



“Salzer Electronics Limited Q4 FY-23 Earnings
Conference Call”

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Choice



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MR. SANJAY – ASSISTANT COMPANY SECRETARY
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MODERATOR: **MS. DEEPIKA MURARKA – CHOICE EQUITY BROKING PVT. LTD.**

Moderator: Ladies and gentlemen, good day and welcome to Salzer Electronics Limited Q4 FY23 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Deepika Murarka from Choice Equity Broking. Thank you and over to you Deepika.

Deepika Murarka: Thank you Neerav. Good morning everyone. On behalf of Choice Equity Broking welcome to the Q4 and FY23 Post Results Conference Call of Salzer Electronics Limited. This conference call may contain certain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as of the date of this call. These statements are not guarantee of future performance and involves certain risks and uncertainties that are difficult to predict. I will now hand over the call to Ms. Savli Mangle to discuss the financial performance of the company. Over to you ma'am.

Savli Mangle: Thank you, Deepika. Good morning everyone. And thank you for joining us today to discuss the audited financial performance for the fourth quarter and year ended March 31st, 2023. I have with me Mr. Rajesh Doraiswamy – Joint Managing Director; Mr. Murugesh – Joint Company Secretary; Mrs. Menaka – GM Accounts; Mr. Sanjay – Assistant Company Secretary and Mr. Raman – COO, of Kaycee Industries. To take you through the standalone financial performance of fourth quarter and the year ended.

During the fourth quarter our revenue increased by 29% year-on-year to Rs.295 crore from Rs.228 crore in the previous corresponding period. This growth was driven by higher demand for industrial switchgear as well as wires and cable businesses. The EBITDA excluding other income was Rs.23.3 crores in Q4 as against 12.9 crore in Q4 FY22, a year-on-year growth of 81% on account of increased sales in switchgear business. The EBITDA margin for the quarter stood at 7.9% rise of 224 basis points year-on-year. This was mainly on account of the increase in sales from higher margin industrial switchgear product. The profit after tax was at 9.0 crores in Q4 FY23 as against Rs.3.8 crores in Q4 FY22, year-on-year growth of 134%.

Coming to a full year financial performance, in the year ended March 2023, net revenue was Rs.1013.1 crore as against 783.6 crore in FY22, a year-on-year growth of about 29%. This was driven by strong demand for almost all products on the back of better market conditions, both in India and global markets. The EBITDA excluding other income, stood at 91.1 crore in FY23, as against 63.8 crores in FY22, a year-on-year growth of 43% mainly on account of higher sales in all product divisions. EBITDA margin was at 9%, a year-on-year increase of 86 basis points. The profit after tax was Rs.36.4 crores in FY23 as against 22.5 crore in FY22, a year-on-year growth of 62%. The PAT margin was at 3.6% in FY23 as against 2.9% in FY22, a year-on-year increase of 72 basis point.

Moving to the breakup of revenue as per business division:

The industrial switchgear business contributed about 53.4% of the total revenue in this quarter and 54.3% during the year. The EBITDA margin for this business stood at 10.5% in Q4, and 11.57% in FY23. One of our high demand product, the three phase dry type transformers grew to nearly 300% year-on-year in Q4 FY23 and 180% in FY23. The wire harness grew 52% year-on-year in Q4 FY23 to 23.5 crores from 15.4 crores in Q4 FY22 and 18% year-on-year in FY23. The wires and cables division contributed nearly 41% to our revenue this quarter and 38% during the year. There is an increase of nearly 19% year-on-year in this division during the quarter and 15% year-on-year. The EBITDA margin in this division has been steady at 5.5% in Q4, and 6.5% for the full year.

The building product division contributed nearly 6% in this quarter and 7% in the full year. The EBITDA margin in this business was 2.6% in Q4, and 2.7% in the full year FY23. On the export front, we continue to see steady growth, mainly due to higher sales in America, including South American countries like Brazil, Argentina and Chile. Exports to the Americas grew 55% year-on-year in this quarter. For this quarter the export share of the revenue was 27%. The growth in exports was nearly 73% year-on-year and 18% quarter-on-quarter. For the full year, export was 26% of the revenue, growing 42% year-on-year. I'm happy to share that the Board has recommended a final dividend at the rate of 22% that's Rs.2.2 per equity share at a face value of Rs.10, this is subject to shareholder approval.

I would like to hand it over now to Rajesh to take us through the "Business Development and Results". Thank you.

