



“Salzer Electronics Ltd. Q4 FY17 Results

Conference Call”

May 26, 2017

Management: Mr. Rajesh Kumar - Joint Managing Director

Mr. Murugesh - Asst. Company Secretary



- **Moderator**
- Ladies and gentlemen, good day and welcome to the Salzer Electronics Q4, FY '17 earnings conference call hosted by Prabhudas Lilladher Private 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 * and 0 on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Kunal Sheth from Prabhudas Lilladher. Thank you and over to you, sir.
- **Mr. Kunal Sheth - Prabhudas Lilladher Private Limited**
- Thank you, Lisa.
- I would like welcome Mr. Rajesh on the call, Mr. Rajesh is the Joint Managing Director for Salzer Electronics.
- Sir, thank you for giving us this opportunity and I would request you to give us some opening remarks post which we will open the floor for a Q&A.
- Over to you, sir.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Thank you very much.
- First of all I would like to give you all a warm welcome for our fourth quarter and full year ended 31st March 2017 earnings call. I have with me here Savli and Rahul from Bridge Investor Relations and Mr. Murugesh, our Asst Company Secretary.
- We have shared our results update presentation and I hope you all must have received it.
- I would like to start by giving a very brief background of the company. Salzer Electronics was incorporated in 1985, in collaboration with German Salzer Electric (GmbH) a

manufacturer of cam operator 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 in India and abroad. All our products are internationally certified. Though we operate under the Electrical Electronic Product Group, for the ease of analysis we have classified our business into four segments. Industrial switch gear business, wire and cable business or the copper business, the building segment and the energy management business. Today we have five manufacturing facilities located in Coimbatore and one in Himachal Pradesh. We also have our in-house R&D lab recognized by the government of India.

- Now coming to the quarterly financial performance, the revenue from the operations were at 112 crores in this quarter. A year on year growth of 13%. We have witnessed a good growth in segments of industrial switch gear, a robust growth in building products and wire and cable business also, during this quarter.
- The EBITDA for the quarter was at 10.7 crores as compared to 9.7 crores in the previous quarter, a growth of 10.5%. The EBITDA margins are flat at 9.5% as against 9.8 in the last quarter. This was mainly due to the increased contribution from the wire and cable business which traditionally is a low margin business. Also the decreased contribution from the order book driven energy management business. The PAT remains flat at 3.6 crores for Q4 FY '17 as against 4 crores in Q3 FY '17. This is mainly on account of additional provision for taxation in the last quarter. Exports contributed to 16.6% of our total revenue in this quarter.
- Coming to the full year financial performance, the revenues from the operations were at 384 crores in full year as against 361 crores in the corresponding year, with a 6.3% growth. The full year ended EBITDA stood at 42.5 crores giving a flat growth. EBITDA margin was at 11.1% and remained flat as compared to last year. The PAT also is flat at 17.1 crores in the full year as against 17.04 crores in the corresponding year. Exports for the full contributed 18% of the revenues.
- Now looking at the breakup of the revenue as per the business segment. As you all must be aware the industrial switch gear industry has remained almost stagnant and at times even de-grown over the last four years. Despite these challenges we have managed to grow at a very healthy rate of 13% this quarter. The reason behind this is consistency in our quality and ability to deliver in time with a very wide product offering. The industrial switch gear which is one the largest for us in terms of contribution has contributed 41% of the total revenues in this quarter and reported a year on year growth of 13%. On a

