



“Salzer Electronics Limited Q4 FY2016
Earnings Conference Call”

May 27, 2016



**ANALYST: MR. AKHIL PAREKH – NIRMAL BANG INSTITUTIONAL
EQUITIES LIMITED**

**MANAGEMENT: MR. RAJESH DORAISWAMY - JOINT MANAGING DIRECTOR
– SALZER ELECTRONICS LIMITED
MS. SAVLI MANGLE - BRIDGE INVESTOR RELATIONS
PRIVATE LIMITED
MR. RAHUL MENON – BRIDGE INVESTOR RELATIONS
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Salzer Electronics Limited Q4 FY 2016 Earnings Conference Call, hosted by Nirmal Bang Equities Private Limited. As a reminder all participants line will be in the listen-only mode and there will be an opportunity 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Akhil Parekh from Nirmal Bang Equities. Thank you and over to you!

Akhil Parekh: Thank you. Good afternoon everybody. On behalf of Nirmal Bang Equities, I would like to welcome all the participants to the Q4 FY2016 conference call of Salzer Electronics Limited. From the management we have with us Mr. Rajesh Doraiswamy, Joint Managing Director who will represent the company on the call. Without taking much time, I would like to request Mr. Doraiswamy to give us the introductory comments on the result after which we will move on to the question and answer session, thank you. Over to you Sir!

Rajesh Doraiswamy: Thank you. I welcome you all to our earnings conference call for the Q4 and the full year ended March 31, 2016. I have with me here Savli and Rahul from Bridge Investor Relations. We have shared our results update presentation and I hope you all must have received it already.

Before we go into the quarterly and yearly performance I would like to give you a very short brief summary of the company. Since Salzer’s incorporation in 1985 as a single product manufacturer we have right now after 30 years evolved to offer complete customized electrical solutions to our customers. All our products are internationally certified and we sell in over 40 countries, though we operate under the electrical and electronics product group. For ease of analysis, we have classified our businesses into four different segments viz., the industrial switchgear businesses, the copper business, the building segment business and the energy management business.

We have five manufacturing facilities, four located in Coimbatore and one in Himachal. We also have our in-house R&D labs in Coimbatore recognized by Government of India, Ministry of Science Technology. So having said that, now I will start with the quarterly financial performance. The revenues from the operations stood at Rs.99 Crores in the quarter as against Rs.78 Crores in the corresponding period with a year-on-year growth of 28%.

Looking at the breakup of revenue as per the business segment mentioned above the industries switchgear business contributed 41% of the total revenues in this quarter and reported a decline of 4% with respect to corresponding quarter and on a sequential quarter the decline of 7%. This decline in revenues is mainly because of delay in getting new project businesses that we are working with various OEMs.

The building product segment, which is still a very small segment in our total business, contributed 4% of the total revenues and witnessed a year-on-year growth of 6% and a 3%

growth on sequential quarter basis. The copper business consisting of copper wires and cables was the largest contributor with 45% of the total revenues of the company in this quarter with a year-on-year growth of 39% and a quarter-on-quarter growth of 34% on account of increased volumes. The Energy Management business, which is basically order book driven business, contributed 10% of the total revenues with a year-on-year growth of 488%. The very high percentage is because the last year we did not have this.

The EBITDA margin for this quarter stood flat at Rs.10 Crores in Q4 FY2016 as compared to the corresponding quarter last year with a very nominal growth of 1%. The EBITDA margins were at 10% as against 12% in the corresponding quarter last year. This decline of almost 2.5% is basically because of two reasons. The first one being the change in product mix wherein the wire and cable contributed to higher than the expected percentage to the revenue and also lower realization of energy saver income to the tune of approximately 7 Crores due to the incompleteness of the third party audit. However, we have incurred most of the expenses towards that. The PAT was at 4 Crores in Q4 FY2016 as against 3 Crores in Q4 FY2015 with a growth of 17%. The PAT remained flat on a sequential quarter basis.

Moving on to the full year financials there revenues in the operations stood at 361 Crores as against 283 Crores in the corresponding year with a 28% growth. Exports contributed 22% of the revenues in the full year with a growth of 18% corresponding to the last year. The revenues have grown in line with our expectation especially from the profitable segments industrial switchgear business.

The breakup of revenues as per the segment for the full year is as follows. The industrial Switch Gear business contributed 47% with a growth of 16% corresponding to the last year. The Building segment product business contributed to 4% to the total revenues with a year-on-year growth of 9%. The Energy Management business contributed 12% to the total revenues with a year-on-year growth of 600%. The copper business, consisting wire and cables contributed 37% to the total revenue with a year-on-year growth of 15%. The full year EBITDA was Rs.43 Crores as against Rs.36 Crores with a year-on-year growth of 21%. The EBITDA margin was at 12% and remains flat compared to last year. The PAT is at Rs.17 Crores in the full FY 2016 as against Rs.12 Crores in the corresponding year with a year-on-year growth of 42%.

Coming to the broad balance sheet figures, the net worth stood at Rs.196 Crores as against Rs.107 Crores last year. The total debt is at Rs.99 Crores as against Rs.93 Crores. The net working capital has decreased to 134 days from 151 days last year. We are continuously working to bring this down to below 120 days level going forward. As I have mentioned in the past conference calls, our plans going forward is to add more specialized products in the Industrial Switch Gear business segment and focus more on the profitable growth.

