“Modison Limited's Investor Meet”

September 28, 2022

SPEAKERS: **MR. MANISH K. SRIVASTAVA – JOINT MANAGING DIRECTOR, MODISON LIMITED**
MR. RAMESH KOTHARI – CHIEF FINANCIAL OFFICER, MODISON LIMITED

Ravi: Good evening and thank you, friends for joining this call of Modison Limited. This is Ravi Udeshi from EY. Today, we have with us the top management of Modison Limited, represented by Mr. Manish Srivastava, the Joint Managing Director and Mr. Ramesh Kothari, the CFO.

To give a brief intro, Mr. Manish Srivastava has close to three decades of experience in this capital goods and engineering sector. He has been part of the senior leadership team at leading companies like ABB and Crompton Greaves where he was heading several key divisions of ABB and Crompton Greaves and he has been associated with Modison for the last four years now as the joint managing director and CEO.

We also have with us Mr. Ramesh Kothari who have been with the company as the CFO for more than a decade now.

With that, round of introduction is over. I will now request Manish sir to give a brief introduction about the company. As most of the investors may not be exactly aware as to what the company is exactly doing, maybe 10-15 minutes intro about the company and its product segments and also a brief talk about what happened in the June 2022 quarter.

With that, I hand it over to Manish sir.

Manish K. Srivastava: Thank you, Ravi and thank you, everyone. Welcome to this briefing. Just to start, those who are not aware of Modison, Modison company was started in 1965. So, this is a pretty old establishment in India, almost more than 50 years. We started with trading of the goods and then we started refining facility of silver and this company was first to refine triple line silver in India. And then we were supplying silver to various European and other institutions. And then we started first manufacturing facility in 1978. Since then we have been in the field of manufacturing of various components which are part of predominantly power sector and to be more specific switchgear industry. In between we had global tie-ups in form of technology transfer and technology understanding and partnership with DODUCO, Germany which is a pioneer in the name of electrical industry for component of switchgear, both high voltage, medium voltage and low voltage. In 1983, we had started the technical collaboration with them which lasted till about 1997-98. And in the meantime, we had already developed our own R&D facility and R&D set up and since then we are on our own as far as innovation is concerned and technology is concerned.

So, a little bit more on business. One line I would like to add, in this particular group, we have another company which is Modison Copper Private Limited, but which is a very separate company, deals with heavy kind of copper and copper alloys.

Specific to Modison Industries which was earlier Modison Metals Limited, now it is Modison Limited which yields the name to make it more and what we do. Earlier name was somehow leading to a kind of understanding or an impression that we were a metal or metal-oriented company. This was not the true reflection of what we do. We are a manufacturing company of electrical industry. So that is why we changed and we have our own plan of expansion and diversification. So, in Modison Limited, we felt that would be better representation of our activity area that what we do.

So, at the moment, we have two set-ups. One is for LV and HV switchgear contacts, which are mostly silver and silver alloy contacts. Second, in different space, the same company has a separate factory which caters to HV segment of switchgear. There also we make contacts for high voltage equipment. These contacts are predominantly copper and copper tungsten alloy contacts. So, these are the first level of segmentation.

If we go further, then in LV we have several contacts of old series or a conventional series as well as new series and our major customers are all the names in switchgear low voltage industry like Larsen & Toubro, C&S, Schneider, ABB, GE, Havells and all these customers, HPL, Crompton Greaves, these are our customers in the field of low voltage manufacturing segment.

As far as high voltage segment is concerned, this has both air-insulated switchgear segment as well as gas-insulated switchgear segment and our customers are all multinationals who make big AIS and GIS service stations and equipment's like Hitachi, Toshiba, Hyosung, GE, Siemens and these kind of customers.

With respect to distribution of business, last year we did approximately Rs.342 crores business, Rs.250 crores approximately ballpark number was from LV side and balance was from HV side. These were our numbers.

A little bit more one line around competition. In LV segment, it is multi-customer, multi-supplier kind of a segment. So there are more players apart from us in India and our competitors or Choksi Heraeus, Hindustan Platinum and Modicon which was our family company sometime back, but many years back we parted away.

In HV at the moment, we are the only player in India. More players are trying to start the business, but at the moment we are the only player.

