

"Salzer Electronics Limited Q2 FY2018 Earnings Conference Call"

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SALZER ELECTRONICS

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PRIVATE LIMITED



Moderator:

Ladies and gentlemen, good day, and welcome to the Salzer Electronics Limited Q2 FY2018 Earnings Conference Call, hosted by Edelweiss Broking 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Salil Utagi from Edelweiss Broking Limited. Thank you and over to you!

Salil Utagi:

Thanks Janis. Good afternoon everyone. We welcome you all to Q2 FY2018 post results conference call of Salzer Electronics. The management of Salzer Electronics in being represented by Mr. Rajesh Doraiswamy, Joint Managing Director of the Company. I will now hand over the call to Mr. Rajesh for his opening remarks. Over to you Rajesh!

Rajesh Doraiswamy:

Thank you Salil. Good morning and I would like to extend a very warm welcome to everyone for our earnings conference call for the second quarter and half-year ended September 30, 2017. I have with me here, Savli from Bridge Investor Relations, Mr. Baskarasubramanian our Director - Corporate Affairs & Company Secretary and Mr. Murugesh, Assistant Company Secretary of our Company. We have shared our results update presentation and I hope you all must have received it.

Let me begin by giving you all a very brief background of the Company before I go into the financials of the company. Salzer Electronics Limited was incorporated in 1985 in collaboration with the German Salzer, the manufacturer CAM operated rotary switches. Since then, we have evolved from a single product company to someone who can offer a complete customized electrical solutions to our customers. Over the years, we as a company have made sure that we are always in the forefront of technological development by getting into technical associations with the reputed companies across the world.

Through this we were able to bring in high quality products of international standards and gain a leadership position in a few of the products. Be it our association with Larson & Toubro from 1993 to distributing our products in India onwards to Plitron from Canada in 1995 or the Trafomodern model from Austria in 2016, we have always focused on getting into technologies, which are niche and of great value. Through this focus and sheer determination to come out with products of highest quality, we have been able to get a preferred vendor status with global giants like GE and Schneider.

All our products are international certified. Though we operate under one product segment-electrical and electronics, for the ease of analysis for ourselves internally as well as for the analysts, we have classified our business into four different divisions- The Industrial Switchgear Division, the Copper, Wires and Cable Division, the Buildings Segment Division and Energy Management Division. Our country has witnessed some drastic and disruptive changes in the past one or one-and-half years. Our present government put forth its vision of make in India recognizable and investable country by bringing in numerous economic reforms.



We witnessed a lot of teething problems in implementation of these reforms initially despite the numerous headwinds in the economy. We as a company continue to invest in businesses during the course of sectoral slowdown prioritizing the need to be future ready as soon as the business conditions revive. We are confident about our company's prospects, the change in economic scenario. We are very optimistic about the prospects for our company and much of its optimism comes with a vast potential of Indian market, which appears to be on the verge of the significant takeoff.

Having said that, I would now like to move on for the quarterly financial performance. The financials for the current and the past quarters have been restated as per Indian Accounting standard, Ind-AS. The net revenues from operations were at 101 Crores in this quarter, a year-on-year growth of 9% compared to Q2 FY2017.

I am happy to share that in this quarter we have demonstrated growth in our revenues. This growth was mainly driven by higher demand in our Wire and Cable business and a good pickup in our Industrial Switchgear business. Another significant factor for the growth in exports in Q2, which was at 29% year-on-year, this was mainly due to the increased exports to UK and USA.

The EBITDA for the quarter stood at Rs.13 Crores as compared to Rs.12 Crores in the corresponding previous quarter, which is a growth of 8%. Sequentially, we have seen a very good growth of 23% in EBITDA. The EBITDA margins have significantly improved by over 270 basis points to 12.8% on a quarter-on-quarter basis. In fact, these have been the best margins over the past four quarters and we expect this margin improvement trend to continue. The reasons for this increase in EBITDA margins are due to the better product mix and increased exports. The profit after tax was at Rs.6 Crores in Q2 FY2018 as against 5 Crores in the corresponding previous quarter with a year-on-year growth of 8%.

Sequentially, the PAT has increased by 43%. The PAT margins for the quarter were flat at 5.8%; however, sequentially it has improved by over 190-basis points. Exports contributed 23% of the total revenue in this quarter.

Now coming to the half-yearly performance highlights, the net revenues from the operations were at 205 Crores in the first half of FY2018, which is a year-on-year growth of 13% as compared to H1 FY2017; this growth has been driven by our key verticals of Industrial Switchgear and Wire and Cable business. The EBITDA for H1 FY2018 remained flat at Rs.23 Crores. The PAT increased by 2% to Rs.10 Crores in H1 FY2018 and in H1 exports contributed to 18% of our total revenues.

