



Salzer Electronics Limited | Annual Report 2014-15

The quality of infrastructure (private and public) is continuously rising. Productivity standards keep evolving. Efficiency parameters keep rising.

The result is that most respected global electrical and industrial utilities, contractors and component brands (panel builders, machine tools, transformers, UPS devices, generator manufacturers and other OEMs) work only with select vendors.

Vendors who can be completely trusted.

Vendors who invest extensively in research.

Vendors whose products strengthen their systems and solutions.

Vendors who provide a first-rate service.

Vendors consistently providing the best value-for-money proposition.

Salzer Electronics is one such trusted vendor.

Now wired for growth.

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Salzer Electronics Limited

Board of Directors

Mr. Rangachary N. – *Chairman*
Mr. Doraiswamy R. – *Managing Director*
Mr. Rajeshkumar D. – *Joint Managing Director & CFO*
Mr. Ramachandran P. – *Director (Marketing)*
Mr. Damodharaswamy R.
Mr. Howard M. Gladstone
Mr. Jayabal N.
Mr. Kantilal V. Vakharia
Mr. Nirmal Kumar M. Chandria
Mr. Ramakrishnan P.
Mr. Sankaran V.
Mr. Shah P.K.
Mr. Swaminathan S.R.
Mr. Venkatapathy L.
Mr. P.R. Thiruvengadam
(alternate to Mr. Howard M. Gladstone)
Dr. Mrs. Rajeshkumar Thilagam

Director (Corporate Affairs) & Company Secretary
Mr. S. Baskarasubramanian

Bankers

M/s. Canara Bank
Gudalur Branch, SRKV Post
Coimbatore-641 020
M/s. Canara Bank
Mid Corporate Branch
16 & 18 East Arokiya Swamy Road
R.S. Puram, Coimbatore-641 002
M/s. Citi Bank
Tri Star Towers, Plot No.657,
Avinashi Road, Coimbatore-641 018
M/s. Union Bank of India
Coimbatore Main Branch
235, Oppanakara Street
Coimbatore-641 001

Auditors

M/s. Swamy & Ravi
Chartered Accountants
No.537, N.S.R. Road, Saibaba Colony,
Coimbatore-641 011
FRN No. 004317 S

Registrars & Share Transfer Agent (Physical & Demat)

M/s GNSA Infotech Limited
Nelson Chambers, 'F' Block, 4th floor
115, Nelson Manickam Road
Aminthakarai, Chennai-600 029
Tel: 044-42962025
E-mail:sta@gnsaindia.com

Listing Arrangements

BSE Limited (Bombay Stock Exchange Ltd)
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai-400 001

Registered Office

Samichettipalayam (PO)
Jothipuram (Via), Coimbatore-641 047
Tel: 0422-4233600 / 2692531
Fax:0422-2692170
E-mail: salzer@salzergroup.com
Website: www.salzergroup.net

Plant Locations

Unit-I

Samichettipalayam, Jothipuram(Via),
Coimbatore-641047

Unit-II

Chinnamaddampalayam, Coimbatore-641 019

Unit-III

2, Gudalur Village Samichettipalayam,
Jothipuram via, Coimbatore-641047

Unit-IV

No.882/3, Coimbatore Main Road,
Bettathapuram, Coimbatore-641104

UNA Unit

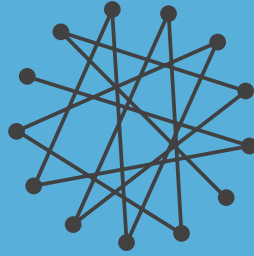
Khasara No:2826, Una Nangal to Behdala Road,
V.P.O Behdala, Tehsil & Distt-UNA, UNA (H.P) 174306

