"Salzer Electronics Limited

Q3 and 9M FY '23 Earnings Conference Call"

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

Moderator: Ladies and gentlemen, good day and welcome to the Q3 and 9 Months FY'23 Earnings Conference Call of Salzer Electronics. 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. Thank you, and over to you, sir.

Rohit Ohri: Thank you, Rutuja. Good morning, everyone. On behalf of Progressive Shares, I welcome you all to the Q3 and 9 months FY '23 post earnings conference call of Salzer Electronics Limited. These contents 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 guarantees of future performance and may involve risks 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 question. Over to you, ma'am.

Savli Mangle: Thank you, Rohit. Good morning, everyone, and thank you for joining us today. I have with me Mr. Rajesh Doraiswamy, our Joint Managing Director; Mr. Lakshminarayana, Vice President, Operations; Mr. Murugesh, Assistant Company Secretary; Mr. Menaka, Assistant GM, Account; Mr. Venkatachalam, GM, Commercial and Account; and Mr. Raman, COO of Kaycee Industries.

I will now take you through standalone financial performance of the third quarter and 9 months ended December 2022. During the third quarter, our revenue increased by 13% year-on-year to INR 239.95 crores from INR 211.83 crores in the corresponding previous period. This growth was driven by higher demand for switchgear, as well as building product businesses.

The EBITDA, excluding other income, was INR 23.74 crores as against INR 17.68 crores in Q3 FY '22, a year-on-year growth of 34% on account of increased sales in the switchgear industry, despite there being a slowdown in the industry. The EBITDA margin for the quarter was at 9.9%, a rise of 155 basis points year-on-year, mainly on account of increase in sales from higher-margin industrial switchgear products.

The PAT was at INR 9.67 crores, as against INR 7.25 crores in the previous corresponding period, a year-on-year growth of 33%. Coming to our 9-month financial performance. The net revenue was INR 776.96 crores as against INR 555.61 crores in 9 months FY '22, a year-on-year growth of 29%, driven by the businesses of industrial switchgear and building products.

The EBITDA, excluding other income, stood at INR 67.84 crores as against 58.89 crores in 9-month FY'22, a year-on-year growth of 33%, mainly on account of higher sales during the 9 months. The EBITDA margin was at 9.45%, a year-on-year increase of 29 basis points. The

PAT was at INR 27.41 crores in 9 months FY '22, as against INR 18.66 crores in the previous corresponding period. The PAT margin was at 3.82% as against 3.36%, a year-on-year increase of 46 basis points.

Moving to the breakup of the revenue as per business divisions. The industrial switchgear business contributed to about 58% of the total revenues in the quarter and about 55% in the 9 months. The EBITDA margin in this business was about 13% in Q3 and 12% in 9 months. But Q3 FY '23 saw a year-on-year improvement of 227 basis points.

One of our high-demand product, the 3 Phase Dry-Type Transformer grew about 174% year-on-year in the quarter and about 138% in the 9 months, while our product Wire Harness grew 8% year-on-year during the quarter to INR 16.16 crores and 5.8% year-on-year in the 9 months ended FY '23.

The Wire & Cable business contributed to about 35% of our revenue this quarter and 37% in the 9 months. The division revenue declined close to 10% year-on-year in the quarter, mainly on account of slowdown in the agri segment, leading to lower sales volumes. High inflation led to lower spending in rural markets that resulted in degrowth in this segment.

However, Wires & Cables grew 13% year-on-year in the 9 month and the EBITDA margin for this business division stood at about 6.5% in Q3, declined 74 basis points year-on-year due to lower sales and increased volatility in copper prices. The Building Products division contributed to about 7.5% in the quarter and 7.8% in the 9 month. The EBITDA margin of this business was about 2.65% in Q3 and 2.69% in the 9 months FY '23.

On the export front, we continue to see steady growth, mainly on account of higher sales in America, including South American countries like Brazil, Argentina and Chile. Exports to the Americas grew 43% year-on-year in the quarter while export to the Middle East and Africa grew 77% year-on-year this quarter. For this quarter, the export share of revenue was 28%. Growth in exports have been 46% year-on-year and for the 9 month, the exports were about 25% of the revenue, growing at 32% year-on-year.

Thank you so much. I would like to now hand it over to Mr. Rajesh Doraiswamy to take us through the business development and the way ahead. Over to you, Rajesh.

Rajesh Doraiswamy: Thank you very much, Savli. Good morning, once again, to all of you. Looking at the market scenario and the current geopolitics and economic volatility in the world today, the overall volatility is quite high and it's likely to continue in the future as it is. However, India is expected to grow, despite all these global turmoil, like strengthening of dollar, elevated inflation, increasing interest rate, maybe the pandemic fears and steep depreciation of INR between July and December 2022. We also saw a lot of supply chain constraints in the last quarter.

