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November 01, 2023

To,
National Stock Exchange of India Limited
Symbol – Symphony

To,
BSE Limited
Security Code – 517385

Sub.: Transcript of the earnings conference call of Q2FY24

Dear Sir/ Madam,

We are submitting herewith the transcript of the earnings conference call for the quarter and half year ended September 30, 2023, conducted on October 26, 2023.

The above information is also available on the website of company at https://symphonylimited.com/investor/results/

This is in due compliance of applicable regulations of the SEBI (Listing obligations and Disclosure Requirements) Regulations, 2015.

Thanking You,

Yours Truly,
For, Symphony Limited
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"Symphony Limited

Q2 FY 24 Earnings Conference Call"

October 26, 2023

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MANAGEMENT: **MR. ACHAL BAKERI – CMD**
MR. NRUPESH SHAH – MD (CORPORATE AFFAIRS)
MR. AMIT KUMAR – ED & GROUP CEO

MODERATOR: **MS. RENU BAID PUGALIA – IIFL SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Q2 FY24 Earnings Conference Call of Symphony Ltd. hosted by IIFL Securities Ltd. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand over the conference to Ms. Renu Baid from IIFL Securities Limited. Thank you and over to you.

Renu Baid: Thank you. Very good afternoon everyone. On behalf of IIFL, I would like to welcome you all to the Q2 FY24 Earnings Conference Call of Symphony Ltd. From the management, we have with us today Mr. Achal Bakeri, Chairman & Managing Director, Mr. Nrupesh Shah, Managing Director (Corporate Affairs) and Mr. Amit Kumar, Executive Director & Group CEO. Without taking much time, I would now like to hand over the call to the management for the opening remarks. Thereafter, we can start the session with Q&A.

Thank you and over to you, sir.

Achal Bakeri: Thank you very much, Renu and IIFL for hosting this call and also a warm welcome to all the participants and thank you very much for being here. The customary safe harbor rules apply, which I will not repeat. I will hand over the call to my colleague, Nrupesh Shah, to take us through a short presentation, post which we are all here to take any questions that you may have. Thank you very much.

Nrupesh Shah: Hello, welcome to everybody in the Q2 Conference Call of Symphony. Coming to performance highlights of Q2. The revenue from operations at our consolidated level stands at ₹ 275 crores, marginally higher than September 22 quarter. Standalone sales i.e. Symphony India at ₹ 196 crores, out of which ₹ 191 crores are domestic sales in the country, which is in line with Q2 of last year. This is despite erratic summer season.

Gross margin and EBITDA margin percentage, in line with our continuous efforts and endeavour, have improved, which is mainly on account of value engineering, softening of input costs, and continuous thrust on development and launch of new products and favourable product mix.

Coming to subsidiary's performance, Climate Technologies, Australia. Again, it has not performed up to the mark. Performance is impacted mainly on account of domestic demand headwinds, macro as well as micro economic situation, particularly in Australia.

However, IMPCO Mexico has delivered highest ever H1 as well as Q2 revenue. So, in a lighter way, what we have earned from IMPCO Mexico, that we lost in Australia. So, ultimately, both put together has become a zero-sum game.

While GSK China has delivered a steady performance, and it doesn't need any assistance by Symphony India for last one and a half year. And the Board of Directors have announced second interim dividend of ₹ 2 per share amounting to ₹ 14 crores.

Coming to Sankey chart of Q2 standalone financials, the revenue is ₹ 196 crores. EBITDA stands at ₹ 53 crores, which is despite lower top line, Y-o-Y higher by 13% and in terms of the percentage, it is 26.8% i.e. in excess of 5% Y-o-Y improvement. While PAT stands at ₹ 50 crores, i.e. 11% up, and percentage wise, it is 25.4%, including treasury income, up by 470 bps. Coming to Waterfall chart, explaining the EBITDA margin movement, 21.6% to 26.8%, mainly on account of improvement in gross margin, favourable freight & forwarding as well as other expenses.

