salzer

SALZER ELECTRONICS LTD

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November 08, 2023

To

THE CORPORATE RELATIONSHIP DEPT
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Symbol: **SALZERELEC**

Dear Sir,

Sub: Transcript of the Earning Call on the Results of First Quarter / three months ended 30.09.2023.

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 11.30 Hrs (IST) on Monday November 6, 2023 to discuss the financial results of the Company for the Second Quarter / Six months ended 30.09.2023.

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

MURUGESAN.K.M. Digitally signed by MURUGESAN.K.M. Date: 2023.11.08 17:33:44 +05'30'

K M MURUGESAN
COMPANY SECRETARY

Encl : As above

"Salzer Electronics Limited

Q2 & H1 FY '24 Earnings Conference Call"

November 06, 2023

MANAGEMENT: **MR. RAJESH DORAISWAMY – JOINT MANAGING DIRECTOR – SALZER ELECTRONICS LIMITED**
MR. P. SIVAKUMAR – ASSISTANT VICE PRESIDENT-MARKETING – SALZER ELECTRONICS LIMITED
MR. MURUGESH –COMPANY SECRETARY – SALZER ELECTRONICS LIMITED
MR. MENAKA –GENERAL MANAGER ACCOUNTS – SALZER ELECTRONICS LIMITED
MR. JITENDRA VAKHARIA – DIRECTOR – KAYCEE INDUSTRIES
MR. RAMAN – CHIEF OPERATING OFFICER OF KAYCEE
MS. SAVLI MANGLE – ADFACTORS INVESTOR RELATIONS MANAGEMENT – SALZER ELECTRONICS LIMITED

MODERATOR: **MR. ROHIT OHRI – PROGRESSIVE SHARE BROKERS PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q2 and H1 FY '24 Earnings Conference Call of Salzer Electronics Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touch tone phone. Please note that the conference is being recorded. I now hand the conference over to Mr. Rohit Ohri.

Rohit Ohri: Thank you, Akshay. Good morning, everyone. On behalf of Progressive Shares, I welcome you all to Q2 and H1 FY '24 post earnings conference call of Salzer Electronics Limited. Please note, this conference may contain forward-looking statements, which are based on the belief, opinion, and expectations of the company as of the date of this call. These statements are not the guarantees of future performance and may involve risk and uncertainties that are difficult to predict.

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

Savli Mangle: Thank you, Rohit. Good morning, everyone and thank you for joining us today to discuss the unaudited financial performance for the quarter and half year ended 30, September 2023. I have with me Mr. Rajesh Doraiswamy, Joint Managing Director; Mr. P. Sivakumar, Assistant Vice President, Marketing; Ms. Menaka, General Manager, Accounts; Mr. Murugesh, Company Secretary; Mr. Jitendra Vakharia, Director, Kaycee Industries; and Mr. Raman, COO of Kaycee Industries.

We'll now take you through the consolidated financial performance of the quarter and half ended -- year ended September 2023. During the second quarter, our revenues increased to about INR282.70 crores from INR245.62 crores in the previous corresponding period.

The overall market has been a bit slow in the second quarter as OEMs pushed back in orders. Despite this, we grew 14% driven by Industrial Switchgear and Wires & Cables businesses. Industrial Switchgear products like 3-phase dry-type transformers, wire harness, relays and new products like contactors have contributed to this growth.

The EBITDA, excluding other income, was about INR27 crores in the second quarter as against INR25.63 crores in the previous corresponding period, a year-on-year growth of nearly 5%. The EBITDA margin for the quarter was at 9.5% and the profit grew nearly 5.1% to INR10.10 crores in Q2 FY '24.

Coming to our half yearly financial performance, in the six months ended September 2023, our net revenue was INR569.40 crores as against INR488.76 crores, a year-on-year growth of nearly 17%, driven by our businesses of Industrial Switchgear and Wires & Cables.

The EBITDA margin, excluding other income, stood at INR52.87 crores in the first half, as against INR46.33 crores in H1 FY '23, a year-on-year growth of 14%, mainly on account of higher sales in high demand products like 3-phase dry-type transformers, wire harnesses, relays, contactors, etcetera.

The EBITDA margin for the first half stood at about 9.3%, a year-on-year decrease of 19 basis points. This decline was on account of increasing power costs and outside processing costs. But PAT was at INR20.27 crores in H1 FY '24 as against INR19.25 in H1 FY '23, a year-on-year growth of about 5.3%, while the margin stood at 3.6%.

