"Symphony Limited Q1 FY-22 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, good day and welcome to the Symphony Limited Q1 FY-22 Earnings Conference Call hosted by Trust Financial Consultancy Services Private Limited. At this moment all participants are in listen only mode. Later we will conduct a question-and-answer session when the presentation concludes. If you have any technical difficulty, please use the assistance icons present at the bottom left of your screen. I now hand over the proceedings to Mr. Nrupesh Shah – Executive Director. Thank you and over to you Sir.

Nrupesh Shah: Good morning everybody. Thank you for sparing your time on Monday morning to participate in Q1 Earnings Call of Symphony. This time we have attempted to make video conference presentation so that we can convey in a much better way. For conference call there are certain limitations in respect of the charts and graphs and certain pictures, and also in respect of certain videos. Hopefully, this should work out better.

There is a disclaimer - safe harbor statement in the respect of future estimates and forward-looking statement applicable to Symphony India, as well as overseas subsidiaries and consolidated financials.

This is the portfolio of global brands of Symphony. Of course, almost 80% of the volume wise sales comes under Symphony brand. However, Master Cool and Arctic Circle both well-established in Mexico and certain parts of Latin America. KI it is from China and also on exports from China. As far as Bonaire and Celair are concerned, they are for Australia as well as some parts of US and Arizona that is for US. Depending upon the territory and where, which brand is established and well-known, those brands are being used.

Taking you through about the management comments and views on the performance and outlook:

As far as June 2021 performance is concerned and it is known FY-21 as well as Q1 FY-22 performance have been impacted on account of COVID-19. Unfortunately, second wave of COVID 19 started exactly during the summer of 2021 along with extensive lockdown what we witnessed in summer of 2020 – both the peak season of air cooler. In fact, until middle of April, the sentiments and the demand were so robust, that the complete focus was on production and the internal instruction to the operation team, and the tie up with OEMs was such as whichever model in whatever quantity they can produce, they should accelerate. The proof of the pudding really lies in the performance of March 2021 quarter, during which we registered highest ever topline as well as highest ever consolidated PAT. Considering the kind of the sentiment, we had also accelerated our advertisement and sales promotion expenses and out of 19 crores, most of that been incurred in April 21. Hence, despite our gross profit margin is about 48%, EBITDA margin has impacted badly.

However silver line is our exports have been robust and on top of it, e-commerce whether D2C or large organized retailers mainly through e-commerce websites, there has been huge traction and YoY has registered a huge jump. At the same time barring Australia, the COVID has not much impacted our Mexican subsidiary and our Chinese subsidiary. Even in Australia there has been marginal impact.

As far as the outlook of FY-22 vis-à-vis previous year we are very confident to achieve much better performance in FY-22 vis-à-vis FY-21.

Due to variety of initiatives undertaken by the management like, we launched series of new models in last 6 months to 18 months, not only in the residential range, but also in the commercial range and in the overseas market. And some of those models are really, path breaking having a huge edge over competition. Secondly, last year our focus was also enhancing dealer and distribution network, not only in urban area, but also having a rural focus and semi-urban focus. Thirdly again huge emphasis which is really ending the result in terms the e-commerce sales. Fourthly we are substantially enhancing our capabilities for centralized air cooling, coupled with series of initiatives in the respect of the cost rationalization have been taken, apart from that operating by efficiency has also improved. Because of all these factors we are very confident that in FY-22, our gross profit margin percentage on domestic sales, that is the sales in India, should be back to normal margin of around 50%. Again, to reiterate, whatever new models have been launched we are having pricing power. In other models we have taken a selected price increase. And because of cost rationalization and operating efficiency, whatever input and freight cost increases has taken place, in last 6-9 months we are quite confident to compensate them.

On top of it, in the current year we are also going to witness huge jump in exports from India, and we believe that it should be easily more than Rs 100 crores. And finally, as far as the highlight of overseas purchases is concerned, the Climate Technologies, Australia, which has not performed well until December 2020, it was actually much below our expectation, but the kind of turnaround it has witnessed in March 21 quarter, that is not going to be limited just to that quarter. But current year as a whole that turnaround will accelerate. However, its business is now skewed such as most of that performance will be witnessed in March 22 quarter.