With regards to entire range of LV and HV, we are the only player in India. For example, Choksi and HP are not in HV segment, similarly the player who is trying to enter India is not for HV segment. Globally, there are only four, five players who have entire range covered from LV to HV. So, this was on the competition side.

With regards to business, last three years if we see, in between two years we have faced Corona also, but in spite of that we had seen a growth of 16% on CAGR basis. This is why we see growth momentum coming and we also had taken share from other competitors during the pandemic time. So, this momentum and growth is coming.

From a market side, we have a lot of optimism. From operations side, we started with some operational improvement activities including Lean Six Sigma and we are also having

Greenfield as well as Brownfield expansion. In Low Voltage, we are having Brownfield expansion and in High Voltage we are having Greenfield expansion. So, this was on operational level organized side.

I spent 3.5-years approximately now in this company and I joined from Hitachi which was erstwhile ABB high voltage segment. So, this was very brief about our company. Any specific interest or specific topic, we can have during the course of our interaction further.

In the meantime, while you are still thinking on questions, one thing I missed out which Ravi has asked me to address on our Q1. Q1 also, we saw growth both in terms of value and in terms of volume. And also, our operational improvement program which we had started two years back, now it is clearly visible, that all operational parameters whether it is DSO, ITR or productivity, these kind of things are on right track and it is under improvement. So, this kind of a thing on Q1 where our quarter-to-quarter-one growth on a two-year basis it was quite good and we had clocked a volume of 9 tons silver. Last year, we dispatched 32 tons of approximate silver to achieve the kind of revenue what we have achieved. This is in the first quarter itself which is generally a lean quarter for our customers, but in spite of that, we actually produced and dispatched more than 9 tons of silver equivalent in revenue terms. So, this clearly shows the growth momentum which had started two years back on consolidation of customer side and on consolidation of our activities, we are on the right track and whatever projection we are thinking to achieve on a growth side, it seems to be on track.

One more line I would like to add is what is happening in the market side. In LV, because it was a segment as I had explained previously, the consolidation on customer side has started happening, meaning thereby customers are already either at the merging stage or being taken over by a bigger or global customer. I will just give two examples. Control & Switchgear which is (C&S) a big company has been taken over by now Siemens. Similarly, L&T (E&I) segment, Electrical and Instrumentation segment, has been taken over by Schneider. ABB High Voltage segment has been taken over by Hitachi. So, these kinds of customer consolidations have started happening which is directly or indirectly a positive news for us because when we go into global value chain, the quality expectation and design expectation including further innovation become a kind of key driver for growth as well as customer future plan. This is point #1.

Point #2 is when we go to these global customers, then they become our sales channel to go to global market which will propel our export growth in future as well. So, this is what I wanted to add which Ravi had asked me specifically to mention, but I missed out.

Ravi: We will now start the Q&A. Yes, Jayesh Shroff from Cask Capital, you may go ahead and ask the question.

Jayesh: I think we are on path for some big expansion both in LV and HV. So, just wanted to know the status of our expansion plans and whether in light of whatever geopolitical is happening in the world and slowdown in Europe, etc., are we going slow in expansion, are we having some second thoughts there or what is it?

