"Skipper Limited Q1 FY 2016 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to the Skipper Limited Q1 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 the 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 Mr. Amber Singhania.

Amber Singhania: Thank you. Good afternoon everyone. On behalf of Asian Markets I welcome you all to the Q1 FY'16 earnings conference call of Skipper Limited. We have with us today Mr. Sharan Bansal, Director from Skipper Limited, Mr. Devesh Bansal, Director, Skipper Limited and Mr. Sanjay Agarwal, Chief Financial Officer representing the company. I now request Mr. Bansal to take us through the quarterly results and the overall business outlook and then we can start doing the question answer session. Over to you Sir!

Sharan Bansal: Thank you Amber. I welcome all of you for Skipper's first conference quarterly earnings call. I am happy to share the updates of the company with all of you. The net turnover growth in the company has been 29% from 183 Crores in Q1 of last year to 237 Crores in Q1 of this year and EBITDA growth has been 27% from 28 Crores last year to almost 36 Crores this year. The bottom line PAT growth has witnessed almost 53% from 6.5 Crores last year to 10 Crores this year and this is because the company continuously adopts low capex and asset light business model which has helped us continuously reduce the depreciation and interest cost leading to stronger bottom line growth. I am also happy to report that in our T and D division which is our engineering product division the export revenue is on the rise and now forms significant part of the overall topline. The total order book of our T and D division stands at approximately 2500 Crores and this year is expected to be a very strong year for power transmission distribution companies which Government of India announcing bids of close to One Lakh Crores in power transmission. Also we are expecting to commission our monopole facility in Q2. On the PVC pipe side I am happy to report that the company has commissioned its first unit outside Bengal in the city of Ahmedabad and this is with a captive capacity of 10,000 metric ton of PVC pipes.

Company has also entered into collaboration with global giants in the PVC industry namely Sekisui of Japan for CPVC pipes and with Wavin of Netherlands for advanced plumbing solutions. Going forward we also are in the process of setting up three more units of PVC pipes. The first one will be in Sikandrabad near Delhi, second one will be in Guwahati in North East and the third one will be in Hyderabad, Telengana. With that I invite any questions which you all have. Over to you.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Sanjeev Panda from Sharekhan. Please go ahead.

Sanjeev Panda: Hello Sir, if you can throw some light on the PVC capex plan that we have Sikandrabad and the other two; what timeframe these capacities will come up and from the Ahmedabad plant what kind of numbers that we can expect and all these new capacities that we are planning for when they will start contributing in terms of revenue and profitability if you can throw some light, what they spend for the next two years, what time frame that we can expect and what kind of number?

Sharan Bansal: Mr. Panda, the new units which are going to come up in Sikandrabad in North India, in Guwahati in North East and Hyderabad in South India they are all under set up and we are very confident of commissioning all three of these plants within this financial year itself, in fact you might see couple of them actually being commissioned within Q2 to Q3 of this year itself and the Ahmedabad plant of course has already been commissioned. The Ahmedabad plant has actually already started contributing to our topline. As you can see the growth in the CVC segmental report there is already a good jump from last year quarter numbers and as more of these plants come up we expect the top line to increase even more.

Sanjeev Panda: How much was Ahmedabad to contribution in this quarter?

Sharan Bansal: So basically there is a lot of cross functioning between Ahmedabad and Kolkata, so there are lot of materials which Ahmedabad plant is not able to produce immediately which are being supported from Kolkata and vice-versa also in couple of cases, so it would be, I would not be able to give you the exact numbers of Ahmedabad but because the plant was commissioned in April itself contributions have started of course they are going to pick up further as we go along.

Sanjeev Panda: So it has stabilized by now, I mean in one quarter or it needs couple of months to stabilize?

Sharan Bansal: The production has of course stabilized, because the activities are an extension of our current unit only so there is not a lot of time that it takes for us to stabilize these units, the marketing of course is something which develops over time so on that front, I think we are fairly comfortable with the production side. We are obviously venturing out into the market and stabilizing the brand as much as possible in that market.

Sanjeev Panda: Understood, and I believe the kind of growth that you have seen in our employee expense and other expenses if you can throw some light, there were some jump in both the expenses, like why it has happened but one thing I can observe is certainly the employee expenses might be because of the expansion and all, if at all something else if you can throw some light?

