



“Salzer Electronics Limited 3Q FY17 Results Conference Call”

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MODERATOR: **MS. DIVYATA DALAL – SYSTEMATIX SHARES &
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Moderator

Ladies and gentlemen, Good Day and Welcome to the Salzer Electronics Limited 3Q FY17 Results Conference Call, hosted by Systematix Shares & Stock 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 Ms. Divyata Dalal from Systematix Shares & Stock. Thank you and over to you, Ma'am.

Divyata Dalal:

Good afternoon, ladies and gentlemen. From the management side we have Mr. Rajesh Doraiswamy – the Joint Managing Director. I would like Mr. Rajesh to give us few brief introductory comment on the results, post which we can open the floor for question answer sessions. Welcome and over to you, sir.

Rajesh Doraiswamy:

Thank you. Good afternoon every one and thank you all for joining our call to discuss the Third Quarter FY2017 and also the 9-monthly performance of the company. I have with me here, Savli and Rahul from Bridge Investor Relations and Mr. Murugesh – our Asst. Company Secretary. We have shared our results update presentation and I hope you all must have received it. Since, Salzer's incorporation in 1985 as a single product manufacturer, we have evolved to offer a complete and customized electrical solutions to our customers and to the electrical market. All our products are internationally certified, though we operate under the electrical electronic product group for ease of analysis we have classified our business in four different segments; the industrial switchgear business, the copper business, the building segment business and the energy management business. We have 5 manufacturing facilities in Coimbatore and Himachal Pradesh. We also have our in-house R&D lab and also the in-house tooling facility.

Now coming to the quarterly financial performance, the revenues from operations have remained flat at 91 crores this quarter. We have witnessed a flat growth in segment of industrial switch gears with a good growth coming from our wire and cable and the building segment business. Exports contributed to 20% of our total revenue in this quarter. Now looking at the breakup of the revenue as per the business segment, the industrial switch gear business segment contributed 48% to the total revenues in this quarter and reported a year-on-year growth of 7% and a quarter-on-quarter decline of 6%. The building product segment business which is still a small segment in our total business contributed 6% to the total revenues and witnessed a year-on-year growth of 25% and a quarter-on-quarter decline of 26%.

The wire and cable business consisting of copper wires and cables contributed 45% to the total revenues of the company, with a year-on-year growth of 25% and a quarter-on-quarter growth of 24% on account of increased volumes. The energy management business which is one time order book driven business contributed just 1% of the total revenues that is Rs. 73 lakhs as against Rs. 9 crores in the corresponding quarter. This is a year-on-year decline of 92% and a quarter-on-quarter decline of 87%. If we take into account this decline from this one-time project order then for the quarter the company has grown by 12% in all other segments.

The EBITDA for the quarters stood at 9.62 crores as compared to 11 crores in the previous quarter. This is a decline of 15%. The EBITDA margins are at 11% as against 12% in the last quarter. This was mainly due to this sudden unexpected rise in the commodity prices particularly copper in the month of November. In the switch gear segment, we were not able to pass on this price increase to our customers immediately. However, this price rise has been offset from January 2017 and it is being passed on to our customers.

The PAT was at 4 crores in Q3 FY17 as against 5 crores in Q2 FY17, this is a decline of 20%. Now looking at the 9 month ended financials, the revenues from operations are at 272 crores in 9 months as against 262 crores in the corresponding year 9 months this is a growth of 4%. However, if we consider that in the last year 9 months we had a revenue of 32 crores coming in from our energy management EPC contract business as against which we have add a revenue of only 8 crores in this 9 months. Taking this into account on a standalone basis the company has grown by 16% year-on-year. Exports contributed 18% of the revenues in the 9 months. Overall this revenue growth has been driven by building and wire and cable segment both of them have grown by more than 30% year-on-year. Despite the continued challenging scenario in industrial switch gear segment in India we still have had a volume growth of around 7% year-on-year. Through our continued association and increase in orders from our valued OEMs, OEM customers like GE, Schneider, Honeywell, ABB and Siemens, we have been able to achieve this growth.

