"Salzer Electronics Limited Q1 FY-23 Earnings Conference Call"

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MANAGEMENT: **MR. RAJESH DORAISWAMY – JOINT MANAGING DIRECTOR.**
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Moderator: Good day ladies and gentleman, and a very warm welcome to the Q1 FY23 Earnings Conference Call of Salzer Electronics Limited. This conference call may contain certain forward-looking statements about the company, which are based on the belief, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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I'm now glad to hand the conference over to Mr. Rajesh Doraiswamy – Joint Managing Director of Salzer Electronics Limited. Thank you and over to you, sir.

Rajesh Doraiswamy: Thank you very much. Good morning everyone and thank you all for joining us today to discuss the Unaudited Financial Results of the first quarter ending 30th June 2022. It's always a pleasure to speak to you and once again to meet you in this quarter. I'm very happy, I hope you all are safe and well.

I have with me is Mr. Baskarasubramanian – Director, Corporate Affairs and Company Secretary; Mr. Murugesh – Joint Company Secretary of our company and Bridge IR our Investor Relations team. We have shared our results update presentation, and I hope you all must have received it and gone through the same. Before we discuss the financial performance of the first quarter. I would like to share some key developments during this quarter and the market scenario with you. On the market scenario, the war in Ukraine in all its dimensions is producing alarming and cascading effects to a world that is still recovering from COVID. Serious damages is being done to the global economy at large.

Conflict and the associated uncertainties are weighing heavily on the confidence of business and consumers across the world. Trade disruptions are leading to new shortages of materials and inputs. Surging energy and commodity prices are reducing the demand and holding back production in various sectors. Of the economy develops will crucially depend on how this conflict evolves on the impact of the current sanctions and un-possible future measures. At the same time, economic activity is still being supported with the reopening of industries after the crisis. Inflation has increased significantly and looks like it will remain high over the coming months, mainly because of the sharp price and energy cost across the world. Inflation pressures have intensified across many sectors. Soaring food and fuel prices is affecting developing countries, which is a cause of great concern. Countries already under severe pressure due to the cost of pandemic, are bound to see disruptions in trade, deficits widen and investments is going to contract. Additionally, significant increase in oil and gas prices can shift investments back into fossil fuel based energy generation, which risks reversing the trend towards renewables at a time of acute climate crisis.

Coming now to some of the key developments, business and financial performance of our company. I'm happy to say that the new fiscal year has begun on a strong note with Q1 FY23 performance being in line with our expectations. We are witnessing high demand both for our switchgear business in domestic as well as export markets and for our building electrical products division in the domestic market. We're also seeing strong demand in particularly for our new product, three phase dry type transformers, particularly from renewable energy sector. We received new orders from various new customers from renewable power sector, which led to doubling of revenue of this product year-on-year. As far as other new businesses, data cables is concerned, we have seen strong demand across customers, which helped in getting more orders for LAN cables. This business also is witnessing strong growth as expected in the current year. We recently received two patents, one for integrated cam operated rotary switches, which is a legacy product contributing substantially to top line and the bottom line and another for motor protection safety brake. Such developments help protect our intellectual property and boost our R&D and product development efforts.

On a year-on-year basis higher raw material prices, higher freight costs, and sales promotional costs have offset our price hikes and impacted margins to some extent. However, raw material prices have begun to stabilize and we are seeing the benefits of our price hike in the form of better margins on a quarter-on-quarter basis. Export demand has been stable and positive over the quarter and we expect that it will be stable in the near future. During the quarter the exports have grown 33% year-on-year and 4% quarter-on-quarter. We hope the uncertainties due to the war doesn't affect the business much in the near future. During the past year, we also forward into electric vehicles vertical in line with one of our growth strategies. However, in these joint ventures that we have done the product development is still underway and we are still overcoming initial, technical teething troubles**.** We expect that the product to be available for sales by the end of this fiscal.

