

Managing Director's Communique



We have always focused on getting into technologies, which are niche and of great value. Our determination and focus is to develop products based on latest technology and highest quality which has helped us to achieve the title of preferred partner with global giants.

Dear Shareholders,

The year 2017-18 was a significant year for Salzer. Our growth testifies the effectiveness of our strategy and above all, the passion, energy and extraordinary professionalism of the Salzer team. We are proud of these achievements, which are not a point of arrival but a stepping stone towards increasingly ambitious challenges to reach new heights. Our ability to look forward guides us in creating a sustainable growth path, more in general, towards creating value for all our stakeholders.

Macro opportunities

India's economy bounced back positively post growth hiccups owing to demonetisation and Goods and Service Tax (GST) implementation. The country gained back its status of 'the fastest growing global economy' with 6.7% annual growth in 2017-18.

The GST implementation has largely been positive for organised player like Salzer. Despite initial teething issues during the implementation, the Company remained largely insulated by the immediate major impact because of our product offerings to a wide variety of industries. The muted industry growth and sectoral slowdown further gave us the opportunity to invest in businesses, prioritising the need to be future ready as soon as the business conditions revive.

Performance review

During the year we restated our financial statements as per the IND-AS accounting guidelines. Our Revenue at ` 442.8 crores witnessed year on year growth of 15% and EBIDTA at ` 53.3 crores saw the year on year growth of 20.7%. EBIDTA margin reported 98 bps improvement.

The growth was largely driven by our key business verticals, industrial switchgear as well as wires and cables. We continued to receive good enquiries from large OEMs like BHEL, Schneider, Honeywell and GE for our Switchgear products. Besides, our newly introduced products – three-phase dry-type transformers and wire harnesses also witnessed good traction with the large OEMs. Going forward, we are confident of significant demand revival from this segment.

Within the wire and cable products, we continued to focus on brand labelling. We started with L&T initially and today we have many major brands as our customers and several other multinationals in India. Over the past three years, we have also started to focus on giving value-added products like elevator travelling cables,

hoist cables and UL approved wires to our various customers.

Our building product division is the only segment where we operate on a B2C basis. This segment has given us new opportunities in the real estate sector where we have got some annual rate contracts with major builders in the south. Although currently, the revenue contribution from this segment is quite minuscule, we expect to bring to around 10% level over the next 2-3 years.

Our energy management division offers complete energy saving solutions, streetlight controllers for corporations across the country. The vertical has given us the recognition of being an energy service companies (ESCOs) with the highest CRISIL rating. We have successfully commissioned one large project in Tamil Nadu and have also secured a letter of award from Energy Efficiency Services Limited (EESL) for designing, manufacturing and supplying of lighting controls in urban local bodies of Varanasi, Jalna and Jharkhand. With EESL coming into place we expect to do good business from this vertical in the coming years.

Technology, innovation and R&D

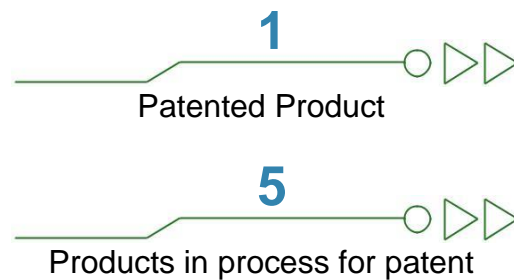
Our technical associations with reputed global companies has allowed us to bring in high quality products of international standards and gain a leadership position in a few of them. Be it our association with Larsen and Toubro from 1993 to market our products in India or the collaboration with Plitron from Canada in 1995 or to Trafomodern from Austria in 2016 for manufacturing of Dry Type transformers. We have always focused on getting into technologies which are niche and of high value. We have been able to get a preferred vendor status with global giants like General Electric and Schneider Electric. All of our products are internationally certified and we are exporting to more than 50 countries now.

Our strong team of engineers on board remain focused on constantly innovating products and processes at Government-recognised state-of-the art in-house R&D Centre. With an annual spend of over ` 10 crores in R&D department, we are successfully making inroads into new industry segments like solar, elevators and locomotives for our products like three phase transformers and wire harness, thus bringing the best to the world.

Shareholder value creation

We are tirelessly striving hard to capitalize every opportunity thereby adding value to the business as well as investments of our stakeholders in Salzer on a continuous basis. In this direction, we did a business acquisition in 2017-18 and in this fiscal, we are actively considering two overseas acquisitions.

Last year we acquired the total business from Salzer Magnet Wires Limited, a Company engaged in the business of manufacturing enamelled Coated copper wires for the motor windings and Automotive Electricals.



This acquisition has enlarged our Product Portfolios on one side and has brought additional revenue of ` 40 crores to ` 50 crores on other side.

Recently, our Board has consented to consider the acquisition of two overseas companies. The companies are involved in manufacturing of Automotive Wire Harnesses, RFID Tags & readers, Sensors and PCB Assemblies.

Since the above propositions are privy to our further negotiations, the required details of this deal would be divulged at appropriate point of time.

Besides strengthening the revenue drivers, improving ROCE and working capital cycle also form a part of our core strategy of shareholder value creation. Our focus remains on achieving profitable growth by adding newer products in all spheres, which are customised and value-added in nature and also exploring newer geographies, which can yield better margins. We are also working on system and process management to grasp a better visibility on orders based on which we can plan our inventory levels. The collaborative efforts taken internally, will lead us to improve efficiency, reduce working capital and inventory levels. These initiatives will improve our ROCE from the current levels of 12% to around levels of 18-20% within the next three years.

Looking forward

With a very competent team in place, we are confident of achieving the milestones we have set for ourselves. We are also constantly on the lookout for new opportunities for technical associations to strengthen the base of our product offerings.

On behalf of the Board of Directors, I thank you for your investment in Salzer. We remain committed to do all we can to build long-term value creation for you and all those connected to our business. We are very optimistic about the prospects of our Company and much of this optimism comes from the vast potential of the products we manufacture in India and abroad which appears to be on the verge of significant take-off.

Best Wishes,

Mr. R. Doraiswamy
Managing Director

