"Symphony Limited Q2 FY2018 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2018 results call for Symphony Limited hosted by Emkay Global Financial Services. We have with us today Mr. Shah – Executive Director, Mr. Mehta – CFO, Mr. Thakkar – GM for Accounts and Finance and Mr. Barvadiya – Company Secretary. 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 for 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. John Perinchery of Emkay Global. Thank you and over to you.

John Perinchery: Good evening everyone. I would like to welcome the management and thank them for giving us this opportunity. I would now hand over the call to Mr. Shah for his opening remarks. Over to you Sir!

Nrupesh Shah: Thank you Mr. John and good evening to everybody and wishing all of you Happy New Year. I welcome all of you to the conference call schedule today by Emkay Global Financial to review quarterly result for September 2017 as well as half yearly performance for the FY2017-18. About cautionary statement, during our interaction or even in our datasheet and other interactions there might be written or oral statement which may be forward looking, and it may set out anticipated results which are based on management plan, assumption and perception. But as the statements are reflection of our beliefs and assumption, they may, may not turn out to be correct because it is impossible to guarantee forward-looking statement which may, may not be realized based on various external, internal factors or even inaccurate assumption. Having said that, to start with during the quarter about our domestic business, it has received overwhelming response by the trade despite weak summer of 2017, not only that, two new range of models, in all seven plus models under diamond range and high-tech range which we launched have received extremely good response. As far as high-tech range is concerned, or the sense range is concerned it works on sense control, there are features like insta chiller, automatic water filling with magic fill and auto water refill etc.

As far as diamond model is concerned, it has the features like feather touch digital control panel, double blower for superior air cooling and also fully closeable louvers over and above many other features. As it was conveyed during March as well as June quarter, we are back to normal profitability margin whether it is in the respect of the operating margin or EBITDA margin. As it can be observed from September quarterly results, the gross profit margin and EBITDA margins are quite robust, in fact in the respect of gross profit margin it is higher by more than 140 BPS vis-à-vis previous year. As far as EBITDA margin is concerned, it is higher by 70% vis-à-vis June quarter and we are confident to maintain September level operating margin for the quarters to come. The topline growth which is about 22% has happened despite weak summer of June 2017, despite most of the competitors as well as the trade partners are sitting on large inventory. These have been possible due to focus by Symphony, continuous product innovation, solid brand, continuous enhancement of distribution network, and pricing power. Symphony is recognized as synonymous with air cooler and it is also to be noted that topline growth has been achieved despite GST implementation with effect from July 1, 2017 and initial hiccups of GST. As it was conveyed during last two quarters regarding touch series, which were launched at introductory prices earlier, introductory pricings have been withdrawn with effect from July 1, 2017 and despite that, the way in which it was strategized, there is no negative impact on its sales. Overall the volume growth is in line with topline growth.

Coming to specific financials, the gross revenue during the quarter has been Rs.195 Crores up from Rs.160 Crores which is inclusive of other income and up by 22%. While for first half, it is up by 6% from Rs.318 Crores to Rs.337 Crores. The half yearly performance is weak mainly on account of degrowth in June quarter. Coming to EBITDA percent to gross revenue during the quarter it stands at 38.3% versus 38.1% of previous year during the corresponding quarter and substantially higher than April to June quarter during which it was 22.5%. About PBT during the quarter, it is about Rs.73 Crores up by 21% from Rs.60 Crores and substantially up Q-to-Q from Rs.31 Crores. For first half, PBT stands at Rs.104 Crores almost at the same level as first half of FY2017 and PBT percent to gross revenue stands at 30.8% versus 32.7% for first half of FY2017. About the PAT, it stands at about Rs.51 Crores up from Rs.43 Crores up by about 19%. In line with the business model what we have adopted capital light, asset light, working capital light business model as on September 30, the capital employed is negative by Rs.91 Crores which was negative Rs.84 Crores as on September 30, 2016. This is mainly on account of advances from the trade and hence during the quarter arithmetically the return on capital employed in the core business that is air cooler segment is infinite. While for first half, the return on capital employed translates into four-digit percent and the methodology is monthly average capital employed for first six months, so that clearly conveys our complete focus on efficiency of capital employed and all the strategies revolving around that. As far as geographical segment is concerned, the domestic sales during the quarter is up from Rs.143 Crores to Rs.180 Crores while Rest of the World is down from Rs.7 Crores to Rs.4 Crores. Having said that I open the floor for question and answer.