Comprehensive financial summary

₹ in Cr

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 |
|-----------------------------------|--------|--------|---------|--------|--------|--------|--------|
| Results from Operations | | | | | | | |
| Gross Revenue | | | | | | | |
| Domestic | 243.28 | 215.59 | 201.91 | 206.41 | 171.84 | 174.49 | 100.76 |
| Exports | 64.86 | 52.04 | 43.96 | 33.87 | 19.51 | 16.18 | 16.73 |
| Sale of services (Energy Saver) | 4.66 | 3.73 | 9.06 | 7.46 | 6.87 | 4.43 | 1.19 |
| Other Operating Income | 2.42 | 2.53 | 2.51 | 1.38 | 1.18 | 1.01 | 1.49 |
| Total Gross Sales | 315.21 | 273.90 | 257.44 | 249.12 | 199.39 | 196.11 | 120.17 |
| Duties and Taxes | 31.91 | 29.37 | 28.71 | 26.24 | 18.74 | 19.51 | 14.88 |
| Net Sales | 283.30 | 244.53 | 228.73 | 222.88 | 180.65 | 176.6 | 105.29 |
| Operating Profit (EBITDA) | 35.46 | 30.22 | 28.46 | 28.76 | 25.81 | 23.63 | 16.50 |
| Other Income | 1.00 | 0.93 | 1.39 | 0.91 | 0.68 | 0.52 | 0.58 |
| Depreciation and Amortization | 7.14 | 7.52 | 8.67 | 7.96 | 6.90 | 5.24 | 4.66 |
| Finance Cost | 12.34 | 11.94 | 11.77 | 11.59 | 8.90 | 7.66 | 6.30 |
| Profit before Tax | 16.97 | 11.69 | 9.42 | 10.12 | 10.68 | 11.25 | 6.12 |
| Profit After Tax | 11.98 | 8.44 | 7.06 | 8.19 | 9.05 | 8.28 | 5.35 |
| Balance Sheets | | | | | | | |
| Share Capital | 10.28 | 10.28 | 10.28 | 10.28 | 10.28 | 10.28 | 10.28 |
| Reserves & Surplus | 96.79 | 86.42 | 79.78 | 74.16 | 67.82 | 60.05 | 53.00 |
| Net worth | 107.07 | 96.70 | 90.07 | 84.45 | 78.11 | 70.33 | 63.28 |
| Secured Borrowings | 96.60 | 74.33 | 59.32 | 55.64 | 56.78 | 45.24 | 41.26 |
| Net fixed Assets | 83.37 | 68.38 | 66.23 | 62.09 | 56.22 | 51.64 | 44.33 |
| Investments | 4.86 | 4.86 | 4.90 | 4.84 | 4.84 | 4.84 | 4.84 |
| Performance Indicators | | | | | | | |
| Domestic Sales Growth | 12.84% | 6.78% | -2.18% | 20.12% | -1.52% | 73.17% | 83.94% |
| Exports Sales Growth | 24.62% | 18.39% | 29.79% | 73.62% | 20.58% | -3.29% | -3.68% |
| Total Gross Sales growth | 15.08% | 6.39% | 3.34% | 24.94% | 1.67% | 63.19% | 63.70% |
| Operating Profit Margin | 12.52% | 12.36% | 12.44% | 12.90% | 14.29% | 13.38% | 15.67% |
| Operating Profit growth | 17.33% | 6.16% | -1.03% | 11.45% | 9.21% | 43.21% | 45.89% |
| Net Profit Margin | 4.21% | 3.44% | 3.07% | 3.66% | 4.99% | 4.67% | 5.05% |
| Net Profit Growth | 41.90% | 19.54% | -13.80% | -9.50% | 9.35% | 54.77% | 13.59% |
| Earning per shares - Basic (in ₹) | 11.65 | 8.21 | 6.87 | 7.97 | 8.80 | 8.05 | 5.20 |
| - Diluted (in ₹) | 10.79 | 8.21 | 6.87 | 7.97 | 8.80 | 8.05 | 5.20 |
| Book value per share (in ₹) | 104.12 | 94.04 | 87.58 | 82.12 | 75.95 | 68.39 | 61.55 |
| Dividend per share (in ₹) | 1.5 | 1.5 | 1.2 | 1.2 | 1.6 | 1.6 | 1.6 |
| Earning Retention Ratio | 84.56 | 78.68 | 79.61 | 82.55 | 78.79 | 76.81 | 63.93 |
| Current Ratio | 1.29 | 1.26 | 1.22 | 1.23 | 1.26 | 2.45 | 3.06 |
| Debt Equity Ratio | 0.25 | 0.14 | 0.13 | 0.16 | 0.14 | 0.19 | 0.23 |
| Return on Network (RoNW) | 11% | 9% | 8% | 10% | 12% | 12% | 8% |
| Return on Capital Employed (RoCE) | 20% | 20% | 20% | 22% | 23% | 14% | 12% |
| Interest Coverage Ratio (Times) | 1.97 | 1.71 | 1.60 | 1.71 | 2.02 | 2.08 | 1.85 |
| Market Cap (₹ in Crs) | 240.43 | 63.71 | 55.94 | 59.39 | 54.71 | 113.18 | 38.56 |

