

Salzer Electronics

View: Positive

Viewpoint

On the mark, ready to go

CMP: Rs136

Key points

- Salzer Electronics Ltd (SEL) was established in 1985 as an electrical installation product manufacturer having more than 15 different products with 1,200 employees and five manufacturing plants. The company caters to almost all aspects of indoor and outdoor electrical requirements of the industry, and the building and construction, and automobile component industries. SEL is a market leader in rotary switches, toroidal transformers and wire duct products. It has been consistently spending 2-3% of its total revenues on research and development to develop new products.
- Larsen and Tuobro (L&T) is the single largest shareholder of the company with a 26% stake and two directors on SEL's board. SEL has a marketing tie-up with L&T and derives around 40% of its total revenues through the L&T channel. The other big clients of the company include General Electric and Schneider Electric. In the switchgear segments, exports constitute around 41% of the company's revenues.
- With a gradual revival in the domestic capital expenditure (capex) cycle in the key industries and an improvement in the project spending, the management expects a strong growth in the company's earnings in the next two to three years. The company has bagged a prestigious order worth Rs106 crore from the state government of Tamil Nadu under the Integrated Urban Development Scheme for executing energy efficient projects under the public-private partnership model and expects more deals in the coming year. Overall, the management is quite optimistic of delivering over 20% CAGR in the top line in the next two years.
- After a stagnant net income growth over FY2012-14, SEL is well poised to deliver a CAGR of around 50% in the earnings over FY2014-16. At the current market price of Rs137, the stock trades at 10.6x and 7x FY2015 and FY2016 estimates respectively based on our quick earnings estimates. On a cash earnings basis, the stock trades at 6.6x and 5x FY2015 and FY2016 estimated earnings. SEL is a consistent dividend paying company with a pay-out of around 20% (the company maintained the pay-out ratio even when its earnings growth was muted). Given the significant improvement in the earnings and the fact that L&T is its largest shareholder and marketing partner, we believe SEL deserves a better valuation multiple. We expect a 25-30% potential upside to the stock price in the next six months.

Valuation

Particulars	FY2011	FY2012	FY2013	FY2014
Revenues (Rs cr)	180.7	222.9	228.7	244.5
EBITDA margins (%)	13.5	12.0	11.6	11.3
Net profit (Rs cr)	9.0	8.2	7.0	8.4
EPS (Rs)	8.8	8.0	6.9	8.2
PE (x)	15.6	17.2	19.9	16.7
Cash EPS (Rs)	15.5	15.7	15.3	15.5
P/BV (x)	1.8	1.7	1.6	1.5
EV/EBITDA (x)	5.5	4.9	4.9	4.7
RoE (%)	12.2	10.1	8.1	9.0
RoCE (%)	15.3	15.1	13.3	13.4
Debt/Equity	0.7	0.7	0.8	0.8

Company background

SEL was incorporated on January 8, 1985, by the core promoter, R Doraiswamy, in technical collaboration with Salzer Schaltgerate Fabrik, Germany. The company's thrust is on manufacturing CAM operated rotary switches with improved versions of utility for both domestic and industrial purposes. The company has a marketing tie-up

with L&T for the domestic market and markets its products across several countries through a separate company, Salzer Exports Pvt. Ltd. It has got international approvals for all its products. It has got 15 products and five manufacturing units.

Shareholding pattern as on June 30, 2014

Promoters	30.4
L&T	26.1
Others	43.6
Total	100.0

Key management personnel

R Doraiswamy	Managing director
D Rajeshkumar	Joint managing director
N Jayaba	Non-executive independent director
P Ramachandran	Whole-time director (Marketing)
S Baskarasubramanian	Director (Corporate affairs) and company secretary

Product profile

Rotary switch	Largest in India UL and CB tested
Contactors	UL & CB tested
Wiring ducts	UL and CSA listed
Isolators (disconnectors)	DC - PV isolators CB tested
Terminals	UL listed
Toroidal transformers	UL listed
Control relays	Plug-in, PCB and solder type
Wires & cables	UL listed
Enamelled wires	UL listed
Flexible bus bars	UL listed
MPCB	UL listed

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