



“Salzer Electronics Limited Q1 FY22 Earnings
Conference Call”

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the 1Q FY 2022 Earnings Conference Call of Salzer Electronics Limited.

Please note 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 on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. 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 am 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. Good morning, everyone. And thank you all for joining our earnings call to discuss the audited Financial Performance for the first quarter ended June 30, 2021. I have with me Mr. Baskarasubramanian – Director, Corporate Affairs and Company Secretary; Mr. Muruges – Assistant Company Secretary; Savli Mangle and Rahul Trivedi from Bridge Investor Relations.

We have already 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 of the recent developments and market scenario with you.

As we are all aware, the second wave of COVID-19 pandemic continues to adversely impact our life and industries. And the onset of the third wave is threatening to start and there is a lot of uncertainties. A fairly large part of the first quarter was spent in lockdown to curb the virus and prevent its spread, even as the vaccination drive continued throughout the nation. Consequently, operations gradually resumed to full capacity as restrictions were eased in a staggered manner. However, as we have demonstrated during the previous year, even in such trying times, Salzer has been resilient and registered a good performance.

On a more positive note, I am very excited to share that we have recently forayed into electric vehicles vertical, in line with one of our growth strategies of adding new products and entering into new and promising business verticals. In July 2021, we entered into two joint ventures, one with an Austrian company Kostad and another with an Indo-Austrian startup, E-March LLP.

Through our joint venture with Kostad, we will be manufacturing DC fast chargers for electric vehicles and related equipment and software. Kostad in Austria is a specialist in DC charging stations and equipment, and is a renowned brand across Europe. With their technical know-how, we will be manufacturing EV chargers for India and Southeast Asian markets.

Through our other joint venture with E-March LLP, we will be manufacturing electric conversion kits for auto rickshaws, buses, and also cars. We foresee a definite shift in automotive industry

towards EV's, especially in the public transport. Stringent emission norms and government support for EVs are going to boost the sector in the coming years. With these ventures, we are positioning ourselves to be a step ahead in the market as the demand picks up.

Speaking of our current product portfolio, the domestic dealer and retail market continues to recover slowly from the COVID impact, which reflects in our Switchgear and building segment business where sales are picking up pace. We are optimistic that the demand for these products will continue to gain momentum in the coming quarters.

The switch gears division has seen a strong order booking which has helped us achieve higher volumes during this quarter. Prices of raw materials such as copper, plastic, steel and many other commodities have continued to rise through this quarter. We have been able to pass on this price increase in some of our product lines. However, the margins have been impacted to some extent due to the lag in passing on the price increase.

Our export markets are recovering well with significant demand coming in, as the impact of the pandemic subsides slowly in the global markets. Export revenues have grown in this quarter. As the industry reopens fully, our growing export market will complement the domestic market to help us grow faster, giving an upbeat view for the next quarter.

The near-term market situation is still a little uncertain due to the onset of the third wave of pandemic and potential lockdown seen in many parts of India. But based on the demand we are witnessing and indications from various customers, we are optimistic for the medium term, and definitely optimistic about profitable growth in the long term. The company is well-positioned to cater to any demand from our customers and poised to take up new opportunities.

Now, we will come to our quarterly financial and business performance. During the first quarter, our revenues increased by 55.71% year-on-year to Rs. 148.98 crores from Rs. 95.68 crores in the previous corresponding period. Mainly, since the last year's first quarter was severely impacted by nationwide lockdown; moreover, strong order booking in this quarter for switch gear products also supported the growth.

The EBITDA for the quarter stood at Rs. 14.8 crores as compared to Rs. 9.59 crores in the corresponding previous period, which is a year-on-year growth of 54%. Q1 FY 2022 EBITDA margin stood at 9.95% which is a decline of 9 basis points compared to last year. The profit after tax was at Rs. 3.9 crores in Q1 FY 2022 as against Rs. 0.69 crores in the corresponding previous period Q1 FY 2021.

Moving on to the breakup of revenues as per the business divisions:

The industrial Switchgear division contributed 49.34% to the total revenues in this quarter. Our wire harness product has been growing ever since it was introduced in the market, mainly driven by newly acquired business from existing OEMs. While harness business alone grew 106% year-on-year in Q1 and FY 2022.

