SALZER ELECTRONICS LTD

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August 11, 2023

To

THE CORPORATE RELATIONSHIP DEPT
BSE Limited
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P.J.Towers, Dalal Street,
Fort, Mumbai - 400 001.

SCRIP CODE: 517059

M/s. National Stock Exchange of India Ltd.,
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Symbol: **SALZERELEC**

Dear Sir,

Sub: Transcript of the Earning Call on the Results of First Quarter / three months ended 30.06.2023.

We wish to inform in pursuance of Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015 that the Company hosted an Earning Call with Analysts and Investors at 14.00 Hrs (IST) on Tuesday 8, 2023 to discuss the financial results of the Company for the First Quarter / three months ended 30.06.2023.

Enclosed herewith the transcript of the same for your records and dissemination.

The transcript of the conference call also posted on the Company's website at www.salzergroup.net.

Thanking you

Yours faithfully
For SALZER ELECTRONICS LTD

MURUGES
AN.K.M.

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COMPANY SECRETARY

Encl : As above

"Salzer Electronics Limited
Q1 FY24 Earnings Conference Call"
August 08, 2023

MANAGEMENT: **MR. RAJESH DORAISWAMY – JOINT MANAGING DIRECTOR – SALZER ELECTRONICS LIMITED**
MR. MURUGESH – COMPANY SECRETARY – SALZER ELECTRONICS LIMITED
MR. MENAKA – ASSISTANT GENERAL MANAGER, ACCOUNTS – SALZER ELECTRONICS LIMITED
MR. SANJAY – ASSISTANT COMPANY SECRETARY – SALZER ELECTRONICS LIMITED
MR. RAMAN – CHIEF OPERATING OFFICER – KAYCEE INDUSTRIES
MS. SAVLI MANGLE – ADFACTORS, INVESTOR RELATIONS OF SALZER ELECTRONICS
MR. ROHIT OHRI – PROGRESSIVE SHARE BROKERS PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Salzer Electronics Limited Q1 FY24 Earnings Conference Call. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rohit Ohri from Progressive Share. Thank you and over to you Mr. Ohri.

Rohit Ohri: Thank you, Michelle. Good morning, everyone. On behalf of Progressive Share's, I welcome you all to the Q1 FY24, post earnings conference call of Salzer Electronics Limited. This conference call may contain forward-looking statements which are based on the beliefs, opinions and expectations of the company as of the date of this call. These statements are not guarantee of future performance and may involves risks and uncertainties that are difficult to predict.

I now invite to Ms. Savli Mangle for the opening remarks to the followed by the question-answer session. Over to you, ma'am.

Savli Mangle: Good afternoon, everyone, and thank you for joining us today to discuss the unaudited financial performance for the quarter ended June 30, 2023. I have with me Mr. Rajesh Doraiswamy, Joint Managing Director; Mr. Murugesh, Company Secretary; Mr. Menaka, General Manager, Accounts; Mr. Sanjay, Assistant Company Secretary; and Mr. Raman, COO of our subsidiary company, Kaycee Industries.

Starting with the consolidated quarterly financial performance. During the quarter, our revenue increased by 21% year-on-year to INR288.67 crores from INR237.19 in the corresponding previous period. This growth was driven predominantly by a higher demand for Industrial Switchgear products.

The EBITDA, excluding other income, was INR26 crores as against INR21 crores in Q1 FY23, a year-on-year growth of 26%, mainly on account of increased sales in the higher-margin switchgear products. And the EBITDA margin for the quarter increased by 33 basis points to 9% and the PAT grew by nearly 6% to INR10.17 crores in Q1 FY '24.

Moving on to the breakup of revenue as per business division. The Industrial Switchgear division contributed to 55% of the total revenue in this quarter. The EBITDA margin for this business stood at 11.32% and the business grew 34% year-on-year. The raw material cost was down by 1.3% compared to the previous quarter, and we expect this to go down further, thereby improving the EBITDA going forward.

The Wire & Cable division contributed nearly 40% to our revenue this quarter and the business grew at 12.3% year-on-year during the quarter. The Buildings Products division contributed to about 5.38% in this quarter.

On the export front, we continue to see steady growth, mainly due to higher sales in North and South America, Europe and Asia. Exports to the Americas grew 90% year-on-year. Asian countries grew by 94% year-on-year, and Europe grew 28% in the quarter. For this quarter, the export share was nearly 23%, but grew 38% year-on-year.

Thank you, everyone. I'd like to now hand over to Rajesh to take us through the business development and the way forward.

Rajeshkumar D.: Thank you very much, Savli. I would want, once again like to wish you all a very warm welcome to Salzer Electronics' earnings conference call for the first quarter ended 30 June 2023.

Thank you all for taking time to join us today. We have already shared our results and I think, Savli, also has explained about the figures. I think you also have the updated presentation and media release. I hope you must have all received and gone through the same.

