

SKY INDUSTRIES LIMITED



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August 21, 2024

To,
BSE LTD
P.J. Towers, Dalal Street,
Mumbai- 400 001
SCRIP CODE- 526479

Sub: Transcript of Earnings Call held on August 19, 2024.

Ref: Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (“SEBI Listing Regulations”)

Dear Sir/Madam,

Please find enclosed the transcript of Earnings Call for the Quarter ended June 30, 2024 held on Monday, August 19, 2024 for your information and records.

This will also be hosted on the Company’s website, at www.skycorp.in

Kindly take the same on your record.

Thanking you.

For SKY INDUSTRIES LIMITED

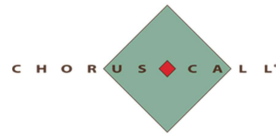
MAIKAL RAORANI
WHOLE TIME DIRECTOR & CFO
DIN: 00037831

Encl.: a/a



“Sky Industries Limited
Q1 FY '25 Results Conference Call”

August 19, 2024



MANAGEMENT: **MR. MAIKAL RAORANI – WHOLE-TIME DIRECTOR
AND CHIEF FINANCIAL OFFICER – SKY INDUSTRIES
LIMITED**
**Ms. PRIYAL RUPARELIA – COMPANY SECRETARY –
SKY INDUSTRIES LIMITED**

MODERATOR: **MR. GANESH NALAWADE – KIRIN ADVISORS**



Moderator:

Ladies and gentlemen, good day and welcome to the Q1 FY '25 Results Conference Call of Sky Industries Limited, hosted by Kirin Advisors. 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ganesh Nalawade from Kirin Advisors. Thank you and over to you, sir.

Ganesh Nalawade:

Thank you. Good afternoon, everyone. On behalf of Kirin Advisors, I welcome you all to the Conference Call of Sky Industries Limited. From management team, we have Mr. Maikal Raorani, Whole-Time Director and Chief Financial Officer and Ms. Priyal Ruparelia, Company Secretary.

Now I hand over the call to Mr. Maikal Raorani. Over to you, sir.

Maikal Raorani:

Good afternoon, everybody. Thank you for joining us today for the Sky Industries Limited Earnings Con-Call for Q1 FY '25. It's a pleasure to connect with you all as we discuss our financial performance and key milestones during this quarter.

I would like to take this opportunity to provide a brief overview of our company's journey, our unwavering commitment to quality, and the strategic direction we are pursuing for the sustained growth. Since our inception in 1989, Sky Industries has grown into a globally recognized player in the hook and loop fastening solutions industry. Over the past 30, 35 years, we have built a strong reputation for delivering products not only to meet but often exceed the industry standards.

Our commitment to excellence is reflected in our extensive global footprint with our products reaching the markets in USA, UK, Germany, Turkey, Bangladesh, Sri Lanka, etcetera. We have a customer base of 800, and apart from the exports to these countries, we have other areas which are covered domestically as well. Our certifications include ISO, IATF, OEKOTEX, recently GRS also was added as a testament to our rigorous quality standards and our commitment to sustainability and ethical manufacturing practices.

Our product portfolio is diverse, catering to a wide area of industries including footwear, orthopedics, PPE, automobile, garments, sportswear, packaging, home furnishing, aviation, defence, etcetera. Whether it's hook and loop tapes or self-adhesive webbing neoprene or velvet, we have consistently delivered solutions that meet varied demands of our clients. Our operational strength is bolstered by two state-of-the-art manufacturing facilities, one based in Navi Mumbai in TTC Industrial Area and another in Bhiwandi, both approximately spending around 80,000 square feet.

We have a collective installed capacity of around 9 million meters per month for hook and loop products and 3 million meters for webbing, velvet, etcetera, which we believe are enough to cater for the current demand. But looking at expansion, we obviously have plans for



expansion as well. We are particularly proud of our leadership role within the BIS Committee, where we actively contribute to setting the standards for hook and loop tape fasteners in India.

We are the only company in the country which is currently licensed by BIS to use its mark in this industry. In past, we have won highest export awards from SRTEPC under the Ministry of Textiles, which underscore our commitment to excellence and our significant contribution to the industry. Looking ahead, Sky Industries Limited is well positioned for a continued growth and expansion, particularly within the Narrow-Woven Fabric sector.

We are actively pursuing new opportunities to strategic collaborations and innovative marketing arrangements, aiming to extend our market reach and capitalize on emerging business models. Innovation remains a cornerstone of our strategy. We are deeply committed to developing new products, not only to address the evolving needs of our diverse customer base, but also to align with global sustainability trends.

