



“Salzer Electronics Limited Q2 FY-22 Earnings
Conference Call”

November 02, 2021



**MANAGEMENT: MR. RAJESH DORAISWAMY – JOINT MANAGING
DIRECTOR.
MR. BASKARASUBRAMANIAN – DIRECTOR,
CORPORATE AFFAIRS & COMPANY SECRETARY.
MR. MURUGESH – ASSISTANT COMPANY SECRETARY.**

Moderator: Ladies and gentlemen, good day and welcome to the Salzer Electronics Limited Q2 and H1 FY22 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. The 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 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 of Salzer Electronics Limited. Thank you and over to you, sir.

Rajesh Doraiswamy: Thank you very much. Good afternoon, everyone. And thank you all for joining us today to discuss the unaudited financial results for the second quarter and half year ended September 30, 2021. Pleasure speaking to you all again this quarter. I hope you all have been staying safe. I have with me Mr. Baskarasubramanian – Director, Corporate Affairs and Company Secretary; Mr. Murugesh – Assistant Company Secretary; and Bridge IR our Investor Relations team. 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 second quarter, I would like to share some of the recent developments and market scenario with all of you. COVID-19 pandemic has declined to some extent and 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 in lockdown, our team has been working hard and are in constant engagement with our esteemed clients and tracking the changing situation at various levels. During the end of first quarter onwards, operations gradually resumed to full capacity, as the restrictions were eased in a staggered manner by the authorities. However, as we have demonstrated during the previous year, even in such trying times, Salzer continues to show resilience and registered a good decent performance.

On the safety front, we have conducted four vaccination camps across all our plants for all of our employees. And we can say that at present 95% of our employees are vaccinated. We continue to follow all safety protocols during these trying times. 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 July, August 2021, we entered into two new joint ventures one with an Austrian company called Kostad and with another with an Indo-Austrian startup, E-March LLP.

Through our JV with Kostad, we will be manufacturing fast chargers for electric vehicles and related equipment and software. Kostad is a specialist in DC fast charging stations in Europe and is a renowned brand across Europe. With a technical know-how we shall be manufacturing EV chargers for Indian and Southeast Asian markets. To our JV with E-March LLP we will manufacture electric conversion kits for auto rickshaws, buses. We foresee a definite shift in automotive industry towards EVs, 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 demand picks up. The joint ventures have already been incorporated and necessary procedures are on track. Operations for both the JVs is expected to begin from Q4 of this year.

Coming to our existing product portfolio, the domestic dealer and retail market is recovering very 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. In fact, almost all our products in the switchgear segment have add volume growth across all sectors by about 20%. This quarter we have actually recorded our highest ever sales for one quarter. As forecasted prices of raw materials such as copper, plastics, steel, et cetera continue to rise through this quarter. We are gradually passing on this price hike. In some of our product lines, we have already increased prices by about 10% in the last six months. However, the margins have been impacted to some extent due to the lag in passing on the price increase. We are aiming for another price increase in the third quarter and if that happens, we should see our EBITDA margins back to about 11% to 12% by Q4 in this year.

Our export markets have also recovered very well with significant demand coming in as the impacts of the pandemic subside slowly in the global markets. Export demand is likely to be stable and positive as the industry reopens fully, our growing export market will complement the domestic market to help us grow at a much faster rate. Giving an optimistic view for the second half of this fiscal. The near term market situation is still a little uncertain due to the speculation of a third wave. However, based on the demand we are witnessing at present and indications from various OEMs and customers, we are optimistic about the medium term and long term. We are expecting strong growth in volumes at over 20% in the coming quarters of this fiscal, the company is well positioned to cater to higher demand from our customers and poised to take up new opportunities that comes our way.

Now coming to our quarterly financial and business performance. During the second quarter, our revenues increased by 30.04% year-on-year to Rs.194.81 crore from 149.8 crores in the previous corresponding period. Mainly due to the industrial switchgear products growing and also export markets growing mainly to the US market. Out of the 30% growth in this quarter 25% will be the volume growth and 5% will be the price growth. The EBITDA for this quarter stood at 18.41 crores as compared to 18.76 crores in the corresponding previous period. A year-on-year decline of 1.84%. EBITDA margin was impacted by volatility in raw material prices.