This year Switchgear division's EBITDA margin stood at 12.7% in Q1 FY 2022. The Wire & Cable division contributed 45.62% of our revenues in this quarter. It is a 24% year-on-year revenue growth in this division during the quarter. This division's EBITDA margin stood at 8.56%. The Building Products division has contributed 5% in this quarter. This business is only B2C business that we have. Consumer sentiment in the real estate market was relatively muted to till now, slowly we are seeing signs of recovery from this quarter. We expect the trend to improve in the coming quarters, which will help us increase our contribution from this segment.

The fourth is the Energy Management division. During the quarter, we have not received any new order from the government as there were no tenders issued during this period. We are hopeful that in the coming quarters we will be able to bag some new projects under this division.

On the export front, except initial fluctuations due to the lockdown, we are seeing steady growth, especially from the U.S. and European markets. Exports to the Americas grew 41% year-on-year and this quarter. Exports to Europe grew 175% year-on-year and this quarter. For this quarter, the export share of revenue was at 24%.

We are seeing strong demand coming in from U.S., Asia and Europe as well, from the domestic OEMs also, which should help us recover post the second wave of COVID. While the situation does remain slightly fluid and uncertain, especially in the domestic market, we expect things to be under control from the second quarter onwards. Our aim is to maintain and improve margins and ROCE and focus on our working capital cycle and remain competitive to capitalize on the opportunities arising in the future. Our joint ventures in the EV space reflect this vision to innovate and diversify our product portfolio and also stay ahead of the market trends.

I thank all the stakeholders of Salzer Electronics Limited for their continued support and faith in the company. And wish all of you good health. This is all from our side for now. I would once again like to thank everyone for your time and attention. We can now take questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. First question is from the line of Krishi Shah, an individual investor. Please go ahead.

Krishi Shah: Congratulations on good set of numbers. I have a couple of questions, the first that being in line with Kaycee Industries. Sir, what kind of synergy are we seeing with Kaycee Industries and has there been any tangible benefit in terms of revenue?

Rajesh Doraiswamy: Actually, Kaycee Industries, as I have been saying was our direct competitor for rotary switches, one of our products. And we are seeing a lot of synergies in that particular product between Kaycee and Salzer. On the manufacturing side, we are seeing a lot of cost savings for Kaycee. And on the market front, I think we have avoided direct competition in a lot of areas, so that is one thing. But unfortunately, as soon as we took over Kaycee in 2019, we only had four or five months before the lockdown came. And I think the market has been very uncertain after that. And Maharashtra has been directly been very badly impacted due to the pandemic. So, we are still not fully seeing the result of the synergies and the cost cutting, both in Kaycee as well as Salzer. But I am sure that

the acquisition of Kaycee is going to help both Salzer and Kaycee in that particular product to improve margins.

Krishi Shah: Okay. Sir, so in terms of what you said, do we have any specific target or market share that we want to acquire?

Rajesh Doraiswamy: No, I think there is no target of market share. But with the Kaycee brand in our fold, I think we are in a much stronger position in the market to compete with low cost brands, I would say, which we were not able to do when we were doing with only Salzer. So, with Kaycee brand in our portfolio, I think we are in a much stronger position to compete in a market where we were not able to compete otherwise.

Krishi Shah: Okay. The next few questions are in regards to what you said in your speech earlier, about the JV and EV market. So, could you please elaborate a little on these announcement about entry into the EV market, like what are the reasons that we entered into these new segments? What kind of returns can be expected? And is there any timeframe to that?

Rajesh Doraiswamy: We have always been wanting to get into EV market, I think we have announced this plan even a couple of years before that we wanted to manufacture EV chargers and we did them, the floor chargers. However, I think we foresaw that DC fast chargers are going to be the future whenever the EV market starts picking pace. So, for this, we were looking for partners who can come with good technology to make dc fast chargers. And that's how we identified this company, Kostad, and we got into joint venture with them to manufacture DC fast charging. So, that's one business that we are looking at. And the timeframe, I think it's very difficult for us to give a timeline and the growth projections as of now, because we see that EV market itself is picking pace for two wheelers only now. So, for four wheelers and other vehicles, I think it is at least another two years before the market really starts picking pace. So, that's when we will start seeing revenues for chargers. In the meanwhile, we are working with various government agencies, including EESL, CSL and various state governments to see how we can work with them to create an EV infrastructure using chargers.

On the other joint venture, which I think is a very innovative one, to make electric conversion kits mainly for auto rickshaws and also for buses and trucks. This, I think, is a new market that we are seeing, not many people in India are doing, though there are some local manufacturers in various parts of the country are manufacturing this. There is no company that is making this in a in a major way. So, we see this can be a good breakthrough in converting the existing auto rickshaws and buses to electric. So, here, again, I think difficult for us to give a projection as of today, we are still doing some analysis on trials and research on how this can take place and what will be the volumes that we will be able to achieve. So, maybe a couple of quarters down the line we will be able to give you a projection and timeline for these two businesses.

