# "Salzer Electronics Limited Q3FY16 Earnings Conference Call"

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**MANAGEMENT:** **MR. RAJESH DORAISWAMY – JOINT MANAGING DIRECTOR**
**MR. S. BASKARASUBRAMANIAN - CS & DIRECTOR, CORPORATE AFFAIRS**
**MR. SATYANAND – GM, ACCOUNTS & FINANCE**
**STELLAR IR ADVISORS – INVESTOR RELATIONS ADVISORS**

**MODERATOR:** **MR. RAHUL GAJARE – RESEARCH ANALYST, EDELWEISS SECURITIES**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Salzer Electronics Q3FY16 Earnings Conference Call hosted by Edelweiss Securities Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to sir. Rahul Gajare from Edelweiss Securities. Thank you and over to you, sir.

**Rahul Gajare**: Thank you, sir. Good Morning, Everybody. I would like to Welcome All the Participants to the Q3FY16 Earnings Conference Call of Salzer Electronics. From the management we have with us Mr. Rajesh Doraiswamy - Joint Managing Director who will represent the company on the call. Without much ado, I would like to request Mr. Doraiswamy to give us introductory comments on the results, after which we will move on to the Question-and-Answer Session. Thank you. And over to you, sir.

**Rajesh Doraiswamy:** Thank you, Rahul. Thank you, all. Welcome you all to our Earnings Conference Call for the Quarter ended December 2015. I have with me our Company Secretary and Director, Corporate Affairs – Mr. Baskarasubramanian and also our GM, Corporate Finance – Mr. Satya and Stellar Investor Relations Advisors.

We have shared with everyone our 'Update Presentation' and I hope you all have received it. Now, I will move to the Quarterly and the Nine Months Results: I will first share the key Financial Highlights of the Third Quarter of the Financial Year 2016: Revenue from operations was at Rs.90.2 crores as against Rs.69.4 crores in the corresponding period, with a year-on-year growth of 30% approximately. In this Exports contributed to 29% of the revenues in this quarter.

Breakup of revenues as per the business segments are as follows: Industrial Switchgear business contributed 48% to the total revenues and reported year-on-year growth of 10%. Since the Q3 of FY15, the corresponding year was a very good year, we are only seeing a 10% drop in this year. This is however in line with our business strategy of focusing more on profitable and high growth products.

The Buildings Segment Products business contributed 5% of the total revenues and witnessed a year-on-year decline of 25%.

While in Cables business, had a contribution this quarter of 36% to the total revenues with a year-on-year growth of 41%.

The Energy Management business contributed 11% to the total revenues in this quarter and saw a very significant growth of 789%. This high growth is due to the negligible contribution of this business in the corresponding previous period last year. This is an order book driven business and revenues get booked post audit of supply and installation.

EBITDA for the quarter stood at Rs.10.1 crores as against Rs.8.2 crores the corresponding period and grew by 23.8% year-on-year. EBITDA margins at 11.2% declined by 53 basis points as compared to

11.8% in the last year's quarter, this decline was on account of various reasons; we had developed three different new products called Chokes and Inductors for GE which were under UL testing and the testing charges of approximately 60 lakhs was accounted for the same in this quarter.

Also, in the Switchgear business, we have been manufacturing Panels for LG Equipments and for Dongfang Electricals which comes under APDRP Scheme. This business in these three months also contributed approximately Rs.2 crores as against Rs.2 crores in the first half. The EBITDA margins are lower in this product compared to other Switchgear products like Rotary Switches, Load Break Switches or Transformers. Due to this change in product mix, the Switchgear product also contributed lower EBITDA than what was expected.

Also, the contribution from Wires and Cables increased to 36% from the 33% last year and 32% until the first half. So, that eventually has pulled down the EBITDA margin.

Profit after tax was at Rs.3.4 crores as against Rs.2.2 crores in Q3 of Financial Year 2015, registered a year-on-year growth of 56%.

Now, moving to the Financial Highlights for the Nine-months ended December 2016: Revenue from operations was at Rs.262 crores as against Rs.205.9 crores in the corresponding nine months with a year-on-year growth of 27%. Export revenues contributed to 26% of the revenues. The revenues have grown in line with our expectations especially from more profitable segment of Industrial Switchgear.

Now, I will share the revenue breakup of the business segments: The Industrial Switchgear business contributed 50% to the total revenues and reported a year-on-year growth of 23% for the nine months. Buildings Segment Products business contributed 4% of the total revenues and witnessed a year-on-year growth of 9%. Wires and Cables business contributed 34% to the total revenues and reported a year-on-year growth of 7%. The Energy Management business contributed 12% to the total revenues with a year-on-year growth of 368%. EBITDA was at Rs.34.1 crores as against Rs.26.6 crores in the corresponding period with a year-on-year growth of 29%. EBITDA margin was at 13% as against 12.9% in the corresponding previous period. PAT was at Rs.13.1 crores as against Rs.8.6 crores in the corresponding period with a year-on-year growth of 52%.

