

# **Salzer Electronics Limited Q2 & H1 FY19 Earnings Call Conference Call**

**29<sup>th</sup> October 2018**

**Speaker Name: D Rajesh Kumar – Joint Managing Director  
& Chief Financial Officer**



## **Moderator**

Good day, ladies and gentlemen and welcome to the Q2 & H1 FY19 Earnings Conference Call for Salzer Electronics Limited. Please note, this conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinion and expectations of the Company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 0 then \* on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. D Rajesh Kumar, Joint Managing Director and Chief Financial Officer. Thank you and over to you sir.

## **Rajesh Kumar**

Thank you very much. Good afternoon everyone and thank you all for joining our earnings call for the second quarter and half-year ended September 30, 2018. I have with me Savli Mangle and Smit Shah from Bridge Investor Relations, Mr. Bhaskara Subramanian, Director Corporate Affairs and Company Secretary, and also Mr. Murugesh, Assistant Company Secretary of our Company.

We have shared our results update presentation and I hope you all must have received it and also gone through the same. Before going into the financials just a few brief introductions of the Company.

Our company started as a single product manufacturer; manufacturing cam operated rotary switches in India in 1985. Over the years we have evolved from a single product manufacturer to a company that offers total complete and customized electrical solutions to our customers.

Over the years, we as a company have made sure that we are always in the forefront of technological development by getting into technical associations with reputed companies across the world. Our four state-of-the-art manufacturing facility is located in Coimbatore. We also have our in-house R&D lab, which is recognized by government of India.

Through all these initiatives we were able to bring in high quality products of international standards and gain leadership position in a few of them. Be it our association with Larsen & Toubro from 1993 to Plitron from Canada in 1995 or the Trafomodern from Austria in 2016. We have always focused on getting into technology, which are niche and of great value to the company.

Through this focus and sheer determinations to come out with products of highest quality, we have been able to get a preferred vendor status with global giants with like GE and Schneider. All our products are internationally certified. Though we are operating under the electrical, electronics product group, for the ease of analysis, we have classified our business into four divisions, namely the Industrial Switchgears business, the Wire and Cable business, the Building Segment business and the Energy Management business.

Before we discuss the quarterly business and financial performance, I would like to share with you all about a significant development on the credit rating front. That our credit rating has been upgraded by CRISIL to A/Stable from A minus pocket for the long-term borrowing and A1 re-affirmed for short-term borrowings, reflecting the leading market position in domestic rotary switches market and an adequate financial risk profile.

It is also to be noted that this is the second upgrade that we've got in the last three years from CRISIL. Also, I would like to inform that we've withdrawn our acquisition proposals relating to the two overseas companies that we had announced in the end of June 2018.

This is fourth details that we conducted so mutually agreed by the board of directors and the management that the acquisition evaluation we are not in-line with expectation and so it was dropped. Keeping in mind the long-term value creation of Salzer group.

Coming on to our quarterly and half yearly financial and business performance, our financials for this current and past quarters have been restated as per India's accounting guidelines.

I am happy to share that despite domestic industry, especially the Switchgear market not supporting growth or showing any sign of increase in demand, the financial squeeze experienced by the SME companies all across the sector, we have continued to be stable and also have been able to grow. We registered as increase in revenue of 34% year-on-year at 135 crore in the second quarter FY19.

Our revenue for the first half September 30, is at 261 crore compared to 205 crore last year, which is a year-on-year growth of 27%. Our share from domestic market is 84% of our revenue as we witnessed growth coming from our new products in the building and in the Switchgear segment.

Also, our legacy products such as rotary switches, toroidal transformers have shown growth and uptick in demand. Our two new products Three Phase Dry Type transformers and Wire Harness have also witnessed good traction compared to last year.

The EBITDA, for the quarter stood nearly at Rs. 17 crores that's compared to Rs. 13 crores in the corresponding previous quarter, which is a growth of 30% mainly on account of better product offerings. The EBITDA for H1 FY19 grew by 30% year-on-year to nearly Rs. 31 crore from Rs. 23 crore last year. The profit after tax was maintained at 5.6 crores in Q2 FY19 as against 5.8 in the corresponding quarter. For H1 FY19 the PAT grew a 3% to 10.2 crore compared to 9.9 in H1 FY18.