- yearly basis the switch gear business contribution was 46% with a year on year growth of 3%.
- Wire and cable business consisting of copper wires and cables is the second major business for us. This business contributed 51% of the total revenues of the company with a year on year growth of 29% on account of increased volumes. On a yearly basis, wire and cable business contributed 46% with a year on year growth of 32%. Within this segment our focus has been to do brand labelling for major brands. We started with branding for L&T, and today we brand for Crompton Greaves, Texmo, E Fab and a couple of other brands. In the last two years we have also started to focus giving value added products to various customers like elevator travelling cables, wire harnesses, and other similar cables in the segment.
 - Moving on to the building segment business, I am happy to share that we have witnessed a very robust growth in this business, although the contribution to the total revenue remains small. We are confident of increasing this contribution from this segment in the coming two to three years on a 10% level. Building product segment contributed 7% of the total revenues and witnessed a year on year growth of 82% in this quarter. On a yearly basis the building segment product contributed 6% with a year on year growth of 50%.
 - The fourth is the energy management business, this is a new technology business which was developed by our in-house R&D team. This product segment has given us a benefit of being the largest ESCO with highest CRISIL rating in the country for Salzer. Energy management business contributed 2% of the total revenues with a year on year decline of 81%. On an annual basis this segment contributed 3% to the total revenues with a year on year decline of 76%. Here I would like to highlight that in the last year we had a revenue of 42 crores coming in from the EPC contract business as against which we have had a revenue of only 10 crores in this year. Taking this into account on a standalone basis the company has achieved revenue growth of 17% year on year. The standalone EBITDA and PAT also witnessed a growth of 13% and 20% respectively, if we consider the EPC business separately.
 - Overall this revenue growth has been driven by the building segment, wire and cable segment, both of them have grown more than 30% year on year and despite a continued challenging scenario in industrial switch gear segment in India we have still had a volume growth of around 7% year on year. Through our continued association and increase in orders from our valued customers like GE, Schneider, Honeywell and ABB, we have been able to achieve this growth.



- Coming to the broad balance sheet figures, the net worth stood at 222 crores as against 196 crores last year. The total debt stood at 115 crores as against 99 crores last year.
- Going forward our focus remains to achieve profitable growth by adding newer products which are customized and value added in nature, exploring newer geographies which can yield better margins. With a very competent team in place, we are confident of achieving the milestone which we have set for ourselves.
- I would also like to inform that we have recently started discussions with our initial collaborator, Salzer Electric GmbH, after 30 years. Salzer Electric is a market leader in cam operator rotary switches in Germany with significant sales in Germany, UK and US. The personal understanding with Salzer Electric GmbH is highly significant for us in our continuous efforts to establish tie ups with world renowned players for sourcing technologies and making products with a focus for both domestic and global market.
- 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 the 'Question & Answer' session. Anyone wishing to ask a question may please press * and 1 on their touch-tone telephone. If you wish to remove yourself from the question queue, you may press * and 2. Participants are requested to use handsets while asking a question.
- Ladies and gentlemen, we will wait for a moment while the question queue assembles. We take the first question from the line of Uttam Simal from Fortune Financials, please go ahead.
- **Mr. Uttam Simal – Fortune Financials**
- Good afternoon, Mr. Rajesh.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Good afternoon, sir.
- **Mr. Uttam Simal – Fortune Financials**



- Sir, this is regarding coming GST. How your products will be impacted , once GST is coming into force.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Currently all of our products fall under 12.5% excise duty and 2% CST or 5% VAT. For higher slab today we will be at 17.5 or 18%, today is what we are paying but going forward GST, all our products are placed, likely to be placed under 28% taxation. We will not have major impact because of that because all the 28% GST will be creditable for the OEM, so we don't foresee a price increase or a negative effect because of that. Overall I would say that GST is going to be very positive for the organized industries and we will see a lot of efficiency coming into this system.
- **Mr. Uttam Srimal – Fortune Financials**
- Okay, second one, sir, this is regarding wire harnessing business that you are into. Do you see any potentiality in this business because see what I think once this BS4, BS4 has already come in and a lot of other companies are focusing on wire harnessing business, so are you also focusing on this business.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yes, wire harness is definitely a focus segment for us this year. I think we have started this business last year. It is definitely going to be a focus business for us going forward. But unlike the automotive, BS4 I think you are talking about automotive wire harnessing, we are so far not into automotive wire harnessing. All the business that we have so far done and focusing is in the industrial wire harnessing.
- **Mr. Uttam Srimal – Fortune Financials**
- Okay.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- There could be very high potential for this business, I think we did, I did mention in my last call that we had received the first trial order from a Malaysian company and business with them is continuing to grow and we see a very high potential in this wire harnessing business going forward.
- **Mr. Uttam Srimal – Fortune Financials**



