



“Salzer Electronics Limited Q1 FY 2016  
Earnings Conference Call”

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**Moderator:** Ladies and gentlemen, good day, and welcome to the Salzer Electronics Limited Q1 FY 2016 Earnings Conference Call, hosted by Emkay Global Financial Services Limited. We have with us today, Mr. Rajesh Doraiswamy, Joint Managing Director. As a reminder all participant lines will be in the listen-only mode. 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. John Perinchery from Emkay Global Financial Services. Thank you and over to Sir!

**John Perinchery:** Good evening everyone. Thanks for joining us today. We would like to welcome the management of Salzer Electronics Limited and thank them for giving us the opportunity to host this call. I would now like to hand over the call to Mr. Rajesh Doraiswamy. Over to you Sir!

**Rajesh Doraiswamy:** Thank you, John. Good evening to everyone. Welcome you to the conference call to discuss financial performance for the first quarter ended June 30, 2015. I have with me our GM Accounts and Finance, Mr. Satyanand.. I hope you all received our updated investor presentation. Before I get into the quarterly financial performance, I would like to give a small brief overview about Salzer since this is the first conference call for us.

Salzer Electronics was incorporated in 1985. We have grown from a single product company manufacturing Cam operated switches to a multi product manufacturing company catering to various electrical and other industries within India as well as outside India. We have emerged as a leading player today offering total and customized electrical solutions to all our customers. We have five manufacturing facilities located in Coimbatore and Himachal Pradesh. We also have a R&D Department, which is recognized by Government of India, which helps us in innovation and product customization.

All our products are certified internationally and we have one patent for Rotary switches and we have applied for five more patents. We have classified our businesses into four different segments within the electrical space. First one is the industrial switchgear business. The second one is the Wires & Cables, the building segment and the energy management business.

The industrial switchgear segment includes products like Rotary switches, transformers, terminal block isolators, relays and contactors. We are the largest manufacturers in Rotary switches Wiring Ducts and Toroidal Transformers in India. The building segment products include modular switch changeovers. The Wire & Cable business includes building wires, industrial wires, agricultural cables, tinned copper wires and flexible busbars.

The energy management business is our new and emerging business. Here we manufacture energy saver panels and street light controllers. We have recently won an order for 106 Crores from Tamil Nadu State Government where we have to install energy saver panels on the street lights for four municipal corporations.

These panels guarantee an energy saving of up to 30 to 35% in the total energy consumption for the municipalities. This is an order book driver business, which has huge potential; however, since this government oriented business, we do not have a visibility on the order book, as there are no current tenders out this year so far, but we have been taking all efforts in talking to various government officials in various other states. They have expressed a lot of interest in this project.

Over a period of time, we have added many products in our basket and offer customize solutions as well. We have increased our exports and currently we export to more than 40 different countries in the world which includes all the western countries like US, UK, Europe and most of the Far East and the Middle East. It is this diversification and customization that has led us to customer addition and customer retention.

I am happy to mention that last year we have been chosen as preferred suppliers by Schneider and GE, two major global OEMs. We have also been awarded the best emerging supplier by GE in India. So that is about the Salzer overview.

Now moving to the quarterly financial results, during the quarter we have seen the revenues grow at 33% year-on-year to 92 Crores this quarter. The EBITDA for the quarter was at 12.4 Crores with a year-on-year growth of 43%. The EBITDA margins also improved to 13.5%, an improvement of almost 1%, 94-basis points on year-on-year.

The PAT is at 5.05 Crores with a year-on-year growth of 58%. At the individual business level, the key business segments have shown a growth. The industrial switchgear segment contributed almost 44% of our total revenue, which has also grown year-on-year at 18%. The Wire & Cable business, which is 35% of the revenue has also grown year-on-year at 12%.

The building segment contributed to 4% of the revenues; however, it has declined 14% in revenues year-on-year. In fact the three segments put together have grown at 14% in revenues and over 30% on the EBITDA year-on-year.