I would like to share a few recent developments and outlook for the future. Amid the prevailing economic scenario, we acknowledge that the global landscape has experienced various challenges and uncertainties.

Factors such as supply chain disruptions, fluctuating demand patterns and geopolitical tensions have presented obstacles for businesses across industries, including for us.

However, we are determined to adapt swiftly to these changing circumstances and embrace a proactive approach to steer our business towards growth and resilience.

At Salzer, we view challenges as opportunities to innovate and evolve, and we have strategically positioned ourselves to pivot from this economic scenario. The global switchgear market size was valued at close to USD 90 billion in 2022 and is projected to reach USD 145 billion by 2031, registering a compound annual growth rate of 5.5% during the forecast period of from '23 to 2031.

The rise in investments in energy infrastructure, renewable energy sources, as well as increased investments in rural infrastructure across growing Asia Pacific nations, including India, driven by various government initiatives is expected to boost the switchgear market potential.

The size of the Indian switchgear market was estimated at USD 9.75 billion in 2022. During the period 2023 to 2029, it is projected to grow at a CAGR of 7.12%, reaching a market size of USD 18 billion by 2029.

This growth is attributed to India's investment in smart grid technology, rapid expansion in power distribution sectors and government investment in infrastructure development, including projects such as construction of new or expanded airports, metro stations and electrical distribution networks.

These developments are expected to provide excellent growth opportunities in the coming years for electrical switchgears. Furthermore, India's ambitious renewable energy targets, expansion of power transmission and distribution, increasing investments in real estate and transportation sectors are also driving positive developments in the Wire & Cable industry and promises a bright future for us.

With technology becoming increasingly integrated, there is growing demand for next-gen gadgets and the rollout of 5G and 6G services. As a result, the application of electrical switchgears, wires and cables is gaining more prominence than even before. All these new developments are anticipated to significantly increase the demand for the products that we manufacture.

On the business performance of Salzer, some key developments. I think in this quarter, we have seen good growth coming from our Industrial Switchgear business. On the switchgear front, growth continued to be driven by the products like toroidal transformers, 3-phase transformers, Wire Harness, rotary switches and isolators.

Over the last 3 to 4 quarters, we have increased our sales price multiple times. At the same time, raw material prices also have started to stabilize and also reduced little bit, which helped to improve our EBITDA margins.

We also expect to reduce our raw material consumption in the coming quarters, which will further improve realization of our prices, which will lead to better EBITDA margin in the coming quarters.

As far as our subsidiary, Kaycee Industries Limited is concerned, the sales have been growing very well and EBITDA margins are also getting better. Kaycee's top line grew 12% to INR11.3 crores from INR10.1 crores last year. EBITDA grew 37% to INR1.47 crores from INR1.08 crores. PBT margin stood at 11.31% in Q1 FY '24.

Apart from the financials, I'm also happy to share that to further strengthen and professionalize our Board, we have appointed 2 non-executive independent directors, one Mr. Sharat Chandra Bhargava and another one, Ms. Priya Bhansali. Both are experienced professionals with over 2 decades of experience and hold directorships position in various capacities in various Indian organizations.

Mr. Bhargava, an engineer from IIT Kharagpur and also a management degree from Wharton Business School, has more than 4 decades of experience at Larsen & Toubro. He retired as Head of Electrical Business Group of Larsen & Toubro in 2017.

Ms. Priya is a Charted Accountant, also Information Systems Auditor and an expert in direct and international taxation. She is the managing partner of an accounting firm, Kumbhat & Company. I welcome them both and look forward to their valued inputs to help us take our company to new heights.

Going ahead into the next fiscal, we expect to maintain our growth trajectory. The global shift towards renewable energy, such as solar, wind, hydro has created new opportunities for electrical equipment manufacturers. Based on the domestic and export outlook, we are optimistic on our overall business performance and growth.

I would like to thank my entire team at Salzer Electronics for their untiring efforts in growing this company and also all our stakeholders for their continued support and faith in our company.

This is all from our side for now. I would like to thank you all very much for your time and attention. We can now take questions from you.

Moderator: We have the first question from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Congratulations for a decent set of numbers. Just to begin with, if you could just guide us. If we see the sector per se, the opportunities are really looming large for the country and especially for the power and engineering companies.

So, if I see the competitors and the other sector companies, they are growing much faster, and the guidance is equally strong. Whereas we are not seeing that kind of traction both in terms of growth trajectory and the margin expansion. So, if you could just guide us where we are struggling a bit? And what sort of the growth and what sort of margins that perhaps we can we can consider on a consol basis.

I know one of your division is not doing that great. But broadly, if you could guide us if that can also catch up and can show us a strong growth in the margin expansion going forward. So, if you could guide on that front, it will be really helpful.

