Analysed By - Vishal Khandelwal
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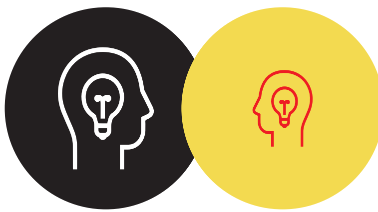
Date - 8th September 2017

* Disclosure - Not invested (Oh no!)



~~Innovation~~ > Imitation

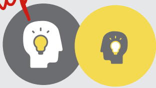
Symphony Limited | Annual Report 2016-17

* It's a "cool" annual report as you'd soon figure out. Though if it's not designed internally, the company may have spent a bomb on creating this report. It smells of over-confidence at times, but the business quality speaks for itself.

"Coolest part"

Contents

Sugarcoated punch to competitors



INNOVATION > IMITATION

At Symphony, we are engaged in the last of the great fights.

Between convenient copying at the back of the envelope.

And a relentless spirit that seeks to push the envelope instead.

We are the mavericks, the square pegs in the round holes, the kind of people who will ask 'why' for everything, the kind who will select to do the more difficult in the hope of discovering a new way.

And that is making all the difference.

We presume that this is going to be the first response of all those demanding stakeholders who have been used to seeing Symphony report profitable growth throughout the decade.

Symphony reported 29 per cent growth over the corresponding period last year in consolidated gross revenues and a 12 per cent increase over the corresponding period last year in profit after tax in 2016-17.

All we need to assure shareholders is that embedded in this 'aberration' lies the story of innovation-led product success.

Sorry, one change.

Make that *outstanding* innovation-led product success at Symphony.

TWO PRINCIPAL MESSAGES OF THIS ANNUAL REPORT

One, Symphony sustained its innovation focus in 2016-17 more than what our financials might indicate at first glance.

Two, there is a deep innovation-inspired sustainable value in our numbers whose positive value will be reflected only after the first quarter of 2017-18.

Sometimes what you don't see is what you get – visibly, attractively and sustainably across the future.

Psst. Flip the page over to the Chairman's review to comprehend how.

02

DON'T GO STRICTLY BY INDIVIDUAL ANNUAL OR QUARTERLY RESULTS

When you introduce next-generation products, there is usually a cost associated with their launch, market creation and trade acceptance.

Normally such products may not report surpluses for the first few quarters – even years.

At Symphony, we are pleased to state that these newly-launched products reported a surplus from the first quarter of their launch – a rare phenomenon when launching products with far-reaching consequences.

During 2016-17, Symphony reported a 29 per cent consolidated revenue growth over the corresponding period of the previous year and a 12 per cent growth in profit after tax. This was probably the first time in 10 years when the company reported a profit growth lower than sales growth.

* Inspires confidence in the business

THE REALITY THEN IS THAT SYMPHONY DID NOT DENT PROFITS; THE COMPANY MERELY POSTPONED PROFITS FROM ONE QUARTER ACROSS THE NEXT NUMBER OF YEARS (STARTING FROM THE SECOND QUARTER OF 2017-18). AT SYMPHONY, SUSTAINABILITY PREVAILED OVER THE NEED FOR IMMEDIATE PROFITABILITY.

The first question that people would be inclined to ask is whether this represents a slowing down of the company. The answer is a decisive 'no'. Symphony has reported 'aberrations' (if one could call it so) in the past; the company reported a lower growth in topline in the year 2011-12 but went on to report handsome growth thereafter.

The analysts who track sequential and corresponding quarters might find it surprising that when national disposable incomes are rising and Symphony has been spending higher on brand building, why the company should not have reported higher profit growth.

The answer lies in how one perceives markets and competitive forces on the one hand and how one intends to proactively capture market share on the other. During the last financial year, Symphony was proved right on virtually all counts – except one. The company got its product positioning right, the company launched its disruptive Touch product range around the right introductory price, the company reported attractive sales and a disproportionate profit growth.

What didn't go as per expectations was the totally unexpected response that the Touch product range evoked during a challenging period. The product reported 2.5x sales of what had been budgeted. As demand continued to rise, the company could have responded in three ways: moderated offtake and returned the consumer need unaddressed, raised prices mid-season and turned the entire distribution network out of gear or we sustained output, maintained introductory sticker price and taken a relative 'hit' on the bottomline.

Symphony selected the last option. By doing so, the company believes that it has largely shut competition out, retained the confidence of trade partners that we follow stable pricing and seeded the market with thousands of new Touch consumers who, one believes, will showcase this differentiated product to their neighbours, friends, relatives, acquaintances and friends' friends without the company having to spend a single rupee on branding, royalty or sales commission.

The reality then is that Symphony did not dent profits; the company merely postponed profits from one quarter across the next number of years (starting from the second quarter of 2017-18). At Symphony, sustainability prevailed over the need for immediate profitability.

The conclusion is that one should not be guided strictly by the quarterly numbers; the broad numbers would be more indicative and more pertinently, it would be fair to appraise performance on the basis of two or three-year clusters. For instance, in the demonetization-ravaged December quarter, Symphony reported a standalone post-tax bottomline of ₹56 cr. that was almost the entire bottomline that the company had reported in 2011-12! Someone who might have noticed only a quarterly aberration may have missed the subsequent show.

The operative word: **patience.**

Our brand investment increased 32 per cent in 2016-17.

The indication is Symphony's Innovation Index. Consider the quantum of revenues derived from the launch of Symphony's products launched in the last three years - as a reasonable guide to its competitiveness. In 2016-17, the company derived 31 per cent of revenues from products launched in the last three years.

Or consider the lead in Symphony's market share over the market shares of competing brands – 50 per cent market share when we believe that our nearest competitor has a share of 14 per cent at a time when competition has increased.

And thereafter, also consider that in 2015-16, Symphony invested ₹31 cr in brand building; in 2016-17, this increased to ₹41 cr.