The energy management business was 17% of the revenues this quarter and has shown a growth of 650%. The high growth in this segment is because of this new project that we are implementing this year. This implementation started and revenue started accruing only this quarter.

24% of revenues were from exports and going forward our plan is to add more products in switchgear business. This is more on profitable growth, which will come from the existing products as well as new products, which are going to add in switchgear segment. We also successfully closed a QIP by raising 62.06 Crores to fund all our new product development and the new projects. Subsequent to the QIP Larsen & Toubro was 26% investor in our company since 2007 that exited the stake. This was in line with L&T's own strategic decision to exit all non-core investments, which we have been doing in many other companies.

This is absolutely no effect on the business that Salzer has been doing with the last Larsen & Toubro for the last two decades. That is going to continue as usual. As of today, approximately 33% of our revenues come by way of marketing by L&T. This year we plan to add three phase dry type transformers to our product suite. We have already tied up with an Austrian company like Trafomodern for technology transfer wherein Salzer will be using Trafomodern model technology, design and assistance to manufacture dry type air-cooled transformers.

These dry type transformers are hitech products with applications in medium sized UPS, renewable energy businesses like solar inverter signals, railways like metro coaches, regular air condition railway coaches, also in marine and power generation industry. The total market size for these products are estimated to be around approximately 2000 Crores with currently being catered by only two manufacturers in India both by the foreign companies and the third company that is being set up all of them in Bengaluru. So we will be the fourth manufacturer for this product in India.

For this product we will be investing approximately 22 Crores to set up the manufacturing facilities in Coimbatore, apart from this we are also looking into two other ventures which are in a very early stage of discussion. All in all, we are looking at adding approximately 250 Crores from the new projects alone in the next three years time. So having said that thank you all for joining me in this call. We can now take questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madan Gopal:** Good evening Sir. Sir, you gave the growth numbers for each of the segment. I missed out on the first two segments, if you can repeat it, it will be helpful, switchgear and copper business?

**Rajesh Doraiswamy:** The industrial switchgear segment grew at 18% year-on-year and this year it contributed around 44% of our total revenues. Wire & Cable grew at 12% year-on-year and it is 35% on the current revenues on contribution.

**Madan Gopal:** In terms of the EMS business, what was the EBITDA contribution of EMS business in this quarter?

**Rajesh Doraiswamy:** Energy management contributed the EBITDA percentage was 18.5%. It contributed approximately 3 Crores to our EBITDA.

**Madan Gopal:** This will continue for three years, right?

**Rajesh Doraiswamy:** I think it will contribute for the next three quarters so we expect a revenue of approximately 43 Crores from the EMS business.

- Madan Gopal:** You mentioned the four municipals where you got the order. What is the size of orders?
- Rajesh Doraiswamy:** 106 Crores is the total order.
- Madan Gopal:** It will be in the same way in which we have done the previous project like we have to spend initially and then get it?
- Rajesh Doraiswamy:** This is a little different wherein we will get 50% of the cost of the tender in the first year and the rest in the next four years.
- Madan Gopal:** So, this 106 Crores will be disrupted in this way? The cost would be? The cost of developing this project
- Rajesh Doraiswamy:** My cost of development of product would be approximately 48 Crores.
- Madan Gopal:** How much of that would be internally sourced?
- Rajesh Doraiswamy:** We have actually taken a project term loan of 15 Crores.
- Madan Gopal:** So how much of this 48 Crores would be internally sourced?
- Rajesh Doraiswamy:** Internal sourced product will be approximately 22 Crores.
- Madan Gopal:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Divyesh Shah from Pragya Equities. Please go ahead.
- Divyesh Shah:** First of all congratulations for the excellent performance and Sir, I am tracking your stocks from last five to seven years and this I think the last quarter must be the most historical quarter in the history of Salzer Electronics. I have noted a very few important changes, which has happened in Salzer. First of all Sir, it is the highest number of shares that have changed in this quarter in the whole history of Salzer. First time Salzer crossed 400 Crores market cap and for the very first time, promoter has subscribed for preferential issues and QIP and Larson exited and most important things which I notice is that the first annual report, which looks very exhaustive and informative till now we were getting old standard reports. So I think lot of changes have happened in Salzer. So what is the road ahead of Salzer because by reading the annual report, I noted that management has a reason to be a 1000 Crores enterprise by 2020. So will you please give some guidelines how 1000 Crores will be achieved by 2020 with all your four divisions? What are your internal target? My most important question is do we need anymore fund to achieve this 1000 Crores turnover?
- Rajesh Doraiswamy:** First of all thank you for all your compliments. We are doing our best and I think we have always been working to get this company to the next level maybe now we have got some good advisors

