# “Salzer Electronics Limited Q1 FY25 Earnings Conference Call”

## August 07, 2024

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**PROGRESSIVE SHARE: MS. POONAM SANGHAVI – PROGRESSIVE SHARES BROKERS PRIVATE LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to Salzer Electronics Limited Q1 FY25 Earnings Conference Call.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Poonam Sanghavi from Progressive Shares. Please go ahead, ma'am.

**Poonam Sanghavi:** Thank you. Good afternoon, everyone. On behalf of Progressive Shares, I welcome you all to the Q1 FY25 Post Earnings Conference Call of Salzer Electronics Limited.

This Conference Call may contain forward-looking statements which are based on the beliefs, opinions and expectations of the company as at the date of this call. These statements are not guarantee 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 a question and answer session. Over to you, ma'am.

**Savli Mangle:** Thank you. Good afternoon, everyone and thank you for joining us today to discuss the Unaudited Financial Performance for the Quarter Ended 30th June 2024.

I have with me Mr. Rajesh Doraiswamy - Joint Managing Director; Mr. P. Sivakumar - Assistant Vice President (Marketing); Mr. S. Venkatachalam - General Manager (Commercial); Mrs. R. Menaka - General Manager (Accounts); Mr. K. M. Murugesh - Company Secretary; Mr. Jitendra Vakharia - Director Kaycee Industries and Mr. Raman – COO, Kaycee Industries.

I will now take you through the consolidated unaudited Financial Performance for the Quarter Ended June 30th, 2024:

During the quarter, our revenues increased by 24% year-on-year to Rs. 357 crore from Rs. 289 crores in the previous corresponding period. This growth was mainly driven by higher demand for industrial Switchgear and Wire & Cable businesses due to better market conditions. On the export front, our share of revenue was nearly 26%, demonstrating a year-on-year growth of nearly 37%. The EBITDA excluding other income was Rs. 33 crores in Q1 FY25 as against Rs. 26 in Q1 FY24, a Y-o-Y growth of 28% mainly on account of increased sales in higher margin Switchgear products and Wire & Cable businesses. The EBITDA margin for the quarter increased by 34 basis points to 9%. The profit after tax grew nearly by 45% to Rs. 15 crores in Q1 FY25.

Moving on to the breakup of revenue as per business division:

The Industrial Switchgear division contributed to 52% of the total revenues in this quarter. This business grew 26% year-on-year in the quarter and the EBITDA margin increased to nearly 13% in Q1 FY25, an improvement of 160 basis points. Two of our high demand and high margin products, the 3 phase dry type transformer products grew 6% year-on-year and the Wire Harness product grew 30% year-on-year during the quarter. The Wires & Cable business contributed to nearly 43% of our revenues in this quarter, which is nearly a 31% increase year-on-year and the EBITDA margin in this business stood at 5%.

The Building Products division has contributed nearly 5% to our revenues in this quarter. This business is the only B2C business that we have, whereas we sell many electrical products for the building sector. Due to higher sales outstanding, we have been slowing down sales with a specific distributor. We have also been doing some reorganization in teams and channels, which we expect going forward will improve the growth trend in the coming quarters and help us increase our contribution from this segment.

I would like to now hand over to Rajesh, who will take us through the business developments and the way ahead. Thank you.

**Rajesh Doraiswamy:** Thank you very much, Savli. Good afternoon and a very warm welcome to Salzer Electronics Limited Earnings Conference Call for the 1st Quarter ended 30th June 2024. I would like to thank you all for taking the time today to join us for this call. We have already shared our Results Update Presentation and the Media Release. I hope you all must have received it and gone through the same.

I would like to share some recent developments and outlook for the future:

In general, the market outlook as far as the Indian Switchgear market is concerned is projected to grow by US $4.14 billion with the CAGR of close to 7.5% from 2023 to 2028 for the next 5 years. This growth will be mainly driven by increasing renewable energy generation, the rise in residential and commercial building projects and expansion of transmission and distribution networks.

The rapid development in Power Distribution sector and the rising demand for renewable energy provides significant opportunities for all the market players in the industry. As the Indian government invests more in renewable power to combat environmental pollution and global warming, the Switchgear market will benefit from the expansion of power grid and increased adoption of renewable energy, which is actually becoming more cost effective. Additionally, smart switchgears, which enhances energy distribution efficiency and reduces cost is expected to drive the market growth. The integration of digital technologies and intelligent power management solutions will further support market expansion, ensuring safer, more sustainable and efficient energy management practices across various industries in India.