Moving to the Balance Sheet Highlights for the period of Nine Months ended 31 December 2015: The net worth stood at Rs.195 crores as against Rs.107 crores as on March 31, 2015. The total debt was at Rs.105 crores as against Rs.93 crores as on March 31$^{st}$, the increase was mainly on account of increase in long-term borrowings needed for the EPC project, that is the Energy Management Project. Net working capital cycle has improved compared to March 2015 from around 145 days, we have brought this down to approximately 133 days currently and we are looking to reduce this further to 110 days by this year end.

Growth Strategy and Opportunities for Salzer: As you have all seen that over a period of time we have added more products in our basket and offer more customized solutions as well. We have increased our exports and currently we export to more than 50 countries in the world which include USA, UK and Europe. It is this diversification and customization that has led to customer addition. We are also a preferred supplier to global companies like GE and Schneider from the year 2014 onwards. Our plan has been to add three new products and one of the products is Dry Type Three Phase Transformers for which the work has already started, the other one is Capacitor and third one is Latching Relays.

We have signed a technical alliance with Trafomodern, one of the leading manufacturers of Dry Type Transformers in Europe for manufacturing Three-Phase Dry Type Transformers in India and currently the project progress is of setting up its manufacturing unit in Coimbatore is on way. We expect to start production sometime by end of first quarter or starting of second quarter next financial year.

We are in talks with leading manufacturers across the world for manufacturing Latching Relays and Capacitors for a possible joint venture.

Thank you all once again for joining this call. Now, we can take questions.

**Moderator**: Thank you very much. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Tarang Bhanushali from IIFL. Please go ahead.

**Tarang Bhanushali:** I had a query that in our Energy Management Services business we were expecting that revenues would be booked in this quarter but again this quarter revenues have been not up to the mark. So is there any delay in the payment or in the revenue recognition?

**Rajesh Doraiswamy:** No, I think our idea was to book the revenues in this year; total of approximately Rs.43 crores is supposed to be booked, out of which Rs.2 crores was booked last financial year and Rs.41 crores was supposed to be booked this year, out of which we have already booked approximately Rs.28 crores so far. So I think the balance will get definitely booked in the fourth quarter of this year. We are not expecting any payment delays. I think in the normal course of business we are getting payments within 90-days.

**Tarang Bhanushali:** Because post the equity dilution, in fact, we were supposing debt to come down but our debt has not come down. So any major reason?

**Rajesh Doraiswamy:** We have not really reduced the debt by raising money and using the debt for setting up the project that we have planned to, so we have used some portion of the money raised for working capital purpose, but we have not reduced the debt as such. The debt that we have increased in the last quarter was actually drawn down in the last quarter for the EPC Project implementation. So we expect this EPC Project long-term debt to go down as soon as the payment start realizing and the project is over.

**Tarang Bhanushali:** So when do you expect it to happen?

**Rajesh Doraiswamy:** Half of that by first quarter of next year.

**Tarang Bhanushali:** Also, our Switchgear business the growth has been quite lower at 10%. So is it that the demand has been lower?

**Rajesh Doraiswamy:** No, I would say that the Q3FY15 Switchgear business has been very robust. I think that is the reason that Q3 relative period growth has been lower.

**Moderator**: Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

**Sagar Parekh:** My first question is we mentioned that there was a decline in EBITDA due to some testing charges. What was this related to and how much was the amount?

**Rajesh Doraiswamy:** Rs.60 lakhs approximately. Testings normally happens for a period of time for any product that we develop and we have to go for a third-party lab and test it. This is a set of products basically that will fall under the category Single Phase Transformers, we call it Chokes and Inductors.

**Sagar Parekh:** So this is the Toroidal Transformers that we manufacture, is it for that?

**Rajesh Doraiswamy:** It is not Toroidal Transformers as it is, because Toroidal Transformers we already have the approval. This is a new range of Chokes and Inductors that we develop under Toroidal Transformer category.

**Sagar Parekh:** This is for any particular client or this is just because it is a new product that is why we are…?

**Rajesh Doraiswamy:** More specifically to GE, but this can also be sold to many other customers going forward.

**Sagar Parekh:** So we develop this technology in-house?

**Rajesh Doraiswamy:** Yes, this was developed by us in-house.

**Sagar Parekh:** We have not incurred any kind of CAPEX for this, same machines and technology we develop this?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** What is the application of this particular product? How is it different from the Toroidal Transformers that GE would probably…?

**Rajesh Doraiswamy:** Transformer is a simple step up/step down product. Choke is a different application. I do not know where GE is actually using it, but Choke is basically an Inductor that used to block high frequency AC current in electrical circuits. So they use this in mainly UPS is one of the main applications for them. There is another product that we have developed that GE is using in their Breakers and Circuit Breakers.

**Sagar Parekh:** That is the Inductors?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** Sir, you also mentioned that there was some Rs.2 crores expense related to Panels. What was it again?

**Rajesh Doraiswamy:** It was not an expense. The Panel business that we do has a relatively lower EBITDA margins compared to the normal Switchgear business where we get 15-16%. But this Panel Building business is also a part of the Industrial Solutions Switchgear business where we incurred a revenue of Rs.2 crores.

