we have sort of had a very modest price rise on some models and we have not really deliberately sort of passed it on and that is why we have absorbed that the sort of cost increase. So the combination of these two together has led to a compression in the gross margin.

**Renu Baid**: Any possibility of quantifying this split between two whether it was inflationary headwinds at 100, 200 or 300 basis point kind of impact.

**Achal Bakeri**: I do not have the numbers right here, but I would say maybe the inflationary headwinds would constitute maybe about 3% out of those 5% and 2% would probably be towards because of the lack of sales in the April, to June quarter.

**Renu Baid**: Thirdly is on the portfolio while we have broadly on the exposed side residential AC portfolio sales in CTL has done well and that has reflected the sharp jump in exports that you have seen in this quarter and in the opening remarks Nrupesh bhai has also mentioned that they are expecting our sales to the US market also to remain fairly strong as we ahead towards the subsequent quarters. So broadly if you look at the overall export portfolio of Symphony India both in terms of exports to the US market as well as to CTL how should we look at this share of the business do we see the export portfolio now continuing to grow and should become almost a third or so of a business mix or what is the broad view in terms of the export business outlook.

**Achal Bakeri**: Before I answer that question in continuation of what I said before the gross margin reduction is also partly due to exports because exports has grown in the last two years especially to the US and to Australia and those are at almost a marginal contribution and just sort of transfer pricing contribution, margins in India and because of that also which was not the case in 2019 we did not have the exports in 2019 that we have in 2020 and 2021. So that is the third reason why there is a reduction in the gross margin, and now to come to…

**Renu Baid**: Just to come back because if I look at the EBIT margin for rest of world the EBIT margin for rest of world is still 32% compared to 25% that we have for the India portfolio so actually the EBIT margin for the rest of the world of the export portfolio within the standalone financials have actually improved.

**Nrupesh Shah**: Yes, so Renu there we have to see the breakup between the real rest of the world and sales to subsidiary companies. So EBITDA margin or contribution margin to one subsidiary sales especially Climate Technology is not material but to rest of the world including to IMPCO is material and we will see the significant impact of that in March quarter however if we combine the performance because most of the profitability is retained at climate technology level so CT and Symphony put together it is absolutely in line with domestic business.

**Achal Bakeri**: Before you get into that if you remember, you might not remember, but three months ago for during the last quarterly con call I had said that we look at the subsidiaries is as if they are branches so because they are in a different country and because they are separate legal entities so we have to treat them as subsidiaries but if they were in India, in India for example we sell in let us say in West Bengal and we sell in Gujarat we do not look at them as separate entities know we look at Symphony India as a whole so because in the case of subsidiaries they are in a different country in different geography and separate legal entities so we have to look at them separately but in reality because they are like trading arms of symphony in many cases not entirely but to a great degree a lot of the products that are being sold by them are manufactured in India so we have to look at the profitability of the two together and as Nrupesh bhai said once we see that then they are to a great degree in line with what happens in India this is not true for climate technologies Australia, but this is true for everywhere else whether it is Mexico, whether it is the US there both countries to which Symphony Export significant volume from India there if you were to look at the combined margins they are about the same as the standalone margins of Symphony India within India.

**Renu Baid**: Got it and just last question on the subsidiaries again if you can I think you did comment about IMPCO and CTL but there were no comments about GSK China so how is that business doing and how was the performance for the nine months and also aligned with this Nrupesh Sir had mentioned that for CTL there were no price hikes taken and given that so is there any issue with respect to the demand off take there because now it would be summers in the current quarter in CTL so should that margin be bunched up together in the 4Q profitability in terms of not taking price hike in those markets which you can also throw some insight there. Thank you.