Similarly, the global switchgear market is projected to experience robust growth, reaching 117 billion by 2028, with the CAGR of 6.5%. This growth is also driven by increasing electricity

demand, expanded use in transportation, renewable energy investments, rising electricity needs from manufacturing and the replacement of all Switchgears. Furthermore, India's ambitious renewable energy targets, expansion of power transmission and distribution and increasing investment in real estate and transportation sector are driving positive developments in the Wire & Cable industry, promising a bright future. We are at Salzer ready and determined to adapt swiftly to these changing circumstances and embrace a proactive approach to steer our business towards growth and resilience. At Salzer, we view challenges as opportunities to innovate and evolve, and we strategically positioned ourselves to pivot from the economic scenario. As we expand our product portfolio and explore new growth opportunities, we are very confident in our ability to meet our strategic goals and provide value to all our stakeholders.

I would also like to now talk about some of the key developments on the business performance of Salzer. I am pleased to announce that the installation of machinery and testing equipment at our smart meter factory is now fully complete. Additionally, our factory test lab has also received certification from NABL and IAS certification bodies. Currently, our smart meters are being evaluated by at least 7 AMISPs in India and we are in advanced discussion with these customers to secure orders for our smart meters. However, having entered into the market, the company also acknowledges several challenges along with the opportunities. Tariff resistance to smart meters in some areas due to perceived higher chargers and then anticipated shakeout in the smart meter industry with new entrants and potential quality issues. Furthermore, potential delays in installation by the AMISPs could also arise from difficulties in integrating the meters with existing software and ensuring consistent service levels.

Apart from smart meter, we are also planning to establish a wholly owned subsidiary in Saudi Arabia where we will be manufacturing a few of our fast moving products. Currently, we are exporting to a few major OEMs in Saudi Arabia. As Saudi government regulates and insists of increased local content rule, this will in turn enhance the demand for Saudi locally made products. Setting up a facility in Saudi Arabia will also meet the local demand and also provide duty free access to other GCC countries. Looking ahead, the company remains cautiously optimistic about the growth opportunities in the global market. Salzer is focusing on revenue and margin expansion to navigate challenges and capitalize on emerging trends. The positive market outlook is bolstered by the strong demand in India and the significant infrastructure investments that is being made in India. Additionally, the company is also exploring markets such as Australia, New Zealand and the Middle East to fuel its growth ambitions. There are also geopolitical challenges which we have to keep in mind, which may reduce the demand from the Western markets particularly.

Now, with respect to our subsidiary Kaycee Industries:

Kaycee Industries Limited, the sales have been growing well and the EBITDA margins are also getting better. Kaycee’s topline grew 11.5% to Rs. 12.6 crore from Rs. 11.3 crore last year 1st Quarter. EBITDA grew 48% to Rs. 2.2 crores from Rs. 1.5 crore last year. PAT is Rs. 1.5 crore in Q1 FY25 compared to Rs. 0.9 Cr in Q1 FY24. PAT margins also improved substantially to 11.93% this quarter from 7.7% last year Q1. For FY25, Salzer Electronics provides a positive

revenue growth guidance of 18% to 23% for this year. The Industrial Switchgear business is expected to grow by around 22%-23%. Wire & Cable business will be growing approximately between 18% and 20%. The Building Segment products, we expect to grow by around 40%. The company is also targeting an improvement in EBITDA margins by close to 100 basis points, aiming for a margin range of 10% to 10.5%.

I thank the entire team at Salzer Electronics for their untiring efforts and all our stakeholders for their continued support and faith in our company.

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

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Balamurali Krishnan from Oman Investment Advisors. Please go ahead.

**Balamurali Krishnan:** I would like to have any update on the EV Charger manufacturing. Last time we have one test for our product was fairly monitoring so, further any update on that one? And are we in any discussions with customers regarding this supply of EV Chargers?

**Rajesh Doraiswamy:** As of now, I don't think there is any significant improvement in the status of what we were during the last quarter. So, that's why I think there is no update. We haven't put any update on that as of now. So, it's still on the development and testing stage as far as Salzer Kostad EV Chargers are concerned. However, I would also like to update you. I think you all also must have seen from the media release of the Kaycee Industries that our subsidiary, Kaycee Industries, has actually invested and taken 30% stake in a fast charger manufacturing company in Hyderabad. That's a development that has happened in this quarter.

**Balamurali Krishnan:** And regarding this Smart Meter, we were trying to supply to the customers who already won the tender from the government, who also has an idea to participate in the tender directly. So, is there any update on plan for this one?

**Rajesh Doraiswamy:** As I mentioned in the last call, yes, we are not closing down any opportunities. All opportunities are open for us. But however, our focus right now is to secure orders for our Smart Meter factory and get the Smart Meter factory up and running and also to prove to the customers that our meters are high quality, and we will be a reliable supplier and partner to the customers. So, that's the first focus. However, we are definitely open to see if there is an opportunity to participate in tender, we will be doing so.

**Balamurali Krishnan:** And is it possible to name any of your customers, on which you are in discussion and not in discussion?

