"Skipper Limited Q4 FY 2016 Earnings Conference Call"

May 18, 2016

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MODERATOR: **MR. AMBER SINGHANIA – SENIOR ANALYST, ASIAN MARKETS SECURITIES LIMITED**

Moderator: Ladies and gentlemen good day and welcome to the Skipper Limited Q4 FY'16 earnings 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 questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing '*' then '0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Amber Singhania from Asian Market Securities. Thank you and over to you Sir!

Amber Singhania: Thank you Ali. Good evening everyone. On behalf of Asian Market Securities I welcome you all for Q4 FY'16 and full year FY'16 earning conference call for Skipper Limited. We have with us today Mr. Sharan Bansal - Director and Promoter Group, Mr. Devesh Bansal – Director from Promoter Group and Mr. Sanjay Agarwal – CFO along with Mr. Aditya Dujari, Investor Relation Executive of the company. We would start with some brief update about the company and the results from the promoter 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 then we can start the question and answer. Over to you Sharan Sir!

Sharan Bansal: Thank you Amberji. I welcome all the participants to this quarterly Q4 conference call of Skipper Limited as well as the 12 months results update. I am very happy to report that Skipper has continued on with its strong performance and posted a net 15% increase in net sales despite severe commodity downturn faced by us in the market in the raw material side. The export revenues of the company has seen very significant jump in this last year from 54 Crores in the previous year to almost about 600 Crores plus in the current financial year. The operating EBITDA of the company has increased by approximately 16% for the annual full year, it stands at 201 Crores as against 173 Crores in the previous year thereby leading to operating EBITDA margin improvement to 13.8% from previous year 13.6%, significantly the operating PBT Profit Before Tax has seen a jump to 125.16 Crores as against Rs.94.56 Crores in the previous year which translates into a jump of almost 32.4%. The PAT of the full year stands at 95.13 Crore as against 89.17 Crores in the previous year which is up by 6.7%. The order book of the company stands at approximately 2400 Crores and there was an order inflow of approximately 1300 Crores in the entire financial year with Q4 seeing the maximum order inflows of almost 1200 Crores. The company has also entered into newer geographies of North Africa by way of contract in Egypt market. Further there also existing unopened bids of approximately Rs.1200 Crore for which results are awaited.

In the PVC side, PVC product vertical as you all know that company was already a strong player in eastern India in the financial year that just ended we have expanded our presence in other markets as well by opening three new plants at Ahmedabad, Guwahati and Sikandrabad in Uttar Pradesh. All these plants have been built on the asset-light model and now the company's capacity stands at 35000 metric tons per year. Also work is going on in full speed in the new 6000 tons per year capacity at Hyderabad and we target to commission the same before the end of Q1 of FY'17.

In other developments the company's external credit rating has been upgraded two notches by CARE from A- to A+ on account of improved operational and financial performance. We have also installed India's largest galvanising plant with the capacity of 8000 tons per month. This plant will enable us to manufacture monopole for the highest voltage level which is 400 KV and this we see as a significant new business for the company in the years to come.

On the PVC pipe we have also entered into technological tie-up with Sekisui of Japan for CPVC compound to produce CPVC pipes of premier quality.

There are various awards and accolades won by the company during the year including the largest tower supplier award by Power Grid Corporation in the tower supply category. We have also been recognized the best industry in water resource sector by CBIP also we have won the star performer award from EEPC India for our export. We have entered the NSE top 500 companies by market capitalization and we have also got the coveted status of Two Star Export House by Ministry of Commerce and Industry. With this I end my presentation and I am open to your questions.

Moderator: Thank you very much. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Jignesh Kamani from GMO. Please go ahead.

Jignesh Kamani: Sir if I notice in last two or three year our off balance sheet in buyers credit and other in terms of the performance guarantee we think is increased from around 20%-30% to 70% of the reported debt so what is the total debt including the off balance sheet item?

Devesh Bansal: You want to know the total debt of the company right now?

Jignesh Kamani: Yes, including the off-balance debt income of the buyers' credit and the LC?

Sanjay Agarwal: Any debt which is in the form of short term debt long term debt buyer credit whatever form it is reported in the nature of debt only in the balance sheet.

Jignesh Kamani: No but if you, there are financial charges which is very high and an amount of debt is not reported on that?

Sanjay Agarwal: No every debt is reported whether it is a buyer credit or it is a cash credit or it is a term loan.

Jignesh Kamani: Because for example..

Sanjay Agarwal: Every debt is reported as debt.

Jignesh Kamani: For example last year if you take about FY'15 our financial charge was closed to 12 Crore and 58 Crore so if you take about 70 Crore what is the total interest and financial charge and if I work assuming around ……..

Sanjay Agarwal: 12 Crore you are talking about this bank charges?

Jignesh Kamani: Yes.

Sanjay Agarwal: Bank charges is not the interest, if we talk about the buyers credit, buyers credit whatever we are making payment that is basically the interest that is not the charges. And interest is getting debited to the interest account only.

Jignesh Kamani: So 12 Crore the financial charges related to what?

Sanjay Agarwal: They are related to the issuance of the guarantees when the bank charges the commission on the guarantee.

Jignesh Kamani: Sir, I want to know if you include the guarantee what will be the total loan amount.

Devesh Bansal: Our bank guarantees are a function of the company's business where we need to issue bank guarantees like performance bank guarantee and retention bank guarantees these really can not be clubbed along with the debt figure because the debt is what we take in terms of either long term debt or short term debt.

Jignesh Kamani: But bank guarantee has drastically increased from 20% of our total reported loan to 70% in last year so there is a multiple jump in bank guarantee?

Devesh Bansal: No that is not correct; I do not know where you are getting it.

