

Date: 12th November, 2018

To

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
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Sub: Q2 and H1 FY19 Earnings Conference Call on Tuesday, November 06th, 2018

Dear Sir/Madam,

Please find attachment regarding Q2 and H1 FY19 earning conference call invite schedule to be held on Tuesday, November 06th, 2018 at 12:30 PM.

Kindly take the same on record.

Thanking you,

For **Salasar Techno Engineering Limited**



(Kamlesh Kumar Sharma)

Chief Financial Officer

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“Salasar Techno Engineering Limited Q2 and H1 FY19
Earnings Conference Call”

November 06, 2018



**MANAGEMENT: MR. SHASHANK AGARWAL – JOINT MANAGING
DIRECTOR, SALASAR TECHNO ENGINEERING LIMITED
MR. KAMLESH SHARMA – CHIEF FINANCIAL OFFICER,
SALASAR TECHNO ENGINEERING LIMITED
MR. MANISH AGARWAL – GM CORPORATE
(FINANCE), SALASAR TECHNO ENGINEERING LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Salasar Techno Engineering Limited Q2 and H1 FY19 Earnings Conference Call. As a reminder, all participant 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 telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shashank Agarwal - Joint Managing Director. Thank you and over to you, Mr. Agarwal.

Shashank Agarwal: Thank you Karuna. Good afternoon, everyone and welcome to Salasar Techno Engineering Limited's earnings conference call for the second quarter and half year ended 30th September, 2018. I would like to begin by expressing my gratitude to all of you for taking the timeout to join us today. On the call with me is Mr. Kamlesh Sharma, the Chief Financial Officer and Mr. Manish Agarwal - GM Corporate (Finance) of the company and Bridge IR, our Investor Relation Team. Before we get into the financial and business performance for the quarter and half year ended 30th September, 2018.

I would like to start by giving you a short overview about the company. Our journey begins in 2006, as a Telecom Tower manufacturer and over the years we have successfully diversified our business into other verticals and expanding our operations in various parts of India and around the globe. As on date we have supplied more than 30,000 telecom towers since our inception and expect growth to remain strong and gain further pace to increase participation opportunities. We have fortunately innovated to provide efficient solutions. Our excellent execution capabilities have helped us gain the trust of our clients. This is evident from our strong repeat orders from our customers and clients all across the board. I would like to thank the entire team of Salasar Techno Engineering Limited for their untiring efforts, hard work, sincerity and dedication in driving the company to where it is today.

Coming to our consolidated financials for the quarter and half year ended 30th September, 2018 these numbers are in line with India Accounting Standards that is Ind AS guidelines. Coming to financial highlights for the second quarter, our focus has always been on improving overall business and this can be seen in our performance. Our company registered a revenue of 154 crores with year-on-year growth of 54% from 99.58 crores in the same quarter last year. The growth is driven across all segments and majorly from telecom segment and railway track electrification segment. The EBITDA which was at Rs. 17 crores in Q2 2019 increased by 51% as compared to over Rs. 11 crores in Q2 2018 on account of operational efficiencies and despite increase in steel prices. It is mainly because of the volume increase. The net profit for Q2 FY19 was Rs. 8 crores as compared to Rs. 5.6 crores in Q2 FY18. This represents a growth of over 42% year-on-year. Q2 FY19 EPS stood at Rs. 5.97 versus Rs. 4.57 in Q2 FY18 representing a growth of 31%. And our H1 FY19 revenue stood at 317 crores with a year-on-year growth of 46% compared to Rs. 216.7 crores in H1 FY18. The growth was driven by timely execution of orders across all business segments.

