



“Skipper Limited Q2 FY17 Earnings Conference Call”

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Moderator: Ladies and gentlemen good day and welcome to the Q2 FY2017 earning conference call of Skipper Limited hosted by Asian Market Securities Private 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 of Asian Market Securities Private Limited. Thank you and over to you Sir!

Amber Singhania: Thank you. Good afternoon everyone. On behalf of Asian Market I welcome you all for Q2 FY2017 Earning Conference Call for Skipper Limited. We have with us today Mr. Sharan Bansal - Director and Promoter, Mr. Devesh Bansal - Director and Promoter, Mr. Sanjay Agarwal - CFO along with Mr. Aditya Dujari - Investor Relations Executive from the company’s side. We would start with a brief update about the company and the results from the company’s side and then we can take it forward for the question-and-answer session. I now hand over to Sharan Ji to take us through the quarterly results and your thoughts and then we can start with the question-and-answer. Over to you Sharan Ji!

Sharan Bansal: Thank you Amber Ji. Good afternoon and welcome to everyone for Skipper’s Q2 investor conference call. I am happy to report that in continuation with past several quarters this quarter also has witnessed strong top-line and bottom-line growth for the company. Some of the major highlights are -

The net sales of your company has grown by approximately 17% from last year corresponding quarter 343 Crores to this quarter 401 Crores, that translates to a 16.7% growth in net sales. The operating EBITDA which is calculated by subtracting the income from forward contracts and other operating income has increased by approximately 26%, in the previous corresponding quarter it was 42.86 Crores whereas in this quarter it is 54.06 Crores. The operating EBITDA margin is in line with the company’s expectation at 13.5% for the quarter. The operating PBT has also grown from 28.26 Crores in the previous year to 32.59 Crores in this year witnessing a growth of approximately 15%.

Apart from the financial numbers, the company has other strong positive news to report. During the quarter, we have taken a decision to add overhead tanks and HDPE pipes into our polymer product portfolio. This will ensure that the company’s marketing network will

be further utilized by the addition of new products and will further help in both top-line and bottom-line growth.

We also commissioned our third Angle Rolling Mill in our Uluberia plants, this is as you are aware that the Angle Rolling Mill for the backward integration of our company and as we have been growing in our finished product capacity, it was required to further grow the backward integration capacity as well. We are happy that the third Angle Rolling Mill has been commissioned in August 2016.

Also the external short-term credit rating of the company by CARE has been upgraded from A1 to A1+. This should certainly help in company bringing down its cost of borrowings in the quarters to come.

We also would like to update on the new manufacturing unit, which is currently under installation in Guwahati. As we had announced last quarter that the company has decided to install a new manufacturing plant in Guwahati at an investment of 70 Crores, which will be 40 Crores for our T&D Steel Structure business and 30 Crores for our PVC fittings business. So that is well underway and we are expecting that certainly we will be able to meet our target deadline of March 2017 for commissioning. With this I end my comments and I am open to your questions.

Moderator: Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may please press “*” and “1” and their touchtone telephone. If you wish to remove yourself from the questions queue you may press “*” and “2”. Participants are requested to use handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles. We take our first question from the line of Tarang Bhanushali from IIFL Wealth. Please go ahead.

Tarang Bhanushali: Good afternoon gentlemen. First question is that we have seen an increase in our working capital cycle, what is the reason behind that and what is the order inflow for the first half during this year?

Sharan Bansal: Regarding the working capital cycle, frankly the changes have to be seen on annual basis because on Q-o-Q there can be variation. In certain quarters we may witness slightly slower sales growth where projects take offs are involved, particularly in Q2 we have witnessed slightly slower sales growth expected because of the heavy monsoon, so a lot of projects

which were scheduled to take supply off take have postponed their off take for Q3. So that also has led to slight growth in inventory cycle that could be one of the reasons, but really the overall working capital cycle has to be seen on an annual basis not on a Q-o-Q basis. With regard to your question for order book the order inflow has been more or less in line with execution and we are still maintaining an order book of approximately 2300 Crores right now, so that is about still 1.8x of the last year sales, which is quite comfortable for the company and the future order inflow scenario is also quite positive. So in both these things we do not foresee any problem for the company.

Tarang Bhanushali: What is the order pipeline for us, what are the orders we have bid for?

