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SBCL/BSE & NSE/2023-24/61 **10th November, 2023**

To, BSE Limited Corporate Relationship Deptt. PJ Towers, 25th Floor, Dalal Street, Mumbai – 400 001 **Code No. 513097**	**To,** National Stock Exchange of India Ltd. Exchange Plaza, Plot No. C/1, G-Block Bandra Kurla Complex, Bandra (East), Mumbai – 400 051 **Code No. SBCL**

Subject: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcription of Conference Call with Investors/Analysts held on 06th November, 2023

Dear Sir,

Please find attached herewith transcription of Conference call with Investors held on November 06, 2023. Kindly take the same on record and acknowledge.

Kindly let us know if any other information is required in this regard.

Thanking you,
For Shivalik Bimetal Controls Limited

AARTI SAHNI
Digitally signed by AARTI SAHNI
Date: 2023.11.10 16:07:42 +05'30'

Aarti Sahni
Company Secretary & Compliance officer
M. No: A25690

"Shivalik Bimetal Controls Limited

Q2 FY '24 Earnings Conference Call"

November 06, 2023

MANAGEMENT: **MR. RAJEEV RANJAN – CHIEF FINANCIAL OFFICER – SHIVALIK BIMETAL CONTROLS LIMITED**
MR. KANAV ANAND – HEAD OF SALES AND MARKETING – SHIVALIK BIMETAL CONTROLS LIMITED
MR. KABIR GHUMMAN – HEAD MANUFACTURING AND ENGINEERING – SHIVALIK BIMETAL CONTROLS LIMITED
MR. SUMER GHUMMAN – MANAGING DIRECTOR, SHIVALIK ENGINEERED PRODUCTS PRIVATE LIMITED

MODERATOR: **MR. DEEPAK AGARWAL – PHILLIPCAPITAL INDIA PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Shivalik Bimetal Controls Limited Q2 FY '24 Earnings Conference Call, hosted by PhillipCapital India Private 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 this conference is being recorded.

I now hand the conference to Mr. Deepak Agarwal from PhillipCapital India Private Limited. Thank you and over to you, Deepak sir.

Deepak Agarwal: Thank you, Rohit. Good evening, everyone. On behalf of PhillipCapital India Private Limited, I welcome you all to Shivalik Bimetal Controls Limited, Q2 FY '24 Earnings Conference Call. Today, we have with us senior management, represented by Mr. Sumer Ghumman, MD, SEPPL, Mr. Kabir Ghumman, Head of Manufacturing and Engineering, Mr. Rajeev Ranjan, Chief Financial Officer, and Mr. Kanav Anand – Head of Sales and Marketing.

Without taking much of time, I would like to hand over the floor to Rajeev Ranjan for their opening remarks, post which we will open the floor for Q&A. Thanks and over to you, sir.

Rajeev Ranjan: Thank you, Deepak. A warm welcome to Shivalik Bimetal Controls Limited, Quarter 2 Financial Year '24 and Half Year '24 Investor Conference Call. Before we delve into the financial highlights, let me introduce key members of our management team who are here joining me today in addressing your queries. Mr. Sumer Ghumman, Managing Director of SEPPL, a subsidiary of Shivalik Bimetal Controls Limited. Mr. Kabir Ghumman, Head of Manufacturing and Engineering. Mr. Kanav Anand, Head of Sales, and Marketing. As we reflect on our financial performance, Shivalik Bimetal Controls Limited has demonstrated resilience amidst global challenges and global market headwinds.

Quality growth and deep promoter involvement in the business have been at the core of our journey. Here are the highlights from Half Year '24. Revenue from operations. In Half Year '24, we achieved a revenue of INR225.47 crores, reflecting 11.31% year-on-year growth. Our EBITDA margin for Half Year '24 reached INR56.81 crores with a 14.60% year-on-year growth, reflecting our commitment to operational excellence.

When looking at our Profit after tax in Half Year '24, our cash was INR39.72 crores, marking an 11.92% year-on-year growth. These numbers reflect our commitment to quality growth, underpinned by our control mechanism for optimising operating leverage. This has led to yielding consistent, healthy EBITDA and profit margins, reinforcing our financial stability.

In the second quarter of fiscal year 2024, revenue from operations increased by 7.18% to reach INR112.40 crores. EBITDA grew by 9.82% year-on-year. Our EBITDA as a percentage of revenue improved to 25.20% in Half Year '24. Looking ahead, we anticipate market improvements as our domestic market has shown a significant 25% growth. Despite global uncertainties, we expect a growth range of 10% to 40% post Q4 FY '24.

Moreover, we are in advanced discussion for volume contracts with renowned industry leaders. Our legacy experience in the business has enabled us to navigate challenges and seize opportunities effectively. Our potential joint venture with Metalor, a Swiss leader in silver contacts, aligns with our journey towards sustainable growth. As we establish a feasibility report, we will explore how Metalor's extensive global network position serves for substantial volume growth in the silver contact segment.