In line with this, we have added more products in our basket and have added more customized solutions to our customers. We have increased our exports; currently we export to more than 40 countries worldwide including the most advanced nation like US and Europe. I am very happy

and pleased to mention that Salzer has signed a distinguished agreement with a company called IPD group limited in Australia. IPD is a leading distributor and a wholesaler in Australia for electrical products and they will be marketing Salzer branded electrical products for solar photovoltaic applications in Australia and New Zealand. This agreement opens in new large market for Salzer. We have also entered into an agreement with a Croatian customer for distribution in Croatia. It also gives immense pleasure to announce that CRISIL has revised rating outlook with A- positive from A- stable for long term and A2+ from CRISIL to A1 for short term.

In short, we are confident of a double digit growth in the range of 18% - 20% for FY 2017 on the revenues with higher contribution coming from Industrial Switch Gears business which is relatively higher business margin in our portfolio and going forward our focus and concentration is going to be on this segment. Thank you so much, we can now take questions.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Vaibhav Vaid from Motilal Oswal Securities. Please proceed.

Vaibhav Vaid: Hi Sir, could you again repeat the numbers basically of the distribution of different segments for this quarter?

Rajesh Doraiswamy: The Industrial Switchgear contributed 41% of Rs.99 Crores and Building segment contributed 4%.

Vaibhav Vaid: Sir, what was the year-on-year growth and quarter-on-quarter for building segment?

Rajesh Doraiswamy: On the quarterly basis?

Vaibhav Vaid: Yes.

Rajesh Doraiswamy: Quarterly basis, the industrial segment degrew by 4%, on year-on-year basis it degrew by 7%, minus.

Vaibhav Vaid: Okay and so copper wires?

Rajesh Doraiswamy: The wire and cable contributed 45% in this quarter to the revenues of Rs.99 Crores growing at 39% quarter-on-quarter and 34% year-on-year.

Vaibhav Vaid: And sir could you also let us know what was the percentage contribution for the last quarter and previous year quarter – for the sequential quarter and the previous.

Rajesh Doraiswamy: For the sequential quarter Q3 FY2016, the industrial segment contributed 48%, the wire and cable contributed 37%, the building segment was at 4.5% and Energy management was at around 11%.

- Vaibhav Vaid:** Sir Energy Management could you repeat the number for this quarter?
- Rajesh Doraiswamy:** This quarter it contributed 10%.
- Vaibhav Vaid:** Sir the growth?
- Rajesh Doraiswamy:** Growth was 488%; you should not consider that because year-on-year there was no business in this.
- Vaibhav Vaid:** Going forward, could you throw some light on, **at least for the next what could be the revenues in this segment, in Energy Management?**
- Rajesh Doraiswamy:** Energy Management is basically a project driven, tender-driven business. So as of now we will not be able to give guidance for the revenue growth from this. We are working on various tenders but we are not confident of giving you a number on this. So our growth projections are excluding Energy Management business.
- Vaibhav Vaid:** Okay, so you are saying the 15% or the 18% growth...
- Rajesh Doraiswamy:** 18%- 20% growth projections we are giving you excluding the Energy Management business. Because you also have to understand that we will be starting straight away minus Rs.30 Crores for this year because this year we have realized a revenue of Rs.42 Crores in total for the year from Energy Management business whereas for FY 2017 we will be realizing only Rs.10 Crores to Rs.12 Crores in that business. So we are already minus 30. So the base is 331.
- Vaibhav Vaid:** Sir also could you throw some light on, so far this quarter the margins are low because of higher contribution from wire segment?
- Rajesh Doraiswamy:** Yes, wire segment.
- Vaibhav Vaid:** And sir regarding the Australian company, could you throw light on any numbers that you could show this year or when will it start?
- Rajesh Doraiswamy:** We are looking at first year revenues from Australia alone between Rs.7 Crores and Rs.8 Crores.
- Vaibhav Vaid:** This would be this year itself?
- Rajesh Doraiswamy:** Yes, FY2017, we have already started business, the first shipment is about to go first week of June.
- Vaibhav Vaid:** Sir, this would be with the Wire segment?
- Rajesh Doraiswamy:** Wire segment, no, this is for a very special solar photovoltaic switch.

