"Skipper Limited Q1 FY17 Earnings Conference Call"

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MANAGEMENT:	**MR. SHARAN BANSAL**	**–**	**DIRECTOR**
	MR. DEVESH BANSAL	**–**	**DIRECTOR**
	MR. SANJAY AGRAWAL	**–**	**CHIEF FINANCIAL OFFICER**
	MR. ADITYA DUJARI	**–**	**INVESTOR RELATIONS**
MODERATOR:	**MR. AMBER SINGHANIA**	**–**	**SENIOR ANALYST, AMSEC**

Moderator: Ladies and gentlemen good day and welcome to the Skipper Limited Q1 FY17 earning conference call hosted by Asian Market Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask the questions after the presentation concludes. Should you need assistance during the conference call please signal for 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. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!

Amber Singhania: Thank you. Good afternoon everyone. On behalf of Asian Market I welcome you all for Q1 FY17 earning conference call for Skipper Limited. We have with us today Mr. Sharan Bansal - Director, Mr. Devesh Bansal, Director and Mr. Sanjay Agarwal, CFO along with Mr. Aditya Dujari– Investor Relation Executive from the company's side. We would start with some brief update about the company and the results from the company's side and then we can take it forward for the question answer. I now request Mr. Bansal to take us through the quarterly results and his thoughts then we can start with the question and answer. Over to you Sir!

Devesh Bansal: Good afternoon ladies and gentlemen. Thank you for joining in this concall today. We are very happy to report that Skipper has seen another very strong quarter in Q1 FY17. The financial highlights for this quarter are that the net sales of the company have grown by more than 20% over the previous year corresponding quarter. The net sales stand at 282 Crores as against 234-odd Crores on the corresponding quarter last year.

The operating EBITDA of the company has risen by over 15% over the previous corresponding quarter and the operating EBITDA increased to Rs.40.75 Crores as against 35.34 Crores in the corresponding quarter. The operating EBITDA margins stood at about 14.4% during this quarter. The PBT increased to 20.25 Crores as against 15.35 Crores in the corresponding quarter registering a growth of over 32% and the PAT of the company improved to 13.72 Crores from 10.02 Crores registering a growth of 37% over the previous year corresponding quarter.

The other highlights during this first quarter gone by are that the company received the power grid approval for our Pole division as well which will go into the distribution projects which power grid has started taking up. The company has also commissioned 5th PVC pipe manufacturing unit in Hyderabad to cater to the demands of the south Indian market this is in line with the company's national expansion and we are now present in every region of the country. The company has also expanded its presence in the international T&D space with entry into major Asian and African countries.

Apart from this the company's board has also approved the setting up of new manufacturing units in Guwahati for both engineering products as well as PVC pipe fittings at an estimated investment of 70

Crores. The engineering products, which will include both our towers and poles unit, will have a composite capacity of approximately 30,000 tonnes and the PVC fittings capacity will be approximately 7000 tonnes. The T&D capacity which is being set up is being basically targeted for the northeastern market which is an extremely fast growing market for the T&D space and is a focused market for the government of India. The fittings plants will cater to the requirements of all the five units of the company across the country and will be a centralized resource for the fittings for the company.

With this we would like to now take any question that you might have, thank you very much.

Moderator: Thank you. We will now begin with the question and answer session. The first question is from the line of Tarang Bhanushali from IIFL. Please go ahead.

Tarang Bhanushali: Congrats on a very good set of numbers. Though the overall numbers were quite good but our polymer business revenues were quite lower than what we were estimating so any reason behind that?

Devesh Bansal: Polymer business growth first quarter this year was slower than expected. This was majorly on account of two major factors. One was slower offtake from the trade channel, as well in the Q1 contributed to some amount of slackness in terms of our growth numbers, but the other major factor contributed was certain project orders, which were expected to be commissioned in Q1 for various reasons the lifting for those and dispatches for those could not be executed in Q1 and these were inventories which we are now carrying into Q2. Hopefully with the additional dispatches Q2 will be quite strong but yes, overall the polymer business had muted growth this quarter of about 13-odd% as against much higher expectation numbers.

Tarang Bhanushali: So what would be your target growth for FY2017 this year?

Devesh Bansal: The Company on a broad level has looked at about 70% plus growth on a year-to-year basis because of a slow Q1 we might see the numbers dropping slightly but we do not expect a substantial drop in this number for the financial year.

Tarang Bhanushali: And any major orders received during the quarter both international and domestic?

Sharan Bansal: On the T&D space as we have already announced the order volume inflow in Q1, we entered into some key geographies in the African market namely Congo, Ghana, as well as Cameroon, Egypt we had already entered last year. Company right now is quite focused in enhancing its international presence by way of entry to newer and newer market. We already started the year as I mentioned before with the 2400 Crores order book so the order book remained at that level only. The execution and the inflow has been largely balanced with each other and we are quite comfortable with the order book is concerned because as I mentioned earlier that the order book still stands at 2X of last year's execution so that gives us strong revenue visibility. We are not really concerned about the new order inflows right now. We are more concerned about whatever order inflow has happen it should happened with the necessary margin so the margin protection of the company should be maintained.

Tarang Bhanushali: And what will be the order pipeline for us, orders we have bid for?

Sharan Bansal: Orders that we have bid for is approximately 1000 Crores right now, which are awaiting results.

Tarang Bhanushali: Thanks a lot.

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

Sanjeev Panda: Sanjeev here. Just to understand the capex plan that we are talking about the new facilities in the tower as well as PVC, how are you planning to fund the capex that is one question? Second is regarding the order book if you can highlight us like new bids that you have participated and what are likely to be open or expected to come in the next three to six months to be announced. These two things after that third question I will ask after this.