Rajeshkumar D.: Thank you, sir. I think last year, we grew at close to 30%, which was a reasonably good growth. I think in this quarter, we have started seeing, I wouldn't say, I shouldn't call it as a slowdown, because we still grew 20% year-on-year. But overall, there seems to be the growth slowdown related to what we were seeing in the last financial year.

So, I mean, I'm sure that the opportunities are much larger. There's a lot of buoyancy in terms of investments, growth opportunities coming in the way that for the companies in India. But there are also a lot of global headwinds that is happening as of now. So that's why I think our projections for the year are limited to, I think, 20% to 25% growth rate.

But if things change and we see positive traction from India or as well as from other foreign markets, we will be definitely able to grow at a much faster rate. So, I think as I explained in my call speech, that the potential is definitely much higher. And we can see faster growth provided there are no global headwinds that can come our way.

Mainly, because I think, a lot of people expect that U.S. and Europe might go into recession and slow down. If that happens, I think that will hit the entire global market. And it looks like there is a slowdown in both these markets for the last quarter. So that's the reason that we are showing the guidance a little bit down.

Moderator: Mr. Bafna do you have any further questions?

Bajrang Bafna: Yes. My margin trajectory, I would like to hear from the management that what sort of margin that we could look at? Because last year we have done close to, let's say, INR40 crores kind of profitability on the bottom line. So, if you could just guide us the sense for this year, will be really helpful in terms of margin expansion and as well as net profit margins.

I think on the EBITDA front, we are giving guidance saying that, I think, the end of this year, we will be increasing our EBITDA definitely by 100 to 150 basis points compared to last financial year, mainly because of better sales from the switchgear businesses and also better realization from both switchgear and Wire & Cables.

On the PAT level, we are confident of crossing the 4% PAT margins in this financial year.

Bajrang Bafna: Okay. Great. And sir, any broader guidance and expectation on the cable front because I think we are slightly not at par in terms, but you guided that this division is also going to grow as we move forward. So, what is the outlook maybe for this year and the next year? If you could just say that what are the challenges? And how do we want to come up in terms of margin trajectory for that segment also.

Cables business, I think there's no challenge as such except for the pricing competition in the market. Otherwise, I think the business is growing at a speed that we are expecting it to grow. I think, year-on-year, we have seen a 12% growth. I think, on a full year basis, we expect that this business also will grow at around 18%, 20% levels compared to what it was in last year.

But our focus on the Wire & Cable now is to expand the EBITDA margins. I think EBITDA margin percentage has actually dropped for us post-COVID from around 7.5% to 8% to around 6.5% to 7%, at present. So, our focus is to improve this back to around 7.5%, 8% or even a little bit higher, before end of this year. That's the focus right now.

But on the growth front, I think we are growing at definitely at around 18% to 20% in this division for this year.

Moderator: The next question is from the line of Senthilkumar from Joindre Capital.

Senthilkumar: Firstly, I could find a mismatch in numbers between the media release and presentation. So, in media release, the Industrial Switchgear contribution to the overall revenue is like 55.04 percentage, whereas in the presentation, which is like 54.3 percentage. So, what is the reason there? Any…

Rajeshkumar D.: Sir, I think it may be a standalone and consolidated figures you're comparing. I think all the -- the figures that we have been giving in the call speech today is consolidated, including our subsidiary, Kaycee Industries. So, all the Kaycee business comes under the Industrial Switchgear business, so that's why you might see that 1.3% difference, maybe. I will also check on that, but I think that should be the reason.

Senthilkumar: No, no, no. Actually, what happened in the last quarter, the numbers between the presentation and the media release were same, that's what I have a confusion with that.

Rajeshkumar D.: Yes. I think last quarter, we were only talking on the standalone. I think this year, we are changing to talk on consolidated figures from this quarter onwards.

Senthilkumar: Okay. And my second question, what is the gross debt as on June 2023?

Rajeshkumar D.: It's the same as in March 2023, so INR265 crores. Industry that's the gross working capital debt. We also have a small INR6 crores term debt apart from that.

Senthilkumar: Out of INR265 crores, INR6 crores is term loans, am I right?

Rajeshkumar D.: On INR265 crores, plus INR6 crores.

Senthilkumar: And the last question is, how is enamelled copper wire business is doing? Sir, actually, even in your opening remarks, you said like…

Rajeshkumar D.: The enamelled wire business has grown around 5% year-on-year for this quarter. We have done around INR40 crores, INR37 crores to be precise, and it's continuing to grow. Because that has limited – limitations on the growth because we are already operating at close to 80%, 85% capacity in that plant, so we expect this business to continue to grow only at around 5% to 10% this year.

Senthilkumar: Okay. And lastly, what is the interest rate in this quarter ?