- Vaibhav Vaid:** For switch, okay, and what would be the margins in this segment?
- Rajesh Doraiswamy:** The margins will be very similar to what we earn in the industry today, between 14% and 16%.
- Vaibhav Vaid:** And sir any guidance on the margins could we expect it to be at the similar 12% range or can it go forward?
- Rajesh Doraiswamy:** We are looking at range of 12.5% - 13% for FY 2017.
- Vaibhav Vaid:** Sir for FY2018 do we have any numbers like?
- Rajesh Doraiswamy:** Year-on-year we would like to grow at 20%.
- Vaibhav Vaid:** Sir any guidance on the Capex for the next two years?
- Rajesh Doraiswamy:** For FY2017, we are looking at Rs.20 Crores to Rs.25 Crores capex and for FY2018 it is going to be a normal maintenance capex between Rs.8 Crores and Rs.9 Crores.
- Vaibhav Vaid:** Sir this capex would be for the Industrial Switchgears?
- Rajesh Doraiswamy:** Yes, all the growth plans we have is in the Industrial Switchgear business segment only.
- Vaibhav Vaid:** Sir could you throw some light on the plans that we have, anything that is materializing anything apart from the normal?
- Rajesh Doraiswamy:** In the second half of FY 2017, we will start realizing the revenues from our new project, the three phase Toroidal Transformers wherein we have signed a joint venture with Austrian company. So that project will be on stream from second half of this year.
- Vaibhav Vaid:** Any particular revenue numbers that we intend to?
- Rajesh Doraiswamy:** We expect a minimum of Rs.12 Crores to Rs.15 Crores in six months of this year.
- Vaibhav Vaid:** On the debt side, what would be the repayment schedule for this term and the next term?
- Rajesh Doraiswamy:** I do not have the figure right now with me but our long-term debt is only Rs.17 Crores. So that is for a period of five years, however, we intend to repay it much quickly once we start realizing the payment from the Energy saver business.
- Vaibhav Vaid:** Sir there is other liability increase on the balance sheet, if you could throw light what exactly it is, I mean any specific numbers, it has increased a lot.

- Rajesh Doraiswamy:** I think the other current liabilities should be some capital payments, statutory payments, there is no increase actually we have declined from 36 to 35. I do not have the breakup with me right now. I can note it down and share the information with you.
- Vaibhav Vaid:** Sir the receivables have increased year-on-year?
- Rajesh Doraiswamy:** Receivables have increased year-on-year. Ideally speaking receivables should have been around Rs.86 Crores to Rs.88 Crores but it has gone to Rs.99 Crores, the main reason is because of this Energy Management business, which we have done. There is Rs.11.5 or Rs.12 Crores outstanding in that. So, once we realize that our normal outstanding will be at around?
- Vaibhav Vaid:** That would be done in the coming year right?
- Rajesh Doraiswamy:** In the Q1 of FY 2017.
- Moderator:** Thank you. The next question is from the line of Sagar Parekh from Deep Finance. Please proceed.
- Sagar Parekh:** My first question is on the other income; we have seen some increase, any one off over there?
- Rajesh Doraiswamy:** Other income, yes, we have made some foreign exchange gain in that, that is one off.
- Sagar Parekh:** How much is it?
- Rajesh Doraiswamy:** It is around Rs.65 lakhs approximately.
- Sagar Parekh:** Okay and which was how much YOY?
- Rajesh Doraiswamy:** YOY it was much less, around Rs.12 lakhs or something.
- Sagar Parekh:** Profit?
- Rajesh Doraiswamy:** Yes.
- Sagar Parekh:** For full year how much would be forex gain?
- Rajesh Doraiswamy:** No, I am talking about the full year.
- Sagar Parekh:** Full year Rs.65 Lakhs and for the quarter?
- Rajesh Doraiswamy:** Okay, I think that came in this quarter that is accounted for in this quarter.
- Sagar Parekh:** And sir my second question is on the transformers with Trafomodern, we were expecting earlier to start production in Q1, so why a delay of six months now.

- Rajesh Doraiswamy:** Actually starting of the project was delayed a little bit. Now the main reason for the delay is the supply of the machines and also the training of the team.
- Sagar Parekh:** So now revenues we should expect from Q3?
- Rajesh Doraiswamy:** Yes, starting of Q3.
- Sagar Parekh:** Okay and when we say 18% - 20% top line growth, we say it on a basis of 361 or we say it on a basis of 330?
- Rajesh Doraiswamy:** 361, so that means we actually have to grow at 20% plus.
- Sagar Parekh:** You have given a guidance of 20% but you will have to grow at 25% possibly.
- Rajesh Doraiswamy:** Exactly, so from 331 it will be a 25% but since it cannot be published, I have to talk up from the place of 361, which is a published result, 18% - 20% on this 361.
- Sagar Parekh:** Just one book keeping question, what would be your gross debt currently?
- Rajesh Doraiswamy:** 99.
- Sagar Parekh:** 99 is basically if I add your short term and your long term, is there any portion in other current liabilities?
- Rajesh Doraiswamy:** No.
- Sagar Parekh:** Actually your net debt, if I reduce the investments, current investments and cash, your net debt has actually gone down, right, by 83 Crores to Rs74 Crores YOY?
- Rajesh Doraiswamy:** Yes.
- Sagar Parekh:** On your industrial switchgear business, can you give some light on FY 2016 in terms of major products, what are their sales in FY 2016 as compared to FY 2015 and where has this growth come from?
- Rajesh Doraiswamy:** The major products, overall in the full year basis, we have done Rs.170 Crores approximately in the switch gear business and that has come mainly from rotary switches, Toroidal transformers contributing equally approximately I would say Rs.37 Crores each and then the next biggest two products will be cable duct and isolators. These four would have contributed approximately 75% of our total switchgear revenues.
- Sagar Parekh:** So, going forward when we say 18% - 20% top line growth, we expect the industrial switchgears to grow much higher right?