Now moving on to our financials. During the first quarter, our revenues increased by 56.44% year-on-year to Rs.233.06 crore from Rs.148.98 crore in the previous corresponding period. Growth was on account of higher sales of all our three business divisions. EBITDA, excluding other income was Rs.19.62 crores in Q1 FY23 as against Rs.14.8 crore in Q1 FY22. It is a year-on-year growth of 32.53% on account of higher sales volumes and increase in product prices. Standalone EBITDA margin for the quarter stood at 8.42% which is a decline of 152 basis points year-on-year mainly due to the higher raw material prices vis-à-vis Q1 of previous year, coupled with higher fright and sales promotional cost. Our EBITDA margin has improved on a quarter-on-quarter basis by 277 basis points to 8.42% from 5.65 in immediate preceding quarter. Standalone PAT was at Rs.8.78 crore in Q1 FY23 as against Rs.3.81 crore in Q1 FY22 which is a year-on-year growth of 130% and also a 129% growth quarter-on-quarter. PAT margin for the quarter stood at 3.77% up against 2.55% in Q1 FY22. This is an increase of 122 basis points and a 209 basis point increase over Q4 FY22.

Moving on to the breakup of revenues as per the business division. The industrial switchgear division contributed 48.4% to the total revenues in this quarter. The switchgear divisions, EBITDA margin stood at 10.87% in Q1 FY23 as against 12.7% in Q1 FY22 which is a decline of 180 basis points. However, it is higher by 5.6% on a quarter-on-quarter basis. Wire and cable division contributed 43.8% to our revenues in this quarter. This is an increase of 50% year-on-year in this division during this quarter. This divisions EBITDA margin has been steady at 6.75% in Q1 FY23 as against 8.5 in Q1 FY22 and 6.6% in Q4 FY22. The building electrical product division has contributed 7.7% revenue in this quarter at Rs.17.92 crore for Q1 FY23, this division has grown by 138% year-on-year and 8% quarter-on-quarter. The EBITDA margin for this division stood at 2.5%.

On the export front, we are seeing steady growth, especially from the Europe and Asian countries. Exports to America also grew at 56% year-on-year this quarter, while exports to Europe grew 73% year-on-year in this quarter. For this quarter the export share of the revenue was at 21%, growth in exports was 33% year-on-year and 4% quarter-on-quarter. On the balance sheet side, in this quarter we have maintained the working capital debt at Rs.235 crore which is the same level as that of March 2022. We have been able to reduce the net working capital days to close 142 days as compared to 166 in March 2022. We have also reduced the inventory days from 104 days to 92 days in this quarter. We are continuing to work to reducing it further and have target to reach 80 days of inventory should be possible in this financial year. All our new businesses like three phase transformers, wire harness and data cables are witnessing high growth coupled with all our legacy products, including the rotary switches, Toroidal transformers and low break switches. The entire basket of switchgear products are seeing good demand across all customer sectors. Hence, going ahead, we expect to maintain our growth trajectory with those strong product offerings and brand position in the market.

Though there are a lot of uncertainties and things that may happen, which is not under our control. We are optimistic about the overall business performance in this financial year. On behalf of the company, I once again thank all the stakeholders of Salzer Electronics for their continued support and faith in our company. I wish all of you good health. Thank you. This is all from our side, we can now take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Vijay Sarda from VL Finance. Please go ahead.

Vijay Sarda: Rajesh my questions are two-pronged, one is in terms of the growth, how you see the growth momentum going forward with these exports are doing good. And now, overall industrial activity on the ground also improved. So how you see the growth going forward for next two years for the company. And second coming to the margin, what we've seen is a good amount of volatility on account of the wire division on account of increasing copper prices. So now the copper prices have corrected almost by 30%, 40% and what all current inventory hit and all that we have to take, we have already done that. So do we see again margin inching back to our previous high of around 10% to 12% band in next one or two year?

Rajesh Doraiswamy: On the growth at least for this year we see strong demand definitely for Indian market at least, I'm very optimistic on the Indian market for this year, we think that growth will continue. And we expect that similar performance in the next three quarters. However, the export market as of now looks stable, but we don't know how the markets will turn around depending on the uncertainties that we are facing due to the inflation and the war and a lot of other things that may play out. So we will have to wait and see how the export markets will work. But as of now things look stable on the export front. But as a company, we are confident to continue a similar performance in the rest of the quarters this year. On the margins, yes the margins have been a little volatile, mainly in FY21-22 we have faced severe input price fluctuations, materials going up to the extent of 100%, 80%, 50% though we have done price increases, we were not able to offset the entire thing in the financial year. And that is why we saw a drop in EBITDA percentages over the last three quarters. However, we are seeing that trend is reversing right now, because of two things one, the input material prices also is stabilizing. Secondly, whatever price increases we have.

Vijay Sarda: Was significantly up.