Q2 FY22 EBITDA margin stood at 9.45% a decline of 307 basis points mainly due to continuous rise in input material price increase, which is not stable and passing of input costs to customers is very difficult, which has impacted margin slightly. The profit after tax was at 7.46 crores in Q2 FY22 as against 6.58 crores in the corresponding previous period.

Now, coming to the half yearly results H1 FY22 in the six months ended September 2021. Revenues increased 40% year-on-year to Rs.343.78 crore. This was primarily due to strong

recovery in demand leading to higher volumes across several products under the switchgear segment. Increase in product prices also supported revenue growth. So, the volume to price growth will be 25% and 15% respectively, for the half year. EBITDA during this period was at Rs.33.21 crore. Growing 17.18% year-on-year. EBITDA margin stood at 9.66%, the lag in passing on the rise in raw material prices impacted the margins. PAT during this period grew 56.85% year-on-year to Rs.11.41 crore, while PAT margins were at 3.33%.

Moving on to the breakup of revenues as per the business divisions the industrial switchgear division contributed 54.18% to the total revenues in this quarter and 52.09% during six months. This division's EBITDA margin stood at 11.79% in Q2, FY22 and 12.17% for half year FY22. This is a reduction of approximately 250 to 300 basis points compared to the previous year's quarters mainly due to the input material price increase. All products under this division grew in this quarter, particularly the new products wire harness, and three phase transformers grew at 74.3% and 15% respectively year-on-year in Q2 FY22. The wire and cable division contributed 39.37% to our revenues this quarter and 42% during the half year. This is 8.9% year-on-year revenue growth in this division during the quarter, the entire growth has come only from price rise and we have not had much volume growth in this division for this quarter. This division's EBITDA margin has been steady at 7.2% in Q2 FY22 and 7.84% for H1 FY22. Now coming to the building products division, this division has contributed 6.45% in this quarter and 5.84% in six months, at Rs.12.58 crore for Q2 FY22 revenue, the division has grown by 58% year-on-year. The EBITDA margin stood at 2.86%.

The fourth is the energy management division. During the quarter we did not receive any new orders from the government as there were no tenders issued during this period. We are hopeful that in the coming quarters we'll be able to bag some new projects. Hence we are not showing any revenues under this division. On the export front except the initial fluctuations due to the lockdown. We are seeing steady growth, especially from the US and European markets. Exports to the Americas grew at 78% year-on-year in this quarter. Exports to Europe grew close to 50% year-on-year in this quarter, while that to rest of the Asian countries increased 92% year-on-year. For this quarter the export share of the total revenue was at 27%. We are seeing strong demand coming in from the US, Europe and Asia as well as from other domestic OEMs which should help boost recovery post the second wave of COVID. The situation has become quite stable as of now. However on short term, we are cautious given the speculation of the third wave of COVID-19. In this quarter, we have seen improvement in inventory and debtor cycle leading to improved working capital cycle by about 25 days.