Sharan Bansal: The orders which currently the company has bid for is approximately 600 to 700 Crores. The two large projects which company have seriously bided for are the 800 KV HVDC Raigarh Pugalur by power grid those tenders have been canceled and they are going to be reentered in Q4 of this year. Another large project which is the North East project for which some tendering has been done, number of those tenders have also been retendered, so those are also slated to come out fresh in Q3 and Q4. So because of that the bidding pipeline is currently a little lower than what normally is, normally our bidding pipeline is approximately 1000 Crores, but we expect this to grow substantially in Q4 onwards.

Tarang Bhanushali: And what would be the volume growth for our two businesses, polymers and engineering products?

Sharan Bansal: As an engineering project in line with our capacity expansion we have always been, are you asking about what has been the volume growth in this quarter or what is the expected volume growth in this year?

Tarang Bhanushali: This quarter and what is the expected volume we have?

Sharan Bansal: This quarter we witnessed approximately 10% to 12% volume growth in engineering products and in polymer business we have witnessed a very healthy growth of 60%, 65% so that has been for this quarter. For the year we are quite confident that engineering products will maintain at 15% to 20% volume growth and the polymer business will see ultimately 50% plus growth.

Tarang Bhanushali: Thanks a lot Sir.

- Moderator:** Thank you. We take our next question from the line of Vivek Sharma from ICICI Securities. Please go ahead.
- Vivek Sharma:** First question is on the other income. I would assume there would have been some of one-offs in the base quarter, so can you quantify why it approximately 26 million to 7 odd million.
- Sharan Bansal:** This other income is basically representing the interest income which we are getting from the margin deposits which we are maintaining with the banks and all these, and certain irregular types of income from things like insurance or something that has happened during the last year corresponding quarter which is not there.
- Vivek Sharma:** Secondly I would like to dwell more on the working capital front it has seen a slight increase, so what level would you see that the same coming back to by the year end?
- Sharan Bansal:** As we have been maintaining, the net working capital cycle of the company should be comfortable about 90 to 95 days, in this particular quarter we have seen it going about 92, 93 days.
- Vivek Sharma:** Last quarter it was 77 days, which has jumped in the six months by 15 odd days?
- Sharan Bansal:** Correct, but again on a Q-to-Q basis little variations can come in, but even then it is still within 95 days which is the expected working capital cycle for the company.
- Vivek Sharma:** And thirdly you mentioned some of the orders were cancelled, so any reason for the cancellation, whether the pricing not suitable for what or us was the reason?
- Sharan Bansal:** The tenders were cancelled, not orders. The bid, which the company had submitted those have been cancelled and retendered. I believe for the 800 KV Raigarh Pugalur project power grids was creating some arbitration preceding with one of the bidders for a substation. So I believe that was the reason why these projects have to be cancelled and retendered. For the North East project power grid, I think still their board has not yet accepted the pricing levels which are coming in those packages, so I think they are looking for better pricing.

Vivek Sharma: So can we draw a conclusion that these orders could carry on over margin profile than the regular order?

Sharan Bansal: No, I do not think so. In fact as I have maintained earlier that we are the best placed company to get the maximum advantage in the North East project, so no matter which EPC contractor wins these projects, the supplies will be expected to go from Skipper only especially with our new plant coming up in Guwahati, we expect Skipper would be supplying bulk of these products.

Vivek Sharma: What would be our freight advantage for the North East project?

Sharan Bansal: Currently from our Calcutta capacity if I look at it our freight advantage versus the pan India players is approximately Rs.2000 to Rs.2500 per ton, but once we have our plant in Guwahati then we expect that the freight advantage to go up to Rs.3000 to Rs.3500.

Vivek Sharma: That answers my question, best of luck for the future.

Moderator: Thank you. We take our next question from the line of Rajiv Mehra from JM Financial. Please go ahead.

Rajiv Mehra: Good morning Sir, I just wanted to first of all understand your third Angle Rolling Mill new commissioning of the new capacity, so currently post that what are your capacities now currently and at what utilization levels are they at? My next question is recently we were on some other transmission company con-calls and they were mentioning that close to around 45000 to 50000 Crores worth high transmission capacity corridor orders could be given in the next 6 to 12 months, so what are your thoughts on the same?

Sharan Bansal: On your first question with the commissioning of our third Angle Mill, our rolling capacity is now up to almost 250,000 - 260,000 tons per year so that is in line with our overall engineering product finished capacity going up as well. Our utilization would be about 70%, 75% in this, but as the engineering product capacity increases then certainly Rolling Mill will also be expected to be fully utilized.