To put this in perspective: during a year when standalone gross revenues increased 27 per cent and profit after tax barely grew 19 per cent , our brand investment increased 32 per cent – higher than growth in either parameter. The company allocated more into brand building in 2016-17 than in any year of its existence; the increase in brand spend during the year under review was also Symphony's highest ever.

The decision of the management to spend more than ever in brand-spend was not based on a whim. It was based on a confidence that business health has never been better, that there is an unprecedented traction for the company's products (validating the pass-through from brands to offtake) and that the company is more optimistic about its business today than at any time in its existence.

So what is that the Symphony management sees that most might have missed? The Symphony management perceives a higher spending power in the hands of Indians. The management sees Symphony products becoming relatively more affordable given the increase in incomes and relative decline in inflation. The management sees growing aspirations, where the concept of 'tyaag' and 'austerity' are yielding to increases in necessity spending. The result is that Symphony, even when we combine features and create what we insiders see as a value-added upmarket model, is something that much of the country sees as something it deserves. Air-conditioners might be seen as conspicuous consumption, but an air-cooler (even the most visible ones such as Symphony) is seen as something that is democratic and universal.

That brings one to an interesting sweet spot: Symphony is probably the lowest-priced democratic lifestyle transformer in India today – a product that benefits various people. A scooter costs three times an air-cooler; a kitchenette cost more than an air-cooler; even superior tiles cost more than an air-cooler.

So each time Symphony communicates to trade partners that it would be committing 'x' per cent higher to brand building, they remit their product advances even quicker and book their coolers months in advance, because when we do promote, they are convinced that the pass-through into sales would be clean, direct and immediate.

In financial terms, this brand spending is what analysts describe in two words: **'Postponed profits.'**

* Digging a deeper moat around itself.

Symphony has drawn extensively on IMPCO's competence and created an entire business in India out of industrial coolers.

When Symphony acquired IMPCO in Mexico in 2009, the company was loss-making. IMPCO was acquired because of the deep knowledge that it possessed in industrial coolers, a segment where Symphony was absent. IMPCO was a PhD in the subject; Symphony in India had done well in residential coolers in India and needed to extend its reach further. The acquisition represented a synergic fit. Symphony would absorb industrial cooler insights from IMPCO; IMPCO would draw on Symphony's entrepreneurial streak into its operations, creating an attractive win-win proposition.

This 'exchange' has already transpired. Symphony has drawn extensively on IMPCO's competence and created an entire business in India out of industrial coolers. Even as the profits of these have been reflected in the standalone numbers of the Indian company, this would not have been achieved without IMPCO's deep sectoral knowledge.

In the given circumstances, shareholders would be advised to appraise our consolidated numbers rather than see a stripped-down Balance Sheet of IMPCO. Even as IMPCO's contribution to the company is probably under different heads . I am pleased to report that IMPCO has embarked on doing what Symphony has institutionalized for years: divesting surplus land and space, outsourcing operations to third parties, focusing on brand building cum marketing and redeploying the proceeds arising from the divestment in repaying debt to become structurally lean and profitable.

IMPCO's standalone financial turnaround is round the corner.

05

SYMPHONY HAS DONE BETTER IN CHINA FASTER THAN EXPECTED

Reminds me of "Dangal"

The other questions that one is perpetually asked are: when will China turn around? When will China contribute? To what extent is China dragging down the corporate average?

We moderated the losses in 2016-17 and we expect the business to turn positive.

At Symphony, we believe that there are two ways to answer this. The company acquired Guangdong Symphony Keruilai Air Coolers Co. Ltd (GSK) (Dongguan, China) in January 2016 for around ₹1.55 cr. Symphony believes that it paid an absolutely affordable sum of money to enter China through an existing entity, to enter China through an air-cooler company, and to enter China through a pioneering market leader - all three!.

But while the price was just right, there was an annual loss to plug. We had already factored at the time of acquisition that GSK would lose money for the first few years. We moderated the losses in 2016-17 and we expect the business to turn positive in medium term.

Symphony believes that the loss has been a small price to pay for what one has received in return: one of the world's best repositories in industrial cooler knowledge, patents and product development. The company could have spent years developing this expertise in the Indian environment; one may have spent the next decade entering China and here Symphony received everything in one package with only three to four years of profit gestation. At Symphony, we perceive this trade-off as loaded in the company's favour; it is only a matter of time before Symphony evolves into a robust brand in the largest air-cooler market in the world.

* Should be music to the ears of long term investors. Real business owners don't change track looking at short-term performances. Shareholders must follow.

07

WE CONTINUE TO RUN THE BUSINESS THE SAME WAY AS WE HAVE

Will Symphony alter its business strategy after a relatively modest 2016-17?
That's almost like asking whether a pilot will fly a tangential route because she encountered a one-off air pocket.

Heard on the street

"The Symphony brand? Distributors provide advances for Symphony products and wait 9 months before sales."

Wow!

Free float that acts as a moat

02

OUR TOUCH SERIES WAS SOLD OUT FOR A GOOD SIX MONTHS EVEN BEFORE WE COULD TELL THE BROCHURE PRINTER 'GO PRINT!'

3

"WE'VE HEARD OF NEGATIVE WORKING CAPITAL. BUT WHAT THE HELL IS NEGATIVE CAPEX CYCLE?"

In the business of manufacturing and marketing air-coolers, we encourage our vendors to commission manufacturing facilities and moulds that are funded by the cash on our books.

For years, the kind of nightmares that we have had have been like: we have a number of product ideas exploding the synapses in our brain, which makes us expend all our cash in giving advances to our vendors until there comes a point when we have exhausted all the ideas in our mind and all the cash on our books and waiting for the market to buy.

Just a nightmare due to some uncontrolled mechanical aberration of the subconscious, what can you do about it? Just one of the things we felt we would have to live with.