Manish K. Srivastava: First thing on the status of expansion. Expansion had two basic aids. It was not only some capacity expansion; it was also making our factories future-ready and globally compliant. As I explained to you, globally value chain integration and consolidation is happening. So more and more customers would like to have a strategy on low-cost sources as well as footprint change. In that case, they would like to go to a company which falls into their global compliance of environment, safety and ESG. So, factories which are more future-ready and innovation-ready would take bigger pie of the cake. So, this is one aid apart from capacity expansion which is more strategic in nature. Now, coming to status, LV factory is almost about to be ready in full; so, by end of November. The physical infrastructure work is almost ready and we have now started doing the internal work of lighting, plastering, flooring, and these kind of things and then we will start moving and expanding. So, this is part one. On HV side, the work has started and I presume that by end of this financial year that factory will also be up and running. So, this is the status of our two factories expansion plan. Now, the second part of your question was with regards to what is happening globally and what is impact on us. Our LV business is mostly domestic demand driven. Because LV is very high material content kind of products. Because value add in this market is less and material cost more or less globally would remain the same. So the advantage of export is not there much in LV. LV has secondary export demand. For example, the customers who are changing the footprints of their equipment manufacturing in India, that is where the global demand itself is growing and we are part of that. So, this is mitigating the external risk also and global supply chain as well. On high voltage side which is likely to be more impacted by global recession or global geopolitical conflicts or situations, there also our global company since long have started feeling the pinch of pricing pressure as well as to spread or to diversify production footprint. So, all the companies have started thinking of changing their footprint and a bigger strategy. Just to give example in solid term, erstwhile ABB which have become Hitachi now has changed its footprint and from Sweden factory they are now shifting production facilities to India and Vietnam. Similarly, C&S has already changed the footprint to India and low-cost countries. Yesterday only, we gave the usage. What usage will do, they will make a tractor contacts in India and then they will supply other part. So more and more value addition where the labor content is very critical. When value added portion is more, would come to India automatically. So there is already a growth in demand and mitigate the risk of both currency as well as geopolitical situation. Third thing, as I explained, that in a particular segment of entire LV to HV where we are only a few global players. In case, there is a slight recession also, but the power sector demand and the requirement will not go away. Maximum it could shift from one quarter to another quarters in a project basis and then when the recessionary inflation reduces or pressure reduces, that demand will come across with a pent-up demand. So, it is question of overall because the demand per capita energy would go away. It is not kind of a consumption which is on a daily basis. It is a long-term established CAPEX-oriented plan for high voltage equipment. So there also the impact could be a quarter or two maximum, but it is not happening to us at the moment.

Ravi: We have the next question from Aman Vij from Astute Investments. Please go ahead.

Aman Vij: First question is continuing on the CAPEX side. If you can talk about what is the actual amount we are spending on this CAPEX as well as what will be the additional capacity individually in LV as well as HV segment after this CAPEX?

Manish K. Srivastava: CAPEX total amount for both the factories is budgeted at around Rs.25 crores, both Brownfield as well as Greenfield expansion put together. Second thing, on a capacity expansion point of view, as I explained to you, it is two-fold; one is to make this factory future-ready because what is happening in LV, older series of contacts are still going on and requirement of new series of contacts would also come which are RoHS-complaint. Just to give a specific answer to this, like AgCdO contact, is very popular in India and most in demand. But with global companies come into picture, they would like to have RoHS-compliant and globally CD is not very popular kind of a compound because of cadmium. So, they will change to RoHS-compliant, $AgSnO_2$-2 contacts. So, we will have to have both the types. So there will be some demand which will be parallelly shifted from one product series to another product series. So, value and the facility on both the products will run parallelly. However, when it grows, our most conservative estimate in HV we will increase capacity in excess of 20%, but minimum 30%. But the problem is in HV, the growth will not be 30%. So, we are only making this thing for new few years. It is not that today being 30% extra capacity, 20% order will start coming from tomorrow. As I explained in HV, we are the only player in India at the moment. So, maximum market share is with us. So the demand will take over a period of time. So this CAPEX is for medium to long term investment point of view. LV also will reach capacity by minimum 50%.

Aman Vij: Then continuing on this part of market share, if you can talk about LV and HV segment, what is our current market share, how is the market in both the segments? Obviously, in HV, we are the only player, but if you can also talk about the size of the industry of these two segments, how is the market growing as well as our market share today and how has that moved in the last three, five years?

Manish K. Srivastava: In HV, our Market Share is about 80%. Even though we are the only player, but a small portion of requirement happens globally also either because of technical reason approval or because of customer risk mitigation policy to have two suppliers globally. When I say technical reason, because HV is a very high value product globally and the technical requirement is very stringent. So, every new contact goes through a technical approval short circuit cycle at a globally approved-lab which are only two, three like KEMA Holland, CESI Italy. So, tide test investment is huge. So, once it is invested hugely from one particular set of contact, it is difficult or it becomes entry barrier for another person to then enter. So, some of the footprint strategy where people are changing core manufacturing to India, but their contacts were of others. So, they will continue to use their contacts for next one or two years also. So, in view of that, our market share is approximately 80% and the size of this market would be around US$15Million at this moment, but next year it would be $20 Million, because GIS volume is shifting as a footprint. LV market size is US$150 million. Out of this, around 35% is coming from Import from various sources from various low other countries like Taiwan, China and these kinds of countries, balance we are the major player, our market share is 16-17% and then after us Choksi and HP to other major players. Rest of the players are either in small size and new**.** Growth in LV is going to be bigger. HV will also grow, but growth in LV because of not only power sector growth, it is because of infra and real estate growth and urbanization as well. So, LV has multiple end users. HV is mainly for power sector and for transmitting and distributing power from generation stations to distribution service stations, but LV will have at every household like plugs, switch and CVs. So, it will also go up because of urbanization and also rapid expansion of real estate and others. So, LV is likely to grow more.