Our focus is on maintaining and improving margins and ROCE while improving working capital cycle and remain competitive to capitalize on the opportunities arising in the future. Our JVs in the EV space reflect this vision to innovate and diversify our product portfolio and stay ahead of the market trends. 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 very 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. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is in the line of Anirudh from Nagoba Capital. Please go ahead
- Anirudh:** My question was on this composition of exports, I would want to know what constitutes is it standard products, how much is customized in terms of percentage, if you can just give me a broad idea?
- Rajesh Doraiswamy:** Okay. We do export two types of exports that the company does, one is our standard products to various dealers and distributors across the world. And we also sell standard and customized products to OEMs in the export market. OEMs include Schneider, ABB and GE these are the three major OEMs that we have in the export market, to all of them we are a preferred source and we export them to US, Europe and Asia. If you look at the breakup, I would say this quarter we are close to, this half year let us take we are close to 26% of the revenues are exported out of which I would say around 8% to 10% will be customized and 15% to 17% will be our standard products to the dealers and distributors.
- Anirudh:** Okay. And the other thing these OEM customers are these white label products or these are branded Salzer?
- Rajesh Doraiswamy:** Actually, these are Salzer labeled products, but they are not going to be sold as such in the market. The OEMs will buy these components, use them in their product and sell their product. So, whatever their solution in the market, ours will be an internal component.
- Anirudh:** So, the major growth that you're seeing is in the OEMs or in the dealer and distributor network?
- Rajesh Doraiswamy:** This quarter we have seen growth coming from both OEMs as well as dealer market, but going forward we see higher growth coming from the dealer market in exports.
- Anirudh:** Very nice. And second thing I wanted to know, what are the payment terms for these export orders and how would it affect working capital assuming there is fast growth and that would be constituting a larger and larger portion of our total revenue, so just give me your feeler there.
- Rajesh Doraiswamy:** Most of the OEM payment terms are between 90 and 120 days in the export market. And most of all the dealer payments are between 0 days to 60 days max.
- Anirudh:** Okay. And if the operator can allow maybe I can ask another question.
- Rajesh Doraiswamy:** Yes, sir you can always come back in the queue, yes.
- Moderator:** Thank you. The next question is from the line of Anket Rateka an Investor. Please go ahead.
- Anket Ratekar:** Sir, I have a couple of questions. Basically, first question is basically the revenue if you can see it contributing most to the 30.25% Y-o-Y so, what factor basically contributing most for this growth?

Rajesh Doraiswamy: There are multiple things that has come up even sometimes, we are also surprised on the kind of demand that we are seeing from OEMs and in general market. Our switchgear products, have actually seen significant demand growth, in switchgear products alone this quarter we have done around 105 crores which is the highest ever related compared to previous quarters. Mainly because of I would say as I said already 10% to 15% is the price growth we had out of in this quarter we had a 5% price growth and 25% volume growth. The main volume growth for this switchgear products has come from across sectors, particularly on the renewable sector and OEMs operating under the renewable sectors. And the machine tool division has grown very well and we have also seen growth coming from the power industry.

Anket Ratekar: So, sir as we can see the raw material prices are continually rising from last quarter. So, what kind of measures have been taken for this, has this cost not yet been passed to the end customer?

Rajesh Doraiswamy: Yes, without the price increase our EBITDA margins in industrials switchgear products would have been between 13% and 15%, whereas we are today at around 11.8%. So, I would say clearly there is a 2% to 3% price increase in the input cost has affected our margins. Even our gross profit margin if you see last year, Q2 was at 25.7% has dropped down to around 21%. So, to mitigate this price increase in raw material we have been doing price increase since January 2021, we have done price increases three times. Even though we have agreements with various OEMs we have still negotiated increased prices. But still we are not able to fully pass on the input price increase because the raw material prices have been fluctuating quite often in the last I would say six months it has been continuously going up. So, we are not really able to forecast what is the price increase and do our price pass on.

Anket Ratekar: So, we are not able to pass this price to customer directly, we are not able to pick up the exact price for the finished goods?

Rajesh Doraiswamy: Exactly, that's because we are we are not seeing where this input price increase is going to stop, it is continuously increasing, but we are planning for another price increase as I have said in my call in the third quarter. So, hopefully the input prices stabilizes and we will see more stable business environment going forward hopefully. But what we normally do is we pass on the price increase if this kind of a price increase happens we normally pass it on though there is a lag in the passing on.

Anket Ratekar: Got it. Sir our major two segments have been doubled, switchgear and the building segments, you can see, have been double in revenue Y-o-Y during this quarter, so, what is driving the?

Rajesh Doraiswamy: No, this one is mainly because of a low base I would say in the last year because of the COVID and secondly that we really see good demand coming from various sectors as I said earlier.

Anket Ratekar: Okay. As we can see recoveries coming up in the market. So, switchgear and building segment where do you see these two segments in the coming quarter, in terms of the growth?

Rajesh Doraiswamy: Again, I mentioned this in the call we definitely expect a minimum of 20% volume growth in both these segments.

Anket Ratekar: Okay. So, can you give a brief about this JV announcement and entry into the EV market, basically what was the reason to enter this new sector and what kind of returns can be expected from these segments?

