



“Salzer Electronics Limited Q2 and H1 FY '21 Earnings Conference Call”

November 5, 2020



**MANAGEMENT: MR. RAJESH DORAISWAMY – JOINT MANAGING
DIRECTOR, SALZER ELECTRONICS LIMITED
MR. BASKARA SUBRAMANIAM – DIRECTOR
(CORPORATE AFFAIRS) & COMPANY SECRETARY,
SALZER ELECTRONICS LIMITED
MR. MURUGESH K. M. – ASSISTANT COMPANY
SECRETARY, SALZER ELECTRONICS LIMITED**

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Salzer Electronics Limited Q2 and H1 FY '21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the belief, opinions, and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participants' 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 '*' and 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. Thank you all for joining our earnings call to discuss the business and financial performance for the second quarter and half year ended September 30, 2020. I have with me Mr. Baskara Subramaniam – Director (Corporate Affairs) & Company Secretary; Mr. Murugesh K. M. – Assistant Company Secretary of our company, and Mr. Savli Mangle and Mr. 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 we discuss the financial performance, I would like to share that the COVID-19 led disruption seems to be declining and we have started to see recovery in the demand scenario from various sectors that we cater to. Our team has been working hard and are in constant engagement with our esteemed clients and understanding, the changing situation at various levels. I would like to highlight the fact that the domestic markets have been slightly subdued and weak and we have been working on increasing our share in the export markets. I am happy to share that during this quarter, we have achieved highest export for a particular quarter along with highest EBITDA for a quarter and are hopeful that this trend continues in the coming quarters as well. Though the near-term market situation remains very uncertain, we are being optimistic in medium term based on indications from various OEMs and customers and most definitely an optimistic about a profitable growth in the long term. We at Salzer are geared to cater to any demand arising from our customers and are equipped to grab the opportunity coming our way.

Now, coming on to our quarterly and half yearly financial and business performance:

We will first look at the quarterly performance:

During the second quarter, our revenues increased by 8.7% to Rs. 149.8 crore from 137.8 crores in the corresponding period mainly on account of increase in sales of wire harness product under the industrial switchgear division and higher growth in wires and cables division. EBITDA for the quarter stood at Rs. 18.8 crores as compared to Rs. 17.5 crores in the corresponding previous quarter, which is a year-on-year growth of 7.2%. This is the highest EBITDA for a quarter achieved by increase in revenue and reduction in expenses. Q2 FY '21 EBITDA margins stood at 12.52%. The profit after tax was at 6.6 crores in Q2 FY '21 as against 5.9 crores in the corresponding previous period, which is an increase of 10.9%.

Now, coming to the half-year performance:

As a result of the nationwide lockdown, the Q1 FY '21 business has been impacted which has affected the revenues of half-year both EBITDA and PAT as well, hence the results are not directly comparable with the corresponding year. For H1 FY '21, our revenues stood at 245.5 crores down by 18.2% year-on-year on account of impact in the Q1 FY '21 due to the lockdown. EBITDA for H1 FY '21 stood at 28.3 crores compared to Rs. 34.2 crores, a decline of 17%. H1 FY '21 EBITDA margin stood at 11.55% as against 11.4% in the corresponding period. Profit after tax for H1 FY '21 is at Rs. 7.3 crores as against 11.7 crores in the corresponding period.

Now, moving onto the breakup of revenues as per the business division:

The industrial switchgear division contributed 46.6% to the total revenues in this quarter and 43.1 in H1 FY '21.

Our newly launched wire harness business has shown a record sale during this quarter since it was introduced in the market.

The wire and cable division contributed 47.1% of our revenues this quarter and 51% in H1 FY '21.

Building products division – this division has contributed 5.3% this quarter and 4.7% in H1 FY '21. This business is the only B2C business that we have. The real estate market has been on a slower side and we are yet to see a pickup in demand that is impacted the overall industry. We hope that this changes in the coming quarters and will help us increase our contribution from this segment to our overall revenues.

The fourth is the energy management division contributing 1% revenue in this quarter and 1.2% in H1 FY '21. In this division, if we do not get any new projects then this will be the last quarter to see revenues coming from this division as we have no existing running projects.