Krishi Shah: Okay. So, do we require a distant CAPEX in the company? Are we planning to invest any CAPEX as of now?

- Rajesh Doraiswamy:** No, as of now, all the investments that we will be doing will be through internal generation, no additional debt we are going to take. The CAPEX, I think we announced the total investment in both these ventures put together coming to around Rs. 17 crores is what we are estimating as of today.
- Krishi Shah:** Okay. And will this existing capacity be used in this or do we need to add any?
- Rajesh Doraiswamy:** This is completely new capacities that we have to have, because it's completely new product. We can use some of our facilities and some of the infrastructure that we have, but this will be a new product and a new set of this to be made.
- Krishi Shah:** Okay. So, do we have anything in mind for that? Are we looking at something as of now already in terms of manufacturing capacities, or?
- Rajesh Doraiswamy:** Yes, I think that is where the investment is going into, and that's what we are going to set up.
- Krishi Shah:** Okay. So, are there like key customers for these products under EV business? Have we already identified a few customers?
- Rajesh Doraiswamy:** Yes, for both businesses we have identified a few customers and we have already started doing trials.
- Krishi Shah:** Okay. And sir, are we competing with some existing players already?
- Rajesh Doraiswamy:** Yes, on the EV chargers we have competitors, we have companies like ABB, Delta, even Siemens is into chargers. And we also see companies like Ather making chargers for two wheelers. So, we have competition in that space.
- Moderator:** Thank you. The next question is from the line of Kiran Nayak from Modi Fincap. Please go ahead.
- Kiran Nayak:** Any plans of inorganic growth?
- Rajesh Doraiswamy:** We always look for opportunities, but there is nothing in the agenda right now.
- Kiran Nayak:** Okay. And have you taken the advantage of the PLI scheme of government?
- Rajesh Doraiswamy:** No, our products are not covered under the PLI scheme. I think the new ventures will be covered, so we will be taking advantage of that for the new EV products.
- Kiran Nayak:** And what is our market share in products we deal in to?
- Rajesh Doraiswamy:** It's very difficult to give a market price for the products, because we have 15 different products. I think each product is having different market price. So, it is very difficult for us to give a total market price for all the products.

- Kiran Nayak:** But still, can we predict a 5%, 10% share we have, or more than that?
- Rajesh Doraiswamy:** I think a couple of products we already have close to 20%, 25% and rotary switches we must be having 35% with the acquisition of Kaycee on the market share. And all the rest of the products, I think we should be between 5% and 7%.
- Moderator:** Thank you. The next question is from the line of Aniket Redkar, an individual investor Please go ahead.
- Aniket Redkar:** Congratulations on the good set of numbers. Sir, I have a couple of questions. Sir, this rise in revenue in quarter by 55.7% Y-o-Y, so which factor has contributed the most for rise in revenue?
- Rajesh Doraiswamy:** I think we should accept that the last year first quarter was a washout quarter; it was a lockdown quarter so we had a minimal revenue. So, that's one reason that you are seeing a very high growth. But even otherwise, I think this quarter also had a one-month lockdown across various parts of the country and which also affected the revenues. Otherwise, we could have done much, much better in this quarter. Secondly, I think as you said, the Industrial Switchgear business has contributed very well this quarter. Overall, I think we did around Rs. 74 crores in Q1 for Industrial Switchgear business, which even on a normal basis is 15% growth. That is the business that is growing well now this quarter.
- Aniket Redkar:** Okay. So, next question, Switchgear and Building segment if you can see, has doubled in revenue during this quarter. So, which factors are driving the growth?
- Rajesh Doraiswamy:** I think the general market has improved across the globe, our exports have grown. We have got 24% share of exports which is 4% higher than the normal exports that we have. So, that's also one of the reasons why Switchgear business is growing at a faster pace. And also domestic OEMs business have picked up very well, the demand is very robust.
- Aniket Redkar:** Okay. Regarding the same question related to the Building division. As you mentioned, real estate is showing a sign of recovery, so what do you envisage for the Building division in this and next quarter?
- Rajesh Doraiswamy:** I would say that we have not really done very well in the Building division this quarter, though the sale have doubled compared to last quarter, that's mainly because last quarter was a bad quarter. Otherwise, we have not really performed very well in the Building segment division, but we expect the market sentiments to improve going forward.
- Aniket Redkar:** Are we chasing for the new clients as the sector reopens?
- Rajesh Doraiswamy:** Yes, I think new clients, existing clients, both we are chasing. Even the existing clients' off take has reduced relatively. So, I think the second quarter or third quarter onwards this segment for us should do very well. We are aiming for at least 7% to 10% share of revenues from this division.