and we are looking at different scale. We have a vision definitely to become 1000 Crores as soon as possible, but our short-to-medium term target is to bring in new businesses that is new high margin business like the transformer joint technical tie up which we have done right now. We are working on two more projects like that. So with all these three projects put together we expect new business alone to contribute approximately 250 Crores in the next three years, and the existing business also we expect from the current 280 to grow at approximately 25% for the next two to three years. So, if you put together I think we will be at around 700 Crores or 650 Crores in FY 2018 and 750 in FY 2019. That is the plan that we have and to invest into this new projects, we have gone ahead and raised some funds for 62 Crores now. I think this will help us to reach whatever we are planning. I do not think we are going to look at fund raise in the next medium to short term.

**Divyesh Shah:** Sir, what will be your blended margin when you cross 1000 Crores roughly, if you could throw some guidelines?

**Rajesh Doraiswamy:** Currently, our blended margin is at around 5.66% or 5.5% at the PAT levels. We expect that this will grow at around 1% in the next three years. So we see a 7% to 7.5% PAT margins in FY 2019.

**Divyesh Shah:** Sir, we are with many multinational companies and we are developing products of many multinational companies, as you have already informed officially that transformer is one of them. So, is there any other which you can disclose, any other JVs or technical tie-ups with other multinational companies where you see a huge business potentiality?

**Rajesh Doraiswamy:** We are working with GE and Schneider for the last several years. I think those two are our significantly major customers both put together contributing around 10% of our total revenue. We continue to work with these two companies and we are a preferred supplier for both these two companies. We are also working with other major OEMs like ABB, Honeywell, Siemens, but nothing significant as of now, but we are a normal customer to them and we are supplying a very small portion of our revenues to them, but we expect that the businesses will grow with all of them significantly. As of now I do not think there is any new JVs that we are ready to announce but we are working on two new projects where we will have more information to be disclosed in the coming quarters.

**Divyesh Shah:** Sir, what would be our promoter's holding after the conversion of your warrants after 18 months?

**Rajesh Doraiswamy:** I think today we are at around 25.5% after conversion of the balance warrants we will be at around 29.5%.

**Divyesh Shah:** As good management practice, are you comfortable with such a low promoter holding?

**Rajesh Doraiswamy:** The promoter's always have a plan to increase. I think we will be seeing some kind of a creeping slowly as and when the opportunity comes.