Rajesh Doraiswamy: It will be a little bit too early for me to talk about the returns but the concept, the idea was to enter the EV market, EV space. So, what we could do in the EV is a lot of thinking and deliberation and discussions went on and we decided, we already have certain products that we sell into the EV like wire harness is one thing that we have started selling into the EV space. Apart from that, what we thought we could do, is something that we are looking at and charging space was something that is very connected with electrical and the components that we produce and we started, we wanted to build an EV charger, and that's why we got into the charging space. And then this conversion kit opportunity came to us and we thought okay, this is another space that we will be able to get into because it's a very unique and novel product idea of converting the existing fuel engine into an electric engine. So, these are the two joint ventures that we have formed and the idea is, we want to be in the electric vehicle space.

Anket Ratekar: So, how much CAPEX is the company going to invest in these ventures?

Rajesh Doraiswamy: For the charging it will be a total investment of 2 million out of which our share will be 26%, €2 million and ours will be 26%, the conversion kit Salzer investment will be 3 crores.

Anket Ratekar: Okay and who will be the key customer for this EV business?

Rajesh Doraiswamy: It's going to be open market, we are looking at multiple channels of selling this product, it's not a OEM product, it is going to be open market.

Anket Ratekar: Okay. Sir my last question, what kind of synergy are we seeing with Kaycee Industries now, has there been any tangible benefit in terms of revenue?

Rajesh Doraiswamy: Yes, Kaycee Industries this quarter also has done reasonably well compared to previous quarters, the company has grown by about 20% in volumes and on the intangible benefits I would say, Salzer and Kaycee both are benefiting in terms of pricing and the profitability, which we will see, this real intangible benefit of increased profitability is not being seen in the books is because of various other disruptions like the material pricing increases. Once things stabilizes, we will see a profitability jump for Kaycee as well as Salzer in the particular segment in the switchgear segment where at least 1, to 1.5% points in terms of EBITDA.

Anket Ratekar: Okay. So, is there any specific target in terms of the market share or revenue that we can expect from this acquisition?

Rajesh Doraiswamy: Actually, Kaycee when we acquired was doing a business around 20 to 23 crores and within six months of our acquisition came the lockdown and disruptions of COVID, one year was gone

and during the COVID year we were able to do a revenue of only around 22 crores which was down compared to the previous year. However, this year we are expecting the year to close with a 25% growth compared to the previous year. So, our immediate target is double Kaycee's revenue from where we took over at least in the next year.

Moderator: Thank you. The next question is from the line of Neha Jain an Investor. Please go ahead.

Neha Jain: Sir, firstly we see that the working cycle is improving so the debtor days has reduced. So are we taking any specific measures for the same?

Rajesh Doraiswamy: Ma'am definitely we have been continuously taking measures to improve our debtor cycles and reduce inventory. These are two things that we have been constantly doing for the last few years. Unfortunately, we were not very successful in that, but things have been better. So, we were able to reduce our debtor days at 85 to 87 days this half year, and this will remain like this or can go down by another three, four days.

Neha Jain: So, final two questions related to P&L, so there's been increase of 14% Y-o-Y in the three phase transformers. So, what exactly led to this increase?

Rajesh Doraiswamy: My opinion, 14% increase is not sufficient actually, we are looking at much faster growth in this because this is a new product for us. So we expect this product transformer to grow at 30%, 35% in the coming quarters compared to the previous years quarters, mainly because of the new product and we are approaching various new customers. So it is natural that the growth is going to be faster.

Neha Jain: No, I was saying can we expect 2023 to be like for it to perform better?

Rajesh Doraiswamy: Yes, definitely. If you look at our other new product, it has been growing at less you've seen it has grown at 74% year-on-year, this quarter. And even for half year it is almost doubled, 50% growth we have seen in the wire harness. So this is quite natural, because it's a new product and we are approaching various new customers towards this product and we are gaining business in that product.

Neha Jain: Right. So we can expect next year to be roughly around 35%, 40%?

Rajesh Doraiswamy: For these new products?

Neha Jain: Right for the dry transformers.

Rajesh Doraiswamy: Yes.

Neha Jain: Okay. And sir what are your views about the dry transformer business, how do we see that growing?