Our focus on eco-friendly practices and materials is central to our mission of delivering high-quality products while making a positive impact on the environment. Margin enhancement is another critical priority. We are continuously optimizing our operations and refining our cost structures to boost profitability.

This focus ensures that we maintain our strong financial performance, delivering consistent value to our stakeholders. In addition to our operational initiatives, we are exploring new investment opportunities that will drive our growth and create long-term value. By investing in cutting-edge technologies and expanding our manufacturing capabilities, we are strengthening our position as one of the leading players in the industry.

With these strategic initiatives in place, we are confident in our ability to achieve sustainable growth, maintain our competitive edge and continue delivering exceptional value to our customers and stakeholders. Talking about the operational highlights for this quarter, we participate in the prestigious Tech Textile 2024 Business Exhibition in Frankfurt, Germany. This global platform allowed us to showcase our latest trends and innovation in technical textiles, garnering significant interest from industry leaders worldwide and reinforcing our position as a leading player in this market.

Over and above this, we have been upgraded in our credit rating by CRISIL. We have now been upgraded to BBB-/Stable for banking facilities, working capital facilities approximately around INR18.3 crores. This reflects our financial stability and robust operational capabilities, positioning us well for our future growth.

Commenting on the financial highlights of Q1 FY '25, we are delighted to report the impressive financial results of Q1 FY '25, showcasing the strength and resilience of Sky Industries Limited. Our strategic efforts and operational efficiencies have driven substantial growth across key financial metrics. For Q1 FY '25, we recorded a total income of INR22.57 crores, reflecting a significant year-on-year growth of INR13.47 crores.

Our EBITDA of INR2.80 crores represents an impressive year-on-year growth of 65%, with EBITDA margin improving marginally to 12.40%. The net profit for the quarter reached



around INR1.59 crores, again making an outstanding year-on-year growth of around 107%. The net profit margin rose to 7%, earnings per share increased to 2.01 per share, demonstrating again a year-on-year growth of around 107%.

For the standalone, our total income was INR22.49 crores, marking a steady year-on-year growth of 13.08%, EBITDA increased by 70% to INR2.88 crores, EBITDA margin improving marginally to 12.79, net profit standing at INR1.66 crores, and the net profit margin improving to 7.37%. As we move forward, we remain committed to sustaining this growth trajectory by continuing to innovate, improve our operational efficiencies, and expanding our global footprint.

We are confident in our ability to navigate the dynamic market landscape and deliver sustained value to our stakeholders. Before we delve into the question-and-answer session, I want to express my sincere gratitude to all our stakeholders for being an integral part of our growth journey. Your support and involvement have played a crucial role in our success, and we genuinely appreciate your valuable contribution.

With this, I would like to open the floor for questions and answers. Thank you once again for your presence and continued support.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.

Madhur Rathi: Thank you for the opportunity. Sure, in your investor presentation, you have highlighted that we are the only BIS certified player in the auction rate industry. Otherwise, we have been assigned by the committee. You mentioned last time that there is a differentiating factor. When can we see a timeline when the government will come up with BIS rules that can help us majorly from the current scenario?

Maikal Raorani: Madhur as of now, we are basically holding the license. That is the IS license, what we popularly call it, which is from the BIS. But what you are probably referring is something called as a quality control order, which obviously is a very long run process. And that is up to the BIS whether they want to introduce. They have introduced in more than 600 to 700 products up till now and including around hundreds of products in the technical textile era. The timeline for that is a little bit difficult to predict because it involves certain decision making from the government side. But safely, you can say 1.5 years to 2 years is something what you can look at such standards coming in.

Madhur Rathi: You are a member, and you have been assigned by the committee to make rules and regulations for this segment. Even then, 1.5 to 2 years is a lot.

Maikal Raorani: I'll explain you in more detail. We are not making the rules. We are just recommending the government. Rules are set by the government. There is a committee in BIS which sets the standards. We can just give them a recommendation. So we are in board of one committee which gives us recommendations and as far as the quality standards implementation is concerned it involves a lot of other stakeholders including the law ministry, the WTO, etc. So obviously, it takes a little bit more time.



Madhur Rathi: Okay, sir. And sir what was the export portion of the revenue for this quarter?

Maikal Raorani: Exports were around 19%.

Madhur Rathi: Okay, so there has been a jump from FY24 15% to 19%.

Maikal Raorani: Yes.