Now, moving to the balance sheet items:

The net working capital debt level of the company has slightly reduced compared to corresponding quarter from 164 crores to Rs. 160 crores. The long-term debt is at Rs. 18 crores. The net working capital days has remained stable or slightly reduced by six days to 155 days in spite of the pandemic and lockdown.

I would also like to inform here that from September 1st, Schneider Electric has fully taken control of L&T's electrical division. For us, there has been no change in our business model with L&T because of this change of ownership. The leadership team at Schneider and L&T both have categorically confirmed that Schneider is going to follow a two-brand strategy and hence it will be business as usual at L&T, and so far we are seeing that going on as usual. Given the current situation which is extremely fluid and uncertain, it is highly difficult to predict and give targets for FY '21, however, our aim is to maintain our margins and focus on our working capital

and remain competitive to optimize on the opportunities arising in the future. To sustain and be stable is our motto this year besides strengthening the revenue drivers, improving ROC and working capital cycle also forms part of our core strategy.

With a very complicated team in place, we are confident of achieving the milestones we have set, we are also constantly on the lookout for new opportunities for technical associations to strengthen and increase our product offerings.

Overall, we remain committed to our set agenda of delivering consistent, profitable, volume-led growth. I thank all the stakeholders of Salzer Electronics for their continued support and faith in the company.

This is all from our side for now, I would once again like to thank everyone of you for your time and attention. All of you stay safe and we can now take questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Ritwik Bhattacharjee from Khambatta Securities. Please go ahead.

Ritwik Bhattacharjee: My question is in the wake of the current situation, what is your outlook on working capital cycle improvement which is the key target for you, so how do you look at improving the working capital cycle through this financial year and the next year and what steps you are taking towards this?

Rajesh Doraiswamy: I exactly mentioned this in my speech, I think in spite of the pandemic actually we were expecting this to go a little higher, but fortunately because of our contacts and because of the variety of customers that we have, we have been able to maintain it stably at around 155 days. We used to be at around 160, it has come down to around 155, but our target is to go to around 120 days, so that is the target that we have been having for the last one year, but unfortunately we were not able to get there, but because our sales is spread across various sectors, various type of customers and exports all this combination actually, I am confident that we will be quite stable going forward or it will slightly come down. There is no risk of this going up because of the pandemic.

Ritwik Bhattacharjee: Right, thanks for clarifying that Sir, could you just touch upon what steps you are taking towards maintaining the working capital cycle and improving it going forward, the key steps that you are taking towards this, if you could just?

Rajesh Doraiswamy: There are two main things that we are doing, one is to try and reduce the inventory. Currently, the inventory days is at around 90 days, I think our target is to go to around 70 or below, that is the target we are looking at, so that is one area we are working on, and on the trade receivables. Trade receivables again is at around 89 days which is quite normal I would say for our kind of a business, but in spite of that we are trying to see whether we can still bring this down to around 75 to 80 days, so we are working on with all customers and our export customers as well as domestic customers to see where we can bring this down to the 75-80 level. On the trade payable

side, I think we have been quite stable at around 45 days, I do not think we will be able to improve on this beyond this 45 to 50 days is the stability there, so if we can bring down the inventory, I think our overall targets will be achieved.

Ritwik Bhattacharjee: Right Sir, thank you, and related question on any sense on working capital loan levels going forward?

Rajesh Doraiswamy: Currently as I mentioned, I think our working capital debt is at around 160 crores and we have been remaining at this level for the last I would say five, six quarters, I think we will continue to remain at this level for at least this financial year.

Moderator: Thank you. The next question is from the line of Ronak Jhaveri from Khambatta Securities Limited. Please go ahead.

Ronak Jhaveri: Thank you for taking my question, Sir can you throw some light on the CAPEX cycle for the next couple of years?

