Management Discussion and Analysis

Global economic overview

The growth of the global economy declined in 2019, on account of sharp downturn in industrial production, weak trade relations between China and USA, slowdown in demand in China and geopolitical tensions. Global economic growth was estimated at 2.9% in 2019 compared with 3.6% in 2018.

Global economic growth over five years

Year	2015	2016	2017	2018	2019
Real GDP growth (%)	3.5	3.4	3.9	3.6	2.9

Source: World Economic Outlook

Indian economic overview

India's growth for FY 2019-20 was estimated at 2.5% from the forecasted 5.3% estimate. Manufacturing growth was seen at 2% year on year, a 15-year low as against 6.9% growth in FY 2019. A sharp deceleration in economic growth and surge in inflation weighed on the rupee exchange rate with the Indian rupee becoming one of the worst performers among Asian peers marked by a depreciation of nearly 2% since January 2019. Retail inflation climbed to a six-year high of 7.35% in December 2019.

India emerged as the fifth-largest world economy in 2019, overtaking the UK and France with a gross domestic product (GDP) of US$ 2.94 trillion. India jumped 14 places to 63 in the 2020 World Bank's Ease of Doing Business ranking, riding reforms in seven areas and a substantial bump-up from the insolvency law rolled out in 2016.

(Source: Economic Times, CSO, Economic Survey, IMF)

Outlook

The Indian economy is forecast to de-grow in 2020-21, while nearly all major G20 economies are forecast to shrink.

Year	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20
Real GDP growth (%)	5.2	5.4	4.1	3.1

(Source: Economic Times, CSO, Economic Survey, IMF)

The Indian appliances and consumer electronics industry

Despite the sluggish economy and the slow demand from the real estate sector, the Indian electrical sector grew 10% across the first three quarters of 2019-20. The size of the Indian consumer durables market was estimated at US$ 22 billion in 2019. Extensive rural under-penetration, business friendly government initiatives, long summer and growing aspirations resulted in increased consumption in electrical products through attractive demand offtake. This consumption

Why choose air-coolers?

- They are energy-efficient, consume less power, are eco-friendly and can cool specific areas
- Do not dry the surroundings like ACs
- Do not use any harmful cooling agent like CFC or HFC
- Moderate the electricity bill by 80-90% compared to ACs
- Cost lower than air-conditioners

growth is anticipated to drive the sector to reach US$ 36 billion by 2023. The ACE (Appliances and Consumer Electronics) industry was estimated at ₹76,400 Crores (US$ 10.93 billion) in 2019 and projected to reach ₹3.15 trillion (US$ 48.37 billion) in 2022.

(Source: IBEF,Consultancy.in)

Indian air-coolers market

The Indian air-cooler market has been growing at a CAGR of more than 11% in the last five years. The size of India's organised air-cooler market was estimated at around ₹2,500 Crores in 2019. Owing to the rise in the mercury levels, rise in disposable income, growing demand by the middle class and a comparative price advantage of air coolers to air conditioners, the sector is projected to reach ₹9,000 Crores by 2021. The air cooler market is divided into two segments viz. residential and industrial. Residential and industrial air cooler markets have been growing with a CAGR of approximately 20% and 8% respectively in the past four years. On account of the low capital expenditure and low electricity consumption of air coolers, the middle-income group greatly fuelled sales in the residential market. Industrial cooling is slowly gaining importance as companies are seeking to create an amiable working environment for their shop floor teams. Although unorganised segment players continue to dominate the air cooler market, branded coolers are making inroads into the segment, helped by factors such as the introduction of GST, which helped reduce the price gap.

(Source: Moneycontrol, The Economic Times)

Demand drivers of the Indian air-coolers market

Rising incomes: The nominal per-capita net national income during 2019-20 was estimated at ₹1,35,050, a rise of 6.8% compared to ₹1,26,406 during 2018-19

Digital penetration: Current active e-commerce penetration in India stands just at 28%, with room for improvement. The e-commerce sector is expected to grow attractively due to increasing urbanisation coupled with rising internet penetration. India's internet user base was at 665 million in 2019, expected to grow to 829 million by 2021.

