

Date: August 16th 2022

**Listing Department,
The National Stock Exchange of India,
Exchange Plaza, C-1 Bandra Krla Complex,
Bandra (E), Mumbai- 400051,
NSE Symbol: SALASAR**

**Department of Corporate Services,
The BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Mumbai- 400001,
BSE Scrip Code: 540642**

Sub : - Earning call transcript of Q1 FY23

Dear Sir/Madam,

Pursuant to Regulation 30 (Listing Obligations and Disclosure Requirements) Regulation, 2015 enclosed herewith the transcript of conference call of Q1 FY23 held on 10th August, 2022 and information asked during con call, enclosed as reply of con call queries, for your record and further dissemination

Kindly take the same on record.

Thanking you,

**Yours faithfully
For Salasar Techno Engineering limited,**

**Rahul Rastogi
Company Secretary &
Compliance Officer
ACS No. 30320**

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“Salasar Techno Engineering Limited
Q1 FY23 Earnings Conference Call”

August 10, 2022



MANAGEMENT: **MR. SHASHANK AGARWAL – JOINT MANAGING DIRECTOR, SALASAR TECHNO ENGINEERING LTD.**
MR. PRAMOD KALA – CHIEF FINANCIAL OFFICER, SALASAR TECHNO ENGINEERING LTD.

Moderator: Hi. Good afternoon, everyone. Ladies and gentlemen, good day and welcome to the Earnings Conference Call of Salasar Techno Engineering Limited. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Rohit Anand from EY, thank you and over to you sir.

Rohit Anand: Thank you and good afternoon, everyone. Before we proceed, let me remind you that the discussion may contain forward looking statements that may involve known or unknown risk, uncertainties and other factors. It must be viewed in conjunction with our businesses that could cause future results, performance or achievements to differ significantly from what is expressed or implied by such forward-looking statements.

To take us through the financial results and developments and to answer your question today, we have the senior management of Salasar Techno Engineering Limited represented by Mr. Shashank Agarwal, Joint Managing Director and Mr. Pramod Kala, Chief Financial Officer.

We will start the call with a brief overview of the past quarter by Mr. Shashank Agarwal followed by Q&A session. I will hand over the call to Mr. Agarwal, over to you sir.

Shashank Agarwal: Thank you. Good afternoon, everyone. I welcome all participants to Salasar Techno Engineering Limited Q1 FY23 Earnings Conference Call. I hope you and your families are healthy and safe.

We have uploaded the investor presentation on the Company website and the stock exchanges, and I hope that you might have gone through the same. Salasar, started as a telecom tower manufacturing Company; is now one of the leading manufacturing companies in India providing customized steel structures to diverse range of industries including not only to telecom, but power, railways, and various other applications. We are offering 360-degree solutions to clients including engineering, strengthening, designing, procurement, fabrication, galvanizing along with EPC works.

Infrastructure push by the Government of India and increasing economic activities post pandemic has strengthened steel structured demands. This makes a strong business case for companies like us, not only domestically but we are also poised to reap the benefits of growing export demand, especially in the field of telecom towers. The Company reported strong export revenues of Rs. 76 crores in FY22, a 117% year on year growth as compared to Rs. 35 crores in FY21.

With 5G spectrum bidding already completed, the operators are now geared up to increase their presence in that particular area and accordingly the enquiries have started coming in from

not only tower companies but operators as well. This 5G expansion in India is going to be a game changer for companies like us, as we hold market leader position in this sector.

I would like to move on to our recent financial performance. To share with you, I would like to say that Q1FY23 has been a good quarter as far as the top line is concerned. First time ever we have been able to achieve a top line of more than Rs. 200 crores in Q1, as normally the first quarter of every financial year is slightly sluggish because of budget finalization issues and rainy seasons in most of the geographic presence of India.

The consolidated revenues from operations for Q1 FY23 registered a growth of 58.6% year on year basis to Rs. 211 crores from Rs. 133 Crores in Q1FY22. EBITDA was at Rs. 17 crores as compared to Rs. 15 crores in Q1 FY22, a growth of 15% year on year. EBITDA margin declined to 8.0% in Q1FY23 from 11.1% in Q1FY22 mainly due to high volatility in commodity prices and higher employee cost. PAT at Rs. 7.3 crores during the quarter are in line as compared to Q1 FY22.

