



“Salzer Electronics Limited
Q4 FY2020 Earnings Conference Call”

June 19, 2020



**MANAGEMENT: MR. RAJESH DORAISWAMY – JOINT MANAGING
DIRECTOR & CHIEF FINANCIAL OFFICER – SALZER
ELECTRONICS LIMITED
MR. BASKARASUBRAMANIAN – DIRECTOR (CORPORATE
AFFAIRS) & COMPANY SECRETARY – SALZER
ELECTRONICS LIMITED
MR. MURUGESH – ASSISTANT COMPANY SECRETARY –
SALZER ELECTRONICS LIMITED**

Moderator: Good day ladies and gentlemen and a very warm welcome to the Salzer Electronics Limited Q4 & FY2020 earnings Conference Call. Please note 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. 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 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 telephone. I would now like to hand the conference over to Mr. Rajesh Doraiswamy – Joint Managing Director of Salzer Electronics Limited. Thank you and over to you Sir!

Rajesh Doraiswamy: Thank you very much. Good morning everyone and thank you all for joining our earnings call for the fourth quarter and full year ended March 31, 2020. I have with me here Mr. Baskarasubramanian, Director (Corporate Affairs) & Company Secretary, Mr. Murugesh - Assistant Company Secretary of our company, Savli Mangle and Smit Shah 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 I discuss our quarterly and full year performance of the past year, I would like to spend some time on the past three months that has impacted the entire world. During the end of a fourth quarter we witnessed lockdown announced by the government to control the spread of global pandemic COVID-19 which resulted in shutting down of manufacturing activities across the country and the world. However, we have utilized this time to plan, fine tune, reexamine our goals and focus on our strengths on how we can build our company better.

Though the near-term market situation is extremely fluid and uncertain. We are quite optimistic on a medium term based on indications from various OEMs and our customers. We do expect that this year to be sluggish but we are geared towards any form of recovery that takes place and even a slight pickup in demand would benefit Salzer automatically.

The past year has been a tough one. As since August 2019 there has been a continuous slowdown in the economic activities in the country with no major capex happening across sectors. Also due to longer monsoon the demands are agri cables which is one of the major products contributing to our wiring cable revenues have remained constant with no major demand upticks, even the Real Estate industry has been having a tough time with a lot of inventory in the hands of developers, they are by slowing down the demand for building products of us.

Despite all this head wins and a shutdown during the last eight days in March we have been able to show a very modest growth in our revenues on account of industrial switchgear business which have shown a year-on-year growth of 10% as we have seen in increase in our exports to US and European markets last year.

Our Salzer branded products is also gaining acceptance in export markets and we have started to see fair bit of enquiries from various reputed players mainly from North American markets and are hopeful that we start supplying to them soon in this year. On the positive side, we have successfully completed the acquisition of 74.91% equity shares in Kaycee Industries last year which has now become a subsidiary of Salzer Electronics and we have appointed Mr. Raman as Vice President Finance at Kaycee Industries.

We have also successfully commissioned the lan cable plant at Salzer and the trial production has started. We have submitted samples to customer approval and for third party testing. So far we have seen good enquiries coming from both local and export markets for this product. We expect the revenues to start coming from end of this second quarter this year.

Now coming to our quarterly and full year financial performance, our financial for the current in past years have been restated as per Ind AS accounting guidelines. As a result to the nationwide lockdown declared in March, 2020, the net sales in the last 10 days of the fourth quarter and of the year, was lower than the same period last year. Due to this lockdown in March, we would have lost approximately revenues to the tune of Rs. 18 Crores to 20 Crores across all business deviations for the last quarter. The operations at all our factories have started in a phased manner during May and June with all requisite safety protocols being adhered to in a stringent manner wherever possible employees are working from home and necessary office connectivity is in place.

Now to the financials, during the quarter, our revenue declined by 14.7% to Rs.132 Crores from Rs.155 Crores in the corresponding period mainly on account of slower economic activities combined with lockdown announced in the last week of March and a lower demand across key business of wires and cables and building segment.

Our revenue for full year ended March 31, 2020 stood at 566.9 Crores compared to 559.8 Crores in FY2019 which is a year-on-year growth of 1.3%. This growth is mainly driven by the industrial switchgear business. During the quarter and full year, our exports contributed 18.1% and 17.2% respectively towards our revenue.

