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Subject: Earning call Transcript

Dear Sir/Madam,


Pursuant to Regulation 30 (Listing Obligations and Disclosure Requirements) Regulation, 2015 enclosed herewith the transcript of conference call held on 17th August, 2021 and information asked during con call, enclosed as reply of con call queries, for your record and further dissemination.

**Thanking You
Yours faithfully**

For Salasar Techno Engineering Limited


**Rahul Rastogi
Company Secretary**



 Encl: as above

ON No. - LI3201312801P/CIT74076

“Salasar Techno Engineering Limited Q1 FY-22 Earnings Conference Call”

August 17, 2021

Moderator: Good evening, ladies and gentlemen, welcome to the Q1 FY22 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 would now like to hand the conference over to Mr. Smit Shah from Pareto Capital for the opening remarks. Thank you and over to you, Sir.

Smit Shah: Thank you, Bilal. Good evening everyone. This is Smit Shah from Pareto Capital. We represent investor relations for Salasar Techno Engineering Limited. On behalf of Salasar Techno Engineering Limited, I welcome you all to our Q1 FY22 earning conference call. I have with me from the management, Mr. Shashank Agarwal - Joint Managing Director and Mr. Pramod Kala – Chief Financial Officer. We will have brief opening remarks from the management followed by a Q&A session.

Please note that certain statements made during this call may be forward-looking in nature. Such forward looking statements are subject to certain risks and uncertainties that could cause our actual results or projections to differ. The company will not be in any way responsible for any action taken based on such statements and undertakes no obligation to publicly update these forward-looking statements.

I would now like to hand over the call to Mr. Shashank Agarwal for his opening remarks. Over to you, Sir.

Shashank Agarwal: Thank you,. Good evening everyone and welcome to our Q1 FY22 earnings conference call. I hope everyone is keeping safe and healthy.

Let me start by taking you through some of the highlights for the quarter. I'm happy with the performance our team has delivered during these challenging times. On a consolidated basis we have registered revenue of Rs. 132.8 crores for Q1 FY22 compared to Rs. 63.2 crores in the corresponding period of Q1 FY21. This is a 110% year-on-year growth for the quarter. To speak about the segmental revenue contribution in Q1 FY22, revenue from manufacturing of steel structures stood at 67%, EPC for power transmission at 18%, EPC from Railways

Electrification at 15%. Our performance for the quarter was impacted as we saw the emergence of second wave of COVID-19 which impacted our execution of certain projects, and it also impacted our telecom tower dispatches. We faced labor shortages in our manufacturing units, as some of our employees got affected and there was restriction on the movements as well. We also faced acute shortage of oxygen in our plants, which is essential for the fabrication of steel structures. However, we were able to manage the situation to the best of our abilities. As a good corporate, ensuring safety of all our employees, we have conducted the COVID-19 vaccination drive, ensuring that all our employees were vaccinated by the first dose, second dose of course is on the anvil, as soon as the timelines come, the second dose will also be vaccinated.

Our EBITDA for the quarter stood at Rs. 14 .7 crores compared to Rs. 4 .8 crores in Q1 FY21, EBITDA margins for the quarter stood at 11.1%, which shows a steady increase in our efforts to continuously strive towards improving our margins. The reported PAT for the quarter stood at Rs. 7.3 crores with a margin of 5.5%. In terms of order inflow, we have secured various orders during the quarter, few of which I would like to highlight. We secured orders from Rajasthan Rajya Vidut Prasaran Nigam Limited for construction of transmission lines, along with the supply of all equipment and material for 220 KV and 132 KV lines worth Rs. 27.45 and Rs. 20.25 crores respectively. We received an order from Power Grid Corporation worth Rs. 238 crores for construction of 201 km of transmission line along with 4 sub-stations in Arunachal Pradesh. We received a very prestigious order for construction of telecom towers of various heights for value of Rs. 55 crores from ITI Ltd for ASCON - 4 project. This project is for Defense and is of very high national importance. With this our total order book stands at Rs. 960 crores, including outstanding order book, L1 EPC orders, manufacturing orders and outstanding under heavy structure unit and orders in the Salasar Adorus. We are very confident about the opportunities in our focus sectors. We continue to see lot of opportunities coming in our way as the telecom operators are working towards improving their connectivity. Also, in the near future once the rollout of 5G begins, we expect exponential rise in the demand for telecom towers. Increasingly there is the demand from the power and railway segment and also our new heavy structure division. We remain committed and are working towards our set targets for achieving higher profitable growth and becoming one of the leading players in our industry. I would like to thank all our shareholders for their continued support and faith in us.

