

Date: 21/11/2017

To

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SUB: Transcript of the Conference call held on 16th November 2017

Dear Sir/Madam

Please find attached herewith the transcript of the Conference Call held on 16th November, 2017 for your record and further dissemination.

Kindly take the same on record.

Thanking You,

For Salasar Techno Engineering Limited

Rkshama

(Kamlesh Kumar Sharma)
Chief Financial Officer

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“Salasar Techno Engineering Limited Q2 & H1 FY-18
Earnings Conference Call”

November 16, 2017



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

Moderator: Ladies and gentlemen, good day and welcome to Salasar Techno Engineering Limited Q2 & H1 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. 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. I now hand the conference over to Mr. Shashank Agarwal, Joint Managing Director. Thank you and over to you, sir.

Shashank Agarwal: Thank you. Good afternoon, everyone and welcome to Salasar Techno Engineering Limited's earnings conference call for the second quarter and half year ended as on 30th September 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.

I would start with a brief about the company and I will share with you all the progress we have made in our operations. We are more than a decade old company, established in 2006 and a leading player in the domestic telecom tower business. Over the last 10 years, Salasar Techno Engineering Limited has emerged as a strong brand in the sector with a wide geographic presence spanning the length and breadth across the country. Since our inception, we have supplied large number of telecom towers of various designs; being, angular, tubular or hybrid towers, ground based towers and roof top towers. Our collaboration with Ramboll, a Danish Company is a technical tie-up which has enabled us to become one of the India's key players in the manufacturing and fabrication of telecom towers. Ramboll is among the leading global players providing consultancy, design engineering and solutions to top clients. We offer customized solutions to steel fabrication and construction solution in India for telecommunication towers, transmission line towers, substation structures and solar module mounting structures. We also manufacturing utility poles, high mast poles, stadium lighting poles, flat poles and smart city poles.

To sum up, we operate basically in four verticals. One is telecom towers, another one is transmission line towers, solar module mounting structures and poles. So if you talk about telecom, we have different type of towers as I mentioned and transmission when we talk about, we do supply of transmission line towers and we also do EPC business under transmission verticals and we also do railway electrification work under transmission business. For solar mounting structure, we supply structures for mounting of modules to various EPC companies and the developers and for poles, we manufacture utility poles, high mast poles, stadium lighting poles, flag poles and smart city poles and we are supplying this to various customers all over India.

Our installed capacity today stands at about 100,000 metric tonnes and with the help of our highly skilled, capable and competent team we are confident that we will be able to increase our reach to much more and large number of clients. I am happy to share that we have received

approved vendor status from PGCIL, that is Power Grid Corporation of India Limited and we are in the process of bidding contracts for PGCIL as well. We have also L1 status for Himachal Pradesh Power Transmission Corporation for one of the tenders which we have already won and a formal LOIs which is still awaited.

With the experience of a decade behind us, we have constantly innovated to provide solutions. Our excellent execution capabilities have helped us gain trust of our clients. This is evident from the current strong order book position. The recent offer from Reliance Jio to supply about 1,700 towers worth 112 crores and which takes our order book to more than 400 crores at the moment. I thank entire team of Salasar Techno Engineering Limited for their untiring efforts, hard work, sincerity and dedication in driving the company where it is today.

Coming to the consolidated quarterly and half yearly financials for the quarter ended 30th September 2017, these numbers are in line with Ind-AS guidelines, that is India Accounting Standards guidelines. I would like to start with the highlights for the quarter. In the last few months, our focus has been on improving overall business and this can be seen in our performance this quarter. Despite challenges due to impact of GST implementation. Our company registered a revenue of over 99 crores with a strong year-on-year growth of 28% from Rs. 80 crores in the same quarter last year. This was mainly driven by increased executional efficiencies and contribution of fire margin business. The EBITDA stood at 11 crores in Q2 FY18, increases by 32% as compared to Rs. 8 crores in Q2 FY17. The net profit for Q2 FY18 is 5.6 crores as compared to Rs. 3.6 crores in Q2 FY17. This represents a growth of over 55% on year-on-year basis. The EPS in Q2 FY18 stands at Rs. 4.57 per share registering a growth of 27% as compared to Rs. 3.6 in Q2 FY17.