In regard to your second question about the future bidding pipeline, yes you are right that we expect like as I mentioned in my previous answer about this Raigarh Pugalur project which is going to be retendered that itself is about 20,000 Crores and the North East which probably is retendering that again is about 10,000 Crores, so both put together itself is about

30,000 and of course a number of states are now actually very active and they are inviting large bids which was not the case earlier in the transmission sector. We are finding there are large number of states electricity boards which are coming out with very, very large projects and in fact the states are also being able to attract multinational funding for these projects. Both in the 400 KV category as well as the 765 KV category, we expect state bidding action to be quite strong. Already there is a lot of bidding action on the ground; we expect it to further increase over the next six months to one year.

Rajiv Mehra: Just couple of more questions. On the international front, how do you see the growth panning out there because if my understanding is correct, almost 25% of your revenues is coming from the transmission and engineering product space, so how is that growth looking and would that be the increasing in your overall revenue structure?

Sharan Bansal: Intentional market, different markets can be sporadic, but having said that our main strength is to increase our marketing presence. So we are entering newer and newer geographies. Last quarter we entered into four or five new countries, so I think that is the prime focus of the company because different international markets can behave differently, even developed markets like North America we expect that under the new administration they should be coming out with quite significant projects in the near to medium-term future. So the important thing there is that our company Skipper should have a presence in all major markets so that will show the steady inflow of business from international markets. Having said that we will be happy to maintain a minimum 25% exposure to international market, because domestic markets are obviously very, very strong right now, power grid as well as state electricity board as well as the private TBCB players are investing and the market continues to have a bullish outlook.

Rajiv Mehra: And Sir my last question just to refresh my memory your PAT that is currently for the Q2 is 22 Crores vis-à-vis 30 Crores, the difference is obviously down because of the exceptional item which was there, if you could just refresh what was the difference?

Sharan Bansal: In Q2 of FY2016 if you look at the income from forward contracts, it was approximately 18 Crores and the other operating income which is the income from the benefit for export, as you know that the export percentage was quite much larger last year, so that was approximately 6 Crores. So put together there was 24 Crores which has reduced to about 2 Crores only this year, but the operating income which is the EBITDA from the business revenue that has expanded heavily in line with these.

Moderator: Thank you. We take our next question from the line of Arfad Sayyed from Quant Capital. Please go ahead.

Arfad Sayyed: My first question is on Capex, you mentioned that you are looking to expand your capacity in Overhead Tanks and also HDPE pipes, which is expected to commission by this quarter. So can you quantify how much amount you are spending in this?

Devesh Bansal: The Company is expanding into two new product categories; one is HDPE pipes wherein we are starting off with a small capacity in our Hyderabad unit for HDPE pipes. The investment is only about 3 Crores and the capacity that is going to be set up initially is about 3000 tons per annum. So this is keeping in mind the robust demand for HDPE pipes in southern states, especially Telangana and Andhra Pradesh as well as because we are already working with a lot of customers who are buying both PVC as well as HDPE it is natural progression for us to get into this space as well.

With regards to overhead tanks we are setting up our first investment in this in our Kolkata Unit itself at Uluberia, because the brand of Skipper commands a big premium in the Eastern Indian market and all our channel partners are already buying Overhead Tanks from various sources. This was more of a demand from their side that if we could offer them this product also it would really help us in strengthening our relationship with them. So with that in mind the company has also ventured into overhead tanks which would be basically procured by our existing channel partners only.

Arfad Sayyed: Basically I wanted to understand what is the opportunity in this space we are looking in next couple of years?

Devesh Bansal: This HDPE pipe, because of the government push in various sectors such as water supply projects, Urban Renewal Mission, even sanitation scheme, there is going to be a lot of investment coming into the sector from the government side and the utility side. HDPE is a preferred product along with PVC in many of these projects. Overall the market size of HDPE pipes currently in India is close to about 3,000 odd Crores, but it is growing very fast on an Y-to-Y basis, so we felt that it is a good product category to begin and of course how it develops going forward will be determined by our success in the investments.

With regard to overhead tanks obviously it is a product which has been there for a very long time and it has good market leaders like Sintex and other companies, but because it is a

absolutely allied product for us, there the distribution cost for us in this product category will be virtually nil because our existing team can handle both these product categories. So it is a good prospect for us in this space also.