The EBITDA for the quarter stood at 14.3 Crores as compared to 16.9 Crores in corresponding previous year which is a decline of 15.3%. The EBITDA margin for the quarter was at 10.81%. The EBITDA for FY2020 full year grew by 2.4% year-on-year to

65.2 Crores from 63.6 Crores in FY2019 driven by increase in contribution from industrial switchgear business. FY2020 EBITDA margin stood at 11.5% which is an increase of 13 basis points as against 11.3% in FY2019.

The profit after tax was at 9.1 Crores in Q4 FY2020 as against 8.4 Crores in the corresponding previous quarter which is a growth of 9% and for full year FY2020 PAT grew by 10.2% to Rs. 26.4 Crores compared to Rs.24 Crores in FY2019.

Now moving onto the breakup of revenue as per the business division, the industrial switchgear division contributed 46.5% to the total revenues in this quarter and 44.8% for the full year FY2020. The wire and cable contributed 45% of our revenues this quarter a decline of 19% year on a basis on account of lower demand in the domestic market and for the full year this division contributed 47%.

Moving onto the Building Products Division, this business is the only B2C business that we have. During the financial year, the real estate market has been on a slower side and we are yet to see a pickup in demand that has impacted the overall industry. We hope that this changes in the coming quarters and will help us to increase the contribution from this segment to our overall revenues. This division has contributed 5.6% in this quarter and 6.2% for the full financial year.

The fourth is the Energy Management Division contributing 2.2% revenue in this quarter and 2.1% for the full year FY2020. This is an order book driven business and revenues have been driven from annual maintenance contracts of the previous projects that we have secured.

Finally, I would like to add that with all the recent happenings in our country and across the world on account of COVID-19 has had its impact on the business across segments. First thing the lockdown announced by the government resulted in shutting down of factories and manufacturing activities resulting in production cuts.

As explained earlier the situation is extremely fluid and very uncertain and it is highly difficult to predict and give targets for FY2021 though our internal target is to maintain the FY2020 performance in all aspects. To sustain stably is going to be our motto this year. We expect that our enhanced manufacturing capabilities and brand visibility among our customers will enable us to scale our businesses and customer connect.

Besides strengthening the revenue drivers improving ROCE and working capital cycle is also a part of our core strategy in fact I believe that this lockdown has given us time to revisit and reformulate our strategies and look within the organization to identify slippages and address them more efficiently and effectively. This unprecedented event has only

bought us closer, more motivated and even more determinant to achieve our long term goals with a very competent team in place we are confident of achieving the milestone we have set for ourselves. We are also constantly on look out for new opportunities and technical associations to strengthen and increase our product offering.

Overall, we remained committed to set agenda of delivering consistent, profitable, volume led growth, 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 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. The first question is from the line of Mukesh Savla from MN Savla and Associates. Please go ahead.

Mukesh Savla: Thanks for taking my question. Good morning everybody. Just would like to share that in spite of losing about 18 Crores to 20 Crores in last month if we add this 18 Crores to 20 Crores to our last quarter target still we are about 150 Crores for the year, so last year we did about 155 Crores and I think we were targeting at least about 15% growth on the topline so there seems to be substantial headwind or may be issues with our demand for our products or I do not know, can you please throw little more light on that why the topline is so poor and what is the level of operation of all our plants as of now?

Rajesh Doraiswamy: Actually good point. You are right, I think, we actually missed our even without lockdown we would have missed our targets for FY2020 and I think that has been the trend if you see since H1 except Q1 of FY2020 all rest of the quarters, I think we have been flattish or declining compared to FY2019. The main reason for this lower revenue is because of the extremely low demand in the wire and cable sector. For example, if you look at last full year, the wire and cable division contributed almost 272 Crores for us last year as against that I think we have done only around 265 Crores this year, which is of 15 Crores decline in wire and cable revenues. Similarly building segment we did last year 42 Crores and this year we have only done 35 Crores so one contribution is the last one week lockdown but apart from that I think even starting second half of last year the whole economic activity in the country was slowing down and we were not able to push the products there was no demand for the wire and cable and building products also the industrial switchgear but luckily for us the industrial switchgear grew because we had good exports so overall industrial switchgear gave a growth of year-on-year it is a growth of 10% for us where as wire and cable declined by 2%, building segment declined by 15% so that is the reason that we see a negative growth. If wire and cable would have done 15% or a 10% growth then overall we would have done a 10% growth.