**Sagar Parekh:** H1 revenue you said was Rs.2 crores from Panel which was …?

**Rajesh Doraiswamy:** We were doing Re.1 crore revenue for quarter but suddenly jumped up to Rs.2.1 crores.

**Sagar Parekh:** So we sold the Panels to LG and Dongfang.

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** On your Switchgear business which is 50% of your top line, could you give us a kind of sense that which would be the products which would be higher margin because there has been shift in terms of EBITDA let us say that Panels higher sales this quarter versus last year. So if we can get some sense that which would be the products within the Switchgear category which would be…?

**Rajesh Doraiswamy:** Within the Switchgear category, the Transformers, the Load Break Switches, Rotary Switches will be the highest margin, these three products. Then second category will be the Wire Ducts Terminal Box and Relays and then finally the lowest will be the Panel division. This is very unprecedented, does not happen like this always, but on a quarter-on-quarter basis sometimes this happens, but on a yearly basis it always softens out.

**Sagar Parekh:** So on a yearly basis then can we have a broad sense of breakup in terms of what would be Transformers, Load Breaks, Switches and Rotary Switches, what would be the contribution from that in the overall Switchgear business?

**Rajesh Doraiswamy:** That is difficult for me to give right now but on the EBITDA margin basis on a yearly targets we are on track.

**Sagar Parekh:** But would we be having this data, can I take it offline from…?

**Rajesh Doraiswamy:** Yes, I can get that data, but I do not have it right now to give it to you.

**Sagar Parekh:** Sir, my second question is on the Wires and Cables business, we had a substantial jump in terms of revenues in spite of Copper prices falling. So was it more volume driven because…?

**Rajesh Doraiswamy:** Yes, I think we had a higher volume business this quarter. That is one point. The other point also is the last year third quarter was not so good. So both contributed to the high growth.

**Sagar Parekh:** What would be the volume growth in this business? Upwards of 50-60% because your 41%...?

**Rajesh Doraiswamy:** Compared to last year third quarter, yes, 50-60% volume growth.

**Sagar Parekh:** Was there any kind of inventory loss this quarter due to Copper prices?

**Rajesh Doraiswamy:** No, I think this quarter there was not major fluctuation in Copper pricing. Copper price in this quarter was more or less stable.

**Sagar Parekh:** On your Home Buildings segment, what is our strategy going forward? It is a very small part right now where we just manufacture MCBs and MCCBs or…?

**Rajesh Doraiswamy:** We just manufacture Wall Switches that we use at home.

**Sagar Parekh:** So those we normally do contract manufacturing for all these branded players or we do our own thing?

**Rajesh Doraiswamy:** We do our own thing. I think that is the majority of the business; 75% of the revenue that we derive now is from our own brand selling in the market. We also do Contract Manufacturing to a couple of companies which is a 25% of our business. Our strategy going forward is that we feel that this market segment is a huge market, the size of the market is estimated to be around Rs.1500 crores, dominated by five top players and many unbranded local players. Our idea to get into this was because this was an engineering product and we had brand name to make the Switches and were a Switches people, so we got into this business. If we do not grow this business to a level of Rs.50 crores minimum in the next couple of years from the current Rs.20 crores, I think we will have a relook at this business.

**Sagar Parekh:** But Rs.50 crores is the number that you are looking for in terms of top line in the next 2-years?

**Rajesh Doraiswamy:** Yes, because at Rs.50 crores level, the working show that EBITDA margins can jump to around +16% because that critical sale level that we have to cross to make enough margins.

**Sagar Parekh:** What kind of capacity do we have in terms of manufacturing for this?

**Rajesh Doraiswamy:** This capacity for this product actually is very dynamic. To increase the capacity we just add assembly lines because we have the tools and machinery in place.

**Sagar Parekh:** On the Energy Management business side, any incremental orders that we received or any in the pipeline?

**Rajesh Doraiswamy:** No news as of now for any incremental order or new order pipeline.

**Sagar Parekh:** Then this increase in debt was used for this EPC. I do not understand exactly what kind of EPC are we talking about here in this EMS business?

**Rajesh Doraiswamy:** EMS business we have to manufacture the Panels worth Rs.40 crores and install. So we are doing that right now.

**Sagar Parekh:** So this Rs.43 crores that revenue that we booked, that amount will come in the first year itself?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** Then the remaining about Rs.50-60 crores is the amount that we have to fund?

**Rajesh Doraiswamy:** No, the remaining amount will come in the next four years. But we need to invest now at approximately Rs.50-52 crores for this project.

**Sagar Parekh:** So we have invested that Rs.50 crores or…?

**Rajesh Doraiswamy:** It is being done; right now they are all complete with this being implemented, installation is going on.

**Sagar Parekh:** Then that is the reason why the debt has gone up. So incrementally from now the debt…?

**Rajesh Doraiswamy:** It should start going down now.

**Sagar Parekh:** As we start getting the payments from…

**Rajesh Doraiswamy:** We will see the decline of debt starting from Q4FY16.

**Sagar Parekh:** So what would be a debt level that you would be comfortable at?

**Rajesh Doraiswamy:** We have always been at 1:1, not going beyond that, but now I think we do not need to go to that level also. I think we are comfortable at the level that we are currently today.

**Sagar Parekh:** Sir, on other non-current assets there was this Rs.16 crores, what was this relating to, last quarter it was not there?