Rajesh Doraiswamy: We spoke about that, three phase dry transformer.

- Neha Jain:** Right. So basically that is going to be a next couple of years, two, three years we can see like 50%, 70% growth and that right?
- Rajesh Doraiswamy:** Yes, at least next year definitely we will see growth between 30% and 35% in that product.
- Neha Jain:** Okay, sure sir. And sir EBITDA margins, in switchgear segment have dropped like in this quarter. So what would be the reason for that?
- Rajesh Doraiswamy:** Our input material cost have increased by 5%, raw material consumption has increased by 5%. compared to the previous quarter, this is mainly because of the price increase. So, in spite of a 5% raw material price increase, our EBITDA margins have dropped only by around 3%. So that means we have actually saved costs by around 2% in other areas. So if we fully get the benefit of all the price hikes that we have done to our customers, in the next two quarters we will see our industrials switchgear products EBITDA margin going back to around 14% to 15% levels.
- Neha Jain:** Okay, sure sir. And sir my last question is regarding exports. So how much more margin do we get from exports vis-à-vis the domestic sales, and what will be the share of exports in our revenue for this half year?
- Rajesh Doraiswamy:** This half year we have done 26% export. And export margins are always 2% to 3% higher depending on the product and the country that we sell.
- Neha Jain:** Okay. So which will be our top exporting country?
- Rajesh Doraiswamy:** This year, our maximum sale has come from Europe, Europe has been the topmost country with 7% of this half year. The second has been US, not U.S.A, I would say the entire Americas, North and South America at 6%. And we have the others contributing the rest.
- Moderator:** Thank you. The next question is from the line of Anirudh from Nagoba Capital. Please go ahead.
- Anirudh:** I just wanted to know, if you have explored or if you've already implemented, vendor financing so that this particular thing can reduce the amount of debt it can take it off your balance sheet, like what are your thoughts on that?
- Rajesh Doraiswamy:** What financing is it?
- Anirudh:** I'm saying, the supply chain financing that banks offer for your, or you can call it dealer financing, that kind of?
- Rajesh Doraiswamy:** Okay. On the dealer financing front yes we do have started a program with certain banks for our dealers. But unfortunately, it is yet to pick up from our side and even if it picks up most of our dealer business will get converted, but not the OEMs.
- Anirudh:** So, that will take the debt off your balance sheet, right?

- Rajesh Doraiswamy:** Yes, that will remove the dealer revenues, dealer outstanding will get reduced.
- Anirudh:** Right. So that will make your working capital very efficient. So over the next two, three years, what's the roadmap there that you foresee in terms of adoption of using these facilities for dealers and things like that?
- Rajesh Doraiswamy:** We have already started a program for our dealers and we are working on that with the dealers to bringing all the dealers into this program. So we expect that over the next one, one and a half years, we should have majority of our dealer business coming through this channel financing, which will help reduce our working capital on this business.
- Anirudh:** Okay. And these OEM businesses whether it is in India or outside, these are open credits, or they're backed by some kind of LCA or something like that?
- Rajesh Doraiswamy:** No, most of the OEM business is open faced.
- Anirudh:** Okay, can you do some amount of discounting and have you figured out what's the cost of discounting these invoices and what would be the interest outgo if you do that?
- Rajesh Doraiswamy:** Yes, we have done, it's a constant process we keep exploring various opportunities, we discount wherever we have better cost with the customers,. So wherever it is possible we are doing that, wherever it is not we are not doing it.
- Anirudh:** Okay, so all in all put together over the next two, three years you definitely see the amount of working capital days becoming more efficient?
- Rajesh Doraiswamy:** Yes, our only challenge right now is the higher inventory days we are at around 95 inventory, inventory is at 95 days of the annual sale. So, if we can bring this down to around 60, 65 that is where the crux of better working capital. Yes, so, that will bring in at least 50, 60 crores of additional cash.
- Anirudh:** Inventory is primarily because of the amount of uncertainty that we are going through right now or is that like you just....
- Rajesh Doraiswamy:** Also, because of the growth that we have had and the additional customers that we have added, new products that we have added so, that's a combination of all this that has pushed this inventory up.
- Anirudh:** Okay and what is the amount of effect that you had on all the semiconductor shortage if at all it has affected you?
- Rajesh Doraiswamy:** It has not affected us directly, because we are not using that much of electronic or semiconductor based products, but it is definitely affected many of our customers with whom we have been dealing, so they have actually slowed down or pushed out the deliveries to some extent. I will

say not major so far. But if this continues for six more months, then we will definitely see some impact on our revenues.

