



“Salzer Electronics Limited Q1 FY21 Earnings  
Conference Call”

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**Moderator:** Good day, Ladies and Gentlemen and a very warm welcome to Salzer Electronics Limited Q1 FY21 Earnings Conference Call. Please note this conference call may contain forward-looking statements about the company which are based on beliefs, opinion and expectation of the company as on date of this call. The statements are not guarantees of future perform and involve risks and uncertainties that are difficult to predict. 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 '\*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajesh Doraiswamy – Joint Managing Director of Salzer Electronics Limited. Thank you and over to you, sir.

**Rajesh Doraiswamy:** Good afternoon everyone and thank you all for joining our Earnings Call for the First Quarter ended June 30<sup>th</sup>, 2020. I have with me Mr. Baskarasubramanian -- Director (Corporate Affairs) & Company Secretary, Mr. Murugesh our Assistant Company Secretary of our company, Ms. Savli Mangle and Smit Shah from Bridge Investor Relation. We have already shared our results update presentation and I hope you all must have received it and gone through the same

Before I go into discuss our quarterly performance, I would like to spend some time on the past three months that has impacted the entire world. The COVID-19 pandemic has impacted the day-to-day life of everyone. This also caused disruption in the business environment with lower demand in overall domestic economy.

During the quarter, our manufacturing activities were temporarily shut down for a period of around 45 days and we have restarted our factories from mid of May partially. Since the start of our factories, we have been following all safety measures as per the guidelines given by the government. Though the near-term market situation is extremely fluid and uncertain, we are optimistic on a medium-term based on indications from various OEMs and our customers. We do expect that this year to be sluggish, but we are gear towards any form of recovery that takes place and even a slight pickup in demand would benefit Salzer symmetrically. Our Salzer branded products is also gaining acceptance in export markets with rise in export numbers even during this time of crisis.

During the quarter our exports were to the tune of around 19% of our revenues. Majority of our exports are of the industrial switchgear products. Also, to add, we have approach new clients and have started to see a fair bit of inquiries from various reputed players and are hopeful that we start supplying to them soon. We have also successfully commissioned the land cable plant and trial production started. We have submitted samples to customers for approval and for third party testing. So far we have seen good inquiries coming from both local and export markets. We expect the revenues to come from end of second quarter this year.

Now coming on to our quarterly financial and business performance:

All our financial for the current and past quarters have been restated as per IndAS accounting guidelines.

As a result of nationwide lockdown, the business has been impacted which has affected the revenues, EBITDA and PAT for the quarter. During the quarter our revenues declined by 41% to 95.7 crore from 162.1 crore in the corresponding period mainly on account of the lockdown announced by the government to contain the spread of COVID-19 pandemic. The EBITDA for the quarter stood at Rs. 9.6 crore as compared to Rs. 16.7 crore in the corresponding previous quarter which is a decline of 42.5%. Despite the decline in revenues, we have been able to maintain the EBITDA margin for the quarter at 10.02%. The profit after tax was at 0.7 crores in Q1 FY21 as against Rs. 5.8 crores in the previous period that is Q1 FY20 which is a decline of 88%.

Moving on to the breakup of revenues as per the business division:

The industrial switch gear division contributed 37.5%, wire and cable division contributed 57% of the revenues in this quarter.

The building product segment this is the only business that we do with B2C. The real estate market has been on a slower side and we are yet to see pickup in demand that has impacted the overall industry in this segment. We hope that there is changes in the coming quarter and will help us to increase our contribution from this segment to the overall revenues. This division in this quarter has contributed 3.9% to the revenue. The fourth is the energy management division contributing 1.5% to the revenues in this quarter.

Finally, I would like to add that with all the recent happenings in the country and across the world on account of COVID-19, the situation is extremely fluid and uncertain and challenging, and it is highly difficult to predict and give targets for FY21. Though internally we are maintaining that we will be performing as similar to FY20 in all aspects, to sustain stably is our motto this year. We expect that our enhanced manufacturing capabilities and brand visibility among our customer will enable us to scale our business and customer connect. Beside strengthening the revenue drives improving ROCE and working capital cycle also forms part of our core strategy.

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. Overall, we remain committed to our set agenda of delivering consistent profitable volume-led growth. I thank all the stakeholders of Salzer Electronics Limited for their continued support and faith in the company.

This is all from our side I would once again like to thank everyone for your time and attention. We can now take questions.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Lucky Naskar an Individual Investor. Please go ahead.