- Rajesh Doraiswamy:** Yes. The wire and cable will continue to grow around 15% - 16% at the maximum; the switchgear segments would grow at 20% - 25%.
- Sagar Parekh:** Right, and out of that, 25% industrial switchgears, what would be the contribution from new product according to you and what would be these four major products, what can these grow at?
- Rajesh Doraiswamy:** Except for the three phase dry type transformers, we do not see any new product contributing right now.
- Sagar Parekh:** Solar photovoltaic switches also
- Rajesh Doraiswamy:** That is actually a product that we already had, in the sense, we already had a year back. So I do not consider that as a new product for this year, but it is a new business of course, so I exclude that. Only the three phase transformers will be new business contributing approximately Rs.12 Crores to Rs.15 Crores and the rest should come from our existing businesses.
- Sagar Parekh:** So, no revenue taken from latching relays or Capacitors?
- Rajesh Doraiswamy:** Capacitors. Capacitors we might get some revenue in the fourth quarter of this year but I am not considering that.
- Sagar Parekh:** Any update on the latching relay project?
- Rajesh Doraiswamy:** Right now no, whatever I said in the last conference call, we are still holding on to that.
- Sagar Parekh:** We have not yet spoken to the partner over there.
- Rajesh Doraiswamy:** We are discussing but no further improvement on the state of the project.
- Sagar Parekh:** And in your Energy Management business, any update on your order pipeline, or have we bidded for few orders, or are we looking?
- Rajesh Doraiswamy:** No, I think there are lots of tenders in the pipeline. So the tenders come up we will be bidding it, as of now we have not bid any tenders.
- Sagar Parekh:** So which government we are seeing tenders coming through?
- Rajesh Doraiswamy:** We have some discussion going on in Goa, some discussions going on in Tamil Nadu for other corporations, so these are the two that we are working on.
- Moderator:** Thank you. The next question is from the line of Chetan Cholera from Pragya equities. Please proceed.
- Chetan Cholera:** I am Chetan Cholera. How do you want to see the company five years down the line like?

- Rajesh Doraiswamy:** We are looking at a business of approximately Rs.750 Crores revenue in FY 2019, that is the projection that I have been giving guidance.
- Chetan Cholera:** FY 2019?
- Rajesh Doraiswamy:** Yes. To achieve that what we are doing is, we are trying to bring in new projects like we did with the Austrian company. So, looking at the switchgear business segment growing and bringing in high margin products.
- Chetan Cholera:** Since the Larsen is not there the promoter stake I see is very low. You are not getting sleepless night like 25%?
- Rajesh Doraiswamy:** No, we were at 30% traditionally. We have gone down because of the recent issues. However, we are holding warrants. The promoters will take this back to 30% once the warrants are converted.
- Chetan Cholera:** 30%, but by way of any, do you have any plan to increase further?
- Rajesh Doraiswamy:** Yes, definitely the promoters do have plan mentioned in the various forums before of taking this higher up over the next three to four years.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please proceed.
- Sanjay Shah:** Good evening sir. Majority of my questions have been answered but I would like to know from you about progress on that RDSO, we were doing some work for RDSO in our R&D we have done, any progress around that?
- Rajesh Doraiswamy:** Sir, for Railways we are already supplying our rotary switches and a couple of new products for this signaling division called the fuse change over and the track field battery changeovers. The total revenues that we are getting from Railways are approximately Rs.6 Crores to Rs.7 Crores including the supplies to RCF, ICF and all the workshops. We have been working with the RDSO on a very new technology for an unmanned Railway processing signaling, or warning for the unmanned Railway gates. We have implemented the proto in a couple of places and RDSO has inspected and approved it. We are waiting for the next step wherein the 17 zones of Railway will order for more trial, which we have to implement, and six months from then they will include this as a part of their normal tender process and the business should go on. We expect that there are 3500 unmanned railway crossings to be monitored and approximate business we look at is, I do not know, Rs.600 – Rs.700 Crores is the potential, which we will be competing. Hopefully we will see some trial orders from all these 17 zones this year and definitely if there is any progress we will come back to you and report this.

