"Saakshi Medtech and Panels Limited Q2 and H1 FY24 Earnings Conference Call"

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MANAGEMENT:	**MR. ANIKET LATKAR – CHAIRMAN AND MANAGING DIRECTOR** **MRS. MAYURI LATKAR – WHOLE-TIME DIRECTOR AND CHIEF FINANCIAL OFFICER**
MODERATOR:	**MR. RAMADHIN RANE – HEM SECURITIES LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to Q2 and H1 FY24 Earnings Conference Call of Saakshi Medtech and Panels Limited hosted by Hem Securities.

As a reminder, all participants' 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 "*" and then "0" on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramadhin Rane from Hem Securities. Over to you.

Ramadhin Rane: Good afternoon ladies and gentlemen. On behalf of Hem Securities, I thank you all for joining the Saakshi Medtech and Panels Limited's 2Q & H1 FY24 earnings conference call. Joining us on the call today are Mr. Aniket Latkar – Chairman and Managing Director and Mrs. Mayuri Latkar – Whole-time Director and CFO of the company.

For the benefit of the participants, a quick introduction about Saakshi. It's a company having a diversified product portfolio of electric control panels and cabinets, medical X-ray systems, fabrication, and wire harness. It was listed on the NSE Emerge Exchange on 3rd October 2023. As given on the Screener website today, the market cap stands at Rs. 431 crores with a P/E multiple of 34.8 and the current share price is Rs. 244.

Now, for more details about the company and its growth plan, let's commence the call with the opening thoughts from the management post which the forum will be open for Q&A session where the management will be glad to respond to any of your queries that you may have.

At this point, I would like to add that some of the statements made or discussed on the conference call may be forward looking in nature. The actual results may vary from these forward-looking statements.

I would now like to hand over the call to Mr. Aniket Latkar. Over to you, sir.

Aniket Latkar: Good evening ladies and gentlemen. I am Aniket Latkar – Chairman and Managing Director of Saakshi, and I have along with me Mayuri Latkar – Whole-time Director and CFO. Along with us, we also have CA Pradnya Modi and Mr. Kishor Vingde who are consultants to Saakshi Medtech and Panels Limited.

We are here today for our first ever earnings call.

Let me start with welcoming you all to the first half of the 2024 Earnings Call. I believe you have had an opportunity to review the "Earnings Presentation and the Financial Results" that were uploaded on the National Stock Exchange. Since it is our very first earnings call, I would like to brief you about the company under different verticals that we are operating in. Saakshi was started in the year 2011 as a Private Limited entity by late Mr. Vijay Latkar who had a long stint as an employee of GE HealthCare. He started the journey of Saakshi by manufacturing X-ray medical equipments which were being supplied to GE. Over the years, Saakshi has ventured into and started operating in 3 verticals, namely medical devices, electrical control systems, and fabrication assemblies. Out of these, the electrical control systems contributes close to around 65% of the top line followed by the fabrication and the medical devices respectively. Within these 3 verticals, we are catering to different industries such as the renewable energy sector, CNG, industrial sectors, railways, elevators, medical, and aviation sector. Saakshi Medtech is Pune based company and we operate out of 3 different factories which are catering to these 3 verticals for customers that are based pan-India and also in Europe and the USA. Presently, less than 5% of our revenues are coming from exports. However, we have seen a significant increase in share of exports as compared to the previous years.

Moving on to new updates:

We have been actively pursuing engaging with new customers in all these 3 verticals, especially we have seen interesting offshoots in the fabrication sector where we have been able to carve out opportunities both in the aerospace and defense industry. The present inroads in these sectors, although being humble at present, could turn out to be big opportunities in the coming financial years and we are keenly engaging with few strategically important customers in these areas. In the medical sector very recently, our first developed X-ray product under Saakshi brand has received a type approval from AERB and also a license under BIS with CDSCO testing approval in place and manufacturing approval expected to be received in a couple of weeks. We are also cataloging this product on the government's trade portal GeM and are expected that this starts generating revenues from Q4.

On the electrical panels' side, we are actively engaged with a European headquartered textile manufacturing company for a long-term strategic alliance for supplying of electrical control panels for their equipments. Here, we have already completed the prototypes and we will see revenue contribution Q4 onwards. Overall, we are seeing healthy opportunities available across these sectors and we are looking forward to continued growth and are expecting a revenue jump of 15% to 20% in FY24 compared to FY23.

With this, I would like to hand over the call to Mayuri to provide us with the finance update.

