“Salzer Electronics Limited's Q3 & Nine Months FY'22 Earnings Conference Call”

February 8, 2022

MANAGEMENT: MR. RAJESH DORAISWAMY – JOINT MANAGING DIRECTOR, SALZER ELECTRONICS LIMITED
MR. BASKARASUBRAMANIAN – DIRECTOR, CORPORATE AFFAIRS & COMPANY SECRETARY, SALZER ELECTRONICS LIMITED
MR. MURUGESH KM – ASSISTANT COMPANY SECRETARY, SALZER ELECTRONICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and Nine Months FY22 Earnings Conference Call of Salzer Electronics Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions *and* expectations of the company as on date of this call. These statements are not guarantees of future performance and involve risk and uncertainties that are difficult to predict. 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 the 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 Mr. Rajesh Doraiswamy, Joint Managing Director, Salzer Electronics Limited. Thank you and over to you sir

Rajesh Doraiswami: Thank you very much. Good afternoon everyone and thank you all for joining us today to discuss the unaudited financial performance for the third quarter and nine months ended December 31st, 2021. It's always a pleasure to speak to you all again this quarter. I hope you all are happy, safe and well.

I have with me here today, Mr. Baskarasubramanian – Director, Corporate Affairs and Company Secretary; Mr. Murugesh – Assistant Company Secretary 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, I would like to share some recent developments and market scenario with you. As you all know, Salzer is a capital goods engineering company, manufacturing a wide array of customized electrical equipments with a strong focus on technology and innovation.

We have five manufacturing facilities and a strong R&D team wherein we are constantly looking to innovate new and efficient products which has resulted in nearly 85% of our components being made in-house in Coimbatore.

Despite the COVID-19 pandemic, we have started to see recovery in demand from various sectors that we cater to. Even though a large part of the first quarter of the current fiscal year went into lockdown, our team has been working hard and are in constant engagement with our clients and tracking the changing situation at various levels.

During the end of the first quarter onwards, operations gradually assumed to full capacity as the restriction were eased in a staggered manner by authorities. However, as we have demonstrated during the previous year even in such trying times, Salzer continues to show resilience and registered a good performance.

On a more upbeat note, as you might be aware we have recently forayed into electric vehicles vertical in line with one of our growth strategies of adding new products and entering new and promising business verticals.

In a nutshell, in July 2021, we entered into two joint ventures; one with an Austrian company Kostad and another with Indo-Austrian startup E-March LLP.

Through our JV with Kostad we will be manufacturing DC Fast Chargers for EVs and related equipment and software. Kostad is a specialist in DC Charging Stations and Equipments and is renowned brand across Europe, they are located in Austria. With their technical know-how, we shall be manufacturing EV Chargers for the Indian and the Southeast Asian markets.

Through our JV with E-March LLP, we will be manufacturing electric conversion kits for autorickshaws now and for buses in future.

We foresee a definitive shift in automotive industry towards EVs, especially in public transport. The joint ventures have already been incorporated and necessary procedures are on track. Operations in both JVs is expected to begin very soon.

Coming to our existing product portfolio, the domestic dealer and retail market is recovering well post-COVID, which especially reflects in our Switchgear business where we are witnessing robust demand. We are optimistic that the demand for these products will continue to gain momentum in the coming quarters. Actually, in fact, almost all our products in Switchgear segment have had a volume growth by about 20%.

As forecasted, prices of raw materials such as copper, plastic, steel, etc., continue to be volatile through this quarter. We are gradually passing on this price hike to the customers. In some of our product lines, we have already increased prices. However, the margins have been impacted to some extent due to the lag in passing on the price. The lag in passing the price hike this quarter was mainly due to the competitive reasons. However, for the full year, we should see our EBITDA margins increasing by about 1% to 2%.

Our export markets have also recovered very well, with significant demand coming in as impacts of pandemic subsides slowly in the global markets. Export demand is likely to be stable and positive in the near future. As the industry reopens fully our growing export market will complement the domestic market to help us grow at a faster rate.

The near-term market situation is still a little uncertain as the third wave subsides, but based on the demand we are witnessing today and indications from various OEMs and customers, we are optimistic for the medium term and definitely optimistic about profitable growth in the long term.