- Aniket Redkar:** Okay. Sir, raw material expense if we can see as a percentage of sales, decreased slightly Y-o-Y, leading to improved gross margin. Is this due to the successful passing on the price hike to the customer?
- Rajesh Doraiswamy:** No, I think this slight fall is mainly because of the share of revenues. I think when we have a higher share of Industrial Switchgear revenues coming in; the raw material consumption percentage falls a little bit. But otherwise, the price increase is still not fully passed on, we are still seeing from impact, at least 1% to 1.5% impact on our margins because of the price rise, which I think will get offset over the next two quarters.
- Aniket Redkar:** Okay. So, sir, employee expenses also grew Y-o-Y by 52.7%, so is it just because of the lower labor charges during this lockdown?
- Rajesh Doraiswamy:** The employee expense didn't grow; I think this is our normal expenses. But last year first quarter we had lockdown, so the employee cost during that period was low. That is why you are seeing a higher expenses this quarter. But otherwise, this is our normal expense.
- Aniket Redkar:** Okay. Sir, operating cost also we can see there is an increase by 74.2% as well as percentage of revenue, leading to contraction in EBITDA margin. So, what factors have led to this increase? And what do these expenses comprise of?
- Rajesh Doraiswamy:** Again, the comparison to last year first quarter is not very correct, because last year first quarter it was a complete lockdown and we had very less fixed expenses. We actually had no such fixed expenses. But this year was a little different because it was a partial lockdown across different parts of the country. We were operating very partially, so we had to undergo a lot of fixed expenses, but at the same time, we were not able to see full revenues coming in. So, that is why we see that other expenses as a percentage to the revenue have gone up by 1 percentage point. So, as I said, 1 percentage here and at least another 0.5% in raw materials, together, 1.5% is the effect that we are seeing on the EBITDA.
- Aniket Redkar:** Okay. So, sir, again related to the Building division, I just want to know more that what would be your target share of revenue from the Building division? And what level of margin do we get in this business as a future point of view?
- Rajesh Doraiswamy:** We should get to Rs. 100 crores revenue target for this division, maybe this year we will be closing by between like, I would say, Rs. 50 crores as compared to last year's Rs. 35 crores. So, hopefully next year we want to do Rs. 100 crores on this business, which has been our aim for at least, I would say, last two years; but unfortunately, we are not able to get to that level. So, hopefully, I think from this year onwards it will be a turn around.
- Aniket Redkar:** Okay. So, could you throw some light on the Energy Management business, what is your future expectation from this division? Because as we can see, not much tender we are getting right now, but is there any opportunity you can see?

- Rajesh Doraiswamy:** Not very much, I think I am not very optimistic on this division as of today. Because it's a very, very fluid business, sometimes because there are also a lot of projects which we have already taken up through EESL is also stalled because they are due to lack of funds from the government. So, I am not very optimistic on the Energy Management business as of now. And all our future projections are not including this division's revenues.
- Moderator:** Thank you. The next question is from the line of Chirag Patel, an individual investor. Please go ahead.
- Chirag Patel:** Congratulation for the good set of numbers. I have a question, like we incorporated several entities during this quarter, mainly focusing to EV side, I mean, electric vehicle side. So, from where can we expect the production and all should start and come into stream?
- Rajesh Doraiswamy:** We expect the production for these two ventures to start somewhere first quarter next year, March-April 2022 is what we expect this production to start and revenues to come in.
- Chirag Patel:** And sir, what product mainly we are targeting, other than battery?
- Rajesh Doraiswamy:** One is electric vehicle charging stations, the other one is electric conversion kits for autos and busses.
- Chirag Patel:** So, like even ABB as you mentioned, and Siemens also in this segment, right?
- Rajesh Doraiswamy:** Yes, ABB and Delta are the two companies currently making this type of chargers here, the fact chargers.
- Chirag Patel:** Tata Power also announced that they are partnering with one OMC to set up kiosks at their existing petrol pumps, fuel pumps.
- Rajesh Doraiswamy:** Tata Power doesn't manufacture chargers, but they buy chargers from either of these two companies, ABB or Delta.
- Chirag Patel:** So, from our strategic partnership point of view, which vendors we are looking to tie-up with, similar to like what Tata Power is doing?
- Rajesh Doraiswamy:** We are looking at various options, I think the government is having a lot of plans to set up or develop the EV infra. So, they have promoted a company called CESL, which is a subsidiary of EESL. So, CESL is exclusively looking at EV business. So, we are talking to them to get partnered with them in their tenders. And we are also talking to various other state governments, Tamil Nadu and Karnataka to be specific, to see how we can implement EV charging infrastructure along with the state governments. Apart from that, we are looking at various other customer base, I think there's a lot of opportunities in charging stations basically. We are also approaching Tata Power to see if we can have a business tie-up with them.