Sharan Bansal: I will just answer about the order book first and then Sanjay Ji will take the question about the funding for the Guwahati plant. So regarding the bids which are currently under evaluation we have the major one being the 800KV SVDC project in Power Grid which is still awaiting opening so that is approximately we have around 500 to 600 Crores of bids in those packages. Another major bids are there in the South East Asian market, we have bids in Philippines and Myanmar, which are awaiting results so that is another approximately 250 Crores are there and the rest are in other domestic and international space, the combination of various things, but the major ones are the ones that I mentioned earlier so we expect strong growth in both domestic market particularly from State Electricity Board in the coming months because a lot of State Electricity Board have quoted large tenders like the state of Madhya Pradesh and UP. So we expect a good order inflows from these states going forward and in terms of international growth we expect South East Asia to be a strong market in the near future. So these are the expectations from the order inflow in the coming months. Regarding the Guwahati plans Sanjay ji would you take it?

Sanjay Aggarwal: Regarding Guwahati capex funding it will be funded partially by the internal accruals of the company and partly by the debt fund which is very well available from the bankers in India and by taking the projects funded through the debt numbers, we expect the overall number of the debt by the end of the year is not going to increase much more because we also have the repayment schedule of the similar amount of the debt. So the overall number would remain more or less flat as we ended with the year-end.

Sanjeev Panda: So Sir like we have 70 Crores to the capex plan how much will that be the debt addition and what is the time scheduled debt repayment that we have just very ballpark figure?

Sanjay Agarwal: Out of 70 Crores investment plan around 45 to 50 Crores would be through the debt only and balance through the internal accrual, as margin and the repayment schedules particularly in these types of projects are ranging from 6 to 7 years including the moratorium period of one and half year.

Sanjeev Panda: You said our, even after reducing this debt our overall debt level will not go up because of the payment schedule so I thought the current existing debt that we have we should have roughly what is the schedule that will be paying off in the next two years, is it similar to the 40-45 Crores?

Sanjay Agarwal: The repayment schedule every year we have is around 40-45 Crores.

Sanjeev Panda: Sir how does this 70 Crores or how much is the Tower I and facility and how much is for the PVC joints?

Sanjay Agarwal: For the T&D we plan to invest around 40 Crores tower I mean the engineering products and for the polymer fittings it is expected to be around 30 Crores.

Sanjeev Panda: Thank you and in case of any other question I will come back in the queue.

Moderator: Thank you. We will take the next question from the line of Mayur Patel from DSP Black Rock. Please go ahead.

Mayur Patel: Good set of numbers. I just had one question, on this new capex so this is earlier the guidance was 25 Crores roughly 25 Crores each kind of capex for the two segments PVC and towers adding up to 50-60 Crores per annum is this going to increase because of this 70 Crores additional capex or is there some change in the plan?

Sharan Bansal: Mayur good question. The earlier guidance still stands as it is. Earlier we had anticipated 25 crores of capex in each segment because in our engineering products mostly we have been doing Brownfield expansion only, so the capex per tonne there is lower which is slightly higher in the case of a Greenfield unit here in north east and in our polymer business most of the capex has been under the asset light approach where all the plant which we have put up recently all being for pipe only; however, this being a Greenfield we decided to go for our company's own asset because this is larger unit and PVC fittings from this unit will be feeding all the other units, so that is why the overall number of 70 Crores is slightly higher than our target of 50- 55 Crores capex per year but apart from that we do not have any other capex planned this year.

Mayur Patel: Okay so you will not go for the Brownfield one instead you are going for this Guwahati Greenfield one is it?

Sharan Bansal: Exactly because we see good opportunities in the northeast market so we decided that instead of Brownfield expansion this year in our existing units it would make more sense to do a Greenfield expansion in an area where we see good strong potential future demand.

Mayur Patel: So this will enable you to have a reduced freight cost also because you are closer to the sites in northeast?

Sharan Bansal: Yes, there will be some freight advantages also of course the manufacturing units in northeast do enjoy a number of government incentives apart from interest and tax benefit as well so those will also add overall to the EBITDA of that plant.

Mayur Patel: These fittings if you are saying it would be feeding into the entire your all the units in the country so transporting from northeast to other parts of the country would not it be a problem or what do you think?

Devesh Bansal: The value of the fittings is very high so the freight cost is quite negligible compared to the overall dynamic. Even currently we have been supplying fittings from our Calcutta units to all the other units, so really as far as fittings is concerned the value of the product being so high, freight costs are quite negligible in comparison.

Mayur Patel: Lastly on this, so this entire 70 Crores would be spent in FY2017 only or would it be spread it a bit?

Sharan Bansal: Yes, we are targeting to commission the plant by March 2017, so definitely the entire capex are expected to be spent before that.

Mayur Patel: And we cannot do that leased way how we are doing in other PVC units in the country?

Sharan Bansal: Mayur because this plant also has the T&D units and T&D is not possible on leased model, if it was simply just the PVC pipe unit we could have definitely done it on these model but because it involves both the T&D units as well as galvanizing plants and the pipes fitting plant so it is just not suitable for leased unit in this case.

Mayur Patel: All the best I will come back for more questions.

Moderator: Thank you. We will take the next question from the line of Tanya Kothari from AUM Advisors. Please go ahead.

Tanya Kothari: Thank you for taking my question. Sir in infra business you have seen some pressure in margins why the margins have fallen in this segment and what is the kind of margins we are looking going ahead?