Though Q4 might be somewhat stable, we expect very good growth in volumes in the coming year. The company is well positioned to cater a higher demand from our customers and poised to take up new opportunities.

Now, coming to our Quarterly Financial and Business Performance, during the third quarter, our revenues increased by 24.28% year-on-year to Rs.211.82 crores from Rs.170.44 crores in the previous corresponding period. Growth was an account of rise in key businesses mainly due to very good order inflow across sectors for all Switchgear products, especially Wire Harness.

The EBITDA for the quarter stood at Rs.17.68 crores as compared to Rs.17.28 crores in the corresponding previous period which is a year-on-year growth of 2.34%. The EBITDA margin stood at 8.35% which is a decline of 179 basis points mainly due to raw material price continuing to increase, coupled with very high freight costs. However, company is gradually passing on the price increase to the end customers.

The profit after tax is at Rs.7.25 crores in Q3 FY22 as against Rs.6.4 crores in Q3 FY21, which is a year-on-year growth of 13.21%.

Now coming to nine months results, for the nine months ended December 2021, the revenues increased 33.58% year-on-year to Rs.555.61 crores, driven by strong demand for Industrial Switchgear products particularly Wire Harness.

EBITDA excluding other income stood at Rs.50.9 crores in nine months FY22 as against Rs.45.62 crores in nine months FY21, which is a year-on-year growth of 11.57%. Nine Months FY22 EBITDA margin is at 9.16% which is a year-on-year decrease of 180 basis points, mainly again on account of volatile raw material and increase in other costs.

Profit after tax stood at Rs.18.67 crores in nine months FY22 as against Rs.13.68 crores in nine months FY21, which is a year-on-year growth of 36.49%.

Now moving on to the breakup of revenues as per the business divisions, the Industrial Switchgear division contributed 49.55% to the total revenues in this quarter and 51.12% during nine months.

Switchgear division's EBITDA margins stood at 10.05% in Q3 and 11.38% for nine months FY'22. All products grew in this quarter, particularly the new products, Wire Harness and Three Phase Transformers grew at 92% and 40% respectively year-on-year.

The Wires and Cables division contributed 43.62% to our revenues this quarter and 42.6% during nine months. There's a decline of 3% year-on-year in this division during the quarter.

This division's EBITDA margin has been steady at 7.3% in Q3 FY22 and 7.63% for nine months.

Building products division has contributed 6.83% in this quarter and 6.22% in nine months. At Rs.14.43 crores for Q3 FY22, the division has grown by 59% year-on-year in Q3 FY22. The EBITDA margin for this division stood at 2.98%.

On export front, despite slight headwinds due to lockdowns, we are seeing steady growth especially from US, Middle East, Africa and European markets. Exports to Americas grew at

61% year-on-year in this quarter. Exports to Middle East and Africa also grew at 143% year-on-year which was mainly due to the low base last year. Exports to Europe grew at 81% year-on-year in this quarter. For this quarter, the exports share of the revenue was 22%.

On behalf of the company, I thank all the stakeholders of Salzer Electronics for their continued support and faith in our company, and wish all of you a very good health. This is all from our side right now. I would once again like to thank everyone for your time and attention. We can now open the forum for questions.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Zaki Nasser, an individual investor. Please go ahead.

Zaki Nasser: Sir, I think we could end nearing Rs.800 crores top line and going forward next year would it be within striking distance of the Rs.1,000 crores. I think the on last concall, we had discussed about the promoters increasing their holding in the company sir. What is the status on that, Mr. Rajesh? Could you briefly give us an overview of how your EV foray going forward, are you looking at any other products also because I think there's an endless need for EV?

Rajesh Doraiswami: On your first question, I think we will end up in my opinion between 750, 760 crores in this year is what I would say because Q4 normally is a good quarter but since Q2 and Q3 has been good quarters for us, we expect Q4 might be a little stable like Q3. So, we are definitely not going near 800 crores, but as we said in the beginning of the year, we might end up at 720 crores was what we projected earlier.

Zaki Nasser: This is consolidated you are talking of sir?