Moderator: Thank you Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from Renu Baid from IIFL. Please go ahead.

Renu Baid: Good evening Sir and congratulations for the strong results especially the market pickup that you have seen. A few questions from my end. First, if you can help us understand how was the impact of duty reduction from 28% to 18% reflect in our quarterly numbers and what was its impact on our sales value?

Renu Baid: And, what was the pricing actions in relation to the end market?

Nrupesh Shah: So, I believe Renu when you are referring to duty reduction you are talking about GST rate comparison vis-à-vis previous rate.

Renu Baid: Yes.

Nrupesh Shah: In our case earlier also it was never effective 28%, secondly if you are referring to some of the products GST rate has been reduced from 28% to 18% that is not in our case. In our case…

Renu Baid: No, earlier our rates for 25%, 26% range approximately.

Nrupesh Shah: In our kind of business model, excise duty even though it was about 12%, but because of outsourcing business model, effective excise duty percent was lower, but on top of excise duty there used to be weighted average VAT of about 14% or so. So overall, of course there is a marginal reduction in the GST rate, but considering overall regulation of GST models where our profitability was substantially higher, on account of that, we have passed on that benefit. So, for us we have made GST neutral. So, about our profitability margin has nothing to do with GST rate. As far as our performance is concerned, number one the introductory pricing which was there in touch series which we had visualized and strategized many, many months before June end and hence we successfully withdrew the introductory price on touch series with effect from July 1, so that is the reason number one. The reason number two, there is a continuous focus on value engineering despite there has been some impact on input cost and hence on account of value engineering, there has been increased in our operating margin by more than 140 BPS on QoQ and thirdly as far as new to range of models under which there are seven models we have not launched them at introductory price. They are at normal premium pricing where there is a healthy contribution margin. So, I believe this explains.

Renu Baid: Sure, which means effectively our MRPs would have been marginally trimmed down in the market during the quarter as and when the prices would have been adjusted for GST and will that actually implied that the volume growth could have actually been slightly better off in the current quarter than what is reflected in the sales front?

Nrupesh Shah: No, I would not be able to disclose specific volume number, but overall in domestic market volume growth is almost inline with value growth because especially in touch series, we have resorted to price hike while in some other model we might have been rationalized that is number one. So, to an extent, it would have offset that. Secondly the new two range of models under which there are seven models, they have been launched at introductory price where there was no pass benchmarking. So overall our volume growth is almost inline with value growth.

Renu Baid: Sure, Sir my second question even if you see the overall growth of 25%, 26%, the domestic market was significantly strong in this quarter. When we see most of the other peers in the electrical space, they have been growing between 10% and 15%. So, what has exactly led to the strong spurt in volume for us, would you attribute it to the market, sentiments, your distribution enhancement, could you just help us understand a little more, it would be helpful.

Nrupesh Shah: Very clearly, it is a focus by Symphony on air cooler segment as we have kept on saying we eat, sleep, and drink air cooling. In a way Symphony is synonymous with air cooler and hence innovation after innovation, keep on launching new models that is number one. Number two, very strong branding and also pricing power. Number three continuous enhancement of distribution network across length and breath of the country and we should not undermine that most of the peers or competitors as on June 30, were sitting on the reasonably large inventory and still they are sitting on reasonable large inventory and on top of it, their trade partners are also sitting on large inventory which was not the case in Symphony and again variety of factors as I just narrated earlier has helped us to achieve this.

Renu Baid: Sir in case if I can ask one more question. Can you elaborate what was the kind of growth in the distribution network that we saw for the quarter for this current year from July onwards?

Nrupesh Shah: Renu actually we will come to know real growth of distribution network only at the end of business year. So in our case, we defined business year from July 1 to June 30. So, what happens in our case as on July 1, our distribution network is 00, we do have some internal benchmarking in terms of the minimum quantity to be lifted by distributors as well as dealers. So, during the whole year, how they perform but whatever was our internal target for the whole year we have already achieved almost 80% of it in the first quarter of the business year itself.