Mayuri Latkar: Good evening everyone. I'm happy to share that Saakshi has delivered a solid performance on both the financial and operational fronts for the First Half of the Financial Year 2023-24. Let's have a look at the achievements of H1 for FY 23-24.

We have achieved a revenue of Rs. 61.34 crores which translates to an increase of 15%. Our EBITDA stands at 9.8 crores and PAT at Rs. 5.53 crores. Both EBITDA and PAT are in alignment as compared to H1 of FY 22-23. This is all from my end. I would now request you to open the floor for questions & answers and thank you for your patient listening.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have our first question from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead.

Garvit Goyal: My question is on the medical devices segment which is currently contributing only 2% to 3% to our total revenue and is muted in absolute numbers for the last 3 years. I want to just understand what kind of new products are we launching in this segment and what is the size of opportunity are we looking into in this segment for the next 2 to 3 years?

Aniket Latkar: Mr. Goyal, I probably have a long answer but try and make it short. As you rightly said that for the past couple of financial years, there has been a muted growth. There have been multiple reasons to this in terms of the OEMs that we had been catering to, who are seeing a decline in their numbers. However, seeing at this as an opportunity, what we have been able to identify is that given the understanding of the product, we were able to develop an X-ray radiology system. This is right now a high-frequency generator fixed X-ray system that we have developed and this is right now going to be going under the brand of Saakshi for the first time. In terms of giving you an absolute number to the overall market, there are companies in India which are right now doing revenues of close to around Rs. 400 crores that are catering in this sector. That is the kind of market opportunity that we are looking at. However, given the complexity of the entire supply chain, we would take the steps in a slow manner. So, probably we'll not be able to give you an exact number right now, but in the next couple of years, we are confident that a significant amount of our revenue contribution would be coming from this. Apart from that, we are also in the midst of developing two more products that would be going through a similar life cycle in terms of the development which over a period of time will also be a contributing factor towards the overall revenue growth.

Garvit Goyal: What kind of gestation period are you looking for from the stage of R&D to the stage of fully completion of these 2 products? When do you expect these products to contribute revenue on a fuller basis?

Aniket Latkar: The first product that I had mentioned about, that has already we have completed all the certifications, as I did mention, and we are expecting that the revenues from this one product that has been developed should start coming at the end of Q4. For the other two products that are in the pipeline, we see a total development time of close to 6 to 9 months. So, we would see this probably in the H2 of next year wherein we'll start seeing some revenues coming in from this.

Garvit Goyal: And the product that you mentioned which is completed, what is the size of opportunity in that product?

Aniket Latkar: The product that we have developed is a fixed X-ray system, as I was mentioning. And we are estimating that there should be…. There are again multiple ways of answering this, but then, the one that we are right now looking at is the analog system. We are looking at a total market size of close to around Rs. 250 crores for this segment. But when we talk about making this on the digital platform, then the overall market size increases. So, the second product that I was mentioning is something that would be able to help us complement along with the existing product to also try and cater to the digital platform.

Garvit Goyal: And secondly, like you mentioned in your DRHP, 75% to 80% imports in medical equipments are in India, right? And that's why the domestic players, which is obviously a highly crowded space. This suggests there is some quality aspect which differentiates the imported products from the domestic ones. Can you help me to understand how this phenomenon is likely to change, what Indian government is doing in this regard, and how things are changing for domestic medical industry?

Aniket Latkar: Mr. Goyal, a lot of development has actually been initiated from the government side. Again, just for the want of time, the certifications that were earlier there, which were qualifying these products have been changed by through the BIS portal now. Under BIS, now there is a new standard that has come in for qualifying these products, which is now more or less benchmarking its requirements as per the European standards. That is in a way where the product qualification itself during the certification phase will be able to really filter out a lot of local competition which have not been able to bring up the products to that particular level. That is one of the initiatives that has come from the government side. Apart from that, CDSCO which was earlier used for any pharmaceutical products that were being manufactured, for introducing the products in the market, you did require a CDSCO certification earlier. Very recently, the government has also now introduced medical devices under the CDSCO. So, now along with the BIS and the AERB certification for the X-ray systems, one would also require to go through a CDSCO certification which is also going to increase the requirements in terms of fulfilling the quality standards. I hope that answers your question.

Garvit Goyal: Yes, sir. In the electronics control panel segment, your production quantity was somewhere around 13,600 in FY21. And in FY23, it was 12,900 which is a fall of 5.3%. Despite that, if I look at your revenues from this segment, those revenues have increased from Rs. 32 crores in FY21 to Rs. 85 crores in FY23. How is that possible? Kindly help me to understand that from where this growth has come in the last 3 years because volume did not grow but numbers are growing.

