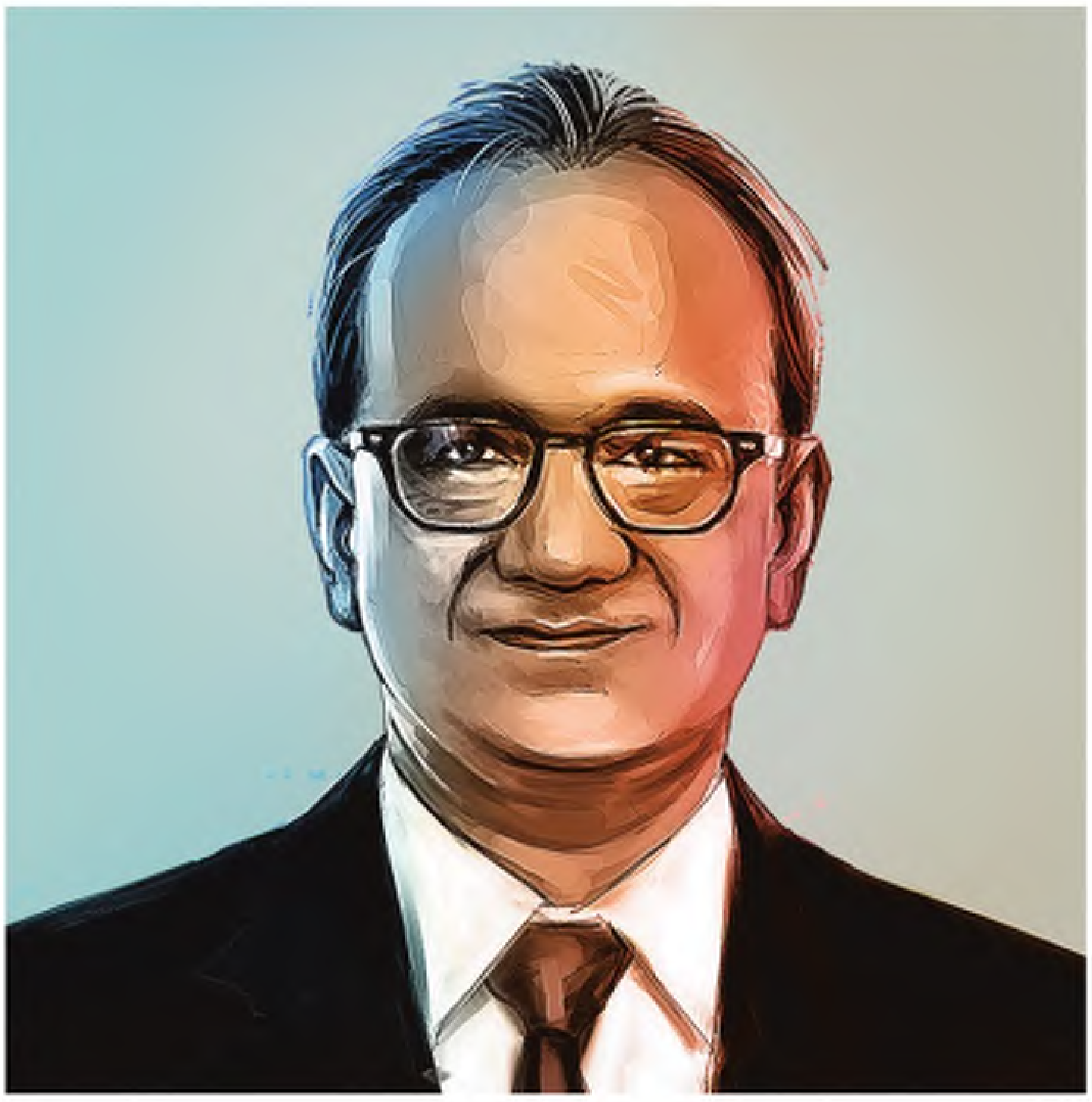

ILLUSTRATION: SHYAM

FOODCAFE

ACHAL BAKERI

A sweet Symphony

Chairman and managing director of Symphony Ltd tells **Jyotsna Bhatnagar** about the future of air-coolers in India and how he brought a turnaround for the company by concentrating on a single product

WITH TEMPERATURES soaring to record highs as early as March and April, the summer of 2017 promises to be a scorcher. Cash registers are ringing like never before as air conditioners and air coolers fly off the shelves becoming the hottest selling white goods.

In the estimated ₹3,000 crore branded air cooler market, undisputed market leader Symphony Limited, with a market share of over 50%, is making waves with the launch of its new range of premium coolers loaded with features like digital touch screen, voice-assist, and mosquito repellent. The range, not surprisingly, is an instant hit.

