“Skipper Limited Q3 FY2015 Results Conference Call”

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MODERATOR:	**MR. SIMRAAN TECKCHANDANI– AVP, CORPORATE ACCESS- EMKAY GLOBAL FINANCIAL SERVICES**
MANAGEMENT:	**MR. SHARAN BANSAL - DIRECTOR - SKIPPER LIMITED** **MR. DEVESH BANSAL – DIRECTOR - SKIPPER LIMITED** **MR. SANJAY AGARWAL - CHIEF FINANCIAL OFFICER - SKIPPER LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q3 FY 2015 Results Call of Skipper Limited, hosted by Emkay Global Financial Services. We have with us on the call today, Mr. Sharan Bansal, Director, Mr. Devesh Bansal, Director and Mr. Sanjay Agarwal, CFO of Skipper Limited. As a reminder all participant 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 now hand the conference over to Mr. Simraan Teckchandani, AVP, Corporate Access of Emkay Global. Thank you and over to you Mr. Teckchandani!

Simraan Teckchandani: Good afternoon. Thank you for joining us today. We would like to welcome you to the Skipper Limited's conference call. We would also like to thank the management for giving us the opportunity to host this call. I would like to hand over the call to Mr. Sharan Bansal. Over to you Sir!

Sharan Bansal: Thank you. Good afternoon all of you ladies and gentlemen and thanks to Emkay for organizing this call. I would like to talk briefly about Skipper and the latest Q3 numbers. So just to put it very briefly, obviously company has had a very strong Q3 showing and this is primarily because of our extended focus on driving the bottomline growth of the company, which has yielded us very good results this year. So the company is predominantly into two products, which is transmission towers and PVC pipes and also we have distribution poles as well as a product basket.

So the power sector division of the company has had excellent growth this year. We are looking at almost 42% to 45% in this division itself and about 25% topline growth overall in the company and this is what is predominantly driving the profitability of the company right now. We have also got excellent visibility of both revenue as well as bottomline growth in the next two financial years because of our strong order book which currently as on December 2014 stands at 2200 Crores.

The interesting thing about the order book is almost 40% is export orders from various countries predominantly in the Latin America region and the other 60% is domestic orders predominantly for PowerGrid Corporation. Both the strong order book as well as because the company has now achieved a leadership position in transmission tower manufacturing in the country we are among the top three tower producers in the country now and because of our leadership position and order book we are very confident about sustained revenue and profitability growth in the next coming seven to eight quarters.

Coming to our PVC pipes business, we have aggressive expansion plans coming up in this division. Already we are about to commission our plant in Ahmedabad in March 2015. So before this financial year end and in Q1 of next year we expect to start plants at least in three other locations. So this will give a very good pan India presence for PVC pipes to our company and we have leadership position in the Eastern India market for PVC pipes. We just recently entered into the CPVC segment which was not part of our product basket till last year. We have entered into that segment now as well. So we will have a good mix between irrigation and plumbing pipes.

To further cement this growth, the company has been hiring the best talents from the industry. In our PVC pipe business we have got President, National Marketing who is expected to join us on March 1. He brings with him almost 25 years of experience in consumer durable sector belonging to a national brand. Another growth aspect for the growth division for the company our lighting and distribution poles business where also a senior talent from the industry has joined us and taken over as President. He brings with him almost 30 years of experience.

I will end my remarks here and I am open to question and answers which you gentlemen might have.

Moderator: Thank you Sir. We will now begin the question-and-answer session. We have the first question from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Hello to all of you. Now the total order book that we have 2200 Crores out of that the transmission tower business that we have is it all towards power transmission or some part also telecom part of the business or you do not usually take any telecom?

Sharan Bansal: No, this is 100% power transmission only Sanjeev Ji. The company is not focusing at all on telecom towers in the tower's business. The only telecom products which we are manufacturing right now are in the monopole division. That is where we are actively supplying monopoles for the Reliance 4G expansion as well as Indus Towers expansion. So that is the only telecom sector offering that we have right now. Within our Lattice tower division, 100% goes to transmission sector only.