Rajesh Doraiswami: No, no, standalone. Consolidated, yes, I think we will be close to 780, 790 crores. Your other question about the EVs, I think technology absorption is happening right now, people are trying to build prototypes and test the prototypes in-house and once in-house testing is over, I think we have to go for external testing. So, only when this is complete, I think we will be ready for the market. So, in our opinion I think this might take at least another six months before we are ready with product for sale in the market. So, that's the status on the EV. On the promoters front, I think there's definitely a plan under way to increase the stake and you will hear something soon.

Zaki Nasser: Mr. Rajesh, JVs happening from several fronts. In India, do you think there is already a standard authority on maybe the chargers or the wires or whatever, because several people are doing it, we don't know how it will pan out, because you are sitting in the center of the entire thing, so could you give us how these standards will pan out and what will happen on that front sir?

Rajesh Doraiswami: I think there's already an organization for automotive testing in Pune. I think it's called ARAI. So, all the all the conversion kits has to be tested there. For chargers also there is BS standard. So, we have to do the product as per BS standard and again test it with ARAI. So, there are very specific standards already available.

Zaki Nasser: What is your outlook on the debt, Mr. Rajesh, would it be around the current levels or do we see a slight decrease in it?

Rajesh Doraiswami: Either it will be at the current level or I would see a slight increase because I think our growth for next year will be much higher in my opinion. As you said next year we want to be very close to Rs.1,000 crores is what we are planning. So, if that is going to happen it will be at least a 25% from the current levels. So, if it can stay at this level, that's what our target is, if not it will be a slight increase I would say.

Moderator: The next question is from the line of Amit, an individual investor. Please go ahead.

Amit: My questions are again on the same line which the previous fellow person asked. One is if you can share the road map in terms of EV, so how are you planning to go into the market in terms of the charger, will it be like some kind of a lease operating model or sell and move out kind of a model? And what's the roadmap for the next few years let's say '23 and '24, so what are we targeting, if you can share, that's one? Second, my concern has been on to the debt levels. I understand that the growth coming in and next, again, you're saying the debt either can be maintained at the same level or it can grow up. What are your thoughts in terms of reducing the interest cost? Are you also evaluating other options in terms of optimizing the working capital instead of just taking more debt, any thoughts on that line sir?

Rajesh Doraiswami: On the chargers, I think the whole business is actually evolving across the country right now. So, there are multiple opportunities or multiple ways that you can approach the market. I think our idea is to manufacture chargers, sell it to customers who are willing to buy and install them, either in a private parking lots or the government tenders coming in. So, that's one area of business that we are targeting. But there will be also on other business that will happen is the lease model as you said, either we lease the equipment or there are companies like Tata Power for example I think is the most prominent player in the country today who are buying chargers and then they are installing it at their cost and they are doing the service. So, I think we target those companies is our idea. But going forward I think maybe two, three years down the line, we will see whether we can do the servicing business ourselves. But then that's the last step that we will be taking. So, that's how this business is evolving at this moment, but we have to watch to see how this can evolve in future. So, we are ready to cater to whatever kind of demand from wherever it is coming to, but the main point is I think we have to have a Indian made charger at a reasonable cost from India. I think that's our first aim right now, one. Second, on the debt levels, yes, I think what we are trying to do is we are trying to optimize working capital. Unfortunately that's happening slowly. So, our target has been to reduce the net working capital levels to less than 140, 150 days; however that's still at around 160 days as of now. Hopefully, by end of this year, I think we will slightly come down and we are trying to optimize this, but as you know like last one and half years due to this pandemic there has been a lot of turbulence across the markets in terms of price of materials, availability of raw materials and also threat of third wave coming in. So, we had to be ready to face all these things; we had to order materials upfront, stock a little bit. So, all these turbulence actually has made us a little bit inefficient. So, we are coming back to it and I'm hopeful that we will become a very efficient company where our networking capital days will come below 140 days. I think that's the target that we have and we will be able to do that.

Amit: One follow-up question on the first part in terms of EV, so are there any government tenders also now or in the pipeline that the government is floating for the EV chargers?