Rajesh Doraiswamy:

Thank you Savli. Good morning, all of you. We have listened to the financials, division wise from Savli. So, the past financial year actually bought a lot of headwinds for the economy and the overall industry in the form of various macroeconomic factors like increased inflation, exchange rate fluctuations, even reduced demand from the European markets and also some of the Asian markets. Despite that thing, Salzer has crossed various important milestones during this period. And the most important one was that we have crossed the Rs.1000 crore revenue milestones by achieving 1037 crore on revenues on a consolidated basis. This was possible only due to our advanced engineering capabilities backed by a strong in-house manufacturing and R&D team, product innovation, strong technical collaboration and long-standing customer relationship. So, I'm once again very happy to share that our revenues for the year crossed 1000 crore, which was one of the key targets we set for ourselves a few years ago. We are proud of this accomplishment which is a testament to the hard work and dedication of our team. I would also say that this is just one step in our overall growth story.

As you all must have been aware, demand for the infrastructure has been growing well in the country in the last financial year. There is a growing demand for a lot of projects such as roads, bridges, buildings, governments focus on Smart Cities development is also expected to spur demand for a lot of electrical products of our portfolio. Even the private investments continue to happen in a big way in India, which is also increasing the demand for all our products. There's increasing demand for renewable energy sources such as solar, wind, and hydro power, which has opened new growth opportunities and demand for switch gears, transformers, wires, and

cables. During the year, we have seen good growth in all divisions mainly due to better market conditions in India and also abroad in specific markets. On the switchgear front, growth was driven by high margin products like toroidal transformers, three phase transformers, wire harness, rotary cam switches, and isolators. All these comprised approximately 65% of our switchgear division sales. To cater to the continuous demand that's coming from the country, we have set up a new manufacturing facilities strategically located at Hosur in Tamil Nadu.

Speaking of our wires and cable division, there was a slowdown in the first three quarters due to high inflation and a slowdown in the agri market segment, leading to lower volume sales in the first three quarters. However, in the fourth quarter, the sales started to pick up and we see similar demand continuing into this year. Over the last two to three quarters, we increased our sales price for various products. At the same time, the raw material prices also started to stabilize and reduce a little bit, which helped improve our EBITDA margins year-on-year. We also expect to reduce the raw material consumption in the coming quarters, which will further improve the realization of our price, which leads to a better EBITDA margins in the coming quarter.

On the export front 26% of our revenue this year came from exports mainly on account of higher sales in in North America and also South America. Some of the new products that we developed for USA and Australia during COVID time has started to give revenues from March 2023 onwards. This year we will see revenues from these new businesses coming. As far as our subsidy, Kaycee industries is concerned, the sales have been growing well, and EBITDA margins are also getting better. Kaycee top line grew 42% to Rs.42.3 crore from 29.8 crore last year, PAT grew 87% from 1.86 crore last year to 3.5 crore this year. At Salzer, we have continued to focus on improving our operational efficiency. We had an internal target of achieving 12% ROC in FY23, which we have achieved this year. We also improved our net debt to equity for FY23 at 0.65. I'm happy to share that the net cash flow from our business operation was positive at around 23 crores.

Going into the next fiscal we expect to grow at around 20% with our strong product offerings and brand position in the market. Based on the domestic and export outlook, we are cautiously optimistic about the overall business performance. As a part of our strategy, we will continue to not just focus on profitable growth, but also on capital efficiency and enduring to improve our working capital cycle and being a cash flow positive company continuously. I thank the entire team at Salzer Electronics for their untiring efforts and all our stakeholders for their continued support and faith in our company.

This is all from our side for now, I would like to thank you all very much for your time and attention. We can now take questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from line of Ravindranath Nayak from Sunidhi Securities & Finance. Please go ahead.

Ravindranath Nayak: So, my question is regarding, how the capital allocation you have done rightly around 23 crores of operating cash flow this year. And also, we have actually gone through a preferential issue

which is around 47 crores of money to the company and going ahead you are expecting 20% growth in business and also going for capital efficiency. While the capital allocation policy, how we are going to spend this money in the next one year or two years' time. So, please share some perspective on that. Thank you very much.

Rajesh Doraiswamy: Thank you very much. The point is that we will be doing some capital expenditure because we have set up a new facility in Hosur which will take up around 14, 15 crores of investment for further growth. And going forward we also have the joint venture for electric vehicle charging stations coming up. Hopefully that will require some investments, we have not really allocated how much we're going to put in but we expect that the electric vehicle charging station JV will take at least 12 to 15 crores in the next couple of years. So, this is what we will be allocating and the rest will be utilized for the working capital in the company.

Ravindranath Nayak: Okay. Sir can you give a product wise breakup of this switchgear business, because a lot of things are completely jumbled together in one segment, if you can give at least two to three products category which are contributing in the switchgear business?

Rajesh Doraiswamy: I mentioned in the call that our top selling products, so 65% of our sales comes from the toroidal transformers, three phase transformers, rotary switches, wire harness, and isolators. These are the top-selling switchgear products for us.

Ravindranath Nayak: Okay. And sir when we can expect that the complete integration of Kaycee require 100% shareholding in our business when we can expect on this?

Rajesh Doraiswamy: So, we are only at 74% shareholder at Kaycee and as far as the operations are concerned, we are fully integrated, the companies work together and are achieving the efficiency by utilizing each other's strengths. And that's why we see a tremendous improvement in PAT margins at Kaycee Industries.