**Rajesh Doraiswamy:** The other non-current assets is the receivable that we have to receive from corporations of the projects that we have done before and the project that we are doing now, for which we expect that the payments will not come for one year, because they always keep a hold on 5% cut back on payments which have been directed before in our old projects and this project and we still have to receive some money from other projects that we did from Navi Mumbai.

**Sagar Parekh:** So this has nothing to do with the EMS project that we are doing for the three …?

**Rajesh Doraiswamy:** It is also linked to that, I think some of that portion is also from EMS that we are doing now, which will be realized after one year.

**Sagar Parekh:** So that amount would be approximately Rs.12-12.5 crores that we are planning to book in terms of revenue, that is the amount that we will be receiving after one year?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** Any update on Latching Relays project where…?

**Rajesh Doraiswamy:** I think we are going faster in the capacity of the project. So we will have something coming up in the next two quarters on the Capacitors. Latching Relays most probably will be pushed down to next year.

**Sagar Parekh:** So next two years, Capacitors, we will commission the facility or…?

**Rajesh Doraiswamy:** Hopefully, we will start the project.

**Sagar Parekh:** So we are having any tie-up for this or we are manufacturing this on our own?

**Rajesh Doraiswamy:** We are working with a tie up with a Taiwanese company.

**Sagar Parekh:** This Transformer project is delayed by one quarter, is it, earlier, we were supposed to start full commercial production by Q1, now it is end of Q1?

**Rajesh Doraiswamy:** Correct.

**Sagar Parekh:** What kind of revenues we were talking about Rs.20-25 crores incremental orders from Transformers?

**Rajesh Doraiswamy:** We will see revenue I think of around Rs.17-18 crores in nine months next year.

**Sagar Parekh:** We have any kind of orders in pipeline for this?

**Rajesh Doraiswamy:** No, we do not have any orders in pipeline but we have the confident to get those orders because we are talking to customers and we have feelers from them on what their offtake will be.

**Sagar Parekh:** For your Switchgear business, you are planning to sell to C3 Controls in USA. So what was that amount for till now in nine-months?

**Rajesh Doraiswamy:** Nine-months we have done around Rs.5-5.5 crores with C3 Controls.

**Sagar Parekh:** That product is basically Panels or is it…?

**Rajesh Doraiswamy:** No, Contactors. This is a product that we have launched last year started selling to C3 Controls. I think we will close the year with the business of around Rs.8-8.5 crores this year.

**Sagar Parekh:** From next year then how big can this business be?

**Rajesh Doraiswamy:** Next year we are targeting Rs.20 crores on this product?

**Sagar Parekh:** We have exclusive rights to sell it only to C3 Controls?

**Rajesh Doraiswamy:** For North American market, C3 Controls have exclusive rights but for other countries, we are free to sell.

**Sagar Parekh:** So are we looking to see these?

**Rajesh Doraiswamy:** We have already started marketing this with our other distributors in other countries and I think next year we will start seeing revenues flowing in from our other distributors also.

**Sagar Parekh:** So which markets would these be?

**Rajesh Doraiswamy:** All the markets that we are already present with 40 plus distributors that we have.

**Sagar Parekh:** So within the Industrial Switchgear, Transformers you said, which particular product would be categorized in which of the three in terms of EBITDA margin?

**Rajesh Doraiswamy:** In the top three along with the Rotary Switchgear, Load Brake Switches, Transformers.

**Sagar Parekh:** This would be a high margin product?

**Rajesh Doraiswamy:** Yes.

**Moderator**: Thank you. The next question is from the line of Karan Thakkar from PM Securities. Please go ahead.

**Karan Thakkar:** My question was on part of Energy Management business. I wanted to understand the economics of these Energy Saver Panels. So what should be the costing of those panels for this project to the Tamil Nadu government if I am not wrong?

**Rajesh Doraiswamy:** Including taxes it is around Rs.100 crores project on the tender value, net of taxes it will be around Rs.85-87 crores business. Out of this the costing of the Panels we have to supply will be approximately Rs.40 crores and then there is transportation and installation cost. So all put together we expect this to be around Rs.47-48 crores.

**Karan Thakkar:** What should be the benefit on the Energy Saving that the Tamil Nadu government can get out of it? What should be the payback for this expense that they are incurring? So what I am trying to understand is if this Energy Saver Panels get good benefit to the government then we can expect more orders even though it is a lumpy business?

**Rajesh Doraiswamy:** The corporations will gain on approximately 40% of power saving and they will see a payback within 5-years.

**Karan Thakkar:** Do we also get any kind of maintenance revenues from this installation?

**Rajesh Doraiswamy:** We do have maintenance revenue but I think there will be maintenance expenses. So what we have done is we have completely subcontracted that. We are not doing it because that is not the business that we will be able to do maintaining street lights.

**Karan Thakkar:** So the Rs.43 crores cost that we are going to receive as revenue this year, should that fully pay the debt of Rs.43 crores or…?

**Rajesh Doraiswamy:** We only have a debt of Rs.17 crores for this project that is the debt that we have taken overall. When we receive the payment, 75% of this debt will go off and maybe a little bit will remain.