Rajesh Doraiswami: We had some tenders coming in from the Delhi government and Maharashtra government for small quantities. And we have a dedicated company under EESL, has promoted a subsidiary called CESL which is I think fully dedicated for the EV infra development. So, they have been coming on and off with tenders. We expect that a lot of state governments will start coming out with tenders because the state governments have to promote this. Unless they promote it, I don't think this this will really come up in a fast way. So, the support from government will definitely be there and we expect various state governments to come out with some tenders.

Amit: I totally agree. So, unless the government give a first step I think it becomes a little difficult for the private players to come in and invest that much initially. or do you think like by the time these all these state tenders start coming in the bigger volumes, our products will be ready to market, are there any targets in place?

Rajesh Doraiswami: I think for the chargers we want to be ready with an Indian made charger in six months from now.

Moderator: The next question is from the line of Neha Jain, an individual investor. Please go ahead.

Neha Jain: I have some follow-up questions related to EV itself. So, how much is the CAPEX that the company is planning to invest? And will our existing capacity be enough, are we planning to do any CAPEX over there for a manufacturing plant?

Rajesh Doraiswami: Salzer will be holding to start with a 26% stake in both the JVs and Salzer investment into the JV for the chargers it will be Rs.4 crores and for the conversion kit manufacturing unit it will be Rs.2 crores. So, overall investment at 26% right now is Rs.6 crores is the commitment that we have made right now. Going forward if further investment is required, then we will increase our stake and invest further. In Salzer, I think there's no major CAPEX planned as of now. So, it's just the regular maintenance CAPEX that we are doing which this year will end up at around 11, 12 crores.

Neha Jain: Could you share some future projections in terms of revenue or returns that can be generated from this business?

Rajesh Doraiswami: I think in three years we want to make at least 200 chargers a month is what we are looking, in my opinion the revenues will be close to around 100, 150 crores a year so that's what we are targeting but that's too pessimistic in my opinion because the demand can be much more, but right now this is the capacity that we are planning.

Neha Jain: Do we have any existing players like any competition in the market for the same?

Rajesh Doraiswami: Competition of course in chargers we have companies like Delta, even ABB making it and there are a lot of imported chargers available in India

Neha Jain: Now that there's some recovery in the building segment, are we are targeting any new clients for the same or are we continuing with the old clients and how do we see the next few quarters in the segment?

Rajesh Doraiswami: In the building segment business, we are seeing a very good uptick in business. Every quarter we use to do around 9, 10 crores but I think in this year starting Q2 we have been doing around 14, 15 crores every quarter which is quite good and we expect that this growth will continue faster and the way that we are growing is with supplying to existing clients as well as we are trying to garner new builders. And on the recovery front I think it's been much better than what it was in the beginning of the year.

Neha Jain: How much do we target in the next couple of years from this segment?

Rajesh Doraiswami: This year in my opinion we will end up at around Rs.50 crores of revenue in this segment compared to last year's Rs.32 crores. Next year we are looking at Rs.100 crores in this segment.

Moderator: The next question is from the line of Krishna Kumar from Lion Hill Capital. Please go ahead.

Krishna Kumar: Sir, just wanted to understand on the wire and cable segment, we used to also do enamel copper wires, etc., so we have a capability. So, when we look at the electric vehicles and the need for more motors and copper winding, so do we have a play there, would we be able to supply insulated or enamel copper wires for EV motors, etc., can you share some thoughts on that?

Rajesh Doraiswami: Yes, I think definitely that's a new market that will be coming our way. We do produce enamel wires and we have the capability to produce enamel wires. We are already supplying our enamel wires to automotive companies like IFB Auto and a couple of other auto motor manufacturers in the country. Right now, the business volumes are too small, but I am sure that this new EV push will bring in additional growth in that segment and we are capable of supplying enamel wires to that business. So, any capacities that you can talk about so like do we need to add the capacity for those products, are they different from the normal motor winding, can you share some color?

Rajesh Doraiswami: Right now our capacity for enamel wires manufacturing is 200 tons a month, but we are producing close to 160 tons right now. So, we still have some room but once real demand comes in, maybe we should start adding a few more machines and increase the capacity.

Krishna Kumar: Is there any need for the additional technologies or we are kind of…?