Jignesh Kamani: So if you take out our financial charge also it was 5 Crore in FY'13 which ballooned close to 12 Crore in FY'15 I do not have a number for FY'16 but in two year it is more than double..

Sanjay Agarwal: The bank charges amount does not include only the bank charges we are paying for the bank guarantee that also includes the bank charges we are making payment to them for issuance of the letter of credit, for their processing charges, for loan processing charges that includes everything, that also includes the RTGS charges any sort of charges the bank is charging other than interest is getting debited to the bank charges. That does not mean it is entirely for the issuance of the bank guarantee so we issue a lot of LCs to our vendor the charges bank is charging for issuance of the LC is also getting debited to the bank charges only.

Jignesh Kamani: Can I know the reported debt reported date and the LC amount separately?

Devesh Bansal: In terms of our debt on the book approximately it is at about 468 Crores including long term and short term debt put together. In terms of LC we can come back to you on that number but there is no drastic increase in that number over the last two three years.

Sanjay Agarwal: As Sir has pointed out since we have an overall reduction in the current liabilities actually the LC payable whatever in the form it is reported as the current liability.

Jignesh Kamani: Because bank, if I go through annual report bank guarantee was closed to 120 Crore in FY'13 which increased to 300 Crore in FY'15, so what will be the amount for FY'16?

Sanjay Agarwal: That FY'16 amount we will come back to you because that is also appearing in the contingent liability as you are taking from there only, that we will come to, most probably that is below 400 Crores.

Jignesh Kamani: But gradually it will rise as we have seen in last three year is our scope of operation will also increase?

Devesh Bansal: It will likely go along with the business volume it will likely increase along with the business volume.

Jignesh Kamani: Okay Sir, thanks a lot.

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

Tarang Bhanushali: Well, good evening everyone. The order book we have mentioned of 2429 Crores so out of that how much have we already booked and how much are we favourbaly placed?

Sharan Bansal: Out of 2429 Crores approximately 200 Crores we are a favourbaly placed and the rest is already booked.

Tarang Bhanushali: Okay and we ended the year with volume of 16.16% approximately for our engineering products wherein we were targeting around 20% so was there any slippage in some of the order?

Sharan Bansal: No basically the downward reduction has only been because of the commodity prices for no other reason we have matched our targets of business volume growth.

Tarang Bhanushali: So we were looking at somewhere in the range of 18 to 20 in the middle of the year but we have clocked just 16 so again there is some under performance over there so are there any slippages in some of the export orders or domestic order?

Sharan Bansal: No not at all, in fact we were always been looking at a 15% to 20% growth and in terms of business volumes we have achieved 15% on the engineering product side and the top line has also grown by 15%, on the PVC product side the growth has been closed to about 70%.

Tarang Bhanushali: Right, there too we were quite strong so going forward what are we looking at on the PVC side?

Devesh Bansal: PVC side we should definitely be able to maintain 70%-75% growth in the years to come.

Tarang Bhanushali: Okay. And secondly when in our Q2 con call I remember that you had mention that capex for the year would be somewhere around 45 to 50 Crores but if you look at our fixed asset it has gone up, the capex for the year somewhere stands around 95 so have we included any new project or have we pre-pone some projects this year?

Sharan Bansal: The capex approximately see, the capex which we are looking over the next four years as we have indicated earlier is an average of about 50 to 60 Crores per year now it is not linear what may happen is that some years the capex may be high like if you look at FY'15 our capex spend that year was only approximately 35 Crores so it may be that in certain years the capex would be may be slightly higher and that would be followed by a lower capex year the following year. Having said that the only extra-ordinary item that was there last year was our new rolling mill which as you know is the backward integration for us, the major investment of that is approximately 35 Crores that was something which was done last year so which is not really part of our regular engineering products and plastic product capex it's an investment into backward integration for us, so now our angle rolling capacity will be sufficient for catering to an engineering product capacity of up to 300,000 tons earlier the angle rolling capacity was approximately 200,000 so now with this third rolling mill we will have sufficient capacity to enhance our engineering products up to 300,000 tons.

Tarang Bhanushali: Okay, so what would be the capex guidance for the next two years will it be the same 45 to 50 Crores or again would be lower to some extent?

Sharan Bansal: Yes, it would be in the range of 50 to 60 Crores per year.

Tarang Bhanushali: Okay and our infrastructure segment has been quite weak this year so what are we expecting on Sir because we had some few orders at the start of the year but execution has not picked up so what are we looking at for FY'17?

Sharan Bansal: See for infrastructure services as we have said in the past company only targets profitable projects we are not only chasing top line and their segment so the previous year we have not successful in bagging any profitable projects however in the year that has just ended we have managed to bag some projects in this segment so I think in the coming years we should see some improved performance from this segment but again the company's focus is only to get profitable project so we are not really worried about the top line growth in this segment.

Tarang Bhanushali: So what would be the order size for the infrastructure project division?

Sharan Bansal: The order size which will contribute to the revenue of infrastructure services is approximately 150 Crores right now.

Tarang Bhanushali: So that is only one order or a collection of orders?

Devesh Bansal: No it's a collection of about four or five orders.

Tarang Bhanushali: Okay thanks a lot.

Moderator: Thank you. The next question is from the line of Arjun Goel from Motilal Oswal Securities. Please go ahead.

Arjun Goel: Sir firstly I wanted to understand generally in prices over the last year has fallen by about 16% - 17% broadly speaking so whereas for Skipper on a per ton basis I think its fallen about 2% so is it that we go in for some fixed price contract or is it that this is special grade steel that is less volatile I mean what is the reason?

Devesh Bansal: How did you come to this figure of fall of 2%?

Arjun Goel: The volume given in the PBT 157469 and the engineering products revenue, for the entire year I think the total growth is about 13% or so 13%-14% for engineering products and the volume growth is also 15% like I think its about two or three percent so by-enlarge I mean what I wanted to understand was is it immune to commodity prices in general?