**Lucky Naskar:** Sir, we would like to know the different sectors of your business which you feel are seeing an uptick now as the lockdown are slowly being lifted agricultural versus industrial versus construction sector and as you mentioned you have an internal kind of a target to maybe touch the last year top line what give you that confidence?

**Rajesh Doraiswamy:** We look at our business I think as we have divided this into four divisions for ease of understanding the industrial switch gears, the wire and cable and the building management and the top three and then the energy management. Energy management I think is quite stable because it is a government business we are getting the maintenance revenue so that is not changing now. The building segment is fully dependent on the real estate which is not seeing any uptick as of now. I think in my opinion I think it will take at least another three to six months before real estate segment the construction segment really picks up as of now. On the industrial switch gears there are two types of businesses one is to the export market; one is to the domestic. In export market we are seeing normal stabilization already in July, August. In the domestic market the OEM segment is doing well because most of the OEM started working, but the dealer segment is still struggling because of the lockdown and restriction of moment of material and people. So most of the dealer segment are still only partially open we are only seeing between 30% and 40% operation or sales level in the dealer segment. So it is a kind of a mix if you ask me that is happening right now. On the wire and cable predominantly our sale comes from the agri segment almost 70% of our wire and cable sale comes from the agri segment. The first quarter the agri segment has done well and that is the reason that we have done almost 55 crores in wire and cable which is only a 10% reduction sequentially. So that means you have also almost full normal sales in two months that is because there is a very good uptick in the agri segment. So I do not know whether this will continue going forward in Q2, Q3 because agri segment is always a seasonal business monsoon dependent seasonal business. So maybe half of Q2 we will have this demand and will drop, but it will again pick up in Q3 and Q4. So this is the situation now, but overall the confidence for us that we will reach last year sale comes from the forecast that our OEMs are giving to us and whatever additional share of business that we are taking from our OEMs right now. So this is the information that we have right now based on which we are trying to project that we will reach FY20 sales figures and profitability.

**Lucky Naskar:** Mr. Rajesh one more small thing what do you see during the state of your smaller competitors?

**Rajesh Doraiswamy:** It is a very tough call to make, but this is definitely a very challenging period if the companies are not very agile not very proactive, the companies are not flexible enough to adapt then I think we are going to see a lot of what you call consolidation in this the entire business world particularly India. We cannot really pick out small or big companies, but any company that is not quick to adapt are going to be suffering.

**Moderator:** Thank you. The next question is from the line of Shubham Goyal from Green Portfolio Private Limited. Please go ahead.

**Shubham Goyal:** Sir, I have couple of questions with you one is like do you have any opportunities like world is moving towards China plus one, so do you see any opportunities from their side?

**Rajesh Doraiswamy:** Yes definitely I think we had a question on this in the last quarter itself and I did mention definitely this is going to give a lot of opportunities because of the anti-China sentiments that is prevailing across the world and for us specifically even before this COVID we had some inquiries that is coming from China or people coming out of China that is because of the trade war between US and China. We have started working with companies like Eton and the couple of other companies which I will not be able to name right now because it is in a preliminary stage. There are definitely opportunities that are coming because of the Chinese factor.

**Shubham Goyal:** So like government banned products like smart meter that were earlier imported from China, so do you making any such products and is planning to making such products in the future?

**Rajesh Doraiswamy:** No, we are not making smart meters, but definitely we are making certain electrical products particularly I would call one product that we are directly competing with the Chinese imports here in India is the relays, we do make some relays for electronic items where I think the Chinese imports are quite cheap and that is now the rate of duty is going up and the prices will go up right now. There is definitely an opportunity to grow that particular product sale in India and apart from that I think not directly, but indirectly I think we will definitely benefit because lot of electrical equipments, large equipments, large switch boards used to be imported into India for various things they are getting banned. So that will automatically translate into local business for many companies like us.

**Shubham Goyal:** I have only one more questions like do you receive like queries for the new business segment in the recent Quarter 1 so like any other queries that we were not getting before?

**Rajesh Doraiswamy:** Yes, I think we have got a lot of new inquiries from Australia I think that is one country that we have seen quite lot of inquiries coming in that is mainly because of the Chinese factor. So out of which I think we might be able to get into the market with the few markets in the next couple of quarters.

**Moderator:** Thank you. The next question is from the line of Sanjay Shah from Alphaline Wealth Advisors. Please go ahead.

**Sanjay Shah:** Sir, do you think there is lot of opportunity coming out from telecom sector and as India is also committed to have a local products so on that side how we are looking at is there any opportunity we look at and catch upon it?