Devesh Bansal: Sanjeev essentially the growth in employee and other expenses are very much in line with our overall revenue growth of the company and there is no cause for concern in any of the heads expenses where expenses have increased beyond the revenue growth.

Sanjay Agarwal: So on a percentage term we are in line with the numbers of last year, but yes, there has been some increase of course, because of newer capacities coming up and like you mentioned with the expansion that the company is doing there is obviously some additional expense because of that.

Sanjeev Panda: Because, if I am not wrong what we had discussed earlier also the PVC as we are planning for pan-India kind of expansion there we might need some kind of you know extra push towards advertising and probably marketing effort, so should we build in our expectation that some kind of higher expenses towards the other expenses should be there because of these venturing for the new areas for PVC?

Sharan Bansal: I think whatever higher expenses might be there they will be more than offset by improving efficiencies in the existing capacities where our expenses are continuously on a percentage basis they are continuously going down, so overall in the company's EBITDA number we should see continuous improvement.

Sanjeev Panda: Okay. And the CPVC tie-up that we have recently done because it is a new development, please help us understand how do you see that and what kind of opportunity because PVC and then again adding CPVC what is the market opportunity and if you can help us understand the overall market and what target you are looking at?

Devesh Bansal: CPVC is a product that was missing from Skippers range for a long time primarily because we were not finding the right partner for supplying us the raw materials for this product. As you might know, CPVC is a product which is produced, the raw material is basically produced by only four global manufacturers, one in America which is Lubrizol one in France which is Arkema and two in Japan which are Sekisui and Kanika, so recently Skipper tied up with Sekisui for support of this raw material and now Sekisui has started supplying the raw material to us and we are manufacturing the pipes in India, which is the same model followed by Astral and Aashirvad with Lubrizol of US. Interestingly Sekisui is the only other company apart form Lubrizol which is NSS certified so this is a certification which is received by the company, this is a US certification and that carries a lot of weight in the water segment. Because Lubrizol and Sekisui are the only two manufacturers of NSS certified raw material our product also automatically becomes that much more respected in the market. Now going forward with the addition of CPVC we will be looking to penetrate the plumbing market in India in a big way. This is going to complete our basket of sorts which apart from CPVC will also have UPVC and SWR pipes so now we will be able to bid for complete projects basically which we were not able to earlier. On top of this the Wavin tie up that we have entered for polybutylene pipes which we have also recently done that is the most advanced plumbing system which is available in India right now, in fact in the world right now and Wavin has chosen us as its partners in India and initially they are going to be supplying us this complete system from the UK plant but the idea is that going forward will be manufacturing that in India itself under Wavin licensing.

Sanjeev Panda: So our tie-up would be like sourcing?

Devesh Bansal: At the moment because it is a new product for India we did not venture into manufacturing it and setting up the plants for it because obviously that would be little risky but idea is to establish this product initially and then start the manufacturing in India itself.

Sanjeev Panda: So the CPVC and polybutylene pipe that you were talking about everything will be part and parcel of the capex plan that we are talking about in the PVC will that be or separately we have to deal with?

Devesh Bansal: No, CPVC we have already started manufacturing so that capex has already been made, polybutylene will probably not happen this year that will probably be part of the capex plan for next year.

Sanjeev Panda: Okay. And the total order book that we have in the T and D business how much will be export and how much would be towards the transmission EPC that we had taken?

Sharan Bansal: EPC still forms the small portion of our revenue as well as export order book so I would say PVC is perhaps less than 10% of the order book and exports are almost 50%.

Sanjeev Panda: And the export order that we have taken, can we maintain the kind of margin that we have been doing or you see challenges over there because relatively the share of export is higher this time?

Sharan Bansal: No in fact with the higher share of exports definitely we should be able to do improve of the margins because exports do give us better margin than domestic products.

Sanjeev Panda: Okay. And last thing Sir, the guidance that you had given you want to maintain that and second the capex plan that we talked about around 30-40 Crore kind of numbers, will it suffice for us in 2016 & 2017?

Sharan Bansal: Yes absolutely.

Moderator: Our next question is the line of Vijay Raghavan from Spark Capital. Please go ahead.