Aman Vij: What will be the market share of the other players, Choksi and HP according to your estimate?

Manish K. Srivastava: What happens with HP is not only a contact manufacturer. HP has a major component of their business coming from platinum and palatinum precious metal. Contact is only one part of their one product lying which is not separately reported as far as Contact revenue side is concerned, but our market intelligence suggests their market share should be around 10-11%, last year for example, we did Rs.240 crores, and Choksi did Rs.206 crores. If you do reverse calculation of our 15% and there should be around 12-13%. Modicon is the fourth player in the sequence and Modicon is around Rs. 100-110 crores market player which is a private limited company.

Aman Vij: How is this industry growing, is it growing at high double digit, low double digit on the LV side?

Manish K. Srivastava: LV is high double digit and expected growth in CAGR would be in excess of 15%.

Aman Vij: My next question is on the margins in these two segments individually. If you can talk about the gross margin and EBITDA margin range for these two segments as well as why do we see such fluctuations in our company level margins?

Manish K. Srivastava: On a higher side, we do not report separate margins in terms of exact number segment size for LV and HV. But just to give an answer so that you have an understanding, LV is a low margin business in single digit and HV is a high margin business with high double digit, #1. #2, fluctuation on our EBITDA, basically in the LV mostly, it is driven by silver as a major component of material lost. 80%-90% of material cost is pure silver. And in silver if you see, even in this month, just to give a kind of perspective, silver raised from 51,000/Kg to 58,000/Kg and changes from time-to-time in between from 51,000/Kg to 54,000/Kg, 54,000/Kg to 55,000/Kg to 57,000/Kg, again 53,000/Kg to 55,000/Kg, on Friday it was 58,000/Kg and today it is 54,500/Kg. So, while we have all the measures to mitigate the risk of material price movement, but it still has some impact on our profitability, #1. #2, overall profitability is likely to go up because if the volume goes up, corresponding contribution margin will come towards profit side. But, as I suggested to you, going forward, LV is a high growth segment and HV also will grow, but LV has a higher velocity of growth and LV is a low margin volume. So, as we grow in the volume, percentage margin would impact because of product mix. LV will take major share in product mix and HV will go with a steady pace.

That product mix also will change percentage EBITDA margin. So, these are the two major factors.

Aman Vij: During the AGM, you have talked about your vision for the next three to five years. If you can talk about the same for this year as well as next three to five years where do we see the numbers.

Manish K. Srivastava: We wanted to grow very fast, but last two years because of Corona and global recession and restrictions of traveling and movement and various other things, we could not go as fast as we could have gone. But things are more clearer in terms of pandemic as well as global understanding and local understanding. So, to make it simple, I would give the number which we projected in last AGM which is also in the public domain, we had given a conservative forecast of Rs. 500 crores by 2025 and Rs. 1,000 crores by 2030. We strongly feel that we are on track to maintain or achieve the number.

Ravi: We have the next question from Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Just wanted to understand, now the two expansions that you spoke about the LV side and the HV side which is likely to come through by FY'23 end, so, what would be our revenue potential for these expansions?

