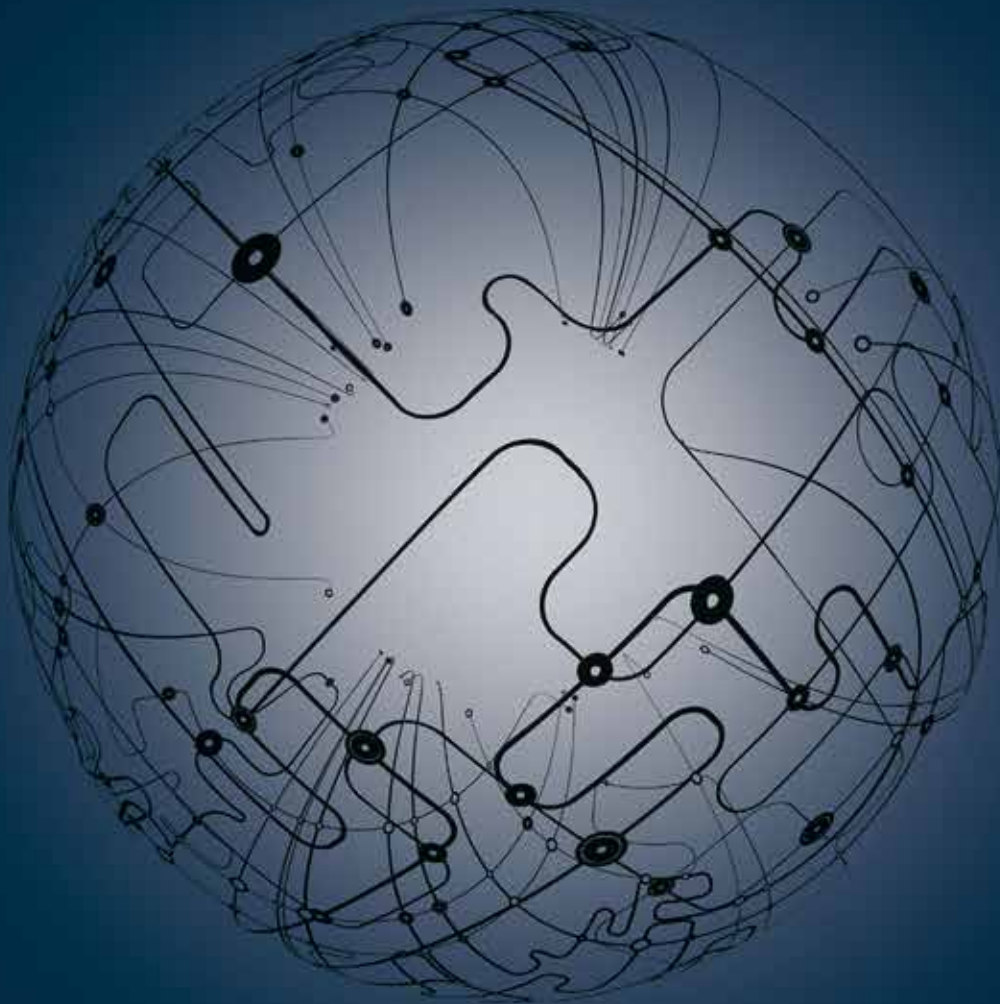


FOCUSED ON EMERGING STRONGER



salzer

SALZER ELECTRONICS LIMITED
ANNUAL REPORT 2015-16

Corporate information

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. Nirmal Kumar M. Chandria
Mr. Sankaran V.
Mr. Shah P.K.
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 Arokia 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

Statutory 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

Bombay Stock Exchange and
National Stock Exchange (Effective December 02, 2015)

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

Contents

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Directors' report **27** Corporate governance report **37** Management discussion and analysis **82** Financial statements **88**

Salzer Electronics Limited.

Focused on emerging stronger.

For the benefit of customers, country, shareholders, community and the world.

The most demanding global electrical and industrial utilities, contractors and component brands (transformers, UPS devices, inductors and others) work with select resource-respecting partners.

