



“Salzer Electronics Limited
Q1 FY2020 Earnings Conference Call”

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Moderator: Good morning ladies and gentlemen welcome to the Salzer Electronics Limited Q1 FY2020 earnings conference call. This conference call may contain forward-looking statements about the Company, which are based on beliefs, opinions and expectations of the Company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. 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 the 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. Rajesh Doraiswamy. Thank you and over to you Sir!

Rajesh Doraiswamy: Thank you. Good morning everyone. Thank you all very much for joining on our earnings call for the Q1 FY2019-2020. I have with me Mr. Baskarasubramanian, Director (Corporate Affairs) & Company Secretary and Mr. Murugesh our Assistant Company Secretary, Ms. Savli Mangle and Mr. Smit Shah from Bridge Investor Relations. We have shared our quarterly results update presentation and I hope you all must have received it and gone through the same.

Though we operate under the electrical and electronic product group for the ease of analysis, we have classified our business into four different divisions namely the Industrial Switchgears Business, Wire and Cable Business, the Building Electricals Business and the Energy Management Business.

Before going into the financials of the Q1, we would like to share some of the developments that happened during the quarter. I would like to share with you all that we have successfully completed the acquisition of 72.32% shares from the promoters of Kaycee Industries Limited from CMS Group. This acquisition has been done as per the share purchase agreement dated May 24, 2019 and we would also like to add that the open offer to shareholders of Kaycee will be done in due course in accordance with the public announcement made on May 30, 2019.

Now coming to our Q1 Financials and Business performance, I am happy to share that we have registered an increase in revenue of 28% year-on-year at 162.1 Crores in the Q1 FY2020. The growth has come from across all verticals of the business. The contribution from domestic sales was at 88% mainly driven by increase in good demand and traction for Industrial Switchgear as well as Wire and Cable Business.

The EBITDA for the quarter stood at 16.7 Crores as compared to 14 Crores in the corresponding previous quarter Q1 FY2019, a growth of 19.3% despite increase in certain raw material prices. The profit after tax was at 5.8 Crores in Q1 FY2020 as against 4.5 Crores in the corresponding previous period Q1 FY2019, which is a growth of 28%.

Now moving on to the breakup of the revenues as per the Business Divisions; the Industrial Switchgear Division contributed 37% to the total revenues in this quarter. This segment has grown by 28% YOY in Q1 FY2020 driven by increase in demand across all products especially upkick in three-phase dry type transformers and wire harnesses both our new businesses. This quarter has also seen increased demand from Railways for our switches business.

The Wire and Cable Division contributed around 55% of our revenues mainly on account of seasonal increase in demand. Also, our Salzer branded wires which we started to manufacture from the last financial year has seen good response and we continue to see a good opportunity to further expand this segment in a phased manner. This is apart from our regular brand labelling business that we are doing for Larsen & Toubro, Crompton Greaves and a few other large brands in India.

Moving on to the Building Electrical Products Division, this business is the only B2C business that we have. Going forward we want to increase contribution from this segment in our revenues. We are seeing new opportunities in real estate sectors where we have received annual contracts with major builders. This division has contributed 6.4% this quarter to the revenues. This business is overtly dependent on real estate growth which continues to be slow in the country and hence this business has grown only around 6% year-on-year.

Going forward we are confident on the growth due to the smaller base we have in this division. We also continue to make inroads into newer markets and improve our brand visibility across the retail segment for this product segment.

The fourth business is the Energy Management Division has contributed 1.8% to the revenues in this quarter. This is an order book driven business and this quarter we have been able to book revenues which was due for us for the second year of the contract. We continue to focus on adding new value-added products in the portfolio, reach our newer geographies and offer customized solutions to our customers, besides strengthening the revenue drivers, improving ROCE and working capital cycle also forms part of our core strategy.