Moving on to the breakup of revenue as for the business divisions the Industrial Switchgear division contributed 44% to the total revenue in this quarter, and 40% in H1 FY19. The segment has grown by 17% year-on-year in Q2 FY19 of product rotary switches, toroidal transformers have continued to show growth. We have also seen good traction in other products, three phase dry type transformers and wire harness.

The Wire & Cable division contributed around 43% of our revenue this quarter and 49% in the first half. One significant happening in this first half is that we have now started to manufacture and sell wires and cables under our brand Salzer we are seeing a growing opportunity here. This is apart from our brand labeling business that we were doing for L&T, Crompton and few other large brands under the Wire & Cable division.

Moving on to the building products division this business is the only B2C business that we have. Going forward we are confident of increasing contribution from this division to around 10% level as it has opened new opportunities in the real estate sector, where we have got some annual rate contracts with major builders.

This division has contributed around 9% this quarter and 8.4% in the first half of the financial year driven by the increase in sales and good traction for our product offering such as modular switches, MCBs, distribution boards, change overs and wires and cables. We've also increased our focus on retail segment and are formulating strategy to further strengthen our presence in this segment. The sale of this division has grown from 9.38 crore last half year to around 22 crores this current half year.

The fourth is Energy Management division which has contributed 5% revenue in this quarter. This is an order book driven business and this quarter we have been able to book revenue of which was due to us for the second year of the contract that we were doing in Tamil Nadu state.

I would like to briefly speak on our balance sheet. Our market share that as on 30 September 2018, total debt decreased by 10% to around 122 crores from 135 crores on March 31. And debt to equity ratio improved to 0.4. The net working capital in days have come down to 100 days as compared

to 130 days from six month ago. And we continue to focus on bringing that down and improve our capital efficiency further.

In conclusion our focus continues to remain on profitable growth and capital efficiency. We continue to look at adding new products, which are customized and value added in nature. We are also continuously on the lookout for new geographies, new customers which can help us get better margins.

As part of our history we're always open for technological collaboration or association that can help us strengthen our position in the market.

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

### **Question-and-Answer Session**

#### **Moderator**

Thank you. Ladies and gentleman, we will now begin with the question and answer session. We have question from M M Savla Consultancy Services. Your line is un-muted.

#### **Mulesh Savla**

Good morning and congratulations on good set of numbers.

#### **Rajesh Kumar**

Good morning and thank you sir.

#### **Mulesh Savla**

Yes, I just have one question on our financial numbers like employees' cost, other expenditure, depreciation and interest, these four cost have gone up in this quarter. So can you please throw some more light on the component or reason for increasing such cost? Thank you.

#### **Rajesh Kumar**

If you look at quarter-on-quarter – or sorry year-on-year the finance cost and depreciation has gone up, this is because we have acquired all the magnet wires as a business. So that's the interest costs of that company and the depreciation of that company has been added, which was not present in the last – first half last year

#### **Mulesh Savla**

Right. Right.

#### **Rajesh Kumar**

The employee cost has gone up. I think we have revised that the yearly increment needs to be given normally in May, June that to the tune up the around the 9%. And because of that the employee costs have increased. The other expenses, I think, it is in line with the increasing growth as a percentage.

**Mulesh Savla**

Okay. And what is your outlook for the coming years? And how do you see the economy they have standing out and the challenges faced by the industry due to liquidity crisis and all?

**Rajesh Kumar**

I think the liquidity crisis have definitely affected the SME which has overall got the economy – it was actually very buoyant, I would say, from April. But suddenly we see slow down or little pessimistic opinion in the market from August onwards. But we don't see major setback because of that. The output for us for the full year we see that we will continue to grow at around 20% minimum. On top line, as well as bottom line is what we expect.

**Mulesh Savla**

Alright, good, good. And that's all from my side. Thank you so much all the very best.

**Moderator**

Next question comes from Sharmin Nasser. Your line is un-muted. He is an Individual Investor.

**Sharmin Nasser**

Hi Mr. Rajesh, congrats on the fabulous performance sales have grown as expected. Sir what would be the debt level you would expect by the end of the year? That is my question number one. Question number two, this being an election year will you foresee any growth targets of 20% going up little bit haywire during the next two quarters? These are the two questions from my side. Thank you.

**Rajesh Kumar**

First on the borrowing, I think, this will continue to be at the current level or it will go down there is no necessity to increase this further. Apart from one project that we are concentrating is to setup a lan cable manufacturing facility. If that group decides, that maybe a small term loan that we might take by the last quarter. But apart from that we don't see the deck going up and it continues to be a certain level.