Until something happened that momentous July of 2016. We marketed a product that didn't exist; we peddled a dream on paper; we collected sizable advances for a product whose plant had not even been commissioned.

Until something happened that momentous July of 2016. We marketed a product that didn't exist; we peddled a dream on paper; we collected sizable advances for a product whose plant had not even been commissioned.

You might say, big deal. But wait. We were like that weary traveller who trips on a stone in the desert, which he removes to find dozens of glimmering multi-coloured somethings below.

But cut the analogy. The reality was that we took all the cash that had been remitted in advance to manufacture a product and used it to extend as advance for the manufacturing facility. We had heard of an advance being used to manufacture more products; this was the first time that an advance was being deployed to create an entire manufacturing facility.

Symphony's Financial Controller coined a term for this breakthrough: Return on Concept.

Suddenly, life at the company is not just about chasing the numbers. The last we heard was someone say most resignedly: '*Teen din se sirf ek hi* breakthrough idea *dimaag ma aaya*. Productivity *ki vaat lag gayi!*'

The times, baby, they are a changin'.

* Relaxo's FY17 annual report conveys the same message

* My head is already spinning!

And here is where the battle can get subtly competitive. A rival brand volunteers to refurbish the interiors of a prominent retailer in exchange for additional shelf-space. Another brand marketing a completely different product offers an attractive promotional scheme; the retailer gets a panic attack that prompts him to send half our displayed merchandise into his 'godaam'. A product launch by an unrelated appliance brand comprises standee and danglers that affect the visibility of our products.

You would think that because of our undisputed market leadership, brand promotion and product superiority, walk-ins would say 'Symphony dena!' and when they do not find us prominently displayed or not in stock would feel committed enough to come back a week later.

If only the world was that loyal. They buy whatever else is available, the retailer providing the tipping point: '*Yeh bhi achcha maal. Badi* company *hai. Koi takleef hone se to main hoon na*!'

The message: ***'Jo dikhta hai, woh bikta hai.'***

At Symphony, we encourage our dealers and retailers to stock Symphony adequately through the off season; the differential between the cost at which they buy from us and the price at which they sell translates into a hefty RoCE that would make some of our small-cap mutual fund manager look embarrassing; when dear Celsius begins to defy gravity, they have an unseen self-enforced pistol on their heads: '*Aur* Symphony *baich*!'

Our brand spending has been more aggressive (₹41 cr, 2016-17), crowding the consumer's mind as if no other brand exists.

We provide attractive dealer schemes; it has been said that a 'dealer would be hating his money to not buy into the Symphony scheme' (statutory disclaimer: no Symphony insider was responsible in inciting, provoking or encouraging this response).

We replenish every sold Symphony product with speed. In doing so, we enhance the working capital efficiency of the retailer's Symphony outlay (we have it on good record that this is the highest that the retailer makes across all displayed products, but we wouldn't like to go official on this just yet).

So if you need to do a dipstick of how competitive we are, forget the Balance Sheet. Just calculate the proportion of retail space dedicated to Symphony products (psst, around 60 per cent, but generating 80 per cent of shop revenues). Our competitors are paying retailers to put their products beside Symphony in the hope of getting reflected glory rub-off.

The result is when our competitors wish to introduce a new model through the air-cooler trade, the one line that has become a standard trade response is '*Sahib, jagyaa nathi*!'

Reminds us of someone called Rahul Dravid. The Wall.

The trade helped us create one.

The result is when our competitors wish to introduce a new model through the air-cooler trade, the one line that has become a standard trade response is '*Sahib, jagyaa nathi*!'

THE SYMPHONY STOCK STRENGTHENED 2,963 PER CENT. AND IF YOU REALLY HAVE AN EYE FOR FINE PRINT, HERE IT IS: THE BSE SENSEX REPORTED A COMPOUNDED GROWTH OF 8 PER CENT IN THE SEVEN YEARS LEADING TO 2016-17; SYMPHONY'S CORRESPONDING NUMBER WAS 73 PER CENT.

Damn!
I missed it!

As destiny would have it, we have ended up creating far more wealth outside of the Balance Sheet.

We are absolutely grateful to the markets for the way they have perceived us: a company that is present in a country and space where we can grow interminably (there is something called global warming at work); a product that leads the market; a business that throws out far more cash than we can consume; an operating model that does not need cash to build manufacturing facilities; a management that is not shy of stepping beyond the Iron Curtain (read China).

The result is in the numbers: we were valued by the markets at ₹348 cr in mid-2010; we were valued at ₹10,663 cr at the close of 2016-17. The BSE Sensex appreciated 67 per cent through this period; the Symphony stock strengthened 2,963 per cent. And if you really have an eye for fine print, here it is: the BSE Sensex reported a compounded growth of 8 per cent in the seven years leading to 2016-17; Symphony's corresponding number was 73 per cent.

We will not be able to quantify the respect this has generated; we will be able to tell you something about the fan mail instead. About the father who wrote saying he was able to fund his child's operation by selling some Symphony stock. About the American fund manager who took home a handsome bonus because of that one decision that transformed his fund's destiny. About marriages financed. About educational careers extended. About new homes purchased.

And the ultimate of all fan letters. About leading investing houses that are using Symphony as a case study to tell their wide-eyed trainees of what can possibly happen when they get their home work right on stock selection.

There is that lovely Paulo Coelho line about how destiny conspires to make unbelievable things.

Let us leave it at that.

Bold statements. Execution will be key

HOW WE SELECTED TO DO BUSINESS

We will remain asset-light	We will have variable cost manufacturing	We will design products
We will focus on being the first in everything we do	We will make products that customers never knew they wanted	We will control quality of manufacture
We will acquire companies with complementary capability	We will acquire for knowledge, brands, presence, scale, network and market-readiness	We will be research-driven (products, process or markets)

Apple-ish goal

* Wonderful way of showcasing performance

THIS IS HOW OUR MODEL HAS TRANSLATED INTO CONSOLIDATED REVENUE GROWTH.