Moving on to the product group breakup, the GST regime was implemented recently by our government in July even though the overall long-term prospects remain extremely positive for the organized players like Salzer, we did witness slight teething problems to start with, which we have seen in our first quarter numbers; however, we were insulated to a large extent on account of our product offerings to a wide variety of industries, our quality consistency and our recheck



across geographies. The Industrial Switchgear Division, which is one of major businesses for us, contributed 50% to the total revenues in this quarter and 43% for the half-year.

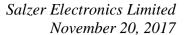
Now with the GST regime in place and overall economic scenario looking positive, we are witnessing early signs of revival in Switchgear business. We have received very good enquiries from large OEMs like BHEL, Schneider and GE, etc., for our Switchgear products. Going forward we are confident that because of our high standards of quality, this demand will significantly improve further. Particularly, the new products like the Dry Type Transformers and Wire Harnesses have witnessed a significant growth in this quarter. Wire and Cable Division consisting of Copper Wires and Cables was the second largest contributor to our revenues in this quarter.

Within the Wire and Cable Division, our focus has been to do brand labeling for major brands like L&T. We have also started branding for companies like Crompton Greaves Consumer Products, Texmo, EFAB and a few other brands. In the last two years, we have also started to focus on giving value added products to our customers. In line with this, we have come out with specialized products like elevator cables, solar cables, highly flexible hoist cables and other similar cables in the segment. This segment contributed 46% of the total revenues of the company in Q2 FY2018 and 51% for the half-year.

Moving on to the Building Products Division, this is the only B2C business that we have, although the contribution of the total revenue remains small, we are confident of increasing the contribution from the segment in the coming two to three years to around 10% levels. This segment has given us new opportunities in the real estate sector where we have got some annual rate contracts with major builders like Sobha Developers, Purvankara, Reddy Structures and Kumar Builders. The Building Product Division contributed around 4% of our revenues for the quarter and same for the half-year.

The fourth is the Energy Management Division. This business being order book driven business during this quarter, we had not booked any revenues, while for the half-year it was 1% of the total revenues of the company. Going forward this year, we expect to book revenues for the first year of the contract that we took in Tamil Nadu, which is 12.5% of the total contract value of Rs.86 Crores. Going forward, our focus remains to achieve profitable growth by adding newer products, which are customized and value added in nature and also exploring newer geographies, which can yield better margins. 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.

I am happy to share with you another significant development that as a part of our strategy for steady progress both by organic and inorganic approach. Our board in its meeting on November 17, 2017 has approved a proposal to acquire the entire business of Salzer Magnet Wires as a going concern on a slump sale basis with appointed date as April 1, 2017, which is subject to necessary further consent from the shareholders of both companies and clearance from regulatory authorities.





A brief note about Salzer Magnet Wires now, Salzer Magnet Wires was founded in 2008 and offers extensive range of enamel coated copper wires suitable for winding applications in transformers, motors, alternators, contactors, relay and auto-electricals.

The business of this company has witnessed a compounded annual growth of around 20% since its inception in 2008. Apart from enamel copper wires, the company also manufactures polyester coated wires for deep well pumps and fine enamel copper wires. The rationale behind the acquisition is immediate addition of Rs.60 Crores in sales volume for Salzer Electronics in FY2018 with an incremental growth of 20% to 25% in the next five years. The acquisition will be EPS accretive. The proposed increase in capital towards acquisition will be 10.3 lakhs shares on a fully converted basis. Strengthening of our product portfolio with products like enamel copper wires, fine enamel copper wires, polyester coated winding wires gives us an opportunity for further improvement of market penetration of the products of Salzer Magnet Wires and to focus global markets over the next few years.

Cables and Wires being made by our company currently and enamel copper wires made by the Salzer Magnet Wires are very similar in nature plus integration of the two companies business would provide us the leverage for better price negotiation with suppliers of copper on the volume growth basis and we will be attain 1% to 2% price benefit. Since both company's products are complementary in nature, the acquisition would bring cost efficiency in certain areas of manufacturing and provides scope for improvement in operational synergies of Wires and Cable Business. Our products like three phased transformers and Toroidal Transformers would get more benefit in terms of better pricing and margin as the products consume materials from the stellar currently.

The products of Salzer Magnet Wires having more scope for innovation and application of refinement with support of our in-house R&D facility. Salzer Magnet Wires will also bring in completely new customer base, which are completely new to Salzer Electronics. This will provide opportunity to get new customers for our existing products.

I would once again like to thank everyone for your time and attention. We can now take questions.