Sharan Bansal: No not at all, in fact most of our contracts are with escalation, deescalation, so the volume, the revenue increase which you are seeing of approximately 15% that also include the freight element because this year we have seen a major revenues coming in from export market so in export the freight come as part of the top lien whereas in case of domestic business the freight comes after netting off the realization minus the cost it comes on the expense side, because the freight which is approximately 10% of the export sales that has come as the top line that is because you have seen that top line is not reduced as much as it should have. So in reality the top line which is increased by approximately 15% includes about 5% to 6% of freight, so in reality the top line growth is approximately 8% to 9%. So there is definitely an impact on commodity price fall.

Arjun Goel: Okay. And Sir secondly regarding similarly with PVC I noticed at least for the nine months Finolex for instance the price decline is been about 7% or 8% whereas for the Skipper it is about 5 and 8 something like that that is the difference I am talking about so any sort of can you give some insight as to if Finolex has been the industry leader is cutting prices so significantly I mean how Skipper not doing the same?

Devesh Bansal: So one of the reasons why the same would not be applicable in our case also is first the product mix is also changing for us, so whereas earlier we were basically present only in the agri sector last year we have also become present in the plumbing sector so different product ranges like CPVC pipes and fittings of UPVC and CPVC which are of much higher realization so with the proportion of these items going up the number cannot be exactly calculated on a like to like basis, blended number obviously changes.

Arjun Goel: Okay. Also Sir, regarding the order book its about 2400 Crores and 1800 Crores is domestic right, so which means that exports is about 600-odd Crore and if I remember correctly as on March 2015 it was about 1200 and 600 has been executed so my question is that is there, what is the business certainty of export markets and essentially there have not been too many orders coming in from exports?

Sharan Bansal: Yes, this year you are right that significant orders have not coming from exports and domestic markets have been more bullish but there is really a year to year phenomenon that could easily changed in the month to come, there are significant size projects which we are pursing in international markets so we should definitely see something coming in from there in the coming month. However the country as a company was able to get a significant entry into the North Africa market in Egypt so our idea is to definitely expand our geographical presence and enter into newer and newer market every year.

Arjun Goel: Okay, so out of these 1200 Crores how much would be exports which is the open order that we have what percentage should be export?

Devesh Bansal: Sorry out of…….

Arjun Goel: Out of the 1200 Crores of open orders I am guessing that L1 in……..

Sharan Bansal: See out of the 1200 Crore which is under bid submission.

Arjun Goel: Right, how much would be exports how much would be domestic can you say?

Sharan Bansal: I would say exports to be closed to about 600 Crores.

Arjun Goel: Okay and also Sir are we seeing any traction apart from PGCIL from the state transmission utilities from the domestic side of it?

Sharan Bansal: Yes, its only in fact states have now started coming out with good sized projects earlier state electricity board would rarely have project of plus of 100 Crores but now there are significant amount of transcos and discoms which are coming out with projects of about 100 Crores so that is an addressable market size for the company and I think we with the success of UDAY scheme we should see more and more states coming out with better and better projects.

Arjun Goel: Okay and this would be for the higher 765 KV towers would they be on the lower end?

Sharan Bansal: Every state would have lower voltages 132 to 220 KV but in reality the company is open to targeting any project which is of 100 Crore project size and above so there is a significant project size for us to capture.

Arjun Goel: Okay. And Sir any, I believe Power Grid, how is been the response from Power Grid I mean I think the Chairman changed recently so has there been any sort of change in attitude so to speak from Power Grid side?

Sharan Bansal: Yes, I think there is a lot of positivity in the way Power Grid is now conducting business also as you know that they ended the year with their highest ever capitalization of 30,000 Crores so certainly Power Grid is also looking at improving the financial performance in the time to come. They are much more conscious about their spend now so projects are getting completed faster that is their first priority about reducing the project timeline cycle and definitely the results of that will be visible but apart from Power Grid now the significant development is that private developers now are getting large projects themselves, you know earlier if you look at still about FY'13 – '14 private developers had individual small projects but they never really had large transmission projects, now that is changing with significant large transmission system project being awarded to private developers but that too definitely lead to greater interest from more private players also. And of course state as I mentioned will be interesting customers in the times to come.

Arjun Goel: Okay, thanks you so much for your time Sir.

Moderator: The next question is from the line of Dhavan Shah from Indian Securities. Please go ahead.

Dhavan Shah: Hi Sir, I have few questions, first question is related to be PVC EBIT margins so if I see for this current quarter I mean the Q4 the EBIT margins for PVC segment was around 9.9% so in Q4 FY'15 it was around 12.8% so just wanted to understand I mean the fall in this EBIT margin is I mean is that something related to the rise in the other cost I mean do we have spent something on the marketing or promotional cost for this PVC segment this quarter?

Devesh Bansal: So its little difficult to actually judge the numbers on a quarter-to-quarter basis because obviously there are many factors that come into play and many cost which are not exactly allocable to each quarter so I think what will be more prudent is that year-to-year number so we have ended this year with EBIT number of about 11% in PVC as compared to last year was approximately 11 ½% so we are trying to maintain our margins as much as possible in this business in spite of entering new geographies but at the same time as I mentioned earlier we are also getting into newer product categories such has plumbing products and CPVC and fitting which has higher margin. So the idea is to try and maintain this margin number as much as possible.

Dhavan Shah: So I mean we can assume like around 11% to 12% for a year like for next two years as an average right?

Devesh Bansal: Yes I would think that anywhere closed to 11% is what we are targeting considering the fact that obviously we are entering into lot of new geographies and new product category.

Dhavan Shah: Okay. And one more thing is I read somewhere last month that the government may come up with the less orders on the transmission line for FY'17 so I mean what is our outlook on the engineering product segment for this year?

