SALASAR

Date: February 12, 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**

SUB: Transcript of the Conference call held on 08th February, 2018

Dear Sir/Madam

Please find attached herewith the transcript of the conference call held on 08th February, 2018 for your record and further dissemination.

Kindly take the same on record.

Thanking You,

For Salasar Techno Engineering Limited

Kksharma

(Kamlesh Kumar Sharma)
Chief Financial Officer

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"Salasar Techno Engineering Limited Q3 & 9M FY18 Earnings Conference Call"

February 08, 2018

MANAGEMENT: **MR. SHASHANK AGARWAL – JOINT MANAGING DIRECTOR, SALASAR TECHNO ENGINEERING LIMITED**
MR. KAMLESH SHARMA – CFO, SALASAR TECHNO ENGINEERING LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Salasar Techno Engineering Limited Q3 & 9 months FY18 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 phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shashank Agarwal, Joint Managing Director, Salasar Techno Engineering Limited. Thank you and over to you, Mr. Agarwal.

Shashank Agarwal: Thank you. Good afternoon everyone and welcome to Salasar Techno Engineering Limited Earnings Conference Call for the third quarter and 9 months ended 31st December 2017. I would like to begin by expressing my gratitude to you all for taking time to join us today. On the call with me is Mr. Kamlesh Sharma, the Chief Financial Officer of the company and Bridge IR team which is our Investor Relations team.

Let me take you through our company's brief profile before we discuss our business and financial performance for the quarter and the 9 months. We are more than a decade old company incorporated in 2006 as telecom tower manufacturers. Today, we have successfully diversified our business into different verticals and emerged as a strong brand in all the sectors extending our operations in various parts of India. We have supplied more than 25,000 telecom towers since our inception of various designs which include angular towers, tubular towers and hybrid towers and different types of poles and monopoles. Our technical collaboration with Ramboll, a Danish company has enabled us emerge as one of the India's key players in the manufacturing and fabrication of telecom towers. Ramboll is among the leading global brands providing consulting design and engineering solution to their clients in telecom sector as well as in power sector.

We are preferred suppliers to all major telecom tower companies and enjoy majority share in the market to manufacture telecom towers. Our offerings include steel fabrication and infrastructure solutions for telecom towers, transmission line towers, substation structures and solar module mounting structures. We also manufacture and provide utility poles to our customers for different uses such as high mast poles, lighting poles, smart city poles, stadium lighting poles, flag poles and monopoles for transmission line sector.

Briefly, our operations can be divided into four verticals. One is telecom tower, second one is transmission. Transmission can further be divided into EPC projects, turnkey projects, railway track electrification and supplier to other EPC contractors as well as railway track electrification. Third is solar module mounting structures and poles, the utility poles which include all kind of poles. Today, our installed capacity stands at 100,000 tonnes per annum which includes 50,000 tonnes capacity of our wholly owned subsidiary, Salasar Stainless. With the help of our highly skilled, capable and confident team, I am confident that we will be able to increase our reach to a large number of clients in future. We are approved vendors of Power Grid and in the process of bidding contracts directly as well.

Further, as an ongoing endeavor to enrich our product mix, we have also forayed into railway track electrification wherein we have already doing one project in UP. Our company is gearing up to sharpen its focus on railway electrification and intense to increasingly start bidding for such project in a strategic alliance with local pilot players initially. We are gearing up by earning more manpower and building capacities to handle all future railway related projects. The company has already started bidding for such projects.

The sector continues to witness an upward trend in both ordering and execution and the company expects growth to remain strong and gain further pace with the increased participation opportunities. With the experience of over a decade behind us, we have constantly innovated to provide efficient solutions. Our excellent execution capabilities have helped us gain the trust of our clients. This is pretty much evident from a strong repeat orders from our clients in current strong order book position.

Also, I am happy to share with you all that the board of Directors in their meeting yesterday have approved in principle the amalgamation of Salasar Stainless Limited with the parent company. Let me now throw some light on Salasar Stainless. Salasar Stainless Limited is a wholly owned subsidiary of Salasar Techno Engineering and today the activities of Salasar Stainless are similar to Salasar Techno and it is basically supporting Salasar Techno in meeting the requirements for towers galvanization and other fabrication work.

Salasar Techno Engineering shall not allot or issue any shares to the shareholders as it is a 100% subsidiary. As such, the shareholding of promoters or public is not affected at all. The consolidated entity shall provide strategic and competitive advantage to achieve its desired object. The proposed amalgamation is in line to achieve economies of scale, greater control due to integration. Further, it will bring in administration and operational rationalization and optimal utilization of resources. I would like to thank entire team of Salasar Techno Engineering Limited for their untiring efforts, hard work, sincerity and dedication and indulging the company to where it is today.

Coming to our consolidated quarterly and 9 months financials ended as on 31st December 2017, these numbers are in line with the Ind-AS guidelines that is India Accounting Standard guidelines prescribed by the government.