Moving on to segmental performance for the quarter:

Manufacturing of steel structures contributed 75%, EPC for power transmission contributed 17% and EPC from railways electrification contributed 8% to the overall revenue in Q1 FY23. Overall order book is at Rs. 1,182 crores as on 30th June 2022, driven by positive momentum in our prefabricated heavy steel structure division. In total order, we have unexecuted EPC orders of about Rs. 809 crores, L1 EPC orders of about Rs. 89 crores, prefabricated heavy steel structure sector division orders of Rs. 233 crores, and export orders of Telecom Towers Rs. 62 crores. In addition to this, there are routine orders in hand on a monthly basis for Telecom Towers to the tune of Rs. 25 crores. The unexecuted orders of Rs. 233 crores at our heavy steel structure division as on 30th June 2022 has increased from Rs. 200 crores as on 31st of March 2022.

Both our capacity expansion plants are under progress, New Galvanizing unit with the capacity of almost 100,000 metric tons at unit 3 and our Heavy Steel Sector division plant of 25,000 metric capacity at Bhilai, Chhattisgarh are expected to be commissioned within the last quarter of Financial Year '23. As the government is focusing on building a strong infrastructure, we anticipate the momentum continue with better margins as the key raw material prices are softening up and also envisage increased contribution from export business.

As of now, this is all from my side. I would now request the floor to be opened for question-and-answer session, wherein each individual could ask questions and those can be answered by me. Thank you very much.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Raj Shah from RS Capital. Please go ahead.

- Raj Shah:** There are some questions from my end. I would just like to know what is the sustainable margins for our Company and given the softness in the raw material price, is there a scope of margin expansion that you're looking?
- Shashank Agarwal:** Typically, we've been operating at 10 to 11% EBITDA margins year on year basis. Sometimes it goes to 11%, sometimes it is in the range of 10%. But the commodity prices have fluctuated, and volatility has been very high during last, I would say last twelve months. This is one of the reasons that our margins declined in the quarter, as one off this year. But I think margins are on a back track now and we hope that the margins in this quarter would be better and sustainable. As far as the sustainable margins are concerned, probably we should be looking at about (+/- 10%) here and there or something which is sustainable in long term. Of course, the softening of the raw material prices would definitely help in terms of better margins because our inventory costs and finance cost goes down as the involvement in the inventory become less, the finance cost becomes less.
- Raj Shah:** Okay. Can you state the capacity utilization for the current quarter?
- Shashank Agarwal:** Current quarter, we have been able to produce about 14,000 tons, which is about 60% of the capacity.
- Raj Shah:** Okay. Given the opportunity that we have, we see the capacity utilization level going up from here for financial year?
- Shashank Agarwal:** See, typically if we are able to achieve anything between 75 to 80% that I would consider as a full capacity because the capacity calculation is based on certain ideal conditions, when you calculate capacity of a plant is, let's say 100,000 tons and when you're making various kind of products, even if you are able to achieve anything between 75% to 80% is something which is sort of for us full capacity, we are operating at 60% and yes we see it going up to 75 to 80% probably in this quarter and next quarter.
- Raj Shah:** Can you state debt level this quarter and the cash that we have in our balance sheet?
- Shashank Agarwal:** The debt level remains the same as it was on 31st March 2022. There's no further debt on the Company as far as new debt is concerned. Cash and cash equivalents are about Rs. 12 crores as on 30th June 2022.
- Raj Shah:** Just my last question, what is the cost of capital or the interest rates of the Company that we have been getting charged?
- Shashank Agarwal:** About (+/-7%).
- Moderator:** The next question is from the line of Mihir Desai from Desai Investments. Please go ahead.

Mihir Desai: I have few questions on financial parts. Basically, can you explain the major factors or reasons which aided or helped our growth performance for this quarter on year-on-year basis basically?

Shashank Agarwal: This quarter at the end of last quarter as on 31st March we had a lot of unbilled revenues which had to be billed in EPC as well as typically what happens is normally the first quarter is sluggish from all perceptions in the sense that even the telecom players they are exhausted after closing their 31st March balance sheet and they take some time to gear up. This year I think the demand has been good from all the sectors, including telecom, power transmission, railways, wherein we've been able to supply good quantities and as well as EPC execution helped us grow to this top line.