**Sharmin Nasser**

What would the – I mean the basic...

**Rajesh Kumar**

The term loan will be approximately around Rs. 12 crores to Rs. 15 crores. On the growth, we are actually lucky that we have been at growing at around 27%, 28% partly because of the acquired business and the rest is because of the legacy product that has been growing. So we don't foresee big set back because of the election year. But because of the election we definitely foresee that economy is going to slow down a little bit which we have already seen. But as far as our business is concerned because of two new product conditions that we've made which is actually growing at more than 75% year-on-year. the three transformers and the wire harness and also because of the acquired business that we have done in the last year. So all this put together we definitely see minimum 25% whatever we have grown in the first half we will continue to maintain this growth level in the second half also.

**Sharmin Nasser**

Thank you, sir. Thanks a lot.

**Moderator**

We have a question from Kirti Jain from Sundaram Mutual Fund. Your line is un-muted.

**Kirti Jain**

Sir, on this Wires & Cables side like there is a little slower growth relatively. Like is there a deliberate thing to run down what is the strategy – Wires & Cables strategy?

**Rajesh Kumar**

If you traditionally look at on the second quarter, it has always been lower. If you go back to FY 17 18 in the Q1 we did around 57 crores, but in Q2 it was dropped to around 46 crores. Similarly, here I think FY'18 last year we did around 69 crores and this quarter, I think, we are at around 57 crores.

Traditionally Q2 the Wires & Cables business goes down because of the seasonality. But if you really look at the year-on-year, I think, we have still grown at around 23%. So there is no deliberate intention to reduce this business.

**Kirti Jain**

No sir, like there is an inorganic peak also in this in these 46 to 57 balance rate gap rates.

**Rajesh Kumar**

Out of that 23% growth there is almost I make it percentages because of the acquisition business.

**Kirti Jain**

Correct sir,

**Rajesh Kumar**

Without that, I think, we have grown by around 3.5% compared to last quarter Q2 FY'18.

**Kirti Jain**

So like the market is slowing down or what has happened like the growth is relatively illustrative. Is it because of the day subject or...

**Rajesh Kumar**

No I don't think the market is slowing down. It is mainly because – since we are comparing it with last year when there was no acquired business and this year with acquired business. But last year we had a sale that we made to the acquired business which is hopefully, negative now.

**Kirti Jain**

Okay, okay.

**Rajesh Kumar**

That is why there is slight mismatch. So, we have to combine both the businesses, then we see a 24% year-on-year growth in H1.

**Kirti Jain**

Building products – what is leading the attraction sir, which you are continuing to...

**Rajesh Kumar**

Building products as I – mentioned earlier in my last call I think added products, we've added MCB's, we have added distribution board. We have added wires and cables Salzer branded into the segment. So, these three products have actually pushed the sale out one and one other happening is that we have actually signed contract with V-Guard for branding switches to them. These are the happenings in that segment which has actually pushed the sale up to almost half year to the growth of 130%.

**Kirti Jain**

So we should see similar momentum in the H2 also right sir for this...

**Rajesh Kumar**

I think may be – much more because of our full year target is close to around 55 to 60 crores as against 22.5 last year.

**Kirti Jain**

Sir, industrial segment what has driven the kind of 18% growth in this quarter, sir?

**Rajesh Kumar**

Out of 18% growth you can say that the three phase transformers and wire harness have grown significantly, together I think in H1 we have achieved around 10 crores in three phase transformers and wire harness is around 14 crores. Apart from that I think the regular traditional legacy products like rotary switches and Toroidal Transformers both has grown in the domestic market. So we see a year-on-year growth of 18% in that segment in the first half and we see a better momentum in the second half.

**Kirti Jain**

Sir, any scope of margin improvement sir, what are the – like have you been able to fully pass on the commodity and other inflation pressure sir?

**Rajesh Kumar**

To some extent, no, we were not able to pass on the full increase in the price There is time lag between the price increase and our change in price which has slightly affected our margins in this quarter. But in fact, because of – even though it just happened, we are still grown in the EBITDA margin. If you look at the EBITDA margin percentage this quarter is actually being 12.45% that's mainly due to the revenue share, mix of revenue share and we have also got some energy management business coming in this quarter.

But if we go to the Q3 and Q4, we will definitely see better EBITDA margins or at least maintain at the current level which will actually take the blended margins to around 12% for the full year.