**Karan Thakkar:** So debt of Rs.105 crores should be down to about…?

**Rajesh Doraiswamy:** That includes Rs.88 crores of working capital.

**Karan Thakkar:** So should this Rs.105 crores be down to about say less Rs.15 crores, Rs.95 crores?

**Rajesh Doraiswamy:** Yes.

**Moderator**: Thank you. The next question is from the line of Ankush Mahajan from Edelweiss. Please go ahead.

**Ankush Mahajan:** Sir, I have a couple of questions; first one, our inventory is 85 days. Could you elaborate why such high days especially breakup in Switchgear how much inventory days for Switchgear business and then the Wires business?

**Rajesh Doraiswamy:** I think our inventory is at 70-72 days, Rs.69 crores is the inventory. Overall if you see the net working capital is at around Rs.130 crores for nine months. Compared to what it was last quarter we have reduced considerably and also compared to March if you see on a net working capital basis, we were at almost 40%, that is around 4.7-months in March, which we have reduced now to 4.3-months, that is 36% or 37% on the revenue that we expect this year for annual revenue. We are trying to improve on that. If you look at the debtor levels we are still at 90-94-days. What we are trying to work is to bring this inventory down which we are trying to do. I think from 2.8-2.5-months we have brought down to 2.3-months. By year end we expect this to go down to 2-months and another one more year we expect this to go down to 1.7-months.

**Ankush Mahajan:** So just trying to understand, how basically it works the processing of raw material and finished goods, how it takes a time?

**Rajesh Doraiswamy:** Each product has a different cycle. If you look at the Rotary Switches or Load Break Switches, we process right from raw material, we also process all the components in-house and do the assembly, almost all the products, even Wires and Cables we do that, we buy Copper, we draw Copper, we bunch Copper and we insulate it.

**Ankush Mahajan:** Regarding your Dry Type Transformer, we are looking our customers in the domestic market like ABB, Schneider and GE. So we have already seen that Schneider Electric Infrastructure, they have a manufacturing capacity in India similar to ABB. Could you throw some light sir who are the customers and do they have manufacturing facilities here, how we are going to sell these products to them?

**Rajesh Doraiswamy:** I think their manufacturing facilities would require the products that we make. The Transformer that we make are not something that they produce themselves. ABB has a large Transformer manufacturing facility in India in which they produce high voltage distribution transformers which are oil cooled and they export as well as they sell locally in Indian market. That is not a product that we are manufacturing. What we produce is Low Voltage Transformers that are used by ABB in their panel in their other equipments, they use it in their drive and then they take this product and sell that and they do not produce these transformers here in India. Similarly, Schneider is never into transformer manufacturing in India. They only buy transformers.

**Ankush Mahajan:** So we will supply these Transformers to Schneider Electric Infrastructure or Schneider Infrastructure …?

**Rajesh Doraiswamy:** I do not know about Schneider Electric Infrastructure business what they do, but yes, we supply to Schneider, they call themselves as an ITBP solutions.

**Ankush Mahajan:** So could you give a size of that company, what could be the revenue?

**Rajesh Doraiswamy:** I think it is a privately held company. So it will be difficult for me to give the revenue size of that company.

**Ankush Mahajan:** What is our growth that we look in the Switchgear business for full year?

**Rajesh Doraiswamy:** Full year we should be growing at a 25-30% compared to last year, so far we have grown at 30.%

**Moderator**: Thank you. The next question is from the line of Kartik Gada from Val-Q Investment. Please go ahead.

**Kartik Gada:** A couple of questions; one, you mentioned about push back for the Latching Relay business. So can you just elaborate what is the kind of timelines we are looking for now? I think in the previous call you had given a guidance of around Rs.15 crores. Does that stand or how does it change if it does?

**Rajesh Doraiswamy:** Yes, anyway FY17 we have not expected major revenues from Latching Relays. It was only around Rs.8 crores in the first year and then we had proposed to do around Rs.15 or so crores in the second year. The reason for a push back or delay is because the Indian market is still not right for the product of Smart Metering, it is still going slow and our proposed partner who is supposed to join with us for a joint venture also wants to take this project a little slower. So this is the reason that we are pushing this a little behind and taking it to FY17. So we are restarting the discussions on the project next year and we do not expect the project to be set up and come into revenue in FY17, but we think that this will come into stream in FY18.

**Kartik Gada:** What would be the CAPEX for this business which we will incur whenever…?

**Rajesh Doraiswamy:** We have not incurred any CAPEX so far. Maybe post to incur Rs.18 crores if the project comes now.

**Kartik Gada:** What is the status for the Capacitors project?

**Rajesh Doraiswamy:** Capacitors project again we are discussing with the partner. So we ourselves have taken it a little slow to start the project in end of this year or starting next year and invest approximately Rs.12 crores on this. There is no glitch on this project. I think we will start this and take it forward in the next year and we will see revenues coming in the next year FY17 itself to the tune of around Rs.4 crores from this product.

**Moderator**: Thank you The next question is from the line of Vaibhav Ved from Motilal Oswal Securities. Please go ahead.