This is all from my side, I would now ask Moderator to open the floor for question-and-answer session.

Moderator: Thank you. We have the first question from the line of Amit Mehta an individual investor.

Amit Mehta: I had a couple of questions around the telecom front. The first one is, once the 5G rolling rollout starts, what is the demand that we foresee and is the industry ready to undertake the kind of CAPEX that will be required?

Shashank Agarwal: The demand for 5G is going to be exponential as I said. And, I've said earlier also the demand for telecom towers on the connected sites in next 10 years is going to be more than what we did in last 25 years, in the telecom industry in total. So, no matter what all the operators will have to do the CAPEX and whether they're ready or not, yes, they are ready. You can see there will be increase in price points for the operator and then we'll have some focus on the ARPUs so that they can have money to roll out 5G. And 5G is something which is written on the wall, and nobody will be able to avoid, they have to go with the 5G, no matter what, from where and how they have to bring the money beg, borrow, steal they will have to put money in the CAPEX to roll out 5G. In 5G there will be two kinds of sites, there will be lot of sites, wherein the existing towers will be used those would be called non-standalone sites where there will be antennas of 4G as well as 5G. Whereas there will be lot of sites, new sites, which will come up as standalone sites, which will be used typically for expanding 5G and lot many towers near to each other, to give you a seamless connectivity in 5G. That's the whole idea about 5G.

Amit Mehta: A small follow-up to that is, is there any development currently happening in terms of new deployment of towers or any kind of orders that we've seen or maybe which you can execute in FY22 or something?

Shashank Agarwal: Oh Plenty. The focus right now is to increase 4G connectivity, especially in the rural areas. We have 4G today in the urban areas, but rural areas still we are running on 2G, and the companies right now are focusing on increasing their reach in the rural areas and more so on the 4G connectivity. There's a lot of expansion which is happening in the North-East area, Bihar, Jharkhand and Chhattisgarh where all the new sites are being put up as 4G sites. Even today, even in the urban areas the connectivity, I mean, it was good till sometime back, but for the last, I would say about a month or so suddenly the load has increased on networks and companies are under pressure to increase the connectivity. They were putting lot many towers and lot many connecting points, in the urban areas as well.

Amit Mehta: One last question from my end is EBITDA margins, which we saw this quarter they have grown significantly. So, is it sustainable and going forward what is the benchmark figure of margin that we're looking at? Any benchmarks?

Shashank Agarwal: This particular quarter, in fact, we have some exports which were at a better rate, and which actually contributed to better EBITDA margins plus there were some orders from the telecom, which we took at a good price, and we had some older stock in hand, which actually gave us better margins in terms of EBITDA. That is one of the main reasons of contribution in EBITDA margins this quarter. I mean typically our EBITDA margins have been in the range of 10.5 to 11% and I don't see them going too much up or too much down. We must get a similar kind of range.

Moderator: The next question is from the line of Mansi Shah an individual investor.

Mansi Shah: My first question is what is the capacity utilization for this quarter and is the company planning on expanding its capacity?

Shashank Agarwal: This quarter we had a lockdown of almost 40, 45 days. I mean, the plants stopped working around 20th of April and they were shut down till about end of May. So, the capacity utilization has been very less, I would say almost 50% of what we would have been able to achieve if it was a normal period. But even then we did almost, 11,000 tonnes of production and almost more than 10,000 tonnes of dispatches As for as the expansion is concerned, we are planning to put up a new galvanizing plant, that's on the anvil, final decisions have to be taken, that will happen towards the end of the year mostly.

Malathi Shah: The next question is like the current order book of the company's 960 crores; will it be executed in the following quarters of the current fiscal year, or it will be shared during next fiscal year?