Moving to the breakup of the revenue of the different businesses, starting with the Industrial Switchgear business, this contributed to about 56.4% of the total revenues in the quarter and 55% in first half. This business has grown about 9% in Q2 and about 20% in H1 FY '24, while the margin in this business was about 11% in Q2 and about 11.3% in H1 FY '24.

Our 3-phase dry-type transformer product grew about 96% year-on-year in Q2 and nearly 122% in H1 FY '24, while wire harness business product grew 12.2% year-on-year and nearly 49% in H1 FY '24. These two high demand products continue to grow at a faster and a higher rate. Coming to the Wires & Cables business.

This contributed to about 37.5% of our revenues in the quarter and about 39.1% in H1 FY '24. That is an increase of about 22% year-on-year on this division during the quarter and nearly 17% of H1 FY '24 with the EBITDA margin being about 7% in Q2 and 6.7% in H1.

The Building Products business contributed to about 6.1% of our revenues in the quarter and 5.7% in the half year. This business is the only B2C business that we have as -- where we sell many electrical products for the building sector. We expect the growth trend to improve in the coming quarters, which will help us increase our contribution from this segment.

On the export front, we continue to see growth mainly due to higher sales in North and South America, Middle East, Africa, Europe, and Asia. Export to the Americas grew 105% year-on-year; Middle East and Africa, about 89%; Asian countries, about 31% year-on-year, while Europe grew nearly 50% during the quarter.

For the quarter, our exports share was nearly 35%. The growth from exports was about 53% year-on-year and 42% sequentially. For the half year, the exports share was about 29% and exports grew 46% year-on-year during the half year.

Thank you. I would now like to hand over to Rajesh to take us through the business developments and the road ahead.

Rajesh Doraiswamy: Thank you, Savli. Wish you all a very warm welcome to Salzer Electronics Limited earnings conference call for the second quarter and half year ended 30, September 2023. Thank you all for taking time to join us today. We have shared our results update presentation and media release. I hope you all must have received it and gone through the same. I would like to share a few recent developments and also the outlook for the future.

In general, the market outlook, I think we all know that due to the geopolitical unpredictability, there are supply chain interruptions and increased regulatory scrutiny that's happening, because of all this, the electronic market has experienced a number of difficulties recently. However, the market has some tailwinds, including growing demand in India, particularly continued technical breakthroughs across the world and expanding investments in infra, automation and digitalization.

At Salzer, we are committed to responding quickly to these altering conditions and adopting a proactive strategy to guide the company towards expansion and growth. The global Wire & Cable market size was estimated at $200 billion in the year 2022 and is projected to grow at a CAGR of 4% until 2030. Rising urbanization and growing infrastructure worldwide are some of the major factors driving this market.\

Implementation of smart grid technology has met increasing need for grid interconnections, thus resulting in a rising investment in this sector. With economic and infrastructure development, India's generation and consumption of power and electricity is steadily rising.

Particularly India's power sector is one of the most diversified in the world, sources of power generation, ranging from traditional sources like coal, natural gas, oil, hydro and nuclear, coming to a renewable, nonconventional sources such as wind and solar. Switchgears are applicable and used across all types of production and delivery of electricity to end users. Furthermore, the demand for infrastructure is growing year-on-year as population growth and urbanization increases. There is a growing demand for infrastructure projects such as roads, bridges, and buildings.

The government's focus on smart city development, digitization is also increasing the demand for all electrical products. We at Salzer expect to capitalize on all these opportunities. Some of the key developments on the business in this quarter. In this quarter, we have seen growth coming in from our Industrial Switchgear at 10% and Wire & Cable business at 22%.

Our products like 3-phase transformers and wire harness, as already Savli said, both witnessed very high growth as expected. Other legacy products like relays and new products like contactors, also grew at around 20% each. However, in this quarter, some of the high-margin products like rotary switches, isolators, cable ducts declined in sales, which is also one of the reasons for the EBITDA margin not growing as expected.

On the input material cost, the material cost has remained mostly stable in this quarter, except for silver prices, which has been increasing. However, all other costs, like the power and fuel, subcontracting, freight costs have increased in this year. We are focusing on maintaining a balanced business mix between switchgear, Wire & Cable products to manage the overall gross margin percentage.