Vijay Raghavan: Sir, congratulations for good set of numbers and thanks for taking my question. In the introductory remarks you had mentioned that the overall government spend on transmission is likely to be One Lakh Crore, which are the places from which we would be getting this ordering opportunities, I mean PGCIL is expected to go for 20,000 Crores of ordering and SEBs are expected to match 50% of it which are the other places from which we will be seeing this ordering Sir?

Sharan Bansal: No, our expectations is for the One Lakh Crore it should be about 40-40-20, PGCIL should roughly do about 40,000 Crores this year because apart from their normal capex of 20,000 Crore which they do every year they have been allocated certain projects on nomination basis by the government which is one is the 800 KV HVDC Raigarh-Pugalur project which itself is about 15000 to 20000 Crores. Apart from that the Northeast transmission system which is another 10,000 Crores partly which is going to be coming in this year, so we expect the PGCIL investment tender this year itself will be about 40,000 another 40,000 is likely to be on the TBCB route which is the Tariff Based Competitive Biding which will be bid out to for BOO operators like Sterlite, Essel, Adani, these kind of companies and of course PGCIL also is a bidder for these project. And another roughly 20,000 Crores should be done by states.

Vijay Raghavan: And what would be the addressable opportunity that you would be looking at in this overall spend, how much would be the proportion of TLT ordering in this, what is your sense?

Sharan Bansal: Approximately what we can look at, at least the transmission line business should be approximately 50% to 55% of this entire investment.

Vijay Raghavan: Okay and how much proportion of our existing order book etc., would be from PGCIL SEB and others?

Sharan Bansal: Our order book is pretty much split 50-50 right now, 50% for exports and 50% for domestic and where domestic ordering is concerned as of now almost we can say 90% of our domestic order are from PGCIL.

Vijay Raghavan: Just one more basic question, do we directly bid for the EPC contract for PGCIL or do we just manufacture and supply parts to it or would we be scaling upon EPC segment?

Sharan Bansal: As I mentioned earlier also we have started a small EPC division and we have started quoting in projects and although the company is not yet fully qualified to quote projects on its own we are quoting projects in joint venture, we expect that shortly we will be qualified on our as well, but we take EPC projects on selective basis so as of now bulk of our quoting in Power Grid is either through other EPC contractor or is for the direct tower contract which PGCIL is taking out.

Vijay Raghavan: Okay and up to what range are we qualified currently?

Sharan Bansal: We are qualified for the highest range possible in power grid. In fact in Power Grid Skipper is the single largest tower supplier right now.

Vijay Raghavan: We have seen a margin expansion in this quarter vis-à-vis the previous quarter what is the reason behind that, how has the competition panned out, has the mix changed, what has been the reason behind margin expansion or raw material cost have we got benefit from that?

Sharan Bansal: See on EBITDA basis we are maintaining our EBITDA levels which is in line with our target and on a bottom line basis essentially the lower impact of depreciation and interest which is accrued because of the improvement of working in the company and because of our low cost asset light model that is the reason for the bottom line expansion.

Vijay Raghavan: What is the current capacity utilization of our plant Sir?

Sharan Bansal: Our capacity utilization is 90% plus.

Vijay Raghavan: And any capex plans in the near term to increase this?

Sharan Bansal: We require marginal capex because every year we increase capacity by about 20% in our T and D division and so that's doesn't require much capex because most of the fixed infrastructure is already available with us.

Vijay Raghavan: So what is the incremental cost that you will be incurring for this 20% expansion roughly?

Sharan Bansal: Approximately between 20 to 25 Crores.

Moderator: Next question is from the line of Shubhankar Ojha from SKS Capital. Please go ahead.

Shubhankar Ojha: Couple of questions, so in terms of the order book if I have that numbers correct then last quarter end we have a 2400 Crores and this quarter end we have a 4500 Crores is that the right number?

Devesh Bansal: No that is not right, end of first quarter the number is similar to that it is about between 2400 and 2500 Crores.

Shubhankar Ojha: So there has not been any significant order intake during the quarter?

Devesh Bansal: Because typically the order inflows generally happen in Q3 and Q4, Q1 and Q2 in fact we are just happy to maintain the order book level even then the company has secured approximately 150 Crores of new order from export market even in Q1 which is generally not seen in regular Q1 and Q2.