**Achal Bakeri**: So as far as IMPCO is concerned we had a 30% price hike this year on top of about nearly a 10% hike in the previous year. So there I would say the credit goes to IMPCO management for having the courage to do that and I think it is really more of a factor of having the conviction and self-confidence to be able to pull it through maybe next year CT management will also be more sort of I would say open to price increases as we have done in IMPCO but I think it is more a matter of local I would say local considerations and the philosophy of the local people the local team but we feel that a year from now things should be different and we should be able to also sort of get price increases enough to cover the additional costs and talking about GSK in China there again the topline has not been growing that is a little better than last year but overall I would say it is still nothing significant however what measure that have been taken and which should begin to bear fruit, yield results from the current year itself from January onwards are significant reduction in fixed costs. So we have essentially brought down the breakeven point significantly. So in the financial year 2022 we should see at least the cash breakeven at GSK something which we had seen we had experience in 2018 we had achieved in 2018 before things got out of control but in 2022 we expect to once again bring it back to cash break even.

**Renu Baid**: Get it, yes, sure. Thanks, and best of luck.

**Nrupesh Shah**: With that respect, so in line with other subsidiaries just for your information for nine months GSK topline is 31 Crores while EBITDA is negative of 1 Crore and PAT is negative 8 Crores after providing for interest on loan granted by Symphony India. So that has been a drag on overall performance.

**Renu Baid**: Thanks so much Sir and all the best.

**Moderator**: Thank you. The next question is from the line of Manoj Gori from Equirius Securities. Please go ahead.

**Manoj Gori**: Yes, thanks for the opportunity. Sir first question on the gross margin so you gave a brief explanation about the gross margin deterioration and also just I want to understand like in the fourth quarter obviously the schemes are likely to continue and if I understand correctly, we do not intend to take price hikes during the fourth quarter as well. So probably the incremental schemes and plus impact on gross margins because of RM should lead to similar kind of gross margin levels during Q4 and probably we can expect some improvement from Q1 onward with regards to lower schemes and probably some price hikes, is that understanding correct.

**Achal Bakeri**: That is fairly accurate Manoj your understanding is fairly accurate. Q4 should see more or less the similar levels of margins as we have seen in the last three quarters and Q1 onwards things should improve once again assuming that the COVID is behind us and the summer is normal then things should be back to sort of historical levels.

**Manoj Gori**: Right, thanks. Second on the subsidiary part I am sorry if I am making this repeat like the sales are down significantly on Y-o-Y basis. So, can you please highlight what were the reasons of that?

**Nrupesh Shah**: So this is mainly on account of Climate Technology. For IMPCO in fact for nine months there has been a robust growth in sales despite a price increase in GSK it is almost in line with last year and in Climate Technology domestic sales has declined, however there are robust confirmed orders for US business and there has been a spillover of that sales from December quarter to March quarter and it will more than offset the declining in sales for nine months, but mainly on account of US business for symphony range of residential air coolers.

**Manoj Gori**: So the spill from Q3 to Q4 was due to some container issues or some logistic issues or was it a pure timing related issues?

**Nrupesh Shah**: No it is purely on account of those logistic issues because there are confirmed orders and that to some of the large customers who have their own supply chain management globally including logistics that themselves how to maintain it but it has already commenced from second week of January and we expect that spillover to finish in current month itself.

**Manoj Gori**: That is right, thanks. Thirdly on the domestic market obviously because of the higher inventories bit of a muted trade sentiment the primary sales were definitely impacted during the current quarter versus what we normally do. So are we seeing any early signs where the trade sentiments are improving or do we need to wait for another 10-15 days until the temperature starts rising?

**Achal Bakeri**: The trade sentiment Manoj were only improve once inventory off take begins and that will happen once temperatures begin to rise and so hopefully that should happen in sometime next month onwards typically we see that at least in the South that the summer is sort of set in, in February this time although there might be a bit of a delay in looking at current temperatures there might be a sort of delayed onset of summer but we will see let us see what happens but unless that happens unless there is a off take the trade sentiment will not improve however there the trade is very confident about the summer their sentiment about the summer is fairly robust. It is just that at the moment they are sort of little diffident, but they are because we are in touch with the trade across the country all the time and everyone is very, very upbeat about the prospects of the summer it is just that the immediate sentiment is not all that good but as far as the summer is concerned there everyone is quite hopeful that it should be quite a turnaround.