Now I will take you through new launches of Symphony India. In the interest of the time, I will not elaborate about its USP or features. If anybody is interested, they can contact Deval Shah, so just showing the images, this Diet 3D, about 5 models, new Sumo one of the flagship series of Symphony, including Double Decker, HighFlo, new-age series of Duet- cooling fans, this is the product which will be sold round the year, as of now we are selling only through e-commerce platform. The uniqueness is it has a detachable pedestal for dual usage, on the table as well as floor standing. Down the line we are also going to come out with other models under the series.

So, this is the advertisement campaign. We will take you through one of the TV commercials. Now coming to new launches in the industrial and commercial air coolers, 7 models under that range. Also, we have launched a range of accessories for quick installation and standardization of industrial and commercial air coolers. These are some of the new client additions in June 21 quarter of industrial air cooling, including Big Basket, Delivery, Welspun and Hawkins. So far whatever new range of residential as well as commercial air coolers have been made, many of them have been developed and designed with the R&D help of GSK, China. In fact, in centralized, and ducted air coolers, there has been a huge support from China.

Now coming to new launches in our subsidiaries, in Climate Technologies roof mounted air coolers which is the flagship range for sale in Australia, those models have been completely developed in India, vis-à-vis, and starting from next month these products will be manufactured in India. This will completely replace all the roof top models production from Australia to India. These are about the new range and in addition to this, there is also K-Series, meant for sale in the United States by Climate Technologies. However, again these models have been developed and designed by Chinese R&D facility, with some inputs from Climate Technologies. New launches in Impco Mexico, HT series air cooler in Mexico and GSK China developed locally household air coolers. If you may recollect, until 2 years ago GSK had negligible presence in household air coolers, as Munters from whom we acquired the company, had stopped the production of household air coolers. But we are re-launching and trying to establish in China.

Coming to D2C brands in the summer of last financial year, as you may recollect, we had initiated direct sales to consumers from our own website and it has attained some traction. In fact, in current year, it has attained substantial traffic and it has been really appreciated by the customers. I request Deval Shah to take you through some of the features of the D2C.

Deval Shah: These D2C was launched, entirely the strategy was to launch a new channel for the convenience of the clients. The main purpose was to give the sales for around the year so that we did not want to lose out on the spot of the summer in the regions of India. We wanted them cover that as well. So, this was one of the idea behind the D2C as well. Because of the COVID it has accelerated the D2C campaign. It also gives us the flexibility to generate sales anywhere across the region, in India, and the D2C is completely automatic from purchase to sales. The entire channel has been completely automatic and there is a minimal human intervention in this. We have adopted global standard of e-commerce in D2C. It is only to cater to the user experience and user interface, so we have completely aligned with the global standard, and this is the quick upload of the D2C also, in that sales can be made seamlessly, and it has been well categorized keeping in mind the requirement of the client.

I will just quickly show you the website as well. These are the categories, we have broadly identified the categories as well, household coolers, commercial coolers, industrial coolers, and unlike any other e-commerce purchase, it is seamless. Right from clicking on the coolers you can get the quick overview of the cooler, and purchase can be made very seamlessly. It is replicating the global e-commerce sites.

Nrupesh Shah: This is about the consolidated gross revenue, during the quarter we have registered topline of 238 crores, versus 162 in June 2020. Of course, June 2020 itself there was a de-growth so that is not a comparison, and vis-à-vis June 2019 which was a normal quarter, 304 versus 238. About

EBITDA it is at 18 crores, and profit before tax is just about 10 crores, and profit after tax is 6 crores.

Coming to standalone financials, gross revenue has been at 113 crores, EBITDA has been 9 crores which could have been easily 21-22 even on the same performance, but unfortunately, we had to spend a large amount on advertisement and sales promotion and thereafter there was a second wave. Company generated Profit after tax of 7 crores. As far as gross margin percentage is concerned on our console level it is 43% in June-21. Certainly, this should improve, because one as I said, year as a whole on a standalone India sales Symphony will reach about 50% of gross margin, and overseas subsidies registered better performance down the line. Year as a whole it should be at least in the line with what it was in 2018-2019, or around that much. As far as standalone is concerned it is about 48%, which should be back to around 50%. Coming to EBITDA margin, it is about 8% for the quarter on consol basis and same is about standalone.

