"Salzer Electronics Limited's Q4 & FY21 Earnings Conference Call"

June 16, 2021

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Moderator: Ladies and gentlemen, good day and welcome to Q4 & FY'21 Earnings Conference Call of Salzer Electronics Limited. 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 and operating 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 Doraiswamy: Thank you. Good morning, everyone and thank you all for joining our Earnings Call to discuss the Audited Financial Performance for the Fourth Quarter and the Full Financial Year ended March 31, 2021.

I have with me, Mr. Baskarasubramanian – Director, Corporate Affairs and Company Secretary; Mr. Murugesh – Assistant Company Secretary; Savli Mangle and Rahul Trivedi from Bridge Investor Relations.

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 for the last quarter and financial year, I would like to share the Recent Developments and Market Scenarios with you. As you are all aware, the COVID-19 pandemic wreak havoc across industries during the initial months of this year and its impact still continues to be felt as the second wave continues. Even in such trying times, Salzer has shown tremendous resilience and demonstrated a decent performance.

The domestic dealers and retail market is showing signs of recovery from the COVID levels which reflects in our Switch Gear and Building segment business where sales are picking up pace. We are hopeful that in the new financial year, demand for these products will continue to gain momentum. Despite the sluggish period, we have been able to surpass the last year's quarterly performance for industrial switch gears which gives us an upbeat view for the coming year.

Moreover, the Wires and Cables division has seen a very strong demand which has helped us achieve higher volumes in the quarter as well as the full year.

Prices of raw materials such as copper, plastics, steel and every other material have continued to rise through this quarter. We have been able to pass on the price increase in some of the product lines; however, the margins have been impacted to some extent due to a lag in passing on the price increase to our customers.

Our export markets are showing signs of strong recovery with substantial demand coming in. Export revenue has grown this year and even more so in the last quarter. As the industry reopens fully, our growing export market will complement the domestic market to help us grow at a faster rate giving an optimistic view for the next financial year.

The near-term market situation is still a little uncertain given the ongoing second wave of pandemic and partial lockdowns in various parts of India. But based on the demand we are witnessing as of now, we are optimistic in the medium-term based on the indications from various OEMs and customers 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 opportunities coming our way.

Now, coming to our Quarterly and Annual Financial and Business Performance, we will first look at the Q4 FY'21 Performance. During the fourth quarter, our revenues increased by 43.4% year-on-year to Rs.189.7 crores from Rs.132.3 crores in the previous corresponding period, mainly on account of rise in sales of Wire Harness products under the Industrial Switch Gear division and a very strong growth in Wire and Cable division. EBITDA for the quarter stood at Rs.16.2 crores as compared to Rs.14.3 crores in the corresponding previous period, a year-on-year growth of 13% on account of higher sales. Q4 FY'21 EBITDA margin stood at 8.5%. The profit after tax was at Rs.7 crores in Q4 FY'21 as against Rs.9.1 crores in the corresponding previous period Q4 FY'20.

Now, coming to the Full Year Performance, as a result of a nationwide lockdown, the Q1 FY'21 business was impacted which has affected the revenues, EBITDA and PAT for the full year. Hence, the results may not be directly comparable with the previous corresponding year. For FY'21, our revenue stood at Rs.605.6 crores, up by 6.8% year-on-year. Strong demand for the Wire Harness products, Three Phase Transformers, Wires and Cables business, altogether has actually offset the impact of COVID-19 in the first quarter. EBITDA for FY'21 stood at Rs.61.8 crores compared to Rs.65.2 crores in FY'20, a decline of 5.2%, mainly due to increase in raw material prices. FY'21 EBITDA margin stood at 10.2% as against 11.5% in the previous corresponding period. The reason for the decline is the rise in raw material prices and also higher contribution from the Wires and Cables business. Profit after tax for FY'21 was at Rs.20.7 crores as against Rs.26.4 crores in the previous corresponding period. The main reason for the decline is during the last financial year, there was a substantial deferred tax write-back of Rs.4 crores which is not there this year.