(Contrast is great in most cases)

278 REVENUES (₹ CR), 2010-11	**16** CASH ON BOOKS (₹ CR), 2010-11	**4** INVENTORY TURNS, 2010-11
811 REVENUES (₹ CR), 2016-17	**326** CASH ON BOOKS (₹ CR), 2016-17	**10** INVENTORY TURNS, 2016-17
51 PROFIT AFTER TAX (₹ CR), 2010-11	**27** EBIDTA MARGIN (%), 2010-11	**890** MARKET CAP (₹ CR), 31 MARCH 2011
166 PROFIT AFTER TAX (₹ CR), 2016-17	**30** EBIDTA MARGIN (%), 2016-17	**10,663** MARKET CAP (₹ CR), 31 MARCH 2017
0.40 DEBT-EQUITY RATIO, 2010-11	**34** ROCE (%), 2010-11	
0.30 DEBT-EQUITY RATIO, 2016-17	**36** ROCE (%), 2016-17	

* An enlightened dada!

"**Symphony** does business with enlightened dadagiri for the benefit of all stakeholders."

"**Symphony** in one word? 'Hatke'."

"**Symphony** does not compete with the market. Symphony competes with Symphony."

"**Symphony** is not a product. It is a status symbol."

"**In 2016**, we encountered a stock out in Meerut. One cooler was left at a particular shop. An argument broke out between two prospective customers. One said 'Mainey khareeda.' The other said the same. Ultimately the dealer auctioned the cooler!"

"**A Reliance** Digital customer waited two months for a specific Symphony model (out of stock) than buy something else."

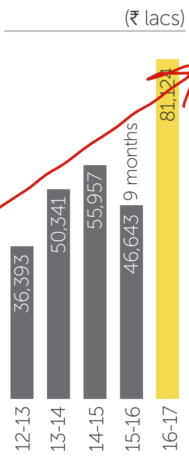
"**A Tirupati** channel partner said: 'Symphony is like the Tirupati hundi. Distributors stand in queue to deposit cash.'"

Indeed, a "cool" annual report

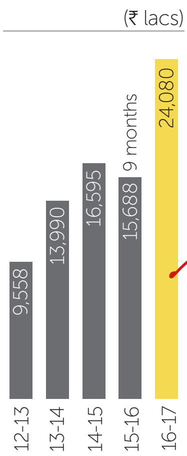
OUR KEY PERFORMANCE INDICATORS

Consolidated financial performance

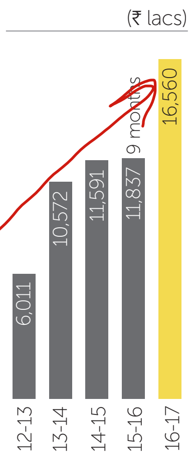
* Cut in dividend, even excl. effect of special div. in FY16



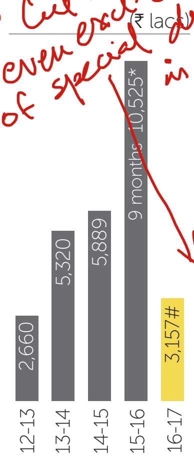
Gross revenue



EBITDA

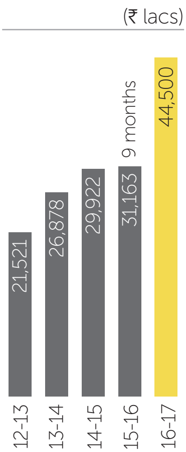


Net profit

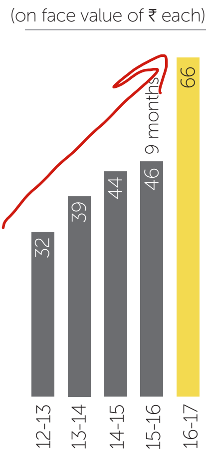


Dividend payout

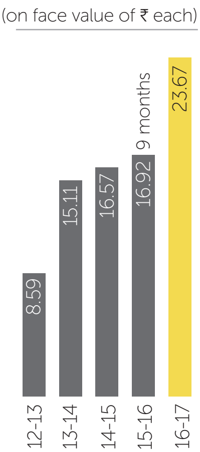
* including special dividend payout of ₹4,210 Lacs
# including proposed dividend payout of ₹842 Lacs



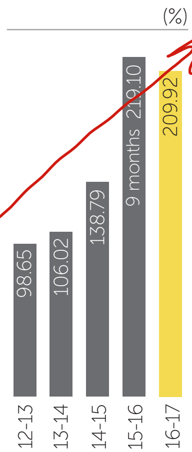
Reserve and surplus



Book value per share*



Earnings per share*



PBIT % on capital employed-Air coolers

*recalculated consequent to issue of bonus shares during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

Global economic overview

Global economic growth stagnated during FY2016-17 following a deceleration in trade activities, lowered investments and political uncertainties in advanced economies. The year was marked by the United Kingdom's decision to exit the European Union and the election of Donald Trump as the American President. Consumers continued to spend cautiously as expenditure increased by 2.4% in real terms over 2015, well below the corresponding increase in disposable incomes in the Asia-Pacific. Global growth was estimated to rise from 2.3% in 2016 (estimated by World Bank) to a projected 2.7% in 2017. Growth in emerging and developing economies is expected to revive in 2017 on the back of a removal of obstacles for commodity exporters and sustained demand from commodity importers. *(Source: World Bank, Euromonitor).*

Indian economic overview

After being hailed as a 'bright spot' among emerging economies, India's GDP finally weakened during FY2016-17. The projected GDP growth of 7.6% (as estimated by IMF) was revised to 6.6% following the demonetisation initiative which resulted in massive cash shortages and payment disruptions. However, the aftereffects of the demonetisation initiative had abated by the close of the financial year under review after having affected economic growth for two consecutive quarters. India's eight core infrastructure industries – coal, crude oil, natural gas, refinery products, fertilisers, steel, cement and electricity registered a cumulative growth of 4.9% during the April-November period compared to 2.5% a year back. *(Source: Economic Survey.)*