It's a perfect time to catch up with the 57-year old Achal Bakeri, chairman and MD of the Ahmedabad-based pure play air cooler major. Scion of one of city's oldest surviving real estate families, Bakeri is the quintessential Gujarati entrepreneur, hard-wired to spot new challenges and convert them into viable business opportunities. From a dream debut in the late eighties, Symphony almost went belly up a decade later only to rise phoenix-like to its present perch as the world's largest air cooler company with an astronomical market capitalization of over ₹10,000 crore.

The venue for our luncheon is one of the conference rooms at Symphony House, located in one of the city's toniest localities, the SG Highway. Spread over six levels encompassing 60,000 sq ft of carpet area, the state-of-the-art building is a fitting testimony to the builder genealogy Achal has inherited from the Bakeri family patriarch, octogenarian Anil Bakeri, and later honed with an architecture degree from the prestigious CEPT University at Ahmedabad and an MBA in real estate finance from the US.

I am ushered into the Symphony CMD's office on the sixth floor overlooking a lush, manicured terrace garden. Our choice of drinks settled—I opt for a chilled glass of coconut water while my host opts for a seasonal juice—we get down to chatting as we wait for lunch to be served.

In a market still dominated largely by the unorganised sector which accounts for 70-80% of the turf, several top brands are making a beeline for this lucrative space which is notching up an impressive growth of over 20% annually on the back of increasing demand from tier-II and tier-III cities. I am curious to know how Symphony has managed to retain its numero uno position. "It's simple really," laughs Bakeri. "We are compulsively, obsessively competitive."

The lessons learned from a near brush with bankruptcy way back in 2000 seem to have stood him in good stead. Reminisces Achal, "I founded Symphony on a chance suggestion made by my father at a time when we were shifting to our new home in Ahmedabad way back in 1988. We were not able to air-condition certain sections of the house and air cooling these spaces seemed the only option. The problem was that not only were the air coolers noisy and huge, but were an eyesore. My father asked me to explore the prospect of making an air cooler which looked like an AC. Intuitively, that made business sense to me and I took the plunge. Not only did I reinvent the air cooler, but raised an ordinary commodity into a branded lifestyle product by focusing on aesthetics, design and consumer preference. My company was the symphony amidst the cacophony" The first few years were a dream run with demand outstripping supply though the coolers were significantly more expensive than the local competition.

A discreet intrusion by an office attendant interrupts the reverie. We move to the adjacent conference room where our lunch has been laid. It's a sumptuous Mexican spread—crisp nachos, burritos, fresh hummus, a divine salsa, grilled vegetable sandwiches, and tacos. Bakeri serves me generous portions of the dishes, keeping a hawk eye on my plate for replenishments as and when required.

Picking up the threads of the Symphony saga, Bakeri recalls how following its IPO in 1994, "we tried to do too much and in the process did not execute our strategies well." From a single product company Symphony diversified into geysers, water purifiers, washing machines and exhaust fans. Unfortunately, the multi-product diversification did not factor in the market dynamics—the products were in segments which were widely copied and soon, rivals stole the market with cheaper copies. The result? Symphony's entire net worth got wiped out and it filed for bankruptcy protection with the now defunct BIFR.

But instead of throwing in the towel, a determined Bakeri chose to take up the gauntlet. "I realised I had bitten more than I could chew and decided to exit from the product diversification experiment to Symphony's core strength—air coolers. While our earlier game plan was many products, one market, I changed that focus to one product, many markets." Thus, began Symphony's foray into overseas markets and simultaneously, its complete exit from manufacturing. "We re-engineered the business when I realised that my mind space would be less cluttered if I was not handling manufacturing. We outsourced manufacturing to OEMs while retaining a tight control on our products, designs and raw materials," he explains. Today, Symphony is a case study for its unique and asset-light business model which has given it leg room to expand to new territories without being hamstrung by manufacturing. To strengthen its presence in lucrative foreign markets, Symphony has, over the years acquired Mexico-based Impco Air Coolers and recently, Chinese air cooler manufacturer MKE. This has enabled it to sell its products under its own brand name in over 60 countries. Symphony products have been endorsed by corporate giants including GE, Walmart, Lear Corporation and Carrefour. As on date, the company possesses the largest number of trademarks and registered designs in the international air cooler industry with a whopping 108 trademarks, 59 registered designs, seven copyrights and eight patents. The foreign acquisitions have also been made keeping in mind a market hitherto non-existent in India—industrial cooling.

> **Symphony is a case study for its unique and asset-light business model which has given it leg room to expand to new territories without being hamstrung by manufacturing**

"We have evangelised and created this market from scratch in India. And our future growth will tap hugely into this untapped reservoir—from factories to engineering works shop floors to chemical and textile factories where air conditioning is neither feasible nor economical, large spaces can be air cooled to provide comfort to workers," Bakeri says.