Capital employed (TTM monthly average) on a standalone basis in Q2 stands at ₹ 55 crores, marginally lower than previous year. ROCE at 296% in core business and return on net worth stands at 21%. While treasury is ₹ 589 crores, excluding equity investment and loans and advances granted to subsidiaries.

Coming to Consolidated financials, revenue is ₹ 275 crores. Coming to EBITDA, it is ₹ 42 crores absolute amount wise, i.e. 16% higher and EBITDA percentage stands at 15.5%, i.e. up by 210 bps Y-o-Y and PAT stands at ₹ 35 crores, up by 10% while percentage wise 12.7%. And this is the Waterfall chart of Consolidated EBITDA margin percentage. On Consolidated basis, the ROCE in core business stands at 37% while RONW is 15%.

H1 financials, standalone revenue stands at ₹ 368 crores, EBITDA stands at ₹ 59 crores, i.e. down by 19% and PAT stands at ₹ 64 crores, down by 8% and percentage wise it is 17.4%, up by 80 bps.

Consolidated revenue, in the first half stands at ₹ 577 crores, while EBITDA almost in line with the previous year at ₹ 70 crores and percentage wise 12.2%, about 40 bps higher, while PAT is again in line with the previous year at ₹ 59 crores.

Now coming to outlook, despite last few challenging years and season, Symphony has maintained its numero uno position in air cooler industry, maintaining around 50% market share in the organized sector. Of course, number two, three and four, five players keep on changing internally, while Symphony's market share, market leadership and thought leadership very much continues.

That is reflected in innovative value-added products, calibrated strategic price hike and continuous thrust on semi-urban as well as rural area. There is also major emphasis on sales through alternate channel, which annually now accounts for more than 30% of the sales, which pre-COVID used to be around 10%.

We have successfully entered into adjacent product category and they have received a good traction. They are not only adjacent product category, but we have also diversified into other distribution channel as suitable to those products. As far as international markets are concerned, apart from India, certainly despite temporary challenges, the long-term structural drivers are very much placed in overseas markets on account of intensified heat wave and climate change.

And as far as Climate Technologies Australia is concerned, as we updated earlier, there has been a major transformation going on and that has resulted into huge reduction in CODB. Now, in FY23-24, the CODB will be down by 60% vis-a-vis when we acquired it and next year, it will be further stabilized. We are completely revamping the product category and from existing product category of installed products now into completely mobile products offering much better value proposition as well as there is a better demand and better margin. Almost we have shifted from in-house manufacturing to outsourced business model as well as leveraging retail distribution channel.

Thank you. So, opening the floor for question and answer.

Moderator: Thank you very much. We have a first question from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Good evening, sir, and many congratulations, Nrupesh bhai on the promotion..

Nrupesh Shah: Thank you.

Rahul Gajare: Sir, I have got a couple of questions. You know, first on the India business. After the first quarter, you had indicated that certain geographies had high inventory of channel. I want to understand, how is the channel inventory progressed at the end of the second quarter on the domestic business. If you can share financials of the CT Australia , Mexico and the China business.

Amit Kumar: So, Rahul, you rightly highlighted that at the end of the first quarter, we clearly in some parts of the country, we were sitting on high inventory and that was a challenge that we were envisaging getting into this quarter. However, as we speak, as you would have noted during the presentation, the quarter this year, the billing that we have been able to do in the channel has been very close to what we did the same quarter last year. That was possible only on initiatives focused on expanding the network further and going a bit deeper into the rural market.

So, the net inventory that we have been able to place in the market at this point in time compared to last year, same point in time, we are at a slightly higher number. But given the initiatives we have taken, we are certain that, we'll be able to take this forward suitably.

Nrupesh Shah: Coming to subsidiary companies' financials, for April to September six months, Climate Technologies, Australia, top line is ₹ 91 crores, i am mentioning in ₹, versus ₹ 115 crores, while EBITDA-wise, it is negative ₹ 14 crores versus negative ₹ 11 crores.

For IMPCO Mexico, it is up from ₹ 69 crores to ₹ 107 crores, and EBITDA-wise, it is positive ₹ 18 crores versus ₹ 7 crores.