The breakup of revenues as per the segment in the 9 months, are as follows. The industrial switch gear segment contributed 48%, with a growth of 7% year-on-year. The building segment product contributed 6% with a year-on-year growth of 39%. The wire and cable business contributed 43% in 9 months, with a year-on-year growth of 31%. The energy management business contributed 13% with a year-on-year decline of 74%. The 9 months ended EBITDA stood at 32 crores as against 33 crores with a year-on-year decline of 3%. The EBITDA margin is at 12% and remained flat as compared to last year with a decline of just 64 basis points and this is mainly because of the increased contribution from the lower margin wire and cable business. The PAT was at 13.5 crores 9 months as against 13 crores in the corresponding period with a year-on-year growth of 3%.

I am also very pleased to share that the new facility for the three-phase dry type transformer which is our new venture, is ready and we are already started commercial production. We are very confident about the prospects of this new product. We see a huge demand for this product from the industrial segments like, the renewal power industry, railways and defense. I am also happy to share that we are secured a letter of intent for around 19 crores from Energy Efficiency Services Limited. We would be designing, manufacturing and supplying lighting controls for the LED lights in urban local bodies of Varanasi, Jalna and Jharkhand.

During the last quarter, we also announced the merger of Salzer Magnet Wires with Salzer Electronics Limited. We believe this will be a very advantage to Salzer Electronics Limited as

we will be able to diversify our product profile, since products from Salzer Magnet Wires are also complimentary in nature, it will help improve operational efficiencies, we will also stand to gain, since we will have strong leverage for price negotiation with the raw material suppliers. Having said that coming to a conclusion, I thank you all once again so much and we are now ready to take questions.

Moderator: Thank you very much. We will now begin the question and answer session. We have the first question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Sir, can you highlight something on this order what we have received that is of EESL, 18.7 crores. How, what timeline it will take and what will be the maintenance contract will be getting for that?

Rajesh Doraiswamy: Actually 19 crores is 5-year contract for supply of lighting controls to 3 local bodies; Varanasi, Jharkhand and Jalna and of course you must be knowing about EESL. EESL is a government joint venture of all the companies under the power ministry. So, they are actually buying these lighting controls and then they are supplying it to Varanasi. So, it is our responsibility to supply, install, commission and run it for 5 years.

Sanjay Shah: To that contract, 19 crores contract the total combine package of the product and servicing everything together.

Rajesh Doraiswamy: Correct sir.

Sanjay Shah: So our 3 phase dry transformer, we have faces some delay in that, so have we increase cost?...

Rajesh Doraiswamy: No, we have not increased on the cost but there is a delay of more than 6 months in implementation of this project, but it has started now. There is no increase in cost we have invested around 25.5 crores.

Sanjay Shah: And sir, what I look here is that we may have some exciting time in FY17-FY18, where we will have this building energy management order, 3 phase dry transform into place. Our building segment, industrial switch gear segment increase the price. So, can you give some guidance of 2017-2018, how it will pan out, sir?

Rajesh Doraiswamy: Yes, definitely we want to but looking at the overall markets scenario the country, I think that is not very optimistic and encouraging, that is one. Second I think we are trying to overcome all those challenges and we have grown, if you remove our one-time energy management project, we have grown it around 16% in the 9 months. We expect that we will end this year with a similar or little more growth for the full year. For next year, I think we continue to expect to see double digit growth.

Sanjay Shah: That adds your dry transformer also sir?

- Rajesh Doraiswamy:** Yes sir, dry type transform as expected we will see the first-year revenues, between 15 and 18 crores. So, I am considering that also as a part of the guidance for next year.
- Sanjay Shah:** Sir, we have got some new orders from Smith Detection, Alstom, KONE Elevator are they for domestic supply or international supply?
- Rajesh Doraiswamy:** The Smith is for export and the Alstom, GE and KONE is for domestic.
- Moderator:** The next question is from the line of Siddharth Agarwal from Kanak Capital. Please go ahead.
- Siddharth Agarwal:** Want to know a little bit more about this 3 phase dry type transformer project which we have just commissioned, one from previous concall it was highlighted that this particular product has a market potential size of 2000 crores right, with very limited competition. So, in 3 years from now, what would be a feasible market share that Salzer could gain in this particular segment?
- Rajesh Doraiswamy:** We are looking at least a 5% market share in 3 years' time. That is how our immediate target.
- Siddharth Agarwal:** And is it very difficult to replace that incumbent 2-3 player because ...
- Rajesh Doraiswamy:** In cumbent 3 or 4 players in the country, but there are many number of players competing us from other countries. It is definitely very difficult to dislodge or replace us in certain market segments. It takes a little longer time.
- Siddharth Agarwal:** And what is this? What is the growth rate of this particular segment in India currently?
- Rajesh Doraiswamy:** There is no established figures for that but it is just based on what the information that we have from our OEMs. So, we see at least a 10%-11% growth that is happening in the last 2-3 years.
- Siddharth Agarwal:** And sir, we were also planning to commission our capacitors plant, so what is the status on that?
- Rajesh Doraiswamy:** Capacitor products should be up and ready for revenue from second quarter FY18.
- Siddharth Agarwal:** that has also delay of roughly ...
- Rajesh Doraiswamy:** 6 months.
- Siddharth Agarwal:** And sir, the capacitors sir, also we see there is a wide range of capacitor that are manufactured, so the plant that we are putting in, so what could be the potential market size of those particular capacitors that we are going to manufacture?
- Rajesh Doraiswamy:** Sir, I think around 750 to 1000 crores is the market size, we are going to be only in the power side of the capacitors, it is a power capacitors. We are not going to produce anything on the electronics side of it.

