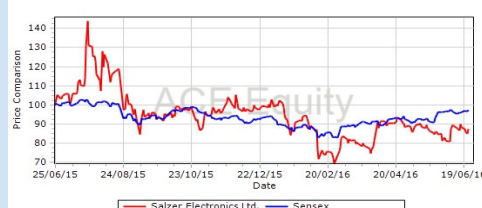
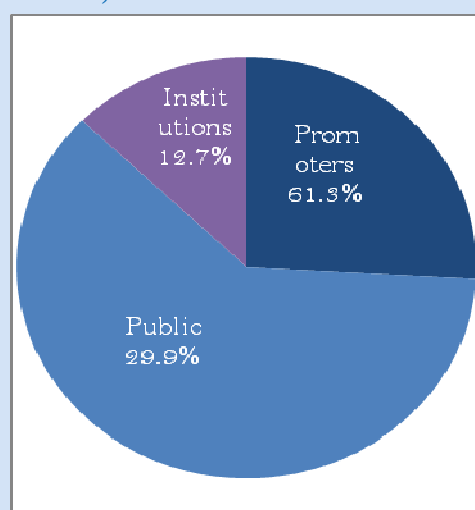


**Company Details**

CMP:	Rs.206.65
Face value:	Rs.10.00
Market cap:	Rs.286.65 Crs.
EPS (FY16)	Rs.12.40
52 week high:	Rs.364.00
52 week low:	Rs.160.00
BSE Code:	517059
NSE Code:	SALZERELEC
Sector	Electricals

**Financial Highlights (YoY)**

Rs. in crores			
	FY16	FY15	% Var
Net Sales	361.14	283.3	27.48
Total Expense	318.24	247.85	28.40
PBDIT	42.9	35.45	21.02
Op.Profit	45.7	36.46	25.34
OPM (%)	12.65	12.87	(1.67)
PBT	24.24	16.97	42.84
PAT	17.04	11.98	42.24
EPS (Rs.)	12.49	8.78	42.24
Equity	13.64	13.64	-

**Share Price Graph****Shareholding pattern as on March, 2016****Company Background**

**Salzer Electronics Ltd.**, a Coimbatore-based company incorporated in 1985, is engaged in manufacture of load break switches, proximity switches, wiring ducts and terminal connectors with CSA-NRTL/C approval. The Company operates into four business segments, viz., industrial switchgear, copper, building segment and energy management business. It has five manufacturing facilities, four located in Coimbatore and one in Himachal Pradesh. It has also in-house R&D labs in Coimbatore recognized by Government of India. It exports accounts for about 25% of its total revenue.

**Financial Performance**

**The net sales and PAT of the Company during FY16 at Rs.361.14 crores and Rs.17.04 crores, respectively, are up by 27.5% and 42.2% compared to those during FY15.** The EPS, on face value of Rs.10, has increased from Rs.8.78 for FY15 to Rs.12.49 for FY16. The Company has paid dividend of 16% for FY16 compared to 15% for FY15.

**Investment Rationale**

- All the business segments of the Company have witnessed good growth during FY16 and are expected to continue this trend in the coming years.
- The Company is the largest supplier of rotary switches and enjoys 25% of market share in domestic market. L&T, a major customer of the Company, contributes around 40% of the its revenues. The company has a wide distribution network locally and globally, exporting to more than 40 countries. In India, it markets its products through its own distributors and more than 350 local distributors of L&T.
- It is identified as the preferred supplier by the General Electric and Schneider and also supplies to various domestic blue chip companies like BHEL, Nuclear Power Corporation of India, Indian Railways etc. Strong clientele ensures good revenue visibility and growth going forward.
- It has entered into a Technical Licensing agreement with TRAFOMODERN - Transformatorengesellschaft m.b.H., Austria for technical and design assistance for the purpose of manufacturing of the Dry type air coiled Transformers inductors and Chokes. **The plant is expected to start manufacturing by middle of Q2FY17.** It has also signed a distribution agreement with IPD group of Australia for marketing and selling of Salzer branded electrical products for solar photovoltaic applications in Australia and New Zealand. It has also signed with leading distributor in Croatia to market its product. **This will open large new markets for the Company.**
- It has strong engineering capabilities backed by in house R&D team and an in-house tool-room equipped with Swiss and German machinery. It has technical collaboration with M/S. Plitron Manufacturing Inc., Toronto, Canada to manufacture Toroidal transformers. It has forged a strategic alliance with C3 Controls, in the electrical switch gear space in the US, for the manufacture of contactors. The company had already commenced production and is targeting the US and Asia which are the key markets for this product.
- The Company has raised Rs.62.10 crores by successfully placing with Qualified Institutions (QIP) 26.41 lakh shares at Rs.235/ share. The amount raised will be used for new product development and growth. **The book value of the share post this issue is Rs.132.73.**
- The net debt of the Company is at Rs.99.01 crores and its debt:equity ratio works out to 0.5:1 at the end of FY16.
- The promoters of the Company hold 25.9% equity capital of the Company followed by institutions that hold 12.7% and the balance 61.4% shares are held by the public. **It is pertinent to mention that institutions have increased their stake in the Company from 3.6% at the end of FY15 to 12.7% at the end of FY16.**

**Concerns**

Slowdown in economy, competition from other players and exchange rate fluctuations are some of the concerns.

**Valuation**

The share of the Company is trading at an attractive P/E of 16.8x. Keeping in view the positive outlook for electric switches & cable industry, growth in all business segments, good clientele, venturing into new geographical territories, QIP placement, dividend payment, increase in institutional holding and attractive PE, we recommend a buy on the share of this Company with an expected price appreciation of **about 40%** over the next 12 months.