- Okay, and next one, sir, this is regarding your switch gear business, which is in some down trend for the last three four years as you said, so can we see some growth in this business because this is the main segment of your business.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yes, I think switch gear business, as a company we have been growing year on year, even if it has been a small growth for example just this year we have grown by 7% year on year. But still we have been growing despite the challenging situations in the country. What is happening here in the country is the industrial growth as such has not been very significant, though there has been a lot of, in the sense a lot of hope and a lot of focus has been given for Make In India and things like that. In reality I think it is still taking time to convert into business. But we see definitely a lot of opportunities because we have set our base, we have expanded our product base, we have set up new plants we have expanded our capacity, we are just waiting for the explosion to happen.
- **Mr. Uttam Srimal – Fortune Financials**
- Okay, and last one, your revenue year on year has remained flat overall.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think that's exactly what I mentioned in my opening remarks, we have grown, we have actually grown by 18% if we don't really look at the energy management business. The energy management business last year gave 42 crores out of 360, that means the company's business as a standalone without the energy management or the project business is 320, so 320 to 370 today is the growth that we have seen from the revenue.
- **Mr. Uttam Srimal – Fortune Financials**
- And this energy management business, are we expecting some more orders in this segment.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think end of last year we already secured an order for 19.5 crores from a company called EESL in Delhi it is a government company and we are executing the project and this year we will be invoicing that.
- **Mr. Uttam Srimal – Fortune Financials**



- And what would the margin from this business?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Energy management business traditionally for us has been giving around 20 to 22% EBITDA.
- **Mr. Uttam Srimal – Fortune Financials**
- Okay, thank you, sir, that was from my side.
- **Moderator**
- Thank you. Before we take the next question we would like to remind participants that you may press * and 1 to ask a question. We take the next question from the line of Dhruvi Vyas from Pi Square Advisors, please go ahead.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Hello, sir, good afternoon.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Good afternoon.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- I have a few questions from my end. First, the trade receivables on your balance sheet from the year 2016 and 2017 have increased say around 21 odd percent, but the revenues have been quite decent 6.5%, can you like give a glimpse of the same. And the cash also remains constant. So there is no change there. So are we like lagging, what's the reason for the slack there?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think the collection overall has been a little poor for sure, and secondly I think the revenues in Q4 has been significant compared to the nine months or the last quarter if you look at I think we have done 118 crores in Q4 as compared to 270 for nine months that's 40% of nine months business we have done in Q4. So that's also one of the reasons for the increased debts.
- **Ms. Dhruvi Vyas – Pi Square Advisors**



- Now going further, what is like a further outlook for the energy management division of ours, because we see the revenue coming down and wires and cable segment the revenue going up.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- We will continue to have approximately 10 to 15 crores of revenue year on year, I think that is the projection that we have as of now. However, we are working with I think the EESL is the main company right now doing this project, so we are working with them and we expect to secure more orders from them.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- The 19.5 crores that you just mentioned.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yeah, that is one, one tender that we have secured, so more tenders are expected, so we might secure more orders from them. But we foresee at least 10 to 15% year on year revenue coming from that.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Right, and also I mean subsequently to the first question regarding the trade receivables, we know for a fact that our recovery cycle is a little stressful, I mean because of our, a few clients that we work for. Is that the reason, so when do we expect that the money shall get into the constant cycle?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think 90 days average is normal in our business cycle and I think we will continue to have between 90 to 100 days of debtors.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Okay, another question on the cost of goods that we've been consuming it is consistently increasing as a percentage of our sales, it has been around 60-68% since the last year, now it is almost 77-80% of our sales. So what is the outlook for that, because the major part of the revenue goes there.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**