As per the market reports, I think India's exports are likely to grow in 2023 despite the impact of global slowdown and several positive tailwinds. I think the country will start getting around INR 480 billion to INR 500 billion in exports by end of 2023. The impact to country's production-linked incentives, PLI scheme, on key sectors such as electrical, electronics, automobile and also the India's integration in the global value chain -- supply chain and effective free trade agreements signed with various countries will only boost access for exporters like us into various new markets and would pour the foreign direct investments into India.

Now coming into our company and its business performance, as we have heard from Savli, our third quarter performance has been in line with our expectations. Despite the tepid demand, we witnessed some good traction in our industrial switchgear business and also building products segments. Raw material prices have begun to stabilize, and we are seeing the benefits of our price hikes also in the form of better margins quarter-on-quarter and year-on-year. We also expect that this raw material consumption cost will further come down going forward in the coming quarters.

Something about the recent developments. I'm happy to share that we continue to see substantially higher demand in many key products, particularly from the new businesses like the transformer business, wire harness, the 3-phase transformers. To cater to this strong demand, we also recently set up a new manufacturing facility in a rented space in Hosur, Tamil Nadu to manufacture wire harness and transformers. This is with an initial investment of INR 15 crores.

And the new facility is spread over 30,000 square foot and we aim that creating additional capacity as well as being closer to our customers in Hosur. In the first phase, I think we will be using up close to around 15,000 square foot and the balance will be used in the second phase. Full commercial production is expected to start from March-April 2023.

With regard to the joint ventures in the EV segment, we are seeing good traction in the EV charging space, where our collaborative technical team is staying here to help us build the chargers in India. We expect the India-built fast charger for Indian markets to be ready for testing, approval and also for sales by June-July 2023.

As far as our subsidiary Kaycee Industries is concerned, the third quarter revenues increased by 24% year-on-year to INR 10 crores. The sales have been growing very well in Kaycee with good margins of 11.4% EBITDA and 8.4% PAT level. We expect Kaycee to continue to grow at 30% to 35% level over the coming quarters.

Going ahead, we expect to maintain our growth trajectory, combined with strong product offering and brand position in the market. Based on the domestic and export outlook, we are optimistic on our overall business performance for the next year also. We continue to target achieving a consolidated revenue of INR 1,000 crores and a INR 40 crores PAT for FY '23. And we are working very hard to achieve this target.

On behalf of the company, I thank the entire team at Salzer Electronics Limited for their untiring efforts and also all the stakeholders for their continued support and faith in Salzer. Wish you all good health, and this is all from our side now. I would like to thank everyone for your time and attention. We can now take questions.

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

Gaurav Sachdeva: Sir, my first question is regarding Wire & Cable division. Our sales is almost the same near INR 83 crores in Q2 and Q3, but EBITDA has dropped from 7.7% to 6.56%. Is it only due to the copper price increase or there is some other reason also, because sales is almost the same?

Rajesh Doraiswamy: Mainly because of copper price fluctuation. The volatility in copper price is the main reason for reduced EBITDA.

Gaurav Sachdeva: And what are the current prices of copper? I mean, it has increased...

Rajesh Doraiswamy: Still hovering at higher levels only, but it doesn't matter whether it's high or low, but the volatility is what matters.

Gaurav Sachdeva: And sir, overall, we were expecting a 1% increase in EBITDA in the coming quarters, can we see at least 11% EBITDA for FY '24?

Rajesh Doraiswamy: Sure, yes, yes, yes. I think we will be back to that level in FY '24.

Gaurav Sachdeva: And sir, can you tell us at what stage exactly we are there in the electric chargers because in the previous call, you said that it will be ready by March '22? Now you are saying that in July '22. Actually, at what stage we are in? Are we in the testing phase, approval phase, or in what phase we are in, in the electric chargers?

Rajesh Doraiswamy: We are in the prototype stage. Actually, the product is a little bit complicated technology-wise. So the absorption of technology is taking time and sourcing of various components for the product also is taking time because the components are not available in India. So most of them are imported. So we're trying to localize whatever possible, and we are trying to source the imported components and we're at the prototyping stage right now.

Gaurav Sachdeva: And sir, my another question is that, any advancement we have done in the conversion kits?

Rajesh Doraiswamy: No, sir. As I have said a few quarters before that I think we are going slow on that. And because of various reasons and because of the market potential, we don't see a great potential in that as of now because of the technology. So we are going slow on the auto conversion kits.