Young population: Approximately 66% of India's population is below 35 years. The median age of the country is estimated to be ~28 years compared to a global average of 30 in 2019, an age bracket that is economically productive.

Emerging non-metro markets: The consumption figures in non-metro markets like Vishakhapatnam, Bhopal, Vadodara, Chandigarh, etc. have grown rapidly, transforming into new business centres.

Urbanisation: India is arguably the fastest urbanising country. In FY 2019-20, 35% of India's population was urbanised compared to a 30.8% urban population in 2010.

Working population: India's urban middle-class workforce (over US$ 11,000 annual income) stands at 27 million or 2% of its population with a large headroom for growth.

Rural market: The rural population, accounting for 68.86% of India's population in FY 2019-20, represents a large relatively under-penetrated market for consumer durables, offering the potential of sustained consumption growth.

Air-conditioners versus air-coolers: The price-value proposition, lower energy consumption and effectiveness in dry areas make air coolers superior to air-conditioners.

Rural infrastructure development: The impressive development of roads and infrastructure over the last few years has enhanced rural incomes. India's move to connect every village with electricity has helped widen the market for electrical appliances.

Global warming: According to the NOAA 2019 Global Climate Summary: the combined land and ocean temperature of the earth has increased at an average rate of 0.07°C (0.13°F) per decade since 1880; however, the average rate of increase since 1981 (0.18°C / 0.32°F) has been more than twice this.

Technological innovations: Technological innovations like smart locks, feather-touch digital control panels, remote control, auto swings, alarms and other niché features are gaining popularity over the technologically austere products of the unorganised segment.

Low penetration: India's consumer durables market is underpenetrated compared with other countries and offers headroom for growth. Electronic items, which were formerly considered luxury items, are likely to become basic necessities.

Organised retail: Increased visibility of products in Tier-II, III and IV cities is attributed to inroads by organised retailers.

(Source : National Oceanic an Atmospheric Administration, Climate.gov, Worldometer, Livemint, Goldman Sachs, Statistics Times, Economic Times, IBEF)

Outlook

In 2022, the market size of the air cooler industry in India is forecast at ~₹44.2 billion. The Indian air cooler market is anticipated to report sustainable growth due to increased rural electrification and increasing disposable incomes. The residential sector is expected to dominate the India air-cooler market owing to the large proportion of the population in the lower- and middle-income group and housing development plans of the government. The industrial and commercial segments are likely to witness a substantial increase in demand as select industry players introduce cooling solutions. (Source: Research Market)

Michael Porter's Five Forces Analysis

Threat of substitutes (Low)
- Cutting-edge technology
- Higher substitution power by buyers
- Low product differentiation

Bargaining power of suppliers (Low)
- Low product differentiation
- Lower price differentiation

Threat of new entrants (Low-Medium)
- Highly working-capital intensive
- Major players have developed brand equity
- Moderate brand loyalty

Bargaining power of buyers (High)
- Use of technology and internet in knowing the features of the product
- Low product switching cost

Rivalry among competitors (Medium to High)
- Niche players competing with each other
- Improvements and innovation leading to intense rivalry
- Product homogeneity
- Low brand switching cost

Overview of the Company

Products: Symphony Limited has more than three decades of experience in the country's cooling sector, in addition to being a pioneer in the organised sector. The company is engaged in manufacturing and trading residential, commercial and industrial air coolers in the domestic and international markets. The Company operates in two sections: manufacture of air-coolers and treasury management. It provides tower, personal, desert, room and window air-coolers for residential use. Its commercial air cooling solutions are installed in open restaurants, party plots and large halls, among others. Its industrial air-coolers are used for factories, offices, schools, malls, assembly halls, warehouses and metro stations, among others. The Company also offers services to banks, auto industry, packaging, distilleries and railways.