We are also delighted to share that Shivalik is the recipient of the one Eaton Supply 2023 Excellence Award winner, awarded by Eaton Corporation at the Eaton 2023 SCM Conference USA. Shivalik stands amongst a select set of 12 global suppliers shortlisted from Eaton's global supplier base to be granted the Supplier Excellence Award.

In addition, Shivalik received the prestigious Most Resilient Partner 2023 accolade at Schneider Electric Global Supplier Base, Hong Kong, underscoring our steadfast dedication to achieving excellence at a global standard. We sincerely appreciate your support in our journey towards delivering sustainable growth and value to all stakeholders.

Let us begin with the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Hi, good evening gentlemen. Congratulations on your results and just a few questions. First is in the AGM as well and in your presentation you talk about revenue capacity post expansion of close to say INR1,500 crores, INR1,600 crores in terms of where you can potentially take your revenue. I want to understand the visibility on each of the businesses in terms of achieving the potential. Maybe we can do business by business, shunt register, thermostat, bimetal strips and electrical contacts. Globally, how are the markets are behaving?

What rate are the markets growing and how you guys will scale up to those revenue targets that you have set for yourself? That is the first question.

Kanav Anand: Hello, this is Kanav Anand here. We are definitely looking forward to an expansion in terms of our top line and bottom line. As we mentioned in our AGM also that we are in the middle of some global downward trend which you are also seeing in our results as well which is due to several factors.

But what we can foresee is that the indications from all our customers are that they are investing in adding capacities, they are investing in setting up more factories to meet the basic trend and demand that they are expecting coming forward which of course is related to e-mobility, which is related to energy storage, renewable energy applications and of course the application of infrastructure, which we expect is going to impact and help us achieve our targets going forward in the next three to five years.

In fact, we are already, as we mentioned in our press release also, we started having customer engagements stating futuristic plans from them and we are in the process of trying to finalize contracts which will help us achieve our targets for the next three to five years.

Sumer Ghumman: I would like to add something here. Yes. I will just quickly add another line to this. So visibility as we have mentioned or talked about in the past even during the AGM of what we see, the capacities that we have created and we see in the future that our capacities can take us up to a certain revenue level. We feel that that still pretty much holds in the same way that it was what we had mentioned. We just see that these two or three quarters have caused a bit of a delay in the longer run which is a five-year horizon or six-year horizon and that we do not see much of a change.

I would call this a smaller sort of a shorter-term issue. So our visibility is pretty much the same as it was as we have discussed earlier.

Praful Kumar: So that was a question on what gives the confidence to you guys on that one, two quarters of destocking or whatever is behind now maybe another three months. So your interactions, number of new client additions, your content per vehicle or on the EV side for that business, new opportunities like smart metering. So can you give us some granularity on the conviction that comes in for you to grow your revenues from say 10%-15% growth to because what you are talking about 20% CAGR maybe higher if you want to go to five times your revenue what you have today in next four or five years. So when do you think the J-curve hits the top line momentum broadly and what are the levers for that?

And secondly will be the plan three that comes in. So broadly what can be the opportunity there, what kind of margins and ROC that plan can throw?

Kanav Anand: I think I mentioned to you just now that our customer engagement is already increased as compared to last quarter. We are seeing that the movement has started happening. Of course, they are definitely more positive. Their outlook is a lot better than what we saw last quarter.

We still feel that we might have another quarter or two where we could probably see some constraints but when it comes to next financial year, the confidence level is very high from the customers as well as from our side. Also, I think on certain specific application like for example, smart metering we all know that the push is there now. We have already started seeing tenders coming out.

The suppliers are building their capacity. They have already started rolling out orders. So that engagement has already begun and that's why we are very confident that our domestic market will continue to grow and we are trying to kind of leverage this global downward trend by using these opportunities in certain markets like the Indian market. And that's why we feel that our overall vision and overall horizon remains the same.

Praful Kumar: One last question and then I will come back in queue.

Moderator: We request you to return to the question queue for the follow-up questions. The next question is from the line of Anirudh Shetty from Solidarity Investment Managers. Please go ahead.

Anirudh Shetty: Hi, thank you for the opportunity. Just a couple of questions on my end. We are seeing inventory de-stocking and you also mentioned that this constraint might stay for one, two more quarters.

Can you give more colour around why the extent of the inventory levels that were there at the customer level which is causing us a short-term gain for another six months and also based on your discussion with our customers, are they seeing their end demand also softening because of the macro issues or it's just primarily inventory that is rationalizing and the end demand is more intact? How should we interpret the demand situation?