Renu Baid: What could have been just the growth not the absolute numbers, but the growth in the distribution that you have seen during the first quarter?

Nrupesh Shah: I do not have the exact numbers handy, but I think it is quite robust and that is across urban, semi urban and rural areas.

Renu Baid: Thank you so much. I will get back in the queue with more questions. Thank you and all the best.

Moderator: Thank you. The next question is from Kunal Jagda from KR Choksey Shares & Securities. Please go ahead.

Kunal Jagda: Thank you Sir and I appreciate for keeping your promise for strong come back.

Nrupesh Shah: Thanks.

Kunal Jagda: My question is, it is understood that withdrawal of introductory prices has given a strong growth to the topline, but simultaneously there is a sharp reduction in the raw material cost also if you see year-on-year also this cost of raw material has reduced by 52.4% points. So, can you please explain how this has panned out?

Nrupesh Shah: I do not see how you are measuring reduction in raw material cost, because for us the gross margin percent really signifies that. So to answer your question slightly differently, our gross margin percent is 53.2% versus 51.8% on QoQ. It means our overall contribution margin percent which may be on account of reduction in variable cost or on account of pricing power has improved by about 140 bps and when you talk about financials, I think you need to consider cost of material consumed, purchase of stock in trade and change in inventory, only if you club three of it and sum it up you will derive at the exact figure and number.

Kunal Jagda: One more thing on the advertisement expenses year-on-year there is a growth but last quarter there was a reduction in the expense. So, is there any specific reason and what will be the advertisement expense going forward for your new launches?

Nrupesh Shah: During September 2017 quarter our advertisement and sales provisions stand at about Rs.2 Crores versus Rs.1.80 Crores in September 2016. So, there is no significant change.

Kunal Jagda: I am talking about the quarter-on-quarter Sir?

Nrupesh Shah: No, you cannot compare in our case Q-to-Q the reason being at a consumer level March quarter and June quarter are peak season, so traditionally more than 80% - 90% of the advertisement and sales promotion expenses are in June quarter and March quarter. So better comparison will be YoY or YTD.

Kunal Jagda: So that also clears the point and Sir on your China business, can you just help to explain how the business is going in China, you have done the acquisition, has the business normalized, there was a loss-making company and so what is the scenario over there Sir?

Nrupesh Shah: Chinese business that is GSK, it is moving inline with our overall expectation and current year we expect reasonable topline growth, cost will be under control and overall in medium term that is in two to four years' time we expect it to turnaround as it was envisaged earlier.

Kunal Jagda: So, breakeven would be two to three years?

Nrupesh Shah: It may be two to four years, medium term.

Kunal Jagda: That is from my side. Thank you.

Moderator: Thank you. The next question is from Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Rest of world turnover is reduced drastically in this quarter vis-à-vis September 2016 and June 2017, so what is the reason?

Nrupesh Shah: You are right. For this quarter international business has come down, but again the reasons were Middle East countries did not contribute much of the sales due to the reasons known to all, but I think rather than measuring quarterly performance, it is better measuring on YoY performance and year as a whole. So overall in medium term, we are as optimistic on international business as we were earlier. So, in some quarter in some year, there may be some up and down, but I think it is normal.

Ravi Naredi: Can you give the bifurcation between cooler and central air cooling system how much turnover in September quarter?

Nrupesh Shah: We do not give that segment distribution because still we have not reached to that level, but in absolute numbers or value, there has been a robust performance.

Ravi Naredi: Robust performance from both the sites.

Nrupesh Shah: Yes, right.

Ravi Naredi: How was the October month Sir? Today is the last day.

Nrupesh Shah: We cannot discuss month-to-month or week-to-week.

Ravi Naredi: No, but how is the current quarter rather than say how is the…

Nrupesh Shah: There is a reasonable visibility about the current quarter, but we are always on medium term to long-term growth not on a particular quarter or particular year.

Ravi Naredi: I knew it.

Nrupesh Shah: We will continue to maintain 20%, 25% CAGR growth on a medium to long term.

Ravi Naredi: Okay. Thank you very much Sir.