**Manoj Gori**: And also put to come over there that most of the AC companies also like even the unlisted AC companies have also been billed on the summer. So probably they were also giving feedback that probably full sale might turn into 1Q but overall first half of calendar year should witness strong summer and strong primary sales for cooling product category.

**Achal Bakeri:** That is happy nice to hear. Thank you

**Nrupesh Shah**: And Manoj we should also keep in mind last two summers were impacted on account of COVID so trade is also cognizant of the fact that there may be a pent-up demand and hence by and large once there is a reasonable summer the inventory lying with the trade they will be in a position to monetize it and that should kick-start the decent sales from company and customers.

**Achal Bakeri:** That is exactly what we had experienced last year in the summer of 2021 the second wave came only in April till then the demand that we had was phenomenal this is the pent up demand which Nrupesh bhai spoke about was actually experienced by us so that was the time when our sales team's direction to our production team was produce whatever you can and we will sell it and then suddenly of course the breaks were applied because of the second wave but otherwise that pent-up demand was something that we actually did witnessed ourselves.

**Manoj Gori**: Right very true, Sir. Just to continue on this so last year obviously February last week till first half of April your secondary uptakes were very, very strong. So do you expect similar kind of situation if temperatures normalize probably, it might be Feb by end or probably March, but similar kind of demand could be expected given that consumers have been facing some inflationary issues and there has been some impact on some of the other product categories as well in terms of demand so just last on this.

Achal Bakeri: So what we gather from our trade partners is that the demand should come rolling back, if the summer is normal nothing abnormal about it if there is no sort of the pandemic is there is no wave we are not in the middle of a wave if everything is normal then the demand should come rolling back is what our channel partners tell us.

**Manoj Gori**: Yes, thanks a lot Sir thanks a lot for answering and wish you all the best.

**Achal Bakeri**: Thank you Manoj.

**Nrupesh Shah**: And that is the reason why we have taken a strategic call to hold a price increase and to do a holding of the trade for a temporary period in the long-term interest and growth.

**Manoj Gori**: Right Sir thanks a lot.

**Moderator**: Thank you. The next question is from the line of Aditya Bhartia from Investec. Please go ahead.

**Aditya Bhartia**: Thanks for this opportunity. It would help if you could explain what are the kinds of investments that we have made in various schemes that you spoke about D2C large space ventilated air coolers and what is the kind of dealer support that you have extended this particular quarter?

**Amit Kumar:** So I will take that. See the D2C is a platform which we have launched it aggressively last year and now we launched a revised entire shop. This is a platform which we are going to push aggressively on especially for the coming season. At the back end we have built an entire team focused on D2C and we have now entered into partnership with various third parties on to how we take this to the markets including the offers we are making the way we are doing the performance marketing and so on. So that is something that we expect to give for us a significant push to in the coming season as we move forward. LSV is a business that we have been nurturing for a couple of years now and while the last two seasons despite getting affected by COVID we were able to build the entire sort of ecosystem around taking this LSV business to market including not only the products which are now completely made in India but also the entire accessory is the range of tools, LSV side that we provide. Also, we are expanding the distribution and dealership network for that so the channel partnership that we have in the market is something we are working on aggressively you might have noticed that even the multimedia campaign including the new TV commercials and all for LSV business were launched earlier this week. We are hoping that it will give us substantial traction in the market as we move forward.

**Nrupesh Shah**: In both these verticals as well as in other verticals at a top level we have also made some recruitment. So that has also added to the cost and even in LSV there is going to be starting current ones itself very high decibel media campaign also and business development.

**Aditya Bhartia**: Understood Sir. Sir on the D2C side are our products different from the ones that get sold in the conventional distribution channel do you think it will be creating a parallel channel which can potentially create a conflict for a dealer or a distributor and how will we take them on board in this journey.