Sumer Ghumman: Actually, during the pandemic, what was happening, everything, the entire supply chain, there was a constraint there. So everybody was ordering more, trying to order more in advance and trying to keep more and more stock because a small component, but a key component like what we produce can bring to a halt in production of an entire automobile, for example. And so a lot of overstocking took place at the time because of supply chain issues.

We see that normalizing, which is actually quite a healthy sign if you really look at it from another angle. It's a very healthy sign. Those are normal numbers that will come in. We see that that is actually the only factor. Other than that, there are some macro factors as well, but those have a very small impact on the entire thing. The primary initial slowdown that we have seen is more related to the inventorization.

Kanav Anand: And just one thing that I would add here is also the slight imbalance in the inventory. Basically, you still see that semiconductor is still a shortage situation. No matter, a customer would have all the other components, but if they don't have a semiconductor, the whole line is on a standstill.

So I think a lot of inventory correction is happening. We still have certain issues when it comes to certain availability of certain specific important components in the whole supply chain, which has kind of created this imbalance. And of course, what Sumer said, certain macro factors have also impacted that, but in the medium to long term, we feel that the megatrends are very strong to kind of push the demand for these components again.

Anirudh Shetty: Got it. And on the smart meter opportunity in India, you mentioned there's a pickup. So can you quantify what, say, a year back, what was the tendering that you are seeing? And at this point in time, how has that picked up some more quantitative numbers around that?

Kanav Anand: I think we are anticipating that year 2024, next financial year, they should be making at least around 20 million smart meters on an average year on year.

Anirudh Shetty: Got it. This is the overall opportunity.

Management: Yes.

Anirudh Shetty: And basis, you know, the market share that we have today, how much of the market do you think we can basically capture?

Kanav Anand: I think it's very much linked as what we had explained the last time. Last one also is about how much the capacity really manufacturers will build in within the industry. But we are looking at manufacturers and suppliers who are building capacities.

And I mean, anticipate that the government put the kind of push that the government has to have a kind of make in India product line. More and more trust will be to localize market requirements. And I think from that perspective, we hope to kind of achieve a sizable market share.

Anirudh Shetty: Okay. And just to get a sense of what the revenue split is. So you had mentioned something in the last call. You had given the shunt. I just wanted to re-clarify my understanding. Is it that automotive is roughly around 40% of sales of which around half is BMS? And smart meters is another 40%. And the balance 20% of energy storage and motor. Is that the broad split of our shunt business?

Kanav Anand: Yes, that's correct.

Anirudh Shetty: Okay. And within the smart meters of 40%, how much of that would be domestic and how much is international?

Kanav Anand: Domestic as of now, I would say I don't have the exact number right now in front of me, but it will not be more than 15% to 20%.

Anirudh Shetty: Okay. So 15% to 20%. of that of…

Kanav Anand: The automotive BMS business that we are doing. Yes.

Anirudh Shetty: Okay. Of the overall smart meters.

Kanav Anand: Yes.

Anirudh Shetty: Okay. And just one final question. You know, last call, you mentioned that there's scope for a lot of operating leverage. You know, when we get to our revenue milestone. So just wanted to understand in our P&L, what would the share of fixed costs be?

Rajeev Ranjan: So if you see the P&L, there are average in the range of 11% to 13% fixed costs. And it is our endeavour to control the cost at the maximum level, keeping in view the business scenario on quarter to quarter, which gives us at least an improvement in both EBITDA as well as the PAT margin.

Anirudh Shetty: So, 11% to 13% is fixed costs?

Rajeev Ranjan: Yes.

Anirudh Shetty: Got it. Great. Thank you for addressing my questions.

Rajeev Ranjan: Thank you.

Moderator: Thank you. The next question is from the line of Manan Poladia from MKP Securities. Please go ahead.

Manan Poladia: So my question is following up from the previous participant question. What I want to understand was when you say 40% of the latest shunt is smart meters. So what I want to understand is, is there any portion of bimetal that also goes into smart meters at all?

Kanav Anand: No. The thermostatic bimetal don't have any application in smart meters.

Manan Poladia: Okay. And so we've seen year-on-year the shunt avenue for Q2…

Kanav Anand: But of course our bimetallic contacts have a lot of potential and application in this part of the business.

Manan Poladia: Correct. Right, sir. So what I want to understand is year-on-year from Q2, FY '23 to FY '24, we've seen the shunt revenue basically be one and the same. And what I want to understand is there has been no demand uptick from the domestic smart meter side this year as well. I understand that automobiles and the other sectors are going a bit slow. But even from the smart meter side, there's no uptick?

Kanav Anand: As I was saying that it has started now. We are seeing a movement in the industry when it comes to smart metering now. And as I mentioned in my last quarter, last quarterly review as well, that the domestic market is still getting ready and building capacities to be able to fulfil the required demand. And we see that next year should be the year where we actually see the market starting to actually realize what the demand is.