Rajeshkumar D.: I think the average cost of finance for us from all the 4 different banks that we're operating is between 7.8% and 8.5%.

Moderator: We'll take the next question from the line of Bhagwat from Prosperity Wealth Management Pvt Ltd.

Bhagwat: Could you please update more about the factors contributing for margin improvements for Salzer going ahead? And any plans for debt reduction, please?

Rajeshkumar D.: Sorry, sir, can you repeat the question again?

Bhagwat: Sir, my question is about factors contributing for margin improvement for Salzer going ahead. And any plan for debt reduction?

Rajeshkumar D.: The margin expansion will happen as we said in the call is because of the raw material consumption percentage coming down. That's one point. The second point, I think, increase in volumes, increase in the business revenues will automatically increase the margin EBITDA margin expansion because of the lower overheads. I think these 2 we expect these 2 will contribute in the expansion of EBITDA margins in this financial year.

On the debt, I think we expect to maintain this level of debt going forward, because of the, what you call, the long working capital cycles that we have been experiencing in the recent past post-COVID. However, we are trying our best to bring it down. We have done, I think, around 10 to 15 days reduction in working capital days compared to March. We will continue to work on that. But as of now, we expect to maintain this level of debt for this financial year.

Bhagwat: Okay. So, do you have the provision for analyst visit to your plants?

Rajeshkumar D.: Yes. We do bring in analysts, investors to plant visit. Yes, we can organize that. You can get in touch with our investor team. Ms. Savli is there on the line. I think she will not down, and she will be in touch.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just I have one query. I think, I mean, in terms of smart metering, is there any opportunity that we see for our business?

Rajeshkumar D.: Yes, Deepak. Yes, I think smart meter is going to be a big business going forward is what we expect. We are looking into that. There is no concrete plan as of now, which I will be able to tell. But now, yes, I think we are looking into that opportunity. And maybe a couple of quarters down the line, we will have something, some update on this, if we get into that business.

Deepak Poddar: Okay. So, with that currently evaluating, right, I mean, whether to enter this segment or not?

Rajeshkumar D.: Sorry?

Deepak Poddar: Sir, currently are you evaluating to kind of..

Rajeshkumar D.: Yes, you're evaluating that, correct.

Deepak Poddar: To enter into the segment or not?

Rajeshkumar D.: Yes.

Moderator: The next question is from the line of Gaurav Sachdeva from Further Investments.

Gaurav Sachdeva: Sir, I want to ask, why the finance costs have increased this quarter? Because our debt levels are same and working capital have decreased, but finance costs have increased, why?

Rajeshkumar D.: The rate of interest has gone up by close to 0.5% to 0.75% in this quarter compared to last year. I think that's one of the main reasons. And we also use some foreign currency loans like for the exports, packing credit drones, where the dollar rate of interest has also gone up, as we all know. I think that is the reason for increase in finance costs.

Gaurav Sachdeva: And will it increase further do you think in next coming quarters? Or will it remain stable?

Rajeshkumar D.: I will not be able to definitely comment on that, because we really don't know what is happening across the world. As of now, looks like the cost of finance will be high, in my opinion. I think that's what we are foreseeing for this quarter. Hopefully, it stabilizes at this level.

If the Fed increases the rates, I think then definitely, RBI is going to increase the rates and it is going to affect all of the businesses. But we hope that it stays at this level.

Gaurav Sachdeva: Okay. And sir, at what stage, currently, we are in the electric charger?

Rajeshkumar D.: Electric charger, I think, we are, as I mentioned in the last call, we are in the final stages of testing this with the ARAI. I think the testing is taking a little bit longer time than usual because of the queue in the test lab.

We expect that the testing should be completed in this quarter, and we see that revenues start to come from either the third quarter or fourth quarter on this sale from this year.

Gaurav Sachdeva: And sir, a lot many countries is coming in the electric charger field. How do we differentiate ourselves from the other companies or competitors? What exactly we are specifically making in this?

Rajeshkumar D.: Sir, I think the charges that we are going to make are fast charges, mainly going to be deployed on the highways for charging cars in less than 30 minutes, unlike the low-cost slow charges that will be in the domestic use. So, these are fast chargers. And of course, there will be some manufacturers for these fast charges also in India. But as of now, there are very few and limited players in this field.

Gaurav Sachdeva: And what will be the wattage, voltage or wattage or in terms, I mean 250 watts…

Rajeshkumar D.: We are going to manufacture starting from 30-kilowatt charges and going up to 300 kilowatts charges.

Moderator: We will take the next question from the line of Nikhil Arora, an individual investor.

Nikhil Arora: Congratulations for good set of numbers, sir. Which product, typically in switchgear and wire & cable division has contributed to this growth?