Madhur Rathi: And sir our exports margins better than our domestic margins or are they on the similar lines?

Maikal Raorani: No, in exports we definitely have competition from China and Taiwan. So the margins are definitely a little bit depressed, but here we get more volumes as compared to the domestics.

Madhur Rathi: Okay. Sir thank you and congrats on the good performance. Thank you and all the best.

Moderator: Thank you. Our next question is from the line of Advika Sharma from Connected Consultancy. Please go ahead.

Advika Sharma: My question is what is the working capital cycle and if we haven't seen any improvement in the Q1 FY25?

Maikal Raorani: Yes, the average working capital cycle is around 2.5 months to 3 months. There would be a very marginal improvement in the working capital cycle, but of course our utilization of our cash rate limits is much lower as compared to the previous quarter.

Advika Sharma: Okay, sir. And what are your future growth strategies?

Maikal Raorani: Yes, ma'am. We'll be obviously wanting to consolidate in our basically bread and butter segment that is hook and loop wherein we would like to give more offerings in terms of variety of hook and loop tape fasteners.

Advika Sharma: Okay, sir. And any organized player in this segment?

Maikal Raorani: Sorry, I couldn't get your question.

Advika Sharma: Any organized players in this segment?

Maikal Raorani: Yes, there are a couple of players. A couple of them are based in Delhi and one of them is based in Palghar.

Advika Sharma: Okay. And what is the size of opportunity you expect for the next 2 to 5 years and how are we positioned to gather major business from emerging opportunities?

Maikal Raorani: Yes, the major opportunity looks to come from the export segment. And next in the domestic defence and other segments hold a good promise. And as far as how we are in position see in my past also we have already mentioned that we are looking for a new facility wherein we'll be expanding our operations.



So, presently though we have enough capacity to cater to the present demand, but the future whatever growth or demand is there that we have to cater to an increased capacity. So the process is on as of now and maybe in one or two quarters we'll get to know more from about the expansion plans.

Advika Sharma: Okay, sir. Okay. I had these many questions only. Thank you for answering. If I have any more, I'll get into the queue again. Thank you.

Maikal Raorani: Sure. Thanks, Advika.

Moderator: Thank you. The next question is from the line of Aditi Roy who's an Individual Investor. Please go ahead.

Aditi Roy: Congratulations sir and thank you. What is your order book? Do we get orders for a full year or is it periodic?

Maikal Raorani: Ma'am, my order book is usually less than a month because we are in an accessory industry. It is like a button for a shirt. For wanting to make a shirt, the shirt manufacturer will not wait for the button to come in. He'll not order and keep it for a longer time. So, obviously, my order book is less than a month because the more, the bigger the order book is not a very healthy sign for us.

Aditi Roy: Okay, sir. And my next question is in acquisition or mergers on cards?

Maikal Raorani: Ma'am as of now there is nothing of that sort on cards.

Aditi Roy: Okay, sir. And my next question is - is business scalable? What contributes scalability and risk to the business growth?

Maikal Raorani: Yes, madam the scalability obviously is there and the driver for scaling up obviously will be coming from export segment.

Aditi Roy: Okay, sir. And what is your capex requirement for next two years? Where it would be deployed and how funding will be made?

Maikal Raorani: See, as of now, the firm plans have not been made. But initially the capex, the first phase of the expansion would need a capex of around INR30 crores. And that would be funded by internal accruals as well as debt initially. And then maybe we look at any other options for further expansion, but that depends again once the first phase is about to complete.

Aditi Roy: Okay, sir. Thank you, sir.

Maikal Raorani: Thank you, Aditi.

Moderator: Thank you. The next question is from the line of Vinod Gupta, who is an individual investor. Please go ahead.