Moderator:

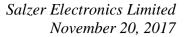
Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah:

Good afternoon Sir. Thanks for the opportunity and congratulations for good numbers. Sir my first question is regarding your SMW acquisition can you throw some detail what is the actual cost that is the share what you said, but if you converted at what price and what will be the cost to our company?

Rajesh Doraiswamy:

The cost to Salzer Electronics will be 10.3 lakh shares. The shares are being issued at Rs.197, which is the SEBI rule for the pricing of the shares.





Sanjay Shah: So approximately Rs.20 Crores is the cost to us right?

Rajesh Doraiswamy: Correct Sir.

Sanjay Shah: So what this company is showing turnover right now?

Rajesh Doraiswamy: I think FY2017 it was Rs.60 Crores. Expected September 2017, it was around Rs.37 Crores. So it

is expected to do around Rs.70 Crores in FY2018.

Sanjay Shah: Right, so we believe it is very exciting acquisition, can you throw some detail what will be the

focus of the company after acquisition what will be the captive how much will use and what will be your marketing strategy for the other products and any other new products we are developing

in that?

Rajesh Doraiswamy: Actually, we will be using approximately 15% of the production of this company 15% to 20% as

on captive basis. Going forward yes I think the company has recently set up a fine wire enameling plant, which is just starting production. I think the fine wire enameling has a very high margin. There are limited manufacturers in India and it is a very good market. So with our customer base currently Salzer Electronic customer base will be able to consume a lot of this fine

wire fine enamel wires.

Sanjay Shah: What is the use of that fine enamel wire?

Rajesh Doraiswamy: It is mainly used in electrical, auto electrical, the products like contactors, relays, lot of coils, and

auto relays. These products use these fine enamel wires.

Sanjay Shah: It is 100% copper base wire basically?

Rajesh Doraiswamy: Yes Sir. Copper enamel and copper polyester.

Sanjay Shah: Copper enamel and polyester right Sir. Sir now throw some light on the future path ahead for our

company since we have been struggling since the last few years, but we have developed good capacities also and good relations with the client, so now do you see that traction ahead with our clients and which vertical we feel should grow faster and the user industry like railways and the

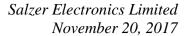
demand is coming we feel, so what is your opinion Sir?

Rajesh Doraiswamy: Sir the past four or even six quarters, I would say we have been growing at a very small rate. The

headwinds, which has not given good growth for the industrial sector of the country. Though we have beaten the industrial growth overall, but still I think we have not been living up to the expectation. Going forward, I think I feel that the Indian market is on the verge of the growth path, so our industrial switchgear business is one that is poised to grow at a much faster pace than

main reason is because the Indian market has been struggling. I think there have been a lot of

what it was in the past six quarters also the exports. I think exports also seem to pick up significantly well particularly to Europe and US, which is actually giving us better margins in the





company, so if that continues to grow as it has happened in this Q2, it is going to be very good for the company as a whole.

Sanjay Shah: So our export majority contains cable wires?

Rajesh Doraiswamy: No exports 95% of our exports are switchgears business.

Sanjay Shah: Switch gears. Thank you very much and good luck to you Sir.

Moderator: Thank you. We take the next question from the line of Megha Hariramani Pi Square Investments.

Please go ahead.

Megha Hariramani: Thank you for the opportunity. My question is on the raw material expense. Where do we see

raw material prices settling down and how do we see the margins improving going forward?

Rajesh Doraiswamy: I think the raw material prices have always remained at around 70% to 72%. We have two major

product segments. One is the wire and cable industry and the other is switchgear. On the switchgear front, it has always been at around 60% and the wire and cable has always been at around 85% to 86%, so this has always been the trend and we do not see any major change in this

area as of now.

Megha Hariramani: The rise in raw material price has not impacted us at all specifically?

Rajesh Doraiswamy: On the commodities like copper and steel, I think it is completely pass on, so we pass on the

price increase to the customers and the rest of the raw material, we have not witnessed any major

price changes.

Megha Hariramani: So what would be your margin target for the full year and FY2019 as well EBITDA margin?

Rajesh Doraiswamy: EBITDA margin, I think the full year target should be between 11% and 12%. It also depends on

the product mix that we will have in the next two quarters. If the revenue share of the switchgear business is going to be higher, we will see a higher EBITDA margin like this quarter. If the revenue share of the wires and cable is going to increase, then the EBITDA margin percentage is

going to be low even though the absolute numbers are going to be higher.

Megha Hariramani: Sir do we have an order already for the next two quarters?

Rajesh Doraiswamy: No madam. We do not work on a long order book position, but we always work on a four to six

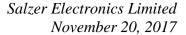
week order book position.