Ravindranath Nayak: Sure. Can we expect 100% holding in Kaycee in the near future or will we continue in this similar structure for quite some time?

Rajesh Doraiswamy: At 100% holding then we have to de-list. There is no plan for that as of now.

Ravindranath Nayak: Okay. And sir in the product category, industrial switchgear, wires and cables, building segment, if you can give a breakup of, approximate margin breakup, EBITDA margin breakup of all these three categories that will be helpful sir for FY23?

Rajesh Doraiswamy: Yes, the EBITDA percentage for industrial switchgear for this year is at around 11.7%, wire and cable is at 7% and building segment is at 3%.

Moderator: Thank you. Next question is from the line of Senthilkumar from Joindre Capital. Please go ahead.

- Senthilkumar:** Good morning, Sir. Thanks for the opportunity, and firstly congrats for the good set of numbers. In your opening commentary you have highlighted that you have developed a new products for North and South America. Can you elaborate what is the product and what is the revenue we can expect for FY24?
- Rajesh Doraiswamy:** This year we have grown close to 30% which is actually a strong growth, I would say. Going forward we are projecting around 20% growth on the top line and on the bottom line we should be growing at around 25%.
- Senthilkumar:** Okay. No, actually my question is about the new product development in North and South America. I'm asking, what is the incremental revenue we can expect?
- Rajesh Doraiswamy:** Okay, about the new products?
- Senthilkumar:** Yes.
- Rajesh Doraiswamy:** Okay, these product are So, the potential for these models are quite high. But we expect in the first year, we will be seeing a revenue of close to \$1 to \$2 million in the US. But the potential we expect that in the next five years, we should be able to clock around 20, 25 million sales only in these products from the North American market.
- Senthilkumar:** Okay. What is the product sir, is it switchgear or?
- Rajesh Doraiswamy:** They are contactors for various applications in the US.
- Senthilkumar:** Okay. And my second question, in the earlier concall, you said like for EV conversion kit, we are developing a prototype, where are we, what is the update on that?
- Rajesh Doraiswamy:** I am afraid that I don't have any new updates, because as I mentioned in the last call, we are going slow on that conversion kit project because we are not seeing much potential, sales revenue potential or profit potential in that product and technology. So, we are actually going slow, though we are doing some research and prototyping but I don't have an update that needs to be given right now.
- Senthilkumar:** Okay. So, what about this charger unit?
- Rajesh Doraiswamy:** Chargers in the final stage, it's under testing so we should be launching the chargers mostly in the second quarter of this year for sale.
- Moderator:** Thank you. The next question is from the line of Gaurav Sachdeva from Further Investments. Please go ahead.
- Gaurav Sachdeva:** My question is regarding the EBITDA margins in comparison to Q3 despite our revenues have increased in both the segments but the EBITDA has dropped more than 200 basis points, what is the reason sir?

Rajesh Doraiswamy: In the switchgear business, it's because of the product mix. What happened was, we had tremendously higher sales coming in Q4 in wire harness and three phase transformers which has actually pulled the EBITDA margins by close to 200 basis points that's one. On the wire and cable again, I would say it's a mix of product and various sectoral sales that has happened. But this is only a quarterly change. Overall, we are seeing a 200 basis point improvement year-on-year and we will continue to see at least 100 basis point improvement over the next financial year in all segments.

Gaurav Sachdeva: In your last concall somewhere you told that maybe we can have 11% EBITDA on overall basis?

Rajesh Doraiswamy: Yes, we are trying to getting there. As you see that we have been improved 1% compared to last year, we will definitely get to around 10, 10.5 next year and we will reach blended 11 in the next few five, six quarters.

Moderator: Thank you. Next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I just wanted to understand, in terms of the previous question on the margin front, what has changed? Because earlier we were targeting 11% EBITDA margin FY24. So, is there anything that has changed in terms of the raw material scenario or the pricing scenario, which kind of has pushed back our target to maybe one and a half years now we are targeting, right?