And about the highlights of the half year ended on 30th September, the company registered revenue of Rs. 216 crore in H1 FY18 versus Rs. 151 crore in H1FY17 with a strong year-on-year growth of 41%. EBITDA stands at Rs. 23 crores in H1 FY18, increased by 46% as compared to Rs. 16 crores in H1FY17. The net profit for H1 FY18 is at Rs. 12 crores as compared to Rs. 7 crores in H1 FY17. This represents a growth of 66% year-on-year basis. Our EPS in H1 FY18 stood at Rs. 9.56 registering a growth of 35% as compared to Rs. 7.08 in H1 FY17. We have seen some impact of GST on our revenue for the business; however as uncertainties are getting clearer now and companies are getting aligned with GST norms, we are seeing a steady increase in our order inflows and are confident of delivering a growth of anywhere between 20% to 25% on a CAGR basis over next 3 to 5 years.

This is basically all from our side and the floor is open now for any question and answers.

Moderator:

Thank you very much. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

- Kalpesh Parekh:** Couple of questions sir. Like I was seeing sequentially the performance of the company, so can we compare this performance on a sequential basis or this would be very, every quarter will be very different and probably the whole performance will be more of, you know, is there any like first half will be different and second half will be much better. Is there any trend over here?
- Shashank Agarwal:** See, in our line of business, normally in terms of revenue H1 is less compared to H2 because as the year progresses, lot of telecom companies and EPC players within the financial year. So normally we have always seen a trend of increased revenues in H2 compared to H1. And Q2 always remains the least in terms of revenue. I mean traditionally the revenues for Q2 have always been less compared to all other quarters. Q1 is sometimes great and Q2 is less, then Q3-Q4 are better. So definitely Q3 and Q4 are going to be much better in terms of overall revenues compared to Q2.
- Kalpesh Parekh:** Okay. And in terms of EBITDA margin, like we have seen some good improvement coming in on Y-o-Y basis, also on a sequential basis, so is there any specific things that must have happened in this quarter, like your product mix have changed or what has happened on the costing front, cost side?
- Shashank Agarwal:** Well, see in Q2, actually we had lot of business to do with our EPC project which is rural Electrification. We tried to do lot of work on that, lot of billing was done on that front and which has got a better margin compared to other businesses. So that is why the EBITDA margins improved because of that.
- Kalpesh Parekh:** Okay. And this like specifically on like, but any specific area where we have targeted in terms of costing front or something, any areas we have identified? Or this would be the new base or probably we can see further improvement in margins coming in from your end?
- Shashank Agarwal:** See, in our line of business, though we have a visibility of lot of orders which we have to execute over 6 months or a year or so, but there is a margin which keeps changing from project to project. But there cannot be a pace which can be determined or which can be taken as a real base that okay, this is the minimum that we are going to do, probably tomorrow we will do better or less. So different businesses are giving different margins and it also varies from time to time. Sometimes I mean I would say for an example, last year solar business was giving quite good returns, right? But today solar business is little bit under stress because the power purchase agreements with these developers which the government has actually set low prices that people are under stress and they are not able to even execute their projects. So ultimately that pressure comes to us and they would like to buy material at a lower price, and that is why we are trying to shy away from the solar business because the margins are less and the payment securities are also less. So likewise in EPC business, in some of the projects the margins are better compared to some other ones, but overall what I see for the whole year, the margins, the EBITDA margins should be in the range of anywhere about 11% or so.

- Kalpesh Parekh:** And sir, even we hear from industry sources also that telecom tower guys are also slightly under somewhat pressure. So are you facing some headwinds on that space as well?
- Shashank Agarwal:** See, telecom industry in India has consolidated now more or less, at last. Going forward, there will be only 3 players per se, one is Reliance Jio, second one would be Bharti Infratel and third one would be American Towers. Ultimately, Indus Towers is also likely to be merged with Bharti Infratel. All these 3 customers are number one customers and we are their preferred vendors for all their towers. But yes, you know the margins, in fact the cost swings, when the customer is under pressure so they would like to put little pressure on us also. But even then since the numbers are good, the quantity is good, so operational efficiencies cover that up. Like, we got a good order from Reliance only in last month, that was 1,700 towers for about Rs. 112 crores. Probably, we were expecting it to go ahead of slightly higher price, but due to the pressure at their end and the margins are not that high as we were expecting. But even then, the timeframe in which we have to complete that order is less. So our operational efficiencies will probably cover that up.
- Kalpesh Parekh:** So in fact in this space probably we will continue to have a decent set of margins. It is not very high, but decent set of margins, but we have maximum towers. So I think now at this point of time, the transmission tower will be the major margin contributor, particularly the EPC space guys.
- Shashank Agarwal:** Going forward, yes.
- Kalpesh Parekh:** In your earlier call, you were indicating on the guidance front for 15%-20% type of growth rate. With this second quarter performance also coming out to be stronger, whether we will have to revise upward our guidance or...?
- Shashank Agarwal:** Yes, Probably the growth this year going to be at least minimum 20% and could even go to 25%. So anywhere between 20%-25% is what we are going to be closing this year compared to last year.
- Moderator:** Thank you. The next question is from the line of Suresh Mishra, an Individual Investor. Please go ahead.
- Suresh Mishra:** Now this guidance that you have revised upwards from 15% to 20%, to 20% to 25% CAGR. Probably this year we will be growing by much more than that because half yearly we have already grown by about a little more than 40% on topline. So this year, probably we will be growing much more than that. This guidance that you have said is for the next 3 to 5 years if I am not wrong in your opening remarks, CAGR?
- Shashank Agarwal:** Well as I said, we closed last year at about 416 crores and this year we are expecting to close at anywhere between 500 to 510 crores. So that would be 20%-25% and going forward also, I see