- Chirag Patel:** The follow-up to this question only, like 10, 12 years back also one boom had come for electric vehicle, particularly in two wheeler side, but it has not gathered that much momentum and succeeded well. So, what is this time different story compared to the previous momentum?
- Rajesh Doraiswamy:** I think the only thing that is stopping people to buy an EV car or a two wheeler is the range of the vehicle. See, whatever vehicles we had earlier, I think the range was a problem. And then also the mindset of where to get charged if vehicle stops in between, unlike the fuel bikes or cars, you can see petrol pumps across and there is no fear of range. So, once the fear of range is gone, I think this EV business will start picking up. And the vehicles that are coming today, both two wheelers as well as cars, are a much better quality and having much better range. So, now when we have the charging infrastructure setup across, I think, this EV business will start picking pace.
- Chirag Patel:** Okay. So, first this charging stations which you are talking about, like what normally it takes time to fully charge the average battery which any EV has?
- Rajesh Doraiswamy:** A car like for example Tata car or Hyundai Kona should get fully charged in less than 20 minutes, if we do it in the fast charger. It has a range of around 300 kilometers.
- Chirag Patel:** On lithium ion battery, right?
- Rajesh Doraiswamy:** Yes, on lithium ion battery.
- Chirag Patel:** So, how the future fuel system will look like? Because currently we also see some time queue in petrol pump or fuel station in certain places, I mean, in crowded places So, how they will manage in future, because if it takes 20 minutes, right, then how the traffic can be get controlled and visualization for future fuel station I am asking?
- Rajesh Doraiswamy:** I think it's too early to see how this will develop. But I can see that electric charging stations will be also a part of the infrastructure along with the fuel stations, I won't say that the combustion normal cars will just vanish and everything will be electric. I think electric will be also along with the combustion vehicles will be running, and you will see a lot of charging stations across various places, across restaurants, even in petrol pumps you might be seeing charging stations in future. So, I think it has to evolve in that manner. And going forward, this current 20 minutes may also come down with the onset of technology, I think with more research getting into this, this timing also will start dropping.
- Chirag Patel:** And other than this charging and this power conversion, are we looking to manufacture any other product or components for this EV industry going forward?
- Rajesh Doraiswamy:** No, not immediately, nothing to announce as of today.
- Chirag Patel:** And what percentage of revenue we are expecting to come three, four years down the line from these two ventures?

- Rajesh Doraiswamy:** I think we are projecting at least what each businesses should do, Rs. 50 crores to Rs. 100 crores. Electric conversion kit we are targeting Rs. 50 crores in three years, and charging stations I think we should target at least Rs. 100 crores in three years, if the business really starts picking up.
- Chirag Patel:** Okay. And what margin we expect?
- Rajesh Doraiswamy:** I think it will be too early for us to commit anything on that front.
- Moderator:** Thank you. The next question is from the line of Zaki Nasar, an individual investor. Please go ahead.
- Zaki Nasar:** Congrats on a decent set of numbers for a difficult quarter, I think Coimbatore, Tamil Nadu was pretty bad. Sir, last year, we did around Rs. 630 crores on a consol basis, considering that things are opening up and we have our infra in place for growth, do you think that we can have a 15% growth over that figure in the current year on the top line basis? That is question number one.
- Question number two is, actually these tie-ups which you had with both these companies for the EV infra or EV chargers, do you think that Salzer as a core company will get some overflow of orders from these things like wire harnesses and stuff like that? Thank you.
- Rajesh Doraiswamy:** Thank you, Mr. Zaki. Yes, I think we will definitely get the competent business from manufacturing of these charging stations as well as conversion kits. Particularly, I think wire harness, and some electrical components that will go into these products. Yes, but that is not going to be very major. On your other question on what kind of growth you are seeing? Yes, I think 15% growth over last year is definitely possible, that's what we are targeting. Actually, we are targeting more, but at least 15% growth is what we are looking at.
- Zaki Nasar:** And sir, what would be the debt level at the end of the year, would they remain the same considering we are going in for a small expansion and stuff like that? So, I guess that they will remain the same, right?
- Rajesh Doraiswamy:** Compared to last year first quarter the debt have increased, but we are maintaining in the same level like March 2021. And I expect this to remain at this level or go down going forward. Because we are not doing major CAPEX for these two ventures.
- Zaki Nasar:** Sir, what about the input prices, Mr. Rajesh? See, you are a direct buyer, so you have a feel, so do you think these will continue to be strong from things like plastic to copper to everything? Or do you think this is a temporary supply constraint?
- Rajesh Doraiswamy:** I definitely think that it is going to be temporary, but temporary in the sense how long is a question that we are all looking at. For now, I think this is going to remain high. And that is why we have decided that we will raise prices and we have started doing that since last January. So, hopefully, prices will go down and that will be an advantage for the company. But I don't think that's going

