February 02, 2024

To,
National Stock Exchange of India Limited
Symbol – Symphony

To,
BSE Limited
Security Code – 517385

Sub.: Transcript of the earnings conference call of Q3FY24

Dear Sir/ Madam,

We are submitting herewith the transcript of the earnings conference call for the nine months/ quarter ended December 31, 2023, conducted on January 30, 2024.

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
MAYUR C. BARVADIYA
Digitally signed by MAYUR C. BARVADIYA
Date: 2024.02.02 19:07:26 +05'30'
Mayur Barvadiya
Company Secretary and Head - Legal

Encl.: as above.

"Symphony Limited

Q3 FY 24 Earnings Conference Call"

January 30, 2024

.

MANAGEMENT: **MR. ACHAL BAKERI – CHAIRMAN AND MANAGING DIRECTOR – SYMPHONY LIMITED**
MR. NRUPESH SHAH – MANAGING DIRECTOR, CORPORATE AFFAIRS – SYMPHONY LIMITED
MR. AMIT KUMAR – EXECUTIVE DIRECTOR AND GROUP CHIEF EXECUTIVE OFFICER – SYMPHONY LIMITED

MODERATOR: **MR. ADITYA BHARTIA – INVESTEC CAPITAL SERVICES**

Moderator: Ladies and gentlemen, good day, and welcome to the Symphony Earnings Conference Call hosted by Investec Capital Services. 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 the conference over to Mr. Aditya Bhartia from Investec. Thank you, and over to you, sir.

Aditya Bhartia: Thank you, Zico. Hello, everyone. Good afternoon. I would like to welcome the management of Symphony Limited to discuss Q3 FY '24 results. We have with us today the senior management of the company, represented by Mr. Achal Bakeri, Chairman & Managing Director; Mr. Nrupesh Shah, Managing Director (Corporate Affairs); and Mr. Amit Kumar, Group CEO & Executive Director.

I would now like to hand over the call to the management for their comments. Thank you, and over to you, sir.

Nrupesh Shah: We will have a brief presentation. I welcome all of you to Symphony Q3 and 9 months Earnings Call Presentation. So customary Safe Harbor statement applies. So the key highlights for this quarter on a consol as well as stand-alone basis. India domestic sales has impacted for this quarter, mainly on account of summer-end trade inventory of cooling industry, that is of air conditioners and air cooler inventory of the peers.

However, as our subsidiaries have performed better than previous year, it has more than made-up the loss of profitability of stand-alone. Overall gross profit margins as well as EBITDA margin percentage have witnessed decent rise on account of tactical pricing, value engineering, softening of input costs. Now as many international factors, including shipping costs are also getting normalized, we have started leveraging the complementary strengths of our overseas subsidiaries.

Large space ventilated air cooling continues registering the robust performance and growth. The Board of Directors have announced the third interim dividend of ₹ 2 per share in all amounting to ₹ 13.8 crores.

Subsidiaries as a whole, for 9 months, have registered the top line growth of 12%, which stands at ₹ 321 crores. While for December quarter, it stands at ₹ 92 crores, top line growth of 15%. EBITDA margin percentage-wise, now subsidiaries are in a positive zone. So earlier, subsidiaries put together, last year for 9 months, it was negative by about 4.30 %, now positive 3.1%. At PAT margin, it is still negative, however, decent improvement.

The major highlights of subsidiaries are: IMPCO, Mexico for 9 months as well as for Q3 has registered the highest ever growth and it is performing absolutely in line with or slightly better than our internal business plan, and summer season has been a strong tailwind. Same goes about Brazil as well as GSK, China and all three of them are now in black. As far as Climate Technologies, Australia is concerned, on account of various measures, its EBITDA loss has reduced. However, on account of demand headwind persists, which is likely to continue even in current quarter, still there is an EBITDA loss, but it has narrowed substantially.

So this is the Sankey chart of consolidated performance at a consol level. Revenue from operations for 9 months stands at ₹ 824 crores, which is lower by 6% YoY. However, cost of goods sold, that is bill of material costs and variable costs is lower by 12 %, resulting into improvement in gross profit margin percentage by 320 bps, which stands at almost 48% and leading to EBITDA margin percentage improvement of about 40 bps, that is 13.5%. Despite lower sales, consol EBITDA stands almost at a same level, that is ₹ 111 crores, and PAT is about ₹ 100 crores, marginally higher than previous year.