Moderator: Thank you. The next question is from Omkar Kulkarni, an Individual Investor. Please go ahead.

Omkar Kulkarni: Can you tell me the cash on book currently as of September 2017?

Nrupesh Shah: It has been already disclosed in segment profitability which is close to Rs.604 Crores and substantial corporate funds have increased i.e., treasury has increased many on account of the trade advances.

Omkar Kulkarni: So, cash on book is Rs.604 Crores right?

Nrupesh Shah: Yes.

Omkar Kulkarni: So, the question was really – you have substantially increased the dividend payout from last one-and-a-half to two years, so in spite of generating so much of free cash flow what is the reason? Last time you mentioned about we are generating funds for substantial buybacks, so what is the current status on that?

Nrupesh Shah: We maintain that policy and we intend to do that but that cannot be done on a quarterly basis. We have to allow some quarters to pass on and at appropriate time, board will consider that in fact even today and even in earlier board meeting also it has been deliberated, but in the best interest of all shareholders at the right time, appropriate decision on share buyback will be taken which we believe is most tax efficient.

Omkar Kulkarni: So, the reduction in dividend is only because of the…

Nrupesh Shah: There is no reduction in dividend in fact we have maintained 50% interim dividend for the quarter which is post 1:1 bonus declared in September 2016. So, if you really compare June 2016 or September 2016 I believe on pre-bonus it was 75% or so. So vis-à-vis 75% on Apple to Appel comparison, there is a slight increase on quarterly dividend, but we are preserving the resources number one for buyback and secondly for overall business reasons.

Omkar Kulkarni: What will determine your right time for the buyback?

Nrupesh Shah: No, I cannot articulate that in conference call because there are many, many factors and in the best interest of the shareholders, board will decide it.

Omkar Kulkarni: So, the plan is certainly on, right?

Nrupesh Shah: It has been deliberated and it is on the card, but when and how and how much and at what price at appropriate time, board will decide suitably?

Omkar Kulkarni: Okay and can you give the update on the cloud, what are the sales and how it is functioning?

Nrupesh Shah: Cloud model now has been launched full-fledged across the country and it is doing very well and as it was conveyed in the past, we have already applied for the global patent and it is path breaking product and we are optimistic on that and doing well.

Omkar Kulkarni: Okay, so the margins are higher or similar to the overall products?

Nrupesh Shah: Overall across the different range of models at operating level margin would be varying broadly ranging from 45% to 57%, so almost all models at operating margin level are in that range. Under each range depending upon the market, depending upon the strategy, depending upon the competitive scenario, respective model under each of the range may be priced slightly differently.

Omkar Kulkarni: And currently the rest of the world contribution is quite less in the overall revenue front, so what is your intention to take it to same medium to long term?

Nrupesh Shah: Intention is certainly to grow significantly to the best of our ability.

Moderator: Sorry to interrupt, we request you to return to the queue for more questions.

Omkar Kulkarni: Thank you.

Moderator: Thank you. The next question is from Mayur Parkeria from Wealth Managers. Please go ahead.

Mayur Parkeria: Good evening Sir and good evening to the management team and congratulations for a very good set of numbers.

Nrupesh Shah: Good evening and thanks.

Mayur Parkeria: A couple of questions from my side. I understand that you do not disclose industrial part of it and it is too small on a standalone entity, but will the growth be meaningfully more than 22% which would have clocked at the overall level or will it be inline with the overall growth?

Nrupesh Shah: I cannot convey about quarterly performance or for any specific period, but overall since we have launched, cumulative or for a reasonable period, our growth percent has been significantly higher than residential air cooler, but obviously as base itself is low, it does not signify much.

Mayur Parkeria: Can you highlight some of the measures which we are taking to increase the awareness of industrial air cooling and the step which we are taking, incrementally what we have done in the last quarter or in last six months specifically only to increase awareness and increase the market place about industrial air cooling in India?