Rajesh Doraiswamy: Thank you Sir, Good Morning, I think this year we are not doing any major CAPEX except for the maintenance CAPEX, so overall CAPEX for the current year will not be more than 7 to 8 crores at the max, so there is no major CAPEX, so whatever CAPEX we had to do, we have done last year that was for the installation or setting up of the data cable facility and going forward I think whatever plans we had for this year, we have just pushed it to see how the stability returns to the market, once that happens then we will see what to invest, which products to invest, where to invest in FY '22, so for FY '21 I think our CAPEX cycle is limited to our maintenance.

Ronak Jhaveri: Sir, you just said that you completed one CAPEX cycle last year, what was our total size of that CAPEX and how was it funded?

Rajesh Doraiswamy: Total CAPEX cycle is around 21 crores and it was funded by around 17 crores of term debt and the rest internally funded.

Ronak Jhaveri: That 17 crores, the term debt is at what rate, Sir?

Rajesh Doraiswamy: It is around 8.75%.

Ronak Jhaveri: Around 17 crores is through that, so 4 to 5 crores is internal accrual, right?

Rajesh Doraiswamy: Yes.

Ronak Jhaveri: And that was for which plant, Sir?

Rajesh Doraiswamy: For cable plant.

Ronak Jhaveri: Coimbatore?

- Rajesh Doraiswamy:** Wire and cable.
- Ronak Jhaveri:** Sir, second question if you can throw some light on the total export what you are expecting, I understand currently Europe is slowing down due to the extended lockdown, but some rough idea of coming year and a year later?
- Rajesh Doraiswamy:** Fortunately for us I think Europe has done extremely well in this particular quarter, I think we have done the highest ever export in a quarter for Europe. Our exports to Europe stands close to around 11 crores this quarter and we expect that this will continue for Q3 also because we already have orders for Q3 from Europe as well as North and South American markets, so these two markets are growing for us. Year-on-year, I think Europe has grown 30% for this quarter and North America has grown by around 15% in this quarter, so we see that the European market and the North and South American market being stable for us going forward though there has been a lockdown in UK, there has been lockdown in Europe, the businesses have been working, so most of the businesses are still open and they have been working, the manufacturing activities have been going on still.
- Ronak Jhaveri:** Sir, any possibility of any bad debt due to this lockdown or maybe payment coming with a delayed?
- Rajesh Doraiswamy:** Definitely not from our export customers, but whatever we had doubts on the collection, I think a portion of it we have already written it down in last March, I am sorry I do not remember the figure but we have already written it off in March '20 whatever doubts we had, but whatever outstanding that we have now is all good and collectable, we do not expect any major, major bad debts coming because of the pandemic. Most of our customers have reopened, started business, and most of them are back to pre-COVID levels except for the local distributors in India in certain states.
- Ronak Jhaveri:** Sir, as an analyst I would expect EBITDA to improve year-on-year, but if you can throw some light where is the possibility of improving the overall margin as such?
- Rajesh Doraiswamy:** If you look at our EBITDA margin, I think we have been between 10.5% and 11.5% for the last many quarters and this quarter I think we have achieved around 12.52% EBITDA margin mainly because our EBITDA margin in the switchgear divisions have improved to 17% and wire and cable also improved around 8% to 9%, so that is a one percentage point up in the wire and cable division, so we expect that this to continue going forward, so hopefully we can maintain this 12 to 12.5 for the next couple of quarters and continue that, I think that is one percentage point improvement compared to the previous years, so we hope that this will continue and the reason for this higher EBITDA is mainly because of reduced expenses and also increased sale from the higher EBITDA margin products.
- Ronak Jhaveri:** Okay, Sir can you just give an example which higher products, what you are ...?

Rajesh Doraiswamy: All our industrial switchgear division products give EBITDA between 14% and 18%, the average is that, so this quarter the average has been 17%, so the sale of that continues to increase and this is the share in the revenue of these products increase then the blended EBITDA will also be higher.

Ronak Jhaveri: Sir, last question, coming back to that CAPEX which you did last year of around 20-21 crores, was it for a specific company because we have seen it in the past that you know if you have a, it is a B2B business and I understand that it is from some company it is coming direct contract, so what is the portion of that 20 crores let us say you are initiating or rather starting...?