Shubhankar Ojha: Okay. And in terms of the export order that you have, you said right now it is 50% of your order book what is the delivery schedule for this export order or have we started delivering already?

Devesh Bansal: Yes, we have already started delivering on export order which is in fact, this year we should see significant, export being a significant part of the top line, last year was only below 15% but this year we expect at least 30% to 35% top line coming from export business, definitely share of export revenue is going up and in terms of the order, you asked about the cycle of the order I mean how long the order is….

Shubhankar Ojha: Right.

Sharan Bansal: The delivery period typically for export order is between two to two-and-a-half some of our orders are already in the second year one which we have recently secured they will be delivered over the next three years.

Shubhankar Ojha: And do you maintain your guidance of 20% to 25% growth at the consolidated level; last quarter ending you had given kind of number for FY'16?

Sharan Bansal: We will from this quarter numbers also.

Shubhankar Ojha: What is the outlook for the PVC business?

Sharan Bansal: PVC as I mentioned earlier we have already commissioned a new plant in Ahmedabad with a capacity of 10,000 tonnes which will augment the existing capacity of 12000 in Kolkata and we expect that with further three new plants which we are adding in this financial year our capacity will be close to about 40,000 tonnes by the end of this financial year; this is in line with our target to reach One Lakh Tonnes by FY'18.

Shubhankar Ojha: Is there any change in your gross borrowing number, overall debt number?

Sanjay Agarwal: No there is not much change in the gross borrowing number; overall debt profile is almost maintained at around 400 Crores. Even those 400 Crores that includes the working capital cash credit limit.

Moderator: Our next question is from the line of Kaushik Krishnan from Centrum Broking. Please go ahead.

Kaushik Krishnan: Hi, good set of numbers. My question pertains to your PVC pipe segment, I am just looking at your number you have grown there on the sales front at the top line but the EBIT margins at the operating level has decreased considerably in the last two years in comparison to your financial year 2012 and 2013 numbers well, if I see your EBIT margin in PVC product it was 22% in FY'12 and it rose to 38% and 39% in FY'13, from thereon it has fallen down to 7% in 2014 and now it comes to 11-11.5%, any specific reason for this and what would you attribute this to?

Devesh Bansal: Basically in FY'12 if you look at the top line in the PVC business it was very, very small so that was really a time when the company was also getting into the market and understanding how the market functions, it is only since last year that the company has actually started really seriously pushing for aggressive growth in this business and we hope to maintain the current EBITDA level, in fact improve on those going forward as the brand of course becomes more and more popular in the market place and as we sort of also get economies of scale. So you know in the last three to four years there has been a situation where we were very small, then we started growing and now of course we have reached a certain size and once we expand there will be definitely economies of scale and the brand of course is also getting more and more popular.

Kaushik Krishnan: The revenue for PVC products in this quarter has seen a fall I mean by 23% on a quarter on quarter basis what would that be any reason for that?

Devesh Bansal: Are you comparingQ4 of last year to Q1 of this year.

Kaushik Krishnan: Yes, first quarter I mean looking at first quarter in comparison to Q4 of last year.

Devesh Bansal: Generally the PVC business is fairly cyclical during the year, Q1 is usually average, Q2 is quite dull actually, if you look at our last year Q2 numbers the top line was very low and that is the cycle of the industry across the year. Most of the action in this business actually happens in Q3 and Q4 it would be little unfair to actually compare Q4 of last year to Q1 of this year, it would not give you accurate picture, I think it is best to follow the quarter trends which takes place every year.

Moderator: Thank you very much. Our next question is from the line of Lokesh Parekh from Anand Rathi. Please go ahead.

Lokesh Parekh: My question is related to engineering products. If we see in Q4 we made an execution of 440 Crores, this quarter it is down to 195 Crores and as you said your capacity utilization has been 90% in this quarter and it was in the same range in last year also, so what is the reason behind such a huge decrease or such high volatility in execution quarter on quarter?