Coming to December quarter consol financials. Top line is lower by 11%, mainly on account of Symphony India. However, gross margin percentage has improved by 380 bps and it stands at 47.5%. EBITDA margin percentage has improved by 190 bps, that is at 17.6%. PAT is up by 6% at ₹ 41 crores.

This is a waterfall chart of December quarter, consol EBITDA has moved from 15.7% to 17.6%.

Some of the key financial metrics for Q3FY24. Capital employed in core business on a consol basis stands at ₹ 248 crores, leading to ROCE (of core business) of 18%, and RONW of about 15% on trailing 12 months.

Coming to stand-alone, that is Symphony India performance. For 9 months, there is de-growth of 16% on account of reasons as mentioned earlier, and it stands at ₹ 545 crores. Gross margin has improved to 49.3% and EBITDA margin is lower by about 2 percentage points mainly on account of impact of top line and it stands at 18.0%. PAT for 9 months is at ₹ 107 crores, that is 19.6%, marginally higher than previous year.

For December quarter, standalone top line is ₹ 177 crores. Gross margin is 46.3%, that is ₹ 82 crores, lower by 19%. PAT, on a stand-alone basis, stands at ₹ 43 crores, which is 24.2% of revenue from operations, 1 percentage points higher on YoY basis. However, in terms of absolute amount, PAT is 17% lower on YoY basis.

This is a waterfall chart of EBITDA margin percentage movement from 25% to 23.3%. So some of the fixed overheads show negative, mainly on account of lower top line, which we expect to be taken care down the line once sales normalizes.

On a stand-alone basis, capital employed in core business for December quarter is negative ₹ 11 crores. RONW is 19% and treasury stands at ₹ 455 crores versus ₹ 637 crores a year before. On account of negative capital employed in the core business, there is an infinite RoCE (of core business) on a stand-alone basis.

Coming to outlook, Symphony very much remains numero uno (number one) in air cooler industry. It very much maintains market share around 50% on account of a variety of reasons as discussed and explained from time to time. Now in current scenario, we see a major opportunity of leveraging the complementary strength of our international business, mainly for IMPCO, Mexico as well as Climate Technologies, Australia as many, many products are going to be outsourced to India and China. For Climate Technologies, Australia starting next year, it will be 100% outsourced business model. In-house manufacturing will be stopped completely. Now we see even normalization of international sea freight, by and large. There also seems to be long-term structural drivers in overseas as well as domestic market on account of intensified heat waves, leading to strong tailwind for air coolers. As I explained in the past, the transformation of Climate Technologies, Australia is going on and it is as per schedule, except currently there is some slowdown in the demand on account of local factors.

Thank you.

So we can take the questions.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from the line of Manoj Gori from Equirus Securities.

Manoj Gori: Yes. So I just have two questions. One, if I look at probably on the domestic business, on sequential basis, we saw some decline in revenues. So probably -- like obviously, this was not expected by me. Probably I would have gone wrong somewhere. Can you highlight like what led to this decline on a sequential basis because ideally, it should move in the upward trajectory. Can you throw some light over there?

Amit Kumar: So Manoj, that's a good question. We said earlier also in the presentation, there are 2 core reasons for this. One is that at the end of the season, given the seasonality of the business, part of the channel had the heavy stock of all kinds of cooling products. So at the end of July 2023, air coolers, air conditioners, in many cases, in parts of north, there was the high season ending inventory. So the build-up of the inventory across the channel in early parts of this quarter has been low. That's the core thing.

Manoj Gori: No, my point was like high inventory levels...

Nrupesh Shah: I believe your question is vis-a-vis September quarter, why in December quarter, domestic sales are lower even though the same situation was prevailing in September quarter, right?

Manoj Gori: Right.

Nrupesh Shah: Yes. So the point is, even though we do have a decent collection as conveyed earlier. But on account of cooling product inventory lying with the trade, trade is not intending to use them. Hence, we are unable to bill that. So even as on 31st December, we do have a decent amount of unbilled collection, which we believe should be transferred to sales in the ensuing quarter.

Manoj Gori: Right. And sir, so should we expect like as of December, probably as compared to last year, the inventory level should be normal? Or are they still higher?