Sharan Bansal: Thanks Tanya. Mainly as I mentioned that the infra business is something we have not had much execution in the previous year of FY2016 also, because in FY2015 there was not much order inflows in the infra business so that's why in FY2016 and the first quarter of FY2017 execution has been fairly low and which is why we have seen some impact on the margins of that business. However, we expect that going forward because the order inflow in infra business have been good in FY2016 so we expect a lot of good execution to happen in the subsequent quarters so certainly we will see the margin come back to normalcy.

Tanya Kothari: Okay then what is the kind of margins we should work in a base case scenario for each of the segment like PVC, engineering or infra for the next two years?

Sharan Bansal: We have been consistently delivering margin in the range of 13-14% for our engineering product which is our major vertical and we are quite confident of maintaining those margins looking at the order profile which we have right now, even the new orders which we are taking we are quite confident of maintaining that margin profile. In our polymer product business as I had mentioned earlier we are seeing some stress on the margins because of the recently opened new plants. Earlier in our home market we were able to enjoy a 13% plus quite comfortably; however, because of the new plants where the capacity utilization to full extent is yet to take place so we should be targeting 11% plus EBITDA on a consolidated basis for the polymer business. For the infra business certainly we can expect a 15% to 16% plus margins going forward.

Tanya Kothari: Sir what is the kind of demand we have seen in northeast region from PGCIL projects can you give us some figures, statistics figure?

Sharan Bansal: PGCIL is currently executing 10,000 Crores transmission project in the northeast transmission and distribution project so there will be substantial demand for both transmission towers as well as distribution pole. That's why the company took the decision for setting up new plant at Guwahati. So that is something, which is quite strong.

Tanya Kothari: Sir how much orders like we can expect from we can bag from this kind of projects from PGCIL?

Sharan Bansal: Right, apart from PGCIL we are also seeing now a some TBCB projects coming into the northeast which was not there earlier so it is hard for me to put an exact number to the northeast order inflow but certainly Skipper will be playing a large part in most of this business that get awarded in the northeast.

Tanya Kothari: Sir what is the current capacity utilization in PVC business Sir?

Devesh Bansal: So PVC business obviously have five units now and all these units are operating at different capacity utilization levels, east obviously operates at very high capacity utilization of almost 90% plus because that is an older market, west we are now seeing capacity utilization in the range of 55% to 60% but the newer plants such as north, south and northeast are obviously yet to see substantial capacity utilization. We expect that from coming few months will see a greater traction in the market and thereby higher capacity utilization in these plants as well.

Tanya Kothari: Sir just the last question, is there any guidance on sales for the FY2017 and 2018?

Sharan Bansal: So on a corporate level the company has kept a target of growing at about 15% to 20% overall and we are quite confident that that should be achieved.

Tanya Kothari: Thank you so much Sir.

Moderator: Thank you. We take the next question from the line of Ranjeet Shivram from Antique Stock Broking. Please go ahead.

Ranjeet Shivram: Good evening Sir. Sir just wanted to know this TBCB projects like what we get to know there will be another company who will be partnering with in terms of this TLT orders so if for example if a Kalpataru or KEC or any of your competitors if they participate as a joint partner in that project, then would not it be detrimental for us to get orders in that because there are two big packages in TBCB for the northeast which is yet to be ordered out in the next three to four months so just wanted to get your sense on that?

Sharan Bansal: It is a good question, among our competitors we have noticed only Kalpataru, is actively participating in TBCB projects and their presence too we have seen not on large scale projects but a few projects in the middle, so apart from Kalpataru no real competitor has been really serious TBCB player. So yes, the Kalpataru is the winner of some of those projects but we are open to collaborating with Kalpataru as well and I mean it could be either way.

Ranjeet Shivram: Sir there has been some of the TBCB orders, which have been already tendered out, so in that are we seeing some activity in terms of enquiry from those orders for this transmission?

Sharan Bansal: Yes, we are actively discussing with a number of TBCB operators like Adani and Sterlite for their requirement.

Ranjeet Shivram: Sir finally just wanted to know how is the margins for this distribution poles compared to this transmission tower is it lower or will it be a similar levels because there should be some difference in terms of technology for both?

Devesh Bansal: In terms of distribution poles it is difficult to put an exact number on the margin difference because we have a lot of common facilities for manufacturing towers and poles, so we have not exactly analyzed that way but in terms of a selling value we can tell you that, yes the distribution poles do enjoy about a one or two percent higher selling value than transmission tower.

Ranjeet Shivram: Okay so if we read it correctly that distribution poles will have a kind of higher margins compared to transmission towers is it right in our understanding?

Devesh Bansal: Yes, but marginally higher but then obviously the contribution of distribution to our overall product mix is not very large and also I think it is not expected to change dramatically going forward also unless the monopole market really picks up, so if that happens obviously we will see a upward push on our margins as well but then at the moment I think the margins that you are enjoying will continue to remain the same going forward.

Ranjeet Shivram: Sir what will be our order intake and order book target for the current year-end?

Sharan Bansal: As I had mentioned before that we are quite comfortable with the order book standing at 2X of last year sales, of course with the growing revenue the company's target would be to increase the order book but obviously the margin protection at the same time is very important.

Ranjeet Shivram: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Kalpesh Goti from Veda Investment. Please go ahead.

Kalpesh Goti: Good afternoon Sir. Can you please share the volume growth in the polymer business for the quarter?

Sharan Bansal: On a quarter-to-quarter basis because this commodity prices have not changed substantially from last year the corresponding quarter so the volume growth is also similar to the value growth.