Partners like Salzer, whose products protect their expensive cutting-edge installations.

Partners like Salzer, who make it possible to generate a higher systemic productivity.

Partners like Salzer, whose products enhance downstream capital equipment efficiency.

At Salzer, we have reinforced our efficiency-enhancing focus. We optimize the use of resources. We emphasise operational leanness. We focus on generating more from less.

Besides, we are committed to introduce technologies from across the continents and make products for the country and the world.

Making our Company a fitting proxy of India's Make in India campaign.

Performance at a glance

₹ in crore

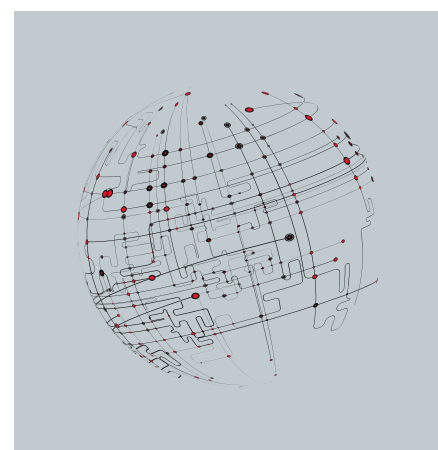
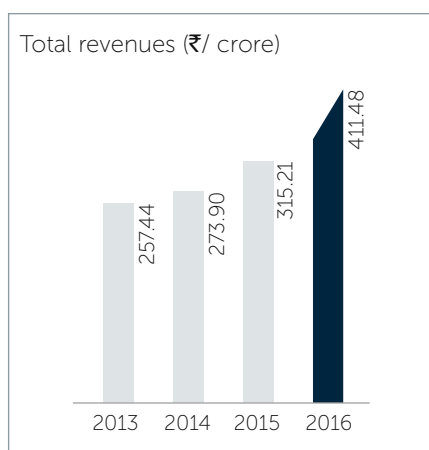
	2016	2015	2014	2013	2012	2011	2010	2009
Results from operations								
Domestic (gross)	334.46	243.28	215.59	201.91	206.41	171.84	174.49	100.76
Exports (gross)	71.27	64.86	52.04	43.96	33.87	19.51	16.18	16.73
Sale of services (energy saver)	3.56	4.66	3.73	9.06	7.46	6.87	4.43	1.19
Other operating income	2.18	2.42	2.53	2.51	1.38	1.18	1.01	1.49
Total gross sales	411.48	315.21	273.90	257.44	249.12	199.39	196.11	120.17
Duties and taxes	50.34	31.91	29.37	28.71	26.24	18.74	19.51	14.88
Net sales	361.13	283.30	244.53	228.73	222.88	180.65	176.6	105.29
Operating profit (EBITDA)	42.89	35.46	30.22	28.46	28.76	25.81	23.63	16.50
Other income	2.80	1.00	0.93	1.39	0.91	0.68	0.52	0.58
Depreciation and amortization	8.32	7.14	7.52	8.67	7.96	6.90	5.24	4.66
Finance cost	13.14	12.34	11.94	11.77	11.59	8.90	7.66	6.30
Profit before tax	24.24	16.97	11.69	9.42	10.12	10.68	11.25	6.12
Profit after tax	17.05	11.98	8.44	7.06	8.19	9.05	8.28	5.35
Dividend pay-out incl tax	2.65	2.44	1.80	1.44	1.43	1.92	1.92	1.93
Balance Sheet								
No of shares (in crore)	1.36	1.03	1.03	1.03	1.03	1.03	1.03	1.03
Face value (in ₹)	10	10	10	10	10	10	10	10
Share capital	13.64	10.28	10.28	10.28	10.28	10.28	10.28	10.28
Reserves & surplus	177.62	96.79	86.42	79.78	74.16	67.82	60.05	53.00
Net worth	191.26	107.07	96.70	90.07	84.45	78.11	70.33	63.28
Secured borrowings	94.38	96.60	74.33	59.32	55.64	56.78	45.24	41.26
Net fixed assets	110.36	83.37	68.38	66.23	62.09	56.22	51.64	44.33
Investments (current and non-current)	17.52	5.66	6.10	5.83	5.70	4.84	4.84	4.84
Current assets	239.39	185.98	156.60	148.50	144.48	120.60	101.45	77.76
Current liabilities	157.61	144.34	124.66	121.32	117.24	95.86	75.87	54.16
Net working capital	81.78	41.64	31.94	27.18	27.24	24.74	25.58	23.61
Performance indicators								
Domestic sales growth (%)	37	13	7	(2)	20	(2)	73	84
Exports sales growth (%)	10	25	18	30	74	21	(3)	(4)
Total gross sales growth (%)	31	15	6	3	25	2	63	64
Export contribution to the sales (%)	18	21	19	18	14	10	8	14
Operating profit margin (%)	12	13	12	12	13	14	13	16
Operating profit growth (%)	21	17	6	(1)	11	9	43	46
Net profit margin (%)	5	4	3	3	4	5	5	5
Net profit growth (%)	42	42	20	(14)	(10)	9	5	14
Earnings per share – Basic (in ₹)	13.54	11.65	8.21	6.87	7.97	8.80	8.05	5.20
Earnings per share – Diluted (in ₹)	12.87	10.79	8.21	6.87	7.97	8.80	8.05	5.20
Book value per share (in ₹)	140.19	104.12	94.04	87.58	82.12	75.95	68.39	61.53
Dividend per cent (%)	16**	15	15	12	12	16	16	16
Dividend per share (in ₹)	1.6	1.5	1.5	1.2	1.2	1.6	1.6	1.6
Dividend pay-out ratio (%)	16	20	21	20	17	21	23	36
Current ratio	1.52	1.29	1.26	1.22	1.23	1.26	2.45	3.06
Debt equity ratio	0.17	0.25	0.14	0.13	0.16	0.14	0.64	0.66
Return on net worth (RoNW) (%)	9	11	9	8	10	12	12	8
Return on capital employed (%)	10	11	11	10	11	11	10	11
Interest coverage ratio (times)	2.85	2.38	1.98	1.80	1.87	2.20	2.47	1.97
Market cap (₹ in crore) as at March 31	287.59	240.43	63.71	55.94	59.39	54.71	113.18	38.56
Price earnings ratio (times)	14	20	8	8	7	6	14	7