- Divyesh Shah:** Thanks and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Akash Jain from Ajcon Global Services. Please go ahead.
- Akash Jain:** Good evening Sir. Congratulations on an excellent set of numbers. My question is regarding the revenues from the Indian Railways. Sir what would be our revenue contribution from new products like fuse, changeover system and track feed battery system in the Indian Railways for FY 2016 and FY 2017 and what was the revenue for the quarter?
- Rajesh Doraiswamy:** The current quarter, I think the Railway business contributed around 1.2 Crores, the fuse changeover system has still not contributed very high because it is a very small portion of the business has come from that product because I think it is still in the initial stages of I would say RDFO testing and the business is just starting, but we expect that this is due to the fuse changeover and the track feed battery changeover, two new products will be contributing approximately 8 to 12 Crores in this year. So whatever we have done in the first quarter has been our switches business to railways.
- Akash Jain:** Going ahead what would be the utilization of the QIP process. There are two technologies. One is three phase dry type transformer and is MPCB so in FY 2016, FY 2017 can you give us the breakup of the proceeds utilization?
- Rajesh Doraiswamy:** This year I think we will be deploying approximately 22 to 25 Crores for the three phase dry type transformer project. The MPCB is a product that we are developing, which will be requiring around 5 to 8 Crores this year and the rest is going to be kept on the reduction of working capital management until we come up with the next two new projects.
- Akash Jain:** Secondly with the tie up with the Austrian company what would be our investment in that project for the use of technology?
- Rajesh Doraiswamy:** That is what I said, the manufacturing facility the total project cost is between 22 and 25 Crores.
- Akash Jain:** Okay and what would be our top 10 client's contribution to your total revenues?
- Rajesh Doraiswamy:** 22 to 24%.
- Akash Jain:** What is your expectation going ahead in terms of GE and Chennai contributing to your revenue; currently you said it is around 10% so going ahead are we going to see an increase as we have acquired the status of preferred supplier?
- Rajesh Doraiswamy:** Yes definitely. I think today we are at 7% Schneider and 3% is our contribution. We see that this contribution will definitely grow on increased revenue to 14% this year.
- Akash Jain:** Combined?

- Rajesh Doraiswamy:** Combined.
- Akash Jain:** That is all from my side.
- Moderator:** Thank you. The next question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.
- Sanjeev Panda:** Sir my question is primarily regarding the dry type transformer that we are entering into. If you can help us to understand how different it is from the normal transformers and second compared to the transformers that we are into and second is that as you mentioned there are two or three players existing in India who were producing this, can you help us like who are the players? What kind of profitability we can expect from this?
- Rajesh Doraiswamy:** These are dry type transformers are different than the regular oil cold transformers that are produced in India or cast resin transformer that are produced in India. These transformers find application in mostly indoor wherever you cannot have oil cold transformers. For example, you find applications in large UPS where for example at 300 MW UPS, which is used in large data centers, they will be using these transformers. They cannot use oil transformers. So those are the applications that we are trying to see for this product.
- Sanjeev Panda:** It is basically largely it will be more of a B2B kind of deals?
- Rajesh Doraiswamy:** It is only B2B.
- Sanjeev Panda:** Who are the players already in this market?
- Rajesh Doraiswamy:** In India there are two foreign companies one is called Trafomec from Italy. It is an Italian company manufacturing the same products in Bengaluru. Other company is called Samurai. It is a Japanese UK joint venture. They are also in Bengaluru.
- Sanjeev Panda:** Just out of curiosity, I am asking like the already existing player who are into transformer industry are they able to do that entering into this field or why do not they have ever tried?
- Rajesh Doraiswamy:** Current transformer manufacturers in India like Crompton, Voltamp whoever it is the business segment that they are focusing today is completely different than the segment of business that we are focusing. All those transformer people are manufacturing transformers the high voltage transformers for the transformation distribution segment. We are working on an electricity work segment and we are working on the OE segment where these transformers are used in the products. It is completely different segment and the product technology also is different. They are oil cold, cast resin these are completely air-cooled dry transformers.
- Sanjeev Panda:** Sir, for a rough number what kind of profitability one can expect in this kind?
- Rajesh Doraiswamy:** We are looking at a 16% to 18% EBITDA margins in this product.