Moving on to the breakup of revenues as per the business division, the Industrial Switch Gear division contributed 41.3% in this quarter and 41.3% for the full year FY'21 as against 45% in the last full year. Our new Wire Harness product has shown strong sales during the quarter ever since it was introduced in the market, mainly driven by newly acquired business from various existing OEMs. Wire Harness business also grew at 122% year-on-year in FY'21. Industrial Switch Gear division's EBITDA margin percentage stood at 12.6% in Q4 and 14.6% for FY'21. Wires and Cables division contributed 52.5% in this quarter and 52.8% for the full financial year FY'21 as against 47% in the last full year.

There has been overall increase in demand across all sectors for Wires and Cables. Price increase coupled with growth in volumes led to a 63% year-on-year revenue growth in this division during Q4. This division's EBITDA stood at 6.3% in Q4 and 7.7% for full year FY'21.

Building Products division has contributed 6.2% this quarter and 5.4% in FY'21. This business is only B2C business that we have. Consumer sentiment in the real estate market was relatively muted until now. But we are seeing signs of gradual recovery from this quarter. We expect the trend to improve in the next quarter which will help us increase our contribution from this segment to the overall revenues.

The fourth is the Energy Management division, contributing 0.5% to revenues in FY'21. During the quarter, we have not received any new orders 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 projects once the government starts to issue tenders.

On the export front, barring temporary fluctuations due to lockdowns, we are seeing steady growth especially from the US and European markets. Exports to Americas grew 21.2% and 40.8% year-on-year in this quarter and full year respectively. Exports to the Middle East and Africa grew 200% year-on-year in this quarter. For the quarter as well as the full year, the export share in the revenue is at 20% as against 18% last year. We also see very strong demand coming in from US and Europe as well as other domestic OEMs. With Q4 being a very good quarter on sales, we expect to maintain the momentum this financial year too. However, the second wave of the pandemic is impacting the logistics and business operations across India with various regions having partial lockdowns. Situation still remains fluid and uncertain especially in the domestic market. Here again, we expect things to be under control from Q2 onwards.

Our aim is to maintain margins and focus on our working capital cycle and remain competitive to capitalize on the opportunities arising in the future. In the long-term based on the recent budget benefiting the infra sector, we expect CAPEX to increase and thereby spur demand for all our products across various industries sector. Also, in addition to strengthening the revenue drivers, improving our ROCE and working capital cycle, is our core strategy. On the whole, we remain focused on our agenda to deliver consistent, profitable volume-led growth on a sustainable basis.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Sudhir Beda from Right Time Consultancy. Please go ahead.

Sudhir Beda: Sir, disappointment is coming from two quarters like one, are we sacrificing our margin to capture the business because if we study the peer companies, their margins are not affected in Q4? And second disappointment comes from the poor operating cash flow because of high receivable, our cash flow from the operation has gone down considerably. So, what is your view on that? Second question is we have made some Rs.200 crores of sales in Q4. So, barring the first quarter, those kind of run rate will continue in the current year? And margin guidance for the FY'22 if you can give because constantly we are seeing that our margins are not coming up to the level of 13%, 14%?

