

## How we performed in 2016-17

A review by Mr R. Doraiswamy,  
Managing Director



**Q: Were you happy with the performance of the Company during the financial year under review?**

**A: I would** be honest to admit that we were not pleased with the performance of the Company during the year under review.

Most of the reasons for this were traced to the overall operating environment, which was largely outside the company's control. For instance, India's Index of Industrial Production declined from 7.4 per cent in 2015-16 to 5.22 per cent in 2016-17, which had a cascading impact on our performance. I would also add that following the 2008-09 slowdown, not much has improved at the ground level in terms of projects, consumption and growth in India within our space; the sector has gone through extended phases of relatively no growth.

The reason why one is mentioning this is that for a company that derived nearly 80 percent of its revenues from India, our performance is largely linked to the prevailing economic and capex scenario in the country. Given this operating landscape, Salzer has performed creditably well in the last few years and also during the financial year under review. Let us take an extended perspective: the Company

has grown revenues from ₹55 cr in 2006-07 to ₹384 cr in 2016-17 – seven times in 10 years; net profit improved from ₹3 cr to ₹17 cr during the period. Even during the financial year under review, the Company reported profitable growth if you do not factor project revenues (if you take EPC project revenues into account, then the Company reported 7.5 per cent revenue growth and a flat profit figure when compared with the previous year).

**Q: What is the broad message that you wish to communicate to your shareholders?**

**A: The broad** message would be that Salzer's core business has consistently grown in the last few years despite ongoing challenges of low sectoral growth and growing competition. Project revenues have also been lumpy and unpredictable. The point of optimism is that the Company has performed creditably at a time of sectoral churn. This churn has been marked by the exit of older uncompetitive players from the market on the one hand and a decline in market share of the unorganized players on the others. The result is that the share of the organized players is growing faster than ever from a point where it was 35 per cent a few years ago to a market

that is equally shared by the organised and unorganized sectors today to a market that could gravitate decisively towards the former across the foreseeable future.

**Q: What is causing this churn to happen?**

**A: The churn** is happening due to increasing sophistication at the customer's end. As downstream projects are getting larger, they are also getting increasingly demanding in their product requirements. There is a growing emphasis on product safety than ever before. There is a growing need for vendors to respond with increasing product/process certifications. There is a growing premium on the design and development of technology-intensive products that enhances the overall operational integrity of downstream customers. Most importantly, there is a growing customer need for solutions as opposed to standalone product delivery. The result is that the churn within our business is being caused as much by increased customer needs as by changes in government taxation policy.

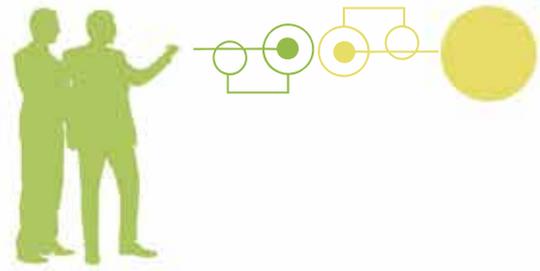
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**Q: What accounts for Salzer's sectoral out-performance?**

**A: Our** out-performance is the result of the coming together of a high product quality, high technology intensity, strategic flexibility and organizational responsiveness. In uncertain times, there are sudden demand shifts, making it necessary for product cum service providers like our company to respond



with increasing speed to changes in design and testing compliances. Besides, the bar is continuously rising: from ISO 9001 to ISO 14001 to ISO 18000 and now ISO 26000 (which deals with organizational ethics). This underlines an evolution in customer needs: from product quality to process integrity to environment compliance to whether the Company is managing the business in a holistically ethical manner, to which Salzer has consistently been responding.

**Q: What were the highlights of your company's performance during the year under review?**

**A: The biggest** highlight was that the Company continued to invest in the business during the course of the sectoral slowdown, prioritizing the need to be future-ready as soon as business conditions revive. During the last quarter of the year under review, the Company completed its ₹27 cr investment in three phase dry type transformer project with design and technology collaboration from Traformodern, a high technology company based in Austria. This investment represents a decisive step for the Company for some good reasons: this cutting-edge technology is largely confined to US and Europe; there are few Indian companies in this field, representing a large under-addressed opportunity. This product is used in mission-critical areas like urban metro rail transportation systems. We are optimistic of prospects of this product due to its widening use in solar investors (renewable energy), railways and large uninterrupted power systems.

**Q: Why is the Company optimistic of its prospects?**

**A: Much** of our optimism comes from the vast potential of the Indian market that appears to be on the verge of a significant take-off. During the last few years, there has been modest investment in the country's core sectors; even as the government continued to invest, we have

barely seen any private sector investment transpiring. We believe that this reality will soon change following structural shifts within the economy that could result in larger cash flows for the organized sector leading to larger investments.

At Salzer, we are optimistic of our prospects for a number of reasons. One, we have selected to invest ahead of the curve. Two, we are addressing a larger proportion of high-value products and have a robust portfolio that addresses the diverse needs of customers. Three, we have invested in process automation that is enhancing process integrity and product quality. Four, we are a research cum knowledge-driven company with the ability to customise products around user needs. Five, we possess a broad product complement that is enhancing our ability to provide a single-point service to customers across various sectors including oil & gas, steel, cement, automotive, real estate, construction, chemical, agricultural and power sectors.

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Besides, I believe that the sectoral turnaround should assert by the second half of the current financial year.

**Q: What are some of the positives that shareholders need to take cognizance of?**

**A: Shareholders need** to recognise that even during the downturn, the Company continued to develop products whereas the easiest thing would have been to retreat into a shell and await better times. Another important point to recognize is our marquee relationships continue to

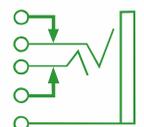
be robust; our GE relationship doubled in quantum during the last financial year to aggregate 5 per cent of revenues while we remained Schneider's preferred global vendor for magnetics (7 per cent of revenues); our L&T relationship continued to be strong while our relationship with various other multinationals is growing.

**Q: What is the company's outlook for the current financial year?**

**A: Given the reality** as it exists at the moment, marked by attractive demand forecasts from customers, Salzer is confident of reporting 15 per cent revenue increase coupled with profitable growth that should enhance value for our stakeholders.



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