Outlook

After a lacklustre outturn in 2016, economic activity is projected to pick up pace in 2017 and 2018. India's fundamentals are expected to emerge stronger following the implementation of the GST. The proposed GST implementation should catalyse inter-state trade, enhancing investments, reducing supply chain-related issues, enhancing economies-of-scale, moderating overheads and adding about 150 bps to GDP growth. Moreover, favourable monsoons, stable oil prices and stronger supply chain linkages are expected to renew consumer confidence. In view of these realities (and the fact that the Chinese economy continues to remain sluggish), India is likely to retain its position as the fastest-growing major economy with a projected GDP growth of 7.2% in FY2017-18. *(Source: IMF, ICRA).*

Indian air coolers industry

The Indian air cooler market is estimatedly worth ~ ₹3,500 crore with a 30% share belonging to the organised players. The Indian air cooler market has witnessed a spurt in demand for cutting-edge coolers (priced ₹10,000 and above). Till a couple of years back, there were no air coolers available in this price range and they

Indian air conditioner mkt – Rs 12,000 cr

* 35% of India does NOT own a fan!

* More ppl buying expensive coolers

now account for >15% share of the organised market in value terms. There are an estimated 247 million households in India and ~ 65% of them own ceiling or table fans. A mere ~ 4% of them households own air conditioners and approx. 10% own air coolers. Rising temperature levels have caused cooling solutions to be viewed as necessities as opposed to luxury items. The implementation of the GST is expected to enforce a unified taxation regime, thereby removing logistical bottlenecks and nullifying cost disparities between organised and unorganised players.

Demand drivers

Middle-class population: India accounts for 3% of the global middle class with 23.6 million people. It has the lowest threshold for a person to be considered middle class with annual income of $13,662 (₹737,748 or ₹61,480 per month). With 23.6 million people, the Indian middle class holds almost a quarter of the country's wealth at $780 billion (₹5,070,000 crore). *(Source: Credit Suisse)*

Food security: Recent figures show India to be the fastest-growing of all emerging economies, with growth this year above 7%. The population is still growing too, and forecast to reach 1.4 billion by 2030, exceeding that of China. The current 1.3 billion inhabitants are eating more every year too, even if malnutrition remains a serious problem. Over previous decades, food demand has been met largely by increasing farm yields; production has more than tripled from 87 million tonnes in 1991 to 280 million in 2015. The Central Government is looking to strategically streamline the process of getting fresh produce to consumers by

Scary stats

setting up air cooler-powered warehouses. *(Source: The Guardian)*

Working population: India has four times the population, and also more than three times as many cooling degree days (CDDs) per person compared to the United States. Thus, India's total potential demand for cooling is 12x that of the United States. India's burgeoning workforce and demand for commercial real estate will increase the demand for cooling solutions. *(Source: Berkeley Haas)*

* Interesting

Changing preferences: The Indian consumer durables industry has been witnessing a shift towards high-end models for various product categories. Corporates are offering technologically advanced products as consumers no longer mind paying a little extra for these feature-packed products. *(Source: IIFL)*

Pocket-friendly alternative: Considering the lower cost of ownership vis-à-vis ACs (70% lower capital costs and 90% lower running costs) and the constrained power supply situation in India, air coolers have emerged as go-to option for the mass-market consumers. *(Source: IIFL)*

Technological advancements: Air coolers work best in hot and dry climates. The working of air coolers depends on the evaporation of water into the atmosphere. Hence if more water evaporates, the air will be cooler. But there is a limit to the air holding capacity of the atmosphere, so if the air is already humid, it will not be able to hold more water and as a result the air is not cooled to the extent it would cool in drier climates. Hence higher the humidity, less will be the effect of the coolers. Nowadays, manufactures are making coolers with humidity control to overcome this drawback, especially in humid coastal regions.

Consumption levels: Even assuming conservative GDP increases of 6% to 7% a year, consumption expenditures are expected to rise by a factor of three to reach $4 trillion by 2025. India's nominal year-over-year expenditure growth of 12% is more than double the anticipated global rate of 5% and will make India the third-largest consumer market by 2025. Rising affluence is the biggest driver of increasing consumption. Of India's five household income categories (elite, affluent, aspirers, next billion, and strugglers), the top-two income classes are the fastest-growing. From 2016 through 2025, the share of elite and affluent households will increase from 8% to 16% of the total while the share of strugglers will drop from 31% to 18%. *(Source: BCG)*

Symphony's financial performance

The Company's consolidated sales grew by 29 % to ₹766.15 crore in 2016-17 following a visible improvement in sales. EBIDTA stood at ₹240.80 crores compared to ₹193.88 crores in the comparable period of previous year. The Company reported a post-tax profit of ₹165.60 crore in 2016-17 compared to a post-tax profit of ₹147.54 crore in the comparable period of previous year.

Product performance

How air coolers work

Most of the coolers available today are evaporative coolers also known as swamp coolers or desert coolers. In these coolers, hot air from outside is passed over water. The water takes up the heat from the outside air and it evaporates. Hence due to the transfer of heat from air to water, the temperature of air decreases, making it comparatively cooler. This cool air is then directed inside the room. This process when repeated constantly brings down the overall temperature of the room making it pleasant during a hot sunny day. The outside air is drawn into the cooler with the help of a fan where it passes through the cooling pads. The evaporation of water takes places within these cooling pads. A pump is used to bring the water on the top of the cooling pads and is then allowed to trickle down through the pads. As the working of the coolers involves only evaporation of water, it is the most environment friendly way of space cooling.

Symphony – raising the bar for Indian air cooler manufacturers

Symphony researches consumer lifestyles to drive smarter innovation. This is why, some of the industry-leading design and quality innovations are integrated in the latest range of Symphony air coolers.