**Rajesh Doraiswamy:** There are multiple customers that we are talking to. The large AMISPs including Adani's, GMR's, NCC and a few others. As I mentioned, there are 7 of the customers that we are talking to.

**Balamurali Krishnan:** And lastly, on this Saudi Arabia plant. So, basically, our stock manufacturing would be slightly higher considering the manpower cost everything. So, do you think that it will affect the margins going forward?

**Rajesh Doraiswamy:** The idea is like we are trying and testing the markets, testing the waters is what I can say. The cost of manufacturing will be a bit higher compared to what it is in India. So, there are increased local content regulations that's in Saudi Arabia is coming, like everywhere, India is also insisting on local content. So, now Saudi also is insisting on a 40% local content for all their projects and OEMs. So, in turn, they are looking at locally manufactured products, even though it's more expensive. So, that's why we are trying to see whether we can have some kind of a first mover advantage in the products that we are manufacturing.

**Moderator:** Thank you very much. The next question is from the line of Jignesh Singla from DS Fund Managers. Please go ahead.

**Jignesh Singla:** We try to complete the Smart Meter business, value of it using this concrete cash flow. We wanted to ask what will be the working capital requirements for the business, working capital days for the same?

**Rajesh Doraiswamy:** If I understand your question right, you're asking what will be the working capital requirement and working capital days for Smart Meter business, correct?

**Jignesh Singla:** Yes, correct.

**Rajesh Doraiswamy:** Yes. Before that, I would also like to give an update on the working capital days on Salzer for the current quarter of how it is working. We have actually considerably reduced the number of days from around 150 to around 130 days in this quarter. So, that's a big movement. And on the Smart Meter, we expect that the net working capital days will be much, much lower compared to what our current business is. The reason being, I think we expect a very low debtor days, not more than 45 days at the max. And also since the product SKUs are also limited, so we also expect that the inventory to be not very high because it's going to be a constant moving product. So, the inventory also, we don't expect it to more than around 60 days at the max. So, if you put together the net working capital should not be more than around 70, 75 days.

**Jignesh Singla:** Are we planning to do same like in this product, there'll be subsidiaries from the government. There is some payable will be from the government. You will directly get paid from the government or from the AMISPs, like because the government may delay...

**Rajesh Doraiswamy:** Our business is only with the AMISPs.

**Jignesh Singla:** So, you will not be affected by any delays of payments from the government, right?

**Rajesh Doraiswamy:** No, that will get affected only if we go and do a direct tender business, direct business with the Discoms.

**Jignesh Singla:** And also I checked the working capital requirements of the competitor, Genus Capital, that is extremely high, like close to 200, 250. Is it some difference with the...

**Rajesh Doraiswamy:** Yes, fully agree. I think the model of Genus is a little different because Genus does business with the Discoms directly.

**Jignesh Singla:** And my second question is related to the EV Charger. What will be the projected growth after 5 years? And also like we will be getting only 26% benefit, right, from that because of JV. Am I correct?

**Rajesh Doraiswamy:** Yes. No, currently, we own 60% in the JV.

**Jignesh Singla:** Along with that like new investing you made, right?

**Rajesh Doraiswamy:** Yes.

**Jignesh Singla:** What will be the projected sales after 5 years, any rough idea?

**Rajesh Doraiswamy:** I think it will be very, very futuristic to say what will be the business beyond 5 years because the entire EV market itself is still evolving because we see news of declining electric vehicle sales in Western countries right now. So, there are a lot of things that is happening around electric vehicle market. However, in the Indian market, we see a lot of potential, and that's why we are continuing to be involved in this business, and we are also continuing to invest in this business through our subsidiaries. However, to give a figure, 5 years from now will be highly difficult.

**Jignesh Singla:** Any rough idea, 2 years, 3 years, numerical idea?

**Rajesh Doraiswamy:** That's what I am saying it is still evolving. But if you look at our competition, then we will be able to add some kind of an idea. So, we can look at some listed competition of electric vehicle charger manufacturers like Servotech. There's also another listed company in electric vehicles charger space. So, there are 2 companies who are making chargers. And if you see they are close to around Rs. 200 crores of revenue in electrical vehicle chargers today.

**Jignesh Singla:** So, you're projecting based on that balance sheet comparable?

**Rajesh Doraiswamy:** Yes.

**Moderator:** Thank you very much. The next question is from the line of Hemant Saraf from Saraf and Associates. Please go ahead sir.

**Hemant Saraf:** Sir, change in inventory is of approx. Rs. 10 crores. Sir, I want to know whether it is Smart Meter inventory buildup or something else?