**Kirti Jain**

Okay, sir.

**Rajesh Kumar**

But as far as the copper price increase is concerned whatever happened which has been completely passed on. There is no time lag or there is no delay in that, so in the switch gear business we have small time lag.

**Kirti Jain**



Sir, inventory any scope for optimization from the current there is 130 crores we are having.

**Rajesh Kumar**

Yes, I think that's what I mentioned in my speech, we had 110 day inventory which has actually dropped out to 96 days now. We are actually looking at reducing this further to around 85 to 80 days. And in debtor if you see we were 94 in March when comparing with March, it is more relevant, if it dropped out to around 85 days.

**Kirti Jain**

Correct sir.

**Rajesh Kumar**

So overall the networking capital from 130 we have been able to bring it down to 97. So I see the inventory levels coming down to around 85 to which can reduce another 14, 15 days of networking capital.

**Kirti Jain**

We can go towards the inventory, what's your industry is like...

**Rajesh Kumar**

70 to 75 is what we are targeting the next six to 12 months. And we are comfortable within debtor days 85.

**Kirti Jain**

Yes, data we are looking – similar to invest data, the inventory was little bit on highest side actually. So other income is lower due to the low forex gain

**Rajesh Kumar**

Correct, correct.

**Kirti Jain**

Okay, okay.

**Moderator**

Yes, thank you. Next question comes from the line of Rupen Rajguru from Julius Baer Group. Your line is unmuted.

**Rupen Rajguru**

First extension to what the previous gentlemen asked, so in the current quarter what is the total revenue of cost while Salzer Magnet?

**Rajesh Kumar**

Current quarter the sales of Salzer Magnet wire is around 15 crores, 15.5 crores.

**Rupen Rajguru**

And as you said in the last year, it could have been included so what was the similar number for last year?

**Rajesh Kumar**

That could have been around 10 crores.

**Rupen Rajguru**

Okay, so in our last year number, we would have that 10 crores of magnet revenue and which is now 15 crores. That's correct?

**Rajesh Kumar**

Yeah, correct.

**Rupen Rajguru**

For the quarter two so what would be the break-up of margins between the Switchgear's versus the combined wire?

**Rajesh Kumar**

The Switchgear has given us around 16.8% EBITDA.

**Rupen Rajguru**

Okay.

**Rajesh Kumar**

The wire and cable business is driven around 8.1%.

**Rupen Rajguru**

Okay.

**Rajesh Kumar**

Building segment also has given 8.1%.

**Rupen Rajguru**

Okay.

**Rajesh Kumar**

And energy management has given the 20% EBITDA.

**Rupen Rajguru**

So, on the energy management what's your outlook in the sense historically it has been quite lumpy and very difficult to kind of predict about the revenue and the margins, but rather more is on revenue side.

**Rajesh Kumar**

That is how the business is but whatever income that we have shown, now this is going to be a steady income for the next 3 years. We are going to see a minimum of 10 crores, 12 crores.

**Rupen Rajguru**

Okay. For next three years, okay.

**Rajesh Kumar**

In between we are not sure about any projects that are coming. If there are projects that are coming then that can be additional revenue out of this.

**Rupen Rajguru**

Okay. And as per dry type transformers are concerned what is the H1 revenue that we have kind of clocked in that?

**Rajesh Kumar**

H1 FY2019 we have got around 10 crores compared to H1 FY2018 5.5 crores.

**Rupen Rajguru**

Okay, but isn't there the – ramping up or probably revenue kind of likely slower than our expectation?

**Rajesh Kumar**

No, I don't think so because we look at the half year growth is around 82%.

**Rupen Rajguru**

See growth is the number but are...

**Rajesh Kumar**

Yes.

**Rupen Rajguru**

Absolute number 10 crores because if I am not mistaken, we were earlier planning to have 30 odd crores full year revenue in that. So are we still high in that?

**Rajesh Kumar**

We are on target to around 27 crores, 28 crores this year.

**Rupen Rajguru**

Okay, and what kind of margins will be having in that?

**Rajesh Kumar**

I think at 10 crores we are only at around 14.5% EBITDA margin.

**Rupen Rajguru**

Okay and ....

**Rajesh Kumar**

We ramp up I think it can be better.

**Rupen Rajguru**

Okay. So on full capacity this can give us 75? Okay 17%, 18%...

**Rajesh Kumar**