- Yes, if you look at almost 50% of the total revenues this year has come from the wire and cable business. And wire and cable the raw material consumption is approximately 87%. On a full year basis if you see we have 45% wire and cable revenue contribution which is taking up 87% of the raw materials. Switch gear business is giving the other 45% with an average consumption of 50%. So I think that's the trend and I think this will continue if we see higher contribution from wire and cable then the overall consumption will look increased.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Okay, and, sir, apart from the blended margins that we have, can we get a break up of like margins that EBITDA for wire and cables, energy management and all the four divisions that we cater to.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I can give a comparison for example in the switch gear division we have been constant at 14.5% EBITDA margin in '15-16 as well as in '16-17. In wire and cable from 7.3 we were able to increase it to 7.7 EBITDA margin. The building segment again from 7% I think we have remained flat at 7%. And the energy management last year gave us around 17% EBITDA, this year we have got around 23.5% EBITDA.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Wow, but then the share in the revenue has also gone down. So we cannot see the blended thing increasing.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yeah, I think that's going to be the nature because most of the expenses have been already incurred, so the EBITDA is going to be higher for the 15 crores that we are going to realize every year.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Okay, okay, and sir, any more further guidelines on our new MOU that we have signed with the German company.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**



- Okay, the MOU that we have signed with the German company is we are trying to explore possibilities of know how, joint marketing across the world, using the manufacturing strength that we have in India. The Germans have realized that they have to move to a low cost country so I think that's the reason that they were interested to come and now start working with us again. So the idea is to explore possibilities to see how we can use our inherent strength and get mutual benefits for both the companies.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Sounds....
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- No concrete plan or revenue guidance that I will be able to give but we are exploring possibilities of doing joint marketing for the products that is being manufactured in India by Saelzer Germany.
- **Mr. Dhruvi Vyas – Pi Square Advisors**
- Okay, sir, and the last question on the guidance towards export and the domestic markets in the coming two years.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think we are confident of growing as a company as a whole at 20% minimum year on year on the revenue side.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Okay, and exports specifically?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Exports we were at 20%, so I think we will continue to maintain the 20%, there is a slight decline this year in revenue contribution but on an absolute number we have grown.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Yeah, maybe because of value, the decline is because of the value, right?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**



- No, decline is because of the revenue share, because the wire and cable have contributed more, it is not being exported.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Right, right, okay. I think that's it, sir. Thank you so much.
- **Moderator**
- A reminder to the participants. Anyone wishing to ask a question may please press * and 1. The next question is from the line of Alok Rawat from Karma Capital. Please go ahead.
- **Mr. Alok Rawat – Karma Capital**
- Hi, good afternoon sir, thanks for the opportunity. I have a few questions and please pardon me, if they do sound a bit naïve. First question, sir, regarding the your switch gear business, is my understanding correct that you sell under your own brand Salzer as well as manufacture for other switch gear companies? Is that the correct understanding or am I?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Switch gear products almost all, almost 99% of sales that we have done is in Salzer brand. Except for some branding that we do for the export businesses that sell outside India.
- **Mr. Alok Rawat – Karma Capital**
- And sir, would the same hold true for cable business as well?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- No, cable business almost 85 to 90% is branded business.
- **Mr. Alok Rawat – Karma Capital**
- As in manufacturing for other brands.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yeah, manufacturing for other brands.



- **Mr. Alok Rawat – Karma Capital**
- And, sir, for the Salzer brand what kind of rights do you have, I believe the brand is owned by Saelzer Germany. So, if you could just elaborate about this.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- The brand in Europe is owned by Saelzer Germany, with slight change in spelling. They are S-A-E-L-Z-E-R and we own the Salzer brand in India. And few far east Asian countries and the Middle East countries.
- **Mr. Alok Rawat – Karma Capital**
- Okay, I see and there is no royalty payment or any.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- No, no. No, until this MOU that we signed up very recently, there has been no connection apart from the collaboration that we had in '86 to '91. And there had been no royalty payment. And even now there is no royalty payment.
- **Mr. Alok Rawat – Karma Capital**
- Okay and for the export that you will do, joint marketing that you will do with them. That will be under your brand and without any royalty.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- And I think those are the things that is being discussed right now with them.
- **Mr. Alok Rawat – Karma Capital**
- Okay. Sir, secondly in the presentation you mentioned about products that you will be launching in collaboration with GE. So, if you could just give a bit more colour about that.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Okay. GE has been our customer for almost now 5-6 years and we have been growing very well with GE. We have actually doubled our sales with GE in 2016-17 compared to '15-16. We are a preferred supplier to GE, GE Energy and right now we have also been selected as a, not a preferred supplier but as a supplier for GE transportation and GE Oil and Gas. So, there have been new businesses and new contracts that's been coming to



us from these two new companies apart from GE Energy. So, we, I think those are the agreement that, I think as and when we sign something with them, we have been announcing that last year we did that 10 year contract GE Transportation for contractors. And we are negotiating for them for 3 phase transformers. 3 phase transformers have been under testing with them and hopefully we will have some good news in this quarter.