Rajesh Doraiswamy: You're right I think our Q4 sales run rate was very good, there are a couple of reasons for that; one, there was real volume growth in the Switchgear business which grew around 27% year-on-year and on the Wires and Cables, I think we grew around 63% but I would say out of that around 30%, 35% is mainly because of the price increase, so real volume growth will be around 25%. So, that's one of the reasons that we had a very high growth in that. So, barring that I would say Q4 is normally a very good quarter for our industry, We may not expect the same kind of a run rate of Rs.190 crores for the next three quarters or four quarters, but definitely at least 8%0 to 90% of this for the first three quarters and then growth from there again on the Q4 for FY'21. So, that's what we expect for FY'22. On the margin front, there are a couple of things that we have to see; one, extremely high contribution, 52%, 53% contribution from Wires and Cable which has actually pulled down the blended margins from around 10.5%, 11% to 8.5%. That is one reason. Secondly, the EBITDA margin of Switchgear industry itself has dropped for us this quarter from close to around 15%, 15.5% to around 13%, so that's a 2% drop in Q4 on EBITDA margins for Industrial Switchgear projects business. So, combined, this has actually pulled our EBITDA margins down though the absolute numbers if you see is around 16.5 crores compared to 17 crores in Q3. You may be right, I think some peers would have not reduced the EBITDA margins. I'm not sure how that's possible because across the board all raw materials have increased between 10% and 40% or 50% price starting September 2020 or October 2020, this price increase started fluctuating going up every month. At least on Wires and Cables division with a very slight lag of 15-days we were able to pass on the price increase in. But for all other materials in Industrial Switchgear division, the passing on can happen only on a contract basis or at a time. So, there is always a lag of one or two months before we pass on the price increase. So, the price increase was consistently happening since October, November until March. We already did two price increases in last financial year by about 5% and 5%. We have again done a price increase in June. So, with all these price increases we have covered the entire rise in raw material prices but there is always a lag. So, that is the reason that you see a drop in margin for Industrial Switchgear division. I am hopeful that in in Q1 FY'22 and Q2 FY'22 we will be back to between 15% and 16% EBITDA margin in Switchgears and 8%, 8.5% in Wires and Cables division which will again take us back to around 11.5%, 12% levels. On the operations side you are right, I think our working capital cycle has again declined compared to what it was around 150, 155 days last year to around 170. Main reason I think one is the very high sale that happened in the last quarter of last year which has actually pushed up our debtors by at least 10-15 days and also because of various COVID situation we had to do a little more stocking in the inventory. So, that has actually pushed our inventories up. But I'm hopeful and confident that we will be able to manage this and bring this down in the coming quarters.

Moderator: Thank you. The next question is from the line of Chirag Patel from Abhinav Shares. Please go ahead.

Chirag Patel: I have a few questions, like in Q4 the numbers which we posted excluding the export business what kind of numbers we received due to bifurcation between volume and value terms if you can provide?

Rajesh Doraiswamy: On the Industrial Switchgear business, we only had a 5% price increase, we had a 26% growth. So, we can say that we had a volume growth of 20%. And similarly Wires and Cables we had a 63% growth but if we leave apart the price increase we would have still had a volume growth of around 25%.

Chirag Patel: Which industry has mainly given orders in both two products at domestic level like Wires and Cables and Industrial, other than real estate I'm asking?

Rajesh Doraiswamy: I think our export business if you see this quarter has also doubled I would say, 50% growth we have seen. We had an export revenue of Rs.38 crores in this Q4 as against last year's Q4 of around Rs.24 crores. We have seen increase in demand from the domestic OEMs.

Chirag Patel: My second question is what was utilization in Q4 this financial year?

Rajesh Doraiswamy: Between 70% and 75% in all facilities.

Chirag Patel: What generally is the utilization in normal scenario?

Rajesh Doraiswamy: Wires and Cables we can go up to 90% and all other industries we can go up to around 80%.

Chirag Patel: When do you we expect this we will reach to this normal level again, I mean, from which quarter you are expecting normal production?

Rajesh Doraiswamy: I was very hopeful that from Q3, Q4 onwards it was normal continuing and we will continue the same trend but unfortunately from May 10th onwards lockdown here in Tamil Nadu and I think the rest of the country was from April, May. Looking at it from now I think from Q2 we will see some normalization.

Chirag Patel: As you mentioned in your remark that like in last six months you done price increase two times, right, so is there…?

Rajesh Doraiswamy: We did one in Q3 and once in Q4.

Chirag Patel: So, coming to that like is there any further scope to increase price in coming quarters?

Rajesh Doraiswamy: We have again done a small increase in June for Industrial Switchgear.

Chirag Patel: As you mentioned that the 15 days lag is there to pass to customer for copper. And you are also guiding that we will reach to the normal kind of margin from Q2 somewhere. So, like for Q1 what kind of margin one should expect because the asset utilization definitely will be down due to clients plants and all, So, like…

Rajesh Doraiswamy: Q1 I think is little uncertain because almost 45-days have been disrupted because of closure across India and also here in the manufacturing facility, but I'm hopeful that it will be definitely much, much better than Q1 of FY'21 where we had a major lockdown. So, I think on the top line we should be back to almost normal but may not be like Q4 of FY'21, but we will definitely be below that, but it will be as good as Q2 of last year or previous to that.