Sharan Bansal: I think as I mentioned earlier the transmission business is definitely seeing a lot of good bidding pipeline both from Power Grid as well as state electricity board and as well as now the private developers also. I think further state financial has the improvement by way of UDAY scheme should see further bidding action on the transmission side also and another interesting development is the green energy corridor for the solar power project, as you know that the solar power gestation time is very short the solar generation comes up in about a year and half time whereas the transmission net work takes almost two to three years four years to bid so I think there is lot of stress now on the ramping up the green energy corridor capacity, the first project have been awarded to Power Grid on nomination basis but the next projects of green corridor will be bidded out on the TBCB tariff base competitive bidding mode so I definitely think that this will be an interesting growth driver in the future.

Dhavan Shah: Okay Sir, thank you so much.

Moderator: The next question is from the line of Dhiral Shah from GPL Capital. Please go ahead.

Dhiral Shah: I just wanted to ask you what is the cost of debt right now.

Devesh Bansal: The average cost of debt is around 11%.

Dhiral Shah: Because we have seen rise in a long term debt as well as short term debt but our finance cost overall for the FY'16 have remains at a same level which was there in FY'15?

Sanjay Agarwal: **F**inance cost is the impact of the average utilization of debt throughout the year, I am talking about the INR debt which is at around 11%. We have certain foreign currency loans also that we are getting at a very cheap rate and this finance cost also includes some of our bill discounting cost so this is an overall impact of entire financial cost throughout the year. You see the impact on entire financial cost we incur whether it is by way of interest to the bank on short term or long term or to the bill discounting cost. It is that impact so total of that only the average is around 11% for the INR interest.

Dhiral Shah: Okay, and Sir what is the guidance for FY'17 in terms of overall business outlook?

Sharan Bansal: I think as I had mentioned earlier we are looking at comfortable 15% to 20% growth in the engineering product side and we should be able to maintain our PVC business growth at about 70%.

Dhiral Shah: Okay and Sir what is the market share of this monopole business which you have come out?

Sharan Bansal: Monopole market size cannot be defined in India right now because it is a very new and innovative product this is essentially a replacement for lattice structure in urban and congested areas so because of the high cost involved it is still as a concept selling stage however we have see that a lot of developed markets like USA and China this is used very extensively up to a certain voltage level, so definitely this will have a good future going ahead but as of now there is no addressable market size for this product.

Dhiral Shah: And Sir lastly is there any plan for debt reduction?

Sharan Bansal: I think we are quite comfortable with the level of debt we have, if you look at the long term debt number it has only increased by about 15 Crores from 210 Crores last year to 225 Crore this year so really I think we are at a very comfortable debt position where the entire expansion and capex of the company is being met comfortably by internal accruals and a combination of debt so there are no immediate plans to retire the debt.

Sanjay Agarwal: There is an overall debt equity ratio, there was an improvement last year at 1.28 and now it is close to around 1.23times of the total equity, there is no need to retire debt because its part of the overall operation of the company and that is required for the growth of the business of the company.

Dhiral Shah: Okay and Sir the engineering business guidance of 15% to 20% is it in terms of volume growth?

Sharan Bansal: That's right Yes. Now because commodity prices are now stable so we feel that the volume growth of 15%-20% should also calculate to value growth of 15%-20% here on.

Dhiral Shah: Okay. And Sir lastly is there any chance for further margin improvement?

Sharan Bansal: I believe that margins, company already is at a significantly higher margin compared to our peers we are definitely working on more and more cost economical cost efficiency solutions in our manufacturing to improve our margins but further margin improvement will depend on competition.

Dhiral Shah: Okay that is it from my side, thank you Sir.

Moderator: Thank you. The next question is from the line of Yogesh Patil from Canara Robeco. Please go ahead.

Yogesh Patil: Sir as you mentioned earlier because of commodity prices our top line slightly not grown that much right?

Devesh Bansal: Right.

Yogesh Patil: But if I see EBITDA margins theoretically EBITDA margins should be higher?

Sharan Bansal: So because of the escalation, deescalation clauses in our contract the percentage margins remain by and large consistent.

Yogesh Patil: There is pass through, EBITDA is a spread which we enjoying right, let's take Rs.100 say you might be getting and let us take a EBITDA margin of Rs.10 which means it 10% right the moment Rs.100 become Rs.90 so your spread will remains same.

Devesh Bansal: But then that case the EBITDA margin would become Rs.9.

Yogesh Patil: But how could the spread will change that I am asking?

Sharan Bansal: So I think the question has been addressed in earlier con calls also wherein it was explained that the formula which is used for escalation deescalation is structured in such a way that the margins are protected on a percentage level not the per ton basis or actual number basis so that is why lets us say our operating margins about 13.5 to 14% will remain protected in case of escalation or de-escalation.

Yogesh Patil: Okay it means the steel and aluminum prices went up by say 10%so what will be the impact on margins then, margin will be the same?

Sharan Bansal: Yes margin will be the same, absolute.

Yogesh Patil: Any out come on order inflow Sir next year FY'17?

Sharan Bansal: I think the current order book of the company we are quite comfortable and we have revenue visibility till FY'18 end, we looking at the market scenario for transmission order inflow there definitely there is no cause for concern at all, both for domestic market as well as international market.

Yogesh Patil: Okay thank you Sir.

Moderator: Thank you. The next question is from the line of Sanjeev Panda from Sharekhan Limited. Please go ahead.

Sanjeev Panda: I wanted to understand how much of cash flow we generated this year FY'16 end from operations?

Devesh Bansal: The net cash surplus after considering PAT and depreciation and removing dividend is about 107 Crores.

Sanjeev Panda: Okay and we did a capex of around how much was it 90 Crore?