We are also working on systems and process management to grasp a better visibility on orders based on which we can plan our inventory levels. The collaborative efforts taken internally will lead us to improve efficiency, reduce working capital and inventory levels. We expect that with these initiatives our ROCE to improve from the current levels to around 18% to 20% within the next two to three years.

Here I am also happy to share that during the quarter our working capital cycle days has improved by approximately 23 days from around 153 days in Q4 FY2019 to around 130 days in Q1 FY2020. This is in line with our focused approach on reaching a higher and sustainable ROCE.

With a very competitive team in place, we are confident of achieving the milestones we have set for ourselves. We are also constantly on look out for new opportunities for technical associations to strengthen the base of our product offerings.

Now this is all from our side. I would once again like to thank everyone for your time and attention. We can take questions.

Moderator: Thank you. We will now begin with the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Zaki Abbas Nasser who is an individual investor. Please go ahead.

Zaki Abbas Nasser: Good morning Mr. Rajesh and congratulations on healthy set of numbers, I would say for the quarter, which has gone by do you think that this would be a precursor for the rest of the year? This is my question number one. Question number two is do you think we would be spending around 24 Crores on the acquisition of Kaycee? How do you think that would impact the margins for the year and have you planned on a broad level for the Kaycee brand and deep collaboration with Salzer on that front Sir? Thank you.

Rajesh Doraiswamy: Thank you Mr. Zaki for your appreciation. On the rest of the quarters, I would like to say that the Indian market remains extremely challenging. We are not seeing a very good industrial growth; however, in spite of that I think we were able to achieve this growth mainly because of the new investments and the new businesses that we have ventured into over the last one or two years so having said that we are quite optimistic that we will be able to get to a growth rate as we have been telling between 15% and 20% for sure. If the markets are helpful, I think we will be able to sustain 20% plus year-on-year growth going forward. On the Kaycee, I think, we will end up, the total acquisition cost of Kaycee is around 20 Crores to 21 Crores, not 24 Crores, and the idea of acquiring Kaycee is to make ourselves much more stronger in the Industrial Switchgear Business because Kaycee being one of our direct competitors it gives us access to also market that we were not very strong, more particularly in the Eastern India and also into various government sectors. So, we will definitely leverage on Kaycee's brand. We will continue to run Kaycee as a subsidiary company for Salzer. We will leverage Kaycee brand and see how we can also sell Salzer's other products through Kaycee's network and also cross selling Kaycee's product into Salzer network going forward. I do not see any margin negativity because of acquisition of Kaycee. I think, we will only see on a consolidated basis we will see growth because of Kaycee's acquisition.

Zaki Abbas Nasser: Mr. Rajesh, the future growth, the way Salzer has been growing very, very silently and steadily. The strategy of adding supplement products to the existing range, do you think that will continue or you are looking at some other products, which will add let us say 10% of the revenue all at once?