Arfad Sayyed: And the second question, your outlook on order inflow on PGCIL and also from HDPE for next couple of years. Basically are you looking any slowdown in these projects?

Sharan Bansal: PGCIL ordering is well, I would say that there is no slowdown, but yes PGCIL ordering we do not expect any increase over previous years because we still have significant amount of orders in hand and they continue to get good success in the TBCB projects where they are bidding also, so we do not expect any slowdown in PGCIL ordering, but yes PGCIL order should largely be flat at 22000, 23000 Crores every year over the next four to five years. That is what the PGCIL management has also predicted, but yes what now happening with the growth of the sector is that there is significant amount of orders coming in from the TBCB players, the private developers like Sterlite and Adani, as well as the state electricity board which as I mentioned earlier are coming out with very, very significant sized projects. So I think the market expansion will be led by TBCB players. PGCIL ordering will be flat over the next four, five years.

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

Sanjeev Panda: Just to start off with, just to confirm the PBIT margin shown in the segmental part it includes the power contract that we have earlier right?

Sharan Bansal: Right that is included, in our presentation we have excluded. In our presentation the EBTIDA margin we have excluded the Forex income and other income also.

Sanjeev Panda: The PVC outlook basically what we would like to understand, we have added capacity recently and now we are substantially at a high capacity base. So can you help us to understand rollout how we are in terms of position, in terms of our reach and distribution, how far we have touched points we have gone to and basically to understand like how things are going to be in the next one to two years?

Devesh Bansal: In the PVC business obviously we have expanded capacity last year and on the pipe side we are at about 41,000 tons currently of installed capacity. A lot of these capacities have come up in the new regions as you know in West, North and South as well as North East, Since

these are new regions the capacity utilization is low because market penetration will take a little bit of time in these new markets. For example our Eastern India capacities are more or less fully utilized at most times and West is now seeing higher and higher capacity utilization on a Q-to-Q basis. North and South because they are absolutely new obviously they are taking a little bit of time to mature. Going forward, as you see in our Q-to-Q numbers because of contribution from these new regions we have been able to get robust growth in the PVC segment. We are very confident of actually maintaining these kinds of figures going forward also and with the addition of these new product categories this will only accelerate further in our overall polymer business.

Sanjeev Panda: If you can let us know what kind of distribution network or base that we are currently working where we are targeting to improve?

Devesh Bansal: In all the new markets that we are entering like your north, south we are appointing newer and newer distributors, but how well they will be able to perform only time will tell, it is too early to actually call them channel partners right now.

Sanjeev Panda: How many partners we are currently working with across the country?

Devesh Bansal: Across the country our direct touch point would be in excess of about 400 to 500 odd, but if you take into account the people that we work with which includes our dealers and sub-dealers also then the number would be in 1000s.

Sanjeev Panda: What is the kind of cash flow from operations we have generated in this first half?

Sanjay Agrawal: Cash flow we were generated from operations, this time we have generated 53 Crores from the operations that includes 1.5 Crores from this forward gain and 51 Crores around we have generated from operations.

Sanjeev Panda: Sir on the international order we are talking about we have exposure and we also look at 20%, 25% exposure, the devaluation kind of thing that is going on in across the current sales, are we completely hedged on that part or how do we really handle that kind of situation?

Sharan Bansal: Yes, absolutely we are 100% hedged; firstly all our international orders are only in US dollars. We do not have any single order in any local currency whatsoever and as a current policy of the company all international orders, all export orders as well as import orders are

hedged as soon as we enter into the contract. So absolutely there is no risk to the company for any devaluation or appreciation what is there.

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

Moderator: Thank you. We take our next question from the line of Abhijit Vara from Sundaram Mutual Fund. Please go ahead.

Abhijit Vara: Sir you have mentioned about SEB ordering in the near-term, if you could give an outlook as to which segments are they ordering and what could be the potential, which all SEBs are looking to order in the near-term probably which will help you for the next year?

Sharan Bansal: As I mentioned SEB business outlook is very, very positive. The SEB which are looking to give out big contracts are maybe Madhya Pradesh, Uttar Pradesh, Andhra, Telengana and I believe very, very strong last but certainly not the least is Rajasthan, they have been coming out with very, very large projects. In fact recently we are seeing a bid from RVPL in Rajasthan, Rajya Vidyut Prasaran Limited for the value of about 600 Crores. I think this is the first time that any state electricity board has come out with such a large project. So certainly we are seeing state electricity board getting more and more aggressive in their transmission expansion.