GSK, China, up from ₹ 19 crores to ₹ 23 crores top line-wise, and EBITDA-wise, up from ₹ 1 crores to ₹ 3 crores.

Rahul Gajare: Yes, thanks for that, . Sir, the next question, I have is on the LSV business that has been gaining traction. Is it possible, you can give us some colour on what is the performance has been and what is the kind of potential that you see in the rest of the year?

Nrupesh Shah: So the colour is there is a decent growth. We are by and large achieving our internal target. Still, on a standalone basis, it hasn't touched double-digit percentage. However, on a consolidated basis, it contributes almost 10% of the top line.

Rahul Gajare: Right, sir. Thank you very much. All the best for the remaining year. Thanks.

Nrupesh Shah: Thank you.

Moderator: Thank you. We'll take our next question from the line of Hardik Rawat from IIFL Securities. Please go ahead.

Hardik Rawat: Hi. Thanks for the opportunity. Actually, I missed out on the EBITDA number for Australia. Could you please repeat that, the revenue and EBITDA numbers for both the current quarter and the previous quarter?

Nrupesh Shah: Sure. So I have an April-to-September number for Climate Technologies, Australia. For first half, top line is ₹ 91 crores versus ₹ 115 crores. And EBITDA is negative ₹ 14 crores versus negative ₹ 11 crores.

While for IMPCO Mexico, top line is ₹ 107 crores versus ₹ 69 crores and EBITDA is positive ₹ 18 crores versus ₹ 7 crores.

Hardik Rawat: All right. Thank you so much. Apart from that, you mentioned that your market share currently stands at 50% of the organized market, right?

Nrupesh Shah: That's right.

Hardik Rawat: I just wanted to understand as to what would be the share of the organized market of the overall market? If you have any indicative numbers that would help.

Nrupesh Shah: Volume-wise, it will be about 27%-28%. Value-wise, it will be close to 40% of the total size.

Hardik Rawat: And with regards to your business in Australia, I just wanted to understand your -- what is the status of the transition that we are undertaking to the outsourced model? Like, do we expect that to complete and just spill over to FY25?

Nrupesh Shah: I think transition should be by and large complete by end of current financial year. And next year, 2024- 2025, we should see the complete benefit and effect of transition. Currently, most of the manufacturing facilities have been outsourced. Reduction in CODB to a major extent, we have already achieved.

Hardik Rawat: Actually, I wanted that number as well. Like the reduction in CODB, you said 60% has been achieved in FY24?

Nrupesh Shah: So I am saying vis-a-vis pre-acquisition. So pre-acquisition, the cost of doing the business was close to AUD 15 million. In current year, that is in 23-24, we will end with less than AUD 7 million and next year, it will be further down.

Hardik Rawat: Understood. Alright, that and one last question with regards to any new launches that you planned in coolers and adjacency in this remaining fiscal for the purchasing?

Achal Bakeri: In India?

Hardik Rawat: Both in India and the export market, sir.

Amit Kumar: So, for the current season, as we are going around with the primary right now, we have launched new ranges in the desert cooler category particularly, which are titled Windblast and Jumbo Plus Air Series. In addition, we have launched a product focused on the kitchen segment, which is the Duet i. So these are the two key products we have launched in the domestic market. For the global market, an additional product on the cooler side is actually what we call Buddy, which is one of the smaller table top coolers, which we have launched in this quarter particularly.

Hardik Rawat: Understood. Thank you so much. One last question with regards to guidance. So with this quarter ending, what sort of guidance are you looking at in terms of revenue and EBITDA for FY'24?

Nrupesh Shah: Recently, we have uploaded our new Investor Relations policy. As a part of the policy, in line with most of the consumer durable and consumer facing companies, we are not going to issue any guidance, whether short term or medium term. Let us more focus on actual performance and delivery.

Hardik Rawat: Got it. Got it. Thank you so much.

Moderator: We have a question from the line of Chinmay from Emkay Global. Please go ahead.

Chinmay: Just really wanted an understanding of why the margins have expanded despite the lacklustre top line growth?

Nrupesh Shah: Can you please repeat the question?