- Siddharth Agarwal:** So, the power capacitors market size is roughly 750 to 1000 crores as of ...
- Rajesh Doraiswamy:** Yes, it is growing at around 15% CAGR year-on-year, for the last 5 years it is being growing like that EMA figures.
- Siddharth Agarwal:** So, this is growing at roughly 15% and is it also very higher competitive.
- Rajesh Doraiswamy:** It is definitely much more competitive product line but the advantage is to use the existing distribution segment of ours to distribute this product.
- Siddharth Agarwal:** And finally we also in a previous concall we highlighted that we were doing certain products for telecom towers and unmanned railways, is there any progress on those particular projects.
- Rajesh Doraiswamy:** The telecom towers, I think we have established ourselves, established the product. We have installed more than around 200-300 towers in Tamil Nadu and Karnataka for Indus towers. However, there is no momentum or progress beyond that because of various reasons that Indus towers is going through internally. We are continuously following up. On the unman railway gate, the product is still at the RDSO approval level. We have just got an approval for the one trial that we have installed. We are yet to receive a full final approval and a trial order from RDSO for more numbers. We expect some progress for that in this year.
- Siddharth Agarwal:** And sir, if I may squeeze in one more follow up on this, telecom sector are we also targeting other tower companies like Bharti Infratel, etc. or the ...
- Rajesh Doraiswamy:** I think Indus tower combines both Bharti, Vodafone and Idea. Apart from Indus towers we are trying to get into the company called American Tower Corporation. That is the only other company that we have so far approached.
- Moderator:** Thank you. The next question is from the line of Akhand Pratap Singh from Axis Securities. Please go ahead.
- Akhand Pratap Singh:** Sir, we have signed a contract with GE transportation to supply high power contractors. So, what kind of opportunity we see in that?
- Rajesh Doraiswamy:** Actually, we have been a preferred supplier for GE Energy. GE Energy is the division that we have been working with for the last 5-6 years. So, because of the association that we had with GE Energy we were put across to GE transportation. So, basically GE transportation is a very new client for us and the association has actually given us this opportunity to sell this high-power contractors to GE transportation in India, for their railway business that they are sitting up in Patna. The overall opportunity for 10 years is not very large I think it will be around 15 crores for 10 years approximately. However, the opportunity that gets opened up in GE transportation is going to be very high. So, we are now working with GE transportation for the 3 phase dry type

transformers for the railways. We have also been introduced to GE transportation USA to supply various parts. So, the opportunity other than the high power contractors are opening up.

Akhand Pratap Singh: So, next question is on the volume growth side. So, in industrial switch gear and cable and wire segment, what was the volume growth in the last quarter?

Rajesh Doraiswamy: Whatever growth that we have shown on the industrial switch gear segment is entirely volume growth, there is no price increase. On the wire and cable, once the price is increased only from the November-December, only 2 months with the price increase, so the real volume growth is still around 24%.

Akhand Pratap Singh: Sir, my last question is on the cash side. Actually our other income has increased from 1.5 crores to 2.4 crores on quarter-on-quarter. So, ...

Rajesh Doraiswamy: We have had an investment profit coming in this quarter and that is why that is showing up high.

Moderator: As there are no further questions, I would like to hand the conference back to Ms. Divyata Dalal from Systematix Shares, for any closing comments.

Divyata Dalal: I thank the management to give us an opportunity to host the call and thanks for the participants to login in. Thank you.

Moderator: Thank you very much. On behalf of Systematix Shares & Stocks, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.