Highlights for the quarter: In the last few months, our focus is on improving overall business and this can be seen our performance this quarter. Both telecom business and EPC business have contributed to this growth. The company registered a revenue of over 132 crores with a strong year-on-year growth of 39% from 95 crores in the same quarter last year. This has been mainly driven by increased executional efficiencies and higher contribution from telecom tower business and EPC business. EBITDA stood at Rs. 14.75 crores in quarter 3 FY18, increased by 62% as compared to 9 crores in quarter 3 FY17. The net profit for quarter 3 FY18 is 8.5 crores as compared to Rs. 4.5 crores in quarter 3 FY17. This represents a growth of over 85% year-on-year basis. Our EPS in quarter 3 FY18 stood at Rs. 6.92, registering a growth of 51% as compared to Rs. 4.58 in quarter 3 FY17.

Now the highlights for the 9 months ended 31st December: The company registered a revenue of 349 crores from 9 months FY18 with a strong year-on-year growth of 40% from Rs. 49 crores in 9 months FY17. EBITDA stood at 38 crores for 9 months FY18, increased by 52% compared to 25 crores of 9 months FY17. The net profit for 9 months FY18 is at 20.16 crores as compared to Rs. 11.6 crores in 9 months FY17 which represents a growth of 74% year-on-year basis. Our EPS in 9 months FY18 stood at Rs. 16.48, registering a growth of 41% as compared to Rs. 11.66 in 9 months FY17. This is basically about the financial highlights and this is almost all from our side and we are open for question and answers and the floor should be open for any discussion.

Moderator: Thank you very much. We will now begin with the question and answer session. We have the first question from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Coming to this as I understand telecom is significant revenue contributor for the company, so what are the prospects when 5G becomes, I hear that starting FY20 we will have 5G network introduced in India. So what are the prospects as a tower manufacturer if 5G is introduced, can you please elaborate?

Shashank Agarwal: That is very nice question and I really love that, one of my favorite subjects. See, today India has about 500,000 towers as on date which includes BSNL and all other private operators which is basically considering a tenancy ratio of about 1.5, we have close to 750,000 radiating points as of now. These radiating points have been created over a period of last 25 years, right that is when the telecom boom started. Coming to 5G, see early trials of 5G will begin world over in early 2019 whereas India is expected to rule out first 5G in end of 19 or 2020. As per the estimates, we need some 2 million more radiating points to actually launch 5G. So that is the kind of business we are looking at. Imagine 500,000 towers in last 25 years and another 2 million points of connectivity in next 2 years. Of course, we will not be typically the big towers. There will be lot of filling sites, there will be lot of smart poles, there will be lot of small sites, there will be lot of connectivities on the existing towers as well because see 5G is going to travel on a lowest band of the spectrum which is about 348 hertz. And to connect effectively 5G on that spectrum, you need towers closer to each other, so there will be lot of filling sites. So from the point of 5G, there is a huge opportunity which is difficult to predict and in fact the sky is the limit as far as my experience and my knowledge goes.

Vetri Raju: That is very well put. And coming on the input cost side, can you just elaborate what is the kind of contractual terms we have with our customers in case of input cost like basic material going into the towers going up or going down and can you give some examples to what happens if the price goes up and what happens if the price goes down and how it impacts the company?

Shashank Agarwal: Sir in most of the cases, we have a price variation formula clause with all our customers whether it is telecom or transmission. Even with the government, there is a preset formula wherein the raw material prices are considered at the time of supply. So in telecom, typically let us take a case of Indus Towers, we are one of their largest suppliers of towers in North India and they basically have a price variation formula fixed at the time of ordering of any new year. We have a formula in place which is applicable till 31st March 2018 and every month they review prices based upon the last month prices of raw materials which include zinc and steel. So we have a kind of agreement with them that if the price variation is within 2.5% plus or minus, there will be no change. If it is beyond 2.5%, the same will be passed on whether it is upside or downside. And similarly with company like ATC, we have monthly rate revision price formula with them. With some of the customers, we have quarterly invent like Bharti Infratel. They basically do a price revision every quarter.

Moderator: Thank you. The next question is from the line of Baidik Sarkar from Unifi Capital. Please go ahead.

Baidik Sarkar: Could you help us understand with some quantitative background, what drove the beat in topline this quarter? I understand you said you had a good quarter for the telecom business, but some granularity did you commission and finish last project? Is this a one-off, will you guys be able to grow on this enlarged base? Some qualitative and quantitative color on that Shashank?

