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The Trick Is To **Spot Them** At The **Larval Stage**



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Target Price	: ₹370

Salasar Techno Engineering **A BET ON GOVERNMENT SPENDING AND TELECOM TOWER GROWTH**

Our Tiny Treasure for the month of September is Salasar Techno Engineering. This company was incorporated in FY07 and has emerged as a leading player in the domestic telecom tower business. Since inception, it has supplied more than 20,000 towers of various designs of angular, tubular and hybrid ground-based towers and rooftop towers. In 2011, the company ventured into manufacturing of module mounting structures for solar power plants, and in 2013, it forayed into transmission business. In early 2017, it introduced utility poles, high mast poles, stadium lighting poles and flag poles and smart city poles. Thus, the company currently operates in four verticals, i.e. telecom, transmission, solar power plants and poles.

Strong order book

In FY17, the telecom, solar, transmission and others (poles) segments contributed 53.3%, 19%, 24.5% and 3.2%, respectively, towards total revenue of the company. As of July 2017, the telecom segment had pending orders worth Rs 32 crore, while the transmission and solar segments have orders worth Rs 250 crore and Rs 11.82 crore, respectively. The company expects the telecom orders to reach Rs 100 crore to be executed over the next 3-4 months. Another order worth Rs 50 cr from Himachal Pradesh is expected by management. Thus, total order book stands at Rs 293 crore to be executed in three months to one year. The management expects revenue to be ~Rs 480-500 crore in FY18 and it expects to maintain the EBITDA margin at 10-10.5%. The company has bid for orders worth Rs 200 crore, but the status of these bids remains pending.

The company is also eyeing huge opportunity from Reliance, which is planning to build ~40,000 towers over a period of three years. A typical tower of Reliance costs Rs ~5-6 lakh. Accordingly, this project would be worth a total of Rs 2500 crore. The company expects to become one of the suppliers for this project and is keeping a keen eye on bidding for this project.

Capacity expansion and utilization

In FY13, the company's capacity utilization of 50,000 MT capacity of manufacturing and fabrication was only 44%, which in FY17 improved to 91%. This egged the company to expand its capacity to meet the demand and execute the projects. In February 2017, the company added a new galvanizing plant with a capacity of 50,000 metric tonnes. The company's total installed capacity has now reached 1,00,000 MTPA. This will enable the company to

manufacture and execute projects twice the size of its current business.

Partnership with Ramboll

Ramboll, a Denmark-based company, is one of the leading consulting firms for buildings, transport, environment, energy, oil & gas and telecom markets in the world. There are only three companies having technical collaboration with Ramboll. Among these three players, Salasar is the largest player. There is a huge demand of Ramboll telecom towers, owing to its innovative design, lightweight construction, lower costing, etc. The company in future might foray into the export market for the telecom towers with Ramboll's expertise.

Macro factors to help the company

Indian telecommunication services market is expected to grow at 10.3% YoY to reach USD 103.9bn by 2020. The Indian government is planning to auction the 5G spectrum, which will lead to increase in data consumption per person from the current 2GB per month to 200GB per month by 2020. This will boost the growth in telecom sector.

The Indian power sector has investment potential of Rs 15 trillion (USD 225bn) in the next 4-5 years. The annual growth rate for renewable energy generation has been estimated at 27% and for conventional energy at 18%. We also see the strong inclination of the government to electrify rural areas and build smart cities will increase the demand for Smart Poles.

The government aims to add 175GW of solar capacity by 2020. On a pan-India basis, Salasar has 5% market share in the installed solar power projects. The outlook of this sector looks positive and promising, which would be beneficial for the company.

Financial Performance

From FY12 to FY17, the company has delivered strong growth in terms of revenue and margins. The company's revenue in FY12 was Rs 106.89 cr., which grew by 277.7% to Rs 403.79 cr in FY17. Its EBITDA grew from Rs 3.34 cr to 32.56 cr in FY17. The EBITDA margin has shown growth from 3.12% to 8.06%. Net profit increased from Rs 6.46 cr to Rs 16.78 cr in FY17. The company's EPS has improved from Rs 6.63 to Rs 16.85 in FY17. Its debt-equity ratio stood at 1.24x in FY12 which improved to 0.7x in FY17.

The company registered revenue of Rs 125 cr in Q1FY18 with a

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strong YoY growth of about 51% from Rs 83 cr. in Q1FY17. This growth was possible due to execution of order book and higher contribution from the tubular tower business. The EBITDA stood at Rs 12 cr in Q1FY18, an increase of 50% as compared to Rs 8 cr in Q1FY17. The PAT jumped by 77% to Rs 6.11 cr from Rs 3.46 cr in Q1FY18 on a YoY basis.

Valuation

The company's stock is trading at TTM P/E of 19.54x with TTM

EPS of Rs 13.82. It has delivered ROE and ROCE of 22.4% and 25.5%, respectively, for FY17. We see that due to growing demand from its clients, the company has doubled its capacity which would help in completing orders and generate revenue. The company's order book is strong and the outlook of telecom & power transmission sectors is promising in the long run. We see a potential upside of 38% with a target price of Rs 370 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	372.96	276.66	275.92	245.07	167.44
Total Income	373.26	276.81	276.12	245.22	167.51
Total Expenditure	339.02	253.52	256.90	228.84	158.26
PBIDT	34.24	23.29	19.23	16.38	9.25
PAT	18.36	10.20	4.61	5.50	3.05
Adj. EPS(Rs)	18.45	20.49	9.27	11.05	6.25

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201706	201606	Y on Y Var%
Net Sales	121.07	80.77	49.90
Total Expenditure	111.14	74.42	49.35
PBIDT (Excl OI)	9.92	6.35	56.24
PAT	4.78	3.08	55.03
PBIDTM% (Excl OI)	8.20	7.86	4.33
PBIDTM%	8.25	7.92	4.17
PATM%	3.95	3.82	3.40
Adj. EPS(Rs)	4.80	3.10	54.84