**Amit Kumar**: So there our distribution strategy is omni channel to answer the first part of the question a good chunk of the portfolio would be common at the same time there are a couple of exclusive products which we would launch and introduce on the D2C channel as we go into building business on that channel. In terms of the conflict between channels is that the approach is going to be more on the channel and what we are going to ensure is that one of the channels is sort of making out a partial treatment so to that extent we focus on doing the right kind of pricing ensuring consistency across positioning the offers we are making in different channels and it is not only let us say D2C but even whether it is MT or RCS or GT everywhere we are offering the same value proposition is something which ensures for products which are common across these channels.

**Aditya Bhartia**: And when we speak about D2C it is through our own website as well as some of the marketplaces is that understanding correct.

**Amit Kumar**: Yes, that is correct, that is absolutely correct. So we have completely retain our shops online and I would request all of you to get that experience in new shops that was the product at the same time we will be present across all the online marketplaces like Amazon and Flipkart and so on as well as the online shops of all our MT and RCS partners.

**Aditya Bhartia**: Sir a lot of companies appear to be following online to offline strategy where in the end delivery actually gets done by a dealer in the close proximity though demand maybe getting generated through online channels is that something that we also evaluated and why is it that we ultimately are offering to go to D2C route because what I am wondering is how will dealers be perceiving this strategy.

**Amit Kumar**: So that is a very interesting perspective Aditya that you have brought up and if you recall in the first lockdown, I am not sure whether you recall that then if you highlight in the first round we started with the approach of dial a cooler. At the level it was a complete online to offline support system that we did. At this point in time what we have taken is the control on D2C in terms of the service level the visibility and the user experience being enlist from the point of respite to the point of delivery at home. We saw sort of where it has moved a bit in favor of doing a thorough end-to-end supply chain control on D2C within our Holdco and that is where we have taken the approach of having D2C as a pattern channel, that said over the long-term D2C will focus on introducing any smaller introducing models which are exclusive and to that extent reduce what may be seen as a conflict part of the channel universe.

**Aditya Bhartia**: Understood, Sir and sir last question from my side just trying to understand what is it that really stopped us from taking price hikes even if we would have taken the price hike dealers would have been having inventory which would have been at a relatively lower cost vis-à-vis the new inventory that would come into the channel. So that automatically would have possibly increased the incentive that automatically would have given dealers the extra incentive that they require possibly the kind of hand holding that they require. Is it that we are facing significantly more competitive challenge competitive pressure which is not really allowing us to be taking a pricing hike?

**Achal Bakeri**: Because of the large inventory the huge amount of inventory that is lying with the channel which would have unnecessarily been sold at a higher price if we were to increase our price so the price hike could not have benefited us as much as it would have benefited the intermediary channel so which is why we decided not to do it we will take a call when the channel inventory is at a lower level.

**Aditya Bhartia**: No but Sir exactly my point as it is you want to support the channel you want to handle the channel this would have been one way of possibly doing it wherein dealers and distributors could have made more money on the inventory that as it is carrying and we could have also managed without having a pressure on the gross margin side which is why I am trying to understand are competitive pressures also playing a part in our pricing decisions because otherwise I think that the price hikes could have been one strategy that we may have adopted.

**Achal Bakeri**: No like I explained to you price hikes would have benefited us less than what it would have benefited the channel so there were those reasons and again so I have sort of said as much as I can and I think that should have to suffice for this.

**Aditya Bhatia**: Understood thanks for your time.

**Moderator**: Thank you. The next question is from the line of Rahul Gajare from Haitong Securities. Please go ahead.

**Rahul Gajare**: Thanks for the opportunity. Sir continuing the earlier discussion, I understand margins were impacted mainly due to trade support that we have done and delay in price hike. Can you quantify how much percentage of price hikes you would need to even out the margin in FY2023 because we think Q4 is when the dealer will also need the support FY2023 will be a fresh start so if we were to envisage the kind of price hike that you have to take what would be the quantum that is the first question.

**Nrupesh Shah**: Yes, so Rahul it is very clear that whatever is the difference in gross profit margin percentage vis-à-vis normal year which is close to 5% that is the kind of the price increase required on an average. However, we have to also keep in mind that the inflationary cost pressure is substantially higher than 5%. So despite we have taken very modest price increase had not we carried out massive value engineering and some other product related cost rationalization and some other initiatives actually gross profit margin percentage with this price increase would have been actually much larger and also we have to keep in mind that this exercises pressure on us to a limited extent but on many other players to a greater extent so whenever we work out the strategy we have to keep in mind many other factors.

