

## Salasar Techno Engineering Ltd.

### Initiating Coverage

#### MARKET DATA

NSE TICKER	SALASAR
Networth FY18 (Rs in Crs)	159.0
P/BV Ratio (FY17) (x)	2.7
EPS (TTM)(Rs.)	22.1
Market Price (Rs.)	318.0
P/E Ratio (TTM) (x)	14.4X
52 Week High(Rs)	409
52 Week Low (Rs)	198
Market Capitalisation (Rs. Cr)	425.1

#### AVERAGE DAILY VOLUME (in '000)

BSE	2.5
NSE	17.0

#### SHARE HOLDING PATTERN

Promoter	74.9
FII	0.8
DII	0.5
Public	13.8
Total	100.0

#### RETURN (%)

	3M	6M	12M
Salasar	-3.4	6.3	196.0
Nifty	5.9	1.7	12.7

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Salasar Techno is a provider of customized steel fabrication and infrastructure solutions in India for Telecommunication Towers, Transmission Towers & Substation Structures and Solar Module Mounting Structures. During FY17, company doubled its capacity from 50,000 MT to 100,000 MT in response to increasing demand from telecom and transmission towers and tap emerging opportunities from electrification of railway networks.

#### Telecom sector still holds potential for the company

Telecom segment contributes to nearly 55% of Salasar's revenue and thus is of significant importance to the company. Increase in penetration of smartphones and growing consumption of data and calls has created a situation of infrastructure deficit in the industry with frequent call drops and slow speed of internet. Thus to meet the growing demand, the telecom operators would be investing significantly for setting up new tower infrastructure which will benefit companies like Salasar. We expect Salasar to clock a growth of 12% CAGR in revenues over FY18 to FY20.

#### Transmission Tower- another big opportunity for the company

Under this segment, Company has worked with various state transmission companies in Rajasthan and UP and in 2015 it also got empanelled with Power Grid Corporation. Due to huge capex lined up by various State Discoms and PGCIL, we are factoring in a strong growth of 20.4% CAGR in volume for Salasar Techno which will translate into revenue growth of 24.4% CAGR.

#### Huge opportunity from Railway electrification

To tap the large opportunity that would emerge from the Railway sector, Salasar forayed into fabrication of railway electrification towers as well in 2015-16. Currently, India has Railway network of over 121,000 kms of which only 33,000 kms is electrified (27% of total network) while remaining is yet to be electrified. Add to that ~3,000 kms of new track that gets constructed every year, provides a huge opportunity in electrification of railway tracks. Because of the low base, we are expecting a strong growth of ~45% CAGR from Railways and allied segments and it will be margin accretive for the company.

#### Valuation & View:

On the back of company's existing order-book, management's growth strategy and opportunities we foresee, we are expecting Salasar Techno's volume to grow at 14.9% CAGR over FY18 to FY20 which is translate into revenue growth of 18.9%. Due to increase in contribution from high margin products and operating leverage gains from greater volume, company's margins are expected to improve by 70 bps to 11.6% by FY20E. On the back of these we expect company's PAT to grow at 25.7% CAGR to Rs. 46.3 cr by FY20E.

At CMP of Rs. 318, the stock of Salasar Techno is trading at 14.4X trailing P/E. We are valuing Salasar at 13X FY20E EPS of Rs. 34.8 to arrive at our target price of Rs. 453 for the stock, representing an upside of 42%.

	Revenue	EBITDA	EBITDA (%)	PAT	RoE (%)	ROCE (%)	P/E	EV/EVITDA
<b>FY17</b>	384.3	39.5	10.3	19.2	23.0	24.2	15.3	9.6
<b>FY18</b>	494.7	54.0	10.9	29.3	23.0	23.2	14.4	9.6
<b>FY19E</b>	599.8	67.6	11.3	35.4	20.0	23.0	12.0	7.4
<b>FY20E</b>	699.6	81.4	11.6	46.3	21.3	26.5	9.1	5.8