Kalpesh Goti: Okay and Sir what is the order inflow for the quarter?

Sharan Bansal: For the T&D business the order inflow has been approximately 240 Crores.

Kalpesh Goti: Sir what is the target for this year or we see the similar kind of book to build ratio in going forward?

Sharan Bansal: As long company, company's first target will of course to maintain the order book to sales ratio that would be our first target. Of course looking at the opportunities the idea would be to better that number.

Kalpesh Goti: Sir one more thing you want to enter into new countries like Kenya, Cameroon can you throw some light on what kind of opportunity we see in these geographies?

Sharan Bansal: The idea of our company is to be present in each major markets across the globe now having said that obviously African markets, the demand is not consistent in the sense that different markets have different major projects coming up at different years so the idea is that we are present in most major markets then we will consistently be getting export opportunities in different markets. So that is really the idea and which is why we are getting ourselves registered in more and more transmission utilities across the globe and brining up trial orders so that is really the idea behind the international push right now.

Kalpesh Goti: So we already have bidded for some projects?

Sharan Bansal: Yes, of course as I mentioned before that we have bidded in the Southeast Asia large projects, Bangladesh we have some projects bidded out and even in Africa we have some projects.

Kalpesh Goti: Okay and coming to your capex plan so for FY2017 the total capex plan would be 70 Crores?

Sharan Bansal: That is right, again only in the Guwahati plant.

Kalpesh Goti: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: Good afternoon Sir, and congratulation for the great set of numbers, Sir you talked about Assam plant right, but Sir what kind of benefits you are going to accrue from this plant that is coming up in Assam the tax exemption and incentives and all that?

Sanjay Agarwal: Benefits we are going to accrue on new plant in Guwahati are basically in terms of the indirect taxes and certain benefit as well on the direct taxation also. So these are the basic benefits apart from this there are certain freight benefits are also there for supplying outside the state.

Dhiral Shah: Okay so is it going to reduce our tax rate?

Sanjay Agarwal: Definitely once the plants will be in full operation, income of that unit will be fully exempted, definitely that will have some impact on the overall tax on the profit of the company.

Dhiral Shah: Okay, and Sir apart from this 10000 Crores T&D project, which is line up in northeast Sir any big, order coming up in northeastern region?

Sharan Bansal: TBCB jobs are there, so that is only other major project apart from PGCIL.

Dhiral Shah: And what will be the quantum of the orders?

Sharan Bansal: TBCB we expect approximately about 1200 to 1500 Crores, which is already announced further new projects, are nearly in the pipeline.

Dhiral Shah: Okay and Sir in this quarter we have seen your employee cost have gone up almost 50% on a Y-o-Y basis, why is it so?

Sharan Bansal: This is mainly on account of the new PVC plants, which have been recently opened and which have not yet achieved full revenue potential so the increase in employee cost is mainly a function of that.

Dhiral Shah: Okay and Sir if you can give me the volume tonnage in tower business for this quarter?

Sharan Bansal: The volume growth is in line with the value growth that is because there is no significant commodity price change over last corresponding quarter of last year so the volume growth is also similar to the value growth.

Dhiral Shah: Okay but if you can give me the number Sir?

Sharan Bansal: We do not have the number off hand available we can share that with you.

Dhiral Shah: That is it from my side.

Moderator: Thank you. We take the next question from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: Sir can you tell this what is your target in PVC business? How you are looking to shape up this business? What kind of orders you are getting and what kind of a competition you are facing?

Devesh Bansal: The PVC business obviously business where we are looking at very aggressive growth and we have been growing quite aggressively in this business baring of course this quarter which was quite muted for us, but we expect that we would continue to grow quite aggressively in this business on a year-to-year basis ultimately the company's plan is to take this business to a 1 lakh tonne capacity level which we are hoping to achieve by the year 2019. The new plant that the company has planned for the fittings for the pipes this is going to benefit the company in terms of increasing its margin profile or improving its margin profile because fittings obviously contribute higher margin to the overall mix so with this plant we expect that the margin profile of our PVC business will also improve slightly.

Rajesh Kothari: Since your target is 1-lakh tonne by 2019 is it FY2019 or FY2020?

Devesh Bansal: So the initial on a broad level we have been talking about taking the capacity up to a 1 lakh by FY2019 but then may be achieving the overall capacity we should be looking at another year or so, after that.

Rajesh Kothari: So what is your FY2016 production?

Devesh Bansal: So currently the company has a capacity after the commissioning of our Hyderabad unit the company now has a capacity of 41,000 tonne, which we will be looking to add on as we gain traction in each of the markets.

Rajesh Kothari: So what is your FY2016 production?

Devesh Bansal: FY2016 the company had a topline of about 150 Crores and the polymer products the quantity was about 20100 tonnes.

Rajesh Kothari: So roughly about Rs.75000 per tonne realization roughly.

Devesh Bansal: Yes.

Rajesh Kothari: Current year how much volume you are looking for?

Devesh Bansal: We are definitely looking to utilise a higher capacity utilisation this year so out of 41000 Tons we will be looking to achieve at least around 30000 tonnes-odd.

Rajesh Kothari: So any further capacity of planning now in the current year or current year is it done?

Devesh Bansal: Current year mostly the capacity expansion is going to be in terms of fittings in the Assam units in the new Guwahati units but may be towards the beginning of next year we will be looking to add further capacity in our pipe depending upon how much capacity utilization is there in each of the region.

Rajesh Kothari: So this pipe fitting business is coming the new unit is coming up in Assam is it?