**Vaibhav Ved:** Sir, on the CAPEX side, what is the number that we expect for this year and next year?

**Rajesh Doraiswamy:** This year approximately Rs.19 crores is the CAPEX we are trying to make, this will include the Three Phase Dry Type Transformers and our other CAPEX. Next year will be another Rs.20 crores including the Capacitors.

**Vaibhav Ved:** We do not expect to increase the debt levels from these current levels, right?

**Rajesh Doraiswamy:** No.

**Vaibhav Ved:** On the growth side, sir, for the next two years, the major growth will be coming from the Switchgear or would Energy Management also and the other businesses…?

**Rajesh Doraiswamy:** Energy Management we will not be able to commit because we do not know it is a lumpy business that can come, that might not for the next two years, we do not know. So there is nothing that we are projecting on the Energy Management business. Yes, the Industrial Switchgear is the focus and we expect that business to grow considerably going forward in the next two years.

**Vaibhav Ved:** But you cannot give guidance, any…?

**Rajesh Doraiswamy:** I think guidance on the revenue side we definitely trying to grow at a minimum of 25% year-on-year on the Switchgear business.

**Vaibhav Ved:** For the other segments?

**Rajesh Doraiswamy:** Wires and Cables is the next largest segment that we have. I think we will be growing at a minimum of 10-12% year-on-year and anything above that will be good if we get but we are not trying to focus more on that.

**Vaibhav Ved:** On the working capital, what could be a realistic number that we can expect going forward a year or two?

**Rajesh Doraiswamy:** I think end of this year we see a four month net working capital and I think FY17 end we should drop down to 3.5.

**Vaibhav Ved:** This would be improvement in cycles in inventory from Switchgear business or the other one?

**Rajesh Doraiswamy:** No, across all business I would say.

**Moderator**: Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please go ahead.

**Sagar Parekh:** Sir, you mentioned that this 25% growth in Switchgear. If I take for next year also, so it is approximately about Rs.50 crores incremental revenue coming from Switchgear. Could you explain what will drive this incremental revenues and which products will drive this?

**Rajesh Doraiswamy:** We see a good traction in Toroidal Transformers Single Phase, the existing product that we have and the Load Break Switches, we have developed some very special products for Photovoltaic applications, it is a little different than the normal switch that we make, so we have developed something new for that and that product is showing very good traction in growth, there are a lot of opportunities opening up for that.

**Sagar Parekh:** Who would be your clients typically for Photovoltaic?

**Rajesh Doraiswamy:** Clients would be all the Solar Inverter manufacturers, all the Solar EPC contractors within India and outside the country.

**Sagar Parekh:** So Toroidal Transformers what would be your approximately revenues currently, about 30-35 crores?

**Rajesh Doraiswamy:** Yes, 30-35 crores annually.

**Sagar Parekh:** So you are expecting this to go to about Rs.50-55 crores next year?

**Rajesh Doraiswamy:** No, I think next year we expect this to go to around Rs.60 crores.

**Sagar Parekh:** What is driving the demand here mainly the Stabilizers or…?

**Rajesh Doraiswamy:** Stabilizer is definitely a part of the market, yes, UPS, the main growth driver is Solar Inverters at the moment.

**Sagar Parekh:** Solar Inverters, that is for the Load Break Switches?

**Rajesh Doraiswamy:** No, even for Transformers. Solar Inverter is nothing but a kind of UPS but used for Solar applications.

**Sagar Parekh:** Incremental about Rs.16-17-18 crores would come from the new product itself the Three Phase Dry Type Transformers?

**Rajesh Doraiswamy:** That and also our other existing businesses like our Rotary Switches is growing at around 10% annually, we will definitely grow at 10% on that product and the Relays that is also growing at 10-12% and Contact is the new business will grow at 50%, because that is a new product for us.

**Sagar Parekh:** That is the US…?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** Sir, what would be your total sales coming in the nine months from the L&T distributors and what was it let us say last year – has it declined or has it stabilized or it is growing?

**Rajesh Doraiswamy:** No, I think in the Indian Rupee lakh value it is growing compared to Rs.110 crores last full year is the figure which I have, we have done Rs.87 crores this year with L&T for nine months. But as a percentage share, I think we are declining because our businesses are growing much faster.

**Sagar Parekh:** So typically which would be the products that…?

**Rajesh Doraiswamy:** We used to do 40% business with L&T, I think it has dropped to 33%.

**Sagar Parekh:** So what would be the typical products that we sell to L&T distributors currently, which is not growing, other products are growing…?

**Rajesh Doraiswamy:** Actually, L&T it is growing, I am not saying it is not growing, that is what I said, in rupee lakh terms it is growing, but it is not growing as a percentage of our revenue share.

**Sagar Parekh:** So which would be the product that we sell over there just to understand?

**Rajesh Doraiswamy:** There are two businesses that we do – one is the Wires and Cables which is approximately 50% of the revenue that we do and other 50% is the Rotary Switches, Wire Ducts, Terminal Blocks.

**Sagar Parekh:** With GE and Schneider, we being the preferred supplier, what would be a revenue contribution from these two today versus what was it let us say one year ago?

**Rajesh Doraiswamy:** This nine months Schneider is around 9% compared to 8% of our total revenue. GE last full year they were at 2.2% to be precise, they have gone up to 4.5% of nine months.