- Mukesh Savla:** But then in wire and cable I think we were also doing some wiring harness for lifts and all those products?
- Rajesh Doraiswamy:** No, wiring harness comes under industrial switchgear division.
- Mukesh Savla:** It comes under wire and cable?
- Rajesh Doraiswamy:** Yes.
- Mukesh Savla:** Okay but in all probabilities we were expecting good growth from industrial only and wiring harness and everything we were not banking too much on because building products we have I think recently started and wiring cable of course was a major chunk, so how do you see future from here on all segments?
- Rajesh Doraiswamy:** As I mentioned in the call speech very difficult right now looking at the situation to give up guidance for FY2021 because it looks very, very uncertain as of now though I think your another question was about the level of operations we have been operating at around 40%-50% in the month of May and in the month of June we have improved it to close to around 65%-70% across all units certain units are at 100%, certain units are at 50% so on an average we are working between 60% and 70% capacity as of now, that is the employee strength that we are getting right now.
- Mukesh Savla:** Do we face any problem with the labor or labor is available?
- Rajesh Doraiswamy:** Labor is available. There is no problem with labor as we do not have any migrant labor. It is mostly local people for us but we are only slowing down our operations because of the market demand.
- Mukesh Savla:** You said that export to Europe and US in the last quarter has grown and you are expecting good demand from North America also so how do you see these market developing and especially after everybody's thinking of alternate to China do you see any fresh enquiries on that ground your customers are seeking more from you than from China or something like that?
- Rajesh Doraiswamy:** We do see lot of enquiries coming from North American market as well as from Australia and Middle East but I think it is still very early stage to really say that how much additional business we will get because of people want to disconnect or disengage China. I think that is little bit long term I would say but there is definitely a lot of enquiries, lot of customers are talking to change over.

Mukesh Savla: Alright and if I may just to squeeze in one more question, we have taken over the management of Kaycee, was there any open offer also for Kaycee?

Rajesh Doraiswamy: Yes.

Mukesh Savla: So everything was open offer?

Rajesh Doraiswamy: Yes, we did open offer and we got some shares and we completed that.

Mukesh Savla: Now we are 74% holding in Kaycee, so is there any plan to merge that because a small company keeping it listed separately may require lot of compliance burden and cost burden and by and large the product profile and everything is the same so is there any plan to merge that?

Rajesh Doraiswamy: Right now that is not the thinking of the company. I think we are looking at maintaining Kaycee as a separate entity as of now but the situation is quite dynamic going forward we do not know but as of now there is no plan of merger.

Mukesh Savla: I will rejoin the queue in case if any follow up question is there and by any chance have we proposed dividend distribution for the current year, I could not find the not related to that?

Rajesh Doraiswamy: No Sir. We have not recommended no dividend is there.

Mukesh Savla: So are we planning to skip dividend for the current year?

Rajesh Doraiswamy: Yes Sir.

Mukesh Savla: Then we will be breaking our record of continuous dividend distribution I think may be little lower but my request would be to continue the same.

Rajesh Doraiswamy: We will consider but as of now the Board has decided that we will skip the dividend for this year looking into various conditions but we will consider this.

Mukesh Savla: Sure. Thank you and all the very best.

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

Zaki Nassir: I have two questions for Mr. Rajesh. Number one is it is pretty strong statement from your side saying that internally you have a view that Salzer will be able to maintain March 2020 numbers in all aspects in 2021, do you get a feel that from second quarter, mid of second

quarter things will be normal and do you think with the kind of change of mind frame you're the product mix demand has changed?

Rajesh Doraiswamy: I will answer second question first. I think there is no change in the demand scenario in terms of the mix of the product or whatever it is but yes I definitely have a strong feeling while discussing with various of our OEM customers who have slowly started operating from month of June that things will definitely get better during mid of second quarter. I think looking at our own operations right now I think we are definitely much better than May in June so we hope that July is going to be much better. So, hopefully in August I think we should be back to 100% normalcy. That is the reason that we are looking at sustaining these revenues for next year also.