Our EBITDA stood at Rs. 34 crores representing a growth of 48% as compared to 23.23 crores in H1 FY18. H1 FY18 EBITDA margins stood at 10.82%. The profit after tax was at Rs. 16.85 crores versus Rs. 11.7 crores in H1 FY18 representing a growth of 44%. Overall, we see good demand in the industry and our focus remains on increasing our market share and providing quality product and services to our client. As I had mentioned we have a technical collaboration with Ramboll, a Danish company which enables us to emerge as one of the key players in manufacturing and fabrication of telecom towers. This collaboration has helped us provide customer better designs and less bulky towers. We are a preferred telecom tower supplier for all major telecom companies and enjoy a sizeable share in the market. The total installed capacity today stands at about 100,000 metric tonnes per annum and offerings of the company include steel fabrication and infrastructure solutions for telecom towers, transmission line towers, substation structures, solar module mounting structures. We also manufacture and provide utility poles to our customers for different uses such as high smart poles, smart city poles, stadium lighting poles. We are an approved vendor with Power Grid Corporation of India as well.

Overall the business can be classified into 4 verticals, telecom towers, transmission which can further be divided into EPC projects, turnkey projects, railway track electrification and supply of railway track electrification structures to other EPC contractors. Third is solar module mounting structures and the fourth is utility poles. As an ongoing endeavor to enrich our product mix we were awarded, we have been approved by CORE, the central organization for railway electrification to supply railway track electrification structures to other EPC contractors as well. The company is gearing up to sharpen its focus on railway electrification and in turn to increase bidding for such projects. We have started building capacities and training our manpower to handle all railway related projects. The sector continues to witness uptick in both ordering and execution of the company orders. This is all from our side. Now we can open the floor for questions and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Couple of questions. Could you give a sense of what is your executable order book the next 12-18 months looks like a responsive time, will split cross possible across railway, telecom tower segment?

Shashank Agarwal: As far as the order book is concerned we have left over of, I am talking about the EPC business of transmission. We have left over of about 75 crores odd which need to be billed from the orders which are already being executed. And on top of that we have around 280 crores of order books which we have already won and the work is just starting on them. Just to mention, we have got a project in Himachal this was almost a year back and the work is just started because the LOI came now. This is a 45 crores order which is going to be executed in next about 2-2.5 years looking at the way the Himachal government functions. Then we have got about 2 orders of about 37 crores each for substation, building a substation and complete infrastructure around it,

37 crores each 2 orders in Haryana on which the work has just started. Apart from this we have got an order in Jharkhand of about 52 crores which include a building of a substation and few kilometers of line around it. The work is going to be started in another maybe might take another couple of months to start because they are going to issue the LOI probably by the end of this month. Then we have an order of 23 crores in Orissa that is again for substation and some transmission line around it for which work will, it will take another 2 months to start the work there. Apart from that we have got a project which we have gone in railways in Gujarat which is of 87 crores which is in the joint venture Sikka-Salasar. Out of which Salasar has an opportunity to supply structures worth about 40 crores to 42 crores over a period of next 18 months. So, this is what we have in hand with respect to EPC. Apart from EPC, for telecom we have a visibility of about 100 crores to 125 crores in telecom towers which includes export orders of about 5 crores currently in hand. Execution a project already signed with Nepal telecom in Nepal for about 14 crores and an order book from Reliance to the tune of 40 crores Indus about 20 crores-25 crores and other telecoms of about 20 crores. So, put together if we say EPC plus telecom, telecom I am giving you a visibility for about 3 to 4 months because telecom is normally a short term order book. So, telecom is about 120 crores-125 crores over next 3 months and which these numbers are likely to be repeated by the time these orders are over. And 280 crores of EPC over a period of next 24 months I would say to be executed, other than that we have quoted for tenders of about 200 crores in EPC and other 220 crores in EPC which are under evaluation. And apart from that we have also quoted for a tender in a new sector which is road construction. We did not have the qualification but we took the qualification from Valecha Engineering and we have after taking their qualification we have bid for a road project of about 350 crores. So, that is the pipeline and which we have bid for the tenders and the order book given you in telecom and EPC. Apart from telecom and EPC business in railway, for the railway supplies we have an order book of about 10 crores as on hand which is likely to increase by the time this order is executed. So, I hope I covered all the sectors more or less.

Baidik Sarkar: Just curious on the road projects, is it something to do with electrification or is it a base case, BOT kind of road project?