**Rajesh Doraiswamy:** Sir we are already supplying to almost all the telecom companies I think last year we had a good business coming from Jio. This year I think we have tapped some business from Indus Towers which is subsidiary of Bharti Infratel I think that business is already we are getting, but we have to see what they have been importing from China and if that they are going to stop coming to India what is the additional business we will get that is the area that we are now discussing with the customers otherwise we are already getting this business from telecom industry.

**Sanjay Shah:** So what you are supplying to telecom?

**Rajesh Doraiswamy:** We supply like rotary switches we supply to last year we did rotary switches and terminals connectors to Jio all the towers that they had built and I think that is also ongoing business, but it has slowed down now I expect that second half of this year it will pick up again and Bharti mean the Indus Towers is the same. It is all electrical equipment going into the towers.

**Sanjay Shah:** So even opportunity on mobile manufacturing like PCBs and all, is there any opportunities there?

**Rajesh Doraiswamy:** We have not explored anything into that area so far.

**Moderator:** Thank you. The next question is from the line of Rohan Mehta an Individual Investor. Please go ahead.

**Rohan Mehta:** Just a couple of questions I had if you could we see like you spoke about the exports we see that they have been growing over the last few quarters, so if you could just share some light on whether we can expect that same trend to continue in the near future as well and if we have such target in mind as to how much of our revenue would come from exports?

**Rajesh Doraiswamy:** I think if you compare last full year I think we had close to 100 crores of revenue coming from exports so that is a kind of a 25 crore average per quarter. In spite of this lockdown in this quarter we were able to get around 19 crores of exports. So we expect this trend to continue and get better and also our targets are also that we have to reach at least 25% to a 27% of exports of the total revenue from exports from the current 19%, 20%. I think right now the majority of the business for us comes from North South America, part of Europe and Far East Asia this is the mix that we have. We see that North and South America increasing the trend continuing like that and adding this new Australian business or Asian business also will get better. First thing we are definitely confident that we will see growth in exports this year compared to last year.

**Rohan Mehta:** Like you mentioned the inquiries from Australia there we can maybe expect to see something within this financial year?

**Rajesh Doraiswamy:** Yes definitely. We expect that you know something to start coming in from Q3 onwards.

**Rohan Mehta:** And just one more thing sir last year you had mentioned about new customers that we were planning to approach, so is there any development on that front or there has been any update on that?

**Rajesh Doraiswamy:** I think I already mentioned eaton is one American customer that we have been discussing and it is through and there are couple of other US customers we are in the final stages of development of product for US and I already mentioned this Australian customer. These are the customers that we are discussing close to around four customers all put together we will see revenue starting from Q3 onwards.

**Moderator:** Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

- Anurag Patil:** Sir our working capital situation has it deteriorated or it is same as last quarter?
- Rajesh Doraiswamy:** It is very similar to last quarter I would say it is little better than last quarter we have been able to reduce both our inventory and the receivables by around 5% relatively compared to that figure. However, the number of days it might look little more because the top line has dropped. If we had done a normal top line I think the working capital has become better. \
- Anurag Patil:** So rest of the year we can expect it at the same level?
- Rajesh Doraiswamy:** Rest of the year our target is to improve from here definitely not deteriorate from here.
- Anurag Patil:** Are you catering to railways also?
- Rajesh Doraiswamy:** Railways yes we do cater to railways. So we do cater to ICF, RCF, MCF. I think the outlook was actually good until end of March because of this pandemic railways have postponed the certain orders, but nevertheless I think they are still doing good so we definitely see business coming from railways or the preponement of all the orders once the lockdown or restriction of movement of people gets over.
- Anurag Patil:** In FY20 what could have been the railway contribution FY20?
- Rajesh Doraiswamy:** We did around 18 crores if I am not wrong I do not have a figures right now, but I mentioned this in my last call but approximately I think it is around 18 crores.
- Moderator:** Thank you. The next question is from the line of Chirag Patel an Individual Investors. Please go ahead.
- Chirag Patil:** I have one question like just two days back government invited 23 private companies for the private railway, so how are we looking this development and if successfully happened I mean the private players build train and privatization happen that will after it also the same way we will cater to railway or is there any changes we are going to face because private players normally the way they give contract or subcontracting work is totally different than what government control entities give?
- Rajesh Doraiswamy:** You are absolutely right I think anything opening up to private will bring in efficiency I am sure, but on this particular area I think it is too early for me to comment because we still do not know the tenders that government has called for is for what. I think I understand if I am not wrong this is to run the right trains I do not think it is for manufacturing of it that is what I understand, but if that happens when we have to see what kind of business that can emerge from that kind of contract the government is going to give to private players. So having said that I would also like to mention here that we are already a supplier for the GE transportation which is a private player manufacturing the locomotives in India. We are already a supplier to Alstom and Bombardier at a small level, but we are in touch with them for discussions for supplying our three phase transformers to the metro coaches that they are building here in India. So apart from this so if

you are already into this we definitely have a chance to get into other private players if they get an opportunity to run or manufacture coaches or locomotives.