Devesh Bansal: Yes.

Rajesh Kothari: Okay so why Assam?

Devesh Bansal: Basically for Pipe fittings, it is a centralized units for all of our plants, all the plants are going to be feeded with the fitting from one plant in Assam only and since the excise and tax component on this product is quite high in terms because of the higher value addition so the exemption that we are going to enjoy in Assam is further going to improve the margin profile of the vertical. Also there is the freight benefit that we are going to enjoy.

Rajesh Kothari: Okay and in FY2018 what kind of capacity you are looking for?

Devesh Bansal: It is in line with the growth numbers that we have been talking about. It is slightly early to be sort of guessing on the actual numbers. It will really depend on what kind of traction we see on in each of the markets. The overall plan like we have discussed is to take the business up to the capacity above the 1-lakh tonnes by FY2019.

Rajesh Kothari: Okay and just to throw more light in terms of the competitive intensity your customer profile can you just give a little bit brief on that because our margins? Is there any further improvement in margin is it possible or you think it will remain at around current year, because earlier if I am remember two years back when you met you talked about B2C, but our margins profile there is no one near to that?

Devesh Bansal: See obviously when we are entering into newer geographies like north, south and west which are newer for the companies, we are facing competition from the more established brand in these markets, the national brands such has Astral, Ashirvad, Finolex and Supreme are old players over here and they enjoy a good market share but we have been successful in getting a portion of that market share from them and its improving on a month-to-month basis, because we have been entering into these new territories our margins have been compromised to a certain extent which is also reflecting in the numbers that we have presented. The good thing also is that because of the induction of higher margin items such has CPVC and plumbing pipes into our overall product mix and now with this new fittings plant also coming up, we expect that it will help us in maintaining the margin numbers that we have been targeting. As you might also be aware that the recent occurrence of the CPVC market in terms of usage is also gaining more prominence in the Indian market it is only going to help us promote our CPVC brand better and hopefully we will be looking at a larger market share in this going forward.

Rajesh Kothari: Your customer profile what kind of customer what kind of distribution network we have. I mean if you can give little bit more highlight in terms of how do you plan to ramp up your PVC business what kind of distribution strategy would you like to have, what are your targets to improve your distribution network this business then that will be useful?

Devesh Bansal: So our major focus has always been into the distribution and channel network only. Also we do take on certain project and government orders but that is mostly because of the newer market we would also like to see capacity utilization in these plants so we do take on some projects and government orders on selective basis but really the major focus for the company is developing the channel network and our distribution network. Like I said we obviously enjoy a very good distribution network in Eastern India already where we have a good brand but in case of newer markets the idea is to obviously work with distribution channel and get them more and more involved with the company and we have been seeing good response in these markets especially in western India where we have been operating for about a year but I think on a more detailed discussion on this we could possibly set up a one to one call and we can tell you more about the initiatives that we have been taking in each of this markets.

Rajesh Kothari: Thank you Sir. I will take the question offline. Thank you.

Moderator: Thank you. We take the next question from the line of Gunmeen Kholi from Greshma Finvest. Please go ahead.

Gunmeen Kholi: Thanks for taking my question. You mentioned in the polymer product segment there was some dispatches could not be finished in time could you tell us what was the reason for this and from which area did this problem arise from?

Devesh Bansal: Actually it was from Eastern India only and this was actually on account of two major project orders that we were executing, part of the deliveries were completed in fact in early part of the quarter itself but then the rest of the deliveries could not be completed because we did not get clearance from the customers possibly because they did not get clearance from the end user utility so because of those reasons we got some of our inventories getting piled up and we could not actually get the numbers that we were looking to achieve; however, we expect that now we will be getting those clearances very soon and we should be able to dispatch this materials in Q2.

Gunmeen Kholi: Just to understand these are project orders so the companies are supplying to they would have budgeted for these project so could you throw some more light on why the disruption happened?

Devesh Bansal: Normally these are basically orders from companies who have taken our projects from the utility like PHE department and other department so their execution is actually has been quite delayed and because of that they were not in a position to actually lift further material so there was a small delay but by no means the order in danger it has just been delayed by a few months.

Gunmeen Kholi: Do you expect that to be cleared in Q2 the inventory or do you expect a longer waiting period for that?

Devesh Bansal: So we actually expect that would the deal to be closed.

Gunmeen Kholi: One more question on your infrastructure project business if I am just noticing that the segment liability have gone up considerably Q-o-Q is there any stress on working capital or and could you throw some light on that?

Sharan Bansal: The infrastructure numbers are as I had mentioned earlier during the call that obviously the execution has been quite low the overall revenue is only about 11 Crores in this business so it is difficult to really analyze the liabilities as a percentage of the revenue with the lower revenue base. So as I had mentioned that we expect the execution to be picking up in the subsequent quarters so perhaps the number in terms of percentages will look a lot better at that time.

Gunmeen Kholi: That is it from me.

Moderator: Thank you. We take the next question from the line of Kalpesh Goti from Veda Investment. Please go ahead.

Kalpesh Goti: Sir you spoke about your PVC volume was lower because of the slower offtake and one of the project order you got delayed can you throw some light on the project order?

Devesh Bansal: There were actually two project orders which got delayed coincidentally both of them happened at the same time which basically restricted the dispatch numbers but both of them were actually out of our Eastern India plant only. We can tell you the utility in anyway, it would probably not be very apt to actually name the customers, but the utilities were basically PHE of Bengal and one was RD Store in Agartala. So for both of these utilities the EPC contractors were unable to lift their materials in time.