Rajeshkumar D.: Sir, in the switchgear, I think it's mainly because of the toroidal transformers, 3-phase transformers, Wire Harness and rotary switches. These are some of the products that have contributed to the faster growth. On the Wire & Cable, it is across, all the products.

Nikhil Arora: Okay, sir. And the operating cost has increased roughly around 40% to 43% Y-o-Y. So, what factors actually led to this increase? And what do these expenses comprise of?

Rajeshkumar D.: I think the operational cost, the other expenses you mean the other expenses, right?

Nikhil Arora: Yes.

Rajeshkumar D.: I think the, okay, let me go through that. So, one, I think, in Tamil Nadu, the power and fuel costs has, the cost of power and fuel has been increased by close to 15%. So that has increased significantly for us.

And also, I think last year, the expenses, in general, for us in the first quarter have been low because we were just recovering from COVID, and we were just starting the push. So, this year, I think, our marketing expenses, sales promotion expenses, all of them have increased. I think these are the some of the major reasons for that increase.

Even otherwise, I think there has been a growth of 34% on the sales. So, to that extent, the other expenses like freight, forwarding, subcontracting would have increased. But apart from that, we see that there is an increase in power and fuel significantly and also sales promotional.

Nikhil Arora: Understood. And are we targeting any new geographies in near future for export growth?

Rajeshkumar D.: Sir, we are already focusing on the Australia and New Zealand market, which we started 2, 2.5, 3 years back, and we have started to see revenues coming in from that market. And we have developed some new customers and new products for the North American market, and that has also started to see revenues coming in from Q1 of this year.

And that's why we see very significant growth coming in from the North American market and also the Asian markets. And we expect that this year, the business from these 2 geographies are going to be very significant.

Apart from that, we have started to focus on the Middle Eastern market, where I think we see a lot of business started to generate because of the new investments being made by various Middle East governments. So that's another focus area for us, so.

Nikhil Arora: One more question, sir. Who are top 5 contributing customers?

Rajeshkumar D.: There are multiple OEMs. So multiple international OEMs, MNCs, multinational MNCs, different OEMs. We will not be able to specifically I will not be able to specifically tell right now the top 5 contributing. But there are multiple customers for us like Honeywell, we have Schneider, we have Eaton, we have Siemens. So, these are the major OEMs that we supply to, were major customers to us.

Moderator: The next question is from the line of Abhishek Agarwal from Prithvi Finmart.

Abhishek Agarwal: Sir, my question is related to return on capital employed and equity. So, it's in the range of 10% to 11%. Okay. Sir, can you explain why it is such kind of ROCE around ROE we are doing with such kind of quality products or what we have in our product profile? Sir, just your brief understanding on this.

Rajeshkumar D.: So, we are working to improve our ROCE to close to 18%. That's what our target here internally is. And one of the reasons is the long working capital cycle. I think that is where the reason that the capital employed is higher. So, we as I have been telling, I think, we are working to reduce our inventory, bring down our receivables. So, these are the 2 major contributing factors for higher capital deployment.

So, if we get this done and also improve our EBITDA margins by at least 1 or 2 percentage points, then we will see our ROCE growing significantly higher.

Abhishek Agarwal: We are targeting around 18% by what time?

Rajeshkumar D.: At least in the next 2 years?

Abhishek Agarwal: Okay. And what is your current capacity utilization in different segments, then?

Rajeshkumar D.: In different factories, it is between 60% and 80%.

Abhishek Agarwal: No. Different segment. I'm asking about…

Rajeshkumar D.: Yes, correct. Each segment has different factories for us. So, for example, switchgear factory, there are different products. So, each product is made in 2, 3 different factories. So that at plant level, we are at between 60% and 80% for each different products.

Abhishek Agarwal: Okay. And what can be the growth driver for our business? Rather than the industry, macro tailwind whatever will come in the future, on internally, what we are doing to grow our revenue and improve our realization and be more value-added for us? And we keep giving innovative products in our product profile, so can you give some insight on it?

Rajeshkumar D.: We are constantly on the lookout to develop new products to bring in new technologies, and we keep looking at the foreign markets, we keep looking at the world leaders, what is happening in the electrical industry. And we develop products according to that requirement. So that's what -- that is how we have been growing and developing new products and adding new products to our portfolio.

So, we continue to do that. There's a large development team, close to around 65, 70 engineers who constantly work on this, and they keep coming up with new products that can contribute to the growth of the company.

Abhishek Agarwal: Okay, sir. Sir, any particular factor which can drive our revenue?

Rajeshkumar D.: I think this was clearly explained in the speech that there are a lot of macroeconomic factors that is working in our favour, which will bring in a lot of opportunities where we will be able to grow either with our existing products or develop new products, because we have the capability to satisfy a customer's requirement, whether it's a new product or a change in customization of any of the existing products, because of the in-house capabilities that we have. So, I think all those things will bring in the growth going forward.