Rajesh Doraiswamy: I understand your question, we went into manufacturing of data cables mainly CAT6-CAT7 cables, so this is actually a growing market, this also includes the CCTV cables, so this is a facility that where we can produce it a variety of such cables, so the main reason that we went into invest in this facility to set up this factory is that we had a definitive contract coming from Schneider, so they were interested to buy this from us and we are working with them now for product approval, so that they can start buying, that is for I would say 40% to 50% of the capacity, so the rest of the capacity it will be Salzer branded, sold in the open market because the demand for this cable is quite high and we hope that we will be able to sell the rest of the 50% capacity in the open market.

Moderator: Thank you. The next question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah: Good Afternoon Rajeshji and appreciate the circumstances, Sir we have done very good on export front and your view are that we should do much better in coming quarters, so what is the rationale you see in the European and North American and can you give us the product breakup of that export, what are the products where we have done good on that side?

Rajesh Doraiswamy: Sir, I think that the North and South American markets, the demand is going up is mainly because some of the customers are trying to shift out from China, so that is the feeling that I have, so we have seen a slight demand going up from that area. Europe, I think Europe business for us has always been good, in between it was subdued and it slowed down in the last year two or three quarters, but otherwise Europe business has always been good for us and we see demand going up in Europe mainly because of the lockdown happened and they are coming back to work, I would not call a pent-up demand but overall I think their requirements have gone up, that is my feeling and understanding talking to the customers, I think it may not increase 30% quarter-on-quarter, but I am sure that it is going to be stable at this level is what is my opinion. Apart from these two areas, we are also seeing lot of enquiries and demand coming from the Australia and New Zealand market, because that is a country that is really looking forward to shift out of China, so I think that is also some business that we are confident that we will start getting from Q4 this year onwards, so based on these assumptions, I expect that the export market will definitely be doing good. On the products that we are selling in exports, I think all the exports that we do is from the industrial switchgear division. Under the industrial switchgear division, the major products that we export are toroidal transformers, rotary switches, isolators, these are

the three major products that contribute almost 70% of our exports and then the rest 25 various other products, wire harness, terminal blocks, relays, and many other products.

Sanjay Shah: Sir, this Australian and New Zealand are the new geographies for us?

Rajesh Doraiswamy: We had a client there, but we were not doing great business with them, so that is why we are not still showing that region as a separate region in our presentations, it is still combined with the Asia, once the business volume increases I think we will separate it out. As of now, it is not very significant, so we can definitely call it as a new geography.

Sanjay Shah: Sir, can you highlight upon your view on our B2C development, how successful we are and what opportunities you would see there?

Rajesh Doraiswamy: Sir, I think B2C we could have done very well in this year but for pandemic, we were actually geared up with all the new products everything set, but unfortunately this pandemic came and slowed down everything, so we are actually back almost that 90% to 95% levels of the pre-COVID levels. I think this year growing this segment is going to be very tough because the whole real estate market itself is still struggling and if suppose we are going to be aggressive in this segment, I think we are going to face a lot of payment issues, that is what is my feeling and that is what the market also feels because the real estate market is a very dangerous market in terms of payment cycles, so we are planning to go slow this year, do what we are doing, hopefully achieve the same sale of last year or little bit more than last year, but then doubling it for this segment is our goal for FY '22 and we are still operating I would say at the max in six states including Maharashtra and the South.

Sanjay Shah: What is the contribution of sales from that?

Rajesh Doraiswamy: Contribution of sale is around, this half year it is around 5%, this quarter it was 5.3, half year it is around 5%.

Sanjay Shah: Next year we can go up to 10%?

Rajesh Doraiswamy: Hopefully if we double it I think it will be 10%, yes.

Moderator: Thank you. The next question is from the line of Zakir Nasir, an Individual Investor. Please go ahead.

Zakir Nasir: Mr. Rajesh congratulations on a strong set of numbers for the September quarter, Sir I have two questions, you partly clarified the strong sales was not pent-up demand, so do you think that the next two quarters can see these healthy numbers, I mean these are really healthy numbers in terms of the way the margins have panned out and the way the segment wise revenue has panned out and India contributed 78% in the half-year, so do you think full year for India will remain at around 75% or do you plan to take it lower for India? My next question is Sir data cables we invested 18 crores last year, what would be the turnover of this division on a full capacity basis, Sir?