Gaurav Sachdeva: And sir, regarding the Building Products division, right now our EBITDA is only 2.56% although it has increased from what we were in negative. But can you tell me the scalability of EBITDA if we talk, suppose the current revenue is INR 18 crores, if we move it to INR 36 crores or INR 50 crores, what will be the EBITDA at that revenue? Scalability of...

Rajesh Doraiswamy: Currently, we are at around INR 70 crores run rate. That's the annual turnover we will reach hopefully this year. In my opinion, I think the critical sale level is close to around INR 100 crores, INR 120 crores. So if we can cross that sale level, then you'll see a jump in EBITDA levels to around 8%, 10%.

Gaurav Sachdeva: 8% to 10%. Yes, that's great. And sir, what is the top line growth we are expecting in FY '24, if you can...

Rajesh Doraiswamy: Conservatively, I can say we should be growing at around 20%.

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

Deepak Poddar: Sir, I just wanted to understand first up, I mean, this year, INR 1,000 crores revenue and INR 40 crores PAT. So is Kaycee is included or it's the stand-alone guidance that we are...

Rajesh Doraiswamy: On consolidated basis, sir.

Deepak Poddar: Because earlier, we were talking of much higher number, right? I mean, we were talking that second half we might do INR 550 crores to INR 560 crores revenue with higher EBITDA margin. But this quarter, we did not see improvement in margin that we were kind of expecting, right?

Rajesh Doraiswamy: I think we did have some improvement in the margins. If you look at the year-on-year or quarter that is Q1 and Q4, maybe compared to Q2, we are in the same lines, yes, because there's not much improvement compared to Q2. But compared to Q1, Q4, I think we're definitely getting better and I'm sure that Q4 will definitely be better. One of the reason that Q3 went down because our Wire & Cable EBITDA also pulled us a little bit down. Otherwise, we would have been up by at least 50 basis points.

Deepak Poddar: And now you had mentioned in the opening commentary as well that now the raw material prices have stabilized, right? And even the price hike benefit you will start to see. So fourth quarter onwards, one can expect 11% margin, I mean, because it's generally our best quarter, right?

Rajesh Doraiswamy: Yes, definitely, Q4 is the best quarter, but straight away from around 9.5%, 10% to 11%, I doubt whether we'll reach that in Q4. But definitely, we will see improvements in Q4 and Q1 for next year. And then we will stabilize at around 11%.

Deepak Poddar: And so what is the Kaycee top line and bottom line? I mean just rough cut, what we're expecting this FY '23?

Rajesh Doraiswamy: FY '23 Kaycee topline will be close to around INR 40 crores, INR 42 crores, INR 43 crores. We've already done INR 30 crores for 9 months and bottom line will be close to around INR 3 crores at PAT levels.

Deepak Poddar: INR 40 crores to INR 42 crores is topline and bottom line is INR 3 crores. Okay. Understood. I understood this point. And my final thing, I just wanted to understand was something on the EV side, now you mentioned we are in a prototype stage, and by maybe June, July we'll be ready for production, right?

Rajesh Doraiswamy: Yes, yes.

Deepak Poddar: So, what sort of revenue trajectory one can expect in the EV segment? I mean how would you see the revenue scaling up in that? I understand it might be quite challenging for you to guide, but just a rough

Rajesh Doraiswamy: Guidance only I will be able to give, because the market is still evolving. The market is still, I would say, not mature. It is still in a very early stage. So even the revenue models are not very clear. There are different revenue models for the charging stations, one we can sell to consumers who want to buy a new set, which are very few right now.

The second is we have to go and find the service providers who will buy and install our chargers. So even the revenue models are not quite clear as of now. But I'm sure that there is a huge market and potential that will just open up in the next 1 or 2 years. So to give a guidance, we are actually planning to build at least 50 to 100 chargers a month in the first year.

Deepak Poddar: First year means FY '24.

Rajesh Doraiswamy: Yes.

Deepak Poddar: 50 to 100 chargers. And per charger is what? INR 8 lakhs ASP?

Rajesh Doraiswamy: Around INR 8 lakhs, yes. So in the first year, I think there won't be much business and let's look at like INR 20 crores, INR 25 crores is the top line that we should be expecting. But the scalability for this is we can say that it can go up to around INR 700 crores, INR 800 crores.

Deepak Poddar: Yes, yes, yes. That is our maybe a little longer-term target, right? I mean, maybe 3 to 4 years. But even 100 chargers at INR 8 lakh means only INR 8 crores, right?

Rajesh Doraiswamy: Yes. And then we will have only have 6 months with us.

Deepak Poddar: 6 months, in that way. Okay. Fair enough. And next year, I think earlier we were kind of seeing that INR 100 crores maybe from EV segment we might want to target, right?