Megha Hariramani: Lastly on the GST side what is our current GST rate applicable for all the products that we have

and what was it earlier?

Rajesh Doraiswamy: It was at 28% when it was implemented. Now I think in the last council meeting they have

reduced it to 18%.





Megha Hariramani: I will join back in the queue. Thank you.

Moderator: Thank you. The next question is from the line of Kinjal Chikni from MM Savla Consultancy.

Please go ahead.

Mulesh Savla: This is Mulesh Savla. Good morning Rajesh and congratulations for the good set of numbers and

also congratulations for complementary acquisition that you have done. I have a couple of questions. One is on the status on three-phase transformer activity that we have started. I am sure it must have been stabilized by now, so can you throw a little more light on that and what are the opportunities going forward as well as some Wiring Harness we were to do for heavy vehicles

and engineering segment?

Rajesh Doraiswamy: Yes Sir. I think it is a good question that you have asked. We started this three-phase Dry Type

Transformer production in January this year, 2017. From March and April, we have seen significant enquiries from some very good OEMs in India, but this quarter we have done a business of around Rs.3 Crores in that product segment. We expect to do business around Rs.15 Crores to Rs.18 Crores in this financial year for the three phase dry type transformers. The biggest plus we have seen is that we are seeing extremely good enquiries from companies like BHEL, companies like Toshiba, Mitsubishi, and UPS, companies like Schneider, ABB, and also from Indian Railway Associates like Siemens and GE Transportation in India, the companies that

we are seeing extremely very good enquiries.

Mulesh Savla: How about Wire Harness Sir?

Rajesh Doraiswamy: Wire harness is another new segment that we have started from last year onwards. This year I

think we are actually seeing good growth almost doubling of business in that particular product. It is not for any automotive. I think you mentioned about some heavy vehicles trucks actually, we are doing wire harness for industries. This is something that not many organized players are present in this segment, so we are trying to focus Wire Harness industry where the demand is quite good and we have already got business from almost all the elevator companies and we are

looking at various other industries for wire harness.

Mulesh Savla: Good and Sir there is one more buzzword going around in the Indian economy about affordable

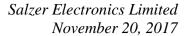
housing? I am sure, we have some of our products, which can cater to that segment also and as you have rightly said that B2C business also is growing in case of business segment, so can you

guide us how we are looking at that market from our company's perspective?

Rajesh Doraiswamy: I think the investment that Government of India is planning to make in affordable housing is

going to be a significant game changer in the real estate market and we have products like almost all electrical products for building like wires, switches, MCBs, and distribution boards, so these four products there will be enormous demand if the kind of amount that the Government of India

plans to make if the affordable housing happens.





Mulesh Sayla: Correct, so Sir even Wires and Cables can also form part of that or we are not doing direct selling

of that?

Rajesh Doraiswamy: We are doing it. We will continue to focus on it. We are actually putting more focus into the

building wires right now.

Mulesh Savla: So that sector seems promising in the near future?

Rajesh Doraiswamy: Yes.

Mulesh Savla: Now last Sir only one accounting question. We have receivables as non-current as well as

current, so I believe non-current would be some retention money or what kind of trade

receivables they are?

Rajesh Doraiswamy: Actually, we did take Rs.86 Crores business in Tamil Nadu Government for the street light

energy efficiency project for which there is a payment term in the contract where we will get 12.5% every year. So the non-current is the first 12.5% that we have built and we are waiting for

the payment. Hopefully by March of this financial year, we should get that payment.

Mulesh Savla: Alright Sir. Thank you very much and we wish you all the very best.

Moderator: Thank you. We take the next question from the line of Hrishikesh Bhagat from LIC Mutual Fund.

Please go ahead.

Hrishikesh Bhagat: Good afternoon Sir. Sir firstly can you throw some light on the receivable side in the sense why

this receivable is it an issue on the client end or is it that we are seeding new products that is why we are giving slightly higher liberal credit terms and that is driving the receivables? So can you throw some color on the receivables because I appreciate the fact that you have reduced your

receivables, but just that of decrease is not up to the expectation that we expect?

Rajesh Doraiswamy: Sir I think the overall receivable levels is going to be around 90 days. I think that has been the

industry norm in the segment that we have been working. Right now it has increased a little bit beyond 90 days, but as you said I think we have significantly reduced it compared to the March FY2017 figures. Going forward, I think we expect this to remain at 90 days, which are more or

less the industry norms.

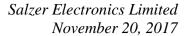
Hrishikesh Bhagat: Fair enough. Sir secondly on this industrial switchgear business, which is the critical sector for its

revival in the sense in India, which sector has to really drive the demand for this product as such?