Moderator: Thank you. The next question is from the line of Sanjeev Goswami from Fractal Capital. Please go ahead.

Sanjeev Goswami: I had some query on this industrial switchgear business of ours. Probably this question is probably replay only, but can you give some idea in terms of what exactly the industrial switchgear business is in terms of the size, industry segments, whom do we compete with, just some flavor in terms of how exactly the business works, the dynamics, the size of the business?

Rajesh Doraiswamy: it's a very, very broad question, I won't be able to fully answer you, but I can briefly tell you our industrial switchgear itself is a very wide broad name. Whereas we manufacture around 15 to 16 products under that, so the top selling products for us under the industrial switchgear segment is the transformers I would say the single-phase toroidal transformers then we make rotary switches, we make wiring ducts, wire harness, we make isolators, we make thermal blocks. So, these are the top five or six top selling products under this switchgear division. For you to make it simple, most of the products that we make will be used in a electric panel, so they are called panels components, companies like Siemens or ABB or L&T will buy these products to be used in their equipment or in their panel. Apart from that, these products or components also find use in various other sectors like machine tool, like the back of power industry, most of the power generation transmission distribution entire cycle uses all our products either in a new project or for maintenance. Similarly, all kinds of industries for maintenance or a new industry. So, this is the application of the product and this is the product that we make and coming to your next question and who is the competition for this, there are various competitors for each individual product if you take transformers there are different competitors in India in West, in the North and in the South. And if you take other products like I mentioned the rotary switches we have different competitors, but I cannot say one company which makes all of these products that is very difficult for me to, nobody is making all these products under one basket, different companies making these products and I don't see any listed company as a competitor to us as of now. And market again it is too wide for us to tell, but all our products put together we will be addressing a market of say 2000 crores at least.

Sanjeev Goswami: So basically saying the competition is also very, very fragmented. So very difficult to say who's the one competition that we can benchmark is right?

Rajesh Doraiswamy: Yes, correct. A few names I can tell are Connectwell industries, trinity touch, they're from Delhi and Bombay. C&S also to some extent is a competition, control & switchgear. So, these are some of the companies I can mention.

Sanjeev Goswami: C&S Electric is a much bigger company almost (+1000)?

Rajesh Doraiswamy: C&S is close to 2000 crore, they have apart from those products that we make they also have many other products that they sell.

- Sanjeev Goswami:** Okay and last question is, most of our business dealer and distribution driven or we do also have institutional one on one sales and OEM sales, because you are working with L&T for example?
- Rajesh Doraiswamy:** We do have a lot of OEM sales also.
- Sanjeev Goswami:** In the domestic business as well?
- Rajesh Doraiswamy:** Yes.
- Sanjeev Goswami:** Approximately how much will be OEM sir?
- Rajesh Doraiswamy:** The domestic OEM sale will be a little lower because most of the domestic sale happens through the distributors. Domestic OEM sale percentage of the total revenue around 15% will be domestic OEMs.
- Moderator:** Thank you. The next question is from the line of Ankit Ratekar an Investor. Please go ahead.
- Ankit Ratekar:** Sir, I have two question, one is related to the EV related products. So would we use the existing facility or expanding production capacity?
- Rajesh Doraiswamy:** Right now, we are planning to use our existing facility. But as and when the business picks up and improves, then we will be shifting or setting up separate facility for manufacturing.
- Ankit Ratekar:** So is there any impact on the production capacity of existing products?
- Rajesh Doraiswamy:** Not because of adding EV we are not impacting any of our production capacities
- Ankit Ratekar:** Okay. And sir second question, as far as energy management business is concerned, we are not getting any orders from the government till yet. So, is there any new product addition or is there any R&D, some research, why we are not getting order or any up-gradation in this segment?
- Rajesh Doraiswamy:** No, actually this energy management division is a division that we created to do business with the government sector, in terms of street light management.
- Ankit Ratekar:** Energy savers and the street light.
- Rajesh Doraiswamy:** Basically street light management. So, that is a segment that we have not got any orders from. So, that doesn't mean that we have not done any R&D or development of new products. We have done quite a lot of development, new product addition and things like that. But then those things have actually gone into our switchgear division. Only when we do something with the government, we bring the revenues into energy management division.
- Moderator:** Thank you. The next question is in the line of Jai, from Progressive Shares. Please go ahead.