Aniket Latkar: Mr. Goyal, typically what happens is that, as I had mentioned, there are various sectors that we are catering to in the electrical panel business; may it be the compressed natural gas or the compressors industry or your aviation or our wind renewables. Here typically what happens is that not every part that we are manufacturing would be having the same cost; per-piece cost could be differing over there. What typically has happened to us is that although the volumes have gone down, the per-piece contribution cost on the individual panels that we have been building has gone up. And that is why if we see, the revenue numbers have gone up as against even though the volumes have been going down.

Garvit Goyal: Sir, just last question on the competitive landscape. Can you help me to understand on the control panel thing which we are doing and supplying to Kirloskar and OTIS like you mentioned in DRHP? Can you please tell us who are the other players in India which are supplying the same product to Kirloskar and OTIS because it seems like this is also a crowded space where players like control system engineers or even Lakshmi Machine Works or Marvin Automation or Perfect Automation And Innovation, etc., they are also doing these kind of things. Can you please make us understand where is our competitive edge is lying in this segment?

Aniket Latkar: Yes, as you rightly said that this space has a lot of players who are catering to different OEMs for supplying these panels. However, every company has their own expertise in terms of catering to these various OEMs. When I typically talk about what happens within Saakshi, here we have a good amount of our contribution on our panels business that is coming from the renewable energy sector, and here we have been able to develop good competencies on the product automation and the programming or rather the software part of it on the panel side. We also have extensively backward integrated ourselves and that is why our supply chain and as well as our deliveries in terms of lean manufacturing is also something that is a unique advantage for us. And typically, that is where we have seen a lot of our global MNC customers who are typically looking at a very streamlined supply chain see that as a big advantage when working with us.

Garvit Goyal: Can you comment on your growth target for the next 2 to 3 years? Like you mentioned for FY24 we are growing 15% to 20%, what will be the growth trajectory for the next 2 to 3 years going ahead? And what about the EBITDA margins as well?

Aniket Latkar: Typically, there has been a lot of development that is happening and we have right now not considered any incremental growth that is being coming from whatever inputs that I have just provided to you, something like what we are trying to do on the defense and the aerospace side. Also, there is something that we have been trying to do on the medicals is what I had already mentioned. Leaving these parts aside, we are still comfortable in terms of getting a revenue growth of around 20% for the next couple of years. Having said that, I would still want to have another quarter's inputs to see how the growth in terms of the defense and the aerospace sector pans out, wherein we'll probably be able to come back to you and the numbers would be more encouraging than what I am right now informing you.

Garvit Goyal: And EBITDA margins? Are these sustainable?

Aniket Latkar: We will be able to maintain the existing EBITDA margins.

Moderator: We'll take our next question from the line of Amit Bhatt from MIT Engineers. Please go ahead.

Amit Bhatt: Is there any seasonality effect involved in our business? Because by the last reported numbers, H2 is stronger than the H1. H2 reported a 30% more profit last year. And this year also in the first H1, your bottom line is almost flat. Is there any H1-H2 seasonality effect? Why there is a difference between H1 and H2 last reported?

Aniket Latkar: Mr. Bhatt, I appreciate your question. Typically, the H1 is slightly on the flatter side and the reason for that is because monsoon plays a certain role in some of our bigger customers wherein their products that they are supplying within the market see a slight downturn in terms of supplies during the monsoon time. And then, typically this gets carried on because of the holiday season. So, typically, after that is when the H2 numbers for all these companies also start to come up to a certain level, which you already have highlighted during your question.

Amit Bhatt: Madam, last year H1 you reported Rs. 5.3 crores of bottom line. In this H1, you increased your top line by 15%, as you said. Why the bottom line is almost the same? Why there is a pressure on the bottom line?

Mayuri Latkar: Sir, here there is pressure on the bottom line. Basically, employee expenses have increased as they are in sync with the growth of the company. They have increased because we have had new recruitments in the third facility. Along with that, there is also wages revision for all the 3 locations. The result of this new manufacturing facility you will be able to see in the next half of this fiscal and which will have a higher H2.

