

## Salzer Electronics Limited

COMPANY SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs154	Rs134	Rs195	27%	BUY	2.5

\*as on 16th June, 2021

### About the Company:

Salzer Electronics Limited (Salzer) was incorporated in 1985 and is in the business of providing integrated and customized electrical solutions with more than 3 decades of expertise in designing, developing and manufacturing array of products including rotary switches, wiring ducts, sensor and transformers. Salzer is the largest manufacturer of CAM operated rotary switches and wire ducts in India with a market share of 25% and 20% respectively. Salzer is headquartered in Coimbatore, Tamil Nadu and has 5 state of the art manufacturing facilities. It also has an in-house R&D wing, which is recognized by Department of Scientific & Industrial Research, GOI. The company caters to well reputed clientele and has strategic tie-ups with Indian as well as global conglomerates for synergy benefits. It has a professionally managed team, under the leadership of Mr. Rajesh Doraiswamy, as the Joint Managing Director of the company.

### Results Declared (Standalone):

- The company has reported a strong quarterly growth in top line despite a sluggish domestic market. The growth in revenues is mainly seen on account of higher sales of wire harness products as well as increased sales in wires & cables division in addition to the exports and new business ventured by the company.
- The net revenue for the quarter under review grew by 43.4% to Rs1897mn as compared to Rs1323mn in the same quarter last year
- EBITDA Margin for the quarter under review has seen a dip due to increased cost of raw material and higher contribution from the wires & cables segment
- The EBITDA margins for the quarter under review stood at 8.52% as compared to 10.81% in the same quarter last year
- The net profit came in at Rs70mn as against Rs91mn in the comparative quarter. One needs to keep in mind, the company had reported deferred tax credit to the tune of Rs41mn, else the numbers are more or less flat
- EPS for the quarter under review stood at Rs4.37 as compared to Rs5.72 in the corresponding period last year
- For the full year, the company has reported a growth in turnover by 6.8% with revenues earned at Rs6056mn for FY21 as compared to Rs5669mn in FY20; while recording a net profit of Rs207mn in FY21 as compared to Rs264mn in FY20
- The Board of Directors of the company have recommended a dividend of Rs1.60 per equity share of face value of Rs10 each for the year ended FY2021 (the company had skipped the same in FY20)

### Other Highlights:

- For quarter ending March 2021, the revenue split for the various segments includes, **Industrial Switchgear** contributing nearly 41.31% of net revenues, **Wires & Cables division** contributing around 52.46% of net revenues while the segment for **Buildings Products** reporting nearly 6.23% of total revenues earned
- Management anticipates the business related to real estate to pick in times to come. In addition to this, the company does not have any business from the **energy management** segment. There have been no orders from the government as well. The dealers and distributors business has started picking up on the domestic as well as on the international exports front
- The issues related to Covid-19 and partial lockdown continue in various part of the country; however, the Management is optimistic to fill up the same from second quarter onwards, if the conditions continue to improve. Management mentions of a gradual recovery and business regaining momentum, as the Indian dealer and retail market is seeing an uptick in the domestic as well as international markets. Impact related to Covid-19 continues; however, the domestic dealers have started to return back to the business and the sales too have started picking up pace. There is some traction seen in the division related to switch gears and infra related segments. The exports business too has seen some recovery and the demand seems to be coming back in this domain as well. The wire and cable segment too has shown a strong demand and the company has been able to pass through the increased cost of raw materials in the copper division (reviewed every 15 days); while that of the switch gear business generally sees a lag of 2-3 months. In FY21, the company had taken two price hikes of 5% each and has taken another price hike in the June quarter. The **new wire harness** business has shown good traction and continues to grow
- The management has indicated for **no capex** requirement for the current financial year. The current capacity utilization for all the units ranges from 70-75%, wherein the utilization for the wires and cable segment is slightly higher as compared to the average. Management intends to scale-up the business with minimum maintenance capex.
- **Kaycee Industries** which is the subsidiary (75%) company of Salzer, too has had a sluggish year. The revenues have been flat for the year, the company faces the impacts related to the raw material cost as well; the company has been facing issues related to the lockdown in the state of Maharashtra. The Management intends to ramp up this part of the business as well. Salzer has already started some products of Kaycee Industries while cross selling and making use of their cannels and vice versa. Nearly 99% of sales of Kaycee Industries is domestic in nature
- The company is also looking at opportunities in the **relay business** as and when the orders begin to surface. The businesses related to the railways for certain projects related top ICF, RCF and MCF has currently taken a back foot. The orders from railways or government orders/ tenders have been muted so far. The company continues to cater to the demand of some telecom players like Jio and Bharti/Indus Power contract.

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### Other Highlights (contd.):

- The company continues to maintain good business relation with players like ABB, Honeywell and Siemens while supplying products or components like relays, wiring duct, wire management systems etc. The company has been working on some **patented products** which are already in the pipeline at different stages of development. Management mentions about one patented product which is already generating sales. As far as Salzer branded products are concerned, the company supplies to Schneider, GE etc. and in addition to this, some products are sold by the distributors
- The company has started looking for **newer businesses** on the exports front. The company has started looking at opportunities from export players and old clients like **Eaton and Valeo**. In addition to this, the company is also looking at some developments while trying to fetch orders from the US and Australia. Management is quite bullish on the exports market from the US, European and Middle East region coupled with other OEMs. Exports grew at 57.22% on y-o-y basis in Q4FY21. Contribution from the exports stood at nearly 20.01% which is basically driven by higher exports to the Middle East, Africa and other regions.

### Financials:

Result Update (Q4&FY21)								
Q4&FY21 Result (Rs mn)	Mar-21	Mar-20	y-o-y	Dec-20	q-o-q	FY21	FY20	y-o-y
Total Revenue	1897	1323	43.4%	1704	(11.3%)	6056	5669	6.8%
EBITDA	162	143	13.0%	173	(6.5%)	618	652	(5.2%)
Other Income	14.4	(1)	-	2	-	20	9	-
Interest	53	54	(3.3%)	54	(2.9%)	213	212	0.5%
Depreciation	41	37	11.3%	37	9.1%	156	144	8.1%
Tax	13	(41)	-	19	-	62	41	52.5%
Net Profit	70	91	(23.5%)	64	9.0%	207	264	(21.6%)

### Outlook and Recommendations:

Despite the tough business environment throughout the year, the company has been able to report good recovery post the pandemic-induced slowdown. Management mentions of a slow recovery in demand with strong demand for the wire harness product as well as three phase transformers which has helped offset the impact of Covid-19. Q4 performance was due to the growth coming in from wire harness product and the export markets of US. Higher input material price continues to remain a challenge for the company, wherein the lag between the passing through of input costs to customers has impacted the margins. The company continues to maintain its growth trajectory with the help of strong product offerings, brand positioning, focus on achieving sustainable growth while been cautiously optimistic about the business performance in the quarters to come. Situation in the domestic continues to be fluid and one needs to be cautiously bullish on the domestic front. The working capital is stretched currently at 170 days as compared to 150 days in the same period last year; while at the same time the company has some stacking up of inventory as well. Management intends to bring the same down in times to come. The company will have to work diligently and operate efficiently to try and mitigate the increased cost of interest burden. Management intends to also focus on increasing the shareholding of the promoter group over the next 4-8 quarters. The steps taken by the Management to improve the operation and or turnover project an optimistic vision with profitable growth in the mid and near term. The stock is closer to breaching our second target price of Rs155, and looking at the upcoming growth and projections, we revise our target price to Rs195.

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