Rajesh Doraiswamy: I think the biggest advantage that we have is that we are supplying products to a very wide

variety of industries starting from the core infrastructure industries to the renewables to the backup power industry to machine tools to medical equipment industry, so we cater to a very wide range of industries, but if you ask me what will give up boost to the growth of the segment,

I think the general industrial pickup in the country will give a post. The power is a significant





factor for our product growth, but I would say that general infra pickup or capital goods industry pickup will give a good growth for us?

Hrishikesh Bhagat: You mean power generation?

Rajesh Doraiswamy: Power generation, transmission, and distribution across all three sectors.

Hrishikesh Bhagat: But that should be the larger chunk of the demand?

Rajesh Doraiswamy: Yes around 30% of our business will go into that. Right now there is no new business, but we are

still getting large amount of business from that segment for maintenance.

Hrishikesh Bhagat: Secondly I think your PPT does mention about 10 years contract with GE Transportation now

can you throw some colour in the sense what is the end market size of thing or at least from the

quantity that we tend to intent to supply of high power contractors?

Rajesh Doraiswamy: As you all know GE Transportation signed the contract with Government of India for setting up a

locomotive plant in Bihar for manufacturing 1000 locos over the next 10 years, so that is around

100 locos every year, we have got a contract from GE Locomotive for supplying a very special customized contactors to the locomotives, so the size of the business is not very significant. I

think I have mentioned this a few quarters back in a call. The size of the business is

approximately around Rs.12 to Rs.15 Crores over the next 10 years, but the biggest advantage

that we are getting is we are getting an opening into GE Locomotive, which is much larger

business globally, so once we start the business with Indian company here with GE Locomotive

we are looking at getting this products to GE Locomotive in US where the size of the business is

at least 10 times bigger and not only this contactors, but we are also looking at significant opportunities in transformers where we have already started submitting samples to them for the

locomotives and various other Salzer products to GE Locomotives.

Hrishikesh Bhagat: Sir, is it fair to assume that transformer business to much larger as compared to contactors

business right?

Rajesh Doraiswamy: Going forward yes that is what we expect.

Hrishikesh Bhagat: So generally in case of how does it go just give some idea in the sense what will be the usual

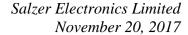
demand for a particular locomotive or anything like that?

Rajesh Doraiswamy: I think in case of transformers, we are yet to get some idea of the requirement for each

locomotive right now from GE we have just submitted some samples and it is undergoing testing

because that requires a very long-term testing.

Hrishikesh Bhagat: Ideally what is according to you, you must have done some assessment on that?





Rajesh Doraiswamy: I think we expect to get through the quality testing once this is done I think for the products that

we have submitted over a period of one year I think we should be touching a business of around

Rs.8, Rs.9 Crores with GE Locomotives.

Hrishikesh Bhagat: Sir just two questions I have on German tie up with the Salzer German, I think we last quarter

spoke about only one product, but is there any opportunity to expand the product line and try to –

and we have any increase in sourcing from that from our parent as such?

Rajesh Doraiswamy: Right now our focus is to sell our CAM operated rotary switches to Salzer Germany and to

market it in Europe under their brand through their network. I think that is the focus that we have right now. If that stabilizes over the next may be two or three quarters then we will be looking at adding new products in the same network, but right now I think we are just looking at selling

CAM operated rotary switches through that network.

Hrishikesh Bhagat: Finally any GST implication on your cable business after reduction?

Rajesh Doraiswamy: I think the reduction is definitely good for the industry overall and we will be seeing some

demand pickup because of that.

Hrishikesh Bhagat: Okay. That is it. Thank you Sir.

Moderator: Thank you. Next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please

go ahead.

Kalpesh Parekh: Good afternoon. Congrats on good set of numbers. Couple of questions particularly on the new

acquisition of the Salzer Magnet Wires is this profit making entity at this point of time?

Rajesh Doraiswamy: Yes Kalpesh. It is profit making around 3% is the PAT margins of the company and it is going to

be EPS accretive for us.

Kalpesh Parekh: At EBITDA level how it would be?

Rajesh Doraiswamy: EBITDA level it is around 8.5% to 9%.

Kalpesh Parekh: Broadly it would be slightly below our current set of operations, we are at 11% or is there any

room?

Rajesh Doraiswamy: It is slightly better than our Wires and Cable Division.

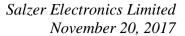
Kalpesh Parekh: Better than wire and cable and is there any room for further improvement in margins in this

business Sir?