Rajesh Doraiswamy: Yes, and that also is showing the impact. So I'm sure from Q2, Q3 onwards we will be inching back to above 10% EBITDA levels for sure in this financial year itself.

Vijay Sarda: Okay. And last two question in terms of this EV thing that we're doing, have we come up with some product on the charging solution and all that have we done some enroll or progressive there in terms of that EV ecosystem?

Rajesh Doraiswamy: Yes initial products have been developed, assembled, we have tested the product they're all fine but however to continue to do mass production we still need a lot of technical inputs, which we are working on it with our collaborator.

Vijay Sarda: Okay. So, currently we are targeting the cater to this all-charging station and all that or domestic, basically a domestic market household market for charging or we are looking at commercial?

Rajesh Doraiswamy: Targeting both, both the domestic market that will be the flow chargers and service providers like Tata Power and companies like that we will be trying to target them for the chargers.

Moderator: Thank you. The next question is from the line of Zaki Nassar, individual investor. Please go ahead.

Zaki Nassar: Sir, as you already said that these kind of healthy numbers will continue for the rest of the year. And as I understand you're doing some high tech electrical stuff. But still sir our wire division contributes close to 50%, 47%, 48%. So, do you see any time in the future next three years down the line whereby your other products will be a larger portion of the whole cake in Salzer?

Rajesh Doraiswamy: If we really go back a couple of years, we will see that the wire and cable division was contributing more than 50%, 52%, 53% certain quarters it was also at 55%. So, we have seen that, the other business that is the industrial switchgear business has grown substantially over the last I would say a couple of years. And today, the switchgear business is close to around 50% contribution and wire and cable is at around 43%. So, going forward, I feel that the switchgear divisions division will grow faster than the wire and cable division and we will continue to see a 50:40 ratio because our building segment business also is growing significantly compared to what it was a couple of years ago where it was contributing 4% to 5% whereas now it is close to around 7% to 8% contribution. So we expect that 50% from the switchgear, 10% from the building electrical, and 40% from the copper that is going to be the share going forward. At least for the next couple of months.

Zaki Nassar: But would you classify your wire harnesses in the wire division or your building products division?

Rajesh Doraiswamy: No, wire harnesses in the switchgear division.

Zaki Nassar: Okay. So going forward, you will see 40:10:50 kind of stuff?

Rajesh Doraiswamy: Correct.

Zaki Nassar: But this would be a long term thing or would you want to reduce your wire division to 30%, 35% and take up the building product division kind of stuff, because that will create value to?

Rajesh Doraiswamy: We are not purposely reducing the wire and cable business. But we see that the switchgear business is growing at a faster pace. So that gives, more revenue share in the overall pie.

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

Deepak Poddar: Thank you very much sir for the opportunity. Sir, I just wanted to understand now you did mention that our input prices have got stabilized and even the price hikes has been done. So that’s the reason we are looking forward for EBITDA margin inching back to maybe around 10% in next one to two quarters. But I just wanted to understand in terms of potential, in terms of the business that we are into, so what is the potential maybe not this year, but in terms of EBITDA margin potential can our business have 11%, 12% kind of an EBITDA margin. Is that something that with a higher scale or the growth that we are seeing our business has that potential to reach, or what would be that potential to?

Rajesh Doraiswamy: Again, I’ll say that, if we go back a couple of years, just with pre COVID our industrial switchgear EBITDA margin was close to around 15%. The wire and cable was between 7% and 8% that’s the margins that we were looking at whereas both has dropped down to around 11% and 7% as of now. So we still have a potential to increase at least 3% on EBITDA levels going forward, if not this year differently next financial year.

Deepak Poddar: 3% EBITDA margin improvement, maybe FY24 and the base we’re taking is the current quarter EBITDA margin at 8.5%?

Rajesh Doraiswamy: Correct. I’m saying that we will be back to around 11%, 11.5% EBITDA margins. That is what we were making pre COVID because of the disruptions we have dropped down. I’m sure that we will get back to that level.

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

Senthilkumar Natarajan: I just want to understand the debtor days for the domestic and export businesses. Now how we fared against the last two quarters on Q-o-Q basis as well as YOY basis.

Rajesh Doraiswamy: Can you repeat the question please?

Senthilkumar Natarajan: Debtor days for export and domestic businesses?

Rajesh Doraiswamy: You want to break up?

Senthilkumar Natarajan: Yes.