Achal Bakeri: By cooling product inventory, what we mean is not only air coolers, but all cooling products, including air conditioners, which are lying unsold with the channel, which is weighing down on sales of our products as well.

Manoj Gori: Right, sir. Got it. On the subsidiary front, so obviously, it was a very encouraging performance probably when we look at the -- on the profitability side. So Climate Technologies, Australia obviously, would be doing better in the coming quarter as well. But should we expect like this kind of or the quantum of improvement that we have seen on the subsidiary side is more sustainable in nature?

If you can throw some light like how the demand scenario pans out in US market and even in Australia, and how should we expect during fourth quarter. And also if you can throw some light on FY '25 internal estimates?

Achal Bakeri: Yes. So as far as the US is concerned, they are much weaker this year than they were last year. As far as Australia is concerned, we believe this is about as bad as it can get. Going forward, this would certainly be better. We have also added a range of new products, which the company had never sold before, including products like coolers from India or portable air conditioners, general air conditioners, panel heaters, or oil-filled heaters, fireplaces etc. We've added a whole range of products, which should also gather momentum in the times to come. So all told, with a wider range of products, as well as having hit probably what I believe is the rock bottom, things can only be better from here in Australia.

Nrupesh Shah: As far as IMPCO Mexico and Brazil and GSK China are concerned, they have delivered well and it is expected to perform in line with what it is delivering.

Moderator: Our next question is from the line of Pulkit from GS.

Pulkit: Sir, my question is a follow-up to the previous question, more in line of the end market demand. I mean while, obviously, we've had these erratic summer seasons, when I look at the last few years, we have not really seen any growth in the domestic market. While obviously, internationally, there were hiccups that we are trying to fix things. I just want to understand how should one look at the domestic end market demand environment, and is coolers as a category becoming less favourable?

Amit Kumar: So, Pulkit, that's a fair observation that if you look at a 3-, 4-year timeline, the overall market size may give a picture of stagnation. But what we need to keep in mind is that the market has de-grown during the COVID years, and the peaks of the COVID was precisely during the peak season of the business. When we take that out of the picture, then over the last 2 years, the market is getting its momentum back. So as we go forward, the market is likely to grow. We are also seeing a conversion from the unorganized and metal cooler market into organized fibre-body cooler, so that will provide further thrust to growth of the organized segment of the market. So that's our reading of how things are likely to pan out in the short to medium term.

Pulkit: So sir, okay. So if I was to assume a normal summer, then over a 2-3-year period, what is the kind of CAGR the industry, in terms of volume, could see, in your view, and what you are sort of preparing for?

Nrupesh Shah: So as per our IR policy, we are not giving any company specific guidance for the ensuing quarters or years. However, as I understand, your question is about the industry growth and sustainability. So we believe that industry seems to register, on an average, at least about 10% CAGR growth. However, when it comes to the organized sector, the growth should be even higher than that, because it is gradually shifting from unorganized to organized, plus higher value as far as organized sector is concerned. As you know, Symphony commands almost 50% in market share.

Moderator: Our next question is from the line of Siddhant Dand from Goodwill.

Siddhant Dand: Yes. I just wanted to ask, we have seen that in ACs, the EBITDA margins have come down to mid-single digit across the industry, including for the market leaders. So what justifies the 20% plus margin in coolers? Can we expect it to get competitive on the price front, the market?

Nrupesh Shah: No. So as you would have observed, our EBITDA margin percentage even in the past has been substantially higher than air conditioners. In fact, most of the times, even though per unit air coolers sales value is lower than per unit air conditioner, but per unit profitability is higher than air conditioner and that is on account of uniqueness of the product, brand, dealer distribution network, etc. We believe that, in fact, we have a decent scope not only to maintain the current margin profile, but to improve the margin profile.

In fact, as you would have observed in subsidiaries, even though they were having, especially IMPCO Mexico, decent margin, we could further improve upon in terms of GP margin as well as EBITDA margin percentage. As far as Climate Technologies, Australia is concerned, it is in transformation phase. So there also, we believe that there is a decent scope of improvement. GSK has also registered that.

Siddhant Dand: Okay. So...

Nrupesh Shah: But to the extent both are not really comparable because of the type of the business model what we manage and run.

Siddhant Dand: And would our margins be different in modern trade and traditional general trade? Or would they be similar?

Nrupesh Shah: No. So broadly similar.