Mihir Desai: Sure. My next question would be can you please also share your view that if you see the gross profitability, sir, now operating profitability, the margins have declined on YoY basis.

Shashank Agarwal: I've already mentioned there. There's a huge volatility in the commodity prices and though most of the time our prices are pass through basis, but sometimes the effect of that is not reflected immediately. For example, suppose we have dispatched something in June, the prices applicable would be probably for April, based on actual commodity prices, whereas we might have bought that commodity in May or in June itself when the prices were high. This high volatility in the prices has actually affected the profitability in this particular quarter. Also, since we are carrying huge inventories at a high cost at the end of the last quarter, that has also costed us in terms of extra finance cost as well as employees cost of course went up because of every year increment. That is couple of reasons because of which we have been not able to achieve the anticipated margins, kind of what we have been achieving earlier. We believe to achieve 10%-11% kind of the margins sooner than later.

Mihir Desai: Sure. One more question on revenue guidance. Can you please give us some guidance for this fiscal and then a ballpark for also next FY24?

Shashank Agarwal: FY23, we are looking at a growth of about 20% to 25% in the top line. We did close to Rs. 720 crores, so anything between Rs. 900-Rs.1,000 crores is possible and we would like to grow again next year by 15% to 20% year on year growth kind of rate.

Mihir Desai: Okay, lastly on the order book, what is the timeline to utilize the current order book which we have?

Shashank Agarwal: Depending upon the orders, it is from 3 months to 24 months. Certain orders are going to be completed in 3 months, then some in 6 months.

Moderator: The next question is from the line of Aditya Mehta from AB Advisors. Please go ahead.

Aditya Mehta: So, I had a couple of questions. What are the expectations from the export business, and which are the key areas in which we are receiving the current export orders in terms of let's say major countries as well as their respective contribution?

Shashank Agarwal:

Export orders are primarily for telecom towers at the moment. Last year we did Rs. 75 crores of export orders in FY22 and in this quarter we have already crossed Rs. 35 crores mark. In the current quarter also which is running now, we are expecting to do the same. I am expecting the orders for export being crossed at a level of about Rs. 110 to 120 crores, somewhere at around Rs. 120 crores. Primarily the orders are for telecom towers, as I said, are for African countries mainly and Philippines. In Africa we are doing Kenya, Rwanda, Ghana, Nigeria, Burkina Faso, Gabon and countries like these and these are primarily to American Tower Corporation, ATC, which is the world leader in telecom tower industry. They have maximum number of towers in the world. They have very good presence in America. After that they have very good presence in India and now in Africa in many countries. Apart from that, we are supplying lot of towers to Airtel. They have operations in many countries in Africa. Since they buy towers from us in India, we supply to them for exports also. Philippines is a new market which is opened recently about couple of years back. There are certain new tower companies which are putting up towers there, being a new opened market, there is demand coming in from there. I expect this demand to continue for next couple of years, as 5G allows and the spectrum has been auctioned in India. Africa is a few years behind India. What is being done today in Africa has been done in India a couple of years back. What is going to be done today in India will be done in Africa in next couple of years, so that demand would keep coming that's my guess and take on this.

Aditya Mehta:

Thank you so much for explaining so well. My next question would be, if you could please throw some light on the CAPEX, you are currently doing, let's say at UP and new Chhattisgarh facilities and how much work we have already completed in those facilities, as well as what will be the acceptable date of commissioning these new plants?

Shashank Agarwal:

Okay, so there's one expansion which is being done at unit 3 in our existing unit. We bought land next to our adjacent to our existing plant, wherein we are putting a new galvanizing plant, about 100,000 tons capacity. This is probably one of the largest plants in the world. The land had been acquired a couple of months, few months back and the construction is going on. The sheds are being fabricated and foundations are being laid and the designs have already been completed. The orders for plant and machinery have already been placed. We are expecting some machinery being shipped from overseas during the end of this month and some next month, which would start arriving somewhere in the month of October and November. We start expecting execution of these machineries being in place by December and January sometime. Comfortably I can say that within the last quarter of next year we should be up and running for the Galvanizing plant. For Chhattisgarh plant the land has already been acquired and there is development work on the land is going on and the construction would start somewhere during the month of September, October and we again expect the plant to be commissioned within the last quarter of this financial year. As far as the CAPEX is concerned, we plan to do a CAPEX of about Rs. 47 to 50 crores in our UP plant for Galvanization and about Rs. 60 crores in Chhattisgarh.