**Rajesh Doraiswamy:** What inventory Rs. 10 crores you're talking? Where is that figure from?

**Hemant Saraf:** Change in inventory?

**Rajesh Doraiswamy:** P&L inventory? Changes in inventory, understood. This quarter, you were talking, the changes in inventory for Rs. 10 crores. Yes, it's a stock increase by Rs. 10 crores.

**Hemant Saraf:** Is it related to Smart Meter or?

**Rajesh Doraiswamy:** It is not related to Smart Meter. It also includes Smart Meter, but it's not fully related to Smart Meter. Mainly related to the regular business.

**Hemant Saraf:** And sir, what is expected CAPEX for the wholly owned subsidiary which you are planning in Saudi Arabia?

**Rajesh Doraiswamy:** We are planning for an investment of around Rs. 10 crores in total to start with.

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

**Deepak Poddar:** So, I just wanted to check on the Smart Meter front. So, I think we have already in discussion for securing orders, but so when we expect the revenue to start from Smart Meter and accordingly, this year and next year, what sort of revenue build up we are looking to garner in Smart Meter and what margins?

**Rajesh Doraiswamy:** I think the revenue should start definitely this year. But what kind of a revenue? I am hopeful that in the second half of this year, we should be having revenues coming in from the Smart Meter. We expect at least Rs. 200 crores of revenues from Smart Meter this year. And next year, it will be a full capacity run, which then we will be able to do close to around Rs. 1,000 crores for next full financial year. That's just our plan, and that's what we are expecting.

**Deepak Poddar:** Understood. And at what margins?

**Rajesh Doraiswamy:** We are looking at an EBITDA margin of around 14% there.

**Deepak Poddar:** At full utilization?

**Rajesh Doraiswamy:** Yes.

**Deepak Poddar:** And so FY25 margins here will be much lower, right, because of your lower utilization.

**Rajesh Doraiswamy:** Not very much lower, but should be at around 11%.

**Deepak Poddar:** 11%, understood. And this is over and above what you have mentioned in terms of your guidance of 18% to 23% kind of a revenue growth?

**Rajesh Doraiswamy:** Yes.

**Moderator:** Thank you. The next question is from the line of Prathamesh Dhiwar, Tiger Assets. Please go ahead.

**Prathamesh Dhiwar:** Sir, just a couple of questions on acquisition side. So, as I am new to the company, what are the recent acquisitions that we have done? And in coming time, are we planning for any acquisitions? So, this is my first question.

**Rajesh Doraiswamy:** No, Salzer has not done any acquisition in the recent past after Kaycee Industries in 2019. We haven't done any acquisition. And of course, there are a lot of opportunities that keep coming to our table, and we keep discussing opportunities, but there's nothing significant as of now.

**Prathamesh Dhiwar:** And sir, what is the total CAPEX outlay for FY25?

**Rajesh Doraiswamy:** For current year?

**Prathamesh Dhiwar:** Yes, FY '25, current year.

**Rajesh Doraiswamy:** FY '25, our total CAPEX will be close to around Rs. 50 crores because we have invested close to around Rs. 25 crores in the Smart Meter factory. So, apart from that, we will be doing another Rs. 20 crores for CAPEX of this year.

**Prathamesh Dhiwar:** I missed it earlier, how much margins are we seeing on Smart Meter side? EBITDA margins?

**Rajesh Doraiswamy:** We are looking at 14% EBITDA for Smart Meters.

**Moderator:** Thank you very much. The next question is from the line of Praneeth. Please go ahead.

**Praneeth:** I was wondering about the product mix and how do we want to see our product mix going forward? Till now we've did 55% of Switchgears and the 30%, 40% in Wires & Cables. Are we expecting an improvement in product mix from Switchgears a little bit more and the Smart Meters taking up the extra incremental revenue? How are we planning on looking at the product mix going forward?

**Rajesh Doraiswamy:** Going forward in this year, we expect that between Industrial Switchgears and the Wire & Cable, the product mix will be between 53%, 55% for Industrial Switchgears and around 40%, 43% for the Wire & Cables. That's the mix that we are looking at, and the rest going for the Building segment. Any Smart Meter that will be coming in extra, which we will have to see how the business comes around this year, and then we can give out a figure for that. But for next full year, then the Smart Meter definitely will take up close to around 30%, 40% of our revenues.

**Praneeth:** And for the Building segment, you've been trying to make sure the revenue contribution reaches somewhere around 10%. But we have not been able to do it for the last few years. What is the specific reason? Or do you think it's going to sustain at this level for the foreseeable future because we've been trying to reach...