** Recommended for FY 2015-16

At Salzer, we are focused on emerging stronger through a number of initiatives.

- Strengthening capital allocation across an innovative product mix.
- Marketing to discerning customers to generate a larger wallet share.
- Strengthening terms of trade to moderate working capital.
- Enhancing quality and standards continuously for sustainable growth.
- Enhancing skills to strengthen per person productivity.
- Attacking waste at all levels through a culture of optimization.
- Maximising the use of accruals in growing our business.
- Moderating our average cost of debt.

This is the dashboard of **our financial health.**



Definition

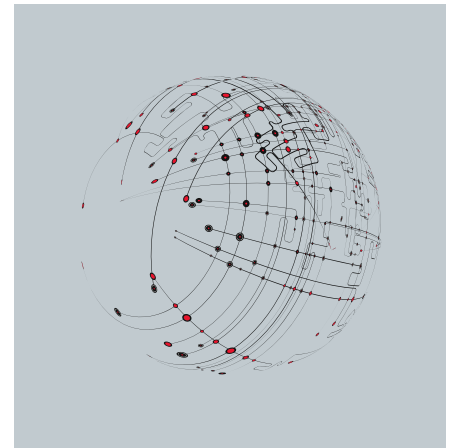
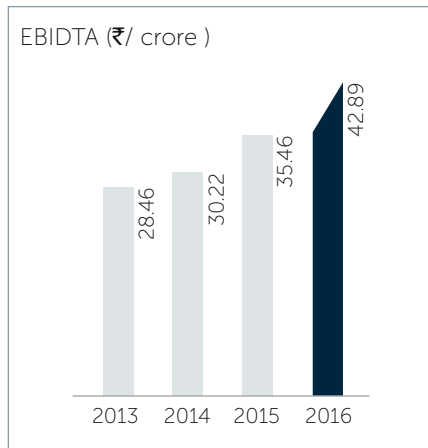
Revenue growth without deducting excise duties.