Nrupesh Shah: To increase the awareness and to popularize more across several media, we are doing advertisement and sales promotion. It may be also participating in various exhibitions, trade fairs, also issuing advertisement in various trade magazines, also tie up with several large contractors, architects, project companies also continuously enhancing our meaningful team size and more importantly getting and executing the orders across the segments whereby word of mouth spread and even during the quarter or so far whether it is large industry, mid-size industry whether it is hotels, restaurants, education institutes, leisure segments, data centers, showrooms, nursing homes, even some of the rural and semi-urban bank branches and many known names, we have executed the order and hundreds and thousands of such successful installations have taken place.

Mayur Parkeria: Okay. Sir any thoughts on when will we start reporting numbers on consolidated basis for the quarterly?

Nrupesh Shah: As and when it reaches to a meaningful figure and as per the accounting standard on a standalone basis, whenever it contributes more than 10% of the topline, we have to report that which is yet to reach.

Mayur Parkeria: But hopefully next year we should be in that because around Rs.80 Crores should that be yearly?

Nrupesh Shah: My guess is as good as your guess, so I do not know when but we for sure expect at sometime we should report it.

Mayur Parkeria: Last question from my side is you mention that the volume growth and topline growth has been inline which means that the realization growth has been practically flat and you also indicated that is because some of the models we have rationalized the price whereas new models on higher prices, but is not the new models be at a substantial premium to the old conventional models which will result in at least some weighted average improvement in realizations on a quarter-on-quarter basis given that the portfolio of new models are increasing?

Nrupesh Shah: The straight answer is in the datasheet and margin percent. So, the gross margin percent which is the weighted average margin on all models stand at 53.2% versus 51.8% of the last year.

Mayur Parkeria: So that is what the weighted average is?

Nrupesh Shah: Probably this gross margin percent is historically highest or the one of the highest that is number one. Number two, EBITDA margin percent which in June quarter was abysmally low just around 23% is now at about 38%. So, on Q-to-Q as it was conveyed is not only back to normal but again one of the highest and it is more than 38%.

Mayur Parkeria: But Sir that means the volume growth will not be 20% plus, right?

Nrupesh Shah: No, I am not saying anything specific about the volume growth, we need to keep in mind that we have to also rationalize the price in some of the models on account of GST. Secondly, there is also a correction that is a significant rise in the price of touch series and at the same time, there had been launch of new two range of models and we are quite comfortable at 53.2% gross margin. In our kind of business clearly economies of scale and growth in the topline will automatically drive PBT at margin. So, we are quite comfortable at this gross margin percent probably there is hardly any appliance or consumer durable industry not only in the country but globally which has such kind of robust gross margin percent.

Mayur Parkeria: Just wanted to understand on a quarterly basis, but anyway Sir thank you very much and wish you all the best.

Moderator: Thank you. The next question is from Naveen Trivedi from HDFC Securities. Please go ahead.

Naveen Trivedi: Good afternoon everyone and congratulations for strong numbers in this quarter Sir.

Nrupesh Shah: Good afternoon and thanks.

Naveen Trivedi: My question is on the other expenses side, so this quarter the other expenses have seen 35% growth, so any one-off in those expenses?

Nrupesh Shah: Other expenses are up on QoQ basis from Rs.12.7 Crores to Rs,17.2 Crores, which you said is about 36%, so of course it is slightly higher than the topline growth, but I need to go into the details I do not know off hand.

Naveen Trivedi: It is like 36% growth on a QoQ basis and even apart from the growth in a lean quarter Rs.17 Crores kind of a number it seems very high because we generally used to spend like Rs.12 to 12.5 Crores kind of number, so this number seems very high.

Nrupesh Shah: I need to go into specific details then only I can respond to that.

Naveen Trivedi: GST related to some expense I just thought it would be that has elevated the numbers?

Nrupesh Shah: I think I need to go into the details then only I can explain.

Naveen Trivedi: Okay. Now as you have normalized the touch series prices and the consumer response will start reflecting during the season time. If you can just give some idea about what is your expectation because now the product will be availability in a very different price point. I do not know what the price, how much price stake at consumer level you have taken, but as there was big margin gap, I am assuming that there can be like upwards 10% to 15% price hike which you have taken, so how do you expect that consumer will react post these such price hike?