Amit Bhatt: And another question, sir, why are you so conservative about the growth? Because, actually we have gone through the plant; your working style, your customers, everything is very fine. 20% is very conservative. You have to target more growth. When your company is getting the P/E of 35 if the market is factoring in, that company can grow 35 percentage CAGR. You have to at least give us some growth because still our base is very small; we can grow; there are lots of factors. You are really doing good work as per what we have gone through in the RHP. So, please if you can throw some light on that aspect?

Aniket Latkar: Mr. Bhatt, I agree the 20% number that we have mentioned you, that’s a conservative number. And again, as I mentioned during the answer that I provided to Mr. Goyal is that we have considered these 3 opportunities that we are really aggressively looking into. And there have been some serious inroads that we have been able to do both in the aerospace as well as in the defense sector. As I said, probably in the next quarter call, maybe we’ll be giving you a very encouraging number in terms of what numbers we would be able to do as compared to the numbers that I have just briefly mentioned to you right now.

Amit Bhatt: The last question is, basically what's the status of installation of the additional plant and machinery and the civil construction work in the existing premises? Can you please throw some light?

Aniket Latkar: As I probably believe that Mayuri has answered the question that the third plant has already been operational now and some of the equipment and machineries have also been installed and we have started to see incremental revenues also being generated from this plant right now.

Moderator: We have a question from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead.

Garvit Goyal: I was looking into the numbers of percentage of revenue that is coming from the top 5 customers. You mentioned in your DRHP like 90% to 95% of revenue is coming from the top five customers, right?

Aniket Latkar: Yes.

Garvit Goyal: I have 2 questions on this. One is, why are we not able to diversify our customer base despite the fact that we are catering the multiple industries via multiple products? That is one. And secondly, in railways locomotives, we are supplying to Wabtec group companies you mentioned. And the company has given some corporate guarantees for Wabtec of Rs. 5 crores. What is the rationale behind it?

Aniket Latkar: Mr. Goyal, for your first question, yes, you rightly pointed out that we have been focused within these 5 MNC customers that we are catering to today. However, within these 5 companies also, we have been able to extensively reach out to their various sister companies and that is how we have been able to also increase our revenues by trying to associate, like for example, what we have been doing with the GE company is that although we count that as a single customer, but today we are operating within four of GE sector companies like the aviation sector, on the healthcare side, GE Power, and GE Oil & Gas. Yes, there are multiple sister companies; however, when they are projected as a single company, the contribution looks at around coming from 5 companies. And to answer your second question about the corporate guarantee that has been given to Wabtec, Wabtec is an American corporation. And this was a 10-year contract that had been signed between Indian Railways and GE Transportation then for supplying 1,000 diesel locomotives for the Indian Railways for the next 10 years. Part of that agreement when the supply chain was established is that back-to-back ordering would happen to all these suppliers. However, the requirement also did demand for a corporate guarantee that had to be provided. This was more like a corporate guarantee that was provided when we had got into an agreement for this particular customer. It is more like a performance guarantee if you want to put it that way.

Garvit Goyal: You mentioned about 20% growth and you are not taking into account for the defense and the aerospace opportunities. This 20% is after taking into account the medical opportunity or what is the case?

Aniket Latkar: Medical is also something that we haven't considered in these numbers that I have told you.

Garvit Goyal: So, this is coming entirely from your electronics control panel segment. Is that understanding correct?

Aniket Latkar: Within our existing verticals with our existing customers, that is where the numbers are coming from.

Garvit Goyal: Are you people in negotiations with the new customers for defense, aerospace, and the medical segment where the growth is not yet captured?

Aniket Latkar: Yes, we are in advanced levels of discussions. In fact, for two of the customers, we have already been able to successfully get our vendor code registered with these companies. And there have been RFQs that have flowed in. In one of the cases, we have already been able to successfully convert that RFQ into an order. And for the other company is where we are right now working out on certain RFQs.

Garvit Goyal: In the electronics control panel segment's capacity utilization, I think it is more than 70%. Are you people considering for any greenfield expansion or any debottlenecking or brownfield expansion plans?

Aniket Latkar: Mr. Goyal, we are trying to explore something on a brownfield project. However, that is something which will still take some time. Having said that, we are trying to internally also look at opportunities by doing certain outsourcing wherein we could increase our capacities.

Moderator: We have our next question from the line of Tanvi Jain, an individual investor. Please go ahead.

Tanvi Jain: I just had a couple of questions. The first one would be if you could just throw some light regarding the capacity of your manufacturing units along with the utilization?

