

Ajmera x-change
The Growth Catalyst



Mobile Application
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EQUITY, DERIVATIVES, CURRENCY, COMMODITY, DEPOSITORY, MUTUAL FUNDS, INSURANCE* & NBFC*

VOL. 01/24

COMPANY REPORT

17 February 2018

Salzer Electronics

Price: Rs 210

Set for growth acceleration

BSE Sensex: 34,011

Nifty-50: 10,452

FINANCIALS

	SALES	OPM (%)	OP	OTHER INC.	PBIDT	INTEREST	PBDT	DEP.	PBT	TOTAL TAX	PAT	EPS* (Rs)
1503 (12)	283.3	12.5	35.46	1	36.46	12.34	24.12	7.14	16.97	4.99	11.98	8.3
1603 (12)	361.13	11.9	42.9	2.8	45.7	13.14	32.56	8.32	24.24	7.19	17.05	11.8
1703 (12) &	384.062	11.9	42.92	6.75	49.67	14.59	35.08	9.8	25.28	8.18	17.09	11.8
1803 (12P) &	444.47	10.9	48.44	7.3	55.74	15.17	40.57	11.28	29.29	9.38	19.92	13.7
1903 (12P) &	517.36	11.2	57.94	7.66	65.61	16.38	49.23	12.97	36.26	11.97	24.29	16.8

*Annualised equity of Rs 14.5 crore. Face value of Rs 10 each. EO: Extraordinary items. EPS is adjusted after EO and relevant tax. (P): Projections. Figures in crore.
Source: Capitaline Databases

STOCK DATA

BSE Code	:	519602
BSE Group	:	B
NSE Code	:	SALZERELEC
Bloomberg	:	SZE IN
Reuters	:	SALZ.BO
Par Value	:	Rs 10
52-week High/Low(Rs)	:	267 / 166
Sector	:	CG - Elect Equip

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 2.87
Institutions	: 10.01
Corp Holding	: 11.47
Promoters	: 29.65
Public & Others	: 45.99
Total	: 100

* as on 31/12/2017.

Source: Capitaline Database

Salzer Electronics was established in 1985 to design and manufacture world-class CAM Operated Rotary Switches in Technical Collaboration with M/s. Saelzer Schaltgerate Fabrik, GmbH., Germany. The company has a consistent track record for the last 22 years in Profit Making and declaring Dividends since 1991 - 1992.

Salzer manufactures Load Break Switches, Wiring Ducts, Terminal Connectors, Selector Switches, Ammeter Switches, Voltmeter Switches, DC Disconnectors, Electro Magnetic Relays and Magnetic Wires besides Modular Wiring Accessories and Allied Specialty Products.

With international approval and innovative designs the company's market share for these products is continuously growing.

The company has also entered into collaboration with M/s. Plitron Manufacturing Inc., Canada (Leading Manufacturing of Transformers in North America), in 1995 for manufacturing Toroidal Transformers with 50% Buy-Back.

The company has a strong R&D facility with the full-fledged laboratory and captive tool room to upgrade & develop products setting with new market trends. Its In-house R&D has been recognized by Ministry of Science and Technology, Department of Science and Industrial Research, Government of India.

Today, it is market leader in India for Rotary Switches, PV Application Switches & PVC Wiring Ducts (channels) and provides complete customized electrical solutions.

The company caters to a wide range of products with five In-house manufacturing facilities, located in Coimbatore and Himachal Pradesh.

The company has one patent for its rotary switch and five products are awaiting patent.

It has more than 15 products catering to Industrial / Building / Automobile verticals.

Enjoys strong positioning

Salzer is a Leading player offering Total and Customized Electrical Solutions in Switchgears, Wires & Cables and Energy Management business.

The company is established player in the switch gear industry for the manufacture of CAM Operated Rotary Switches with Latest technology at international standards mainly for industrial purpose and has the facilities of taking the multiple outputs as well as sequence with various programs in all capacities from 6 Amps to 400 Amps.

It is the largest manufacturer of CAM Operated Rotary switches & Wire Ducts in India, with a market share of 25% & 20% respectively.

It is the only manufacturer in India for Energy savers and street light controllers.

The company's products are well received in the International and Local Markets and all leading OEMs including public sector undertaking are using standardized Salzer switches.

The company has continuously been securing its leadership position in the following segment:

- It is the largest manufacturer of CAM Operated Rotary switches & Wire Ducts in India, with a market share of 25% & 20% respectively.
- Largest producer of Cable Ducts (Wiring Channels) in Asia.
- Largest Exporter of Load break switches from India.
- Approved supplier for Nuclear Power Corporation for Rotary Switches.
- Largest Supplier to Indian Railways.
- Selected as a preferred vendor for GE - Energy.