Rajesh Doraiswamy: Okay. This quarter I mentioned that we are at 21% export so close to 49 crores of exports we have done in this quarter.

Senthilkumar Natarajan: I am asking debtor days for domestic business as well as export business?

Rajesh Doraiswamy: I couldn't understand, can the moderator repeat the question?

Senthilkumar Natarajan: I just want to know what is the receivable days for domestic business and export business.

Rajesh Doraiswamy: Okay. Our average receivable day as of today is around 85 days. I don't have a break up between export and local but I'm sure that this will be very, very similar for both exports as well as domestic. Exports may be less than 70 and domestic maybe more than 90. On an average we are at around 85 days receivables.

Senthilkumar Natarajan: So what we did same for the March 2023 at the end of FY23?

Rajesh Doraiswamy: The receivable days will continue to remain between 80 and 90 days.

Senthilkumar Natarajan: Okay. And another question what is the net debt as of June 2022?

Rajesh Doraiswamy: Last year?

Senthilkumar Natarajan: No, end of Q1 FY23?

Rajesh Doraiswamy: End of this financial year?

Senthilkumar Natarajan: Yes, end of this quarter June 2023?

Rajesh Doraiswamy: As of now we are at around 235 crores of working capital debt. My opinion, we will either maintain this or it will go up by another 10 crores at the max.

Senthilkumar Natarajan: By FY23 end right?

Rajesh Doraiswamy: Yes.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir, just wanted to understand that industrial automation segment is gaining a huge traction. So, are we planning to do something on those lines?

Rajesh Doraiswamy: Yes, the products that we make under the industrial switchgear segment we produce more than 15 different products, they get consumed in the automation field to some extent. So we are there already and we continue to develop new verticals, new products to the requirements of the OEMs and customers. So we are capturing the industrial growth of the country.

Akshay Kothari: So our customers would be like ABB?

Rajesh Doraiswamy: Yes, ABB, L&D Automation, Siemens, Honeywell.

Akshay Kothari: Okay, so just wanted to understand, so we are not planning to do some forward integration on those lines because that would be a higher margin business as such.

Rajesh Doraiswamy: We are not really looking at that right now.

Akshay Kothari: Okay. And in wires and cables and switchgear mainly our customers would be B2B right?

Rajesh Doraiswamy: Wires and cable it's mostly B2B right now

Akshay Kothari: Okay and switch gears, so B2B?

Rajesh Doraiswamy: Switch gears is also B2B. Only the building electrical products is B2C.

Akshay Kothari: Okay. And sir on the debt, your plans to reduce debt or how do you see going forward whether the debt will increase due to working capital requirements and any guidance on that part?

Rajesh Doraiswamy: So, as we just mentioned we are at around 235 crore debt in March and we continue to maintain that and hopefully this full year we will be at this level, but if the growth is going to be much higher, then maybe this can go up by around 10 crores in my expectation, but it will overall remain at this level.

Moderator: Thank you. The next question is from the line of Archit Singhal from NEARC Investments. Please go ahead.

Archit Singhal: So, I have three questions sir. Firstly, if you can mention what is the capacity utilization currently and what would be the CAPEX required to further enhance the size of the business beyond FY23?

Rajesh Doraiswamy: We are not planning any major CAPEX or capacity expansion as of now, with the current capacity we will be able to go for until FY24. So that means that we expect that we will be able to go up to 200, 300 crores of sales with the current capacity and with some balancing and maintenance CAPEX. Major plan major CAPEX in this two years.

Archit Singhal: Okay. And anything on the outlook for FY24, I don't want any numbers here. Basically, I'm just trying to understand whether FY23 saw some pent up demand which can slow down in FY24 or FY24 also looks good enough?

Rajesh Doraiswamy: We expected that we are seeing some good growth demand coming in from Q2 last year onwards. So we thought it's because of pent up demand and it might subside, but as of now it looks the demand is quite strong and stable, at least in the domestic market. We expected this growth momentum will continue for FY24 also.

Archit Singhal: Understood. And sir last thing from my side. So, you did mention about the working capital aspect in your initial comment I missed that. So, if you can repeat what is the working capital days target for FY23 and how are you planning to improve the net working capital for the company?