Shashank Agarwal: See, normally what happens is the second quarter is always one of the lean quarters because of the weather conditions prevalent all over the country, lot of civil work does not happen and the sites are held up because of the civil work. And third quarter and fourth quarter are always the best traditionally for our industry wherein the weathers are good and lot of budgets are clear and everyone is gearing up for their targets for the year. So third quarter and fourth quarter always happen to be the good ones. Especially in our case, we have a good order book. We are actually on a mission to complete these projects like none of the project as such has been completed because only the part billing which has been done. If you take up telecom, we have order book of about 150 crores pending as on 31st of January alone, alone from Reliance. The quantity from other customers is significantly lower, but of course that keeps coming. Similarly, in case of transmission, we have order book pending of about almost 255 crores of transmission which is to be completed over a period of next let us say about a year or so. Part of it will be completed in next 3 months, part of it will be completed in next quarter and then so on and so forth. These numbers are not something which are one off a time. I am expecting in fact even better numbers next quarter in the fourth quarter of the year because there will be lot of pressure from the customer also to complete the deliveries and to meet the targets and similarly in case of transmission since the budgeted amounts are released end of the month, they have a pressure to release the payments. They would like us to complete the jobs as much as possible within March. So March numbers, in fact I am expecting a little better than this quarter.

Baidik Sarkar: Tell me for FY18 as a year, you are just 40 days away from the end of the year. How many towers would India would have added and what would be your market share in that to win?

Shashank Agarwal: If you leave Reliance aside, India is adding close to 15,000 towers to 20,000 towers a year. Reliance has come up with a plan to add about 40,000-45,000 towers over the period of next year or so. So if we say that okay first April 2017 to 31st March 2018, probably India would have added give and take close to 25,000 to 30,000 towers which would include Reliance, other operators and plus, I am talking these as a fresh size, not the existing towers with extra tenancy. So some 25,000 new towers that gets added over the year more or less.

Baidik Sarkar: So this is a greenfield number, right. 25,000 plus greenfield number.

Shashank Agarwal: Yes.

Baidik Sarkar: And how many do you think our wallet share out of this about?

Shashank Agarwal: By the end of the year, we would have supplied close to some 6,000 towers or so.

Baidik Sarkar: What is the outlook for 19 looking like? Obviously, Sans Reliance, everybody is under operating financial pressure. What is the CAPEX tower outlook for FY19 look like both for Reliance and the industry put together?

Shashank Agarwal: See, telecom industry is a very interesting industry. What happens is like at the moment Idea and Vodafone is under consolidation mode. So they are not spending anything. So it is others who are actually spending and by the time these guys finish its spending, these guys Idea and Vodafone combined would be ready to match up to their capacity. So this is a cycle which you have seen over the years. Today, Reliance is spending, Bharti Infratel is gearing up now to spend, Indus is gearing up to spend and Vodafone, Idea would start spending maybe 6 months down the line. So FY19 as such to me personally looks very good in terms of telecom at least.

Baidik Sarkar: Last question, how do your bid pipeline look for the transmission business, Shashank?

Shashank Agarwal: Transmission business is looking very good. We already have an order book of about 255 crores which barring from 50 crores odd, I think we would be able to finish some 200 crores jobs during next 12-15 months.

Baidik Sarkar: My question was what is the bidding pipeline. I mean what is your pipeline under bid?

Shashank Agarwal: Well, we have bidded close to 100 crores at the moment, above 100 crores.

Baidik Sarkar: Is it limited to UP, Uttar Pradesh?

Shashank Agarwal: No, it is not only UP. There is some in UP, there is some in Haryana and there is some in MP also.

Moderator: Thank you. The next question is from the line of Ashutosh Garud from Reliance Portfolio Management. Please go ahead.

Ashutosh Garud: So, is your current capacity around 45,400 tonnes?

Shashank Agarwal: No. See, basically we have a installed capacity of about 100,000 tonnes wherein we had added one galvanizing plant early 2017 in our subsidiary, Salasar Stainless which is basically catering to this capacity and one of the galvanizing plants at unit-I is under refabrication which will start functioning the end of March. So I mean put together we have installed capacity of, right now, the operating capacity is about 60,000 tonnes -70,000 tonnes which would again go back to 100,000 tonnes end of March.

Ashutosh Garud: By end of March that is next month you mean to say?

Shashank Agarwal: Yes.

Ashutosh Garud: Okay. So for FY18 till date, almost for the entire FY18 you would be operating at 60,000 tonnes.

Shashank Agarwal: Yes.

Ashutosh Garud: Okay. And in case, so once this additional 40,000 tonnes is in place in March, so when do you think this will actually contribute to your revenues?

Shashank Agarwal: Next year.

Ashutosh Garud: Which quarter I am saying? Q1 or Q2?

Shashank Agarwal: Q1, it is going to start. It will start functioning end of March. So the revenues would start generating from we know Q1 2019.

Ashutosh Garud: What I am trying to understand would it be operating at full capacity in Q1 directly?

Shashank Agarwal: Well, it is like this. We will have a capacity of about 100,000 tonnes operational back in March 2018 and probably in 2019, we would be operating at about 75,000 tonnnes odd. 70,000-75,000 tonnes.

Ashutosh Garud: Okay. And what is the total production expected for FY18?

Shashank Agarwal: FY18, I am expecting around 55,000 tonnes odd.