Sharan Bansal: Typically what happens in the infrastructure project, all infrastructure projects including transmission project they see a reduced activities during the monsoon month so from April onwards basically project contractor starts reducing their inventory at site which is why the offtake becomes very low in Q1 and Q2 but towards the end of Q2 really the requirement, the push starts coming from the project site for the material, so typically that is what happens every year but even if you compare the quarter numbers to quarter of last year there is a significant improvement but again like Devesh said comparing Q4 numbers to Q1 would be unrealistic.

Lokesh Parekh: So you mean to say this high volatility is because of low shipment or the low demand from the customer side?

Sharan Bansal: Yes because of monsoon the projects want to reduce their inventory at site during this time.

Devesh Bansal: Just to add on, it is not really volatility, in fact if you see the trend is fairly consistent over the years and you know in infrastructure products such as ours you do see reduced activity during the monsoon and most of the activity actually happen mostly in Q3 and Q4 or may be end of Q2 going forward. So that is a trend which has been, an established trend which is there in the industry and it has been there for number of years now.

Moderator: Our next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: Sir my first question relates to your PVC business, I understand for next three years PVC would be the fastest growing segment for you?

Sharan Bansal: That's right yes.

Deepak Poddar: So what kind of stable EBITDA margin that you expect that business to garner?

Devesh Bansal: See in the PVC business we expect, the current margin levels of around 12% to 13% that has to improve and we do hope and we are looking at stabilizing it close to another one or two percentage points above the current levels and we are fairly confident that with the acceptability of the brand in market place that is definitely going to happen.

Deepak Poddar: So will it be fair to assume that if the share of PVC in our revenue mix increases it will dilute the EBITDA margin because our consolidated EBITDA margin is at 16.5 kind of level right?

Devesh Bansal: You also need to account for the fact that PVC as a product has a lower working capital cycle also as compared to our T & D products, so while this might happen to some extent wherein our engineering product business commands an EBITDA of more than 15% and this might look at somewhere around 13% -14% but because of lower interest impact, we will definitely see the pact being maintained and bettered going forward.

Deepak Poddar: Because of lower working capital.

Devesh Bansal: The lower working capital.

Deepak Poddar: I understood. And any kind of vision that you have for next three years that how we want to grow our revenue and this is our sustainable EBITDA margin that you want to maintain overall on a consolidated basis?

Devesh Bansal: In a consolidated basis the company is growing at, the plans to grow at more than 20% to 25% every year and while there is absolutely no dearth of orders in the T&D business the PVC business with its rapid expansion on a pan-India level we do not see really any major obstacles in getting the numbers that we are looking at.

Deepak Poddar: And this EBITDA margin of 16%, 16.5% over the next three years, any kind of improvement that we expect or this is what we want to sustain kind of thing?

Sharan Bansal: Of course with growing our efficiencies and as well as growing export business we definitely should be able to better it over the years.

Deepak Poddar: I understood. And my final thing is on debt outlook, would we need to add any kind of debt, I understand that we have a very limited capex plan?

Devesh Bansal: Yes, in fact the company is very conscious about increasing debt so for our expansion plans over the next two to three years we do not envisage adding to the long term debt of the company at all. So really whatever debt we have will be in line with the existing debt repayment schedule, so we are not looking to add any kind of debt for future expansion.

Deepak Poddar: On working capital if your PVC share will increase so is it fair to assume that your working capital should improve going forward?

Sharan Bansal: Absolutely.

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

Amber Singhania: Sir I just wanted to understand the breakup of order book which you mentioned about 2500 Crores, if you can give me break up of how much is from the export market and how much is India and within India how much is PGCIL and others?

Sharan Bansal: Yes, as I mentioned approximately 50%, 1200 Crores is from export business and another 1200 Crores odd is from domestic business, out of which you can assume 1000 Crore plus from PGCIL.

Amber Singhania: These are like directly from PGCIL or how much would be the direct order out of this thousand?

Sharan Bansal: Almost entire thing is directly from PGCIL because now PGCIL as I had mentioned they have also started splitting contracts where they are giving tower order separate and construction contract separate so most of these orders have been secured to those contracts.

Amber Singhania: Okay. And within the export, if I am not wrong I believe we supply to three countries that are Colombia, Peru and Chile is it possible for you to breakup this 1200 Crore export orders into these countries?