Rajesh Doraiswamy: Yes, still the plan is that. I think maybe FY '25, we should be able to do that.

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

Senthilkumar: I have two questions, sir. First one is, with the thrust on infrastructure in the budget, what is the growth prospects for the company going forward, sir?

Rajesh Doraiswamy: Actually, the growth prospects for Salzer is quite positive, quite good. We are very positive on the growth that we will be achieving in the next couple of years and whatever has happened in the budget, whatever additional capital outlay they have given for the capex is definitely supportive and will further enhance the business across various sectors, various sectors that we are dealing with, which will definitely help in the growth of the company.

Senthilkumar: Can you please name a few segments, sir, particularly?

Rajesh Doraiswamy: No, if you look at the product segment that we are dealing with, I think we are serving to almost all sectors, all kinds of infrastructure, renewables, power, power sector, machine tool industry, automobiles. So across sectors our products are being used. So any capex in any field will definitely help the growth of the company.

Senthilkumar: And my second question is, what is the incremental revenue we can expect post the completion of this Phase 1 new plant, sir, in Hosur? Actually, commenced the operation, but.

Rajesh Doraiswamy: It's just an expansion of our existing operations. So I think it will just help aid our growth, whatever we are talking about, 20%, 25% growth we are looking at. I think this will just help in getting that growth.

Senthilkumar: Okay. And my final question is, what is the working capital cycle as on 31 December 2023, sir sorry, '22?

Rajesh Doraiswamy: Actually, we are at around 130 days. We were at 125 days in September, we have gone 5 days down to 130 days.

Senthilkumar: Sir, debtors and inventory days? Debtors days and inventory days?

Rajesh Doraiswamy: Inventory is at around 95 days, debtor is around 75 days.

Senthilkumar: And my final question is, what is the status of the other joint venture, sir? Conversion kit, what is the growth?

Rajesh Doraiswamy: The conversion kit, actually we're not going slow because, as I mentioned earlier, the technology for auto conversion kit is not easy to be implemented in this country because of various designs of auto that's available in the country. So we are not moving forward in the sense, we're going slow in that on the conversion kit. We're not investing. We're still doing a lot of market study and revamp on the technology. So that will take some time. So as of now, there is no progress on the conversion kits. But as charging stations, as I mentioned for the previous question, we are there at the prototype stage. And hopefully, by June, July, the product will be up for sale.

Moderator: The next question is from the line of Panjul Agrawal from Green Portfolio Private Limited.

Panjul Agrawal: Sir, first of all, in the presentation, it is said that we also expect to reduce raw material consumption in the coming quarters. So I wanted to ask how exactly are you guys planning to improve the efficiency? And what will be the impact on margins?

Rajesh Doraiswamy: Ma'am, if you actually go back to the results of a few quarters like Q4 or even Q3. Q3 last year, Q4 last year and Q1 last year, our EBITDA margins dropped significantly mainly because of our raw material costs going up. And this was the post-pandemic effect of the inflation and all the material costs went up, whereas we couldn't really increase our prices in the market, and that's where our EBITDA margins dropped.

So over the last 2, 3 quarters, we have increased our sale prices. At the same time, the raw material prices also stabilized and reduced a little bit, which has helped improve the EBITDA margins from around 8% to 10% PAT. So what we meant by the raw material consumption going down is I think there will be further improvement on the realization of our prices, which will further increase our EBITDA by at least 0.5% to 1%. So to that extent, we will see the raw material consumption going down.

Panjul Agrawal: Sir, could you give me the current capacity utilization segment-wise?

Rajesh Doraiswamy: Across factories, I think we are between 65% and 80%.

Panjul Agrawal: Okay, 65% and 80% because now we are doing a capex for Wire Harness and Toroidal Transformers. So sir, what is like have we like utilized the capacity for these 2 products?

Rajesh Doraiswamy: Yes. I think whatever capacity we had in our hand now, I think it has been utilized and that's why we are expanding in Hosur.

Panjul Agrawal: Sir, what could be the possible reasons for better demand for these two products?

Rajesh Doraiswamy: One, I think this is a new product for us, and we have been, what you call, a preferred supplier with various customers across the world, various OEMs. And the business for all these customers are increasing, particularly in India, I would say, good demand for our products Wire Harness with our customers. The reason I would say, overall the country's economic activity is much higher, and we see demand coming in from various sectors. So that is the reason that the overall business is getting better. And we also see very good demand coming from the renewables, solar, in particular, various projects happening across the world. I think that is also spurring the demand for our products.

Panjul Agrawal: Okay. Sir, could you give me the current order book, if possible?