On the electric vehicle front, as we all know that we forayed into EV charger manufacturing business through a joint venture with an Austrian company. Our company is gearing up for the booming EV charging market. Our product, DC fast charger is suitable for various types of brands of cars. This charger is undergoing testing at ARAI in Pune and we are expecting to launch this product in Q4 of FY '24.

We believe that this EV charger manufacturing business has the potential to be a game changer. While it may take some time to establish a customer base and also create a charging network by ourselves, the company definitely aims to play a significant role in the Indian market where the demand for the EV charging infrastructure is expected to grow significantly.

On the other front, our recently developed new products for the new segment, heating and ventilation and air conditioning segment, products like contactors, disconnect switches and whips, these products are being used to both in domestic and industrial -- domestic and industrial AC systems in India as well as in the international market. Because of this, we expect our sales to Europe and USA to increase over the coming quarters.

With respect to our subsidiary, Kaycee Industries Limited is concerned, the sales have been growing consistently and EBITDA margins are also improving consistently. Kaycee's top line grew 14% year-on-year to INR11.7 crores in Q2 FY '24. EBITDA grew 32% year-on-year to INR1.52 crores in Q2 FY '24 from INR1.1 crores. PAT margins were at 8.5% this quarter, an improvement of almost 1 percentage point over the previous year Q2.

We expect Kaycee to continue to do a similar growth in the coming quarters. The markets are becoming challenging and is also slowing down a little bit. We are heading into the second half of this fiscal with a comprehensive product portfolio encompassing numerous products and collaborations. Our long-term relationship with leading global players such as Schneider, Eaton, Honeywell, ABB, etcetera, will help us remain stable during tough times.

For us, we see these headwinds as temporary and our expansion into EV charging and renewable sectors, coupled with strategic diversification into HVAC sector sets the stage for an exciting journey ahead in the next two quarters to four quarters. I thank the entire Salzer Electronics -- entire team at Salzer Electronics for their untiring efforts and all our stakeholders for their continued support and faith in our company. This is all from our side now.

Now I would like to thank you all very much for your time and attention and I wish you all a very, very happy Diwali. We can now take questions.

Moderator: Thank you very much. The first question is from the line of Sriram, an individual investor. Please go ahead.

Sriram R: In the last call, you had mentioned that the enamelled copper wires would be about INR40 crores. So can you just give some breakup on the Wires & Cables segment, so want to know what the other components are? And also similarly on the industrial switchgear side, how much would be the transformers and the cam-operated rotary switches?

Rajesh Doraiswamy: On the Wire & Cable, the enamel copper wire last quarter contributed INR33 crores. The rest, close to around INR70 crores is from the PVC insulated Wire & Cable. That's the breakup for Wire & Cable. On Industrial Switchgear, I don't have the breakup product wise. But the top contributors are the Toroidal transformers, rotary switches, 3-phase transformers, and wire harness. These are the top four contributors for the Switchgear segment, where we did close to INR306 crores for the first half.

Sriram R: So those three would be about 80%, some rough numbers and rough figures?

Rajesh Doraiswamy: 60%, 65%.

Sriram R: 65%. Okay. And sir, that on the Wires & Cables, you mentioned that the balance is basically PVC-plated cables and wires, right?

Rajesh Doraiswamy: Yes.

Sriram R: And the wire harness, sir, how much would it be for the quarter? And sir where do you report the wire harness? Is it in the Wires & Cables or in the Industrial Switchgear?

Rajesh Doraiswamy: No, it will be in the switchgears, wire harness will be in the switchgears.

Sriram R: And sir, what is the number for the quarter, sir?

Rajesh Doraiswamy: I don't have the individual products breakup figures. But I can share it with you through our team.

Sriram R: And sir again, on the wire harness side, what is the traction you've been getting, if you can provide some color on that, what is our capacity utilization at the moment?

Rajesh Doraiswamy: Actually, capacity for wire harness is very dynamic for us. Right now, I think the capacity that we have created, we can produce, up to around INR100 crores, INR150 crores of annual business. This year, we expect to close -- last year, we closed wire harness business at around INR70 crores. So this year, we expect this to close at around INR100 plus crores. We also recently expanded in Hosur, for wire harness particularly. So here, the capacity is quite dynamic and there is not much capex required to expand the capacity in wire harness.

Sriram R: So what would be the current utilization of Hosur plant, sir?

Rajesh Doraiswamy: Around 70% utilization, we're doing.

Sriram R: 70%, for the new plant, right?