Manan Poladia: So just to follow up on that, next year what sort of portion of your shunt revenue do you see coming from smart meters? And what portion of your total revenue do you see coming from shunts?

Kanav Anand: So you mean to say, what portion of the business of the total shunt would be smart meter application. Am I right?

Manan Poladia: Next year. Yes. For the next fiscal, FY '24 end?

Kanav Anand: I think, when it comes to our shunt for the metering business, we are looking at trying to double it for next year for the smart metering application.

Manan Poladia: Correct.

Kanav Anand: So what we are doing today is what we would be doing 2x in the next calendar year.

Manan Poladia: Correct. That's fantastic. Also just one last question. You've signed this new JV with Metalor, right? We already have a JV with ArcelorMittal and that is also with regards to the electrical contacts. What I want to understand is the differential between what we are doing with ArcelorMittal in the JV and this new MOU that we've signed with Metalor?

Sumer Ghumman No, I'll just make a little correction there. The joint venture that we have with Arcelor is nothing to do with electrical contacts. That's an industrial clad business that's separate. And regarding Metalor, that's a feasibility study stage where we are at, which will eventually lead to an MOU. So we are at the stages of just pre-signing of the MOU. So it will be signed soon.

Manan Poladia: Correct. So by and large, what is the plan here? Like what are we trying to do with Metalor is what I'm trying to understand?

Sumer Ghumman: You see, Metalor is a -- I'm not sure if you're aware, but I'll just give a brief background. Metalor is one of the largest players when it comes to the electrical contacts as well as precious metal refining business. It's the largest market leader and it is the parent company is a Japanese company called Tanaka, which is also a global leader in these materials.

Using these two companies' expertise in these areas, a club with Shivalik's dominance in this low and medium sector, low and medium voltage electrical market, we can achieve a lot of things together and it is working out. It is potentially looking at it as a very good partnership opportunity.

Further details as we go along, sign MOUs, etcetera. Until then, I will not be able to disclose too many internal details about it. But as time goes along, we will be able to share more of it as it develops. But this is where it stands as of now.

Manan Poladia: Correct. Thank you. Thank you so much for answering my questions.

Moderator: Thank you. The next question is from the line of Dhiraj Dave from Samvad Financial Services. Please go ahead.

Dhiraj Dave: Yes. Thanks a lot for providing me the opportunity. Congratulations on a good set of numbers in a challenging market environment. My question is basically we see a drop in other expenses. So can you explain basically what resulted despite volume and everything going up, what was the main factor for other expenses being declined? If I refer to the presentation slide, we see…

Rajeev Ranjan: You see now, post-COVID, the supply chain has started to be corrected in terms of pricing. So there is one major factor where it is going down. And that's why you are seeing the other expenditure is comparatively for the first quarter less than almost 3% to 5%. So one of the reasons is the supply chain cost.

Earlier it used to be higher whether you were supplying through air or sea. The cost of the supply was higher. Now it is reducing or correcting, I can say, correcting at this moment. That's why the other expenditure that we are now maintaining is at a pre-COVID level.

Dhiraj Dave: And that was the main factor for the decline in the expenditure?

Rajeev Ranjan: Yes.

Dhiraj Dave: Okay. And the second question is, whatever you can disclose, but would we be looking at in the new MOU which we will be signing, would we be looking at some kind of new capex facility to start, new plant to start? Or it would be like, we will be doing some kind of same facility being utilized, whatever you can disclose.

Sumer Ghumman: So, the idea behind it is actually to create a world-class organization, a world-class setup, something that is not just one of the top and have the potential to be one of the tops in this field in India, but also possibly across the globe. So in order to do that, of course, some capex will be required.

But again, at this point, it's hard to quantify how much it would be. A lot of facilities already exist. So it will only be a relatively smaller capex. But again, hard to say at this point what it would be. But to answer your question, yes, there will be additional capex involved.

Dhiraj Dave: Fair enough. Wish you all the best.

Sumer Ghumman: Thank you.

Moderator: Thank you. The next question is from the line of Akash from Dalal & Broacha. Please go ahead.

Akash: Yes, thanks for the opportunity. So I have two questions. First one being, why has our profit share from JV dropped down so significantly from the like of around 12 million last year to barely 1 million this year?

Rajeev Ranjan: Yes. So you're talking about the profit sharing of the joint venture. So last year, their business was good, and they have done 160 Cr revenue. But this year, they have closed down INR69 crores. So as they are supplying to North America and European markets, so their business for the half year almost reduced or downside by 40% to 50% range. That's why their profit sharing also get reduced by that percentage.

Akash: Sir, this business pertains to the contacts business, right, the share of JV?

Rajeev Ranjan: No. We are having three businesses. Two is a subsidiary. This is a joint venture business you are talking about. And joint venture is between ArcelorMittal with Shivalik. Innovative Clad Solution is the name of the company. They are having their separate business line that is called industrial clad business.