Kalpesh Goti: Sir what are your volumes sales for FY2017 for the polymer business last year you have done 20000 metric tons for FY2017 what is your target?

Devesh Bansal: We were targeting close to about 30000 tonnes is what we are looking at for FY2017.

Kalpesh Goti: Which is the 50% jump.

Devesh Bansal: Yes and also will be looking to further improve on the product mix that the company has so we would be looking at higher proportion from our plumbing and CPVC business as well as our fitting business this year.

Kalpesh Goti: Okay so what is your current plumbing business contributing to your topline?

Devesh Bansal: Last year the plumbing business contributed to less than about 25% to our overall topline but we would like to see it contributing to close to about 40% to 45% going forward.

Kalpesh Goti: Okay in next two years?

Devesh Bansal: Yes, definitely.

Kalpesh Goti: Okay and what is the contribution of CPVC pipe?

Devesh Bansal: CPVC of course is very low at the moment is closed to about 10%-odd that also we would like to see increased to close to about 20% going forward.

Kalpesh Goti: Thank you Sir.

Moderator: Thank you. We take the next question from the line of Amber Singhania. Please go ahead.

Amber Singhania: Just a couple of things on our current order book what is the breakup of PGCIL and non-PGCIL and export?

Sharan Bansal: The current order book it is similar to what we had mentioned in the end of last financial year, the breakup is about 50% PGCIL, 25% other domestic customers like State Electricity Board and 25% is export.

Amber Singhania: In this year the revenue roughly how much percent would it be coming from the export order which we have executed out of this 237 Crores of revenue approximately?

Sharan Bansal: I can tell you the gross number exports in the first quarter have been approximately about 17%.

Amber Singhania: Secondly have we started executing projects from Egypt, which we got last year?

Sharan Bansal: No not yet, their execution is expected to happen in Q3 – Q4 of this financial year.

Amber Singhania: Also for the new geographies, which we have got orders this will be happening in the Q3, Q4?

Sharan Bansal: These are shorter term orders, so for some of those executions has already started, some of them will happen in the later part of the year but definitely in FY2017 itself, because those are short term orders.

Amber Singhania: So could you throw some more colours about these new geographies how the opportunity there is? What exactly we are seeing there in terms of because so far we have just got a token order kind of things small orders so what kind of opportunity you are seeing there as such from these geographies?

Sharan Bansal: We are particularly bullish about Kenya market. We see good opportunity there because there are large 500KV interconnected project between Kenya-Tanzania and Kenya-Ethiopia so we expect some good opportunities there. We have already landed some orders in the prestigious Kenya-Ethiopia projects of 500 KV so that is something which is we expect some good inflows from. Egypt of course where we have entered there are some good opportunities so Kenya and Egypt are large markets in Africa so both of them we should hear some more positive news from there later in the year perhaps and other than that what we have particularly bullish about is Southeast Asian markets particularly in Far East like Philippines where we have a significant amount of bids submitted recently there also we see lot of good new demand coming up, in Philippine, Vietnam and Malaysia.

Amber Singhania: Secondly Sir I believe we are on the third year of our Latin American JV agreement so what is the status there is there any update on that part about renewable of those or anything on that part?

Sharan Bansal: See the orders which we have from Latin America will continue to be executed right up to Q3 of FY2018 so that is we still have significant orders pending from that geography, regarding the alliance agreement extension our customer has not made a strategy till now, what is going to be their plan for a new alliance agreement for that we will have to wait for their strategy to get finalized.

Amber Singhania: Any timeline you can share with us we expect them to be sort it on their strategy?

Sharan Bansal: No it depends. I mean we are not too sure about it but may be we should hear from them again in next two to three months time.

Amber Singhania: Secondly on the new expansion, which we are doing in Guwahati on the T&D side so that will be purely a tower, manufacturing facility or that will also have angle manufacturing facility there?

Sharan Bansal: It will only be towers and poles we will not set up angle rolling capacity there now.

Amber Singhania: And poles will it be similar to the size, which we are making in Calcutta right now?

Sharan Bansal: Yes distribution poles not monopoles. Because monopole again have very large infrastructure requirement so putting that up and replicating that in Guwahati will not be feasible right now, plus we do not exactly see a monopole market yet in the northeast area but there is a strong demand for towers and distribution poles.

Amber Singhania: Secondly you mentioned in your presentation that this facility will also bring couple of percentage point margin better than our current margins as such I believe that is one factor definitely benefiting is the taxation part which is excise and income tax as such but at the same time believe we will be not enjoying the benefit of integrated facility which we are currently enjoying in our Calcutta unit, so can you give some more color about where exactly this cost benefit will still come in and how much cost benefit will go up because of non-integration and how much benefit will get because of the location and all?

Sharan Bansal: In fact we will continue to enjoy the benefit of integrated operations because all the raw materials which is the angles will be supplied from our rolling mills here in Calcutta only because there are no re-rolling facilities in the northeast so definitely all the raw materials will be transferred from here so as on a company basis of course we will continue to enjoy the integrated operation benefits.

Amber Singhania: Okay so that will continue.

Sharan Bansal: Yes, of course.

Amber Singhania: Secondly you mentioned about 2x is the order book as of now so I believe roughly its 2600 Crores last year we did around 1300-odd Crores of topline in this business how much is the order book in the infra side?

Sharan Bansal: On the infra side we got approximately 200 Crores about right now.

Amber Singhania: Roughly 2400 Crores towards the TND side?

Sharan Bansal: 2400 Crores is the overall order book so that includes the 200 Crores of Infra orders, it is approximately 2x.