Devesh Bansal: Capex was approximately 91 Crores.

Sanjeev Panda: Okay Sir and loan and advances have gone up so can you help us to understand like where how it has gone up?

Sharan Bansal: Yes, essentially loans and advances have gone up because of excise duty payment this is basically the excise duty payable on the raw material side which is MODVATable to the company but because the export volumes were significantly high in the overall revenue mix this year so we have approximately an additional 40-42 Crores of excise duty MODVAT credit lying with the excise department which will be adjusted in this coming years. Which is refundable of course and which will be adjusted with the domestic sales in this year because the export revenue was significantly high last year this was the additional credit lying with the excise department which is not been there in the previous year. So that is why you see loans and advances increasing by 41-42 Crores.

Sanjeev Panda: Right, and the other expenses that has sort up is it because of the PVC or how should we read it?

Sharan Bansal: Right, the other expenses actually need to be seen in correspondent with the top line itself as I mentioned earlier that the top line because of the export volume this year includes the freight so in export business see freight realization comes as part of the top line and the freight expenses come in as part of the expenses so which is why you see a significant increase in the other expenses whereas in the case of domestic business only the net off trade which realization minus cost comes in other expenses.

Sanjeev Panda: Okay and the last thing the galvanizing plant that we are talking about can you throw some light like how do you think to shape it up in the next two years?

Sharan Bansal: Sure, so I think the galvanizing plant which we have installed is with the view of producing monopole now monopoles requires a large size galvanizing plant because the structure of each section is quite large and they have to be dipped in a single dip so that is why the normal galvanizing plant which we used for other products is only about 90 to 100 tons of zinc capacity this capacity is almost about 600 tons so its six to seven times the size of a normal galvanizing plant and our advantage is that although monopole volumes may be lesser in the beginning but we have the flexibility of using this plant for other product like transmission tower and distribution poles which will ensure that the plant utilization is not suffering and we are able to get the full utilization of this plant while the monopole volumes will continue to grow.

Sanjeev Panda: So we can use it for our existing product line.

Sharan Bansal: Yes definitely, this is part of our engineering product expansion only and for another player who is only focus on monopole they will have to keep this plant idle because they will not have the luxury of putting another products here but because our company has another engineering product we can easily use this plant for galvanizing other products as well.

Sanjeev Panda: Yes, that's it from my side and best of luck.

Moderator: Thank you. The next question is from the line of Tanya Kothari from AUM Capital. Please go ahead.

Tanya Kothari: Sir my query was that just now you have mentioned that we are looking into a growth of 20% in engineering segment and 70% on PVC segment so will it be fair to say that we are looking around 2000 Crores of sales in FY'18 in engineering?

Sharan Bansal: No in engineering our top line this year was 1282 Crore so 15% to 20% increase on this would translate to roughly around 1500.

Tanya Kothari: How much you said Sir?

Devesh Bansal: Last year in FY'16 the engineering product had a top line of 1282 Crore so if we were to assume a 15% to 20% increase on that that would translate to in FY'18 approximately 1550 Crore.

Tanya Kothari: And in PVC segment we are looking around 500 Crores Sir will it be fair to say?

Devesh Bansal: By FY'18 I mean that is little less than 500 Crore but Yes that is what, approximately 400 Crores.

Tanya Kothari: Okay and it would be on the expanded capacity of 41000 etc.

Devesh Bansal: No, 41000 tons is something that we going to be achieving with the Telangana plant which is expected to be commissioned within this quarter itself but beyond that we will be adding capacities further into the existing plant that we now have, the five plants that we will now have we will continue to expand capacity on a collective basis on those plants.

Tanya Kothari: Okay and Sir in your presentation you had mentioned here targeting a margin of 14% in PVC segment like how are we going to achieve this kind of margin are we planning to launch some new product with the higher margins in PVC segment?

Devesh Bansal: In the last, previous one year we have already ended into many new segments the PVC segment things like as we mentioned about the plumbing pipes the CPVC segment as well as the fitting segment so all of these products obviously have a higher margin ratio as compared to the conventional agri pipes. So as the proportion of these segments increases in our product mix we will see the margins also improves.

Tanya Kothari: For next two years we are looking at around margins of 11% that is what you have mentioned earlier.

Devesh Bansal: It is a very dynamic situation because as we mentioned as entering into new markets which put the stress on the numbers as well as the production of higher margin items like CPVC and fittings so it would be difficult to give a clear guidance, but yes likely mentioned definitely the target is to maintain the margin numbers at about 11%.

Tanya Kothari: And sir can you tell what is the size of order we are expecting from this 10000 Crores North East transmission project.

Sharan Bansal: The addressable market size for us in this 10000 Crores is approximately 2500 Crores which is the volume by the value of transmission towers order in this 10000 Crores project. So I feel that out of 2500 Crores we should be completely looking at a 20% kind of an order from this.

Tanya Kothari: Okay 20% of 10000 Crores North East projects that is what you are saying.

Sharan Bansal: No 20% of 2500 Crores, 2500 is our addressable market from these 10000 Crores.

Tanya Kothari: And sir in this PVC segment in the presentation which given it is around 22 billion market size so who are the top five major players in this sir.

Devesh Bansal: Five largest Players in the PVC segment nationally are Supreme, Finolex, Jain irrigation, Astral and Ashirvad probably.

Moderator: Thank you. The next question is from the line of Mr. Arun Jain from Harappa Advisors. Please go ahead.

Arun Jain: Most of my question has been answered. Just wanted to understand sir if you look at your PVC pipes given gets 15% but your employee expenses have moved by 57% so just wanted to understand was is there any more expenses, more employees have added.