Rajesh Doraiswami: Not required. We have the capability to produce that wires.

Krishna Kumar: Second question in terms of the EV conversion kits. Can you give some perspective in terms of when you would be launching the products? I probably missed your initial comment on that.

Rajesh Doraiswami: Conversion kits we are doing the trials with autorickshaws right now. We have already converted a couple of autorickshaws and our people are doing the trial in-house and we have also given it for field trial. So, we are just waiting for the feedback. Once things settle down and we improve on the product I think we will have to go to ARAI testing. We have to submit the products for them for testing. And once the testing is complete, then we should be ready for the market. Again, in my opinion I think it will be a six month timeline for the product to be ready.

Krishna Kumar: Here again both in the EV charger and the three wheeler kit, what kind of branding we'll do, so it's going to be a Salzer product or will it be rebranded or something else?

Rajesh Doraiswami: We will be branding it jointly with our partners also, so we will use their names as well as Salzer name, it will be joint branded product.

Krishna Kumar: What will be the kind of market opportunity for the three wheeler kits and what kind of realization roughly you can look at sir basically?

Rajesh Doraiswami: As per our survey what we did, there are about 10 crore auto rickshaws that's running in the country which are sold in the last 10 years. So, if you go back a little bit, take last 15 years, there are more number of autos still. So, I think that's the size of the market. But then it's not easy to go and capture this business across the country in such a quick time. So, our idea is to go state-by-state, use the automotive spare part dealers as our channel and also the workshops as our channel and sell these kits. So, here again we estimate the realization price will be approximately 1 to 1.2 lakhs per kit. We originally wanted to sell this around 60,000, 75,000 but because of the cost of the battery and the motor I think the cost of the kit is increasing, so it will be around 1 lakh and 1.2 lakh will be the cost of the kit. So, to start with I think in the second year we should be able to get a market of around 90 to 120 crores is what we are estimating.

Krishna Kumar: Looking at the feasibility, you have new electric vehicle three wheelers that are being launched by various players at slightly higher prices than what you are now talking about conversion. So, Mahindra Alfa comes at 1.5 lakhs or somewhere there and some other companies also launched products. So, for the new product with government subsidy, etc., you probably are getting it very close to what the kit price you're talking about for an old vehicle. So, do you think such a market exists potentially would be impacted by decision to go for a fresh vehicle than to retrofit sir?

Rajesh Doraiswami: It's a good point. I think as soon as Mahindra announced this, I was also a little bit worried, so I went and checked the specs what is the vehicle that they are giving at 1.5 lakhs. I think there's a lot of difference between Mahindra's 1.5 lakhs new electric vehicle and the conversion kits that they're doing. One is the range. Second is the payload. I think the payload that Mahindra truck, the new electric vehicle is giving is only 300 kilos payload and at a max speed of 30 kmph. I think that vehicle is only for a very specific use. It can't be taken out for normal use or normal transportation, one. Secondly, what we are trying to do is, we are trying to convert the existing petrol, diesel out tractions. So, the existing owner of a petrol, diesel auto rickshaw, it is better for him to convert than sell this and buy a new electric vehicle. New electric auto with the same capacity, I don't know with 500 Kg payload and a max speed of 60 or 70 kilometers per hour, will definitely cost more and also the range. I think we are promising a range of 120 kilometers in one charge with the max speed of around 70 kmph and the payload is the same as the existing petrol autos. So, there's a wide difference between this autorickshaw that you are talking about and the conversion kit. So, I am confident that this will definitely be marketable in the market.

Moderator: The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.

Sanjay Awatramani: Sir, can you highlight a color on this margins front from EV side and the overall margin of this business we are running right now?

Rajesh Doraiswami: The conversion kit margin we expect this to be anywhere between 20% and 25% on EBITDA levels. On the charger front, I think it should be around 17% to 20% is what we expect to start with, it may be a little lower, but it can go up between 17% and 20% on the chargers at the EBITDA level. This is our estimation as of now.

Sanjay Awatramani: Rest of the business, switchgears and all the consolidated part?