Rajesh Doraiswamy: I will answer the last one first, on a full capacity basis, we will be able to do around 30 crores in LAN cable, 27 to 30 crores but if we can add a few more balancing machine with the CAPEX of around 1.5 to 2 crores then actually we can double the capacity to around 50-55 crores, so that is the capacity planning that we have done so far.

Zakir Nasir: When do you think, in what timeline do you think this will be possible in a reasonably decent market, Sir?

Rajesh Doraiswamy: Sir, if the contract with Schneider is through, I expect that to get completed by Q4 of this year and start off, if that happens, I think within three quarters I think we should be able to fill this capacity and then go for the additional expansion like I said around the additional 2 crores investment and then double this capacity. On the next quarter's sales revenues and margins you are asking, I am quite confident definitely Q3 and Q4 will be as good as Q2. We are not seeing the slowdown or any major hiccups in that so far, though as I said I think things are still uncertain because as the other investor said Europe has gone for a lockdown, I do not think US is going for a lockdown but we do not know what happens to other Asian countries, we do not know what will happen in India, is there a second wave or how this pandemic is going to turn out, so until there is a very stable situation on the pandemic it is going to be highly uncertain to really predict, but things standing as of now I think we are very confident that we will be able to maintain what we have done in Q2.

Zakir Nasir: That is fantastic Mr. Rajesh, and last con call you had mentioned that you have an internal target of at least keeping the last years full top line, so do you think it will be possible I mean since one more quarter has passed?

Rajesh Doraiswamy: Yes, I think last year we were close to around 585 consolidated, so standalone 567, so we have to do another 320. Hopefully, by end of Q3 I will be able to give a confident figure, but definitely our target is to achieve that sale.

Moderator: Thank you. The next question is from the line of Vinod Ohri from Silverdale Capital. Please go ahead.

Vinod Ohri: Mr. Doraiswamy, I wanted you to elaborate more on the data cable business as such, what type of margin do you expect there and what are the chances of expanding the capacity?

Rajesh Doraiswamy: I am quite confident on expanding the capacity because the requirements from various quarters that we are now receiving enquiries are quite good, so if we can convert all these enquiries through orders and start processing, I do not think that there is a problem for expansion, so we will definitely do the additional investment and expand the capacity so that we can reach that 50-55 crore sale on that, so I am quite confident on that because the requirement is quite high and there is still a lot of imports coming in this, that is first part. Second on the margins, right now our wire and cable EBITDA margin is at around 9%, it was at 8, I think we are improving this 8 maybe, it is between 8 and 9. On the data cable facility, I feel that it can be at least 2% to 3% more than the regular wire cable, so it is between I would say 10% to 12% on EBITDA.