Akash: Okay. I mean, how do you expect this business to turn around in the next couple of quarters and for the next coming year? Will it pick up or how do you expect it?

Rajeev Ranjan: Yes, they are hopeful that at the time, because you see, due to de-growth or I can say to some extent recessionary signal from the North America and European market, everybody is suffering. And mostly they are supplying to these regions. And they are hopeful that in the coming quarters, they will correct it. So, to some extent, not completely.

Akash: Okay. And, sir, secondly, why have our gross margins dipped in this quarter? I mean, any particular reason?

Rajeev Ranjan: Yes. It is a combination of, as we talked earlier also, there is a simplified reason of product mix. And this time we are supplying bimetal more than the shunt in this quarter. So, product mix is one of the key components of reducing gross margin by a percentage.

Akash: Okay. So, is it due to the product mix?

Rajeev Ranjan: Yes.

Akash: So, sir, this time we have done more of bimetal as compared to shunts. So, how do you foresee the further upcoming quarters? Will the mix remain similar or will it change?

Sumer Ghumman: I think for the upcoming quarter, it could be very similar to what we are seeing. But, of course, we are hopeful that next financial year, things will start reversing.

Akash: Okay. So, earlier we used to do a 50-50, right, on the shunt and bimetal side. So, by when will we be reaching those levels?

Sumer Ghumman: I think it will take us a few quarters to get back to where we were originally. So, I think we should look at next financial year. What indications we are getting from the market, from the customers?

Akash: Got it. Sir, just a follow-up on that. I mean, why is it that the shunt revenue is going down? I mean, is it due to any -- the orders are drying up or how is it? I mean, how is the order book, how is our capacity utilization currently, I mean?

Kanav Anand: It's very simple. As we -- like, e-mobility and BMS and the products that we go in automotive, the West is always a leader. So, if you see the macroeconomics, the macro indications, the geopolitical situation, and as well as the inflationary trends and interest rates increasing, we are seeing that there is a drying up of the orders in the short-term horizon. But everybody is confident that things will turn around quickly.

Moderator: Mr. Akash, may we request you to return to the question queue for the follow-up questions? Thank you.

The next question is from the line of Vikram Sharma from Niveshaay Investment Advisors. Please go ahead. Hello. Hi, sir.

Vikram Sharma: Thank you for the opportunity. What was the contribution of domestic business in the first half, and what revenue contribution we are expecting for the whole year from the domestic market? And which sector is driving growth in domestic market.

Rajeev Ranjan: Yes, you see, currently the contribution from the domestic market, it is in the bimetal sector, and that has been growing due to real estate growth, and we have been growing almost in the range of 20% to 25%.

Vikram Sharma: And what was total contribution in total business?

Rajeev Ranjan: So, currently the domestic contribution, the whole mix is 40%.

Vikram Sharma: And what are key reasons for slowdown in the U.S. market, and are businesses down due to slow order from single client, or overall volume are down from all clients?

Rajeev Ranjan: It is distributed, not from a single client. It is due to the big growth of the market, not any particular customer. It is distributed among the customer and among the geographies also.

Sumer Ghumman: You see, it's a more demand-related issue. If it was, it would be a more worrisome situation if we were losing out on business to another competitor or something like that. Those are not the reasons for the slowdown. These are certain factors related to the market trend. As we mentioned a few times earlier, part of it comes from the over-inventorization aspect of it. Some part of it comes from general slowdown in the EVs. But we have positive outlook and forecast from our customers in the, you know, but for a quarter or two more after that. And we've already been asked to prepare certain things. So, we feel confident that this is a short-term thing.

Sumer Ghumman: Okay. If we were actually losing because of some other reasons, losing out to other, because of pricing or etcetera, those would have been very dangerous. That would have been a dangerous place to be in. And that is, we are not even close to anything like that. So, we feel positive about it.

Vikram Sharma: So, we are not losing any clients?

Sumer Ghumman: No, no, no. In fact, we are adding new developments as we speak. In fact, this time has given us a beautiful opportunity to actually work on a lot of processes, process improvement, as well as development for the customers, which we were finding hard to do at an earlier stage because we were running at a much higher capacity utilization. So, this has actually been a good time for us to improve certain things.

Vikram Sharma: And sir, what is the capacity utilization of bimetal division?

Sumer Ghumman About 34%-33%.

Vikram Sharma: Okay. Overall capacity utilization is 34%. And sir, do we expect domestic business to go to 50% plus in next two years or so?

Sumer Ghumman: No, we don't. We expect to see bigger growth in the longer run in a two-to-three-year period coming from export only. Domestic market is slow to grow, but most of our large-scale future opportunities are in export.