Sanjeev Panda: We know Lattice tower opportunities are coming from PowerGrid but can you throw some light on the monopole business? Do you see growth opportunities in the telecom players coming into 4G as you just mentioned?

Sharan Bansal: Yes of course. What we are increasingly seeing is that telecom players are more and more looking at differentiated solutions and the monopole is an interesting offering for them which give them access to urban areas, which is the prime focus for most telecom operators. So it gives them very good access to urban areas where setting up a Lattice tower perhaps is not so easy. So we are seeing quite healthy growth in demand in monopoles from that segment.

Sanjeev Panda: Part is the PVC business that we are expanding aggressively. One as you said in the Gujarat plant that we are looking at the production to come up soon. Can you give us your guidance how it is going to happen in the other two or three areas that we are looking?

Devesh Bansal: This is Devesh Bansal. To answer your question, Gujarat plant is going to be commissioned in March and we have gone in for the asset light model in this wherein we have only invested into the equipments and the other infrastructure has been leased in. In the other plants as well that is the same model that we are following and that explains the rapid pace at which we are able to install these capacities. Our turnaround time is as low as three to four months, which would not have been possible in a Greenfield expansion and by Q1 of the coming financial year we are hopeful that all our plants in various locations which would take up our presence in five locations across India that will be up in running.

Sanjeev Panda: How much we are going to put in terms of capex in Gujarat and others put together?

Devesh Bansal: In Gujarat our capex it is under 10 Crores and in the other locations it is expected to be another less than 25 Crores.

Sanjeev Panda: Put together all?

Devesh Bansal: In the other locations. Gujarat is about little less than 10 Crores.

Sanjeev Panda: That is it from my side. In case, I have any other questions, I will come back in the queue.

Moderator: Thank you. The next question is from the line of Abhay NY from Seraphic Management. Please go ahead. We have the next question from the line of Chinmay Garg from Drone Capital. Please go ahead.

Chinmay Garg: Is it possible to get how much is the volume growth in this quarter?

Sharan Bansal: Which division are you talking about?

Chinmay Garg: Transmission towers as well as PVC?

Sharan Bansal: In transmission towers particularly, I do not have the quarter numbers ready in front of me, but overall in the year we are projecting a growth of about 42% to 45% in transmission towers particularly is concerned. As far as PVC we are looking at about 50% growth this year.

Chinmay Garg: 50% growth and are we on track to meet this 40% to 45% growth in transmission towers because the numbers look extremely strong. So, I am just trying to understand what is it driven by. Is volume growth that strong and if so is it exports have been largely kicked in for us for this quarter? We are just trying to understand the granularity of it or where has the growth come from in this quarter?

Sharan Bansal: Of course the transmission towers growth has been quite healthy and it is in line with our 40% to 45% expected growth this year. That is the number one reason for driving the profitability of the company. Also what the company has done is that we have also restructured some of our divisions, which were not contributing as much to the EBITDA. So last year one of our divisions, the steel pipe division, which had a topline of 300 Crores plus the company took a decision to shut that division and that has also boosted the overall profitability numbers. What we are doing in that division is basically we have leased the capacity to Tata Steel. So now without employing capital there we are able to get just pure bottomlines from that work.

Chinmay Garg: Would you quantify how much is that?

Sharan Bansal: The business for the leased volume for Tata?

Chinmay Garg: Yes. Is it significant?

Sharan Bansal: It is about 50000 tonnes on an annual basis.

Chinmay Garg: Monetarily could you quantify that?

Sharan Bansal: In terms of revenue it will not be much because the company is charging only job work charges but it is quite nominal that topline is concerned, but purely you can say whatever topline is there it is almost at least 60% to 70% of that is bottomline.

Chinmay Garg: The margin expansion that we have seen in this quarter that is primarily due to higher volumes, right or is there anything else to it?