- **Mr. Alok Rawat – Karma Capital**

- The agreement for the transformers would be for supply and not in terms of joint marketing or...

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- No, no. no. Supply, supply to their use.

- **Mr. Alok Rawat – Karma Capital**

- Thanks, and last question, sir. Do you sell directly to SEBs or state Discoms and....

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- No.

- **Mr. Alok Rawat – Karma Capital**

- Okay. So...

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- No, we don't have any product that is usable by any SEBs. It is a completely different line of business.

- **Mr. Alok Rawat – Karma Capital**

- Okay, understood sir. Thank you so much and all the best.

- **Moderator**

- Thank you. The next question from the line of Akhand Pratap Singh from Axis Securities. Please go ahead.



- **Mr. Akhand Pratap Singh – Axis Securities**
- Good afternoon, sir.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Good afternoon.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Yeah. Sir, my question is on 3 phase light transformers, in January we started testing of these products, what type of revenue we are expecting this year?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- This year , we foresee to do a business of at least 17 to 18 crores for FY'18.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, and what will be the margin of this product?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- First year margin might be little lower margin at around 14% EBITDA but as a product, I think this product can give upto 18% EBITDA level.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, sir, second, our capacity of our capacitor was delayed by 6 months. So, when it is expected to production actually?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- This year I think, it should be in our revenue stream from the second quarter onwards.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, this year we will have. Sir, any guidance on the revenue front on this product.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- As a company, I said we will definitely be confident growing at 20% year on year for next 2 years.

- **Mr. Akhand Pratap Singh – Axis Securities**
- 20%. We were also expected to come with the product, latching relays. So, any update on that.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- No, latching relays right now as I told that in the last couple of calls the collaborator, potential collaborator with whom we were discussing has gone a little slow. And we will not be coming out with the product at least for the next two quarters. The discussion on that product should be starting after that.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, okay. Sir, we were also working on the railway crossing front. So, any update like we were in the testing phase for few railway crossings. So, what is update on that front?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- We have gone up to RDSO and then we have given some more suggestions. So some of the suggestions are being implemented and that again they have taken it up back for testing in that after the improvement. I don't see a clear picture or revenue guidance for that product in this year. It's still, I would say in the R&D stage. So, apart from that we have been doing business with railways, with switchers, with few change overs and some more additional panels which we have made. All that put together I think, this current year we have done 10 crore business with railways, 9.5 crores.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, sir, one more question on the like in the wire and cable segment, we have achieved a growth of 29%. So, what was the contribution of volume and pricing in that?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Out of 20%, I think 20% has been volume growth, 9% will be incurred for the pricing.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay. Outlook for building product segment like last year we achieved a growth of 82% in that segment. So, going forward like the facts are going so we expect good revenue, good outlook from that?

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think, we see that building segment of real estate in general has been doing good for us. The main reason is that our base has been small. We were at around 20, 18 crores. So, the base has been small. With a little bit you know, real growth we will be able to do 50-60 crores in this segment. I think that's what we are expecting. For the current year, I think our target is to reach at least 35-36 crores.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, fine. What will be the margin in that segment?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Right now the EBITDA margins are at around 7-7.5%. But we are still below the critical sale volumes. So, if we can reach that volume, we expect that should be around 30 crore, is the level that we see. Beyond which I think the EBITDA margins can expand significantly.
- **Mr. Akhand Pratap Singh – Axis Securities**
- Okay, sir. Thank you, sir.
- **Moderator**
- Thank you. The next question is from the line of Mulesh from Shah & Savla LLP. Please go ahead.
- **Mr. Mulesh – Shah & Savla LLP**
- Thanks for taking my questions. In fact I was to ask you about the 3 phase dry transformer but that question has been already asked. But can you throw little more light on, you know, the transformer business as such our existing toroidal transformer and this 3 phase dry transformer and the business prospect in that.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think for us transformer has been a good growing industry for the last several years. And it continues to grow. This year also we have seen 12 to 13% volume growth in transformers, in single phase toroidal transformers. And, and this product also has taken us into the large OEMs I think because of toroidal transformers and coils we were able to