Rajesh Doraiswamy: Yes. I think the fine enamel wire that the company has setup the plant for manufacturing is going

to be a much better margin product because the selling price of those products are significantly

higher than the current selling products.





Kalpesh Parekh: Process of this acquisition will take about six-month type of time period, so for 2018?

Rajesh Doraiswamy: No, I think may be two months because we just need some regulatory approvals and the

shareholder approval, which we expect to complete by end of December.

Kalpesh Parekh: So for FY2018 we should see the consolidated numbers right?

Rajesh Doraiswamy: Yes.

Kalpesh Parekh: This was under what like this was under the Salzer; anywhere it was there, holding was there

from?

Rajesh Doraiswamy: Absolutely no holding by Salzer Electronics, no.

Kalpesh Parekh: Secondly Sir your energy management business this time we did not see any order book and all

that thing, so any insight if you can throw on this space because like I think from last two

quarters it has been slightly dull, so any color on that?

Rajesh Doraiswamy: As you know that we have done the large project last year, we completed that last year, year to

last actually, so last year we actually build some whatever the spillover that we had, in this year we got a order from EESL company for Rs.20 Crores for Varanasi and Jharkhand out of that we have build some portion in the first two quarters and this quarter we could not do anything because EESL actually has postponed our delivery schedules because of various other reasons and we also did not bill the first year revenue of the Tamil Nadu project, which will be approximately around Rs.10.5 Crores. We are waiting some certifications to come in. Once that happens I think in this financial year we will be billing this first 12.5% of the Tamil Nadu project

as well as some revenues for the EESL in the next two quarters.

Kalpesh Parekh: This would be Madurai Corporation?

Rajesh Doraiswamy: No this was for Tirupur, Erode and Vellore, the three corporations.

Kalpesh Parekh: So this three would be combined Rs.10 Crores right?

Rajesh Doraiswamy: Yes, all three I think every year we will get Rs.10.5 Crores, so this is the first year that we will be

getting it.

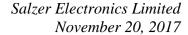
Kalpesh Parekh: Here the margins would be very, very high, probably?

Rajesh Doraiswamy: Yes significantly higher exactly.

Kalpesh Parekh: Perfect and on other business of this like building material where also things are slightly dull

despite we actively talking to Sobha, Puravankara, other guys as such so do you see any

opportunity over here in this space?





Rajesh Doraiswamy: I think what happened is that last year the Q2 has been extremely good for the building segment

that is why we are seeing a little slowdown in this, but otherwise we expect that division on an annual basis to clock around Rs.27 Crores, Rs.28 Crores compared to last year's Rs.23 Crores, so

we are definitely seeing a 20%, 25% growth in that segment.

Kalpesh Parekh: Because I believe this business has a better margins compared to the other spaces?

Rajesh Doraiswamy: Better gross margins, but less EBITDA as of now because we are still waiting to attain that

critical level of around Rs.35, Rs.40 Crores, so once we cross that I think we will see a

significant jump in the EBITDA margins for this product in this segment.

Kalpesh Parekh: This year probably we should end up with somewhere around 360 for the full year as such 380,

400 type of numbers as such?

Rajesh Doraiswamy: No I think our estimation is to around 420 without the acquisition.

Kalpesh Parekh: Without the acquisition, perfect yes and with this acquisition we should have 10% more or more

than that?

Rajesh Doraiswamy: Correct.

Kalpesh Parekh: Perfect Sir, wish you all the best.

Moderator: Thank you. We take the next question from the line of Sanjeev Patkar from SBI Funds. Please go

ahead.

Sanjeev Patkar: Rajesh, Sanjiv here. A question on this acquisition itself an extension of the previous question,

was this held by Salzer promoters and if yes why was it outside number one? Number two what is the kind of balance sheet that this business has and what difference will we synergistically

make to that balance sheet?

Rajesh Doraiswamy: Yes, it is held by Salzer promoters I think 50% is held by the Salzer promoters and the rest by

this was promoted as a separate company because there were other investors who wanted to invest and setup this business one. Secondly I think we did not want to bring a new business into Salzer Electronics without testing the waters I would say outside of Salzer Electronics, so we have found that I think it is doing well and we see a lot of synergies in bringing that into Salzer Electronics today because of our Wire and Cable Division and what we are doing with Larsen

other directors of Salzer and from some outside people. Why was it held outside? I think in 2008

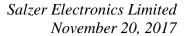
and Toubro. The synergies are I think mainly in sourcing of raw materials. Volumes are going to

significantly increase because of this acquisition for both that will actually give us price benefit of at least 1% to 2% in the raw material of both wires, cable and the new, new company getting

acquired.