Amber Singhania: Secondly, we bagged 300 Crores of order from UP on EPC side have we started executing that?

Sharan Bansal: Yes, the order is well under execution and in fact we are likely to commission that project within FY2017 itself.

Amber Singhania: Okay and out of this 240 Crores of order inflow this quarter could you give some break up of about from where exactly these orders have come in?

Sharan Bansal: Yes, approximately 100 Crores have come from export markets and approximately 150 Crores from domestic market.

Amber Singhania: So primarily from PGCIL as such?

Sharan Bansal: Not PGCIL only. PGCIL has also been there as well, we also got some orders from Southern Electricity Boards like TSTRANSCO and APTRANSCO.

Amber Singhania: Just one thing I missed the one part which you have mentioned about TBCB orders of 1200 to 1500 Crores is it the one we are talking that we have submitted the bids or something I missed what exactly is this?

Sharan Bansal: No these are TBCB projects which are announced so the traditional TBCB players like Adani, Sterlite will be participating in this bid along with Power Grid of course. So that I believe the bids are yet to be submitted there and once the developer is finalized then they will be floating their EPC and the supplier bid.

Amber Singhania: Just last question from my side is could you give some colour about what kind of volumes that we are doing in our new plants in PVC side Ahmadabad and the other units as such on a monthly basis because I believe it has been like now almost a year we have started Ahmadabad plant and other also almost a quarter now so what kind of volumes are coming from these plants so that we can get some color about what kind of timeline it takes to stabilize and how the capacity get ramped up and all?

Devesh Bansal: So as I mentioned Eastern India obviously capacity utilization has not been a problem in fact we have added capacity in the last year also. Western India in Ahmadabad now we are looking at capacity utilization about on an average 55% to 60% but again on a month-to-month it fluctuates but on an average we are looking at 55% to 60%, the other plants obviously were at lower capacity utilization levels right now but we expect towards the Q3 of this year we will be looking at obviously increasing the capacity utilization and all of these plants.

Amber Singhania: That is all from my side. Thank you.

Moderator: Thank you. We have next question from the line of Tarang Bhanushali from IIFL. Please go ahead.

Tarang Bhanushali: You mentioned we had an order inflow of around 250 Crores so does this include the 200 Crores of L1 orders we had mentioned in last quarter at the end of last quarter?

Sharan Bansal: No these are additional orders, the L1 orders part of that already been converted so that is not including in this 250 Crores.

Tarang Bhanushali: Okay so this is the additional 250 Crores.

Sharan Bansal: Yes.

Tarang Bhanushali: Okay and regarding capacity expansion so now the capacity would be increasing from 2 lakh to 230 lakh or there would be more?

Sharan Bansal: That is correct, 2 Lakh to 230,000 MT.

Tarang Bhanushali: Thanks a lot.

Moderator: Thank you. Next question is from the line of Saket Kapoor from Kapoor and company. Please go ahead.

Saket Kapoor: Good afternoon. Sir first of all was trying to make sense Sir what is the correlation between this segments? Meaning you are doing the turnkey project and the transmission line as part and the PVC part how are you correlated these two segments because this is first query Sir and secondly your foray into this CPVC segment if you could elaborate what kind of opportunities you are looking into it what is the market size, where are we going to fit ourselves and something more about it if you could elaborate on this then my follow up will be there? Thank you Sir.

Devesh Bansal: Essentially the company ventured into plastic pipes for catering to water segment. Historically we were manufacturing steel ERW pipes from a long time and back in 2010-2011 the company forayed into PVC pipe to give a more enhanced product basket to its customers. Back in 2013-2014 we realized that PVC pipes offered much more opportunity for growth so we decided to end our steel pipe business and focus on plastic pipes only so that is the genesis of the polymer pipe business in our company. In the future why we are bullish about the growth of this business is that we see significant opportunities in sanitation and urbanization so we certainly feel that this will help the company target a B2C segment as because traditionally the business of the company is always being B2B. So this is why we are growing more and more in this business. Now regarding your second question was about CPVC pipes. We entered into a sourcing collaboration with Sekisui last year for sourcing our CPVC compounds from them and that is how we started CPVC pipes to offer a more holistic product basket for the plumbing sector. As you know that for polymer pipes two most major markets are agriculture and plumbing so we were strong in the agri side but not so much in the plumbing side because of the absence of CPVC in our product basket but now with CPVC pipes being there we have entered that phase well and we are looking to grow more and more in the plumbing side as well and of course this new plant in Guwahati with 7000 tonnes fittings capacity will further help us strengthen our position in the plumbing segment.

Saket Kapoor: Sir if their Plumbing segment being covered by the CPVC segment only?

Devesh Bansal: Basically the CPVC is supplied in areas where hot and cold water applications are there. In normal plumbing applications either UPVC pipes or PVC pipes are used which also t he company has been manufacturing for many years but in the absence of CPVC we could not get the market those products effectively but the introduction of CPVC pipes along with Sekisui last year now we can offer the entire basket of products to our customers and now we are able to basically target larger project orders also in this business.

Saket Kapoor: So what is the market size of CPVC pipes that we service domestically, you would be catering to the domestic player only Sir or we are export oriented also?

Devesh Bansal: We are only catering only to the domestic market at the moment. The company has no exposure in the export front in the PVC business. Overall estimated PVC piping business across the country is at around 16,000 Crores and CPVC is expected to be close to about 2,500 Crores in India right now.

Saket Kapoor: The major players, I am just concluding, the major players being Astral, I think so. Astral has the key market here and Finolex?