that we should be able to maintain a growth of about 20%-25%, honestly we have business and I see no reason why it should not be there.

Suresh Mishra: That is great. So by that logic we will definitely be angling towards, heading towards the 1000 crores mark. By when are we expecting that, any...?

Shashank Agarwal: Well, if we go theoretically, we should be hitting 1,000 crores even at 20% CAGR basis in FY21 or maybe FY22. So I mean even if we grow at 20% on a CAGR basis, from FY21-22, you would see it somewhere close to 1,000 crores.

Suresh Mishra: That is fair. Probably I am little more too optimistic about in asking this question. But on the orders front, so you said your orders are in excess of 400 crores, can you breakup this order book in different segments please?

Shashank Agarwal: Well, telecom today stands at around 140 crores and transmission stands at around 170 crores. And solar stands at around more than 30 crores and others are more than 10 crores. And actually telecom is when I am saying 140 crores, 140 crores is what we have in hand. But there are certain orders in telecom which keep coming out of regular basis. So we are just counting the confirmed purchase orders what we have in hand. Other than that, we have these customers who buy regularly on a monthly basis or a fortnightly basis.

Suresh Mishra: So I am pretty much aware, I have gone through the transcript wherein you have explained how the telecom order visibility pans out on month-to-month kind of a basis. So that is one. So what is the next visibility that we have in terms of orders coming in from the telecom side for the next 3, I mean almost 4.5 months yet to go for this financial year ending. So in that respect, what is the kind of visibility that can have from the order telecom side?

Shashank Agarwal: See, Reliance Jio today is in a very aggressive mode of expansion, right? And we have close to 240 orders from them as of now which needs to be completed by March. We have 112 crores for single order and then we received an order of about 15 crores also which needs to be completed by, you know it is in parallel with existing orders. So 127-130 crores from Reliance alone and then balance I am counting like may be around 20-25 crores for the Christmas, so that is the visibility till March which we need to complete. In telecom, we already generated a revenue of about 127 crores in H1 and further revenue of 140 crores to 145 crores can be generated from telecom alone in H2.

Suresh Mishra: So that we will have to unmatch a little more to clarify these things. So on the working capital front, since telecom is starting to, is definitely forming a large chunk of our order book and also the execution part, so we will definitely stay in the very comfortable zone as far as funding requirements are concerned because telecom carries lower working capital kind of a requirement, right?