Ashutosh Garud: And sir, so these are basically you are into manufacturing towers for different kind of sectors which you have mentioned, be it solar or transmission or whichever, so it is not that we would be depending too much on the sectoral this thing?

Shashank Agarwal: No.

Ashutosh Garud: Irrespective of which sector the demand comes from, we would be in a position to get it.

Shashank Agarwal: Correct.

Ashutosh Garud: Capacity would be, you can place it either in telecom or solar or transmission?

Shashank Agarwal: Yes, absolutely.

Ashutosh Garud: Okay. So just coming to the order book, transmission is 250 crores you mentioned, right?

Shashank Agarwal: Correct.

Ashutosh Garud: What is the order book position in other?

Shashank Agarwal: Telecom is about 150 crores, solar is about 7 crores and poles is about 10 crores.

Ashutosh Garud: So this is all put together around 400 odd crores?

Shashank Agarwal: About 425 crores odd.

Ashutosh Garud: So if you see, this is slightly less than the sales which you have done. So what is the order execution period for this?

Shashank Agarwal: So this telecom, 150 crores is likely to be completed by end of May and this….

Ashutosh Garud: So it is 5 months kind of a…

Shashank Agarwal: Yes. And transmission would take about a year to complete. Solar will be completed in about a months' time or so, month or 45 days. Poles would be completed in another 45 days to 2 months.

Ashutosh Garud: Okay. And what was the latest CAPEX which you did?

Shashank Agarwal: We haven't done any huge CAPEX as such. I mean the last CAPEX we did was Salasar Stainless to put up this generated capacity. And after that, we have actually taken one of the existing plants of galvanizing into refurbishment, which is again maybe about 4-5 crores CAPEX in unit-I.

Ashutosh Garud: So much have you spent for this additional 50,000 tonnes capacity?

Shashank Agarwal: We spent close to some 20 crores last year.

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

Sachin Kasera: Sir, if you could give us some sense in terms of what was the breakup of revenue for the 9 months between EPC versus the tower business?

Shashank Agarwal: Okay. In terms of revenues, the telecom has been about 73 crores. I am talking about the quarter or you want to have the 9 months number or quarter alone?

Sachin Kasera: If you can help with both or even the 9 months would also be sufficient whichever way you can share.

Shashank Agarwal: So for the quarter, I have the numbers in front of me that is 73 crores from telecom, transmission is some 48 crores and solar is 6 crores and the poles and other business is 5.36 crores. And for the 9 months, telecom is 199 crores, transmission is 101 crores, solar is 37 crores and others is about 20 crores which includes poles and job work.

Sachin Kasera: Sure. So roughly around 30% is from EPC and remaining is towers and other businesses?

Shashank Agarwal: Yes. Given the 29% EPC, some 56% telecom and about 10.5% from solar and about 5.5% from others.

Sachin Kasera: How do you see this mix over the next two years? Will this remain this broad range of 70:30, EPC to others or will this mix change going ahead?

Shashank Agarwal: See, basically in terms of as you value, probably telecom numbers would increase, transmission numbers would increase, but going forward I see this 30% transmission going to about 40%-45% in the next couple of years.

Sachin Kasera: So we are seeing a much stronger growth in the transmission business?

Shashank Agarwal: Yes, that is right.

Sachin Kasera: Okay. And if you could give us some sense around the EBITDA margins, how do you see the EBITDA margins for FY19 vis-à-vis FY18 with this type of growth that we have?

Shashank Agarwal: Well, it is difficult to give you guidance on that, but the margins, I mean you have seen our results. Those have been probably better than what market had expected. See, we have a business wherein we try and maintain at least the EBITDA at which we are operating, that is about 11% odd. I think that should be maintained, if not more.

Sachin Kasera: Sure. Can you please help with the working capital cycle? How that has worked for the 9 months vis-à-vis what it was in FY17 in terms of numbers?

Shashank Agarwal: It is more or less same, Sachin. Actually, it is roughly about 80-85 days kind of working capital cycle.

Sachin Kasera: And is it same sir in both transmission and the tower business or the cycle is little different across these two segments?

Shashank Agarwal: It is different. Telecom is slightly better. Average telecom cycle is about 55-60 days. We have various transmissions that goes even up to 100-120 days some times.

Sachin Kasera: Sure. So is it fair to assume that in the next 2 years, as you mentioned this ratio of 70:30 will probably go towards 55-60 from others and 40-45 from transmission. This 85 days could probably go more towards 95-100 days in next two years?

Shashank Agarwal: Well, see, traditionally we have been able to do it with an 80-85 days, 90 days maximum. But yes, 5-10 days here and there, I mean it is difficult to predict. It depends on the projects also, I mean what kind of projects you take that would also determine your working capital cycles. But yes, traditionally it looks like it is going to be in that range only.

Sachin Kasera: Just one last question. Can you give us some bit regarding on the railways if you are looking at any opportunities and if there is any, then what is the progress for us?