Aditya Mehta: My next question would be on the order book numbers. It would be really helpful if you could put down the order book numbers, we can expect from the railway electrification in near term and in which way we have already done with the bidding?

Shashank Agarwal: In EPC we have Rs. 808 crores of overall order book which is unexecuted now and about Rs. 89 crores wherein we are expecting the agreement to be signed wherein we are already L1. Out of this about Rs. 985 crores or something, let's say close to Rs. 1,000 crores. I think Railways is about Rs. 380 crores and balance are from transmission power lines and substations. For heavy sector division plant, we have orders worth Rs. 232 crores and export orders are in hand worth Rs. 60 crores.

Aditya Mehta: Thank you so much for quantifying them. My last question would be if you could explain the outlook on solar segment.

Shashank Agarwal: I'm personally not very bullish in the sense that the margins in the solar sector for our end customer have been excused. If your customer is not making money, it is impossible for you to make money in that. There's a lot of smaller players which have come in and who started manufacturing very light kind of structures and whereas there must be galvanized kind of structures wherein they just have to buy the galvanized steel and convert them into different sections and the margins in that have been squeezed. As far as galvanized structures are concerned, the demand in India is not very much, but yes, for exports, we have recently received orders for about Rs. 2 crores for solar structures which are galvanized plus we have also received some orders for solar structures from our telecom buyers like ATC, which are to the tune of about Rs 4 to Rs. 5 crores, which has a type of margin, which is galvanized which is something which we do we do. Typically, in India the structures have become very light, and the galvanization is not happening as their pregalvanized structures, and they become out of our I would say we have not been very keen on the solar division as such. We've been doing whatever has been coming subject to that it suits us in terms of quantity and the price.

Aditya Mehta: Understood. Thank you so much for patiently answering my questions.

Shashank Agarwal: Thank you Aditya.

Moderator: The next question is from the line of Aryan Sharma from Infinity Capital. Please go ahead.

Aryan Sharma: My questions are mostly related to the 5G business. How is the 5G order book looking like and what are your future expectations for the same?

Shashank Agarwal: You have recently seen that the biggies really spent lot of money on buying the spectrum with Jio spending almost Rs. 88,000 crores and Airtel spending almost Rs. 40,000 crores and Vodafone spending close to Rs.15,000 to 20,000 crores. All this money is going to be utilized in putting up 5G spectrum, 5G network now to put 5G network, what you need is antenna across the country. If you read today's statement of Mr. Gopal Mittal of Airtel the CEO, he says that by 2024 March they'll have 5G network across all the country, not only limited to

urban areas or Tier-1 or Tier-2 cities. The investment what he is investigating is a huge investment on that. So, that whatever they are spending on buying a spectrum can be utilized and be converted into a real business for the operators.

There are two things about 5G spectrum as far as we as Salasar are concerned. One is good, one is bad. The good thing is that the number of towers required is going to be huge. Today India has close to around 600,000 towers and to be able to cover the whole country on 5G network, probably they need at least a million more towers in next 4 to 5 years. These 6 lakh towers have actually been put up on ground in last 25 years when they started telecom in 1995 and imagine putting up another 10 lakh towers in next five years. That's the kind of numbers that we are looking at. But yes, the bad thing is, that the towers have become very light because the antennas or the equipment which is required for 5G is much light in weight and there will be a lot of sites, the existing sites where then they will be putting up their 5G equipment and to densify the 5G penetration they will be putting a very lightweight site. There will be a lot of sites on the rooftops, lot of sites on the middle of the road, lot of sites on the wall mounted structures. There will be a lot of sites on lighting pole. There'll be a lot of lightweight sites. The number of towers required are going to be exponential than what it was earlier. But the weight has again in terms of our business probably you should be getting similar kind of weights as you are getting, not much because suppose there was a tower of 40 meters which was being typically used earlier for 2G or 3G or 4G. It became slowly to 8 tons and then 5 to 6 tons and the tower which now they are envisaging, the weight of the tower has gone down to almost 2 tons of 25 meters and 30 meters. There will be low height site, lighter weight site which would result in less quantity for us in terms of tonnage. But yes, the numbers are multiple times so probably we would end up making the same kind of tonnage what we were making earlier. That's my take on 5G.