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

Vijay Sarda: Just wanted to understand two things from a broader perspective. Given the volatility in copper prices, as you rightly said, you won't be in a position to pass on that because you have always been able to pass on with the lag. Now copper now correcting, so will that be a reverse, so we will have a benefit of that coming to us and the price decrease what has to happen has happened with lag, so will that be a positive once if we see copper price falling from here on, first thing? Second thing, what is the mix we need to consider when we are looking at a broader perspective in terms of Cables and Wires because Wires as you rightly said is a higher single digit business for us in terms of margin whereas Switchgear is mid-teen kind of margin for us, what is the mix that we need to consider going forward because last quarter it got skewed much higher on the side of Wires because of the price increase and all that? Third, I just wanted to understand in the entire of our business, B2B how much as a percentage of sales? So, except for Modular Switches I think most of the business is B2B or in Switchgear we do some B2C also?

Rajesh Doraiswamy: On your first question I think I was about to tell that but then you brought up the right point. On the raw material price increase, normally I think on Wires and Cables we pass it on every fortnight, so whatever price changes we keep passing it on. If the price starts declining, again, we have to pass it with the same 15-day lag I think it will keep going like that. So, we will not be able to gain much on the Wires and Cables industry where we will be only able to gain margins by operational efficiency and increased volumes. But coming to the Industrial Switchgear division, including Copper or Plastics, Steel, Silver, whatever price increase, whatever is increasing we have passed on, but as you said when it starts declining, here I think we will have an edge of getting a little bit higher margin because we will not reduce to the same extent as the raw materials going to reduce in future. The raw materials already stabilized, it will start declining hopefully after Q2 of this year is what we all expect in the industry. And if it happens, we will definitely have to start passing on the benefit but not to the same extent of the reduction in material. So, definitely as you have rightly pointed out, there will be possibility of increasing the margins when the prices starts going down. Second, on the mix of Industrial Switchgear business and Wires and Cables business, we have been on an average at 45%, 45%, but these last two quarters have been very different because of the substantial price increase of copper. So, when copper prices increase, at the same volume our value of Wires and Cables business goes up and the share of business actually goes up. So, that is how it has increased the share of business. If at copper remaining at the same level, I think the share of business we have to see is between 58% and 42%, that is how we have to see this share. But from the company's point of view we don't really look at it that way, whatever be the share of business between Wires and Cables and Industrial Switchgear, we are focusing on how to maintain a 16% EBITDA on Industrial Switchgear division and an 8% to 9% EBITDA on the Wires and Cables business and continue to grow on both divisions at 20%, 25% year-on-year. If we are able to do that, I think on the absolute number side we will be able to easily grow the EBITDA numbers by 20%. Hope, Vijay, I have answered your question sir.

Vijay Sarda: Yes, yes. How is the B2B and B2C mix?

Rajesh Doraiswamy: On the B2C, as you said, I think the building product is one product I have. On the Switch Gears we have very little B2C, not a very major portion…

Vijay Sarda: Basically, 95%-plus business is B2B only?

Rajesh Doraiswamy: Yes, yes, correct.

Vijay Sarda: Last thing how's the overall Kaycee because i think Kaycee performances also dragged the performance on a consolidated basis if i compare because where the EBITDA percentage was lower compared to the overall average of our overall business?

Rajesh Doraiswamy: Kaycee, on the top line it has been flat because the COVID impact in Maharashtra has been much worse last year, but on the top line we have managed to do Rs.23 crores against Rs.23.5 crores the previous year. On the profits I think from previous year of Rs.2 crores it has declined to 1.1 crores, so there's a decline of almost Rs.1 crore in the profit before tax and also profit after tax. The main reason is again increase in RM cost. Otherwise, operationally we have been able to reduce all costs -- the employee cost, the finance cost, other expenses, everything we are able to cut down to this. If the pandemic issues are over I think Kaycee will start growing at around again 20-25%.

Moderator: The next question is from the line of Kiran Naik from Mody Fincap Private Limited. Please go ahead.