- Sanjay Shah:** How do you see about after the new government coming over on, Mr. Suresh Prabhu sounding very optimistic on Railway infrastructure development and all, so do you see any traction from that side?
- Rajesh Doraiswamy:** Yes, I think RDSO is very active in getting new technologies. They are very interested which even otherwise they were but right now I think they are moving a little faster and normal approval period for RDSO is between three and five years but we were able to get this project installed and tested within one, one-and-a-half years. So definitely there is a speed but as I can say that RDSO has always been a very independent organization irrespective of who the government has been.
- Sanjay Shah:** Sir, do you see any other vertical where you feel you are optimistic for the next future and you see some opportunity there?
- Rajesh Doraiswamy:** We have been very optimistic on Indian market, in general Indian Power, Indian capital goods market but unfortunately it has not really grown as we had expected but what I feel personally is that we are seeing the bottom of the curve, definitely there should growth from this point. So it is going to be a good growth story for the country across all sectors I would say.
- Sanjay Shah:** Sir, what are our R&D spending guidelines?
- Rajesh Doraiswamy:** We have spending around Rs.4.5 Crores to Rs.5 Crores every year. We will continue to do that.
- Moderator:** Thank you. The next question is from the line of Tarang Bhanushali from IIFL. Please proceed.
- Tarang Bhanushali:** We have seen a delay in our new product launches, so again from relays to capacitor, so is there any specific reason behind this?
- Rajesh Doraiswamy:** No, I think we actually planned to launch dry type three-phase transformers in Q2 of this year, which is getting delayed to Q3. We already had a plan of launching capacitors only by end of this year, which is in line. Latching relays is one project that is actually not taken off as we had expected. There are couple of reasons; one Indian market is still not ready to absorb that product, second, I think the partner we were talking to is delaying the discussions a little bit because of various internal reasons for them, with or without the partner we will definitely be getting into this latching relay project once we have an idea from the partner by Q2 or Q3 of this year. Apart from latching relay, I do not see any real delay in launching of new projects.
- Tarang Bhanushali:** Sir we were also looking at MPCB circuit breaker?
- Rajesh Doraiswamy:** MPCB product has been tested and it will be in revenue in Q1 of FY 2017.
- Tarang Bhanushali:** So what would be the contribution to FY 2017 from this?

- Rajesh Doraiswamy:** FY 2017 MPCB we do not see a big revenue but we can look at around Rs.7 Crores to Rs.8 Crores of business. However we are talking to very large OEM internationally for branding, once that comes up by middle of this year we will have some information on that and if that happens we look at a revenue of at least Rs.20 Crores to Rs.25 Crores next year.
- Tarang Bhanushali:** So that depends on the tie up with OEM?
- Rajesh Doraiswamy:** We are close to getting cleared on all aspects of the product, there is a field trial that has to go for this product for six months and product is already on the field trial with the client. We will have an idea by middle of this year, middle of FY 2017.
- Tarang Bhanushali:** The switchgear segment, we have seen a slowdown in Q4, so is it because of lower demand or some specific project issues?
- Rajesh Doraiswamy:** It is a combination I would say, one thing we have been growing at a very fast pace in Q1, Q2 and Q3 in the switchgear business. Sequentially we have gone down, that is one of the reasons. Second, some of the projects that we are working with Schneider and GE which we expected to contribute to the revenues in Q4, has not happened it has got delayed little bit. So I think it is the combination of both these is the reason that we have gone down around 5% that QoQ basis.
- Tarang Bhanushali:** And you said a delay in payment of Rs.7 Crores to Rs.8 Crores in Energy management segment.
- Rajesh Doraiswamy:** I would not say a delay whatever said and done it is a bulk invoicing to corporation. So that is Rs.7.5 Crores outstanding, which is beyond 90 days.
- Tarang Bhanushali:** So we have realized the cost but the revenue has not been booked or?
- Rajesh Doraiswamy:** No, the revenue has been booked. The outstanding is there in the books
- Tarang Bhanushali:** Okay, so next year the revenue would be just Rs.10 to Rs.12 Crores is what we expect from this now?
- Rajesh Doraiswamy:** You are right, yes, correct.
- Tarang Bhanushali:** And can I get the margin breakup of the four segments?
- Rajesh Doraiswamy:** The broad range for the industrial switch gear is between 14% and 16%, wire and cable 7% - 8%, building segment is also 7% - 8% and Energy management business is around 17% - 19%. This is for the full year, not for the quarter.
- Tarang Bhanushali:** What would be the volume growth for us in wires and cables and I believe that we largely supply this to L&T
- Rajesh Doraiswamy:** Yes, L&T contributes to almost 70% of the total revenue of the wire and cable business.

- Tarang Bhanushali:** And for the overall revenue how much did L&T contribute this year?
- Rajesh Doraiswamy:** 30%
- Tarang Bhanushali:** So it has come down from 44% for us
- Rajesh Doraiswamy:** Yes, in FY 2014 it was 44%, FY 2015 40% and FY 2016 it has dropped to 30% not because there business have gone down but because other businesses have grown. We have still grown in terms of volumes with L&T
- Tarang Bhanushali:** So, but heavy compromise on margins this year to get the volume push?
- Rajesh Doraiswamy:** I think the wire and cable business is a low EBITDA margin business. It is always goes with the volumes the higher the volume, lower the margin. We are just balancing it out by only focusing on the agri segment and the industrial segment business, which gives little better margins than the building wire segment, which is a very crowded, and low margin business.
- Tarang Bhanushali:** One thing, we are preferred supplier to GE and Schneider, so again compared to FY2015 what would be the total share of GE and Schneider in overall revenues for us?
- Rajesh Doraiswamy:** GE FY 2016 gave us 4% revenue and Schneider was at 7%.
- Tarang Bhanushali:** And vis-à-vis last year what was this percentage?
- Rajesh Doraiswamy:** Schneider was at around 6%; GE was at around 2%.
- Tarang Bhanushali:** And we expect this to improve further right?
- Rajesh Doraiswamy:** Yes. GE, for example, if you see, we have grown from last year Rs.8 Crores to Rs.16 Crores this year.
- Moderator:** Thank you. The next question is from the line of Vinayak Kanvinde from Right Horizon. Please proceed.
- Vinayak Kanvinde:** Thanks for taking my call. A very quick question on the opening comments that was there energy management business has clocked Rs.42 Crores is what you mentioned contributing 12% but there is a quantum jump, you said is not comparable to FY15 and if I recall correctly you said Rs.30 Crores of that is going to get locked off for this year. So essentially if I read the numbers it was Rs.6 Crores in FY2015, it is Rs.12 Crores in FY 2016 and you also talked about that the base will be Rs.330 Crores by 2017, we actually talked about the base of FY 2015 but then the question I have is the guidance you were talking about 18% - 20% on the top line, is it at the base of Rs.330 Crores or is it at the base of Rs.360 Crores.