Rajesh Doraiswami: This quarter I think we have dropped down to 8.5%, for nine months 9%. The main reason that this quarter has dropped is because of very huge freight cost that has come in which we are unable to pass on. Otherwise, I think we would have been at normal 10% EBITDA level which I expect will come back in Q4. So, going forward I think 11% is a figure that we should expect on EBITDA from Q1 FY23. In Q4 we will be back to 10%.

Moderator: The next question is from the line of Harshit Singhal from New York Investments. Please go ahead.

Harshit Singhal: Sir, a few questions. Firstly you mentioned for next year you're targeting a 25% growth. I am just trying to understand what is driving this kind of a growth because the industry is not growing at that rate, right? And if you can also split the growth between the two verticals, cables and wires and switchgears?

Rajesh Doraiswami: The revenue share so far in this nine months the industrial switchgear is at around 51% and the wires and cables is at 43% the building segment is around 6%. This is the revenue share that has been in these nine months. And we think that this revenue share will continue for this year also at 51% and 42% between the two top segments. Going forward for next year I think the wires and cables can grow a little bit because this year the wires and cables market has been very subdued because of the very high copper prices, and that's one of the reasons we are also not able to grow in that segment. So, FY23 I think it will be at 48% and 44% share between industrial switchgear and wires and cables, that's what I expect. On the growth front, why we are growing is because if we look at the industrial switchgear business, our normal business per quarter used to between 60, 70, 75 crores is what we were doing until FY21. So, right now we are seeing a business of close to around 100, 105 crores in a quarter starting this Q2 FY22. The main reason for this growth is because of the new clients that we have been working on for the last one, one and a half years and also the addition of new products in the last two years like the wire harness and the three phase transformers. So, this additional business and also the new clients that we have been pursuing has given us this growth in this year and we expect that the coming year also whatever we are working on now with the clients will all translate into business and that's why that we expect kind of 20%, 25% growth for next year in the switchgear business.

Harshit Singhal: Two more questions. One, what is the sustainable margin for this business? Obviously margins currently are lower because of RM inflation but let's say towards the end of FY23 or '24 what can be the sustainable margins which we can achieve?

Rajesh Doraiswami: I think our switchgear margins used to be between 15% and 17% in FY21. In FY21, we closed at 15% EBITDA in switchgear business, but I think going back to 15% might be little difficult because there's also some inflated cost. That we can't expect the EBITDA margin to rise or continue to be at that level but currently it is around 11.5%. We can expect the stable margins to be anywhere between 13% and 15% for FY23 I'm talking about.

Harshit Singhal: What are the measures which we are taking to reduce the working capital?

Rajesh Doraiswami: There are only two things that we've been able to do; collect quickly and reduce the inventory, I think these are the two things that's under our control which we are trying to do, reducing the inventory and wherever possible we are discounting with customers facilities.

Harshit Singhal: So, this 140 day working capital target that is for the next year which you are giving?

Rajesh Doraiswami: Yes, sir.

Moderator: The next question is from the line of Chirag Patel, an individual investor. Please go ahead.

Chirag Patel: I have a few questions with regards to our new product development and also the government push for the EV infra which they have announced in the budget. Like there was a battery sweeping policy they announced. There is one company called Infinity which is into two wheeler scooters. They offer such product. So, how our charger will get benefited out of the such product offering? And also, going forward the government is also planning at massive level with municipality to install a publicly available this charging infra. So, how we are placed to take the advantage of this event?

Rajesh Doraiswami: There are two types of chargers that will come into play; one is the AC chargers for the two wheelers and other one is the DC Chargers for the four wheelers because two wheelers the charging you don't need a very powerful charger, it can charge quickly even in a AC charger. So, the battery swapping again I think will happen only for two or three wheelers at the max. I don't think battery swapping is a possibility for cars because of the size of the battery and the weight of the battery. Maximum it can happen for the two wheelers. So, where the charger can come into play is all the battery swapping stations has to use multiple AC and DC chargers. So, that's the market that we have to address to. And on the DC chargers, as I already told in this call earlier, as and when the government starts pushing the EV infra, I think they will start buying a lot of EV chargers mostly in my opinion DC chargers. That's what we are making and we should be able to be one of the first players for DC chargers in India.