Abhijit Vara: These are T&D orders is it?

Sharan Bansal: Yes.

Abhijit Vara: To strengthen the current grid or they are planning for new lines?

Sharan Bansal: It is a combination of firstly of course catering to a lot of renewable capacities which is coming up across India, I think a lot of the lines are being made to cater to those renewable sources as well as I think debottlenecking is consistently going on. The objective of the Government is to provide the cheapest cost of power to all the consumers across India. There are of course regions existing, which have low rate of power whereas other regions are paying very significantly high rate of power, so I think the debottlenecking will continuously go on until there is the uniform price of power across India.

- Abhijit Vara:** Second question is in the annual report it mentioned you have a target to move PVC capacity to 1 lakh metric ton per annum by 2019, so if you could give an outlook as to what is the current utilization now and are you on track, what is the confidence level now in terms of moving forward towards this goal?
- Devesh Bansal:** The target that the company has said, is the mandate that we have taken to get our capacity and our top-line in this business to a lakh ton by the year 2019 is obviously a broad target that the company has taken. We are growing very, very robustly on a Y-to-Y basis, the expected growth in this business on a Y-to-Year basis is expected to be in excess of 50% to 60%, and we are definitely looking to reach that figure at the earliest possible. Whether we will be able to achieve it in 2019 or maybe a year here and there that obviously will depend on what kind of response we get from the market, but that is the broad mandate that the company has taken. If you see our last year top-line of about a 150 Crores we are very, very sure of increasing that by more than 50% to 60% this year itself.
- Abhijit Vara:** What is the Capex for the overhead tank sir I missed that number?
- Devesh Bansal:** The Capex for the overhead tanks currently is about 4 Crores, it is on a Brownfield level in our exiting Uluberia unit, and it is quite modest.
- Abhijit Vara:** One last question, the capacity utilization for PVC currently?
- Devesh Bansal:** The capacity utilization as I mentioned earlier also, because we have a lot of new plants in a lot of new regions we are penetrating into those markets, the capacity utilization which was set up last year of 41,000 tons, we are operating at about 50% to 60% capacity utilization on those, but as we gain traction in these new markets we are sure that this would go up substantially.
- Abhijit Vara:** I will get back to you, thank you.
- Moderator:** Thank you. We take our next question from the line of Dhiral Shah from GEPL Capital. Please go ahead.
- Dhiral Shah:** Sir my question is regarding your export side of the business because if you have three-year exclusive tie-up with this TSO so need to know whether they are extending this tie-up or you have any other arrangement for this?

- Sharan Bansal:** No, the tie-up ended in September this year. The TSO has decided not to enter into a new tie-up with any company right now because they already have a large volume of orders in hand. In fact even our orders with them will likely extend up to Q2 and Q3 of FY2018 for execution, so they obviously have a very large order pipeline in hand already, so they are not looking to enter into a new tie-up with anyone right now, they may do so next year, but having said that we are in discussion with a number of other players in Latin America and we expect our business to continue to come from other players now as well and in the context of overall international business we see a lot of good traction from South East Asia & Africa now as well. So in the near future we expect some positive report from that side.
- Dhiral Shah:** How much do you have order for this TSO currently, which is unexecuted?
- Sharan Bansal:** Approximately 450 Crores odd.
- Dhiral Shah:** And then you have an outstanding order book of around 2300 Crores, so how much export constitutes of?
- Sharan Bansal:** Export constitutes of approximately 600 Crores in this overall.
- Dhiral Shah:** So this includes 450 Crores of this.
- Sharan Bansal:** That is right.
- Dhiral Shah:** And sir few days back there was an article in one of the newspapers wherein they have started that there has been a slowdown in awarding projects under power transmission side, so approximately around 9000 worth of order has been announced but it has not been approved, so what is the reason behind that Sir?
- Sharan Bansal:** I think they may have been referring to some of these retendering done by power grid for the 800 KV corridor which is the large order in itself, it is about 20,000 Crores and the North East projects 10,000 Crores projects. So both of these as I mentioned earlier in the con-call that they are to be retendered, so that could be the reason why the article said so, but having said that we are not seeing a slow down at all. It is just a postponement of the tenders, which were already released. We are not really witnessing any slow down as such.

Dhiral Shah: Sir so then why there is a retendering and postponement has been done, is there any rational behind that?