Rajesh Doraiswamy: No, new plant is still starting up. It's around 30%, 40% utilization but overall capacity, we're at 70%.

Moderator: Thank you. The next question is from the line of Senthilkumar from Joindre Capital Services Limited. Please go ahead.

Senthilkumar: My first question is on the marketing arrangements with L&T, how is it progressing because L&T a reporting a strong growth in the order book. So can we expect any growth -- significant growth opportunity from this?

Rajesh Doraiswamy: No, I didn't fully understand your question. You're asking about the arrangement of marketing with L&T?

Senthilkumar: Yes.

Rajesh Doraiswamy: I think the -- L&T is marketing our rotary switches and Wires & Cables, that's what they're doing. And the arrangement still continues to grow and they continue to market our products across India.

Senthilkumar: Is it only a marketing arrangement or do we supply for their captive purpose also, sir, because you know it's for a particular segment...

Rajesh Doraiswamy: We do supply for their captive purpose but that's two different business. But our supply for their captive purpose is very small for L&T. The majority of the business that we do is marketing only.

Senthilkumar: And my second question is on, in the opening remarks, you said, like the fast charger, the distribution network, we will set up our distribution network on our own, right?

Rajesh Doraiswamy: For, distribution network for?

Senthilkumar: Fast chargers, setting up of faster charges.

Rajesh Doraiswamy: Yes, we will have to go and find the market. We have to go and sell to the customers.

Senthilkumar: So do you have any idea to now enter into a joint venture or third-party supply faster chargers.

Rajesh Doraiswamy: No, I think it's too early for us to work on that as of now. I think once the fast charger is ready, we have some ready-made market as of now and we will start doing that first. And then we will see how to grow our business in that area.

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

Manu Jindal: I have a couple of questions, in terms -- so just wanted to know that in terms of Industrial Switchgears, in the last call also, you mentioned that you have arrangements with -- where you sell your products to Schneider and Honeywell, these types of companies. So just wanted to know that -- like in terms of other competitors, do you have some technical capabilities, technical advantages that these big players are taking, these players are procuring switchgears from you or is it just like a distribution, what are the competencies that need these giants procure from you, just wanted to have a little view on that piece?

Rajesh Doraiswamy: Sir, I think this -- we have been telling this in many of our calls, in our earlier calls, maybe you have not followed it -- our earlier calls. I think we have all the technical capabilities required to manufacture various electrical, electromechanical, electronic components. And that's the reason that all these multinationals have come to us and stuck to us for a very long term.

I think some of the relationship exceeds 20 years, is because of the technical competency that we have in manufacturing, in designing and manufacturing engineering products. Definitely, I think we have much better competencies than many of our competitors.

Manu Jindal: And sir, one more question. In terms of copper segment, again, there is a risk of China companies. So just wanted to know like if it ever happens, so how do we plan to take them if there is ever a chance of China dumping the wiring into India. Just wanted to have a little preview on the same.

Rajesh Doraiswamy: I think in Wire & Cable industry, I don't think there is any threat from China for India because India itself is having many, many large Wire & Cable players who are quite capable of competing internationally. And also, I think there is enough restrictions for the Wire & Cable industry for the imports to come in because there are mandatory BIS certifications you need, mandatory standards that you have to meet, if you have to sell in India. So I don't foresee any Chinese threat as, such dumping of Chinese products in India in the Wire & Cable, nor the switchgear products.

And apart from that, I think the Chinese also is no more very cheap. I think they also have become quite expensive or as expensive as the Indian products are. So I don't foresee any Chinese dumping threat on any of the sectors that we are in.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir, I have a few questions. First up, I mean in terms of EV charger, I think we were in the testing mode. And we were expecting some revenue to start. So any kind of light you can throw on that front that how has the testing gone? And how do we see it going forward?

Rajesh Doraiswamy: Actually, this testing is a little bit long-drawn process. So it is underway. We have done some preliminary tests and it has cleared very well. And we expect there should not be any issue in clearing the standards that is required by the Indian government. So we expect this testing to be completed by end of this month or beginning of December. And we see the revenues started coming in from Q4 of FY '24, as I mentioned in my earnings call speech. So Q4 FY '24 is definitely a period where we will start earning revenues from the chargers.

Deepak Poddar: And do we have to -- I mean what's the certification we get here, I mean, in terms of the -- and is it eligible for exports as well?