Manish K. Srivastava: Revenue is not limited with our capacity. Capacity is not a constraint to have revenue growth. Revenue is at the moment mostly the function of market. We were growing as I stated to you even during pandemic time as well the CAGR of more than 16% where we snapped some of the competitors share. The question is whether capacity is a constraint or market is a constraint. I would say capacity was not a major constraint, but the market growth which would come, would need extra capacity because we have started growing and global people are coming to India, so that will throw more requirement in future, so the market growth will decide, the capacity we need. So the capacity is reliant with market. So, revenue wise for the next few years as I explained to Mr. Aman, the market growth would be in the range of healthy double digit and we intend to grow more than that. So, our growth will be always in excess of the market growth; however, just a word of caution, there could be revenue calibration because of material price movement also, for example, the silver market is driven by what quantity of silver we supply in the market. Volume of silver supply at the rate of 71,000/Kg and the supply is 55,000/Kg will have a different revenue. Suppose market grows from a demand, just to give an example, 100 tons to 115 tons or 120 tons of silver contact equivalent supply. But if price goes in the same direction, the growth will be a multiplier of both price increase as well as the volume increase, whereas with the better prices could get calibrated into lower direction, then the growth will also be delta growth in volume but delta is because of reduction in price calibration. But as I explained to you, in 2022 we were at Rs. 342 crores and if we are saying in 2025 we would be Rs. 500 crores, this gives a kind of what CAGR we are growing and what of growth we are saying in next short-term. This is mostly purely because of organic cases.

Deepak Poddar: So, that comes to about 15% CAGR -?

Manish K. Srivastava: Exactly, that is what I said.

Deepak Poddar: If we have to see maybe last eight quarters, our gross margin as well as our EBITDA margin is continuously falling, right. So, is it largely due to the silver prices, how do we see normalizing like -?

Manish K. Srivastava: If you see out of eight quarters, first three quarters grew tremendously on EBITDA, it did not degrow. In between four quarters, there was a kind of degrowth in EBITDA. And the first quarter of this year, again, the curve has started going up. Out of eight quarters, four quarters were of EBITDA improvement or EBITDA growth. In last year four quarters, there was degrowth and major reason was last year in terms of volume as well as in terms of number we had growth tremendously. But what happened because silver was major reason of growth and silver prices went down hugely. The opening on the 1st of April silver was approximately Rs.70,000/Kg which came down in between to 54,000, 55,000 and 60,000. So, the stock which we always have would go through on kind of correction of pricing. That was the major reason. There was no operational reason, no volume reason, no pricing reason, no competition reason. It was purely kind of a correction because of pricing of raw material.

Deepak Poddar: But do we have the ability to pass on the cost increase because largely we have to take hit, right, in terms of our gross margin and our EBITDA margin?

Manish K. Srivastava: For LV in most of the cases price is always variable and in HV also price is always variable on a quarterly basis or a monthly basis based on the various customers. But what happens is in spite of this variable price contracts, you always have stock also, for example, there is a yield factor in this kind of products, that means your input weight of the material will be very different from output weight. So, if we are producing 1 Kg of silver contact, we will have to have 2x or 3x input weight. So, for 1 Kg which we supply to a customer is always price transferable, that is variable price. The balance gap between input and output is subject to the stock which we use for producing the goods and that stock is always subject to our risk mitigation policy which we take either through per contract or pick the silver at the right time or hedging. So these kinds of things are done on balance stock value.

Deepak Poddar: I was just trying to think like how to make business or maybe the business that we are into to be less volatile in terms of our margin. Is it not possible that we take contract with the client based on the current silver pricing, we go to the client and then get the order and then -?

Manish K. Srivastava: You are absolutely right. Almost all the contracts are like this only. If silver price changes, the customer price also go through a change. But I explain to you, for example, for 1 Kg of silver supply, if we need 3 Kg of input silver, so our exposure will be 3 Kg, because we buy 3 Kg of silver. But we supply 1 Kg silver to a customer. So customer compensate either in positive direction or negative direction because it is a fair game for 1 Kg which he buys. So it is always a transferable price either at the time of order booking or at the time of supply of component. This volatility also started last year because it happened when case happened and then it went through a various global journey. But if you see over a long-term silver or copper prices, the volatility rate of change is not that much. This short-term phenomena which would impact a few points up and down, in some years, it could be up, in some years it could be down, but fundamentally what we should see is that whether our operational parameters are allied to achieve maximum cost benefit, our OPEX initiatives are giving the result or not, our inventory ratio to have operational efficiency, productivity is in line or not or whether our prices are linked with material cost which are variable and whether we are taking major share of customers. So, these five parameters if we focus on, then we see that these are in the right direction.

Deepak Poddar: I got the point. So ideally you do expect that your EBITDA margin would normalize going forward?