Devesh Bansal: I think the employee expense which has been moving up is merrily because of the new plant which we are putting up which are yet to give a significant revenue for the top-line but obviously because of having a production as well as marketing setup in all the new geographies which has been which having need to be created I think that is what is predominantly contributing to the employee expense increase but if you look at all the other parameters we have reduce our expenses quite significantly.

Arun Jain: How we should make in this employee mix so with the volume expanded by the employee base and then even on the employee expenses and why on this will not move as that much or it will move up in line with what will be face.

Devesh Bansal: I think now it will not move up definitely in percentage terms, rather in percentage terms we should see some improvement here because the employees in the newer geographies have already that I mentioned been employed whereas the revenues those are yet to come in so in percentage term we should definitely see this getting lowering down in the coming years.

Arun Jain: Then you have a breakup of your client wise order book.

Devesh Bansal: Sorry could you repeat the question.

Arun Jain: What is the order book breakup in terms of the client wise in terms of the PGCIL order actually?

Sharan Bansal: For our current order book is roughly 75% domestic and 25% export and out of the 75% domestic 51% is PGCIL and 24% is other domestic customer.

Arun Jain: Thanks.

Moderator: Thank you. Next question is from the line of Ravindranath Nayak from Dolat Capital. Please go ahead.

Ravindranath Nayak: Sir my question pertains to this engineering product sales your volume has gone up by around 15% but adjusting to the foreign exchange gain that has come last year and this year your EBIT margin has come out to be around 180 Crores last year and 188 Crores this year so can you please reconcile this how it is come because your volume has gone up by around 15% it should come in 14% to 15% also.

Sanjay Agrawal: No, so you are talking about the EBTIDA without Forex.

Ravindranath Nayak: Yes sir EBIT without Forex.

Sanjay Agrawal: EBIT without Forex has increased from 151 Crores last year to 177 Crores this year which is an increase of approximately 17%.

Ravindranath Nayak: So last year EBTIDA reported was a 222 Crores EBIT in the engineering product.

Sanjay Agrawal: EBITDA including Forex.

Ravindranath Nayak: I am just talking about the reported segment numbers 222 Crores last year and your total Forex was around 42 Crores right.

Sanjay Agrawal: You are mentioning that last year the…

Ravindranath Nayak: Segment EBIT of engineering products for 223 Crores.

Sanjay Agrawal: No it was 180 Crores.

Ravindranath Nayak: But this year adjusting to the Forex gain of 18 Crores that it come in the second quarter the total EBIT is coming out to be 188 Crores, total is 206 Corers right.

Sanjay Agrawal: Yes if we did as the 42 Crores. So the EBIT margin last year without Forex was 138 Crores, 180 minus 42.

Ravindranath Nayak: No EBIT was around 222 Crores you are saying that it is 180 Crores is the Forex.

Sanjay Agrawal: 222 Crores is our all inclusive EBITDA.

Ravindranath Nayak: No sir EBIT I am talking about, I am just referring that and for four quarter EBIT was around 97 Crores you have book the Forex gain in the fourth quarter.

Sanjay Agrawal: No in the quarter two last year.

Ravindranath Nayak: But 97 Crores with the engineering product segment EBIT in fourth quarter right.

Sanjay Agrawal: So you are taking the figure from this year financial results.

Ravindranath Nayak: Yes, I am just referring to the last year's performance sir.

Sanjay Agrawal: Actually the last quarter financial results figures have been regrouped if you see the current year's comparative figure I can give you the real comparative figure.

Ravindranath Nayak: So you mean to say the last year without Forex is a 138 Crores and this is gone up to around 188 Crores.

Sanjay Agrawal: No this year without Forex is 175 so instead of 138 it is 175 now.

Ravindranath Nayak: So that means an increase of around 26%.

Devesh Bansal: That is right.

Ravindranath Nayak: And regarding sir this working capital in this year the working capital position is actually worsen for a little bit is it due to the PVC segment because you can see the capital employed in the PVC segment has also gone up in a YoY basis so is it the reason we should read it.

Devesh Bansal: Sorry you are asking about the working capital.

Ravindranath Nayak: The result was increase in the working capital is it due to the capital employed has increased definitely that is one of the reason, because we have deployed the working capital and took all these new three plants it will be capacity we have added to the entity that also so some of the portions have gone into PVC working capital and definitely as you mentioned it is right some of the portion has gone to be PVC working capital.

Devesh Bansal: But overall working capital has like I mentioned earlier it has increased significantly due to the excise duty credit which is now extra accumulated because of the higher incidents of exports last year.

Ravindranath Nayak: Thank you sir.

Moderator: Thank you. The next question is from the line of Dharmesh Gupta from Trivantage Capital. Please go ahead.

Dharmesh Gupta: Sir my first question is on the income for some forward contracts, now this is very volatile as we see that it has half this year from last year so how should we consider this going forward and how should we make an estimate of this because it induces a lot of volatility in your overall EPS figure.

Sharan Bansal: Well I think the reason for putting this as a separate line item in our results is to in fact ensure greater transparency and as the management has always maintain that we are focused on our operating EBITDA numbers which is 13% to 14% so really I think this forward income can be looked up on as really as a bonus so because the company is into export business so this is a sort of a recurring income that the company will get every year but the quantum is hard to really quantify so honestly there is the management look that has really extra income over and above our operating market and the reason for the volatility also is because this income is only applicable over the contract which is unexecuted so that number might also change from time-to-time depending on the execution and new order booking, as a well as a little bit of Forex fluctuation, so while this number will always be positive how positive it will be is very difficult to judge. So that is why it is treated as a separate line item.

Dharmesh Gupta: Sir the second question is in FY15 I think we had very little income from exports and in FY16 and getting that almost 50% of your revenues are coming from exports.

Sharan Bansal: Approximately 45% right.

Dharmesh Gupta: Now given the breakup of your order book now I think in FY17 your mix is going to change again in favor of domestic.