Devesh Bansal: We also export certain portion to Europe as well as Africa and also Nepal so those countries also form part of our export order book. Of course the lion's share goes to South America and approximately you can assume it to be an even split between the three countries as of now, so I would say between 30% and 35% for all three countries.

Amber Singhania: So Sir, rephrasing it, like we do have Europe, Africa, Nepal and the US as our overall order book and export?

Sharan Bansal: Not as of now the US, we are there in Europe, we are there in Africa and we are there in Nepal.

Amber Singhania: And how big would be Europe, Africa and Nepal, within this 1200 Crore?

Sharan Bansal: Well, that's three of them put together would be approximately may be 200 Crore.

Amber Singhania: And also if you can tell us how many orders we have won in this quarter and from which places as such?

Sharan Bansal: This quarter what happened was that we secured additional about 170-odd Crores of export order again from Latin America only.

Amber Singhania: Okay. Anything from domestic?

Sharan Bansal: Domestic we are L1 in few tenders but we are not considering that in our order book yet unless the orders are awarded.

Amber Singhania: And how big that could be if you can share?

Sharan Bansal: That would be another 200 to 250 Crores, but again like I mentioned domestic ordering we expect very, very strong inflow this year looking at the One Lakh Crore capex plan which the Government of India has.

Amber Singhania: Okay. And could you also share in terms of pipeline how much we have bid where we are expecting the bids to be open in the near future?

Sharan Bansal: Yes, so we have already bid for close to 1000 Crores in domestic business and this year going forward we expect to bid at least 1500 to 2000 Crores more bids.

Amber Singhania: Apart from this 1000 Crore.

Sharan Bansal: Yes absolutely.

Amber Singhania: Secondly, if you can just throw some light on the monopole side you mentioned that it is going to commission in Q2, how big is that plant and what kind of opportunity we are seeing and do we have the order book for that, could you just share some views on that?

Devesh Bansal: So the monopole capacity which is expected to be commissioned in Q2 of this year, the initial starting capacity will be somewhere around 15000 tonnes for being a engineer fabricated product the capacity can vary slightly but then tentatively around 15000 tonnes will be added to our overall capacity of 175000 tonnes of T&D capacity and we are at discussions with many of these utilities and they have shown keen interest in this, so we expect good response for it once the unit comes up. The products are already across being used in various utilities in the transmission side as well as in the telecom side. That market is already there.

Amber Singhania: And in terms of pricing, how much difference it is compared to the tower business on a per ton basis?

Devesh Bansal: On a per-tonne basis of course it is much higher, it would be roughly around 70% to 80% more on a per Ton basis.

Amber Singhania: so more than lakh rupees per tonne?

Devesh Bansal: Yes.

Amber Singhania: And in terms of margins?

Devesh Bansal: And on the margin front of course it is very lucrative product so we expect much higher contribution on EBITDA numbers from this product but on the overall consolidated basis because it is a small portion of the overall turnover it would definitely contribute to the EBITDA numbers but you know there is a lot of concept selling also involved in this product. So what happens is every customer is unique and his requirements are unique, so the realization that we can get from different customers can vary widely, but overall it's a very lucrative product and we expect a lot of things from this.

Amber Singhania: Secondly we mentioned that we are already at 90% capacity and we are doing debottlenecking or capacity expansion by way of brown field so till what capacity we can grow with this brown-field expansion Sir, may be two three years taking together and by when you see that we need to think for another green-field capacity may be on other location or what are your thoughts in that?

Devesh Bansal: So in our existing three plants we can go up to 300,000 Tons of T&D capacity with brownfield expansion, beyond 3000 we will need to go for a new Greenfield unit.

Amber Singhania: And there has to be some other location right?

Sharan Bansal: We believe that eastern India is the best location for the T&D business so because of the inherent advantages which we enjoy here it would probably be another location but not too far from our existing locations.

Amber Singhania: Okay and GA pipe division is completely closed in this quarter there was no revenue from that division if I am not wrong?

Devesh Bansal: So the steel pipe business overall now we are only doing the conversion work with Tata Tubes so on an independent basis no sales revenue there, but only have conversion charges.

Amber Singhania: And also the forex component if you can share is there any forex gain or loss in this quarter vis-a-vis last year first quarter?