- Sanjeev Panda:** By what time we can start this?
- Rajesh Doraiswamy:** We are starting the project now. We see an eight to 12 months of setting up of the plant. So we can see the revenues coming in the end of first quarter next year.
- Sanjeev Panda:** FY 2017 first quarter or second quarter?
- Rajesh Doraiswamy:** End of first quarter let us take second quarter.
- Sanjeev Panda:** Do you have these kind of any agreement or long-term buying contract kind of happen, as in spot basis normally?
- Rajesh Doraiswamy:** Sometimes we do have long-term contracts, but as of now we do not have any long-term product, but we have a lot of enquiries and lot of visibility. So going forward in the next six months, we will have more information because we have started employing marketing people and we have started driving the market information also.
- Sanjeev Panda:** The technology partner that we have tied up with what kind of relation it is only the technology and will be taking it on?
- Rajesh Doraiswamy:** We signed the technical licensing agreement on royalty basis. So we will be paying a 4% royalty on the net sales.
- Sanjeev Panda:** No marketing relations?
- Rajesh Doraiswamy:** No marketing relationship.
- Sanjeev Panda:** Thank you Sir and best of luck.
- Rajesh Doraiswamy:** Thank you.
- Moderator:** Thank you. Our next question is from the line of Rishi K from India Capital. Please go ahead.
- Rishi K:** I would just want to learn that after L&T has sold their stake how your marketing be impacted? Because I believe you are using around 400 plus dealers to sell your stock.
- Rajesh Doraiswamy:** L&T has been our partners since 1994, so they will continue to do the marketing business for us in India. They became an equity stakeholder some time in 2007 and then they exited now because of their own internal decision of getting out of small investments. So are completely not delinked. The business is not going to have any effect. The business is going to continue as it is.
- Rishi K:** Sir, after you have placed the shares at around 235 most of the funds are exiting and they are exiting really fast so people are not buying your story for the long-term or what is their view right

now because I am able to speak two or three guys they are saying after L&T sold people are not so much positive so what is happening on the ground Sir?

**Rajesh Doraiswamy:** Again, I would like to stress that I think L&T selling Salzer stake has no relationship between Salzer's growth story or Salzer's business. L&T sold its stake not only in Salzer but various other investments.

**Rishi K:** After L&T around 11 funds have sold and in the next alternate day there is a bulk deal announcement in Salzer stock. So, I wanted to learn, are people smelling something fishy or what is going wrong?

**Rajesh Doraiswamy:** That is what is exactly what I am trying to explain. So, L&T filling the stake first of all, I would like to...

**Rishi K:** I am not talking about L&T. I am talking about the other funds, 11 funds have sold in the last 15 days and in huge quantity.

**Rajesh Doraiswamy:** Other fund selling, I think we have placed around 26 lakhs shares with more than seven to eight funds in India as well as outside including large mutual funds, of course yes, I think every fund has their own strategy to quit or to trade or when they have an arbitrage of price, so I cannot really say like why they are selling is there anything fishy there is nothing. All the information is available and we are doing as good as we can and we can see the results.

**Rishi K:** Thanks. So nice of you Sir.

**Moderator:** Thank you. The next question is from the line of Rajesh Kotari from Alfa Accurate Advisors. Please go ahead.

**Rajesh Kotari:** Good evening Sir. Congratulations for good set of numbers. Do you think that over the next two to three years as you are planning the new joint ventures, the technical tie ups you know what are the scope of services which you think are Salzer will be offering to these tie-ups. What makes the tie-up click?

**Rajesh Doraiswamy:** I think there are two to three things that makes tie up click for us. I think if you look at the transformer that we have tied up now is mainly customer driven, many of our customers wanted this product to be manufactured in India because they were all importing it, so they really facilitated for this tie up to happen. So that is one side of it. The other side of it I think is the Indian market is expected to grow at a set of faster pace for the next seven to eight years or ten years compared to many other countries across the world which is actually giving a lot of focus for western countries to come and set up shop here. So, I think that is another reason that we will be getting a lot of companies to come and set up plant here. We will be well placed to receive them or have a tie up with them if because of the facilities that we have created and set up within our manufacturing process and technology that we have observed over the last three decades that

is putting us in a better position than many of the other companies in India for foreigners to come and join with us.

**Rajesh Kotari:** What would you think will be such similar kind of opportunities in terms of the size of opportunities, how big you think it can be considering your competence number one and number two, how aggressively you are further investing in your competence in terms of R&D or number of employees or something like that?