Zaki Nasfer: Second question was deferred tax I mean is this due to a changing of the tax slab from 30% to 25% there is an Rs.4 Crores write back?

Rajesh Doraiswamy: Yes I think that is an important policy decision that the company has taken. We have actually come to 22.7% so including surcharge 25% tax regime from the earlier 30%-34.5% tax regime, we have come to this and that is the reason that we have a direct tax saving of around Rs.1.25 Crores as well as deferred tax right back of around Rs.3 Crores and that is the reason that fact is written off.

Zaki Nasfer: Mr. Rajesh I mean do you find after the lock down has been lifted and of course the business has started do you find any newer enquiries from sources which never enquired with you or terms or your customers?

Rajesh Doraiswamy: Actually speaking we have started getting enquiries from American and Australian customers particularly even before the lockdown started. So, some time I would say in December-January we started some enquiries and after the lockdown lifting also we have seen a couple of new enquiries coming from these countries. So, we have started working on that I think they are mostly custom built products I would say to customers who have been sourcing it from China and for various reasons they are opting out of China.

Zaki Nasfer: What is our debt level now Mr. Rajesh and going forward do you want to I mean in terms what level you would like to maintain the debt at?

Rajesh Doraiswamy: We are currently at around Rs.155 Crores debt level and mostly working capital and additional term loan that we have taken is to the tune of around Rs.17 Crores is for establishing the lan cables facility last year. This year we are not looking at increasing any long term loans, short term loans I think it will hover around Rs.150 Crores and Rs.160 Crores.

- Zaki Nasfer:** That is around Rs.175 Crores including working capital kind of?
- Rajesh Doraiswamy:** Yes Sir.
- Zaki Nasfer:** Thank you.
- Moderator:** Thank you. The next question is from the line of Rohan Mehta an individual investor. Please go ahead.
- Rohan Mehta:** Good morning Sir. Just to build a little on the exports front I just wanted to ask is we are seeing any trend of increase in exports going forward because certainly since the export chunk fetches us better margins also it will be beneficial. So, are we seeing any scope of improvement in our exports?
- Rajesh Doraiswamy:** I think compared to FY2019 we have seen an increase of almost 15% compared to last year. Last year we did top line of around Rs.85 Crores and this year we have done a topline of almost Rs.97 Crores close to Rs.100 Crores. Out of this I think we are seeing growth coming mainly from Europe and North America.
- Rohan Mehta:** That is what I was going ask them beyond the US there are other regions also that we are targeting for exports?
- Rajesh Doraiswamy:** I think what we said North America is also including South America because Brazil is also one of the large countries for us.
- Rohan Mehta:** In Europe which country would you call our top customers?
- Rajesh Doraiswamy:** In Europe I think UK is the largest the second will be Germany, Poland.
- Rohan Mehta:** Sir as you mentioned earlier you do not believe that the effect of this anti-China sentiment will not manifest in the near term right that is what you said?
- Rajesh Doraiswamy:** Yes I think it will definitely manifest. It will definitely bring lot of new businesses to the country and as well to our company for sure but we do not realize into revenues and profits in the near term. I think it will be a long term agenda but definitely there is a clear sentiment across the world in lot of countries like people not want to disengage or disconnect with China but they want to reduce the risk that we are putting from China.
- Rohan Mehta:** Dependence.
- Rajesh Doraiswamy:** Yes the dependence state.