Moderator: The next question is from the line of Pranay Gandhi from Green Portfolio.

Pranay Gandhi: Sir, I wanted to understand that the reported EBITDA margins of the Buildings Products division was 0.33% in this quarter in comparison to almost 3% in the previous fiscal year. Can you please shed some light on this?

Rajeshkumar D.: I think this building segment is the smallest division of ours contributing less than 5%, I think, this quarter. This quarter has been a slow quarter in that particular segment for whatever reasons, which we are not very clear. Because, overall, the market real estate business has been a little slow in this quarter. So, we have done only around close to INR15 crores of business.

So mainly, it's a volume-driven business. Because of the lower volume comparatively, the EBITDA margins also have dropped. I think quarter, year-on-year, we are down by 16% on revenues. And even quarter-on-quarter, we are down by 11% on the revenues in that particular segment. So, we expect the next 3 quarters to be good and the EBITDA margins to climb up back to normal levels of 5% to 6% in this year.

Pranay Gandhi: Okay. And so, I believe as per previous commentary that we want to increase it to 10%. I mean, our idle product mix would be 60% from Industrial Switchgear business, 30% from Wire & Cable and then from building electricals, correct?

Rajeshkumar D.: Correct, sir. Correct.

Pranay Gandhi: And sir, in terms of recent expansion for Wire Harness and transformers, these are comparatively low margin products. So how does the management plan to counter this to sustain or improve its profit?

Rajeshkumar D.: You're talking about which product, sir?

Pranay Gandhi: Harness and transformers.

Rajeshkumar D.: I think transformers, I wouldn't call it as a low-margin product, because they are high-value products. Maybe the margin percentages can be lower compared to the switchgears like contractors or switchers that we make. But these are high-value, high-technology products, and we use a lot of commodity like copper, steel and various other products. So that can give a large absolute number, both in terms of EBITDA as well as revenues.

And also on the competition side, transformers have much, much lesser, much lower competition compared to other switchgear products. So that's one of the reasons that we entered into a joint venture with an Austrian company, started making these 3-phase transformers, and we are seeing the results because of the growth of the 3-phase transformers that we have, that is coming in for us. In that particular product, I would like to say that we have grown close to 150% year-on-year in 3-phase transformers.

Pranay Gandhi: Okay. And sir, my final question would be, previously, the company had shared a guidance of INR1,000 crores, which we were able to achieve. So now you have recently shared the PAT and EBITDA guidance for this year. Can you comment on the revenue as well? What kind of revenues are we looking to close this year probably in near future?

Rajeshkumar D.: I think this year, we have already projected a 20% to 25% growth for this financial year on the revenue side.

Moderator: The next question is from the line of Bajrang Bafna from Sunidhi Securities.

Bajrang Bafna: Sir, if you could just guide us, the potential of the current capacities, what sort of revenue that we can achieve without much of the capex? And further on that, what sort of capex that you are looking at for this in the next financial year. So, on both counts, as to get a sense that what sort of revenue potential you are targeting for next maybe 2 to 3 years kind of time frame.

Rajeshkumar D.: I think on an average, historically, we have been making a capex of INR10 crores to INR12 crores year-on-year. In some years, we have gone up to around INR15, 20 crores, and some years, we have been down to around INR8 crores to INR10 crores.

But on an average, I think INR10 crores to INR12 crores capex we have been making to do the maintenance and also some dynamic capacity expansions for our switchgear industry, basically. So, this we will continue to do for the next 2 to 3 years.

And I think with this capacity, the capacity expansion with the kind of land, building infrastructure that we already have, we will be able to double the turnover to, from FY '23 levels. That's what we foresee.

Bajrang Bafna: And just on the net working capital cycle. We are a little bit constrained by that also. So, any scope for improvement on that side? Or can we consider the current…

Rajeshkumar D.: We have a large scope. I think currently, we are at around 145 net working capital days. There is definitely scope to reduce this to by around 30 days, because of the inventory levels.

Moderator: The next question is from the line of Senthilkumar from Joindre Capital Services.

Senthilkumar: So, what is the receivable and inventory days as on June 2023, sir?

Rajeshkumar D.: Receivable days are 90 days and the receivable figures approximately around -- approximately INR280 crores, INR281 crores.

Senthilkumar: Inventory?

Rajeshkumar D.: Inventory is around 88 days at INR270 crores.

Moderator: We have the next question from the line of Jenish Shah, an individual investor.

Jenish Shah: I have a few questions basically, with regard to the exposure the product exposures that the company has. You have products like 3-phase transformers and wiring harness and rotary switches. Could we get some sense about how much is the current revenue on an annualized basis come from the renewable segments that we will be -- that the end product may be catering to? That's one question.