Shashank Agarwal: See, railways as I said looks very promising to me after telecom and as the honorable minister has put lot of emphasis on railway electrification, we are really seeing some good growth in there. We are approved by CORE and not only the complete EPC, but we have now some orders from contractors who have taken railway jobs, who are going to buy material from us as a part of supply. And other than what we do for railways directly. So we are bidding for some railway electrification projects in UP which might come up with the results by end of March or maybe early after and this would be in the range of about 100 crores odd. So we have a good sense that we might get that.

Moderator: Thank you. The next question is from the line of Rahul Karan who is an Individual Investor. Please go ahead.

Rahul Karan:: My question is, in your accounts, the other expenses have jumped up by 300% from 3.11 crores to 10.73 crores. So what is the main item behind this other expenses?

Shashank Agarwal: See, in other expenses, one of the items is the technical royalty fee which we pay to Ramboll who are our technical partners. So in this quarter since the sales has increased mostly in telecom sector, so lot of dispatches have happened on account of Ramboll tubular towers. And accordingly the charges have been paid to Ramboll. So that comes in other expenses.

Rahul Karan: Is there any fixed commission charges or it is ongoing quarter-to-quarter basis?

Shashank Agarwal: No, it is actually directly related to the dispatches. It is per tonne basis what we pay to them, a certain amount. And since the dispatches have increased in telecom towers, especially for Ramboll tubular towers this number has gone up.

Rahul Karan: And its percentage has been disclosed?

Shashank Agarwal: Yes, previously disclosed.

Rahul Karan: What is the percentage?

Shashank Agarwal: It depends, you know it is ranging from 3% to 5% depending upon the type of towers and the customer.

Rahul Karan: And one more small question. This regarding railway electrification, what is the exact nature of work the company is doing in railway electrification because it is a very broad this one. So as such would like to understand what is….?

Shashank Agarwal: OHE work, overhead electrification work wherein the normal tracks which are the trains, where the trains are running, diesel, they are being converted into electric lines. So we are doing complete EPC job of about 50 crores which is 83 kilometers point to point and about 153 kilometers in total track kilometers wherein we do the complete civil work for poles. We supply poles and we do the erection of poles and then will be doing the small substations which are required to manage the electrification job plus the handling over completely after it has been charged to the department.

Rahul Karan: So it means the tracks on which the electrification, it is completely run on electric one, that is what we have to assume?

Shashank Agarwal: The tracks where there is no electric trains running are being converted into electric tracks, so that is the job we are doing.

Rahul Karan: Yes, and final question. There has been substantial increase of steel and iron ore prices also, and cooking coal also, so what is the effect of raw material on your revenue going ahead?

Shashank Agarwal: See, as I had said earlier also, most of our projects are on a price variation clause. So as the prices of steel and zinc go up, we try to as per the formula agreed between different customers. Those prices are passed on. So I mean when the steel goes up and the zinc goes up, there is a certain percentage of cost which is passed on to the customer and he accept at a higher price.

Rahul Karan: So there is no problem at all for passing on because zinc as you said is one of the, I mean we should be very careful going ahead because of the shortages especially in zinc?

Shashank Agarwal: Yes. See, whatever be the price, it is basically pass on kind of a formula.

Rahul Karan: Means, there is total elasticity of orders. The company will not suffer in any kind due to this…?

Shashank Agarwal: No, it is not.

Moderator: Thank you. The next question is from the line of Manish Saxena from Pine Bridge. Please go ahead.

Manish Saxena: Just wanted to get a sense from you from a capital allocation front of it, last year when we notice your debt numbers, short term was about some 65-66 crores, I think long term was about 10 odd crores. How do you see, or could you give us a sense like what is the current borrowings that you have and at what level are you comfortable with borrowings and all. Or is it something that from the cash that we are generating from operations you would first like to reduce this or what is your outlook on that?

Shashank Agarwal: See, the company does not have any long-term borrowings as such. We never had any borrowing. I mean we had small borrowings which we had repaid. Today, we have short term borrowings that is basically the working capital limits and we have been doing within this working capital limits without increasing much on the debt side. And going forward, probably we might need little more borrowings from the bank in the sense that these working capital limits might increase as the turnover increases looking at the longer working cycles we have. I mean let us say we are hoping for a 20% year-on-year growth next year probably going from 500 crores to 600 crores. So we might need a little increase in the working capital limits from the banks. But beyond that…

Manish Saxena: Where are the current limits, if you can share that sir?

Shashank Agarwal: We have limits with Bank of India and HDFC Bank. Bank of India is 70 crores and HDFC Bank is 18 crores. That is the cash credit limits. Other than that, we have some 60 crores odd of non-funded base limits which is for bank guarantees and some 20 crores from HDFC, the non-funded limit which are basically used for giving bank guarantees and counter guarantees.

Manish Saxena: For the projects you execute?

Shashank Agarwal: Yes.

Manish Saxena: Okay. And this number you think next year can actually go up rather than come down?