So what is Salzer Electronics?



A faithful proxy of the electrical products (global and Indian) industry.

One of the most competitive manufacturers – cost and quality – of electrical products in the world.



A preferred supplier to some of the largest multinational brands within just a few years of working with them.

A virtual extension of some of the largest downstream customers engaged in joint product development.



The largest manufacturer of rotary switches and cable ducts in Asia.

Now wired for growth.

Salzer Electronics

(established 1985) was created with the intent to design and manufacture world-class CAM-operated rotary switches (6 Amps to 400 Amps).

Background

The Company entered into a technical and financial collaboration with Plitron Manufacturing Inc. (Canada) in 1995 for the manufacture of toroidal transformers.

Larsen & Toubro entered into an agreement to market Salzer switches in India in 1993, subsequently reinforced by a 26% equity stake by the construction giant in Salzer Electronics.

The Company's headcount was 1,200 (direct and indirect, 31 March 2015) with a men-women employee ratio of 60:40 (as on 31 March 2015).

Promoter experience

Salzer was founded and promoted by Mr. R. Doraiswamy, a first generation entrepreneur and a sector veteran with over 20 years of industrial experience. The second generation has stepped into the business with US-educated Mr Rajesh Doraiswamy, Jt. Managing Director and CFO, spearheading the day-to-day operations.

Salzer and pride • Salzer is among the first few companies in India to comply with the stringent RoHS directive regulating the European markets way back in 2007 • The Company is one of the largest suppliers of switchgear products to the Indian Railways

- The Company is among India's largest electrical and electronic equipment exporters, supplying to more than 45 countries.

Research & Development

Salzer has a strong R&D center (recognised by the Ministry of Science and Technology, Government of India). The company's research initiative comprises a full-fledged laboratory of 35 qualified engineers and a captive tool room (2662 dies) created in-house.

Certifications

Salzer products have been certified for ISO 9001:2008 by NQA-UK for the design, development, manufacture and supply of CAM-operated rotary switches, selector switches and allied products.

The Company is also certified for ISO 14001:2004 and OHSAS 18001:2007.

The Company's products have also been approved by Underwriters Laboratory (UL), Canadian Standards Association, Intertek Semko (S Mark) and Conformance Europe (CE) with RoHS compliance.

Business divisions

Salzer provides the widest range of electrical products under four business verticals:

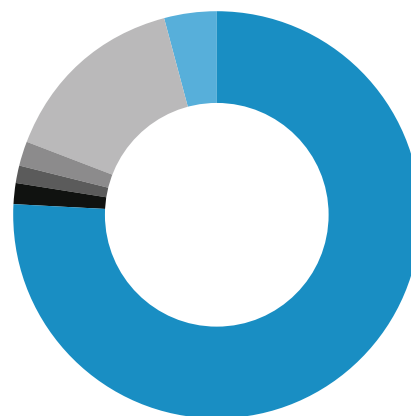
- Industrial switchgears, 52% of 2014-15 revenues
- Retail modular switches, 6% of 2014-15 revenues
- Wires and cables, 39% of 2014-15 revenues
- Energy management solutions, 3% of 2014-15 revenues

The Company's product portfolio comprises rotary switches, load break switches, cable ducts, terminal connectors, toroidal transformers, relays and contactors, limit / foot switches, modular switches, energy saver products, AMR, custom-built products, motor control products, flexible bus bars, wire harness assemblies, cable assemblies and wires and cables. These products are core to customer solutions and efficiency.