get into the preferred suppliers list of Schneider and GE. So in that way I think, the product has also been giving entry into various OEMs and entry for various other products into those OEMs. And about 3 phase transformers, I think we got into 3 phase transformers because our single phase transformer customers have been pushing us to get into this business. And that is how we signed up and we got into this business. So, most of our single phase customers will be buying 3 phase transformers. Apart from that 3 phase transformers also we see a huge potential in the solar inverter business in the granulare renewable business, transportation. That's how we got into GE transportation we are working with Alstom transportation. Our next target for us will be Bombardier. So, all these are growth areas the renewables, the railways, apart from the regular industrial market.

- **Mr. Mulesh – Shah & Savla LLP**

- So, can you, can you think of some numbers going forward financial year '18, financial year '19, from these two segments.

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- I think for our 3 phase transformers our projections were, you know, we will be doing 18 crores. We are projecting 18 crores for the current financial year for '18 going to 40 to 45 crores next year and then we want to reach 90 crores year after that.

- **Mr. Mulesh – Shah & Savla LLP**

- Okay, okay and how about existing single phase?

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- Existing single phase transformers I think it's been, internally we have split that into various products divisions like in that we do chokes and filters. So, I don't have a combined figure right now with me to tell you. But I think the product has been growing, doing very well. So, exact figures I don't have but I can note it down and get this information through our investor relation company to you.

- **Mr. Mulesh – Shah & Savla LLP**

- And as a segment overall industry of transformer you see good potential in that.

- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**



- For the transformer that we are doing, yes.
- **Mr. Mulesh – Shah & Savla LLP**
- Okay, good. Thank you.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- So, I think you should not look at this as a Crompton or Voltas. That is completely different transformers, they are high voltage distribution transformers. We are not into that. These are different transformers.
- **Mr. Mulesh – Shah & Savla LLP**
- Alright, thank you, thank you very much and I wish you all the very best.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Thank you.
- **Moderator**
- Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Hello, Rajeshji, I am Sudhir here.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Good evening, how are you?
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Good evening, well. So, I wanted to know you have guided 20% at least turnover growth for the current fiscal. I wanted to know from where this growth will come, and second, what is the scope of you know, going, margin going up to 12%? Because our margin have declined considerable in Q4 actually and what is the scope of improving the margin? And any guidance for the margin also for FY'18.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**

- Yes, the margin is because of the blended nature of the business, of the low margin business as well as the high margin business. Even in the switch gear business we used to have 15-15.5% EBITDA which has declined by 1% to 14.5, mainly due to the lower growth, lower volume growth. If we do a 20% volume growth I see getting back to 15.5% EBITDA in the switch gear business and 8% wire and cable EBITDA margin, which will then give us a 12%-12.5% EBITDA margins.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Okay, from where....
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Revenue growth side I think 20% is approximately 75 crore additional business that we are aiming. Out of which we are seeing 18 crores from the new business and the rest 50 crores. So, we are looking at wire harness as a very potential product that is going to give us new revenue this year. And single phase coil transformers that is growing at a very healthy pace. And the new solar switch that we have developed and we are supplying to Australia. I think that is another business that is going to give us the growth, the additional lump sum growth. Apart from the usual businesses which will also grow at a decent 7 to 8%.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Sir, I just heard from L&T sources that they are going to sell the switch gear division.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- It was the news today in CNBC, so, I don't know whether...
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Whether the business will be affected?
- **Mr. Rajesh Kumar – Salzer Electronics**
- It was in the news, they have not confirmed it but it has always been in the news. As far as we are concerned, I think 30% of our revenue comes through their distribution channel and I expect that even if L&T gets sold but this business will continue because it is going to be a business for them. Maybe the ownership of L&T can change but the business won't.