Kiran Naik: Why the promoter holding is below 40?

Rajesh Doraiswamy: Sir, I think promoter holding has always been between 30% and 34%. So, the promoters are looking at increasing the stake, we have been buying in the market in the last financial year; however, there has been some change in shareholding in the recent past. So, that is why you see a small decline; however, going forward in this financial year and next financial year, there is intention to increase the promoter state .

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

Raj Kumar V: I just have a couple of questions. The first one is on the revenue guidance, you mentioned to the previous participant that the revenue will reduce to somewhere like 80% of your Q4 for the first three quarters and then you'll see some growth in the Q4 of the upcoming year. So, is it fair to assume that your top line will be more or less similar to what you've done for the current year and with an EBITDA margin of about 11.5% to 12%?

Rajesh Doraiswamy: I think on the top line our guidance for FY'22 we are looking at a 20% growth from the current levels. We can safely assume that our EBITDA margins will be between 11% and 11.5%,

Raj Kumar V: Secondly, this Kaycee acquisition any plans of merging it with Salzer at some point?

Rajesh Doraiswamy: As of now there is no plans to merge Kaycee business.

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

Rohit Ohri: For Kaycee, will you make it a fully-owned subsidiary by the end of this year or will it be pushed to FY'23?

Rajesh Doraiswamy: It is already a fully-owned subsidiary with Salzer holding 75%. I don't think we will be able to increase the stake beyond this because of the regulations. If we make it 100% owned subsidiary, then we have to de-list and then that's a different decision that you have to take. I don't think there is any plans for it as of now.

Rohit Ohri: Sir, in terms of the export orders, what are the geographies where you are getting the orders from?

Rajesh Doraiswamy: This full financial year if you see we have grown very well in the Americas, the US business has contributed around 24 to 25 crores which is 40% growth on year-on-year and similarly we have got a lot of new businesses from SEZ and EOUs in India which has actually grown at 200% compared to last year. This is also a reason why our new businesses like Three Phase Transformers and Wire Harness are growing. I think that is the business that we are supplying to SEZs and EOUs which we consider it as dollar billing and we consider it as exports. These two areas are growing very well but we see strong demand coming in from Europe also because Europe was completely under lockdown in Q1 and Q2; however after Q3 it started picking up and we see a good demand coming in from Europe also going forward.

Rohit Ohri: Sir, can you put a number? Last time I remember you said somewhere around USD4 to USD5 million is the export that we were looking at with horizon of two, three years of course. In the current scenario does that still exist in terms of the order book?

Rajesh Doraiswamy: For FY'21, our total export revenues is at around Rs.121 crores compared to Rs.97 crores in FY'20. So, with the current trend around Rs.140, 150 crores is what we're looking at for FY'22.

Rohit Ohri: So, these orders are coming from Australia and New Zealand?

Rajesh Doraiswamy: Eaton is from US and from Australia, New Zealand, different companies. The revenues are ready to start to flow in for from Eaton and this Australia, New Zealand business. So, Q2 will be the first quarter where we will be seeing revenue from these companies.

Rohit Ohri: If you can mention the name, the old customers seem to be coming back and we see that value is showing quite a lot of traction in the market in terms of the electric vehicles and auto vehicles that are there. So, any contract that you would like to share in terms of numbers from where we are?

Rajesh Doraiswamy: This is regarding our automotive business? I don't think we right now have any business that is related to electric vehicle. We are still in the R&D stage. So, our business is primarily focused on other than electric vehicle, we supply to other automotive companies like Bosch and Value. These are the couple of automotive companies that we are into and we supply to them.

Rohit Ohri: In terms of the India market and the orders from the Government of India which should be relieved I guess in times to come, would you like to share some data on that in terms of the ICF, RCF or MCF?

Rajesh Doraiswamy: Railways business has been very subdued in FY'21 mainly because of the COVID. I think they have pushed all the orders that were given to us, they have not picked up any orders in FY'21. So, our business with railways, I don't have the figures but it's much-much less, I think it declined by more than 70%, 80% compared to the previous year; however we see that all the demand is being pushed to FY'2 and we expect FY'22 to be a good year for Railways.