Nrupesh Shah: First and foremost, we do have a huge dealer and distribution network and whenever dealers and distributors deal with us that too in off season with 100% advance it is also the overall reflection of the confidence in sentiments of consumer and by and large, the trade as a whole carries lot of wisdom of the consumers that is number one. Number two, whatever is the price increase is not necessarily entirely at a level of MRP. It is a mix of both partly MRP and partly margin at a level of trade, so both have been addressed and we have achieved this.

Naveen Trivedi: Can you quantify how much price hike on MRP and partly to the margin if you can?

Nrupesh Shah: No, I cannot quantify that and it is not worth sharing.

Naveen Trivedi: Okay but you are confident that if 5%-7% increase in the MRP would not hurt the consumer in terms of because the product is so superior even this kind of increment, the consumer acceptance...?

Nrupesh Shah: If we are confident, we would have resorted it to that and if you are not confident and we would not have strategize, we would not have resorted to that. Not only that even trade would not buy well in advance and sit on the inventory that is what we believe.

Naveen Trivedi: Fair point. That is all my side. Thank you so much Sir.

Moderator: Thank you. The next question is from the line of Bharat Shah from ASK Investments. Please go ahead.

Bharat Shah: Nrupesh Bhai very Congratulation, Bharat here. Just one quick question, this negative capital employed, is it specific to this particular period for whatever reason or you think now this is a permanent feature?

Nrupesh Shah: No, I think this is a good question in fact I was waiting for this question and I would love to answer this. See in earlier years also this used to be a scenario, but we had left it to the wisdom of our auditors so what used to happen? Let me explain you first arithmetically and then from business viewpoint. During July, August and September month, we get good trade advances and on account of those trade advances at the month end or during the month, there is a negative capital employed. In other words, say as on June 30, 2017 our capital employed in the business is about Rs.171 Crores but on account of trade advances which used to be in the past also for every month, there is a negative capital employed. Earlier our auditors used to take a view whenever there is a negative capital employed, it should be considered us Zero and it should not be considered as negative, but during this quarter technically we examined and evaluated with the auditor and auditors that is Deloitte also took internal view and they said that we can for clearly for better transparency and disclosure must disclosed negative capital employed as far as capital employed Rs.-91 Crores as on September 30, 2017 as on that date, but when it comes to PBIT percent it is based on monthly average of capital employed. In other words, for the entire year financial year 2016-2017, our average capital employed was Rs.20 Crores. To articulate it specifically, in some months capital employed was positive ranging from Rs.80 Crores to Rs.150 Crores and in many months, capital employed was negative from Rs.12 Crores to Rs.160 Crores and when we do the average capital employed last year as a whole, it was just Rs.20 Crores for a year as a whole. Similarly, in current quarter and hence it has been recalculated for September 16 quarter also for both the quarter with some negative capital employed and hence PBIT percent is infinite. As far as first six months is concerned precisely because of this reason, the PBIT percent on capital employed is in four-digit and I believe that considering our business model by and large, this has to continue.

Bharat Shah: Alright terrific. Thank you, Nrupesh Shah.

Moderator: Thank you. The next question is from the line of Anup Gupta from Perfect Research. Please go ahead.

Anup Gupta: Good evening Sir. Sir regarding like how do you see competitive intensity in the industry shaping up as new players are entering in the air cooler segment and also competing against us by selling similar features at a cheaper rate?

Nrupesh Shah: Competition is not new to us. In the past also there was a competition and currently also there is a competition and in the future also competition intensity will continue, or it may even increase so that is perfectly fine. But because of the competition intensity and because many large players are entering first and foremost, overall penetration of air cooling in a vast country like us is very low. In fact, there are more than 80% of the households who have only fan or no cooling appliance at all. So, it increases the awareness that also increases the cake size that is first and foremost. Secondly about four to five years before number of branded players, we also considered regional brands also as a branded player there were about 40, but as of June 2017 number of branded players were 90 and about five years before our market share was about 42% and as on June 30, 2017 that is for the last business year, our market share was easily more than 50%. So, this has been possible on account of our focus, continuous innovation, value engineering, strong brand and distribution network. We expect that it has to continue that way and that really gives us an edge over competition.

Anup Gupta: Sir how is GST benefiting like your organized Sales industry?