Rajesh Doraiswamy: Nothing major has changed as we all know that FY21-22 was a very tough year for all the businesses due to this post COVID scenario, where raw material prices increased tremendously over the year, and fluctuating widely so, overall if you see our switchgear businesses, EBITDA margins dropped drastically, we used to be at around 13%, 14% EBITDA margin levels in our switchgear products which considerably dropped to around 9%, 9.5% in FY22 because of the raw material price fluctuations. So, which we gradually started improving in FY23 and we are at around 11.7% as of today, the one thing that has changed is the raw material prices stabilized and we have got our price increase from our customers that has happened, but also during the course of the year, we have seen a slight change in our product mix we were just giving the revenues to switchgear business. So, the more transformers that sell, then the blended margin inside the switchgear business will be slightly down compared to what we will sell more of the contactors or switchers and terminal blocks and things like that. So, there is a slight change in the EBITDA margin within the switchgear businesses, there are certain products like rotary cams switches or isolators or cable ducts that can give us 17% EBITDA or 16% EBITDA and there are also certain products like wire harness or three phase transformers or toroidal transformers for example, which will give us a 11% or 12% EBITDA and also sometimes we sell into certain sectors where we are new, where we have to get the business. So, then the price we have to be competitive, and the EBITDA margins in those sectoral sales also can be little down. So, that is the reason that we have not gone to 12%, 12.5% EBITDA margin, but we are at around 11.7% this year. And overall, we couldn't get to 10% but we are at around 9%. But I'm sure that we are seeing a jump in the absolute numbers. I would say year-on-year there is a 80% jump on the absolute EBITDA number from 63 to 92 crores and we will see, we will continue to see similar

growth going forward and we will improve the EBITDA margin percentage also going forward, because we see a lot of stabilization in the raw material prices. And we will definitely improve on the switchgear EBITDA margins by around at least 1% in the year that's coming, in the next year.

Deepak Poddar: Okay, understood. But in terms of switchgear segments, so currently what 65% of your switchgear revenue is catered by high margin products in this division?

Rajesh Doraiswamy: Actually, all the switchgear products, I would consider it as a high margin but within that high margin there are differences, there are certain 11%, 11.5%, there are certain 15% so this combination is what is bringing a 12% EBITDA margin to us right now.

Deepak Poddar: Okay, I understood, fair enough. And in terms of your outlook that you have shared. Now, in terms of even if I take 10%, 10.5% EBITDA margin next year, so your bottom line should grow much faster than 25% that you are kind of given as a guidance as such, because even if you take 10% it should grow much faster than your 25% bottom line?

Rajesh Doraiswamy: Yes, I think it will grow, it will have a similar growth I would say, we will see at least a 35% absolute number growth or 30% to 40%. But just being a little conservative, let's see how the first two quarter goes, and then we can have a real projection for next year, because the markets are still I would say a little fluid, people are a little conservative, though the Indian market is growing well, but we don't know how the global headwinds is going to turn out in the next few months.

Deepak Poddar: So, any specific concern that you have in terms of business or globally or anything that as a investor we should?

Rajesh Doraiswamy: Globally if there is a financial risk that will, that everybody thinks that this is going to happen in the US, then if US gets into recession, then I think it will be a problem for the entire world market, then we will see a short term maybe a two-quarter slowdown. If that doesn't happen then, we are good that we should be able to grow at the same level, because even though we do a lot of business within India, those businesses are also dependent on various other foreign markets. There are a lot of private investments by the foreign company that is happening in India. There are a lot of others who export out from India, so which all may be affected.

Moderator: Thank you. Next question is from the line of Ankur Agrawal from RC Wealth Solutions. Please go ahead.

Ankur Agrawal: What is our CAPEX plan for the next two, three years?

Rajesh Doraiswamy: CAPEX plan, our regular maintenance CAPEX we are doing and as I said we are having this Hosur plant investment and the next CAPEX will be for the EV chargers.

Ankur Agrawal: How much amount required for that CAPEX?

- Rajesh Doraiswamy:** Hosur we have estimated around 15 crores in this year, and the next year for EV chargers it will be close to around 15 crores again.
- Ankur Agrawal:** Okay, what's the opportunity in railway, what do you think about the railway industry?
- Rajesh Doraiswamy:** We are already doing business with railways; we are selling our switches and other various switchgears and transformers to railways. And we are seeing constant business from railways. Not great growth, but constant business.
- Ankur Agrawal:** What will be our top line in the next three, four years?
- Rajesh Doraiswamy:** I didn't get your question sir, because I'm not very good in Hindi. So, if you can translate somebody can translate.
- Ankur Agrawal:** In next three, four years how much company will grow, how much top line and bottom line?
- Rajesh Doraiswamy:** Sir we expect to grow at around 20% for the next two years at least for sure.
- Ankur Agrawal:** Okay. And bottom line will be better than top line?
- Rajesh Doraiswamy:** Yes.
- Moderator:** Thank you. Next question is from the line of Sanjay Kumar from ithought PMS. Please go ahead.
- Sanjay Kumar:** First question is a very broad question on strategy and capital allocation. So, you have toroidal transformers, wire harness, where you're putting up capacity, but you also have dry type transformer this is where peers like Voltamp, CG power are putting a capacity you have wires and cables, KEI, Apar are putting a capacity infact Apar is export a lot of cables to US, Australia. So, without keeping a scale in these segments why venture out, is it because the base business growth is very slow. Or you want to move to other segments, so why EV charging, does it have any moat from the JV and you were even looking at retrofitting of conversion kits for three-wheeler. So, I don't see lack of capability because we have newer license for many products in US. So, capability is not a constraint. Just that, I don't see cohesion and vision or long-term strategy, I may be completely wrong. So, if you could explain your thinking and rationale, I'm just trying to think through in terms of management bandwidth will be diluted in terms of EV charging and retrofitting, or do we have any moats in EV charging. So, any thoughts on this.
- Rajesh Doraiswamy:** Got your point, got your question. Our total long term vision is to be a global electrical solutions provider. That's what we are looking at. So, anything to do with electrical solutions, we want to be there. And we want to be a first mover. So, that was one of the reason we got into electric charging, because we thought that EV is going to be a future in the next 10, 15 years, at least a two decade business from now, before the technology can change or whatever happens. So, we thought, we have all the capabilities, we have all the components that will go into a charger, and why not we make a charger. And luckily we got a JV partner to manufacture that and that is how we are into that is the reason that we are into that. Conversion kit, maybe you rightly said maybe