to happen in this financial year at least. For now, I think these increased prices are going to remain like that.

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

Rohit Ohri: Good to see the margins coming from the Switchgear business and the new initiatives that you have started. My questions are related to both the entities, Kaycee as well as Salzer. Now, for Kaycee, what sort of opportunities do you see or any sort of guidance that you would like to share for the business in terms of the operations and the new products that Kaycee must be working on?

Rajesh Doraiswamy: As I mentioned, I think as soon as we took over Kaycee, even before we started consolidating it went on a lockdown, and it has been very unstable after that, the last full year. So, we did that on 23 crores in Kaycee last year, we have a target of Rs. 30 crores, Rs. 33 crores for this year for Kaycee products in India. The main objective of acquiring Kaycee for Salzer is to improve margins for both Salzer and Kaycee wherever we were competing directly. So, that is a synergy that we are working on and hopefully we will achieve that in this financial year. And we will see margin improvements both at Kaycee level and at Salzer level four rotary switch businesses. And secondly, as I mentioned just previously in this call, I think with the Kaycee brand, we are at a much better position to compete with the other low cost brands in the market. And that is the confidence that we think that we will be able to grow Kaycee at 20% going forward.

Rohit Ohri: Sir, when he says this low cost brands, so how does it blend in with the margins? I mean, like will Kaycee be able to come to the margin level or what's Salzer has a blended margin of around 10% to 12%?

Rajesh Doraiswamy: This business, the volumes actually gives us to be a better cost manufacturer. So, if we have more volumes, I think the cost actually comes down. In fact, actually the cost of manufacturing at Salzer is actually lower than cost of manufacturing of Kaycee. But unfortunately, because we are a brand leader, we are a technology leader, we are also a price leader in that particular market. So, we will not be able to reduce our price and compete with those brands which are competing at the lower end of the market. So, we needed a brand to go and get those businesses, that is where the Kaycee comes in and helps us.

Rohit Ohri: So, what I understand is the streamlining of the cost is slightly difficult for Kaycee, but the volumes are the factor that can absorb the fixed costs?

Rajesh Doraiswamy: Right.

Rohit Ohri: Okay. And any new products that Kaycee is working on or you want to share the product pipeline of Kaycee?

- Rajesh Doraiswamy:** The company is working on not new products, but addition to the existing lines, we are working on that. And I think this year it will be added to those products. It is not completely new product but a extension of the existing range.
- Rohit Ohri:** Okay, it's a catalogue product then, are you trying to say that?
- Rajesh Doraiswamy:** Yes, correct.
- Rohit Ohri:** Okay. When we speak about the passing of the prices, which you already eluded to the previous participant, the passing of the prices generally takes how much time in terms of maybe quarter or so or two quarters?
- Rajesh Doraiswamy:** Normally it is a quarter, but this time it has been very, very unstable, because the prices have been going up every month and every quarter. So, we couldn't predict how much the price is going to go up and how much to increase. So, we have increased, the prices have gone up again; we have increased again, but prices have gone up further. So, we have to do a third increase.
- Rohit Ohri:** So, these revision of prices that we have probably with the OEMs, so is this half yearly basis or on full yearly basis? Or what is the current scenario?
- Rajesh Doraiswamy:** Normally on annual basis, sometimes two year basis. But whenever commodities change, we are allowed to go and request for a new price.
- Rohit Ohri:** Okay. So, currently, is it fair to assume that quarterly is the trend that we are following for price hikes?
- Rajesh Doraiswamy:** Yes.
- Rohit Ohri:** And in this time of like four months or so, have you been able to take any price hikes?
- Rajesh Doraiswamy:** We have done two prices rises, I think I have mentioned this even before last quarter call, we have done two prices rises so far.
- Rohit Ohri:** Okay. And in terms of order book and the order intake, if you can share that number for Salzer.
- Rajesh Doraiswamy:** We don't work on long order books. I think it's normally on a month-on-month, four week to six week delivery, that is how we work. But overall, we see strong demand coming from all sectors.
- Rohit Ohri:** Okay. And if you would like to share the capacity utilization of both the plants, Kaycee as well as for Salzer.
- Rajesh Doraiswamy:** We are at around 70% capacity for Salzer in all plants. And Kaycee will be much higher at around 75% utilization.
- Rohit Ohri:** And any issues or any one-off that you see from the receivables, any defaulters, anybody as such?