Aniket Latkar: Yes, Ms. Jain. In fact, Mr. Goyal just did mention that today we are operating at roughly close to around 70% in terms of our capacity utilization. And as I was mentioning that there are 2 plants that we are trying to look at in terms of expanding the capacity, one of them is trying to look at a brownfield project. However, that is a long-term project that we are looking at, and hence for an interim arrangement, we are also trying to explore certain outsourcing opportunities.

Tanvi Jain: Sir, if you could just tell, maybe you could express the capacity that we have currently for all these 3 units including the new unit that we have started?

Aniket Latkar: Typically Ms. Jain, what is happening is that ours being more of a customized product and it's not being a process flow kind of a manufacturing setup, there is no exact number that comes out per shift. You will appreciate where I am coming from. That way, we are not able to really define what exactly would be the number-based capacity coming out of every shift, which becomes a difficult thing for us, these being customized products for different customers. However, having said that, in terms of trying to throw some more light on this is that we are presently operating in a single shift. Whenever there are certain opportunities that come in, we would also try and look at exploring, probably putting in another shift for trying to cater to the spike in requirement.

Tanvi Jain: My question is coming from the background of you said that you are looking for some outsourcing opportunities if available and also some brownfield expansion. To what extent we will be able to fulfill the orders that we receive through our own setup. That was the entire idea.

Aniket Latkar: Once the brownfield project comes in, then I think…. Let me put it in two ways. Whatever projections that we have given to you right now for our existing businesses for the next 2 years, we are confident that we will be able to execute those from our existing setup. Now, there are 2 opportunities. As I was mentioning that we are looking at in the defense and the aerospace sector where we are seeing that the third brownfield project that we are looking at would be catering basically to these sectors.

Tanvi Jain: The unit III and the new manufacturing of electrical components plant you have started, are these the same thing?

Aniket Latkar: The unit III is right now a rented facility for us. And this was basically to try and execute a certain project that had come. We have been able to successfully convert that and that is where we are seeing that given the opportunities that are also coming on the defense side, the new project that will come up will be the third facility wherein the rented premises that we are presently operating out of, we will close that down.

Tanvi Jain: Another thing would be, you said that your major exports are to the US and Europe only and it has also been mentioned that the exports have been doubled in the first half year. This 5% export contribution is for the first half year or how do we see this?

Aniket Latkar: The contribution, as you have rightly said, is part of the first half, H1 comparison, that we are looking at. Typically, in FY23, close to around 1.8% of our total revenues had been coming from exports whereas in H1 FY24, it has been close to around 2.7%. So, we have seen almost close to 1% increase over there. That has been on the half yearly basis. And in fact, whatever we have seen is new RFQs that had been converted into orders which will continue to trickle down in the H2 of this year as well.

Tanvi Jain: You said in the opening remarks that the exports are under 5% for the full year for FY23. Can you tell me the number?

Aniket Latkar: FY23 was 2.54%.

Tanvi Jain: ….which we have already achieved almost in the first half year itself.

Aniket Latkar: That is right.

Tanvi Jain: One more thing. As far as the revenue contribution from the customers is concerned, you already talked about the 5 customers. Could you throw some light about the revenue from the top customer? I think it would be GE for sure. If you could just tell the contribution that is coming from GE?

Aniket Latkar: Ms. Jain, none of the customers presently are above 30% individually.

Tanvi Jain: Sir, one more thing. Do we have any CapEx plan?

Aniket Latkar: Ms. Jain, as I was mentioning, the brownfield project that we are looking at, that would be one of the CapEx that we would be getting into. Also, we are trying to evaluate how the aerospace, although with the existing setup we have been able to execute the orders, but there are a lot of new developments happening on that side and we are trying to evaluate whether there are any other opportunities that we could probably explore and try and cater to that requirement as well. Next quarter, we probably will be in a more favorable and comfortable situation to answer this question.

Tanvi Jain: My question is, in FY23, we capitalized fixed assets to the tune of Rs. 11 crores. What this is relating to? Is this the new plant?

Aniket Latkar: This was not the plant. There were 2 machineries that we had imported. The one that I mentioned to you, that has been installed at our rented premises. That basically comes from there.

Tanvi Jain: Sir, one more thing. If you look at the sales pattern, FY20 and FY21 are muted, but from FY21, we could see a growth of almost 25% in the top line year on year from the past 2 years. What's the main reason behind continuously we are getting this handsome growth in the top line?

Aniket Latkar: Ms. Jain, typically, and it's more on the macro level, we are also seeing what is happening on the renewable energy side. That is one of the sectors that has contributed significantly in our top line growth due to various initiatives that are also coming from the government side. And this seems to continue to grow at least for the next couple of years and that is where we have been able to see a significant contribution coming from the renewable side of our business that we have been catering to.