Why we measure

This measure reflects the result of our capacity to and market needs and service them with corresponding innovation and superior manufacture, cost management, dealer engagement and service – virtually the entire value chain.

Performance

Our aggregate sales increased 31% to ₹411.48 crore in FY 16, which compared favourably with the 8% growth of the country's electrical industry and 7.6% growth of the national economy.



Definition

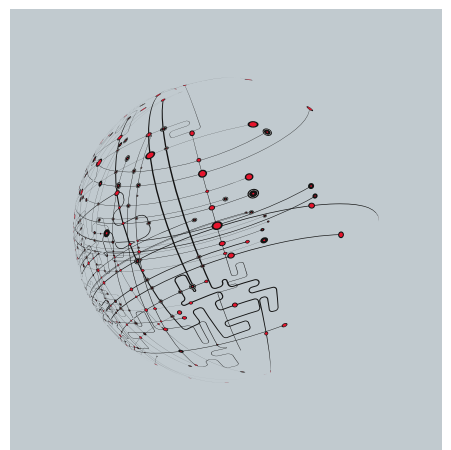
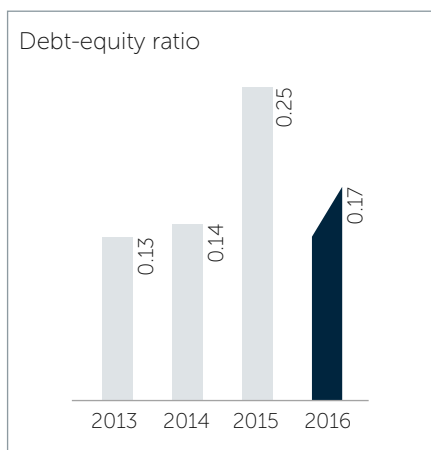
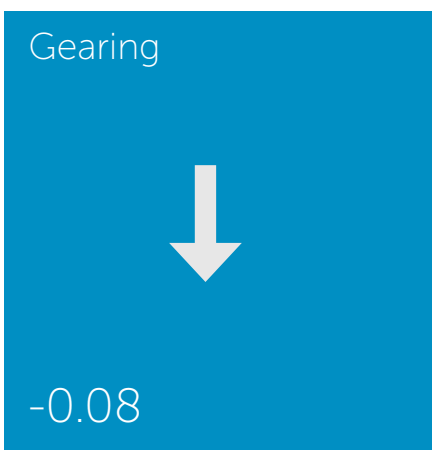
What the company earned before the deduction of interest, depreciation, extraordinary items and tax.

Why we measure

This measure is an index of the company's operating profitability, which can be easily compared with sector peers.

Performance

The Company reported a 21% increase in its operating profit in FY 16, which was the sharpest increase reported by the company in six years, against a CAGR of 11% over the last five years. This was the result of timely capacity investments, cost reduction and product mix changes.



Definition

This is derived through the ratio of debt to net worth (less revaluation reserves).

Why we measure

This is one of the defining measures of a company's financial health, indicating the ability of the company to remunerate shareholders over debt providers (the lower the gearing the better). In turn, it indicates the ability of the company to sustain growth in profits, margins and shareholder value.

Performance

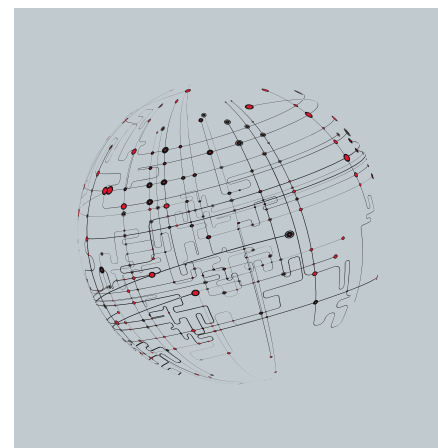
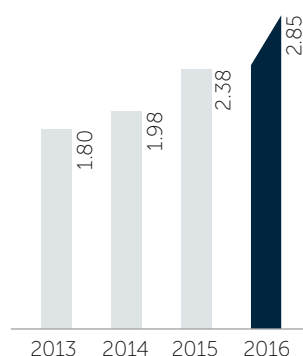
The company's gearing moderated from 0.25 in FY15 to 0.17 in FY16. We recommend that this ratio be read in conjunction with net debt: operating profit (declining number, indicating a growing ability to service debt).