Nrupesh Shah: So, I would like to answer that in two parts. See how it would really impact in terms of shift from unorganized to organized I think we will come to know only during consumer off-take, which happens in March quarter and June quarter because most of the unorganized players are able to sell only during those quarter. But overall feedback or response from that trade channel or from sales and marketing department is many of them would have to comply GST which is in earlier regime, they used to evade out right, so if that is going to be case obviously the price gap on account of evasion will narrow down. Secondly as far as corporate impacted concerned, it is significantly positive when I say corporate impact earlier to be precise we used to deal with 17 laws and in all if we considered dealing in 29 states and 29 different VAT regime we were to comply with 50 different laws and 50 different returns and assessments etc. Now that has been clubbed to only simple GST. Of course, there are some initial hiccups, but I believe they are very temporary phenomena so in terms of simplicity of doing the business is a path breaking. Second in terms of lead time from our factory to distributor or our godown easily there is a 20%-30% reduction in the timing and check post have completely gone which has also substantially added to ease off business so that result of positive impact we are clearly seeing from July itself.

Moderator: Thank you. The next question is from the line of Chandra Gopal from JM Financial. Please go ahead.

Chandra Gopal: Thank you for the opportunity Sir and congratulation for great set of numbers, and just one accounting question, I had because we have traded goods also as part of sales, so I think this growth number of 22% should be more because of this excise component which is present in base quarter should be ideally around 20%-21% if I am not wrong?

Nrupesh Shah: In fact, base number will be higher in our case, the reason being in our business model, we do have the outsource business model and in outsource business model. Purchase used to be inclusive of excise. Now purchase is just GST, but we have to net it off so in fact base effect is higher.

Chandra Gopal: That should be I mean if you see on comparative basis it is stronger than 22%?

Nrupesh Shah: Exactly so if we consider Apple to Apple growth rate would be higher than 22%.

Chandra Gopal: Okay Sir and Sir I just wanted to understand how is our distribution setup in rural areas or what percentage of sales we are deriving from rural areas or semi urban like tier 3 or tier 4 towns. What is the mix for us and what is the strategy going forward for that market?

Nrupesh Shah: In our case or for most of the consumer durables, say in our country, there are 6000 plus villages, now more than 90% of the villages are not having consumer durable or electrical shops, but what happens in large village or at taluka place or reasonable size of the town, there is a shop, so the people from surrounding area come to town or a large taluka place. So, it is very difficult to segregate what may be the hardcore rural presence, but for last two years internally we have initiated a special program to focus on hardcore rural area and apart from traditional retail channel of our rural sales, we are also exploring some new ideas, which are at experimental stage.

Chandra Gopal: There is a great focus on that part also because earlier it could not be higher proportion of sales which we intend to increase right Sir?

Nrupesh Shah: Sure.

Chandra Gopal: Okay Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from Kamlesh Kotak from Asian Market Securities. Please go ahead.

Kamlesh Kotak: Hello good evening gentlemen. Sir just wanted to understand could you quantify the amount of advance received from the trade channel during this quarter?

Nrupesh Shah: Kamlesh, in fact I would not like to specify the amount on account of competitive reasons, but you being a very smart analyst you yourself can reasonably interpret and from the balance sheet of various schedule, so I would just like to stop at that level.

Kamlesh Kotak: Alright Fair point. Secondly Sir how many models we have as of now vis-à-vis the same number of models may be one quarter or last year?

Nrupesh Shah: So, if we consider on a consolidated basis that is Symphony India, GSK China, and IMPCO, all in all we would be having about 70 models in the residential coolers which would be certainly 30%-40% higher on Y-o-Y basis as far as Symphony India is concerned, we would be having about 45 models, which would be higher by about 20%-25%. In addition to that see these are number of models but what we do, we have defined the range. So, in all we may have seven ranges of model and under six ranges, there will be different models. So, what happen, market to market some of the range would be relevant. All six ranges of models may not be relieved in all the market. Not only that under each of the range there will be many models at different price point or a different application, so it is not like that in all the market all 45 models, we need to sale. What it implies for all the markets we have the model but in the respective market there may be 5-10 relevant model or 3-4 relevant range.