Rajesh Doraiswamy: No, that is what I said. Knocking off of Rs.30 Crores I think I will be able to talk with the analyst and in the call. On a published basis it is always 361, net revenue, so the guidance that we are giving is on the published value of Rs.361 Crores.

Vinayak Kanvinde: Great, yes that answers. The other quick question was on the energy management business itself. Just wanted to understand you are continuing to maintain that the industrial switchgear business is your subsidy in the next couple of years, that is going to grow. The copper business is a low margin business, which I believe that you are going to maintain. I just wanted to understand what is ramp that you are going to see over may be two or three year time frame on the energy management business which means that will the growth rates continue to be materially higher next three years in this or is it going to taper off in the next one or two years.

Rajesh Doraiswamy: It is actually very difficult to say. As of now we have fixed revenues coming in for the next four years of Rs.10 Crores to Rs.12 Crores every year. That is already there with us and we are going to get it. For the next project, it is very difficult to say. As I told you, we are working with a few corporations for the bringing the tenders out. So once we bid and we get the tenders, then we will be able to give a guidance, it is very uncertain business because we do not know how the tenders are coming out, when they are coming out, how long it takes to fructify a tender, it is very difficult to give a guidance on the revenues but we are hopeful that lot of corporations would like to get into energy saving mode and do this business. So we hope that the business on energy management will grow year-on-year from next year.

Vinayak Kanvinde: Yes but that is perfect but question was more in terms of this is the area that you would definitely want to concentrate as many opportunities that might present in the future; you are definitely going to concentrate on that right?

Rajesh Doraiswamy: Yes, we are definitely looking into it, it is not that we are not going to focus on it, we are leaving it away. We are definitely looking at it, but since it is an uncertain business in terms of giving guidance, we are not projecting that in the guidance.

Moderator: Thank you. The next question is from the line of Trilochand Sharma who is an individual investor. Please proceed.

Trilochand Sharma: Thank you for giving me the opportunity. Sir first a quick question on copper business, can you quantify the volume that we have sold vis-à-vis last year?

Rajesh Doraiswamy: Actually we have grown in terms of revenue by, to be precise, approximately, 13.5%; in terms of volume we would have grown more than 22%.

Trilochand Sharma: Can I have the quantity, if you can quantify it would be of great help to me.

Rajesh Doraiswamy: Quantity is difficult because we do quantity things in two terms – one is in terms of number of tonnes in copper and also in lakh meters. In terms of tonnage, I think we have done approximately 2600 tonnes.

Trilochand Sharma: So, largely it is a commodity product for us because we do not have any brand as such?

Rajesh Doraiswamy: For us it is mainly contract manufacturing for different companies, mainly for L&T 70%, goes to L&T, Larsen and Tubro and we also brand for Crompton Greaves, we also brand for Texmo a company in Coimbatore, we also brand for another company called Suguna and a couple of German companies.

Trilochand Sharma: Fine, we are carrying on with a traditional kind of a business?

Rajesh Doraiswamy: Yes.

Trilochand Sharma: Just to understand a bit more about the energy management segment. I was kind of curious to understand this because if we look at the current environment there seems to be ample amount of opportunity for such businesses to grow but still and specially in India where we are focusing on such kind of conservation. But when you present the future goal or vision about this segment, it does not seem to be that lucrative in nature. So am I missing on something or what is the nature of business in that sense?

Rajesh Doraiswamy: Actually the business that we do is mainly energy efficient projects on the street lighting that is the business that we are into. We are concentrating on street lighting energy efficiency that is the broad area of our business. It is not that we are not projecting it in a lucrative manner or we are not seeing this as a growing business, we are definitely looking this as a very lucrative future growth area. We are just avoiding giving guidance on this business segment. The main reason being because this business is 100% government business, very less private sector business in this. So there we will be able to give a very strong confirmed guidance, here the guidance will be very uncertain for us, so I do not want to give a big projection and then take it back.

Trilochand Sharma: Just to understand a bit more about this segment. There is this normal kind of the lighting system and there is the energy efficient system, which you provide, right. So what kind of savings do we make in terms of energy and in terms of value.

Rajesh Doraiswamy: We are guaranteeing between 35% and 45% energy savings.

Trilochand Sharma: Is it like that?

Rajesh Doraiswamy: Yes, we have practically seen, we have proven, between 35% and 40%.

Trilochand Sharma: So, that is a very significant amount.

Rajesh Doraiswamy: Yes. The corporations are having pay back in five years to six years.