Interest cover



0.47 x

Interest cover (x)

**Definition**

This is derived through the division of the EBIDTA by the interest outflow.

Why we measure

This indicates the company's comfort in servicing interest obligations, the higher the interest cover the better.

Performance

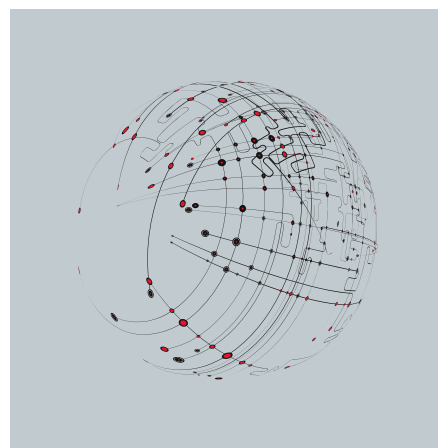
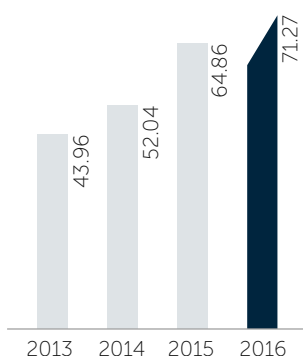
The company enhanced its interest cover to 2.85 in 2015-16, strengthening organisational stability.

Exports revenue



₹6.41 crore

Exports revenue (₹/ crore)

**Definition**

This highlights the growing quantum of exports, contributing to the overall sales growth of the Company and a growing share of the global market.

Why we measure

Exports validate the company's global competitiveness as well as its ability to service the needs of some of the largest and most demanding global capital equipment companies.

Performance

The exports business has continuously headed north in the last five years, growing from ₹33.87 crore in FY12 to ₹71.27 crore in FY2016, creating a strong base for the overall growth of the business. This is a clear testimony of Salzer's global recognition.

Corporate **snapshot**

Salzer Electronics Limited.

One of the most competitive global manufacturers – cost and quality – of advanced electrical products.

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

Dependable research-driven supplier to some of the largest multinational brands.

Growing its share of exports year-on-year.

Indian origin. Global citizen.



Background

Salzer Electronics Limited was established in 1985 to design and manufacture a wide range of world-class CAM-operated rotary switches in technical collaboration with Saelzer Schaltgerate Fabrik, GmbH., Germany initially. The Company also entered into a collaboration with Plitron Manufacturing Inc., Canada (a leading transformers manufacturer in North America) in 1995 for manufacturing toroidal transformers with a 50% buy-back agreement. Larsen & Toubro Ltd. entered into an agreement to market Salzer switches in India from 1993 onwards.

Management

Salzer was founded and promoted by Mr. R. Doraiswamy, a first generation entrepreneur and a sector veteran with over 20 years of industrial experience. Today, the second generation of

the promoter's family, comprising the US-educated Mr. Rajesh Doraiswamy, Joint Managing Director, is spearheading the day-to-day business.

Product mix

Salzer manufactures the widest range of electrical products including load-break switches, wiring ducts, energy-saving products, terminal connectors, selector switches, DC disconnectors, electro-magnetic relays flexible bus bars, wire harnesses, motor control products and magnetic wires besides modular wiring accessories and allied specialty products.

Business divisions

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

Certifications

Salzer obtained the prestigious ISO 9001 certification bestowed

by NQA-UK for 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 and its products have also been approved by Canadian Standards Association, Underwriters Laboratories, VDE (Association of German Electrical Technologists) and Conformite Europeenne (CE) with RoHS compliance.