Shashank Agarwal: So, the certain orders, which will be completed within this year, there'll be part of which will be completed next year, because there are certain projects of EPC which have timeline of almost, 24 to 36 months. So, some of the projects will even spill over to the next year after that, so partly in this year, partly next year and partly after that.

Malathi Shah: Also, the revenue share from the railway electrification segment has increased by significant percent, so is the company planning on focusing more on this segment in upcoming quarters?

Shashank Agarwal: Yes, we are focused on Railways, the reason for increasing the railway revenue in this quarter was that some of the projects are handed over, we were able to close the billing, the works going on till about last quarter and then finalized and handed over, lot of billing was done this year this quarter. So yes our focus is on Railways, because really growing sector and we definitely are looking forward to have a good penetration in the railway electrification market.

Malathi Shah: Can you tell us what are the pending orders in the railway segment and what is the bid book currently?

Shashank Agarwal: 300 crores is the bid book, and we have bigger tenders for railways and the pending order book for railways it is almost like above 100 crores odd.

Malathi Shah: And presently 46,000 odd kilometers of the track have already been electrified and still 20,000 kilometers is left to do. So, what is the size which we are looking out of the pending pie. How do we plan to get these orders?

Shashank Agarwal: As far as the order grabbing is concerned, we are bidding for the projects where we think we'll be able to complete at a good margin. That's number one. We are not running around

and grabbing the jobs, jobs are available. But sometimes they are not available at a margin that we need. So, we don't really quote for those jobs. We quote for jobs wherein we are able to make a margin, that's number one. As far as 20,000 kilometers left over is concerned, it may take at least 5 to 7 years for the electrification of that. The government's target is three years, but I really doubt if that is possible to do in three years. And even if we are able to get a 5% share of this whole available market, we will be happy.

Malathi Shah: What's the EBITDA margin that we are enjoying in the railway segment?

Shashank Agarwal: That varies from project to project. We have projects where we have had EBITDA margins of 14% also and we have projects wherein we had EBITDA margins of 9%-10% also. So, that varies from project to project. But overall, yes, the EBITDA margins end of the day when it comes, that remains between 10.5% to 11%.

Malathi Shah: The last question from my end, if you can throw some light on the company solar segment?

Shashank Agarwal: Well, solar is picking up once again but not to the extent that we would like. And the margins for the companies who are working in the solar sector are squeezed at the moment. And that is the reason that when we supply to them they also try to squeeze the margin for us. So, we are not very much focused on the solar sector as such. We take orders wherein the customer is good; the payments are secure and there are margins available at least to a certain extent. There are lot of work available in the market, but it's not that we just go and get everything. Solar business is not even 3% I would say.

Moderator: The next question is from the line of Muskan Chaudhry, an Individual Investor.

Muskan Chaudhry: I would like you to throw some light on the new manufacturing plant that became operational in this current quarter in April for the heavy steel structures. If you can just let us know what is the expected maximum revenue from that segment and what kind of margins can we look forward to?

Shashank Agarwal: This plant was for manufacturing in April. But then the lockdown happened, we could start the production only in the month of June, there was a total lock down. But even then we were able to do a billing of almost 200 tonnes by end of June, of about I think 1.6 or 1.7 crores, if I remember correctly. And this quarter we plan to do almost, I would say, around close to 1500 tonnes minimum, or maybe more in this quarter. And the target is to achieve 1000 tonnes a month average billings from that. And typically, if we are able to do 1000 tonnes a month that should give us a revenue of almost 9-10 crores per month. And above 100 crores a year, minimum. That is the kind of revenue, as far as EBITDA margins, EBITDA margins typically in the steel sector in our line of business are limited to 11%-12%. So, we are expecting a little better margin going forward in our new business because there is a huge demand but if I see the margins should be in the range of 11%-12% in the business.

Muskan Chaudhry: In terms of the process, would it be based on more of a bidding kind of structures or would they be open table offers? How would you go about taking on all this for this?

Shashank Agarwal: Mostly the customers are in the private sector. So, we call across table negotiations and we have a steel pricing one side, and manufacturing cost on one side and there is a customer on the other side, and this is how you negotiate and close.

Muskan Chaudhry: What would be the average time frame for the completion of these kinds of projects?