Sharan Bansal: That is right.

Dharmesh Gupta: So now give your contracts are for specific EBITDA margin so your overall EBIT margin for yielding product should revered back to our number between FY15 and FY16 is that a right understanding.

Sharan Bansal: The operating EBIT margin between FY15 and FY16 has not changed much it is only gone from 13.6% to 13.8% so whether it is export business or whether it is domestic business we enjoy a similar margin in both the product both the segments the only difference being that export business has the occurrence of income from forward contracts other than that is no there were difference in the operating margin level.

Dharmesh Gupta: Sir I was referring to slide #46 in which you have mentioned segment results excluding FX. So if that is not the right number that we should take or should we include FX in that and then it is coming to the account.

Sharan Bansal: You should consider the income without FX only.

Dharmesh Gupta: So sir that has increased from FY15 which was 12.2% EBIT as a percentage of sales to 13.7% in FY16.

Devesh Bansal: You are talking across the company or you are talking…

Dharmesh Gupta: Its fund generating product excluded FX EBIT margins in slide #46.

Devesh Bansal: This is on a quarter-to-quarter basis I believe you are looking at.

Dharmesh Gupta: No it is for the entire year.

Devesh Bansal: Allow us to come back to you on this please. Could I get your good name once again please?

Dharmesh Gupta: Dharmesh Gupta from Trivantage Capital.

Devesh Bansal: Okay I will come back to you on this.

Dharmesh Gupta: Sir I had one more question, now your engineering products you are operating at an 180000 tonnes capacity and if you grow by 15% this year then you will be operating at 100% so any plan for expansion here.

Sharan Bansal: The last year our capacity was 175000 tonnes which we have now increased to 200000 tonnes so we will be intend to continue our capacity utilization of 90% because in engineering product we have seen that 90% plus utilization is quite difficult.

Dharmesh Gupta: Sir and one of your listed competitors who were the major player in the EPC based and now in their quarterly con call they flash this issue that PGCIL ordering might be flattening out so they do not see much of increase in terms of PGCIL orders coming in year-on-year from now on. So is that the impression that you also have or you see that because of increase of market share for you, you will get more orders from domestic segment incrementally what is your view on that.

Sharan Bansal: Well of course our company does enjoy the relative low based effect so there is definitely some amount of market that we will capture from the establish players having said that I think over the past few years we have significantly reduce our dependence on PGCIL also considering the introduction of export markets as well as other domestic customers in India. So certainly if in a PGCIL ordering remains flat which I am not yet convinced that it will be so even if it remained flat I believe there will be plenty order domestic opportunity from private developers as well..

Dharmesh Gupta: Thanks a lot sir.

Moderator: Thank you. The next question is from the line of Prem Khurana from Anand Rathi. Please go ahead.

Prem Khurana: Just a couple of questions from my end, one was if I have to look at our revenues this year specially engineering products there and we seem to done almost 650 odd Crores would be the number from exports market so if have adjust our numbers for exports they appears to be a drop of around 40% on domestic revenue. So does the situation concern us as and we started from India we are going to make it big in India but their domestic revenues in this year have seen a significant drop and how do you see this number go in FY17 and 18 if you can share your thoughts there.

Sharan Bansal: You are asking about the mix between exports and domestic.

Prem Khurana: Yes so domestic I mean if you have to look at your numbers last year exports were only Rs.50 odd Crores out of your top engineering product revenue from 1170, 1180 odd Crores now this number domestic revenues in an engineering product is only around Rs.670 odd Crores adjusted for your exports revenues so which appears to be a 40% drop on a YoY basis for full year FY16 how do you see this number going forward as and you see domestic to pickup in a big way so use to be able to kind of growth of the level that we have seen in FY15 or you see exports to…

Sharan Bansal: Definitely even looking at our order book right now, domestic has increased from earlier of 65% to 75% that definitely would have an effect on the business volume as well so probably we will see again domestic business going back to about 75% of the overall revenue to see. Having said that really the proportion of domestic versus international is really a function of where we secured our orders from by maintaining our margins. For us so we are absolutely in different as to whether the orders come from the international sales or from the domestic sales, balance of how the order book stands at different points of time.

Prem Khurana: No, but let me said your exports markets are kind of making your working capital go a little longer because you have this 42 odd Crores this stock in excise I am not so if you would have build this into your margins and all that you would get to have some kind of delays in kind of recovering this money from your excise department so…

Sharan Bansal: No, as you can say definitely been considered in our calculation so as you know that the as it is very much evident that the margins are protected even despite the additional working capital requirement but having said that I think probably this got more of phenomena of significant increase or tenfold increase in exports over the previous year if the increase is gradual then such an occurrence probably will not happen.

Prem Khurana: Sure and on margins FY17 do you see these margins to come down because your revenue profile would get cure in favor of relatively low margin PVC segment so in PVC segment our segment margin of around 10% vis-à-vis our engineering product where we are doing almost 14% kind of margin so if my revenue for PVC segment was to go up by 70% and for engineering 15% does it mean my margins would at least on optical basis would look lower in FY17.

Sharan Bansal: Not at all because as what Devesh mentioned earlier see in PVC business our target is to that will definitely maintain the margins at minimum 11% but with the introduction of newer value added products like CPVC we might see higher margins because of the value added product also, also as one significant aspect which we are forgoing is the infrastructure space which as I mentioned that now the company has got some significant orders which are high margin so may be in those segment we could see higher margins like maybe 20%, 25% also so that would compensate any of this lower margin in PVC so and as a corporate level we see absolutely no problem in maintaining our margin.

Prem Khurana: And just one last question from my end it is given inflow guidance for FY17 and would it be postal to the break it down into what kind of it further are you expecting from domestic markets and how much from exports.

Sharan Bansal: I think we will closely mirror the order booking for right now which is at 75% domestic and 25% exports.