Research

Salzer has a strong R&D franchisee with a full-fledged laboratory and captive tool room to upgrade and develop products, setting with new market trends. Importantly, its in-house R&D has been

recognized by the Ministry of Science and Technology, Department of Science and Industrial Research, Government of India.

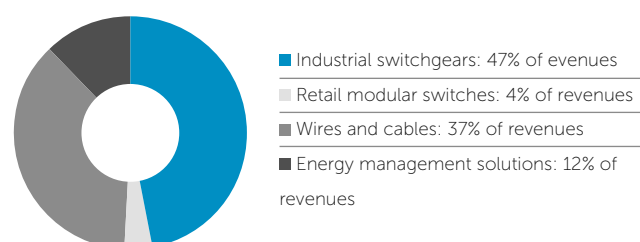
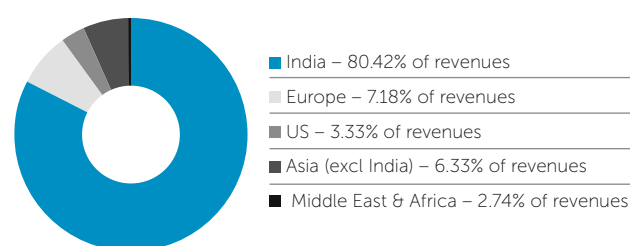
Customers

The Company provides integrated products and solutions that strengthen customer convenience. Some of its prominent clients include Schneider, Philips, C3 Controls, Larsen & Toubro, LMW, Premier, Valeo, Europa, V-Guard, BHEL, Elgi, ABB, Yokogawa, Nuclear Power Corporation, SEARS, CED, Alstom, Philips and Plitron, among several others.

Locations

Salzer has five manufacturing facilities – four located in Tamil Nadu and one in Himachal Pradesh.

Sales footprint, 2015-16



Performance

The Company's product acceptance across a large number of prominent customers has driven CAGR in turnover of 15% over the five years ending 2015-16, one of the fastest in the business in India. Besides, Salzer is also a market leader in India for rotary switches, PV application switches and PVC wiring ducts (channels) and provides complete customized electrical solutions. The Company has one patent for its rotary switch and five products are awaiting patent approvals. The Company enjoys a consistent track record for the last 22 years in profit-making and has been declaring dividends since 1991-92. The Company is EE empanelled Grade 1 Energy Service Company (ESCO),

qualifying it for execution of various projects throughout the country.

Listing and market capitalization

Salzer is listed on the BSE (code: 517059) and NSE (code: Salzerelec). The Company's market capitalization was ₹288 crore (31 March 2016).

Financial highlights, 2015-16

- Incremental turnover to incremental net profit up from 15% in 2014-15 to 31%, indicating profitability accretion
- 31% growth in turnover to ₹411 crore led by new product launches, increasing share of income from existing customers and mandates from new customers

- 21% growth in operating profit (EBIDTA) to ₹43 crore led by robust topline growth and increasing value engineering and cost optimisation enabling tighter control on expenses

- 42% growth in net profit as a result of strategic utilization of available resources and better monetary management.

- ₹1.60 per share of dividend declared for 2015-16, up from ₹1.50 in 2014-15, consistent with our philosophy of striking a balance between shareholder value creation and increasing fiscal plough-backs into our business

Gross sales (₹ crore)

2015-16	2014-15	2013-14	2012-13	2011-12
411.48	315.21	273.90	257.44	249.12

Net profit (₹ crore)

2015-16	2014-15	2013-14	2012-13	2011-12
17.05	11.98	8.44	7.06	8.19

Dividend payout (including tax) (₹ crore)

2015-16	2014-15	2013-14	2012-13	2011-12
2.65	2.44	1.80	1.44	1.43

Market capitalization (₹ crore)

2015-16	2014-15	2013-14	2012-13	2011-12
287.59	240.43	63.71	55.94	59.39