Rajesh Doraiswamy: As there is a BIS standard for chargers, so you have to test these charges as per the BIS standard in the -- there are two or three labs that are certified to test this. One is the Automotive Research Institute in Pune. So we have chosen that to test this. So there's another research institute in Chennai to do such testing. So we will get a certificate from ARAI saying that these charges are as per the BIS standard.

Deepak Poddar: Okay. Understood. Fair enough. And I think in the EV segment, next year we are targeting some INR100 crores kind of a revenue in -- earlier, I think.

Rajesh Doraiswamy: I would like to clarify; I didn't mention that it's next year. Our aim is to get to that level. But hopefully, yes, if everything goes well because this market is still evolving. Because there are no ready-made customers for electric vehicle fast chargers as of today because these charges are expensive. So people at home won't be able to buy and install this and there is no necessity for them to buy such an expensive charger for home. So this is mostly public charging. And public charging market is still evolving.

There are tenders coming from the government. There are different methods of installing the charges in the public. So as the market is evolving like this, so it's very difficult to really estimate the revenue in the next one year and 1.5 years. But for sure, I think there is a lot of emphasis on creating an EV charging infrastructure across the country but there will be different methods to do that. So we are exploring all possible ways to get into the market and see how we can earn out of this.

Deepak Poddar: Correct. And then what can be the steady state margin in this business? I mean at a steady state, once it evolves, maybe what sort of minimum threshold margin we -- do we expect to clock in EV charger?

Rajesh Doraiswamy: I think anywhere between 16%, 20% of EBITDA margins in this product.

Deepak Poddar: Fair enough. I got it. And I was reading a press release. So -- and in your opening speech as well, you said you are seeing a positive trend in terms of increasing your raw material costs, right, which will help your -- help improve your margins. So I mean we were on the way that 4% margin is what we are looking at for FY '24. So do we stick to that? Or is there any change to that or any upside risk for this year or next year? So any...

Rajesh Doraiswamy: No, I think we will definitely be close to 4% PAT for FY '24. I don't see a downside risk definitely from here because the input costs are definitely stabilizing. Unless otherwise, there is what you call any block or an event, like, geopolitically something very bad happens, then we may get stuck some there. Until, I mean, unless otherwise, I think we are good as of now and we see that whatever we committed of close to 4% PAT margins is achievable.

Deepak Poddar: Okay. And this reduction in raw material, are we -- are WE able to absorb ourselves, I mean, in our company or we have to pass on, I mean?

Rajesh Doraiswamy: I think in the Wire & Cable, it's passing on, as I have mentioned earlier but industrial switchgears, we normally don't pass on because that's only an annual rate contracts that we do, or annual price increases we do.

Deepak Poddar: I understand. And my final question is, I think you also mentioned that because of the global uncertainty, there has been bit of a slowdown, right? So what it means for growth for us? I mean whatever we have been targeting, I mean, what, 20%, 25% growth rate, so do we see...

Rajesh Doraiswamy: We definitely expected a 20%- 22% growth this year. But unfortunately, we have ended up for this half year at around 16%. We hope that the Q3 second half of Q3 and Q4 might be better, if everything goes well because we are not seeing any change from Q2 to Q3 as of now. I think almost one month is over. We are still seeing slowness in the market. In slowness, I mean, we are not getting the growth that we expect to get.

We are still growing but at a slower rate, I would say. That's not just geo -- I mean, international uncertainties but also domestically, there are elections across, the various reasons people cite, the money is tight, inflation is high. So there are different reasons that the projects are slowing down or pushing out -- pushed out. OEMs are pushing out on their forecasts.

So these are the things that's happening as of now. But we see it as temporary. Definitely, I think in Q4, things should start picking up. And we look at least a 18%, 20% growth for this financial year. So maybe we should tone it down by around 4%, 5% compared to what we expected during the start of this fiscal.

Moderator: Thank you. The next question is from the line of Khushbu Gandhi from Share India. Please go ahead.

Khushbu Gandhi: So a few of my questions have been answered. I'll come directly to the few questions, which I have still pending. So the first one is on the EV charging stations. So you said that we are actually looking for the revenue from the EV charging stations from Q4. So what is the market? Are we looking in the domestic front or on the export side, where we are looking? And secondly, what is the capacity over there? Are we -- do we need any capex for the expansion of the EV charging stations setup or we have the setup already done or planned?