This is the geographical breakup of the sales. Domestic sales during the quarter has been 86 crores, and international sales which includes exports from India, and sales from our subsidiaries, about 144 crores. So, the break up is about one third in India and two third in the rest of the world. Of course, rest of the world has to generate good profitability on which we are reasonably confident but in a year like this our geographical diversification really seems to be paying in terms of de-risking the business. And it is not only geographical diversification, but also now good part of the sales is coming from southern hemisphere wherein our winter is their summer.

This is the treasury, it is about Rs 463 crores as on 30th June 2021 versus Rs 396 crores as on 30th June 2020, and about Rs 525 crores as of June 2019 on standalone basis. This excludes our equity investments in subsidiaries as well as loans and advances given to subsidiaries. I now open the house for question and answer.

Moderator: We will now begin the question-and-answer session. Our first question is from Omkar Gughardare from Shree Investments. Please go ahead.

Omkar Gughardare: If you look at the last 4 years of Symphony’s performance it looks like it is no longer a pure play consistent performer, but more like a cyclical business. What do you have to comment on that?

Nrupesh Shah: You are absolutely right. There are no doubts about it. Unfortunately, last year as well as current quarter, have been badly impacted by COVID. In fact, when we had silver lining margin of March 2021 performance wherein for the quarter, vis-à-vis any quarter we registered the highest ever topline and profitability. But it could not sustain post 15th of April, and before that again there were two back-to-back summers. All said and done, in last 4 years as such there is no growth but as I mentioned in the commentary and in the presentation, we have initiated a variety of steps and measures whereby in the medium to long term, despite this, we are reasonably confident to register decent CAGR growth in topline as well as profitability.

Omkar Gughardare: Wanted your view on how you are going to use the treasury you have and how has been the performance so far in the current quarter?

Nrupesh Shah: As far as treasury is concerned, we have stated in shareholder policy whereby we have declared that at least 50% of the PAT will be paid by way of either dividend or by way of share buyback. So that remains. It is possible that in one or two quarters, it may not be the proportionate payout, but you may recollect that in 2019-2020 the payout was 107%. So, we will ensure that in one or two quarters or as it happened in 2020-2021, wherein we deal it appropriately conservative, considering the uncertainty but certainly it will be taken care. As far as use of the treasury in acquisition is concerned, as such in the immediate future, unless there is some compelling opportunity, we don't really intend to have it. As far as current quarter that is September quarter performance is concerned, it has begun well but it is just about 3 weeks of the current quarter. But I gave a broad outlook as to how we are looking at FY 21-22 with details.

Moderator: Next question is from the line of Nirav Vasa from Anand Rathi.

Nirav Vasa: My question was pertaining to the debt repayment. If I recollect from my last call, you had stated that the chances were good, that the outstanding long-term debt that we are having of around 140 crores might be prepaid, or maybe, some part of it might be paid earlier. I understand that these current situations are quite challenging, but are you still optimistic that this debt can be repaid earlier or maybe by the end of the FY-22 we see significant debt reduction?

Nrupesh Shah: We have already witnessed that reduction in working capital facility of Climate Technologies. To an extent, it has partly taken care from its own operations and cash flow. As far as long-term debt, which was taken for acquisition, we do not anticipate any major reduction by March 2022. What we were expecting and what we had conveyed, we have five years to repay. Starting next year 2022-2023 we see some ray of hope. In that respect whatever is the repayment schedule, still at this point of time, we feel that it is feasible. Thirdly the objective of raising this debt was not clearly meant for just acquisition, but number one, Australian Dollar has huge fluctuation. First and foremost, to take care of currency fluctuation. Secondly, the debt we have raised at the most competitive rate and that acquisition loan currently is at about all-inclusive cost less than 4%. Even in AAA, the very instruments of Symphony, our average pretax return is in excess of 6%, so to that extent there is an arbitrage. And number three, by raising debt we are trying to enforce some cash flow discipline at the local level of management, because we wish to ensure that by and large it is taken care from their cash accruals. Otherwise, our treasury is in far-far excess of the long-term Debt we can repay at any point of time. And there is no pre-payment charges also.

Moderator: The next question is from the line of Abhishek Jain from Arihant Capital.