Rohit Ohri: Anything from the PLI Scheme that is favoring us or maybe from the modified PLI Scheme?

Rajesh Doraiswamy: No sir, I don't think our products are covered under the PLI Scheme.

Rohit Ohri: In terms of the telecom, we had some relations with Jio and Indus Towers. So, nothing that is coming through from that horizon as well?

Rajesh Doraiswamy: We continue to supply our products and components to telecom industries like Indus Towers, Jio and various other tower companies but they don't fall under the PLI.

Rohit Ohri: In a previous conversation you said that with the balancing machines or in addition of around 1.5 to 2 crores you could double the capacity from around Rs.30-odd crores to Rs.50, 55-odd crores. So, do you see the customers demanding more and do you feel that this CAPEX which you had mentioned in the past would be coming into existence now to put the revenue to vision of around Rs.1,000 crores in times to come?

Rajesh Doraiswamy: We don't envisage any major CAPEX in this financial year also for next year because we have done enough CAPEX in the last few years and we are now ready to scale up this business whatever we are doing for Rs.1,000 crores with only minimal maintenance CAPEX for the next two years.

Moderator: The next question is from the line of Sriram Rajaram from Ratnatraya Capital. Please go ahead.

Sriram Rajaram: I have two questions. So, my first question is basically you sell to ABB, Siemens and Honeywell. So, basically what is the end output that's coming out of Honeywell and what do you supply?

Rajesh Doraiswamy: Honeywell actually manufactures a lot of products. I'm not sure what products they make. They also make a lot of sensors, panels, things like that. So, what we do to them is only components that they use in their panels, in their products and then convert, they sell into the market. We supply General Purpose Relays to their panels, we supply Wiring Ducts to them, we supply Wiring Management Systems to them.

Sriram Rajaram: Secondly, you mentioned our capacity utilization is already 70%, 75%. But you were talking about no major CAPEX in the coming year. So, I just want to get some sense on that?

Rajesh Doraiswamy: Actually the 70% capacity utilization in the Wires and Cables, we will be able to increase another 20% without doing any CAPEX because we can do a utilization of close to 90% in Wires and Cables because it's a continuous process business. On the Switchgear business, again, we can go up to around 80%, 82% capacity utilization. After that, as I said whatever maintenance CAPEX we are doing, we will be able to add capacities to our Switchgear business which we have been doing traditionally as and when the demand picks up.

Moderator: The next question is from the line of Neha Jain from Ertiga Wealth. Please go ahead.

Neha Jain: Sir, I have a couple of questions. First is could you throw some light in the future expectations from Energy Management division.

Rajesh Doraiswamy: Energy Management division, as I've been saying, for us has been a government-dependent business. We secured some large orders four, five years ago and e we have successfully completed that and we have handed it over to the corporation and we are right now not having any order backlog. Apart from that we secured some orders through EESL which halfway through after implementation has actually solved because of various internal issues of EESL. But for that I think we don't have any further orders as of now. but we are constantly looking at seeing what other governments are doing and whether we can secure any order. But due to the last one and a half years pandemic that's been happening, most of the governments have not been going on to any new contracts or tenders in the Energy Management side particularly on the street light side. So, we are not foreseeing major business coming in for the Energy Management in FY'22.

Neha Jain: My next question is regarding the Building segment. Revenue from Building segment has increased during the quarter as well as during the year. So, is this due to the revival in the real estate market and can we continue to see this trend?

Rajesh Doraiswamy: Truly speaking, in the Building Electrical segment, we are a much-much smaller play player I would say. And our revenues have been flat compared to FY'20 to FY'21 because the first two quarters we were not doing very well and the markets were completely closed. And then it started picking up. Q4 was a very good quarter. So, we were able to do almost Rs.12 crores of revenues in Q4. Looking at Q4 and looking at the way markets demand was there, we see definitely the demand coming back to the real estate sector and projects started to work again. so hopefully FY'22 for real estate will be good.

Neha Jain: Short term as well as long term borrowings have increased. So, have you taken any new loans?