Rajesh Doraiswamy: I mentioned that we have reduced our inventory days from around 110 days in FY22 to 90 days, which is a reduction of around almost close to 15 days of reduction. On the trade receivables also from 95 to 80, 83, 85 we have reduced so on a net, net basis from 166 we have reduced to around 145 today. So we expect that this 145 over the end of the year can go down to around 130, 135 days on a net basis. That means we are planning to reduce our inventory days further from 92 to close to around 85, 80 days.

Moderator: Thank you. The next question is from the line of Panjul Agrawal from Green Portfolio. Please go ahead.

Panjul Agrawal: Sir, first of all I wanted an update on the EV segment. Like we were supposed to start building the order books in August, so have we started yet?

Rajesh Doraiswamy: No, ma'am. I think there is a delay of what I would say at least a year because we started this last year August and we plan to launch this product this August. But unfortunately due to a lot of technical teething troubles that we are facing in absorbing the technology, developing the technology in India project is being delayed. And in fact, as I said in my call, we expect that the products will be ready for sale by the end of this fiscal.

Panjul Agrawal: Okay. Sir so this is the situation for both fast chargers and conversion kits?

Rajesh Doraiswamy: Yes ma'am.

Panjul Agrawal: And sir with conversion kits, I wanted to ask like what kind of customers are we targeting, are we targeting OEMs or are we targeting private fleet owners?

Rajesh Doraiswamy: We are targeting the consumers and the private fleet owners we are not targeting the OEMs on the conversion.

Panjul Agrawal: So, like for every individual vehicle we will be providing the conversion kit?

Rajesh Doraiswamy: Yes. We are only doing conversion kit for auto rickshaw, passenger and the utility auto rickshaw.

Panjul Agrawal: Okay, alright sir. One more question, I just wanted to ask that how will our traditional business help in our EV segments, like what would be our mode for that?

Rajesh Doraiswamy: Basically the engineering setup that we have is the base to manufacture the kits and also the some of the products that we make like the wire harnesses, the transformers are used in the conversion kits.

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

Senthilkumar Natarajan: Sir, I just want to know how much capital invested as on June 2022. For the new business, the EV business. To start the commercial production?

Rajesh Doraiswamy: Our investment from Salzer side will be less than 50 lakhs for both the joint ventures put together as of now.

Senthilkumar Natarajan: Okay. Now how much you expect to spend in an upcoming quarters for Q4 FY23 for this particular?

Rajesh Doraiswamy: FY23, we will be spending close to a crore in each of the joint venture, that's what we expect. So the majority of the investment will start flowing in post this fiscal once the product is ready for sale.

Senthilkumar Natarajan: Okay, one crore for each business?

Rajesh Doraiswamy: Yes.

Senthilkumar Natarajan: Okay, for FY23?

Rajesh Doraiswamy: Yes.

Moderator: Thank you. The next question is from the line of Anuj Jain from Green Portfolio. Please go ahead. So, in the meanwhile Anuj comes back in queue we will move on to the next question from the line of Neha Jain, an Individual Investor. Please go ahead Neha.

Neha Jain: I have couple of questions. Sir firstly, what is like our R&D budget for this fiscal year and do we have any new products in pipeline?

Rajesh Doraiswamy: The new products we don't have any major new products like what we did wire harness a three phase transformers we don't have anything like that, but there are a lot of additions to the existing product lines that we are doing. Like what back we got the patents now for the rotary switch and Motor Protection Circuit Breakers. So there are a lot of new lines we are adding in the existing verticals. So that's what we are doing right now. And our R&D budget has always been at around, seven, eight crores, nine crores a year. So, which continues to be at that level.

Neha Jain: Okay. And sir which of our products require most of the sales promotion or marketing and what kind of budget do we get for that?

Rajesh Doraiswamy: Sorry, please say that again.

Neha Jain: Which of our products require more of marketing and sales promotion. And what is the budget for those?

Rajesh Doraiswamy: Look at the sales promotion activities, the major sales promotion activity goes into the retail segment, that's the B2C segment, that's where we do a lot of sales promotion. But having said that, even the switchgear industries now require marketing promotion and things like that. So, overall, our total budget for sales promotion is close to actually we can see we have a budget of 1 to 1.5 crore a quarter for this, but we are spending around one crore a quarter right now.

Neha Jain: Okay. And sir in your opinion what is driving the demand for three phase transformer like is it like a one-time demand surge or is it likely to sustain?

Rajesh Doraiswamy: We expect this to sustain. As of now the demand is coming from the renewable business mainly the solar project EPC contractors, both from domestic as well as the foreign market. We expect that this will continue for at least the next two years.