Moderator: The next question is from the line of Satadru Chakraborty. Please go ahead

Satadru Chakraborty: Hi. Good evening. Congratulations on a decent set of numbers. I have actually two questions, but since all my colleagues have already asked operational questions, I will focus more on the accounting bit. The first question is on the other income piece in the P&L statement. I think one of my colleagues asked about other expenses.

My question is really around the other income side because I think year on year for the quarter, there is not a lot of fluctuation, but for the half year, there is. So, could you provide us some flavour on what exactly is contained here and how should we look at this moving ahead?

Rajeev Ranjan: Yes. So, basically, other income constitutes forex gain. So, 90% of other income we are having from forex gain and another 10% is from some small job work that we are doing for some of the vendors. And this is continuing, if you see year on year, our other income is improving due to control over the forex management and that's why we are having a good as a percentage, almost as a percentage of a scale of revenue we are adding into the bottom line by having forex gain.

Satadru Chakraborty: Yes, that is helpful. And I know that Shivalik has invested a lot in forex management. My second and last question is again coming to the balance sheet because I must really congratulate the management to very nicely and tightly manage working capital. I really see the change quarter on quarter for the last year and a half.

My question is really on the long-term and short-term borrowings. So, I see that certain long-term borrowings have come off, but the short-term borrowings have come off even drastically. So, my question really is, is there a finance strategy that the management is thinking for Shivalik in the long term?

Is there any associated tax implications for that? Meaning to say that are you planning to go down to completely zero leverage in the long run and not have any debt on your books whatsoever or what exactly is the rationale for this?

Rajeev Ranjan: No, see, for the manufacturing industry and being in this industry, it's a working capital-intensive industry. We need to maintain some inventory for a longer period. So, we will not zero out on the working capital segment, but yes, management has a clear vision to zero on the long-term borrowings.

And we are going towards it. So, this quarter, it was very good for us to maintain and to reduce by a certain percentage or certain numbers, almost 50% in terms of long-term and similarly for the short-term borrowings.

Satadru Chakraborty: This is very helpful. Thank you and all the very best.

Rajeev Ranjan: Thank you.

Moderator: Thank you. The next question is from the line of Prateek Chaudhary from Saamarthya Capital. Please go ahead.

Prateek Chaudhary: Sir, in your press release, you mentioned that our growth post Q4 FY24 might be in the range of 10% to 40%. That's a differential of almost 30%. So, if you could explain why is -- there such a large range of potential growth that you mentioned post Q4 FY24?

Sumer Ghumman: So, the idea and we were expecting obviously this question to come up at some point. What we mean by that is that if certain factors beyond our control, they don't improve and we think they will. However, if they don't improve, in a very bad case scenario, we are still looking at 10% to 15%, somewhere like a 10% to 12% growth even then.

But in case things on the export side start to normalize as they have been a year ago or two years ago, then we can straightaway see that jump of growth even go well beyond 30%, 35%. So, although it does look odd, but that is the rationale behind us putting it in that range. Because certain factors that can give us that jump within that next year are beyond our control. So, it's important that we identify and see how the market situation goes and these macro factors, how they have an impact on the general economic situation.

Prateek Chaudhary: So, what I'm trying to understand here is that Mr. Kanav mentioned that the smart meter business that we have, we are potentially looking to double that over next year. And that business, I am roughly, as per my understanding, is around 20%-25% of our business.

Sumer Ghumman: No, 25% of the energy meter business, which includes shunts for non-smart meters as well. So, it's not 25% of overall business. No, no, no. The actual percentage of smart meters alone as a percentage of total sales is small. So, yes, you are right. We will see rapid growth in smart meters. But it will take a few more years for it to reach. At some point, it may touch that kind of a number as well in the future, depending on how quickly the government implements this. And whether it's actually done in a period of five years and not 15 years or 10 years.

But since it's a government related thing, there are certain ifs and buts attached to it. However, looking at it somewhere in the middle, not very optimistically, also not very conservatively, we see that it could be a 10-year period. And in which we see that in the next one year or two years, although it may double, but it will not be that large a percentage of total business because it's still a small percentage of total revenue.

Prateek Chaudhary: What is it as of now?

Management: Kanav, what would be the correct answer to that? If we were to look at the smart meter business out of total revenue?

Kanav Anand: Smart meter business, actually, if you look at our total revenue, because it's 20% of our shunned business, basically, that's what we're doing right now. And at the moment, shunt business is close to about 40% of the total revenue. So you can estimate about 10% of our total sales.

Sumer Ghumman: So, 10% of our total revenue, which you're right. With the market information and the market requirements that we have can double in revenue as well.

Kanav Anand: Yes.

Prateek Chaudhary: And sir, last question, the contracts that we are looking to finalize, I'm assuming these are for our export customers, right?

Kanav Anand: Yes, export as well as domestic.