**Rajesh Doraiswamy:** Multiple challenges that we are facing when we go into the retail market. One, I think we are still confined to southern 5 states. So, that's one regional constraint that we have. Second, I think there's a lot of collection issues also that comes along with the retail business that we are doing. Still, we are not a very large brand like Havells, V-Guard or PolyCab. So, we are still pushing our products instead of market pulling our products. So, because of that, there are collection issues than the regional constraints. So, we are going slow, not burning away cash too much and taking the revenues up. So, that is one of the reasons that we are seeing that the sales are not going up as expected. But nevertheless we are doing our best, trying it out to see how we can make this at least Rs. 100 crore revenue segment as soon as possible.

**Praneeth:** So, are we planning on investing further into the Building segment? Do we need to do CAPEX? Or is it only you need to put working capital CAPEX for increasing the distribution going forward?

**Rajesh Doraiswamy:** It is only marketing, until that we have continue to do. There's no CAPEX that we are doing so.

**Praneeth:** And one more thing with the white settlement. We started with the white labeling, right? So, what is the split between white label and around that? I think in between ventured into selling Salzer's branded cables also. So, how is the split between both these settlements?

**Rajesh Doraiswamy:** The Salzer-branded Cables, we are selling through our Building segment division and White labeling, we are doing it for the Wire & Cable for companies like L&T and a few others. I don't understand what is the question that you're asking. How is it growing or…

**Praneeth:** No, I was curious. I thought in the 40%, the Salzer Wires & Cables is also included. So, I was just curious in that way, whether did we increase or are we actively marketing Salzer branded cables in other distribution channels or..

**Rajesh Doraiswamy:** Yes. We are marketing the Salzer, the 43% Wire & Cable, includes Salzer-branded cables for the Industrial segment. And it also includes the white-labeled products for L&T. And the dependency on the white label, which used to be around 80% earlier from L&T and other OEMs, have come down to close to around 60% or even less in the last year and the current quarter.

**Praneeth:** So, where has the dependence reduced? We've been onboarding more customers, which are not OEMs or however you will be doing it?

**Rajesh Doraiswamy:** We are onboarding more customers, where we are selling Salzer wires.

**Praneeth:** So, the margins and background Salzer branded products than the white label products, right? What is the difference in margin?

**Rajesh Doraiswamy:** Not yet. I think, hopefully, it will get better.

**Praneeth:** One more question regarding the Kaycee Industries acquisition. So, we did that acquisition a long time ago, and you were expecting synergies to be between both the companies because

together, you were already a market leader, and we will have an increase in market share in the Switch Gear segment. So, how are the synergies going forward? Are we seeing incremental synergies going to happen? Or we have stagnated in terms of the benefits through acquisition?

**Rajesh Doraiswamy:** Yes. I think most of the synergies have been taken care, and you see the tremendous margin improvements in Kaycee, and we can also see the same improvements in Salzer's Rotary Switch business. So, it's a continuous process, but we have achieved to an extent what we wanted to.

**Praneeth:** And one more reason earlier you mentioned the fact that you invested in Hyderabad-based charger manufacturing company through Kaycee Industries. What is the rationale behind it? Because since you already have a JV for manufacturing fast chargers, why are we going to investing another company through our like subsidiary? What is the rationale behind it?

**Rajesh Doraiswamy:** It's a startup company in Hyderabad, and it's different technology to than what we are making. That is one of the reasons that we thought we should be in this business. Secondly, I think as I have mentioned that at Salzer, we are still struggling to get the technology right and get it tested. There are also issues with the collaborator giving us the technology and then getting this tested for the Indian standard. So, we thought maybe this is an opportunity that we should be in the business with other partners also. So, that's one of the rationale that we have invested in this company in other words, a start-up for making chargers.

**Praneeth:** So, what is the company's name and what valuation did you invest in this particular amount then?

**Rajesh Doraiswamy:** The name of the company is Ultrafast Chargers Private Limited. And the investment that we are making, going to make is around Rs. 8 crores for 30% stake.

**Praneeth:** So, 30% stake. Understood. Are we also planning on lending any of support also, or is it just a money investment?

**Rajesh Doraiswamy:** To start with, we are going to be an investor. We will be the single largest shareholder in the company. Going forward, any support because it's a start-up. So, definitely, they will need a lot of support from companies with experience for manufacturing and marketing etc. In that case, I think we will definitely step in and do what is required for them.

**Praneeth:** I was curious about the maintenance CAPEX going forward. How is it going to be?

**Rajesh Doraiswamy:** I already mentioned that I think we are going to do around Rs. 25 crores this year, including the Smart Meter balance CAPEX.

**Praneeth:** No. I am curious about the incremental CAPEX, the maintenance. Like we will probably need to do maintenance CAPEX for existing plants. What would that be, not the incremental CAPEX?

**Rajesh Doraiswamy:** I don't have a split on how much maintenance, how much new CAPEX that we are making because there's no major CAPEX that we are making as of now. There's no major CAPEX other

than Smart Meters in the Saudi Arabia plant. We are not going to make any major CAPEX as of now. So, whatever we are making will be for maintenance.