Rajesh Doraiswamy: Ma'am, EV chargers, we are looking at both domestic as well as export, export back to our collaborator, domestic to various customers, is what we are looking at. The capacity as of now, I think we can produce close to around 70 to 100 charges a month. We already have capacity but definitely, we need some more capex. But since it's a joint venture, our share of investment will not be very much high. I think we expect the investment to be between INR4 crores and INR5 crores in the next two quarters or three quarters. That's what we expect to invest into that company.

On the domestic front, as you said -- as I already said, there are no ready-made customers for the charges as of now, except a couple of them who are doing the charging service across the country. We are also looking at creating a charging network ourselves but then that's again one year down the line. We have to see how we can finance that venture. So this is an evolving market but we see good potential in this business.

Khushbu Gandhi: Okay. But sir, on the export front, already, a lot of your regions are well set up for the EVs. So do we have any orders? Or have you talked with any of the clients over there and we are looking for the orders, an updated number going forward? Or post-certification only, we will be looking to that.

Rajesh Doraiswamy: No, I think we already have started discussion with our collaborator to sell -- to build chargers for them. Yes, that discussion has already started. So it's in the final stages and we should be able to start by Q4 for them.

Khushbu Gandhi: Okay. And sir, one more question on the Industrial Switchgear front. So since we are facing some slowdown right now, for the current year, we have already lowered our growth rate to 18% to 20%. But how do we see FY '25? Can we get -- are we expecting the same growth going forward? And with the same margins or there will be a decline in the margin still the raw material prices have not stable down?

Rajesh Doraiswamy: The raw material prices have stabilized and have also gone down. We expect this, definitely on the long term we are very positive on the growth for the country as well as for our country -- for our company. So maybe this year, I think it's a temporary -- I wouldn't call it a slowdown, I think reduced growth is what I would call, which is -- which in my opinion, is temporary and will definitely turn around once things are stabilized internationally as well as in the country.

Khushbu Gandhi: Okay. And do we still continue to maintain domestic and exports in the same ratio? Or we'll be focusing more on export front going forward?

Rajesh Doraiswamy: Fortunately, for us, I think the exports have grown well in this quarter. I think this quarter, where our export share has gone up to around 28% compared to what it was for the last year at 25%, 26%. So we see that end of this year, our export share will be at 30% of our revenue, which will be at least 4%, 5% higher than what we did last year. Fortunately, the export market is growing well because of the new product additions that we have done in the last two quarters.

Khushbu Gandhi: Sir, do we enjoy better margins at the export market? So because of that, we'll be looking at better improvement in the margins by end of...

Rajesh Doraiswamy: Normally, yes. I think export margins are a little better. But in this last two quarters, because of the introduction of the new product, there have been some additional costs that we had to incur due to various reasons. And that's why we see a lower margin. We have not recovered actual price that we have to recover from the export margin because of the new product introduction, so which will stabilize going forward in Q3, Q4.

Moderator: Thank you. The next question is from the line of Pranay Gandhi from Green Portfolio. Please go ahead.

Pranay Gandhi: Sir, I just have one question in regard to the contactors segment. Previously, it was mentioned that it has a revenue potential of upwards of $20 million over the next five years. So how are we faring on that? And if you could shed some light on the current volume and the absolute revenue, where we are?

Rajesh Doraiswamy: I think the potential still remains open and available for us from the North American market for this HVAC products. End of this year, I think we will end up maybe close to around $2 million, $2.5 million revenue for this product. And we are still stuck with one particular customer because the product has been newly launched, introduced.

We are working with various other customers, both in US and Europe and also in the Indian market. So by FY '25, I think we see this business doubling or even tripling for FY '25. So the potential, as I mentioned, of growing to around $20 million in the HVAC segment is quite possible in the next two years.

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

Neha Jain: I would like to, sir, understand the 42% growth in exports that we have. So what factors have contributed and which markets have majorly grown in this segment?

Rajesh Doraiswamy: I would consider half year as a better performance instead of quarter. So I'll talk about the half year growth. Half year growth, I think the US market has doubled compared to what it was in the last year first half. The main reason is, as I mentioned, the new product introductions and the new customer introductions have increased this, has made this growth possible. And in Europe, also, similarly, I think the market also has been good for us.

And again, European market also this new product and new customers have increased and grown at 40%. So I think across the market, even the Middle East and the African market also have grown, though it is the, the overall value is small but it has still grown by around 50%. So our major market as of now is North America and Europe, contributing I would say, close to 60% - 65% of our overall exports.