Sanjeev Patkar: In terms of balance sheet how sizable is it? You said that turnover is around Rs.70 Crores, the

margins will be around 3% what would be the capital employed in this business?





Rajesh Doraiswamy: Capital employed is around Rs.16 Crores.

Sanjeev Patkar: Okay. That is all from my side. Thanks.

Moderator: Thank you. We will take the next question from the line of Amit Mishra, Individual Investor.

Please go ahead.

Amit Mishra: Thank you for the opportunity and good to see some kind of aggressive numbers after a long

time. So probably I might have missed the earlier part of the opening remarks. Just taking the previous question a little forward as you said testing the waters and now you have tested the water and you see a lot of synergies in bringing this company within Salzer's fold. So will you be

able to quantify as to what kind of margins this synergy will bring in?

Rajesh Doraiswamy: I think the company is expected to do in FY2018 turnover of approximately Rs.70 Crores and a

margin of around 3% to 3.5%.

Amit Mishra: On the EBITDA level?

Rajesh Doraiswamy: No, on the PAT levels.

Amit Mishra: Okay.

Rajesh Doraiswamy: On the EBITDA level, it is going to be around 9%.

Amit Mishra: That is fair. As far as without merger part is concerned, you said about 420 odd levels will be

doing the turnover for this year?

Rajesh Doraiswamy: That is correct.

Amit Mishra: The expected margins we can foresee and what about FY2019?

Rajesh Doraiswamy: EBITDA margin is going to be between 11% and 12% is what we expect depending on the

product mix. As I said I think answering one of the earlier questions, if the switchgear segment is going to have a significantly higher growth then the EBITDA margins can be a bit higher than 12% otherwise I think we will see between 11% and 12% And going forward we see definitely

18% to 20% growth both in top and bottomline for FY2019.

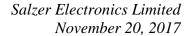
Amit Mishra: That is fair. As far as the business is concerned and the product mix that you are talking about

something that is which is of even interest to us. What is your fair evaluation of the current scenario? How is it going to move this year is probably almost ending one quarter is left behind after this month, but next year how is it moving? How were the related infrastructure and other

aspects of the economy growing?

Rajesh Doraiswamy: Right now we do not see major changes in the economy. I think the economy is still struggling to

grow. That is what is our feeling and that is what we are also facing in the market where there is





very less demand for the products in India, in the industrial sector, but I think the reasons for that is because of various reforms that has come in into shorter time. Hopefully FY2019 we will see if everything goes well, we see significant pickup in demand, which will I think result in much better growth than what I said of 20%. We will be able to grow at a much faster pace if the Indian economic changes.

Amit Mishra: We are geared up for that?

Rajesh Doraiswamy: Yes.

Amit Mishra: That is fair. Now as far as the product mix is concerned as a proportionate basis, what is your

focus of course it must be industrials?

Rajesh Doraiswamy: Yes, we are adding more products into industrial switchgear division like Wire Harness we have

added, Three Phase Dry Type transformers we have added, we are also planning for more products into that segment. So that is going to be the more focused division for sure because that is where we earned 15% to 16% EBITDA and if exports are better in that segment, the EBITDA margins are still higher like this quarter we have EBITDA margins of around 16.5% in the switchgear business. So that is definitely going to be the focus, but fortunately for us the wire and cable division also is growing at a much faster pace, though the EBITDA margins are lower at around 8.5% or 8% the absolute number will definitely be much better if that this is also grows.

Amit Mishra: But that is without branding, are we considering branding for that?

Rajesh Doraiswamy: So far we have not done, but we have started focusing in the building segment business to sell

wires under Salzer brand we have started that from this quarter onwards, so we will be doing that

going forward.

Amit Mishra: Obviously Salzer has a good brand name as far as at least South Indian states are concerned, we

can take advantage of that is if I am not mistaken?

Rajesh Doraiswamy: That is what we have started. We have network of selling switches, MCBs and distribution

boxes, so we just using the same network to sell our building segment wires also.

Amit Mishra: Absolutely and one last question probably that is one at all asking that I may and probably if you

may allow you are one man army it seems so do we have a plan of getting any CFO in our

company?

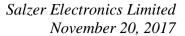
Rajesh Doraiswamy: Because I am coming on every quarter's call you are asking this? Yes I agree. I have a very good

team behind me though they are not facing the company outside, but we have an excellent team

supporting me in all aspects of the business.

Amit Mishra: You will be handling finance part is well right now?

Rajesh Doraiswamy: For now.





Amit Mishra: Thank you very much and best of luck for the future.

Moderator: Thank you. We will take the next question from the line of Salil Utagi from Edelweiss Broking.

Please go ahead.