Sharan Bansal: I shared the reason to an earlier question, the retendering for the 800 KV has been done for some arbitration matter that power grid has been taking with one bidder and for the North East projects we are not too sure about the reason, it may have to do with budget issue.

Dhiral Shah: And Sir of late the steel prices are raising so are you getting any impact because of this?

Sharan Bansal: The good thing about this is that the steel price increase is more felt on the flat product side because if you look at most of the MIP as well as safeguard duties they are more applicable on the flat product. Long products traditionally have not really been imported from outside India. If you look at the bulk of the steel imports, most of it is constituted on the flat product side. So our raw materials are more on the long product side, which are witnessing very nominal price increase. As I said, most of our contracts are with escalation and de-escalation clauses so we do not really see any problem whatsoever with the increase as well.

Dhiral Shah: And Sir lastly I need to understand that this government has recently taken this demonetization step, so will it impact your pipe business?

Devesh Bansal: Yes, in fact we may see quite positive impact of this demonetization because as you know that in the overall polymer business there is still about 40% to 50% of players in the unorganized sector which have a heavy dependence on the cash transaction, so I think with this demonetization as well as the GST coming in next year certainly these unorganized players will have more and more of a difficult time conducting their business and there will be a significant shift towards organized players like us, so we are quite bullish about achieving both top-line as well as bottom-line growth in the quarters to come.

Dhiral Shah: So do we expect 60% to 65% growth in coming quarters at least for pipe business?

Devesh Bansal: We maintain our revenue growth guidance of 50% plus in this sector.

Dhiral Shah: You have done only 12% growth in the first half, so your overall guidance is between 15%, 20% right for the full year?

Sharan Bansal: I think on the corporate side our net sales have increased by 17%, I am not sure how you got the 12% number.

Dhiral Shah: Okay, I will check the data then. Thank you, that is it from my side.

Moderator: Thank you. We take our next question from the line of Nirav Vasa from B&K Securities. Please go ahead.

Nirav Vasa: I wanted to ask you a question, which alluded to the ordering activity expected from state electricity boards. So I just wanted to check one thing, how are the terms of these tendering activity from state electricity boards? Are they way different from whereas what it was in PGCIL and how I see bank guarantee arrangements or the letter of conduct of which one do you open, how does that work out can you share more light on that?

Sharan Bansal: I think the bank guarantee and the payment term requirements are in line with power grid ordering. It is only a difference when it comes to whether the project is multinational funded or domestic funded that has some differences in payment terms, as well as whether the project has interest-free advance or not. Otherwise, there is not much difference from power grid on the project side, anyway our payment terms are dependent on supply because our supplies go to the EPC contractors bidding for these projects, so normally the EPC contractors have some percentage of their payment linked to project commissioning, but our payment terms are in general linked to supply only. So we get 100% of our payment upon supplies.

Nirav Vasa: Sir other question, as you are expanding rapidly in the international markets, so just wanted to check on the near-term basis which are the countries that you are expected to have your presence maybe in the second half of the financial year?

Sharan Bansal: In the second half of the financial year I believe the active markets, which we are looking at, are Western Africa region and West to South Africa as well as South East Asia.

Nirav Vasa: Sir, which country in South East Asia?

Sharan Bansal: We can take that question up separately.

- Nirav Vasa:** Thank you very much Sir, my queries have been answered.
- Moderator:** Thank you. We take our next question a follow-up question from the line of Tarang Bhanushali from IIFL Wealth. Please go ahead.
- Tarang Bhanushali:** You said that the orders, which were cancelled or postponed, were worth 20,000 and 10,000 Crores, so what is the scope of Skipper in that?
- Sharan Bansal:** Our bid committed in those projects were approximately 1000 to 1200 Crores, so the scope would be obviously higher.
- Tarang Bhanushali:** And which all SEBs are we currently bidding into because earlier we were resting from SEBs but now with these higher order inflow coming from SEBs so which SEBs are we targeting now?
- Sharan Bansal:** In the last year we have got significant orders coming in from UP, Andhra and Telengana. We are expecting this year Rajasthan to be quite active.
- Tarang Bhanushali:** And you said we have bid for contracts around 600 to 700 and what would be the order you would be looking at which would comfort tendering over the next six months?
- Sharan Bansal:** Yes, we have maintained earlier that Skipper's order book to sales is about 1.8x, which is the best in the industry. If you look at industry average it is about 1.3x to 1.2x of order book to sales. So obviously we are at a very comfortable position anyway with our order book is concerned and looking at the market opportunity both with power grid, state electricity board as well as TBCB players the focus will be that to get orders which maintain our margin profile. I think that is what the prime focus of the company is rather than increasing the order book even further to try and take it about 2x or 3x, I think that does not serve much purpose. The prime focus would be to get orders even if we maintain anywhere between 1.7x and 2x as long as the order were coming at a right margin that is the prime focus of the company.
- Tarang Bhanushali:** And in the export market which all parts are we targeting right now?
- Sharan Bansal:** I just answered that in the previous question, West and South Africa as well as South East Asia.