Neha Jain: So sir, basically, we are not impacted by any geopolitical crisis or inflation or anything as such?

Rajesh Doraiswamy: No. I think so far, the markets have been a little slow in the Far East and Europe. But I don't think it is because of any geopolitical reasons. We are not seeing any major impact because of that so far.

Neha Jain: Okay, sir. And sir, one more question. That's regarding the recent patents that we have received. So like what kind of market demand do we see for that? Like the MPCB and rotary switches? So what kind of demand...

Rajesh Doraiswamy: MPCP is a product that is used both domestically and internationally for motor production. It's a large market but at the same time, it is also -- there are also large players that operate in this market, like our customers, like Schneider, ABB, Siemens, all the large players operate in this market. So it's a very challenging, tough market.

We are trying to do our best, though we got a patent, it's a different technology than what others are doing. That is why we applied for a patent and got it. But that alone will not give us an edge in the market. So we are trying our best and we are not able to really predict a revenue potential for this product as of now.

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

Viral Jain: Sir, I was looking at the numbers. I wanted to know what is the main reason for the rise in short-term borrowing for the company?

Rajesh Doraiswamy: I think one of the reasons is, I, think our receivables have gone up by, I would say, by around 10 days, 12 days compared to what it was in March. We have managed to maintain our inventory but receivables have gone up. I think that's one of the reasons that the short-term borrowings have gone up by around INR15 crores compared to June.

Viral Jain: Okay, sir. I also wanted to ask, sir, I noticed a substantial increase in the current tax liabilities. Sir what does that exactly constitute?

Rajesh Doraiswamy: Okay. That's a question on the balance sheet. I will love to really take a look to -- before answering you. I don't see it's gone up substantially. I think it is -- you are comparing it with which year, sir?

Viral Jain: Sir, this half year?

Rajesh Doraiswamy: This half year to last half year?

Viral Jain: Yes.

Rajesh Doraiswamy: Last half year, we didn't provide for current tax liability. But we are this is normal income tax liability that we are providing for.

Moderator: Next question is from the line of Nihar Mehta, an individual investor. Please go ahead.

Nihar Mehta: So recently, I've noted in the financial statement that the interest cost and operating costs have increased year-on-year basis. So could you highlight what are the main reasons of this increment in the operating cost and interest?

Rajesh Doraiswamy: So the interest cost increase is mainly because, there are two reasons. One, I think, as I just mentioned, our utilization has gone up by around INR10 crores to INR15 crores. Secondly, the rate of interest also has recently gone up compared to what it was in the last year. I think the rate of interests have gone up by close to 0.5%, 0.75% because of the RBI rate revisions. So that has impacted on the finance cost, one.

On the operating cost, as again, I mentioned in the con call, the power and fuel has gone up, the subcontracting charges and the freight costs have increased. Main reason is because of the inflation prevailing in the market.

Nihar Mehta: Okay, sir. All right, sir, there is one last thing. Also, the employee expenses have also grew like somewhere around 14%, 15%. So have you hired any additional human capital in the business?

Rajesh Doraiswamy: Yes. I think because of the expansion that we have done in Hosur, I think we have hired new employees. So that, that cost -- that has impacted the increase in employee cost. And also for the annual increments that we do close to around now 7% to 10% that has increased.

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

Nikhil Arora The revenue from Wire & Cable divisions have increased Y-o-Y but declined, I think, quarter-on-quarter. So is this basically due to the seasonal nature of this line of business?

Rajesh Doraiswamy: Yes, sir. You're right. And Q3, we expect also to be good. And so let's hope for the best.

Nikhil Arora: Sir, any EBITDA margin guidelines, which you can give for Switchgear division and Building Products division, like it has decreased Y-o-Y but any future guidance if you can throw some light?

Rajesh Doraiswamy: The EBITDA margin for the Industrial Switchgear, I think for the half year is, we are at around 11.5%. We expect this to grow, definitely grow by at least 0.5 percentage point in the next two quarters. And Wire & Cable will remain stable at around 7%.

Nikhil Arora: Okay. And sir, one last thing, -- are we looking any -- doing any CSR activities or any community engagement programs that we're involved in?

Rajesh Doraiswamy: Yes, definitely, we're doing it. I think the details of which are updated on the website.

