

# Salasar Techno Engineering Limited.

<b>Nifty</b>	9,816
<b>Sensex</b>	31,805

<b>Issue Details</b>	
Offer Price	₹108
Face Value	₹10
Shares Offered (in mn)	3.32
Issue Size (in mn)	358.7
Type	Offer for Sale
Listing (Stock Exchange)	BSE, NSE
Offer Open Date	12 July 2017
Offer Close Date	17 July 2017
Institutional Investors	50%
Retail Allocation	50%
Pre Issue Equity Shares (₹ mn)	9.96
Post Issue Equity Shares (₹ mn)	13.28
Bid Lot	125

<b>Company Valuations</b>	
Market Cap (₹ mn)	1433.95
Net Profit – FY17 (₹ mn)	207.44
P/E(x)	6.9
Book Value - FY17 (₹ mn)	958.32
P/B(x)	1.5

<b>Shareholding Pattern (%)</b>	<b>Pre Offer</b>	<b>Post Offer</b>
Promoters	100%	75.00%
Institutions and Public	-	25.00%

Investors should read the risk factors and more detailed information in the Prospectus and the application form before investing in the issue.

	(₹ mn)		
<b>Financials</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Op. Revenue	3,301	3,100	3,843
Growth (%)	12.9	(0.1)	24.0
Core EBITDA	280	291	408
EBITDA (%)	8.5	9.4	10.6
Clean PAT	84	110	203
PAT (%)	2.5	3.6	5.3
ROE (%)	10.4	15.9	24.3

Source: RHP

<b>Key Contacts</b>	
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## Company Background

**Salasar Techno Engineering Ltd. (STEL)** provides customised steel fabrication and infrastructure solutions in India for Telecommunication Towers, Transmission Towers & Substation Structures and Solar Module Mounting Structures. Its products include Telecommunication Towers, Power Transmission Line Towers, Smart Lighting Poles, Monopoles, Guard Rails, Substation Structures, Solar Module Mounting Structures and Customised Galvanized & Non-galvanized steel structures.

## Objects Of The Issue

STEL will raise ₹358.7mn which it proposes to utilise towards the following purposes:

<b>Particulars</b>	<b>Amount (₹ mn)</b>
Working Capital	318.7
General Corporate purpose	25.0
Issue Expenses	15.0
<b>Total</b>	<b>358.7</b>

## Competitive Strengths

- **Business Agreement with Ramboll** – Ramboll is a leading engineering, design and consultancy founded in Denmark in 1945. Ramboll is well known among mobile operators and network vendors globally for its telecom design philosophy and its extensive involvement in international codes and standards. Ramboll Telecom is the market leader in innovative designs and supply of tower solutions. STEL is a manufacturing partner for Ramboll's technical expertise in Structural Design of Tubular Telecom Towers.
- **Strong Customer Base** – STEL's top customers include the likes of Reliance Jio, Indus Towers, American Tower, Bharti Infratel in the Telecom Space and Mahindra Susten, Adani and Welspun in the Solar space. Apart from the above, Bharti Airtel, Idea, Reliance Communications and KEC International are also its top clients.
- **Optimum Galvanizing Capacity** – STEL's wholly owned subsidiary Salasar Stainless Limited has recently installed Galvanizing Plant of a capacity of 50,000 MT which has increased its total galvanizing capacity to 1,00,000 MT. The capacity is expected to be used up in the next 2-3 years. The utilization before ramp up was 91%.
- **Customer Centric Approach** – Over the years, STEL has developed a significant and mutually beneficial business relationship with its customers which has resulted in repeat orders from its customers.
- **Operational Excellence** – STEL's attention to process optimization to achieve the highest safety and quality has resulted in a culture of operational excellence, enhancing its capability to ramp up operations in minimum time with existing facilities, timely delivery and competitive prices without quality compromise, best quality raw material procurement and skilled and experienced technical manpower.
- **Visible growth through a robust order book and excellent pre-qualification credentials** – STEL is currently pre-qualified to bid for rural electrification projects. With Government thrust on rural electrification, it has helped increase its target market size and maintain the momentum of order book growth. It has a current order book of ₹3500mn (Government order of ₹3000mn and Telecom Orders worth ₹500mn). The Govt. orders worth ₹3000mn comprises of ₹2000mn of Rural Electrification in Western UP, ₹500mn of Railway Electrification, ₹400mn for electrification in Himachal Pradesh and ₹100mn for UPPDCL.

- **Led by an experienced senior management team** – STEL's management has vast experience in steel and allied industry. By focusing on undertaking EPC projects and geographical clustering its projects in its core areas of business, the management has led the company to achieve strong growth in revenue and profit over the last several years. Mr. Alok Kumar, the Promoter and Managing Director, has over 41 years of experience in trading, manufacturing and fabrication of iron and steel and Mr. Shalabh Agarwal, Promoter and Whole Time Director has over 18 years of experience in sugar industry and trading, manufacturing and fabrication of iron and steel.
- **Stable Revenues** – With Telecom segment having a contribution of ₹2000mn to the topline, the segment is set to witness a very stable growth of 5% over the next 3 years. At present, there are about 4,00,000 telecom towers in the country which is expected to reach a level 5,10,000 in 2020. Out of this additional 1,10,000 towers, 70,000 towers will be bigger towers in which STEL has 70% market share. The Smart City mission of the Govt. and increased thrust on renewable energy by the Govt. opens up a plethora of opportunities for STEL in the Smart Lighting Poles and the solar space.
- **Robust Financials** – STEL has gradually increased its EBITDA margin from 8.5% in FY15 to 10.6% in FY17 by improving its efficiency and diversifying its order book mix by taking up orders in the Solar and Railway space. It commands strong return ratios of 32% ROCE and 24% ROE in FY17. Also the company has paid all its long term debt. Further, STEL has no immediate capex requirements which will further improve its return ratios.