Moderator: Our next question is from the line of Aniruddha Joshi from ICICI Securities.

Aniruddha Joshi: Sir, two questions. Can you indicate the market share trend for us in -- air coolers in India over the past 1 year, means whether we would have gained market share or lost? And in a way, again, in the region-wise if you can indicate further trends, urban, rural, metros and smaller cities or even a region-wide, whether east, west, north and south, any indication for the market share trends. That is question number one.

And secondly, in a way, now we are seeing massive capacity coming in air conditioners. So in order to utilize the capacity, there might be -- next 3 to 4 years, we may not see any material price increase in air conditioner also. The technology change or the -- even the regulatory related price hikes is also behind in air conditioner. So do you see that will result in higher growth in air conditioner sales impacting the -- reducing the gap between AC versus coolers? Yes, those are the questions.

Amit Kumar: So Anirudh, so for the first part, if you look at the market share pattern over the last 2 years, I would say broadly, we have retained our market share closer to about 50%. Over the last few years, there has not been a material change, so to speak, on either side of this base number. So that's where we are. I would refrain from breaking this into a regional mix. So that's the picture at the pan-India level, which we are maintaining over the years.

In terms of the growth expectations, Nrupeshbhai has already mentioned the kind of growth we are expecting in the air coolers market. For air conditioners, there has been sizable growth. For both the products though, as you would note, the penetration levels across the country are very low. So we do expect healthy growth in both the categories and, in many cases, they are complementarily growing across the country.

Moderator: Our next question is from the line of Vignesh Iyer from Sequent Investments.

Vignesh Iyer: Sir, two questions on more of broader side of the business. Just to understand, since you have been saying that there has been a shift from unorganized to organized, what has been our win share of -- from the business that is moving from unorganized to organized? Do we have any internal estimates of whatever win is of the business that is moving?

Amit Kumar: So Vignesh, so while we have agreed -- as we said, the overall market share across the cooler category, the organized cooler category that we track, we have retained it broadly at about 50%. So using that information, I would broadly conclude that we are gaining a reasonable share from the -- conversion from the unorganized to organize level. There would be a possibility that some of the -- even within organized segment, there is a premiumization happening, and we might be getting a better share of the premium category. But retaining the market share in the overall scheme of things at 50% would not be possible if you were not getting a share of the conversion from unorganized to organized.

Vignesh Iyer: Okay. Right. Understood. Just another point that if I have to see this company historically, So we have been consistently doing -- in the past done somewhere around 25%-26% margins as well, right? So now we are seeing that, at consolidated level that is, yes, we're seeing our subsidiary turnaround and reaching breakeven.

So is there anything in place that will help this company to go back to that 20%-25% margin on a consistent basis? I mean is there something that has changed very drastically in the industry itself for us to not go back to that margins, just to get an understanding?

Nrupesh Shah: No. So we have a road map and we have internal targets to achieve that, and also some strategy in place. So we believe that, certainly there is a good possibility to improve overall margin profile on standalone as well as on a consol basis, including at subsidiary level, particularly Climate Technologies, Australia.

Vignesh Iyer: Okay. So what would be -- what is the internal estimate may be over a period of 5 years, if you can tell me. I mean, I'm not asking for a guidance per se on immediate basis. What is -- would be the outlook for the company since it is more than -- almost 50%-55% part of the industry, cooler industry that is organized part, what would be the 5-year vision that the company has, just to share with the investors and the shareholders.

Nrupesh Shah: I think let we deliver and let the figure decide actually, rather than we can convey or give direct/indirect guidance in that respect.

Achal Bakeri: Also for us, our North Star is what we had back in 2018, which was ~ 32% EBITDA margin on a stand-alone basis.

Moderator: Our next question is from the line of Hardik Rawat from IIFL Securities.

Hardik Rawat: Yes. So I just wanted to understand what are the individual -- what are the numbers -- revenue and EBITDA numbers for the subsidiaries individually?

Nrupesh Shah: So for 9 months, IMPCO Mexico. All figures in ₹, top line is ₹ 126 crores versus ₹ 80 crores last year. Gross margin percentage stands at 45% versus 36% last year. EBITDA stands at ₹ 19 crores versus ₹ 4 crores last year, that is 15% versus 5%.