Footprint: Headquartered in Ahmedabad, Symphony has subsidiary companies in Mexico, China, USA, Brazil and Australia. The Company enjoys a strong pan-Indian presence along with a global presence spread across more than 60 countries.

Manufacturing: Symphony works with 10 OEM companies and one in an SEZ.

Asset and capital-light: The Company's revenues stood at ₹763 Crores in FY 2020 compared with only ₹71 Crores in fixed assets.

Technology: The Company invested in cutting-edge technologies like SAP HANA, CRM, Data analytics etc., which give it a competitive advantage.

Sustainability: The Company innovated energy-efficient products to reduce emissions and enhance energy conservation.

Symphony's financial performance

The Company's consolidated gross revenue was ₹1,157 Crores in 2019-20,compared to ₹883 Crores in the previous fiscal. EBIDTA (Excluding exceptional items) stood at ₹266 Crores compared to ₹171 Crores in the previous fiscal. The Company also reported a post-tax profit of ₹182 Crores in 2019-20 compared to a post-tax profit of ₹91Crores in the previous fiscal.

Details of significant changes in the Key Financial Ratios & Return on Net Worth - Standalone

As per the amendment made under Schedule V to the Listing Regulations read with Regulation 34(3) of the Listing Regulations, details of significant changes i.e. change of 25% or more as compared to the immediately previous financial year in Key Financial Ratios and any changes in Return on Net Worth of the Company including explanations therefor are given below:

Sr. No.	Particulars	FY 2018-19	FY 2019-20	Change in %	Explanation
1	Debtors Turnover (days)	30	31	3.33	N.A.
2	Inventory Turnover (days)	26	21	-19.23	N.A.
3	Interest Coverage Ratio (%)	N.A.	N.A.	N.A.	N.A.
4	Current Ratio	4.50	4.94	9.78	N.A.
5	Debt Equity Ratio	N.A.	N.A.	N.A.	N.A.
6	Operating Profit Margin (%)	25	27	8.00	N.A.
7	Net Profit Margin (%)	18	24	33.33	Due to increase in turnover
8	Return on Average Net Worth (%)	16	28	75.00	Due to increase in turnover

Information Technology

The Company has implemented ISO 27001: 2013 only audit-able global ISMS standard which has acceptance worldwide. By implementing ISMS, the Company can assure its clients that their crucial information is secured in our organisation.

ISO 27001 helps the Company in meeting requirements of GDPR (General Data Protection Regulation) which helps the Company to meet its contractual & legal responsibilities.

The risk associated with the business processes were identified and mitigated by investing into technology & process change.

Human resources

The Company had, under its employment, 444 officers and workmen as on March 31, 2020. Symphony believes in nurturing the human capital of the Company and also takes initiatives to enhance the knowledge base of its employees. The company implements in-house programs for skill development and competence upgradation. These programmes are organised to encourage and facilitate knowledge-sharing. Employees are also sponsored to relevant external training programmes to enable them to enhance their knowledge and understanding of the industry and economy.

Risk management

Product risk

Air-cooling products may lose their relevance.

Mitigation: The Company has constantly widened its portfolio (residential, packaged and central air cooling), to remain relevant. Besides, the climate impact due to air conditioners has been motivating consumers to switch to sustainable alternatives.

Industry risk

An economic slowdown prompted by the coronavirus outbreak could impact offtake.

Mitigation: The Company believes that any decline in consumer sentiment on account of the pandemic will have an effect on the off-take of all air-cooling products. So it will not be a risk that the Company will have to face in isolation, putting it at any competitive disadvantage to other producers.

Export risk

The pandemic and the subsequent lockdown will have an adverse effect on export-based businesses.

Mitigation: An international footprint spanning 60 countries has enabled Symphony to dilute its risk of over dependence on any particular geographical area. The slowdown due to the pandemic will surely affect the business adversely, but since the Company owns manufacturing facilities in different countries, the risk linked to export-dependence will be lessened.