#### Peer Comparison and Relative Valuations

Company	CMP/ Issue Price (₹)	Mcap (₹ Mn)	Revenue (₹ Mn)	PAT (₹ Mn)	Networth (₹ Mn)	ROE	P/E	P/B
Skipper	219	22,438	17,030	1,115	4,943	22.7%	20.1	4.5
Kalpitaru Power Transmission	354	54,317	76,292	1,573	25,728	6.1%	34.5	2.1
KEC International	276	71,034	87,839	3,048	15,864	19.2%	23.3	4.5
Salasar Techno Engineering	108	1,434	3,730	203	959	24.3%	6.9	1.5

Source : Company Presentation

#### Risks

- Increase in the cost of, or a shortfall in the availability of raw materials (in particular Steel shapes and sections and Zinc), could have an adverse impact on its result of operations.
- Deteriorating performance of its subsidiary Salasar Stainless Ltd. in the last three financial years due to competition from unorganized sector and decrease in demand of stainless steel pipes. If the trend continues, the management may have to impair its subsidiary's assets which will erode its profit on consolidated basis.
- Orders placed by customers may be delayed, modified or cancelled or not fully paid by customers which may have an adverse effect on its business and financial performance.

#### Valuation And Investment Argument

Over FY15-17, STEL has reported 55.5% PAT CAGR. During the same period, the Company has achieved average ROE of 20%+. At an offer price of ₹108, the issue is being offered at a P/E multiple of 6.9 and at 1.5x FY17 BV. Given the reasonable valuations, We advise investors with a long term investment horizon to **SUBSCRIBE** to the issue.

**Financials**

	(₹ mn)		
<b>Income Statement</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
<b>Operating Revenue</b>	<b>3,301</b>	<b>3,100</b>	<b>3,843</b>
YoY (%)	12.9%	(0.1)%	24.0%
Cost of Material Consumed	2,306	1,969	2,543
Purchase of Traded Goods	7	14	97
Manufacturing and Other Costs	331	426	699
Change in Inventory of Finished Goods and WIP	37	128	(250)
Employee Cost	106	111	143
Other Exp.	235	164	206
<b>Total expenses</b>	<b>3,022</b>	<b>2,811</b>	<b>3,437</b>
<b>Core EBITDA</b>	<b>279</b>	<b>289</b>	<b>406</b>
Core EBITDA (%)	8.5%	9.3%	10.6%
YoY (%)	20.7%	(3.6)%	40.2%
Depreciation	60	31	33
<b>EBIT</b>	<b>219</b>	<b>258</b>	<b>373</b>
Interest	100	88	73
Other Income	3	2	4
<b>PBT</b>	<b>122</b>	<b>172</b>	<b>304</b>
(-) Tax	38	62	101
Tax/ PBT	31.1%	36.0%	33.2%
<b>Clean PAT</b>	<b>84</b>	<b>110</b>	<b>203</b>
YoY (%)	92.3%	30.9%	84.5%
PAT (%)	2.5%	3.5%	5.3%
Exceptional Items	21	-	5
<b>Reported PAT</b>	<b>63</b>	<b>110</b>	<b>208</b>
<b>EPS (before Exceptional Items)</b>	<b>8.4</b>	<b>11.0</b>	<b>20.4</b>

	(₹ mn)		
<b>Balance Sheet</b>	<b>FY15</b>	<b>FY16</b>	<b>FY17</b>
Equity capital	50	50	100
Reserves	595	705	859
<b>Net Worth</b>	<b>645</b>	<b>755</b>	<b>959</b>
Long Term Borrowings	138	113	70
Deferred Tax Liabilities	32	37	37
Other Long-term liabilities	-	-	99
Long-term provisions	4	5	9
<b>Total Liabilities</b>	<b>819</b>	<b>910</b>	<b>1,174</b>
Tangible Assets	538	548	616
Intangible Assets	0.04	0.04	0.04
Capital Work-in Progress	-	2	-
Goodwill on Consolidation	-	0.25	0.25
Non-current Investments	-	-	-
Long-term loans and advances	8	10	58
Other non-current assets	0.09	-	-
<b>Non-current Assets</b>	<b>546</b>	<b>560</b>	<b>675</b>
Current Investments	2	17	13
Inventories	567	449	688
Trade Receivables	574	610	797
Cash and Cash Equivalents	27	24	64
Other current assets	6	10	179
Loans and advances	153	93	156
<b>Current assets</b>	<b>1,329</b>	<b>1,203</b>	<b>1,897</b>
Current liabilities	1,056	853	1,398
<b>Net current assets</b>	<b>273</b>	<b>350</b>	<b>499</b>
<b>Total Assets</b>	<b>819</b>	<b>910</b>	<b>1,174</b>

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Name of the Security	Salasar Techno Engineering Ltd.
Name of the analyst	Mahesh Bendre & Chintan Gupta
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
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