Abhishek Jain: Can you throw some light on the climate change right now? How the things that shaping up currently and what is your long-term view on the same? Second, how the things are shaping up post COVID, things are picking up right now on the domestic side of the market.

Nrupesh Shah: Can you please repeat the first part of your question.

Abhishek Jain: How the climate change is shaping up the Australian business? If you can throw some light on this thing, Australian and US business. Last quarter we had one order, this quarter how the things are shaping up? Domestic side post COVID how the things are shaping up? Both things if you can put up some light.

Nrupesh Shah: As far as climate change impact is concerned, last week of June as well as the beginning of July, there was a heat wave in some parts of the country. Hence despite a significant summer was lost in many pockets of the country that is in northern India and some parts of western India. The inventories back to normal and season inventory, and in some parts in fact it is stock out. Secondly in the United States where we registered the business in excess of 100 crores in FY-21, there is a complete stock out because there also in some parts there was a heat wave. As far as Australia is concerned, we are not witnessing any major change, but we are aware that in Europe we could not export much, either from India or from GSK, China, because international freight costs have increased substantially, and they also wanted to keep it on hold. But they are repenting because in many European countries also there is a heat wave. And whatever carry forward stock was it was stock out long before. As it is known with all the climate change if we really see in the medium to long term temperature is going to increase, there is going to be a severe draught and to take care of the seasonality we have tried to derisk by way of geographical diversification. Does this answer your question?

Abhishek Jain: Thank you Sir.

Moderator: The next question from the line of Saurav Singh from HDFC securities.

Saurav Singh: Earlier we were talking about the inventory. Can we get the overall Indian market sense on the inventory levels for Symphony?

Nrupesh Shah: As of now inventory certainly is higher than the normal inventory. However, as I said earlier in some pockets of the country because of heat wave, there inventories are normal or there is some stock out. But they are some few pockets. All said and done, the inventory as of now is lower than the inventory, which was at the end of June 2020, but certainly higher than June 2019 or earlier normal years.

Saurav Singh: Secondly on the trade partners conference, what have you seen from it, channel partners, like after another washout of seasonal demand, what are their sense, like how are they coping up with it and how do we hope to help them out of this?

Nrupesh Shah: The background trade partners are by and large fine, the new trade partners who have joined in the recent past, they are quite cautious, and hence I will put it mixed bag. But I must say that the kind of hand holding which Symphony has done and is going to do is far-far better than peers and hence despite though the Symphony's market share even in terms of the secondary sale, is at least in line with the earlier year, or if at all it might have improved. I think this is a question of time. Why it is a question of time? Say until November 2020 sentiments were relatively low but starting January it improved and since March 2021 it improved so dramatical that than rather than sales our complete focus was on operations and production, and that is how it was until middle of April. If reasonable normalcy is restored, we don't foresee for any reason why that should not be repeated, not only in the ensuing quarters but in the ensuing years also. We should keep in mind the kind of models that Symphony has launched, that is in many-many models are generation gap and that really commands the pricing power and hence we made the statement that at least for our domestic sales our gross profit margin will be back to normal, for year as a whole.

Saurav Singh: Lastly for these CC revenue and margins, do we have any 2022 numbers in like we are looking at right now?

Nrupesh Shah: As I conveyed in my presentation certainly FY-22 we are looking at much better than FY-21. If there are no major hiccups, we are looking at FY-22 in line with, maybe if everything goes well even better than 2019-2020.

Moderator: Next question is from the line of Varun Patni from Quant Mutual Fund.

Varun Patni: My question was with regards to the advertisement expenditure plans for FY-22 as a whole.

Nrupesh Shah: As such in off-season quarter that is until December, barring some nominals amount no major advertisement and sales promotion is incurred. So maybe it will be in March quarter and need base that will be decided. As of now we have not pre-fixed, but it will evolve.

Varun Patni: You mentioned about the D2C sales, so what proportion of the quarterly sales was D2C sales? What percentage is D2C?

Nrupesh Shah: I will say that total e-commerce sales registered very phenomenal growth, which includes all kinds of e-commerce sales and that has been in triple digit percentage.

Varun Patni: It has been?

Nrupesh Shah: More than 100%.

Varun Patni: You mentioned you have got pricing power in some of the new products that you have launched. If you can tell something more about that. Why do we have such pricing power in those products?