- Trilochand Sharma:** That is great, as of now, how many of the corporations have adopted this technology?
- Rajesh Doraiswamy:** In Tamil Nadu I think almost 14 corporations have adopted which is almost I would say half of Tamil Nadu. We have done in Navi, Mumbai. I know that a few corporations in Andhra have done this, somebody have done in Pune. So there are companies doing similar or equivalent projects otherwise in other states but I do not see a big city is coming and adopting this. Like for example, Mumbai or Bengaluru or Hyderabad.
- Trilochand Sharma:** Why?
- Rajesh Doraiswamy:** I think that is the nature of government, so they take their own time to analyse and come to a conclusion and get this project done.
- Trilochand Sharma:** Okay I got it; I thought they would not do it. You mean to say they will still...
- Rajesh Doraiswamy:** Definitely I think everybody has to adopt this in today's condition everybody wants energy savings.
- Trilochand Sharma:** What is the overall market size in that because everybody has to adopt some kind of an energy saving service at one point of time?
- Rajesh Doraiswamy:** Market size, we have really not estimated on that front, but what we have seen is, we have implemented for four corporations and project size of Rs.100 Crores. On a medium sized corporation like Coimbatore city, 20-lakh population the project size can be between Rs.15 Crores to Rs.20 Crores.
- Trilochand Sharma:** So that is a significant size. One more thing I wanted to understand, in this segment are we product oriented or service oriented kind of a provider?
- Rajesh Doraiswamy:** This is actually a very big advantage for us in this segment, it is both, because we use our own products to the tune of almost 40% of that value and then the rest is the service.
- Trilochand Sharma:** Okay so 40:60 falls in the favour of the service. What kind of margins do we enjoy?
- Rajesh Doraiswamy:** 17% - 18% is the EBITDA margin we have realized in this year.
- Trilochand Sharma:** One last question about the industrial switchgear because that is the largest segment, what kind of growth prospects do we see in that segment?
- Rajesh Doraiswamy:** We are very confident in this business segment, that is the main focus of our company in the last so many years and we see 25% growth in this segment.
- Trilochand Sharma:** CAGR?

- Rajesh Doraiswamy:** Yes
- Moderator:** Thank you. The next question is a follow up question from the line of Vaibhav Vaid from Motilal Oswal securities. Please proceed.
- Vaibhav Vaid:** Could you tell us the gross block number for this year and the accumulated depreciation?
- Rajesh Doraiswamy:** The fixed assets gross block is Rs.100 Crores.
- Vaibhav Vaid:** That will be the net block right?
- Rajesh Doraiswamy:** Rs.172 Crores.
- Vaibhav Vaid:** And sir we project to grow the building segment at 15% right?
- Rajesh Doraiswamy:** No, the building segment is a very small segment, we did Rs.15 Crores revenue, and we would like to take this to Rs.25 Crores and Rs.50 Crores in the next two years. If not, then I think we should not be in the segment.
- Vaibhav Vaid:** Is it too aggressive?
- Rajesh Doraiswamy:** No, it is very large market size estimated to be around Rs.1600 Crores size in India for the product segment we are in, so we are still very small and we have enough room to grow.
- Vaibhav Vaid:** So sir, do we expect to grow more than 30%-35% for the next two years in this business?
- Rajesh Doraiswamy:** Yes definitely because 15 to 25 is almost I would say 60% growth. We want it to grow at that level because without that level we would not really enjoy the benefit of the gross margin the product has.
- Moderator:** Thank you. The next question is from the line of Sanjiv Patkar from SBI Mutual Fund. Please proceed.
- Sanjiv Patkar:** Hi Rajesh, couple of questions, one is there is the short-term loans and advances have grown.
- Rajesh Doraiswamy:** Mainly because of the implementation of the project that we are doing today for the three phase transformers and also the capacitors we have started one.
- Sanjiv Patkar:** Okay, that is one. Second this initiative on the energy saving which you talked about, do you have any number in mind where beyond that we will not go very aggressive because eventually it will lock up working capital.
- Rajesh Doraiswamy:** Every project we take on the energy management side we are very careful. We used to do a lot of boot project before. We completely decided on a company policy level we will not take up any

boot projects. So we will only go in for projects where the payment terms are very certain and within 90 days. So we are looking at that, so whatever said and done 90-day payment term commitment from a government agency we have to consider at least plus 60 days. So that is the maximum we can look at this business.

Moderator: Thank you. The next question is a follow up question from the line of Sagar Parekh from Deep Finance. Please proceed.

Sagar Parekh: Hi Rajesh, just broad and a strategic question to you. When we talk about 25% CAGR in the industrial switchgear segment and we say that our focus is over there in the next three to four years you see. Rs.750 Crores of topline, what is your view or vision in terms of will we be having multiple small products like Rs.30 Crores – Rs.40 Crores revenue kind of a product or will we be focusing more on couple of projects that are technology oriented and they will be pretty big in terms of size and when we say that India is going to grow and domestic market is going to the growth driver for you so with smart cities coming in, are we having any kind of product over there or are we planning any products over there or again it will be a mix of small products?