- **Mr. Sudhir Bheda – Right Time Consultancy**
- So, we don't foresee any trouble if L&T sells.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- No.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Okay, okay. That's it from my side, sir.
- **Moderator**
- Thank you. Before we take the next question we would like to remind participants you may press * and 1 to ask questions. The next question is from the line of Dhruvi Vyas from Pi Square Advisors. Please go ahead.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Hello, sir. Most of my questions have already been answered but one, one question that still remains is that our inventory has been bulking up since 3 quarters now and over and above that, any further guidance towards that as well.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I think that is an area of concern for us too, for a long time. We actually wanted to cut on the inventories and we have been working quite hard. But unfortunately this last quarter has pulled us down. Otherwise we had a very healthy inventory level. I hope after Q1 and Q2, we will get back to the healthy inventory levels.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- So, sir, the last quarter was because of simply our contribution to wire and cable or what was the reason?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Both I would say. Wire and cable, 3 phase transformers and the new products that have come into line.
- **Ms. Dhruvi Vyas – Pi Square Advisors**



- Or does the GST hamper, how does it go on?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- I don't think GST will have any effect for the inventories for that. I think as a company we just wanted to be at less than 2 months inventory which we are not able to come to. But we are working hard to get there.
- **Ms. Dhruvi Vyas – Pi Square Advisors**
- Okay. Okay, I think that answers my question, thank you.
- **Moderator**
- Thank you. Remainder to the participants anyone wishing to ask the questions, may please press * and 1. Participants if you wish to ask the questions, you may please press * and 1.
- **Individual Participant**
- I have a question. Sir, actually in the presentation we have mentioned, we will probably add few new products and new geographies. So, if you can throw some light in terms of what could be that new product line and geographies that we are likely to add, you know, in the next few years?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- The new product line I think that we have mentioned like MCBs and some GE transportation contractors, which we signed the contract I think that is going to be developed and launched this year. On the new geographies, I think we have looked at Egypt that is one new area for us. I think we have signed some new contracts there. Some distributors, we have appointed some distributors in Egypt, Nigeria, Kenya. I think Africa is basically selective African markets. US we are giving more focus. We have actually appointed one person in North America to explore more opportunities there apart from the existing distribution that we are doing. So, these are the two areas that we will be working on to get the exports increased.
- **Individual participant**
- Okay, sir. Thank you sir.



- **Moderator**
- Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Sir, Sudhir here again.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Yes.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Sir, just wanted to ask, what is the reason for the next 3 to 5 years like when you are planning once you reach 1000 crore mark, and another question.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Just go ahead, go ahead.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Another is just I heard you on CNBC this in the morning saying that we are likely to increase our stake. So, can you throw some colour on it?
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Increasing of stake, yes, the promoters have always been getting to increase the stake because of the dilution that happened a couple of years back, we went down and I think in the last 1 ½ years so 5% has been increased from 25.5 to close to 30 now. On the 1000 crore, I think internally we definitely have a target to get to that figure by 2021.
- **Mr. Sudhir Bheda – Right Time Consultancy**
- Oh great.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- We have a plan and we have road map working to get there.
- **Mr. Sudhir Bheda – Right Time Consultancy**



- Great, great. All the best for that. Thank you.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Thank you.
- **Moderator**
- Thank you. A reminder to the participants anyone wishing to ask a question, may please press * and 1. There are no further questions. I now hand the conference over to the management to their closing comment.
- **Mr. Kunal Sheth – Research Analyst, Prabhudas Lilladher Private Limited**
- I would once again thank you all for taking time out and coming to this call.
- **Mr. Rajesh Kumar – Joint Managing Director, Salzer Electronics**
- Thank you all very much.
- **Moderator**
- Thank you. Ladies and gentlemen, we that we conclude today's conference. Thank you for joining us and now you may disconnect your lines, thank you.