Shashank Agarwal: No, it will not be a BOT, it is completely a EPC project of NHAI and if we win this the road project has to be then completely actually we have 2 opportunities over there. One is, when you are building a road you get lot of opportunities to shift the utilities as well. So, we have actually 2 things in mind, if we are building this road the business of shifting the utilities will automatically come to us. Whatever transmission line towers are coming on that particular stretch we will have to be shifted. So, that business will also come to us ultimately. So, ...

Baidik Sarkar: Do we have any prior capabilities in pure road EPC, just trying to understand this is a quantum shift?

Shashank Agarwal: Yes, this is a quantum shift but let us see that is how it works. I mean when we have started building towers we did not even know how to bolt a tower walls. So, we are basically working

on the strategy that once we get this road project we have already internally we have finalized the team a very experience team from the existing market players who would be handling this project if we get this project.

Baidik Sarkar: So, is it fair to assume that with the gradual capacity increase in the telecom sector, Salasar's strategic focus would be as far as away from telecom as possible?

Shashank Agarwal: No, see telecom, it is the core, I mean even this time if you would see the numbers either they are speaking telecom is almost 63% over revenues in this half year, right. And going forward also I am seeing good visibility of telecom for at least next 2 years. But at the same time we would like to venture into other fields so that we are not totally depended upon telecom at one point in time and suddenly after 3 years telecom is like okay there is no more growth in telecom. So, we would like to place ourselves in sectors where we can keep continue growing.

Baidik Sarkar: Last question before I get back in queue, just a sense on your margin profile between these 3 segments starting from road and of course railways and SEB, EPC what is the difference in the margin profile and I notice in increase in receivable days, is it fair to assume that with our share gravitating towards general EPC that will only go up?

Shashank Agarwal: See, if I would give you a sense of numbers today we have about 201 crores of debtors, right. Out of which transmission sector alone is 120 crores plus minus. So, more than 50% is transmission which includes RE business of about 101 crores outstanding and plus and that also includes about 18 crores of retention. Retention is part of the debtors. So, if you actually see these 201 crores is, out of this 201 crores almost 18 crores is retention which is going to come after a year or so. Plus, I mean as the cases the transmission business or the EPC business there will always be a case of retention. So, that would keep on adding to the debtors, right whereas in telecom we have an outstanding for only 55 crores, 56 crores railways is hardly 20 crores. So, majority ...

Baidik Sarkar: difference in margin profile please between each of these 3 segments?

Shashank Agarwal: See, as I had mentioned earlier also in my con calls and my personal calls with you, whenever you are bidding for a transmission or EPC projects you try to keep a higher margin profile considering all the factors that there will be a retention there will be a long working capital cycle. The idea is to ultimately get an EBITDA of close to 11% end of the day. That is the idea, so sometimes you are bidding transmission projects at 15%, 14% which would ultimately give us an EBITDA of at least 11%. And telecom as such sometimes it is 10% and half percent sometime 9% also depending upon the volume of orders like if you are working with Reliance the margin profile sometimes goes down because the numbers are high. They try to squeeze on the prices.

Moderator: Thank you. The next question is from the line of Sachin Kasera from Lucky Investment Managers. Please go ahead.

Sachin Kasera: Sir, just again a follow up on the previous question, this plan to get into the road construction this looks, so quite a bit of diversification, I will understand that we did want to diversify from telecom and it might just look into something like an REC projects or even into railways. But this is an extremely competitive segment and we do not have any much experience there and we have seen of people in the road segment having burned the finger. So, is there a detailed thought process and risk management assessment that is run by the management before you get taken leap into this road construction?

Shashank Agarwal: Yes. Sachin, actually we have really thought over it. I understand, where you are coming from the road construction sector margins are typically at about 10%, right. But the working capital cycles today with NHAI are good. You really do not have to put up so much of money into road construction today as probably you have to do in a BOT project or what you call a deferred payment, right.