Chinmay: I just wanted to get an understanding of the reason behind the expansion in the margins, despite a slower growth in the top line, if I compare it.

Nrupesh Shah: So, as this Waterfall chart explains, first and foremost, improvement in gross profit margin by 3.30 percentage point on account of steady price increase, also on account of decent sales mix and also launch of new models have helped in that respect. Of course, supported by somewhat moderation in input costs, coupled with better and efficient logistic supply chain and also other overheads and expenses. So, primarily these three reasons. So, these three put together take care of almost 5% improvement in EBITDA margin.

Chinmay: Yes, that was the only question I had. I'll go through the presentation once again. Thank you.

Moderator: Thank you.

Moderator: We'll take the next question from Anupama Prakash Bhootra from Arihant Capital. Please go ahead.

Anupama Bhootra: Yes, if you can quantify the price increase in this quarter vis-à-vis the last year, year on year?

Nrupesh Shah: No, I don't think on account of competitive reasons, we'll be in a position to share that.

Anupama Bhootra: So, in percentage terms, can you share like how much percentage?

Nrupesh Shah: See, we do have a large model portfolio having more than 60 models in the country and more than 100 models across the world. So, in some of the models, there may be a price increase. In some models, there may not be a price increase. So, we won't like to comment on that.

Moderator: Thank you. We have our next question from the line of Prashant Sharma from Sharekhan. Please go ahead.

Prashant Sharma: Yes, thank you for the opportunity. Just want to understand, sir, when do you expect the channel inventory to return to the normal?

Amit Kumar: So, Prashant, as you said, the channel inventory at this point in time is slightly higher than the last season. But, clearly, we are working on plans to bring it to normal levels within the coming season. So, definitely, we are anticipating on the back of some focus initiatives that by the end of this season, we will bring it down broadly to what we call normal. Obviously, subject to the seasons and how the weather pans out. But that's the plan right now.

Prashant Sharma: Okay. Thank you very much.

Nrupesh Shah: Having said this, there are many, many regions where inventory is almost normal, where season was decent and inventory was normal.

Prashant Sharma: Okay. And which area are we seeing the issues? I mean, we still have the high inventory?

Amit Kumar: This Prashant could particularly be in select states in North and West, where the inventory is higher than what we consider normal inventory.

Prashant Sharma: Okay. Thank you very much. That's all from my side.

Moderator: Thank you. We have our next question from the line of Rahul Gajare from Haitong Securities. Please go ahead.

Rahul Gajare: Sir, following up on my earlier questions, can you also give us the revenue and EBITDA of the China business? So that's the first question?

Nrupesh Shah: So, about GSK China, in first six months, top line is ₹ 23 crores versus ₹ 19 crores last year. EBITDA is positive ₹ 3 crores versus positive ₹ 1 crores.

Rahul Gajare: Okay. Sir, also, with respect to your export market, now I recollect, because of the political uncertainty or turmoil, export business was impacted to some extent. Now, given the recent disturbance that we are seeing in Middle East, given that Middle East is the last part of your export, how do you see the export business panning out? And your thoughts on this, please?

Amit Kumar: So, Rahul, the uncertainties are still a bit, it would be a bit premature to comment on this from a season perspective. The market for Middle East particularly, builds up somewhere towards the end of the year. The core markets that we serve, especially the GCC countries, as of now, they don't seem to be impacted because of the ongoing situation there. We anticipate the situation will not affect much into our core markets where we export. So, to that extent, we do not see or anticipate a major concern on the Middle East market in particular.

Rahul Gajare: Sir, and the Egypt market and Sri Lankan market, the business over there, is that normalized now, or that business is still slow?

Amit Kumar: So, the traction is building. I would not say it's normalized, but we are seeing some positive movement and hopefully things should sort of move in the positive direction as we go forward.

Rahul Gajare: Sure. Thank you. Thank you very much, sir.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to management for closing comments. Over to you.

Nrupesh Shah: Thank you, all the participants, for your valuable time. We are well aware that this is a busy season for the result and back-to-back many conference calls have been lined up. Thank you, IIFL, and particularly Renu, for hosting this call. Thanks.

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