**Moderator:** Thank you. The next question is from the line of Gunit Singh from Countercycle PMS. Please go ahead.

**Gunit Singh:** Sir, you mentioned Rs. 1,000 crores revenues from Smart Meter in FY26. I just want to understand, do we have the order pipeline for that? I mean, what gives us the confidence that we will be able to reach full utilization? That's the first question.

**Rajesh Doraiswamy:** As I mentioned, I think we are in discussion with the customers, the AMISPs, and we see the potential and see what kind of orders they have with them, which they ultimately have to give it to meter manufacturers. So, based on that, I think we are confident that we will be able to get the 4 million meter order for next financial year. So, that's the confidence that we have, one. Secondly, I think we also see that as I mentioned in my call, there will be a lot of fallouts. There will be a lot of integration issues with meters and software. So, there will be a lot of struggle for the AMISPs also on the installation side. So, we are seeing all these things already and we are getting prepared to how to overcome all these challenges that the customers are already facing. So, based on these technological advantages that we have and also the business with the customers, we are confident of this for next year.

**Gunit Singh:** Sir, according to current market dynamics in Smart Meters, I mean what would be the demand? And what would be the overall industry supplier, in Smart Meter segment in India, if you can throw some light?

**Rajesh Doraiswamy:** The known demand is around 25 crore meters, and the supply today should be around 3 crore meters a year. Yes, the capacity is 3 crores, but it is still not supplied, the supplies are not going still.

**Gunit Singh**: With this commercializing, what kind of depreciation can we expect, I mean, overall for the company in FY '26?

**Rajesh Doraiswamy:** Yes, you mean to say because of the Smart Meter investment?

**Gunit Singh:** Yes.

**Rajesh Doraiswamy:** I don't think there will be significant change in depreciation because of Smart Meter, because Smart Meter, I think we are investing around Rs. 25 crores to be depreciated over a period of 15 years or even 10 years, it's going to be Rs. 2 crores per year extra.

**Gunit Singh:** All right. And sir, do we plan to raise any debt? Or do we plan to pay down any debt in this financial year? What is the guidance in that regard?

**Rajesh Doraiswamy:** We have already taken debt for our Smart Meter factory, which is around Rs. 25 crores, but we have availed only around 10 out of that. So, there is no other new long-term debt that we are planning to take.

**Moderator:** Thank you very much. The next question is from the line of Amit Agicha from HG Hawa. Please go ahead.

**Amit Agicha:** My question was with respect to, is the company planning any bonus because in last 1995 company had given 1:1. The reserves are ample so shareholders will be also empty.

**Rajesh Doraiswamy:** Thank you for suggesting this. We will definitely look into this possibility. We haven't so far thought about the bonus issue as of now. And for you all of your information, I think in Kaycee, we just did the split in the bonus in our subsidiary.

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

**Rohit Ohri:** Two or 3 questions from my side. First one being on the copper pricing been fluctuating a lot over the last 3 or 5 months. How are we coping up with that and the inventory management, if you would like to share that?

**Rajesh Doraiswamy:** It's definitely challenging because a very smooth upward or downward movement is easy to manage, but any spikes are very, very difficult to manage, and that's one of the reasons that our EBITDA margin on the Wire & Cable industry has gone down by close to around 2% this quarter. So, they're definitely affected because of sudden spike of up and down. That is one reason. And we continue to buy and sell on a monthly average, that's one of the reasons that we are also insulated to some extent. However, said that but you cannot really control the customer placing an order or not placing an order. It's always a customer will place more orders when the copper prices are spiking up suddenly. So, that's when I think we are caught in a place where we don't have copper at old price, but we have to sell. So, that is why that the margins are getting strained. So, the balance of that, I think, is still being worked out, but it's quite challenging.

**Rohit Ohri:** Do you think that there's still more pain left in the upcoming quarter as well?

**Rajesh Doraiswamy:** No. I think even in the month of end of June and beginning of July, I think it started stabilizing. So, it looks like, I think it's more stable in the last 2 months now.

**Rohit Ohri:** Okay. So, second question is related to this plan to establish subsidiary in Saudi Arabia. Sir, I just needed some more clarity on that. Are we going to go there and manufacture? Or are we setting up sales or service department over there probably you might make most of the 80% of the products here in India and then send it across to Saudi and then probably do the packaging and finishing final touches over there and then sell it across to probably Europe or U.S.?

**Rajesh Doraiswamy:** Actually, it's a combination of both. There are certain products, which we cannot do anything here and take it there because it has to be value added in Saudi Arabia to get 40% value addition

certificate. So, that's why I think certain products will be manufactured in Saudi. But there are certain products that we will produce here in India, take it on a CKD condition and then do the finishing in Saudi Arabia. So, it's a combination of both that we are doing. And to answer your question, yes, it's the manufacturing plant, not just the sales and marketing.