- Rohan Mehta:** Fair enough and just one more question if you could just through some light on how our Salzer branded wires and cables are doing and if you are seeing any improvement there and what the contribution is?
- Rajesh Doraiswamy:** We have not seen big improvement compared to last year. I think we have been flat and we are still selling only in the southern three, four markets Tamil Nadu, Andhra, Telangana and Karnataka and we expect that this will be picking up if the real estate segment gets better. Contribution is still very low I think we have done only around Rs.10 Crores to Rs.11 Crores for the full year.
- Rohan Mehta:** I guess that when once the real estate sector regains from momentum that should also gain traction?
- Rajesh Doraiswamy:** Yes.
- Rohan Mehta:** Alright Sir. Thank you.
- Moderator:** Thank you. The next question is from the line of Chirag Patel from Adinath Shares. Please go ahead.
- Chirag Patel:** Sir I have two questions, the first one what is our current capacity utilization post the resumption of our old facility after lockdown?
- Rajesh Doraiswamy:** Before lockdown I think the capacity.
- Chirag Patel:** No after the lockdown and gradual resumption?
- Rajesh Doraiswamy:** I will come to that, our average capacity utilization before lockdown was at around 70% to 75% but after lock down I am considering that 75% is 100% is normal for that level we are working at around 70%-75% now.
- Chirag Patel:** Currently 60% to 65% as you mentioned earlier?
- Rajesh Doraiswamy:** Yes.
- Chirag Patel:** Considering the scenario where will we seeking the demand to be lower going forward so we planned our production according to it right?
- Rajesh Doraiswamy:** We are actually pacing our production based on the market demand right now. For example our wire and cable unit is operating at 100% capacity in the sense full employee strength is

working 24/6. However, the other units are working at between 60%, 50%, 60%, and 65% for that.

Chirag Patel: On really order book side due to this lock down and our government so much taking social related decisions and all, are we still that going forward the decision making front or public capex with respect to the infrastructure and including value wise will be lower and you may witness some slowdown due to this kind of event also?

Rajesh Doraiswamy: I think it is good question but we are not sure if the government will really reduce the capex in the infrastructure I think that is possibly one of the main aspects that government has to do to revive this economy apart from the stimulus whatever they have announced. So, I personally do not expect that the government will reduce the capex in the infra and particularly I think railways is kind of little bit disconnected towards all these capex investments. So, they have a steady plan for long term and they are continuing to do it and we are continuing to get orders from railways.

Chirag Patel: Okay and how are we looking this Atmanirbhar package?

Rajesh Doraiswamy: I do not think we do really have something to get out of it unless otherwise the Indian industrial production really improves and runs at full speed. I do not think we have any benefit out of this package we only have to depend on the market's strength.

Chirag Patel: Thank you.

Moderator: Thank you. Next question is from the line of Anusha Patel an individual investor. Please go ahead.

Anusha Patel: I just wanted to ask ours is a labor intensive unit so under the current situation and there is a problem of labor due to migration how do we see as combating or are we facing these issues?

Rajesh Doraiswamy: Luckily, for us 1500 people strength that we have we do not have migrant labors across units all the laborers are local. We sourced all employees locally, so we have not faced any migrant labor issue at all. So, as soon we opened on the May 4, 2020, I think we had people to come into work and they continue to come.

Anusha Patel: Thank you so much Sir.

Moderator: Thank You. The next question is from the line of Harshad Pated from India SME Investments. Please go ahead.

Harshad Patel: Good afternoon Sir. I have couple of questions so number one, I recently started tracking your company and as I saw from all earlier expectations that in 2015 you announced that we plan to reach Rs.1000 Crores top line by 2020 then around Rs.750 Crores topline by 2019 but unfortunately we are not able to achieve it. So, I just wanted to understand the nature of the issue lying over here? Are we facing problem on demand side pertaining to domestic market or export versus our expectation or are we not able to ramp up our capacity and we already have the demand?

Rajesh Doraiswamy: No we definitely have the capacity ramped up and we are matching the capacity I think what we have done from 2015, I do not have that 2015 figure, but we have been growing at I would say 10% to 12% year on year as against 20%-22% that you are supposed to grow. Mainly on account of demand as well as implementation of new projects have been slowed for the first two years, so all put together I think we have slowed down and this year again our original target was to reach around Rs.630 Crores but unfortunately the economic activity in the country started declining after first quarter. We were not able to push products as we expected after the first quarter itself. So, now I think we are ending up in this unusual COVID situation.

Harshad Patel: Next question is regarding our top three clients on the consolidated business how much they have contributed for FY2020 the name and percentage contribution roughly?