Sachin Kasera: Yes, I understand that sir but when we interacted lot of people who are either pure play into the road construction or whoever significant revenue coming from there. There are also a large amount of challenges which are there and many of these companies today are having lot of issues in terms of doing the road construction. And some of them are very large competitors are still they are struggling and if we end up getting up like last year we had 60 crores if anything goes wrong it can shut the company back by 2-3 years, know?

Shashank Agarwal: We actually thought over it and we had been cautious in number one quoting our tender that we have quoted at a reasonable margin, number one. Number two, we have tied up with a team who had been associated with some very reputed companies in the road construction sector. And touch wood, if we win the tender we are sure that we will be able to complete this job successfully and in full capacity. And on top of it as I said there is a thought that once you get into the road sector today there is a lot of opportunity for the EPC business from the transmission as well for utility shifting. That is a huge business coming in from there. We already supplying structure to so many companies who are doing road projects and what you call and they are buying structures from us for shifting their utilities. So, there would 2 thoughts behind this that it could be a double pronged strategy wherein we can ...

Sachin Kasera: But in that case we could adopt this some of these companies wherein we bid on jointly basis one company takes care of the road construction and we just handle the EPC part of the towers and all? And secondly sir I understand that you mentioned that you want to diversify to telecom but then more fruitful will be like Railways or the power transmission where we have seen our share is very small companies like KEC and Kalpataru, they have reached the turnover between 5,000 crores to 10,000 crores just doing EPC of railways and electrification and that is a much more related area of Salasar than into a completely unrelated area of road construction.

Shashank Agarwal: No but see our focus is of course from the railways as I mentioned. I mean, railways is going to give us lot of growth but at the same time we would like to get into some other sectors as well

which would, I mean see I mean road building today is probably different from what it was couple of years ago wherein you will getting projects only on BOT or deferred payment basis. Today when we are working with NHAI the EPC business is they are more or less done like EPC business the payment cycles are good. I mean, I know there is a construction about the road project that companies who are doing road projects have not done fairly well. But if you go and see the reason behind that is mainly because they had to burn their money into building the complete project and then you get their money out of it by offering on a BOT basis or a deferred payment basis which is not the case in our this thing. And we ...

Sachin Kasera: My question is that sir, we are already into 3 lines of business which is the telecom tower, the EPC for transmission and railways, right and today our size is fairly small. So, to add one more vertical for diversification looks a little perplexing because I believe there is enough opportunity in the free segment itself, at least turnover to 2,500 crores-3,000 crores next 4-5 years before we could think of another diversification. That is, it is not that we may not be able to do it but just that if there is so much of scope the existing line of business why to add one more scope when our base itself is so small. I maybe take it offline which we can have a separate discussion on that front.

Moderator: Thank you. The next question is from the line of Parth Kotak from The Investment Trust of India. Please go ahead.

Parth Kotak: Sir, I just like to know is there a difference in the margin when we are supplying railway track electrification to other EPC players and executing directly?

Shashank Agarwal: See, when we are executing directly an EPC project, we were basically doing a JV which is Sikka-Salasar, right because Salasar is such does not have a qualification for an EPC job. So, there lot of projects lot of items which go into our EPC project which are brought directly by Sikka-Salasar. So, in case of Sikka-Salasar doing a project of railways as an EPC contractor the structures are supplied by Salasar to Sikka-Salasar, right. Sikka-Salasar is the EPC contractor there and as far as the pricing is concerned the pricing for Sikka-Salasar and the pricing for other EPC contractor is the same. And to margin wise whether we are supplying to Sikka-Salasar or other EPC contractor it remains the same.

Parth Kotak: Sir and again the road construction tender and everything, so do we have a CAPEX which is going to be that, that has to be incurred in the coming years. Is there any CAPEX plan?

Shashank Agarwal: CAPEX plan in respect to the road, no nothing.

Parth Kotak: And in the existing business line?