Salil Utagi: If we exclude the energy management revenue for this quarter the rest of the business has seen

pretty good growth Y-o-Y basis. So can that growth be sustained going forward?

Rajesh Doraiswamy: Yes, actually this quarter we have not booked any revenues for energy management. That is with

zero. We have seen definitely good growth and we expect this percentage of growth to continue

for next two quarters or even better.

Salil Utagi: That is around 20%?

Rajesh Doraiswamy: Yes, the Wire and Cable this year, year-on-year has grown 20% and switchgear is around 8%, the

switchgear is expected to grow a little better and Wire and Cable will continue to grow at around

20%.

Salil Utagi: On energy management business, basically how is the demand coming out? You had answered

that question, but my question is, is it being driven by the government or is it central government

or is it still by the municipal corporations?

Rajesh Doraiswamy: Now I think right now it is shifted to the not central government the EESL, Energy Efficiency

Services Limited. I think that is the company driving all the energy efficiency projects across the country. I think the demand is definitely picking up but then even EESL is finding it difficult to deal with various corporations in various states. So it is taking time for them to implement such projects across the country. Definitely, I think the future is going to be good for this division. We see things getting better once EESL stabilizes the businesses that we are doing in various state

governments.

Salil Utagi: Is there scope for this business in industrial market?

Rajesh Doraiswamy: No, I do not think so.

Salil Utagi: Thanks a lot.

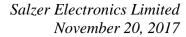
Moderator: Thank you. We will take the next question from the line of Mehul Mehta from Sharekhan

Limited. Please go ahead.

Mehul Mehta: Good afternoon Sir. Thanks for taking my question. This is with relation to exports we have

given target of about Rs.80 Crores and first half we have done Rs.40 Crores odd and there also driven by UK, US during the quarter and Middle-east has not really chipped in. We are looking at even Salzer Germany giving some business sort of, so how do we see can we exceed that bit of

Rs.80 Crores or it should remain in this range?





Rajesh Doraiswamy: We will be able to touch around Rs.70 Crores for sure even more I would say around Rs.80

Crores, I think half-year we have done Rs.39 Crores.

Mehul Mehta: Near about Rs.40 Crores like.

Rajesh Doraiswamy: We should be doing around definitely Rs.70 Crores I think we will be able to achieve this.

Mehul Mehta: But not to exceed like because I was seeing Middle East also like in earlier call you had given

guidance on Middle East also should do well, it has not really chipped in during this quarter. So

can we expect like them to exceed that is what of my question?

Rajesh Doraiswamy: Yes, if you look at the second quarter exports compared to the first quarter exports, we have

almost seen 29% jump, so we expect the second quarter trend to continue for the next two quarters, so that would be another at least Rs.40 Crores to Rs.45 Crores in the next half year.

Mehul Mehta: Rs.70 Crores is given kind of may be like and even more?

Rajesh Doraiswamy: Rs.70 Crores definitely given.

Mehul Mehta: One more question is in terms of we have about dividend payout in the range of 12% to 15% and

we are kind of the on the reduction in terms of working capital deals and all, capex is not major, so can we expect like more dividend payout like that you would focus on debt reduction, how it

would go?

Rajesh Doraiswamy: The Company has a dividend payout policy of around 15% to 20% of the PAT so that will

continue for now. I will not be able to tell if we can increase the dividend or maintain it right now, but as per the company's stated policy, I think it will be between 15% and 20% of the PAT.

Mehul Mehta: Okay, so rest may be like debt reduction it should go for or you are looking at organic growth

kind of the way you have done at this time?

Rajesh Doraiswamy: We are definitely looking at opportunities, but right now there is no news on that, so if any

additional cash first will be to definitely reduce debt.

Mehul Mehta: One last question in terms of equity dilution, during first half FY2018 there is equity dilution, so

what is an account of?

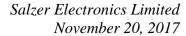
Rajesh Doraiswamy: We still have ESOP running, so I think the ESOP is what is getting issued right now, that is only

dilution that we have.

Mehul Mehta: Thank you.

Moderator: Thank you. Well that was the last question. I now hand the floor over to Salil Utagi for his

closing comments.





Salil Utagi: Rajesh any closing remarks please?

Rajesh Doraiswamy: Thank you all very much for your interest and time. Looking forward to talk to you again next

quarter.

Salil Utagi: Thanks everyone for participating in the call. Thank you Rajesh.

Rajesh Doraiswamy: Thank you Sir.

Moderator: Thank you very much. Ladies and gentlemen on behalf of Edelweiss Broking Limited that

concludes this conference. Thank you all for joining us. You may now disconnect your lines.

Thank you.