Shashank Agarwal: Yes. I mean this 88 crores might go to 100 crores or maybe a little more, yes.

Manish Saxena: A bit like on a longer term basis , is this something that you are comfortable with working on a loan basis or would you be working with a lesser amount. What has been your experience with the banks?

Shashank Agarwal: See, traditionally we have never borrowed. Even when we started, we never borrowed a single penny. It is when one of the times, I mean some 3-4 years back we had to make an SPV acquisition for the factory which was next to us, we had borrowed some 6 crores of rupees which was repaid before actually it was due. So traditionally, we have not been the borrowers from the bank other than the limits, the CC limits and going forward if we have to do a major CAPEX, probably we might think of borrowing. Otherwise, whatever smaller CAPEX is done, we have done through the internal accruals only.

Manish Saxena: Okay. And what would be the total cash flows that you think the company would be able to generate over the next 2 to 3 years and would you be using anything of that in terms of reducing these limits or not?

Shashank Agarwal: See, I don't think the limits can be reduced because probably when the turnover increases, of course our margins in absolute value will also increase. That will also act as a cash flows. So I mean, these will be at a decent levels. Not going too much up as we will be utilizing those cash flows as working capitals. But I think these limits as I said, we have been little conservative in borrowings from the banks always. So even today, 88 crores limits, again say turnover of about 500 crores with a working capital of 3 to 4 months, every 3 months is very decent as you can see. A company of our size with a 500 crore turnover probably might need 150 crores of limits to cover this working capital cycle whereas we have been operating at 88 crores. So going forward also, similar trend would probably follow.

Moderator: Thank you. The next question is from the line of Ankush Mahajan from JM Financial. Please go ahead.

Ankush Mahajan: Sir, what is the total absolute CAPEX that we are looking for FY19 and 20?

Shashank Agarwal: We do not have any plans of CAPEX as of now, nothing.

Ankush Mahajan: So this one lakh tonne is sufficient for production for 19 and 20?

Shashank Agarwal: Correct, that is right.

Ankush Mahajan: Sir, we are looking any opportunity in railway bridges?

Shashank Agarwal: See, we have not looked into as yet, but see being a steel fabricator and recognizers, we do not mind to get into railway bridges also, but we do not have any expertise of railway bridges as of now. But if any opportunities come, we always welcome that opportunity, we always ready to look into it.

Ankush Mahajan: And we have sufficient approvals to offer this product to railway?

Shashank Agarwal: Yes, we are approved by core. So, we are approved for supplying all the poles and structures for railway electrification, but I am not sure about the bridges. I will have to look into that.

Ankush Mahajan: My second question is that we are offering directly to railway authorities EPC contractors basically?

Shashank Agarwal: We have a project about 50 crores if you are directly doing on an EPC basis of railway and now since we are approved with the railways to supply structures, so lot of other EPC contractors are coming to us to buy material from us like KEC, Kalpataru, Tata, they are also buying material from us for their own projects with the railways.

Ankush Mahajan: And similar with the solar and telecom, EPC contractors are taking progress..

Shashank Agarwal: No, telecom, there is no EPC contractor as such. Telecom, we do only supply and erection of towers and solar, we just supply. They just buy material from us whereas in transmission sector where we are doing EPC as well and we supply to contractors also.

Ankush Mahajan: So in T&D sir, who are the contractors?

Shashank Agarwal: The contractors like Kalpataru is there. They buy some material from us. Bajaj is there, we have tied up with them for one of their bridges in Power Grid which is happening somewhere in UP and with some small contractors who do state electricity jobs, they buy material from us.

Ankush Mahajan: How is the payment from them actually, just trying to understand only?

Shashank Agarwal: It depends customer to customer like customer like Tata, they give you a 30 days or 60 days payment whereas some smaller contractors, we work with them on an advance plus payment before delivery basis. Remember that number is small.

Ankush Mahajan: So on an average, only our working capital is 3 months, it is 90 days, 100 days..

Shashank Agarwal: Yes, more or less.

Ankush Mahajan: Sir, the last question is related to the inventory now. If the steel price are increasing, so our inventory is also impacting. So what is the strategy of planning right now?

Shashank Agarwal: See, ours is a business wherein we buy material only when we have orders in hand. We never buy anything before we have the orders.

Ankush Mahajan: But we have to maintain an average inventory?

Shashank Agarwal: No, but we have inventories only against the orders. We do not keep anything which is not for the order. We never buy anything before the order whether the market is going up or down irrespective of the fact because ours is a very customized kind of a business. Anything we manufacture without order will never sell. So we manufacture only as per the order.

Ankush Mahajan: And we have sufficient clauses to raise our prices with the increase in raw materials from the customer side?

Shashank Agarwal: Yes.

Ankush Mahajan: Sir, these EPC players are ready to pay us increase in price due to increase in raw material?