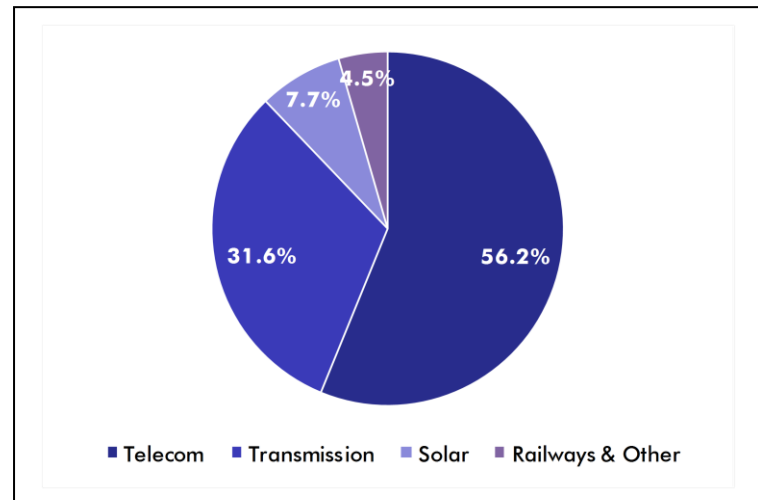
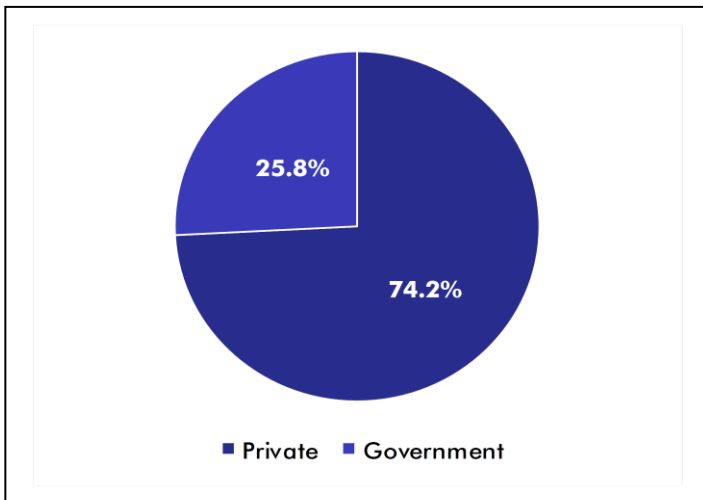


❖ **About the Company:**

Salasar Techno is a provider of customized steel fabrication and infrastructure solutions in India for Telecommunication Towers, Transmission Towers & Substation Structures and Solar Module Mounting Structures. The company’s scope of service mainly includes galvanizing steel parts and fabricating it into tower structure according to their customer’s requirements. In many cases it also carries out EPC work like civil foundation work, land filling, erection of the entire tower, etc. Around 70-75% of Salasar’s revenue comes from manufacturing and fabrication activities while remaining 20-25% comes from EPC work.

Salasar’s product portfolio includes Telecommunication Towers, Power Transmission Line Towers, Smart Lighting Poles, Monopoles, Guard Rails, Substation Structures, Solar Module Mounting Structures and Customized Galvanized & Non-galvanized steel structures. Broadly the company operates in four industry verticals as show under.

Sector	% Revenue	Product Portfolio
Telecom Tower	56.2%	<ul style="list-style-type: none"> <li>- Angular Tower- Preferred for small towers with light load.</li> <li>- Tubular Lattice towers- For low loads. These are lighter than angular towers.</li> <li>- Hybrid Towers- Built for large sites.</li> <li>- Monopoles- Single pole and occupies less space. Most popular tower in wireless communication industry.</li> </ul>
Transmission Tower	31.6%	<ul style="list-style-type: none"> <li>- Lattice Towers for high voltage transmission lines</li> <li>- Feeder Lines and Rural electrification</li> </ul>
Solar Module Mounting Structure	7.7%	<ul style="list-style-type: none"> <li>- Steel structure for mounting solar panels.</li> </ul>
Railways and Poles/Smart Poles	4.5%	<ul style="list-style-type: none"> <li>- Lighting poles for smart cities</li> <li>- Smart poles- single pole contains Wi-Fi and telecom connectivity, lighting, CCTVs and environmental census.</li> </ul>



Salasar has a total capacity of 100,000 MT of galvanizing and fabrication. In FY16, company operated with 2 units which had a combined capacity of 50,000 MT and later during 2017 it came with an IPO and the proceeds from the same were used to address the rising working capital which came with increasing business. During FY18, one of the company’s old plant went for refurbishment leaving the company with effective capacity of 65,000 MT. For FY19, company will be having the entire capacity of 100,000 MT under its disposal. The fabrication capacity is fungible i.e. the same capacity can be used for galvanizing and fabrication of steels for any of the above segment.