- Vinod Ohri:** When can we be a 1000 crore turnover company?
- Rajesh Doraiswamy:** Actually our target was...
- Vinod Ohri:** Assuming everything is normal.
- Rajesh Doraiswamy:** Actually, original target was to achieve this in FY '22, so we still have plans for achieving this in FY '22 hopefully if everything goes well, but I think that is too optimistic I would say because we are still short of 400 crores to reach that, so our plan is to see how we can get that 400 crores business in the next two years, so let us have a target of FY '23 to achieve that.
- Vinod Ohri:** What type of CAPEX you need to achieve this 1000 crores, additional CAPEX?
- Rajesh Doraiswamy:** I am not seeing major requirement of CAPEX, I think whatever CAPEX is required, we will be able to manage with internal funding, we do not foresee major CAPEX in the next two years. This year we are not doing anything, so FY '22 and FY '23 if we can, I expect that the CAPEX will be between 15 to 20 crores each year.
- Moderator:** Thank you. The next question is from the line of Rohan Mehta, an Individual Investor. Please go ahead.
- Rohan Mehta:** Good Afternoon Sir, just to bring on the exports as you already mentioned, this quarter Europe played very well and last quarter North and South America did very well, and it is probably likely to grow in the coming quarters, just if you throw some light on whether you see this as a seasonal demand change from region to region or is it like we are focusing particularly on a particular region in terms of demand and based on our particular focus specific to a time period in a region or is it just a seasonal change?
- Rajesh Doraiswamy:** I would not call this a seasonal change definitely because seasonal change will come in Q3 because most of these countries go on holidays in December and then sales are normally down in Q3, but Q1, Q2 is not seasonal demand I would say and as you asked our focus, I think our focus has always been on Europe, I think we have been doing more business in Europe than any other continent, we are continuing to focus on Europe, and North and South America, we have tried to increase our share of business in this market for quite some time, but it is a very tough and challenging market given the kind of quality requirements that they have and the kind of certification process that they have, but fortunately for us we have very good partners who are working with us in US and we see that things are very stable now and hope that business in this area goes up, increases so it is definitely not a seasonal demand and we expect this to be stable.
- Rohan Mehta:** Okay, and Sir in a 1000 crore top line scenario, what percent would you foresee exports to be approximately?
- Rajesh Doraiswamy:** Ideally, I would like to see the same percentage 20%-22%, but it depends on the additional business and additional kind of products that we are bringing in wire itself, so I will not be able to really tell you this is the percentage, but ideally I would say between 20% and 25%.

- Rohan Mehta:** Okay Sir and the product segments that drive our export revenue, is it similar to what we see in terms of demand in the domestic market or is it a slightly separate product mix that drives the export revenue?
- Rajesh Doraiswamy:** I think the export revenue products are slightly different, those products sales, the demand for those products in India have not still picked up.
- Rohan Mehta:** Sir, in a 1000 crores top line say if we do export around 20% of that top line, margins would benefit in that scenario, right, because export margins would?
- Rajesh Doraiswamy:** Obviously yes, for sure, export margins are definitely better.
- Rohan Mehta:** Sir, any guidance if possible on what kind of margins can be expected in that scenario?
- Rajesh Doraiswamy:** It is a tough question going forward, but I would say that the range should be between 12% and 13% going forward at FY '22-23 levels.
- Rohan Mehta:** Sir, just one last question, if you could just share your thoughts on Kaycee's performance for the year and how it is impacting Salzer in terms of consolidation of revenue?
- Rajesh Doraiswamy:** Kaycee since the factory is situated in Mumbai, I think the pandemic effect has been more though the second quarter has been good and we are almost back to the pre-COVID levels. For half year September 2020, Kaycee has done a top line of around 9 crores as against 12 crores last September, so that is kind of decline of almost close to 3, it is around 25% decline on top line that is mainly because of Q1, Q1 was a washout the quarter, the second quarter they are almost back to pre-COVID levels, and hopefully, Q3 and Q4 will continue at the flat run rate like last year.
- Rohan Mehta:** Up till Q4 it is likely to remain flat?
- Rajesh Doraiswamy:** Yes, because I think that Mumbai is badly affected and the markets that Kaycee concentrates are mostly in the Western region and the Eastern region, so all those areas are still affected and it is more of dealer business. Dealer business even for Salzer has not picked up and Kaycee also it has not picked up, so we think that they will be quite flat, full year we expect we will reach a turnover of around 22 to 23 crores like last year.
- Moderator:** Thank you. The next question is from the line of Ritwik Bhattacharjee from Khambatta Securities Limited. Please go ahead.
- Ritwik Bhattacharjee:** Sir, my question I understand that last quarter wire harness has been a major driver of revenue growth, can you identify some key products including new products that you see to be major drivers of growth going forward, which could generate exponential signs of growth, you have some new products like sensors, three-phase transformers and what kind of margin impact these are going to have?