- Rajesh Doraiswamy:** I think this year we will definitely try and consolidate all our investments so far done and we want to utilize the capacities that we have built over the last couple of years. So, we are not looking at adding any new products as such in this year. But having said that, we are definitely working on various new technologies and new products for the future, but for this year I think we are looking at consolidation and hopefully the market gets better and we will definitely achieve sales growth between 15% and 20%.
- Zaki Abbas Nasser:** Thank you Sir.
- Moderator:** Thank you. The next question is from the line of Chirag Maroo from Aadinath Share Services Private Limited. Please go ahead.
- Chirag Maroo:** Good morning Sir. My first question is regarding the EBITDA margins for the segment for this particular quarter and for YOY comparison for Q1 FY2019?
- Rajesh Doraiswamy:** On the segment wise, I think overall we are having an EBITDA margin of 10.3% compared to 10.8% in Q1 FY2019. The main reason we were not seeing any erosion in margin percentage. I think you are seeing a lower margin is mainly because of the revenue share mix because we have only got 37% from Switchgear and 55% from Wire and Cable. So that is the main reason. If you go to segment wise, EBITDA we are having around 15.5% Industrial Switchgear EBITDA margin and around 7.5% Wire and Cable Business EBITDA margin.
- Chirag Maroo:** Was it similar in FY2019-Q1 too?
- Rajesh Doraiswamy:** Q1 FY2019 I think, we had 7% in Wire and Cable and Industrial Switchgear was around 16.2%.
- Chirag Maroo:** Sir, what was your estimate to get your revenue for Q1 particularly?
- Rajesh Doraiswamy:** Pardon me, I could not get your question.
- Chirag Maroo:** I am just asking that as per your estimation, what was your thinking that how much amount of revenue you wanted to generate in Q1 FY2020?
- Rajesh Doraiswamy:** I think our internal targets are to grow at around 25%. So I think we have achieved our internal target in this quarter. But having said that I think Q1 the Wire and Cable Business is a seasonal business, which is very good. It is always in the Q1. Even if you look at Q1 FY2019, we had a 55% revenue coming from Wire and Cable which has happened in this quarter also, so, that also is a reason that it has pushed the growth compared to last quarter a little bit higher.
- Chirag Maroo:** Actually I can see the seasonality that Wires and Cable business generally in Q1 always show a higher number, Sir what were the reasons for higher raw material cost?

- Rajesh Doraiswamy:** I think the gross margins in Wires and Cable is lower, so that means the raw material consumption in Wires and Cable is higher, so if that revenue percentage goes up, you will see a higher consumption of raw material overall. Apart from that I think we have also seen certain material prices increasing particularly in the plastics, certain material, plastics have increased.
- Chirag Maroo:** So should we expect this to lower down for the next three quarters, because generally Switchgear business pick up in the next three quarters?
- Rajesh Doraiswamy:** Yes, definitely we see prices going down going forward.
- Chirag Maroo:** Sir, what kind of a revenue bifurcation are you expecting demographic wise? Like India and other part of the world, so should we expect it to remain same like 15% for the rest of the world and 85% for the India?
- Rajesh Doraiswamy:** Actually we would like to do ideally between 20% and 25% exports but fortunately or unfortunately we are growing in the exports. Even if you look at sequentially we have grown 20% in exports, year-on-year I think we have managed to maintain the export sales, so overall the export sales have come to around 18.5 Crores in this first quarter. We have grown in rest of Asia, we have grown in Europe, US, I think we have degrown in this first quarter, however, what we see going forward I think we will be at around 20% exports for the full year revenue. If we manage 20% revenue I think we will be growing at around 25% in exports.
- Chirag Maroo:** Actually, what I can see is we have seen excellent in Middle East like from quarterly 2 Crores we are able to jump to 6 Crores from the last quarter, we were able to do it, we are remaining stagnant on Europe base, but we have seen a degrowth in US and as well as rest of Asia, which we were able to generate quarterly 6 Crores, 4 Crores in US and now we are able to generate 2 Crores and 4 Crores and in rest of Asia we were able to generate 9 Crores and 7 Crores and now we have come down to 4 Crores. So what are the reasons, what kind of problems are we seeing over there?
- Rajesh Doraiswamy:** The rest of Asia I think we have a lot of OEM customers and OEM customers are sometimes seasonal. They pickup in a couple of quarters too much and then they go slow on the rest of the quarters. So, that is the reason that you see in some quarters, we do in Asia by around 8 Crores and 9 Crores and then it drops to around 3 Crores and 4 Crores. So, we are confident that on a full year basis we will be able to do around 35 Crores in rest of Asia. And US I think, the market is very challenging for us. US market as such is a very critical market, not easy to sell. I think we have been doing around 10 Crores and 12 Crores in US. We are getting a lot of enquiries from various new customers. I think we have already announced that we have tied up with a company called (C3Controls one of the large multinationals in US to start supplying certain products from our Switchgear Division, so we expect these businesses to start pickup up from Q3 onwards from this year and we see US business doubling in FY2021).