Sanjay Agarwal: Not as such since our export business has also started contributing to the revenue forex gain is part of the revenue itself only, like last year second quarter as you are mentioning I believe you mean that only, so there is no such gain or loss.

Amber Singhania: But will that come in second quarter this year again?

Sanjay Agarwal: We have MTM gain of more than 20 Crores in the MTM gain; due to the accounting norm MTM gains are not being recognized.

Amber Singhania: So that will be recognized in Q2 if I am not wrong?

Devesh Bansal: No not exactly, that will be recognized only when once the turnover is done, sales is already executed then only the realization will be recognized.

Amber Singhania: And any time line for that? When can that execution happen, is there any timeline for that?

Sharan Bansal: Timeline actually the execution of export is during the entire year only, so 30% to 40% of the T&D business this time we are expecting though export order so whatever the exchange gain we are getting that will be reflected to the currency gain, that can be during the entire next three quarters.

Moderator: Our next question is from the line of Kalpak Sarangdhar from Sharekhan. Please go ahead.

Kalpak Sarangdhar: Hello Sir. As I understand from the order book 600 Crore plus on Latin America am I right?

Devesh Bansal: In fact Latin America is almost a 1000 Crore plus.

Kalpak Sarangdhar: Okay, so there is an imminent US interest rate hike which might trigger currency depreciation of those LATAM countries so how are you placed to address that problem are you hedged.

Devesh Bansal: All our orders are in US dollar denomination and as for the company’s forex policy we cover all our export contracts the day we receive them, so even we are protected against US Dollar volatility also.

Moderator: Our next question is a follow up question from the line of Amber Singhania from Asian Market Securities. Please go ahead.

Amber Singhania: So coming to the PVC division, wanted to understand Gujarat Plant running at what capacity or how do we understand the stabilization of the plant and how much time it will take to reach at the peak capacities in terms of our operations?

Devesh Bansal: See the Ahmedabad plant like I mentioned was commissioned in April and we have some done quantities of course in the first quarter itself, Q2 nationally is a very bad quarter, you know lot of construction activity actually stops in Q2 during the rainy season so we don't actually expect very big numbers to come out in Q2, however Q3 onwards we expect that Ahmedabad plant and we are going to be building up stocks in Q2 that's what we normally do that we build up stocks in Q2 to cater to the market in Q3 and Q4, so while the plant will be operational but the real numbers should start coming in from Q3 actually.

Amber Singhania: Okay. And also in terms of margin if I compare it with Q4 last year and as you mentioned definitely there is a seasonality involved in the quarter numbers but if I see that we have started Ahmedabad plant in April and we must have incurred fixed cost as well as higher marketing expenditure despite that we have been able to maintain a margin of 12.1% so is there any one-off in this or what exactly is leading us to make better margins even with fixed overheads going up and all?

Devesh Bansal: The overheads have definitely gone up because of the new units being commissioned but we also have our Kolkata unit which is basically the parent unit and bulk of the turnover is actually coming from Kolkata itself. There the brand is already established and we enjoy a fairly comfortable market position in eastern India and it is getting better year on year and we are opening up new geographies within eastern India itself but now North East is a good market for us and that actually preparing for our plant which is getting commissioned in North East so when the plant actually comes up it will already have a captive market for itself in North East. So these are something which is helping the EBITDA numbers strengthen on a year on year basis and we expect this trend to remain.

Amber Singhania: So we expect this margin to be maintained at least at this level if not the more despite the capacity addition happening?

Devesh Bansal: It will definitely be little bit under pressure because of the number of units that we are opening up, but this year like I mentioned we have three more units coming up so by the end of the year we will have pan India presence with unit in every region including North East so there will be a possible pressure on the margins yes, but we hope to maintain the EBITDA numbers as much as possible.

Amber Singhania: Secondly, coming to the margin of engineering product division again if I compare with Q4, Q4 we had around 22% EBIT margin and now we are around 15.1% which is more or less normal margins which we have seen in the past also, so was there any one-off in Q4 because of which the margin was so high or what was that it led to such a high margin in Q4?

Devesh Bansal: Amber, how did you get that number of 22% in Q4?

Amber Singhania: That basically your segment results divided by segment revenue in Q4?

Devesh Bansal: According to us Amber the margin should be remaining constant on a percentage basis but we will have to check and come back to you how that 22% came because I think there is some issue with re-grouping of some heads.