The shrewd businessman has also spotted a potential market in vast spaces of temples, marriage halls, cattle sheds, poultry farms and green houses. And the biggest brand endorsement that Symphony industrial cooling has received is that it has not only executed India's largest eco-friendly air cooling project at Baba Ramdev's Yog Bhavan at Haridwar, but also the world's largest air cooling project at the Mecca Complex in Saudi Arabia.

Our meal is almost over. There's a delicious unbelievably airy mango mousse for dessert. So what does the owner of a company, rated as one of the best-performing stocks of the decade 2005-2015 alongside Infosys, aspire for in the not so distant future? His reply stuns me. "To steer it to greater heights before handing over the reins to a professional CEO and board." Father of two daughters, neither of whom have any aspirations to pick up the baton, Bakeri happily looks forward to a day when he can roam the world with his spouse, anytime, anywhere, on a one-way ticket *sans* any baggage of commitments!

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US can afford Trump's radical tax cut

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The argument for a corporate tax cut is like the argument that Keynesians use

THE TRUMP ADMINISTRATION announced Wednesday its intent to proceed with a radical cut to the corporate income tax, lowering it to 15%. We haven't been presented with enough details to conclude whether such a plan can work, but I've been seeing some of my fellow economists claim—incorrectly—that we can't afford those changes. There are some potential problems with President Donald Trump's proposal, but there is no fiscal reason such a tax plan ought be ruled out.

It seems the administration is willing to consider a tax cut that increases the budget deficit, rather than finding alternative revenue elsewhere. And indeed the new plan is likely to increase budget deficits by hundreds of billions of dollars. But still, less money for the government is not the same as an economic cost. Most versions of the plan, if executed properly on the details, would most likely boost economic output and create new jobs.

The simplest way to think of an unfunded corporate tax cut is that the federal government has to borrow more money, say at rates in the range of 1-2%, while corporations have more money to invest. Estimates vary for the rate of return on private capital, but 5-10% is one plausible estimate. So in essence, society is borrowing money at 1-2% and may be receiving 5-10% in return. That is a net gain, not an economic cost.

In terms of distribution, the deal is more favourable than it might appear at first. The increase in borrowing will eventually be paid for, and the top 20% of Americans pay about 84% of all income taxes. The future payback therefore is likely to come from the well-off, not the poor. The new corporate investments will also create jobs and some valuable products as well, and that benefits more people than just the wealthy.

> **There is a disturbing and repeated tendency for the Trump administration to lurch ahead with plans that are not properly vetted**

The pessimist might wonder whether companies would take their windfall and invest it at all. Many companies might simply hold the gain in money management accounts. In this scenario, the tax plan probably won't be worth passing, as American companies would have nothing useful to do with the free resources, even when given a nudge to invest. That should induce a fairly panicky response, including radical deregulation of business and fiscal austerity on entitlements, but I don't see critics of the tax plan following up on this view consistently.

This argument for a corporate tax cut—"let's borrow more now while rates are relatively low"—is remarkably like the argument that Keynesians have been using for more government infrastructure spending for years. The main difference is that here the spending would be done by private corporations rather than the federal government. You may or may not believe the private expenditures will be more socially valuable than the government expenditures, but if you think we can afford one kind of stimulus we probably can afford the other. And as I said, the private rate of return on investment probably is higher than the government's borrowing rate, even if you think that government spending would yield higher returns yet.

To put it bluntly, I am suspicious of ideological motives when anyone says we can afford a big dose of government stimulus but we cannot afford a corresponding private stimulus. The more consistent view is that we probably need more investment on both fronts, and thus cuts in the corporate tax rate are a welcome start, at least if we put aside the pessimistic scenario mentioned above. It's still legitimate to consider whether a plan should include more government stimulus (Trump himself would probably agree, though Congress may not), but that's a very different point from claiming the US cannot afford a corporate tax cut. In addition, you also might think that some other taxes should go up, such as consumption taxes, but even if true it does not mean the corporate rate cut is unaffordable.

So what then are the problems with the Trump proposal? First, we do not know whether it can pass various congressional rules, and there is a disturbing and repeated tendency for the administration to lurch ahead with plans that are not properly vetted.

Second, there is a danger that too much personal income will be reconverted into business forms, to reap the new, lower tax rates. It is essential to have greater and more detailed assurances that the tax reform will embody sufficient regulations to limit these kinds of arbitrage.

Those problems may or may not be surmountable, but in the meantime we should view the proposal as a possible economic boost, not a burden we cannot afford.