Has large distribution network

The company has a wide distribution network locally and globally, exporting to more than 50 countries. In India, Salzer markets its products through its own distributors and more than 350 local distributors of L&T.

Energy management business is its new and emerging business

Though the company is operating under the electrical and electronics product group for ease of analysis it has classified businesses into four different segments namely the industrial switch gear business, the copper business, the building segment business, and the energy management business.

The energy management business is the company's new and emerging business. Here it manufactures energy savers and street light controllers.

The management feels that this is an order book driven business which has a huge potential. However, since this is a government oriented business it does not have much visibility

on the order book as there are no current tenders out this year. But the management has been talking to various states and various corporations across India who have expressed a lot of interest in this business

Encouraging performance

For the quarter ended December 2017, sales grew 22% to Rs 110.70 crore. OPM rose from 10.6% to 12.2% leading to 39% jump in OP to Rs 13.49 crore. Finally net profit jumped 57% to Rs 5.29 crore.

For the nine months ended December 2017, sales were higher by 16% to Rs 316.02 crore. As OPM contracted 30 bps to 11.7%, OP grew 12% to Rs 36.88 crore. Other income grew 11% to Rs 3.97 crore and interest cost grew 5% to Rs 11.06 crore. As depreciation grew 15% to Rs 7.59 crore, PBT grew 15% to Rs 22.20 crore. Taxation grew 12% to Rs 7.04 crore. Thus finally net profit grew 16% to Rs 15.17 crore.

All businesses grew handsomely

During the quarter Industrial Switchgear accounted for 48.9% of total revenues and grew 24% on account of good demand pickup in the Industrial Switchgear segment and good pick up in Three Phase Dry Type Transformers (new product added in current financial year)

Wires & Cables accounted for 45.2% of total revenues and grew 22% on account of increased demand for agri market cables

Buildings Products were 5.1% of total revenues and grew 12%.

Energy Management was 1% of total revenues and grew 25% on account of revenues being booked from previous quarters.

Management confident of the future

Commenting on the results, R. Doraiswamy, Managing Director, Salzer Electronics Ltd said: "I am happy to share that this quarter once again, we have demonstrated good growth in our revenues. This growth was mainly driven by demand in our switchgear business segment as well as due to good demand from Agri Market Cables. The increase in exports to USA has also been another significant factor contributing to the increased revenues.

Our EBIDTA has also grown and we have shown improvement in margins of more than 150 basis points year on year. I believe this is an indication of our efforts over the past three quarters, on increasing our margins and improving our operating efficiencies.

We expect this margin to sustain and our endeavour continues to remain on profitable growth and margin improvement.

We continue to focus on adding new, niche and high margin products, enter new geographies and offer total and customised electrical solutions to our existing and new customers. To aid to this we are constantly on the lookout for any new opportunities for technical associations to strengthen the base for our product offerings."

Margins will improve

The management is focused on margin improvement.

The company is focusing on adding new, niche and high margin products, enter new geographies and offer total and customised electrical solutions to existing and new customers to improve margins

It also plans margin improvement through increased sales of high margin products and increase in exports especially to the fast growing markets of US, Africa and Middle East.

Exports to US and Europe command better margins in compared to the domestic market. Thus exports also plays big role in margins for a particular period.

During the December 2017 quarter sales from USA were 5% compared to 2% last quarter. During the quarter sales from Europe were 5.5% of sales compared to 4% last quarter.

In general its business model is slowly changing towards the industrial switch gears, which is relatively higher margin business in its portfolio and going forward its focus and concentration is going to be on this segment.

Management sees huge potential for its new product “Three Phase Dry Type Transformers”

The company is seeing good traction in Three Phase Transformers. This was the new product in industrial switchgear business added in current financial year.

This High tech product has application in large MW UPS, renewable energy business, railways, power generation and marine industry.

The company has submitted samples to various large OEM's. The management sees huge potential (Expected CAGR of 35% over next 5 years) for this product in segments like, Renewable Power Industry, Railways & Defence sector.

The company has technical alliance for a 3-phase dry type transformers with an Australian company called Trafomodern, one of the leading manufacturers of dry type transformers in Europe.

Strong export business

For the nine months ended December 2017, direct exports accounted for 18% of its revenues and EOU and SEZ Sales accounted for 4%.

The company's export performance has strongly been moving up and it has established a foothold in various untapped global markets. USA and Brazil are leading the pack in company's exports.

It currently exports to more than 50 countries worldwide including the most advanced nations like Europe and US.

The company has been given preferred supplier status from OEMs such as GE & Schneider.