Amber Singhania: No problem we can take it off-line.

Devesh Bansal: I am pretty sure that the margins are remaining constant on a percentage basis.

Amber Singhania: And just a last question from my side, if you can share the kind of tonnage sold in this quarter vis-à-vis last year first quarter in engineering as well as PVC division?

Sharan Bansal: I don't have the tonnages off-hand in front of me but of course in line with our top line the tonnage has seen a 25% plus growth.

Amber Singhania: And is there any growth in the realization also?

Sharan Bansal: The realization has seen some improvement because of greater share of export.

Moderator: Our next question is from the line of V.K. Karthikeyan from Suyash Advisors. Please go ahead.

V. K. Karthikeyan: Couple of clarifications, one is you spoke about close to a Lakh Crore Rupees of orders from PGCIL and other entities in India for transmission business, what percentage of this would currently be planned on basis that you spoke about which is equipment separately and the construction portion separately, would you have some indication of that available?

Devesh Bansal: PGCIL follows a policy that whatever projects they win on in the TBCB route those projects they split the contract between supply and construction, so if you look at a Lakh Crores in total the total basket approximately 40,000 Crores is expected to come upon TBCB route. Now in that going by the past trend PGCIL has been securing 50% of all contracts that have been there in the TBCB and also some of the private developers like Sterlite and Essel even they sometime adopt the policy of towers purchases separately and construction separate. If I assume 75% of the TBCB route business to be split up with tower separate and construction separate then perhaps 40,000 Crores 75% we can look at 30,000 Crore of transmission business to be coming up on this split model basis.

Karthikeyan: Right. And within this the construction portion would be what 45% of the order, what I am saying is total money spend half would be on steel and other half would be on construction would that be reasonable way of thinking about it?

Sharan Bansal: Well, first you need to remove half for sub-station so out of the remaining 50% roughly you can assume a split of 40-30-30 which is 40% for the steel, 30% for the conductor and 30% for the construction.

V. K. Karthikeyan: Okay great that is very helpful. Secondly has there been any new competitor similar to you in this space in the recent past, have you heard of any?

Sharan Bansal: No in fact we have witnessed that due to flat demand for the last couple of years we have seen actually lot of non serious players going out of business, so competition scenario as of now I would say less competitive than what it was may be perhaps two year ago.

Moderator: Our next question is from the line of Lokesh Parekh from Anand Rathi. Please go ahead.

Lokesh Parekh: Sir, this time my question is related to this new PVC manufacturing units we recently announced in Assam, UP and Telengana, when can we expect the commissioning of these units and what would be the size or the capacity of these plants?

Devesh Bansal: So the new units which are coming up in Sikandrabad which is UP that would have a capacity of roughly around 8000 tones per annum to start off with in phase one. The Guwahati unit we are looking at a capacity of about 4000 tonnes per annum and the Hyderabad unit in Telengana that is going to come up with a capacity of about 6000 to 8000 tonnes also. The idea is to reach capacity of about 40,000 tonnes by the year end and as you can imagine in the PVC industry adding on capacity is not very difficult because all you need to do is add extrusion line, so these are the first phase capacities that we are looking at and then going forward we would start augmenting further capacities in these units as and when required.

Lokesh Parekh: So means these three plants would be ready by end of this financial year?

Sharan Bansal: In fact in all probability we will be able to commission all three of them or at least two out of them in Q2 and the other last one within Q3.

Moderator: As there are no further questions I now hand the conference over to Mr. Singhania for closing comments.

Amber Singhania: On behalf of the Asian Markets I thank everyone for joining this call and a special thanks to the management for providing us insight about the company's business and financial performance and taking out their time to discuss the same with us. Sir, would you like to give any concluding remark?

Sharan Bansal: Yes, I am of course thankful to all the participants who joined the call to understand about the company's performance. We are of course looking at the improved business scenario in our sector, we are quite bullish about the growth prospects of the company going forward and we are confident of maintaining and improving on our numbers quarter-on-quarter.

Moderator: Thank you very much members of the management. Ladies and gentlemen on behalf of Asian Market Securities Limited that concludes the conference call. Thank you all for joining us and you may now disconnect your lines.