Shashank Agarwal: EPC players, when they buy from us, they buy on the current market rate, okay. Let us say Tata comes to us and say okay they want to buy some 1000 tonnes of material over the period of next 3 months. The price would be settled at a current level and will buy material back to back.

Ankush Mahajan: So can I say that whatever the inventory we have and with the increase in prices, we will pass on this prices to the customer?

Shashank Agarwal: So that is fine.

Moderator: Thank you. The next question is from the line of Jay Tejwani from AQF Advisor. Please go ahead.

Jay Tejwani: Sir, what is Q3 production volume?

Shashank Agarwal: Q3 production volume is about 14,000 tonnes.

Jay Tejwani: What was the year-on-year, last year onwards?

Shashank Agarwal: See, 9 months I have the numbers right in front of me. 9 months is about 38,000 tonnes this year. Last year, it was some 29,000 odd tonnes for 9 months. This year 14,000 tonnes. But I do not have the numbers right in front of me, but it would have been in the similar ratio.

Jay Tejwani: Sir one more question was regarding the EBITDA margin. Sir could you help me with the product wise breakup of our EBITDA margin?

Shashank Agarwal: Product wise breakup of EBITDA margin, I do not think we have those numbers because it is all one account. We do not have different companies. So everything is merged into one account. So overall EBITDA margins are there in front of you, but given the numbers separately is a bit difficult task.

Jay Tejwani: So if you could just guide on what segments are more profitable than the other segments that would be helpful for us also?

Shashank Agarwal: See, it depends again time to time. Today, telecom is in high demand at the moment, so is the transmission, so is the railway, so is the poles. As of now, the infrastructure is booming and we have a good visibility of orders for next at least 1-1.5 years. If you say in absolute numbers, probably the poles what you are doing are the best margin items because in the poles especially the lighting poles and the volumes are very less compared to the overall numbers, but the margin percentage wise is probably higher and even 18% to 20% there in the lighting poles. The payment cycles are very good. We take 25% advance and the balance before delivery. The working capital cycle is very less. But that number overall is very less. So that adds to the margin, but not that significantly. And telecom is a good consistently giving margins whereas in case of Reliance when they have good set of numbers, they try and excuse you for the margins. They would give you a margin, but they probably will not give you that much of margin what probably in a normal course we would have got.

Moderator: Thank you. The next question is from the line of Manan Patel from Equirus Portfolio Management. Please go ahead.

Manan Patel: Sir, I have a question on your numbers, so basically when I look at difference between standalone and consolidated numbers, the topline difference is around 4 crores while even at the bottomline, the difference is around 3.1 crores. So from what I understand, the difference is mainly Salasar Stainless. So I wanted to understand that part, so why is like the margins so high in the Salasar Stainless business or how you account for that?

Shashank Agarwal: Salasar Stainless as of now is doing mainly the job works for Salasar Techno. And there are couple of customers in Salasar Stainless wherein we are supplying stainless steel pipes to them and there is one customer overseas wherein we supply from a specialized product of stainless steel rigid conduit pipes which has a good margin, very high margin. So probably that is one of the reasons.

Manan Patel: And sir there is one line item manufacturing expenses and other costs. So in that, if we see the expenses are very highly fluctuating, so last year it was around 15-16 crores I am talking about consolidated and this year it is around 10 crores while previous quarter it was around 6 crores. So what comprises of that?

Shashank Agarwal: You are saying manufacturing and operating costs?

Manan Patel: Yes, so sir that fluctuates widely. So I wanted to understand the nature of that expense?

Shashank Agarwal: See probably, this year the steel prices have been on a very high side especially last quarter. So manufacturing cost includes consumption of stores, spare parts, power and fuel, restoration charges, tower extension charges and other manufacturing expenses. The EPC erection charges are high because some of the work of EPC what we have done during this quarter have been built by the contractors to us. So that has come under manufacturing and operating cost, that is about 11 crores. 11.6 crores is insulation charges and tower erection charges which actually includes the cost of civil work done by our contractors at site for EPC business of transmission plus erectioning of towers plus extending of cables on the towers that includes insulation charges.

Manan Patel: So sir you are saying that, that cost increased this year, but if I look at the same quarter last year, it was around 15.7 crores while this year it just a 10 crores. So just wanted to understand…

Shashank Agarwal: No, last year for the whole year, it was some 46 crores.

Manan Patel: I am talking about the same quarter last year from your..

Shashank Agarwal: I think we will note down this question and probably we can send you a detailed report, that should not be an issue. You were saying that quarter 3 FY18, there is 10.9 crores whereas for 17, it was 15.73 crores. We will look into numbers and will send you explanation for this, not an issue.

Moderator: Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

Jehan Bhadha: Sir you said that our installed capacity is 1 lakh tonnes. So probably in FY20, we should be reaching almost full capacity. So will we be looking at CAPEX after FY20 or you should be actually starting to prepare maybe FY19, 20 itself.

Shashank Agarwal: That is a very good observation and question. In fact, we have to go to the full capacity by 2020, will have to start looking at the expansion in 2019, of course yes, you are right.