**Achal Bakeri**: And we have taken a 5% to 7% price increase anyway it is not as if we have taken next to nothing, we could have taken more but we took it on select models at the select time and select geography is looking at the channel inventory and all of that. So and as Nrupesh bhai said despite that we are left with a 5% gap between our erstwhile margin and our current margin. So an overall across the broad retail average price increase of about 5% would sort of bridge that gap but again that is a call that we will take at the appropriate time and as Nrupesh bhai said unless if we had not undertaken the massive value engineering initiatives that we have, the margin erosion would have been significant would have been much, much, much more

**Nrupesh Shah:** And one may reckon that in that respect the kind of the work what we have done is probably unique in the industry and that also gives a competitive advantage and that is how we look at it.

**Achal Bakeri:** And it is a series of things that we have done it is not just one major thing it is a hundred different things little, little, little things that all add up to significant sort of cost reductions or cost controls rather.

**Rahul Gajare**: Sir my second question is on the trend that we are seeing in the industry given the difficulty in terms of supply chain logistics and all I am sure there is a significant shift which is happening from unorganized to organized can you throw some light on how has organized industry moved over the last two, three years and how has your market share has also moved in the last two years because I remember last time it was around 50% so just your thought on this aspect. Thank you.

**Achal Bakeri**: By and large the shift from unorganized to organized has maintained at the steady pace that it has over a much longer period of time. So there has not been a remarkable change in the rate at which the unorganized has moved to the organized. So as of now we reckon it should be about 25% to 75% kind of a split between organized and unorganized and of the organized we have a 50% market share and that has not changed either the question is many times some analysis includes some players the denominator of what you consider to be organized as at times been sort of been very liberal which is why something like 70 players are considered as organized whereas from our perspective we consider only the sort of PAN India national players as organized because every state or every district will have some or the other local player none of them can be considered in organized if we consider the same national players as organized in our market share has remained pretty much at about 50% and but of course in the last few years a lot of new players in the unorganized sector have also come up and that also some regional players have also come up so there has been a I would say the overall competitive intensity has increased however that has not been entirely felt by Symphony we have been sort of shielded from that by the five or six or seven other players between that exists between us and the tail end of the organized players.

**Nrupesh Shah**: And what may happen that once normalcy is restored that is in post COVID scenario as many of those players are themselves are sitting on inventory and that trade partners are also sitting on inventory so it will also be known down the line to what extent who are how much, even some of the large players mid-sized players and of course unorganized players.

**Rahul Gajare**: Sure, thank you very much for your input on that.

**Moderator**: Thank you. The next question is from the line of Onkar Ghugardare from Shri Consultant. Please go ahead.

**Onkar Ghugardare**: Yes, just wanted to know what is your strategy on the capital allocation as you are sitting on your amount of treasury and you are giving dividends of Rs.1 and Rs.2 so just wanted to and you have been talking about buyback from last three years but nothing has materialized so just wanted to know your exact view on this.

**Nrupesh Shah**: No so in terms of the payout until March 2020 we have very much maintained the payout ratio of 50% you can check that in 2020 to take care of that 50% payout ratio we did announce massive special payout. Having said that of course we were talking about share buybacks but in between COVID came in and also some of the income tax regulations also change and some such decisions are also quite corporate in nature they have to be done at a right time. So certainly at a right time that will be restored but no way that is preventing from 50% payout whether it is in the form of dividend and or share buyback and hence now as we do have the reasonable visibility and confident about the future unlike last year even though in December quarter standalone and consolidated PAT is lower we have declared interim dividend which was not the case in December 2020.

**Onkar Ghugardare**: The special dividend you were talking about on March 2020 which was given partly because the earlier years you were preserving the cash in order to…?

