Management Discussion

Unidentified Speaker

In 27-28, we expect that the kind of developments that we have in the assembly business, right? Let's start with that assembly business. There's a, again, which parts translate into business or materialize into business, that is, you know, dependent on many, many factors. But the opportunities that are out there which we can go and grab, and those, when we look at that, we can anywhere between 100 to 200 crores, somewhere in between that number can be looked at from just that assembly business. Now when we look at that kind of a business, that business also, you know, expected comes with an expected lower EBITDA margin of maybe 15-16%.

As opposed to, you know, maybe 26-27%, uh, on, or on those lines. So we expect that if, say, on the higher side, even Rs 200 crores comes with that low margin, uh, and looking at that number as well as, you know, what growth anticipation we have, what outlook that we have from our customers for shunts and all the other, the, the legacy, the product lines, um, and the expected growth in contacts, which is also a 15-16% EBITDA margin business. We can possibly see that if, if we can maybe, you know, maintain a similar- this 30-40%, 30-35%, 40% kind of a growth number- if assuming that, you know, a lot of these things fall into place, we can expect that in that year maybe our total profitability- of course profit goes up, but, you know, our margin comes down maybe from a- maybe by 2 or maybe 1.5% to 2.5%, somewhere in that range.

Because of the addition of revenue coming in from these 15-16% EBITDA margins, margin businesses. So that is the kind of profile we see that we could be going in that direction, but that also means that there could be a good sustainable revenue growth. So we could be somewhere in maintaining a balance in between the two. All right. So basically, you know, just to conclude, I think 30-35% top line growth over the next 2 years is sustainable. Margins could dip, but that's a function of mix basically.

Right. And that, yes. And if that, of course, that dip comes from the, some of the newer products being added in the, in, as far as the standalone product verticals, the legacy product verticals are concerned there, in fact, we don't see any reason why margins should dip. In fact, the margins should only as a result of, you know, further improvement in volumes should further continue to improve, which could further, you know, as a percentage compensate for some of the lower margin business in the foreseeable future.

Got it. Thanks a lot, Sumit. Thanks a lot, Kabir, and best wishes for Diwali to you and the team. Thank you, and same to you. Thank you. Thanks, Dhruv. I will take the next question from the line of Naushad Chaudhary. Hi, Noshad. You can go ahead and unmute yourself and proceed with your question. Yeah, hi. Thank you for the opportunity and congrats to the team on a good set of numbers. First, on the- from a leadership perspective, where are the gaps currently we see in the organization and what are the critical hires we are evaluating now?

To take it to the next league of growth. So, um, thanks, Naushad. Basically, of course, um, you know, other than the, the key positions that we recently had, had become vacant, we have, you know, those are already in line. And, uh, uh, to begin with, in the leadership role, our new CFO should be, uh, with us, and, you know, it's all finalized, should be with us, and, uh, by the end of December. Um, so that is one area. Other than that, uh, we are actively at this point of time pursuing, uh, uh, a position, a good candidate for a position of a CEO.

Uh, we may call it- call him, uh, or something else, but we The primary function would be that of a

COO. And part of the reason, you know, where we- what we foresee in a lot of Shivalik's future growth story, other than- Then I think 100% or so, out of which 40 to 50% is only because of materials, and the other balance is actually because of customer-related, uh, uh, customer growth and customer development, as well as actual product increase. So we are in a very favorable situation that if that alongside this silver thing we have also, alongside the silver jump over the last 1 year, we have also really substantially grown in business.

If we had not done that, then our entire top-line growth was only coming because of silver, then it would have been a cause of worry. And now, as you, as you correctly pointed out, that, you know, we, we started, uh, uh, our shifting to the new facility 2 quarters ago, and by July this year, or June end or early July this year, that facility was fully functional. The impact of that added capacity is now showing up in some of our numbers because a lot of our existing customers wanted to give us increased wallet shares and they wallet share.

And so as a result, you know, we are seeing a further increase in growth. So we anticipate until we reach a certain point with our customers or as well as new development, we anticipate this kind of a growth trajectory to continue. And frankly, for us as a company, since we are not into silver manufacturing, for us silver prices going up or down is not a major concern. And of course, learning from specifically from what has happened last- in the last one year, we have ensured that it doesn't have an impact on us or has minimal impact on us.