Prateek Chaudhary: Because a quarter back in the conference call, you had mentioned that maybe because the global economy is facing headwinds and the shunt side of the EV or the shunt side on the export segment might take three years or four years to really pick-up. And till then, the domestic smart meter business might. So is there a change in that understanding, or…

Kanav Anand: We are very confident and hopeful of the domestic market for sure. And for the export market also, we said that we are seeing that, as I said, more customer engagement now. So we are seeing that there's a lot more movement happening now on these new requirements and new contracts.

And we are working on them. That's why I said we're talking for both domestic as well as export market, not alone export.

Prateek Chaudhary: All right. Thanks a lot. All the best to you.

Kanav Anand: Thank you.

Moderator: Thank you. The next question is from the line of Apoorv Singh from Panchratna Investors. Please go ahead.

Apoorv Singh: So congrats on the decent set of numbers. And I guess any business goes through certain off time. And I think what one of you mentioned was that you're using it for the process improvement, which is a very interesting answer. I would want to know what kind of process improvements are doing and what is kind of the business impact which you're seeing because of that? Or actually you are envisioning what kind of impact from that process improvements?

Kabir Ghumman: So in terms of process improvements, basically our focus over the last few years, in fact, has been on automation, on detection systems in process. And also, especially in the last few quarters, we've been focusing more on in-process inspection and with AI and with certain non-contact measurement systems being put in place. So we had some time also to experiment with certain technologies in terms of optical, in terms of sensors, where we could detect potential faults or potential variations in production before the end product was completed. So one aspect was that.

And the second aspect was a lot of these automation systems also provide real time data, which can be analysed to give batch-to-batch, lot-to-lot, material heat to material heat analysis, giving us a much better and a deeper understanding of how certain incoming variables impact the overall quality of the product. So in terms of process improvement, primarily we've been focusing more on the data analysis from in-process inspection systems, optical systems, as well as end of line online inspection.

Apoorv Singh: Got it. Just one question, follow-up to this only that, are we trying to kind of put an objective number on what kind of bottom funnel impact this kind of process improvements will lead to? Because this is a very interesting step. And I think investors would be really happy to know the kind of bottom-line impact this eventually creates, right? Sometimes, obviously not at the start, but eventually if we start measuring, we will surely figure out what kind of things it is changing at that bottom funnel? Just a suggestion.

Kabir Ghumman: Actually, at this stage, it's still a little early to put a number on that. Basically, how this helps out is in the most basic sense. One is to reduce rejection. One is to reduce in a certain level of re-work. And more importantly, to also cut down on the overall manufacturing lead time. So with these things put in place, it'll take a little bit of time before you start seeing an impact in terms of the final figures. But the idea is to improve overall efficiency, to increase productivity and yield, and to reduce re-work and rejection. So, I mean, ballpark, we're looking at an approximately at about a 2% of gross margin as a target that we want to achieve by putting these kinds of actions in place.

Apoorv Singh: Thanks. Thanks a lot. Yes, I'm done for these questions. Thank you. All the best.

Moderator: Thank you. The next question is from the line of Praful Kumar from Dymon Asia. Please go ahead.

Praful Kumar: Yes, thanks for the opportunity. So Kabir, same on that thing. In terms of robotics and AI, can you maybe spend two minutes, three more minutes on what exactly are the -- is it the new machines that you have got? Any new installations coming through over the next six months? And does the target of gross margins savings of 2% looks more achievable over the next couple of years? And also any interactions from the global OEMs? So maybe if you're doing some pilots for brands, like BYD or any other guys you're working with, any visibility on that would be very, very useful.

And thirdly, final question would be, if the inventory starts, since you said it's a three month to nine-month process, we have already seen a couple of quarters already. Towards the exit, we see, say, normalization of inventories and this de-stocking being done with and you coming back to growth. So we should, we can expect a 15-odd percent growth, this year as well towards the exit, that should be doable?

Kabir Ghumman: Okay. So I'll start with the first one in terms of, let's say, new equipment or new machines. It's a combination. Yes, there's been multiple lines that have been added. There's been a lot of focus, a lot of effort that's been put in and the end of line, fully automated inspection, calibration, packaging. And testing. So that's, that's one side of it. And we are adding, continuously adding further lines as certain product lines increase in volumes. It reaches a point where it has to go into automation because you cannot rely then just on statistical analysis or sampling-based inspection. So those lines, as we are moving forward, as those volumes for each part line increases, they go into a fully automated setup.

As far as your second part of that question, as far as AI and, and data analysis is concerned, this is a two-part thing where we are employing both optics and sensor based. And let's say, lasers or other types of detection for critical dimensions or critical features of the part.

So that data is being collected on a real time basis. And like I said a little earlier, this data has been presented in a fairly, kind of a consolidated format where we can then narrow it down to how each process is performing in terms of the day, the shift, the person, the raw material supplier, the type of product line. And we can really carve out whatever we are looking for in terms of that information.