Manish K. Srivastava: It started to normalize in the first quarter itself and it started going up, but I would not make any comment which is forward-looking based on that because silver price is one thing which I also do not know. Every knowledgeable expert of material has a different opinion on silver. Some would say that it is likely to go up again, somebody would say it will further go down. So, obviously, it will have some kind of dependence on that, but as far as growth or operational parameters are concerned, these are fully intact.

Deepak Poddar: But in a normalized scenario, what is the normalized margin, if 10% margin that -?

Manish K. Srivastava: It is 10%-plus margin. Our safe bracket should be 12-14%.

Deepak Poddar: 12-14% in a normalized scenario would be a fair EBITDA margin -?

Manish K. Srivastava: Yes, business would perform considering the product mix which we have of LV and HV.

Ravi: We have the next question from Jayesh Shroff, Cask Capital. Please go ahead.

Jayesh: I have been following this company. We have been talking to you guys since sometime. There are two, three issues which is a matter of your growth and operational that Mr. Srivastava has been focusing on. You have been focusing a lot on six sigma and operational excellence and all that stuff. Is it possible to quantify that in terms of whether it is going to lead to some improvement in gross margin or is it going to lead to some improvement in operating margins? Over what timeframe do you think that this will start showing results?

Manish K. Srivastava: Operational margin, for example, when we have started initiating this kind of project for operational improvement, #1, we increased volume without any additional CAPEX till date, for example, in last three years 16% growth on CAGR value was without any extra expense. So for the same cost, the production is more. #2, if we see for example, inventory turnover ratio which was around three in 2019-20, now it has gone to more than five. That means the example which I was giving for 1 Kg supply to a customer, we were required to buy how much more silver. So by reducing the dependence of input silver ratio to output silver ratio, our fluctuation mitigation are risk as well as financing cost and velocity of inventory carrying cost will also go down. Productivity, if we see, has been moving on to 15% year-on-year. So, these operational parameters are clearly quantifiable; however, if I say what it will convert to profitability, we make one operational parameter as a fixed parameter which is a material price. Let me give a kind of ballpark understanding of this figure. as an example Suppose if we supply Rs.100 material where Rs.80 is my material cost and Rs.10 is my profit…just to kind of sense of this business, suppose material cost goes up from Rs.80-100, rest remain the same, our supply would be Rs.120 and profit would be Rs.10. so, without doing anything the profit which was 10% has come to 8%, just because of the material price change. So, this is kind of a material fluctuation possibility and the calculation of the material cost. So, on EBITDA term, material cost fluctuation in a normal term would not impact profitability, in terms of percentage, absolute number will increase, but in a percentage term dependent on material cost. But for the same pie, if material cost goes down, even with a lower revenue, percentage will go up, because material cost has come down for the same profitability, for a customer we have a fixed profitability kind of scenario. If material cost go down, our overall sales price will come down with the same profit. So, obviously, our percentage profit will go up. So, that is how it moves. But as I say in a normalized scenario, 12-14% is a reasonable assessment.

Jayesh: You have also been talking a lot about innovation and new products and I think also moving from supply this contacts to sub-assemblies and supply that, moving up the value chain. So, anything that you would want to share on these aspects?

Manish K. Srivastava: I touched upon this point softly in my initial comment that when we are moving from local value chain to global supply chain in LV and consumer consolidation is happening, lot of new series of contacts are coming up and we are ahead in the curve to supply newer series of contacts or customers with new kind of alloys as well as new series of alloys. Similarly, in HV side also, the market is moving more towards GIS from AIS. More and more sub stations would come which are because of space constraint in city would go towards gas-insulated switchgear rather than insulated switchgear. So, in gas-insulated switchgear, most of the contacts are globally manufactured and assembled in India for GIS manufacturing. But because of footprint change strategy and government incentive to produce in India with the Make in India program, the contacts also will be produced in India. So, this will throw very different kind of a challenge for us as far as a customer, because there will be multiple kind of contacts which would come in India for supplying of a new series of contacts. So, this becomes part of our innovation strategy. Regarding value added product, yes, we have started doing, for example, L&T is our partner for transferring some of the value-added products to us to increase our value chain strength, similarly, some other customers like Gold Metal or GM Modular, these customers are also partnered with us to transfer some of what they do for us to make. That means increasing our total product value added portion for customers to give rather than giving only contacts, we are trying to move towards giving them assemblies. So, that will increase our value chain as well.