Shashank Agarwal: So, typically these are supply orders and supplies normally start within 30 days from the date of the order and depending upon the order size it might take anywhere from 15 days to two months to supply one single order.

Muskan Chaudhry: In this segment, once the current plant capacity is utilized, this may be premature but are there already plans to further expand capacity.

Shashank Agarwal: Yes. We have something in mind. As soon as we are able to achieve our full capacity of 1000 tonnes, we will definitely be looking to expand further capacities.

Muskan Chaudhry: One last thing I would like to know is what would be the outstanding debtor amount as of this quarter, including the retention amounts?

Shashank Agarwal: 210 crores approx.

Moderator: The next question is from the line of Amit Mehta, and individual investor.

Amit Mehta: Basically, as you mentioned that right now we are more focused on 3G and 4G and increasing the connectivity. My question was, what is the current capacity of the telecom towers and going forward what kind of capacity would we require for a seamless experience?

Shashank Agarwal: There are about 600,000 towers in India at the moment. And these 600,000 towers have been put up in the last 25 years, from 1995 to 2020. 2020 is when the telecom industry in India have completed Silver Jubilee, 25 years. And these 600,000 towers have about 800,000 points of connectivity, give and take, assuming that there is an average increase of about 1.35 per tower cost. So, to have a seamless experience from 5G all across the country in India, you need at least a million more towers and at least 1.5 million points of connectivity in the next 10 years. That's my take on that.

Amit Mehta: You also talked about the debt levels in the previous question, so what would be the cost of capital or on the interest rates that we are charged on these?

Shashank Agarwal: We have sub 8% financing from the bank for cc limit in the range of about 7.75% and we get a subvention also, so average is not more than 7.5% average.

Amit Mehta: I just saw your presentation and it talks about different orders. So, if you could help us understand the breakup of orders under various segments, and what is the average general timeframe for completion of those orders?

Shashank Agarwal: The orders in the EPC which are under execution are about 560 crores and in this there will be projects which will be closed within this financial year, there will be some projects that will be closed next year and there will be some part which will be closed year after that. And after that we have L1 orders, we are awaiting LOI for orders worth 88 crores. ROB business that's heavy structure division business we have order book of around (+) (-) 70 crores. And we have Metro railway work going on in our JV, Salasar Adorus of about 250 crores, out of which almost 240 crores is balance to be executed. Then we have telecom towers order book of almost 25 crores every month which is an open order book. Then we have a pending order book of export of telecom towers of about 8 to 9 crores.

Amit Mehta: Moving on to a couple of questions on transmission business that we have, so, what are the pending orders in this segment and bid book, what does it look like end of first quarter FY22?

Shashank Agarwal: FY22, 560 crores is under EPC which includes railways as well as transmission. Out of that transmission would be close to about 400 crores, may be 460 crores. Because above 100 crores is what is pending in the railway EPC. And this as I said, this will be completed partly this year, next year and year after that.

Amit Mehta: What are the timeframe to get an idea from bidding to project awarded, any kind of guidance if you can provide?

Shashank Agarwal: It varies again from government entity to entity. Sometimes you are awarded L1 within one week you get an LOI. Sometimes it takes a couple of months to get a LOI, sometimes it takes even six months.

Amit Mehta: Last couple of questions. Basically, I also wanted to understand if there are any progress made in the smart cities project, that business?

Shashank Agarwal: Smart city projects are going on and the demand for a smart city is there, but not to the extent which was expected few years back. There is a lot of noise around the smart cities rather than the work. We are supplying smart towers, smart poles to various smart city projects. But that has not I would say substantial part of the revenue, because these are very small typical orders.

Amit Mehta: Last question from my end, very premature to ask also, but if there's any kind of, short of 3-5 years, business for the company wherein what kind of revenues or any kind of numbers that you throw, numbers or margins that you can throw for us?

Shashank Agarwal: See, we plan to grow at least 15% year-on-year basis. That's the minimum target we have internally. So, you can work out the numbers.

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

Shashank Agarwal: So, thank you everyone for your participation in our Q1 FY22 earnings conference call. In case of any further queries, you may get in touch with Pareto Capital Advisors, or feel free to get in touch with us. We look forward to interacting with you in the quarter. Thanks once again and keep safe, keep well. Thank you.

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