**Rajesh Doraiswamy:** Technology absorption has been one of the main important criteria for us from day one. I think we have been doing that consistently. The opportunities are very big, but we have a plan. So we are working according to the plan and we want to get to a level of around as I told 700 Crores in FY 2019 is what we are planning. So we are working according to the plan, but going forward two years, three years down the line any new opportunities comes up and if we are able to take advantage of this opportunity, I think we will definitely jump and take it.

**Rajesh Kotari:** My last question is how is the working capital in the last quarter? Is there any improvement?

**Rajesh Doraiswamy:** I would not say so, I think we have maintained as it is. There is no change I would say. Our debtors have jumped but the main reason for that jump is because of the energy management project that we are implementing, but then that will get over before this year end, so if you leave apart that I think we have been at the same levels.

**Rajesh Kotari:** But going forward as this new businesses ramps up you expect working capital to reduce?

**Rajesh Doraiswamy:** Yes. I think we will see in FY 2017.

**Rajesh Kotari:** Great. Wish you all the best.

**Moderator:** Thank you. The next question is from the line of Sunil Jain from Nirmal Bang. Please go ahead.

**Sunil Jain:** Good evening Sir. This is regarding mainly your business, or new project business, can you explain how is the working capital cycle in this business and how it operates?

**Rajesh Doraiswamy:** The new business that we are planning to set up, you mean to say?

**Sunil Jain:** No, I am talking about the project business?

**Rajesh Doraiswamy:** The energy management, the government business. This is on a gross basis this is 106 Crores value order so we will have to manufacture the energy saver panels, source out lot of other components, go and install this in four different corporations in the state. The payment cycle is as and when we supply the equipments we will get 25% of the value that is 106 Crores and when we install we will get another 25% and as per the contract, we have to complete the supply and installation in 12 months. So that ends by December this year and the balance 50% will be paid to us as 12.5% every year for the next four years with an 8% interest on the remaining balance.

**Sunil Jain:** No, I am not able to get the last part, 50% you will get for supply and manufacturing?

**Rajesh Doraiswamy:** Supply and installation we will get 50%.

**Sunil Jain:** And the balance 50%?

**Rajesh Doraiswamy:** We will get 12.5% every year for four years.

**Sunil Jain:** Plus interest.

**Rajesh Doraiswamy:** Plus interest of 8% on the remaining balance.

**Sunil Jain:** Mainly long-term investment also you had put a lot of money in this?

**Rajesh Doraiswamy:** Our total investments will be approximately 48 Crores in the first year and then 3 to 3.5 Crores every year for the next four years.

**Sunil Jain:** So normally how much margin you are getting in this type of business?

**Rajesh Doraiswamy:** We see an EBITDA of around 18% to 19%.

**Sunil Jain:** This is one of type or new type of projects which the government has allotted or it was doing it with earlier someone else also?

**Rajesh Doraiswamy:** Actually as far as Tamil Nadu is concerned, it is we who have done two other projects in Coimbatore and Madurai.

**Sunil Jain:** Company has done.

**Rajesh Doraiswamy:** Yes, Salzer Electronics, but other states I think there are other companies who have been doing it.

**Sunil Jain:** You got all the four new projects from Tamil Nadu?

**Rajesh Doraiswamy:** Actually we got four but our competitors also got around five other corporations.

**Sunil Jain:** No, but your 106 Crores order it is purely from Tamil Nadu.

**Rajesh Doraiswamy:** Yes it is purely from Tamil Nadu, all four corporations are from Tamil Nadu.

**Sunil Jain:** So, how was the payment in earlier projects means, you were getting payments in time or was there any delays?