Jehan Bhadha: We have the space in our existing location to expand or you will have to go greenfield plant?

Shashank Agarwal: No. See, we will do that expansion next to our existing facilities and the lands are available. We are working on that already.

Jehan Bhadha: Sir any indication as to how much cost would it we have to incur say to set up a 50,000 tonne plant or a l lakh tonne plant?

Shashank Agarwal: Will be about 50,000 tonne plant and the cost would be in the range of 35 to 40 crores.

Moderator: Thank you. Due to time constraints, we will be able to take one last question. Last question is from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.

Vetri Raju: Solar sector, with India adding tonnes of Gigawatts of power in solar every year, are we trying to be very conservative, why is it that sector is at single digit crores in sales?

Shashank Agarwal: Sir, it was very good sector till about last year. See what has happened is all these EPC contractors, most of the EPC contractors or the developers as such have signed the power purchase agreement at very low prices.

Vetri Raju: Yes, so it is unremunerative.

Shashank Agarwal: Mr. Raju as I was saying, see what has happened over a period of last, I would say about 8 to 10 months, all the developers have signed the power purchase agreements with the government at a very low prices.

Vetri Raju: We read it in papers.

Shashank Agarwal: So the whole projects, they have become kind of unviable to be set up at those prices. And if the solar revolution has to continue, they will have to increase the prices because at this price, it will be difficult for them to put up any new plant. So we are expecting that this will come back, we had good numbers last year from solar about 15% to 20% of our business plus solar, but today it is about 6%-7%. We are being very careful with the customers in solar wherein we assure that we can get the payments because when the customer is not making any money, it will be difficult for you to make any money.

Moderator: Thank you. We have time for one last question. The next question is from the line of Kalpesh Guthi from Veda Investments.

Kalpesh Guthi: Sir, you have said about the Power Grid, you are the approved vendor, so can you throw some light on are we done any bidding for any project?

Shashank Agarwal: Bajaj Electricals has actually participated in one of the big tenders for Power Grid with us as a lead supplier. We are not participating into PGCL tenders directly, but we are building qualification as of now by supplying material to big contractors like Bajaj or Tata or others. So they have given us our name as a lead supplier. So they already L1. So once they get the orders, we will be supplying material to Bajaj. We will be doing the complete EPC job for Power Grid.

Kalpesh Guthi: So what will be the size of that project?

Shashank Agarwal: The whole project what Bajaj is getting about 150 to 200 crores. So part of supply would be around 50 to 60 crores out of that, our portion.

Kalpesh Guthi: And sir coming to your Jio order, so how much we have executed in this quarter?

Shashank Agarwal: Jio order, we have executed in this order is about close to 80 crores.

Kalpesh Guthi: And what is the expectation that in Q4 how much we are going to execute?

Shashank Agarwal: Q4 would be close to 100 crores, Jio alone.

Kalpesh Guthi: So this kind of order can we see in 19?

Shashank Agarwal: Yes, at least for next 2 quarters actually.

Kalpesh Guthi: And coming to your margins in this Jio order, is it below than what we have done in consol level?

Shashank Agarwal: Yes, you are right.

Kalpesh Guthi: So then in this quarter, I think out of 132 crores, 80 crores is executed on Jio order. Still be able to maintain a very good margin this quarter.

Shashank Agarwal: See what happens is the margins go up in our industry by operational efficiencies. With the same facility, last year we manufactured only about 29,000 tonnes whereas this year we manufactured 38,000 tonnes with the same kind of. So margins actually go up there plus when we had got this order, the steel prices were slightly lower, zinc prices were slightly lower. So we bought some material once immediately we got the orders. So that is why the EBITDA margins are better.

Kalpesh Guthi: So can we say this kind of margin can be sustainable or we can do more than this?

Shashank Agarwal: See as I said, it is not more, at least these numbers would be there.

Kalpesh Guthi: So 19, we can expect 11.5% of margin?

Shashank Agarwal: It is possible.

Kalpesh Guthi: And sir one more question. What will be the key driver in FY19 where we see which segment we will be going to contribute more?

Shashank Agarwal: I again would say at least 50% would be telecom and some 35% to 40% would be transmission of the total turnover and balance would be solar and poles.

Kalpesh Guthi: So railway going to start contribute if we able to get this order, so what sort of vision about where we see in next 2-3 years railway going to will be 10% of our total revenue?

Shashank Agarwal: Railways, we do actually under transmission head. So of the total transmission business, probably some 20% of the total transmission business would be railways.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference over to Mr. Shashank Agarwal for any closing comments.

Shashank Agarwal: Thank you, gentlemen for your time and it was very nice talking to you and you had some very relevant questions coming in from various people and I appreciate well your patience and time taken to have this call. And we promise that we are on the right track. The infrastructure sector is booming and we are at the right place at the right time and some good work we are promising in the next quarter and next year. Thank you everyone.

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