REGIONAL CAFE: TAMIL NADU

From Reynolds to Rorito

The art of writing isn't dying in India. GM Pens, which has sold over 900 crore pens since 1995, believes that the industry will keep flourishing for the next 15-20 years

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CHENNAI-BASED GM Pens International is the country's largest manufacturer of writing instruments. The last few months have been full of action for the company. It has been the licensee of Reynolds Pens of the US for almost 20 years. Last May, GM Pens decided to end the relationship and strike out on its own. Reynolds has been a household name for years among those who use pens and particularly students. Indrakumar Mahendran, the joint managing director of the company, says that it took them 2-3 years to take that decision. "Reynolds allowed us to use the name. There was no technology transfer. They would not let us export our products. We decided it was time to go global. Our competition, including Cello, Luxor, Link and others, were exporting while we, as market leaders, could not do so."

The company launched their products under the brand name Rorito. Why this name? "The roller in the ballpoint pens rolls well and the pens write well too." It was able to transfer the brand equity from Reynolds to Rorito successfully and retain its turnover in nine months. The management had a tough time selling the idea to its staff, banks and others about its decision. That it was able to convince Sachin Tendulkar who was the brand ambassador for Reynolds to agree to continue to promote Rorito as well helped. "Tendulkar endorsed a new product for the first time," says Mahendran.

The size of the writing instruments industry in India is around ₹5,500 crore and the organised industry accounts for ₹3,500 crore. GM Pens has a market share of 15-16% in the organised sector. It is the only company that offers the entire range of writing instruments—such as ballpoint pens, fountain pens, sketch pens, industrial pens and pencils. "Reynolds introduced fine writing to India. It helped a commodity become a branded product. We have kept introducing new products on our own as we have build a very strong R&D department."

Some of the company's interesting innovations are the Rorito Flymax Gel Pen, a waterproof gel pen which provides a comfortable combination of smudge-free, smooth and fine writing. It has a special Japanese waterproof ink. Rorito Fantaflo is an extremely smooth writing ballpoint pen with a unique low viscous ink and a 1-mm ball to make writing bold and prominent. For students, Rorito has a refillable fluid ink pen with technology from Schneider of Germany. Called Teramax, it allows children to write more than 70 pages without a break. Schools, particularly in Tamil Nadu, still insist that children use fountain pens in their early years.

A recent introduction is a unique refillable fluid ink ballpoint pen, again with technology from Schneider, with a special tip for those who want smooth writing. "The pen writes so smoothly that it feels like a fountain pen," says Mahendran. It has been especially engineered after years of R&D by Schneider. "It is designed to provide maximum comfort and control for the fast-writing consumer."

The company has invested substantially in building a large manufacturing base with facilities in Chennai and Pondicherry. It employs 1,600 people directly and 1,400 indirectly. It makes 25 lakh pens everyday and hopes to increase it to 30 lakh by the middle of this year. GM Pens sells through 5 lakh retailers and around 10 lakh small and medium outlets stock the product. It also has its own 30 franchisee outlets, called Writeside, which were originally set up to promote all their products. It hopes to end the year with a turnover of ₹500 crore.

GM Pens' state-of-the-art R&D facility in Chennai is considered one of the most sophisticated in the writing instrument industry worldwide. A lot of development work in necessary as different parts of the country want different kinds of pens. A small piece of wire goes through 21 operations before it gets transformed into a ballpoint pen. The ink has to last in various climatic conditions. The ink comes from Germany and does not dry fast. The company has tie-ups with Schneider and Dokumental of Germany and Mikuni of Japan.

GM Pens' marketing and R&D work together. The marketing teams make a blind study before new products are introduced. The results go back and forth between marketing and R&D, and they get fine-tuned. Mahendran says no product of theirs has ever failed. Robomax, which is an expensive pen as far as products for students are concerned (₹50), was recently introduced in New Delhi and enjoyed a success rate of 95% from day one. So far, the maximum sales have come from pens retailing between ₹5 and ₹10. The company's aim has been to provide affordable pens at world-class quality. Mahendran believes that people are now ready to buy more expensive pens.

The writing habit is supposed to be dying. Do pens have a future?

"The use of pens has come down in Europe and the US. The story is different in developing countries, especially in India. Students in schools and colleges continue to use pens. From the turn of the century, the same question keeps coming up. The Indian market has been bucking the trend and has been growing 10% every year. In advanced countries, students use laptops and iPads in classrooms. This is not going to happen in the near future in India, where students move from pencils to pens. I don't see any problems for the next 15-20 years." The company has sold over 900 crore pens since its inception in 1995.

GM Pens has faith in the writing culture. The company has started an initiative called Rorito Writewiz—a formulated training methodology for teachers and students—which offers a complete handwriting curriculum free of cost. It has been designed after nearly two decades of research. The company is working with many schools in Tamil Nadu on this project.