- Vinod Gupta:** Congratulations and thank you for giving me this opportunity, sir. Sir, my question is, can you elaborate more on your new business?
- Maikal Raorani:** New business in our case comes with new products, new product developments or new offerings in terms of different applications for different customer segments.
- Vinod Gupta:** Sir, I want just like, what is the capacity, commitment of production, client, and we are offering these products?
- Maikal Raorani:** The capacities, as I mentioned, we are presently having a capacity of 9 million meters a month for open loop.
- Vinod Gupta:** Okay, sir. And another question is, how has the response to our newly launched fiberglass PVC coated mosquito net?
- Maikal Raorani:** Fiberglass has been running product for us and it is more of a traded item as of now. And the demand, obviously, it's a seasonal, slightly seasonal product as well. So the demand would be that definitely more during the monsoons or before the monsoons.
- Vinod Gupta:** Okay, sir. And what is our top 10 or top 15 clients contributed to our revenue?
- Maikal Raorani:** Top 10 would contribute to roughly 37% of the revenue.
- Vinod Gupta:** And top 15?
- Maikal Raorani:** Top 15, need to calculate, but it would be between 45% and 50%.
- Vinod Gupta:** Okay. Thank you, sir.
- Moderator:** Thank you. The next question is from the line of Yashwanti from Kojin Finvest. Please go ahead.
- Yashwanti:** Thank you, sir, for the opportunity. Yes. Sir, we have seen a very sharp increase in our EBITDA and EBITDA market. But why our revenue is still going in the range of around 3%. So one is why total income has not grown at a special rate. And secondly, what has contributed to our EBITDA margin to show such a tremendous increase in the EBITDA margin as well as EBITDA margin expansion?
- Maikal Raorani:** Okay, I'll answer your second question first. The margin EBITDA improvement is basically on account primarily for the product mix.
- Yashwanti:** Okay.
- Maikal Raorani:** And the reason for top line not being going up substantially is basically this more of an accessory product. So obviously the turnovers will take a bigger push to move upwards. But with the product mix, we can definitely have a better bottom line.



- Yashwanti:** Yes, but in our earlier question, you said that our main business is based on the volume. So obviously when the volume is going, you should see that impact on the top line. Is my understanding correct or is there anything going on?
- Maikal Raorani:** No, it depends definitely on volume, but at the same time the product mix comes into play, ma'am.
- Yashwanti:** Okay, what is your margin guidance going forward? Will it be maintained? [inaudible 0:21:01]
- Maikal Raorani:** I think we should be able to maintain the trend, ma'am.
- Yashwanti:** Sir any new client has been added?
- Maikal Raorani:** Yes, obviously certain new customers have been added, but obviously they would not be contributing very significantly initially. But yes, in export markets, definitely some new clients have been added and will start to contribute significantly.
- Yashwanti:** [inaudible 0:21:40]?
- Maikal Raorani:** Madam, I'm not able to hear your question very clearly. Can you please repeat?
- Yashwanti:** Yes, so one thing I wanted to understand is what is our repeat business in terms of the percentage? And secondly, whenever we add any new client to our client list, normally how much time does it take to receive a big order or to get a repetitive order from them?
- Maikal Raorani:** Again, this question can be answered in three stages. One is, in case of repeat business, we would be having around 80%-85% as a repeat business from our customers. That is one question. Second, export market. Yes, so around 80%-85% is a repeat business. And in export market, they take more time for us to get a substantial order vis-a-vis the domestic market.
- Yashwanti:** I'm talking about once you get new client into your client list normally how much time does the client take to settle and give you the repetitive order?
- Maikal Raorani:** So that is what I answered. That in export market the time taken would be around five to six months. And in domestic market, it will be much faster. So maybe within a month or so.
- Yashwanti:** And sir, if I may ask you one more question. We recently participated in the exhibition which was held in Germany. So what are your learnings from there and has it helped us add in [Inaudible 23:30].
- Maikal Raorani:** Yes, we were able to add certain clients. And again, there has been more inquiries from European customers as well. The basic learning is the more you are in touch with the customers the better the chance of getting converted into the order list.
- Moderator:** Sorry to interrupt you. We are still not able to hear you. There is a lot of background noise coming from your line.
- Yashwanti:** I just wanted to understand. Any new products are in pipeline?