Rohit: Actually, it's Rohit it's not Jai from Progressive Shares. Two questions, which are slightly critical as well. When we see the numbers you've done very well in the switchgear business. And traditionally, the margins are higher, but due to certain issues related to raw material, we are compromising on the margins. But do you think going forward as well, you will try to fetch more volumes or will you be compromising margins to get the top line?

Rajesh Doraiswamy: Sir, maybe the understanding maybe I didn't communicate it properly, there is definitely no compromise on margin to get the volumes here. The volumes are coming to us, but the problem or the challenge that we are facing is the price increase in the input cost, which is eventually going to be passed on to the customer, but there is always a lag. Normally this happens once in a year now we do a price increase and the next quarter everything is normal. But this has become a very unprecedented abnormal situation because the prices have been rising since January or even before that. So we are not able to see where it is going to stop. So we do a price raise every quarter but then the input cost again goes up. Again we do a price increase the input cost goes up again. So this has happened almost now three times in this year. So we are again doing a price rise that means we are passing on the input cost. For the reduction in EBITDA margin on the switchgear division is only because of the input, material price increase, and not because of any reduction in the price higher. So, I'm very confident that in the next, let's leave Q3, definitely by Q4, we will definitely see improvement in margins, because the full effect of whatever price increase we have done will start coming in Q3, Q4. So Q4, we will see definitely improvement in EBITDA margin percentage.

Rohit: In terms of months, what is the lag phase for replenishing these possibility of fetching the margins again?

Rajesh Doraiswamy: Two to three months is the lag normally.

Rohit: Okay. Sir in the previous con calls you mentioned that you were looking at getting the old clients back and one of them was Valeo and the other one was Eaton. So have you been able to get them on board and are they contributing to the exports revenue now?

Rajesh Doraiswamy: Valeo is a domestic customer, yes we have Valeo with us and Valeo has been a consistent customer in except for the pandemic time the sale dropped significantly, but they are back to normal levels. Eaton is an export customer with whom we have been developing certain new products, which we have already done completed, and we have started getting revenues. And that's also one of the reason why our revenues to US have increased considerably.

Rohit: Sir, when the exports are currently 27%, what is your ambitious target over the next two to three years to make export as what ratios?

Rajesh Doraiswamy: So, with the kind of growth that we are seeing if we can reach 30% of our revenues from the exports in the next one year, that's the immediate target that we have. That should be good enough for us for a company like us, because we were at around 20% earlier. So we already

increased this to around 24%, 25% stable. In my opinion, this year, it will continue at 26%, 27% our aim is to get to around 30% of the increased revenues next year.