- Shashank Agarwal:** Correct, especially in Reliance Jio.
- Suresh Mishra:** Okay. Now coming on to the transmission part, you said that you are also L1 on the Himachal Pradesh Transmission Line. So can you throw some more light, what is the kind of circuit kilometers that we have to do, what is the kind of actual business profile of that order?
- Shashank Agarwal:** This is a EPC business which we have won as a bidder directly and we were L1 on that and this business is what 49 crores wherein we have to do the civil foundations, tower supply, tower erection, stringing and everything and this total order was actually won more than 3-4 months back, but LOI is yet to be issued because of the election in Himachal Pradesh. All these things are state electricity board matter. They have put everything on hold. So now that elections are over, probably the LOI is going to come in next maybe 15 days to 30 days and once this LOI comes, we have to start with the job.
- Suresh Mishra:** Okay. So I remember that. This is the order that you got in last quarter itself.
- Shashank Agarwal:** Correct.
- Suresh Mishra:** And so any other bidding we did on the transmission front up till now?
- Shashank Agarwal:** See, we always keep on bidding on transmission. I mean we already have bid more than 4 projects which is in UP and in Haryana also. And the outcome sometimes is delayed because of so many reasons. Sometimes the tenders are less or sometimes it happens from a job perspective. So we have as I said, we have bid for more than 4 to 5 projects, the results are yet to come. You know the tenders are yet to be open.
- Suresh Mishra:** So when do we expect and what is the tenure of completion execution of these orders?
- Shashank Agarwal:** Which one?
- Suresh Mishra:** These transmission line orders?
- Shashank Agarwal:** Normally execution period for different orders is from 12 months to 18 months depending upon the state, depending upon the size, depending upon the terrain. So it varies from 12 to 18 months, or maybe 2 years also sometimes.
- Suresh Mishra:** Okay, fair enough. And any indication of how much we have bid for in terms of values?
- Shashank Agarwal:** We have bid more than 300 crores at the moment.
- Suresh Mishra:** Okay. Fair enough. So now can we get some insights into the Railway orders, we are already qualified and says that we got one order from them, so what lies ahead in Railways because

that is one thing that we have already seeing a lot of traction happening in that, lot of push from the government side also.

Shashank Agarwal: Yes. As the new Railway Minister has already announced lot of investments going to come into Railway Electrification in particular and we happen to be at the right place at the right time probably. So we are expecting a lot of business to grow in the coming years. I mean, the announcements which have been made by the government would not transform into business on an immediate basis, but it will take some time maybe six months to a year because as the information flows down the line and the projects are finalized, so probably next year we should clear and year after that would be good year in terms of Railway business wherein we would have completed our existing order and we would have been qualified for bidding new orders and lot of business on the anvil. So there will be lot of scope to work in next year and year after that in Railways in particular.

Suresh Mishra: So this margins that we have clocked into half year and particularly this quarter, what are the kind of sustainable margins, I am sorry, I maybe repeating someone else's query on this, but I joined in late. Can you throw some light on the sustainable margins when these Railway orders which probably carry a higher margin kind of order book? So can you throw some light on the sustainable kind of margins that we can have?

Shashank Agarwal: See, I don't see any reason for margins to go down below 10% at the minimum. I mean it could be in the range of 11%, 10.5 to 11, maybe 11.5 also sometimes or maybe even 12%. As I said, it varies from order to order. But 10% is something which is the minimum we would work up on.

Suresh Mishra: So why am I asking this question is because if we do the modeling, so probably we can take an average. So 10.5-11 can be a sustainable and a good average to take?

Shashank Agarwal: Yes, 11% is something we should be, you can consider as a bench mark or something.

Suresh Mishra: Okay. And just one from the bookkeeping kind of question. This year we see, lot of expenditures going down quite a bit or going up quite a bit. Can you explain the nature of this year's expenses part?

Shashank Agarwal: Which number are you saying?

Suresh Mishra: No. it is like the manufacturing number, employee cost. So...

Shashank Agarwal: I think that is coming from the operational efficiencies, since the order book is large and in terms of the employees, we didn't have to employ extra persons to carry out those activities. So probably the overall utilization of the manufacturing capacities has resulted into lower cost.

- Suresh Mishra:** Okay. And any exports done?
- Shashank Agarwal:** Yes, we have export orders of about, we are actually doing exports on a regular basis. This year export numbers are around 20 crores as of H1 and we have an order running from 10 crores which is to be completed in next 3 months and from the same customer, we are expecting another order book of 15 crores by end of January or February, which would be completed in another 3-4 months. So exports are regular but not very large in numbers to certain clients and certain requirements. And this order what I am sharing with you is from Nigeria and these are specialized towers and this is something, only we are doing in India.
- Suresh Mishra:** I mean, sounds interesting but what do you mean by specialized towers and which sectors, solar or transmission, what?
- Shashank Agarwal:** No, these are telecom towers, specialized telecom towers which actually have been designed by Ramboll and these are specifically to cater to a large area. Normally, what we have is antenna at the top 5 meters, but these towers are specially designed to carry antenna of about 20 meters on top. And this will cater to a large area and especially countries like Nigeria where the population is scattered and they don't want to have too many towers at one place, so one tower would replace probably 50 towers. It is a large 90-meter tower, quite heavy and top 20 meters' antenna portion wherein specialized antenna would cover a large number of area.
- Moderator:** Thank you. We have the next question from the line of Mehul Mehta from Sharekhan. Please go ahead.
- Mehul Mehta:** In terms of order book what you have provided breakup, is it possible to give breakup also in terms of order inflows what we have got during this quarter?
- Shashank Agarwal:** In this quarter, the major order has been, I would not say this quarter, actually the Reliance order came in Q3.
- Mehul Mehta:** So 112 crores which you mentioned is in Q3?
- Shashank Agarwal:** The deliveries have already started now. The order actually came around Diwali, so that was in Q3 technically. So we were in discussion with them for last one month or rather 3 months, but finally it actually turned out to be an order only on Dhanteras.
- Mehul Mehta:** And if I may interrupt like this is the one which in quarter one you were saying about 5000 towers order, is that the same like which you got 4000. So this time we have got it for 1000 towers I believe, is it?
- Shashank Agarwal:** 1,700 plus 300, we got yesterday so about 2000 towers we already got.
- Mehul Mehta:** So about like maybe first half if you can give me a breakup in terms of order inflows?