Sustainability

Salzer has remained profitable and dividend-paying since 22 years (except one).

Sales footprint, 2014-15



■ India – 76% of revenues ■ Latin America – 1.5% of revenues
 ■ Africa – 1.5% of revenues ■ North America – 2% of revenues
 ■ Europe – 15% of revenues ■ Rest of Asia – 4%

Listing and market capitalization

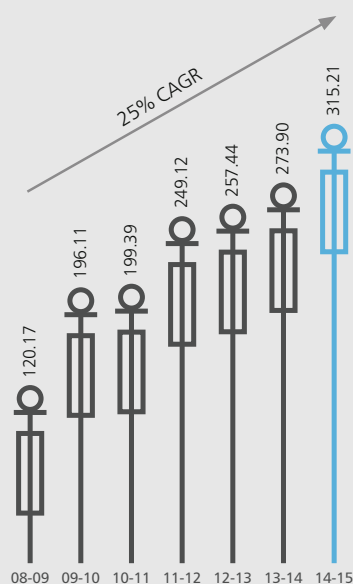
Salzer is listed on the BSE (code: 517059). The Company's market capitalization was ₹243.40 crore (31 March 2015).

Customer profile

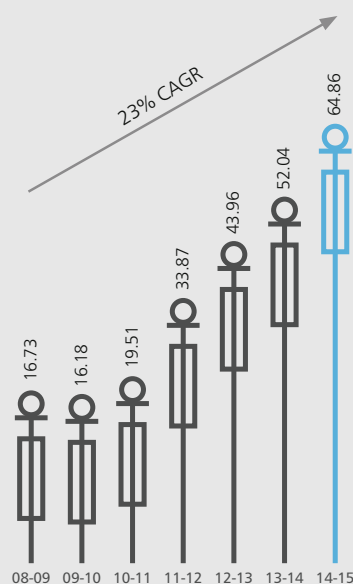


Wired for growth. Sound performance. Solid prospects.

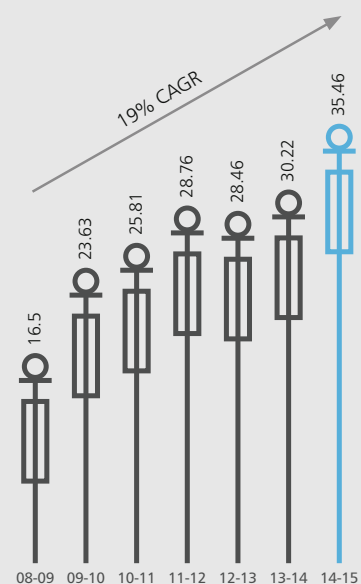
Turnover (₹ crore)



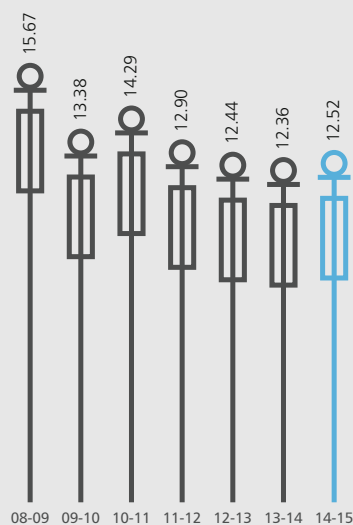
Exports (₹ crore)