Ravi: We have the next question from Aman Vij from Astute Investment. Please go ahead.

Aman Vij: My next question is you just talked about we might provide them assemblies. So, this is like moving up the value chain. If you can talk about the portion of business you think can come from the assembly products rather than just the base products? And what is the margin difference? I am talking about in the next two, three years where do you see this number for us?

Manish K. Srivastava: Frankly speaking, I do not have answer to this question in very absolute mathematical term because when we want to move ahead of value chain, this is a two-way process; customer also will have to give what they do to us and it also depends on customer risk appetite, how fast they transfer that particular chain towards in totality. What is my understanding of last one year is customers more or less in principle have agreed that this is a good thing. What is not critical thing for them what they transfer as a value-added thing and going up the value chain of particular portion to us. But the speed at which it should come is not very fast because every component in electrical industry goes through a kind of lifecycle test for tide test. In HV, it becomes more cautious approach from a customer because they will have to spend crore of rupees in the tide testing. For LV, it is much easier, but estimate is I am consuming as well as cost for their lifecycle test which is 10,000 test to 1 lakh test they do for various components. But things have started, three or four customers have also given us a part of the things which will go up the value chain and it will be a value-added product but converting that into exact number would make a little bit more time.

Aman Vij: My next question is on the precious material compound business. If you can talk about how big can it become for us the precious material compound?

Manish K. Srivastava: This is what I did not share much because this is a very small percentage of our business. We have apart from switchgear industry business, B2C business which is a very strong portion of our business where we have cater to a particular industry, one is for bullion, where we make silver coins and silver cutleries and silver bars. Second segment is silver compound material like silver sulphate, silver oxide and silver nitrate which has application in various industries like life science, ink, glass and these kind of industries. There we see a good growth not only from domestic market but from the export market as well. I am pleased to share that we booked first export order of silver salt from a customer, Clariant. This year again, we got same enquiries which are in advance stage of conversion. So this has a potential in not only in local market but in a global market also. But the first order always takes a little time because the approval for lifecycle for a company is very critical and lengthy process. But once it is approved like to almost one year from various auditing and various surveys and other approval process, but now the first order came only in this month. So, this is the process. We see good growth but we are very-very cautious that we will not go into price war with the others. There are a few more players who are only into this silver salt business and there they want to earn out per Kg basis. We are the overall manufacturer of silver component. Our philosophy is a value-added product. So it will go to kind of this market strategy in this particular segment because this is not a revenue driver for us, this is a value driver for us.

Aman Vij: You have talked about some new products in the presentation like high performance, current carrying contacts and one or two more such products. Any of these products do you think give us advantage over the other players or a very high growing segment for us?

Manish K. Srivastava: For example, in automation segment, at this moment, our penetration is low. Most of the contacts they buy from outside. Automation companies buy very specific kind of silver contact products. There we have started going to them and they have started giving order to us. This is a better margin segment. Similarly, when we move from AgCdO to a new series of RoHS-compliant like $AgSnO_2$- products, there also high margin products and automobile is also a high growth segment as well. So, on the market side also and from margin side also. If you make excess high market growth, this will fit into a star kind of category. When the market growth is also very good, then margin also is very-very optimistic. So, these kinds of things we are working on both silver industry as well as automobile industry.

Aman Vij: Our products are used in some niche industries also like defense, railways, heavy glass. In any of these industries can we offer more products so that this becomes a big portion of our business in the next three, five years?

Manish K. Srivastava: Defense has opened opportunities for various private players and we have also intentioned to become a partner in the Indian defense for supplying of several products which fall into our product basket or product manufacturing philosophy. We are in touch with DMRL, DRDL and DRDO, all three to explore the possibility of partnership where we can become a partner by supplying the material to them and they can become a partner to us by supplying some of the technologies to us. Only yesterday, our team visited DMRL- and last month also we had a meeting. So, we are actively maintaining in participating in this particular process of increasing our share in defense and become a partner to them. But defense also is a sector where the approval process takes a little time. So gestation period is more, but the rewards are beyond any monetary value. Serving to the country and be part of a defense establishment is another thing which we would like to have with our company.