- Rohit:** Okay. So the export order book, like how is it in terms of numbers if we can share that?
- Rajesh Doraiswamy:** Actual business doesn't really depend on order book. So we don't pick up orders for full year, it's always month-on-month orders and maximum delivery period is four to six weeks right now. But we have forecasts from our export customers in domestic OEMs, so based on that we get the difference.
- Rohit:** So, let me reframe it then, in terms of the visibility you are having visibility for the export orders for the next two quarters, is it fair to assume that?
- Rajesh Doraiswamy:** Yes.
- Rohit:** In terms of the business which is related to the wire and cables, do you think that generally because of the seasonality the second half will be slightly more stronger as compared to the first half?
- Rajesh Doraiswamy:** Yes, you're right, correct. Actually, the second quarter is always slow, but this year second quarter has been much slower even compared to our previous year second quarter, I would attribute that slow demand mainly because of the very high price of copper, the demand has actually dropped because the copper has increased the finished goods price and the consumption has actually dropped. But as you said Q3 and Q4 are relatively stronger quarters for wire and cable.
- Rohit:** Okay. And sir in terms of the total land bank that we have at all the plants, what is the total acreage that we have and if there is any scope for further expansion if at all in the EV segment?
- Rajesh Doraiswamy:** The total land bank that we have is around close to 30 acres in all plants put together and we have still sufficient land for expansion of our existing product portfolios. And for EV space right now we are utilizing our own space. For at least next one year we should be able to manage, but beyond that the EV space definitely needs its own space for building.
- Rohit:** And this 30 acres that we have that will not suffice for the EV expansion of one or two years or so?
- Rajesh Doraiswamy:** Don't really plan to utilize that space for EV it's a separate joint venture so we would like to build outside and we will use this space for our existing growth.
- Rohit:** Sir the rate at which you're moving right now, on a consolidated basis is it fair to assume you will close the year at around 750 to 800 odd crores?
- Rajesh Doraiswamy:** My expectation is that, but conservatively I would say we will reach around 730, 740 on the net level, but on the gross sales yes, we should definitely cross 780.

- Rohit:** So is it your commentary slightly cautiously bullish?
- Rajesh Doraiswamy:** Yes, I would say. Market has been very good, the demand has been quite strong, really unexpected, but quite strong. And I'm confident that it looks like it is not a pent up demand. It is sustainable.
- Rohit:** So, the green shoots in the CAPEX is indirectly protecting us and it is kind of getting us more demand from the situation is what you're saying?
- Rajesh Doraiswamy:** Yes.
- Rohit:** So, one last question is any thoughts on increasing the promoter shareholdings?
- Rajesh Doraiswamy:** Yes. There's definitely a plan in the mind of all promoters to increase it and you should soon hear the news.
- Moderator:** Thank you. The next question is from the Sunil, an Individual Investor. Please go ahead.
- Sunil:** My question Rajesh, is on just following our call for last couple of quarters. The way we are going with a 200 crore quarter and H2 we are more bullish than H1 of this year. So with that, as you already guided in the past 20% to 25% growth, plus we are going into two ventures which you mentioned that should contribute around 100 crore of revenue in FY23. So with that, I see that we can touch our target of 1000 crore next year. And if that happens, that's the one question and related to that is, if that happens with the operating leverage and the economies of scale, can we go back to around 12% of EBITDA assuming that the material prices do not go up?
- Rajesh Doraiswamy:** I really hope that there is no customer listening to this call. I'm very confident the material price increase that has happened in the last several quarters is definitely temporary. This is going to subside and it is going to start to go down. Maybe if not this fiscal definitely the next fiscal year it will definitely start dropping down so, that is when we will see a big impact on our profitability increasing because we will definitely not pass on the entire reduction to our customer. That's not happened particularly in the switchgear products. That has not happened in the past and it will not happen in the future. So, to answer your question straight. Yes, the EBITDA margins will definitely get back between 11% and 12% depending on the share of revenues of industrials switchgear and copper or wire and cable business. Definitely it'll be back to 11% and 12% next year. To answer your another question of reaching 1000 crores next year. Yes, I'm optimistic, but we will have to tread cautiously as of now, at least for the next three to six months to see how the pandemic situation is evolving. If things are all under control, I think yes, that is a real possibility that we should be able to reach that core.
- Sunil:** Okay, thank you. My second question is related to the new two ventures. You touched base on that during past calls as well, but again just to reconfirm again here. So these new businesses which we are entering into for manufacturing of chargers and the conversion kits, so are they accretive to our current EBITDA margin, substantially higher or same margins in that business line.

Rajesh Doraiswamy: Looking at it right now, I would say the EBITDA margins are definitely much, much higher than what our businesses are getting right now. We are looking at average between 11% and 12% on a standard quarter for our business. The new businesses that we're looking at should give us at least between 20% and 25% EBITDA margins, or even more.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Rajesh Doraiswamy for his closing comments.

Rajesh Doraiswamy: Thank you very much. And I thank you all once again, for your time and attention and your interest in the company. Looking forward to speaking to you on the next quarter results until then, wish you all a very Happy Diwali, happy holidays. Thank you.

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