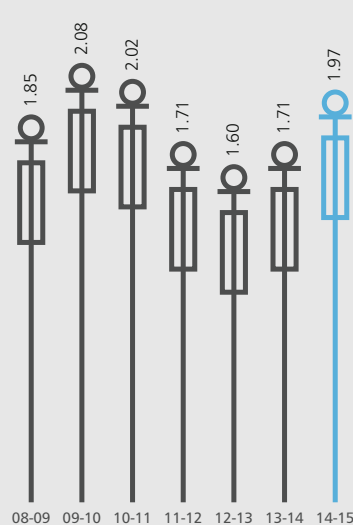
Operating profit (₹ crore)



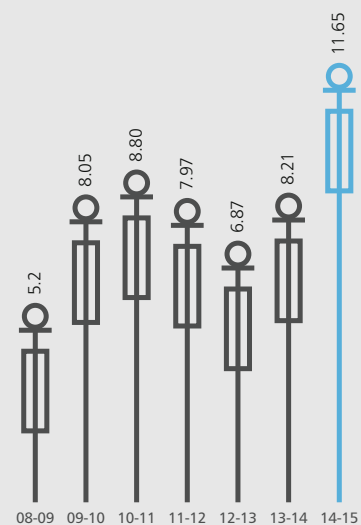
EBIDTA margin (%)



Interest cover (x)



Earnings per share (₹)



Financial highlights, 2014-15

- 15% growth in gross turnover to ₹315.21 cr led by new product launches, increasing share of income from existing customers and mandates from new customers
- 17% growth in EBITDA to ₹35.46 cr led by robust topline growth and increasing value engineering and cost optimisation enabling tighter control on

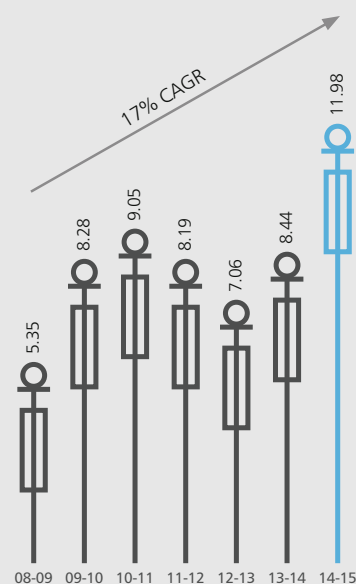
expenses

- 16 bps growth in EBITDA margin to ₹35.46 cr on account of higher volume growth of value-added products (switchgear) and stability provided by predictable growth of other products (wires and cables etc)
- 42% growth in net profit as a result of various cost optimization and strategic utilization of cash flows to

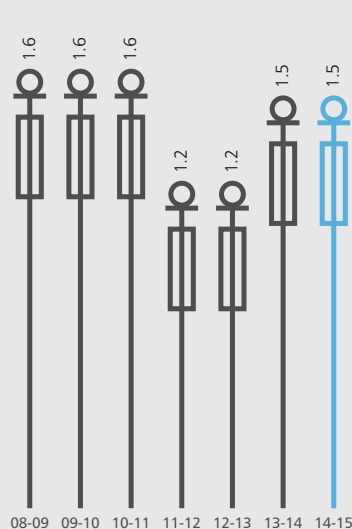
increasingly lower debt levels, which has enabled moderation of interest costs that has gone down considerably over the past two years

- ₹1.5 per share of dividend declared for 2014-15, in line with our philosophy of striking a balance between shareholder value creation and increasing monetary plough-backs into our business

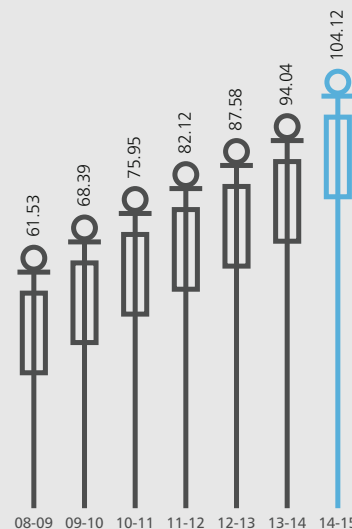
Net profit (₹ crore)