**Rohit Ohri:** Sir, going in international frontiers, the employee cost will be something that will hit us a lot. We have this lovely strategy here in Coimbatore, where we have employed got a lot of female staff and they do the job perfectly, sir. Just on the employee cost going forward with the Saudi arrangement, you would like to share something?

**Rajesh Doraiswamy:** I think to start with the Saudi plant is going to be a very small plant to be set up there for Saudi Arabian market to start within the Phase-I, and then we will be looking at the other GCC countries from that plant. So, that's the idea. Definitely, the cost of employment in Saudi plant will be more as a percentage of sales when compared to what the Indian plant is. But then there are inherent advantages when you go there because the price can be a little higher, which can cover the increased employment cost. And there will be a demand for the Saudi made product in Saudi Arabia. So, that's the advantage. And I think we are just testing the water. And of course, there are a lot of risks involved in going to a new country, in Saudi Arabia, how the political stability will be, how the policy stability will be. There are a lot of questions. We expect things will be good because we see a lot of other foreign OEMs setting up plants there and started manufacturing, who are all our customers also. So, looking at them, I think we are trying to test the market and see how it goes forward.

**Rohit Ohri:** Sir, last question on any corporate development that we should expect from your side to split because if you just check that the spreads between the ask and bid is slightly higher. Do you think that there should be stocks that should come through for Salzer Electronics?

**Rajesh Doraiswamy:** I didn't get you. Asking me of any corporate announcements or...

**Rohit Ohri:** So, the stock split, is the Board contemplating, anything...

**Rajesh Doraiswamy:** No. Right now, we are not thinking about that.

**Moderator:** Thank you very much. The next question is from the line of Hemal, Individual Investor. Please go ahead.

**Hemal:** I am new to this company. I heard everything. I just may have missed out on queue. I just want to confirm 2 things. What's your net debt position as of today and what is your best EBITDA margin outlook because you said Smart Meters is something, which you have not accounted for, what is the EBITDA margin outlook for the year that you think that we should look at?

**Rajesh Doraiswamy:** The net borrowings on working capital is around Rs. 281 crores. And long-term debt is around Rs. 16 crores, Rs. 15.85 crores. That's the debt level that we have. More or less, it's very similar to what it was in the March balance sheet. There's not much changes in that. On the EBITDA margin position, I think I already mentioned in the call, I think we expect to close this year at

around 10% or a little more than 10% is what we expect to close. This is without considering the Smart Meter factory. Because of the Smart Meter, we are yet to see an order inflow. And then once we start that, then we will be able to give some kind of guidance on that. But we expect on a full capacity utilization, Smart Meter can generate 14% EBITDA.

**Hemal:** I was saying that I was reading an article which said that Smart Meter production facility capacity in India is around 7 crores. But if I am correct, you said it's around 3 crores, right?

**Rajesh Doraiswamy:** Yes. I mean there might be a lot of small manufacturers, medium-sized companies. I am talking about the large companies. If you see, if you consider all of them, I think it won't be more than 3 crores, 3.5 crores.

**Hemal:** So, what is our advantage relative to them? Like what do we bring to the table that is differentiated from all these smaller or larger payers.

**Rajesh Doraiswamy:** The first thing is I think there is a large demand supply gap because there are companies who have taken crores and crores of meter orders a couple of years ago and then still struggling to install the meters because there is no supply of meters. So, that means there's a large demand supply gap. That is first. Second, I think we have been into the engineering manufacturing for the last close to 40 years now. And we are completely backward integrated, which is a big advantage for us compared to many other meter manufacturers. And we have the logistics completely set on the procurement side, both for the raw materials, components, and we have a good team that we have established now we will be able to take this to the level that we are looking at. One, a lot of companies have been into meter manufacturing for a long time, but then the Smart Meter is a new thing. So, they're all changing their regular digital meters into Smart Meters. Out of this, I think the top companies have been quick enough to change over and start making the meters. And the other small and medium-sized companies are still struggling to get the Smart Meter perfect because it has to work in an environment, an unknown environment outside where we don't know what the temperatures are, what the environmental conditions are, rain, dust and so many other things. In these conditions, how this product is going to work is something that's unknown. So, that's where I think you need a bit of experience working in various products, how this product can work in such conditions. What we have done is we have made a product that has been tested at very, very severe conditions. We have proved that to the customers who have been talking to us, and they have all appreciated the way in which this is being made and tested in our factory. So, definitely, we are bringing high-quality product to the table. At the same time, we are assuring that there is consistent supply that can come to these customers for them to finish their project on time.

**Hemal:** So, would the warranty liability of the Smart Meter be on power itself? Or would it be just a pass-through? Like would you have any warranty ?