Nrupesh Shah: As I showed in the presentation many of those models too have not only unique features and aesthetics, but also unique format and better performance. For any specific models or range if you wish to know further you can contact Deval Shah, he can provide you further details in respect of those aspects.

Moderator: The next question is from the line of Manoj Gori from Equirus Securities.

Manoj Gori: Basically, if you look at, as per my understanding, what you have guided is roughly around, like you are targeting 50% gross margin, so that could be on a consol basis right?

Nrupesh Shah: No, 50% gross margin Manoj is on a standalone basis, and in line with normal years what we used to have. Consol margin should be in line of last year or maybe better than last year.

Manoj Gori: The Q4 gross margins obviously, Q4 for subsidiaries are relatively heavier and accordingly we witnessed sharp expansion and gross margins during Q4 of FY-21. Similar trend should be visible during Q4 of FY-22 as well?

Nrupesh Shah: Absolutely.

Manoj Gori: My last question would be again on the gross margin. If you look at you are very confident about strong volumes going forward as compared to last year, and if you can surpass FY-20 numbers as well. Along with it you are targeting the 50% gross margins as well. So how the industry demands scenario is shaping up? That you are confident about prices getting passed on and on the other side you expect volumes to pick up as well. Some commentary on that? That would be very helpful Sir.

Nrupesh Shah: One in respect of the new models which have been launched, not only household but also in Movicool range it has really seen a good traction. In fact, even during bad summer, some of those models were relatively out of stock. Of course, just two or three models, not many. Number three the kind of response and feedback, and the confidence that has been expressed, not only internally but also by the trade partners. Number three starting from July we have new pricing, and so far in the month of July that pricing has been accepted well. Secondly as I conveyed, even in respect of exports, we feel that in current year we should for all the milestone of 100 crores easily. In respect of exports considering overall international demand and some of the visibilities what we have, of course on exports to our subsidiaries especially with regard to Climate Technologies, margin will be low but end to end margin will be maintained because substantially margin will be at the level of Climate Technologies. But in the rest of the world the margins should be maintained. You may be aware that for the last many-many years we were trying to break that milestone and it seems feasible in current year.

Moderator: The next question is from the line of Hiren Trivedi from Axis Securities.

Hiren Trivedi: Two questions. First is on the exports. How much was the contribution of exports for FY-21 as a whole? My second question is on the commercial air coolers. If you could help me with the size of the commercial air coolers market and your plans to grow this and what is your share in that commercial air cooler market?

Nrupesh Shah: As far as exports are concerned in FY-21 it was close to 57 crores. In terms of percentage, it is not really much relevant because year as a whole other wise also standalone sales were quite low. Vis-à-vis that or even in earlier year our highest ever export was about 63 crores also. In that respect I say we feel we should achieve in excess of 100 crores. Even in June 2021 quarter our export has been 18 crores, which is probably the highest ever in June quarter. But down the line especially in December and March quarters the kind of visibility what we have we should really a good traction. Coming to your second part of the question centralized air cooling, in centralized air cooling as such we don't have substantial sales. As far as market opportunity is concerned there is hardly any organized player company operating at a national or international level. The kind of the product what we have is much-much better in many respects and offering many variants. As far as the market size is concerned, it is a huge opportunity and Symphony is the only branded player present. Most of places which are cooled by centralized air conditioning, and many other spaces can be air cooled by centralized air cooling. In fact, starting July 2019, we have started local manufacturing of centralized air cooling. Until then we used to import from Mexico and China and coupled with that, we have launched many more suitable models, which have been well accepted in India. And on account of that the benefits are, number one lead period has reduced substantially, number two saving in customs duty, number three saving in logistic cost and much better-quality control and domestic handling. So, we should have got the benefit of growth initiatives starting of summer of 2020, unfortunately on account of COVID so far, we have not been in a position to reap those benefits. But we are substantially trying to improve the capability in that respect. And starting current year it should see some decent number.

Moderator: As there are no further questions from the participants, we will now hand the floor back to Mr. Nrupesh Shah, Executive Director for closing comments.

Nrupesh Shah: Thank you Trust Capital and thank you all the participants.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Trust Financial Consultancy Services Private Limited thank you very much for your participation. You may now click on exit meeting to disconnect. Thank you.