- Maikal Raorani:** No, as of now the offerings are all related to hook and loop applications only. But again, different variants in terms of the different applications are in pipeline.
- Yashwanti:** I'll come back. I will join back in the queue thank you so much and wishing you the best of luck.
- Maikal Raorani:** Thank you very much.
- Moderator:** Thank you. The next question is from the line of Madhur Rathi from Counter Cyclical Investments. Please go ahead.
- Madhur Rathi:** Yes, thank you for the opportunity again, sir. Also, this Neoprene that you have highlighted, sir, is the revenue from this considered in hook and loop only or is there a different product segment altogether?
- Maikal Raorani:** No, as of now, Neoprene is manufactured under Skytech Textiles Private Limited, which is a 100% subsidiary of the company. The revenue of that is recognized under that. Again, such products, I mean it's a different product altogether having a different application. But there are certain customers like orthopaedic or other segments, equestrian and all, wherein this product is used along with hook and loop. So that way there is a commonality between the two.
- Madhur Rathi:** Okay. And sir, what kind of revenue can we expect from this segment for, maybe for FY '25 and kind of growth we expect from this over the next 2-3 years? As well as, sir, will the margin profile be better than our 10%-11% core business or it will be on the similar range?
- Maikal Raorani:** Margin profile would be better. And the expectation is definitely to the tune of around INR2 crores or roughly INR2 crores worth of business per year to start with. And maybe as and when we establish and settle it will be much more.
- Madhur Rathi:** Sir, so this INR2 crores is very small considering INR80 crores or INR100 crores base for effort in here that we are guiding. So it is because of capacity constraints. And when we move to the bigger facility, it will move to maybe 10%-20% of our business or is the market only small and this is a decent enough business?
- Maikal Raorani:** No. I'll explain you. Currently this product is getting imported. So we have to slowly convert importers to getting used to the product what we are making. So the basic marketing time is what will take for us to establish this product in the market.
- Madhur Rathi:** Okay, and sir, so in the next 3-2 maybe by FY '27 or '28, so can this become 10% of our revenue?
- Maikal Raorani:** Yes, it can.
- Madhur Rathi:** Okay, and sir, is there any land acquisition that you are planning for a bigger facility? Has there been any material decision on that front?
- Maikal Raorani:** Yes, maybe very shortly we should be able to conclude the things. Maybe in 1 or 2 quarters we'll get to know more about it.



Madhur Rathi: Okay, thank you sir. And just a final suggestion, sir, please do a buyback because post 1st October it won't make any sense, to do a buyback. So yes, that is the only suggestion we ask from our side. So thank you so much and all the best.

Maikal Raorani: Thank you, Madhur. We'll definitely look at this solution.

Madhur Rathi: Yes, sir.

Moderator: Thank you. The next question is from the line of Jayraj Jain from PSC Capital. Please go ahead. Mr. Jain, your line is unmuted. Please proceed with your question.

Jayraj Jain: Sir, can you help me with the user industry by contribution to your revenue?

Maikal Raorani: Okay, should I give you the major industry segments?

Jayraj Jain: Yes, sir.

Maikal Raorani: Just give me a minute. Footwear contributes the largest, roughly 20%. Export contributed around 19%. Automotive around 14%. Orthopaedic around 11%. Apparel around 8%. Defence around 6%. Home furnishings around 4.5%. These are the major industry segments.

Jayraj Jain: Okay, great. So, sir, you have mentioned about the export, right? So, I want to know like in which country we are currently serving, and do you have any plans to add in our portfolios?

Maikal Raorani: Yes, we are currently serving USA, Germany, U.K., Bangladesh, Turkey, Sri Lanka, etc. And we would be obviously adding more countries in Europe and also targeting South America.

Jayraj Jain: Okay, great. So, sir, is China main trade for our business?

Maikal Raorani: In terms of in export, yes.

Jayraj Jain: Okay, like then what are your strategies to overcome it?

Maikal Raorani: Obviously, quality and better offering.

Jayraj Jain: So, sir, somewhere down the line, if we are looking to collaborate for both manufacturing capacity and bringing under one roof, does the company have any progress on it?

Maikal Raorani: Yes, as I told you, in next 1 or 2 quarters, we will get to know a little bit more about it.

Jayraj Jain: Okay. And like, sir, how is this unorganized market and competition format?

Maikal Raorani: In hook and loop, basically, you have all categories like it's a triangle where in the top part of the triangle is the premium segment, wherein we are present. Middle segment is something wherein some other players are concerned. And there is a bottom segment, which is a full volume driven segment, mass market consumption.

So, we are basically present in the top part of the pyramid. If I can give you an example of soap industry, you have Lux, you have Hamam and you have Lifebuoy. So, in Lifebuoy



segment, there will be many players, in Hamam segment, lesser players and in Lux, even lesser players. So, you can imagine a similar situation in our product.

Jayraj Jain: Okay, great. So, thank you, sir, for answering my question.

Maikal Raorani: Okay, Jayraj, thank you.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Ganesh Nalawade for closing comments.

Ganesh Nalawade: Thank you, everyone, for joining the conference call of Sky Industries Limited. If you have any queries, you can write us at research @kirinadvisors.com. Once again, thank you, everyone, for joining the conference call.

Maikal Raorani: Thank you, everybody.

Moderator: Thank you. On behalf of Kirin Advisors, that concludes this conference. Thank you for joining us. You may now disconnect your lines.