it's a little deviation from us but as we ventured into that we understood that, that business is not giving a scale or not giving us great opportunity. So, we are scaling back on that, which I have already said in the previous two calls that we are scaling back and going slow on that conversion kits. But charging, yes we have a reason for that, because we can use our components. And we have the technology and we can see that, the future business is there. The future technology is there and as an electrical company we want to be in that space that's the reason we're doing that. On the other product expansion, as you know that we started off as a rotary cam switch company that's how the company started three decades ago and there is a limitation for a rotary cam switch within India or globally because the market size is limited. And then the reason that we venture out and started making various other different products is that we wanted to grow on scale and also be with the customer connect with many products. And that's how almost all the top switchgear companies across the world have grown including Schneider, including Siemens or Eaton or even the Indian company like Larsen and Toubro or Havells for example. L&T is a switchgear company, but they have 25 products within the switchgear segment. So, that's how this business happens in the market, the business trend is like that. We actually went a little more diversified started making transformers, wire harness and also various other products that may or may not fall under the switchgear definition, but it sells to the same customer, the same customer uses this, sometimes we get a customer for rotary cam switch because of transformers or vice-a-versa. So, that's the advantage of having the large product portfolio and trying to expand all the products and as you asked rightly how and which product you're going to expand, as the opportunity comes we are allocating capital and expanding capacity dynamically as the opportunity comes to us. Last year was the year for three phase transformers because the growth in three phase transformers was close to 78% or 100%, no no, 250% actually year-on-year. So, when the demand came in, we had to be dynamic and we had to expand the capacity and then we have to capture this market. So, that was the reason that from 25 crores in FY22 we were close to around 75 crores in FY23 on that business and it continues to, the growth has slowed down but it continues to grow at around 30%, 35% in this year. So, that is how we manage the product portfolio within the segment. And on the scale, you mentioned two companies the Voltamp or CG, we are not in that space. I want to clarify our three phase transformers or dry type, indoor application transformers for low voltage, whereas Voltamp or CG makes oil cold or casters and transformers for high voltage, distribution transformers, we are not into that space.

Sanjay Kumar:

Okay. Voltamp 30% of the investment is dry type but anyways.

Rajesh Doraiswamy:

But dry type-high voltage, they are all 11 KV or 22 KV those kind of transformers. We are only in 440 volt less than 1000 volt.

Sanjay Kumar:

Yes, sir. So, just to follow up, so if dry type is growing so fast, any CAPEX for wires and cables business or the dry type transformers, that's one. Two, what components in the EV charging, how much will we be making in-house and how much will be bought out in the EV charging product?

Rajesh Doraiswamy:

Around 30% of the value of EV charger will be in-house components.

- Sanjay Kumar:** Okay. And on the CAPEX in dry type and wires and cables?
- Rajesh Doraiswamy:** As I said, the wire and cable is a little different because we are not doing any major CAPEX because we still have a capacity open in wire and cable but, dry type transformers yes we have done around four, five crores in this year on capacity expansion and we will continue to do around three, four crores in the coming year for three phase dry type transformers. Not much, I think it is dynamic, as and when it requires we will keep adding machineries for that.
- Sanjay Kumar:** And asset turn for dry type would be 6x, 7x?
- Rajesh Doraiswamy:** Right now it's around 4x, 4.5.
- Sanjay Kumar:** Okay, sir. Just last question if I may, five years from now what kind of product mix breakup are you looking at in the top line?
- Rajesh Doraiswamy:** The way that it goes looks like I think we will be a 60:30:10 or that's how it is, 60% from the industrial switchgear business, 30% wire and cable, 10% from building electrical that's how I'm looking at.
- Sanjay Kumar:** And EV charging will be part of?
- Rajesh Doraiswamy:** Now EV charging will be a subsidiary. So, that will be again, the business is still evolving. If it grows, it can give an equal amount of revenue.
- Moderator:** Thank you. Next question is from line of Manish Maheshwari from Manu Group. Please go ahead.
- Manish Maheshwari:** Sir you said you used to command EBITDA margin of about 14% odd in your switchgear business, which eventually came down to 11% during COVID?
- Rajesh Doraiswamy:** It has actually come down to 9.5% last year.
- Manish Maheshwari:** So, when do you expect margins to restore, north of 14% or at least 14%?
- Rajesh Doraiswamy:** That's what I said whether we will go back to 14% I'm not sure because of the change in the product mix because if you go back a few years, we didn't have transformers as a top selling product in the switchgear segment. We had all other products in the switchgear segment, which gave 15%, 14% EBITDA margin, then the volumes grew, in my opinion from 11.5% right now we may touch around 13% in next year FY25, 13%, 13.5%.
- Manish Maheshwari:** FY25 is a year after that, FY24 and then FY25?
- Rajesh Doraiswamy:** Yes. We will see a 1%, 1.5% improvement year-on-year.
- Manish Maheshwari:** For the next year you mean for FY24?