So that helps zero in on what to attack to improve certain productivity levels or to reduce certain rework or rejection levels. So that's where that's being employed and that's being done both on the in-process side and also at the end of line aspect of it.

Apoorv Singh: Any pilots you're working with on the OEM side? On the restocking side, if that normalizes, then we should still see growth coming back since the eucalyptus is just 30%- 35% across businesses?

Kabir Ghumman: Yes, so there are continuous projects that are going on, even regardless of how the overall situation or the macros work, but there are continuous new product developments going on. And as we discussed in the past, also these, a lot of these automotive projects are long, qualification timeline. So, you may start with the prototype sample and it can take sometimes close to a year before all their internal testing is complete, testing at our end is complete. So, these types of pilot projects are going on and they are continuously being added on a week to week or a month-to-month basis.

Apoorv Singh: Thank you.

Moderator: Thank you. The next question is from the line of Vinay Ambedkar. Please go ahead.

Vinay Ambedkar: Hello. Good evening, gentlemen.

Kanav Anand **Hi.**

Vinay Ambedkar: I just wanted to know that it is good that we have the levers in place where our growth in bimetal division is offsetting the slowdown in the shunts division to an extent that, the overall turnover is almost the same compared to previous years.

Can you give a sense of whether this level of offset will be to an extent that it only, it's only to that extent where a bimetal growth just about compensates for the shunt de-growth or for the next remainder part of the financial year, we see a situation where bimetal growth can actually far exceed the slowdown in shunt and, therefore we are able to post a decent growth for the full year? I mean, if it's possible to give some sense around that.

Kanav Anand: Hi, we are very hopeful and confident that we should be able to maintain the growth level that we are already showcasing. So, we hope and we are confident that, we will be at about similar levels in terms of growth so that in case even if there is no, I would say, improvement we see in the next quarter or so from the shunt side, we should be able to manage the overall performance and should be better than what we did last year.

Sumer Ghumman: I would just like to add one more thing to this. So, you see, the primary reason of us increasing our capacity in bimetal was because of what we could foresee and the demand that we have from our existing customers as well as some new opportunities. Now, those are in development stages and some of them are already materialized into business. So, those will continue to show a very good result or a very good improvement and growth percentage as far as bimetal is concerned.

Along with that, if the domestic market continues to grow, that's even a further bonus for us for the bimetal business. But after these hiccups of slowdown of a couple of quarters, as Kanav just mentioned, when that starts to pick up, we will see very good overall growth and hence going back to that earlier question, why we kept that bigger range of percentage possibility.

Vinay Ambedkar: Got it. So, basically, are we seeing some bottling out of the shunt, de-growth or we think that there could be some more short-term pain in terms of actually numbers going down further from here?

Sumer Ghumman We've seen the pain aspect of it already reached its maximum level. Now, from this point onwards, we may see it remain like this for some time and then eventually pick up from here.

Vinay Ambedkar: Right. Okay. So, our shunts, at what capacity utilization will be operating with us right now compared to earlier when the demand was quite good? Is it possible to give a number?

Kanav Anand: Kabir, would you want to take that?

Kabir Ghumman: Yes. So, shunts would be roughly at about close to about 40%.

Vinay Ambedkar: Okay. And during the good times, it would be what percentage?

Kabir Ghumman: See actually, as far as the shunt capacity is concerned, usually it's a scalable model. So, as we've done in the past also, we've got certain processes and certain equipment that we build in-house. We design and build in-house and there are certain things that we have vendors and suppliers where designs are already frozen. So, usually when we see a ramp-up happen or we see a forecast which has strong visibility, we can ramp up in a matter of five to six months for critical processes. So, that grows with the overall demand.

Vinay Ambedkar: Okay. Fair enough. Thank you so much. My last point is, do we see some opportunity in the 5G rollout in India? Because I believe we had some European customers with whom we were doing some 5G business which saw a bit of a slowdown. If you could just share whether you're seeing any improvement there and then talk about whether we have any potential domestically?

Kanav Anand: Yes, we are in the world when it comes to the 5G rollout here in India. We supply our components to go into energy storage applications. So, inverter applications for all these towers and stuff will use our products as well. And we're very much part of this.

Vinay Ambekar: Okay. Thank you. Thank you, Kanav. Thank you, Sumer, Kabir, and Rajeev. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we take that as the last question for today. I now hand the conference over to the management for closing comments.

Rajeev Ranjan: Thank you, Deepak. Thank you for your participation in today's conference call and for being part of Shivalik's growth journey. We look forward to continuing our dialogue with you in the future. Thank you all and happy Diwali. Have a good evening.

Moderator: On behalf of PhillipCapital India Private Limited, that concludes the conference. Thank you for joining us and you may now disconnect your lines.