Coming to the point related to the capacities, yeah, so within the contracts business, we have 4 or 5 different know, product types, or for- and they are very similar to thermostatic biometal manufacturing, wherein there is a core process and then there's some 8 or 9, you know, down the line or before the preparatory processes. So, so it's very difficult to say what the capacity is, but we typically calculate our total capacity on the core process because those are the ones that are difficult or costly to, to add in a short notice.

Down the line processing and finishing can be added in a shorter notice. So they can always be increased or decreased. So as far as core processes are concerned, we are, you know, for one of our product types, which is nearly 50% of total revenue, that business is currently running at a 50-60%, 50 to 60% capacity after adding this revenue. So let's say we take 50% of the overall revenue that we expect this year from contracts business and say that, you know, that is running at half. So it can- it has the potential of doubling.

So half of that revenue that we're expecting has the potential of doubling without any added CapEx. And similarly, in the other areas, we are running in one of our processes, we are running at maybe around a 30% capacity. And if you take out a mixed sort of, you know, there's no point going into these details, but if you take out a mix, I think we would be- it would be safe to say that we are running at about already at about 50 to 55, 60%. We had originally at this CapEx set up this plant at about approximately a 300-350 crore revenue potential, but that was calculated at half the silver value.

So let's say at this silver value, that would- number would translate to about 400 crores. We possibly expect that we should be crossing about 45, about somewhere between 50 to 60% of that number this year alone. So by the end of this year, we should be probably be at around a, uh, you know, 55% capacity utilization, to answer your question. So that- thanks for the detailed explanation. That very well explains, uh, this part. So one question on, uh, so just one question on our standalone business.

So, sir, was there any contribution from our, uh, maybe the PCB or CCS, uh, business which was

included in the standalone business? If you can clarify. Oh, very minimal. It was, it was Not, not more than, I think if you look at the standalone business, it was probably not more than 6 or 7%, not even that, but maybe somewhere around, I may be wrong, but say 5 to 7% somewhere in that number. My question was more on like, if I look at the standalone margins particularly, like it has grown like now to more close to 30%, and I believe like from past calls we can make out like It has been because of the shift of shunts from maybe strip to assemblies.

But sir, can you give maybe any percentage, like what portion of our shunt volumes today would be like in strip form versus assemblies form, and like where it could reach in maybe a couple of years going forward? Like, because that would help us explain the growth maybe which we expect in shunts and Like, uh, can we also shift this, uh, model of maybe, uh, uh, maybe selling only strip to maybe a set or assembly which can be repeated across all our customer base? Uh, it has happened actually with most of the- most the larger portion of the customer base.

You see, there was only a very limited, uh, um, not in terms of volume, but there was only a limited set of customers with whom we had that kind of an arrangement, which more or less is all is all gone now. You know, part of the reason, to give you some history, part of the reason behind why that was the case is because we were experts at making that strip, not specifically all sorts of the complicated components. So specifically the high value-added components is something that has been more of our recent technical addition.

When I say recent means 2019 or 2020 onwards, we started building the capability of being able to make such complicated components which come with these kind of margins. So, so So of course, you know, that may seem like a long time to everybody, but again, you know, where it takes 2 or 3 years to develop a customer, this 5 or 6 year period in that, from that perspective, is not much. So, so this is a more recent thing for us. That is why originally a lot of the resistor business started as strip.

So as we have developed the capability of making these, these kind of smaller components, most of our new developments are already in that form. And, and a vast majority of our old existing business is already converted. So, so, so what to, to, to- I still agree with what you are saying, that what, what you are suggesting, that this, this ideology can be applied in, in some other ways as well. We, we have to always look at what we can do, whether it's in thermostatic bimetal or whether it's in shunts, what we can do to go one step forward to get a higher value from the same product.

And we are actively working on that as well. Because, you know, we, we, we are as a company, we have changed our point of view about how we look at, you know, revenue or profitability and what, what these numbers mean. This is from a few years ago when we, we, we focused more on the product. Our focus on the product still remains the same, but we have also started looking at our strategy related to these things. If we can add better value by going forward and as well as, you know, get more business as a result, then why not?