**Moderator:** Thank you. The next question is from the line of Neha Jain from Ortica Wealth. Please go ahead.

**Neha Jain:** Sir, I just have one question are we facing any issues relating to the receivable lately?

**Rajesh Doraiswamy:** No ma'am actually we are not facing any issues actually if you see our receivables have been quite stable though there has been a delay because of this pandemic which we have to agree. It works at around 140 crores in FY20 March I think we are at around 135 right now. So we are not facing any issue as of now, but we do face some delays.

**Moderator:** Thank you. The next question is from the line of Rohan Mehta an Individual Investor. Please go ahead.

**Rohan Mehta:** Sir, just had couple of more questions the capacities at which we were operating that we have been operating in the first quarter has been similar to the previous couple of quarters or has it increased?

**Rajesh Doraiswamy:** No, I think the Q1 we started we actually we opened on 6<sup>th</sup> of May, but it was with 50% capacity the whole of May was running at 50% strength basically. So these are only producing 50,000 or less than that only we were producing. In June I think we increased our strength to around 60%, 70%. So at the end of June we became 100% operational. So even though 100% strength is coming to work we are still not 100% efficient or utilization its full level. In first quarter it did not happen, but July was better than June and we see August is better than July. So it looks like Q2 can be a normal quarter is what we expect.

**Rohan Mehta:** Sir since we have reopened, have any labor related issues at all?

**Rajesh Doraiswamy:** Luckily we do not have any migrant labors we had some issues because our local migrants are there Tamil Naidu local migrants and others are there who went to their natives and could not come, but that was a very small percentage I would say less than 10% of our total workforce. So we did not face any shortage issue.

**Moderator:** Thank you. The next question is from the line of Aniket Patkar an Individual Investor. Please go ahead.

**Aniket Patkar:** Sir, I have a couple of question my first question that last time you had mentioned that you are approaching new customers, so what is the status of that?

**Rajesh Doraiswamy:** I already mentioned before you to some other question that we are working with some new customers from Australia and US. Both the Australia and US I think it is kind of customized products that we have to do for them not the same readymade product that we can sell to them and for Australia also we need some new certification that we have to take. So we are into the



process and hopefully by end of Q2 or middle of Q2 this quarter we should be able to finish that and revenue should start coming from Q3 onwards.

**Aniket Patkar:** Sir, my next question is about any new product development?

**Rajesh Doraiswamy:** Not this year sir whatever we have been doing last year we are continuing to do they are not much, but we are slowing down on that R&D expenses this year.

**Aniket Patkar:** And what is the debt level currently?

**Rajesh Doraiswamy:** It is similar to last year I can get the figure for you. I can get the details it is around 150 crores.

**Aniket Patkar:** Has it been the same as it was in the March or it has declined?

**Rajesh Doraiswamy:** No, it is the same level like March.

**Aniket Patkar:** As we have seen just because of the COVID-19 pandemic they are impacting so much on our business front, so what kind of precaution we are taking as in terms of I mean in the manufacturing facility and how we are going to recover to come down to our same level?

**Rajesh Doraiswamy:** I think for us on the manufacturing side or supply side we have stabilized everything, our supply chain is stabilized, our manufacturing units are ready, geared up to produce. We are just waiting for the markets to open up. So when the export markets open up we will start supplying, domestic OEM started opening up we started supplying. So if the market starts opening up we are ready to produce and supply. Precautions I think we have incorporated all safety precautions inside the factory. We have got additional space, we have moved people around, so we are following all the required precautions touch wood so far everything has been fine. We have not seen any single COVID cases within the factory.

**Moderator:** Thank you. As there are no further questions I now hand the conference over to Mr. Rajesh Doraiswamy – Joint Managing Director of Salzer Electronics for closing comments.

**Rajesh Doraiswamy:** Thank you all once again for your attention and support. I wish you all stay safe, look forward to talking to you again for the next quarters call. Thank you.

**Moderator:** Thank you. Ladies and gentlemen on behalf of Salzer Electronics Limited that concludes this conference. Thank you all for joining us and you may now disconnect your lines.