❖ **Key thesis:**

**Telecom sector still holds potential for the company**

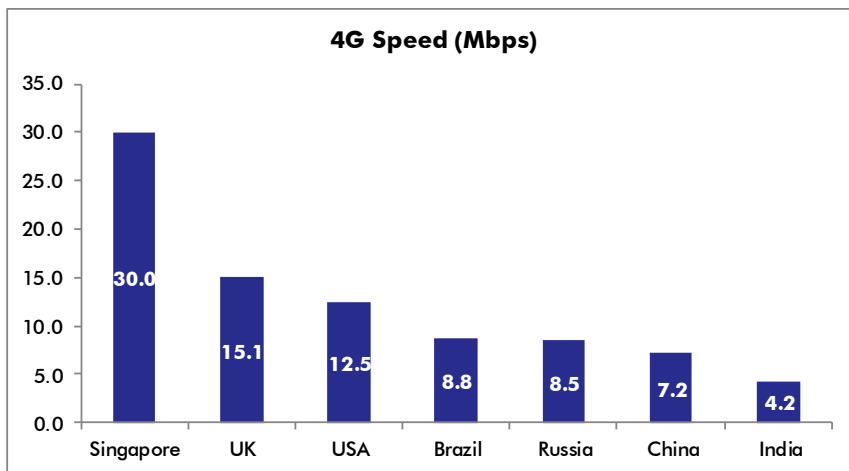
Telecom segment contributes to nearly 55% of Salasar’s revenue and thus is of significant importance to the company. While the telecom sector is under some consolidation phase, it is still facing infrastructure deficit despite heavy investments by the major telco players over last 2-3 years. Increase in penetration of smartphones and growing consumption of data and call has led to over exploitation of the installed tower capacity in India and this can be seen from frequent call drops and slow data speed experienced by the users. This can be seen from the fact that India ranks 88th in the list of 4G speed worldwide with a



speed of 6MBPS against the average speed of 14-15MBPS in case of developing countries. According to the TAIPA (Towers and Infrastructure Providers Association) there will be a need of around 100,000 towers in India over next 3 years which will cost around 15,000-20,000 cr to the telecom companies as the cost for setting up a single tower comes to Rs. 15-20 lacs. Thus, the company is envisioning a stable growth in this segment with anticipation of higher orders from Jio which also contributed materially during FY18.

Country	Subscriber Base (cr)	No. of towers (lakhs)	Subscribers per tower
China	132.2	11.8	11.2
<b>India</b>	<b>118.3</b>	<b>4.6</b>	<b>25.7</b>
USA	32.7	2.4	13.9
Indonesia	22.9	1.1	20.8
South Africa	5.9	0.3	19.0

(Source: Wikipedia, Statista.com, Country's Telecom website)



India has highest number of subscribers per tower at ~25.7 when compared with other developing economies. Even if we want to reach at Indonesia's level of 20.8 subscribers, we will have to install 1.3 lakh towers. Even in terms of 4G data speed, India ranks amongst the bottom.

While the opportunity is definitely there the only and the biggest uncertainty is ability of cash-strapped telcos to invest such amount of money. However, given the quality of telecom services prevalent in India and increase in number of services provided by the operators, we believe there will be significant investments in towers which will provide good amount of opportunity to companies like Salasar technologies.

We are factoring in a volume growth of 9% in our model, which translates into 12.5% growth in revenues after accounting for increase in commodity prices. The total life cycle of the orders under telecom segment is ~30 days, thus any escalation in commodity prices are passed on and settled in short term itself, leading to some sort of stability in the margins.

### Transmission Tower- another big opportunity for the company

To diversify its business from telecom sector, Salasar ventured in to fabrication of power transmission towers. Company has worked with various state transmission companies like Rajasthan and UP and in 2015 it also got empanelled with Power Grid Corporation. Besides fabrication, company also carries out turnkey projects which includes some EPC work as well and assembling of bought out products.

Due to mix of various services (Fabrication, manufacturing, EPC), the margins are high for this segment, in the range of 14-15% against company's current blended margin of ~10.5%. However, these projects also entail stretched working capital cycle since the receivable days run into 4-5 months. Thus some portion of the margin gets offset from cost incurred to meet the working capital requirements. However, when seen in terms of RoE and RoCE- these are broadly in line in with company's existing ratios. (RoCE 22-25%, RoE 20-22%).



## Power transmission industry overview:

Over the last decade, India has invested disproportionately in its power sector with Power Generation seeing significant investments while there is under investment in the transmission and distribution sector. This can be seen from the fact that India has a total installed capacity of 330GW of power generation while the peak load demand witnessed was only 160 GW during FY17 and despite huge idle capacity India faced deficit of ~1.6% during FY17. Moreover, because of lack of transmission infrastructure, the power surplus states are also not able to evacuate their surplus power for export or other deficit states.