Rajesh Doraiswamy: We actually don't operate on a large order book because mostly our business is like 4 to 8 weeks delivery. So we only have forecasts. So only based on that forecast from our customers, we do a projection, and that is how we come up with our revenue guidance.

Panjul Agrawal: Okay. Sir, one last question. The export to Asia has increased from 7.9% to 13.4% in this quarter, like, from year-to-year basis. So, sir, how maintainable would be that?

Rajesh Doraiswamy: I didn't see exports to Asia increasing this quarter. Has it gone up like that?

Panjul Agrawal: Sir, it's on year-to-year basis, given in Page 9 of the presentation.

Rajesh Doraiswamy: Okay then, growth.

Panjul Agrawal: Yes.

Rajesh Doraiswamy: It's been a low base last 9 months, if you see. I think that's one of the reason that's just gone up. Otherwise, the exports have been quite stable in Asia. We've been doing around INR 6 crores, INR 7 crores every quarter. I think last year, it was down to around INR 3 crores to INR 4 crores. That's why we see a growth this year.

Moderator: The next question is from the line of Kunal Patel from Equilligence Capital.

Kunal Patel: Sir, I'm new to the company so pardon me for some basic questions. Sir, if I look at your gross margins, it used to be somewhere around 35% to 40%, 2, 3, 4 years back. Now it has gone down to around 25%, 28%. So by when can we see a 30%, 35% gross margins from here on in your best judgement?

Rajesh Doraiswamy: Okay, 30% gross margins when we didn't have Wire & Cable as a part of our business. Wire & Cable's business also was very low in terms of revenue share. So that's when we had this kind of a margin. So once Wire & Cable business share in the overall business increased to around 40%, then the overall gross margins started coming down. That is one.

Secondly, it's also the mix of the product that we see. When we sell a lot of products that uses commodities like copper and PVC and plastics, automatically, the gross margins reduces. However, there is an absolute number that will be going up. So I don't see that we are going back to 30% gross margin level. The main reason is because we have a 40% Wire & Cable business, where the gross margin levels are much, much lower.

Kunal Patel: So in your assessment, what could be the best gross margins we could achieve...

Rajesh Doraiswamy: Maybe 24%, 25% gross margin levels if we can achieve and maintain, that will be very good for the business.

Kunal Patel: Second question, in our other expenses, what portion is fixed and what is variable?

Rajesh Doraiswamy: Good question, sir. I don't have a figure right now with me, but I can note it down and get back to you on that.

Kunal Patel: So again, both the questions that I've asked is largely to understand what kind of operating leverage we can have over next 2, 3 years, when we grow at, say, 20%, 25% over next 2 years. So you have already guided for FY '24, 20% growth. Margins, you said it would be roughly around double-digit, 10%, 11%. So we are already operating at 9% right now. So with 20% growth, why our margins cannot go to 12%, 13%?

Rajesh Doraiswamy: Good question. I think I will have to work on what you have said and then get back with the numbers to you.

Kunal Patel: My final question is your EV charging. It's a JV, right, where you have 16% stake. Is that understanding correct?

Rajesh Doraiswamy: We have a 26% interest in that. We have the rights to go up to around 50% on that.

Kunal Patel: So this INR 700 crores, INR 800 crores revenue that we are talking about is at the JV level, and we'll get 25%, 26% of that, right?

Rajesh Doraiswamy: Yes.

Moderator: The next question is from the line of Janish Shah an Individual Investor.

Janish Shah: Sir, I have, I mean, a few questions around the quality of the growth which you are expecting, I mean saying we are expecting a growth of 20% next year, and you said next couple of years, the outlook looks good. But when we are looking at, I think, some of the comments you made in the beginning of the call was that the tepid business environment and also the rural demand getting impacted, which has had an effect on the cables and wires business.

So if you can just give some understanding as to when we're looking at, let's say, a growth step-up or a growth for next year, what are the enablers or which are the factors which you think, and you've also said that you've also got a guidance like basically, you take a view from your clients as well. So just, if you can just give a color on the growth, how, I mean, how confident or what are the risks which basically you see to these numbers, especially in an environment where globally situation, economic situations across different geographies have been very, very challenging.

Rajesh Doraiswamy: You're absolutely right, sir. I think the economy currently, the global market is quite complex. I think certain markets are growing, certain markets are not growing, and we don't know what the future is in certain markets. The inflation in the Western countries is quite high. So it's actually a very quite uncertain period, I would say, in my opinion.

And people expect that the US and Europe will definitely go into a recession in the next few quarters. That's been a talk for the last two quarters. And we also see the interest rates in both these countries gradually going up. So with all this and also the uncertainties of the war and the geopolitical situation across the world, we are still able to see some positivity for Salzer is because whatever we have done in the last several years, the products that we have developed in the last 4, 5 years, the customers that we have acquired in the last 4, 5 years, whatever we have, what work we have done during COVID and the customer acquisition we have done during COVID, I think they are all coming to give revenues to us at this point of time.