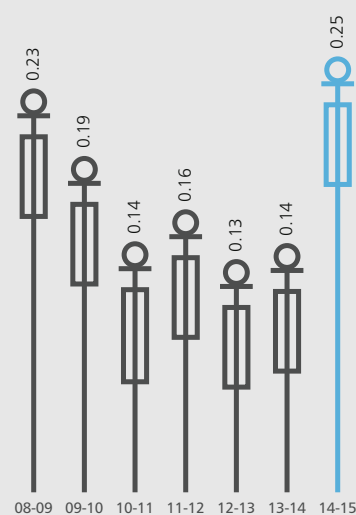
Dividend per share (₹)



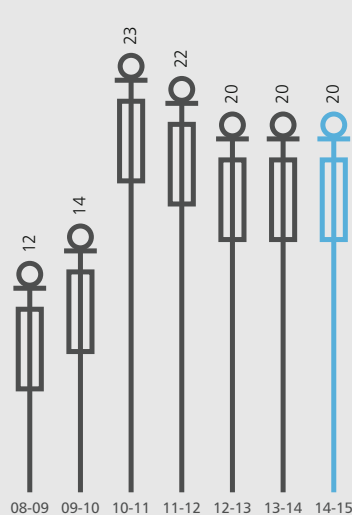
Book value per share (₹)



Debt-equity (x)



RoCE (%)



Managing Director's overview



“We expect Salzer to emerge as a ₹1,000 crore enterprise by 2020.”

R. Doraiswamy, Managing Director, reviews the company's 2014-15 working and outlines Salzer's prospects

Q: Were you pleased with the company's performance during the year under review?

A: The honest answer is that I was not. I felt that we could have done better given our competitive advantage, market leadership and enduring customer relationships. However, the other perspective is that we continued to outperform our sectoral growth average, strengthening or maintaining revenues across the last six quarters, while increasing EBIDTA across six of seven successive quarters. The result is that we finished the year under review with 15% growth in gross revenues and 42% increase in profit after tax over the previous year. This was the fifteenth year of straight topline growth and third straight year of EBIDTA increase, the industry weakness notwithstanding.

The message that I would like to send

out to shareholders is that our numbers in the fourth quarter of the financial year under review reflect the potential of our business. Our fourth quarter in 2014-15 was a best-ever quarter, where we posted revenues of ₹86.14 cr which were 16% higher than the immediately preceding quarter and 19% higher than the corresponding quarter of the previous financial year.

I am happy to state that the terms of trade began to favour us; even as total income increased from ₹68.70 cr in the first quarter of 2014-15 to ₹86.14 cr in the last quarter, interest outflow was virtually maintained at the same level. This improvement has inspired the optimism that a sectoral turnaround has begun, as opposed to the one-off instance of our customers aggregating offtake towards the end of the financial year.

Q: What was the industry landscape against which the company performed?

A: The last few years have been some of the most challenging in the country's electrical products sector. Despite an evident under-penetration of electrical products, there was a perceptible slowdown in offtake. Much of this decline is attributed to the fact that government orders declined, infrastructure spending staggered, industrial capital expenditure was delayed and consumer spending affected. The result is that the electrical products industry reported single-digit de-growth in 2011-12 and 2012-13, reported 4% growth in 2013-14 followed by 7% growth in 2014-15.

Q: What reasons inspired a sectoral rebound?

A: In the last couple of years, a number of stalled industrial projects were completed, there was a greater focus on the implementation of transmission projects, the R-APDRP was implemented, there was marginal economic recovery and the new government catalysed industrial sentiment. The point that one needs to be highlighted is that Salzer capitalised with responsiveness, outperforming its sectoral growth percentage with at least 1,000 bps.

Q: It would appear that the going was comfortably favourable for the company and the sector during the year under review.

A: It would be erroneous to assume such a thing for some reasons. The sectoral sluggishness extended into the year under review, the sector was marked by low cost imports from China, the unorganized sector affected the growth of branded products, there was an erosion in product realizations, the Balance Sheets of most industry players weakened and there was an