Rajesh Doraiswamy: I think it will be a combination of both, because if you see that products we have identified like three phase transformers and the capacitors, for example, both are potential to grow to Rs.100 Crores each or even more. At the same time, we are also not losing any opportunities in businesses that can contribute Rs.40 Crores to Rs.50 Crores business to us and that is not difficult for us to manage the reason being, for example, today if you see we are doing a business of Rs.40 Crores in rotary switches and transformers each. The manufacturing synergy is there in all the products that we do. So it is the same processes that we follow with different product lines coming out at the end. So we will not lose opportunities in getting a product into the prod portfolio if there is a customer that can take Rs.40 Crores business from us. Like for example IPD and the product we are supplying to Australia, that product has potential to grow to around Rs.30 Crores to Rs.40 Crores in the next two years. It will be a combination of both getting a product that can potentially grow to Rs.100 Crores to Rs.150 Crores or Rs.200 Crores. Also looking at smaller level products that can grow to Rs.30 Crores – Rs.40 Crores levels.

Sagar Parekh: Sir, bigger products then, except this transformer and capacitors, the two new projects that we are doing?

Rajesh Doraiswamy: The Toroidal transformers that we are doing today have potential as big as the three phase transformers. So we are seeing this product growing to around Rs.150 Crores in the next three four years from Rs.140 Crores.

Sagar Parekh: What will drive the demand for that?

Rajesh Doraiswamy: Basically the Toroidal transformer is a concept-selling product that we introduced ten years back. Today there are any numbers of manufacturers of this product in India and there are lots of awareness for people to use this product in their appliances. The advantage of using a Toroidal

transformer is the flexibility in shape and size and the higher efficiency and because of the volume that we have built and also because of some process innovation the cost of Toroidal transformers have dropped significantly and we are now comparable with all the conventional transformers. So that is actually creating a shift in the balance of people using a conventional transformer and a Toroidal transformer. So that is the growth for this product.

Sagar Parekh: Okay and so in terms of the capacity would we be, if we have to go to, let us say Rs.100 Crores each in these three projects in the next three years.

Rajesh Doraiswamy: The capex for manufacturing facility for these three products is not very significant. That is why I said that we would be doing Rs.8 – Rs.9 Crores of maintenance will include machineries for this, because they are very dynamic and we do not need large machines, large area, dynamically we can increase that. Right now we are operating at around 70% in the Toroidal transformer business.

Sagar Parekh: In the three phase dry type we have capacity up to Rs.100 Crores of revenue.

Rajesh Doraiswamy: Yes.

Sagar Parekh: Would we be needing more?

Rajesh Doraiswamy: I do not think we need anything more beyond that as of now at least until next two three years.

Sagar Parekh: Okay so this year then when we say Rs.12 Crores to Rs.15 Crores of revenue from that particular business segment then basically we would be operating at 15% utilization.

Rajesh Doraiswamy: Only six months know, 25 % - 30% efficiency.

Sagar Parekh: And what kind of challenges do you see because it is very easy to...

Rajesh Doraiswamy: Getting the product qualified with the client is going to be the biggest challenge but we are well placed because of our technology back up for client from Europe. So otherwise we do not see a big challenge in manufacturing products.

Sagar Parekh: So then how long does it take for the client?

Rajesh Doraiswamy: We have already started that process.

Sagar Parekh: So who would be your clients over here?

Rajesh Doraiswamy: The biggest clients will be Schneider, Alstom, ABB, Danfos.

- Sagar Parekh:** In terms of not only for this particular product, overall otherwise challenges in managing working capital, if we have to grow to Rs.750 Crores kind of revenue level, managing working capital, managing employees do we have a specific plan?
- Rajesh Doraiswamy:** The biggest challenge that I see going will be managing the receivables, because the market is still very tight and of course we have to be very conscious on the inventory that we carry. We have always been a little loose in that. So we are tightening that front and if you can see the improvement from five months to 4.4 months this year, we have managed to maintain the inventory at Rs.66 Crores compared to last year. So I think the biggest challenge is going to be the receivables. On the employees front I do not think we have any issues, we have a very disciplined work force, very cordial and cooperative work force.
- Sagar Parekh:** So in terms of technology engineers any kind of specialised work force that is required?
- Rajesh Doraiswamy:** The work force availability is not an issue at all, whether it be the lower level or the middle management level.
- Moderator:** Thank you very much. The next is a follow up question from the line of Chetan Cholera from Pragya Equities. Please proceed.
- Chetan Cholera:** I just wanted to make a request, kindly upload the presentation of this current quarter in your website.
- Rajesh Doraiswamy:** Looks like it has been uploaded sir, if not we will definitely do it.
- Moderator:** Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Akhil Parekh from Nirmal Bang for closing comments, over to you.
- Akhil Parekh:** Thank you Zaid. On behalf of Nirmal Bang institutional equities we would like to thank all the participants in the conference call and wish the company well in the following quarters. Sir over to you if you want to add any closing comments!
- Rajesh Doraiswamy:** Thank you very much everybody for the interest and time taken to attend the call. Look forward to talking to you again in the next conference call.
- Moderator:** Thank you very much members of the management. Ladies and gentlemen, on behalf of Nirmal Bang Equities, that concludes today's conference call. Thank you for joining us. You may now disconnect your lines.