Sharan Bansal: Of course and what is happening is that the company is now focusing more on export business so with that that is also helping in improving the margins of the company. We have also within India company has been focusing on higher voltages consistently so as it is the company was not manufacturing below 400 KV towers but now there is an increased stress on 765 KV towers or the competition is lesser.

Chinmay Garg: So it is a richer product mix as well as operating leverage both which have helped us this margin?

Sharan Bansal: I would say three things. The overall product mix of the company, shifting from steel tubes to towers. Number two is within towers shifting more from 400 to 765 KV and number three shifting from domestic to exports.

Chinmay Garg: Sir, this margin expansion should be sustainable, right? We should not see in the **(indiscernible) 15.00** one of or anything?

Sharan Bansal: Absolutely, if you look at our order book now it is maybe till a year ago, exports formed less than 10% to 15% of our order book but if you see our current order book of 2200 Crores almost 40% is exports, which we intend to maintain at below minimum 40% and obviously that will consistently help the EBITDA numbers to keep growing.

Chinmay Garg: Sir, 14% to 15% EBITDA we should look at on a sustainable basis, right?

Sharan Bansal: Absolutely.

Chinmay Garg: What would be our debt number as of this quarter?

Sanjay Agarwal: Myself Sanjay Agarwal, the CFO of the company. Debt numbers in terms of our long-term debt it is around 120 Crores and working capital is 240 Crores.

Chinmay Garg: That is all from my side. Thank you.

Moderator: Thank you. We have the next question again from the line of Mr. Abhay NY from Seraphic Management. Please go ahead.

Nirmal: Sir, this is Nirmal from Seraphic. I just wanted to understand your order book, the power transmission order book business. The order book what you mentioned 60% out of 2200 Crores are these orders worth 1300 purely EPC orders you have or you are in turn manufacturing transmission towers and supplying to some bigger players for execution of PGCIL orders?

Sharan Bansal: The Company is primarily into manufacturing and EPC in fact is a very, very small division for us. So, most of these orders, which you rightly asked is for supply of towers only. So I would say out of maybe 1400 to 1500 Crores domestic orders less than 200 Crores would be for EPC business.

Nirmal: Sir, just trying to understand the industry structure. If the EPC contract makes around 8% to 10% EBITDA margin and they are the ones who actually source from you and when they say that the component manufacturers are making 13% to 15% margins, it means generally the value addition is more happening in terms of execution, laying the towers, we are manufacturing pure steel towers so how is that the margins yours are higher than the EPC contractors? Because generally in subcontracting job the subcontractors make lower margins than the main contractors?

Sharan Bansal: There are two or three reasons for this. Skipper particularly has a higher profit margin over its peers in manufacturing for two to three reasons. One is we are the only integrated player in our size. By integrated I mean that we are into tower manufacturing as well as angle rolling, which is the main raw material for towers. So that gives us an edge over most of our competitors. Secondly our location in Eastern India where steel is the cheapest. So that also gives us further advantage of our raw material sourcing. Now because of these two, we enjoy a much healthier profit margin compared to our peers and then of course you are right that EPC contractors are ultimately sourcing from us but then also they have probably higher risks of execution where cost escalations and other things are concerned, whereas those kinds of risks are not there in a manufactured product. Lastly, I would also like to add that our sales volume are not only through EPC contractors. PowerGrid in fact has now started splitting contracts to a large extent and they have started purchasing towers separately as well. So recently Skipper got orders of about 700 Crores from PowerGrid directly where they are purchasing the towers from us and they are giving the erection contract separately to the contractor. Also because of our export orders again these export orders are to large transmission operators globally, which are not really EPC contractors. So, I would say within our order book of 2200 less than 25% is actually through EPC contractors. The rest is basically to utilities or purchasers directly.

Nirmal: Sir, when you mentioned about exports specifically to Latam so you mean to say those transmission towers would get shipped from India to Latin American countries. Is it what you are saying?