- Digital Touchscreen
- Voice Assist
- Ultrasonic Mosquito Repellent
- i-Pure technology - multi-stage air purification
- Electronic humidity control
- World's first wall mounted air cooler
- Magic fill - automatic water filling
- Removable tank
- Cool Flow Dispenser
- Power Saver Technology

Read this part to your child

* GST may benefit organised players

Residential air coolers

The domestic air cooler segment is largely fragmented with about 70-80% of sales accounted for by unorganised players. The branded air cooler industry is extremely competitive in nature with the top-four players accounting for more than 90% of all sales. Symphony is the leading player in the space distantly followed by several other players. Symphony's air coolers enjoy high demand in areas where it is difficult or impossible to install and use air conditioners. Symphony's air coolers are relatively inexpensive and can be easily maintained by a layperson. The result: the Company enjoys about 50% share in the organised segment.

Central air coolers

Central air cooling is an efficient alternative to air conditioning because it's a cost-effective and environmentally-friendly cooling solution designed for various industrial environments. The centralised air cooling market in India is estimatedly worth ₹40,000 million with Symphony being the only branded player in this space. The Symphony range of central air cooling units are manufactured at IMPCO using cutting-edge technology and enjoy strong offtake in the North American markets. Realising the potential for these coolers, the Company launched them in India in 2014-15. Symphony's central air cooling units are made from the highest grade of automotive steel with corrosion-resistant coatings to enhance durability. Symphony's central cooling solutions cater to factories, offices, schools, malls, assembly halls, warehouses and metro stations. Symphony is also credited with executing the world's largest central air cooling project at the Hajj Complex, Saudi Arabia and India's largest cooling project at the Patanjali Yog Bhawan, Haridwar. Symphony acquired M/s. Munters Keruilai Air Treatment Equipment (Guangdong) Company Limited in China [now known as Guangdong Symphony Keruilai Air Coolers Co. Ltd.] to facilitate the Company's access to the Chinese market (the second-largest air cooler market in the world after India). It is China's largest air cooler manufacturing company and one of its oldest. Although the Chinese market is facing a slowdown, it still remains a big market for air coolers. This also enhances Symphony's ability to earn international revenues as China enjoys free trade agreements with most ASEAN countries.

Packaged air coolers

Despite having such a wide range, there remained a huge requirement of air cooling for spaces that fall between residential and large commercial spaces. This inspired Symphony to develop and introduce packaged air coolers in India. Packaged air coolers are ready-to-fit compact units ideal for a wide range of commercial, industrial and residential uses. These offer numerous advantages over air conditioners – durability, easy installation and value-for-money – and are suited for spaces where conventional air conditioning solutions fall flat.

Internal control systems and their adequacy

The Company has in place robust internal control systems and procedures. The Company has deployed a strong system of internal control the fan blades which has drastically reduced its breakage.

- LCD display technology in coolers.
- Introduction of power PCB to work even in fluctuating voltage in various parts of the country.
- Developed and adopted new RPT to avoid the laser cutting of plastic, pollution flames and save power.
- Making various components reliable in quality to avoid 100% testing and thereby saving usage of power.

(ii) **The benefits derived like product improvement, cost reduction, product development or import substitution**

- Reduced part / component replacement in field.
- Enhanced customer satisfaction.
- Improvement in quality and reliability.
- Cost reduction.
- Improvement in productivity.
- Reduction in wastage/rework.
- New product development as well as enhancement of features in existing products resulting in higher sales and market shares.
- Improved serviceability and improved field service.
- Power saving.

(iii) **Imported Technology (imported during the last three years reckoned from the beginning of the financial year):** No imported technology is involved. The Company has its own proven technology which is duly tested and approved. However, certain critical tools & moulds have been imported:

(iv) Expenditure incurred on Research and Development

(₹ in lacs)

Particulars	Standalone		Consolidated	
	2016-17	2015-16 (9 Months)	2016-17	2015-16 (9 Months)
1. Revenue	276	179	316	195
2. Capital	54	12	54	12
3. Total	330	191	370	207
4. Total R & D expenditure (as % of turnover)	0.50	0.46	0.48	0.46

(C) Foreign Exchange Earnings and Outgo:

Details of actual earnings and outgo in foreign currencies are given under Note 43 to 44 of standalone financial statement.

* Voltas' R&D for Cooling Products business – 0.02% of sales
* Blue Star's R&D – 1.2% of sales

Consolidated Balance Sheet as at 31st March, 2017

(₹ in Lacs)

Particulars			Note	As at 31/03/2017	As at 31/03/2016
EQUITY AND LIABILITIES					
(1)	Shareholders' Funds				
	(a)	Share Capital	3	1,399.14	699.57
	(b)	Reserves and Surplus	4	44,499.68	31,162.74
				45,898.82	**31,862.31**
(2)	Non-Current Liabilities				
	(a)	Deferred Tax Liabilities (Net)	5	450.14	249.39
	(b)	Long-Term Provisions	6	274.30	669.74
				724.44	**919.13**
(3)	Current Liabilities				
	(a)	Short-Term Borrowings	7	1,928.99	* looks like working cap.-loan
	(b)	Trade Payables			
		(i) To Micro and Small Enterprises	37	-	-
		(ii) To Others		6,094.93	4,957.71
				6,094.93	4,957.71
	(c)	Other Current Liabilities	8	4,317.63	3,421.43
	(d)	Short-Term Provisions	9	913.91	1,078.56
				13,255.46	**9,457.70**
	TOTAL			**59,878.72**	**42,239.14**
ASSETS					
(1)	Non-Current Assets				
	(a)	Fixed Assets	10		
		(i) Tangible Assets		7,141.38	7,015.68
		(ii) Intangible Assets		571.73	340.66
		(iii) Capital Work-In-Progress		-	301.15
				7,713.11	7,657.49
	(b)	Goodwill on Consolidation		386.80	392.38
	(c)	Non-Current Investments liquidated tax-free bonds	11	9,668.71	16,167.20
	(d)	Long-Term Loans and Advances	12	429.23	274.05
	(e)	Other Non-Current Assets	13	8.00	9.00
				18,205.85	**24,500.12**
(2)	Current Assets				
	(a)	Current Investments (Invested a lot in debt instruments)	14	18,614.51	61.66
	(b)	Inventories	15	(74 Days) 7,733.43	(62) 5,507.24
	(c)	Trade Receivables	16	(25 Days) 5,230.89	(23) 4,686.91
	(d)	Cash and Bank Balances	17	4,661.11	4,639.44
	(e)	Short-Term Loans and Advances	18	4,833.43	2,184.53
	(f)	Other Current Assets	19	599.50	659.24
				41,672.87	**17,739.02**
	TOTAL			**59,878.72**	**42,239.14**
See accompanying notes forming part of the consolidated financial statements			1-43		