Chirag Patel: Particularly you gave like a 10 crore autorickshaws sold in last 10 years. These are majority sold by guys like Bajaj and TVS. So, do we have any plan to tie up with them for OEM related business opportunity or it's a service related tie-up to cater to the existing vehicle which are on road?

Rajesh Doraiswami: On the auto rickshaws I think 65% market share is with Bajaj currently in the country today and second I think is Piaggio and TVS. For conversion kits we are not planning to tie up with OEMs. I don't think that's a possibility because OEMs won't be interested to take a conversion kit, their business is to sell their product. But on the other front we are talking to various two wheeler electric vehicle OEMs to supply wire harness and also motor controllers. So, these are the two products that we have that we can sell to the electric two wheeler manufacturers.

Chirag Patel: Just as an entrepreneur how do you see your revenue going to be reported after five years down the line let's say there will be a separate division for this renewable and EV segment or will you club together with normal those revenues?

Rajesh Doraiswami: We actually already floated a 100% subsidiary for the electric vehicle business. So, I think all the electric vehicle business will come under the subsidiary and get consolidated in main company.

Moderator: The next question is from the line of Anirudh from Nagoba Capital. Please go ahead.

Anirudh: I had some clarification. Your business from whatever I understand can be broadly categorized into OEMs, export OEMs, domestic dealer business and export dealer business. So, assuming these are the four categories, how much are you able to pass on to these four customers like is it easier to pass on to export and less to domestic, is it easier to pass it on to OEMs and less to dealers, just a broad understanding I wanted?

Rajesh Doraiswami: The beginning of the year and end of last year I think people agreed, accepted quickly and we were able to pass on. But in the last six months I think people have been tired because we have done like two, three price increases and most of the customers are a little frustrated… of course, all of us are frustrated because of this but they're not ready to quickly take a decision and then give a price increase. And also, there is competitive pressure now because we have done two, three increases now to do another 3%, 4% last increase, there's always a pressure. In my opinion I think in export, it is difficult to increase compared to the domestic OEMs.

Anirudh: Is that because generally the margins are higher or the competitive intensity is far higher there or price…?

Rajesh Doraiswami: The export OEMs normally don't see an inflation; they don't give a price increase normally. Yes, we have an inflation and we go for price increase every year, but export markets very, very difficult to ask for a price increase every year. So, we always do a once in two years, once in three years price increase for export market. But then realization in export market is much better than the domestic market.

Anirudh: So, in that case if your export business keeps growing and the raw material price pressure also sustains, so that may not necessarily immediately translate into higher margins as we see, is my understanding correct, the lag will be far higher than the domestic market increase?

Rajesh Doraiswami: If the raw material price continues to increase, then yes, what you say is correct, but in my opinion I think raw material prices more or less stabilized, even the freight costs have more or less stabilized. We hope I think things from hereon will be better.

Anirudh: My next question is just for an understanding, now this whole wire harness business revenue recognition is considered under the switchgear business or in the wires business?

Rajesh Doraiswami: Switchgear business.

Anirudh: So, the wire is only just basic wire like that you sell is considered as wire business, correct?

Rajesh Doraiswami: Correct. In wire harness we do a lot of value addition. The components will be between 60% and 70% of the wire harness.

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

Rohit: Two questions. First is related to the freight. Which of the two are we following, CIF or FOB?

Rajesh Doraiswami: On the export front, we have both CIF, sometimes we also do DAP, we also deliver duty unpaid. All kinds of contracts are there. Mainly, the freight cost increase is because of the ocean freight as well as domestic road transport price increase.

Rohit: So, how do we decide if we wish to go with CIF or FOB or DAP then?

Rajesh Doraiswami: Some clients want us to deliver the duty paid actually. Some clients are FOB. Some of them even take ex-works. So, it depends on the client and their connections in India with their the fight forwarders. If they have good connection they use their freight forwarders, otherwise they ask us to deliver.

Rohit: Second question is related to Kaycee. If you can take us through the development and any directional growth that you would like to share for Kaycee because Kaycee's top line is increasing but on the same line as what Salzer's margins taken slight a bit of a dip of 100, 200 bps, so any directional growth for Kaycee for the next year or times to come if you've been able to solve the puzzle and show the growth path for Kaycee?