Rajesh Doraiswamy: Our top customers will be Schneider Electric I think he will be number one, second will be GE these are which is top two clients for us and Schneider contribution last year was close to around Rs.31 Crores on Rs.560 Crores which is around 5.5% - 6%, Schneider will be around 4%. Third there will many third customers which we have European distributor who is doing around Rs.25 Crores-Rs.27 Crores, we have an American customer who is doing close to around Rs.12 Crores.

Harshad Patel: So L&T is no more the leading client?

Rajesh Doraiswamy: L&T is still the leading customer L&T's business will be close to around 23%-24% of our revenues but L&T does not consume. So, we treat L&T's business as distribution. So, L&T buys and resells in the market.

Harshad Patel: Okay they resell by their own branding right?

Rajesh Doraiswamy: Partly their own branding, partly in our brand. Some of the products like out of the 23% I would say around 10% of the products will be in Salzer brand around 15% of the products will be in L&T brand.

Harshad Patel: Regarding the Kaycee acquisition I wanted to understand that we acquired the company at around PV of 13 whereas if you see the operating numbers of the company over past 10 years the margins are all over the place there is no consistency in the numbers. So, what would our rationale behind the acquisition/

Rajesh Doraiswamy: Our rationale behind the acquisition is only to enhance our strength, our market position in the rotary switch market I think that is the single largest product that Kaycee is manufacturing and selling and Salzer has been the market leader and Kaycee has been number two in this particular field. So, we just looked at acquiring a competitor who has been in the field for a long with reasonably good brand name and approvals with most of the government projects. That is only rationale and I fully agree with you that there has been a lot of inconsistency in Kaycee's past performance. That is mainly because of the change of management of Kaycee too frequently. So, I think you will see consistent performance in Kaycee which I think this year itself it has shown improved PAT margins and EBITDA margins.

Harshad Patel: Okay and going forward can we expect the margins to reach to a level of our company and then continue from there?

Rajesh Doraiswamy: I think we can expect Kaycee's PAT margins to be much better than our company's because they do not have the mix up revenues like we have. So, they have pure play of rotary switches which we can expect PAT margin of between 7% and 9% every year.

Harshad Patel: Topline of Rs.25 Crores is the maximum out if they can do or that?

Rajesh Doraiswamy: No I think we can definitely increase that.

Harshad Patel: By what quantum?

Rajesh Doraiswamy: That is again on a normal terms we would have told this year it is difficult but on a longer term we can definitely expect the similar growth of what Salzer is having.

Harshad Patel: Okay but already the Kaycee unit is operating at optimum utilization right?

Rajesh Doraiswamy: Yes but increasing that capex or for that particular product capacity is not an issue because the capex required will be much less.

Harshad Patel: Okay and we are continuing with the brand name of Kaycee itself?

Rajesh Doraiswamy: Yes.

- Harshad Patel:** Any other lead on energy management business?
- Rajesh Doraiswamy:** So far no because whatever we have quoted even before lock down is put on hold. Hopefully by end of second quarter or third quarter we will have some results from that.
- Harshad Patel:** One last question I had was if you see our cash conversion over past 10 years only 40% of the profit has been converted in to cash. So, majorly if you see more and more money is getting stuck in receivables. So, how do we plan to attend that Sir?
- Rajesh Doraiswamy:** I think mainly receivable, inventory and capex I think these three has been taking a lot of cash and that is the core area that we are working to how we can bring the inventories down. I think receivables more or less we under control at 90 days. I do not think we will be able to bring it down below 80 day in the best-case scenario. Only thing is we have to bring our inventories down which we have been working but unfortunately, we are not able to do that and now again because of this COVID situation we are again stuck. So, hopefully this year we will be able to bring that down as promised last year.
- Harshad Patel:** You also mentioned Sir that we can reach Rs.1000 Crores topline without any major capex right. So, when do you expect that to materialize?
- Rajesh Doraiswamy:** That statement still stands true I think without major capex we will be able to reach that level. Looking at the current situation I think.
- Harshad Patel:** What is the expected duration for the same?
- Rajesh Doraiswamy:** I do not know it depends on how we are going to fair in this year. We will only tell us when we can reach that.
- Harshad Patel:** No excluding the COVID situation regardless of that can we see the topline doubling over like say four years or something?
- Rajesh Doraiswamy:** Yes I think our target is to definitely double every four years.
- Harshad Patel:** Thank you Sir. That is all from my side. Congratulations and all the best.
- Moderator:** Thank you. The next question is from the line of Shiv Janani, an individual investor. Please go ahead.
- Shiv Janani:** Good afternoon. Thanks for the opportunity. Sir I had a follow up question the Kaycee Industries acquisition. There are two parts in question one, given the amount of time that has passed, just wanted your views in terms of any positive or negative surprises that you

may have seen out of the acquisition and the second part was that in terms of, would you need new people and things like that on the Kaycee Industries part or most of the approvals and everything in place already?