- Rajesh Doraiswamy:** 24, 1% to 1.5%.
- Manish Maheshwari:** And sir if I may ask you what are your key raw materials?
- Rajesh Doraiswamy:** Key raw materials are various engineering plastics. You're talking about switchgear business, right?
- Manish Maheshwari:** Right.
- Rajesh Doraiswamy:** Switchgear business various engineering plastics and we buy copper. We also have silver as a small content and then steel, PVC.
- Manish Maheshwari:** It's a combination of variable set of products?
- Rajesh Doraiswamy:** Yes, top commodities I would say.
- Manish Maheshwari:** And how about wires and cable?
- Rajesh Doraiswamy:** Wires and cables, copper and PVC.
- Moderator:** Thank you. Next question is from the line of R Govindraj, Individual Investor. Please go ahead.
- R Govindraj:** Sir can you throw some more light on the patents which are in the process sir, we are having some six products which are in process now?
- Rajesh Doraiswamy:** There are certain products that we have applied patent for, like one for rotary switch again a new technology rotary switch we have applied patent, there are some contactors, some contactors we have developed new which we have applied patent for and there is also a wire management, the cable ducts we call but the broad name is wire management system, we have applied a patent for that. There are also new designs, new concepts which we have applied patent for.
- R Govindraj:** Any timeline sir when we will be getting it?
- Rajesh Doraiswamy:** Next two to three years.
- R Govindraj:** Okay. And regarding you said that you are getting into new contactors, the bio material kind of contactors we are making it in-house or we are outsourcing it from other manufacturers?
- Rajesh Doraiswamy:** In the contactor there is no bio metal, bio metal comes into play when there is a overload relay. So, bio metals we source out.
- R Govindraj:** Okay. Any improvement can be seen in the wires business because Finolex Cables and other cable manufacturers are getting higher margins, whether any improvement can be done in our side?

- Rajesh Doraiswamy:** Yes sir, we are constantly working on that. Unfortunately, our segmentation in the wire and cable has been more into agri segment and our distribution is through Larsen and Toubro. And that's the reason, given the agri segment is a seasonal market. So, when it goes up and down we are struggling. We're trying to bring down the dependency on that particular product segment, but it is taking a time, it will take some more time before we see 8% to 10% margin improvements. 8% to 10% EBITDA margin in the wire and cable at least two years from now.
- R Govindraj:** Okay. And regarding the supplies to LMW and LG, what sort of materials you are supplying to them sir?
- Rajesh Doraiswamy:** Custom built control panels,
- R Govindraj:** Control panels, okay. But 100% they are sourcing it from us or in case they have other suppliers?
- Rajesh Doraiswamy:** Any OEMs will always have two, three suppliers or at least one of the three, or one of the two.
- R Govindraj:** With regard to LMW or LG sir?
- Rajesh Doraiswamy:** Both.
- Moderator:** Thank you. Next follow up question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Just one more thing wanted to understand, how do you see the revenue scale up in your EV charging business, what sort of revenue we might target this year and over the next two years?
- Rajesh Doraiswamy:** This year, I'm not projecting much because this is going to be the first year, we are expecting some sales back to our collaborator because of the demand that they are seeing in the European market. So, that is one opportunity that we are looking at and we are also looking at some opportunity within India, where there are companies who are doing charging services. So, once the chargers are ready we are trying to sell our chargers to those companies who are installing and doing charging services. So, this year we are not really projecting much. But next year, I see that at least we should be able to do a 35, 40 crore top line if everything goes well. But this business, I would say is constantly evolving, it's quite fast. So, I will not be able to tell next year whether only the sale of chargers will give us revenue or there will be any other opportunity that will be coming to us or maybe the company itself will get into a charging services business and how the revenue models will be in those kind of business. It is still a little fluid.
- Deepak Poddar:** Correct. And in the past we had a vision of maybe what 500 crores revenue from this segment, is that still what we are targeting?
- Rajesh Doraiswamy:** Yes, I think it is still possible because we see that the demand for chargers will continue to grow as the electric vehicle starts coming in. So, I'm definitely expecting FY25-26 the demand should be very good, a lot of companies should be getting into this charging space. And I'm still hopeful that 500 crore revenue from EV charging spaces is not far away.