In terms of our Report attached

For Deloitte Haskins & Sells
Chartered Accountants

Gaurav J Shah
Partner
Membership No. 35701

Place : Ahmedabad
Date : May 16, 2017

For and on behalf of the Board

Achal Bakeri
Chairman & Managing Director
DIN-00397573

Nrupesh Shah
Executive Director
DIN-00397701

Mayur Barvadiya
Company Secretary

Bhadresh Mehta
Chief Financial Officer

Consolidated Statement of Profit and Loss for the year ended 31st March, 2017

(₹ in Lacs)

	Particulars	Note	Year ended 31/03/2017	Nine months ended 31/03/2016 (Refer Note 42)
I	Revenue from Operations ↑72%	20	76,802.90	44,554.65
II	Other Income	21	4,321.05	2,088.62
III	Total Revenue (I + II)		81,123.95	46,643.27
IV	Expenses:			
	Cost of Material Consumed	22	9,126.68	4,090.76
	Purchase of Stock-in-Trade	23	29,132.27	16,358.55
	Changes in Inventories of Finished Goods, Work- in-Progress and Stock-in-Trade	24	(1,815.81)	(320.14)
	Employee Benefit Expense	25	6,870.73	4,251.73
	Finance Costs	26	3.28	19.80
	Depreciation and Amortization Expense	10	705.18	429.90
	Advertisement and Sales Promotion Expense	27	4,445.11	946.20
	Other Expenses	28	9,285.05	5,627.94
	Total Expenses (IV)		57,752.49	31,404.74
V	Profit before Exceptional Items and Tax (III – IV)		23,371.46	15,238.53
VI	Exceptional Items		-	1,246.66
VII	Profit before Tax (V + VI) ↑42%		23,371.46	16,485.19
VIII	Tax Expense / (Benefits):			
	(1) Current Tax		6,614.19	4,589.08
	(2) Short / (Excess) Provision of tax relating to previous years		(3.12)	(3.87)
	(3) Net Current Tax		6,611.07	4,585.21
	(4) Deferred Tax		200.75	63.47
	Net Tax Expense		6,811.82	4,648.68
IX	Profit for the year (VII - VIII) ↑40%		16,559.64	11,836.51
X	Earnings per equity share of face value of ₹2/- each :			
	(1) Basic	29	23.67	16.92
	(2) Diluted	29	23.67	16.92
	See accompanying notes forming part of the consolidated financial statements	1-43		

48% of sales

45%

5.8% of sales

2%

In terms of our Report attached

For Deloitte Haskins & Sells
Chartered Accountants

Gaurav J Shah
Partner
Membership No.. 35701

Place : Ahmedabad
Date : May 16, 2017

For and on behalf of the Board

Achal Bakeri
Chairman & Managing Director
DIN-00397573

Nrupesh Shah
Executive Director
DIN-00397701

Mayur Barvadiya
Company Secretary

Bhadresh Mehta
Chief Financial Officer

Digging a deeper moat through brand building

	FY17	FY16
* Gross margin	50%	52%
* ROE	36%	37%
* NPM	21%	26%

Voltas – RoE – 14%
NPM – 8%

Blue Star – RoE – 14%
NPM – 3%

Consolidated Cash Flow Statement for the year ended 31st March, 2017

(₹ in Lacs)

Particulars	Year ended 31/03/2017		Nine Months ended 31/03/2016 (Refer Note 42)	
A CASH FLOW FROM OPERATING ACTIVITIES				
Profit Before Tax	23,371.46		16,485.19	
Adjustment For:				
Depreciation and Amortization Expense	705.18		429.90	
Exceptional Items	-		(1,246.66)	
Finance Costs	3.28		19.80	
Wealth Tax Expenses (Net)	-		0.03	
Interest Income	(1,212.35)		(1,095.73)	
Dividend Income	(565.82)		(767.27)	
Gain on Sale of Long Term Investments (Net)	(766.24)		(3.00)	
Gain on Sale of Current Investments (Net)	(922.80)		(39.10)	
Other Non Operating Income	(7.80)		(11.34)	
Adjustment on Foreign Currency Translation	(55.09)		97.52	
Provision for Doubtful Debts	25.59		115.86	
Provisions / Liabilities no longer required return back	(215.16)		(14.00)	
(Profit) On Sale of Fixed Assets	(151.50)		(93.78)	
Operating Profit Before Working Capital Changes	20,208.75		13,877.42	
Adjustments For:				
Inventories (More than FY16)	(2,226.19)		(936.91)	
Trade and Other Receivables (Less than FY16)	(569.57)		(1,535.57)	
Long Term Loans & Advances	(178.21)		(76.22)	
Short Term Loans & Advances	(2,648.90)		(519.28)	
Other Current Assets	(206.44)		(108.15)	
Trade Payables	1,234.93		983.91	
Other Current Liabilities	928.38		1,418.19	
Short Term Provisions	83.10		(164.06)	
Provision for Employee Benefit	(317.67)		11.63	
Cash Generated from Operations	16,308.18		12,950.96	
Net Income Tax paid	(6,819.13)		(4,098.08)	
Net Cash Flow from Operating Activities (A)		9,489.05		8,852.88
B CASH FLOW FROM INVESTING ACTIVITIES				
Capital Expenditure on Fixed Assets including capital advances	(953.07)		(1,813.79)	
Proceeds from Sale of Fixed Assets	268.58		1,409.81	
Interest Received	1,478.54		1,334.57	
Dividend Received	565.82		767.27	
Wealth Tax paid	-		(1.35)	
Purchase of Long Term Investments				
Subsidiaries	-		(154.73)	
Others	(3,401.40)		(4,709.75)	
Proceeds from Sale of Long Term Investments				
Others	10,666.12		1,701.25	
Current Investments not considered as Cash and Cash equivalents				
Purchased	(1,15,467.79)		(64,546.57)	
Proceeds from sale	97,845.52		75,603.71	
Investments in Fixed Deposit with Banks	2,399.88		(2,400.14)	
Earmarked deposits / balances with bank (Placed) / Realised	81.11		(207.24)	
Net Cash Flow from / (Cash Used in) Investing Activities (B)		(6,516.69)		6,983.04
Free Cash Flow -	8,804 lac (88 cr)		8,448 lac (84 cr)	