Prem Khurana: In terms of numbers rupees, billion of rupees how much are we expecting for FY17.

Sharan Bansal: Are you talking about order inflow.

Prem Khurana: Order inflow yes.

Sharan Bansal: That is hard to say really I think order inflow it is not something which concerns us too much as long as we have a two year revenue visibility which we do even with the current order book right now. So I think the most stress is on taking orders which are profitable and we are keen to maintain the company's profit margin rather than increasing the order book number to a number which is high but it is not renumerative in margins.

Prem Khurana: Thank you.

Moderator: Thank you. Next question is from the line of Rahul Agarwal from VEC Investments. Please go ahead.

Rahul Agarwal: I just had one question this bit new to the company pardon if I just go back into a bit of history but I just wanted to understand the rational of getting into doing PVC assuming that engineering project is the core of the company and so wanted to understand are there any synergies in these two segments or these are completely different businesses and the thought process because of the markets on the macro side for CPVC looks very, very attractive from across from plumbing, housing agriculture and stuff like that, if you can help me understand from you are being promoter of the company as and what are the main reason top three reasons of doing this business and why.

Sharan Bansal: One of the major reasons why the company warrant to the PVC pipe segment was so to answer your question about synergy there is very little synergy between obviously the engineering segment that we have and the PVC piping segment that we have. The PVC piping segment really came about as an extension of the steel pipes business where the companies use to be in. So the company was a large player in the eastern India for the pipes still about couple of years back because the steel pipe market was contracting and this the company realized way back in 2009, 2010 so as a replacement of that company entered into the PVC pipe segment in 2010 so and once we knew that therefore the market which was going to grow and it has huge potential going forward since last year we have really started looking at expanding in this business much more aggressively so that is a little bit of history about how the product came about.

Rahul Agarwal: Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil Kothari from KR Choksey. Please go ahead.

Nikhil Kothari: Sir most of the questions have already been answered. Just I wanted to know what the order book in PVC pipes is.

Devesh Bansal: Normally PVC pipes the company operates to a matter of our channel partner and dealers and distributors so the order book per se is not very large because most of the orders are rolling orders which come in and are executed immediately. So it is not advisable also and it is not possible also to maintain large order book in the PVC segment.

Nikhil Kothari: And sir what is our target for the PVC capacity for FY17 what will be our capacity.

Devesh Bansal: As soon as the Telangana plant is setup the company's capacity PVC will go up to roughly around 41000 tonnes which is good for about a top-line of approximately 350 Crores now on the company will be adding capacity in geography which are performing better than the others on a selective basis.Tentatively we will be adding another at least 15000 to 20000 tonnes in the coming years.

Nikhil Kothari: Thank you sir that is it from my side.

Moderator: Thank you. The next question is from the line of Amber Singhania from Asian Markets. Please go ahead.

Amber Singhania: Just couple of things from my side one could you give us some idea about out of this 20000 tonnes in PVC how much volume would have come from Ahmedabad plant?

Devesh Bansal: From the Ahmedabad plant the volume has been roughly around 4000 tonnes.

Amber Singhania: And what was the total volume in Q4, total overall.

Devesh Bansal: In Q4 the volumes we just have to pull up those numbers. Ahmedabad plant has a capacity of approximately 10000 tonnes we are operating at about 40% capacity utilization because this was the first year of its operation and for the fourth quarter overall PVC sale was approximately 8000 tonnes.

Amber Singhania: And secondly out of this 50-60 Crores of Capex are you factoring in any Capex in engineering division with the capacity of 20%, 25% in the region.

Sharan Bansal: Yes, definitely this includes the capacity expansion that we are doing both in the PVC business as well as the T&D business.

Amber Singhania: So we can say that by next year we would be having a capacity of 225000 or it will at 230000 tonnes in engineering which is currently 200000 tonnes.

Sharan Bansal: Yes approximately.

Amber Singhania: Just one thing is could you just give some color about how the export market is panning out overall for our engineering division because last year we have not got much order from export baring this Egypt order in last three quarters as such and how it is looking from the SEB side.

Sharan Bansal: I think in exports our focus Amber Ji really is to expand our market reach so apart from Egypt we have got some small orders in geography like Ghana and Kenya also but the real stress is now to increase our market reach because see export markets are not large volume in if you took at any individual country which not has larger volume that probably India have, but each country has an opportunity from time-to-time. So that definitely that is our idea that we should be present in all the major markets in the coming years that is the bigger objective and when the opportunity comes up, definitely we will be very favorably played to take up those opportunities.

Amber Singhania: And secondly we have seen a lot of centering happening on boot boom project for which hasn't won by PGCIL as well as private players have we seen those orders coming into the market for tower tie-up and however w placed in that.

Devesh Bansal: Sorry Amber Ji., if you repeat the question.

Amber Singhania: That boot boom which have been bided last year which many players have board including Adani, Sterilite and PGCIL has those tenders are have come in for tenders as tower capacities tie-up or however we placed in those.

Devesh Bansal: The PGCIL tender of course we have been winning whether PGCIL has got them a nomination basis or to the boot boom basis for the private players yet we have not had any success till now so we are into discussions with them so this year our target is that we should at least plan some business from the private developers also.

Amber Singhania: Thank you very much from my side.

Moderator: Thank you. Ladies and gentlemen due to time constraint, that was the last question, I now hand the conference over to Mr. Amber Singhania for closing comments.

Amber Singhania: Thank you All. On behalf of Asian Markets I think everyone for joining this call and a special thanks to the management of Skipper Limited for providing this insight about the company's business and its financial performance with that we conclude the call Saran Ji., would you look to add any closing remarks.

Sharan Bansal: No, I will thank you all for your interest on the company and we certainly hope to meet again in the coming quarter's conference call.

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