Devesh Bansal: Astral and Ashirvad would be the larger players in this business along with Supreme and Finolex.

Saket Kapoor: Sir now coming to the raw material part of it, you had a tie-up with the Japanese player for the PVC compound?

Devesh Bansal: Yes we are in a sourcing collaboration with Sekisui Corporation.

Saket Kapoor: We are having contract in terms of volume and price escalation clause in it?

Devesh Bansal: Yes, the prices are basically negotiated on a month-to-month basis but the arrangement is long-term open ended arrangement so there is no expiry date to the arrangement as such.

Saket Kapoor: No Sir just wanted to understand what is the pricing in this CPVC compound be, if we compare it to simple PVC compound what are the price it registered and how are the margins aided in this segment?

Devesh Bansal: So the CPVC compound typically you can assume it to be about three times the price of a normal PVC compound and the margins in the CPVC pipes and fittings are much more superior as compared to PVC.

Saket Kapoor: It is also due to the absence of major share in this segment that you are being a first of the six player advantage, will you get or the market size that may grow going forward?

Devesh Bansal: No the market is definitely growing. The competition in a CPVC space especially in the organized CPVC space is quite low. There are only three or four organized manufacturers of CPVC in the country. There are many people who are manufacturing CPVC by sourcing Chinese materials but then the market also realizes that they have poor quality and their prices are much lower compared to ours but then definitely the competition in the organized CPVC space is quite low.

Saket Kapoor: Sir there are two domestic players entering the CPVC I think the resin and compound market one is Lubrizol having the plant at Dahej and then domestic player TCW having the plant at Jahapura so you are collaborating with the players from Japanese and then depending upon their them being the hedging part also due to the currency fluctuation how do things make sense if the intake of raw materials from Lubrizol and DCW going forward, just a take on these two players?

Devesh Bansal: Lubrizol obviously is one of the earliest entrants for the CPVC compound in the country and till January this year they were also basically supplying CPVC compounds from their overseas plants into India only. It is only in January that they step up a plant in Dahej. Now it does not really matter dramatically whether the compound is being imported or it is being produced in India I mean even in case of our PVC resin almost 70% to 80% of our consumption is currently being imported from overseas and we generally find a cost advantage when we are importing it as compared to domestic purchase. So that really is not that much of a factor. Why we went into a collaboration with Sekisui is because the product being offered by Sekisui is one of the finest globally in terms of quality as well as the credentials that they bring to the table so things like NSF certification and because of that the credibility that our products commands in the market allows us to obviously get registered with consultant faster with the other influences faster so that is one of the major reasons why we decided to go with Sekisui.

Saket Kapoor: Are we in touch with DCW also because they are also setting up a very new plant with Arkema, the technology and the product also could be of the same quality as Arkema is offering to its other clients in the country, so have been set with them also for this sourcing of compound?

Devesh Bansal: We are currently working with Sekisui only and at the moment we have no plans of switching our sourcing partners. I mean the technological benefits that we get from working with Sekisui go far beyond from just a sourcing arrangement at the moment and we have no plans of switching our partner.

Saket Kapoor: Thank you for all your elaborative answers.

Moderator: Thank you. Next question is from the line of Dhiral Shah from GEPL Capital. Please go ahead.

Dhiral Shah: Thank you for taking my follow up question. Sir taking forward this CPVC question is there an exclusive agreement with Sekisui they are going to supply this compound only to us?

Devesh Bansal: It is not an exclusive arrangement per se but then Sekisui is also very selective about the companies that it works with. Currently also in India they only have three partners and they are not expanding their partner base very aggressively because they are also very conscious about the people that they are work with because their brand is also at stake when the material is supplied to markets so it is not an exclusive arrangement but we do not expect too many partners to be added.

Dhiral Shah: Sir any reason for them signing us we were the new player in the market so why they have you know done a tie-up with us?

Devesh Bansal: We had been discussing with Sekisui for almost six months before they tied up with us and I believe Sekisui after studying the plans that the company has for aggressively growing in the Indian market they felt that we were a good choice to go with.

Dhiral Shah: Sir in the last quarter you have said there has been this is particularly to this tower business, there has been an existing unopened bid of approximately 1200 Crores so when you are going to expect this order to be get announced?

Sharan Bansal: The company is consistently participating in new and new bids also so we feel that any given time 1000 to 1200 Crores bids will always be unopened because as the old bids are getting opened and new bids are getting submitted this unopened bid number will remain approximately at this levels. Having said that the existing bids we do not really have an exact timeline because Power Grid has been little slow in opening their bids so although we expected that 800 KV bid will be opened in the first quarter but they have not been opened in Q1 so we are quite hopeful that they will be done in Q2 now.

Dhiral Shah: That is it from my side. Thank you Sir.

Moderator: Ladies and gentlemen that was the last question for today I will now like to handover the floor to Mr. Amber Singhania for his closing comments.

Amber Singhania: Thank you. On behalf of Asian Market I thank everyone for joining this call and a special thanks to the management of Skipper Limited for providing this insight about the company business and future outlook. We conclude this call Sharan Ji would you like to add any closing remarks?

Sharan Bansal: Thank you very much for hosting the call as always Amber Ji and we look forward to more engagement with the various participants on the call. Please feel free to get in touch with Aditya Dujari, Manager IR at our company and we will be happy to take any follow up question.

Moderator: Thank you very much Sir. Ladies and gentlemen on behalf of Asian Market Securities that concludes this conference call thank you for joining us and you may now disconnect your lines.