- Tarang Bhanushali:** Thanks a lot.
- Moderator:** Thank you. We take our next question from the line of Amber Singhanian from Asian Market Securities. Please go ahead.
- Amber Singhanian:** Couple of questions from my side. First on the capacity side, as you mentioned that angle capacity is currently at around 215,000 tons per annum.
- Sharan Bansal:** 250,000 tons.
- Amber Singhanian:** And what would be the corresponding tower capacity currently we are running at?
- Sharan Bansal:** Currently the tower capacity which we started with this year at 200,000 tons.
- Amber Singhanian:** And that will go up to?
- Sharan Bansal:** That will go up to 230,000 after the Guwahati plant expansion.
- Amber Singhanian:** Any Brownfield expansion in the current plant in Kolkata?
- Sharan Bansal:** Not for this year, as our target is to grow capacity by about 15% every year, so 30,000 tons we decided that this year our expansion will come in Guwahati only. We will not do any Brownfield expansion in our Kolkata expansion. We may take it up next year.
- Amber Singhanian:** And on the plastic product front our total capacity including CPVC is around 41,000 tons right.
- Sharan Bansal:** Correct.
- Amber Singhanian:** And that will go up to 7000 tons we are adding in Guwahati and remaining this so what will be the total capacity at the year end with the overhead tank and HDPE plants and everything put together?
- Devesh Bansal:** With HDPE we are adding about 3000 tons capacity and overhead tanks the installed capacity is about 1200 tons, so if you put that together our overall capacity in the polymer business will be about 51,000 tons odd.

- Amber Singhania:** And are there any plants we have formed up for the next year in addition or they will be taken up at a later stage?
- Sharan Bansal:** We will probably take it up at a later stage.
- Amber Singhania:** So this total capacity will be for total Capex of roughly around Rs.70 to Rs.75 Crores for this year overall including tower as well as pipes?
- Sharan Bansal:** The Guwahati unit which we are setting up is at a Capex of 70 Crores, these two included will add about 7 odd Crores, so about 77 Crores.
- Amber Singhania:** And how much you have already spent in the first half in terms of Capex?
- Sharan Bansal:** We do not have the figures off hand. The equipments and all have been ordered as well as the land acquisition activities and land development activities are going on, so off hand we do not have the figures of how much has been spent and how much remains.
- Amber Singhania:** Secondly when you mentioned that we grew in terms of volume roughly around 10%, 12% in terms of engineering product whereas the sales growth is 8% if you remove that 18 Crores of Forex income last year, so are there any fall we have seen in terms of realization when it comes to tower business and tower products?
- Sharan Bansal:** No, the revenue growth and engineering products have been approximately 10% even after taking out the Forex and other operating income. As I mentioned because of the heavy monsoon some of our projects have witnessed a slower off take than expected. Again, we are quite comfortable that the overall annual growth of 15% to 20% will be quite easily met with the order book, which we have in this segment.
- Amber Singhania:** And what is the average realization we are getting per ton basis rough cut?
- Sharan Bansal:** It is hard for me to comment on that right now.
- Amber Singhania:** And also the same thing for the pipe side?
- Sharan Bansal:** Let us take it up separately off line.