Climate Technologies, Australia for 9 months. Top line stands at ₹ 142 crores versus ₹ 173 crores. Gross margin improved from 29% to 34%. EBITDA at negative 11% in line with last year. However, noteworthy figure for Climate Technologies, Australia is December quarter, where we could improve it YoY, despite on lower sales versus last year, GP margin up from 28% to 40%, and EBITDA was -10% to -3% in December quarter.

Coming to GSK, China for 9 months. Top line improved from ₹ 27 crores to ₹ 33 crores. And EBITDA, which was slightly positive previous year, now stands at positive ₹ 4 crores.

Symphony Brazil for 9 months. Turnover was up from ₹ 7 crores to ₹ 22 crores, and EBITDA, which was 0, now stands at ₹ 3 crores.

So all in all, subsidiaries put together for 9 Months, top line is up by about 12% from ₹ 288 crores to ₹ 321 crores. Gross profit margin stands at 38% versus 31%. EBITDA stands at 3.1% versus -4.3% YoY.

Hardik Rawat: Got it. One more question with regards to -- you mentioned something about the unbilled sales resulting in a -- partly resulting in a sequential decline in revenue. Could you please elaborate on that exactly what happened there?

Amit Kumar: So Hardik, basically, as you are aware, part of our business model is that we take advance collections from our channel partners. Then that advance collection is billed as we move towards the season, starting from the July, August quarter itself. Now this year, while we have been able to get advance collections from our channel partners, many of them are yet not ready to get the billings done from us because they are across the downstream channel, which is on the secondary side, they are sitting on large inventory across multiple cooling products. So the billing has been deferred or delayed from the downstream side. As the category starts moving, the billing will be executed in the current quarter. So that's broadly the larger picture.

Moderator: Our next question is from the line of Aditya Bhartia from Investec.

Aditya Bhartia: My first question is on the gross margin, which, while on a year-on-year basis expanded, but on a sequential basis, we saw a bit of a decline. Last quarter, we had spoken about some value engineering that we had done and also talked about commodity costs playing through. So how should we read about it? How should we think about margins going forward, specifically additional inventory build?

Nrupesh Shah: Yes. Aditya, I think you might be referring to stand-alone EBITDA margin, which certainly sequentially has come down. But as we talked earlier, gross profit margin percentage in fact has improved. However, on account of the de-growth in sales, as fixed costs remain fixed, which impacts the EBITDA, and that's where the reduction has come.

Aditya Bhartia: No, sir, I'm speaking about gross margins declining versus September quarter. On a sequential basis coming off.

Nrupesh Shah: You shouldn't read much into that. It's more also about the product mix and sales mix. So more relevant is 9 months and year as a whole. In that respect, it doesn't matter much.

Aditya Bhartia: Understood, sir. And sir, my second question is also somewhat related. You have mentioned that you see the possibility of market moving from unorganized to organized. At any point of time, can you use the pricing lever a bit, as in reduce the pricing a little or compromise a little on margins in order to be gaining market share expedited?

Achal Bakeri: So we have a wide portfolio of products which are priced at various price points. So we -- it isn't that we are only catering to the higher end of the market, we have models at lower end as well. But yes, I mean, in one sense, we could do that, chase volumes over profitability. But we believe that we could do that more strategically with smart pricing rather than sort of across-the-board reduction in margins.

Aditya Bhartia: Sure. Sir, should we not be anticipating any change in strategy of what you've seen in the last couple of years? Is my understanding correct?

Achal Bakeri: I didn't get your question.

Aditya Bhartia: Sir, just in terms of pricing, so we should not -- are you saying that there is unlikely to be a major change in strategy versus what you've been following in the last few years?

Achal Bakeri: There won't be any major change in strategy. Absolutely not. Besides, please remember that the gap between unorganized sector and any organized sector company, not only Symphony, is so wide that it would be impossible to bridge. That unorganized sector is a reality in our country, is a fact of life, and you can't do anything about it. And that is true not only in air coolers, but almost every sector that one can think of, where the entry barriers are relatively low. So unorganized sector is here to stay. And there is no way that any company in any organized sector, company in any sector can reduce the pricing to their levels.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. 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 for your participation, valuable inputs and questions. I also take this opportunity to thank Investec for hosting this conference call. Looking forward to seeing you in year-end analyst conference call.

Moderator: Thank you. On behalf of Investec Capital Services, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.