Sharan Bansal: Absolutely yes.

Nirmal: Sir you are saying that the freight cost even after factoring the freight cost the actual cost of producing these towers in Latam would be far higher?

Sharan Bansal: Obviously as you understand sea freight is quite economical and to give you a perspective, shipping to Latin America is cheaper than shipping into Arunachal Pradesh in India. So honestly the sea freights forms a very small component of the selling price in exports and more certainly the manufacturing done in countries like Latin America and North America is much, much far more expensive.

Nirmal: What would be your cost advantage of players like you would be having over the local players in export countries specifically the regions where you are shipping right now?

Sharan Bansal: It actually differs from country-to-country, but because in some places the raw materials would be cheaper, but the galvanizing costs would be extraordinarily high and in other countries maybe like a country like Africa maybe galvanizing cost would not be so high, but raw material would be expensive. So there is really no benchmark to speak of, but then again this is not exactly a commodity manufacturing also because what you also need to understand is that this is a very, very customized engineering product because each transmission line has a specific design and there is a lot of engineering that goes into it as well. So it is not just about the price is not the only deciding factor in terms of getting business, it is also about the capability and the capacity of the manufacturer which as of now get the order volumes which we do.

Nirmal: Sir, in the domestic market as you mentioned PGCIL of late has started ordering separately for the towers and then leasing separately for the execution so do you see because of this now competition increasing, because it is less risky or juicy part been coming to players like you and where you can have a good margin, probably not the same margins as other players can have but even for them even an 8% to 10% pure supply margins without any execution risk do you see that as a threat going ahead if PGCIL incrementally starts ordering the way it has ordered in the current year that magnitude keeps on increasing do you see a risk of competition coming in?

Sharan Bansal: There are two or three things which differentiate us from our competitors is that of course our scale and size. So even if you look at PGCIL business most of those packages they have a very high requirements of past experience, which say a newer players would not be able to match. Secondly apart from PGCIL we are seeing a quite healthy growth of private transmission or demand from private transmission operators in India so there is a lot of work that is happening by private transmission operators. Companies like Sterlite and Megha Engineering and other companies are also coming up in a big way. So we see quite a good demand coming from there and again for most of these time-bound projects like I mentioned price is not the only criteria, the reliability and the capability of the manufacturer is really to be considered as well because it is 100% made to order product. It is not something which one can manufacture and keep in stock and supply as and when the order comes because of the customized nature of the product one needs really committed and capable suppliers to be part of that project.

Nirmal: Sir, what is your capacity utilization right now?

Sharan Bansal: Like to give you an example, we do not quote in projects below a requirement of a certain size. So that also helps us to focus on areas with less competition.

Nirmal: I was asking the capacity utilization if you can share?

Sharan Bansal: Our capacity in the current year against a capacity of 150000 tonnes we should be achieving close to about 80%.

Nirmal: Thanks a lot Sir.

Moderator: Thank you. We have the next followup question from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Sanjay Ji, please help us understand the forex part of the business that we have an extraordinary gain last quarter and how do we position, how do we hedge or take our position because we have export orders?

Sanjay Agarwal: This forex transaction as a matter of the policy of the company whenever we get any export orders we immediately hedge it entirely with our bankers. So this is basically recurring in nature. Whatever order we have in hand all are forward booked with the bankers. Now it is just a matter of time when this is realizing and coming into to books of accounts. So this 42 Crores is shown as forward cover gain because the supplies are yet to start. If the supplies could have been started earlier since the supplies were not started because this was not scheduled at that time, now the supply schedule has started and it is going to start from this March itself. So once the supply is there, this income will be reflected in terms of the revenue in place of the forward gains. So this is basically a recurring and continuing in nature. This forex gain will always be there as long as the export orders are there.

Sanjeev Panda: Will it always be in the positive territory as you said gain or it could have also forex loss in case any position that goes unfavorable to our position?