Neha Jain: Okay. And are we planning to add new geographies in terms of exports?

Rajesh Doraiswamy: We have already added a new geography Australia, New Zealand in the last one, one and a half years, but we are yet to see significant revenue growth from this geography. Hopefully this year will be a good year where we will add additional revenue from this geography or otherwise our existing areas itself we are selling into more than 40 countries and all the existing distributors itself is there is growth coming in. Hopefully without any major disruption, this growth will continue in the export market.

Neha Jain: Okay. And sir in terms of the two new JVs by when do we see them contributing to our revenue?

Rajesh Doraiswamy: FY24, we will see some contribution.

Neha Jain: Start of FY24?

Rajesh Doraiswamy: Yes.

Neha Jain: Okay. And sir my last question is in terms of other income that we see in our P&L this time, which was not there last year so what does it comprise off?

Rajesh Doraiswamy: The increase in other income is mainly because of the foreign currency fluctuation for this quarter. That's the reason for the increase in the other higher income.

Moderator: Thank you. The next question is from the line of Pranjal Agarwal from Green Portfolio. Please go ahead.

Pranjal Agrawal: Sir actually we are really concerned about this. Our joint venture partners are like the leaders in this field, and how come we are still facing technical issues in building the products and technology absorption. Sir are we serious for this business?

Rajesh Doraiswamy: Okay, actually good question. On the conversion kits, I'll start with that. This is very India specific product, though we have a partner which is a startup from Austria, it's an Austrian joint venture, but the product that they've developed is a very Indian specific product it is a conversion kit for auto rickshaw, we have already installed three auto rickshaws, we have converted, it is running fine there are no major issues on that. So, on that front, the problem that we face right now is the cost of the conversion kit, we expected that to be between 60, 70,000 and with the price increases on across all materials, we thought it can end up at between one and 1.2 lakhs around that levels, but unfortunately the cost for the design that we have done right now is going beyond way beyond 2.5 lakhs, which is not a saleable product as of now. So, we are trying to rework on the design and see how we can bring this cost down substantially. So that is where we are stuck as of now.

On the charging stations, it's quite a complicated product than what we had expected originally, because we are looking at charging a car in less than 30 minutes. 0% to 8% charge in less than 30 minutes is that what we are expecting to do. So the product is actually much more complicated than what we had expected. So maybe we didn't really look into the technological issues before we started the JV though our partner is quite strong in what they are doing. When they're coming to India, the ecosystem and the supply chain that we have in India for this product is still very, very nascent at a very nascent stage. So we are forced to import quite a lot of materials for this and we are facing a lot of teething troubles in identifying the sources and bringing in the supply chain. And if we do that, if we do what our collaborators doing exactly. Then the cost is not going to come down then there's no point in manufacturing this in India we will as well import it from Austria. So what we are trying to build an Indian made charger with our own supply chain and that's where it is taking more time. Hope, I have answered your satisfaction.

Moderator: Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.

Akshay Kothari: Sir this conversion kits which we are making, it's for auto rickshaws only right?

Rajesh Doraiswamy: Yes, correct.

Akshay Kothari: So, if the cost is coming high so, what could be the barrier that we are not going for the passenger vehicles, what is the technical difference can we actually do that?

Rajesh Doraiswamy: Passenger vehicle in the sense cars?

Akshay Kothari: Yes.

Rajesh Doraiswamy: No, we have not really looked at doing a conversion kit for the cars as of now because we think that will be very difficult market both in terms of selling as well as in terms of regulations. So that's why we are focusing mainly on the passenger auto rickshaws and the goods transport auto rickshaws, that's going to be our first focus.

Akshay Kothari: Okay. And sir, on this three phase dry transformer could you please explain the technical part of this product in sense of how is it different from other transformers, what is the market opportunity and every renewable power plant, every renewable player, what are the benefits of using this product versus any other transformer?

Rajesh Doraiswamy: There are different types of transformers basically available in the market. So, what we see on the roads are all oil cooled transformers or we call them as Capster cool transformers which are used for high voltage applications. Whereas, what we are doing is transformers for indoor applications, where you need to step down or step up the voltage or sometimes used as filters to avoid the harmonics there are different applications for these kind of indoor transformers where we cannot use oil cooling, which will cost a lot of maintenance because of the oil cooling. So, the transformer design is such that it is naturally cooled by the air and that's why we call it as air cold dry type transformer. So, the major applications are renewables of course every solar project needs to have transformers starting from 100 KV going up to one megawatt phase transformers and every windmills are having such transformers then we have different application we have locomotives like the train application, railway applications, we have UPS applications. So, there are multiple evaluation tools use such type of transformers.