So in spite of the global slowdown or maybe the global uncertainty, we are still confident of at least 20% growth is because of what we have done in the past few years. So that's where, as I said, forecast from my customers, the new customers that we have got, so we see these people giving business. Even though there will be a slowdown globally, we will still grow at 20%. That is one.

Second, I think in spite of global slowdown, I think India, as a country, I think, is still strong. We see still a reasonable demand from all sectors coming from within the country. So the country is still growing. The GDP is expected to grow at around 6.5% to 7%, which is quite good in this condition. So that growth will further give us the growth for Salzer. So I'm only saying conservatively, we are at 20%. But if things go well across the world, I think we can still grow faster.

Janish Shah: Okay. I think that's very encouraging from your side, sir. Maybe, like, breaking down basically business into 3 segments, I mean, where do you see the tractions likely to come from for this growth, I mean, for 20% growth? And second on this Building Products, I think you clearly said that INR 100 crores is a level where the EBITDA margin can clearly move up to 8% to 10%.

How much time we are far away from that mark, like to reaching to that level? And, I mean, because everything what we are trying to get is that the kind of growth which you're talking about, the operating leverage and these kind of enablers, it clearly indicates that you have the ability to grow, to go past the margins well above that 11% mark, but we're just trying to get some understanding, I mean maybe we are missing some of the piece in the, in between. So that's why we just wanted some more color from your side in that.

Rajesh Doraiswamy: I only don't want to promise something and not deliver. So that's underquoting and being conservative, yes? No, you're right. I think the building segment, if you see, I think this year, we will close to around INR 75 crores top line. That means we have doubled in 2 years compared to what we were in FY '21.

So I mean, our original aim was to actually double it this year from INR 50 crores to INR 100 crores, but we are at around INR 75 crores. So I'm looking at, at least, INR 120 crores for next year. So next year should be a turnaround year for that segment where we see improvement in sales considerably and also improvement in the EBITDA margins, one.

Second, on the growth that we see, I think the majority of our growth we are expecting only from our industrial switchgear products. Already, we see that the share of industrial switchgear products have gone up to around 50% compared to what it was only at around 40%, 45%. So I think it will continue to grow. I think that is where we see demand coming from for all our products. Not that the Wire & Cable will not grow, but I think the growth in Wire & Cable will be slower compared to what the growth we see in the industrial switchgear products.

Janish Shah: And maybe on one, if you can give a little understanding on how the working capital is going to look like. You already shared it's more closer to like 130 days, 135 days. As we see the change in the mix of the business, do we see, I mean, working capitals to be, I mean, cycle to, I mean, improve or like we'll have a more requirement for working capital, how it's going to happen? And maybe the last thing is on the debt. How much is the debt as on December?

Rajesh Doraiswamyb As I had said in my earlier calls, I think our target, our net working capital days target is close to 100 days. That's what we want to achieve. This year, I think end of the year, we thought we will end up at around 120 days is what I'm looking at. We actually came down to 125 days last quarter, but unfortunately, it went back to 130 days this year because of increase in inventory there on 5 days and also decrease in the payable days.

So it's a combination of inventory, receivable and payable also. And for us, I think the payables are always lower because of the kind of material that we buy. So that's also one of the reason that our working capital cycle is a little higher. But in spite of that, I think we are working hard to bring this inventory down. So hopefully, in the next 3 quarters, I think we should come to around 110 days, 105 days level. So if we come to that level, I think that will be the best for the company.

So on the debt side, I think we are at around INR 250 crores debt on the working capital side today. And on the term loans, I think it is almost nil, around INR 7 crores. And we're also very clear on the working capital debt. I think we won't exceed 20%, 25% of our revenues. So I think that's the benchmark that we are having, 20% to 25% of our revenues, not more than that, we should have a working capital debt. And we have been at that level historically.

Moderator: The next question is from the line of Kartikeyan from Suyash Advisors.

Kartikeyan: Some basic questions on your EV charger business. I have 3, 4 component queries, so kindly clarify. One is, can you highlight the extent of import sensitivity in this business? I mean, what is the level of imports that you are looking at out here and maybe some sources, if you could highlight? Secondly, also...

Rajesh Doraiswamy: In terms of value, I think I would say around 60% will be imported.

Kartikeyan: 60% will be imported. Okay, okay. And in terms of configuration, would these be targeted at 2-wheelers or also 3- and 4-wheelers, sir?

Rajesh Doraiswamy: Only 4-wheelers, only for 4 wheelers. These are chargers only for 4-wheelers, yes.