- Deepak Poddar:** So, maybe what, five years is what the aspiration would be?
- Rajesh Doraiswamy:** Even before that, even less than that I would say. The speed at which the electric vehicles markets are growing, I would say it can happen much faster.
- Moderator:** Thank you. Next question is from the line of Sriram R, Individual Investor. Please go ahead.
- Sriram R:** I have two questions. One is, can you give the breakup of wires and cables segment like how much is for copper and how much is for wiring harness for FY23. And my second question is, where do these toroidal transformers go into, who are your customers and if you can also talk a bit about your competition there, that would be very helpful.
- Rajesh Doraiswamy:** You're talking about the sales revenue breakup for wire harness and wires and cables?
- Sriram R:** Yes. Out of wires and cables how much is each of the sales
- Rajesh Doraiswamy:** It's totally different our wire and cable sale we have done around 390 crores last year. The 390 crore is purely wires, raw wires cables to market, we sell it, and wire harness we have done around 70 crores last year which is a product because we take the wire and we do a lot of process in that wire before we sell that to a OEM, wire harness is sold to OEM, wires and cables are sold in the market to the to the retailer, to the dealer and to OEMs so it's two different businesses. So, that's around 390 crores and this is around 70 crores.
- Sriram R:** This 390 crore is purely copper wires right?
- Rajesh Doraiswamy:** Yes, we only make copper wires, we don't make aluminum wires. Toroidal transformer is nothing but a transformer, a little different transformer, it can replace the normal transformers in the market. So, any transformer, a small transformer, I'm not talking about the large transformers on the road, the distribution transformers but these are small equipment transformers that you see inside a stabilizer, inside a UPS that's a common equipment that I can sight you can see it, a stabilizer a transformer inside a stabilizer, is a stabilizer which we can, a toroidal transformer can replace. A toroidal transformer is a little different in technology which is highly efficient, sometimes the shape and size can be adjusted to suit the requirement of the customer, these things cannot, it will be having low magnetic noise, these advantages will not be there in a normal EI core traditional transformer. So, that's the difference between a traditional EI core transformer and a toroidal transformer. So, the competition there are hundreds of manufacturers of standard traditional transformers in the country. If you take toroidal transformers there used to be very few but now a lot of people have started making toroidal transformers also, because the whole technology people are converting from EI core into toroidal transformers because of the high efficiency and the advantages of flexibility in shape and size. That's the difference between toroidal and transformers and application is wide application, medical equipments, any equipment. That's a toroidal transformer that is being used.
- Sriram R:** In that case you will have a diverse customer base right for it?

- Rajesh Doraiswamy:** Very large customer base, yeah.
- Sriram R:** Okay, can you name few customers?
- Rajesh Doraiswamy:** All the large OEMs we supply, we supply to ABB, Schneider, Eaton. There are some petrol pump manufacturers to whom we supply transformers.
- Moderator:** Thank you. Next question is from the line of Anant Chaudhary from Electrum PMS. Please go ahead.
- Anant Chaudhary:** My question is regarding this EV charging segment. So, what would be the EBITDA margins in this segment sir?
- Rajesh Doraiswamy:** It maybe a little too early for me to give a figure number on that. But I expect that it should be between 18% and 20%, because it is a new technology product, there are not many players in the field. So, I'm optimistic that it should give us 18%, 20% EBITDA margin.
- Anant Chaudhary:** Any number on the capacity volume price, what is the capacity today we have?
- Rajesh Doraiswamy:** Right now we have 100 chargers per month.
- Anant Chaudhary:** Okay. So, we are saying that we will do 500 crore revenue investing. So, we are going to increase the capacity or we can do this with the existing capacity?
- Rajesh Doraiswamy:** Existing capacity we can't go, it can go around 120 crores but, for 500 crore then we need to have invest further.
- Moderator:** Thank you. Next question is from the line of Rohit Ohri from Progressive Shares. Please go ahead.
- Rohit Ohri:** Hi sir, congrats on achieving this target of 1000 crore and glad to hear that long term shareholders like us are rewarded. Sir, couple of questions. First of all, we did touch upon the contactors and the relays, so do you think that there is opportunity for Salzer in terms of China Plus One or Europe Plus One. And if there are then would you like to take us through that?
- Rajesh Doraiswamy:** Good afternoon, Rohit thank you for your wishes. Yes, China Plus One is definitely working as an advantage to Salzer and our product is not just the contactors and relays. But overall, as a company we are seeing, as a company, as a country, we are seeing China Plus One as a plus. In the last two years at least, we have seen so many companies who have approached us to give inquiries to buy products, particularly from the US and the Australian markets. And also a lot of foreign companies who have set up facilities within India for manufacturing are also becoming our customers. So, definitely that's a continuing story. People want to de-risk China and want to get into other manufacturing locations, also they are scouting for locations and definitely India is there at the top along with of course other countries like Thailand, Vietnam or Indonesia. So, we are seeing growth because of that.