Bhadresh Mehta: When we introduced Diet, we introduced three models in Diet, that is, Diet 8 liters, 22 liters and 50 liters and then after two years we added two more in that range with different capacity also. So, in all, now we have five models in Diet range alone. Right since we introduced touch last year, five different models were added in the touch range itself in the very first year. So, we take the call based on the need of the market and how the models are being placed at various locations.

Kamlesh Kotak: Sure, right Sir that is very useful. Sir secondly how much of our sales would have come from modern retail and e-retail?

Nrupesh Shah: Kamlesh, normally in off season, there is a very small volume of business from the modern retails or e-commerce. Normally they do not stock and trade, so their bulk of sales more than 85%-90% happens during March quarter and June quarter.

Kamlesh Kotak: For the last six months if you can help me the share of this sale?

Nrupesh Shah: No so rather than last six months because again it will not relevant figure. Entire financial year 2016-2017 modern trade contributed about 14% of the sales and bulk of it would have happened in March 2017 and June 2017 this two quarters.

Kamlesh Kotak: 14% is right?

Nrupesh Shah: It gives better benchmarking about three years before modern trade in domestic sales used to contribute 8% or 9%, which has moved to 14% and about five-six years before I believe it was just about 2%-3% so it is continuously increasing even though overall cake size is increasing and just to add to that, last year we had done retail analysis and we were monitoring very closely in entire modern retail, our market share was average about 67% even though many, many modern trade has their private label. To be precise, modern trade to modern trade our market share was ranging from 60% to as high as 90%.

Kamlesh Kotak: On the e-retail platform Sir?

Nrupesh Shah: So, I do not have ready data about the segregation between e-market and modern trade but in our scheme of things, modern trade is inclusive of e-marketing.

Kamlesh Kotak: Sir lastly how in your own assessment the market would have grown, what is the current size of the market in terms of volume and value if you can share some light on that?

Nrupesh Shah: Kamlesh very clearly, we will come to know the real growth of market for current business year, see when I say business year it is for July 17 to June 30, 2018 only by June 2018 for the current year, I will come to know as far as last business year was concerned that is July 16 to June 30, 2017, overall market size would be to our estimate about 9 million units and it was a very moderate growth last year because summer of 2017 was a bad summer. But in three to five years if we really consider a CAGR growth of the industry, which is more relevant overall it is about 12%-14%, but as far as the organized industry is concerned, growth rate is even higher because one is increase in size of the cake, but at the same time there is rapid shift from unorganized to organized.

Kamlesh Kotak: Okay Sir that is very helpful. Thank you very much Sir.

Moderator: Thank you. Next question is from the Sanjay Manyal from ICICI Securities. Please go ahead.

Sanjay Manyal: Hello Sir congratulation on a good set of numbers. Just wanted to understand your six months growth has been approximately 6% as you mentioned also, so do we really hold that guidance of 20%-25% kind of growth for FY2018?

Nrupesh Shah: See first and foremost our guidance is never for a quarter, never for an accounting year, very clearly our guidance is for medium to long term that to on a CAGR basis. We have in the past and even today very clearly stated that there may be a quarter or two, there may be a year in which there may be abnormally high growth or even lower growth or even degrowth, which is part and parcel of the business. So, our growth estimate is clearly for a medium term that is number one. Number two, even though summer of 2017 was bad, obviously there are also negative sentiment with the trade partner and to be kept in mind our most of the peers and their trade partners are sitting on huge inventory, which in our case stood at negative inventory so that clearly distinguishes vis-à-vis our peers and despite bad summer of 2017, in September, we have succeeded in achieving about 22% top line.

Sanjay Manyal: Okay so this 22% top line growth, a lot of this would be because of the restocking a trade channels is what I assume?

Nrupesh Shah: Yes, that has been always the case in the past also but that is with 100% advance and that is how the capital employed in the core business is negative.

Sanjay Manyal: Right Sir. Thank you very much Sir.

Moderator: Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. John Perinchery of Emkay Global for closing comments. Over to you Sir!

John Perinchery: I would like to thank the management once again. Thank you all.

Moderator: Thank you. Ladies and gentlemen on behalf of Emkay Global Financial Services this concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.