What's the *next* big idea?

Big transformation. Small everyday improvements. Get the connect?

Annual report 2011-12

Symphony Limited

Corporate Information

Board of Directors

Achal Bakeri
Chairman & Managing Director

Nrupesh Shah
Executive Director

Dipak Palkar
Director

Himanshu Shah
Director

Company Secretary

Chandrakant Gandhi

Auditors

Shah & Dalal
Chartered Accountants

Registered and corporate office

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Registrar & Share Transfer Agent

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416-420, 4th floor, Devendra Mall
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Another terrible year.
Customers admired products but held onto their wallets.
Customers selected products only to squint when they saw the price tag.
Customers scrutinised products and asked, 'So what's different?'

Just the kind of year when most appliance companies were likely to introspect and ask: 'What's the *next* big idea?'

And then there was Symphony.

Marketing a product at a fourth of the cost of an alternative but earning twice the margins. Running a capital-intensive business with a five-fold increase in free cash. Increasing average realisations in a year when everyone was reducing sticker prices. Growing Indian market share by 500 bps to 50%.

Just the kind of year when shareholders and analysts came back to ask: 'Great, now what's the *next* big idea?'

Statement
from the Chairman and Managing Director

'What's the *next* big idea?'

Dear shareholders,

It was another amazing year for the Company.

Seldom have we witnessed a year as climatically volatile as it has been economically unpredictable.

At the start of our financial year (July, 2011) the entire summer-based industry (ice creams, beer, soft drinks and airconditioners) experienced the hangover of a mild summer, marked by a slowdown in sales, margins and profits. We were not spared as well; we had reported a topline growth of 23% and a bottomline growth of 22% in 2010-11.

As the impact of this mild summer lingered, our performance for the major part of 2011-12 continued to be relatively lukewarm. Our consolidated revenue growth in 2011-12 was only 7% over the previous year whereas our bottomline increased a mere 4%.

Turnaround

Just when we were reconciled to a relatively flat year, something unexpected transpired. Temperatures rose, the summer in India proved to be among the ten warmest years on record in the last 160 years, customers made a beeline for cooling products and Symphony reported a 14% increase in revenues in the last quarter over the immediately previous quarter and 52% higher than in the corresponding quarter of the previous year. The vigorous rebound of this single quarter enabled the Company to significantly reverse the slowdown of the previous quarters. The result was that Symphony reported a 9% growth in topline and 12% increase in its bottomline during the year under review.

Portfolio churn

It would be simplistic to assume that the Company reported an increase in its revenues and profits only as a pass-through of an increase in temperatures. The reality went deeper. Symphony capitalised most effectively on a rise in temperatures because it had proactively churned its portfolio:

Between 2009-10 and 2011-12, additional spending by rural India was Rs.3,750 billion, significantly higher than Rs.2,994 billion by urbanites, the first time since economic reforms began two decades ago *(Source: CRISIL, August 2012).*

it had introduced new cooler models like Storm 70E and Storm 100E in December 2011, addressing 700 sq ft and 1000 sq ft residential spaces respectively. These models were priced close to air-conditioners and positioned around a comparable value proposition with a negligible maintenance cost. The result was that within a mere six months of launch, these value-added models accounted for 5% of our revenues in 2011-12, lifting the overall average. So even as we sold just about the same number of cooler units in 2011-12 as we did in the previous year, weighted average per unit realisation was higher by 10% . In my mind, even as we encountered one of the most challenging years in recent memory, our response was unprecedented.

Outperformance

There were other pertinent reasons behind our significant outperformance of the cooler sector.

We upgraded our existing models in line with the needs and conveniences of an evolving marketplace. We upgraded a number of our conventional manual models to be remotely controlled and by the end of the financial year under review, nearly half our models were remote-operated. We invested our models with energy-efficient motors to reduce power consumption. We strengthened the number of customer service points across India. We increased the number of pan-India distributors from 550 to 750 and retail points of sale from 10,200 to 14,000.