**Rajesh Doraiswamy:** We were getting payments within six months.

- Sunil Jain:** There again the payment was in installments or it was flat payment?
- Rajesh Doraiswamy:** Those two projects that we did was a little different than what we are doing now. Those two projects that we completed already were on BOOT basis. So, it was a complete investment by the company and the entire investment was paid back in five years. It was equally distributed over a period of five years but here in this new project 50% comes from the first year and the rest 50% in the four years.
- Sunil Jain:** Basically, you have to combine both the things, your manufacturing and installation whatever service you give margin for that and plus for investment you try to earn return on that also?
- Rajesh Doraiswamy:** Yes.
- Sunil Jain:** So combined we get around 18% to 19% for that?
- Rajesh Doraiswamy:** 18% to 19% EBITDA and we are looking at a PAT of around 10%.
- Sunil Jain:** So while payment, my question was mainly related to when you get the payment the scheduled payment of say it is coming on a particular date, so is there any delay in that from the Tamil Nadu government or not?
- Rajesh Doraiswamy:** So far in the projects that is what I said I think, as soon we have been receiving payments between three and six months, but now I think this project has been awarded under scheme called IUDN scheme where the funds are already allocated by the state government to the corporations for specific purpose and they are already escrowed and there is also a third party auditor who is certifying the supplies and installation. So the third party auditor in this case is TUV. TUV organization certifies I think we get payment within 30 days.
- Sunil Jain:** Sir, one more part related to this is inventory if you just for this execution of this project you have to build up inventory or something because you have to manufacture procure the material and manufacture also?
- Rajesh Doraiswamy:** Not much, I think. In our books today we have an inventory of around 4 to 4.4 Crores.
- Sunil Jain:** It is the inventory requirement is not much in this?
- Rajesh Doraiswamy:** Not much, yes because as soon as we buy and we produce we keep shipping and installing it.
- Sunil Jain:** So whether manufacturing of whatever the product in this has any great technology or it is more of easily available?
- Rajesh Doraiswamy:** Of course there is a technology involved that is why there is not many competitors here. It combines a lot of our own products as well as some software, microprocessor controllers that we deploy to get this product done.

- Sunil Jain:** So in out of 106 Crores order how much component will be our own manufacturing?
- Rajesh Doraiswamy:** I told 106 Crores is our sale price, our cost of product will be around 48 Crores and on 48 Crores our own internal products will be approximately 22 Crores.
- Sunil Jain:** Thank you.
- Moderator:** Thank you. The next question is from the line of Vaishali Parker Kumar from Bank of Baroda Capital. Please go ahead.
- Vaishali Parker Kumar:** Good evening Sir. Congratulations on good set of numbers. Actually is there any other states approach you have for the energy saving business? Is there any other states which have approached you for the energy saving business?
- Rajesh Doraiswamy:** We are talking to various states. I think one being Rajasthan and also Gujarat and the part of Andhra Pradesh and Karnataka, but nothing concrete to you know unanswered to say. It is in various stage of discussions.
- Vaishali Parker Kumar:** What could be the opportunity size for this segment?
- Rajesh Doraiswamy:** The opportunity can be very huge. A city like Bengaluru alone small city only the Bengaluru city can be a size of around 50 to 60 Crores. So we can actually extrapolate this to all over India and the market size is going to be very huge, but the problem is there is no visibility to it. It takes time to get these government convinced on these projects.
- Vaishali Parker Kumar:** How many companies are there which you are competing with you in this particular segment?
- Rajesh Doraiswamy:** As of now in Tamil Nadu government's tender we saw three companies basically competing with us. One was a contractor from Delhi, and there was Asian Electronics in this and there was another company from Belgium who is a LAD manufacturer, LAD street lights manufacturer, so he was competing and there are various companies in Bengaluru and in Pune and Delhi.
- Vaishali Parker Kumar:** So all these companies would be using almost same technologies?
- Rajesh Doraiswamy:** Similar, not exactly the same but very similar.
- Vaishali Parker Kumar:** Sir, one more thing that if we see in fourth quarter your energy saving business was contributing 2% of the total revenue. This quarter it was contributing 17% of the total revenue, so going forward what could be the sustainable contribution from this particular segment. Can you throw some light on that?
- Rajesh Doraiswamy:** We do not forecast big numbers for next year. I think, as of now with this order what we are seeing is we are going to get around 43 Crores in the net basis for this year. For next year we only see a 12.5 Crores revenue. Beyond that I think we can only project as and when we have an

order for this. So all our projections what we say is only based on this, based on the order that we already have.