And second, you mentioned the marquee names to which we have been catering to and have been the customers of the company. Could we have understanding about how the customer concentration has been for the company? Is there like a top 4 or 5 customers contributing the significant revenue to the companies, if we can get some understanding on that.

And third question is on the return on capital. You mentioned about 18% ROE. You mentioned it earlier as well in the call that stated objective. However, when we and you also said that there is a scope for improvement in working capital.

Just wanted to understand where the differences or basically the things are moving contrary to what your expectation would have been when it comes to managing the working capital better? If you can just get some road map or maybe the hurdles which may be there today, and how are they going to get over by the company over the next couple of years or so in that sense.

Rajeshkumar D.: Yes, sir. Thank you, sir. Thank you for that question. Sir, I think on the on your first question, the figures that I give may not be very accurate. But on a we are very close to or approximate -- close to an accurate figures.

So, the top 15 customers for us might be contributing around 45% of our sales approximately. That is the concentration that we have. We don't have a single customer giving business beyond 10%. So, I think our focus on concentration, customer concentration is very, very less.

And our sectoral concentration also is very, very widespread. I don't have a figure on how much of our products will have an end use in renewable segment. Maybe we should start looking at that and calculating that for the future. But right now, I don't have that information. But we definitely see that renewables are giving good growth for us.

So, if you can, if I can tell based on the products that are being used in the renewables, approximately, I think 15% to 19% of our sales might end up in the renewable business as of today. That's what on the customer concentration business, I hope I have answered your question.

On the working capital, yes, I think we are struggling to bring the inventories down. What happened contrary to our projection was, I think, COVID -- before COVID, I think we were working seriously on this to bring this down. And we did some work on that, and we were able to achieve from the sales. But, unfortunately, COVID stuck, and we had to reverse everything, and it went up. I think, the inventories went up. The receivables also went up because of various reasons.

So, we are working on both this. And unfortunately, we are also in a segment where we don't have a very large credit period from our suppliers because of the kind of material that we are buying. So that's also by nature of the business, it is against the working capital days. So, our control is only on the inventory and receivables, which we are working to bring this down.

Jenish Shah: Yes, sir, just to add to it. I mean, saying, I understand the problem with many of the companies have faced in terms of handling the supply chain. But when you are looking at today, do we really think the supply chain has eased out or there are still challenges to it, which is why you need to keep the inventory levels high?

Rajeshkumar D.: Most of the issues that COVID has been given -- has been eased out right now. I think things more or less is smooth, and except for a few materials from a few countries. Otherwise, I think 90% things have smoothened out.

Jenish Shah: Okay. And maybe the last question. When we're looking at your company, it's definitely has been growing and has a potential to grow much faster in the years to come. But at the same time, the engines like the other pillars of the businesses like the margins and the returns. I mean, over when we are looking at driving the business over next couple of our maybe 3 years, 5 years period, how, what will be the priority for?

Like, I am saying, is the growth which will be the first priority and led the margin or the return ratios come by? Or it will be like a first focus on the profitable growth, and we'll be choosing picking up your opportunities? How would you rate or how would you look into your business to shape up?

Rajeshkumar D.: I think that there was a similar question a couple of calls or a year ago on the similar lines. I think I said the same thing then also. I think our focus is definitely to grow both the revenues and the margins. I think that's the focus, definitely. But at the same time, if we don't grow on the revenues, definitely, the margins will shrink. I think that's very obvious for companies of our size.

We are still not a very large cap or but at the same time, we are not a very small cap. We are in between somewhere. And for the size of our companies, we definitely need to grow at a minimum of 20% so that our margins keep expanding year-on-year. I think that's how we look at the business.

But as we have seen that, the growth for us has come in the past years because of various additions of new products, new customers, new geographies. We have done a lot of things on that area to bring this growth. And because of the nature of the business, we are into, as we have seen and talked, about 50%, 55% of the business comes from a particular product segment, which gives better, a 40% business, which is Wires & Cables, gives a lower EBITDA. That's why we see the blended margins at 10% or sub-10% levels.

But on the absolute numbers, if you want me to tell on the EBITDA figures, we have actually doubled in the last 4 years or 5 years, close to doubling. But for COVID in between 2 years, I think we have a stagnant. But on the absolute number, the figure of EBITDA has grown to INR92 crores in FY '23 from around INR50 crores in FY '19 or around that period.

So, we will continue to grow the absolute numbers, and we're also focusing on expanding the PAT numbers, PAT margin percentage. I think that's the focus.

Moderator: The next question is from the line of Naysar Parikh from Native Capital.

Naysar Parikh: I just want to understand that the Industrial Switchgear segment that we have, and when we, so when we sell it, is it like under, when you sell it to people like ABB, Schneider, etcetera, is it like under our brand? Or is it like we sell it to them, and they sell further in their brand? Can you just help understand?