Kartikeyan: Okay. So these would be DC chargers for 4-wheelers.

Rajesh Doraiswamy: Yes.

Kartikeyan: Perfect. And the third question, sir, just trying to understand how this was thought through, assuming that leasing becomes critical or balance sheet becomes critical for this business going ahead as a business model, what has been the thinking on that particular aspect by both the partners in the joint venture?

Rajesh Doraiswamy: You're talking about the EV chargers, right?

Kartikeyan: I'm only talking about the EV chargers.

Rajesh Doraiswamy: Yes, I think you're absolutely right. As I mentioned that the revenue streams are still not defined for this product but with the JV that we are looking at, I think we're only looking at building products and selling. So I don't think that will become balance sheet heavy as of now. But if the company has to grow, if the unit has to grow, then we have to definitely look at the servicing aspect as a third-party service provider.

Our aim is to create a separate vehicle for that. And then from this company, I think we will do a 100% subsidiary for that and then start doing the servicing. So that company can be separate, and we have to look for further investment or debt or whatever it is in that step-down subsidiary.

Kartikeyan: And what will be the primary import sources, sir? Is the ?

Rajesh Doraiswamy: In the sense, you are asking about the country?

Kartikeyan: Country and also components? That would some clarity on that.

Rajesh Doraiswamy: The components, right now, we are sourcing, they are coming from Europe. But I think there are also certain components that are coming from China. Whatever is coming from the Europe, I think over a period, I think we will localize in the country here in India.

Kartikeyan: Did you say that you'd get to INR 750 crores in the third year or something, $100 million roughly?

Rajesh Doraiswamy: Hopefully. Yes.

Kartikeyan: Right, right, right. And if you had to give us a ballpark assumption, so what market share would that represent for you in the charger space?

Rajesh Doraiswamy: Very, very difficult to assess the market share as of now because we don't know what market size is as of now. So we are only expecting the market size will grow, and then we will be able to clock this turnover. Our estimation is even if 10% of the market share we can get, that should be good enough.

Moderator: The next question is from the line of Kunal Patel from Equilligence Capital.

Kunal Patel: One question, what kind of return on capital you are expecting or return on equity you're expecting over next two, three years? Because if I look at your business and ROCEs for past 10 years, it has been roughly around 10%, which is very subscale, substandard, if you look at the business overall. So what kind of returns you are expecting? And yes, so that is my question.

Rajesh Doraiswamy: Our internal target for ROCE has been 18%, and we are trying to get there. Unfortunately, we are not going there right now, which is close to around 11% or something. Hopefully, by the next 2 years, I think we should be able to get to around 18% ROCE level. That's the target that we have internally.

Kunal Patel: So that would mean your margins has to go up significantly from hereon.

Rajesh Doraiswamy: Yes. And working capital cycle has to come down significantly over the next for this year.

Moderator: The next question is from the line of Rohit Ohri from Progressive Share Brokers.

Rohit Ohri: Sir, a couple of questions. The first one, this Phase 1 expansion, what sort of capacity addition or revenue or what sort of expectations are there from this Phase 1?

Rajesh Doraiswamy: Sir, I would like to repeat again, whatever we have done in Hosur is an expansion, it's a normal expansion. If it is not Hosur, if it is inside the factory, it would not have been a news. So it went to a different location, it became a news. So it is just an expansion of our existing product. We wanted to go a little closer to the customers and service from there. So the addition from this unit, we will not be able to calculate exactly how much it is, but this expansion will aid in the growth of 20%, 25% of the company.

Rohit Ohri: Okay. So it's a good strategy to come closer to the customers where a lot of 2-wheelers are there, there are 5 or 6 of them. So do you intend to cater to all the players or there is just one specific player that you're looking at?

Rajesh Doraiswamy: Actually, one of the primary aim of going to Hosur is to cater to this 2-wheeler segment, which is not our customer base right now. So we wanted to get into that segment, and that's also one of the reason that we moved to Hosur.

Rohit Ohri: Okay. Are you in talks with these 4 or 5 players or...

Rajesh Doraiswamy: Not yet, 1 or 2 yes, but not really. We will have to start.

Rohit Ohri: Okay. In terms of the dealers and distributors that could have been added during the quarter or 9 months, if you can just take us through the comparative numbers for last year same period?

Rajesh Doraiswamy: Good question, but I don't have a number right now with me.

Rohit Ohri: Okay, that's not an issue.

Rajesh Doraiswamy: Yes, but it's a good metric to watch. Thank you.

Rohit Ohri: Sir, you mentioned that the percentage of the revenue is coming higher from the switchgear. So going forward, do you think that the entire pie will shift or drift more towards switchgear being 65% of the turnover and wire and harness being around 35%?