Rajesh Doraiswami: Kaycee's growth this year has been quite good; so far in nine months the company has grown by around 26% on the top line and also the bottom line has almost tripled I would say close to that, mainly because maybe last year was a low base but even otherwise I think we are seeing growth coming in, this year we will end up doing around 28, 29 crores compared to '23 last year. Our plan for Kaycee for next year is to do Rs.50 crores with the existing products that Kaycee has. So, if that happens then I think from there on we will see a lot of upward momentum.

Rohit: No new products planned for Kaycee is it over the next…?

Rajesh Doraiswami: Right now, no, we are not adding any new products, but we are cross selling a lot of Salzer products in Kaycee.

Rohit: You brand through Kaycee dealers?

Moderator: The next question is a follow up from the line of Anirudh from Nagoba Capital. Please go ahead.

Anirudh: Now in the EV segment, what are the backward integration possibilities like components is one thing, PCB assemblies is another thing. So, what are the synergies that you're trying to bring? Wire hardness is another thing. So, just broadly if you can give me an idea about what are the straight forward integrations that are possible?

Rajesh Doraiswami: I think it's a good point. We have also been thinking on these lines. On the conversion kits I think we are using a lot of our wire harness. I think that's the only backward integration or a product that can go into the conversion kits.

Anirudh: Motor winding wire nothing as of now?

Rajesh Doraiswami: We have the winding wire but we don't make the motor. We are buying the motor. So, we can ask our seller to use our wire. So, that's the possibility but that kind of product insistence can happen only when we have volumes. On the chargers, I think we have more backward integration products. I think a lot of electrical switchgears that go into the chargers like contactors, circuit breakers, we have switches coming in, again wire harness coming in. So, there are a lot of switchgear components that we manufacture that goes into a charger. So, that's something that we are looking at and we're estimating as of now close to around 15%, 20% of the cost of the DC charger will be the products that Salzer makes.

Anirudh: Magnetics is not something that you are very strong with as we speak right now?

Rajesh Doraiswami: Three phase transformer is a part of magnetics for us. We also make single phase transformer which is a part of the switchgear business. So, all this is coupled under the switchgear business. Magnetics is one of the products under switchgear along with wire harness, that is growing quite fast.

Anirudh: What is the closure time that you are seeing in the building segment because it had slowed down drastically in the last two odd years, so has it increased the pace in terms of the people completing their projects, just generally asking?

Rajesh Doraiswami: I think in the last two quarters, things have definitely picked up quite fast, I would say, I think a lot of people are rushing to complete projects. I think another negative that I see is it is not happening across the country. I think it is happening in selective cities. Mostly, I think in class-B cities is happening faster, I think cities like Bangalore, Chennai, these major cities are still slow. I think one exception is Hyderabad. Hyderabad is going quite fast. We are only present in the five states in south, so I can only comment about these five southern states.

Anirudh: The enquiries are looking very strong as we speak, correct?

Rajesh Doraiswami: Yes.

Anirudh: The conversion from enquiry to order and order to execution is where I think the delay lies what you are trying to tell, correct?

Rajesh Doraiswami: I think FY2021 was very slow. After Q2 FY'22, things have definitely changed and picked up very well.

Anirudh: Pricing power in this particular segment, is it there or is it still very tough right now?

Rajesh Doraiswami: Actually, this product is a high gross margin product in my opinion. So, if we get to the critical level or sale value, then we will see 13%, 14% EBITDA levels in this product.

Anirudh: So, operational efficiency, once it kicks in, the margins will go up?

Rajesh Doraiswami: Correct.

Moderator: Ladies and gentlemen, as there are no further questions, I now hand the conference over to Mr. Rajesh Doraiswami for his closing comments. Over to you sir.

Rajesh Doraiswami: Thank you all once again. I think it's been very interesting questions and happy to answer you always. Looking forward to interact with you again next quarter.

Moderator: Ladies and gentlemen, on behalf of Salzer Electronics Limited that concludes this conference. We thank you all for joining us and you may now disconnect your lines.