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

Manu Jindal: Sir, just a question which I earlier forgot to ask. It was about the -- in the earlier con call you mentioned about improving the return on capital employed by working upon the receivables and in the inventory positions. While receivables for this quarter was more or less stable only, receivables increased by say, 9% to 10% and this has been the trend which has been going on for, say, three quarters to four quarters. Just wanted to know about how do we plan to optimize the receivables to improve our ROCE. So can you just help us out in shedding the light here?

Rajesh Doraiswamy: Sir, this is a constant work in progress. Yes, our commitment to get to around 18% ROCE is definitely there. The biggest challenge is to bring the inventories down. I think that's where the biggest challenge remains or turnaround the inventories much more. So until we do either of this, I think it is going to be challenging for us.

The another reason also for the working capital days to reduce now, I mean, at least be stable even though our receivables increase, is that we have reduced our payable days significantly compared to March by around 10 days. So that's also another reason that our cash flows are strained. There are various reasons for that. But as you have asked, I think this is a constant work in progress. We continuously work to bring down our inventory and receivables to the acceptable levels.

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

Rohit Ohri: Rajesh ji, a few questions from my end. The first one is related to our customer some of our customers are doing really well. Well, if you look at Schneider also, they are doing aggressively expanding their operations as well as looking at certain solar panel kind of business expansion. So do you think that Salzer can play a role in this? And do you think that we can be a part of their growth journey as well?

Rajesh Doraiswamy: Yes. I think whatever Schneider does within India or globally, it is definitely going to benefit us. If there is an opportunity for us, I think we will be first one for them to get in touch with us as a preferred supplier. But overall, I think this quarter, Schneider also has been a little slow. For you information, I think as -- I think you mentioned Schneider is expanding at a faster pace in India.

I think they're investing a large sum to set up their own facility and moving all their factories to one location. I think that's something that they are doing. That, that's consolidation of their manufacturing. Apart from that, whatever growth Schneider has, definitely, we will be able to get a part of that growth.

Rohit Ohri: If they work on the solar panel business, then do you think Salzer will be able to cater to that demand or how quickly we'll be able to adapt to that requirement from their end?

Rajesh Doraiswamy: Because there are teams from Schneider and Salzer working constantly on new product development. So it is not that suddenly they come up and ask for something. So it's a long-term plan. We constantly work with them. There are always new projects that is going on. And that is one of the reasons that we keep coming up with new products, at least once in every six months or something or at least a differentiation or some addition of products in the existing range. This happens because of the continuous constant working with OEMs.

Rohit Ohri: Okay. Sir we were working on some approvals from Russia and we are exploring opportunities, I mean in the previous call, you said that we were looking at probably Q3, we would be supplying. So is there any delay? Or is the plan going as per the schedule?

Rajesh Doraiswamy: The plan is going as per plan. I think this we will start seeing revenues from Q3 this year.

Rohit Ohri: And any number or initial numbers that you'd like to put?

Rajesh Doraiswamy: Initial numbers are not going to be much, much higher. I think we're just starting to enter into this market. The initial numbers are not very, very large.

Rohit Ohri: Okay. Sir there are certain players in the market related to EV chargers and they are looking at coming for IPO. My question was that, is there any difference in terms of the technology that they have and the technology which we probably have developed and we are up and running for that? Do you think that do you have any edge over their technology?

Rajesh Doraiswamy: More or less, I think the EV charging technology, all of the charger manufacturers will have almost very similar. But there are there is a difference between a slow charger and a fast charger. But there are not many fast charger manufacturers in India. I think there are only a few of them, 2 or 3 fast charger manufacturers apart from us. So the companies that are coming for IPO, I think, are mostly the service providers, the companies that who are buying chargers and installing it and doing service, charging services, that's what I believe.

Rohit Ohri: Okay. Sir, my last question is that there are many players who are looking at certain tie up with Tata Power, for example, Bridgestone is trying for one such touch tie up to install EV chargers. So do you think that Salzer will also be requiring to build up this kind of capability or supply chain? Or are you still working or already working on this kind of a business?

Rajesh Doraiswamy: We are working with we're trying to discuss with various partners to see how we can deploy our charges. So the discussion is going on with various partners for doing this. We need to have some kind of a tie up with companies like that.

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 all for your time and consideration and support. I wish you all a very, very happy Diwali. Happy holidays, until I see you next time. Goodbye.

Moderator: Thank you.

Rajesh Doraiswamy: Thank you, sir.

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