**Sagar Parekh:** So we were talking about incremental Rs.20 crores revenue over and above what the normal revenue base that we have from GE and Schneider for FY16, so are we on track for that or…?

**Rajesh Doraiswamy:** Yes, I think we might not touch Rs.20 crores but we will definitely do around Rs.14-15 crores because we already have around Rs.10 crores incremental.

**Sagar Parekh:** So another Rs.4 crores is remaining which will come in Q4?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** In terms of margins, any kind of guidance for next year FY17? This year we will probably end the year with about 13-13.5% kind of margin levels. I am assuming that Q4 will be better margins because your contribution from EMS will go up.

**Rajesh Doraiswamy:** EMS and also the regular Switchgear business will go up, yes.

**Sagar Parekh:** So this year we will probably finish it with EBITDA margins of around 13.5%. What would be your guidance for next year?

**Rajesh Doraiswamy:** We expect 50 basis points improvement for next year.

**Sagar Parekh:** So 50 bps improvement would come largely because of higher contribution from the higher value added products like Transformers, is it?

**Rajesh Doraiswamy:** Yes, correct.

**Sagar Parekh:** Sir, in annual report, we spoke about touching Rs.1,000 crores in 2020. So could you give us some kind of sense that touching Rs.1,000 crores what would be in terms of key products and key focus area for us to reach that kind of a level?

**Rajesh Doraiswamy:** Yes, that is the vision that the managing director has voiced in the annual report. We are working towards that and that is the reason we are adding more new products to it because we know that the existing products in 5-years even if we grow at 20% annually we will double. So idea is to double this current business and add new businesses worth Rs.200-250 crores in the next 5-years.

**Sagar Parekh:** So let us say the wiring we can still grow by 10-12% probably next two-three years but EMS we do not have any kind of visibility in terms of orders, so we will probably not grow as fast as we grew in FY16. So then even the current business to double it will require new product introduction within the Switchgear category, right?

**Rajesh Doraiswamy:** That has been a continuous process for us and we have been doing that continuously for the last so many years. So we will continue to do that. It is not that we are not going to do anything but grow this business. We are definitely going to add like for example Load Breaks we just added, Solar Switches to it. So we will continue to add such products within the group to increase the business. Yes, you said that we do not have EMS projects going forward and we are not projecting EPC revenues in our projections in the guidance, though we still have Rs.10-12 crores coming in for EPC project for the next 4-years. So, it is only a shortfall of Rs.30 crores that we will face which will be offset by the growth of the products that we are going to introduce next year.

**Sagar Parekh:** So next year on a consol basis all four segments put together, can we grow by 20-25% in terms of top line with 50 bps improvement in margins?

**Rajesh Doraiswamy:** Yes.

**Sagar Parekh:** Also, unrelated question, but two new R&D products for Railways and Telecom companies, the unmanned signal and other one also, what is the status of that – can we see some kind of revenue contribution next year from those two products?

**Rajesh Doraiswamy:** We have some trial orders from Indus Towers. We already did some business with Indus Towers in Tamil Nadu. We are now doing some trial business with Indus Towers in Karnataka. Indus Towers have CEOs for every state. So both the CEOs have taken this product for approval to their head office.

So once we have the approval, yes, we see regular business coming from this product from the telecom tower companies which definitely we can expect in the next financial year. The size of business, it is difficult to project as of now, but on a minimum basis I can say that we will see minimum of Rs.6,7 crores business coming from telecom tower from next year and an d it is a continuous business, we are not looking at one time. The next one is the Unmanned Railway Gate Project that we deployed in one unmanned gates here in Tamil Nadu and Coimbatore and one in Lucknow, RDSO the initial testing are over, t think the evaluations are still going on within RDSO, they have now finally said that they will do some trials, but because of procedural delays that the trial orders are yet to come to us. We expect the trial orders to come to us anytime. Once the trial orders are over, maybe we can expect regular orders to come through, but it is a little long way to go.

**Sagar Parekh**: But what could be the size of opportunity in these two businesses put together let us say three years or four years down the line, can we do Rs.50-100 crores top line from these two products put together or is it a much lower than that our expectations?

**Rajesh Doraiswamy:** I would say the potential is very high, we can say that there are 3,000 unmanned gates in the country today minimum which the railways want to protect. Approximately each system for each gate for ours would cost Rs.8 to 10 lakhs depending on the area of the gate, opportunity is much more; I said Rs.3,000 crores.

**Sagar Parekh**: Any other competitor we have over here in this…?

**Rajesh Doraiswamy:** Yes, there is IIT Kanpur has developed a system which they have deployed, so far I know that only IIT Kanpur has done but definitely there will be others who will come in when the rail business starts.

**Sagar Parekh:** For the Telecom Towers, any…?

**Rajesh Doraiswamy:** Telecom Towers I think there are different systems, there is no competition for the same system that we have, so it is a different kind of a competition that we have, but we are confident that with Indus Towers we will be through.

**Sagar Parekh:** But what kind of opportunity size can we envisage in terms of the entire opportune market for this product?