Sharan Bansal: I will answer that question. Essentially you see for all dollar receivables there is a 7% to 8% premium available. So any dollar position which an exporter takes on date, he is able to book a profit of 7% to 8% on an annual basis. So looking at the long-term nature of our supply contracts this is the gain, which we take into account when bidding for the supply contract, which we take up. This is like Sanjay Ji rightly mentioned now that the supplies are starting, we are going to see this gain coming in to the actual revenue side and not as other income as what has come into Q2.

Sanjeev Panda: That is it from my side. Thanks a lot.

Moderator: Thank you. We have the next question from the line of Anil Kini from Envision Capital. Please go ahead.

Anil Kini: This is largely regarding your PVC pipe segment. Can you just share the current capacity and capacity going forward in Gujarat and other three locations that you are planning?

Devesh Bansal: To answer your question, the current capacity of Skipper in PVC pipes was roughly around 10000 tonnes per annum which we are now expanding. So with our first plant coming up in Ahmedabad in March that is next month the capacity will increase to roughly around 20000 tonnes and within Q1 we hope to multiply the current capacity by 4. So most of the effect in terms of additional revenue and numbers will start showing from Q1 of next year.

Anil Kini: You also said that you have started with CPVC. So can you just give a source of your raw material and what is the capacity in CPVC as well?

Sharan Bansal: CPVC we have entered into an association with Sekisui of Japan. They are one of the four largest manufacturers of CPVC resin globally apart from Lubrizol of US, Arkema of France and Kaneka and Sekisui of Japan. These are the only four genuine manufacturers of CPVC across the world. I think they have some patented technologies as well. So we have been actually negotiating with Sekisui for over a year and that has finally fructified in the last quarter.

Anil Kini: So what is the kind of capacity that you are putting up in CPVC?

Sharan Bansal: In the initial stages it is going to be small to start of with. In any case CPVC will not form more than about 10% to 15% of our overall volumes. So initially we are starting off small with roughly around 1500 to 2000 tonnes per annum, but then we can always scale up as we go along. We have the assurance of raw materials from Sekisui.

Anil Kini: Even in PVC do you only manufacture pipes or you are also largely into fittings as well?

Sharan Bansal: As a manufacturer we are in the complete range of products in PVC right from pipes and fittings for the various sectors like agri and plumbing. We make the absolutely the complete range of products.

Anil Kini: Can you give us a breakup in terms of PVC, how much would be your agri versus plumbing?

Sharan Bansal: Till now the company was mostly focussed on agri, almost about 75% of our turnover was from the agri sector. That was primarily because CPVC was missing from our range. So without CPVC it was difficult to be a very, very serious and a strong player in the plumbing sector. But the CPVC now getting introduced we expect the proportion to go to 60:40 in favour of agri from the coming few quarters.

Anil Kini: Currently you sell only in West Bengal is it?

Sharan Bansal: It is in Eastern India. We are present in all four states of Eastern India including Bihar, Jharkhand, Odisha and West Bengal apart from some presence in North East. North East with our plant coming up in Guwahati in the month of May that is what we are targeting. We should be able to takeover North East in a better fashion.

Anil Kini: In terms of pricing how are you placed amongst the competitors?

Sharan Bansal: Generally we try and benchmark ourselves with the most premium brands in the segments. So there are three major segments that you can divide the market into with bore well, agri and plumbing and in all three we are very close to the market leaders. We are pretty much the second most premium brand in the market for all of our products.

Anil Kini: Great. Thank you and all the best.

Moderator: Thank you. As there are no further questions from the participants, I now hand the floor back to Mr. Simraan Teckchandani of Emkay Global for any closing comments. Thank you and over to you Sir!

Simraan Teckchandani: On behalf of Emkay, I would once again like to thank you all for joining the call today. Have a great day. Thank you.

Sharan Bansal: Thank you gentlemen.

Moderator: Thank you Sir. Ladies and gentlemen on behalf of Emkay Global Finance Services that concludes this conference. Thank you for joining us. You may now disconnect your lines.