Tanvi Jain: Can you just throw some light more on the renewable part? What exactly we do towards the renewable industry and it forms a part of which of the divisions that you mentioned – the fabrication or electric component or the medical? And how do we see it going forward?

Aniket Latkar: The renewable energy sector that we are catering to is around close to 70 odd percent of our contribution from the electrical control panel side is towards this sector and the rest 25 odd percent would be coming from the fabrication part that we are supplying to the renewable energy. Here typically in the renewable energy sector, we are catering to customers that are typically into manufacturing of wind turbines, and what we are doing for them is mainly building control systems that are used for operating of these wind turbines and also certain assemblies like probably something called as a Pitchbox assembly on the fabrication front that we have been catering to these companies. Does that answer your question?

Tanvi Jain: Yes, it does answer my question, but just one thing is generally in renewable energy if we see the industry trend, we see more of traction coming towards solar over wind historically. Also, when we talk about wind energy being generated, we see that it's the summer months where more electricity is generated, but you said that your customers have peak demand in the second half year instead of first half year. How do we see both the questions that both the things as…. Renewable sector is the major contributor towards your top line, but we see more wind generation in the first half whereas you said that the first half is a weaker season for you instead of the second half.

Aniket Latkar: Ms. Jain, I understood your question. Not only on the wind side, we have got significant contribution of revenues coming from our industry that we are catering to on the compressors side. These are the compressors that would be typically used for road and mining construction equipment. And here during the monsoon season, you would see that there is a significant reduction in road construction and mining and that is where our customers see the drop in numbers and that's where we came from in terms of our H1 being slightly lower as compared to the H2 and typically the monsoon season being one of the contributors.

Tanvi Jain: But if I break up the H1 and H2 of FY23, the first half year of FY23 contributed approximately 40% towards the revenue.

Aniket Latkar: 43%.

Tanvi Jain: This year also, we see a major growth coming in the second half year. Will we be able to achieve the 20% target going forward?

Aniket Latkar: Yes.

Tanvi Jain: And one more thing, sir. What would be the rough order size of this order that you received from L&T Defense and the new aerospace order that you have in hand?

Aniket Latkar: I don't think I did mention that we have received any order from L&T Defense. Where did you get that information from?

Tanvi Jain: Is it just an inquiry that you mentioned in the Investor Presentation?

Aniket Latkar: We have been able to successfully get our vendor code registered with them. And I mentioned that on the aerospace side, we have been able to successfully convert RFQs into orders. That right now is a lower number. We are looking at some contribution of close to around 2% on our total revenues coming in from there. But then, as I was mentioning that we will be able to really understand this more in detail probably in the next quarter, I'll be able to share some more details on this.

Tanvi Jain: Just one last question. If you could just give your revenue bifurcation product-wise for half year 1 of FY24 as how much revenue is generated through electrical control panels, medical X-ray systems, and fabrication works?

Aniket Latkar: Ms. Jain, typically whatever has been the average, I think…. Although I don't have the number right now in front of me, but what comes from the top of my head is that it will be almost the same as what it has been over the years.

Tanvi Jain: And your revenue contribution also for the first half year from the top 5 customers?

Aniket Latkar: It would again almost be the same. None of them would be going beyond 30%.

Tanvi Jain: Almost same as it has been historically?

Aniket Latkar: Same as historically, yes.

Moderator: We have our next question from the line of CA Garvit Goyal from Nvest Analytics. Please go ahead.

Garvit Goyal: To understand the company in a better way, I am coming again and again. My question is on the medical devices side. You mentioned new product that is coming under the name of Saakshi, this is having an overall market size of Rs. 250 crores, right?

Aniket Latkar: Yes.

Garvit Goyal: Is this product getting manufactured in India right now or we will be the first company to manufacture at present in India?

Aniket Latkar: Mr. Goyal, when we look at the analog side of it, we won't be the first company that is into manufacturing of this. There have been companies that have been doing this, but under the new regime that has come under the certification of CDSCO, we could probably be one of the first few companies to get ourselves registered.

Garvit Goyal: What kind of percentage share are you people targeting in this total opportunity of Rs. 250 crores?

Aniket Latkar: Again, we would like to see a good amount of contribution. Around 10% of the total market size is something that we are trying to look at when we are trying to bring this product in the market.

Garvit Goyal: In this total market size of Rs. 250 crores, is the portion of import the same? 70% to 80%?