- Rajesh Doraiswamy:** As you rightly said, wire harness is a new product, it is one-and-a-half year old product and this quarter I think we have achieved a sale of almost 10 crores, which is I would say annual run rate of 40 crores which is quite good compared to what we did last year, that is a growth of almost say 35%-40% and this product in wire harness, it is a wide range of products, it is a big basket of various components put together, goes to various customers, so there are lot of new things that continues to happen in wire harness that is one. Secondly, I think as you said sensors and three-phase transformers, sensors is yet to pick up, so we are not really projecting that as a big product or a product that will bring in a lot of sales in this year, we are not talking about that right now though the product has been developed, it is under testing and some customers are already there for us, but three-phase transformers, yes, I think we did close to around 30 crores last year and this year we expect that it will be at the same level because Q1 was slow and Q2 also we have not seen big demand coming in here, but going forward I think we expect that we will increase our sale and we will reach 30 crores that means that our run rate will be much higher if we can achieve 30 crores in the next two quarters, so far we have done only around 8 crores in that particular product and both these products are under the industrial switchgear division and giving us EBITDA between 14% and 16% for both these products. What products we have identified for future I think that there is a long list that our design and research R&D department is working, so as and when it fructifies and comes into business, I will definitely keep you all informed on that.
- Ritwik Bhattacharjee:** Sir, could you give us an idea about capacity utilization as well as we are in the first two quarters and how it is going to pan out through FY '21 and thereafter?
- Rajesh Doraiswamy:** Sir, across the factories I think we are on an average between 70% and 75% utilization levels. Certain factories we are at between 80 and 85, but some of them at around 65 to 70, but on average between 70%-75% utilization levels I would say since July.
- Ritwik Bhattacharjee:** You expect some increases going forward?
- Rajesh Doraiswamy:** This year I think we should be stable at this level unless and otherwise there is additional new business, new orders, new customers then we will have to see what happens with that, but otherwise we expect that this to be stable.
- Ritwik Bhattacharjee:** Sir, last question, I understand that it is quite difficult to answer actually, I understand that we are also hopeful about some business moving out of China and that is going to benefit us, but with the likelihood of Biden coming to power in the US and although I understand for you Europe is a more important geography than the US, but given Biden comes to power and there could be normalization of relations between the US and China, so how do you see in that context businesses moving out of China and we benefiting from that in a new geopolitical environment?
- Rajesh Doraiswamy:** Good question, I think we should not comment on American Presidential elections, but I think Biden becoming President is kind of almost certain that is what it looks like, maybe I think Trump's win would have been much better as you said in terms of the relationship between US and China not getting normalized, but as you said I think even if Biden or any other President in

future, I do not think they will be able to take a directly opposite view of what Trump has taken, so I do not think that the relationship definitely is going to smoothen completely, they are definitely going to be still issues, problems. He is not going to reverse the tariffs that he has already been put, so I think it is going to continue, maybe it will not further worsen. Having said that, I think the companies who have been buying from China have already taken a view even before the pandemic I would say last year October-November onwards, there have been a lot of companies who really wanted to shift and reduce the risk that they have been having in China, so I think that trend will definitely continue going forward even if Biden wins I think it is almost certain now and I think that trend will continue and because of that, I think the rest of the countries are definitely going to see a surge in manufacturing and definitely India is going to be a part of it gaining or the advantages that we have and we are definitely better placed, we are already seeing enquiries coming in that line and we will definitely see our business share improving to North America and Australia, I think Australia as I already mentioned is another country who are very serious of moving out of China.

- Moderator:** Thank you. The next question is from the line of Vijay Ramchandani from Pragya Equities. Please go ahead.
- Vijay Ramchandani:** Sir, Good Afternoon, you mentioned that our overall capacity utilization currently is around 70%-75% and we are planning to targeting to have a turnaround of 1000 crores without much CAPEX, so how is this possible I mean even if we go to an utilization of 90%-95%, is it possible to do a turnover of 1000 crores without any CAPEX?
- Rajesh Doraiswamy:** It is definitely not possible because at the max, we will be able to achieve on an average 80%-85% utilization levels, I do not think we will be able to go beyond that, but the advantage is I think most of our products require minimum CAPEX, so as I mentioned if we can do next two years 30 crores CAPEX, I think we will be able to increase our capacity except for the wired cable division where the CAPEX could be higher, but at the same time the capacity utilization in the wired cable also can be much higher, it can be 90%-95% levels, so our understanding is that we will be able to increase our balancing in capacity utilizations by putting in whatever small machines required here and there and then increase our capacity to meet the demand.
- Vijay Ramchandani:** Okay, my second question is regarding the CAPEX which we did last year for data cables, what sort of asset turn we can achieve in that?
- Rajesh Doraiswamy:** As I mentioned, I think we did close to around 21 crores total CAPEX we have done, I would consider that we will be putting in another 2 crores may be 23, so we can achieve around 60 crores so that is close to 3X.
- Vijay Ramchandani:** Also, if you can provide a mix when we foresee our turnover of 1000 crores in next two years, what would be the mix between wire harness, data cables, switchgear, just an approximate figure?