**Nrupesh Shah**: That is right so if you consider earlier years PAT and that year PAT versus total payout it was about 50% of cumulative free cash flow.

**Onkar Ghugardare**: No but do not you think that you are holding such a treasury at a nominal rate say of 5% or so is not it deteriorating your ROE.

**Nrupesh Shah**: No that is how in our primary segment we have defined capital allocation policy unlike most other corporate and there itself we give the specific details how much is capital deployed in the core business that is air cooler and related business and corporate fund. So that gives an idea about the efficacy of capital deployed. Secondly in the business one does not purely see that way one has to also keep in mind other opportunities as well as likely contingency and also margin of safety or cushion but having said that that 50% will always be maintained and still board at a right time will take a right decision.

**Onkar Ghugardare**: Yes, so exactly how you plan to utilize those 600 Crores of cash at least you can tell me that what kind of opportunities you are talking about.

**Nrupesh Shah**: So out of 600 Crores we should keep in mind that is our gross treasury not a net treasury so there are also acquisition loan as well as working capital loan at a level of Climate Technology so if we net it off the net treasury is about 450 Crores as on September and it is not 600 Crores that is number one and number two last year and current year itself there is a deficit in payout which at a right time will be used and we believe that at this point of time this much pressure is required in the business so I do not have anything more to answer at this point of time.

**Onkar Ghugardare**: As far as the business is concerned if you look at it around 84 Crores is from international business and on that, that is around 40% of the entire business and 60% is domestic business so out of that 84 Crores which is 40% almost you have registered a loss over there. So I mean how does it work out I mean if your 40% business is posting losses then how does the business work?

**Nrupesh Shah**: So for nine months if you look at it consolidated EBIT is higher than last year. So you might be making a limited comparison of just one quarter and as we said our significant subsidiary which is, the Climate Technology is still towards the March quarter so year as a whole this ratio should see significant difference that is number one, number two as we explained earlier and you might have missed probably opening remarks we export to our overseas subsidiaries and significant business in the current year itself is going to USA mainly residential air cooler from Symphony India and also to IMPCO Mexico so on that in Climate Technology as well as in Symphony India as per the transfer pricing there is a margin and apart from that all subsidiaries also explore each other's competitive strengths whether it is in terms of the market strength technology product so there are direct benefits and indirect benefit both.

**Onkar Ghugardare**: Okay, thank you.

**Moderator**: Thank you. The next question is from the line of Pulkit Patni from Goldman Sachs. Please go ahead.

**Pulkit Patni**: Sir, my questions have been answered. Thank you.

**Moderator**: Thank you. The next question is from the line of Onkar Ghugardare from Shri Consultant. Please go ahead.

**Onkar Ghugardare**: I just wanted to know the tax thing which we are talking about where you get taxation benefit in doing buybacks and more taxation is done at when you pay dividends. So what is your thought on that?

**Nrupesh Shah**: They are the income tax regulations do we really need to discuss over here because.

**Onkar Ghugardare**: No you in your remark only said that, that it limits you or it stops you from doing that.

**Nrupesh Shah**: Yes, so earlier on buyback income tax was being paid at the level of the shareholder now there is a buyback taxation at a corporate level so that is the major difference.

**Onkar Ghugardare**: But has that, has your thinking changed on that I am just talking about that.

**Nrupesh Shah**: So in that respect benefit is the most to the promoter shareholder and other shareholder but it is not beneficial to the institutional shareholders because institutional shareholders for your information for income tax purpose wise it is a pass-through entity. So they prefer dividend payout versus buyback. So ultimately because of the change of the regulation we have to balance between two institutions shareholders expectation and perspective versus other shareholders.

**Onkar Ghugardare**: Okay, thank you.

**Moderator**: Thank you. As there are no further questions, I would now like to hand the conference over to the management for closing comments.

**Nrupesh Shah**: Thank you all the participants for sparing your valuable time and I also take this opportunity to thank Kunal from B&K Securities for hosting this call. Thank you very much.

**Moderator**: Thank you. On behalf of Batlivala & Karani Securities India Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.