**Rajesh Doraiswamy:** There are two products that we have given for the Towers -- One is the Theft Protection System which I think the tower companies will not implement for every tower, because they can choose the towers for implementing theft protection system. So here the value is around Rs.25,000 per tower, but I do not know how many towers they will be implementing it. So even let us say that they are implementing it only for 500 towers, so it is Rs.125 crores business over a period of say three years or so. That is one thing. The other thing that there is a bigger opportunity is that we have given Energy Saving Solution for avoiding air-conditioners within the base station. So as it happens now, one base station actually serves many telecom companies. So there is a lot of heat is generated because of adding more switches within the same base station. To avoid the air-conditioner, we have given an Energy Saving Solution which is what I think they are very much interested now, because it saves on power for them and we have shown a payback of less than 12-months. So if they go and implement this across the country, this is a bigger solution at a cost of Rs.15,000 per tower that we are supplying, there are more than a lakh towers across the country.

**Sagar Parekh:** So over here also we would be having other competitors…?

**Rajesh Doraiswamy:** Yes, definitely.

**Moderator:** Thank you. We will take the next question from the line of (Ankush Mahajan from Edelweiss). Please go ahead.

**Debashish**: Debashish here. So when you were talking about Dry Type Transformers, you were saying that solar energy is a main opportunity for us as of now. When we are talking to your competition, they are saying that we have enough capacity in the Dry Type Transformers of the same application, but there is no offtake. So, just wanted to get some sense that where exactly were or your clients whom you were selling is exactly getting the traction from? If that is so, why you believe that competition who are sitting on much larger capacity will not come and get the business by cutting the price?

**Rajesh Doraiswamy:** The Dry Type Transformers that we are talking about as I mentioned many times in previous calls also, these are Low Voltage Dry Type Transformers for indoor application. The excess capacity that we have in the country for Transformers are for Oil Cooled as well as the Resin Gas Transformers which have high voltage applications mainly for outdoor in the distribution side. We are not touching that segment. I did not mention Solar Inverters, may be if it is communicated wrongly I would like to correct. I said Solar Inverters will drive the growth for our Single Phase Transformers. For Three Phase Dry Type Transformers the customers are going to be large UPS manufacturers, renewables like large Three Phase Solar Inverter manufacturers, windmills and railways.

**Debashish:** What I am taking from your comment is that we are seriously not facing any threat of competition currently from the Indian operators, is it a right…?

**Rajesh Doraiswamy:** My comment is currently there are no Indian manufacturers for these types of transformers that we are going to produce. There are only two companies both are foreign companies that are producing these Transformers in Bangalore – one is an Italian company and other one is a Japanese company.

**Debashish**: What kind of offtake they are seeing if you can give some color?

**Rajesh Doraiswamy:** I will not be able to tell that but both the companies are doing well and they have very good demand from the clients that we are talking to, they are placing large orders on them. So we will be actually competing with these two companies.

**Debashish**: So if I understand correctly, it is a three player globally?

**Rajesh Doraiswamy:** We expect one or two more competitors to come in this year.

**Debashish:** Is it not like a technology heavy product where entry barrier would be very-very high?

**Rajesh Doraiswamy:** Yes, it is a technology-driven product and that is why we only see foreign companies coming in this.

**Debashish**: In terms of pricing, are they almost at the same levels or we are able to offer some discount there?

**Rajesh Doraiswamy:** We will be offering matching the prices of the existing manufacturers who are doing it in India. We will not drop down that much.

**Debashish**: This Rs.2,000 Dry Type Transformer opportunity what we are talking about, this is currently based on that only Three Phase Transformer we are making or this is the total Dry Type Transformers opportunity we are talking about?

**Rajesh Doraiswamy:** Only total Three Phase Dry Type Transformers opportunity.

**Debashish:** This Rs.2,000 crores opportunity when we are calculating, can you give me some dynamics or some color that how to come to this opportunity size?

**Rajesh Doraiswamy:** Because we know some of the clients who are buying these products and what is the value that they are buying and from where they are buying. So we are just trying to extrapolate this based on the clients purchase and how many clients are there producing such products in India. So that is how we came up with this figure. It can be little approximate but we are confident that it is (+/-10%).

**Debashish**: So is it a right assumption that because market opportunity size is very small so that the larger Transformer players currently they are into oil type and all that I understand, but they will not be interested to enter into this business?

**Rajesh Doraiswamy:** They might be, I do not know, but there is a problem in technology.

**Debashish:** But sir, they would have also acquired the technology?

**Rajesh Doraiswamy:** In future they can, yes, they will be able to do it.

**Debashish:** So what I am trying to understand is this Rs.2,000 crores opportunity is too small for bigger Transformers guys to get interested to enter into this business, is it a right assumption?

**Rajesh Doraiswamy:** Possibly, yes, maybe that is why they have never looked into this so far.

**Moderator:** Thank you very much that was the last question in the queue. I would now hand the conference over to Mr. Rahul Gajare for closing comments.

**Rahul Gajare**: I would like to thank all the participants on the conference call and wish the company well in the following quarters. Sir, over here do you want to add any closing comments?

**Rajesh Doraiswamy:** No, thank you very much for all the participants. Look forward to talking to you again in the next conference call.

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