Rajesh Doraiswamy: No, I think on the long term borrowing it has increased. What has happened is the new cable facility that we have installed, that term loan whatever we have been availing has come into the books in this financial year. And on the short term they've increased because as you see the debtor days and the inventory days have gone up. So, that is why the short term borrowings have shot up which has actually come back to the same March '20 levels in the first quarter of this financial year.

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

Rohit Ohri: Sir, some questions which are related to the future. So, in terms of the Salzer branded products for the export, if you can just take us through that, how is that part of the business doing>

Rajesh Doraiswamy: On the export, there are different brands that we're doing. If you want the percentage share, then I don't have the figure. We do OEM export, we do exports to Schneider's and GEs and ABBs, that is one export business that we do where everything goes on Salzer brand that get used in their products and get sold. There is also other business that we do in various European markets that we brand for our distributors. There are large distributors in US and Europe who buy it in their brand and resell it in the market. There are also smaller distributors in Middle East, in Africa, in Egypt, in East European countries where people buy in Salzer brand and resell. So, if you want to break up of this, then I don't have it right now but you can get it later.

Rohit Ohri: So, these dealer distribution business that has started picking up on the export front as well, right?

Rajesh Doraiswamy: Yes.

Rohit Ohri: The second question is related to the patented products. By when can we expect these to start contributing to the revenues?

Rajesh Doraiswamy: We already have one patented Rotary Switch that we have been selling for almost long time, 10, 15 years. Actually the patent itself is going to end I think this year. So, that's the long term that we already use. Then the rest of the products also are on different stages already in the sale at different levels. I don't know what answer you expect, but we are already selling some of the products that we applied for patent. And there are certain products that has not come into sale but as a technology we have applied for patents.

Rohit Ohri: In terms of the PCB business that is Printed Circuit Boards, do you wish to venture into that segment also or will we be happy with what we have right now?

Rajesh Doraiswamy: No, we are not looking at PCB right now.

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

Krisha Shah: I have a couple of questions. Could you please throw some light on the outlook for the next year and what kind of growth can we expect for the financial year 2022?

Rajesh Doraiswamy: We're definitely looking very optimistic for FY'22, we see a 20% minimum growth on the top line which means that at around Rs.710 crores to Rs.720 crores on the top line and with 11% to 11.5% EBITDA is what we are looking at for FY'22.

Krisha Shah: Are there like any new clients lined up in the domestic or overseas market?

Rajesh Doraiswamy: There are definitely new clients. Constantly we are lining up both domestic and export, talking to various people. As I already mentioned in my previous calls, we already secured a few clients in Australia, New Zealand and also in US with whom we're developing certain products which is already in the final stages, which we will see start seeing revenues from Q2 of this financial year.

Krisha Shah: My next question is regarding the Building division. So, what is going to be the targeted share of revenue from that division? And also what is the level of margin that we can expect from this business?

Rajesh Doraiswamy: We are looking at least 8% to 10% revenue share from this business in the next year, with 10% to 12% EBITDA margin, currently at around 5%.

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

Ankit: I have a couple of questions. So, if we can see the Switchgear division declined but Wire Harness shown a good demand. So, how do you see this business in the coming quarter as far as retail market and domestic dealer is concerned?

Rajesh Doraiswamy: We have almost had a flat growth in Industrial Switchgear business. It is a flat business only because the first quarter we had a negative of almost 50%. So, that actually pulled the Industrial Switchgear in the full year performance. Otherwise for the second half the Industrial Switchgear business actually was growing at around 20%, 26%. And the Wire Harness business actually grew at a much higher pace because it's a very potential product, we actually secured some new orders from our existing OEMs, so that's the reason that that business has doubled this year. Going forward, we see at least 25% to 30% growth in the Wire Harness business and again 20%, 25% in the Switchgear business.

Ankit: Sir, can we see the similar demand in the Wires and Cable division? And what are your estimate with respect to the revenue split?

Rajesh Doraiswamy: I think in Q4 as I already mentioned the Wires and Cables grew at 60%, that's mainly because we had a price increase of 35% and 25% volume growth. So, we will continue to see between 15% and 20% volume growth in Wires and Cables segment. At this copper price levels, we should expect 50% revenue share from Wires and Cables and 42%, 43% from the Switchgear division.