Aniket Latkar: When we talk about the analog side, yes, there will be, although there are certain global MNCs that are based within India who are also part of this total number.

Garvit Goyal: The 2 new products that you people are having in your pipeline, these products are we the first ones to come up with in India or what is the case?

Aniket Latkar: No Mr. Goyal. There will be no novel product development right now, but we could be one of the first companies who will be able to do a significant amount of localization within this. Within the complete assembly, there's a lot of imports on the component level that happens. Our intent is to try and do a significant amount of localization within this.

Garvit Goyal: What kind of government incentives or government contribution you people are getting? The government is promoting this industry or what is the case?

Aniket Latkar: Typically, there are a lot of PLI schemes that are coming for the medical devices. In fact, there has been one round of PLIs that has already been completed, if I am not wrong, and has been awarded to not less than 4 companies. But apart from that what is also happening is that importing is also becoming expensive on these components or the devices given that the government is trying to implement medical cess. This is typically just to inhibit imports of the product and to basically promote local development of these assemblies and components. Eventually, at some point of time, we will see that a significant portion of customs duty also starts getting applied, which would probably start making imports of these products more expensive and which will promote localization, which we have already started that is happening. However, that percentage will continue to grow is something that we can look forward to.

Garvit Goyal: Who are the players in which countries? Basically, they are exporting into India; what countries do they belong to?

Aniket Latkar: Importing within India, there will be companies within Europe, the US, as well as the Chinese companies. There are certain Korean companies that are also bringing these products in India.

Garvit Goyal: Are you people witnessing any kind of a structural shift? There are geopolitical tensions between the US and China. Is there any situation like China was earlier exporting some medical devices to the US but now the US will impose restrictions from China and then will look for India? Is this kind of scenario are you people witnessing?

Aniket Latkar: The question I believe you are asking is in terms of importing these products within India, right? Or were you trying to ask whether these products are being imported?

Garvit Goyal: Yes, the second question is from the export side like China plus One benefit.

Aniket Latkar: As I was mentioning that close to around 75% of the installed base within India is something that is coming from imports. So, there is a significant amount of captive requirement, if I may say so, to be served within the Indian market itself. So, the export opportunity is something that right now not a lot of companies are trying to explore because the Indian requirement itself is a huge requirement to fulfill.

Garvit Goyal: Can you name the domestic companies who are your direct peers in these products which we are having in the pipeline of the existing products?

Aniket Latkar: There will be companies like Allengers, BPL Medical, Skanray, Adonis, Vision X-ray.

Garvit Goyal: All these are the domestic players which are directly in competition to us right now and from those we have to take the market share, right?

Aniket Latkar: Correct.

Garvit Goyal: Sir, lastly on the aerospace and defense side. What kind of products are we people looking for to supply going ahead?

Aniket Latkar: Mr. Goyal, presently within the fabrication sector because we found opportunities over there readily available, that is where we are targeting to. However, once we are able to have experience on this side, we would also like to look at opportunities on the panel side as well as on the wiring harness side.

Moderator: We have our next question from the line of Amit Bhatt from MIT Engineers. Please go ahead.

Amit Bhatt: Sir, actually, you commissioned a trial run order for manufacturing electrical control panels for EV battery charging stations. It's a great opportunity. Can you throw some light on whatever the company is doing in that and what's the market we are targeting?

Aniket Latkar: Mr. Bhatt, this is presently an export opportunity that we are looking at with one of our customers who is based in Australia, and some prototypes have already been done and developed and supplied to them. We are waiting for the results from their side for further production orders to be converted into. Now, to answer the second part of your question, here what happens is that the product design ownership is typically from the customer side and that is why we are not able to use the same designs or supplies for any other customer. And that is why we are right now trying to focus only on this one existing customer to fulfill this requirement.

Amit Bhatt: The supplementary question is, because our country is pushing for the EV battery charging stations which means electrical vehicles are coming in a big way, why are we not doing R&D and focusing on this particular vertical? It can be a game changer for the company. If we succeed to create our own R&D prototype and we can market in India because lots of states now they are having the policy and they are now issuing tenders and giving the supply orders to many vendors to start the EV battery charging stations. Why are we not creating our own R&D? I know that you can't copy that which your foreign client has given you the prototype you have created, but you can develop your own. Now you are having the expertise. So, why are you not doing that? This vertical can change the entire landscape of our company. Please see, sir.