Rajeshkumar D.: Majority of the business that we do is selling to them under our brand. But we also do certain branding businesses for some OEMs. But the majority of the business is we sell to them under our brand.

Naysar Parikh: And, I mean, just to understand. So that they will, I mean, the industries which we that they sell, because they are also, they also sell switchgears, right? So, I'm just trying to understand…

Rajeshkumar D.: I think, switchgear as a yes, switchgear, as a name is a very broad name, covers multiple products under that. Anything that goes into controlling or being used in a power electricity, I think people call it a switchgear. So, it's a very broad name that we are giving for that. So, what components we make, we then we sell it to the OEMs, they take it and use it in one of their products and then resell them.

Naysar Parikh: Understood. And so, looking at your sales to, say, OEMs versus sale where it is directly to the contractor or directly where it is used at their site, what would be the breakup of that?

Rajeshkumar D.: For distributor and OEM breakup, I think we will be in Industrial Switchgear will be close to 50-50 between distributor and OEM business.

Naysar Parikh: Okay. Understood. And on the Wire & Cable side, right, can you just give a bit more brief in terms of, when you say wire, what type of exactly Wire & Cable are we doing? Where does it go into? And if you could just give some brief?

Rajeshkumar D.: We manufacture all kinds of copper wires and cables. We don't touch aluminium, but we do all kinds of copper wires and cables starting from 0.3 square millimetre, going up to 300 square millimetre, single core, multi-core wires and cables. So that's the portfolio of the products. And under this, I think there are multiple variants.

People, we make wires for Indian standards, we make wires for British standards, and we make wires for American standards. So, there are people who have requirement only for American standard wires, and there are people who, for example, Middle East, they only buy British standard wires. So, like that, there are different standards of wires under the copper, copper wires and cables.

The usage, I think the simplest usage is your building wires and the most complex usage is for a sensor or for EV charging cable. So, we cover the entire gamut of application.

Moderator: We will move on to the next question, which is from the line of Rohit Ohri from Progressive Shares.

Rohit Ohri: Sir, 3 for questions. While you are cautiously bullish or maybe cautiously optimistic. We see the export slowdown, which has come to somewhere around 23%. Do you think you'll be able to catch up the same to the regular average of 26% because of maybe China plus 1% or Europe plus 5%?

Rajeshkumar D.: Yes. I think definitely, we will, last year, we ended up 26%. We definitely see that it will not go below 26% for this financial year. We are optimistic on the export front, mainly because we have developed these new products and added these new geographies. So that's the reason I'm optimistic that we will definitely grow further on this.

Rohit Ohri: Okay. Sir, would you like to give some insights into the property at Hosur and the Wire & Cable business that is happening over there?

Rajeshkumar D.: I think it's a very, very new plant. So, obviously, there's not much development that has happened there. But we are working on getting new customers. We are seeing a lot of enthusiasm from the customers to come and see the plant, because they are this closer to their requirement facilities, facilities that they have in Bangalore or nearby Bangalore.

So, we see, we are working with multiple large customers, both in the industrial as well as the automotive side. And we expect that the business to really start giving a lot of inherent growth from at least Q3 of this year onwards.

Rohit Ohri: And by when do you think that the plant could reach its maximum capacity?

Rajeshkumar D.: Hopefully, by end of this year.

Rohit Ohri: Okay. So, we did touch upon some businesses related to solar industry, maybe the inverters or AC/DC contactors. Do we have any orders in this domain maybe from the domestic market or from the international market?

Rajeshkumar D.: Yes. I think on the renewable side, we have good businesses coming from solar inverters, the business, solar inverter manufacturers for our transformers and Wire Harness. And we also get AC/DC contactors is not for the renewable business, but it's for the HVAC market in North America. For that also, I said that I think this quarter onwards, we have started seeing the revenues from that business also.

Rohit Ohri: Secondly, we put a number to these businesses for HVAC and solar industrial like businesses.

Rajeshkumar D.: I think the HVAC is still small because we just started in Q1 of this year. But the solar, as I said, I think, I mentioned that it will be between 15% and 19% of our revenues coming from the renewable business.

Rohit Ohri: Okay. Sir, my last question is, you did perform well, and you doubled the turnover despite the pandemic in last 4, 5 years. Do you think you'll be able to double the turnover in the next 4 years? Or do you think you'll be able to do it at a faster rate as compared to the previous years?

Rajeshkumar D.: I'm confident that we will be able to do this definitely in 4 years. But if things work out well, yes, maybe we can do this one more year earlier.

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

Rajeshkumar D.: Thank you very much, all of you for showing such a large interest, huge interest in Salzer and its business, and looking forward to speak to you again, interact with you again in the next earnings call. Thank you very much.

Moderator: Thank you, sir. Thank you, members of the management. Ladies and gentlemen, on behalf of Progressive Shares that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.