Thanks, Sumer, and thanks, Sajay, for your questions. We'll be happy to take up your follow-ups on a- at a different time. We'll take the last question, just looking at the time. We'll take the last question from participant Harsh Mulchandani. Hi, Harsh, you can go ahead and ask your questions. Yes, am I audible? Hello. Yeah, thank you for the opportunity. Uh, wanted to understand that we lost some revenues in US with respect to Shansh business in the PPT. So do you want to just understand, are we losing market share, or, you know, there is some dynamics with respect to particular market and we can again, uh, you know, re-bag, uh, gain those volumes going forward with respect to Shansh business in Americas?

So Harsh, a lot of this actually, this is coming from, you see, a vast, a major couple of customers of ours who we, with whom we have now, you know, an arrangement of instead of supplying what we were earlier just before this talking with Ajay regarding, you know, we've converted some strip business with some major, some business accounts into components. Now a lot of those components and In some cases, 70-80% of those components are used outside the United States. So, so what has happened as a result is, and we, we, as part of an arrangement with those customers, we are supplying directly now to their end users of those parts.

So, so, so what's showing up as, as the US numbers going down is actually going to a US customer, but directly to its final user outside the US. And most cases that is actually Asia. That is why you'll see that Asian quantities have also increased disproportionately. So a lot of the US business is actually now showing up as Asia. Okay, got it. Thank you. And just one more question on the CAPEX side. So, you know, there's a Rs 1,300 crore number mentioned with respect to capacity. So, you know, if we continue to grow at this rate, maybe, you know, we could be closer to those numbers.

And you mentioned that we are doing additional CapEx. So just wanted to understand if you could just help me understand where do we see the capacities in the coming couple of years and a bit on the utilization which we are targeting. So some, some areas have grown faster than others. So there we have already done a little bit more CapEx on capacity enhancement, as Kabir mentioned in one of the earlier questions. So capacity enhancement, you see, our products work in such a way it's not not that something that happens in a typical manufacturing business where you have X amount of capacity and X amount of revenue, you know, connected to each other.

Our business works in a slightly different way. So some components may increase in volume, and as a result, you know, some process may need to be added, whereas the core process may not need to be added. So it's not as simple a calculation, but we understand that, you know, we need to come out with some average number. So, so some capacity enhancement is already done. So it would be safe to say that that Rs 1,300 crore number would probably be a little bit different now. It'll be on higher side than that.

And, and we also keep in mind whichever product vertical or whichever area we are already reaching a sort of a tightness in capacity, we already have plans to increase that. Having said that, most of the capacity enhancement that requires a heavy CapEx or a heavy CapEx is basically that is where we have enough room available. So, so the, the capacity enhancement which we can do in a short period of time at a low cost is where some enhancement may be required. So we are, you know, in a very safe place to ensure that before we reach any overutilization of capacity, we are in the right place to, or right position to enhance it at the right time.

Got it. Thank you so much. Thanks, Harsh, and thanks, Kabir and Sumair. I can see there's a couple more participants with their hands raised, so please do feel free to reach out to the IR team. We'll make sure you get concrete answers from the management. We'd also like to let you know we are setting up some meetings in Mumbai soon, so please do reach out to us and, you know, we can take your consideration. So we'll conclude this call for this afternoon. I'll hand over back to Sumair for closing remarks.

Thanks, thanks, Ankani. Thank you for your time and thoughtful questions. We enter the second half with a stronger earnings base and a clear set of priorities. As we mentioned in our discussions, our focus is on sustaining core profitability improving cash conversion, and progressing new programs through customer adoption. We remain confident in the opportunities ahead and will pursue them with discipline in execution and capital allocation. Thank you for your continued trust in Shivalik.

Thanks, Sumair.

Thanks, Kabir. Thank you, everyone. And thanks for everybody for spending their afternoon with us. Looking forward to the next step of chapter growth for Shivalik. Cheers, everybody. Thank you. Bye-bye. We can disconnect now. Thanks. Bye-bye. Thank you.