Add to these, Govt.'s initiatives to make power available to every household and additional generating capacity that are coming on stream which will take India's generation capacity to 410 GW by FY22, which will also require grid connectivity. Presently India has 3,71,878 circuit km (ckm) of installed transmission line and 7,49,935 MVA of substation transformation capacity. The Indian Government envisages addition of another 1,05,600 ckm of transmission lines over the next 3 years. Besides that, Power Grid (PGCIL) has already lined up capex plans of Rs. 3 lakh crore of which project worth Rs. 1.5 lakh crore are already under various stages of construction while other projects worth Rs. 1.5 lakh cr are for intra-state transmission projects for upcoming renewable energy projects.

Due to huge capex lined up by various State Discoms and PGCIL, we are factoring in a strong growth of 20.4% CAGR in volume for Salasar Techno which will translate into revenue growth of 24.4% CAGR.

## **Huge opportunity from Railway electrification**

To tap the large opportunity that would emerge from the Railway sector, Salasar forayed into fabrication of railway electrification towers as well in 2015-16. They are approved vendors for the Indian Railways for an order up to Rs. 50 cr. They had participated in couple of tenders from the Indian railways but emerged as L2 in both of them. The management expects to generate EBITDA margins of ~14-15% from these projects so it would not sacrifice on profitability just to fill its order book. Therefore they did not aggressively bid for those orders. In the absence of orders from Railways, the management have moved to sub contract model where they approach the established EPC companies like Tata Projects, Kalpataru, etc who have already won orders from the Railways and does the galvanizing and fabrication work for them.

Railway electrification will be a huge opportunity for companies like Salasar Techno. Currently, India has Railway network of over 121,000 kms of which around 33,000 kms is electrified (27% of total network) while remaining is yet to be electrified. Add to that ~3,000 kms of new track that gets constructed every year, which will also be electrified either partly or wholly. Electrification would also be beneficial for the Indian Railways. Currently, Railways spends Rs. 18,000 crore annually on purchase of diesel while its electricity purchase bill for equivalent energy is pegged at Rs9,000 crore, thus annual savings Rs. 9000 cr for the Railways. The Ministry of Railways have pegged total capex of Rs. 35,000 cr for electrifying 66,000 kms of tracks and they have target of electrifying 25,000-30,000 kms by 2021.

We are expecting a strong growth of ~45% CAGR from Railways and allied segments, albeit on a lower base. The volume from this segment will grow from 2767 MT in FY18 to ~5810 MT by FY20. The contribution to revenue from this segment will also improve from 4.5% to 7.2% and by FY22 this can go further up to ~10-12%. Higher contribution from this segment will also be margin accretive since company expects EBITDA Margins of 14-15% from these projects.

## **Solar Module Mounting Structure (SMMS):**

Salasar designs, manufactures and supplies Solar Module Mounting Structures which are used to support the Solar PV panels in a solar plant. During FY18, company saw some consolidation in this segment due to stress in the sector per se. The volume declined sharply by 44% over the previous. However, the worst in the solar sector is behind and given a low base, company will see an uptick in volume from solar segment. However, this segment isn't management's active focus area, so if they get orders in other segments they would be willing to forego this opportunity. They would be inclined to accept more orders only if the margins are better and payments are secured.



The Steel Structure on which the solar panels are fixed is the Solar Module Mounting Structure as shown in the picture.

Govt.'s thrust on solar sector

Since the arrival of the NDA Government at the Centre, India's solar capacity has more than quadrupled from 2.7 GW in 2014 to 12.3 GW in 2017. In 2015, the Govt. had increased its target for adding solar capacity under the National Solar Mission to 100GW from earlier 20GW by 2022. Out of which nearly 55GW will be Ground Mounted (where SMMS are used) while the remaining 45GW would be rooftop.

With India's grid connected photo-voltaic plants market set to expand for the next few years at a rapid pace, we expect Salasar industries to piggy-back this growth in solar industry and grow this division's revenue considerably. We are factoring in a 16.0% CAGR volume growth from FY18 to FY20. The competition intensity is building up in the industry because of reduction in market, leading to some margin erosion.