Rajesh Doraiswamy: No, I did follow your first question and was your second one? Can it be little louder please?

Shiv Janani: Second was in terms of approval with your customers, Kaycee Industries, would you need new set of approvals or you think that those approvals are in place and you just need to ramp up the supply?

Rajesh Doraiswamy: On the acquisition on the surprises setting we did not have any surprise. I think proper due diligence was done so we are only saying what we have expected out of the acquisition and we also know that we will be able to improve the efficiency of the operations at Kaycee and that is the reason that we have acquired that and we are seeing that efficiency improvement across manufacturing activities as well as sales activities over the last seven months to eight months after that we took over. So, definitely no positive or negative surprises so we know what we are getting into and the approval side I think Kaycee has been the first company to get into this business way back 50 years to 70 years ago so their name is like across all the government projects, all the new projects across all the consultants so there is no necessity for us to go and take any new approvals so that is one of the reason that Kaycee brand also carries some weightage and that is also the reason that we have taken over Kaycee.

Shiv Janani: Just a follow up, would you need any further investment to modernize the plant or you know fixed things here and there?

Rajesh Doraiswamy: No, I do not think we need any major capex at Kaycee as of now unless and otherwise requirement of capacity is going to double, we do not need any major capex as of now.

Shiv Janani: Would that entity have some order book and is it possible for you to share that?

Rajesh Doraiswamy: Actually it is very similar to Salzer. We do not operate on a large order book except the OEMs giving forecasts and some tender business from railways that we have which is quite small so otherwise the orders are on a monthly basis so our maximum delivery time is only four weeks and we take the order and deliver it in less than four weeks but there is always a forecast.

Shiv Janani: Last question, that the Kaycee facility, would you keep it exclusively for the Kaycee range of products or you think you can leave this facility to sort of manufacture salzer products as well?

Rajesh Doraiswamy: We will not be using Kaycee facility to manufacture any new products for us but we are leveraging Kaycee's marketing network and the approval strengths to sell Salzer products in that channel as well as cross selling Kaycee products in Salzer channels. So, that advantage we are taking and we are also doing a lot of optimization in the sourcing but we are not planning to manufacture anything in Kaycee for Salzer but we will be doing it the other way round.

Shiv Janani: Okay, manufacturing Kaycee products at Salzer and in terms of you said there is an overlap in terms of the products between Kaycee and Salzer so do you think that it makes sense for you to rationalize that two brands and maybe have a higher weightage on the Kaycee and maybe bring down the manufacturing on the Salzer side?

Rajesh Doraiswamy: Actually Salzer is the market leader in that particular product segment so we command premium of 10% to 12% over the Kaycee and even lot of other competitors; however, I think Kaycee is still able to sell at around Rs.25 Crores topline, what we are trying to do now with Kaycee brand is to leverage Kaycee brand and the pricing structure using the difference between Salzer and the Kaycee and try to get two other competitors and take higher market share from other competitors to Kaycee.

Shiv Janani: Fair enough that is really useful. Thanks a lot.

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

Neha Jain: I just had one question, in the opening remarks you mentioned that about rethinking and reformulating of plant, so can you please elaborate on that please?

Rajesh Doraiswamy: I would say this kind of standstill situation has never happened before. We have seen recessions, we have seen slowdowns in last 20 years to 25 years but this is kind of a standstill situation so which has made us to think a lot of things, lot of ways, how we are operating, what are the processes we have been doing, we are also looking at various other companies, talking to our large OEMs, the large customers, multinational OEMs have been taking classes in this lockdown for us, attending webinars. We found that there have been lot of slippages I would not say slippages but there were of lot of processes up for improvement which were gone unnoticed in all these times. So, we have got some time to really align all those things and get our people also aligned to that affect to see how we can better optimize the operations so that is what I meant during this time but it really helped to learn a lot of new things and benchmark with the top class customers so that has really helped, working with top class OEMs helps in such situations.