Competition risk

Increasing competition could affect sales.

Mitigation: The Company has consistently invested in improved research and development resources with the objective of introducing innovative products. Its constant innovations and personalised solutions provide it with a competitive advantage. The result is that the company's brand generates a voluntary recall among its consumers which spells 'futuristic', 'superior' and 'dependable.'

Internal control systems and their adequacy

The Company's internal audit system has been continuously monitored and updated to ensure that assets are safeguarded, established regulations are complied with and pending issues are addressed promptly. The audit committee reviews reports presented by the internal auditors on a routine basis. The committee makes note of the audit observations and takes corrective actions, if necessary. It maintains constant dialogue with statutory and internal auditors to ensure that internal control systems are operating effectively.

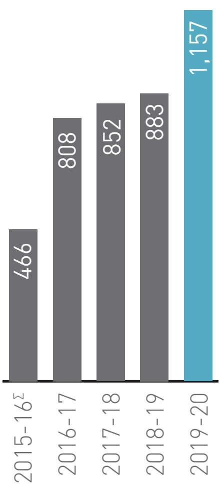
Cautionary statement

The Management Discussion and Analysis report containing your Company's objectives, projections, estimates and expectation may constitute certain statements, which are forward looking within the meaning of applicable laws and regulations. The statements in this management discussion and analysis report could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operation include raw material availability and prices, cyclical demand and pricing in the Company's principal markets, changes in the governmental regulations, tax regimes, forex markets, economic developments within India and the countries with which the Company conducts business and other incidental factors.

Our key **performance** indicators

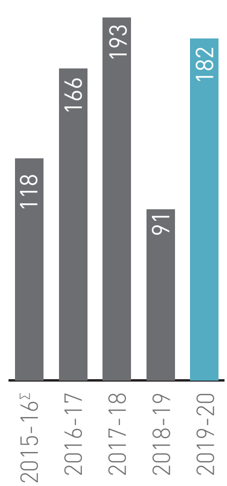
Consolidated financial performance

Gross Revenue
(₹ in Crores)

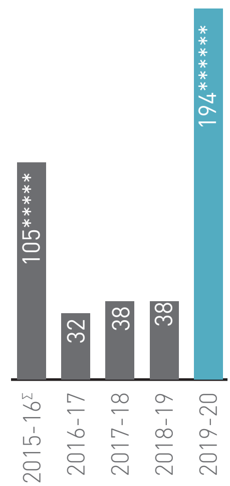


EBITDA
(₹ in Crores)

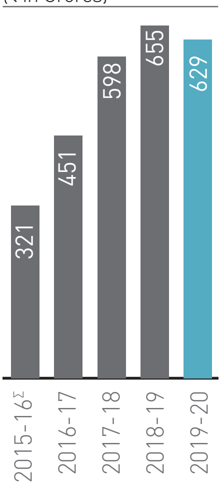
Net Profit
(₹ in Crores)



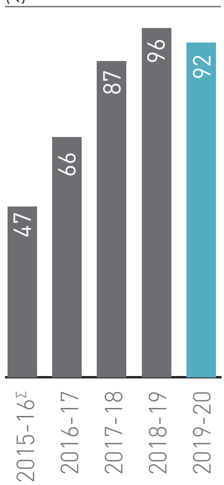
Dividend Payout **
(₹ in Crores)



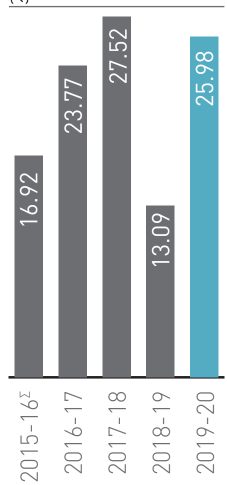
Reserve & Surplus
(₹ in Crores)