- Rajesh Doraiswamy:** It is quite difficult to say that right now, but overall I think our focus is to increase the revenue share of the industrial segment products that is the products that can give margins above 14% at least on EBITDA levels, so right now our revenue share from this segment is between 43% to 47%, that is what we are looking at, so going forward, ideally we would like to see 50%-55% coming from industrial switchgear and 40% to 45% from the wire and cable division, so that is the focus that we have and targets that we are working on.
- Vijay Ramchandani:** Sir, last question any thoughts by the promoter to increase their holding in the company because we are at multi-year low and I mean we had a turnover of 600 crores approximately having a market cap of less than 200 crores, so any thoughts of increasing the holding?
- Rajesh Doraiswamy:** Yes, as I have been mentioning in earlier calls, I think the promoters definitely have the plan to get their stake to at least 40%, it will definitely happen through the creeping acquisition.
- Vijay Ramchandani:** By when can we expect that to happen, Sir?
- Rajesh Doraiswamy:** Every year there is a slight increase that is happening, so this year also we will see some increase, so hopefully in the next couple of years, I think it should be at around 40% levels.
- Moderator:** Thank you. The next question is from the line of Abhineeth Kulkarni, an Individual Investor. Please go ahead.
- Abhineeth Kulkarni:** Good Morning Sir and congratulations on a great set of numbers and especially the exports part, most of my questions have been answered, just one small clarification I require on the balance sheet, so there is in the long-term financial assets I see your loan of Rs. 18.68 crores as been classified as loans to others, so is it possible for you to give me that clarification?
- Rajesh Doraiswamy:** Which one on the balance sheet?
- Abhineeth Kulkarni:** I am referring to the annual report actually, so there is a line item called loan given to others, so there is no clarification on that, what that line item is?
- Rajesh Doraiswamy:** 18 crores it is on the asset side. I will have to get the breakup, Sir.
- Moderator:** Thank you. The next question is from the line of Rohit Ohri from Progressive Share. Please go ahead.
- Rohit Ohri:** Sir, I have only one question, looking at the top line growth which you are talking about in the next two to three years, can you do a return on capital employed at around 18% or so?
- Rajesh Doraiswamy:** Yes, I think that is also our target, I am very hopeful that if the revenues grow as we want this to grow with the current EBITDA levels, I am sure that we will automatically achieve 18% ROC.
- Rohit Ohri:** Sir, you have any thoughts for us in terms of the AMC players which are playing a role for us?

Rajesh Doraiswamy: AMC means?

Rohit Ohri: Annual maintenance charges as such from any customers.

Rajesh Doraiswamy: You mean to say AMC for us?

Rohit Ohri: Correct.

Rajesh Doraiswamy: Now, I think our AMC business actually ends with the energy management division, so if we do not have any projects, the AMC ends this quarter, otherwise we are not doing any AMC business as of now.

Rohit Ohri: If at all I can just ask one more question, so you have been talking about an acquisition which the company is open for in times to come, so will you be focusing on the wire segment or will you be looking at something in the switchgear or energy management or the building products?

Rajesh Doraiswamy: We are not looking into anything on the wire side for acquisition, so if at all there is an acquisition that we are looking at it is on the industrial switchgear side and if anything comes through in the energy management that is suitable for us, yes.

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

Rajesh Doraiswamy: Once again thank you everyone for your interest and support in the company. All of you stay safe and thank you, see you for the next investor call.

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