**Rajesh Doraiswamy:** We need to give an 8-year warranty for the meter.

**Hemal:** So, you would have some liability on that, right?

**Rajesh Doraiswamy:** Yes.

**Hemal:** How much is it typically, like 2% of sales or 5% of the sales?

**Rajesh Doraiswamy:** We expect that it's not going to be more than 0.5% of the sale. But the worst-case scenario can be 1.5%, 2%.

**Hemal:** Okay. So, 0.5% to 2%, we have to account on our books still at least for 8 years potentially.

**Rajesh Doraiswamy:** Yes.

**Hemal:** And absolute final question. So, because you said backward integration in your technology, is that one of the reasons why you would have a better cost advantage relative to other larger players? Or is it like a right business and everybody who is in this large-scale business, everyone has the same technology and everyone can have this robust testing done in the large one, not the smaller one.

**Rajesh Doraiswamy:** Yes, I think the other large ones definitely have this because they also will have the volume. They also have been experienced in making the meters. But my point is that we are a new entrant, but we will be on par with these large manufacturers. That's the point I am trying to tell my customers also.

**Moderator:** Thank you. The next question is from the line of Praneeth. Please go ahead sir.

**Praneeth:** So, I was curious about the toroidal transformer facility. So, how is it scaling up? And how have you been doing sales in the transformer department? And how is the capacity utilization after the investment?

**Rajesh Doraiswamy:** Which company?

**Praneeth:** Toroidal transformers.

**Rajesh Doraiswamy:** Transformers has been growing very well. I think it is one of the fastest growing product for us. It still continues to be. And then the capacity utilization in the transformer division is close to around 75%.

**Praneeth:** So, what is the exact sales number for that particular segment? The transformer segment.

**Rajesh Doraiswamy:** I don't have a breakup of my Switchgear sales as of now, but I can share it with you through the team.

**Praneeth:** That would be great if you would share it after the call. And so one more thing is, we have done Rs. 37 crores worth of related party sales. So, which institutions could we actually do the sales to? Why do we do it?

**Rajesh Doraiswamy:** There are a lot of exports that we do on a consolidated basis to our customers. So, that takes the majority of the sales. It's the only sale that we do.

**Praneeth:** Understood. So, one more reason I wanted to ask in the EV, we did a further investment in the EV charging manufacturing subsidiary. What is the reason for the further investment? And why didn't the other party also invest in equal amount to maintain their ownership? What are the terms of the deal?

**Rajesh Doraiswamy:** The original terms of the deal itself was that as the investment requirement is coming, I think Salzer will invest and others will dilute themselves, except the foreign collaborator, who will continue to 120%. So, that is the original deal. So, that's why I think we continue to invest and then our stake goes up.

**Praneeth:** So, how much investment are we expecting to further the dilution?

**Rajesh Doraiswamy:** So, far, we have invested close to around Rs. 1 crore. And we are not expecting any major investment as of now until the testing is completed and the product is proven.

**Praneeth:** But last 6 months ago, you mentioned that it has been already tested in Pune. It's almost at the end of its testing and quality standard phase. So, what has been taking extra time?

**Rajesh Doraiswamy:** I think I mentioned in my last call clearly that we have completed all testing, except for one last test, which has failed. And that communication is a software change that we have to do. And we are now working with our collaborator to do that software change because software change is a major change. That's what we see right now, which needs a lot of resources to be invested, to change that software to meet Indian standards, which is what our collaborator is trying to do, and we are trying to make them do because that is their propriety technology. And until that is done, this testing won't be complete.

**Praneeth:** And like as you alluded to in the previous calls, you wanted like our EBITDA margin to reach back to 12% like what we were doing in 2017 at times. So, can we expect that in the further 2, 3 years? Or is it going to remain in the 10% range?

**Rajesh Doraiswamy:** As of now, I think this year, we are trying to get to the 10% level, whether the business without the Smart Meter, the existing core business, whether it will go to 12%, 12.5% next 2 years. I think in next 2 years, we can expect this to be around 11%, 11.5% if the same revenue ratio remains 55% and 43% of Switchgear and Wire & Cable.

**Praneeth:** And we wanted to reach an ROCE of 18%, right? And like a few calls, you mentioned that. So, do you think we reach that level? Or is it going to be in the subdued levels what we are right now?

**Rajesh Doraiswamy:** No, I think with the addition of Smart Meter, I am sure that in FY '26, '27, we should be able to reach that level.

**Praneeth:** And it will be great if you can send the transformer details.

**Moderator:** Thank you very much. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Rajesh Doraiswamy for closing comments.

**Rajesh Doraiswamy:** Thank you very much for all the participants who have been here today and shown so much interest in the company. Looking forward to interacting with you again in the next conference call. Thank you, all of you.

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