Neha Jain: Thank you so much.

- Moderator:** Thank you. The next question is from the line of Sonal Mistry from ICICI Bank. Please go ahead. As there is no response we move to the next question from the line of Suresh, an individual investor. Please go ahead.
- Suresh:** Good afternoon gentlemen. Sir, I had few questions, one is regarding the export, increase in export that has happened during the last year to US and Europe, is these products all belong to the switchgear division only?
- Rajesh Doraiswamy:** Yes Sir. All exports, 97 Crores belongs to switchgear products, only around 7% to 10% is other products.
- Suresh:** Is it possible to share, which are the major products?
- Rajesh Doraiswamy:** In the switchgear you say what products we are selling?
- Suresh:** What I am trying to find out is which of our switchgear products are finding the customers in those developed countries?
- Rajesh Doraiswamy:** We have a more than 15 different products under the switchgear division product business out of which I would say transformers, contactors, and switches-rotary switches and other isolator switches these are the top three products that contribute almost I would say more than 60% to 65% of our exports and the other 35% consists of various other products.
- Suresh:** Sir, needless to ask this whatever the new enquiries you are getting from US and Australia, these are all for the switchgear division only, the same type of products?
- Rajesh Doraiswamy:** Yes, switchgear division and I think now in the recent in the recent period we have also seen some enquires for wires and cables.
- Suresh:** You also mentioned this most of these orders are all custom made products in the normal scenario how much time it takes to convert this into orders?
- Rajesh Doraiswamy:** This custom built there will be two types of custom built, I would say one custom built is just one minor modification in our existing catalogue products that will be very quick. That will I think takes less than four weeks to six weeks; however, if there is a little bit more modification required, change required then we have to get into making of new tooling and then getting again going back to the customers for approval of the product which will take at least I would say 12 weeks to 15 weeks.
- Suresh:** Normally what is the success ratio of this getting converted into orders from these enquiry stages?

- Rajesh Doraiswamy:** So, far what we have seen, we know by the way the enquiries come and the kind of products they ask we know whether it will succeed or not so most of the times I think we get convert the enquiries into order I would say 90%.
- Suresh:** Why I am asking is if you are doing that tooling and other related work for them so which would be an additional expenditure and if you do not get order so who will bear that cost?
- Rajesh Doraiswamy:** We will get into making of tooling and convert product only when the customers approves and comes into agreement to use otherwise we will not be investing into it.
- Suresh:** Okay, these export of these switchgear products fetches the better margins compared to the local market?
- Rajesh Doraiswamy:** Yes, for sure.
- Suresh:** Sir, now if you see our wire and cable division as well as the building product division they contribute almost 50% of our sales which in turn depends on real estate?
- Rajesh Doraiswamy:** I would say no because our wire and cable business of this Rs.260 odd Crores whatever we have done this year, 60% of this Rs.260 Crores I would say is coming from the agri market for us, so the real estate business of the wire and cable is very less I would say it is less than 10% to 15%.
- Suresh:** So, that means your sales of this division, does not depend much on the improvement in the real estate?
- Rajesh Doraiswamy:** Only our building segment products division is alone is dependent on real estate division.
- Suresh:** This 10% to 15% what you said of being sold to the real estate it is from?
- Rajesh Doraiswamy:** Building wires that we sell to L&T.
- Suresh:** Fair enough. The last question is in the current scenario with the so much pandemic and all that events are happening all over the world, are you seeing any merger or acquisition opportunities?
- Rajesh Doraiswamy:** So far no but we have to wait and see if there is something coming up for us but so far no we have not seen, we have not got any opportunities as of now.
- Suresh:** Thanks a lot and wish you all the best.
- Rajesh Doraiswamy:** Thank you.



Salzer Electronics Limited
June 19, 2020

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Rajesh Doraiswamy for closing comments.

Rajesh Doraiswamy: I thank you all once again for your attention and your interest in the company. Look forward to talk to you again for the next quarter call. Thank you.

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