

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Electrical Products	Rs 922	Buy in Rs 920-940 band and add on dips in Rs 800-830 band	Rs 1021.5	Rs 1080	2-3 quarters

HDFC Scrip Code	SALELEEQR
BSE Code	517059
NSE Code	SALZERELEC
Bloomberg	SZE:IN
CMP July 05, 2024	922
Equity Capital (Rs Cr)	17.4
Face Value (Rs)	10.0
Equity Share O/S (Cr)	1.8
Market Cap (Rs Cr)	1,630
Book Value (Rs)	268.0
Avg. 52 Wk Volumes	1,62,471
52 Week High	966
52 Week Low	315

Share holding Pattern % (Mar, 2024)	
Promoters	37.32
Institutions	3.32
Non Institutions	59.36
Total	100.00



* Refer at the end for explanation on Risk Ratings

Fundamental Research Analyst Darshil Shah
darshil.shah@hdfcsec.com

Our Take:

Started from a single product company in 1985, Salzer Electronics Limited (Salzer) now offers a diverse range of products, with more than 15 products developed in-house. It operates across Industrial Switchgear, Wires & Cables, Building Management and Energy Management divisions through its 6 manufacturing facilities in Tamil Nadu. Salzer commands an impressive market share 25% in CAM operated rotary switches and 20% in wire ducts in India. It also has a vast distribution network, both local and global and exports to 50 countries. Moreover, it also has access to L&T's local network through more than 350 distributors. Salzer operates through 4 divisions: Industrial Switchgear, Wires & Cables, Building Products and Energy Management. Exports contributed 26.9% share in FY24 to the company revenue.

Salzer's revenue mix for FY24 between Industrial Switchgear/Wires & Cables/Building Products stood at 54.7%/39.5%/5.9%. Over the years, the share of Industrial Switchgears has increased steadily from 44.8% in FY20 to 54.7% in FY24 and we expect it to grow at a healthy pace over the next few years on the back of increasing demand for safe and reliable systems coupled with rise in demand for HVDC systems across the T&D network. Expansion of high tension-transmission network to cater to the growing energy demand across the manufacturing and industrial sector is expected to further stimulate demand for the company's products. Wires & Cables also continues to grow at a healthy clip.

The company also announced foray into smart meters with a fully-backward integrated facility, having capacity of 40 lakh meters with a total capex of Rs 40 cr. Salzer aims to increase this to 1 cr meters in the next few years. This has an added revenue potential of Rs 1000 cr per annum at current capacity. The company aims to capitalize on the growing demand for smart meters in the country, both for commercial and residential use.

Valuation & Recommendation:

With the unique proposition of customized solutions for its clients and with long term partnerships with marquee customers like L&T, GE, Schneider, Indian Railways, etc., we believe that Salzer is well placed to capitalize on the rising demand for its products with increasing spends on infrastructure, engineering and power distribution in India. The company has delivered an impressive revenue CAGR of 16.9% over the past decade. Industrial Switchgear and Wires & Cables division should continue grow at healthy rates, going forward. Switchgears have grown at 24.9% CAGR and Wires & Cables at 13.8% CAGR between FY20-24. The smart meter business provides additional revenue visibility. Margins are expected to improve from hereon, on the back of normalization in RM prices and as a result we expect return ratios to improve significantly over the next 2-3 years.