More importantly, we extended the nature of our solution – from 'a box' to 'a system'. For years, we had marketed 'a box'; during the year under review, we extended to offer customers a ducted cooling solution for the entire residence covering up to 2,000 sq ft.

Besides, we had earlier marketed a major part of our production through conventional sales channels. During the year under review, we generated a growing throughput from large format stores. The result was a 177% increase in throughput from this channel; revenues from this route increased from 4% of sales in 2010-11 to 9% in 2011-12.

Staying single

Symphony is a remarkable instance of a company that has virtually redefined the cooler industry in India. The Company accounts for nearly one out of every two coolers sold in India's organised sector and has the highest sectoral margin. Despite this, Symphony is still a single product company (with residential and industrial manifestations). So a number of analysts have ventured to ask: 'What is the next big idea?'

At Symphony, it would be tempting to use the cash at our disposal to extend along the x-axis and become multi-product in no time. In our opinion, this would be premature for the following reasons:

- Even as it appears that the cooler sector has acquired a critical mass and hence, can be considered mature, we are far from this reality.

- India is passing through unprecedented income growth – per capita income grew from ₹ 54,835 in 2010-11 to ₹ 60,972 in 2011-12. Besides, earnings in rural Indian households increased by 45% in two years, catalysed by better farm earnings and the trickle-down of the MGNREGA programme (*Source: Livemint* May 2010).

- It isn't just a question of selling within India any longer. Symphony exports the product to 60 countries, a large number of them having income or


THE FUTURE BELONGS TO THE FEW OF US STILL WISHING TO GET OUR HANDS DIRTY
– Reiner Tiangco

social demographics akin to India and where it would be reasonable to assume that a combination of rising temperatures and relatively modest earnings growth will make the cooler the first-choice product in the quest to create liveable residences.

- Besides, it isn't just the question of a residential cooler any more. Over the last few years, we have successfully evolved and extended the product to cover industrial coolers and residential ducting systems. Both the concepts are completely unknown; there are thousands of factories in the country with workers toiling away in sub-human working conditions even in peak summers. Our industrial cooler solution presents a high-ticket solution in a virgin environment.

- Over time, as air conditioners move to environment-friendly (and expensive) refrigerant gases, the price differential between these products and coolers will only widen, strengthening the case for the latter.

Road ahead

As things stand, there is still a considerable scope waiting to be exploited within the air cooler sector. At Symphony, there are two ways to address this potential.

Firstly, through the extension of our products, which extends us from one product to multiple products with a corresponding decline in margins and management attention to each. Secondly, a continuing focus on one, spinning innovations out of the core product and continuing to reinvent applications across a wider customer spread.

At Symphony, we would rather sacrifice quantity-led topline growth for quality-led revenue cum bottomline increment. We are convinced that it is only our singular focus on managing one core product that has translated into industry-beating margins, high return on capital employed and the ability to dominate the segment.

Does it then mean that Symphony will remain a one-product wonder?

Not at all. At Symphony, we are engaged in scouting for product opportunities based on the following criteria:

- We will address unsatisfied (emerging or long-felt) needs with products that are years away from consumption maturity.

- We will enter spaces where there is a prospect of segment leadership (first, second or third).

- We will enter spaces where there is a prospect of adjacent product extension so that we may explore emerging consumer preferences.

- We will enter products that are tied up with latent need for environment friendliness.

- We will enter product spaces where we can remain knowledge-heavy but asset-light, making it possible for us to strengthen our balance sheet and enhance shareholder value.

- We will enter product spaces that are tied up with superior lifestyle aspiration, which means that higher the people earn, greater the prospects of products offtake.

Until then, we will continue to enhance value for our shareholders in the way we know is secure and sustainable.

Achal Bakeri,

Chairman and Managing Director

FEAR IS A PRISON.

– *Anonymous*