Ravi: Harsh Beria, Individual Investor, you may go ahead.

Harsh: My question is about your switchgear segment. I see that in the customer list we do not have Polycab as a customer. Is that correct, because they have a big switchgear -?

Manish K. Srivastava: Polycab traditionally is a cable company. They entered into switchgear field very recently. Polycab, as you know, and understanding their business segment, they are a cable company. Polycab has given us an enquiry and first series of sample are under approval with them. So, we are meeting with them in both their Gujarat factory as well as Maharashtra factory and they have entered into our customer list now. Very-very soon, we will have approval of contacts with them and we will start supplying to them on regular basis.

Harsh: My next question is on silver oxide power. I think in a few annual reports you mentioned this as an R&D product which goes into batteries and other things. Can you talk a little bit about this segment?

Manish K. Srivastava: See, battery segment is a low segment and we are supplying the components to various battery manufacturers like HEB and HBL. Some of the batteries are very specific batteries where a kind of thing silver is needed for immediate conversion of energy into a kind of propulsion. So, there they take from us foil’s and other silver-related components. But this is not a kind of segment which is all the batteries of consumer companies like Exide and other batteries. These kind of batteries are for mostly defense or aerospace. So, these are our major customers like HEB, HBL and this segment is also growing.

Harsh: Conventionally, they have been doing like 3-4 crores of CAPEX each year for the last decade. I understand for the last two years we have a bit of plan of 6-7 crores. So, this 3-4 crores should be taken as like maintenance CAPEX?

Manish K. Srivastava: If you see last five years, we were always about Rs.5 crores. So out of Rs.5 crores, the normal maintenance do not come into basically CAPEX, it is other plant and machinery mostly, not towards maintenance. For inventory maintenance and development maintenance whatever small things are needed, these are part of our expenses. The CAPEX that we have listed most of this are for plant and machinery or R&D equipment.

Harsh: Since FY'20, we have seen about 55% absolute growth which translates to about 15% CAGR. How much of this was due to price realization versus volume?

Manish K. Srivastava: In HV, most of the growth came from a product sale, not because of price. In LV, last year actually there was a price erosion. So, on a three-year basis, it is mostly driven by volume growth. The volume which was 26 Kg of silver went to 32 Kg of silver. So, 25% growth came from volume. From a price perspective if you see, we will have to convert these particular three years into each year. Because '19-20 was a stabilized silver, '20-21 silver went up, so we got advantage of price in volume also and next year it went down. So, on a normalized value of three years, price impact was not much, it was mostly demand for volume driven.

Ravi: We have one last question from Gaurav Sud, Kanav Capital. Please go ahead.

Gaurav: I have a more broad question on the future strategy like you have built skills around silver metal. Is there any other metal engineering that you plan to get into in the near future or you just want to focus around silver only?

Manish K. Srivastava: At this moment, we are not only in silver. As I told you, silver is mostly in LV and copper and tungsten are part of HV. We have another factory which is copper and copper alloy. Specific to now coming to your question, expanding our expertise in other metal thing, we have a positive plan and a sure plan; however, it is not declared, it is not formulated in terms of value, so, I will not give a specific name and a specific value. But to answer to your question, it is yes and it will be sooner rather than later.

Gaurav: Since you said you can't formulate; you will make an announcement around the same?

Manish K. Srivastava: Yes, we intent to. The process is very simple. We decide internally. We make a plan. We present in board. We will follow through regulatory and I think then make it public. So, very soon you should have good news but at this moment because it has not gone through this process, I would not specify what is the metal and what is the volume, but to answer your question, it is yes.

Ravi: As we are now past the hour mark, we will now close this call. I would now hand it over back to the management for their closing comments. Over to you, Manish sir.

Manish K. Srivastava: So, my closing comment would be first, thank you very much for joining and asking the questions which also gave me a lot of food to thought. Second thing, closing line is fundamentally, I feel confident of not only growth and a profitable growth in multiple geometries and multiple segments. So, with this hope, I would like to end the session and once again thank you very much.

Ravi: Thank you. In case anyone else has any further questions, you may please write to us or contact us and we will be happy to answer your queries. With that, this call ends.