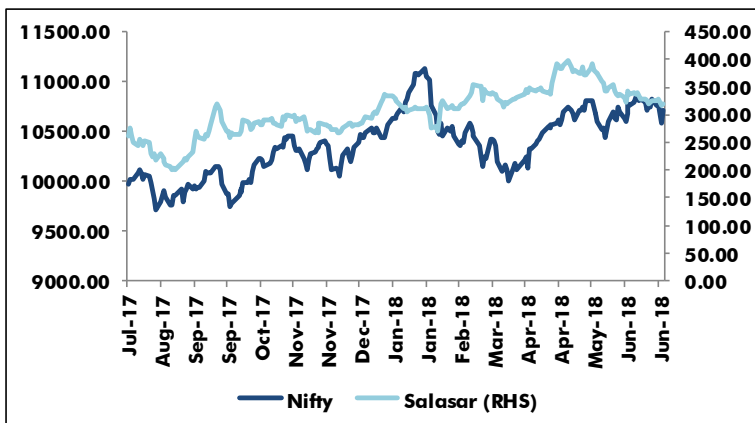
❖ **Financial Outlook:**

There will be significant growth opportunities in the sectors where Salasar Techno operates. Given its small size and business relationships with various PSUs and private EPC companies, it will stand to benefit immensely from the infrastructure spend by the Government and private players. On the back of company's existing order-book, management's growth strategy and opportunities we foresee, we are expecting Salasar Techno's volume to grow at 14.9% CAGR over FY18 to FY20 which is translate into revenue growth of 18.9%. Due to increase in contribution from high margin products and operating leverage gains from greater volume, company's margins are expected to improve by 70 bps to 11.6% by FY20E. On the back of these we expect company's PAT to grow at 25.7% CAGR to Rs. 46.3 cr by FY20E.

Salasar's debt profile is expected to improve over the forecasted period with as it is expected to generate decent amount of free cash flows which will be used to repay the debt. . Currently, company has a total debt to equity ratio of 0.7X, which we expect to drop to 0.2X by FY20. The company's return ratios are also expected to sustain at the current levels of RoE between 20-22% and RoCE between 23-25%.

❖ **Valuation and View**

At CMP of Rs. 318, the stock of Salasar Techno is trading at 14.4X trailing P/E. We are valuing Salasar at 13X FY20E EPS of Rs. 34.8 to arrive at our target price of Rs. 453 for the stock, representing an upside of 42%.





❖ Financials

Statement of Profit & Loss

Salasar Techno Engineering Ltd.- Statement of Profit & Loss					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
Net Sales	310.0	384.3	494.7	599.8	699.6
EXPENDITURE :					
RM and Processing Cost	248.3	303.8	389.2	473.2	552.2
Other Manufacturing Costs	6.0	6.5	7.2	8.1	9.9
Employee Cost	10.5	14.3	23.0	26.4	29.1
Other Operating Expenses	17.0	20.3	21.3	24.5	27.0
<b>EBITDA(Excl OI)</b>	<b>28.2</b>	<b>39.5</b>	<b>54.0</b>	<b>67.6</b>	<b>81.4</b>
<b>EBITDA Margin</b>	<b>9.1%</b>	<b>10.3%</b>	<b>10.9%</b>	<b>11.3%</b>	<b>11.6%</b>
Depreciation	3.1	3.3	3.9	4.6	5.0
<b>EBIT</b>	<b>25.2</b>	<b>36.2</b>	<b>50.1</b>	<b>63.0</b>	<b>76.4</b>
Other Income	0.2	0.4	1.2	1.0	0.8
Interest	8.8	7.3	8.4	11.1	8.1
PBT before exceptional item	16.6	29.3	42.9	52.8	69.1
Exceptionaonal Item	0.0	0.0	0.0	0.0	0.0
<b>PBT</b>	<b>16.6</b>	<b>29.3</b>	<b>42.9</b>	<b>52.8</b>	<b>69.1</b>
Provision for Tax	6.2	10.1	13.6	17.4	22.8
<b>Profit After Tax</b>	<b>10.4</b>	<b>19.2</b>	<b>29.3</b>	<b>35.4</b>	<b>46.3</b>
<b>Earnings Per Share</b>	<b>22.2</b>	<b>20.8</b>	<b>22.1</b>	<b>26.6</b>	<b>34.8</b>