Akshay Kothari: Other players might also be making it?

Rajesh Doraiswamy: Yes, there are a few manufacturers in India who are making this.

Akshay Kothari: Okay. And what is the market opportunity?

Rajesh Doraiswamy: When we started the project in 2017, 18 we estimated that the market size at that time can be close to around (+2500) crores

Akshay Kothari: And what is our current revenue contribution from this?

Rajesh Doraiswamy: This year we will end up doing around 50 crores.

Akshay Kothari: And if you don't mind can you name the other players as well in this specific category?

Rajesh Doraiswamy: I don't have names but they are all mostly foreign players having shop in India

Akshay Kothari: Okay. So none of the Indian players are actually interested in this?

Rajesh Doraiswamy: Not in this this type of transformers there are one or two but majority of them are foreign players.

Akshay Kothari: Okay. And every solar and every wind plant which is coming up would need these type of transformers?

Rajesh Doraiswamy: Yes.

Moderator: Thank you. The next question is from the line of Rohit from Progressive Shares. Please go ahead.

Rohit: The demand seems to be coming back and it is favoring the long term investors like us.

Rajesh Doraiswamy: Yes, I think so. Thank you very much for your support. Yes, looks like the demand is coming back and will be sustainable, hopefully it will be sustainable yes.

Rohit: Surely sir. Sir you mentioned that there could be some 3% to 4% uptick in the EBITDA margin. So are you anticipating that it is the natural growth that was pre pandemic, that is because of the comeback of the domestic market or how you see the dealers and the retail market currently in the current situation, in the domestic?

Rajesh Doraiswamy: Actually it's not because of the growth I am saying that there will be an uptick in the EBITDA margin because that has been our normal EBITDA pre this disruptions, the whole pandemic disruption reducing the volumes and the price increase across the board has actually eaten away our margins. So we are slowly coming back to that level. That's what I said, so in the next four, five quarters, we should be back to that level is what I expect.

Rohit: Okay. So you did mention that.

Rajesh Doraiswamy: The volume growth will definitely help in that process. But in my opinion, that is our normal margin levels.

Rohit: So you did mention that there are certain catalog products, if not the new products that you're working on. So what sort of revenue can we expect, and when do you expect these to be rolled out?

Rajesh Doraiswamy: From internal target we always see that the new products, which we have developed in the past five years, have always contributing between 20% and 25%. So that's been a norm that we have been working on. So sometimes it's around 15%. Sometimes it's around 25% of the revenues. So on an overall basis, whatever new additions that we make, will be contributing around 20% of our revenues.

Rohit: Okay. In terms of value engineering and cost reduction, which were some of the initiatives taken during the pandemic. How are they panning out and how are they helping in the current situation?

Rajesh Doraiswamy: This is a constant, continuous work that we have been doing over many years. And we will continue to do, value engineering, cost reduction, doing automation, reducing improving the efficiency of the manufacturing is a constant work, we can't really put a figure to it and say this much percentage that we have got because of that. But having said that, if you see even after all the inflationary pressure that we have on a normal circumstances, let us leave what happened in FY21-22. But on a normal levels, whatever the inflation that we see in spite of the overhead increase, the salary increase, we still continue to maintain and improve the margins because of the value engineering and cost reduction activities that we do internally.

Rohit: So you definitely have done quite well in this stressful situation over the last two, three years. But, do you think going forward in FY24-25 can we start inching towards 14%, 15% kind of an EBITDA margin even though if it is a vision or an ambitious target to achieve?

Rajesh Doraiswamy: That's definitely the vision, at least on a net, net basis a 5% to 6% PAT is our target and vision. So hopefully, we will get there.

Rohit: Okay. Sir if we see on the industry level, and you also mentioned in your remarks that players like Schneider, L&T, Eaton, Siemens, ABB, Honeywell, all of our customers, they are growing quite well. So with their growth, do you see that you have a visibility of orders for the next three quarters or four quarters, if you'd like to share that?