- Shashank Agarwal:** Order inflows in first half have been telecom as I said Reliance and regular telecom towers and then transmission basically within executing the same orders. There are some export orders on a regular basis which have been coming in H1 and solar again, the orders are not very long, but they keep coming at scattered.
- Mehul Mehta:** Transmission?
- Shashank Agarwal:** Transmission, as such, I would consider only the Himachal order as the H1 order where we are in L1, though the official LOI is yet to come, we are L1 there. Technically, we have got the order, but the purchase order by LOI is yet to come.
- Mehul Mehta:** So if we talk in terms of because what I am seeing is that 250 crores or 300 crores if we take Himachal order also, then 300 crores was order book as of quarter 1 end for transmission purpose that has gone down. So you have executed more thing like nothing has come into kitty during the quarter, is it?
- Shashank Agarwal:** Yes, you can say, that is right. We have not received any new orders in transmission in Q3 or even H1. H1 probably we got Himachal only, but most of the time the execution has been done and the tenders which are yet to open would only contribute to new orders in terms of transmission line orders.
- Mehul Mehta:** And we got qualified I think for power grid during quarter one I believe, is it or that...
- Shashank Agarwal:** Yes, Q1, you are right.
- Mehul Mehta:** So in terms of our addressable profile, what we look at on SEB side as well as power grid or how do we look at in the sense like what is our addressable market like because UP, I think we have got orders from. So apart from UP, do we target any other SEBs kind of its across or how do we look at?
- Shashank Agarwal:** No, we target on all SEBs wherever there is an opportunity. We are targeting MP, we are targeting Bihar, we are targeting UP, we are targeting Himachal as we got in Himachal also. We are targeting Uttarakhand also which is nearby and there is that state electricity board and as far as the power grid order goes, we are in process of tying up with bigger EPC companies wherein they have proposed our names while at the time of tendering their complete EPC jobs wherein they have said that they will be using our material as approved supplier for executing their projects like Tata Power and ABB and other than that, there is an opportunity to supply material directly to smaller projects of power grid where we are trying to bid directly also.
- Mehul Mehta:** Sir, one more question is on balance sheet side. If I look at working capital from March '17 end to September end, there has been increasing trade receivables at the same time like this

reduction in trade payables, so what is changing like we have grown at 30%, but still our working capital has grown at more than that pace. So what is leading to that?

Shashank Agarwal: See, lot of billing has been done in Q2 for the EPC business, that is government business especially the transmission and the rural electrification. That is why the trade receivables have probably increased and the working capital as you said might be showing those numbers.

Mehul Mehta: Maybe increase in trade receivable is in line with revenue growth, but is there anything specific to reduction in trade payables, have we changed any terms of payment for to our creditors or anything because creditors have come down from like say year end to this September end, in case if there is anything specific?

Shashank Agarwal: According to Kamlesh, some of our purchases, we have tried to take benefit of the available working capital and while paying to the suppliers, we have tried to get an advantage by paying them on immediate basis by taking some trade discount.

Mehul Mehta: So cash flow management basically like...

Shashank Agarwal: Cash flow management, yes.

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

Shashank Agarwal: Well, if there is nothing from anyone, then I would like to thank everyone for taking their time out and joining the conference and we hope that Salasar would be delivering good numbers as going forward in the future. Thank you everyone for joining. Thanks.

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