Balance Sheet

Salasar Techno Engineering Ltd.- Balance Sheet					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	5.0	10.0	13.3	13.3	13.3
Total Reserves	70.5	85.9	145.7	181.1	227.4
<b>Shareholder's Funds</b>	<b>75.5</b>	<b>95.8</b>	<b>159.0</b>	<b>194.4</b>	<b>240.7</b>
Other Long Term Liabilities	4.2	14.4	13.0	15.3	17.6
<b>Total Non-Current Liabilities</b>	<b>4.2</b>	<b>14.4</b>	<b>13.0</b>	<b>15.3</b>	<b>17.6</b>
Trade Payables	15.7	34.1	32.0	40.1	46.9
Other Current Liabilities	21.7	44.0	55.0	66.7	77.8
Total Borrowings	59.2	68.8	109.1	85.9	55.9
<b>Total Current Liabilities</b>	<b>96.6</b>	<b>146.9</b>	<b>196.1</b>	<b>192.7</b>	<b>180.6</b>
<b>Total Liabilities</b>	<b>176.3</b>	<b>257.1</b>	<b>368.1</b>	<b>402.5</b>	<b>438.8</b>
Fixed Assets	55.0	61.6	72.8	83.7	80.8
Other Non Current Assets	1.0	5.8	6.3	2.7	2.6
<b>Total Non-Current Assets</b>	<b>56.0</b>	<b>67.4</b>	<b>79.1</b>	<b>86.4</b>	<b>83.4</b>
Current Investments	1.7	1.3	0.4	0.5	0.6
Inventories	44.9	68.8	89.0	94.5	108.8
Sundry Debtors	61.0	79.7	151.6	171.1	189.3
Cash and Bank	2.4	6.4	15.1	10.1	10.1
Other Current Assets	10.3	33.5	32.9	39.9	46.5
<b>Total Current Assets</b>	<b>120.3</b>	<b>189.7</b>	<b>289.0</b>	<b>316.1</b>	<b>355.3</b>
<b>Total Assets</b>	<b>176.2</b>	<b>257.1</b>	<b>368.1</b>	<b>402.5</b>	<b>438.8</b>



**Cash Flow Statement**

Salasar Techno Engineering Ltd.- Cash Flow Statement				
DESCRIPTION	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>29.8</b>	<b>42.9</b>	<b>52.8</b>	<b>69.1</b>
Add: Depreciation	3.3	3.9	4.6	5.0
Changes in working cap.	-19.7	-82.8	-9.8	-19.1
Cash Flow after W/C	13.4	-36.0	47.6	55.0
Less: Tax Paid	-10.1	-13.6	-17.4	-22.8
<b>Cash Flow from Operation</b>	<b>3.3</b>	<b>-49.6</b>	<b>30.2</b>	<b>32.2</b>
Less: Capex	-9.9	-20.0	-12.0	-2.2
<b>Free Cash Flow</b>	<b>-6.7</b>	<b>-69.6</b>	<b>18.2</b>	<b>30.0</b>
IPO Proceeds	0.0	35.8	0.0	0.0
Borrowing/(Repayment)	10.7	42.5	-23.2	-30.0
<b>Opening Cash</b>	<b>2.4</b>	<b>6.4</b>	<b>15.1</b>	<b>10.1</b>
<b>Closing Cash</b>	<b>6.4</b>	<b>15.1</b>	<b>10.1</b>	<b>10.1</b>

**Ratio Analysis**

Salasar Techno Engineering Ltd.- Ratio Analysis					
DESCRIPTION	FY16	FY17	FY18	FY19E	FY20E
EBITDAM (%)	9.1%	10.3%	10.9%	11.3%	11.6%
ROE (%)	0.0%	23.0%	23.0%	20.0%	21.3%
ROCE (%)	0.0%	24.2%	23.2%	23.0%	26.5%
Inventory Turnover(x)	5.8	5.5	5.0	5.1	5.2
Debtors Turnover(x)	5.3	5.5	4.3	3.7	3.9
Creditors Turnover(x)	11.1	12.5	12.0	12.0	12.0
Fixed Asset Turnover (x)	5.1	5.2	5.7	5.9	6.3
Receivable days	69	67	85	98	94
Inventory Days	63	67	73	72	71
Payable days	33	29	30	30	30
Total Debt/Equity(x)	0.8	0.7	0.7	0.4	0.2
Current Ratio(x)	3.2	2.4	3.3	3.0	2.9
Adjusted P/E Ratio	14.3	15.3	14.4	12.0	9.1
Price/ Book value	2.1	3.3	2.7	2.2	1.8
Book Value per Share	151.7	96.3	119.5	146.2	181.0
EV/EBITDA	7.6	9.6	9.6	7.4	5.8





## ANALYST CERTIFICATION

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