Consolidated Cash Flow Statement for the year ended 31st March, 2017

(₹ in Lacs)

Particulars	Year ended 31/03/2017		Nine Months ended 31/03/2016 (Refer Note 42)	
C CASH FLOW FROM FINANCING ACTIVITIES				
Dividend Paid	(2,004.77)		(12,033.55)	
Dividend Distribution Tax Paid	(391.64)		(2,492.28)	
Receipt of Short Term Borrowings	1,928.99		-	
Finance Cost paid	(3.28)		(19.80)	
Net Cash Used in Financing Activities (C)		**(470.70)**		**(14,545.63)**
Net Increase in Cash & Cash Equivalents (A+B+C)		2,501.66		1,290.29
Cash & Cash Equivalents at the beginning of the year		1,821.15		530.86
Cash & Cash Equivalents at the end of the year		4,322.81		1,821.15
Cash on Hand		3.09		24.50
Balances with Schedule Bank in Current Account		4,319.72		1,796.65
Cash & Cash Equivalents included in Note no. 17		4,322.81		1,821.15

In terms of our Report attached

For Deloitte Haskins & Sells
Chartered Accountants

Gaurav J Shah
Partner
Membership No.. 35701

Place : Ahmedabad
Date : May 16, 2017

For and on behalf of the Board

Achal Bakeri
Chairman & Managing Director
DIN-00397573

Nrupesh Shah
Executive Director
DIN-00397701

Mayur Barvadiya
Company Secretary

Bhadresh Mehta
Chief Financial Officer

* Reduced dividend in FY17, even excluding effect of special dividend in FY16. Till the business continues to reinvest well, lower dividend should not be a problem for shareholders.

Notes forming part of the Consolidated Financial Statements

31. SEGMENT REPORTING

(a) Primary Segment : Business

The Company has identified two primary segments namely Air Coolers and Corporate Funds so as to know financial efficiency of core business i.e. Air Coolers and Corporate Funds Segment which consists of surplus investments.

(₹ in Lacs)

Particulars	2016-17	2015-16
(1) Segment Revenue		
Air Coolers	78,265.95	45,225.27
Corporate Funds	2,858.00	1,418.00
Total	81,123.95	46,643.27
(2) Segment Profit before Interest and Taxes (PBIT)		
Air Coolers	20,536.74	13,846.33
Corporate Funds	2,838.00	1,412.00
Total	23,374.74	15,258.33
Less: Finance Costs	3.28	19.80
Less: Exceptional Items	-	(1,246.66)
Less: Taxes	6,811.82	4,648.68
Total Profit After Tax	16,559.64	11,836.51
(3) Segment Assets		
Air Coolers	31,398.66	23,149.53
Corporate Funds	28,480.06	19,089.61
Total	59,878.72	42,239.14
(4) Segment Liabilities		
Air Coolers	13,979.90	9,324.24
Corporate Funds	-	1,052.59
Total	13,979.90	10,376.83
(5) Capital Employed		
Air Coolers	17,418.76	13,825.29
Corporate Funds	28,480.06	18,037.02
Total	45,898.82	31,862.31
Segment Profit (PBIT) % on Capital Employed		
Air Coolers (wonderful nos.)	209.92%	219.10%
Corporate Funds	9.88%	5.41%

(b) Secondary Segment : Geographical segment

(₹ in Lacs)

Particulars	2016-17	2015-16
(1) Segment Revenue		
India (77% of sales)	59,687.29	36,841.32 83%
Rest of the world (23%)	17,115.61	7,713.33 17%
Revenue from Operations	76,802.90	44,554.65

* Concluding Remarks

① Symphony's performance over the years is a study in contrast, as this table shows –

(Rs Cr)	FY05	FY08	FY11	FY14	FY17
Sales	24	73	291	532	768
PBT	-4	14	76	135	234
PBT Margin	-16%	19%	26%	25%	30%
Book Value	-9	9	130	254	459
Assets	15	38	219	394	599
Op. Cash Flow	3	24	-1	90	95

② Growth in sales and profit has slowed down owing to higher base effect, but so has the growth in book value and assets. So, the business has gotten lighter and thus more profitable over years.

③ Higher spending on brand building and launching premium products augurs well for the growth & profitability going forward.

④. Valuation – P/E ~ 60x, Div. yield ~ 0.3%

Analysed By – Vishal Khandelwal
(safalniveshak.com)
Date – 8th Sept. 2017
Disclosure – Not invested