Operational **review**

A discussion with Mr R. Doraiswamy, Managing Director

Salzer and pride

Salzer is among the first few companies in India to comply with the stringent RoHS directive regulating the European markets

The Company is the largest supplier of switchgear products to the Indian Railways

The Company is among India's largest electrical and electronic equipment exporters, supplying to more than 45 countries

Q: Were you happy with the Company's working during the financial year under review?

At Salzer, we believe that the Company's working was in line with our expectations, primarily because we were able to achieve our turnover target set at the year's start. During 2015-16, we achieved a gross turnover of about ₹411 crore, which was about 30% higher than the previous financial year, a reflection of sectoral outperformance (industry grew 7-8% during the period).

Q: The industrial landscape needs to be appraised in the context of this outperformance.

That's true. Despite India reporting one of the fastest growth rates in the world, not much private sector investment actually happened on the ground. This proved challenging as almost 75% of our topline was derived from domestic sales. In this challenging scenario, we addressed product replacement and brownfield demand, finding niches where the superiority of our products could be showcased, delighted customers with world-class service, rode our deep relationship with L&T and focused on exports.

A large part of the improvement was also derived from a ₹40 crore Tamil Nadu government project tender covering the implementation of energy-efficient street lights. We were awarded the project and these revenues accounted for almost 10% of our topline in 2015-16. Without taking this one-off project into account, our turnover growth would have been around 20%, which would still have been twice the sectoral growth average.

Q: What other initiatives helped Salzer outperform the sectoral growth average?

Our development team is one of the most skilled in the sector. This, along with the speed with which we are able to complete projects, resulted in Salzer having a considerable advantage over other companies. We continuously widened our product range, upgrade the product mix and offered clients customized solutions that addressed a growing need of large OEMs. For example, we became GE's and Schneider's preferred/ recommended supplier in 2015, addressing a number of customized projects, completing around ₹15 crore business for GE and approx ₹24 crore for Schnieder during the year under review (doubled from 2014-15) and projected to increase by around 30% in the current fiscal year (effectively almost quadrupling our GE business in two years).

Most OEMs are engaged in vendor rationalization, preferring to source products from one company in exchange for larger volumes and superior terms of trade. Salzer is capitalizing on this trend by offering a range of customized products.

Besides, Salzer strengthened relationships with multinational brands like Schneider and GE. We also entered into a technical collaboration with Trafomodern, an Austrian company, in 2015 to expand our transformer range (from single phase to three phases) and commence production by September 2016. This development could generate ₹75-80 crore revenues in three to four years at attractive margins.

Q: What is the standout product in your line?

There are quite a few including rotary switches that are still the largest selling in our portfolio. We are also proud of our new launch, motor control products. Toroidal transformers gave us good growth during the year. Besides, we were among the few in the industry to manufacture customized toroidal transformers. We generated around 125% growth in toroidal transformer sales during the year under report. For GE, we manufactured a special transformer (Rogowsky coil), a specialized CT coil that not many can make. During the year under report, almost 9% of our total revenues were derived from this product range. By offering high levels of customisation, we were able to diversify and increase our toroidal transformers range, which augurs well for the foreseeable future.

Q: How would you describe the Company's competitiveness?

Our overarching strategy has always been to bring technologically advanced products to India otherwise not manufactured or available in India – at attractive costs. There are not too many companies – Indian or international - who can develop or customize such electrical, electronic and electromechanical products. This competitiveness reflected in our sales mix in 2015-16: almost 80% of our sales were derived from India and 20% from exports. We grew our exports 20% YoY, which is creditable as the European market, one of our largest, is not growing. We grew in the North American market and enlisted new customers in Iraq engaged in rebuilding the country, promising business proposes for at least a decade. Almost 70% of our total exports were to developed markets such as Europe and the United States.

Q: What are the company's targets?

We are optimistic of not only sustaining, but of growing our revenues by 15-18% during the current year. Our bottomline should show a sharper increase than our topline. We intend to increase our exports to 30% of revenues. We expect to grow a number of India-specific products like wires and cables with a large volume potential. This year, there should be an improvement in profitability for our Company due to increased stability in the markets as well as lower commodity prices. We also expect an increase in demand, which should result in better pricing. We are focusing on improving margins and volumes, which should enhance organizational and shareholder value.

We have seen almost three years of low growth (or even de-growth). India needs to grow faster. Given all the Government initiatives and reforms, I am bullish about the power and core infrastructure segments. With the RBI moderating interest rates, we expect a robust capex cycle to start soon. Besides, the Government has been undertaking huge reforms in the power sector, especially on the renewable and power transmission/distribution side; the Jawaharlal Nehru Solar Mission envisages 100,000 MW of solar power capacity in India by 2022 while UDAY (Ujwal Discom Assurance Yojana) is likely to strengthen finances of state transmission boards.

When a large investment of this kind happens, for example in the area of renewable energy, large opportunities would be created for electrical and electromechanical products within our sector. The result is that the country's relative underinvestment in the past and a willingness to catch up, India presents itself as one of the largest sectoral opportunities in the world. We have always seen that we are able to grow at a rate of more than double industry growth. We believe that if the GDP grows 6%, our industry will grow 8-10%, and Salzer is likely to grow 20-25%. Given the GDP growth expectations for the next year at more than 7.5% we are optimistic about our prospects.

Q: What makes you optimistic about Salzer?

Our R&D-led engineering capabilities make us distinctive in a competitive space.

Our enduring customer relationships are translating into stronger client retention and growing revenue share per customer.

Our manufacturing integration and in-house tooling cum testing facilities resulted in almost 80% value-addition for each product.

We offer a range of products (15) customized around customer needs.

Q: What is the one message you would like to communicate to your shareholders?

We raised ₹62 crore through a QIP in July 2015. We utilized approximately ₹25 crore in a transformer project; we are proposing to invest another ₹20 crore during the coming financial year to widen and upgrade our project basket, the benefits of which will transpire fully from 2017-18 onwards.

We expect that the mix of these initiatives should increase our technological innovation, grow our EBIDTA margins by 100 bps and strengthen ROCE by 500 bps to around 18% in three years. Besides, we are also focusing on improving our working capital cycle by bringing our inventory down by at least 15 days of turnover equivalent and improving our debtors' cycle. We have already begun to see some effects on our inventory levels and expect to see an improvement in receivables during the coming financial year, optimizing our working capital outlay. Besides, our focus on value-added products should improve our EBITDA (quantum and margins). Our organizational focus is not just on growth but on growing profitably, attractively and sustainably.

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Our performance **ambition**

Aim: We are likely to become a ₹1,000 crore company in the next 4-5 years (2021 vision). We intend to enhance our EBIDTA margin by 100 bps and increase RoCE to attractive levels during this period.

Approach: We believe that revenues from our existing products should grow at a 15% CAGR during this period.

Route: This will be possible through:

- Progressive investments in global technology alliances and partnerships
- Widening value-added product basket that addresses India's growing needs
- Stronger engagement with large global MNCs for their advanced electrical product needs
- Competitive bidding for government schemes