Rajesh Doraiswamy: Yes, I think the visibility for this year is quite good. That's what I said the demand from the domestic industries and OEMs for this financial year is quite good. We had only a doubt on the export market, how it will pan out in this three quarters, we are not very sure. But domestic market is quite strong and we see that this growth momentum will continue in the domestic market in this year.

Rohit: So sir if the continuity is there, and with around 50 odd crores coming from Kaycee, and if you do the rough math, you will be inching closer to your target of 1000 crores by the end of the year is it fair to assume that?

Rajesh Doraiswamy: Yes, that is definitely the agenda and that's one of our first targets that we want to achieve, yes.

Rohit: Okay. Sir two last questions are there. In terms of the new products that we were developing and you did mention in some of the earlier concalls that you were working for some client in US and Australia and we've taken some one off expense for development of the product in Q4 FY22. So, how far has that product development gone and by when do we think that that product can be launched for commercial use it there are like at least four or five products that we have developed for the Australian market and Australian customers out of which a couple of them we already started realizing the revenues to some extent Q1, but a majority of them will start from

Q2 expectedly. Overall business we expect from the business that we will be doing and Australia will be close to around USD $2 million and for US market also we have developed certain new products which are all the effects of the COVID and various reasons that customers want to come out of China and develop products here in India. So, that is the reason that this product development has happened and the US market business, I expect to start from second half of this financial year. And again the potential for the product that we have developed for the US market which is a contact of basically, that's how we call them will be close to around $4 to $5 million in a full-fledged year maybe not FY24 but FY25 yes, full potential of that we will realize.

Rohit: Okay. So, coming back to the new products in the cable and CCTV or wire cables, what sort of orders do you have and what visibility do you have currently?

Rajesh Doraiswamy: Data cables, LAN cable business is showing good growth signs. Our capacity as of now is around 40 to 50 crores in a year we will definitely be close to around 35 to 40 crores in this year. And maybe we need to add some balancing equipment's to take this capacity to around 75 crore level. I am sure next year, next full financial year in data cables we will be doing around 70 crores.

Rohit: Okay. Sir the next set of questions are slightly futuristic or maybe a value addition. But, do you see that are there any opportunities for Salzer to play a role in aerospace wires and cables segment?

Rajesh Doraiswamy: We are always exploring possibilities in the defense in aerospace in such areas, we haven't really got a good foothold in that area so far. But we are always discussing looking at opportunities, we are discussing with customers talking to them. I can't give you any visibility as of now to get revenues from that sector of as of now.

Rohit: But do we have a registration for that as AS9001, are we registered for that?

Rajesh Doraiswamy: No, not yet.

Rohit: Okay. Because some of the products which come under Make in India and Atmanirbhar Bharat program, the fire resistant and fly critical thermocouples, extension cables, these are the kinds of products which are the requirements of the country and knowing that, the more adjacent to the product lines that we have, we could play some role in the UAV drones as well as ROV buyers. So, that is a why.

Rajesh Doraiswamy: It is definitely a good area to witness we will definitely focus more on that from, your inputs are good and we will definitely focus on that sector.

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

Senthilkumar Natarajan: I just want to understand, do we have any service kind of revenue opportunity for dry type transformers like AMC concept?

Rajesh Doraiswamy: No, right now none of our products have any AMC kind of revenues that will come in.

Senthilkumar Natarajan: So, what will be the lifetime of this product dry type transformers, I just want to understand.

Rajesh Doraiswamy: Transformer is basically a passive product. So it has like endless life it is used properly. But on an average it'll all work for 10 years minimum.

Senthilkumar Natarajan: Okay, after 10 years it has to be replaced?

Rajesh Doraiswamy: People will normally replace between 10, 12 years.

Senthilkumar Natarajan: Okay. But what about the lifetime of the oil type transformers?

Rajesh Doraiswamy: All transformers I would say, oil type transformers will be little less actually speaking, but mostly the transformers have infinity life because there is no moving parts. So it will continue to work. So with proper maintenance it will continue to work. Otherwise even oil cool transformers also have to be normally they change it between 10 and 12 years.

Moderator: Thank you. That was the last question in queue. I now hand the conference over to Mr. Rajesh Doraiswamy for closing comments.

Rajesh Doraiswamy: So once again, I would like to thank you all for your interest and your support to the company. Looking forward to talk to you again next quarter. Thank you very much. Until then, stay safe. Bye, bye.

Moderator: Thank you. Ladies and gentlemen on behalf of Salzer Electronics Limited that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.