Rajesh Doraiswamy No, I wish – 65:35 will be good, but at least if we can maintain a 60:40 ratio, that is good which is what we are now going towards.

Rohit Ohri: Sir, the industry is looking at next generation automation solutions and some of your customers and competitors are speaking of Electricity 4.0 and they're looking at electricity and digital world, so any resilient or any efficient solutions that Salzer can offer in that domain?

Rajesh Doraiswamy: Actually, most of our products get used in such applications. So that's where we see growth coming in for us and our sustainability also. For your specific question, no, I don't have anything to offer right now straightaway for automation. But we are looking at it. And as I said, our existing products, whatever we do, is also a part of the industry for automation.

Rohit Ohri: Okay. Sir, Salzer sold some 669 shares of Kaycee. So should we be expecting more selling of this kind? And what do you intend to do with this proceed of approximate…

Rajesh Doraiswamy: I have no answer right now, but as and when, what the Board decides that decision will be taken. But as of now, no, I think this is what we have done. It is, I think, around 1% is what we have diluted.

Rohit Ohri: My last question is related to the

Rajesh Doraiswamy: Sorry? No, your voice I'm not able to hear you, sir.

Moderator: Mr. Ohri, sorry to interrupt, but your voice is breaking, sir. We are unable to hear you. In the meanwhile, we will move to the next question, which is from the line of Parag Shinde, an Individual Investor.

Parag Shinde: So what do you think played the largest role in the 13.27% year-on-year boost in revenue for this quarter? So additionally, what is actually propelling the growth in each of the divisions?

Rajesh Doraiswamy: I think I did answer this question. I said the new customers that we have acquired and the products that we have launched in the last two, three years, I think they are all coming into revenue stream. So I think that is what is propelling the growth if you see it year-on-year. Actually, in switchgears, we have grown in this quarter or let's take, 9 months, we have grown around 35%, 38%. And the main reason for that is this, and continue to grow is also, the reason is the product that we have introduced in the last 3 years and the new customers that we have acquired.

Parag Shinde: By the way, talking about operating costs, what factors do you think were responsible for growth in operating costs, which has risen by 24.12% compared to the previous year? And what does the expense breakdown consist of, if you can highlight on that?

Rajesh Doraiswamy: I think the higher volumes actually helps in giving better gross margins. I think year-on-year, the gross margin also has gone up by around 3% compared to Q3 FY '22. And that's the reason is the cost of material, mainly. On the other side, I think the increased volumes gives better operating efficiency and that is what we achieved there. And I said that we further have scope to further improve on this.

Parag Shinde: I looked at the other income, which has seen a year-over-year decrease of 46% and a quarter-over-quarter decrease of 22.95%. So what do you see the reason behind this decline?

Rajesh Doraiswamy: Overall, I think the other income is quite small, somewhere around INR 40 lakhs, INR 50 lakhs. The reason, I see the breakup, but mainly the other income consists of some windmill income, the wind power that we generate internally and the sale of the export incentives. I think that's what comprises of the other income. So I'm not sure quarter-on-quarter why this growth or not but if you look at the 9 months period, we are almost at similar levels.

Parag Shinde: Okay. My last question. The wire harness revenue has experienced year-over-year growth of 8% but if you look at the quarter-over-quarter, there's a decrease of 12%. So what would be the primary cause for this discrepancy?

Rajesh Doraiswamy: Actually, we had very high expectation in wire harness in this year. Unfortunately, the growth year-on-year didn't happen. The reason was because our customers were facing a lot of chip shortage issue, so they scaled down their production to a large extent, which resulted in slower growth for our wire harness. Otherwise, in my opinion, I think we should have grown the wire harness business also by around 20%, 25% as against 5% in 9 months this year.

Parag Shinde: And are you currently looking for any new product development in your business?

Rajesh Doraiswamy: No, that's a constant process happening. There are so many projects that is always on in pipeline. But there's nothing significant to just announce as of now. But then that's the constant work that we have been doing.

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

Rohit Ohri: Sir, sorry for the technical glitch. Sir, my last question…

Moderator: Sorry to interrupt you, Rohit, but your voice is still breaking. Rohit, can you hear us? Mr. Rohit Ohri, are you able to hear us? We are unable to hear you, sir.

Rajesh Doraiswamy: Maybe, Savli, we can note down and request for what the question is and we can give the answer for Mr. Rohit.

Savli Mangle: Sure.

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

Rajesh Doraiswamy: Once again, I thank all of you for your continued interest and faith in Salzer Electronics. I'm looking forward to interact with you again during the next quarter call. Thank you very much, and all of you have a great day.

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