Ankit: So, as you mentioned the real estate is showing the sign of recovery. So, in our Building division, do we cater to the same client or targeting the new client also?

Rajesh Doraiswamy: Once we get a client I think we continue to do business with the same client for a long time. At the same time we also go and secure new clients. That's where we get the growth. But unfortunately in the last one year, we were not able to secure any new clients. So, we are constantly looking at getting new clients so that we start growing. That can happen only when the sector reopens fully and functions at a full capacity. Hopefully that starts happening from this quarter onwards.

Ankit: How do you see the demand from micro small industries in the coming quarters?

Rajesh Doraiswamy: So, far it's been very subdued because they have been closed in many areas. I think Industrial Switchgear business that we do to the electrical dealers actually goes into MSMEs. When MSME starts functioning, they will start procuring the products components from the dealers and the sub dealers. That is when we see our demand going up to the dealer business. So, far it has been very subdued, and we hope that picks up and complements our growth this year. My expectation I think it will be Q2 before things normalizes if the pandemic starts slowing down.

Moderator: The next question is from the line of Chirag Patel from Abhinav Shares. Please go ahead.

Chirag Patel: Sir, in year 2017 somewhere we gave a guidance of a Rs.1,000 crores turnover. So, I understand post that the economies were also in the slump mode for PCFC and slowdown in real estate and other sub sectors of economy. So, is there any further guidance on that front that any year you keep in mind that we want to achieve this turnover?

Rajesh Doraiswamy: Actually speaking FY'22 would have been our year to reach that milestone, but unfortunately last year has gone and even year before that the economy was not great. So, if everything goes well in FY'22, we should be close to around Rs.720, 725 crores on a pessimistic scale, optimistic scale I think we should be at around Rs.750 crores. So, I think FY'23, '24 is what we should be looking at a Rs.1,000 crores target.

Chirag Patel: FY'23 and FY'24 which you have given just now, is it more driven by the export business you are expecting or domestic…?

Rajesh Doraiswamy: It will be a combination of growth from all sectors both from export as well as domestic.

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

Rohit Ohri: One last question for the quarter under review. So, if there was no COVID and considering that we had a normal world what would have been your targeted turnover for this year?

Rajesh Doraiswamy: We should have been at least around Rs.670 crores.

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

Raj Kumar V: Just one clarification; the Rs.720 crores guidance that you give, that is for the standalone revenue numbers, right, not the consol?

Rajesh Doraiswamy: All the figures that I was talking about is standalone figures.

Raj Kumar V: Second question is any chance to optimize your finance cost because it's almost 70 percentage of net profit.

Rajesh Doraiswamy: We are constantly in touch with the banks for reduced rate of interest. We have already converted lot of finances to PCFC and then rates are down. Apart from that I think we have to be operationally efficient to bring the debt down so that our interest cost goes down, I think that is the next step for which we have to bring our debtors and inventory days down.

Raj Kumar V: Any guidance you can give for this Rs.21 crores number, do you expect the number to come down or it will stay flat?

Rajesh Doraiswamy: I expect that to stay flat at least for this year.

Moderator: The next question is from the line of Chirag Patel from Abhinav Shares. Please go ahead.

Chirag Patel: One clarification I required like as you mentioned you give guidance for standalone entity, right. You answered to a previous question that you are expecting a growth of 15% to 20%, is my understanding correct for Kaycee?

Rajesh Doraiswamy: Actually, Kaycee should be growing at 25% sir.

Chirag Patel: Did we introduce any product in that because when we acquired this entity, they have only one product in which…

Rajesh Doraiswamy: We have already started selling some of Kaycee's products in our channel and we have started selling some of our products in Kaycee's channel, we already started doing that.

Chirag Patel: So, this Kaycee industry is participating in export business, or it is just in domestic?

Rajesh Doraiswamy: 99% domestic.

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

Rajesh Doraiswamy: So, I once again thank you all for your time and consideration and the interest that you're showing on Salzer. Looking forward to interacting with you again for the next quarter's call. Thank you.

Moderator: On behalf of Salzer Electronics Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.