- Shashank Agarwal:** In existing business line there might be but not now, right now nothing is thought off as of now. We already have enough capacities which would like to exploit and utilize in next by the year 2019 and 2020 before we actually get into any CAPEX.
- Parth Kotak:** And also sir, you said the steel prices have increased a bit. So, would there be any margin complexion in contraction in Q3 will be see higher raw mat cost in Q3?
- Shashank Agarwal:** See, the steel prices have already at a very high, right and that has already been taken care by the customer more or less. So, I do not see any margins going down in Q3 with respect to as far as the steel prices or the zinc prices are concerned. And as far as my road project goes I would like to add on that working capital cycle in road projects is very good. So, execution is slightly easier compared to what it was earlier.
- Parth Kotak:** And sir, my last question is do we actually have the visibility in telecom for the next 3 years that the current CAPEX which is happening will continue happening over the next 3-4 years maybe?
- Shashank Agarwal:** No, see what we have a visibility for at least a year but yes, the numbers which we can imagine and which are being projected by the industry as such are mind blowing actually. Because as I had mentioned in my earlier calls also there about 500,000 towers today in India having average tendency of about 1.5. So, basically we have close to 750,000 points of connectivity. And the call quality today in India is well-known to everyone, I mean the quality call is very bad and the Telecom, the telecom companies are continuously expanding the network, so that operators can come in an improve their call quality if there is a directive from the Supreme Court as well to try to improve the call quality. So, lot of infrastructure is going to we put in first to improve the quality of the calls for the existing number of subscribers number one. Plus 5G is rolled out by 2020 to 2021 we want to need huge number of points of connectivity. I mean, those numbers are actually mind blowing if that happens. I mean, we are really in for a very good time.
- Moderator:** Thank you. The next question is from the line of Kalpesh Gothi from Valentis Advisors. Please go ahead.
- Kalpesh Gothi:** Sir, you said about the size of the road project will be 315 crores, so what kind of CAPEX we require to executed such kind of project?
- Shashank Agarwal:** See, this will be, if you actually go into the CAPEX side probably you need some machinery to the tune of about maybe about 2 crores to 5 crores. You need a batching plant and some machinery which you actually own and then some machineries which would be taken on lease for doing certain works. So, I do not see any CAPEX, a huge CAPEX in the road project if you get it. And since the payment cycle is comparatively very good in road project the project will actually fund itself. Once we have taken the advance from the NHAI, against our bank guarantees the funding of the project would be then on that basis only, you complete 10% and then you get paid every month. So, that should actually fund the whole project expect for the

bank guarantees and probably some CAPEX to the tune of 4 crores to 5 crores maximum. I do not see any huge CAPEX coming in there.

Kalpesh Gothi: So, I will bidding what kind of margin, EBITDA margin you have seen in road project?

Shashank Agarwal: About 10%?

Kalpesh Gothi: Which is as in what we are doing right?

Shashank Agarwal: Correct.

Kalpesh Gothi: So, I think this will be close by end of this year, right?

Shashank Agarwal: To be honest with you this tender is opening today at 3 O'clock. So, we will know the results by this evening.

Kalpesh Gothi: So, are we looking to have a big portfolio of the road project?

Shashank Agarwal: See, it will lot depend. I mean we are going to do this project suppose we get this, if we do it and if we see everything is running well probably, we might dent into another project also. It all depends. When you start something new how your execution happens, I mean we would not like to buy it probably more than we can chew at one time. So, would be cautious and would be patient in taking the projects, I mean we does not take it to increase the topline. We will see how this goes.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Agarwal for his closing comments. Over to you, sir.

Shashank Agarwal: Thank you everyone for joining us and let me reassure you that we are trying to put in our best efforts to take the company to a new height. And we are in for some interesting times with respect to telecom and other infrastructure activities and I see a good amount of growth coming in from most of the quarters. So, thanks once again for joining and I am available for any questions and answers that you have to speak to me offline as well. Thank you everyone and thank you Bridge IR and thanks Karuna for your help.

Moderator: Thank you so much, sir. Thank you. Ladies and gentlemen, on behalf of Salasar Techno Engineering Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.