Rohit Ohri: Okay and any number would you like to put in terms of the client addition or maybe the clients who had gone and come back to Salzer and in terms of revenue?

Rajesh Doraiswamy: So, there's no client that has gone out and come back, but we have got new clients as I said the new products that we developed in the last two years for a couple of customers in US have started seeing revenues in March. This full year, we will see some 1.5 million revenues from those products from these two clients in US and at least 1 million from Australia and New Zealand. So, these are the new additions that we have got for this year. And this will definitely grow in the years coming FY25 and 26. How much more new business you will get if you ask me that, that is something that I will not be able to judge and give a number now because the opportunities are coming. So, we will continue to see good growth if this happens constantly and continuously, that's what I'm hopeful of.

Rohit Ohri: Okay. So, we did speak about toroidal transformers and the dry type and looking at the capacity that we should be at 100% capacity. So, are you looking at some debottlenecking that is happening in the plant currently?

Rajesh Doraiswamy: This value engineering, debottlenecking is a constant work. So, we are doing that constantly, the toroidal transformers or even three phase transformers or a rotary switch or any other switchgear contactor, the capacity expansion is quite dynamic. Since it's dynamic in the sense what I mean is like, as and when we see that we are touching 80%, 85% capacity utilization and then what we start is we start doing some small expansion and then try to bring it down to 65%, 70%. So, that's how we have been going because we can't really go and do a 95% utilization in these machinery the process and the way that the production is happening its a little bit complicated. So, we will not be able to achieve a 95% capacity utilization like in a continuous process industry. It's not possible in this so at the max we will be able to achieve around 85% utilization and then by that time we will start doing expansion.

Rohit Ohri: Sir we have ample of property, which is unutilized in one of the units, I believe unit three is having 1.5 acres of free land. So, I was just gauging it to see if at all you have any more plans, because the demand is also increasing favoring Salzer and the products that we sell.

Rajesh Doraiswamy: Yes, the land is available so we can construct building as and when our existing space is fully utilized. So, right now since we have gone to Hosur, we would like to fill that up and see how that business grows and that unit gets full. And in the meantime, we are also filling up the empty spaces within our factories here and we are continuing to grow.

Rohit Ohri: Sir the commercial production has started in Hosur because the presentation says?

Rajesh Doraiswamy: Yes, in April it started.

Rohit Ohri: Okay. Will you touch up a little bit on the solar sector and the opportunity there. So, what sort of revenue can we anticipate, because this is the new sector that people are looking at.

Rajesh Doraiswamy: Which one?

- Rohit Ohri:** The solar sector.
- Rajesh Doraiswamy:** Solar sector, we are actually a Type-II indirect supplier to solar renewables. Any solar inverter manufacturer, or a solar park that is coming up means there are inverters being used. And we supply components to those inverter manufacturers. And it's a windmill, then we supply components to Enercon, or Siemens, Gamesa, these are the companies that we supply products to. So, when we see a lot of demand coming for renewable power across the world, starting last year, and we see good demand going in for the next two years in these products in India as well as globally. So, there are large companies who make products for wind and solar, and we are suppliers to them.
- Rohit Ohri:** Any number you'd like to put for the orders that we have for the solar?
- Rajesh Doraiswamy:** We actually speaking, we are doing a large quantity of three phase transformers for solar. So, one of the main reason that we have grown this 300% last year is, I would say half of the business came from solar. So, half of the growth came from solar. So, that business continues, three phase transformers and wire harness will be the primary product that we will be selling to the renewable business.
- Rohit Ohri:** Okay. Sir one last one from my end, you did mention that in your opening remarks that you have just crossed the first step in the growth story of Salzer and there is growing demand. So, it's fair to assume by '25, '26 you will be a 1500 crore company and by 28, you should be targeting double of the revenue what we are at today?
- Rajesh Doraiswamy:** Over the last 10 years, we have given a 16%, 17% CAGR on sales, and in the five years 18%. Hopefully, we will continue to better that in the coming years.
- Moderator:** Thank you very much. I now hand the conference over to Mr. Rajesh Doraiswamy, for closing comments.
- Rajesh Doraiswamy:** Thank you, Choice. And thanks to all these stakeholders and investors who are here today in my call, taking so much interest and having faith in the company. Looking forward to meeting all your expectations. And looking forward to talk to you soon in the next call. Thank you all very much. You all have a great day.
- Moderator:** Thank you very much. On behalf of Salzer Electronics Limited that concludes this conference. Thank you for joining us, you may now disconnect your lines. Thank you.