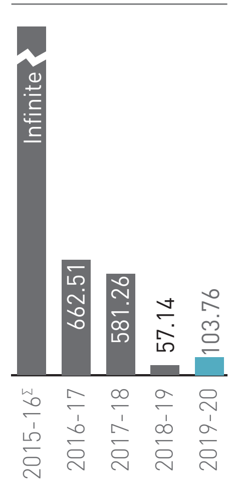
Book value per share #
(₹)



Earnings per share #
(₹)



PBIT as % of core business ##

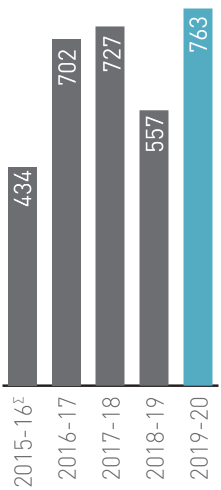


* Excluding exceptional income of ₹12.47 Crores
** Excluding exceptional expense of ₹24.05 Crores
*** Excluding exceptional expense of ₹4.00 Crores
**** Including final proposed dividend
***** Including special dividend payout of ₹42.10 Crores
****** Including special dividend payout of ₹151.81 Crores

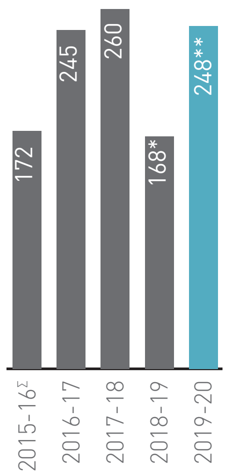
Recalculated consequent to issue of bonus shares
Calculated on monthly average capital employed including long term borrowings (% of 2015-16, 2016-17, 2017-18 and 2018-19 are recalculated)
Σ (9 months)

Standalone financial performance

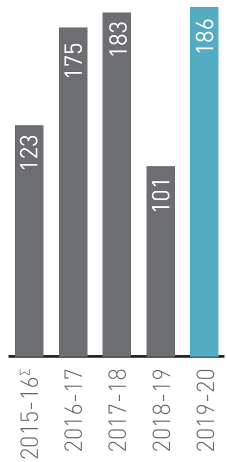
Gross Revenue
(₹ in Crores)



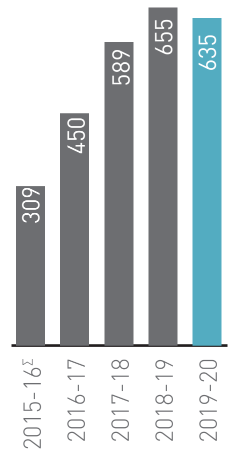
EBIDTA
(₹ in Crores)



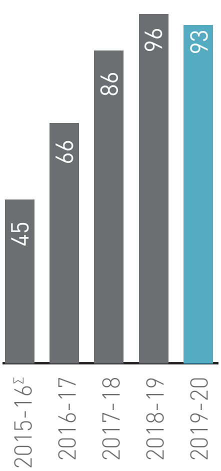
Net Profit
(₹ in Crores)



Reserve & Surplus
(₹ in Crores)

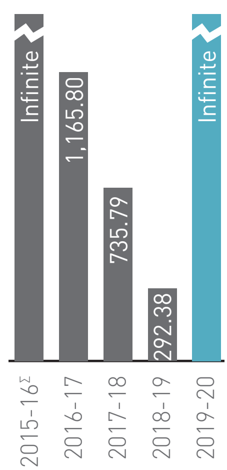


Book value per share #
(₹)



Earnings per share #
(₹)

PBIT as % of core business ##



* Excluding exceptional expense of ₹24.05 Crores
** Excluding exceptional expense of ₹1.55 Crores
# Recalculated consequent to issue of bonus shares
Calculated on monthly average capital employed excluding loans to and investments in subsidiaries (% of 2015-16, 2016-17, 2017-18 and 2018-19 are recalculated)
Σ (9 months)