Rajesh Doraiswamy: No.

Rohit Ohri: Sir, on the new business initiatives which you have started working on, if you can just explain a little bit more on the business which is related to the kit that you spoke about, the conversion kit. So, will this be completely for the electric driven vehicles or are you looking at the hybrids in this scenario?

Rajesh Doraiswamy: No, this is not both what you said, you see a lot of buses and auto rickshaws in the road, the passenger auto rickshaw, they are all run either by petrol diesel or CNG. So, you there are still a lot many petrol and diesel driven auto rickshaws. So, you give a kit to that auto shop where you remove their petrol engines and you fix this electric kit, so you convert the petrol auto rickshaw into an electric auto rickshaw. And similarly for a bus, remove the engine, fix the kit and convert a diesel bus into an electric bus.

Rohit Ohri: Okay. So, in this kit, you are trying to make use of the wire harness part of the business, is it fair to assume that?

Rajesh Doraiswamy: Correct.

Rohit Ohri: Okay. Sir, in terms of competition for these kits for three wheelers and then for the buses, do you feel that the competition from China would lead to partial overcapacity? And then it might suppress the margins from whatever we start from in the future?

Rajesh Doraiswamy: Yes, I think competition from China is there for all products, definitely, because Chinese started making kits at least four, five years ago. But we don't see a major issue because of that, because we will be competitive, which we are already competing with Chinese companies for our existing products. So, I don't see anything different in this business also.

Rohit Ohri: Okay. So, the fear of the blended margins coming below 10 or something is something that you have already taken into account, that you will not work for a product if the margin is taking a hit, is it right?

Rajesh Doraiswamy: Correct.

Rohit Ohri: Okay. And you also mentioned that the opportunities for the electric vehicles currently is low in India in terms of the four wheelers. But then if we look at the export opportunity for the kits as well as the other equipment required for the E-vehicles wherein you have made a joint venture, don't you think that we can export more rather than focusing on India? And when India's infrastructure develops, that is the time when we can come and we can kind of get a market share?

Rajesh Doraiswamy: You are absolutely right, I think that is why we have the rights to sell in the Far East and also the Middle East. So, we will definitely explore that business opportunity, you are right, it's definitely a good idea.

- Rohit Ohri:** So, the exports from current 25%, 40% we will try to go up and ratios would change in next one or two years?
- Rajesh Doraiswamy:** I mean, it will not directly reflect in our books, because they will be joint ventures, separate companies on ground. Consolidated basis, yes, what you say is right.
- Rohit Ohri:** Okay. Sir, so in two, three quarters ago we had a vision of around Rs. 1,000 crores in next two, three years or so, so is that vision still intact?
- Rajesh Doraiswamy:** It is still intact and we are on target, I think this year, as I just mentioned into Mr. Zaki, that we will be close to around Rs. 700 crores is what we are planning to achieve. If things are good and if we don't see further impact due to this pandemic, maybe we will get to a better sales than Rs. 700 crores also. And I think in the next one or two years I think we should be at Rs. 1,000 crores.
- Rohit Ohri:** So, that translates into around 20% to 22% CAGR growth, so you have been very conservative with Rs. 700 crores right now.
- Rajesh Doraiswamy:** Yes. I am talking on a standalone basis, but on a consolidated basis we should be at around Rs. 730 crores, Rs. 740 crores.
- Rohit Ohri:** Okay. And this is not including the new ventures into the JV with the two new players.
- Rajesh Doraiswamy:** I don't think we will see revenues in this financial year, but I think we should start seeing revenues from those businesses in the next financial year.
- Moderator:** Thank you. The next question is from the line of Karan Arora from Green Portfolio. Please go ahead.
- Karan Arora:** Congratulations on the numbers. Just wanted to ask like, in the conversion kits JV, what are the kind of end customers for us?
- Rajesh Doraiswamy:** I think the idea for us on the conversion kit is to tie-up with a workshops, the mechanic workshops, automobile workshops and automobile distributors and sell through them. Our target is the existing auto rickshaw owners; and in terms of buses, we are trying to go to government again to see if the transport corporations' buses can be converted. So, these will be the two markets that we are looking at.
- Karan Arora:** So, have we approached in terms of like conversion rates for the buses, have we approached the government?
- Rajesh Doraiswamy:** yes, we are approaching, we are talking to them. We are with them to listen to this, so we are going to do a further presentation to their technical teams, and we are also trying to do some trials.
- Karan Arora:** And on the DC charging side, do you have some sort of target as to how many on the capacity side for these chargers when you start the next year?