It has market tie-up arrangements with M/s Crompton Greaves

Ltd, an accredited export house in the country, to sell its products in international markets.

Aiming to globalize marketing of the products of the company efficiently, it has formed M/s.Salzer Global Services, LLC, USA (SGS) with 40% controlling interest in United States.

This venture since formation has been facilitating the company to identify the market opportunities in United States and serving them without any loss of time besides establishing proximity of contacts with the customers in this market as was evident in steady growth of export sales.

Future strategy

Going forward, the company continues to focus on adding new, niche and high margin products, enter new geography and offer total and customised electrical solutions to its existing and new customers.

EECL is about to come out with large tenders according to sources. The size is expected to be around Rs 200 crore but the timeline is not yet know. Hopefully it will be by Q4. The company will participate in the tender.

Industrial activity seems to be better and picking up. Lots of green shoots are visible which is being seen in sales growth.

The company has started supplying its products to large solar industry and also to railways (metro and Indian railways).

The company is constantly on the lookout for any new opportunities for technical associations to strengthen the base for product offerings.

By 2020 the company plans to achieve sales of Rs 1000 crore. New products will drive growth. With new products the company hopes to grow 20% each year and double sales in 5 years. It hopes to add Rs 250 crore by way of contribution from new products.

With a gradual revival in the domestic capital expenditure (capex) cycle in the key industries and an improvement in the project spending, sustained growth can be expected going forward.

Acquisition of Salzer Magnet Wires to be EPS accretive

The company has acquired Salzer Magnet Wires Limited.

Salzer Magnet Wires offers wide range of enamel coated Copper wires suitable for winding application in Transformers, Motors, Alternators, Contactors, Relays and Auto electrical.

The acquisition will be volume, revenue & EPS accretive. The proposed increase in Capital towards acquisition will be 10.30 lakhs shares (on a fully converted basis issued at Rs 197 as per SEBI rule for pricing).

This acquisition will enable it to better leverage on pricing with suppliers, it will also bring in operational synergies helping it grow profitably. This will also expand customer base and will be able to offer total and complete electrical solutions to a wider set of customers that will enable the company to increase

and strengthen its market penetration in India and over time, target offering new products globally as well.

The business of Salzer Magnet Wires has grown at a CAGR of 20% since the inception of the company in 2008.

The acquisition will immediately add Rs 50 crore to sales of Salzer in 2018 with an incremental growth of 20-25% in next 5 years.

After acquisition of Salzer Magnet Wires (expected in Q4), annual sales should go up by another Rs 50 crore and annual PAT by another Rs 1.5-2 crore. Equity will go up by Rs 1.03 crore.

The acquisition will bring cost efficiency and the company will get benefit of 1-2% in pricing terms.

Valuation

In FY'18, we expect the company to register net sales and PAT of Rs 444.47 crore and Rs 19.92 crore respectively. On an equity capital of Rs 14.5 crore and face value of Rs 10 per share, EPS works out to Rs 13.7. This EPS is expected to rise to Rs 16.8 in FY 2019 on sales of Rs 517.36 crore and net profit of Rs 24.29 crore. At current market price of Rs 210, P/E on FY 2019 projected EPS works out to 12.

SALZER ELECTRONICS: RESULTS

	1712 (3) &	1612 (3) &	VAR. (%)	1612 (9) &	1612 (9) &	VAR. (%)	1703 (12) &	1603 (12) &	VAR. (%)
Sales	110.70	90.82	22	316.02	273.33	16	384.062	361.13	6
OPM (%)	12.2	10.6		11.7	12.0		11.2	11.9	
OP	13.49	9.67	39	36.88	32.90	12	42.92	42.90	0
Other inc.	0.62	1.63	-62	3.97	3.59	11	6.75	2.80	141
PBIDT	14.10	11.29	25	40.85	36.49	12	49.67	45.70	9
Interest	3.60	3.63	-1	11.06	10.53	5	14.59	13.14	11
PBDT	10.51	7.67	37	29.79	25.96	15	35.08	32.56	8
Dep.	2.63	2.29	15	7.59	6.59	15	9.80	8.32	18
PBT	7.88	5.37	47	22.20	19.37	15	25.28	24.24	4
Tax	2.59	2.02	29	7.04	6.30	12	8.18	7.19	14
PAT	5.29	3.36	57	15.17	13.07	16	17.09	17.05	0
EPS (Rs)*	#	#		#	#		11.8	11.89	

*Annualised equity of Rs 14.5 crore; Face value of Rs 10 each. EO: Extraordinary items. EPS is adjusted after EO and relevant tax.
 &: As per new accounting standards. #EPS can not be annualized due to seasonality in business. Figures in crore,
 Source: Capitaline Databases

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