- Amber Singhania:** No problem. Secondly I just wanted to understand in terms of export sales. Out of this entire sale of around 400 odd Crores and 345 Crores in the engineering how much was the export portion of this?
- Sharan Bansal:** Exports are going to be low this year because bulk of the execution we expect either starting from Q4 going up to Q1, Q2, and Q3 of next year. So export sales are going to be on the lower side.
- Amber Singhania:** And by when we can expect those smaller orders, which we have got from other, export geographies to start?
- Sharan Bansal:** Some of them have already started like Kenya and all we have already started executing, because smaller orders generally have a smaller lead times than larger orders, so some of them have already been started and some are going to be started.
- Amber Singhania:** Secondly when we talk about these 20,000 Crores of project which we are talking about from Raigarh Pugalur where our scope of bidding is is roughly 1000 Crores in that...
- Sharan Bansal:** Our scope would be approximately 5000 to 6000 Crores; I am saying that our bid submitted was about 1000 Crores in the previous bid which was announced.
- Amber Singhania:** So in that way though we do have a good order book to sales ratio as you mentioned, but if the incremental orders are lower than our annual sales do we think that will have some impact not in FY2018 but later part of FY2018 and FY2019 numbers, how do we see that growth momentum to be maintaining in the future bidding?
- Sharan Bansal:** Not at all, because as I mentioned that power grid ordering may be flat at 20000, 22000 Crores but the sector is witnessing good growth from the SEB side as well as TBCB, so if you put all of them together the sector is witnessing quite healthy growth so there is no reason for any concern that the order inflow will be lower in the coming years.
- Amber Singhania:** Secondly on if you see the segment margins, PVC side we have seen some decline in the margin to 8.9% on the EBIT side. Is it basically because of the marketing push, which we are doing in the new region, and how long that will continue, where do we see the annual margin for this year and next year stabilizing in PVC products?

Sharan Bansal: On an EBITDA level Amber Ji. The margins in PVC in Q2 were about 10.8% odd. Right from beginning we have maintained that the broad target that the company has taken is that we must see the EBITDA numbers in double digit as far as possible and there have been various initiatives that we have taken in introducing more lucrative products such as fittings and CPVC into our product range. Definitely the contraction that you see from earlier year is because of the marketing push that we are doing in newer regions, but we are quite confident that we should be able to maintain it in double digit going forward also.

Amber Singhanian: Secondly, with the rating change, what kind of benefit we can see in terms of our cost of debt, how much percentage point we can see benefit coming in?

Sanjay Agrawal: By the change in the rating that is in the short-term rating from A1 to A1+, we are expecting to issue the commercial papers into the market, a couple of percentage on the limited amount we are expecting the benefit will go to the company. We have been rated 50 Crores of CP also, so up to 50 Crores we are definitely expecting a couple of percentage will be benefited to the company.

Amber Singhanian: So what is average cost of debt currently and how much it will do down to?

Sharan Bansal: I think Amber that also depends, because in the first time that the company will be tapping commercial paper so it will depend on how much firstly the quantity will be able to raise and secondly at what rate we are able to get. So it is a little hard to comment, of course there will be some benefits to the company for sure.

Amber Singhanian: One more thing Sharan Ji, if you can share roughly what kind of volumes we have achieved in the first half from these two segments, which is plastic, and tower that would be great?

Sharan Bansal: As I mentioned that about 10% volume growths on the engineering product side and about 60% to 65% growth on the polymer side.

Amber Singhanian: So mainly all the growth has come in because of the volume growth as such.

Sharan Bansal: Of course.

Amber Singhanian: Just one more thing I wanted to understand we know that one of the large competitors has stop their agreement with Lubrizol and then they have moved to Sekisui now and we have been partnered with Sekisui since long before, how do we see that equation changing

because our off take is relatively lower compared to the new client which Sekisui has added in their kitty, how do we see that panning out in overall context of scheme as such?

Sharan Bansal: I think this was briefly discussed in the previous con-call also that this development is actually positive for us because Sekisui also is a relatively newer brand in the Indian market, but you see Durastream brand which it is marketing along with Skipper, till now we have been facing some resistance from the influencer of the industry like the architect, company consultant, etc for approving the Sekisui brand along with our brand, but ever since this change has happened it has actually helped us in tapping a lot of these consultants and influencer, and our brand is getting readily approved in a lot of places, instead of being negative it has turned out to be a huge positive for us because it has really helped us in getting a foothold into a lot of new markets and we expect that this will continue going forward also.

Amber Singhania: And just last question from my side is we have seen some improvement happening on the infrastructure project side, have we started executing that UP project, which we have got on EPC basis?

Sharan Bansal: Yes that is right, although execution has been slightly muted in the first two quarters because of the heavy monsoon, but in Q3 and Q4 we expect further execution.

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

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference over to Mr. Amber Singhania of Asian Market Securities for closing comments.

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

Sharan Bansal: No. Thank you once again for all of your time to come onto the conference call. We look forward to interacting with you again for the Q3 con-call.

Moderator: Thank you very much. On behalf of Asian Market Securities Private Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.