Aryan Sharma: Okay, and where are we on this? I mean have we done any new bidding?

Shashank Agarwal: We are already market leaders in telecom, and we are supplying to all the operators as well as all the tower companies. There is no bidding which happens between us. It is just that the designs change, and we make as per the customer requirement because we are their trusted partners. Whatever is required by them, we redesign, we remanufacture them. That is the kind of story.

Aryan Sharma: Also, can we expect any margin improvement with increase in this revenue?

Shashank Agarwal: No, to be honest, telecom industry is under pressure, so I don't expect margins to go up especially in telecom sector. There is a pressure from all around. They have a pressure to roll out huge number of sites but at the same time there is a huge pressure on us to come up with the most optimized costings. So, I don't see any improvement in margins as far as telecom sector is concerned.

Aryan Sharma: Okay, last question would be do we need any additional CAPEX for this 5G connectivity?

- Shashank Agarwal:** No, we don't need to. Now we don't need to because we have the capacity which is fungible. It can manufacture a telecom tower or a pole or an angle bar tower or a power transmission line tower or structure. We have fungible capacity which can be utilized for whatever is required. It is just a matter of changing the design.
- Moderator:** The next question is a follow-up from the line of Mihir Desai from Desai Investments. Please go ahead.
- Mihir Desai:** I want to ask regarding the smart city. Can you give some outlook on smart city and are you looking any positive activities happening over there?
- Shashank Agarwal:** See Smart City, there's been a lot of noise about smart city but as far as, not that it has only been in one. There's been some work also, but that is in different sectors. Like there's a lot of cabling which had gone underground. That's also part of the smart city. That is the work which some companies have done. As far as telecom is concerned as I said, the telecom industry is under pressure for margins. And essentially what is happening is that in the smart cities the revenue case for the telecom operators is not very lucrative. Most of the smart cities I would say the organizations of smart city, whatever the government has made special purpose vehicles they don't want to do CAPEX. They want operators to come and do a CAPEX and then they want to share the revenues with them. Today operators are in a position that they don't want to do such kind of CAPEX where the revenue case is not there. Operators are doing CAPEX only where they can get immediate revenues. Somehow the smart cities as far as I have been able to gather don't make a very strong case for the operators to be revenue positive. That is one of the reasons that we as Salasar have not been able to get much business as smart cities. The work has actually not happened in the telecom sector in smart city.
- Mihir Desai:** If I see your past financials in FY22 we have achieved somewhere around Rs 700 to 720 crores of revenue which is I think in past five years it is the highest revenue which we have achieved. Going forward how do you see this?
- Shashank Agarwal:** I just answered this in my previous question. We are expecting to grow at about 25% this year, and year after that we should continue to keep grow at 15% to 20%.
- Mihir Desai:** Okay which will be the major projects we can say the key projects which you expect would contribute more.
- Shashank Agarwal:** Our new division of heavy steel structure division which is making bridges has got some very good order book and it is doing good traction. Plus of course telecom would continue to give us good revenues as well as we have some very good orders for power transmission line monopoles which would give us likely better margins as well as good revenues.
- Mihir desai:** Largely on the capacity utilization if you can give us some numbers on new plants what we expect in FY23 and '24?

Shashank Agarwal: FY23 we should be utilizing 70% to 75% of our capacity which should be a good capacity as we have seen. Going forward when the new plants operate of course couple of years, maybe one year or six months the capacity utilization for the new plant would be less but then only it will actually increase.

Moderator: As there are no further questions from the participants, I now hand the conference over to the management for closing comments.

Shashank Agarwal: Since there are no questions, I think we can close this and I would like to thank each one of you for being present on this call today and I appreciate your interest in Salasar Techno Engineering and look forward to interacting with you again during our next quarter. Meanwhile, please feel free to reach out to our IR team at E&Y or for any clarifications or feedback. Thank you, each one of you once again.

Moderator: Thank you. On behalf of Salasar Techno Engineering Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.