**Vaishali Parker Kumar:** This 106 Crores what you are talking about you have got this, it is a new project, right?

**Rajesh Doraiswamy:** Yes.

**Vaishali Parker Kumar:** Thank you so much.

**Moderator:** Thank you. The next question is from the line of Akash Jain from Ajcon Global Services. Please go ahead.

**Akash Jain:** Sir, this is regarding the new product segment called Latching Relay. The company has already launched new kind of relays using various application. I want to understand the opportunity for the company in this segment?

**Rajesh Doraiswamy:** Latching Relay is still a product that is we are talking to; one of our partners from outside India for a joint venture, so we have not launched this product, it is a future plan, but opportunity for this product we estimate it to be very huge, but still the market has to mature for this product. The product is being used in smart energy meters and smart energy meter usage in India is still very minimal, but going forward in the next two to five years I think this country will start using smart energy meters and that is when the country becomes the largest market for Latching Relays.

**Akash Jain:** Thank you Sir.

**Moderator:** Thank you. Our next question is from the line of Pawan Kumar from Unified Capital. Please go ahead.

**Pawan Kumar:** Can you give us an idea of what is the capex expected for the year? Capex expected for the year Sir for the coming two years?

**Rajesh Doraiswamy:** This year I think we are going to invest on the new project. We have already signed up, which is around 25 Crores and another new project is around 8 Crores, so 30 to 33 Crores we already have visibility and investments lined up and we are waiting for other projects to sign up. So as of now I can confidently say that we will be investing around 33 Crores in the new project and our existing business maintenance capex will take around 6 to 8 Crores.

**Akash Jain:** Maintenance capex would take 6 to 8 Crores?

**Rajesh Doraiswamy:** 6 to 8 Crores, yes.

**Akash Jain:** Secondly how aggressive we are going to be in bidding for projects in the energy saving segment going forward and what would be the level you will be comfortable with? How much percentage

with regard to it as a contribution of your overall revenues. For example, right now it is around 106 Crores of order book that we have. Up to what level of order book would you be comfortable with because I understand there would be a huge working capital that would also be required for this excluding these projects?

**Rajesh Doraiswamy:** As a company we have already decided that we will not be doing any BOOT projects where the revenues are spread over the next five years, six years or ten years. So that is the decision that the company has made as a policy. So, I think if you leave that and if you start taking projects like what we have taken now where the payment is ensured as and when it is supplied by 25% and then installation 25%. So then the working capital is not strained so much and for this project also even though this is going to be a short-term we have taken a short-to-medium-term term loan for this project exclusively so that the existing working capital is not disturbed for this project.

**Akash Jain:** What would be the term loan?

**Rajesh Doraiswamy:** 15 Crores we have taken Sir.

**Akash Jain:** What would be the visibility? Okay you said as and when the new projects come, then only you will declare is it?

**Rajesh Doraiswamy:** Yes that is correct.

**Akash Jain:** But are we comfortable taking bigger size projects?

**Rajesh Doraiswamy:** Why not yes, if there is an opportunity, I think we should be able to do that, but we will always ensure that the payment cycles are shorter and not spread over the next five years. I think that is the policy decision that the company has taken.

**Akash Jain:** What would be the debt equity ratio you will be comfortable with that going forward?

**Rajesh Doraiswamy:** We have traditionally been at 0.8 or below, 0.9 or below. So we will continue to operate at those levels and not exceed that level.

**Akash Jain:** 0.8 to 0.9 times.

**Rajesh Doraiswamy:** Yes.

**Akash Jain:** Thank you.

**Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. John Perinchery for closing remarks. Over to you Sir!





*Salzer Electronics Limited*  
*August 11, 2015*

**John Perinchery:** Thanks. On behalf of Emkay Global, I would once again like to thank you for joining the call today. Have a great evening.

**Moderator:** Thank you very much. Ladies and gentlemen on behalf of Emkay Global Financial Service Limited that concludes this conference call. Thank you all for joining us and you may now disconnect your lines.