Rajesh Doraiswamy: Yes.

Karan Arora: What would be the capacity number?

Rajesh Doraiswamy: We are looking at least 100 chargers for first year we are looking at, that means the current year, but we are not projecting that in the revenue side. But we want to do at least 1,000 chargers the next year, average price of charger we are looking at around Rs. 6 lakhs, so that will be at least Rs. 60 crores business that we are looking at.

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

Chirag Patel: Sir, the EV system in developed nation like U.S. particularly and the Europe, is getting more strong momentum compared to India due to demographic and existing players over there. So, are we looking to export this product over there as well?

Rajesh Doraiswamy: Not to U.S. definitely, but to other markets we are definitely looking at exporting, and that is how the agreements we have signed. So, we are allowed to sell to any part of the world, except Europe where I think the partner is already there. So, all the rest of the world is free for us to sell and we definitely will see opportunities coming from Southeast Asia and Middle East. To U.S., we have not explored as of now, and we are not looking at that market right now. In my opinion, I think the size of the market in U.S. will be much larger than the European market.

Chirag Patel: Okay. And sir about conversion kit, as you mentioned that the average price of the charger is around Rs. 6 lakhs, so what can be the cost for the conversion kit in auto rickshaw and bus? Because I think like BRT system, which is bus rapid transit system, government is going to contract to electric companies which is supplying them the electric bus. But they are very costly at this moment, so the government have a good viability to convert the existing diesel busses into this EV, so what sort of price can we quote for conversion kit?

Rajesh Doraiswamy: Right now I don't have a cost for bus conversion kits, but for auto rickshaw conversion kits, right now the price is around Rs. 55,000, but we are looking to bring this down to around Rs. 40,000 once the volume picks up. So, it would be ideal to sell one conversion kit to an auto rickshaw for Rs. 40,000 where the auto rickshaw's running costs will come down from the current Rs. 5 to Rs. 6 per kilometer to less than Rs. 1 per kilometer. The running cost per kilometer, the existing cost to run an auto rickshaw per kilometer, including fuel and maintenance, is approximately Rs. 6 per kilometer. If it can get converted into an electric auto rickshaw, the running cost will drop to Rs. 1 per kilometer.

Moderator: Thank you. The next question is from the line of Kiran Nayak from Modi Fincap. Please go ahead.

Kiran Nayak: Sir, as on 30th June what is the promoter holding?

Rajesh Doraiswamy: Promoter holding is around 33%.

- Kiran Nayak:** In coming quarter promoter is trying to increase the stake?
- Rajesh Doraiswamy:** Yes, sir. We have plans, I think you will hear about the same.
- Moderator:** Thank you. The next question is from the line of Karan Arora from Green Portfolio. Please go ahead.
- Karan Arora:** Back again with the conversion kit, could you lay out like what are the parts of the conversion kit? What are the kind of parts that the conversion kits have?
- Rajesh Doraiswamy:** I think it's mostly mechanical parts along with the battery and the battery management system.
- Karan Arora:** And so the battery, are we going to be producing these batteries or acquiring them?
- Rajesh Doraiswamy:** No, we will be purchasing the batteries.
- Moderator:** Thank you. That was the last question, I now hand the conference over to Mr. Rajesh Doraiswamy for closing comments.
- Rajesh Doraiswamy:** Once again, thank you all for your great interest in Salzer Electronics and new businesses. So, I am looking forward to interact with you again in the coming quarter. Thank you very much. Have a good day.
- Moderator:** 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.