- Chirag Maroo:** Great. So, for FY2020 should we expect the target that we wanted to meet for 650 Crores to increase to about 670 Crores because we are consolidating Kaycee's number to us and we are able to grow at a great rate in the first quarter so, what kind of expectation, you have for the FY2020?
- Rajesh Doraiswamy:** FY2020 on the topline we should be between 650 Crores and 670 Crores withdrawn consolidation Kaycee.
- Chirag Maroo:** Okay Sir. So, we are still intact with the same growth rate?
- Rajesh Doraiswamy:** Yes with the Kaycee, I think we should be close to 700 Crores.
- Chirag Maroo:** So, what can we expect, a blended margins of about 12% for the whole year because now we are going to see a higher revenue coming from Switchgear so the margins are higher over there, so EBITDA margins again shifting from 10% point something to again 12% for the whole year?
- Rajesh Doraiswamy:** On a full year basis we should see a blended EBITDA margin of around 11% to 11.5%.
- Chirag Maroo:** Sir, what was the R&D expense for Q1 FY2020?
- Rajesh Doraiswamy:** I do not have the breakup right now with me, but we will be able to give it to you.
- Chirag Maroo:** Sir, the land acquisition part of Kaycee, what we had talked earlier about, so is that deal done completely now?
- Rajesh Doraiswamy:** The Kaycee acquisition is completely done and we have taken control of the company and the same management team runs it, but reporting to us.
- Chirag Maroo:** I know the deal was done completely, but there was an amount of land which you were going to acquire earlier, so I just wanted to know what the status was?
- Rajesh Doraiswamy:** It comes along with the company.
- Chirag Maroo:** We earlier had a talk related to this and you said that you will give the estimate of the land value in Q1 FY2020, so I just wanted to know that particular amount?
- Rajesh Doraiswamy:** Actually, the asset is a part of the company, Kaycee Industries Limited. I mentioned it is not seen in the balance sheet because it is an old asset and the value approximately is around 6 Crores to 7 Crores.
- Chirag Maroo:** I will get back in the queue, if I have further questions. Thank you so much Sir.

- Moderator:** Thank you. We have a followup question from the line of Mr. Chirag Maroo from Aadinath Shares Private Limited. Please go ahead.
- Chirag Maroo:** Sir, you just talked about the land value of 6 Crores to 7 Crores right now. I just wanted to know what kind of an asset it is? Is it a land, is it an apartment?
- Rajesh Doraiswamy:** It is an office building.
- Chirag Maroo:** It is an office building?
- Rajesh Doraiswamy:** Yes.
- Chirag Maroo:** Where is it located?
- Rajesh Doraiswamy:** It is located in South Mumbai.
- Chirag Maroo:** South Mumbai. So, for the whole year, segment wise revenue should we expect the building segment to be around 10% for the whole year?
- Rajesh Doraiswamy:** Yes, I think that is our target that we want to achieve around 65 Crores in this full financial year. Should that be the case, it will be around 10% of the revenue.
- Chirag Maroo:** For Wires and Cables and Switchgear can you give me the same, what are your estimates for the whole year?
- Rajesh Doraiswamy:** For full year I think we should be at around 320 Crores to 330 Crores in terms of value.
- Chirag Maroo:** 330 Crores for Switchgear?
- Rajesh Doraiswamy:** For Wires and Cables.
- Chirag Maroo:** And for Switchgear?
- Rajesh Doraiswamy:** It should be around 280 Crores to 300 Crores.
- Chirag Maroo:** Thank you so much Sir.
- Moderator:** Thank you. That was the last question in queue. I would now like to hand the conference back to the management team for their closing comments.

Rajesh Doraiswamy: I would like to once again thank you all for taking time and coming to our First Quarter earnings call. See you all soon again. Thank you very much.

Moderator: Thank you very much. On behalf of Salzer Electronics Limited that concludes this conference. Thank you for joining with us. Ladies and gentlemen you may now disconnect your lines.