Aniket Latkar: Typically what I have seen over here is that the OEMs have a design that they would want to get it developed from any of the channel partners and that is how the general flow of it is. However, we take that point and probably if there are opportunities in that where we could as a standalone system probably try and bring that in the market, we will try and evaluate whether those opportunities are existing. But as of now, what I have been evaluating is that the OEMs are typically having their own set of design and requirements which they are basically outsourcing.

Amit Bhatt: This is also a very big opportunity. If we go with the long-term agreements with some of the leading – we can approach them – and once we become their partner in India, particularly for the Indian requirements, then this is also a very big market in the coming 5 to 10 years. Your view, sir.

Aniket Latkar: Sure. There is something that we would also have or rather we will also discuss internally to see whether those kind of opportunities are being presented. What we have seen is even within the Indian market, there is a significant amount of right now imports that we are seeing on the battery chargers. Probably what a guess that I could take is that these are heavily cost-driven right now and given the volume still not being significantly high, whether the benefit of efficiencies are coming in as compared to what the imports are is something that needs to be looked at.

Amit Bhatt: But sometimes when the opportunity is small, if you go with the long-term agreements – you identify some of the big suppliers in the world – then, in the initial stage, you can tie-up for certain reasons. And sometime after 2-3 years if there is going to be a boom, you will be the beneficiary. This is just one suggestion.

And another question is, you are having a long-term agreement with OTIS Elevators. I think it is your valuable client. Can you throw some light? Because, I think in the next year, you have to go for the revision of this long-term agreement with OTIS. Our company is confident to get it extended?

Aniket Latkar: Yes, Mr. Bhatt. Typically, here again, our association with them has been for more than a decade. We are exclusive partners with them for one particular range of electrical system panels that go within their elevators and we do have a significant amount of contribution in terms of the design and programming part of it as well. So, unless there are any plans, I am confident that we will be able to continue to sign in with the new agreement with them.

Amit Bhatt: Sir, one small suggestion is that from the next quarter, we are going to release our results quarterly or we will follow this half yearly results?

Aniket Latkar: Again, Mr. Bhatt, that is something that we are trying to discuss internally. As of now, it's half yearly. I don't know whether quarterly calls are allowed and that is the reason why I did mention that probably in the next quarter we will be able to give certain inputs on some of the questions that I wasn't able to answer right now. But presently, as of today if I can answer, it’s half yearly results that we will be doing.

Amit Bhatt: Sir, for your information, actually many companies – good companies – having a good corporate governance, even the SME companies on Emerge platform, are releasing their results on quarterly basis to give a better idea and for better communication with the investor community. I think you are one of such companies with a very good management team. I think you should try this.

Aniket Latkar: Mr. Bhatt, we will take your request and we will definitely look at this. As I said, we are already internally looking at this. Let's see. I am probably not in a position to give you a firm answer right now, but yes, we will work towards getting in that.

Moderator: We have our next question from the line of Hiral Nandu from Kalpvruksh Capital. Please go ahead.

Hiral Nandu: I just wanted to understand maybe 2 or 3 years down the line, what could be our revenue mix in a percentage term?

Aniket Latkar: Mr. Nandu, I believe that control electrical systems will still continue to be a major contributor to our total revenue. However, having said that, we are very active and in fact we are very excited to see how the aerospace and the defense part of the business is turning out for us. And there have been multiple reasons. Very recently you might have seen that a lot of things have been happening on the aerospace side.

Hiral Nandu: The objective was to understand that maybe after 2 years, some factoring, some orders, or some potential of the business in this space. Mainly on that space only, I wanted to understand what could be the aerospace and defense contributing in the revenue apart from the control panel and medical X-ray and fabrication, currently the major part?

Aniket Latkar: Again, I don't have a firm answer right now, but from the aerospace side within whatever were our existing capabilities, we have been able to grab on the opportunities. Having said that, these customers typically would be really long-term customers for us like what has typically happened for us with our rest of the customers. And by entering through this channel, we would like to see or rather like to get into other opportunities within the same sector; may that be machining or surface treatment, we are looking at all the opportunities.

Hiral Nandu: The margin profile in this aerospace and defense business would be higher or it will be equivalent to the….?

Aniket Latkar: I am hopeful that we should be able to have it slightly better than our existing margin profiles.

Moderator: Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to Mr. Ramadhin Rane for closing comments. Over to you.

Ramadhin Rane: On behalf of Hem Securities, I thank Aniketji and Mayuri madam for giving their time and replying to all their queries in a little way. I would also like to thank all the participants again for joining this call.

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